

REVENUE ACT OF 1945

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

SEVENTY-NINTH CONGRESS

FIRST SESSION

ON

H. R. 4309

AN ACT TO REDUCE TAXATION, AND
FOR OTHER PURPOSES

[REVISED]

OCTOBER 15, 16, AND 17, 1945

Printed for the use of the Committee on Finance



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REVENUE ACT OF 1945

MONDAY, OCTOBER 15, 1945

UNITED STATES SENATE,
COMMITTEE ON FINANCE
Washington, D. C.

The committee met, pursuant to call, at 10:30 a. m., in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George (chairman), Walsh, Barkley, Connally, Bailey, Byrd, Gerry, Johnson, Radcliffe, Lucas, McMahon, La Follette, Vandenberg, Millikin, Taft, and Hawkes.

The CHAIRMAN. The committee will please come to order.

We have before us this morning H. R. 4309, the tax bill for 1945. (H. R. 4309 is as follows:)

[H. R. 4309, 79th Cong., 1st sess.]

AN ACT To reduce taxation, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) **SHORT TITLE.**—This Act may be cited as the “Revenue Act of 1945”.

(b) **ACT AMENDATORY OF INTERNAL REVENUE CODE.**—Except as otherwise expressly provided, wherever in this Act an amendment is expressed in terms of an amendment to a chapter, subchapter, title, supplement, section, subsection, subdivision, paragraph, subparagraph, or clause, the reference shall be considered to be made to a provision of the Internal Revenue Code.

(c) **MEANING OF TERMS USED.**—Except as otherwise expressly provided, terms used in this Act shall have the same meaning as when used in the Internal Revenue Code.

TITLE I—INCOME AND EXCESS PROFITS TAX

PART I—INDIVIDUAL INCOME TAXES

SEC. 101. REDUCTION IN SURTAX ON INDIVIDUALS.

(a) **IN GENERAL.**—Section 12 (b) (relating to the rate of surtax on individuals) is amended to read as follows:

“(b) **RATES OF SURTAX.**—There shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual the surtax shown in the following table:

“If the surtax net income is:	The surtax shall be:
Not over \$2,000-----	16% of the surtax net income.
Over \$2,000 but not over \$4,000----	\$320, plus 18% of excess over \$2,000.
Over \$4,000 but not over \$6,000----	\$680, plus 22% of excess over \$4,000.
Over \$6,000 but not over \$8,000----	\$1,120, plus 26% of excess over \$6,000.

"If the surtax net income is—Continued	The surtax shall be—Continued
Over \$8,000 but not over \$10,000—	\$1,640, plus 30% of excess over \$8,000.
Over \$10,000 but not over \$12,000—	\$2,240, plus 34% of excess over \$10,000.
Over \$12,000 but not over \$14,000—	\$2,920, plus 39% of excess over \$12,000.
Over \$14,000 but not over \$16,000—	\$3,700, plus 43% of excess over \$14,000.
Over \$16,000 but not over \$18,000—	\$4,560, plus 46% of excess over \$16,000.
Over \$18,000 but not over \$20,000—	\$5,480, plus 49% of excess over \$18,000.
Over \$20,000 but not over \$22,000—	\$6,460, plus 50% of excess over \$20,000.
Over \$22,000 but not over \$26,000—	\$7,460, plus 53% of excess over \$22,000.
Over \$26,000 but not over \$32,000—	\$9,580, plus 55% of excess over \$26,000.
Over \$32,000 but not over \$38,000—	\$12,880, plus 58% of excess over \$32,000.
Over \$38,000 but not over \$44,000—	\$16,360, plus 62% of excess over \$38,000.
Over \$44,000 but not over \$50,000—	\$20,080, plus 65% of excess over \$44,000.
Over \$50,000 but not over \$60,000—	\$23,980, plus 67% of excess over \$50,000.
Over \$60,000 but not over \$70,000—	\$30,680, plus 70% of excess over \$60,000.
Over \$70,000 but not over \$80,000—	\$37,680, plus 72% of excess over \$70,000.
Over \$80,000 but not over \$90,000—	\$44,880, plus 76% of excess over \$80,000.
Over \$90,000 but not over \$100,000—	\$52,480, plus 78% of excess over \$90,000.
Over \$100,000 but not over \$150,000—	\$60,280, plus 79½% of excess over \$100,000.
Over \$150,000 but not over \$200,000—	\$100,030, plus 81% of excess over \$150,000.
Over \$200,000-----	\$140,530, plus 81½% of excess over \$200,000."

(b) **LIMITATION ON TAX.**—Section 12 (g) (relating to the 90 per centum limitation) is amended by striking out "90 per centum" and inserting in lieu thereof "81 per centum".

(c) **TAXABLE YEARS TO WHICH APPLICABLE.**—The amendment made by this section shall be applicable to taxable years beginning after December 31, 1945. For treatment of taxable years beginning in 1945 and ending in 1946, see section 131.

SEC. 102. ALLOWANCE OF SAME EXEMPTIONS FOR NORMAL TAX AS FOR SURTAX

(a) **IN GENERAL.**—So much of section 25 (b) (relating to credits for surtax) as precedes paragraph (2) thereof is amended to read as follows:

"(b) **CREDITS FOR BOTH NORMAL TAX AND SURTAX.**—

"(1) **CREDITS.**—There shall be allowed for the purposes of both the normal tax and the surtax, the following credits against net income:

"(A) An exemption of \$500 for the taxpayer:

"(B) An exemption of \$500 for the spouse of the taxpayer if—

"(i) a joint return is made by the taxpayer and his spouse under section 51, in which case the aggregate exemption of the spouses under subparagraph (A) and this subparagraph shall be \$1,000, or

"(ii) a separate return is made by the taxpayer, and his spouse has no gross income for the calendar year in which the taxable year of the taxpayer begins and is not the dependent of another taxpayer;

“(C) An exemption of \$500 for each dependent whose gross income for the calendar year in which the taxable year of the taxpayer begins is less than \$500, except that the exemption shall not be allowed in respect of a dependent who has made a joint return with his spouse under section 51 for the taxable year beginning in such calendar year.”

(b) TECHNICAL AMENDMENTS.—

(1) Section 11 (relating to the normal tax on individuals) is amended by striking out “section 25 (a)” and inserting in lieu thereof “section 25”.

(2) Section 23 (x) (relating to the deduction for medical expenses) is amended by striking out “surtax” wherever appearing therein.

(3) Section 25 (a) (3) (relating to the normal tax exemption) is repealed.

(4) Section 47 (e) (relating to the reduction of certain credits against net income) is amended to read as follows:

“(e) **REDUCTION OF CREDITS AGAINST NET INCOME.**—In the case of a return made for a fractional part of a year under section 146 (a) (1), the exemptions provided in section 25 (b) shall be reduced to amounts which bear the same ratio to the full exemptions so provided as the number of months in the period for which return is made bears to twelve months.”

(5) Section 58 (a) (1) (relating to the requirement of a declaration of estimated tax) is amended by striking out “surtax”.

(6) Section 143 (a) (2) (relating to credits against net income in the case of interest on tax-free covenant bonds) is amended by striking out “normal tax exemption provided in section 25 (a) (3) and the surtax”.

(7) Section 163 (a) (1) (relating to credits of estates and trusts against net income) is amended to read as follows:

“(1) For the purpose of the normal tax and the surtax, an estate shall be allowed, in lieu of the exemptions under section 25 (b) (1), a credit of \$500 against net income, and a trust shall be allowed, in lieu of the exemptions under section 25 (b) (1), a credit of \$100 against net income.”

(8) Section 214 (relating to credits of nonresident aliens against net income) is amended to read as follows:

“SEC. 214. CREDITS AGAINST NET INCOME.

“In the case of a nonresident alien individual who is not a resident of a contiguous country, only one exemption under section 25 (b) shall be allowed.”

(9) Section 215 (b) (relating to credits of nonresident aliens against net income in case of tax withheld at source) is amended by striking out the words “normal tax exemption and the surtax exemptions” and by inserting in lieu thereof “the exemptions under section 25 (b)”.

(10) Section 251 (f) (relating to credits against net income in the case of citizens entitled to the benefits of section 251) is amended to read as follows:

“(f) **CREDITS AGAINST NET INCOME.**—A citizen of the United States entitled to the benefits of this section shall be allowed only one exemption under section 25 (b).”

(11) Section 401 (defining “surtax exemption” for the purposes of supplement T) is amended to read as follows:

“SEC. 401. DEFINITION OF ‘EXEMPTION’.

“As used in the table in section 400, the term ‘number of exemptions’ means the number of the exemptions allowed under section 25 (b) as credits against net income for the purpose of the normal tax and the surtax imposed by sections 11 and 12.”

(c) **TAXABLE YEARS TO WHICH APPLICABLE.**—The amendments and repeals made by this section shall be applicable with respect to taxable years beginning after December 31, 1945. For treatment of taxable years beginning in 1945 and ending in 1946, see section 131.

SEC. 103. INDIVIDUALS WITH ADJUSTED GROSS INCOMES OF LESS THAN \$5,000.

(a) **IN GENERAL.**—The tax table (including the note at the foot of such table) in section 400 (relating to optional tax on individuals with adjusted gross incomes of less than \$5,000) is amended to read as follows:

REVENUE ACT OF 1945

If the ad-justed gross income is—		And the number of exemptions is—				If the ad-justed gross income is—		And the number of exemptions is—								
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8	9 or more
		The tax shall be—						The tax shall be—								
\$0	\$550	\$0	\$0	\$0	\$0	\$2,200	\$2,225	\$283	\$188	\$93	\$0	\$0	\$0	\$0	\$0	\$0
550	575	1	0	0	0	2,225	2,250	288	193	98	3	0	0	0	0	0
575	600	5	0	0	0	2,250	2,275	292	197	102	7	0	0	0	0	0
600	625	10	0	0	0	2,275	2,300	296	201	106	11	0	0	0	0	0
625	650	14	0	0	0	2,300	2,325	300	205	110	15	0	0	0	0	0
650	675	18	0	0	0	2,325	2,350	305	210	115	20	0	0	0	0	0
675	700	23	0	0	0	2,350	2,375	309	214	119	24	0	0	0	0	0
700	725	27	0	0	0	2,375	2,400	313	218	123	28	0	0	0	0	0
725	750	31	0	0	0	2,400	2,425	318	223	128	33	0	0	0	0	0
750	775	35	0	0	0	2,425	2,450	322	227	132	37	0	0	0	0	0
775	800	40	0	0	0	2,450	2,475	326	231	136	41	0	0	0	0	0
800	825	44	0	0	0	2,475	2,500	330	235	140	45	0	0	0	0	0
825	850	48	0	0	0	2,500	2,525	335	240	145	50	0	0	0	0	0
850	875	52	0	0	0	2,525	2,550	339	244	149	54	0	0	0	0	0
875	900	57	0	0	0	2,550	2,575	343	248	153	58	0	0	0	0	0
900	925	61	0	0	0	2,575	2,600	347	252	157	62	0	0	0	0	0
925	950	65	0	0	0	2,600	2,625	352	257	162	67	0	0	0	0	0
950	975	70	0	0	0	2,625	2,650	356	261	166	71	0	0	0	0	0
975	1,000	74	0	0	0	2,650	2,675	360	265	170	75	0	0	0	0	0
1,000	1,025	78	0	0	0	2,675	2,700	365	270	175	80	0	0	0	0	0
1,025	1,050	82	0	0	9	2,700	2,725	369	274	179	84	0	0	0	0	0
1,050	1,075	87	0	0	0	2,725	2,750	373	278	183	88	0	0	0	0	0
1,075	1,100	91	0	0	0	2,750	2,775	377	282	187	92	0	0	0	0	0
1,100	1,125	95	0	0	0	2,775	2,800	382	287	192	97	2	0	0	0	0
1,125	1,150	100	5	0	0	2,800	2,825	387	291	196	101	6	0	0	0	0
1,150	1,175	104	9	0	0	2,825	2,850	391	295	200	105	10	0	0	0	0
1,175	1,200	108	13	0	0	2,850	2,875	396	299	204	109	14	0	0	0	0
1,200	1,225	112	17	0	0	2,875	2,900	401	304	209	114	19	0	0	0	0
1,225	1,250	117	22	0	0	2,900	2,925	405	308	213	118	23	0	0	0	0
1,250	1,275	121	26	0	0	2,925	2,950	410	312	217	122	27	0	0	0	0
1,275	1,300	125	30	0	0	2,950	2,975	415	317	222	127	32	0	0	0	0
1,300	1,325	129	34	0	0	2,975	3,000	420	321	226	131	36	0	0	0	0
1,325	1,350	134	39	0	0	3,000	3,050	427	327	232	137	42	0	0	0	0
1,350	1,375	138	43	0	0	3,050	3,100	436	336	241	146	51	0	0	0	0
1,375	1,400	142	47	0	0	3,100	3,150	446	344	249	154	59	0	0	0	0
1,400	1,425	147	52	0	0	3,150	3,200	455	353	258	163	68	0	0	0	0
1,425	1,450	151	56	0	0	3,200	3,250	465	361	266	171	76	0	0	0	0
1,450	1,475	155	60	0	0	3,250	3,300	474	370	275	180	85	0	0	0	0
1,475	1,500	159	64	0	0	3,300	3,350	483	379	284	189	94	0	0	0	0
1,500	1,525	164	69	0	0	3,350	3,400	493	388	292	197	102	7	0	0	0
1,525	1,550	168	73	0	0	3,400	3,450	502	397	301	206	111	16	0	0	0
1,550	1,575	172	77	0	0	3,450	3,500	512	407	309	214	119	24	0	0	0
1,575	1,600	176	81	0	0	3,500	3,550	521	416	318	223	128	33	0	0	0
1,600	1,625	181	86	0	0	3,550	3,600	531	426	326	231	136	41	0	0	0
1,625	1,650	185	90	0	0	3,600	3,650	540	435	335	240	145	50	0	0	0
1,650	1,675	189	94	0	0	3,650	3,700	550	445	343	248	153	58	0	0	0
1,675	1,700	194	99	4	0	3,700	3,750	559	454	352	257	162	67	0	0	0
1,700	1,725	198	103	8	0	3,750	3,800	568	463	361	266	171	76	0	0	0
1,725	1,750	202	107	12	0	3,800	3,850	578	473	369	274	179	84	0	0	0
1,750	1,775	206	111	16	0	3,850	3,900	587	482	378	283	188	93	0	0	0
1,775	1,800	211	116	21	0	3,900	3,950	597	492	387	291	196	101	6	0	0
1,800	1,825	215	120	25	0	3,950	4,000	606	501	396	300	205	110	15	0	0
1,825	1,850	219	124	29	0	4,000	4,050	616	511	406	308	213	118	23	0	0
1,850	1,875	223	128	33	0	4,050	4,100	625	520	415	317	222	127	32	0	0
1,875	1,900	228	133	38	0	4,100	4,150	635	530	425	325	230	135	40	0	0
1,900	1,925	232	137	42	0	4,150	4,200	644	539	434	334	239	144	49	0	0
1,925	1,950	236	141	46	0	4,200	4,250	654	549	444	342	247	152	57	0	0
1,950	1,975	241	146	51	0	4,250	4,300	663	558	453	351	256	161	66	0	0
1,975	2,000	245	150	55	0	4,300	4,350	672	567	462	360	265	170	75	0	0
2,000	2,025	249	154	59	0	4,350	4,400	682	577	472	368	273	178	83	0	0
2,025	2,050	253	158	63	0	4,400	4,450	691	586	481	377	282	187	92	0	0
2,050	2,075	258	163	68	0	4,450	4,500	701	596	491	386	290	195	100	5	0
2,075	2,100	262	167	72	0	4,500	4,550	710	605	500	395	299	204	109	14	0
2,100	2,125	266	171	76	0	4,550	4,600	720	615	510	405	307	212	117	22	0
2,125	2,150	271	176	81	0	4,600	4,650	729	624	519	414	316	221	126	31	0
2,150	2,175	275	180	85	0	4,650	4,700	739	634	529	424	324	229	134	39	0
2,175	2,200	279	184	89	0	4,700	4,750	748	643	538	433	333	238	143	48	0
						4,750	4,800	757	652	547	442	342	247	152	57	0
						4,800	4,850	767	662	557	452	350	255	160	65	0
						4,850	4,900	776	671	566	461	359	264	169	74	0
						4,900	4,950	786	681	576	471	367	272	177	82	0
						4,950	5,000	795	690	585	480	376	281	186	91	0

(b) **TAXABLE YEARS TO WHICH APPLICABLE.**—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1945. For treatment of taxable years beginning in 1945 and ending in 1946, see section 131.

SEC. 104. REDUCTION IN WITHHOLDING OF TAX AT SOURCE ON WAGES.

(a) **PERCENTAGE METHOD.**—

(1) **IN GENERAL.**—Section 1622 (a) (relating to the percentage method of withholding) is amended by striking out paragraph (1) thereof, by inserting "17 per centum" in lieu of "18 per centum" in paragraph (2), by inserting "19 per centum" in lieu of "19.8 per centum" in paragraph (3), and by renumbering paragraphs (2) and (3) as (1) and (2) respectively.

(2) **TECHNICAL AMENDMENT.**—Section 1622 (b) (1) (percentage method withholding table) is amended by striking out "18 per centum" in the last column of the table therein, and inserting in lieu thereof "17 per centum".

(b) **WAGE BRACKET WITHHOLDING.**—The tables contained in section 1622 (c) (1) (relating to wage bracket withholding) are amended to read as follows:

If the pay-roll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$11	17% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$11	\$12	\$2.00	.00	0	0	0	0	0	0	0	0	0
\$12	\$13	2.10	.30	0	0	0	0	0	0	0	0	0
\$13	\$14	2.30	.50	0	0	0	0	0	0	0	0	0
\$14	\$15	2.50	.70	0	0	0	0	0	0	0	0	0
\$15	\$16	2.70	.80	0	0	0	0	0	0	0	0	0
\$16	\$17	2.80	1.00	0	0	0	0	0	0	0	0	0
\$17	\$18	3.00	1.20	0	0	0	0	0	0	0	0	0
\$18	\$19	3.20	1.30	0	0	0	0	0	0	0	0	0
\$19	\$20	3.30	1.50	0	0	0	0	0	0	0	0	0
\$20	\$21	3.50	1.70	0	0	0	0	0	0	0	0	0
\$21	\$22	3.70	1.80	0	0	0	0	0	0	0	0	0
\$22	\$23	3.80	2.00	.20	0	0	0	0	0	0	0	0
\$23	\$24	4.00	2.20	.40	0	0	0	0	0	0	0	0
\$24	\$25	4.20	2.40	.50	0	0	0	0	0	0	0	0
\$25	\$26	4.40	2.50	.70	0	0	0	0	0	0	0	0
\$26	\$27	4.50	2.70	.90	0	0	0	0	0	0	0	0
\$27	\$28	4.70	2.90	1.00	0	0	0	0	0	0	0	0
\$28	\$29	4.90	3.00	1.20	0	0	0	0	0	0	0	0
\$29	\$30	5.00	3.20	1.40	0	0	0	0	0	0	0	0
\$30	\$31	5.20	3.40	1.60	0	0	0	0	0	0	0	0
\$31	\$32	5.40	3.60	1.70	0	0	0	0	0	0	0	0
\$32	\$33	5.60	3.70	1.90	.10	0	0	0	0	0	0	0
\$33	\$34	5.70	3.90	2.10	.20	0	0	0	0	0	0	0
\$34	\$35	5.90	4.10	2.20	.40	0	0	0	0	0	0	0
\$35	\$36	6.10	4.20	2.40	.60	0	0	0	0	0	0	0
\$36	\$37	6.20	4.40	2.60	.80	0	0	0	0	0	0	0
\$37	\$38	6.40	4.60	2.80	.90	0	0	0	0	0	0	0
\$38	\$39	6.60	4.80	2.90	1.10	0	0	0	0	0	0	0
\$39	\$40	6.80	4.90	3.10	1.30	0	0	0	0	0	0	0
\$40	\$41	6.90	5.10	3.30	1.40	0	0	0	0	0	0	0
\$41	\$42	7.10	5.30	3.40	1.60	0	0	0	0	0	0	0
\$42	\$43	7.30	5.40	3.60	1.80	0	0	0	0	0	0	0
\$43	\$44	7.50	5.60	3.80	2.00	.10	0	0	0	0	0	0
\$44	\$45	7.60	5.80	4.00	2.10	.30	0	0	0	0	0	0
\$45	\$46	7.80	6.00	4.10	2.30	.50	0	0	0	0	0	0
\$46	\$47	8.00	6.10	4.30	2.50	.60	0	0	0	0	0	0
\$47	\$48	8.20	6.30	4.50	2.60	.80	0	0	0	0	0	0
\$48	\$49	8.40	6.50	4.60	2.80	1.00	0	0	0	0	0	0
\$49	\$50	8.60	6.60	4.80	3.00	1.20	0	0	0	0	0	0
\$50	\$51	8.80	6.80	5.00	3.20	1.30	0	0	0	0	0	0
\$51	\$52	9.00	7.00	5.20	3.30	1.50	0	0	0	0	0	0
\$52	\$53	9.20	7.20	5.30	3.50	1.70	0	0	0	0	0	0
\$53	\$54	9.30	7.30	5.50	3.70	1.80	0	0	0	0	0	0
\$54	\$55	9.50	7.50	5.70	3.80	2.00	.20	0	0	0	0	0
\$55	\$56	9.70	7.70	5.80	4.00	2.20	.40	0	0	0	0	0
\$56	\$57	9.90	7.90	6.00	4.20	2.40	.50	0	0	0	0	0
\$57	\$58	10.10	8.10	6.20	4.40	2.50	.70	0	0	0	0	0
\$58	\$59	10.30	8.30	6.30	4.50	2.70	.90	0	0	0	0	0
\$59	\$60	10.50	8.50	6.50	4.70	2.90	1.00	0	0	0	0	0

If the pay-roll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
\$54	\$56	\$9.40	\$5.80	\$2.10	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56	\$58	9.70	6.10	2.40	0	0	0	0	0	0	0	0
\$58	\$60	10.10	6.40	2.80	0	0	0	0	0	0	0	0
\$60	\$62	10.40	6.80	3.10	0	0	0	0	0	0	0	0
\$62	\$64	10.80	7.10	3.50	0	0	0	0	0	0	0	0
\$64	\$66	11.10	7.50	3.80	.20	0	0	0	0	0	0	0
\$66	\$68	11.50	7.80	4.10	.50	0	0	0	0	0	0	0
\$68	\$70	11.80	8.10	4.50	.80	0	0	0	0	0	0	0
\$70	\$72	12.10	8.50	4.80	1.20	0	0	0	0	0	0	0
\$72	\$74	12.50	8.80	5.20	1.50	0	0	0	0	0	0	0
\$74	\$76	12.80	9.20	5.50	1.90	0	0	0	0	0	0	0
\$76	\$78	13.20	9.50	5.90	2.20	0	0	0	0	0	0	0
\$78	\$80	13.50	9.90	6.20	2.50	0	0	0	0	0	0	0
\$80	\$82	13.90	10.20	6.50	2.90	0	0	0	0	0	0	0
\$82	\$84	14.20	10.50	6.90	3.20	0	0	0	0	0	0	0
\$84	\$86	14.50	10.90	7.20	3.60	0	0	0	0	0	0	0
\$86	\$88	14.90	11.20	7.00	3.90	.30	0	0	0	0	0	0
\$88	\$90	15.30	11.60	7.90	4.30	.60	0	0	0	0	0	0
\$90	\$92	15.70	11.90	8.30	4.60	.90	0	0	0	0	0	0
\$92	\$94	16.00	12.20	8.00	4.90	1.30	0	0	0	0	0	0
\$94	\$96	16.40	12.60	8.90	5.30	1.60	0	0	0	0	0	0
\$96	\$98	16.80	12.90	9.30	5.60	2.00	0	0	0	0	0	0
\$98	\$100	17.20	13.30	9.60	6.00	2.30	0	0	0	0	0	0
\$100	\$102	17.60	13.60	10.00	6.30	2.70	0	0	0	0	0	0
\$102	\$104	17.90	14.00	10.30	6.70	3.00	0	0	0	0	0	0
\$104	\$106	18.30	14.30	10.60	7.00	3.30	0	0	0	0	0	0
\$106	\$108	18.70	14.60	11.00	7.30	3.70	0	0	0	0	0	0
\$108	\$110	19.10	15.00	11.30	7.70	4.00	.40	0	0	0	0	0
\$110	\$112	19.40	15.40	11.70	8.00	4.40	.70	0	0	0	0	0
\$112	\$114	19.80	15.80	12.00	8.40	4.70	1.10	0	0	0	0	0
\$114	\$116	20.20	16.20	12.40	8.70	5.00	1.40	0	0	0	0	0
\$116	\$118	20.60	16.50	12.70	9.00	5.40	1.70	0	0	0	0	0
\$118	\$120	21.00	16.90	13.00	9.40	5.70	2.10	0	0	0	0	0
\$120	\$124	21.50	17.50	13.60	9.90	6.20	2.60	0	0	0	0	0
\$124	\$128	22.30	18.20	14.20	10.60	6.90	3.30	0	0	0	0	0
\$128	\$132	23.00	19.00	15.00	11.30	7.60	4.00	.30	0	0	0	0
\$132	\$136	23.80	19.70	15.70	12.00	8.30	4.60	1.00	0	0	0	0
\$136	\$140	24.50	20.50	16.50	12.60	9.00	5.30	1.70	0	0	0	0
\$140	\$144	25.30	21.30	17.20	13.30	9.70	6.00	2.40	0	0	0	0
\$144	\$148	26.10	22.00	18.00	14.00	10.40	6.70	3.00	0	0	0	0
\$148	\$152	26.80	22.80	18.70	14.70	11.00	7.40	3.70	.10	0	0	0
\$152	\$156	27.60	23.50	19.50	15.50	11.70	8.10	4.40	.80	0	0	0
\$156	\$160	28.30	24.30	20.20	16.20	12.40	8.70	5.10	1.40	0	0	0
\$160	\$164	29.10	25.00	21.00	17.00	13.10	9.40	5.80	2.10	0	0	0
\$164	\$168	29.80	25.80	21.80	17.70	13.80	10.10	6.50	2.80	0	0	0
\$168	\$172	30.60	26.60	22.50	18.50	14.50	10.80	7.10	3.50	0	0	0
\$172	\$176	31.30	27.30	23.30	19.20	15.20	11.50	7.80	4.20	.50	0	0
\$176	\$180	32.10	28.10	24.00	20.00	15.90	12.20	8.50	4.90	1.20	0	0
\$180	\$184	32.90	28.80	24.80	20.70	16.70	12.90	9.20	5.50	1.90	0	0
\$184	\$188	33.60	29.60	25.50	21.50	17.50	13.50	9.90	6.20	2.60	0	0
\$188	\$192	34.40	30.30	26.30	22.30	18.20	14.20	10.60	6.90	3.30	0	0
\$192	\$196	35.10	31.10	27.10	23.00	19.00	14.90	11.30	7.60	3.90	.30	0
\$196	\$200	35.90	31.80	27.80	23.80	19.70	15.70	11.90	8.30	4.60	1.00	0
\$200	\$210	37.20	33.20	29.10	25.10	21.10	17.00	13.10	9.50	5.80	2.20	0
\$210	\$220	39.10	35.10	31.00	27.00	22.90	18.90	14.90	11.20	7.50	3.90	.20
\$220	\$230	41.00	36.90	32.90	28.90	24.80	20.80	16.80	12.90	9.20	5.60	1.90
\$230	\$240	42.90	38.80	34.80	30.80	26.70	22.70	18.60	14.60	11.00	7.30	3.60
\$240	\$250	44.80	40.70	36.70	32.70	28.60	24.60	20.50	16.50	12.70	9.00	5.40
\$250	\$260	46.70	42.60	38.60	34.60	30.50	26.50	22.40	18.40	14.40	10.70	7.10
\$260	\$270	48.50	44.50	40.50	36.40	32.40	28.40	24.30	20.30	16.20	12.40	8.80
\$270	\$280	50.40	46.40	42.40	38.30	34.30	30.20	26.20	22.20	18.10	14.10	10.50
\$280	\$290	52.30	48.30	44.20	40.20	36.20	32.10	28.10	24.10	20.00	16.00	12.20
\$290	\$300	54.20	50.20	46.10	42.10	38.10	34.00	30.00	25.90	21.90	17.90	13.90
\$300	\$320	57.10	53.00	49.00	44.90	40.90	36.90	32.80	28.80	24.70	20.70	16.70
\$320	\$340	60.80	56.80	52.80	48.70	44.70	40.60	36.60	32.60	28.50	24.50	20.40
\$340	\$360	64.60	60.60	56.50	52.50	48.50	44.40	40.40	36.30	32.30	28.30	24.20
\$360	\$380	68.40	64.40	60.30	56.30	52.20	48.20	44.20	40.10	36.10	32.00	28.00
\$380	\$400	72.20	68.10	64.10	60.10	56.00	52.00	47.90	43.90	39.90	35.80	31.80
\$400 and over		19 percent of the excess over \$400 plus—										
		\$74.10	\$70.00	\$66.00	\$61.90	\$57.90	\$53.90	\$49.80	\$45.80	\$41.80	37.70	\$33.70

If the pay-roll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
\$260	\$270	\$48.40	\$44.00	\$39.70	\$35.30	\$30.90	\$26.50	\$22.20	\$17.80	\$13.60	\$9.70	\$5.70
\$270	\$280	50.30	45.90	41.60	37.20	32.80	28.40	24.10	19.70	15.40	11.40	7.40
\$280	\$290	52.20	47.80	43.40	39.10	34.70	30.30	25.90	21.60	17.20	13.10	9.20
\$290	\$300	54.10	49.70	45.30	41.00	36.60	32.20	27.80	23.50	19.10	14.80	10.90
\$300	\$320	56.90	52.50	48.20	43.80	39.40	35.00	30.70	26.30	21.90	17.50	13.40
\$320	\$340	60.70	56.30	52.00	47.60	43.20	38.80	34.50	30.10	25.70	21.30	17.00
\$340	\$360	64.50	60.10	55.70	51.40	47.00	42.60	38.20	33.90	29.50	25.10	20.70
\$360	\$380	68.30	63.90	59.50	55.10	50.80	46.40	42.00	37.60	33.30	28.90	24.50
\$380	\$400	72.00	67.70	63.30	58.90	54.50	50.20	45.80	41.40	37.00	32.70	28.30
\$400	\$420	75.80	71.40	67.10	62.70	58.30	53.90	49.60	45.20	40.80	36.40	32.10
\$420	\$440	79.60	75.20	70.90	66.50	62.10	57.70	53.40	49.00	44.60	40.20	35.90
\$440	\$460	83.40	79.00	74.60	70.30	65.90	61.50	57.10	52.80	48.40	44.00	39.60
\$460	\$480	87.20	82.80	78.40	74.00	69.70	65.30	60.90	56.50	52.20	47.80	43.40
\$480	\$500	90.90	86.60	82.20	77.80	73.40	69.10	64.70	60.30	55.90	51.60	47.20
		19 percent of the excess over \$500 plus—										
\$500 and over		\$92.80	\$88.50	\$84.10	\$79.70	\$75.30	\$71.00	\$66.60	\$62.20	\$7.805	\$53.50	\$49.10

If the pay-roll period with respect to an employee is monthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
\$0	\$44	17% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$44	\$48	\$7.90	0	0	0	0	0	0	0	0	0	0
\$48	\$52	8.60	.60	0	0	0	0	0	0	0	0	0
\$52	\$56	9.20	1.30	0	0	0	0	0	0	0	0	0
\$56	\$60	9.90	2.00	0	0	0	0	0	0	0	0	0
\$60	\$64	10.60	2.70	0	0	0	0	0	0	0	0	0
\$64	\$68	11.30	3.40	0	0	0	0	0	0	0	0	0
\$68	\$72	12.00	4.10	0	0	0	0	0	0	0	0	0
\$72	\$76	12.70	4.70	0	0	0	0	0	0	0	0	0
\$76	\$80	13.30	5.40	0	0	0	0	0	0	0	0	0
\$80	\$84	14.00	6.10	0	0	0	0	0	0	0	0	0
\$84	\$88	14.70	6.80	0	0	0	0	0	0	0	0	0
\$88	\$92	15.40	7.50	0	0	0	0	0	0	0	0	0
\$92	\$96	16.10	8.20	.20	0	0	0	0	0	0	0	0
\$96	\$100	16.80	8.80	.90	0	0	0	0	0	0	0	0
\$100	\$104	17.40	9.50	1.60	0	0	0	0	0	0	0	0
\$104	\$108	18.10	10.20	2.30	0	0	0	0	0	0	0	0
\$108	\$112	18.80	10.90	3.00	0	0	0	0	0	0	0	0
\$112	\$116	19.50	11.60	3.70	0	0	0	0	0	0	0	0
\$116	\$120	20.20	12.30	4.30	0	0	0	0	0	0	0	0
\$120	\$124	20.90	12.90	5.00	0	0	0	0	0	0	0	0
\$124	\$128	21.50	13.60	5.70	0	0	0	0	0	0	0	0
\$128	\$132	22.20	14.30	6.40	0	0	0	0	0	0	0	0
\$132	\$136	22.90	15.00	7.10	0	0	0	0	0	0	0	0
\$136	\$140	23.60	15.70	7.80	0	0	0	0	0	0	0	0
\$140	\$144	24.30	16.40	8.40	.50	0	0	0	0	0	0	0
\$144	\$148	25.00	17.00	9.10	1.20	0	0	0	0	0	0	0
\$148	\$152	25.70	17.70	9.80	1.90	0	0	0	0	0	0	0
\$152	\$156	26.30	18.40	10.50	2.60	0	0	0	0	0	0	0
\$156	\$160	27.00	19.10	11.20	3.30	0	0	0	0	0	0	0
\$160	\$164	27.70	19.80	11.90	4.00	0	0	0	0	0	0	0
\$164	\$168	28.40	20.50	12.60	4.60	0	0	0	0	0	0	0
\$168	\$172	29.10	21.20	13.20	5.30	0	0	0	0	0	0	0
\$172	\$176	29.80	21.80	13.90	6.00	0	0	0	0	0	0	0
\$176	\$180	30.40	22.50	14.60	6.70	0	0	0	0	0	0	0
\$180	\$184	31.10	23.20	15.30	7.40	0	0	0	0	0	0	0
\$184	\$188	31.80	23.90	16.00	8.10	.10	0	0	0	0	0	0
\$188	\$192	32.60	24.60	16.70	8.70	.80	0	0	0	0	0	0
\$192	\$196	33.30	25.30	17.30	9.40	1.50	0	0	0	0	0	0
\$196	\$200	34.10	25.90	18.00	10.10	2.20	0	0	0	0	0	0

REVENUE ACT OF 1945

If the pay-roll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
\$200	\$204	\$34.80	\$26.60	\$18.70	\$10.80	\$2.90	\$0	\$0	\$0	\$0	\$0	\$0
\$204	\$208	35.60	27.30	19.40	11.50	3.60	0	0	0	0	0	0
\$208	\$212	36.40	28.00	20.10	12.20	4.20	0	0	0	0	0	0
\$212	\$216	37.10	28.70	20.80	12.80	4.90	0	0	0	0	0	0
\$216	\$220	37.90	29.40	21.40	13.50	5.60	0	0	0	0	0	0
\$220	\$224	38.60	30.00	22.10	14.20	6.30	0	0	0	0	0	0
\$224	\$228	39.40	30.70	22.80	14.90	7.00	0	0	0	0	0	0
\$228	\$232	40.10	31.40	23.50	15.60	7.70	0	0	0	0	0	0
\$232	\$236	40.90	32.10	24.20	16.30	8.30	.40	0	0	0	0	0
\$236	\$240	41.60	32.90	24.90	16.90	9.00	1.10	0	0	0	0	0
\$240	\$248	42.80	34.00	25.90	18.00	10.10	2.10	0	0	0	0	0
\$248	\$256	44.30	35.50	27.30	19.30	11.40	3.50	0	0	0	0	0
\$256	\$264	45.80	37.10	28.60	20.70	12.80	4.90	0	0	0	0	0
\$264	\$272	47.30	38.60	30.00	22.10	14.20	6.20	0	0	0	0	0
\$272	\$280	48.80	40.10	31.40	23.40	15.50	7.60	0	0	0	0	0
\$280	\$288	50.30	41.60	32.80	24.80	16.90	9.00	1.10	0	0	0	0
\$288	\$296	51.90	43.10	34.40	26.20	18.30	10.30	2.40	0	0	0	0
\$296	\$304	53.40	44.60	35.90	27.60	19.60	11.70	3.80	0	0	0	0
\$304	\$312	54.90	46.10	37.40	28.90	21.00	13.10	5.20	0	0	0	0
\$312	\$320	56.40	47.60	38.90	30.30	22.40	14.50	6.50	0	0	0	0
\$320	\$328	57.90	49.20	40.40	31.70	23.70	15.80	7.90	0	0	0	0
\$328	\$336	59.40	50.70	41.90	33.20	25.10	17.20	9.30	1.10	0	0	0
\$336	\$344	60.90	52.20	43.40	34.70	26.50	18.60	10.60	2.70	0	0	0
\$344	\$352	62.40	53.70	44.90	36.20	27.80	19.90	12.00	4.10	0	0	0
\$352	\$360	64.00	55.20	46.50	37.70	29.20	21.30	13.40	5.50	0	0	0
\$360	\$368	65.50	56.70	48.00	39.20	30.60	22.70	14.70	6.80	0	0	0
\$368	\$376	67.00	58.20	49.50	40.70	32.00	24.00	16.10	8.20	.30	0	0
\$376	\$384	68.50	59.70	51.00	42.20	33.50	25.40	17.50	9.60	1.60	0	0
\$384	\$392	70.00	61.20	52.50	43.70	35.00	26.80	18.80	10.90	3.00	0	0
\$392	\$400	71.50	62.80	54.00	45.30	36.50	28.10	20.20	12.30	4.40	0	0
\$400	\$420	74.20	65.40	56.70	47.90	39.20	30.50	22.60	14.70	6.80	0	0
\$420	\$440	77.90	69.20	60.40	51.70	42.90	34.20	26.00	18.10	10.20	2.30	0
\$440	\$460	81.70	73.00	64.20	55.50	46.70	38.00	29.50	21.50	13.60	5.70	0
\$460	\$480	85.50	76.70	68.00	59.20	50.50	41.70	33.00	25.00	17.00	9.10	1.20
\$480	\$500	89.30	80.50	71.80	63.00	54.30	45.50	36.80	28.40	20.50	12.50	4.60
\$500	\$520	93.10	84.30	75.60	66.80	58.10	49.30	40.60	31.80	23.90	16.00	8.00
\$520	\$540	96.80	88.10	79.30	70.60	61.80	53.10	44.30	35.60	27.30	19.40	11.50
\$540	\$560	100.60	91.90	83.10	74.40	65.60	56.90	48.10	39.40	30.70	22.80	14.90
\$560	\$580	104.40	95.60	86.90	78.10	69.40	60.60	51.90	43.10	34.40	26.20	18.30
\$580	\$600	108.20	99.40	90.70	81.90	73.20	64.40	55.70	46.90	38.20	29.60	21.70
\$600	\$640	113.80	105.10	96.30	87.60	78.80	70.10	61.30	52.60	43.80	35.10	26.90
\$640	\$680	121.40	112.70	103.90	95.20	86.40	77.70	68.90	60.20	51.40	42.70	33.90
\$680	\$720	129.00	120.20	111.50	102.70	94.00	85.20	76.50	67.70	59.00	50.20	41.50
\$720	\$760	136.50	127.80	119.00	110.30	101.50	92.80	84.00	75.30	66.50	57.80	49.00
\$760	\$800	144.10	135.30	126.60	117.80	109.10	100.30	91.60	82.80	74.10	65.30	56.60
\$800	\$840	151.60	142.90	134.10	125.40	116.60	107.90	99.10	90.40	81.60	72.90	64.10
\$840	\$880	159.20	150.50	141.70	133.00	124.20	115.50	106.70	98.00	89.20	80.50	71.70
\$880	\$920	166.80	158.00	149.30	140.50	131.80	123.00	114.30	105.50	96.80	88.00	79.30
\$920	\$960	174.30	165.60	156.80	148.10	139.30	130.60	121.80	113.10	104.30	95.60	86.80
\$960	\$1,000	181.90	173.10	164.40	155.60	146.90	138.10	129.40	120.60	111.90	103.10	94.40
\$1,000 and over		19 percent of the excess over \$1,000 plus—										
		185.70	176.90	168.20	159.40	150.70	141.90	133.20	124.40	115.70	106.90	98.20

If the pay-roll period with respect to an employee is a daily pay-roll period or a miscellaneous pay-roll period

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—												
		0	1	2	3	4	5	6	7	8	9	10 or more		
		The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period												
At least	But less than	17% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$1.50	\$0.30	0	0	0	0	0	0	0	0	0	0	0	0
\$1.50	\$1.75	.30	.05	0	0	0	0	0	0	0	0	0	0	0
\$1.75	\$2	.35	.10	0	0	0	0	0	0	0	0	0	0	0
\$2	\$2.25	.40	.15	0	0	0	0	0	0	0	0	0	0	0
\$2.25	\$2.50	.45	.20	0	0	0	0	0	0	0	0	0	0	0
\$2.50	\$2.75	.50	.25	0	0	0	0	0	0	0	0	0	0	0
\$2.75	\$3	.55	.25	0	0	0	0	0	0	0	0	0	0	0
\$3	\$3.25	.60	.30	.05	0	0	0	0	0	0	0	0	0	0
\$3.25	\$3.50	.60	.35	.10	0	0	0	0	0	0	0	0	0	0
\$3.50	\$3.75	.65	.40	.15	0	0	0	0	0	0	0	0	0	0
\$3.75	\$4	.70	.45	.20	0	0	0	0	0	0	0	0	0	0
\$4	\$4.25	.75	.50	.25	0	0	0	0	0	0	0	0	0	0
\$4.25	\$4.50	.80	.55	.25	0	0	0	0	0	0	0	0	0	0
\$4.50	\$4.75	.85	.55	.30	.05	0	0	0	0	0	0	0	0	0
\$4.75	\$5	.90	.60	.35	.10	0	0	0	0	0	0	0	0	0
\$5	\$5.25	.90	.65	.40	.15	0	0	0	0	0	0	0	0	0
\$5.25	\$5.50	.95	.70	.45	.20	0	0	0	0	0	0	0	0	0
\$5.50	\$5.75	1.00	.75	.50	.20	0	0	0	0	0	0	0	0	0
\$5.75	\$6	1.05	.80	.55	.25	0	0	0	0	0	0	0	0	0
\$6	\$6.25	1.10	.85	.55	.30	.05	0	0	0	0	0	0	0	0
\$6.25	\$6.50	1.15	.85	.60	.35	.10	0	0	0	0	0	0	0	0
\$6.50	\$6.75	1.20	.90	.65	.40	.15	0	0	0	0	0	0	0	0
\$6.75	\$7	1.25	.95	.70	.45	.20	0	0	0	0	0	0	0	0
\$7	\$7.25	1.30	1.00	.75	.50	.20	0	0	0	0	0	0	0	0
\$7.25	\$7.50	1.35	1.05	.80	.50	.25	0	0	0	0	0	0	0	0
\$7.50	\$7.75	1.40	1.10	.85	.55	.30	.05	0	0	0	0	0	0	0
\$7.75	\$8	1.45	1.15	.85	.60	.35	.10	0	0	0	0	0	0	0
\$8	\$8.25	1.45	1.20	.90	.65	.40	.15	0	0	0	0	0	0	0
\$8.25	\$8.50	1.50	1.25	.95	.70	.45	.15	0	0	0	0	0	0	0
\$8.50	\$8.75	1.55	1.30	1.00	.75	.50	.20	0	0	0	0	0	0	0
\$8.75	\$9	1.60	1.35	1.05	.80	.50	.25	0	0	0	0	0	0	0
\$9	\$9.25	1.65	1.35	1.10	.80	.55	.30	.05	0	0	0	0	0	0
\$9.25	\$9.50	1.70	1.40	1.15	.85	.60	.35	.10	0	0	0	0	0	0
\$9.50	\$9.75	1.75	1.45	1.20	.90	.65	.40	.15	0	0	0	0	0	0
\$9.75	\$10	1.85	1.55	1.25	.95	.70	.45	.20	0	0	0	0	0	0
\$10	\$10.50	1.90	1.65	1.35	1.05	.80	.55	.30	0	0	0	0	0	0
\$10.50	\$11	2.00	1.75	1.45	1.15	.90	.60	.35	.10	0	0	0	0	0
\$11	\$11.50	2.10	1.80	1.55	1.25	.95	.70	.45	.20	0	0	0	0	0
\$11.50	\$12	2.20	1.90	1.65	1.35	1.05	.80	.55	.25	0	0	0	0	0
\$12	\$12.50	2.30	2.00	1.70	1.45	1.15	.90	.60	.35	.10	0	0	0	0
\$12.50	\$13	2.40	2.10	1.80	1.55	1.25	.95	.70	.45	.20	0	0	0	0
\$13	\$13.50	2.50	2.20	1.90	1.65	1.35	1.05	.80	.55	.25	0	0	0	0
\$13.50	\$14	2.60	2.30	2.00	1.70	1.45	1.15	.90	.60	.35	.10	0	0	0
\$14	\$14.50	2.70	2.40	2.10	1.80	1.55	1.25	.95	.70	.45	.20	0	0	0
\$14.50	\$15	2.75	2.50	2.20	1.90	1.60	1.35	1.05	.80	.55	.25	0	0	0
\$15	\$15.50	2.85	2.60	2.30	2.00	1.70	1.45	1.15	.85	.60	.35	.10	0	0
\$15.50	\$16	2.95	2.65	2.40	2.10	1.80	1.50	1.25	.95	.70	.45	.20	0	0
\$16	\$16.50	3.05	2.75	2.50	2.20	1.90	1.60	1.35	1.05	.80	.55	.25	.10	0
\$16.50	\$17	3.15	2.85	2.60	2.30	2.00	1.70	1.40	1.15	.85	.60	.35	.10	0
\$17	\$17.50	3.25	2.95	2.65	2.40	2.10	1.80	1.50	1.25	.95	.70	.45	.20	0
\$17.50	\$18	3.35	3.05	2.75	2.50	2.20	1.90	1.60	1.35	1.05	.80	.55	.25	.10
\$18	\$18.50	3.45	3.15	2.85	2.55	2.30	2.00	1.70	1.40	1.15	.85	.60	.35	.10
\$18.50	\$19	3.55	3.25	2.95	2.65	2.40	2.10	1.80	1.50	1.25	.95	.70	.45	.20
\$19	\$19.50	3.60	3.35	3.05	2.75	2.45	2.20	1.90	1.60	1.30	1.05	.80	.55	.25
\$19.50	\$20	3.75	3.50	3.20	2.90	2.60	2.35	2.05	1.75	1.45	1.20	.90	.60	.35
\$20	\$21	3.95	3.65	3.40	3.10	2.80	2.50	2.25	1.95	1.65	1.35	1.10	.80	.50
\$21	\$22	4.15	3.85	3.55	3.30	3.00	2.70	2.40	2.15	1.85	1.55	1.25	.95	.65
\$22	\$23	4.35	4.05	3.75	3.45	3.20	2.90	2.60	2.30	2.05	1.75	1.45	1.15	.85
\$23	\$24	4.50	4.25	3.95	3.65	3.35	3.10	2.80	2.50	2.20	1.95	1.65	1.35	1.05
\$24	\$25	4.70	4.40	4.15	3.85	3.55	3.25	3.00	2.70	2.40	2.10	1.85	1.55	1.25
\$25	\$26	4.90	4.60	4.30	4.05	3.75	3.45	3.15	2.90	2.60	2.30	2.00	1.70	1.40
\$26	\$27	5.10	4.80	4.50	4.20	3.95	3.65	3.35	3.05	2.80	2.50	2.20	1.90	1.60
\$27	\$28	5.30	5.00	4.70	4.40	4.15	3.85	3.55	3.25	3.00	2.70	2.40	2.10	1.80
\$28	\$29	5.45	5.20	4.90	4.60	4.30	4.00	3.75	3.45	3.15	2.90	2.60	2.30	2.00
\$29	\$30													
\$30.00 and over		19 percent of the excess over \$30 plus—												
		\$5.55	\$5.25	\$5.00	\$4.70	\$4.40	\$4.10	\$3.85	\$3.55	\$3.25	\$2.95	\$2.70		

(c) **TECHNICAL AMENDMENT.**—Section 1622 (h) (1) (C) (relating to exemptions for withholding) is amended by striking out the words “a surtax exemption under section 25 (b) (3)” and by inserting in lieu thereof “an exemption under section 25 (b) (1) (C)”.

(d) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable only with respect to wages paid on or after January 1, 1946.

PART II—CORPORATION TAXES

SEC. 121. DECREASE IN CORPORATION SURTAX.

(a) **IN GENERAL.**—Section 15 (b) (relating to the corporation surtax) is amended to read as follows:

“(b) **IMPOSITION OF TAX.**—There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a Western Hemisphere trade corporation as defined in section 109, and except a corporation subject to a tax imposed by section 231 (a), Supplement G or Supplement Q) a surtax as follows:

“(1) **Surtax net incomes not over \$25,000.**—Upon corporation surtax net incomes not over \$25,000, 6 per centum of the amount thereof.

“(2) **Surtax net incomes over \$25,000 but not over \$50,000.**—Upon corporation surtax net incomes over \$25,000, but not over \$50,000, \$1,500 plus 18 per centum of the amount of the corporation surtax net income over \$25,000.

“(3) **Surtax net incomes over \$50,000.**—Upon corporation surtax net incomes over \$50,000, 12 per centum of the corporation surtax net income.”

(b) **MUTUAL INSURANCE COMPANIES OTHER THAN LIFE OR MARINE.**—Section 207 (a) (relating to mutual insurance companies, other than life or marine) is amended (a) by striking out “20 per centum” in paragraph (1) (B), and inserting in lieu thereof “12 per centum”; and (b) by striking out “32 per centum” in paragraph (3) (B), and inserting in lieu thereof “24 per centum”.

(c) **REGULATED INVESTMENT COMPANIES.**—Section 362 (b) (4) (relating to the surtax on regulated investment companies) is amended by striking out “16 per centum” and inserting in lieu thereof: “12 per centum”.

(d) **TAXABLE YEARS TO WHICH APPLICABLE.**—The amendments made by this section shall be applicable with respect to taxable years beginning after December 31, 1945. For treatment of taxable years beginning in 1945 and ending in 1946, see section 131.

SEC. 122. REDUCTION IN EXCESS PROFITS TAX FOR 1946.

(a) **REDUCTION IN RATE.**—Section 710 (a) (1) (imposing the excess profits tax) is amended to read as follows:

“(1) **GENERAL RULE.**—There shall be levied, collected, and paid, for each taxable year, upon the adjusted excess-profits net income, as defined in subsection (b), of every corporation (except a corporation exempt under section 727) a tax of 60 per centum of the adjusted excess-profits net income.”

(b) **DEFERMENT OF PAYMENT IN CASE OF ABNORMALITY ELIMINATED.**—

(1) Section 710 (a) (5) (permitting deferment of tax in cases of abnormality) is repealed.

(2) Section 722 (d) (relating to general relief) is amended by striking out “, except as provided in section 710 (a) (5)”.

(c) **REPEAL OF 10 PER CENTUM CREDIT AGAINST EXCESS PROFITS TAX.**—Section 784 (providing a 10 per centum credit against excess profits tax) is repealed.

(d) **TECHNICAL AMENDMENT.**—Section 26 (e) (relating to the credit for income subject to the excess profits tax) is amended—

(1) by striking out “95 per centum” and inserting in lieu thereof: “60 per centum”; and

(2) by striking out “without regard to the limitation provided in section 710 (a) (1) (B) (the 80 per centum limitation),”.

(e) **TAXABLE YEARS TO WHICH APPLICABLE.**—The amendments and repeals made by this section shall be applicable with respect to taxable years beginning after December 31, 1945. For treatment of taxable years beginning in 1945 and ending in 1946, see section 131.

SEC. 123. REPEAL OF EXCESS PROFITS TAX IN 1947.

(a) **IN GENERAL.**—Effective with respect to taxable years beginning after December 31, 1946, subchapter E of chapter 2 (relating to the excess profits tax) is repealed.

(b) **TECHNICAL AMENDMENTS.**—Effective with respect to taxable years beginning after December 31, 1946—

(1) Section 26 (e) (relating to the credit for income subject to the excess profits tax) is repealed.

(2) Section 13 (a) (2) (defining “normal tax net income”) is amended by striking out “minus the credit for income subject to the tax imposed by Subchapter E of Chapter 2 provided in section 26 (e) and”.

(3) Section 15 (a) (defining “corporation surtax net income”) is amended (A) by striking out “minus the credit for income subject to the tax imposed by Subchapter E of Chapter 2 provided in section 26 (e) and”; (B) by striking out “(computed by limiting such credit to 85 per centum of the net income reduced by the credit for income subject to the tax imposed by Subchapter E of Chapter 2 in lieu of 85 per centum of the adjusted net income so reduced),”.

(4) Section 26 (b) (relating to the credit for dividends received) is amended by striking out “reduced by the credit for income subject to the tax imposed by Subchapter E of Chapter 2 provided in subsection (e)”.

(5) Section 102 (d), (1) (defining terms for the purposes of the tax imposed by section 102) is amended by striking out subparagraph (D) thereof.

(6) Section 131 (b) (prescribing certain limitations on the foreign-tax credit) is amended by striking out paragraph (3) thereof.

(7) Section 204 (a) (2) relating to foreign mutual insurance companies other than life or marine) is amended to read as follows:

“(2) **NORMAL-TAX AND CORPORATION SURTAX NET INCOME OF FOREIGN INSURANCE COMPANIES OTHER THAN LIFE OR MUTUAL AND FOREIGN MUTUAL MARINE.**—In the case of a foreign insurance company (other than a life or mutual insurance company) and a foreign mutual marine insurance company and a foreign mutual fire insurance company described in paragraph (1) of this subsection, the normal tax net income shall be the net income from sources within the United States minus the credit provided in section 26 (a) and the credit provided in section 26 (b), and the corporation surtax net income shall be the net income from sources within the United States minus the credit provided in section 26 (b).”

(c) **FISCAL YEAR TAXPAYERS.**—For application of subchapter E of chapter 2 to taxable years beginning in 1946 and ending in 1947 see section 131.

PART III—FISCAL YEAR TAXPAYERS

SEC. 131. FISCAL YEAR TAXPAYERS.

(a) **INCOME TAXES.**—Section 108 of the Internal Revenue Code is amended by striking out “(c)” at the beginning of subsection (c) and inserting in lieu thereof “(e)”, and by inserting after subsection (b) the following:

“(c) **TAXABLE YEARS BEGINNING IN 1945 AND ENDING IN 1946.**—In the case of a taxable year beginning in 1945 and ending in 1946, the tax imposed by sections 11, 12, 13, 14, 15, and 400 shall be an amount equal to the sum of—

“(1) that portion of a tentative tax, computed as if the law applicable to taxable years beginning on January 1, 1945, were applicable to such taxable year, which the number of days in such taxable year prior to January 1, 1946, bears to the total number of days in such taxable year, plus

“(2) that portion of a tentative tax, computed as if the law applicable to years beginning on January 1, 1946, were applicable to such taxable year, which the number of days in such taxable year after December 31, 1945, bears to the total number of days in such taxable year.

“(d) **CORPORATION TAXABLE YEARS BEGINNING IN 1946 AND ENDING IN 1947.**—In the case of a taxable year beginning in 1946 and ending in 1947, the tax imposed by sections 13, 14, and 15, shall be an amount equal to the sum of—

“(1) that portion of a tentative tax, computed as if the law applicable to taxable years beginning on January 1, 1946, were applicable to such taxable year, which the number of days in such taxable year prior to January 1, 1947, bears to the total number of days in such taxable year, plus

“(2) that portion of a tentative tax, computed as if the law applicable to taxable years beginning on January 1, 1947, were applicable to such taxable year, which the number of days in such taxable year after December 31, 1946, bears to the total number of days in such taxable year.”

(b) EXCESS PROFITS TAX.—

(1) IN GENERAL.—Section 710 (a) (imposing the excess profits tax) is amended by inserting at the end thereof the following:

“(7) **TAXABLE YEARS BEGINNING IN 1945 AND ENDING IN 1946.**—In the case of a taxable year beginning in 1945 and ending in 1946, the tax shall be an amount equal to the sum of—

“(A) that portion of a tentative tax, computed as if the law applicable to taxable years beginning on January 1, 1945, were applicable to such taxable year, which the number of days in such taxable year prior to January 1, 1946, bears to the total number of days in such taxable year, plus

“(B) that portion of a tentative tax, computed as if the law applicable to taxable years beginning on January 1, 1946, were applicable to such taxable year, which the number of days in such taxable year after December 31, 1945, bears to the total number of days in such taxable year.

“(8) **TAXABLE YEARS BEGINNING IN 1946 AND ENDING IN 1947.**—In the case of a taxable year beginning in 1946 and ending in 1947, the tax shall be an amount equal to that portion of a tentative tax, computed as if the law applicable to taxable years beginning on January 1, 1946, were applicable to such taxable year, which the number of days in such taxable year prior to January 1, 1947, bears to the total number of days in such taxable year.”

(2) TECHNICAL AMENDMENTS.—

(A) Section 710 (b) (1) (relating to the specific exemption) is amended by striking out “except that in the case of a taxable year beginning in 1945 and ending in 1946, the specific exemption shall be an amount equal to the sum of (A) an amount which bears the same relation to \$10,000 which the number of days in such taxable year prior to January 1, 1946, bears to the total number of days in such taxable year and (B) an amount which bears the same relation to \$25,000 which the number of days in such taxable year after December 31, 1945, bears to the total number of days in such taxable year;”.

(B) Section 2 (d) of the Tax Adjustment Act of 1945 is amended by striking out “, and to taxable years beginning in 1945 and ending in 1946”.

(3) UNUSED EXCESS PROFITS CREDIT FOR TAXABLE YEAR BEGINNING IN 1946 AND ENDING IN 1947.—Section 710 (c) (2) (defining the unused excess profits credit) is amended by inserting at the end thereof a new sentence reading as follows: “The unused excess profits credit for a taxable year beginning in 1946 and ending in 1947 shall be an amount which is such part of the unused excess profits credit determined under the preceding provisions of this paragraph as the number of days in such taxable year prior to January 1, 1947, is of the total number of days in such taxable year.”

TITLE II—REPEAL OF CAPITAL STOCK TAX AND DECLARED VALUE EXCESS PROFITS TAX

SEC. 201. REPEAL OF CAPITAL STOCK TAX.

Effective with respect to years ending after June 30, 1945, chapter 6 (imposing the capital stock tax) is repealed.

SEC. 202. REPEAL OF DECLARED VALUE EXCESS PROFITS TAX.

Effective with respect to income-tax taxable years ending after June 30, 1946, subchapter B of chapter 2 (imposing the declared value excess profits tax) is repealed.

TITLE III—EXCISE TAXES

SEC. 301. TERMINATION OF WAR TAX RATES AFTER JUNE 30, 1946.

(a) WAR TAX RATES OF CERTAIN MISCELLANEOUS TAXES.—Section 1650 (prescribing war tax rates of certain miscellaneous taxes) is amended by striking out “on the first day of the first month which begins six months or more after the date of the termination of hostilities in the present war” and inserting in lieu thereof: “with the close of June 30, 1946.”

(b) BILLIARD AND POOL TABLES AND BOWLING ALLEYS.—Section 302 (b) (2) of the Revenue Act of 1943 is amended to read as follows:

"(2) BILLIARD AND POOL TABLES AND BOWLING ALLEYS.—The increase made by subsection (a) of this section in the tax imposed by section 3268 of the Internal Revenue Code shall be effective with respect to the period beginning July 1, 1944, and continuing through June 30, 1946."

(c) EFFECTIVE DATE OR PERIOD OF CERTAIN DECREASES.—Notwithstanding section 1650 of the Internal Revenue Code—

(1) CABARET TAX.—The amendment made by subsection (a) of this section with respect to the tax imposed by section 1700 (e) of the Internal Revenue Code shall be applicable only with respect to the period beginning at 10:00 A. M. on July 1, 1946.

(2) TELEGRAPH, TELEPHONE, RADIO AND CABLE FACILITIES.—The amendment made by subsection (a) of this section with respect to the taxes imposed by section 3465 (a) (1) of the Internal Revenue Code shall apply only to amounts paid for services rendered on or after July 1, 1946. The amendment made by subsection (a) with respect to the taxes imposed by section 3465 (a) (2) and (3) of the Internal Revenue Code shall apply only to amounts paid pursuant to bills rendered on or after the first day of August, 1946, for services for which no previous bill was rendered. Where bills rendered on or after the first day of August, 1946, include charges for services previously rendered, the decreased rates shall not apply to such services as were rendered more than two months before such date, and the provisions of sections 1650 and 3465 of the Internal Revenue Code in effect at the time such prior services were rendered shall be applicable to the amounts paid for such services.

(d) CONTINUATION OF RETAILERS' EXCISE TAX ON LUGGAGE AT LOWER RATE.—

(1) REDUCTION IN RATE.—Effective with respect to the period beginning July 1, 1946, section 1651 (a) (imposing the retailers' excise tax on luggage) is amended by striking out "20 per centum" and inserting in lieu thereof "10 per centum".

(2) CONTINUATION OF TAX.—Sections 1654 (relating to the termination of the retailers' excise tax on luggage) and 1655 (defining "date of the termination of hostilities" for the purposes of Chapter 9A) are repealed.

SEC. 302. REPEAL OF USE TAX ON MOTOR VEHICLES AND BOATS.

Effective with respect to the period after June 30, 1946, chapter 33A (imposing a tax on the use of motor vehicles and boats) is repealed.

SEC. 303. DRAWBACK ON DISTILLED SPIRITS.

Section 309 (b) of the Revenue Act of 1943 is amended to read as follows:

"(b) DISTILLED SPIRITS USED IN MANUFACTURE OF CERTAIN NONBEVERAGE PRODUCTS.—In lieu of the rate of drawback specified in section 3250 (1) (5) of the Internal Revenue Code, the rate applicable with respect to the period beginning April 1, 1944, and continuing through June 30, 1946, shall be \$6.00."

SEC. 304. FLOOR STOCKS REFUNDS.

Chapter 9A (relating to war taxes and war tax rates) is amended by inserting at the end thereof two new sections reading as follows:

"SEC. 1656. FLOOR STOCKS REFUNDS ON DISTILLED SPIRITS, WINES AND CORDIALS, AND FERMENTED MALT LIQUORS.

"(a) IN GENERAL.—With respect to any article upon which tax is imposed under section 2800, 3030, or 3150, upon which internal revenue tax (including floor stocks taxes) at the rate prescribed in section 1650 has been paid, and which, on July 1, 1946, is held by any person and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be credited or refunded to such person (without interest), subject to such regulations as may be prescribed by the Commissioner with the approval of the Secretary, an amount equal to the difference between the tax so paid and the tax that would have been paid if section 1650 and the 1944 floor stocks taxes had not been applicable, if claim for such refund is filed with the Commissioner prior to August 1, 1946.

"(b) LIMITATIONS ON ELIGIBILITY FOR REFUND.—No person shall be entitled to refund under subsection (a) unless (1) such person, for such period or periods prior to July 1, 1946, and also for such period or periods after June 30, 1946 (but not after June 30, 1947), as the Commissioner with the approval of the Secretary shall by regulations prescribe, makes and keeps, and files with the Commissioner, such records of inventories, sales, and purchases as may be

prescribed in such regulations; and (2) such person establishes to the satisfaction of the Commissioner, with respect to each kind of article for which refund is claimed by him under this section, that after June 30, 1946, and before October 1, 1946, the price at which articles of such kind were sold (until a number equal at least to the number on hand on July 1, 1946, were sold) reflected, in such manner as the Commissioner may by regulations prescribe with the approval of the Secretary, the amount of the tax reduction under title III of the Revenue Act of 1945.

“(c) All provisions of law, including penalties, applicable in respect of internal revenue taxes on distilled spirits, wines, liqueurs and cordials, imported perfumes containing distilled spirits, and fermented malt liquors shall, insofar as applicable and not inconsistent with this section, be applicable in respect of the refunds provided for in this section to the same extent as if such refunds constituted refunds of such taxes.

“SEC. 1657. FLOOR STOCKS REFUNDS ON ELECTRIC LIGHT BULBS.

“(a) **IN GENERAL.**—With respect to any article upon which tax is imposed under section 3406 (a) (10), upon which internal revenue tax at the rate prescribed in section 1650 has been paid, and which, on July 1, 1946, is held by any person and intended for sale, or for use in the manufacture or production of any article intended for sale, there shall be credited or refunded to the manufacturer or producer of such article (without interest), subject to such regulations as may be prescribed by the Commissioner with the approval of the Secretary, an amount equal to so much of the difference between the tax so paid and the tax that would have been paid if section 1650 had not been applicable, as has been paid by such manufacturer or producer to such person as reimbursement for the tax reduction on such articles under title III of the Revenue Act of 1945, if claim for such refund is filed with the Commissioner prior to October 1, 1946.

“(b) **LIMITATIONS ON ELIGIBILITY FOR REFUND.**—No person shall be entitled to refund under subsection (a) unless he has in his possession such evidence of the inventories with respect to which he has made the reimbursements described in subsection (a) as the regulations under subsection (a) prescribe.

“(c) All provisions of law, including penalties, applicable in respect of the tax imposed under section 3406 (a) (10) shall, insofar as applicable and not inconsistent with this section, be applicable in respect of the refunds provided for in this section to the same extent as if such refunds constituted refunds of such taxes.”

SEC. 305. CONTINUATION OF POWER OF SECRETARY OF THE TREASURY TO AUTHORIZE GOVERNMENT EXEMPTIONS FROM CERTAIN EXCISE TAXES.

Section 307 (c) of the Revenue Act of 1943 (relating to power of Secretary with respect to Government exemption from certain excise taxes) is amended by striking out the last sentence thereof.

TITLE IV—SOCIAL SECURITY TAXES

SEC. 401. AUTOMATIC INCREASE IN 1946 RATE NOT TO APPLY.

(a) Clauses (1) and (2) of section 1400 of the Federal Insurance Contributions Act (Internal Revenue Code, sec. 1400) are amended to read as follows:

“(1) With respect to wages received during the calendar years 1939, 1940, 1941, 1942, 1943, 1944, 1945, and 1946, the rate shall be 1 per centum.

“(2) With respect to wages received during the calendar years 1947 and 1948, the rate shall be 2½ per centum.”

(b) Clauses (1) and (2) of section 1410 of such Act (Internal Revenue Code, sec. 1410) are amended to read as follows:

“(1) With respect to wages paid during the calendar years 1939, 1940, 1941, 1942, 1943, 1944, 1945, and 1946, the rate shall be 1 per centum.

“(2) With respect to wages paid during the calendar years 1947 and 1948, the rate shall be 2½ per centum.”

Passed the House of Representatives October 11, 1945.

Attest:

SOUTH TRIMBLE, *Clerk.*

The CHAIRMAN. We are honored to have present the Secretary of the Treasury on his first visit to the committee since his appointment to this position, I believe.

Mr. Secretary, we shall be glad to hear from you now. We realize that you want to return to your place, leaving such members of your staff as you desire to leave with us to assist us.

STATEMENT OF HON. FRED M. VINSON, SECRETARY OF THE TREASURY, ACCOMPANIED BY DANIEL W. BELL, UNDER SECRETARY; ROY BLOUGH, ASSISTANT TO THE SECRETARY; AND AL F. O'DONNELL, ASSISTANT DIRECTOR OF RESEARCH AND STATISTICS

Mr. VINSON. Thank you, Mr. Chairman.

Mr. Chairman and gentlemen of the committee, I am happy to appear before the Senate Finance Committee again. It gives me a welcome chance to renew old tax acquaintances of my congressional days. To do so in the congenial, though somewhat unusual atmosphere of tax reduction is a real pleasure.

You have before you H. R. 4309, a transition tax reduction bill. It is generally agreed, I believe, that this measure is chiefly designed for the period while our Nation is converting from a wartime to a peacetime economy. It is not intended to be—and if it is to become law in time to take effect January 1, 1946, it cannot be—a bill to reconstruct and modernize the tax system for the postwar period. I appreciate this opportunity to examine with you the basic considerations which must be weighed in reducing taxes for the period just ahead.

The first point, and one of controlling importance, is that the amount of tax reduction possible at this time is truly limited. In view of our budgetary needs and our economic outlook during reconversion, it is my considered judgment that tax reduction for the year 1946 should not total more than \$5,000,000,000.

The burdens of war do not end when the last shot is fired. Liquidating our great war machine will be costly and time consuming. For example, it will take many months and \$4,000,000,000 to \$5,000,000,000 to settle terminated war contracts. It will take about \$270 per discharged man to muster out our soldiers, sailors, and marines. Even after completing demobilization, we are committed to reestablish veterans in peacetime jobs and to provide care for sick and disabled veterans. The Federal debt, which on October 10, 1945, was \$262,300,000,000, must also be serviced at a cost of more than \$5,000,000,000 a year for interest alone. Moreover, occupation of enemy countries and the support of a military establishment large enough to maintain the peace will involve huge expenditures. Clearly, war and its aftermath will keep Federal expenditures high for many months to come.

Senator VANDENBERG. Mr. Secretary, would it bother you if I interrupted for a question?

Mr. VINSON. Not at all, Senator Vandenberg.

Senator VANDENBERG. Does "we would expect to take in about \$36,000,000,000," on page 2 of your statement, include an estimate of revenue from surplus property?

Mr. VINSON. Yes, sir. I think the estimate for the fiscal year is \$1,000,000,000.

Senator VANDENBERG. \$1,000,000,000.

Mr. VINSON. \$1,000,000,000 as budgetary receipts.

Senator VANDENBERG. Thank you.

Senator BARKLEY. Does it also contemplate the proposed reduction of \$5,000,000,000 in receipts?

Mr. VINSON. No, sir. That is without any tax reduction.

Senator BARKLEY. Without any tax reduction?

Mr. VINSON. Yes.

Senator BARKLEY. I was going to say, what would account for the dropping off of \$10,000,000,000 in receipts this year as compared to last?

Mr. VINSON. The national income will be lower.

Senator HAWKES. Mr. Secretary, you have considered that the excess profits even if the tax were left on would be very much less than it has been during the war?

Mr. VINSON. Yes, sir. If all rates were continued there would be, I think it is about ten and a half billion less in taxes, which is a tax reduction in itself, but one which the taxpayer does not feel as tax relief, since it results from a lower income.

Senator BARKLEY. He feels that though, doesn't he?

Mr. VINSON. He feels it and the Treasury feels it.

Senator TAFT. Mr. Secretary, if you reduced this \$5,000,000,000 which you refer to, how much of it would fall in the fiscal year 1946? Very little of it, I suppose.

Mr. VINSON. For the calendar year 1946 it is estimated that upon \$130,000,000,000 of income payments the yield of the present tax system, without a change in rates, and not taking into consideration change in excise taxes, would be 32.5 billion dollars.

Senator TAFT. I don't quite understand. You mean for the calendar year 1946 it would be 32½ billion?

Mr. VINSON. Yes. In dealing with the calendar we are talking about tax liabilities.

Senator TAFT. I understand.

Mr. VINSON. Rather than actual tax receipts.

Senator TAFT. That is what I meant. So the fiscal year 1946 figures you gave us here, those are receipts?

Mr. VINSON. Yes, sir; estimated receipts.

Senator TAFT. The only direct reflection of this bill on receipts in the fiscal year 1946, I assume, would be in the individual income tax?

Mr. VINSON. Yes, sir. My associate here says that it would only affect individual income taxes, and it is estimated it would amount to less than a billion dollars.

Senator BYRD. Mr. Secretary, what is the total amount that you expect to recover from the surplus property. You say it is a billion dollars this year.

Mr. VINSON. That is the figure in the Budget.

Senator BYRD. What is the estimate now as to the total amount that you will recover?

Mr. VINSON. I haven't that figure, Senator Byrd. Frankly I think it is anybody's guess.

Senator CONNALLY. You had better get it quickly because it is going to go down every day.

Mr. VINSON. There is something to that, Senator.

Senator BYRD. Has anybody made any approximate estimate?

Mr. VINSON. I will attempt to get some figures, Senator, and put them in the record.

Senator BYRD. There is no one present that has any figures on it?

Mr. VINSON. I don't think so.

Senator BARKLEY. All property that is surplus hasn't been declared so yet.

Mr. VINSON. No. As I understand it there is a lot of property in the military as yet that hasn't been declared surplus, but I understand it will be shortly.

Senator BYRD. I have seen figures of a hundred billion. Of course, there will only be a small part of that that will be reclaimed in cash.

Mr. VINSON. Yes. A lot of the war material, we realize, is really nonusable in the peacetime economy. Aeroplanes, tanks, and so forth.

Senator BYRD. Mr. Chairman, if those figures can be obtained, may they be inserted in the record at this point?

The CHAIRMAN. Yes.

Mr. VINSON. I will be happy to make the effort.

Senator LUCAS. You might also make an estimate of the percent of the total amount you expect to recover. That is in dollars.

Mr. VINSON. I shall try to do that. It might be well to break it down between war material and nonwar material that could be used. I don't really think it is fair to the Surplus Property Administrator to take cost on it. I mean, it is fair, but it is not the proper standard, as I see it, to take total cost for war material and then when there is no market for it say that he hasn't gotten out of it what he should. I think it ought to be broken up into two categories.

(The information requested is as follows:)

Information is not yet available with regard to the amount of property that may eventually be declared surplus, although the Surplus Property Administration estimates that declarations will amount to about \$32,000,000,000 (cost price) during the fiscal year 1946. This estimate, it was pointed out, does not include United States military property located in foreign countries, amounting, it is informally understood, to somewhere between 8 and 12 billion dollars. Neither does it include ordnance items such as tanks and heavy guns, or merchant and naval vessels. Legislation is now pending (H. R. 3603) with regard to disposition of vessels by the Maritime Commission. The policies have not been finally worked out with regard to disposition of heavy military equipment.

According to reports of the Surplus Property Administration, property which cost \$5,300,000,000 had been declared surplus up to September 30, 1945. Of that amount, \$690,000,000 had been disposed of, the sales proceeds being \$358,000,000.

Of the \$32,000,000,000 expected to be declared surplus in the current fiscal year, it is estimated that about \$7,500,000,000 will be disposed of by June 30, 1946, for an estimated total sales price of about \$2,000,000,000. The greater part of disposals this year are expected to be property that had been acquired with Reconstruction Finance Corporation funds. Consequently, such proceeds will be deposited in that agency's checking account with the Treasurer of the United States and will not be reflected as budgetary receipts. Such amounts will, however, be available to the Corporation to reduce its indebtedness to the Treasury, and the Treasury in turn will use those funds to reduce its borrowing from the public.

Total declarations, from the beginning of the program through June 30, 1946, are estimated by the Surplus Property Administration at about \$35,000,000,000.

More than 25 percent of this amount is estimated to be "nonsalable" aircraft, although there will, of course, be something realized from scrapping a great many of these aircraft.

The Government's investment of about \$16,000,000,000 in industrial plants, according to the Surplus Property Administration, represents a particularly difficult problem in connection with disposal of surplus property. The Surplus Property Board in its report to Congress of May 28, 1945, made the following statement:

"The disposition and use of Government-owned plants will have greater impact—for good or ill—upon the long-run structure and operation of our economy than will the disposition of any other class of surplus property. Speedy reconversion of our industrial capacity from a wartime to peacetime role and the maintenance of high industrial employment in the postwar period are inextricably bound to the utilization of this enormous war-borne, Government-owned capacity."

It is expected that most of the plants will eventually be disposed of but that some will remain in a stand-by status.

Mr. VINSON. During the fiscal year 1946, total Government expenditures will run about \$66,500,000,000, of which \$50,500,000,000 represents the cost of war activities. Without any change in the tax law, we would expect to take in about \$36,000,000,000, leaving a deficit of \$30,500,000,000. The gap between intake and outgo will narrow as war expenditures taper off, so that the deficit will be substantially smaller for the calendar year 1946. But this basic fact of our national financial life looms up: In granting reductions the Congress is not distributing a surplus. We still have to deal with a large deficit.

Moreover, any action to reduce taxes must take account of the cross-currents of inflation and deflation to which our economy will be subject during the reconversion period. While resisting the deflationary tendencies which accompany the transition from war to peace, we cannot afford to abandon our safeguards against inflation. We have held this enemy at bay throughout the war, and it would be folly to drop our guard before the final round is won.

It is this combination of budgetary and economic circumstances which leads me to conclude that we cannot afford more than \$5,000,000,000 of tax reduction for 1946. The House bill grants reductions that are reasonably close to that amount for the calendar year 1946. But without further congressional action, the provisions of the House bill would operate to grant reductions of more than \$7,000,000,000 for the calendar year 1947. It would write into law about \$2,000,000,000 of tax reduction over and above the \$5,000,000,000 reduction applicable in 1946. I believe that we should not today prejudge to this extent the tax needs of 1947.

My second point of principle is that the fundamental justification for tax reduction at this time, when the Federal Government still is running a large deficit, is the promotion of a vital, invigorated peacetime economy. Tax changes, therefore, should be made only in those forms and at those points where they will achieve the greatest positive economic good. Any tax changes should, of course, be fair in themselves and should, insofar as possible, remedy present inequities. Moreover, they should promote simplicity to the taxpayer and ease of administration. But the basic objective of tax adjustments at this time is to put us on the high road of peacetime full employment and maximum production. With full employment and a high national product and income, our tax and financial problems will be simplified; without them, they will be magnified. And from the taxpayer's angle,

a large tax is easier to pay with a high income than is a small tax with a low income.

In the light of these considerations, the program of tax reduction which I suggested to the House Ways and Means Committee included the following elements:

1. Repeal the excess profits tax effective January 1, 1946.
2. Repeal the normal individual income tax effective January 1, 1946.
3. Reduce the excise taxes to their 1942 rates effective July 1, 1946.

The estimated net reduction in tax liabilities for 1946 for these three changes would be as follows:

1. Repeal of the excess-profits tax	\$2,555,000,000
2. Repeal of the normal individual income tax	2,085,000,000
3. Reduction of excise tax rates (one-half year)	535,000,000
Total	5,175,000,000

Senator CONNALLY. The repeal of the normal individual income tax would go all the way up through the individual brackets, would it not?

Mr. VINSON. Yes, sir. It might be said that the total is more than \$5,000,000,000. It adds up \$175,000,000 more. I made an effort to get the experts to estimate what indirect increases in tax yield they would conclude would come from the reduction of the excess-profits tax—I mean, the repeal of the excess-profits tax—and the repeal of the individual normal tax. If business is stimulated by one or both of these methods, why, there will be more income taxes and more excise taxes.

As I recall, if there was a 15-percent distribution in the form of dividends of the amount lost in the repeal of the excess-profits tax, that would increase individual income tax revenues by something like \$100,000,000. Of course, when you have the \$2,085,000,000 from repeal of the normal tax spent, why, you are going to add to your excise tax intake. And I dared to say that even though it adds up \$5,175,000,000 that my judgment is that the indirect effect of repeal of the excess-profits tax and normal tax and reduction of the excises will more than make up the \$175,000,000.

Senator VANDENBERG. General and continuous strikes will throw all of your figures out of gear, too, won't they?

Mr. VINSON. Yes, sir; anything that will reduce income payments below the assumed figures of \$130,000,000,000 will certainly reduce the intake.

Senator VANDENBERG. So the answer to my question is "Yes"?

Mr. VINSON. My answer was "Yes, but," a little broader than "Yes."

Senator VANDENBERG. All right.

Mr. VINSON. The estimated net reduction in tax liabilities for 1947, assuming the same economic conditions as in 1946, would be the same, except for an additional \$506,000,000 due to a full year of operation of the excise-tax reductions.

The House bill in some respects follows these suggestions and in others does not. The comparable provisions of the House bill are as follows:

1. The excess-profits tax rate is reduced to 60 percent for the calendar year 1946, and repealed, effective January 1, 1947. The estimated revenue loss for the calendar year 1946 is \$1,300,000,000; and for 1947, an additional \$1,255,000,000, due to repeal of the excess-profits tax for

that year. In these estimates it is assumed that economic conditions for 1947 will be the same as are assumed for 1946.

2. The corporate surtax rate is reduced 4 percentage points, effective January 1, 1946. The estimated revenue loss for 1946 is \$405,000,000; and for 1947, an additional \$241,000,000 due to the repeal of the excess-profits tax.

Senator VANDENBERG. Are those calendar years or fiscal years?

Mr. VINSON. Calendar.

3. The capital-stock tax and the related declared value excess-profits tax are repealed, beginning with the capital-stock tax payable on July 31, 1946. The estimated revenue loss for 1946 is \$183,000,000; and for 1947, an additional \$60,000,000, also due to the repeal of the excess-profits tax.

4. The present individual surtax exemption is made applicable to the normal tax; the rate in each surtax bracket is reduced by 4 percentage points; and the surtax rates are further reduced so that generally the reduction of normal tax and surtax combined for any taxpayer will not be less than 10 percent; these changes are to be effective January 1, 1946. The estimated annual revenue loss for 1946 and 1947 is \$2,627,000,000.

Senator BARKLEY. Why do you use the calendar instead of the fiscal year?

Mr. VINSON. We collect them on a calendar-year basis except for corporations.

Senator BARKLEY. That means you collect for the calendar year 1945 upon the rates that are in effect January 1, 1946.

Mr. VINSON. The reduced corporate-tax rates are effective as of January 1, 1946.

Senator BARKLEY. So they get no benefit until they make out their income tax in 1947?

Mr. VINSON. That is right.

Senator BARKLEY. I thought that the House bill carried something for the year 1945.

Mr. VINSON. There was some conversation in committee in regard to retroactivity in certain fields but their better judgment prevailed.

Senator BARKLEY. It is not in the bill?

Mr. VINSON. No, sir.

5. The excise "war-tax rates" are reduced to the 1942 rates, effective July 1, 1946. The estimated revenue loss for 1946 is \$535,000,000; and for 1947 an additional \$506,000,000.

6. The tax on the use of motor vehicles and boats is repealed effective July 1, 1946. The estimated annual revenue loss from 1946 and 1947 is \$140,000,000.

Under the House bill the total revenue loss for 1946, exclusive of refunds on floor stocks estimated at \$160,000,000, is \$5,190,000,000; and for 1947, an additional \$2,062,000,000.

In the light of the action of the House, I should like to indicate why I believe the program which I suggested to the Ways and Means Committee should be adopted in preference to the provisions of the House bill where the two are not in agreement.

Since the basic objective of the tax reduction at this time is to achieve and maintain a high level of employment and national income,

our primary concern must be the removal of obstacles to the rapid reconversion and steady expansion of business enterprise. I consider the excess-profits tax to be a particularly important obstacle to business expansion, and I suggest its outright repeal effective January 1, 1946, instead of retention until January 1, 1947, as provided in the House bill.

The excess-profits tax was necessary during the war, not so much as a source of revenue—although the yield has been large—but rather as a control measure to prevent war profiteering. It is the fixed policy of this administration that every war control over American business and American life shall be dropped as soon as conditions make it possible to do so. A long list of controls has already been dropped and many more are going day by day.

I believe that by January 1, 1946, conditions will be such that the excess-profits tax as a wartime control measure can be eliminated.

Senator CONNALLY. Well, the war is not over until we wind it up.

Mr. VINSON. The effects of war are still with us, Senator.

Senator CONNALLY. Why pick out the excess-profits tax and repeal it entirely when it is a large revenue producer and when during this postwar period there is apt to be a great deal of profiteering by reason of the fact that certain lines of production have been slowed up? Now they will have a go ahead sign. I would like to get your reaction as to why all the excess-profits tax should be repealed and the others not.

Mr. VINSON. My first response to that pertinent query, Senator—

Senator CONNALLY. To what kind of an inquiry?

Mr. VINSON. To your very pertinent inquiry.

Senator CONNALLY. I thought you said "personal."

Senator VANDENBERG. I thought you said "impersonal."

Senator CONNALLY. Well, if the Senator from Michigan regards it as "impertinent" I won't repeat it.

Mr. VINSON. My thought was, Senator, that of all the taxes on the books that the excess-profits tax is the strongest impediment to reconversion. In the first place, it was a wartime tax.

Senator CONNALLY. That is the only way we would have ever gotten it on the books, was in wartime.

Mr. VINSON. That is right. I think it is abnormal for a peacetime tax. And I endeavor to prove that point as I proceed.

Senator CONNALLY. Let me ask this. Senator Byrd, with an income of \$100,000 a year—

Senator BYRD. Thank you.

Senator CONNALLY (continuing). Pays a higher rate than I would with \$6,500 after my taxes are paid. He pays a higher rate because he makes more, makes a high return on his property, and all that. Why shouldn't a corporation be judged by the same principle.

For example, here is one corporation that is very prosperous and here is another that doesn't do so well. Why shouldn't the one with the high profits pay a higher rate?

Mr. VINSON. You are speaking of a graduated corporate tax?

Senator CONNALLY. Well, call it what you please. It is excess profits. If they make above, say, 10 or 12 percent, they pay a high rate on that above. I don't see the difference in the principle between

that and the individual income tax where you do discriminate on the ground of the higher income.

Mr. VINSON. I can see that viewpoint, Senator, but if you had a tax of that kind and said that they shouldn't make more than X percent and graduated your rates, why, that would be one thing.

Senator CONNALLY. Why not do it?

Mr. VINSON. With this excess-profits tax on the books today and that kind of tax—

Senator CONNALLY. You don't favor the other kind, do you?

Mr. VINSON. Of course, there are many notions floating around in regard to the corporate tax. I have some ideas in regard to it myself. I don't think that, with the time limit that confronts us, that we would be able to modernize the corporate tax structure by November 1.

Senator BARKLEY. Do you relate the complete repeal of the excess-profits tax to the possible lifting of all price controls the first of next July, which will take place unless that law is extended?

Mr. VINSON. There might be a relationship but I had not, Senator.

Senator BARKLEY. It would be more possible to keep down what you might call excess profits beyond that date if price control to some extent is retained than if it were completely lifted so that there would be no way at all to control profits by the fixing of prices.

Mr. VINSON. Although the excess-profits tax did not altogether succeed in taking the profits out of war, there can be no doubt that it has made a substantial contribution to the effective conduct of the war and to the maintenance of economic stability and a fair distribution of the sacrifices of war. Yet, despite its contribution to the successful operation of a wartime economy, the excess-profits tax has been an erratic and in many instances an inequitable tax. The difficulty is that calling profits excessive does not make them excessive. Calling profits normal does not make them normal. Normal profits and excessive profits look alike. There is no chemical reagent to distinguish them. The excess-profits tax, to be sure, has a formula—a very complicated formula in its entirety—for distinguishing normal and excessive profits. But that formula is seriously defective.

I am speaking now as to a peacetime economy. It might substantiate your point, Senator, so far as wartime is concerned, but I am speaking to the question of peacetime tax structure.

One serious defect of the excess-profits tax for the postwar period lies in the weakness of the average earnings credit, which uses prewar profits as a measure of normal profits. A corporation may continue to earn free of excess-profits tax 95 percent as much as it averaged during the years 1936-39, and this amount is often enlarged by various relief provisions. A corporation with a high prewar earnings experience may thus earn 20 percent, 30 percent, or more on its invested capital without paying any excess-profits tax. New and rising corporations do not have the benefit of such a credit and are thus at a competitive disadvantage in relation to established long-prosperous corporations. Whatever the merits of the average-earnings credit in measuring excessive war profits, it would be grossly unfair if applied to peacetime business.

The invested capital credit also has serious limitations as a measure of excessive profits. For example, corporations are permitted to treat

as current invested capital amounts which have long since ceased to contribute much, if anything, to earning capacity. This gives them an unfair tax advantage over more recently established concerns not having inflated capital structures. Thus, the operation of both the average earnings credit and the invested capital credit places new and growing corporations at a competitive disadvantage in relation to old, established enterprises. These defects remain despite repeated efforts by the Congress during the war to remedy them.

The over-all impact which this tax is likely to have on business planning as well as business profits constitutes a serious threat to our postwar employment objectives. The testimony of businessmen is that they are unable to take the risk of full peacetime business expansion until this tax has been removed. That testimony comes not only from corporations subject to the excess-profits tax; indeed, it comes primarily from businessmen contemplating organization and expansion in competition with established corporations.

Clearly, the repeal of the excess-profits tax will stimulate production. Today we are starved for new houses, new cars, new radios, and the like. The best defense against the use of our wartime savings to bid up prices on these scarce items is to remove the scarcity. Production and more production is the key. To this end, elimination of the repressive influence of the excess-profits tax will make a real contribution.

Senator McMAHON. Mr. Secretary, adopting the same theory for the repeal of the capital gains tax would be the same thing?

Mr. VINSON. Senator, it is a question of first things first. Taxes that have the most repressive effect, I think, should have priority in this particular tax-reduction bill. In my judgment the excess-profits tax is the most repressive. In my judgment the repeal of the excess-profits tax will not only stimulate in fact expansion and production but I think that it will have a very material psychological effect.

For example, here is a corporation. It is on the verge of getting into this excess-profits tax. The excess-profits tax would certainly prevent him from doing that which would increase production and employment. He would make more money but he says, "What is the use?"

Senator HAWKES. Mr. Chairman, might I say to the Secretary that in my opinion the most important thing in the repeal of the excess-profits tax is that psychological thing that you are talking about, because it is clearly conceivable that under all the disturbed conditions there might not be any excess profits, but at the same time if the man who is going into business and is thereby going to do things to make employment, believes that there is no possibility of his making some profit out of that and keeping it, he is not going into it. It urges him to go forward and tends to solve the problem of unemployment. Do you agree?

Mr. VINSON. I agree with you; yes, sir.

Senator McMAHON. Do you believe that the repeal of the excess-profits tax would eliminate the competitive disadvantages of the new concerns as against the old?

Mr. VINSON. Not entirely; no; but it would help. It would at least give the growing concern an opportunity to expand and not be penalized.

Gentlemen, I just feel certain that this excess-profits tax is unfair and unjust and should not be on the books for a peacetime economy. I have thought about it a long time. It was a control measure. Certainly it brought in taxes, but it didn't bring in as much taxes as you would think because if you hadn't had it that which was paid out in excess-profits taxes would be subject to the 40-percent corporate tax, and a 40-percent corporate tax is a right sizable tax, particularly when I can remember when we had a 12½ percent rate and it was stated that if you increased the rate from 12½ to 15 percent we would all go to hell in a hand basket.

Senator McMAHON. Do you regard the repeal of the excess-profits tax as inflationary or deflationary?

Mr. VINSON. You have got both factors in it. Insofar as it would be expansionary it would operate against deflation.

Senator McMAHON. Then it would be inflationary.

Mr. VINSON. I wouldn't say that it would be inflationary.

The CHAIRMAN. It might be stabilizing.

Mr. VINSON. I can explain what I mean. If the repeal of the excess-profits tax would add to increased production, increased employment—

Senator CONNALLY. Of profits, increased production of profits.

Senator BARKLEY. Not necessarily profits, but goods.

Mr. VINSON. I am speaking of goods.

Senator CONNALLY. They wouldn't go on producing the goods if they weren't making increased profits.

Mr. VINSON. No, sir; and I think a businessman should have high profits in our peacetime economy, just as I have stated many times that I think that there should be higher wages than prewar, higher profits than prewar, and higher prices for raw materials than the peacetime level, because you can't get to the plateau of national income we want to reach otherwise. We have got to raise our sights and not think in terms of prewar economy.

Senator RADCLIFFE. Aren't you lessening the purchasing power of the dollar when you do all that, Mr. Secretary? Aren't you getting a cheaper dollar that way?

Mr. VINSON. Not necessarily, but have you any doubt, Senator Radcliffe, that with this debt that will be approximately \$273,000,000,000 on July 1 next, that we can raise the revenues to pay the bills that the Administration and Congress tells us to pay without having a national income of one hundred and thirty or one hundred and forty billion?

Senator RADCLIFFE. I see the advantage of that but it occurred to me that if you raise everything it must have some effect on the value of the dollar, and that might be an advantage or it may be a disadvantage.

Mr. VINSON. Of course, my thought is that the question of high profits doesn't necessarily have to mean higher prices. Now, in many instances prices will be higher. But it certainly is as clear as crystal that if you are producing more goods, say you are producing near capacity as against, say, 60 percent of capacity, your unit costs are much lower, generally speaking, when you are producing near capacity, as against when you are producing at 60 percent.

For instance, during the war I am told that steel at the beginning was about 50 or 60 percent of capacity. Production sped up and they

got pretty close to 100 percent. I think for some weeks maybe they exceeded what they had figured to be 100 percent—maybe for a short time. They absorbed a lot of increased costs and yet I think finished the war in a very favorable profit position.

Senator RADCLIFFE. Do you think these advantages, and it is quite apparent that there are advantages, would tend to offset the process of depressing the purchasing price of a dollar, getting a cheaper dollar? If it is going to bring that about you have various factors to consider and you have to balance one against the other.

Mr. VINSON. There is no question that you have to consider all the factors, Senator. If you have \$100,000,000,000 national income—and that is higher than we had in 1939, my recollection is the figure was \$71,000,000,000 in 1939, but let's assume \$100,000,000,000—and that your national budget is \$25,000,000,000, that is one Federal tax dollar for every \$4 of the national income. I just don't think that we can live comfortably with a national income as low as \$100,000,000,000 and a tax bill that takes \$25,000,000,000 from such low national income.

Senator BARKLEY. While it is economically true that the more of anything there is in relation to something else the cheaper the surplus may become, it applies to money as well as commodities, and the more money people make, in a sense, the less that money will buy, because there is a surplus of it, and, therefore, it tends to be cheaper, but that is offset by the fact that they have more money and they have greater purchasing power in terms of dollars than they would have without the higher income, both individually and we as a Nation; isn't that true?

Mr. VINSON. If I understand you correctly, Senator, that is certainly true.

Senator MILLIKIN. Mr. Secretary, would you agree with me in this assumption, that if we increase the price of everything but do not decrease the unit cost, then it is true that the dollar has a constantly lessening purchasing value but if we increase the prices and decrease unit costs we keep things at a ratio?

Mr. VINSON. You have higher profits for the producers.

Senator MILLIKIN. That is the only way you sustain the purchasing power of the dollar, isn't it?

Mr. VINSON. You have got to have an outgo of that profit, Senator, as I see it, in payment for materials and payment for wages, or otherwise your real mass consuming power is smaller.

Senator MILLIKIN. But your mass consuming power does not gain anything if everything raises in parallel.

Mr. VINSON. If prices were to go up comparably, then, of course, you would have the same relationship.

Senator MILLIKIN. I was stating two propositions one against the other. It was suggested that if you raise the prices of everything you do not gain anything. On the other hand I was suggesting that the antidote is that we can raise our wages and raise our profits if we decrease our mass production unit costs and still maintain the purchasing power of a dollar.

Mr. VINSON. My notion is that you can maintain prices, or have a minimum increase, or in fact, in many instances, reduce prices and have a very high volume of profits.

Senator MILLIKIN. Yes. I do not contest that. I was talking about the real value of the dollar. I agree that if we are going to sustain our present financial structure we have got to have high wages and high profits.

Mr. VINSON. Yes.

Senator MILLIKIN. Then the question arises: What have you really got in real purchasing power? I am tossing out the suggestion that you can maintain your real purchasing power and at the same time have high wages and profits if we can secure commensurate reductions in the unit cost of mass-production products.

Mr. VINSON. Yes. I have observed pretty closely the situation during the past 2½ years and we produced \$200,000,000,000 worth of products in a single year, and I am inclined to think that every major group in the United States, farmer, worker, and businessman, is in a much better position financially than they ever were.

Senator VANDENBERG. Except the man with a fixed income.

Mr. VINSON. I agree, Senator, that the fixed-income group has been squeezed, and particularly those in the category to which I will refer in a few minutes.

Senator BARKLEY. Taking a psychological view of it, isn't it true that people are happier and feel better if they are receiving a larger amount of income although they may have to pay out proportionately the same amount?

Mr. VINSON. I think that is very true. If you take a large pie and divide it up into eight cuts, and then take a smaller pie and divide it into eight cuts, and then take out of each your cut representing taxes, you will have more left after you take your larger cut out of your larger pie than you will have after you take the smaller cut out of the smaller one.

Senator BAILEY. You have got to go further than that. It is not the income in terms of money. It is income in terms of purchasing power.

Mr. VINSON. I agree. I have spent some mighty tough months trying to keep my eye on the inflationary front and I have no question that we are in a bad fix if an inflationary spiral develops.

Senator BAILEY. You come back to increasing the national income to \$130,000,000,000.

Mr. VINSON. That is the assumption, Senator.

Senator BAILEY. But what of devaluating the dollar, or will you do it by actual production?

Mr. VINSON. Actual production is my hope.

Senator LUCAS. It is the only hope, isn't it?

Mr. VINSON. That is right. I think it is the only hope. A high level of output, together with full and efficient use of our resources, is the safest road to high wages and high profits. Full production brings down your unit costs and avoids an inflation of the price structure. Everybody is better off. But if our high national income, high profits, and high wages grow out of inflation, we have more money, but because of inflated prices it buys no more, and we have dislocation throughout the economy.

Senator TAFT. Mr. Chairman, the Secretary said two things I would like to follow up.

He expressed the opinion that we could not successfully tax, for Federal purposes, more than 25 percent of the national income.

Mr. VINSON. I didn't quite say that, Senator. I was beginning to say that the 25 percent is too high if the national income is only \$100,000,000,000.

Senator TAFT. Yes.

Mr. VINSON. High taxes out of low incomes means hardship. Folks won't stand for it, if you take my opinion.

Senator TAFT. I have been interested in that. Have you any idea as to what percentage of the national income we can safely raise in taxes, perhaps including local and State taxes as well as Federal? If you took the three together do you think it would be dangerous to go beyond 25 percent of the total national income in total taxes?

Mr. VINSON. Well, I would rather put it this way, Senator. So far as I am concerned I want to advocate the measures that I think are sound and that will help reach the highest level of national income upon a sound basis. I hoped that we would reach the one hundred fifty billion figure of income payments with the passage of a year or so.

Senator TAFT. You are now estimating it on a 150,000,000,000 figure?

Mr. VINSON. Yes; that is my hope.

Senator TAFT. And the highest we reached during the war was 160 billions?

Mr. VINSON. Income payments were 156.8 billions.

Senator TAFT. What I want to ascertain is whether there is any rule of thumb. On \$130,000,000,000 one-fourth is 32½ billion dollars. I think your State and Federal is about 10. That would leave about 22½. If we try to raise 22½ through the Federal Government we are then taxing totally 25 percent of this estimated national income.

Mr. VINSON. Yes.

Senator TAFT. Now, do you think it is dangerous to go beyond that figure for total taxes?

Mr. VINSON. I don't like to go beyond that figure, but I don't think there is any rule of thumb for all levels of national income.

Senator TAFT. The other question I wanted to ask you was this. You made the statement that you are in favor of increased earnings. I want to suggest that so far as the excess profits tax is concerned it isn't a question of increasing all earnings. It is only increasing earnings, as I see it, if the firm, over the long run, at least, has some special initiative or special ability or special willingness to work hard that it increases its earnings.

Mr. VINSON. Yes. It will have to have the desire to utilize the money that would go into their coffers from the repeal of the excess profits tax. They would have to have the desire and do it before we would get the benefit.

Senator TAFT. I don't quite agree that you will increase all profits. I think you will always have a large number of people that won't have any profits because they haven't the ability.

Mr. VINSON. Yes. I said I thought there should be higher profits than in the prewar period.

Senator TAFT. Well, I don't agree with that, but it seems to me that they ought to have the profits to which their initiative or risk or ability entitles them. That is what I am interested in.

Mr. VINSON. I agree. I don't think that they should just have higher profits just because they happen to be good fellows.

Senator BARKLEY. You mean as a whole. You didn't mean every individual business?

Mr. VINSON. That is right. I want something to tax. In other words, higher profits, higher wages, and higher production give us a higher national income, and therefore something more to tax.

Senator HAWKES. Might I say, Mr. Secretary, that some great political economists have said that when taxes get to a point of 30 percent of the national income and are maintained there that no nation can keep its form of government. And when you say that the people won't stand, you believe that the people won't stand, or don't like 25 percent, I want to make this little suggestion to you, that I think the people will like 25 percent better if they know that the Government and those in authority are going in the right direction, and I think that is just what you are doing with your recommendation.

I would like to say this in response to Senator McMahon's question as to whether the removal of the excess-profits tax is inflationary or deflationary, that I think it is a stabilizer. I think it encourages production. And if you keep competition wide open, stop monopoly and agreements in restraint of trade, and let the national goods flow to the people. I don't think you can have anything better to stabilize the situation than the thing you are recommending.

Mr. VINSON. Thank you, sir. I have made the statement hundreds of times in regard to control that I didn't believe in controls for control's sake, that I didn't know anybody in high place in the Administration that wanted controls for control's sake. If the excess-profits tax is not a wartime control, why, I just don't understand what it is. Taxes are the oldest control and the most effective control. I am just simply following the line that I have followed since I have been in the executive department in regard to control. I think it is an impediment and a barrier to the reconversion of our country.

Senator VANDENBERG. Your theory is all right until you hit the person of a fixed income.

Mr. VINSON. I get to a segment of those folks when I come to the individual tax reduction.

Senator VANDENBERG. All right.

Senator BYRD. Mr. Secretary, you referred to the debt being approximately \$275,000,000,000 the first of next July. We have a \$38,000,000,000 deficit this fiscal year. What is your opinion about balancing the budget, when should it be balanced and how?

Mr. VINSON. Of course, there are a lot of "ifs" in that, Senator, a lot of conditions. A lot depends upon added expenditures. I guess all of us, in one way or another, are responsible for that, both the executive and the legislative. I am told that at the end of 1947—

Senator BYRD. Fiscal?

Mr. VINSON. Fiscal 1947, and it was a very rough estimate—a very rough estimate—I was told that they thought there would be about a 5 or 8 billion dollar deficit.

Senator BYRD. Was the estimate of the deficit for the fiscal 1947?

Mr. VINSON. That is fiscal 1947.

Senator BYRD. \$10,000,000,000?

Mr. VINSON. Five to eight.

Of course, that is just a terribly rough estimate. The Budget hasn't been made up for 1947.

Senator BYRD. That would contemplate, then, a debt of 285 billion before the budget was balanced.

Mr. VINSON. If you take 273, and if the deficit is \$8,000,000,000 it

would be 281, but I think that is getting pretty well along the road, Senator, of a balanced budget, if that would be the figure at the end of fiscal 1947.

Senator BYRD. Is that based on there being no further tax reduction except this bill during fiscal 1947?

Mr. VINSON. No further tax reduction is counted in that.

Senator BYRD. Fiscal 1947 extends to July 1, 1948.

Mr. VINSON. Yes, sir.

Senator BYRD. So that would contemplate—

Mr. VINSON. Fiscal year 1947.

Senator BYRD. I mean, you were speaking up to the period of next July.

Mr. VINSON. I am speaking of the \$8,000,000,000 figure on fiscal 1947.

Senator BYRD. That ends July 1, 1947.

Mr. VINSON. June 30, 1947.

Senator BYRD. And you think then, from your present estimates, that the deficit in fiscal 1947 will be about 8 or 10 billion—5 to 8 billion?

Mr. VINSON. I said those were the figures given to me.

Senator BYRD. That contemplates no further reduction?

Mr. VINSON. That is right, but it also contemplates national income payments of \$130,000,000,000.

Senator VANDENBERG. And it also contemplates that the Congress isn't going to make a lot more appropriations for new subsidies and grants-in-aid and a lot of other things, doesn't it?

Mr. VINSON. It doesn't assume any new types of expenditures.

Senator BYRD. Balancing the budget would certainly be a protection against inflation, wouldn't it?

Mr. VINSON. Unquestionably.

Senator BYRD. The sooner it is balanced the better shape we will be in; isn't that true?

Mr. VINSON. Yes, it would be a protection against inflation.

Senator BYRD. For the fiscal year beginning the 1st of July 1947, you think that for the fiscal year, if things move as you hope they will, and perhaps believe they will, you will have a balanced budget in that fiscal year?

Mr. VINSON. Yes, sir.

Senator TAFT. May I ask: When I went over that estimate of 1946 there were two items not added to the total national debt. One was the subsidies. I don't think they were counted. They are included in the Commodity Credit Corporation. The other was the payment for the stock of the Export-Import Bank. Only one of them was included in the estimate of the deficit.

Mr. VINSON. \$999,000,000 is included in the Export-Import Bank.

Senator TAFT. The other billion and a half of the increase to the Export-Import Bank was not included, nor was the subsidy, so I figure that would be about \$3,000,000,000 more.

Mr. VINSON. You are speaking to the Export-Import Bank increased authorization?

Senator TAFT. Yes.

Mr. VINSON. Of course.

Senator TAFT. You included the stock.

Mr. VINSON. Yes.

Senator TAFT. You included the increase in stock but not the increase in the debentures, and they are apparently going to spend the whole 3½ billion.

Mr. VINSON. I have a statement here in regard to the Government expenditures for the fiscal year 1946—the budget estimate for 1946. I have tried to break the budget down.

Senator BYRD. You mean the calendar year 1946?

Mr. VINSON. Fiscal. I would like to insert it in the record.

The CHAIRMAN. Very well, Mr. Secretary, you may do so.

(The statement referred to will appear at the end of Mr. Vinson's testimony.)

Senator BAILEY. I know you want to go ahead, Mr. Chairman, but I have one question.

Mr. Secretary, you are proceeding on the theory that we can maintain an income of \$130,000,000,000. What do you think Government can do about that? We can't guarantee anything like that, can we?

Mr. VINSON. Senator, you have got to have an estimate to determine the effect of certain tax reductions. We have taken the \$130,000,000,000 as the estimate of income payments for 1946.

Senator BAILEY. You just took your figures.

Mr. VINSON. Yes, sir. We sort of thought that that would be a likely figure.

Senator BAILEY. It is a jump of 40 billion from the last normal.

Mr. VINSON. Yes, sir; but the normal for national income does not stand still.

Senator BAILEY. Nearly 50 percent.

Mr. VINSON. It is quite a decrease from wartime production and income.

Senator BAILEY. Your idea is that without deficit spending or adding to your annual deficit and by way of reduced appropriations we can arrive at and maintain an annual income of \$130,000,000,000.

Senator BYRD. I think we will go above \$130,000,000,000, Senator, when we get straightened out. I just have the faith that we will. We have the purchasing power here.

Senator BAILEY. Whether the Government can so contrive that there will be a certain number of billions of dollars of national income is another thing.

Senator TAFT. Mr. Wallace estimates \$160,000,000,000, so Mr. Vinson is really conservative.

Senator BAILEY. He is conservative compared with Mr. Wallace, but that doesn't mean that he is conservative.

Mr. VINSON. I maintain that my estimate of \$130,000,000,000 is conservative.

Senator BYRD. You have been quoted as stating what the normal peacetime budget will be. I think I have seen it in the newspapers. Would you mind stating from your present information what you believe the normal peacetime budget will be?

Mr. VINSON. Senator, I haven't had a break-down of that lately. I think I said upon one occasion that the peacetime budget would probably not be less than \$25,000,000,000 a year. I was taking into consideration a lot of factors.

Senator TAFT. Does that include amortization of the debt or not?

Mr. VINSON. There is a hope that it would include something for amortization.

Senator TAFT. Of course, if you run 25, plus 10 State taxes, you will have 35 billion, which is a good deal more than 25 percent of your peacetime national income.

Mr. VINSON. That is right. Those are the things all of us have got to work with. We have got certain fixed charges. In this budgetary statement, if you will look at it, the last page of it, we have a breakdown in regard to this year that I think will help you. Interest, certainly, is going to be around \$5,000,000,000. You have got all sorts of expenditures.

There is one thing, gentlemen, I want to impress upon you, the higher your national income the less your Federal expenditures need to be. Such items as agricultural aid, unemployment compensation, and a couple more expenditure items, are much higher when national income is \$100,000,000,000 than at \$140,000,000,000.

Senator RADCLIFFE. You estimate the interest on the debt will be at least \$5,000,000,000. Do you think it likely in the near future that the interest rate of Government obligations will have to go up?

Mr. VINSON. I hope not.

Senator RADCLIFFE. Yes, we all hope not, but I wondered whether you felt like expressing any forecast.

Mr. VINSON. I have already expressed myself on that, Senator. I think we should have low interest rates.

The CHAIRMAN. All right, Mr. Secretary.

Senator TAFT. I should hope that the budget will not exceed \$20,000,000,000. That is without amortization. I think we are going to have a heavy burden to carry on taxes. I think it could be done in 20 or very little over. I hope it won't go to 25.

Mr. VINSON. I am very much interested in the size of the budget, Senator.

Senator LUCAS. Have you a table that shows the fixed charges at the present time, Mr. Secretary?

Mr. VINSON. Yes.

Senator LUCAS. I think it would be well, Mr. Chairman, to have it inserted in the record at this point.

Mr. VINSON. We will do that.

Senator LUCAS. Unless it interferes with the continuity of thought. (The information requested above is as follows:)

Based upon a tabulation of Chairman Cannon of the House Appropriations Committee published in the Congressional Record of July 20, 1945 (p. A3839), relatively fixed commitments—as differentiated from relatively controllable items—for the fiscal year 1946 are expected to result in expenditures of about \$13,000,000,000. This figure includes interest on the public debt and subscriptions to the International Monetary Fund and Bank for Reconstruction and Development. It does not include any expenditures classified as war activities nor does it include outlays of Government corporations. A break-down is as follows:

[In millions]	
Interest on the public debt.....	\$4, 500
International finance: Payments to International Monetary Fund and Bank.....	1, 267
Refunds of taxes and duties.....	2, 900
Veterans' pensions and benefits.....	3, 200
Transfers to railroad retirement account.....	292
Government employees' retirement funds (United States share).....	247
Social security and highway grants, etc.....	750
Total.....	13, 156

Mr. VINSON. In considering the excess-profits tax there is danger that we may fall into that very human tendency of considering that whatever is, ought to be. It is urged that if the excess-profits tax is removed, corresponding tax relief must be given to everyone else so that all taxpayers will share alike. But this is to disregard both the basic purpose behind the enactment of the excess-profits tax and the principal reason for its repeal. In considering the repeal of this tax, attention should be focused not on the immediate tax savings which will follow repeal, but on the far more significant effects which the repeal of this tax will have upon the investment and employment decisions of businessmen, generally. The number of taxpayers directly affected may have little or no bearing on the merits of the tax change. Those who will benefit most from the repeal of this tax are not necessarily those who will enjoy the largest tax savings.

Therefore, it should not be assumed that all wartime taxes and tax rates are on a par and that repeal of the excess-profits tax cannot be justified unless everyone else's taxes are reduced also. Repealing the excess-profits tax means getting out of the tax system a tax which certainly in its present form has no place in the peacetime system. The case against the excess-profits tax for 1946 goes beyond the facts that it is primarily a wartime control and that it is erratic and inequitable. It is also an obstacle to that reconversion and expansion of business which is so necessary for a high level of employment and income.

In the light of these facts it is my conviction that one charge against the \$5,000,000,000 maximum total tax reduction for 1946 should be repeal of the excess-profits tax.

I suggest that another charge on the \$5,000,000,000 total tax reduction should be repeal of the so-called normal individual income tax. This tax is normal in name only. In 1942 Congress imposed the so-called Victory tax of 5 percent (less certain credits) on gross income above an exemption of \$624. This tax contained a provision for automatic repeal at the end of the war. In the Individual Income Tax Act of 1944 the Victory tax was modified into a tax on net income with an exemption of \$500 and was designated the normal tax. Although the automatic repeal provision was omitted, the tax was recognized to be a purely wartime tax. Its continuation would be inconsistent with the original measure.

The Victory-normal tax is objectionable on grounds of equity. It violates a fundamental principle of the individual income tax; namely, that tax burdens should be adjusted to differences in family responsibilities. It is this characteristic of the individual income tax which makes it the best available method of distributing the tax burden according to ability to pay. If this feature were taken away and family status disregarded as under the Victory-normal tax, the income tax would lose much of its merit.

We need only to examine the facts to see that the Victory-normal tax imposes undue burdens on families and single persons with dependents. In the average situation a family of four, consisting of husband and wife and two children, with a net income of \$1,500, should not be called upon in time of peace to pay tax on two-thirds or any other part of its net income. Similarly a family of six or seven should not be

called upon to pay as much as a family of four with the same income. But the existing normal tax is the same for both.

The thought has been expressed, which I do not share, that with the repeal of the normal tax the income tax would not reach enough people or income. This can be true only if surtax exemptions are too high, and in that case the issue should be faced squarely. If there is ability to pay below existing surtax exemption levels it should be tapped in the best and fairest manner, with a system of exemptions which recognizes family status. The existing normal tax is not a desirable way to broaden the base of the income tax or to lengthen the tax rolls.

I have a table here that I would like to insert. It is headed "Taxable individual and fiduciary returns, 1913-44, and estimated for 1946 under present law and House bill."

Senator TAFT. What number is it?

Mr. VINSON. It is exhibit 8.

There you see the number of taxable returns running from 362,970 in 1916 and then up to 4,489,698 in 1924. Then we increased exemptions and there was a drop—I think that was in the Revenue Act of 1926—and there was a drop down to 2½ million in 1925. There were 2,470,990 taxable returns in 1926, and in 1931, when it was at the bottom, 1,525,546. Then in 1939, which is the year we generally take as a prewar year—and it may not exactly be a fair prewar year, it may be that 1938 would be better for some purposes—in 1939 you had just less than 4,000,000, and in 1938, 3,000,000 plus. And under the proposal that I suggested you will have 31½ million. Perhaps 10 times as much as in 1938, and about 7½ times as much as in 1939.

So I consider that we still have a broad base.

(The table referred to will appear at the end of Mr. Vinson's testimony.)

Mr. VINSON. Continuation of the present normal tax is not necessary for a broad income-tax base.

Senator TAFT. I have a recollection that the reason the exemption for children was increased to \$500 was partly because of the fact that we taxed them some other way. Do you want to retain the \$500 exemption for every child? That is the only thing about the plan that I was doubtful about.

Mr. VINSON. The trouble is that in the normal tax you haven't but one \$500.

Senator TAFT. I understand, but I wonder if after taking it off you don't leave some people free from taxes.

Mr. VINSON. I am making no suggestion as to a change of the surtax exemption for children or marital status at this time.

Senator TAFT. I understand that, but I mean, the one criticism of your plan is that it leaves a man with, say, three children, in a certain income bracket, without paying any income tax.

Mr. VINSON. My thought is that we will have a lot of time to discuss that in the modernization of the tax structure. My thought was that we ought to try to remove the taxes that would be most helpful in the reconversion period.

Senator TAFT. I agree.

Mr. VINSON. I believe if you get into the corporate tax structure, Senator, or the individual rates and exemptions, that you could not get a tax bill out until next spring or summer.

Senator TAFT. Well, I only suggest that the increase in the children exemption comes in along with this tax. Take the tax over and above the exemption. You do relieve some people. I agree to relieving up to \$1,500, but over that I am not so sure.

Senator LA FOLLETTE. Mr. Chairman, I regret that I have got to go to the floor.

Senator LUCAS. Mr. Chairman, may I ask one question.

The CHAIRMAN. Senator Lucas.

Senator LUCAS. Mr. Secretary, under the present law, under the table on page 15 I notice some 43,000,000 returns are being made. Under the House bill you estimate a reduction of some 11,500,000 returns. Is it the position of the Treasury that we ought to do that?

Mr. VINSON. Yes, sir.

Senator LUCAS. In other words, you agree with what they have done in the House bill insofar as normal tax is concerned?

Mr. VINSON. So far as the exemption feature is concerned. I suggested just the repeal of the normal tax and they went one percentage point better and reduced the surtax 4 percent and kept the 3 percent normal. In other words, they kept the rate of the normal and reduced the surtax one percentage point more. That additional point costs an additional \$435,000,000.

The repeated decreases in exemptions throughout the war period, combined with the increase in incomes, have increased the number of taxable returns manyfold. For the year 1939 the total number of taxable returns was less than 4,000,000. For the year 1946 the number will still be well over 30,000,000 if the normal tax is repealed or the surtax exemptions are allowed for normal tax purposes.

The existing normal tax is a source of complication to taxpayers, to employers as withholding agents, and to the administrative authorities. The total collections from the 12,000,000 who would be dropped from the tax rolls under the bill would amount to \$310,000,000 in 1946. The amounts collected are relatively small from the Government standpoint, and accordingly, relatively expensive to collect. Employers have cooperated splendidly in the administration of source collection. Their task will be measurably easier if the Victory-normal tax is removed. The complicating effect of this tax on the tax table and return form and on the withholding tables is also a significant consideration.

The repeal of the normal tax would also make an important contribution to the functioning of the economy in the transition period. We cannot ignore important deflationary factors that will be present. In the process of reconversion, a shrinkage of income is inevitable. Purchasing power is cut by reductions in overtime pay, by movement from high-paid war jobs to lower-paid peace jobs, and by unemployment. To resist the resulting downward pull on the economy calls for tax relief to the lower income groups who bore the brunt of the change-over from war to peace. The repeal of the normal tax is one of the best forms of tax reduction for maintaining mass purchasing power.

While the House bill does not in form repeal the normal tax, the changes made by the bill have the effect of eliminating what I have called the Victory-normal tax. That is all to the good. The House

bill has, however, gone further than the repeal of the normal tax. It has granted about \$540,000,000 of additional tax relief.

I made the statement a minute ago that the one percentage point was about \$435,000,000, but the House has another gadget in regard to it. That is the 10 percent minimum tax reduction which takes up more than \$100,000,000 additional. That makes the total additional reduction about \$540,000,000.

While I would like to see people get tax relief, I believe that this \$540,000,000 is in excess of what should be allowed at this time. Moreover, it should be observed that more than \$100,000,000 of the \$540,000,000 is due to the provision that income taxpayers generally shall have at least a 10 percent reduction in taxes. This provision gives special relief to taxpayers with incomes above about \$20,000. It would increase the taxpayers' income after taxes much more, proportionately, in the higher brackets than in the lower brackets.

Senator TAFT. What is that in dollars?

Mr. VINSON. Well, I would have to figure that out.

We have a table on that. We have several tables on that. Senator.

Mr. BLOUGH. The tables in exhibit 6. Exhibit 6-B is for a married person with no dependents.

Mr. VINSON. Going up to \$50,000 net income the difference, as I read it, is \$1,300. At \$100,000 net income the difference is almost \$4,000.

Senator TAFT. Just \$4,000?

Mr. VINSON. And at \$250,000 it is about 13,500. At \$500,000 it is practically \$30,000. At \$750,000 it is practically \$49,000; and at \$1,000,000 it is practically \$74,000.

Senator BYRD. What page is that?

Mr. VINSON. That is the table on page 12.

For example, a married taxpayer with no dependents having a net income of \$100,000 would have his income after taxes increased by 22.8 percent, while a similar taxpayer with an income of \$5,000 would have his income after taxes increased by 4.3 percent. Moreover, the House provision would relieve taxpayers in income brackets above about \$100,000 of a disproportionate part of their wartime tax increases. For example, a married taxpayer with no dependents having a net income of \$500,000 would receive a reduction equal to 32 percent of the increase since 1939; the comparable percentage for an income of \$5,000 is 19.6 percent.

As I have pointed out, both the excess-profits tax and the individual normal income tax were imposed and viewed as taxes for the war period. A similar situation exists with respect to certain increases in the excise taxes imposed by the Revenue Act of 1943. The law provides that these war-tax rates shall revert to their prior levels on a date approximately 6 months after the date of the termination of hostilities as proclaimed by the President, or specified by concurrent resolution of Congress. That date has not occurred and there is no way of forecasting at this time when it will occur. The industries involved in the excise taxes have pointed out the disadvantages arising from uncertainty in the effective date of these automatic reductions. I believe that an appropriate effective date for the reduction would be July 1, 1946, at the end of the fiscal year. The reduction

would help support consumer purchasing power, and would give additional relief to individuals, which would be particularly helpful to the lower and middle income groups. The House bill provides for this reduction in rates.

In my testimony before the Ways and Means Committee I pointed out that in connection with excise-tax reductions it is appropriate to allow refunds, with proper safeguards, in regard to floor stocks on hand at the time of the reduction. In the present situation the only excises on which the refund on floor stocks is necessary are those on alcoholic beverages and electric-light bulbs. The House bill contains provisions for granting refunds in these cases.

I suggested to the Ways and Means Committee that the pay-roll taxes on employers and employees for old-age and survivors insurance be maintained for another year at the 1-percent rate. The House bill contains such a provision. This does not mean that we can indefinitely finance this major program of economic security at the present rates of tax. However, I understand that active consideration of the whole problem of social-security coverage and financing is now under way in the Congress. I believe that increasing the pay-roll tax rates above the present 1 percent should wait to be made part of the broader action on social-security financing as a whole.

That, as you know, of course, gives a reduction of $1\frac{1}{2}$ percent on pay rolls to the employer and a like figure of $1\frac{1}{2}$ to employees.

As previously indicated, the House bill contains other provisions reducing taxes for 1946. I believe that these reductions should not be adopted at this time. I do not doubt that under conditions in which we could afford the revenue loss, most of these changes would be desirable and should be made. In my judgment, however, they are less important to the promotion of a high level of employment and income than the changes which I have suggested. These additional reductions increase the total revenue loss above the amount that we can afford at this time.

It may be helpful to the members of the committee to summarize the elements of the program I have suggested in terms of the tests applied in drawing up that program. On one hand, the reductions come roughly to the \$5,000,000,000 limit. On the other, the suggested reductions would be, in my opinion, so distributed as to make the maximum contribution to a smooth and speedy reconversion. Both in providing incentives to expanded production and in relieving persons of modest means from some of the weight of wartime taxes, the suggested program would ease the transition from a war to a peace economy.

In addition to meeting the budgetary and economic tests, the suggested reductions, in my opinion, are those which as a matter of public understanding have highest priority now that the war is over. The circumstances surrounding the enactment of the excess-profits tax, the Victory-normal tax, and the excise-tax increases of 1943 were in each case such as to give rise to expectations that these taxes would be quickly abandoned at the end of the war. Finally, the suggested changes promote the fair distribution of tax burdens, and they contribute substantially to the simplification of individual and corporate income taxation.

I am very happy at the expedition with which this bill has passed the House. It is certainly a record for a bill making changes of these

proportions. Undoubtedly this speed was possible because the bill was limited to a few simple changes. Time is still of the essence. If individual income-tax changes are to be made for 1946, the Bureau of Internal Revenue will need to reprint and distribute new withholding tax tables to employers and taxpayers in time to go into effect on January 1, 1946. To meet this schedule the new bill should become law not later than November 1, 1945.

There is another reason for not enlarging the general scope of this bill. Many taxpayers who consider various modifications of the tax laws vital to their interests have agreed not to press for these changes at this time. If any such changes are to be considered, these taxpayers should have an opportunity to present their problems. The Treasury also has modifications to suggest when the time is appropriate.

Throughout my comments I have laid stress on the desirability of holding the tax reduction contained in this measure to not more than \$5,000,000,000. In closing, I should like to underscore an additional reason for doing this. Next year Congress undoubtedly will want to consider tax revisions of a more far-reaching character. We must modernize our tax system if it is to meet the needs of the postwar economy. Any reorganization of the tax system will be greatly facilitated if it can be made in an atmosphere of tax reduction rather than of tax increase. Postwar expenditures will inevitably be far higher than prewar expenditures. The possible amount of future tax reduction cannot be anticipated at this time but it clearly will be limited. It seems to me very desirable that the commitment now for the future should not be so great that Congress will find when it undertakes a basic reorganization of the tax system, that its hands are tied by what it has already done.

The CHAIRMAN. Mr. Secretary, I notice in your statement today before the committee you do not refer to the loss carry-back provisions in the existing law.

Mr. VINSON. The House, as I understood it, met that situation. It really was an inadvertence, Senator.

The CHAIRMAN. In other words, your recommendation on that point is the same as you made to the House?

Mr. VINSON. Yes, sir.

The CHAIRMAN. If there is an outright repeal, of course, the House suggests the maintenance of the loss carry-back provisions including the unused excess profits credit for 1 year only but its report indicates there will be further study after the completed bill under their program.

Mr. VINSON. Yes, sir.

The CHAIRMAN. Are there any further questions by any of the Senators?

Senator HAWKES. Mr. Secretary, might I ask you as to the House position on that carry-back. Do you understand that they presume to retain the carry-back as it is in existence today for the period of 1 year until we can have time to review it?

Mr. VINSON. My understanding is that the carry-back is retained for 1 year.

The CHAIRMAN. Thank you, Mr. Secretary.

Now, there are some problems there that many of us have recognized, of course, that the Secretary might have mentioned in his very comprehensive statement. He might have said that this committee,

at least, pledged itself openly to his distinguished predecessor that the excess profits tax would be taken off at the end of hostilities, after the war had ended. And there was the implied obligation, at least, that the 3 percent normal would come off because, as the Secretary very properly said, that was the survivor of the Victory tax, which by its terms provided for termination at the end of the war.

There was also the assumed obligation to continue the loss carry-back provisions of the excess-profits tax for a couple of years after the war, unused credit as well. There are problems in connection with that that ought to be, certainly ought to be studied, because no mere skeleton organization ought to be permitted to come in and make claims, and there ought not to be any emasculation of the corporation that did exist at the time in such a way as to work a very unfair disadvantage to the Treasury. Under the loss carry-back provision, unused credit, at least.

We want to thank you, Mr. Secretary, for your appearance before the committee, and we assume that Mr. Blough and other members of the staff will be on hand this afternoon.

Mr. VINSON. Yes. And with your permission, Mr. Chairman, I will insert the exhibits. I think we have some very interesting exhibits. We have one (exhibit 10) that shows that when you pass the \$10,000 surtax net income mark you have \$5,285,000.

The CHAIRMAN. If you will put into the record any of the tables of any supplemental statements that were called for by any member of the committee I would appreciate it very much.

We appreciate your courtesy and assistance in this matter.

Senator LUCAS. Do I understand, Mr. Secretary, that on the basis of a \$130,000,000,000 national income that income produced by those who make less than \$10,000 would exceed five billion?

Mr. VINSON. That net income above \$10,000 totals \$5,285,000,000.

Senator LUCAS. Net income?

Mr. VINSON. Yes, sir. That is the bracket. It is the income in the surtax bracket above \$10,000. You have got \$5,285,000,000.

Senator LUCAS. What proportion of the national income, present national income, is that \$5,285,000,000?

Mr. VINSON. It would be about 4 percent of national income payments if you had \$130,000,000,000—\$5,285,000,000 would be about 4 percent of \$130,000,000,000.

(The exhibits submitted by Mr. Vinson follow the statement on expenditures.)

DISCUSSION OF GOVERNMENT EXPENDITURES FOR THE FISCAL YEARS 1940, 1945, AND BUDGET ESTIMATES FOR 1946

The attached table shows a summary of Federal expenditures by fiscal years for 1940, a prewar year; 1945, the peak war year; and Budget estimates for 1946, a year of transition from war to peace. The table also includes net receipts and deficits for each of the years.

Total expenditures increased from \$9,300,000,000 in 1940 to \$100,000,000,000 in 1945, and will fall off to about \$66,400,000,000 in the current fiscal year which ends next June 30.

WAR ACTIVITIES

In the fiscal year 1945 more than 90 cents out of every dollar spent by the Federal Government went to meet the direct costs of the war. According to the revised Budget estimates released August 31, this proportion will drop to about

76 cents. This reduction is the net result of decreased war expenditures and by an increase in other expenditures. War expenditures, according to the Budget, will amount to \$50,500,000,000 in the current fiscal year, compared with \$90,500,000,000 in 1945, a reduction of about 44 percent. The estimate for 1946 of \$50,500,000,000 might seem high at first appraisal in view of the capitulation of Japan just 1½ months after the beginning of the fiscal year. It should be kept in mind, however, that even though billions of dollars of contracts have been and will be canceled, cash outlay will remain relatively high for some months. Time is required to demobilize more than 12,000,000 men; probably \$4,000,000,000 or \$5,000,000,000 will be spent in terminating war contracts; mustering-out pay will require about \$270 for each man discharged; to name some of the factors which will tend to keep expenditures from dropping quickly.

The following shows a rough break-down for several years of war expenditures including net war outlays of the Reconstruction Finance Corporation and its affiliates:

	Fiscal years—(in billions of dollars)						
	1940	1941	1942	1943	1944	1945	1946 ²
Munitions.....	(1)	4.5	20.3	55.2	60.2	58.5	21.0
Nonmunitions:							
Pay and subsistence.....	(1)	1.0	2.8	10.6	17.5	21.6	19.0
Miscellaneous.....	(1)	1.1	5.2	9.5	12.0	10.4	10.5
Total.....	1.7	6.7	28.3	75.3	89.7	90.5	50.5

¹ Break-down not available.

² Estimated.

The classification "munitions" includes not only military type items but also civilian or industrial type products. In fact, the term as used here covers all products except food procured in the continental United States for the armed forces or for lend-lease. The classification, "Pay and subsistence," consists of pay of the armed forces, dependency allowances, mustering-out pay, subsistence, and travel allowances. "Miscellaneous" includes civilian pay in war agencies, stock piling of critical materials, agricultural lend-lease, payments for United Nations Relief and Rehabilitation Administration, contract-termination payments, and commercial transportation and public utilities relating to troops and equipment in the United States.

Following the fiscal year 1946, war expenditures will, of course, decrease very rapidly, although it is too early at this time to indicate the probable cost in 1947 and thereafter of maintaining the Army and Navy.

OTHER ACTIVITIES

Expenditures other than war activities increased from \$7,600,000,000 in 1940 to \$9,500,000,000 in 1945, while the estimate for 1946 is \$15,900,000,000.

In connection with these activities there are two factors of interest, (1) the expenditures in 1946 for certain items are higher than they are expected to be in succeeding years, notably under refunds of taxes where corporate refunds are at their peak, and the international payments under the Bretton Woods agreements being at a considerably higher level than expected in the future; and (2) the expenditures for 1946 will be greater than those at the prewar level in certain instances where they are directly affected by the war, such as for care, rehabilitation, and hospitalization of war veterans; expenses of the Treasury Department incident to the collection of larger taxes and the management of the war debt; and expenses of the General Accounting Office in connection with the audit and settlement of accounts.

Veterans, refunds, and interest

Expenditures for veterans, refunds, and interest are largely war-caused, being sometimes referred to as "aftermath of war." These expenditures amounted to \$1,700,000,000 in 1940, \$7,400,000,000 in 1945, and are expected to require \$10,000,000,000 in 1946, this latter figure representing the all-time peak. The

estimate for 1946 represents more than a sixfold increase compared with 1940. During the current year these "aftermath of war" items will account for about two-thirds of all Federal "nonwar" expenditures.

Total expenditures for veterans' benefits might be at a higher level in the next 2 or 3 years than the \$3,200,000,000 now forecast for the current year due largely to the educational and readjustment allowance programs. However, these programs, as well as the Government's contribution to the national service life insurance fund, should be substantially reduced in later years.

The fiscal year 1946 is probably the peak year for refunds of taxes, the estimated expenditures for this purpose amounting to \$2,900,000,000. This is due principally to the provisions of the Tax Adjustment Act of 1945 speeding up corporate refunds following the end of the war. It is believed that both corporate refunds and refunds arising from individual withholding will decrease substantially below the current year level.

Expenditures for interest on the public debt will no doubt increase from the level of \$4,500,000,000 estimated for 1946, the Budget estimate of total public debt outstanding on June 30, 1946, being \$273,000,000,000. The extent to which interest payments increase or decrease in the future will depend upon the rapidity with which the Government can balance its Budget.

Unemployment relief

The Budget estimates for the fiscal year 1946 do not contain any provision for unemployment relief. In 1940 expenditures for unemployment relief amounted to \$2,200,000,000, about \$1,500,000,000 of this sum having been expended by the Work Projects Administration. The balance of the program took the form of aids to youth by the Civilian Conservation Corps and the National Youth Administration, and loans and grants to States, municipalities, etc., by the Public Works Administration.

International finance

Budgetary expenditures for international finance; that is, subscriptions to the International Monetary Fund, International Bank for Reconstruction and Development, and capital stock of the Export-Import Bank, are estimated to aggregate \$2,200,000,000 for the fiscal year 1946. This excludes \$1,800,000,000 to be subscribed to the International Monetary Fund out of the United States Stabilization Fund created by the Gold Reserve Act of 1934.

The break-down for the fiscal year 1946 is as follows:

[In millions of dollars]

	Amount authorized	Estimated payments in 1946	
		Budgetary items	From exchange stabilization fund
International Monetary Fund.....	2,750	950	1,800
International Bank for Reconstruction and Development.....	3,175	317	-----
Export-Import Bank, capital stock.....	999	1,999	-----
Total.....	6,924	2,266	1,800

¹ Includes \$174,000,000 to be paid to the Reconstruction Finance Corporation to retire capital stock previously subscribed by that Corporation.

As will be seen from the above table, membership of the United States in the International Monetary Fund will require subscription of \$2,750,000,000, payment for all of which is expected to be made by June 30, 1946. Also, on the basis of Budget estimates, payment for the full remaining authorized capital of the Export-Import Bank of \$999,000,000 is expected to be made by the end of this

fiscal year, which, together with \$1,000,000 of stock already owned by the United States, will give that bank capital stock of \$1,000,000,000. In addition the Export-Import Bank may borrow not to exceed \$2,500,000,000 from the Treasury to carry on its authorized program. It is not believed that any of this latter amount will be required until after the fiscal year 1946. With regard to the International Bank for Reconstruction and Development Congress has authorized subscription for capital stock by the United States to a total of \$3,175,000,000, of which \$317,000,000 is estimated to be paid in the fiscal year 1946 and about the same amount again in 1947. The remaining \$2,540,000,000 can be called only when needed to meet the proportionate share of any losses suffered by the bank in the course of its operations.

Other expenditures

The balance of expenditures, under the classification "Other activities", consists of (1) the budgetary items: aids to agriculture, public works, social security and railroad retirement, the Government's contributions to employees' retirement funds and the regular operating expenses of the various departments and establishments; and (2) net outlays of Government corporations and credit agencies other than war expenditures of the Reconstruction Finance Corporation and its affiliates. The budgetary items amounted to an aggregate of \$3,400,000,000 in 1940, \$3,000,000,000 in 1945, and, although there are various internal shifts, are expected to again amount to \$3,400,000,000 in 1946.

Expenditures for aids to agriculture, including administrative and other expenditures of the Department of Agriculture classified in daily Treasury statements as "departmental," amounted to \$1,571,000,000 in the fiscal year 1940 compared with the Budget estimate for 1946 of about \$700,000,000, a reduction of \$871,000,000.

Expenditures for principal items of a continuing public works character amounted to \$571,000,000 in 1940, while in 1945, due to postponements on account of the war, they aggregated less than half of that amount. Such expenditures are estimated to be about \$400,000,000 in the current year. These items are likely to increase in the immediate future as Congress has already authorized additional outlays for public roads, and rivers and harbors and flood control.

Expenditures of the Social Security and Railroad Retirement Boards increased from an aggregate of \$403,000,000 in 1940 to \$779,000,000 in 1945 and for 1946 are estimated at about \$875,000,000. Increased grants to States for old-age assistance, aid to dependent children, aid to the blind, and transfers to the railroad retirement account are responsible for the higher level of expenditures in 1945 compared with 1940. The grants to States are estimated to be still higher in the current year, while transfers to the Railroad Retirement Account will be slightly lower.

The balance of budgetary expenditures—"General administration, etc."—represent for the most part the regular operating costs of the various departments and establishments of the Government. These expenditures amounted to \$814,000,000 in 1940, \$1,174,000,000 in 1945, and are estimated at about \$1,400,000,000 for 1946. These expenditures do not include costs of administration of "War activities", "Veterans' Administration", "Aids to agriculture", "Public Works", and "Social Security and Railroad Retirement Boards".

The outlays of Government corporations and credit agencies represent transactions in checking accounts maintained with the Treasurer of the United States and are stated net, i. e., gross payments by the agencies less their gross receipts. In 1940 net expenditures of these corporations and agencies amounted to \$254,000,000 compared with net collections of \$846,000,000 in 1945. In 1946 net collections are expected to be about \$400,000,000. Since the war began liquidations of loans of such organizations as the Reconstruction Finance Corporation, the Home Owners Loan Corporation and the Federal Farm Mortgage Corporation have proceeded at a faster pace, resulting in total net receipts rather than net expenditures as in earlier years in this category. The lower net receipts in 1946 compared with 1945 is due principally to an expected increase in net expenditures of the Commodity Credit Corporation in the current fiscal year.

*Summary of actual receipts and expenditures of the Federal Government for the fiscal years 1940 and 1945 and Budget estimates for 1946*¹

[In billions of dollars]

	Actual, fiscal year 1940 (pre- war year)	Actual, fiscal year 1945 (peak war year)	Budget estimate, fiscal year 1946 (recon- version to peace)	Increase (+) or de- crease (-), 1946 com- pared with 1940
Net receipts.....	5.4	46.5	36.0	+30.6
Expenditures:				
War activities:				
Budgetary items.....	1.7	90.0	51.0	+49.3
Government corporations (net).....		.5	-.5	-.5
Total war activities.....	1.7	90.5	50.5	+48.8
Other activities:				
Veterans' Administration.....	.6	2.1	3.2	+2.6
Refunds.....	.1	1.7	2.9	+2.8
Interest on the public debt.....	1.0	3.6	4.5	+3.5
Subtotal.....	1.7	7.4	10.6	+8.9
Unemployment relief.....	2.2			-2.2
International finance.....			2.3	+2.3
Other expenditures:				
Budgetary items.....	3.4	3.0	3.4	
Government corporations and credit agencies.....	.3	-.8	-.4	-.7
Total other activities.....	7.6	9.5	15.9	+8.3
Grand total expenditures.....	9.3	100.0	66.4	+57.1
Excess of expenditures.....	3.9	53.6	30.4	+26.5

¹ Includes net outlays of Government corporations and credit agencies.

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

EXHIBITS

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EXHIBIT 1.—Estimated reduction in tax liability under House bill (H. R. 4309) and under Treasury tax suggestions for calendar years 1946 and 1947¹

[In millions of dollars]

Source	House bill (H. R. 4309)		Treasury suggestions	
	1946	1947	1946	1947
1. Internal revenue:				
(1) Income, excess-profits, and capital-stock taxes:				
(a) Corporation taxes:				
Reduction and repeal of excess-profits tax ²	1,300	2,555	2,555	2,555
Reduction of surtax ²	405	646	-----	-----
Repeal of capital stock and declared value excess profits taxes.....	183	243	-----	-----
Total corporate taxes.....	1,888	3,444	2,555	2,555
(b) Individual income taxes: ³				
Raise normal tax exemptions.....	782	782	782	782
Repeal 3 percent normal tax or reduce surtax rates 3 percentage points.....	1,303	1,303	1,303	1,303
Reduce surtax 1 percentage point.....	435	435	-----	-----
Reduce surtax further to give a minimum reduction of 10 percent of normal and surtax.....	107	107	-----	-----
Total individual income taxes.....	2,627	2,627	2,085	2,085
Total income and excess profits and capital stock taxes.....	4,515	6,071	4,640	4,640
(2) Miscellaneous internal revenue excluding capital stock:				
(a) Reduce excise taxes to 1942 rates.....	535	1,041	535	1,041
(b) Repeal use tax on automobiles and boats.....	140	140	-----	-----
Total miscellaneous internal revenue excluding capital stock.....	675	1,181	535	1,041
(3) Net decrease in liabilities, general and special accounts.....	5,190	7,252	5,175	5,681
(4) Refunds on floor stocks ⁴	160	-----	160	-----
Net decrease after refunds on floor stocks.....	5,350	7,252	5,335	5,681

¹ Assumes, for comparative purposes, the same general conditions in 1947 as in 1946.

² The decrease in tax liabilities shown for the corporation taxes under House bill (H. R. 4309) assumes that the changes are made in the order indicated. The reduction in excess-profits tax under House bill (H. R. 4309) for 1946 results only from the change in rate from 85½ to 60 percent but the reductions from complete repeal for 1947, and 1946 under the Treasury tax suggestions, are net after offsetting the increase in normal and surtax. Also, the decrease shown for normal and surtax under House bill (H. R. 4309) results from the reduction in surtax rates by 4 percentage points. The amounts are far different for 1946 and 1947 because the repeal of the excess-profits tax for 1947 increases the normal tax and surtax base by the amount of the adjusted excess-profits net income. The decrease shown for the repeal of the capital stock and declared value excess profits taxes under House bill (H. R. 4309) are different for 1946 and 1947. These taxes are both allowed as deductions from the excess-profits tax and normal and surtax bases, so that in 1946 the loss from repeal of these taxes is offset by an increase in the excess-profits tax and normal and surtax whereas in 1947 there is an offset only with respect to the normal and surtax, since the excess-profits tax is repealed.

³ Under House bill (H. R. 4309) the exemptions for normal tax were made the same as for surtax. Surtax rates were adjusted by reducing them 4 percentage points and more in the higher brackets to give in general at least a 10-percent reduction in tax liabilities. For purposes of better comparison the estimates here are shown as if the committee raised the normal tax exemption, repealed the 3-percent normal tax, made an additional adjustment in surtax of 1 percentage point, and a further adjustment in surtax to give at least a 10-percent reduction in liabilities.

⁴ Tax refunds are classified by the Federal Government as expenditures.

Treasury Department, Oct. 15, 1945.

EXHIBIT 2.—Estimated tax liabilities under present law, under House bill (H. R. 4309), and under the Treasury tax suggestions for the calendar year 1946

[In millions of dollars]

	Estimated yields		
	Present law	House bill (H. R. 4309)	Treasury suggestions
1. Internal revenue:			
(1) Corporation taxes (excess-profits tax, normal tax and surtax, capital-stock and declared-value excess-profits taxes).....	9,054	7,166	6,499
(2) Individual income taxes.....	13,340	10,713	11,255

EXHIBIT 2.—Estimated tax liabilities under present law, under House bill (H. R. 4309), and under the Treasury tax suggestions for the calendar year 1946—
Continued

[In millions of dollars]

	Estimated yields		
	Present law	House bill (H. R. 4309)	Treasury suggestions
1. Internal revenue—Continued			
(3) Miscellaneous internal revenue excluding capital stock tax:			
(a) Excise taxes affected by reduction in wartime rates:			
Liquor taxes:			
Distilled spirits.....	1,473	1,224	1,224
Fermented malt liquors.....	545	513	513
Wines.....	47	36	36
Total liquor taxes.....	2,065	1,773	1,773
Retailers' excise taxes:			
Jewelry, etc.....	201	153	153
Furs.....	90	65	65
Toilet preparations.....	79	61	61
Luggage, etc.....	62	47	47
Total retailers' excise taxes.....	432	326	326
Telephone, telegraph, radio, and cable facilities, etc.....	126	111	111
Local telephone service.....	128	107	107
Transportation of persons.....	188	160	160
Admissions.....	268	203	203
Electric-light bulbs and tubes.....	14	10	10
Club dues and initiation fees.....	11	9	9
Bowling alleys, billiard and pool tables.....	4	2	2
Total excise taxes affected by reduction in wartime tax rates.....	3,236	2,701	2,701
(b) Use tax on automobiles and boats.....	140		140
(c) All other.....	2,978	2,978	2,978
Total miscellaneous internal revenue, excluding capital-stock tax.....	6,354	5,679	5,819
2. Employment taxes (net).....	392	392	392
3. Customs.....	450	450	450
4. Miscellaneous receipts.....	2,900	2,900	2,900
Net receipts, general and special accounts.....	32,490	27,300	27,315
Refunds on floor stocks ¹		160	160
Net receipts less refunds on floor stocks.....	32,490	27,140	27,155

¹ Tax refunds are classified by the Federal Government as expenditures.

Treasury Department, Oct. 15, 1945.

EXHIBIT 3.—Number of corporations, income of corporations, and taxes estimated for the calendar year 1946

1. Number of corporations:	
Number of corporations with no net income.....	190,000
Number of corporations with net income.....	260,000
Total number of active corporations.....	450,000
Number of corporations subject to the excess-profits tax.....	19,100
2. Income of corporations:	
Net income ¹ of income corporations.....	\$18,695,000,000
Deficit ¹ of deficit corporations.....	2,150,000,000
Net income ¹ of all corporations.....	16,545,000,000
Normal tax base.....	10,135,000,000
Surtax base.....	10,235,000,000
Excess-profits-tax base ²	6,010,000,000
3. Taxes of corporations:	
Normal and surtax.....	3,855,000,000
Excess-profits tax.....	4,845,000,000
Capital-stock tax.....	285,000,000
Declared-value excess-profits tax.....	65,000,000
Total corporation taxes.....	9,050,000,000

¹ Net income or deficit is the amount reported for declared-value excess-profits tax computation adjusted by excluding the net operating loss deduction.² Income subject to the excess-profits tax.

Treasury Department, Oct. 15, 1945.

EXHIBIT 4.—Estimated number of income recipients paying individual income tax, tax bases, and income-tax liabilities under present law, calendar year 1946, assuming income payments to individuals of \$130 billion

A. Number of income recipients paying:		
1. Normal tax only-----		12,060,000
2. Surtax-----		36,302,000
	Total [normal tax]-----	48,362,000
B. Tax bases:		
1. Normal tax base of persons paying only normal tax:		
(a) Before exemptions-----		\$16,376,000,000
(b) Exemptions-----		6,030,000,000
	(c) After exemptions-----	10,346,000,000
2. Total normal tax base:		
(a) Before exemptions-----		93,684,000,000
(b) Exemptions-----		24,181,000,000
	(c) After exemptions-----	69,503,000,000
3. Total surtax net income-----		
		43,476,000,000
C. Individual income-tax liabilities:		
1. Normal tax of persons paying only normal tax-----		310,000,000
2. Total normal tax-----		2,085,000,000
3. Surtax-----		11,181,000,000
4. Alternative tax-----		73,000,000
5. Total individual income tax (2+3+4)-----		13,340,000,000

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

Treasury Department, Oct. 15, 1945.

EXHIBIT 5-A.—Comparison of amounts and effective rates of individual income tax under present law, House bill (H. R. 4309), and proposed repeal of normal tax for specified amounts of net income

SINGLE PERSON, NO DEPENDENTS—PERSONAL EXEMPTION, \$500

Net income before personal exemption	Amounts of tax			Effective rates		
	Present law	House bill (H. R. 4309)	Proposed repeal of normal tax	Present law	House bill (H. R. 4309)	Proposed repeal of normal tax
				Percent	Percent	Percent
\$500-----						
\$600-----	\$23	\$19	\$20	3.8	3.2	3.3
\$800-----	69	57	60	8.6	7.1	7.5
\$1,000-----	115	95	100	11.5	9.5	10.0
\$1,500-----	230	190	200	15.3	12.7	13.3
\$2,000-----	345	285	300	17.3	14.3	15.0
\$3,000-----	585	485	510	19.5	16.2	17.0
\$4,000-----	835	695	730	20.9	17.4	18.3
\$5,000-----	1,105	925	970	22.1	18.5	19.4
\$6,000-----	1,395	1,175	1,230	23.3	19.6	20.5
\$8,000-----	2,035	1,735	1,810	25.4	21.7	22.6
\$10,000-----	2,755	2,375	2,470	27.6	23.8	24.7
\$15,000-----	4,930	4,350	4,495	32.9	29.0	30.0
\$25,000-----	10,590	9,520	9,855	42.4	38.1	39.4
\$50,000-----	27,945	25,140	26,460	55.9	50.3	52.9
\$100,000-----	69,870	62,875	66,885	69.9	62.9	66.9
\$250,000-----	209,350	188,358	201,865	83.7	75.3	80.7
\$500,000-----	444,350	399,608	429,365	88.9	79.9	85.9
\$750,000-----	¹ 675,000	² 607,500	656,865	¹ 90.0	² 81.0	87.6
\$1,000,000-----	¹ 900,000	² 810,000	884,365	¹ 90.0	² 81.0	88.4

¹ Taking into account maximum effective rate limitation of 90 percent.

² Taking into account maximum effective rate limitation of 81 percent.

Treasury Department, Oct. 15, 1945.

EXHIBIT 5-B.—Comparison of amounts and effective rates of individual income tax under present law, House bill (H. R. 4309), and proposed repeal of normal tax for specified amounts of net income

MARRIED PERSON, NO DEPENDENTS—PERSONAL EXEMPTION, \$1,000

Net income before personal exemption	Amounts of tax			Effective rates		
	Present law	House bill (H. R. 4309)	Proposed repeal of normal tax	Present law	House bill (H. R. 4309)	Proposed repeal of normal tax
				Percent	Percent	Percent
\$800.....	\$9			1.1		
\$1,000.....	15			1.5		
\$1,500.....	130	\$95	\$100	8.7	6.3	6.7
\$2,000.....	245	190	200	12.3	9.5	10.0
\$3,000.....	475	380	400	15.8	12.7	13.3
\$4,000.....	725	590	620	18.1	14.8	15.5
\$5,000.....	975	800	840	19.5	16.0	16.8
\$6,000.....	1,265	1,050	1,100	21.1	17.5	18.3
\$8,000.....	1,885	1,590	1,660	23.6	19.9	20.8
\$10,000.....	2,585	2,210	2,300	25.9	22.1	23.0
\$15,000.....	4,695	4,120	4,260	31.3	27.5	28.4
\$25,000.....	10,295	9,240	9,560	41.2	37.0	38.2
\$50,000.....	27,585	24,800	26,100	55.2	49.6	52.2
\$100,000.....	69,435	62,470	66,450	69.4	62.5	66.5
\$250,000.....	208,895	187,935	201,410	83.6	75.2	80.6
\$500,000.....	443,895	399,185	428,910	88.8	79.8	85.8
\$750,000.....	¹ 675,000	² 607,500	656,410	¹ 90.0	² 81.0	87.5
\$1,000,000.....	¹ 900,000	² 810,000	883,910	¹ 90.0	² 81.0	88.4

¹ Taking into account maximum effective rate limitation of 90 percent.

² Taking into account maximum effective rate limitation of 81 percent.

Treasury Department, Oct. 15, 1945.

EXHIBIT 5-C.—Comparison of amounts and effective rates of individual income tax under present law, House bill (H. R. 4309), and proposed repeal of normal tax for specified amounts of net income

MARRIED PERSON, 2 DEPENDENTS—PERSONAL EXEMPTION, \$2,000

Net income before personal exemption	Amounts of tax			Effective rates		
	Present law	House bill (H. R. 4309)	Proposed repeal of normal tax	Present law	House bill (H. R. 4309)	Proposed repeal of normal tax
				Percent	Percent	Percent
\$1,500.....	\$30			2.0		
\$2,000.....	45			2.3		
\$3,000.....	275	\$190	\$200	9.2	6.3	6.7
\$4,000.....	505	380	400	12.6	9.5	10.0
\$5,000.....	755	590	620	15.1	11.8	12.4
\$6,000.....	1,005	800	840	16.8	13.3	14.0
\$8,000.....	1,585	1,300	1,360	19.8	16.3	17.0
\$10,000.....	2,245	1,880	1,960	22.5	18.8	19.6
\$15,000.....	4,265	3,700	3,830	28.4	24.7	25.5
\$25,000.....	9,705	8,680	8,970	38.8	34.7	35.9
\$50,000.....	26,865	24,120	25,380	53.7	48.2	50.8
\$100,000.....	68,565	61,660	65,580	68.6	61.7	65.6
\$250,000.....	207,985	187,090	200,500	83.2	74.8	80.2
\$500,000.....	442,985	398,340	428,000	88.6	79.7	85.6
\$750,000.....	¹ 675,000	² 607,500	655,500	¹ 90.0	² 81.0	87.4
\$1,000,000.....	¹ 900,000	² 810,000	883,000	¹ 90.0	² 81.0	88.3

¹ Taking into account maximum effective rate limitation of 90 percent.

² Taking into account maximum effective rate limitation of 81 percent.

Treasury Department, Oct. 15, 1945.

EXHIBIT 6-A.—Comparison of individual income tax decreases from present law under the House bill (H. R. 4309) and proposed repeal of normal tax: Amounts, effective rates, percentages of present tax liability, and percentages of net income after present tax, for specified amounts of net income

SINGLE PERSON, NO DEPENDENTS—PERSONAL EXEMPTION, \$500

Net income before personal exemption	Decrease in amounts		Decrease in effective rates		Decrease as a percentage of present tax liability		Decrease as a percentage of net income after tax	
	House bill (H. R. 4309)	Proposed repeal of normal tax	House bill (H. R. 4309)	Proposed repeal of normal tax	House bill (H. R. 4309)	Proposed repeal of normal tax	House bill (H. R. 4309)	Proposed repeal of normal tax
			Percent	Percent	Percent	Percent	Percent	Percent
\$500								
\$600	\$4	\$3	0.7	0.5	17.4	13.0	0.7	0.5
\$800	12	9	1.5	1.1	17.4	13.0	1.6	1.2
\$1,000	20	15	2.0	1.5	17.4	13.0	2.3	1.7
\$1,500	40	30	2.7	2.0	17.4	13.0	3.1	2.4
\$2,000	60	45	3.0	2.3	17.4	13.0	3.6	2.7
\$3,000	100	75	3.3	2.5	17.1	12.8	4.1	3.1
\$4,000	140	105	3.5	2.6	16.8	12.6	4.4	3.3
\$5,000	180	135	3.6	2.7	16.3	12.2	4.6	3.5
\$6,000	220	165	3.7	2.8	15.8	11.8	4.8	3.6
\$8,000	300	225	3.8	2.8	14.7	11.1	5.0	3.8
\$10,000	380	285	3.8	2.9	13.8	10.3	5.2	3.9
\$15,000	580	435	3.9	2.9	11.8	8.8	5.8	4.3
\$25,000	1,070	735	4.3	2.9	10.1	6.9	7.4	5.1
\$50,000	2,805	1,485	5.6	3.0	10.0	5.3	12.7	6.7
\$100,000	6,985	2,985	7.0	3.0	10.0	4.3	23.2	9.9
\$250,000	20,993	7,485	8.4	3.0	10.0	3.6	51.6	18.4
\$500,000	44,743	14,985	8.9	3.0	10.1	3.4	80.4	26.9
\$750,000	67,500	18,135	9.0	3.0	10.0	2.7	90.0	24.2
\$1,000,000	90,000	15,635	9.0	1.6	10.0	1.7	90.0	15.6

Treasury Department, Oct. 15, 1945.

EXHIBIT 6-B.—Comparison of individual income tax decreases from present law under the House bill (H. R. 4309) and proposed repeal of normal tax: Amounts, effective rates, percentages of present tax liability, and percentages of net income after present tax, for specified amounts of net income

MARRIED PERSON, NO DEPENDENTS—PERSONAL EXEMPTION, \$1,000

Net income before personal exemption	Decrease in amounts		Decrease in effective rates		Decrease as a percentage of present tax liability		Decrease as a percentage of net income after tax	
	House bill (H. R. 4309)	Proposed repeal of normal tax	House bill (H. R. 4309)	Proposed repeal of normal tax	House bill (H. R. 4309)	Proposed repeal of normal tax	House bill (H. R. 4309)	Proposed repeal of normal tax
			Percent	Percent	Percent	Percent	Percent	Percent
\$800	\$9	\$9	1.1	1.1	100.0	100.0	1.1	1.1
\$1,000	15	15	1.5	1.5	100.0	100.0	1.5	1.5
\$1,500	35	30	2.3	2.0	26.9	23.1	2.6	2.2
\$2,000	55	45	2.8	2.3	22.5	18.4	3.1	2.6
\$3,000	95	75	3.2	2.5	20.0	15.8	3.8	3.0
\$4,000	135	105	3.4	2.6	18.6	14.5	4.1	3.2
\$5,000	175	135	3.5	2.7	18.0	13.8	4.3	3.4
\$6,000	215	165	3.6	2.8	17.0	13.0	4.5	3.5
\$8,000	295	225	3.7	2.8	15.7	11.9	4.8	3.7
\$10,000	375	285	3.8	2.9	14.5	11.0	5.1	3.8
\$15,000	575	435	3.8	2.9	12.3	9.3	5.6	4.2
\$25,000	1,055	735	4.2	2.9	10.3	7.1	7.2	5.0
\$50,000	2,785	1,485	5.6	3.0	10.1	5.4	12.4	6.6
\$100,000	6,965	2,985	7.0	3.0	10.0	4.3	22.8	9.8
\$250,000	20,960	7,485	8.4	3.0	10.0	3.6	51.0	18.2
\$500,000	44,710	14,985	8.9	3.0	10.1	3.4	79.7	26.7
\$750,000	67,500	18,590	9.0	2.5	10.0	2.8	90.0	24.8
\$1,000,000	90,000	16,090	9.0	1.6	10.0	1.8	90.0	16.1

Treasury Department, Oct. 15, 1945.

EXHIBIT 6-C.—Comparison of individual income tax decreases from present law under the House bill (H. R. 4309) and proposed repeal of normal tax: Amounts, effective rates, percentages of present tax liability, and percentages of net income after present tax, for specified amounts of net income

MARRIED PERSON, 2 DEPENDENTS—PERSONAL EXEMPTION, \$2,000

Net income before personal exemption	Decrease in amounts		Decrease in effective rates		Decrease as a percentage of present tax liability		Decrease as a percentage of net income after tax	
	House bill (H. R. 4309)	Proposed repeal of normal tax	House bill (H. R. 4309)	Proposed repeal of normal tax	House bill (H. R. 4309)	Proposed repeal of normal tax	House bill (H. R. 4309)	Proposed repeal of normal tax
			Percent	Percent	Percent	Percent	Percent	Percent
\$1,500.....	\$30	\$30	2.0	2.0	100.0	100.0	2.0	2.0
\$2,000.....	45	45	2.3	2.3	100.0	100.0	2.3	2.3
\$3,000.....	85	75	2.8	2.5	30.9	27.3	3.1	2.8
\$4,000.....	125	105	3.1	2.6	24.8	20.8	3.6	3.0
\$5,000.....	165	135	3.3	2.7	21.9	17.9	3.9	3.2
\$6,000.....	205	165	3.4	2.8	20.4	17.4	4.1	3.3
\$8,000.....	285	225	3.6	2.8	18.0	14.2	4.4	3.5
\$10,000.....	365	285	3.7	2.9	16.3	12.7	4.7	3.7
\$15,000.....	565	435	3.8	2.9	13.3	10.2	5.3	4.1
\$25,000.....	1,025	735	4.1	2.9	10.6	7.6	6.7	4.8
\$50,000.....	2,745	1,485	5.5	3.0	10.2	5.5	11.9	6.4
\$100,000.....	6,905	2,985	6.9	3.0	10.1	4.4	22.0	9.5
\$250,000.....	20,895	7,485	8.4	3.0	10.0	3.6	49.7	17.8
\$500,000.....	44,645	14,985	8.9	3.0	10.1	3.4	78.3	26.3
\$750,000.....	67,500	19,500	9.0	2.6	10.0	2.9	90.0	26.0
\$1,000,000.....	90,000	17,000	9.0	1.7	10.0	1.9	90.0	17.0

Treasury Department, Oct. 15, 1945.

EXHIBIT 7.—Estimated number of income recipients, surtax net income, and surtax under present law, distributed by surtax net income classes, calendar year 1946, assuming individual income payments of \$150 billion

[Money amounts in millions of dollars; number of income recipients in thousands]

Surtax net income class (thousands of dollars)	Cumulated number of income recipients paying surtax	Surtax net income ¹		Surtax	
		Simple distribution	Cumulative distribution	Simple distribution	Cumulative distribution
0-0.5.....	36,302	15,006	15,006	3,001	3,001
0.5-1.....	23,197	8,430	23,436	1,686	4,687
1-1.5.....	11,465	4,330	27,766	866	5,553
1.5-2.....	6,389	2,563	30,329	513	6,066
2-3.....	4,040	2,844	33,173	626	6,692
3-4.....	1,988	1,537	34,710	338	7,030
4-6.....	1,074	1,695	36,405	441	7,471
6-8.....	627	1,113	37,518	334	7,805
8-10.....	454	820	38,338	279	8,084
10-12.....	344	628	38,966	239	8,323
12-14.....	269	496	39,462	213	8,536
14-16.....	217	401	39,863	188	8,724
16-18.....	178	328	40,191	164	8,888
18-20.....	149	277	40,468	147	9,035
20-22.....	127	237	40,705	133	9,168
22-26.....	110	401	41,106	237	9,405
26-32.....	89	422	41,528	262	9,667
32-38.....	57	313	41,841	204	9,871
38-44.....	45	240	42,081	166	10,037
44-50.....	36	191	42,272	138	10,175
50-60.....	30	234	42,506	176	10,351
60-70.....	21	166	42,672	129	10,480
70-80.....	15	124	42,796	100	10,580
80-90.....	12	96	42,892	80	10,660
90-100.....	9	75	42,967	65	10,725
100-150.....	7.2	213	43,180	190	10,915
150-200.....	2.9	90	43,270	81	10,996
200 and over.....	1.5	203	43,473	185	11,181
Total.....		43,473		11,181	

¹ Excludes statutory net capital gains subject to alternative tax.

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

Treasury Department, Oct. 15, 1945.

EXHIBIT 8.—Taxable individual and fiduciary returns, 1913-44 and estimated for 1946 under present law and House bill (H. R. 4309): Number of returns, tax, and net income

Taxable year	Number of returns	Tax (thousands of dollars)	Net income (thousands of dollars)
1913.....	(1)	2 28,254	(3)
1914.....	(1)	2 41,046	(3)
1915.....	(1)	2 67,944	(3)
1916.....	362,970	173,387	6,037,233
1917.....	2,707,234	4 795,381	10,592,987
1918.....	3,392,863	1,127,722	13,892,776
1919.....	4,231,181	1,269,630	17,691,620
1920.....	5,518,310	1,075,054	20,228,959
1921.....	3,589,985	719,387	13,409,685
1922.....	3,681,249	861,057	15,043,514
1923.....	4,270,121	6 661,666	17,497,383
1924.....	4,489,698	704,265	19,468,724
1925.....	2,501,166	734,555	17,471,219
1926.....	2,470,990	732,475	17,422,633
1927.....	2,440,941	830,639	18,090,065
1928.....	2,523,063	1,164,254	21,031,634
1929.....	2,458,049	1,001,938	20,493,491
1930.....	2,037,645	476,715	13,692,584
1931.....	1,525,546	246,127	9,297,018
1932.....	1,936,095	329,962	7,919,588
1933.....	1,747,740	374,120	7,372,660
1934.....	1,795,920	511,400	8,343,558
1935.....	2,110,890	657,439	10,034,106
1936.....	2,861,108	1,214,017	14,218,854
1937.....	3,371,443	1,141,569	15,264,162
1938.....	3,048,545	766,833	12,671,537
1939.....	3,959,297	928,694	15,803,945
1940.....	7,504,649	1,496,403	23,558,030
1941.....	17,587,471	3,907,951	45,902,884
1942.....	27,718,534	8,926,712	67,060,862
1943.....	41,005,607	(3)	(3)
1944 preliminary.....	41,681,000	16,300,000	(3)
1946 estimated:			
Under present law.....	7 43,000,000	13,339,550	93,872,565
Under House bill (H. R. 4309).....	7 31,500,000	10,712,735	77,475,617

¹ Not available. The total number of returns filed were as follows: 1913, 357,598; 1914, 357,515; and 1916, 336,652.

² Receipts (including fines, penalties, additional assessments, etc.) for the fiscal year ended June 30 immediately following, as shown in annual reports of the Commissioner of Internal Revenue.

³ Not available.

⁴ Includes war excess-profits taxes of \$101,249,781 on individuals and \$103,887,984 on partnerships.

⁵ Tax base for 1,591,518 taxable returns with net incomes of \$2,000 and over, for which the tax amounted to \$675,249,450.

⁶ Amount after the 25-percent reduction provided by sec. 1200 (a), Revenue Act of 1924.

⁷ The estimated number of taxable income recipients represented by these returns would be 48,362,472 under present law and 36,302,048 under the House bill (H. R. 4309). The estimated decrease in the number of taxable returns under the House bill (H. R. 4309) as compared with present law is 11.5 million returns, representing approximately 12 million income recipients who would be relieved from tax under the House bill (H. R. 4309).

Source: Data for 1916-42 from Statistics of Income; number of returns for 1943 from Collector's Monthly Report to Commissioner of Returns Filed; 1944 data are preliminary figures compiled by the Bureau of Internal Revenue.

Treasury Department, Oct. 15, 1945.

EXHIBIT 9.—*Estimated distribution of 1946 income payments, by applicable tax rates under present law*

Surtax net income bracket	Combined rate of tax which would apply ¹ (percent)	Amount of income payments (millions of dollars)	Surtax net income bracket	Combined rate of tax which would apply ¹ (percent)	Amount of income payments (millions of dollars)
Not subject to tax.....	0	² 60,300	\$26,000 to \$32,000.....	65	422
Normal tax only.....	3	26,070	\$32,000 to \$38,000.....	68	313
\$0 to \$2,000.....	23	30,329	\$38,000 to \$44,000.....	72	240
\$2,000 to \$4,000.....	25	4,381	\$44,000 to \$50,000.....	75	191
\$4,000 to \$6,000.....	29	1,695	\$50,000 to \$60,000.....	78	234
\$6,000 to \$8,000.....	33	1,113	\$60,000 to \$70,000.....	81	166
\$8,000 to \$10,000.....	37	820	\$70,000 to \$80,000.....	84	124
\$10,000 to \$12,000.....	41	628	\$80,000 to \$90,000.....	87	96
\$12,000 to \$14,000.....	46	496	\$90,000 to \$100,000.....	90	75
\$14,000 to \$16,000.....	50	³ 551	\$100,000 to \$150,000.....	92	213
\$16,000 to \$18,000.....	53	328	\$150,000 to \$200,000.....	93	90
\$18,000 to \$20,000.....	56	277	Over \$200,000.....	⁴ 94	203
\$20,000 to \$22,000.....	59	237			
\$22,000 to \$26,000.....	62	401	Total.....		⁵ 130,000

¹ Combined normal and surtax rates beginning at 23 percent overstate by 3 percentage points the rate applicable to \$40 million of partially tax-exempt interest distributed throughout the various surtax brackets.

² Comprises approximately \$25.6 billion normal tax exemptions, \$13.0 billion deductions, and \$21.8 billion other income not subject to tax. The \$25.6 billion figure for normal tax exemptions, together with about \$26 billion subject only to normal tax, represent about \$51.6 billion covered by the surtax exemption.

³ Includes about \$150 million statutory net capital gains subject to alternative tax.

⁴ Some surtax net income above \$200,000 is subject to 90 percent effective rate limitation.

⁵ Figures will not necessarily add to total because of rounding.

Treasury Department, Oct. 15, 1945.

ESTIMATED DISTRIBUTION OF INCOME PAYMENTS By Applicable Tax Rates Under Present Law TOTAL - \$130 BILLION IN 1946

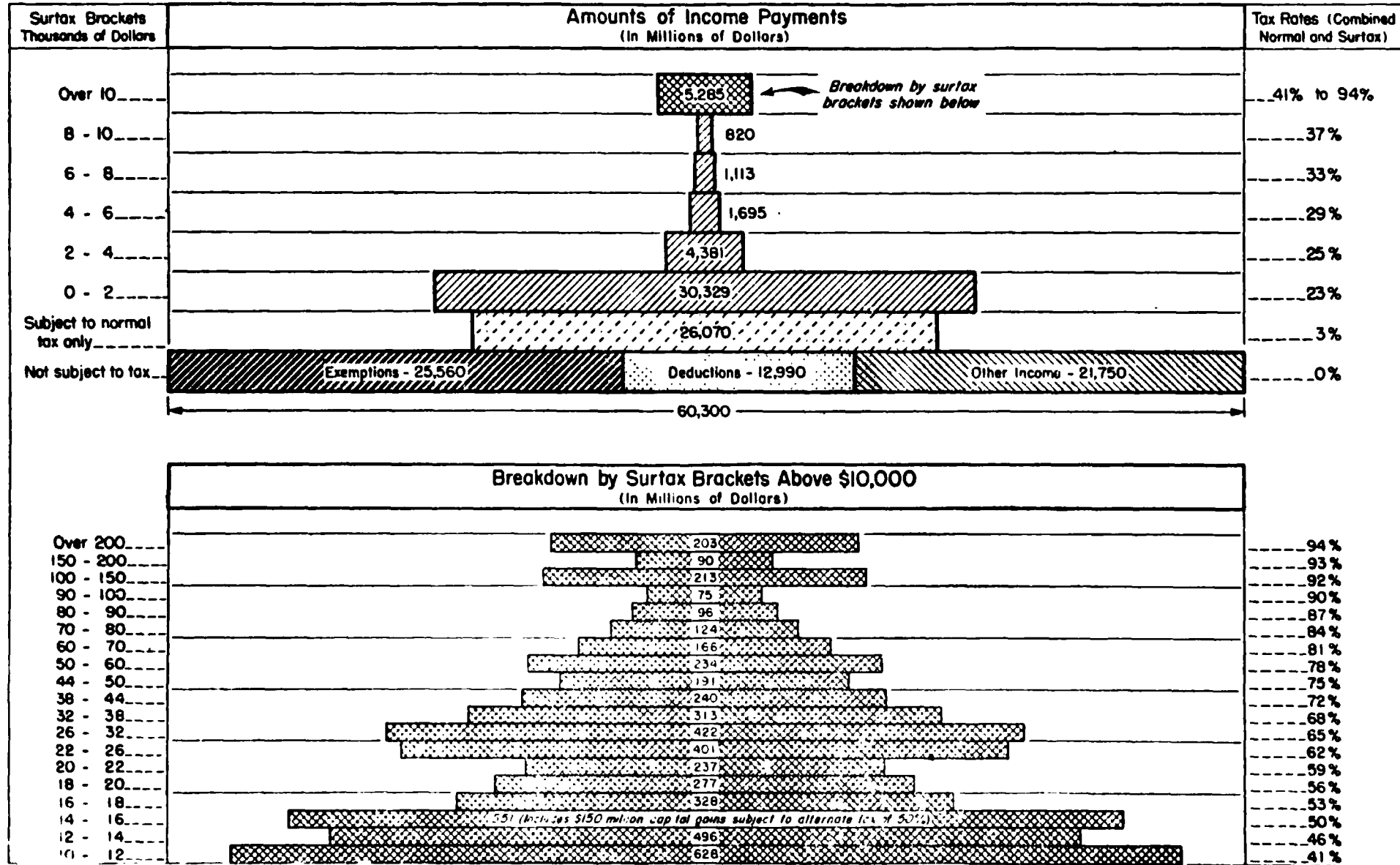


EXHIBIT 10

Treasury Department, Oct. 15, 1945.

The CHAIRMAN. The committee will recess until 2 o'clock.
(Whereupon, at 12:30 p. m., the committee recessed until 2 p. m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.
You may proceed, Mr. Preston.

STATEMENT OF THOMAS L. PRESTON, REPRESENTING THE
ASSOCIATION OF AMERICAN RAILROADS

The CHAIRMAN. You are appearing for the Association of American Railroads?

Mr. PRESTON. That is correct, sir.

My name is Thomas L. Preston. I am appearing here today on behalf of the Association of American Railroads.

I shall be very brief in my comments, referring only to two subjects, the first of those being the matter of the extension beyond December 31, 1945, of sections 22 (b) (9) and 22 (b) (10) of the Internal Revenue Code, and the second matter being that to which you, Mr. Chairman, made reference at the close of Secretary Vinson's presentation this morning, that is, the status of the provisions for carry-back of unused excess-profits credits in event of repeal of the excess-profits tax.

The CHAIRMAN. Now, you are speaking about 22 (b) (9) and 22 (b) (10). Those are the two provisions that relate to the reorganization and the canceled indebtedness—

Mr. PRESTON. Section 22 (b) (9), Mr. Chairman, is that section which provides for the exclusion from gross income of any income attributable to the discharge of indebtedness through the acquisition by a company of its own securities at less than par.

The CHAIRMAN. And that is limited to December 31 of this year?

Mr. PRESTON. By express limitation in that section it expires at the end of this year.

Now, that section is applicable to corporations generally, including railroad corporations.

Section 22 (b) (10) relates to railroad corporations and that section provides for the exclusion from gross income of income attributable to the modification or cancellation of indebtedness as a consequence of reorganization.

As I say, that section also contains a provision that it shall expire December 31, 1945.

The CHAIRMAN. What are you asking with regard to those two matters, Mr. Preston? They were not covered by the House bill.

Mr. PRESTON. They were not covered by the House bill but they seem to us germane to an interim tax-reduction measure in this respect: Unless they be made a part of the code, or at least extended beyond their present expiration date, their expiration will, as to situations to which they apply, occasion an increase in taxes, which would result from their going off the books at the end of this year. In that respect we consider the matter of their extension pertinent to the subject now before you. We ask nothing more than retention of the status quo.

The CHAIRMAN. Are you asking that those two provisions be made permanent or that they merely be extended for a year?

Mr. PRESTON. We see no reason why they should not be made permanent features of the Internal Revenue Code—we think they should be—but we would be well satisfied if they were extended for 3 to 5 years.

In respect to 22 (b) (10), the important thing is that it be extended for a sufficient period to admit of completion of the reorganizations now in progress. The limitation upon 22 (b) (10), I take it, was inserted with the thought in 1942 that by the end of 1945, perhaps, reorganizations of railroads would be completed; but it has not turned out that way. Of some 31 reorganization railroads, only 12 have emerged from bankruptcy, leaving 19 to complete the process of reorganization, and it is a plain fact that to permit 22 (b) (10) to go off the books at the end of this year would effectively prevent many important railroads from emerging from bankruptcy.

The CHAIRMAN. As one member of the committee, I am disposed to agree with you, but I think that it will be much better for you to ask for a simple extension because we will get into another bill in which the permanent policy might be settled, and the Treasury might not raise objection to a limited extension, which would seem to me to meet the purpose of the railroads that desire reorganization.

Mr. PRESTON. I agree with that and it would entirely meet our thought as to the immediate exigencies of the situation if those two sections be extended for a limited period and the matter of their permanent inclusion in the code await your consideration later on.

The CHAIRMAN. I just made that suggestion.

Mr. PRESTON. It is my understanding that neither the Treasury nor your own technical staff have any objection to a limited extension, at least, of those two sections.

The CHAIRMAN. I would not think so. First, the railroads came in, and subsequently it was made applicable to all corporations, but our purpose originally was to aid and to assist and expedite the reorganization.

Mr. PRESTON. That is right, sir.

May I have permission, without discussing those two sections further, to file for the record a memorandum which deals somewhat more fully with the merits of that situation?

The CHAIRMAN. You may file it.

I was anxious not to get outside the scope of this bill except with some matter of this kind that has a direct relation to it.

Mr. PRESTON. The other matter to which I wish to call the committee's attention is the status of the provisions for the carry-back of unused excess-profits credits in the event the excess-profits tax is to be repealed.

In that connection I would like to point out that the House bill, by virtue of the fact that it retains the excess-profits tax for the year 1946, although at a reduced rate, automatically and ipso facto retains for the year 1946 the provisions for carry-backs.

But if, as I take it this committee will consider doing, you should elect to provide for the repeal of the excess-profit tax as of the end of

1945, then it would take an express provision in the bill to preserve the carry-back of unused excess-profits credits for the year 1946.

The CHAIRMAN. I think you are correct on that. That is the reason I brought it to the attention of the Secretary this morning.

Mr. PRESTON. And it seemed to me worth while to emphasize that again in view of the fact that the Secretary's statement, as I heard it, contained no reference to the necessity for an express provision if you are to do as much as the House bill does in respect of the retention of the feature of carry-back of unused excess profits credits.

The railroads feel very strongly that as to them a 2-year retention—that is, a retention for 2 full postwar years, the years 1946 and 1947—of these provisions for the carry-back of unused excess-profits credit, would be eminently in order.

I do not need to remind any member of this committee of the fact that the railroads have consistently advocated legislation to permit the establishment of reserves for maintenance charges, which have been deferred by reason of conditions arising out of wartime operation.

The CHAIRMAN. I think we all recall that very vividly. And I may aid you somewhat in that statement because I feel like it would be a breach of faith if we did not extend the carry-back provisions including the unused excess-profits credit.

This committee was struggling with the proposition first of inventory reserves and general maintenance reserves which were being requested by the railroads, and in the midst of that consideration, through the joint operation of the staff and the Treasury staff, this carry-back provision was suggested and I remember sitting in this chair, for Senator Harrison, I think, who was still in life, asking the Treasury officials if they would not be morally bound to extend the loss carry-back provision for 2 years regardless, and I personally raised the question whether or not that might not be troublesome to the Treasury in view of the changed status of the Treasury's position and condition.

They agreed it might, but they also agreed that we would be morally obligated to extend the loss carry-back provisions in their entirety for the period of 2 years after the war.

Mr. PRESTON. Now, Mr. Chairman, that emphasizes the conclusion to which what I would otherwise have said would lead.

The CHAIRMAN. Whether at that time we had already incorporated the unused excess-profits credit, I don't recall but the general provision was understood to continue for 2 years after the end of the war, at which time we did then, at least, I think—whether we may have changed our views now is immaterial—I feel that the excess-profits tax itself would be disposed of.

Of course, as long as we continue the excess-profits tax automatically, so to speak, these loss carry-backs do go on.

Mr. PRESTON. Mr. Chairman, as I read the record, there can be no doubt that the 2-year provision for carry-back of unused excess-profits credits, as well as the provision for the carry-back of net operating losses, was pertinent to the matter of an alternative to the railroads' proposal of the reserve approach to the deferred maintenance problem.

The CHAIRMAN. I agree but I wanted to be careful and not say that the Treasury committed itself with respect to the unused excess-profits credit at that time.

But with respect to the loss carry-back provisions they undoubtedly did commit themselves and I had some misgivings that maybe the Treasury might find itself in a rather hard pressed or embarrassing condition to permit the application of that principle.

It was adopted, as you correctly say, expressly in lieu of inventory reserves and deferred maintenance reserves. And even after it was adopted, a great many taxpayers, particularly the canners, came down here and fell on me like a ton of bricks and said it would not serve their purpose half as well as what they wanted.

Mr. PRESTON. That remains our position, but we do not go back to the proposal of reserves at this time because of the limitation imposed on what you here take into consideration.

But we did ask for deferred maintenance reserves. That was denied us and the carry-back device was substituted as a means of affording us, at least in part, what we sought.

To deprive us of the carry-back feature of the present law and leave no provision for reserves in its place would be an unfair and undeserved blow to the railroad industry.

I point out to the committee that the matter of deferred maintenance arising out of wartime conditions requires a planned, long-time program to overcome.

Two years is the irreducible minimum—we think an insufficient time—in which to complete any such program. We think the railroads should be in a position to go into the planning of a deferred maintenance program with a certainty as to the status of the carry-back provision.

And we ask that as to the railroads, at least, the present bill be so framed as to afford the benefit of the carry-back provision of the law in respect of both the years 1946 and 1947.

There are three features in that connection which seem to me to go to the general public interest as distinguished from any particular special interest of the railroad industry.

In the first place, our peacetime economy during reconversion and thereafter will be in a large measure dependent upon an efficient railroad transportation system.

Whatever the future holds in the field of new transportation or new forms of transportation, I do not believe it is held in any informed quarter that the day is in sight when the railroads will not be the backbone of our country's transportation system.

In the second place, the preservation of the credit of the railroads which make up that system is also a matter of important public concern and, in the third place—by no means least of all—a provision for relief in respect of deferred maintenance, in respect of the retention of the carry-back feature of the law through the years 1946 and 1947, would give a great impetus to postwar employment; and that feature seems to me to be one that the committee might well consider, because railroad maintenance, of course, will provide employment almost in terms of a cross section of labor. It would go from skilled me-

chanics to hand laborers and it will involve those concerned in industry producing the materials necessary for the deferred maintenance program.

Other than that, I think I have nothing to say except that the Ways and Means Committee of the House did take cognizance of this matter and, recognizing that the bill they framed would in and of itself preserve the carry-back feature for the year 1946, said this with reference to a further 1-year extension of those features of the present law:

Your committee also decided that the need of railroads and certain other industries for an extension of the unused excess profits credit carry back 1 year beyond the repeal of the excess-profits tax—

and that means 1 year beyond the repeal at the end of 1946—

presents a problem of sufficient importance to merit special consideration in the next tax bill.

Of course, the railroads find great satisfaction in that expression on the part of the House committee and they are disposed to found a very real hope upon it. But I say again, we feel strongly that the railroads are entitled to a provision now making that benefit certain in respect of both those years, and we see no reason why the present bill should not dispose of that matter now rather than defer it for consideration when another tax bill is taken under advisement.

Senator MILLIKIN. Mr. Chairman, may I ask a question?

The CHAIRMAN. Certainly.

Senator MILLIKIN. You can't make your full plans until the matter is settled?

Mr. PRESTON. No; that is the point.

Senator TAFT. You have no interest, even if the excess-profits tax is continued, as the House continued it, in going beyond 1948?

Mr. PRESTON. We are not asking for that. We think two full post-war years—

Senator TAFT. 1946 and 1947?

Mr. PRESTON. Yes, sir. We don't think that will entirely meet the situation but that is what we ask.

Senator TAFT. What is the deferred maintenance of railroads primarily? Is it roadbed, cars, what?

Mr. PRESTON. Very much of it, Senator, is in the so-called track accounts, rail, track fastenings, ties, and ballast.

Senator TAFT. It has been suggested to me that has been pretty well made up in the last year or two.

Mr. PRESTON. Senator, have you been riding the railroads very extensively of late?

Senator TAFT. I have watched the rails and they are very well ballasted.

Senator MILLIKIN. You are a sound sleeper.

Senator TAFT. I have always been that way.

Mr. PRESTON. I am not sufficiently informed to speak of ballast as distinguished from other items in the track accounts, but my information is that a large percentage of the deferred maintenance is in those accounts and it is my impression that at about the end of 1944 the Interstate Commerce Commission made an estimate of deferred railroad maintenance which was in the neighborhood of \$300,000,000.

Senator TAFT. Is equipment covered by this, or is that taken care of in some other way?

Mr. PRESTON. That is included in this.

Senator TAFT. Of course, they are way behind in equipment.

Mr. PRESTON. They are behind in equipment and in their track structure, too, particularly rail. But this would include all deferred maintenance, regardless of where it lies in the railroad structure, because the effect is indirect and oblique; carry-backs touch the deferred maintenance problem only as maintenance charges may give rise to unused carry-back credits. This would in effect give tax relief retroactively.

The CHAIRMAN. For the purpose of refreshing my recollection, is this correct: That half the railroads said this loss carry-back provision as incorporated in the present law would meet their requirements and about half of them still objected to it, and insisted on the deferred maintenance.

Or at least there was a division of sentiment among the railroads on that question. Is that correct?

Mr. PRESTON. Mr. Chairman, I am sorry not to be able to answer that question directly.

I came with the association only last spring and I have no personal basis for recalling what the situation was.

I do know that the over-all policy of the industry, so far as it is a unit on this question, is that the carry-back provision while affording substantial relief which is thankfully received, is very far from complete in its application and, indeed, I know that the railroads have in mind a proposal for the establishment of reserves which they think might well be on the books alongside the carry-back provision.

Again, I do not bring that subject to the fore now, because of limitations upon the consideration I understand this committee will give to the bill on hand.

The CHAIRMAN. Any further questions?

(No response.)

Thank you very much, Mr. Preston. You may file the memorandum you said you wished to file.

Mr. PRESTON. I would like to file that and also one which is very brief dealing with the carry-back feature about which we have been speaking, if I may.

The CHAIRMAN. You may do so.

(The memoranda are as follows:)

AMENDMENTS TO EXTEND SECTIONS 22 (b) (9), AND 22 (b) (10) BEYOND DECEMBER 31, 1945

1. *Section 22 (b) (9), relating to exclusion from gross income of any income attributable to discharge of indebtedness.*—This section was added to the Internal Revenue Code by section 215 (a) of the Revenue Act of 1939. The section applies to corporations generally, but its enactment was brought about largely as a result of representations made to Congress on behalf of the railroads. For many years prior to 1939, the various branches of the Government, as well as students of finance and others, had voiced the necessity in the public interest for reduction in the fixed interest debt of the railroads. The Interstate Commerce Commission, in its annual report for 1933, and again in 1936, called attention to its policy of requiring the establishment of sinking funds to retire debt as a

condition to the authorization of future bond issues. During the depression years, railroad securities were selling at distress prices, and it was possible to acquire the securities of most of the roads at a substantial discount below their face amount. However, the railroads which were in a position financially to do so were precluded from carrying out such a plan for fear of the application of the principle announced in *U. S. v. Kirby Lumber Co.* (284 U. S. 1), to the transaction, with the probable result that the discount involved in reduction in debt would become taxable income.

This situation was brought to the attention of the Seventy-sixth Congress by Judge Fletcher, and the Congress enacted section 22 (b) (9) but not in its present form. As originally enacted, it was available only to taxpayers who established to the satisfaction of the Commissioner of Internal Revenue, or as to which it was certified to the Commissioner by any Federal agency authorized to make loans on behalf of the United States to such corporation, or by any Federal agency authorized to exercise regulatory power over such corporation, that the taxpayer at the time the debt was discharged was in an unsound financial condition.

The section in the form originally enacted did not work well in practice by reason of the requirement as to unsound financial condition. The result was the enactment of the section in its present form as section 114 (a) of the Revenue Act of 1942. As now written, it excludes from gross income of a corporation any income attributable to discharge of indebtedness evidenced by security, within the taxable year, if the taxpayer makes and files, at the time of filing the return, in the manner prescribed by the Commissioner, its consent to the reduction of basis, as provided in section 113 (b) (3).

The Senate Committee in reporting the legislation in 1942 said: "In the case of a corporation, the existing law excludes from gross income amounts of income attributable to the discharge of the taxpayer's indebtedness, if at the time of such discharge the taxpayer was in an unsound condition. This provision does not apply to such a discharge occurring in a taxable year beginning after December 31, 1942. The House bill extended this date to December 31, 1945, but retained the requirement that the taxpayer be in an unsound financial condition.

"Your committee believes these restrictions unnecessarily strict and that they deny the benefits of this section in many meritorious cases. Consequently, the committee bill removes the necessity that the taxpayer be in an unsound financial condition at the time of the discharge of the indebtedness. The present law requires the taxpayer, in order to secure the benefits of this section, to consent to the regulations regarding the adjustment of basis provided in section 113 (b) (3) of the Internal Revenue Code. This requirement is retained in the committee bill. Moreover, as in the House bill, the benefits of this provision are limited to such discharges occurring in taxable years beginning before January 1, 1946."

It will be noted that the saving in tax which results from this section is largely offset by the reduction in basis and the incidents which follow in connection with depreciation, retirement, and the like. The effect of the section is merely to spread theoretical income over a period of time through reduced allowances for depreciation including obsolescence and losses when the property is disposed of.

This section also, by its terms, will not apply to any discharge occurring in a taxable year beginning after December 31, 1945. The section is just as necessary now as it was at the time of the original enactment and, while the temporary relief afforded by the section is not a cure for insolvency, it may be used to strengthen the financial position of a corporation and enable it to avoid insolvency which would be inevitable without a reduction in debt.

Here again, from the standpoint of the Government, it is desirable that corporations generally, and particularly railroad corporations, continue to function as prosperous taxpayers. To bring about and continue such a situation, it is necessary that the fixed charges of such corporations be kept within limits that can be met in periods of low earnings, as well as in periods of prosperity. In the war period the tremendous volume of traffic has permitted the railroads to absorb the increased cost of labor, material and supplies, and still earn a reasonable net income after fixed charges. Much of this income has been used in providing additions and betterments to the railroad plant to handle war traffic. Gross expenditures for these purposes in the period from January 1, 1939, to December 1, 1943, are reported to have been \$2,223,000,000. Nevertheless, in that period railroads, other than those in bankruptcy or receivership, made a net

reduction of about \$550,000,000 in their funded debt, which will, of course, be a substantial help in meeting unknown postwar problems. The par value of securities reacquired by class I railroads in 1942 totaled \$401,000,000, and in 1943 \$678,000,000. These figures include payments of serial maturities and refunding operations as well as purchases at less than par. They are offset in part by new issues made as part of the refunding operations and issues to provide some part of the funds expended for additional equipment and facilities required to handle war traffic. However, they are illustrative of the purpose of the railroads to reduce debt.

Experience to date demonstrates that section 22 (b) (9) has operated to improve substantially the financial position of railroad corporations, and at the same time to substantially enhance the revenues. In the light of this experience, now to be discussed, we submit that the section should be retained as a permanent part of the basic tax law, or at least be extended for a period of 3 or 5 years.

Attached hereto as appendix I is a statement showing the results of the operation of section 22 (b) (9) in respect of class I railroads for the period 1942 to 1944, inclusive. The statement shows that in the 9 $\frac{2}{3}$ months of 1942 prior to enactment of the 1942 act on October 21, the railroads purchased \$38,278,100 face value of their outstanding obligations and that in the 2 $\frac{1}{3}$ months of 1942 following the enactment of the 1942 act they purchased \$71,531,160 face value of their outstanding obligations. In 1943 and 1944 they made similar purchases in the respective amounts of \$240,029,113 and \$134,906,763, so that the total of such purchases to December 31, 1944, came to \$484,745,136. The annual interest on these retired obligations was \$20,956,214. At the present average tax rate of the railroads as a whole, the annual increase in revenue resulting from the elimination of this interest deduction amounts to more than \$13,750,000; but this understates the benefit to the Treasury because the enhancement of taxable income falls in the top tax brackets. Furthermore, as a result of the purchase of these bonds and the exclusion under section 22 (b) (9) of the income attributable thereto, the basis of the railroads' property for depreciation, retirement, and gain and loss purposes is subject to reduction in the amount of \$125,652,304. This results in an increase in taxable income for the indefinite future in a substantial, if not precisely ascertainable, amount.

In addition to the foregoing direct benefits, the Treasury derives indirect benefits from the operation of section 22 (b) (9) of even greater moment. The section clearly removes an impediment to reduction of debt through purchases in the open market. As a railroad company reduces its outstanding indebtedness, it improves its financial position and enhances the probability of continuing solvency. Moreover, reduction of outstanding debt is frequently prerequisite to refunding and refinancing operations involving the issuance of new securities at reduced rates of interest and consequent reduction of fixed charges, increase in taxable net income, and improved financial position. Section 22 (b) (9) distinctly encourages such preparatory reduction of indebtedness.

It is our understanding that one reason for the time limitation upon section 22 (b) (9) was apprehension that corporations might be able to drive down the prices of their bonds and buy them in at bargain prices to the detriment of the bondholders. The experience of the railroad industry should dispel any such misgiving. Attached hereto as appendix II is a statement of the Dow-Jones bond averages for quarterly periods from January 30, 1942, to date. The statement shows that the average price of the higher grade rails increased from 93.34 to 115.57; the second grade rails from 53.34 to 99.82; and the defaulted rails from 17.24 to 57.89, and that the rate of enhancement has been relatively uniform throughout the period. While these increases have no doubt been due primarily to the increase in rail traffic, there is certainly no indication here of any ability to depress the market, and the reasonable assumption would be that the entrance of railroad companies into the market as substantial purchasers of their own securities has been a contributing factor in the general improvement in the prices of their bonds.

We are without data with regard to the effect of section 22 (b) (9) in other industries. Certainly it would appear reasonable to suppose that to the extent that they may have made use of the section the general result has been the same.

The improvement in the financial position of the railroads and the enhancement of revenue to the Treasury which has resulted from the operation of section 22 (b) (9) clearly demonstrate, as it seems to us, the desirability in the public

interest of extending the statute beyond its present expiration date, December 31, 1945. In fact, there seems to be no reason why it would not be beneficial both to the taxpayers and the Treasury to make this section a permanent part of the tax law.

2. *Section 22 (b) (10), relating to exclusion from gross income of any income attributable to reduction or cancellation of indebtedness through reorganization.*—This section of the code was enacted in 1942 at the same time as sections 112 (b) (9) and 113 (a) (20). These sections are mentioned together for the reason that the purpose of all of them was to enable the many railroads, then in process of reorganization, to be reorganized on a sound basis and without being at a disadvantage as compared with other railroads which were not in financial difficulties. All of that legislation had the careful consideration of legislative counsel and of counsel for the Treasury Department. The legislation was likewise the subject of extensive committee hearings.

Section 22 (b) (10) was designed to avoid the possible application of the principle of *U. S. v. Kirby Lumber Co.*, supra, in the case of cancellation of indebtedness, resulting in whole or in part from a reorganization of a railroad under section 77 of the Bankruptcy Act. It will be recalled that the Kirby case held that where a corporation issued its bonds at par, and thereafter in the same year purchased some of them at less than par and retired them, the difference was a taxable gain or income under the Revenue Act applicable (1921).

The section specifically provides that there shall be excluded from gross income the amount of any income attributable to the discharge within the taxable year of any indebtedness of a railroad corporation, as defined in section 77m of the Bankruptcy Act, to the extent that such income is deemed to have been realized by reason of a modification in, or cancellation in whole or in part of, such indebtedness, pursuant to an order of a court in a proceeding under section 77 of the National Bankruptcy Act. While the necessity for such a section may be doubtful, there could certainly be no doubt as to the desirability of the result which was sought. It seemed clear to those interested in the problem that if a railroad corporation were reorganized in a bankruptcy proceeding because it was unable to meet its obligations and, as a result of the proceeding, certain of those obligations were canceled and discharged because the debtor had insufficient assets with which to meet them, it would approach the absurd to say that the obligations so discharged constituted income to the debtor in the year in which the discharge occurred.

It was the opinion of many that no such result would follow, even if section 22 (b) (10) had not been enacted but, as a matter of precaution and to save argument and make certain a result which was universally conceded to be desirable, the section was enacted as section 114 (b) of the Revenue Act of 1942.

At the end of the section is a provision to the effect that it shall not apply to any discharge occurring in a taxable year beginning after December 31, 1945. Just why this limitation was imposed is not clear, as it would seem that the limitations should be entirely removed. At the time the legislation was presented, approximately one-third, in terms of mileage, of the railroads of the United States were in bankruptcy, and the plans of reorganization, in a number of instances, had made substantial progress. No doubt, it was thought by those handling the matter that the pending reorganizations would be completed by the end of 1945. Unfortunately, the proceedings did not move as rapidly as anticipated, with the result that only some seven of the carriers then in bankruptcy have been finally reorganized under plans approved by the Interstate Commerce Commission and the courts. Obviously, there should be no discrimination within the class of reorganized carriers. The same reasons exist now as existed in 1942 for the legislation and inasmuch as the reorganization job is only partially completed, it is obvious that the application of the statute should be continued. This can be accomplished by removing the limitation entirely, or by extending it for a period of 3, or preferably 5, years in order to give the necessary time for the companies still in bankruptcy to complete their reorganization.

As appears from appendix III hereto, 12 of 31 roads in receivership or bankruptcy since January 1, 1941, have been released. These roads had the protection afforded by section 22 (b) (10). It would appear an unjustifiable discrimination against the remaining 19 roads to deprive them of like protection by permitting section 22 (b) (10) to expire December 31, 1945.

There can be no doubt that in the enactment of section 22 (b) (10) as section 114 (b) of the Revenue Act of 1942, Congress defined a policy with reference to all roads then in process of reorganization. The expiration date, December 31, 1945, was doubtless fixed in the expectation that the processes of reorganization would by then be completed. In urging the extension of section 22 (b) (10) beyond December 31, 1945, therefore, we seek no new policy but rather the fulfillment of a policy already determined upon.

But beyond the foregoing considerations, is the circumstance that taxation as income of debt reduction incident to reorganization would discourage and delay, and might in some instances prevent, the emergence of roads from receivership. Yet it is clearly to the benefit of the Treasury that such emergence be encouraged and expedited. As appears from Appendix IV hereto attached, there has been a reduction of \$24,564,383 in the amount of annual interest charges of the 12 roads which have completed their reorganizations, with corresponding enhancement of taxable income. The annual increase in revenue to the Treasury resulting from the reorganization of the 12 railroads is at the present time not less than \$16,000,000.

It is pertinent to observe that as to nonrailroad corporations reorganized through the medium of new corporations, Congress adopted in 1943 a policy, not limited in point of time, precisely the equivalent of the policy of section 22 (b) (10) relative to railroad corporations. Thus, by section 121 (c) (3) of the Revenue Act of 1943 (Internal Revenue Code, sec. 113 (a) (22)) Congress provided that in the case of receivership or bankruptcy reorganizations of non-railroad corporations the basis of property of such corporations should not be reduced by reason of the discharge of indebtedness pursuant to plans of reorganization. The effect of this provision, when considered in conjunction with section 268 of the National Bankruptcy Act, as amended, is that in the case of such reorganizations, effected through the medium of a new corporation, income attributable to the discharge of indebtedness is excluded from taxable income and no reduction of the basis of the assets is required to be made because of such exclusion.

Moreover, under section 113 (a) (21) of the code (sec. 142 of the Revenue Act of 1942), the policy of nonadjustment of basis was applied to interstate street, suburban and interurban electric railway corporations reorganized through the medium of acquiring corporations.

It is further pertinent to observe that section 22 (b) (10) is consonant with the policy of section 113 (a) (20) providing that in the case of railroad corporations the basis of the property in the hands of an acquiring corporation shall be the same as it would be in the hands of the predecessor corporation. Were section 22 (b) (10) to be so amended as to call for adjustment of basis on account of reduction of indebtedness, as has been suggested in some quarters as a possibility, the effective operation of section 113 (a) (20) would be restricted to a degree wholly inconsistent with the intent of Congress in its enactment.

It is quite true that solvent corporations purchasing their own securities in the open market at a discount are required under section 22 (b) (9) to agree to an adjustment of the basis of their assets as a prerequisite to excluding from taxable income the gain realized from this voluntary transactions. But this affords no parallel whatever to the case of reorganized railroads. It may be said with some reason that purchases below par by solvent companies in fact result in gain, and that hence, if the resulting income is not to be taxed, the basis of their assets should be reduced. But to regard cancellation or modification of an insolvent railroad's indebtedness incident to reorganization as gain or profit seems to us to approach the absurd. The very premise upon which such cancellation or modification proceeds is that the corporation's assets are insufficient to grant any participation, or only reduced participation, to the indebtedness so canceled or modified. There being, therefore, no true gain involved, there is no sound occasion for any reduction of the basis of the assets.

We respectfully submit, therefore, that section 22 (b) (10), as it stands, should be extended for 3 or 5 years to afford to railroad corporations yet in process of reorganization the same protection enjoyed by those whose reorganization has been completed. Indeed, we perceive no sound reason why this section should not be retained as a permanent feature of our tax law.

APPENDIX I.—Class I railroads—Basis for exclusion from gross income of income attributable to the discharge of indebtedness (sec. 22 (b) (9) of the Internal Revenue Code)

	Jan. 1 to Oct. 21, in- clusive, 1942 ¹	Oct. 22 to Dec. 31, in- clusive, 1942	1943	1944	Total
1. Face value of bonds acquired.....	\$38, 278, 100	\$71, 531, 160	\$240, 029, 113	\$134, 906, 763	\$484, 745, 136
2. Unamortized discount and expense at Jan. 1.....	366, 544	1, 010, 525	2, 591, 947	913, 585	4, 882, 601
3. Net value.....	37, 911, 556	70, 520, 635	237, 437, 166	133, 993, 178	479, 862, 535
4. Cost of acquisition.....	26, 943, 325	55, 713, 691	165, 709, 000	105, 844, 215	354, 210, 231
5. Gain excluded under sec. 22 (b) (9) of the Internal Revenue Code.....	10, 968, 231	14, 806, 944	71, 728, 166	28, 148, 963	125, 652, 304
6. Approximate reduction in in- terest for a full year on bonds acquired (item 1).....	1, 507, 044	3, 151, 674	10, 378, 264	5, 919, 232	20, 956, 214

¹ The Revenue Act of 1942 was approved Oct. 21, 1942, at 4:30 p. m.

APPENDIX II.—Dow Jones bond averages reported in the Wall Street Journal under New York Stock Exchange bonds

Date	Higher- grade rails	Second- grade rails	Defaulted rails
1942—Jan. 30.....	\$93. 34	\$53. 34	\$17. 24
Apr. 24.....	92. 33	54. 13	19. 65
July 31.....	90. 51	50. 89	18. 20
Oct. 30.....	93. 10	54. 92	21. 50
1943—Jan. 29.....	96. 33	56. 35	23. 99
Apr. 20.....	100. 16	64. 86	33. 09
July 30.....	102. 26	63. 54	30. 79
Oct. 29.....	101. 39	66. 03	32. 70
1944—Jan. 28.....	105. 20	72. 65	36. 74
Apr. 28.....	107. 57	79. 65	38. 09
July 28.....	109. 25	80. 53	38. 49
Oct. 27.....	110. 36	84. 03	39. 18
1945—Jan. 26.....	113. 16	91. 32	46. 97
Apr. 30.....	115. 65	97. 39	54. 75
July 2.....	115. 57	99. 82	57. 89

APPENDIX III.—Railroads in the hands of receivers and trustees since Jan. 1, 1941

	Date of receivership or trusteeship	Date reorgan- ized com- pany began operations
Terminated proceedings:		
Receivership:		
Ann Arbor.....	Dec. 4, 1931	(¹)
Minneapolis & St. Louis.....	July 26, 1923	Dec. 1, 1943
Norfolk Southern.....	July 28, 1932	Jan. 1, 1942
Wabash.....	Dec. 1, 1931	Do.
Trusteeship:		
Akron, Canton & Youngstown.....	Apr. 4, 1943	Feb. 1, 1944
Chicago & Eastern Illinois.....	Sept. 16, 1933	Jan. 1, 1941
Chicago & North Western.....	July 1, 1935	June 1, 1944
Chicago Great Western.....	Mar. 1, 1935	Feb. 20, 1941
Erie.....	Jan. 8, 1938	Dec. 22, 1941
Minneapolis, St. Paul & Sault Ste. Marie.....	Jan. 1, 1938	Sept. 1, 1944
Spokane International.....	Aug. 28, 1933	Oct. 1, 1941
Western Pacific.....	Aug. 1, 1935	Jan. 1, 1945
Pending proceedings:		
Receivership:		
Georgia and Florida.....	Oct. 20, 1929	
Pittsburg, Shawmut & Northern.....	Aug. 1, 1905	
Seaboard Air Line.....	Dec. 23, 1930	

Footnotes at end of table, p. 65.

APPENDIX III.—*Railroads in the hands of receivers and trustees since Jan. 1, 1941—Continued*

	Date of receivership or trusteeship	Date reorganized company began operations
Pending proceedings—Continued.		
Trusteeship:		
Alton.....	Nov. 26, 1942	
Central of Georgia ¹	June 19, 1940	
Central Railroad of New Jersey.....	Oct. 30, 1939	
Chicago, Indianapolis & Louisville.....	Jan. 1, 1934	
Chicago, Milwaukee, St. Paul & Pacific.....	July 1, 1935	
Chicago, Rock Island & Pacific ²	June 8, 1933	
Denver & Rio Grande Western.....	Nov. 1, 1935	
Duluth, South Shore & Atlantic.....	Nov. 1, 1937	
Florida East Coast ⁴	June 1, 1940	
Missouri Pacific Lines ⁵	Apr. 1, 1933	
New York, New Haven & Hartford.....	Oct. 23, 1935	
New York, Ontario & Western.....	May 21, 1937	
New York, Susquehanna & Western.....	June 1, 1937	
Rutland ⁶	June 21, 1944	
St. Louis-San Francisco.....	June 1, 1937	
St. Louis Southwestern Lines ⁷	Jan. 1, 1936	

¹ Receivers released Dec. 31, 1942, following a voluntary capital readjustment.

² Receivership Dec. 20, 1932.

³ Includes Chicago, Rock Island & Gulf.

⁴ Receivership Sept. 1, 1931.

⁵ Includes subsidiary debtors as follows: Beaumont, Sour Lake & Western; International-Great Northern; Missouri-Illinois; New Orleans, Texas & Mexico; San Antonio, Uvalde & Gulf; St. Louis, Brownsville & Mexico. The Missouri-Illinois trusteeship was terminated June 1, 1944.

⁶ Receivership May 5, 1938.

⁷ Includes St. Louis Southwestern of Texas.

NOTE.—The list of railroads in reorganization, as previously shown in statements submitted in connection with the proposed amendment relating to carry-over and carry-back provisions, was incomplete in that it omitted three railroads, namely, the New York, Ontario & Western, Norfolk Southern, and Spokane International.

WASHINGTON, D. C.,
July 19, 1945.

APPENDIX IV.—*Reduction in debt¹ and annual interest charges resulting from reorganizations of class I railroads subsequent to Dec. 31, 1940*

	Before reorganization		After reorganization		Reduction	
	Debt ¹	Interest	Debt ¹	Interest	Debt	Interest
Akron, Canton & Youngstown.....	\$6,562,681	\$345,520	\$3,673,000	\$157,785	\$2,889,681	\$187,735
Chicago & Eastern Illinois.....	41,156,610	2,073,781	26,459,500	1,224,525	14,607,110	849,256
Chicago & North Western.....	350,383,858	15,785,451	194,537,570	8,306,797	155,846,288	7,478,654
Chicago Great Western.....	38,442,045	1,502,365	23,156,570	954,331	15,285,475	548,034
Erie.....	264,958,825	12,011,169	179,988,925	7,492,433	84,969,900	4,518,731
Minneapolis & St. Louis.....	43,366,050	2,143,879	2,014,578	80,583	41,351,472	2,063,296
Minneapolis, St. Paul & Sault Ste. Marie.....	113,246,612	5,033,357	28,691,267	1,187,910	84,555,345	3,845,447
Norfolk Southern.....	15,401,000	770,050	10,810,300	540,515	4,590,700	229,535
Spokane International.....	4,744,000	237,200	2,846,000	128,070	1,898,000	109,130
Wabash.....	143,001,820	6,787,193	91,098,632	3,584,874	51,903,188	3,202,319
Western Pacific.....	59,698,510	2,887,101	31,219,000	1,354,855	28,479,510	1,532,246
Total.....	1,080,962,011	49,577,066	594,585,342	25,012,683	486,376,669	24,564,383

¹ Excludes equipment and miscellaneous obligations undisturbed in reorganization.

**THE CARRY-BACK PROVISIONS OF THE INTERNAL REVENUE CODE SHOULD BE RETAINED
FOR AT LEAST THE YEARS 1946 AND 1947**

**Memorandum submitted on behalf of the Association of American Railroads for
consideration by the Finance Committee of the Senate**

The interim tax bill approved by the Ways and Means Committee of the House provides, among other things, for a reduction of the corporate excess-profits tax for the year 1946, and outright repeal of that tax effective January 1, 1947. As we understand it, this measure would leave undisturbed through 1946 the present provisions of the law for carry-back to two preceding years of unused excess-profits credits; but the bill contains no provision for the retention of the carry-back provision subsequent to December 31, 1946.

The primary problem of the railroad industry growing out of the conditions of wartime operation and the incidence of wartime taxation is deferred maintenance. In that connection, compelling considerations require that the tax law now to be enacted provide for retention of the carry-back provision at least through the year 1947.

It is the purpose of this memorandum to present these considerations. We shall, as briefly as may be, state (1) the essence of the problem of railroad deferred maintenance, (2) the history of proposed legislation to permit deduction for income and excess-profits tax purposes of reserves for deferred maintenance and of the carry-back provision in relation thereto, (3) the extreme injustice which would result to the railroad industry from failure to retain carry-backs for at least the years 1946 and 1947, and (4) certain considerations which require 2-year retention of carry-backs in the general public interest.

1. The deferred-maintenance problem

In normal circumstances, the railroads have traditionally maintained and repaired their properties currently and charged the cost to operating expenses, in compliance with the accounting classifications prescribed by the Interstate Commerce Commission. Such expenditures are allowable deductions for tax purposes under the Internal Revenue Code.

What shall be expended in a given year is normally a matter of informed judgment. But it may be said with confidence that normally expenditures for maintenance markedly increase in years of heavy traffic and large earnings over similar expenditures in years of light traffic and meager income. Increased traffic, of course, accelerates wear and tear at the same time that it increases income. Hence, in the long run, under normal railroad procedure, extraordinary wear and tear is, broadly speaking, made good out of earnings from the heavy traffic that occasions it.

The war years presented conditions which entirely dislocated normal procedure. The extent of the wartime demand upon the railroad plant requires no elaboration. The prodigious wartime traffic at once accelerated wear and tear and produced greatly enlarged gross income. Other things being equal, there was a situation in which the railroads would, in accord with their normal policy, fully maintain their properties.

But by reason of conditions wholly beyond the control of management, to wit, wartime restrictions upon the purchase and use of materials, wartime shortage of available labor, and interruption of work owing to frequency of train movements resulting from wartime traffic, expenditures for maintenance, far from being commensurate with the traffic load, were largely limited to bare necessities. The consequence was deferment of a great volume of maintenance work which, but for the restrictions incident to and the shortages consequent upon the war effort could and would have been currently performed.

It goes without saying that wartime governmental expenditures exceed all imaginable peacetime bounds and that tax rates had to be increased to almost confiscatory levels in order to provide the largest possible share of the cost of war out of current income. With tax rates at such abnormal levels, it appeared to the railroad industry of paramount importance that allowances be made for all the costs of doing business before arriving at taxable income. Otherwise it seemed apparent that by means of a tax on income which did not reflect an allowance for the consumption of capital through restorative repairs or through the medium of reserves, a capital levy would result. In other words, by reason of the absence of any provision in the Internal Revenue Code for deduction of amounts which might be set aside for performance after the war of maintenance deferred during the war years, the railroads have been

taxed at abnormally high rates upon a fictitious income which did not truly reflect net income or profit. Owing to this situation, as Judge Fletcher stated to this committee in 1943, railroads in the excess-profits class, in order to reserve \$1 for deferred maintenance, would have required \$5.26, of which \$4.26 would have gone to taxes. At current rates, to reserve \$1 would require \$6.89, of which \$5.89 would be paid out as taxes.

The injustice involved in taxation as net income or excess profits of what in fact amounts to part of the cost of doing business is accentuated by the circumstance that but for wartime impediments the expenditures, under normal railroad practice, could and would have been made currently, and in that event would have constituted allowable deductions for tax purposes.

2. The history of proposed legislation to permit deduction for income and excess-profits tax purposes of reserves for deferred maintenance and of the carry-back provisions in relation thereto

Legislation to permit deduction for income and excess-profits tax purposes of reserves to be set up reflecting wartime deferred maintenance was advocated on behalf of the railroads in 1942 and again in 1943. The broad justice of the proposal appears not to have been questioned, but questions were raised concerning possible difficulties of administration and the proposal was not enacted into law. However, in 1942, the carry-back provision of the code was enacted for the express purpose, among other things, of affording a measure of relief in respect of railroad deferred maintenance.

That this is true clearly appears from the report of the Senate Finance Committee, which incorporated the carry-back provision in the revenue bill of 1942, and from public statements of responsible officials of the Treasury who were cognizant of the considerations which prompted the enactment of the measure. Thus, in the Senate committee's report (No. 1631, 77th Cong., 2d sess., pp. 51-52) it is said:

* * * Many corporations will suffer substantially in periods of declining profits, especially at the close of a war economy in which their deductible expenses have been held down to a bare minimum by priorities, rationing, labor shortages, and other factors beyond the control of the taxpayer. For example, a corporation during the war years makes substantial profits which would be considerably reduced if it could make the expenditures possible in a free economy for maintenance, repair, and other deductible expenses. Upon the termination of the war, the materials and labor will once more be available, but the costs and expenses which would otherwise be taken against the wartime profits will fall into the years of lesser profits or of no-profits, thereby resulting in small or no tax benefit to the taxpayer.

* * * * *

"To afford relief to these hardship cases, where maintenance and upkeep expenses must, because of wartime restrictions, be deferred to peacetime years, your committee has provided a 2-year carry-back of operating losses and of unused excess-profits credit." [Emphasis supplied.]

In the course of an address before the Columbus Chapter, National Association of Cost Accountants, November 8, 1943, Randolph E. Paul, then general counsel of the Treasury, discussing recent events, "with which I have been closely associated"—to wit, adoption of the net loss and unused excess profits carry-back provisions—said:

* * * In 1942 it became apparent that the work of more than two decades had not sufficiently refined our statutory concept of the taxable year as a unit for the measurement of income. We were in the midst of war. Incomes were in violent fluctuation. At the moment they were high, but many people looked forward to a crash. Shortage became acute. Materials could not be purchased. Railroads said that they could not maintain their equipment unless critical materials could be allotted to them. Other concerns looked forward to a period of low incomes and high expenses in contrast to the existing period of high incomes and low expenses.

"In 1942 businessmen dumped their woes in the laps of the Senate Finance Committee. That committee soon realized that problems put forward were more easily stated than solved. Taking maintenance as an example, no one could find any magic formula under which reserves for deferred maintenance could be calculated. After long debate it was decided to adopt a loss carry-back provision.

* * * * *

"In addition, Congress in the 1942 act, applied the principle of the carry-back to the unused excess-profit credit." [Emphasis supplied.]

Clearly indicating congressional intent that the carry-back benefit should obtain in the 2-year period following the ending of hostilities, Mr. Paul continued:

"* * * Furthermore, the carry-back provisions will facilitate the adjustment to the peacetime level of corporations with losses or drastically diminished profits. Taxes of such corporations for the two prior years may be reduced by the net operating loss carry-back as well as the carry-back of the unused current excess-profits credit."

Again, in addressing the New School for Social Research, at New York, November 16, 1943, Mr. Paul, speaking of the net loss and unused excess-profits credit carry-backs, said:

"These provisions recognize the arbitrariness of the annual accounting period. They will grant corporations whose wartime profits are converted into postwar losses a refund of at least part of their wartime taxes. *These refunds are a potential source of funds for the difficult transition period.*" [Emphasis supplied.]

Lastly, as further demonstrating the close relationship of the carry-back provisions to the problem of deferred maintenance, and as indicating the tacit congressional commitment to their postwar retention, we quote from an address by Dr. Roy Blough, Assistant to the Secretary of the Treasury, before the Chicago Association of Commerce, July 24, 1945. Discussing the circumstances under which the carry-backs were enacted, Dr. Blough said, in part:

"At the time the 1942 revenue bill was under consideration there was strong pressure for reserves of one type or another, primarily to take care of certain costs, incident to the earning of wartime income, which might not be incurred until after the cessation of hostilities. Although interest centered on reserves for deferred maintenance and inventory losses, it was recognized that an equally strong case could be presented for reserves to cover other deferred expenses such as reconversion costs and dismissal compensation.

* * * * *

"It was then that the Senate Finance Committee asked whether another method could not be developed to permit deferred war costs to have the same tax effects as they would have had if they had been incurred during the war. *The carry-back of losses and of unused credits was the device suggested by the Treasury and joint committee staffs to meet this demand. The carry-backs were thereupon included by the committee in its amended version of the 1942 revenue bill and were ultimately accepted by both Houses in the final act.*" [Emphasis supplied.]

Like quotations could be multiplied, but the foregoing suffice to show definitely that the carry-back provisions of the code were devised and enacted in the place and stead, among other things, of legislation sought by the railroad industry in respect to reserves for deferred maintenance and for the purpose of affording substantial relief in that connection.

As to the commitment of the Government in respect to postwar retention of the carry-back provision, we subscribe to the view expressed as follows on pages 132-133 of *A Tax Program for a Solvent America*, cited above:

"The chief argument for retaining the carry-back provision when repealing all other portions of the law is that a moral commitment to this effect was involved in the omission of deductions for postwar reserves. The carry-back privilege is by no means generally considered as broad as a system of reserves, but it is what has been allowed to business, and it certainly would be a severe and unfair blow to take it away and leave nothing in its place. The carry-back of unused excess-profits credit will be available for those corporations which, having paid excess-profits tax for one or more years, experience deficits or earnings below their respective excess-profits tax credits within the 2-year period set for the carry-back."

3. Failure to retain carry-backs for at least two postwar years would inflict a serious injustice upon the railroad industry

The basis for this statement has been foreshadowed in what has been said already. The railroads have consistently advocated legislative relief in respect of wartime deferred maintenance through the medium of reserves. We have in mind a proposal which, in our view, meets the objections heretofore advanced to the establishment of deductible reserves, adequately safeguards the revenue, and precludes duplication of relief through carry-back provisions. We think

it merits enactment alongside the carry-back provisions, but we are advised that its advocacy in connection with the pending tax measure is not practicable. It will be borne in mind, however, that the railroads, while recognizing that the carry-back provisions afford substantial relief in respect of deferred maintenance, do not regard those provisions as affording the complete relief warranted in the premises and deem it both proper and feasible that full relief be provided through the medium of deductible reserves to be established subject to proper safeguards.

Be that as it may, the railroads submit that, under existing circumstances, every dictate of common justice requires the retention of the provision for carry-back of unused excess-profit credits for at least the 2-year period 1946-47. The carry-back device was designed and enacted as a measure of relief in substitution for the right to establish currently in the war years deductible reserves. To withdraw or circumscribe carry-back relief would inflict a wrong upon the railroad industry irreparable in the absence of provisions for deductible reserves. As to suggestions that the carry-back period might be confined to less than 2 years, that would be manifestly unjust in the case of the railroads, for it cannot be supposed that a shorter period would suffice to overcome deferred railroad maintenance. As a matter of fact, there is strong reason to suppose that a full 2-year period will prove inadequate for the accomplishment of a program to overcome wartime deferred railroad maintenance.

4. The public interest requires the retention of the carry-back provision for a full 2-year period following repeal of the excess-profit tax

Quite aside from relieving the injustice of taxing as net income or excess-profits maintenance costs deferred by reason of war conditions, the public interest in a safe, adequate, and sound rail transportation system calls for retention in full of the carry-back provision. In its fifty-eighth annual report, November 1, 1944, page 19, the Interstate Commerce Commission approximated the then accumulated deferred railroad maintenance at \$360,000,000. While carry-backs will not, in our judgment, afford relief to the full extent of accumulated deferred maintenance, it will, as already observed, afford real and substantial assistance in overcoming the deferred maintenance condition. Hence those considerations of public interest which have been deemed to support legislation permitting the establishment of reserves pro tanto support the retention of carry-backs. Briefly stated these considerations are the following:

(a) *Efficient transportation is essential to the general welfare and will be possible in the postwar period only if the transportation system be extensively renewed and repaired.*—That great expenditure for rehabilitation will be prerequisite to continued efficiency of railroad service after the war does not require argument. The railroads have devoted their facilities without stint to the war effort. Only such materials and labor as were required to keep the plant operating have been available. Therefore, with the end of the war the facilities need a thorough overhauling just as they did at the close of World War I, when hundreds of millions of dollars had to be spent on rehabilitation programs. Railroads look forward to a period of declining traffic and reduced earnings. Without reserves set aside out of the wartime income there is grave danger of inability to restore the railroad system to a condition admitting of the efficient service demanded by the public interest. Retention of carry-backs for 2 years following repeal of the excess-profit tax will substantially reduce this danger.

(b) *Safety in rail transportation will be promoted by the availability in the postwar period of carry-backs of unused excess-profits credits.*—This is true despite the fact that the railroads would no doubt manage in any event to meet the immediate and urgent necessities for safe operation. But safety in transportation is a relative term and there can be no doubt that hazard is reduced by maintenance of plant on a level far above that of minimum requirements. A road which might properly withstand condemnation as unsafe might well be made more safe by further improvement in its standard of maintenance. From the standpoint of safety, then, as well as efficiency, it is clearly in the public interest that the carry-back provisions be retained.

(c) *Maintenance of railroad credit in the postwar period will be promoted by the retention of carry-backs.*—The depression of the thirties bore heavily upon the railroads, with a consequent adverse effect upon their credit. The artificial war boom improved this situation but the postwar picture is cloudy, and it is worthy

of note that despite wartime traffic and recent large reduction of funded debt the railroads have been unable, from 1930 to the present time, to raise new capital through the sale of stock. It is a matter of record that, since the beginning of the war, the cost of every item entering into the production of rail transportation has increased substantially while the rates and fares charged for such transportation (except transportation of persons) are at or below prewar levels. Only through the increase in the volume of traffic which was brought about by the war have the railroads been able to absorb these increased costs. As the war traffic falls off, whether precipitately or gradually, earnings will fall off. If and when the postwar traffic produces just enough gross income to meet current needs, expenditures to make good deferred maintenance will reduce the net to the danger zone and may result in deficits. Either result will impair the credit position of the industry at a time when new capital will be urgently needed for modernization and improvements. Clearly, it is in the public interest to preserve railroad credit to the end that the industry may provide the best possible transportation service.

(d) The public interest will be subserved by retention of the carry-back provision in that a very large impetus will be given to employment in the postwar period.—Elaboration of this point is hardly necessary. One of the prime public concerns today is the threat of extensive unemployment now that the return of veterans coincides with general business recession. The making available through retention of carry-backs of funds expendable out of wartime railroad revenues for maintenance projects postponed because of the exigencies of the war would be an important contribution to solution of the postwar unemployment problem. It would afford a large volume of employment for a wide variety of workers, ranging from the highly skilled mechanic to the unskilled laborer, not alone in the railroad field but in those industries engaged in the manufacture of the supplies necessary to the maintenance program. Thus, quite aside from any interest peculiar to the railroad industry, the retention of the carry-back provision would materially promote the general public welfare. The importance of this aspect of the matter is attested by the fact that the leaders of railroad labor have come forward in earnest support of the proposal for deferred maintenance reserves.

5. Summary and conclusion

In conclusion, the foregoing submission may be briefly summarized as follows:

(a) In the course of the war years there has been a great accumulation of railroad plant of maintenance deferred by reason of wartime shortages and restrictions upon materials and labor. Inability, because of wartime conditions, to maintain their properties currently has resulted in the imposition of taxes at extreme wartime rates upon railroad income which was apparent but not real, and what amounts in effect to a capital levy has been the result.

(b) The railroads have consistently urged this situation upon the attention of Congress and have advocated legislation to permit the establishment during the war of deductible reserves to be devoted to postwar rehabilitation of the railroad plant. Such legislation has not been enacted.

(c) In lieu of legislative relief in terms of reserves for deferred maintenance, the Treasury and the joint committee staffs devised the carry-back provisions which were adopted for the express, and perhaps the primary, purpose of affording a measure of relief in respect of deferred maintenance.

(d) The withholding of relief through deductible reserves and the substitution therefor of the carry-back device, strongly commit the Congress to postwar retention of carry-backs for the full 2-year period contemplated by the provision as it was enacted.

(e) Restriction of the carry-back period to less than 2 years would impose a great injustice upon the railroads. No shorter period would suffice for any practicable deferred maintenance program. Indeed, the strong probability is that the full 2-year period would be inadequate for completion of such a program.

(f) Quite aside from the particular interest of the railroad industry, the public interest requires retention of the carry-back provision in respect of unused excess-profits credits and net operating losses. Such retention will, to a real and substantial extent, make available from wartime income funds expendable for overcoming deferred railroad maintenance. That this be done is required by the public interest in the following respects: (1) it will make for efficient transportation essential to transition from a war to a peace economy; (2) safety of rail transportation will be promoted; (3) maintenance of railroad

credit will be assisted; and (4) a very large impetus will be given to employment in the postwar period.

Respectfully submitted.

ASSOCIATION OF AMERICAN RAILROADS,
By J. CARTER FORT,
THOMAS L. PRESTON.

WASHINGTON, D. C., *September 27, 1945.*

STATEMENT OF MRS. THOMASINA W. JOHNSON, LEGISLATIVE REPRESENTATIVE, NATIONAL NONPARTISAN COUNCIL ON PUBLIC AFFAIRS OF THE ALPHA KAPPA ALPHA SORORITY

The CHAIRMAN. Will you give the reporter your name, please, and for whom you are appearing?

Mrs. JOHNSON. Yes, Mr. Chairman.

Mr. Chairman and members of the committee, I am Mrs. Thomasina W. Johnson, legislative representative of the national nonpartisan council on public affairs of the Alpha Kappa Alpha Sorority, with offices at 961 Florida Avenue NW., Washington 1, D. C.

Our organization is composed of 163 chapters in 46 States. Our membership is composed of women, all of whom are college level or above. Many of our women are economists, attorneys, teachers, social workers, physicians, dentists, musicians, and in fact most of the professional fields are included within our membership. We are very pleased to add our collective thinking to that of all the other groups within our country to help to solve the problems that confront us; to accept our share of the responsibility of helping to get the best programs and policies on public affairs and to help to achieve the best legislation possible for our country.

We realize as do all thinking persons that we are faced with a dilemma. We have a tremendous national debt, an unbalanced budget, and tremendous taxes estimated at about one-third of our national income; while at the same time we feel the need of tax reduction in order to stimulate the expansion of private enterprise, so that our national income might be at least \$130,000,000,000; in order that purchasing power might be kept up during the reconversion period and the need that there will be markets for the goods that private enterprise will produce.

It is our considered judgment that the tax rate should be cut now, and we subscribe to this action by the House of Representatives.

We believe that it was a sound policy to relieve the 12,000,000 of the lowest income groups from the payment of income taxes. It has been rather difficult to understand the point that has been expressed that it is necessary for these persons to pay income taxes on their meager incomes in order to feel the responsibility of maintaining the Government. These same people pay much in taxes that are hidden—recreation, cosmetics, public utilities, and in countless other ways to say nothing of the fact that they do pay the taxes on the property in which they live and work as the landlord and industrialist always include the taxes before his rental rates and sales prices are set. We have supported the proposal, however, that personal exemptions should be raised to \$1,000 for single persons and \$2,000 for married persons, or \$1,000 each for husband and wife and \$500 for each dependent.

We are also concerned that more consideration be given to parents who are sending their children to college. We believe that the per-

sonal exemption as it now is, is substandard and that the exemption should start above the rate at which it has been proved a decent standard of living cannot be maintained. The fact has been presented that business must have as an incentive to produce which is the knowledge that it will make profits that it will be allowed to keep, which is well. But business must also have a market for its goods as an incentive to produce. We do not believe that it is a healthy mental attitude for our citizens to have, namely, that their Government would take part of their substandard earnings in taxes while billions of dollars in profits accrue to the wealthy people of this country.

The gory facts of the war are fresh upon the minds of thousands of the people in this income group who believe that if they had not lost their limbs, their health, fought, bled, suffered, while thousands of their comrades died, there would be no private enterprise. They know that private enterprise would today be working for Hitler, Tojo, and Hirohito if everybody in America had not joined forces in the good old American way and saved America. Private enterprise will do its share in the reconversion period if reasonable profits and certain markets are available. All of the fear that private enterprise will not expend venture capital and will not expand if all excess profits taxes are not removed are, we believe, unfounded.

We recommend that veterans be forgiven their unpaid income taxes and that those who have already paid be given a refund; this amount to be forgiven to remain within the limits of from \$200 to \$300. These persons should not be compelled to shoulder the responsibilities of these liabilities while in the process of trying to become adjusted to-taking their place in the economic postwar world.

According to figures that have been provided it is unreasonable to propose that excess-profits taxes should be cut. Of the \$1,270,000,000 which will benefit corporations, about \$910,000,000 will go to 850 companies; while 6,960 companies would benefit to the amount of \$290,000,000; and only \$70,000,000 would go to the 12,190 companies.

Senator McMAHON. Do you know how many stockholders there are in the 850 companies which you mentioned?

Mrs. JOHNSON. I could not get the figures for you. The number of companies are in the House debate, but not the number of persons owning stock.

Senator McMAHON. I question the fairness of saying "800 companies" without taking into account the fact that 800 companies may be owned by a very great number of people.

Mrs. JOHNSON. I think also that those persons have received their share of profits in the form of dividends before the excess profits of the corporation are declared.

The CHAIRMAN. And generally they pay taxes on the dividends. But you are not on that side, are you?

Mrs. JOHNSON. No; but if dividends are income they must be taxed.

Nothing would go to the 250,000 corporations paying the regular corporate taxes but not paying excess-profits taxes. Hence the companies who have earned most during the war will profit most by this method. It is our opinion that the Tax Adjustment Act passed very recently grants roughly 5½ billion dollars to these same corporations. These companies have large reserves for reconversion already.

Further, if any tax exemptions on excess-profit taxes are to be granted in any form for corporations, there should be a very definite plan worked out whereby it might be assured that such funds would

be used for the purposes for which the tax adjustment is made. We cannot urge this proposal too strongly.

If during the war period these corporations have been able to make \$47,000,000,000 in sheer profits and pay \$26,000,000,000 in dividends—while paying an 85 percent excess-profits tax, we need have no fear that they will retrench in any manner.

We believe that the removal of taxes on alcoholic beverages is indefensible and urge that this be retained in the Senate bill. Even though the amount from this source is small, it is a matter of principle. We favor the abolition of the excise tax on automobiles for it fell on the “jalopy” and the limousine alike and did not take into consideration the fact that cars are in most instances a necessity, rather than a luxury.

We should like to point out that much of the savings in excise taxes that have been repealed will also accrue to the large corporations, particularly those that are on public utilities.

We believe that the Congress should think in terms of an efficient government run on economic lines. We do, however, wish to point out that we consider the welfare of the masses of the people the most important aspect of our Government. We believe that health facilities and welfare, the education of our citizens, adequate care for mothers and children, good housing at prices even the lowest-income groups can afford, and other welfare programs are of prime importance, should be considered in our budget and are certainly as important as roads, airports, and other public programs.

We propose that the 2-year carry-over and carry-back of unused personal exemptions and credit be extended to individuals as it is to corporations. We fail to understand why losses of individuals should not have the same consideration as corporations.

We are concerned about small business. We should like to propose that small business be exempted from the corporate income tax rate of the first \$5,000 of net income and that such small corporations be granted the option of being taxed as partnerships; while providing a graduated scale of tax rates up to \$100,000 with a corporate-tax rate of 40 percent of net incomes over \$100,000. The provision that grants 4 percent in each bracket benefits the large corporation by and large which gives them four benefits:

- (1) The excise taxes already mentioned.
- (2) The savings mentioned in the excess-profits tax.
- (3) And the carry-back, carry-forward tax bill passed about 3 months ago.

We believe that these proposals merit consideration in devising a reconversion-tax program. We subscribe to the general principles in this tax program that business incentive be kept; that mass purchasing power be maintained; that small business be motivated; that relief be given where it is most needed; that where taxes are reduced for purposes of creating jobs and expanding our economy, that insurance be given that these funds will be so used.

We are extremely pleased by the fact that the Senate Finance Committee has seen fit to hold public hearings on our tax program. It gives us renewed faith in our democratic processes. As long as we have the caliber of men in Congress who go to make up this committee, we can feel assured that our great and beloved country is safe.

The CHAIRMAN. Thank you very much, Mrs. Johnson.

Are there any questions?

Senator McMAHON. It is not a question of Mrs. Johnson, but don't you think, Mr. Chairman, it would be well if the Treasury Department would furnish us with the statistics on the number of stockholders in these corporations who are going to benefit, together with the average number of shares which are going to benefit.

The CHAIRMAN. I think that might be well. We will make a note of that.

Mr. Blough, have you any statistics indicating the number of stockholders in the tax-paying corporations?

Mr. BLOUGH. I am not sure, Mr. Chairman.

Senator McMAHON. Eight hundred corporations must have been identified. If they have been identified by this witness, they should be identified by the Treasury.

Mrs. JOHNSON. I think those figures came from the SEC.

Senator TAFT. You have a rule of thumb about it or you couldn't estimate your taxes. You must have a general estimate of the number of taxpayers and their income.

Mr. BLOUGH. We are not too optimistic about the availability of the figures.

Senator TAFT. This whole study about double taxation on stockholders must require some knowledge.

Mr. BLOUGH. Not necessarily a knowledge of how many stockholders there are, although that is desirable, but particularly figures as to distribution of dividends among individuals according to the size of their income.

Senator McMAHON. You can inquire of the SEC and I am sure they have figures.

Mr. BLOUGH. I am sure Mr. O'Donnell has inquired a good many places.

Mr. O'DONNELL. I think it would require original research even on the part of the SEC to get this information.

The SEC is not required under the law to get lists of the names of all the stockholders for any corporation, so far as I know. Depending on the laws of the State in which the company is incorporated, lists of stockholders are available for the inspection of registered stockholders of that particular corporation at the corporation's office under certain conditions.

I do not know the names of those 800 companies to which reference has been made. Therefore I do not know where to get the number of stockholders of those companies.

Senator McMAHON. You had better find out. In my opinion, it is not only necessary for the tax bill to be as near right as it can be, but it is also important that it seem to be right to the people of the country.

It would seem this is vital information to convince people that it is right.

Mr. O'DONNELL. It is important to know the number of stockholders in American corporations and many research organizations have undertaken extensive studies during the past 20 years to get this information. The results vary from estimates of perhaps 8,000,000 persons owning stock to as many as 15,000,000. One of the difficulties

in making the estimate is that there is so much duplication in ownership of various stocks by the same person.

Because of this duplication of ownership I am certain that no Government agency or private research agency has any accurate statistics of the kind desired.

The CHAIRMAN. If you can get any available information that Senator McMahon is asking for, I am sure it would be very pertinent and very helpful to the committee and we would appreciate it if you would get it before the hearings close and put it in the record.

Mr. BLOUGH. I will do that, if possible, Mr. Chairman.

The CHAIRMAN. Thank you, Mrs. Johnson.

STATEMENT OF WILLIAM S. BENNET, REPRESENTING THE MONONGAHELA RAIL & COAL CORP., FAIRMONT, W. VA.

Mr. BENNET. Mr. Chairman and members of the committee, my name is William S. Bennet; my address is 44 Wall Street, New York City; and I represent the Monongahela Rail & Coal Corp. of Fairmont, W. Va.

I agree with the views expressed by Secretary Vinson, that the excess-profits tax should be repealed as of January 1, 1946, instead of January 1, 1947.

Senator CONNALLY. Does your company pay excess-profits tax?

Mr. BENNET. Yes.

Senator CONNALLY. How much does it pay?

Mr. BENNET. I will get that in a minute. We only commenced paying it last year.

I will not attempt to repeat any of Secretary Vinson's arguments because I think he adequately expressed the entire case.

Coal and lumber companies are in a different situation than most companies. I have appeared before this committee and the Ways and Means Committee for the National Lumber Manufacturing Association, and at times for the National Coal Association, quite frequently in the last 20 years, and I know the committee is familiar with the problems relating to these industries, the raw materials of which are irreplaceable in the case of the mines, and not immediately replaceable in the case of timber.

Here is what happens: A company acquires either by purchase or on a royalty basis a block of coal. The economic way to mine it, the way that brings out the most coal, and the way that produces the best returns, is to run the main haulage way right straight through the coal to the back end of the coal and then bring your coal forward. Of course, the result of that is that the first few years the returns at best are quite apt to be lean, and the last 5 or 6 years the company makes its money, if it does make any money.

Here is what has happened to this company, a small company with 1,000 shares of common stock and 325 shares of preferred, neither of which have ever paid a dividend. In order to get capital it has borrowed from friendly sources \$375,000. It has less than 5 years to live. As it operates on royalty coal it has no depletion. It has depreciation where it applies on its debts.

Last year, answering Senator Connally's question, it commenced for the first time to pay excess-profits tax clear to the top. Before

that it had paid some. It paid excess-profits taxes of \$743.94 in 1943, \$2,240.05 in 1944, and its estimate for 1945 is \$50,000. And from now on, the only chance that company has—and it is typical of scores of small coal companies and hundreds of small lumber companies—of paying its indebtedness in the next 4 or 5 years is through the profits of those years.

Last year was a good year, and although they paid clear to the top on the excess profits, they paid \$65,000 on their indebtedness.

The tax adjustment bill will help them a little bit by increasing the exemption from \$10,000 to \$25,000. Anything they can get will assist them in paying their indebtedness in the remaining years.

And the injustice of the situation—not studied, but the accidental injustice—arising from the nature of the business, is that it is a business that makes its money in the last few years of its life.

It is like a timber operation in connection with a sawmill.

So every year the owner is taxed by a war-controlled tax it reduces their opportunity to pay off their creditors. These people ought to be relieved at the earliest possible opportunity from a tax which was put on, not for ordinary revenue purposes but for two purposes connected with the war: First, to get the money; and secondly, a control against profiteering.

If the committee does not see its way clear to repeal the tax completely, I hope they will amend section 123 (a) so as to read as follows:

(a) In general: Effective with respect to taxable years after December 31, 1946, and, as to mining and lumber manufacturing corporations, effective as to taxable years beginning after December 31, 1945, subchapter (E) of chapter 2 (relating to the excess profits tax) is repealed.

This can be done by adding, after the words "December 31, 1946," the words "and, as to mining and lumber manufacturing, effective as to taxable years beginning after December 31, 1945."

Senator MILLIKIN. In an operation of that kind, are all the expenses of driving your passageway through the mine capital account or operating account, or do you divide it?

Mr. BENNET. You divide it as much as you can, because you get some coal out of it. But this was only a 12-year operation, and naturally, you see that the first year is a lean year and all the sweetening comes in the last years. That is all.

For this year and last year we were in a war, and we are all suffering together, but there is no reason why the creditors of these people should suffer in 1944 because of the tax now imposed for revenue purposes.

The CHAIRMAN. Any questions? [No response.]

Thank you very much, Mr. Bennet.

STATEMENT OF DONALD HARPER

The CHAIRMAN. I believe you were on for tomorrow, Mr. Harper, but you may proceed now.

Mr. HARPER. Thank you, Mr. Chairman.

I received a telegram, and I came down this morning, but I want to be excused from appearing tomorrow, and I will give you the reason in a moment.

When the Germans swept across Poland in 1939 and Holland and Denmark and Belgium and northern France in 1940, they did a great deal of damage and caused ruin to many hundreds of our American citizens, and yet no bill of any kind has been passed to relieve them, although those in the Pacific, after Pearl Harbor, have had a remedy. For that reason, I wanted to appear.

But I notice in the bill, which is an emergency bill, as I understand, there is not a word about that. So I don't see any use of my coming here tomorrow.

I hope you gentlemen will not forget, when the big bill comes up postwar, those many Americans who are businessmen, in all walks of life—doctors, newspapermen, lawyers, and everything. I claim they did more for our foreign trade and foreign good will than all the battleships and diplomats we have.

The CHAIRMAN. One feature of the House bill has some bearing, although the House bill did not go into this question of lawsuits in the European area. That feature is this: The House has eliminated in its bill the capital-stock tax and declared-value excess-profits tax.

It is quite conceivable that if that provision stands and goes into permanent law, that after the taxpayer has estimated his capital-stock tax and paid upon it, he may have a great many recoveries of property in the European area.

Mr. HARPER. For 1940 and 1941?

The CHAIRMAN. Yes.

Mr. HARPER. Isn't the statute of limitations out of date?

The CHAIRMAN. That may be, but it is possible that Congress might give some relief there. It would be rather harsh on the taxpayer who had honestly valued his capital-stock tax to have a whole lot of recoveries falling on him so that his profits conceivably in a year might subject him to a pretty stiff declared-value excess-profits tax.

If those provisions are not in the act as they are, at least, for the purpose of safeguarding against those unexpected recoveries, something might properly be done in this bill.

Mr. HARPER. Under the present bill?

The CHAIRMAN. Yes, sir.

Mr. HARPER. I have not examined that with care.

The CHAIRMAN. If you have any brief you wish to file with the committee, we will be glad to have you do so, and we hope there will be some opportunity for you to appear before the Ways and Means Committee and this committee on a later date on the broad problem that you have in mind.

Mr. HARPER. Yes, sir.

In conclusion, I would like to say that each year when the Germans were there they pillaged and destroyed. I have not heard from my law office in Paris except in the month of June of this year, and we don't know our losses. And I would ask for time, perhaps until the end of next year, in which all those losses could be obtained and proved.

Senator LUCAS. Your theory is the Government ought to allow them to deduct from their income taxes such losses as they sustained by war?

Mr. HARPER. Exactly. As you did in the Pacific under proof that it happened in the years 1940, 1941, and 1942. If it can be shown this man lost all of his property, he ought not to be outlawed.

A great many were completely ravaged. We couldn't hear from them.

Now, we can say our boys have liberated France and the other countries. And all I want is to let us put that in and not be barred by the statute of limitations. It should be proven to the satisfaction of the Treasury or whoever looks into it; and then, if they can't show which year it happened in—for instance, if I should go back now and find everything swept away and nobody would know when it was done—let them put it in from the beginning of the hostilities to the end, pro rata or something.

The CHAIRMAN. You can appear on the general postwar tax bill that we hope will be coming along.

Mr. HARPER. Thank you very much, Mr. Chairman.

Senator LUCAS. You live here but a good many of your properties are in France?

Mr. HARPER. I have been in France since I was a very young man, coming over every year. I have large properties there. But I have been here now since Hitler entered Paris.

The CHAIRMAN. Gentlemen, Mr. Stam and the Treasury people are here. Before we hear Mr. Stam, is there any other witness not scheduled for today but who is ready to appear on any pertinent provision in this bill? If so, I will be glad to hear you at this time, and it may save you the trouble of coming back tomorrow.

STATEMENT OF JAY CRESWELL

Mr. CRESWELL. Mr. Chairman and members of the committee, I just represent myself, Jay Creswell, and I want to say that I operate a small factory.

The CHAIRMAN. We will be glad to hear from you, Mr. Creswell.

Mr. CRESWELL. I have tried for the last year to get capital in my business for the purpose of buying tools, dies, and machinery and carrying on my business. Every man I have talked to has told me the tax situation is such that he could not hope for a profit that would justify the risk.

I would like to have the committee give some consideration to that problem.

I have talked to men in many States. I find a great many businessmen who are completely discouraged and feel that the effort to start new businesses, start new ventures, just isn't worth while under the tax situation as it is.

The CHAIRMAN. Starting a new business as against an excess-profits tax, you would have only your invested capital; and with a limited capital, you would be thrown into the excess-profits brackets soon after you began operations?

Mr. CRESWELL. Yes, sir.

The CHAIRMAN. And bankers and lenders generally have said it is not possible for new business to hope to pay under those conditions. Is that your experience?

Mr. CRESWELL. Bankers generally will not loan money to a new business at all.

Individual investors tell me that under the tax situation they have no possibility of making a profit.

Senator TAFT. They are referring to the high rates of individual income tax, aren't they? If they invest in a business and get a return on their money, they have to pay most of it to the Government. Isn't that the discouraging factor in the investment?

Mr. CRESWELL. Yes.

Senator CONNALLY. How long has your business been running?

Mr. CRESWELL. One and a half years.

Senator CONNALLY. Are you making any profit?

Mr. CRESWELL. I lost \$31,000 last year.

Senator CONNALLY. How long have you been operating?

Mr. CRESWELL. A year and a half.

Senator CONNALLY. What business are you in?

Mr. CRESWELL. The manufacture of valves.

The CHAIRMAN. Are there any further questions?

(No response.)

Thank you, sir. Is there anything else you wish to say?

Mr. CRESWELL. I would like to have you gentlemen give consideration to this problem.

Thank you, very much.

The CHAIRMAN. Mr. Stam and the Treasury officials are present now. We would like to have a statement about the provisions of the House bill. Perhaps the committee may wish to ask some questions about it.

STATEMENT OF COLIN F. STAM, CHIEF OF STAFF, JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

Mr. STAM. Mr. Chairman and members of the committee, at your request we have prepared a summary of the provisions of the House bill, first by a general statement and then followed by a section-by-section analysis.

I would be glad to have these distributed to the committee.

The CHAIRMAN. You have had them printed?

Mr. STAM. Yes, sir; that is right.

The CHAIRMAN. They may be distributed to the members of the committee.

Mr. STAM. In taking up this subject, I think it might be better to discuss the general analysis first and then go to the section-by-section analysis a little later if the committee desires.

The first pamphlet is the general analysis or summary of the House bill. First it takes up individual income taxes.

The present surtax exemptions are made applicable to the normal tax. Accordingly, the normal tax exemption of \$500 for each income recipient is eliminated, and there are allowed in its place exemptions of \$500 each for the taxpayer, his spouse, and each of his dependents.

The committee will recall that in the 1944 act for normal tax purposes there was only one \$500 exemption allowed per taxpayer—that is, the person with the income—so that a married man with a wife, who had no other income, only received an exemption of \$500.

The same was true with respect to a person with dependents. For the normal tax they receive one \$500 exemption. For the surtax they received \$500 per dependent, with an additional \$500 for the spouse, so that for surtax purposes a married man with no dependents, under

the existing law, received \$1,000 for surtax purposes, but for normal tax purposes he only received \$500.

Senator CONNALLY. Isn't that higher than it has ever been except during the war?

Mr. STAM. It used to be \$400 per dependent, and at one time it was \$200, and I think at one time it was \$300, but it was made \$500 for each dependent because, beginning with the 1944 act, a simplification measure for all taxpayers was adopted. In order for the Bureau of Internal Revenue to be able to compute the tax liability of 30,000,000 taxpayers, it was necessary to have a very simple system, and this per capita exemption system was adopted by the Congress in 1944 so that the Bureau of Internal Revenue could compute the tax of these 30,000,000 taxpayers.

Senator CONNALLY. It looks to me like an exemption of \$500 for each child is rather high unless limited to four or three or something.

Mr. STAM. When the law was changed in 1944, as I recall, there was \$1,200 exemption for a married person. Now, of course, under this \$500 per capita rule, there is only \$1,000 for a married person.

Senator LUCAS. This refers back to the law as previous to 1944 with the exemption as to the amount?

Mr. STAM. That is right. The same exemption is allowed now, in the House bill, for computing the normal tax as in computing the surtax.

That change is effective on and after January 1, 1946. That is expected to reduce the tax liability in 1946 by about \$782,000,000.

Of course, all of that relief does not go to the 12,000,000 persons who will be relieved from liability, because the existing taxpayers who have dependents or who are married pay the normal tax, too, and they will receive some reduction by virtue of allowing the same exemption for the normal tax as for the surtax.

A reduction in tax liabilities of approximately \$310,000,000 results from the removal of the entire tax from the 12,000,000 persons at present subject only to a normal tax.

After the 12,000,000 persons were removed from the tax rolls by this action of the House, the remaining taxpayers—I think about 38,000,000 taxpayers—get some relief where they have dependents or are married, but the change in exemptions did not provide any relief to the single person who was entitled to \$500 only under existing law. To afford more relief to the 38,000,000 taxpayers remaining on the rolls, the House reduced the rate applicable to each surtax bracket by 4 percentage points.

The combined normal and surtax starting rates thus becomes 19 percent instead of the present 23 percent.

The estimated tax liability loss arising from this provision in 1946 is \$1,735,000,000.

Now, as far as this provision is concerned, the 4 percent reduction, of course, was greater than the 3 percent reduction which would result from the repeal of the normal tax advocated by the Treasury and Mr. Vinson.

The House committee also felt it was necessary to take care of individuals in the higher brackets, because reducing the surtax rates by 4 percentage points affords little relief to the people in the higher brackets, particularly above \$20,000.

So they adopted another provision to give some relief to that group; the surtax rates are further revised effective January 1, 1946, so that generally the reduction of normal tax and surtax for any taxpayer will not be less than 10 percent.

I have forgotten what the effective rates are—we have them in the tables—but when you get around \$22,000 your benefit is less than 10 percent of the tax. So by adding this provision, which was accomplished through an adjustment of the surtax-rate schedule, a 10-percent reduction in tax payable generally is provided for all taxpayers.

It has been estimated that the tax liability loss in 1946 arising from this provision will be \$110,000,000.

Those are the provisions of the House bill that relate to the individual taxpayer.

Senator TAFT. There is an over-all limit on percentage of tax, percentage of income paid?

Mr. STAM. An over-all limit?

Senator TAFT. Yes.

Mr. STAM. Yes.

Senator TAFT. What was that?

Mr. STAM. Under the existing law it is 90 percent of the taxpayer's income. The House bill reduces it to 81 percent.

Senator TAFT. Anybody paying 90 now pays 81?

Mr. STAM. That is correct.

Now, corporate taxes. Under the House bill the excess-profits tax rate is set at 60 percent for the calendar year 1946. The present excess-profits tax net rate is 85½ percent. The loss in 1946 arising from this rate reduction has been estimated at \$1,300,000,000.

The entire excess-profits tax is repealed, effective January 1, 1947. The repeal of this tax is expected to further reduce tax liabilities in 1947, \$1,255,000,000 below those in 1946.

The loss as compared with existing law in 1947 would be \$2,555,000,000.

If you recall, the Treasury this morning indicated that the repeal of the excess-profits tax for 1946 would lose that amount for 1946.

Senator TAFT. The collection being a year later, it would not affect the actual receipts until 1947, or 1948 under this bill?

Mr. STAM. That is correct. They were speaking from the standpoint of liabilities.

Senator TAFT. And in the case of individual taxes, that is the same?

Mr. STAM. That is the same.

Senator TAFT. And corporate taxes would be a year late. What is the biggest yield the excess-profits tax has given in any 1 year during the war?

The CHAIRMAN. A little better than \$9,000,000,000.

Mr. STAM. Of course, that is the gross tax. You understand when we have an excess-profits tax we exempt income subject to the excess-profits tax from the normal tax and surtax, so that when you repeal the excess-profits tax that income becomes subject to the normal tax and surtax.

I am informed that the highest gross yield of the excess-profits tax was \$11,000,000,000 in the fiscal year 1945.

The corporate surtax under the House bill is reduced 4 percentage points as of January 1, 1946. This results in a minimum combined corporate normal and surtax rate of 21 percent in place of the present 25 percent and a maximum combined rate of 36 percent in place of the present 40 percent.

Those corporations with incomes over \$50,000 under the present law pay a normal tax of 24 percent and a surtax of 16 percent. This would reduce the surtax rate of 16 percent to 12 percent, which would make the total rate 36 percent in place of 40 percent.

Senator LUCAS. That is corporations over \$50,000?

Mr. STAM. Corporations with income over \$50,000, and corporations with income below \$50,000 get a 4-percent reduction in their rates. The surtax rate on corporations with incomes below \$25,000 is 10 percent. This would be reduced to 6 percent, so that the normal and surtax bracket rate at \$25,000 would be 25 percent as compared with the present 29 percent under existing law.

Senator LUCAS. I am interested in a small corporation that does not make over \$50,000. Will you elaborate on what that has to pay?

Mr. STAM. We have in the law a graduated rate schedule for small corporations. For example, the normal tax—on the first \$5,000 it is 15 percent. On that part between \$5,000 and \$20,000 it is 17 percent—I am talking about only the normal tax—and between \$20,000 and \$25,000 it is 19 percent, and then there is a notch provision which takes care of the corporations with incomes exceeding \$25,000 but not over \$50,000.

Senator LUCAS. Now, you are talking about normal tax?

Mr. STAM. I am talking about the normal tax. Those rates were not changed in the bill. On the surtax on the first \$25,000, the corporations pay a surtax of 10 percent under existing law. Under the bill, that rate is reduced to 6 percent and we make corresponding reductions with respect to those corporation with incomes between \$25,000 and \$50,000.

Senator LUCAS. What is the normal and surtax on the corporation that makes \$5,000?

Mr. STAM. Under the existing law, 25 percent, and 21 percent under the bill. That is the combined figure.

Senator LUCAS. It graduates up a little more as he reaches \$50,000?

Mr. STAM. That is right. It gives the small corporation a little better break.

The corporations with incomes above \$50,000 don't get the benefit of the graduation.

The loss from this rate reduction in 1946 has been estimated at \$405,000,000.

Since the repeal of the excess-profits tax in 1947 will enlarge the corporate income-tax base there will be a further loss in 1947 which has been estimated at \$241,000,000. The loss in 1946 was \$405,000,000, and when you repeal the excess-profits tax you throw the adjusted excess-profits tax net income into the corporate income tax base. The total loss in 1947 is \$646,000,000 as compared with \$405,000,000 for 1946, or an additional loss of \$241,000,000.

The CHAIRMAN. That is simply because under the existing law you would recapture 40 percent of the excess-profits income?

Mr. STAM. That is right.

The CHAIRMAN. And under the 36-percent reduced figure fixed by the House, you will recapture only 36 percent?

Mr. STAM. That is right.

The capital-stock tax is repealed beginning with the capital-stock tax payable on July 31, 1946. The related declared value excess-profits tax is also repealed. The loss from repeal of these taxes has been estimated at \$183,000,000 for 1946.

Since these taxes are deductible from the corporate income tax and excess-profits tax bases, there is expected to be a further loss in 1947 of \$60,000,000, or a total loss in 1947 of \$243,000,000 compared with existing law.

Now, the reason for this is, if you repeal the excess-profits tax naturally you are not allowing this deduction of the capital stock tax—the repeal of these taxes do not have as much effect from the standpoint of loss in revenue if you still have the excess-profits tax law in effect.

Excise taxes: The excise “war tax rates” are reduced to the 1942 rates, effective July 1, 1946. These are the “war tax rates” imposed by title III of the Revenue Act of 1943 to be effective until 6 months after the termination of hostilities as proclaimed by the President or specified in a concurrent resolution of Congress.

The estimated tax liability loss from the reduction of these excise-tax rates is estimated at \$535,000,000 for the last half of 1946—that is only for half a year—for which the reduced rates are in effect. In 1947, when the reduced rates are in effect for an entire year, losses are estimated at \$1,041,000,000.

The CHAIRMAN. That does not include the automobile and boat use?

Mr. STAM. No; they are not within this classification. They are not affected by the termination date.

Many excise taxes continue on the books—some were put on during the war period—

Senator TAFT. Are any of these excise taxes entirely repealed outside of the motor-vehicle tax?

Mr. STAM. If you call the capital-stock tax an excise tax—

Senator TAFT. What is the rate on liquor, for instance?

Mr. STAM. The rate on liquor is \$9 a gallon and it is reduced to \$6.

Senator LUCAS. What is the capital-stock tax?

Mr. STAM. \$1.25 per thousand of declared value.

Senator LUCAS. When did that come in?

Mr. STAM. That tax came in in a very minor form in the National Industrial Recovery Act of 1933, and in a more permanent form in the Revenue Act of 1944.

Senator LUCAS. Why is it now being repealed? What is the theory?

Mr. STAM. The declared-value excess-profits tax is a peculiar tax. A corporation can declare any value it wants to for capital stock tax purposes. But if it declares too low a value, it is subject to what we call a declared value excess-profits tax, which is measured on the net income in excess of 10 percent of its declared value.

When the law was first adopted we attempted to hold corporations to their declared value for a period of 3 years. And they said, “we can’t estimate our income for 3 years ahead,” and gradually the time has been whittled down until in one of the last revenue acts an annual declaration was permitted.

It seems that 1945 is a particularly bad year for corporations to estimate what their income will be and there have been many complaints about the difficulties of the capital stock tax as presently in effect.

Senator LUCAS. But we are talking about \$183,000,000 through the repeal of this tax, which has been on the statute books since 1933.

Mr. STAM. That is right.

Senator LUCAS. It is not a war measure.

Mr. STAM. It was put on as an emergency measure to collect some revenue and, at the time it was put on, it was felt we could not go back to the old capital stock tax we had in 1924 because there was so much difficulty in valuing capital stock. This method was adopted as an easy way to collect this revenue.

Senator LUCAS. There would be no question about our still collecting \$183,000,000 under the present methods?

Mr. STAM. There have been some people—Mr. Hanes, I think, when he was Under Secretary of the Treasury—proposed taking the tax off and increasing the corporate rate to make up for the loss in revenue, because the capital stock tax required a lot of bookkeeping and extra returns.

Senator LUCAS. As badly as we need revenue, it seems to me we should not do very much with a basic law that has been on as long as this has unless there is some way to take care of it, as Mr. Hanes suggested.

Mr. STAM. Of course, nobody wants to increase corporate taxes now.

Senator LUCAS. No, but we are decreasing them when we repeal this.

Senator VANDENBERG. Why did they reduce the tax on whisky and liquors?

Mr. STAM. The law automatically reduces the tax within the first month following 6 months after the termination of the war, and the effect of this bill is—

Senator TAFT. Why should the rate be \$6 instead of \$9?

Mr. STAM. It was purely a wartime rate and now the war is over and they are going back to peacetime rates.

Senator VANDENBERG. Going back to whisky.

Mr. STAM. Congress fixed that date.

Senator LUCAS. We can fix it again if we want to, can't we?

Senator JOHNSON. Why it should be reduced from \$9 to \$6 is something I don't understand, when we need as much money as we do.

Mr. STAM. I can read you the taxes affected by this reduction as of July 1.

Senator TAFT. Mr. Stam, in the \$9 tax considered so high that it cannot be collected in peacetime?

Mr. STAM. That is the claim made.

Senator TAFT. Are there people from the Treasury who will say that, or some who won't say it?

Mr. STAM. Some say it will result in the return of bootlegging and others feel the industry might be able to stand a \$9 tax without much bootlegging.

The admission tax is also affected by this reduction. Under the wartime rate it was 1 cent for each 5 cents or major fraction thereof

of the admission price and under the bill it is 1 cent for each 11 cents or fraction thereof.

The tax on jewelry will drop from 20 percent, the wartime rate, to 10 percent—

The CHAIRMAN. That is retail?

Mr. STAM. That is the retail price.

The CHAIRMAN. Not on the manufacture?

Mr. STAM. Not on manufacture. The tax on furs will drop from 20 to 10 percent. The tax on toilet preparations will drop from 20 to 10 percent. The tax on distilled spirits will drop from \$9 to \$6 per gallon.

Senator HAWKES. How much will that loss amount to in revenue?

Mr. STAM. The estimated loss from the liquor taxes in 1947 is \$472,000,000.

Senator HAWKES. Over the whole year?

Mr. STAM. Yes, \$472,000,000; for the half year in 1946, \$249,000,000.

The tax on imported perfumes, which are classed as distilled spirits, is reduced from \$9 to \$6 per gallon, and the wine taxes are reduced—not over 14 percent goes from 15 to 10 cents per gallon, over 14 and not over 21 percent alcohol, from 60 to 40 cents; over 21 percent alcohol and not over 24 percent, from \$2 to \$1; and then there are the taxes on champagnes and carbonated wines, and so forth.

The tax on fermented-malt liquors goes from \$8 to \$7 a barrel.

The tax on billiard and pool tables and bowling alleys, \$20 per year per table, and \$20 per alley, drops to \$10.

The tax on electric-light bulbs and tubes, from 20 to 5 percent; the tax on long-distance telephone calls from 25 to 20 percent; and on domestic telegraph, cable, or radio dispatches, the tax drops from 25 to 15 percent.

The tax on leased wires goes from 25 to 15 percent; local telephone service drops from 15 to 10 percent.

The tax on transportation of persons drops from 15 to 10 percent—that is railway tickets, and so forth.

Senator HAWKES. How much is the loss on that?

Mr. STAM. \$60,000,000 for a full year.

As to the tax on luggage, under the existing law, when that tax is automatically reduced by the cessation of hostilities, it would be returned to a manufacturer's tax—it is now a retail tax. The manufacturer's base was much narrower than the retail tax. The committee left the tax at the retail level but reduced the rate from 20 to 10 percent of the retail price.

Senator HAWKES. Which was the manufacturer's tax previously?

Mr. STAM. It was 10 percent, and would automatically go back to a manufacturer's tax within 6 months after the termination of hostilities.

The CHAIRMAN. What do we get from the transportation tax?

Mr. O'DONNELL. \$182,200 is estimated as the gross yield of the tax on the transportation of property at 1946 levels. We figure the net yield of the tax at \$110,900,000. The net yield to the Government allows for the fact that a good many businesses deduct taxes on transportation of property which they pay as a business expense, and it, therefore, reduces the base on which other taxes are levied. If the tax on transportation of property were not paid the tax base for the

other taxes would be correspondingly larger, and we estimate that we would pick up \$62,200,000 under those conditions. In addition it is estimated that the Government would save \$9,100,000 in reduced prices on items which it buys if businesses did not pay the tax on transportation of property.

Senator BYRD. Passenger and all?

Mr. STAM. No; that is a separate tax.

Senator BYRD. Are there any that stay where they are?

Mr. STAM. Quite a few, regardless of when the law is terminated. The tax on photographic equipment is one. Their rates were increased by the 1942 act, but not by the 1943 act. Then you have the increase on automobiles.

Senator BYRD. Have you a list of the yield of the excise taxes that remain after these reductions?

Mr. STAM. I can get that for you.

Senator VANDENBERG. What are the rest of them?

Mr. STAM. I have the complete list.

Senator LUCAS. What is the tax on automobiles?

Mr. STAM. The tax on automobiles is 7½ percent.

Senator LUCAS. That is retained?

Mr. STAM. That is retained.

Senator LUCAS. No change?

Mr. STAM. No. You have taken no action on that.

We have a lot of excise taxes that were put on during the war period but they are not affected by the termination of hostilities, so those rates stay on until Congress acts.

Senator LUCAS. Is the automobile one of them?

Mr. STAM. The automobile tax is one of them.

Senator TAFT. But this method of taking off the 1943 tax proposed by the Treasury and acquiesced in by the House—

Mr. STAM. The Congress had already elected that those taxes would be reduced within 6 months after the termination of the war.

The CHAIRMAN. Do you wish to make a further statement?

Mr. BLOUGH. The Congress in the 1943 Revenue Act selected the excise taxes that are reduced here, by providing an automatic reduction to go into effect approximately 6 months after termination of hostilities. The Secretary's recommendation merely sets a specific date for that reduction.

The CHAIRMAN. We did not reduce photographic apparatus.

Mr. STAM. No. That went up in the 1942 act but not in the 1943 act.

Senator TAFT. That is no more war tax than the 1942 tax is a war tax.

Mr. STAM. That is true. The tax was increased in 1942 but not in '43 and—

Senator BYRD. Did these taxes that were reduced have two increases, in 1942 and 1943?

Mr. STAM. Some did.

Senator BYRD. Wouldn't it be well to put that in the record?

Mr. STAM. We have a pamphlet on that showing the increases all during the period of the war and showing those taxes that were doubled during the war.

Certain taxes were put on at the request of Mr. Henderson when the war first started, on the theory that they were helping the war effort.

They said, in effect, "We need this material for war purposes and don't want this sold to civilians."

That was done in the 1941 act. Many of those taxes were levied. Some are affected by this termination date in being reduced. Others are not affected and a few of the taxes were repealed shortly after they were imposed because priorities were so rigid that there weren't any of those articles being manufactured.

Senator BYRD. What about the telephone and telegraph taxes?

Mr. STAM. They are reduced in this automatic reduction by title III in the 1943 act.

Senator TAFT. You are generally going back to 1942?

Mr. STAM. That is right.

Senator LUCAS. But some you don't reach.

Mr. STAM. Because the 1943 act didn't apply any increase to them.

Senator LUCAS. Is there any reason why they should not be reached?

Mr. STAM. The difficulty is, this opens up the whole field of excise taxation and it is a question of whether you want to open that up now or wait until you get into the next bill.

We have another little pamphlet which deals with the bill section by section. Does the committee want to go through that?

The CHAIRMAN. Not unless a member wants to ask about them.

Senator LUCAS. If we are not going to open it up, why repeal any of these until we go into the general tax bill?

Mr. STAM. These taxes can be reduced by existing law either by proclamation of the President or concurrent resolution of Congress declaring the termination of hostilities.

Then the law says within 6 months after that date the new rates shall apply in place of the war rates.

Senator LUCAS. We could amend that.

Senator CONNALLY. It looks to me like we might as well postpone the whole excise business until we have the general bill.

The CHAIRMAN. All these people who have been given a reduction by the House feel like they have a vested right in this already.

Mr. STAM. In brief, that is what the House bill does.

We are preparing material for the committee in executive session which the committee might want to consider.

The CHAIRMAN. We could pick up the money by going back into these excise taxes—not continuing them—but I think it is undoubtedly advisable that some definite termination date be fixed or else take up the 6 months' provision, because it is highly desirable that these taxes should end at some fiscal year rather than in the middle of the season for some of the manufacturers.

Mr. STAM. In fixing the date July 1, there were some discussions with various representatives of various industries, particularly the fur industry, and they felt if the tax was going to be reduced it ought to be reduced in a period when they were not busy.

Senator TAFT. And the jewelry business is here hollering their heads off because it does apply in the middle of their busy season. They want the June business free.

Senator VANDENBERG. Are you going to make a recommendation to the committee?

Mr. STAM. We can if the committee wants us to.

Senator VANDENBERG. I just wondered if he was going to.

Mr. STAM. We have some ideas.

Senator LUCAS. He would probably have some ideas or recommendations to make.

The CHAIRMAN. Is there any particular section or provision that anybody wants to ask about?

Mr. STAM. I might mention, at this point, that the last pamphlet contains the provisions relating to the termination of the war.

For example, the military exemption of \$1,500 in the case of soldiers' pay would be automatically terminated because it is only in effect until the termination of the present war as proclaimed by the President.

Senator VANDENBERG. How does this military exemption work? Does that give him a half-year's exemption?

Mr. STAM. I think it would be prorated. I don't know, but I think that is the way it would work.

Mr. WALES. It is "received during the existence of the present war."

Mr. STAM. The present war is held to terminate on a certain date.

Mr. WALES (reading):

ADDITIONAL ALLOWANCE FOR MILITARY AND NAVAL PERSONNEL.—In the case of compensation received during any taxable year and before the termination of the present war as proclaimed by the President, by a member of the military or naval forces of the United States, for active service in such forces during such war, or by a citizen or resident of the United States who is a member of the military or naval forces of any of the other United Nations for active service in such forces during such war, as much of such compensation as does not exceed \$1,500.

Senator VANDENBERG. I would like to have a figure on how much it would cost to extend that exemption for 1 year after hostilities.

Mr. STAM. On service pay?

Senator VANDENBERG. Yes.

Mr. STAM. Of course, on the question of extension of the \$1,500 exclusion, after a man is discharged from service, there will be some administrative troubles because the employer would have to distinguish between those men who were former soldiers and those who were not.

Senator VANDENBERG. Would it conflict with your purpose to limit and channel the subjects dealt with in this bill if we added a provision providing the returning veteran with an extended opportunity to pay his accumulated tax?

Mr. STAM. No; I don't think it would. As a matter of fact, we are looking into the suggestion to provide some relief to veterans and we have some suggestions to make to the committee at a later date.

Senator TAFT. Aren't we likely to face such a bill on the floor of the Senate if we don't do something ourselves?

Mr. STAM. I think so.

Senator TAFT. Aren't we almost forced to consider it in this bill?

Mr. STAM. I think so.

The CHAIRMAN. That is one of the matters you have been looking into?

Mr. STAM. Yes.

Senator HAWKES. May I ask whether under the present exemptions the enlisted men, whether in this country or overseas, have any tax liability if their only income is salaries paid by the Government?

Mr. STAM. In some cases they do where they have been in for a long period of time or where they receive pay for flight or submarine duty—

Senator HAWKES. Even enlisted men?

Mr. STAM. They are exceptional cases—a sergeant who has additional special pay. The difficulty about figuring the compensation of servicemen is that you start out with a base pay and you have all these additions to add to it.

Senator LUCAS. The tax would be very slight?

Senator BYRD. You say in a few cases where service has been very long?

Mr. STAM. They get an additional allowance based on length of service or for flight or submarine duty.

Senator CONNALLY. A master sergeant is in some cases getting more than a second lieutenant.

Mr. STAM. That is right.

Senator BYRD. How long a time do they have to pay it?

Senator GARY. Six months, isn't it?

Mr. STAM. Six months without interest. Of course, the Commissioner has been very lenient so far as requiring immediate payment. They try to work out some method with the serviceman so that he does not have to pay the tax all at once, but under the law they are required to pay interest for any deferment beyond 6 months, and the interest rate is 6 percent, so some feel it is a pretty heavy burden to meet over a period.

The CHAIRMAN. You have been conferring with the Treasury staff on the veterans' problems?

Mr. STAM. And also with the services to try to see what the problems were and what could be worked out to remedy some of the things that we think ought to be remedied.

We have that and will present it to you in executive session.

The CHAIRMAN. Are there any further questions of Mr. Stam?
[No response.]

Are there any further questions or any requests for any information to be put into the record before we finally conclude? [No response.]

If there is any request for additional information, now would be a very appropriate time to make it so the Treasury will have an opportunity to supply it.

Senator TAFT. I understand a table will be supplied showing the yield of these excise taxes and how much it is reduced and how much is left?

Mr. STAM. That is right.

The CHAIRMAN. The committee will recess until 10 o'clock tomorrow morning.

(Whereupon, at 4 p. m., the committee recessed until 10 a. m. Tuesday, October 16, 1945.)

REVENUE ACT OF 1945

TUESDAY, OCTOBER 16, 1945

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to adjournment, at 10 a. m., in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George (chairman), Barkley, Connally, Bailey, Byrd, Gerry, Guffey, Johnson, Lucas, McMahon, Taft, Vandenberg, Butler, Millikin, and Hawkes.

The CHAIRMAN. The committee will please come to order.

Mr. Murray, president of the Congress of Industrial Organizations.

Mr. Murray is not present?

Mr. McAVOY. No, sir; he is not. My name is Clifford McAvoy, representing the CIO.

The CHAIRMAN. You are appearing for him?

Mr. McAVOY. I am, sir.

The CHAIRMAN. All right; sir, come right up and have a seat.

Mr. McAVOY. This is Mr. Lincoln Fairley, member of the tax council of the CIO.

The CHAIRMAN. All right, Mr. McAvoy, you may proceed.

STATEMENT OF CLIFFORD McAVOY, ACCOMPANIED BY LINCOLN FAIRLEY, OF THE CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. McAVOY. Senator George and members of the committee, the statement which I am about to read is the statement of the Congress of Industrial Organizations and it has the support of 15 additional national organizations including American Council on Education, Brotherhood of Railway Trainmen, Congress of Industrial Organizations, Consumers Union, Independent Citizens Committee of Arts, Sciences, and Professions, League of Women Shoppers, National Association for the Advancement of Colored People, National Citizens Political Action Committee, National Lawyers Guild, National Women's Trade Union League of America, Nonpartisan Council of Alpha Kappa Alpha, Politican Action Committee (CIO), United Christian Council for Democracy.

The Congress of Industrial Organizations commends the Senate Finance Committee for holding public hearings on reconversion tax legislation. That is in welcome contrast to the star-chamber procedure of the House Ways and Means Committee and the gag rule in the House of Representatives under which a tax bill was railroaded

through that failed to give tax relief to those who need it most. The people of the United States—and not merely the big corporations—have an important stake in proper reconversion taxation, and the CIO urges this committee to make drastic and essential revisions in the House bill so that it will meet the human needs of reconversion.

The House bill fails utterly to counteract the shrinkage of purchasing power which is the major problem of the transition period. Instead of directing tax relief to wage and salary earners, veterans, and small businessmen, the House bill provides huge windfalls to the richest corporations and wealthiest individuals.

The big corporations have already accumulated tremendous liquid reserves out of wartime profits and will continue to earn excessive profits in 1946. In his testimony before the House Ways and Means Committee, Secretary of the Treasury Fred M. Vinson stated that there will be excessive profits in 1946 and that part of them will be attributable to the war.

Senator HAWKES. Might I interrupt there, Mr. Chairman? I would like to have Mr. McAvoy explain to me how he knows that the big corporations will continue to earn excessive profits in 1946. I don't know it, and I don't think anybody in the United States knows it.

Mr. McAVOY. The Treasury estimates.

Senator HAWKES. I know. You can get a thousand estimates. I am just wondering whether you have any basis for your statement. That is a very important statement.

Mr. McAVOY. Well, our statement is based on the estimates already made public by the Treasury.

The CHAIRMAN. All right, Mr. McAvoy.

Mr. McAVOY. Now a corporation which will earn excessive profits in 1946 is in the best position to pay taxes. It is the last taxpayer in the country which should be given tax relief. There can be no justification for cutting the tax bill of giant corporations whose record-breaking profits bring them under the excess-profits tax. The worker and the salary earner whose exemptions have been depressed to the submarginal level of \$500 per person should have their heavy war-tax burdens lifted before the tax gifts are made to corporations with unprecedented financial reserves and whose profits will reach new peaks in 1946.

It is shocking, therefore, that the House bill reduces the excess-profits tax rate to 60 percent. This will mean a tax loss to the Treasury of \$1,270,000,000. It will mean that a handful of corporations will reap tremendous tax windfalls.

Senator McMAHON. Mr. McAvoy, what do you mean by "a handful." How many is that?

Mr. McAVOY. I have the figure here. About 850.

Senator McMAHON. Do you know how many stockholders there are in those 850 corporations?

Mr. McAVOY. No, I do not.

Senator McMAHON. Do you know how many employees those corporations have?

Mr. McAVOY. No, I don't have that figure. It could be obtained.

Senator McMAHON. Those would be two very pertinent figures, would they not?

Mr. McAVOY. Yes, sir; I think so.

Senator McMAHON. Take these 850 corporations. I suspect that you will find that they employ about 7,000,000 men. That would be my guess.

Now, just for the purpose of argument, if these employees of 7,000,000 men are encouraged to go ahead and expand it will have considerable effect on a great number of your membership, will it not?

Mr. McAVOY. Yes, it will.

Senator McMAHON. I just want to get the whole picture. I think that is half the picture.

Mr. McAVOY. We contend that reserves are sufficient now to permit expansion and that the carry-back and carry-forward provisions in the present tax bill will protect those corporations against any possible loss in the next 2 years.

Senator McMAHON. I like to see people, when they come in to make a case, lay all the facts on the table, no matter who they are speaking for, whether labor or industry. I think it would be more helpful to the committee.

Mr. McAVOY. Seventy-two percent of this amount would go to some 850 corporations with \$1,000,000 or more of net income subject to the excess-profits tax. Not one penny of this \$1,270,000,000 would go to the tens of thousands of small businesses which have been hard pressed during the war and which face the most difficult reconversion problems.

The proposed cut in excess-profits taxes is all the more indefensible because American corporations, particularly the large companies, now have the greatest financial strength in their history. They accumulated unprecedented reserves during the war years, despite high wartime taxes and the payment of big dividends.

During the six war years, 1940-45, American corporations made profits after payment of taxes of \$52,000,000,000 according to Department of Commerce estimates. Of this vast amount, they paid out \$25,900,000,000 to their stockholders and kept \$26,100,000,000 of undistributed profits in their treasuries.

The average annual profits of corporations after taxes during the six war years was \$8,700,000,000. This compares with average profits after taxes of \$3,300,000,000 in the years 1936-39, the period which Congress has fixed as a standard for prewar profits.

In other words, wartime corporate profits after payment of taxes rose more than 160 percent.

Senator MILLIKIN. Mr. Chairman, I should like to ask the witness this question.

What was the volume of business during the war period as compared to the prewar period which you are figuring on here?

Mr. McAVOY. Roughly double.

Senator MILLIKIN. Does that affect your point any?

Mr. McAVOY. No; I don't think so.

Senator MILLIKIN. No matter how much the volume, that has no relation to profits?

Mr. McAVOY. Yes.

Senator MILLIKIN. Then, of course, it affects your argument, does it not?

Mr. McAVOY. Yes.

Senator VANDENBERG. Are these the profits of the 850 corporations you referred to or are these all corporations?

Mr. McAVOY. These are all corporations.

Senator HAWKES. Mr. McAvoy, I think the statement you made in the beginning is very important, that all these corporations should be made to pay excess profits in 1946. I will tell you, and it is a fact—a fact that can be proved, that a corporation, a single corporation that I happen to know of, made \$2,300,000 before taxes in 1940, which left a million and six-hundred-thousand-odd dollars in profits after taxes, and that company has had an increase in its costs of labor and raw materials, which are controlled by the Government today, with no sign of relief, which adds a cost of over \$5,300,000 to the production of the same amount of product; the same amount of product, mind you, as they sold in 1940.

Now, you can take those figures and if you went back to the 1940 volume of business, which was a good year, that corporation instead of doing what you are talking about, making great excess profits, would have a net loss of somewhere between 2½ and 3 million dollars.

I know you want to be fair. I want to say to you that there isn't a man in the United States, I don't care who he is, whether in the Treasury or anywhere else in the Government, who can say with any authority that these corporations are going to make great excess profit in the next year or 2 years with all the conditions surrounding the situation, unknown labor questions, unknown raw material questions, and unknown volume of business.

Mr. McAVOY. Of course if they don't make the profit, Senator, there won't be any tax.

Senator HAWKES. All right, but my point is that they are not being relieved if they are not making the profits. This is a fictitious relief to the corporations unless they are making a profit and I think under present conditions nobody knows whether they will or will not, but I am still in favor of giving them the relief to stimulate their going back into business and thus make opportunity for employment, which I know you want, and which I agree is one of the great fundamental questions we have before us—employment.

Mr. McAVOY. Absolutely.

Senator HAWKES. At decent wages.

Mr. McAVOY. Don't you think, Senator, that the figures on liquid reserves would tend to prove that they were in a position to continue and were able to expand?

Senator HAWKES. I think this, that if you and I were in partnership we wouldn't be stimulated to do very much if we were asked to use up our liquid reserves. We would say why should we take that chance. The profit motive is the thing that stimulates you, no matter what your job, and the profit motive always carries with it the question of loss. Profit and loss.

People talk about the profit. It is a game of profit and loss.

Mr. McAVOY. Despite falling production and mounting unemployment after VJ-day, corporate profits are still very close to their wartime peak. The Department of Commerce estimates that profits after taxes for the full year of 1945 will be \$9,300,000,000 compared to the all-time high of \$9,900,000,000 in 1944. By contrast, corporate profits after taxes in 1939 were \$4,200,000,000.

Corporate profits will continue to rise next year although Government estimates indicate that the national product in 1946 will be at least 20 percent below the wartime high achieved in 1944.

Senator MILLIKIN. Mr. Chairman, may I suggest to the witness that the volume of work done by industry during the war years and during the measuring-stick prewar years has a very important bearing on the figure. May I invite the attention of the witness also to the fact that a part of it is to uphold purchasing power and that the dividends that are paid the stockholders uphold purchasing power.

Mr. McAVOY. Yes. Of course, if fewer persons would be entitled to dividends then more would be entitled to wages.

Senator MILLIKIN. It has been suggested that 8 or 9 million stockholders are interested in dividends—

Senator HAWKES. Senator Millikin, the telephone company alone has 750,000 stockholders. That is what they had at the last report. So it runs into great numbers. It runs into millions of stockholders that you are talking about that have got to live the same as other people.

Senator MILLIKIN. Mr. McAVOY, what percentage of income of corporations goes to labor, either over-all figures or selected industries?

Mr. McAVOY. Well, in the auto industry it is about 20 percent.

Senator MILLIKIN. That is directly?

Mr. McAVOY. Directly.

Senator MILLIKIN. How much on the material that goes in?

Mr. McAVOY. We don't have figures, Senator.

Senator MILLIKIN. How much is it in the railroad business?

Mr. McAVOY. I don't know.

Senator MILLIKIN. How much in the telephone business?

Mr. McAVOY. I don't know.

Senator MILLIKIN. I think it would be interesting to have some statistics on that.

Senator HAWKES. Senator, may I give you those statistics. In the last war we appointed a very important committee to analyze what the labor costs were in 30 of the most important items going into the war program and we found out that labor was 85 percent of the cost of those 30 very important fundamental items.

We don't generally think when we buy coal at a certain price and put it in the plant, we don't think of the labor back in the field. We don't think of the labor in growing a crop. We don't think of the labor involved in getting material out of the mines. The labor in building locomotives and trains. The labor of building ships for transportation. I was dumbfounded when I found that the labor cost in 30 of the major items in the last war was 85 percent and a fraction.

So it is a very very important factor.

Mr. McAVOY. Available data indicate that with a national product of \$160,000,000,000, corporate profits after payment of taxes in 1946 will amount to \$10,500,000,000 if the excess-profits tax is repealed. Even if the excess-profits tax is retained, corporate profits after taxes in 1946 will run well over \$8,000,000,000 or about 100 percent more than in 1939.

These CIO estimates on profits are confirmed by the findings of a hard-headed business journal—business week. It stated on October

6, 1946, that its previous estimate that 1946 profits in 1946 would be over \$10,000,000,000 after payment of taxes was too low. The publication reported:

Treasury experts put corporation income in 1946 (before taxes) above \$18,000,000,000 in preparing revenue estimates in Vinson's tax plan. If the excess-profits tax is repealed * * * corporations would take home more than \$11,000,000,000.

The stock market fully supports these projections of peacetime profits higher than the wartime peak.

Senator HAWKES. May I interrupt you there, Mr. McAvoy. Your organization is exerting every effort possible to get a 30-percent increase in wages.

Mr. McAVOY. Yes, sir.

Senator HAWKES. How do you expect to get it out of a dead duck?

Mr. McAVOY. We don't think there will be any dead duck.

Senator HAWKES. I disagree with all these estimates. I don't think there is a living person that has any accurate estimate as to this problem of how much profits there will be in 1946. You may think it will be something and be disappointed or you may be surprised. I don't know.

If I were in your place and were trying to raise the standards of living of the workers and was seeking a 30 percent increase, and hoping that the line was going to be held on living costs, and that we are going to avoid inflation, I would certainly not resist anything that would stimulate business, so that it could get going and be prosperous, so that they couldn't look you in the eye and say "We can't afford to give you 30 percent," or "We can't afford to give you 15 percent."

If we can get to the point where we have a little harmony we will be much better off. I am not in favor of profiteering and great, enormous profits, unearned by corporations, but I am vitally interested in finding some way that will get these great industrial plants, our industrial machinery in the United States, going.

And I am very much in favor of paying labor a decent living wage, very much in favor of it. But I know of no way to do it—and I have been through the mill for over 50 years—I know of no way to do it unless you give the goose that lays the golden egg a little bit of grain once in awhile and take care of it.

Mr. McAVOY. Big speculators and investors pay no attention to increasing unemployment and falling production. Instead, they have their eyes fixed on the vast flood of peacetime corporate profits and are bidding up stocks in anticipation of higher dividends.

Senator TART. May I suggest another reason why that isn't necessarily true. For the same reason that houses, the price of houses, is going up. You have a tremendous amount of money and nothing to invest it in. Consequently people take lower returns. It doesn't follow, to my mind, as a result of guessing, that there is going to be a tremendous increase in profits.

The price of stocks is determined by demand and supply just as with anything else. There is no reason why a house should be more valuable to anybody today than it was 2 years ago. You have inflation in the country. Tremendous buying power.

There is that argument, that disproves that business expects to make tremendous profits.

Senator McMAHON. Senator Taft, when you said we had inflation in the country, you meant we have some degree of inflation?

Senator TAFT. Well, inflation is all a question of degree. What I mean is where you have \$1,000,000,000 of purchasing power and nothing to buy, that is inflation. It is an artificial condition, which we hope to get rid of.

Senator HAWKES. Mr. Chairman, I would like to remark in connection with Senator Taft's statement that I think he is absolutely right, and also give you the benefit of this.

I talked with one of the ablest men in New York City the other day and I asked him about five different stocks and said "Will you tell me why those stocks have advanced?" and his answer was the same as Senator Taft just stated, because the people believe the dollar is going to be worth less. There is some inflation, Senator McMahon.

Senator McMAHON. Yes.

Senator HAWKES. That is carrying the stock market up. I could take these stocks, if I had the time, and could show you some of these companies aren't making any profits under present-day conditions, and there is a grave question how much they will make next year, but yet the stocks are going up.

Senator LUCAS. They have to reach the limit sometime.

Senator HAWKES. That is right.

Senator LUCAS. They are liable to crash like they did in 1929 if they are not careful.

Senator HAWKES. Yes. If I had my way they wouldn't go up at all.

The CHAIRMAN. All right, Mr. McAvoy, you may proceed.

Mr. McAVOY. On the eve of VJ-day, July 31, 1945, the market value of all the listed shares on the New York Stock Exchange was \$61,242,000,000. This had risen to \$64,315,000,000 on August 31, 1945, and to \$67,065,000,000 on September 30, 1945. This rise of almost \$6,000,000,000 in 2 months indicates that Wall Street does not take the statements of corporate executives that their companies will suffer major profit cuts in the reconversion period very seriously. Ever since victory was assured, Wall Street has been bidding up stocks in order to cash in on peacetime profits.

On May 31, 1944, just before D-day and the invasion of France, the market value of all listed shares on the New York Stock Exchange was \$50,964,000,000. The market value of the listed shares rose by more than \$16,000,000,000 in the 16 months following D-day in France.

Senator MILLIKIN. Mr. McAvoy, do you have any statistics showing the relation of the market value of a selected list or a general list to dividends?

Mr. McAVOY. No.

Senator MILLIKIN. It would be an interesting statistic.

Mr. McAVOY. More evidence on the enormous wealth of American corporations is furnished by the Securities and Exchange Commission. The SEC estimates that on March 31, 1945, the net working capital of all United States corporations (excluding banks and insurance companies) was \$46,900,000,000. These net liquid assets of corporations had risen by \$22,300,000,000 since 1939.

Senator BARKLEY. Have you any figures showing how many of those corporations or what percentage of them were engaged in war production, because that period covers the war, and they went up while the

was was on? I wondered if you had any figures to show what percentage of those corporations were engaged in war production.

Mr. McAvoy. We do have them. I don't have them available.

Senator Taft. The amount of working capital bears a tremendous relation to the amount of business. This increase of working capital is less than the increase in volume of production during this period.

Senator Barkley. That is not working capital. That is the listed value of all stocks.

Mr. McAvoy. Liquid assets.

Senator Hawkes. Liquid assets.

Mr. McAvoy. In addition to these vast liquid reserves, Congress has made available \$5,500,000,000 for reconversion to corporations through tax refunds. These include the redemption of outstanding postwar refund bonds for 1942 and 1943 amounting to \$1,300,000,000; currently available postwar credits of \$1,500,000,000; \$1,700,000,000 from accelerated amortization of wartime facilities; and carry-back refunds of \$1,000,000,000.

By contrast, Secretary of the Treasury Fred M. Vinson estimated, when he was Reconversion Director, that—

the total reconversion of all plants now producing for war is expected to cost not more than \$3,000,000,000.

Finally, corporations through the carry-back provisions of the wartime revenue acts have their profits guaranteed during reconversion. They will receive refunds from the Treasury if their profits fall below their 1936-39 average. Corporations have accumulated about \$30,000,000,000 in carry-back credits with the Treasury, which, in effect, constitutes a huge pool of contingent reserves that they can draw upon.

As a concrete example, let us look at statistics compiled by the United Steelworkers of America on the financial strength of the steel industry. These figures reveal that profits before taxes during the 5 war years, 1940 through 1944, rose 276 percent over the peacetime level of 1935-39, from \$933,000,000 to over \$3,500,000,000. Profits after taxes rose 113 percent, from \$576,000,000 to \$1,225,000,000. Dividend payments rose 82 percent, from \$419,000,000 to \$765,000,000.

In addition, the steel industry will receive huge tax refunds. The 10 percent statutory refunds of excess-profits taxes that will be paid steel companies run to over \$200,000,000. They will also collect additional refunds if they elect to speed up amortization of wartime plants and other facilities. The Wall Street Journal of October 5, 1945, noted that United States Steel may, if it wishes, collect something between \$50,000,000 and \$60,000,000 and Bethlehem Steel around \$40,000,000 through accelerated amortization.

Statistics compiled by the steelworkers union show that if the steel industry breaks even in 1946—that is, if it does not make any net profits—the industry would receive refunds of \$149,000,000 from the Treasury. This represents guaranteed profits that are 29 percent above the level of peacetime earnings.

Senator Taft. Mr. McAvoy, one question about these peacetime earnings. Do you know what percentage peacetime earnings—you take 5 years, 1935, 1936, 1937, 1938, and 1939—were of the capital invested in the steel business?

Mr. McAvoy. No.

Senator TAFT. Well, I suggest that that period was a period of tremendous unemployment, the profits were wholly inadequate to induce anybody to put more capital into anything, and the very fact that you have gone back and taken 1935 and 1936 indicates that those profits were at a level which were not sufficiently high to create any increase in the general steel business, or any business.

Mr. McAVOY. The period 1936-39 is the period picked by the Congress as the normal.

Senator TAFT. Well, it was also a period when we had an army of 10,000,000 people unemployed, and very largely, I would say, because there was no incentive to people to increase business, there was no opportunity to make profits. I don't know what the average for 1933 is to the money invested in the steel business, but I would think probably a low return.

The CHAIRMAN. We are putting on a war tax, an excess-profits tax purely for war purposes, and we necessarily had to pick some period. Even in picking the period from 1936 to 1939, inclusive, you pick a period of very low earnings for some industries and you necessarily pick a period, for new companies, that exclude them from any average earnings.

If you had gone back to any other period you would have had a worse picture. That is one of the chief reasons why we have had to make every use of every device that we could to prevent the excess profits from working such a tremendous hardship upon certain types of business.

And your organization is far wrong if you think that the big fellows are the ones that are worried about the excess-profits tax. Half of the business of this country, and more than half of it in any true sense, is done by little people and by small business, by people who are willing to go out and do something. And they are not going out with the excess-profits tax hanging over them, as the Secretary of the Treasury very properly said yesterday. They are the ones who are tremendously interested. Your big people are not interested. They are interested in bringing down the 40 percent combined normal and surtax because that is the tax that does get them. The excess-profits tax doesn't get them and won't.

Mr. McAVOY. We have some specific proposals for helping small business.

The CHAIRMAN. All right. We will be glad to hear them.

Senator MILLIKIN. Mr. McAVOY, do you have any statistics on the total pay roll of the country during 1936 to 1939 as compared to the war years?

Mr. McAVOY. You mean the number of persons employed?

Senator MILLIKIN. Wage amount.

Mr. McAVOY. It is about double, I would say, about \$45,000,000,000. About half of the wartime total.

Senator MILLIKIN. \$45,000,000,000 prior to the war. About double that after?

Mr. McAVOY. Yes. That is a rough estimate.

These facts provide irrefutable proof that the existing tax laws already provide very generous corporate tax relief. These, together with the unprecedented financial reserves which corporations have accumulated, are more than ample to carry them through the recon-

version period. There must be a halt to this trend of granting special bonuses to big business.

It is disturbing, therefore, to note that suggestions have been made to increase still further the tax windfalls for the big corporations by eliminating the excess-profits tax entirely for 1946. Apparently, the \$1,270,000,000 tax subsidy which would arise from the excess-profits-tax reduction to 60 percent does not satisfy those who suggest outright repeal. Abolition of the excess-profits tax would mean a tax bonus of \$2,555,000,000, or almost double the \$1,270,000,000 tax cut resulting from the House reduction to a 60-percent rate.

Chairman Doughton of the House Ways and Means Committee, in arguing against outright repeal, gave data as to which taxpayers would be the beneficiaries of this proposal. He said that repeal of the excess profits tax would benefit primarily some 900 corporations which would get a tax reduction of \$1,797,000,000, or an average of about \$2,000,000 each. These few wealthy corporations would get 70 percent of the \$2,555,000,000 tax bonus provided by outright repeal.

Chairman Doughton also pointed out that none of the benefits of outright repeal would go to the rest of the 261,000 corporations that make no excess profits.

Senator HAWKES. May I inject, Mr. Chairman, and call attention again to the fact that those figures all assume a profit by these 900 corporations that nobody in God's world knows anything about.

Senator McMAHON. Mr. McAvoy, if they got a tax reduction of \$1,797,000,000, or about \$2,000,000 each, that sum would be subject to the normal corporate taxes, would it not?

Mr. McAVOY. Yes.

Senator McMAHON. So it really is not a tax reduction of \$1,797,000,000, you have got to apply the normal corporate and surtax brackets to that amount; am I not correct?

Mr. McAVOY. I think that is a net reduction. I think that figure is based on a net reduction.

The CHAIRMAN. I think you are right about that.

Senator McMAHON. I am not sure.

The CHAIRMAN. \$2,555,000,000 is the estimated net loss to the Treasury.

Mr. McAVOY. Yes.

The CHAIRMAN. That is correct.

Senator McMAHON. Thank you.

Mr. McAVOY. The CIO does not think that the Nation will look with much favor on this proposal to give \$2,500,000,000 to a handful of the most prosperous corporations which earned tremendous profits during the wartime years and which will continue to earn excessive profits in 1946.

We recommend, therefore, that the excess-profits tax be continued for another year, until January 1, 1947. At that time the carry-back, carry-forward of the excess-profits tax credit should likewise be repealed.

We recommend, also, that the corporate-income tax be continued at its present rates except for certain special assistance to small business.

Senator LUCAS. Let me ask you, suppose we repealed the two on January 1, 1947, and these tremendous profits that have been estimated continued through 1946. The same argument could be made, you

would be able to make the same argument a year from now that you are making today against these corporations. You are assuming that they are going to make tremendous profits, according to the earlier part of your statement, and so the same argument would apply a year from now, although you are recommending that it be repealed a year from now.

Mr. McAVOY. This is a reconversion-tax program and we would want to review the whole tax situation to establish a permanent-tax program at that time.

Senator LUCAS. I can understand that; but you are complaining here against these corporations making this tremendous sum of money and saying that the American people do not understand how we can permit these corporations to obtain these reductions, and yet a year from now, if your figures are correct, you would have the same situation as you have now, so far as profits are concerned.

So your argument then would hold good then. If the argument is sound today it is sound a year from now, it seems to me. I may be wrong. But I can't see how you can take both positions and do it consistently.

The CHAIRMAN. All right, you may proceed.

Mr. McAVOY. The Ways and Means Committee, perhaps because its conscience hurt over the windfall its proposals would give to the largest corporations, has recommended horizontal reductions in these rates also. The committee argues that by this means the benefits of tax reduction would be spread to all corporations.

But this proposal likewise benefits primarily the large corporations which are least in need of tax relief. The CIO urges, instead, that your committee consider measures which will be of direct benefit to small business. The time has also come to give small business an even break. It is small business which needs tax relief—not big business. Small business does not have the financial resources that big business enjoys. The war has hit many small enterprises very hard. Many small firms will find it very difficult to finance the reconversion of their plants. Small business runs comparatively very large risks for it must concentrate on a few products and markets and lacks the benefits of diversification which big business enjoys. The tax bill passed by the House fails to give small business the pressing tax relief it needs for reconversion.

Specifically, we recommend that relief be given to small business by granting an exemption of \$5,000 from the corporate income tax, lowering existing rates for corporate enterprises with net incomes below \$100,000, and giving such incorporated small businesses the option of being taxed as a partnership. This tax relief would also assist the hundreds of thousands of veterans who are planning to operate their own business enterprises.

The CIO can assure you that the workingman, who has been hard hit by a heavy wartime tax load will resent the favoritism for the big corporations shown by the House bill. The workingman expects his elected representatives to legislate for the welfare of all the people—not for a few powerful corporations. The worker expects and rightly expects that Congress will at long last make a start on the human needs of reconversion. Until now these human problems have been completely neglected.

Mr. Bernard M. Baruch has declared that "there now prevails a 'no-man's land' of neglect of the human problems of the change-over from war to peace."

The prospects for the transition period are very bleak and bitter indeed for millions of workers who were the heroes of the production front during the war and for millions of returning service men and women. Peace is bringing untold misery to millions of workers. We are told by Government officials that 8,000,000 to 10,000,000 men and women will be unemployed by next spring. The take-home wages of employed workers are dropping rapidly as overtime is eliminated and workers are down-graded to lower-paying jobs.

The United Steelworkers recently made an exhaustive study which shows that a steelworker's weekly income, with the drop in the working week from 48 to 40 hours, will be cut at least 25 percent—from \$50.85 to \$38.38. And taking into account the wartime increase of 45 percent in living costs since January 1941, the steelworker's real wages, in terms of 1941 dollars, will be only \$26.47—or \$6.38 less in actual purchasing power than in January 1941. This is a reduction of 19 percent in real wages.

Senator MILLIKIN. Mr. Chairman, I would like to ask this of the witness.

What is the theory of your organization for increasing the real purchasing power of the dollar?

Mr. McAVOY. Our theory is that we ought to enable every working man and woman to obtain a decent American standard of living, be able to buy the necessities of life and other commodities with which to maintain that American standard of living.

Senator MILLIKIN. I am sure that everyone will agree to that, but how are you going to preserve the real purchasing value of the dollar?

Mr. McAVOY. By holding down prices and increasing wages to compensate for the loss he may have in the immediate reconversion period.

Senator MILLIKIN. Do you see the factor of unit cost in there any place?

Mr. McAVOY. Yes; we know that the productivity of the worker has increased at a rapid pace.

Senator TAFT. How do you know that? Have you got any figures to show that the productivity of the worker has increased, generally?

Mr. McAVOY. Yes; the Department of Labor, Bureau of Labor Statistics, has such figures, and the Department of Commerce also.

Senator TAFT. You mean for the last 3 or 4 years?

Mr. McAVOY. Yes.

Senator TAFT. Generally? House building, for instance?

Mr. McAVOY. Yes.

Senator BARKLEY. There hasn't been any house building.

Mr. McAVOY. The War Production Board recently published a figure of 25 percent increase for all manufacturers' products during the years 1939 through 1944.

Senator TAFT. Of course, those are war figures. They rapidly increased the war things but as to making the things they made before the war is there any evidence that there has been any increase in productivity of the laborer?

Mr. McAVOY. There are no over-all statistics.

Senator TAFT. I haven't seen any.

Senator MILLIKIN. I wonder if the witness will agree that if we are to have a high wage, reasonable profit, high velocity economy, we must continue to reduce the unit cost of the products of mass production.

Mr. McAVOY. Yes.

Senator MILLIKIN. Thank you.

Senator LUCAS. How are you going to keep the price of the necessities of life down? That is the main thing you gentlemen are interested in, and the thing in which we are all interested. It is not the price of the automobile that we are particularly interested in. It is bread and clothes. How are we going to keep the price of those two products down. You say keep the prices down. If we raise wages to the level of 65 cents an hour, which you gentlemen agree should be done, how are we going to keep prices down?

Mr. McAVOY. Well, I think that the increase in productivity and increasing skill will enable us to keep prices down and at the same time raise the wage level. And, as stated in the early part of this brief, we believe that profits are sufficient even now to increase wages without increasing prices, and that accumulated reserves can take care of that immediate problem.

Senator LUCAS. You know there are some who contend that you can't permit wages to be under control without controlling prices.

In other words, control of wages and control of prices go hand in hand. I think England is still on that basis, are they now, and Canada?

Mr. McAVOY. Yes.

Senator LUCAS. They have never released the controls over either wages or prices. Of course, we have, more or less, released control on wages, as I understand it, and have released controls on a lot of other things, but we still have certain controls.

Mr. McAVOY. We haven't released controls over wages yet, Senator. There is still an order which forbids the increase of wages if it entails an increase in prices.

Senator LUCAS. Generally speaking, the Little Steel formula is more; isn't that true?

Mr. McAVOY. Yes.

Senator BARKLEY. What is the reactionary effect of an increase in efficiency and productivity upon employment as a whole? If efficiency goes up 25 percent per man on the average, what effect does that have upon full employment?

Mr. McAVOY. Well, if we took a static point of view about production, why, it would result in a decrease in employment, but we believe that we can at the same time increase efficiency and by increasing income through wages we can get full employment and full production. That is, we don't believe there is any limit to the possible market.

Senator BARKLEY. You think by increasing purchasing power not only among wage earners but among all who buy things that the increased productivity will be absorbed so as not to reduce materially the ability of men to get jobs?

Mr. McAVOY. That is right.

Senator MILLIKIN. Mr. McAVOY, would it be another way of putting it to say constantly decreasing the unit cost will make more and

more goods available and which in turn makes more and more employment?

Mr. McAVOY. Exactly, Senator.

The CHAIRMAN. All right, you may proceed.

Mr. McAVOY. Contrary to the myth which prevails in some circles, workers have not accumulated large savings. This same study by the steel union shows that the average steelworker has only \$313 of savings representing deferred purchasing power. If we assume that the average worker saved the same amount as the steelworker—which is a very liberal assumption indeed—then the 38,104,000 nonagricultural workers, who were employed in January 1945 had total savings of less than \$12,000,000,000.

Senator MILLIKIN. Are those savings figures limited to savings bank accounts or do they include war bonds?

Mr. McAVOY. Including war bonds.

Senator MILLIKIN. Thank you.

Mr. McAVOY. This is a very significant figure because the present total savings of individuals was estimated at more than \$140,000,000,000, in the report of Reconversion Director John W. Snyder issued on October 1, 1945. Over 38,000,000 wage and salary earners—75 percent of all income-earning civilians—have less than 9 percent of the total individual savings. And Mr. Snyder supported the point made in the steelworkers' study. Referring to the savings made by individuals, he said:

These savings are largely in the hands of middle- and higher-income groups. There are millions of families with little or no savings. The steady market that business and agriculture need to reach full employment must come chiefly from current wages and salaries.

The big holders of the \$140,000,000,000 in individual savings are not the people who do the bulk of the consuming. These savings, therefore, cannot be relied upon as the driving force for turning the wheels of industry in the reconversion period. There is only one solid foundation for full employment and prosperity—adequate purchasing power in the hands of the great bulk of the people through payment of adequate wages and salaries.

The prime objective of the reconversion tax bill should be to counteract the decline in purchasing power in this critical transition period. Mass purchasing power means mass markets and postwar prosperity.

The core of reconversion-tax legislation should be to eliminate the heavy income taxes on low incomes. Yet the House bill favors a small number of the wealthiest taxpayers, those with incomes over \$21,000 a year. The take-home pay after taxes of a married man with two children—who earns \$3,000 a year—is increased by only 3 percent, while the take-home income after taxes of an individual who receives \$1,000,000 a year increased by 90 percent. Under the current law, a married man with two children who earns \$3,000 has take-home after income taxes of \$2,725. The man with a \$1,000,000 income has \$100,000 after payment of taxes. The \$3,000-a-year man has a tax saving of \$85 under the House bill; the \$1,000,000 man a tax saving of \$90,000.

Senator TAFT. Is that due primarily to this special rule of 10 percent?

Mr. McAVOY. Yes.

Senator TAFT. Short of that—the difference everybody gets, the 4 percentage points.

Mr. McAVOY. It would be about the same with the 4 percent on.

Mr. FAIRLEY. The dollar value of saving to the higher brackets, of course, is larger.

Senator TAFT. Four percent is more than \$20,000 than on \$10,000, of course.

Mr. FAIRLEY. Yes.

Mr. McAVOY. Conservative estimates indicate that wage and salary payments will drop from the VJ-day rate of \$115,000,000,000 a year to \$78,000,000,000 in 1946. Nearly 90 percent of the shrinkage in income payments will be suffered by working groups. We must shore up this shrinking purchasing power.

Senator MILLIKIN. Mr. Chairman, I should like to suggest to the witness that if we are going to have that drop in wage and salary payments the corporations will not continue having what the witness calls excessive profits, which they are enjoying at the present time. They can't have that drop in purchasing power and at the same time continue making excess profit.

Mr. McAVOY. Those estimates are also based on the Treasury estimates, Senator.

Senator HAWKES. But that doesn't change what Senator Millikin is saying. In other words, it shows lack of distribution of the funds with which to buy things, interference with business, and interference with profits. You can't have the two things. You can't put them together.

The CHAIRMAN. All right, let's go ahead.

Senator TAFT. Is that the Treasury estimate of the drop in wages and salaries?

Mr. McAVOY. Yes.

Senator TAFT. Why is it so much bigger than the estimate of falling off in national income? Does anybody know that? The falling off of national income is estimated from \$156,000,000,000 to \$130,000,000,000, and this estimate is far greater than that.

Mr. FAIRLEY. The Commerce Department reports a drop of 20 billion already in wage and salary payments. I mean in the annual rate.

Mr. BLOUGH. Mr. Chairman, may I say to clarify the record, that I don't know of any Treasury estimates on wages.

Senator TAFT. That is what I thought.

The CHAIRMAN. All right, you may proceed.

Mr. FAIRLEY. I think the wage and salary drop is based on Commerce Department figures.

Senator TAFT. You stated Treasury and I was comparing it with the Treasury estimate of drop in national income which isn't nearly so big.

Mr. McAVOY. To achieve this end the CIO makes three recommendations:

1. Repeal the grossly unfair 3 percent normal tax which is applied at a flat rate to all levels of taxable income without regard for family status and the number of dependents. Relief would be given to 12,000,000 families whose incomes are so low that they are not subject to the surtax. About four-fifths of the relief would go to families earning less than \$5,000 a year. Abolition of the normal tax would

bring tax savings of about \$2,000,000,000 which would be converted into additional purchasing power.

In this respect, of course, we agree entirely with Secretary of the Treasury Vinson's proposal.

2. Increase exemptions for single individuals to \$1,000 and for married couples to \$2,000 while maintaining existing credits of \$500 for children and dependents. This would give a family with two children an exemption of \$3,000 which is what the Heller committee finds is necessary to maintain a minimum standard of living at a level of health and decency. Their cost-of-living exemptions would bring tax savings of around \$4,000,000,000.

3. Permit individual taxpayers to carry back and carry forward for 2 years that portion of their personal exemptions and credits that is not used in the current taxable year. Corporations are now given this form of tax relief. Carry-backs and carry-forwards for individual taxpayers would provide some measure of relief for families whose incomes have been drastically cut by the impact of reconversion.

Senator TAFT. May I ask how many taxpayers would be removed from the rolls by No. 2?

Mr. FAIRLEY. I don't have the figure on that. You can get it out of the report.

Senator TAFT. Probably close to 20 million additional taxpayers, would you judge, besides the 12?

Mr. FAIRLEY. Mr. Blough could give us the accurate figure, I suppose.

Senator TAFT. If you increased every family a thousand dollars I think you would practically exempt everybody, or at least half of what is left, I would judge.

The CHAIRMAN. We will ask the Treasury about that later.

You have already gotten up above Mr. Vinson's 5 billion, I might warn you of that.

Mr. McAVOY. Of course, if we do not repeal the excess-profits tax that would make up some.

The CHAIRMAN. On these two items you are up to 6 billion.

Mr. McAVOY. Income from the excess-profits tax we estimate would amount to about \$2,500,000,000, which would offset the drop in income due to the drop in individual tax schedules.

The CHAIRMAN. All right, proceed.

Mr. McAVOY. The carry-back provision would operate in this manner: Assume that a married taxpayer had a 1945 income of \$3,500 on which the tax would be \$518. If, in 1946, the taxpayer's income was \$500 less than the personal exemption and credits for dependents to which he may be entitled, the unused exemption and credit of \$500 would be carried back to 1945. Since the tax on \$3,000 (\$3,500 less \$500) is \$411, the taxpayer would be entitled to a refund of \$107 (\$518 minus \$411).

Senator VANDENBERG. Have you any estimates on what your suggestion would cost?

Mr. McAVOY. No; we don't.

The CIO urges that special measures be adopted to provide tax relief for returning veterans. The veterans returning to civilian life should be free from the burden of unpaid income taxes. We urge the forgiveness of income taxes up to \$250 owned by veterans for the years 1941 to the date of their discharge. To equalize this benefit for veterans who have paid their taxes, grant refunds up to \$250 on tax

payments made during this period. Job-seeking veterans should not have the burden of paying past tax liabilities. And the tax refunds will be helpful to veterans who start their own small businesses.

Senator VANDENBERG. Would you relieve the veteran in respect to income from investments as well as income from Army pay?

Mr. McAVOY. No; I don't think so.

The veteran should also be given tax relief for a reasonable period after his discharge. The CIO, therefore, recommends that the \$1,500 additional exemption now granted servicemen be continued for a reasonable period after a veteran's discharge.

Senator BARKLEY. What would you regard as a reasonable period?

Mr. McAVOY. I should say a year, sir.

Senator BARKLEY. I have some letters from veterans suggesting 15 months and I wondered just why the 15 months.

Mr. McAVOY. I don't know.

Senator BARKLEY. There is no particular scientific reason for that, I expect.

Mr. McAVOY. No.

The CHAIRMAN. I expect they want to get out before Christmas and they want a full year.

Mr. McAVOY. Maybe so.

We also support the proposal made by Bernard Baruch that an incentive business tax of 25 percent less than the regular rate be given veterans opening new businesses, the difference to be applied to payments on their business loans up to \$25,000. Mr. Baruch has warned that "it is no benefit to the veteran to give him a loan he cannot repay, chaining him to debt like a galley slave." These three provisions—the cancellation of unpaid taxes, extension of the \$1,500 wartime exemption—in addition to personal exemptions—and the 25-percent business tax cut for veterans opening new businesses—are the very minimum which a grateful nation should do for those who have made such heroic sacrifices so that this Nation might survive.

The Congress of Industrial Organizations urges your committee to consider the eight-point reconversion program of the coordinating committee for a progressive tax program, copies of which have been sent to all of you. This program, we believe, is in the best interests of all the people. It will speed an orderly transition, will grant relief where it is needed, will counteract the decline in purchasing power, will grant relief to veterans, and will give small business a real lift. This program is based on the democratic tax principle of ability to pay.

In addition to the proposals advanced in the present statement, this program includes two suggestions which the CIO endorses.

1. Eliminate the automobile use tax and reduce or abolish wartime excises on items of mass consumption such as electric bulbs, movie tickets, and inexpensive toilet articles, cosmetics, and leather goods. These excise taxes are highly regressive and can only be justified as a wartime emergency measure. This tax saving of about \$500,000,000 would primarily increase the purchasing power of low-income families.

2. Curb inflationary speculation in securities, real estate, and farm land by extending the holding period for long-term capital assets to at least 36 months. Gains realized from the sale or exchange of capital assets held for less than 36 months should be taxed as ordinary income.

In summary, the CIO believes that measures here advocated comprise a sound reconversion tax program. Individual taxpayers, particularly the low-income groups, would have savings of about \$6,500,000,000 on income and excise taxes during 1946. But retention of the excess-profits tax would bring in \$2,500,000,000. By contrast, across-the-board cuts in individual tax rates and repeal of the excess-profits tax would give the largest benefits to the high-income brackets and to corporations earning excessive profits. By contrast, our program would give tax relief where it is needed most; its tax reductions would be converted into effective purchasing power, thus speeding up the tempo of reconversion and paving the way to full employment and general prosperity during the postwar period, while providing adequate revenues for the Government.

Senator VANDENBERG. Your estimate of \$6,500,000,000 as the cost of your program does not include, does it, a number of items upon which you have no estimate, such as the veteran items?

Mr. McAVOY. That is true; yes.

Senator VANDENBERG. So it would be substantially more than \$6,500,000,000 actually?

Mr. McAVOY. Yes, sir.

The CHAIRMAN. If there are no further questions, thank you very much, Mr. McAVOY.

Is there anything you wish to add, Mr. Fairley?

Mr. FAIRLEY. No, sir.

Mr. McAVOY. Thank you, Mr. Chairman and members of the committee.

The CHAIRMAN. Mr. Ringer.

STATEMENT OF WALTER M. RINGER, PRESIDENT OF THE FOLEY MANUFACTURING CO., MINNEAPOLIS, MINN., VICE CHAIRMAN OF THE SMALL BUSINESS ADVISORY COMMITTEE OF THE DEPARTMENT OF COMMERCE AND MEMBER OF THE TAX COMMITTEE OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. RINGER. Mr. Chairman and gentlemen of this committee, my name is Walter M. Ringer, president of the Foley Manufacturing Co. of Minneapolis, Minn., vice chairman of the Small Business Advisory Committee of the Department of Commerce, and chairman of its Tax Subcommittee, and also a member of the tax committee of the National Association of Manufacturers.

I am speaking to you as a representative of small business and from the experience in my own business as well as a member of these tax committees on the effect of taxation upon small business.

Small business has an overwhelming interest in the maintenance of full production and employment. The earnings of small business are directly dependent upon the level of national income. Small business will therefore benefit most from a tax program designed to effect full employment and full purchasing power. Under conditions of virtually full employment, small business will grow and prosper.

I feel that any tax revision should take into consideration the three following points:

1. The tax system should provide adequate revenue to protect the credit of the United States and safeguard the monetary system.

2. It should not impose burdens on business which restrict expansion of production and employment, discourage the opening and development of new and small businesses, affect adversely the competitive position of small as compared to large business, or be a major influence in day-to-day business decisions unduly.

3. It should distribute the tax burden equitably among all income levels insofar as that is consistent with objective No. 2. For example, the tax burden must not fall so heavily on any group as substantially to affect incentives to produce or invest or to restrict unduly the demand for consumer goods.

It is my opinion that the present tax structure violates particularly the objectives as set forth in No. 2 above. Unless modified it will continue to impose serious burdens on all business. On the surface, these burdens seem to apply equally to all sizes of business, but in effect they rest much more heavily on smaller firms in the business community. Specifically, the present tax structure renders difficult the successful and quick reconversion of small business to peacetime production and the launching of new firms, and tends to retard the growth of established small business.

I therefore urge upon you the following recommendations:

1. Excess-profits tax.

Small business should be freed from all provisions of the excess-profits tax as of January 1, 1946. The present tax is particularly burdensome to those small companies which cannot establish satisfactory prewar earnings or which have small capitalization in relation to their business volume.

I recommend that the exemption of \$25,000 from the excess-profits tax should be made retroactive to January 1, 1945. I believe this is sound because of the earlier end of the war than was anticipated by Congress. The greatest cost of reconversion on small business will be in 1945, not 1946.

Senator TAFT. We almost did that last year. We purportedly gave the benefit to small business. If we don't do it now they will never get the benefit we intended to give them last year.

Mr. RINGER. It certainly was the intent of the Congress to make that apply so that they would have the benefit of it in reconversion, and small business needs it more than any other.

Senator MILLIKIN. What would that cost?

Mr. RINGER. I think I have an approximate figure.

The CHAIRMAN. Something like \$235,000,000.

Mr. RINGER. I think that was about it.

Senator TAFT. I suppose it wouldn't be quite so much now, would it, Mr. Chairman, by reason of the fact that the war did end and the war business stopped.

The CHAIRMAN. Yes; I think it would be fully that much, Senator Taft.

Senator BARKLEY. Mr. Ringer, are you in conflict with the recommendation of the Treasury that the entire excess-profits tax be removed January 1?

Mr. RINGER. I am not.

Senator BARKLEY. If it were all removed there would be no need for this particular provision?

Mr. RINGER. Yes; because I ask for the exemption in 1945.

Senator TAFT. There would be no value in it to small business unless it is made retroactive.

Senator VANDENBERG. It would be of no special value.

Senator CONNALLY. It would apply to everybody.

Mr. RINGER. Yes.

Senator BARKLEY. Do you have a definition of small business?

Mr. RINGER. Yes; in accordance with the definition of the Department of Commerce, which is that a small business is one with a hundred or under employees for manufactures, \$200,000 annual net sales or less, for wholesalers, and for retailers \$50,000 annual net sales or less.

Senator BARKLEY. Do you think that is an acceptable formula?

Mr. RINGER. I think it is generally the formula that has been used for the basis of all these estimates on small business in the Department of Commerce so far as I know.

Senator VANDENBERG. To what extent has so-called small business been in the excess-profits brackets?

Mr. RINGER. I think very largely, because of the fact that so few of them had the advantage of prewar base earnings, Senator.

Senator VANDENBERG. So you disagree with the previous witness?

Mr. RINGER. I do. I think small business has been more affected and I think it has paid a larger percentage of excess-profits tax than the larger corporations.

Senator BARKLEY. Why do you say that small business has no prewar base?

Mr. RINGER. Well, most of us went through the depression. Speaking of our own experience, Senator, in 1934, 1935, and 1936 we had losses and we didn't run into profits until 1937 and 1939, so we have no basis.

Senator BARKLEY. You were in existence during this period?

Mr. RINGER. Yes.

The CHAIRMAN. What is your capitalization in your company?

Mr. RINGER. Our company, \$100,000, Mr. Chairman.

The CHAIRMAN. If you made any profit you pretty soon got into the excess-profits brackets?

Mr. RINGER. Yes.

Senator TAFT. Isn't it true that the great bulk of new businesses that have no earnings base are small businesses?

Mr. RINGER. Yes. I have some figures on that that might be enlightening.

The CHAIRMAN. Going back to your suggestion here just a minute, this increased exemption up to \$20,000 be made retroactive for 1945, you suggest that the war ended sooner than expected, but it is perhaps fair to say that we did not think that the war would end so early and we did not believe that it would be possible to take off the excess-profits tax and we were making an effort to help small business in 1946 by giving it the increased exemption which, of course, would be a considerable help.

Mr. RINGER. I think that was the intent of Congress, I would judge.

The CHAIRMAN. There are a lot of the small businesses on the fiscal-year basis and a lot of them have become liable for taxes, and presumably have made arrangements to pay them, or have paid them.

Mr. RINGER. Mr. Chairman, I would like to say that I have the figure from 1939 census figures that might be of interest at this point;

93 percent of all business can be characterized as small business under this definition that I gave you from the Department of Commerce; 45 percent of all employment is by small business; and 34 percent of the total volume of all business is done by small business under this formula.

Senator CONNALLY. What business are you in, Mr. Ringer?

Mr. RINGER. I am in the manufacturing business.

Senator CONNALLY. Manufacturing what?

Mr. RINGER. We manufacture—we have two departments. We have a machinery department in which we manufacture patented machines for filing saws. That includes grinders and saw-filing machines.

Back in the depression we had to diversify. Our business shrunk in this country and abroad and we engaged in the manufacture of a patented kitchen utility called the Foley Food Mill, which we have built up into a broad demand and volume.

So those are the two types of business we are engaged in.

Senator CONNALLY. How long has your company been in existence?

Mr. RINGER. About 40 years. I assumed control and ownership of it in 1926.

Senator CONNALLY. Has it paid excess-profits taxes. Did you pay an excess-profits tax the last time you paid taxes?

Mr. RINGER. Yes, sir.

Senator CONNALLY. Was it a good one?

Mr. RINGER. About \$150,000.

Senator CONNALLY. You favor repealing it now?

Mr. RINGER. Yes. I would like to give you those figures. I would like to give you our sales volume for the year end at December 31, 1942. It amounted to \$1,092,000 of which \$610,000 was war contracts, \$482,000 was regular line of products. Our net income before income taxes that year was \$129,000. After providing for income- and excess-profits taxes of \$150,000 there remained \$24,000 for net profit.

Our capital and equipment expansion during that year to maintain our war production was \$42,000. In other words, \$18,000 more than we had earned.

The CHAIRMAN. More than your net earnings?

Mr. RINGER. Yes.

Senator HAWKES. Did you have an unusually unsatisfactory experience in profits in the period establishing the base?

Mr. RINGER. We suffered in the depression, Senator, and had loss years in practically all of those base years except one; yes.

Senator HAWKES. There were many other small concerns that had a similar experience.

Mr. RINGER. I am convinced of that from our experience; yes, sir.

Senator HAWKES. That is the point you want to bring out?

Mr. RINGER. Yes, sir.

Senator HAWKES. That heretofore the excess-profits tax was very unfair to small business?

Mr. RINGER. Yes, sir; and small capitalization, and my point is that if business is to grow we must have some opportunity for them to put earnings back into their business.

Senator CONNALLY. Do you represent the Secretary of Commerce?

Mr. RINGER. Well, I am not here officially. I happen to be Vice Chairman of the Small Business Advisory Committee of the Department of Commerce, and spent some time trying to be helpful to the Department of Commerce.

Senator CONNALLY. I am not criticizing. I just wanted to know.

Mr. RINGER. The Department of Commerce, I think, requested the chairman to allow me this time.

Senator CONNALLY. You are not representing the Department officially?

Mr. RINGER. No, sir.

Senator LUCAS. That \$25,000 exemption, I take it, would apply to all corporations?

Mr. RINGER. Yes, sir.

Senator LUCAS. Regardless of size.

Senator McMAHON. Did the Advisory Committee meet and go over this bill?

Mr. RINGER. Not since the bill. We had a meeting and I submitted my recommendations to the members of the Tax Committee of the Small Business Advisory Committee of which I happen to be chairman.

Senator McMAHON. They adopted your recommendation?

Mr. RINGER. They approved the recommendation I am making.

Senator McMAHON. Was that submitted to the Secretary of Commerce?

Mr. RINGER. My statement was prepared in his office.

Senator McMAHON. It was prepared in his office?

Mr. RINGER. Yes, sir.

Senator McMAHON. He must have approved it.

Senator BARKLEY. Do you mean that it was dictated in his office?

Mr. RINGER. It was simply prepared in his office; yes.

Senator McMAHON. Was it ever submitted to him?

Mr. RINGER. No; not that I know of.

The CHAIRMAN. You may proceed.

Senator BUTLER. Mr. Ringer, there has been something said about the percent of gross sales paid to labor or employees.

Can you give us something in the way of statistics of your own business in that respect?

Mr. RINGER. I agree with the Senator who mentioned those figures. I have been astonished in finding that about 80 to 85 percent of the cost of our line particularly, is in labor.

Senator BUTLER. Is it your opinion that any benefit that might accrue to business, big or small, by a change in the tax set-up, that any such benefit would revert in about the same ratio, around 80 or 85 percent to labor?

Mr. RINGER. Well, I don't know that I would be prepared to answer that, Senator. I would say that that relief is more important to small business than it is to large because it relatively means so much more. Speaking of the exemption which I touched on, of \$25,000, is that what you refer to?

Senator BUTLER. You have no reason to think that the percentage of total sales that would revert to labor would be materially changed by increasing the income of business, small or large?

Mr. RINGER. Probably not, but that would be a stimulus to increased employment.

Senator HAWKES. Might I just say a word there, Senator, about the 85 percent? It relates to cost of production and not to sales price. I want that to be kept in mind.

Mr. RINGER. I understood that.

Senator HAWKES. Senator Butler referred to the selling prices.

Now, you will agree to one thing, I think, that nobody can tell how much of that will go to labor, but you certainly will agree that the concerns paying the excess-profits tax would be better able to meet the demands and needs of labor with it than if they didn't have that exemption.

You are better able to meet a fair wage demand and fair working conditions with that excess-profits tax removed than you would be under any other conditions.

Mr. RINGER. I consider it so. I agree.

The CHAIRMAN. All right, Mr. Ringer. Let's proceed. We have several other witnesses here.

Senator BAILEY. Let me ask: How much money did you make after paying all these taxes? You have a good case so far. What were your net profits after taxes?

Mr. RINGER. I gave our figures for 1942. After taxes we made \$24,000. I can get the exact figure. I think probably those figures were given while you were out. We made \$24,000 net profit.

Senator BAILEY. In 1942?

Mr. RINGER. Yes.

The CHAIRMAN. And you had how much additional capital investment in that year?

Mr. RINGER. \$42,000.

The CHAIRMAN. \$42,000 against a profit of \$24,000.

Mr. RINGER. Yes.

Senator BAILEY. What did you make last year?

Mr. RINGER. In 1943 we made approximately \$39,000 and our income tax was \$250,000.

Senator BAILEY. Then you had \$39,000 after taxes?

Mr. RINGER. Yes, on a \$2,000,000 business.

Senator BAILEY. What was your capital investment?

Mr. RINGER. Capital and surplus, about \$275,000.

Senator BARKLEY. You said you paid \$150,000 excess-profits tax last year, which left you still something out of your excess profits over and above the past period?

Mr. RINGER. Yes.

Senator BARKLEY. And you paid normal and surtax on your other income for that year?

Mr. RINGER. Yes.

Senator BARKLEY. That may have been an abnormal year, but can you tell us what your net profit was on all your operations last year after all taxes?

Mr. RINGER. About \$49,000 in 1944.

Senator MILLIKIN. What is the book value of the company?

Mr. RINGER. About \$220,000.

Senator TAFT. It is true generally, isn't it, that small businesses are likely to get a good deal of their income from personal services rather than earning a return on capital? A capital base does not help a small business.

Mr. RINGER. Yes, because the capitalization is so low.

Senator TAFT. Yes, and they get a return from the individual effort of the people in the business.

Mr. RINGER. Absolutely; yes, sir.

Senator JOHNSON. May I ask what your carry-back credits amount to up to the present hour, approximately?

Mr. RINGER. I couldn't tell you, Senator. I haven't those figures. I think it is about \$7,200 for 1943. That is about the figure I would have in mind.

Senator JOHNSON. For the 1 year?

Mr. RINGER. For the 2 years, 1943 and 1942. We didn't make any money in 1941.

Senator JOHNSON. 1944 was about the same ratio?

Mr. RINGER. I would presume so.

Senator JOHNSON. That would make something over \$50,000 that you will get back in carry-back credit.

Mr. RINGER. No, it doesn't amount to that, but I haven't the figure.

Senator CONNALLY. Under your definition of a small business, you have gotten above that bracket, have you not?

Mr. RINGER. Yes, we have grown, but our problem has been liquid capital.

Senator CONNALLY. I am asking you, according to your standard, if you are not now in the big class rather than the small business. You said \$100,000 was the limit.

Mr. RINGER. And 100 employees. We are in about that now, down to 100 employees. We did get up, during the war, to 120.

The CHAIRMAN. All right, proceed.

Mr. RINGER. 2. Corporate tax.

A sound corporate income tax must be designed to eliminate or offset the undue burden and competitive disadvantages which the tax would otherwise impose upon smaller enterprises. To accomplish this objective, I recommend the graduation of corporation tax rates up to \$100,000 of net income. Beyond \$100,000 the corporate and surtax rate should be uniform. This proposal would eliminate the present "notch" provision with the result that no particular bracket would be penalized.

Graduation of rates—Notch provision penalty: The present corporation income tax is levied at graduated rates ranging from 25 to 40 percent, the top rate applying to corporations with net income over \$50,000. A notch provision eliminates any graduation with respect to corporate incomes in excess of \$50,000, but in so doing imposes a rate of 53 percent on the portion of the net income between \$25,000 and \$50,000. This notch provision permits a gradual rise in effective rate until it becomes 40 percent on incomes above \$50,000 but places a heavy penalty on any additions to income between the \$25,000 and \$50,000.

3. Taxes on capital stock and declared value excess profits: Because these taxes discriminate against small business with fluctuating earnings, penalize heavily and unfairly inaccurate guesses on future income, I favor their repeal. Taxes should be paid on profits actually made and not on forecasts.

4. Individual income tax: I wish to call the committee's attention to the fact that many small businesses are unincorporated, and therefore the welfare of small business is closely tied up with laws gov-

erning individual income-tax rates. I recommend that the committee give careful consideration to the effect that the present individual income-tax rates has on the expansion and growth of small business.

The committee's attention is called to the fact that approximately 70 percent of the business firms are individual proprietorships and that only 15 percent are corporations. The remaining 15 percent are partnerships. In view of the above, I believe that individual income-tax rates should be reduced to provide venture capital and to encourage consumption.

There are over 2,000,000 small businesses in operation today in the United States. It is estimated that in the next 12 months there will come into existence a minimum of 500,000 new businesses. This statement is based on estimates furnished by the Department of Commerce.

In terms of employees, small business accounts for upward to 50 percent of business employment (using 1939 Bureau of Census figures). The problems which will face small business firms with limited capital at their disposal indicate the necessity of further tax relief for such firms if they are to weather the reconversion and transitional periods satisfactorily. Almost overnight, small firms are faced with the necessity of financing the reconversion of their plants, of developing new products, and of creating new markets.

Small firms have had little opportunity to prepare in advance for these changes. In general, they have not been able to engage in extensive research on new products, nor have many of them been able to keep open their regular distribution channels through institutional advertising which would have kept their product before the public during the wartime shortages as larger concerns have done. Large companies have been able to engage in extensive research and to expand their advertising budgets, the costs for which have been considered legitimate deductible expenses.

Senator HAWKES. May I ask why they haven't been able to do that, Mr. Ringer?

Mr. RINGER. Because they were primarily engaged in production of wartime materials.

Senator HAWKES. In other words, you mean small business ordinarily doesn't do institutional advertising and therefore they didn't have the benefit of that in keeping the business alive while they were engaged in making wartime material?

Mr. RINGER. Yes.

Senator TAFT. The Government would have paid 90 percent of your institutional advertising.

Mr. RINGER. My point is that large companies have been able to engage in this research the cost for which has been considered deductible expenses, so it has been done at the expense of the Government.

TAXATION AND NEW ENTERPRISE

New opportunities cannot be created unless there is some prospect of profit to those contributing capital. Employment must come, in large part from new enterprises, but if we make the rewards unattractive enough, there will be few to take the risk.

There is still another aspect to this problem, especially as it concerns youth. Burdened with excessive taxation, our young people

will have neither the savings nor the spirit to embark on small projects which can be built up through the years.

If today a young man has a little capital and wishes to start a new business, the income-tax collector says to him: "If you win, we share; if you lose, the loss is all yours." If he seeks additional capital, he is told: "We can make no money commensurate with the risk, so we will not join you." The large corporation, however, can start a new enterprise without very much risk, for if it loses, the Government pays much of the loss. In other words, new enterprises are undertaken mostly by the greater aggregations of capital.

Small business believes in sound Government financing and is willing to pay its fair share of taxes to achieve this.

If we expect small business to expand, increase employment and purchasing power in this period after the war, it is essential that tax adjustments be made now. The maintenance of prosperous and expanding small business is the best insurance that this country has to insure the continuance of free enterprise.

That is all, Mr. Chairman. Thank you very much.

The CHAIRMAN. Are there any further questions of Mr. Ringer? If not, thank you, sir, for your appearance.

Mr. RINGER. Thank you.

Senator VANDENBERG. Mr. Chairman, I would like to refer back for just a minute to the CIO brief. I want to ask the Treasury for some figures.

At the conclusion of the CIO statement they summarize their proposals as costing \$6,500,000,000, but the witness conceded that two or three very important items were not included in that estimate.

I should like very much if possible to have a figure from the Treasury as to what the CIO program would cost.

Mr. BLOUGH. We will try to get it for you, Senator Vandenberg.

(The information requested is presented on p. 250.)

Senator McMAHON. That is some job, Senator, figuring that carry-back provision.

Senator VANDENBERG. Yes. The chief item I have in mind is the recommendation that the veteran be given relief for a reasonable period after his discharge, which I assume is a year. It is a substantial figure, isn't it?

Mr. BLOUGH. Yes.

Senator VANDENBERG. And if there is any way to figure the carry-back, take a shot at that.

Senator TAFT. Also prewar; the taxpayers that would figure in the other proposal.

Senator BYRD. Mr. Chairman, I would like to ask the Treasury to verify the statement made that corporations have accumulated about \$30,000,000,000 in carry-back credits. Could you explain how that could be handled?

Mr. BLOUGH. You are referring to the situation where corporations pay an excess-profits tax and then in the next year, or the year after that, earn income less than their excess-profits credit?

Senator BYRD. I am referring to the fact that this statement gives the impression that there is \$30,000,000,000 that will be paid out of the Treasury to the corporations. Is that correct or not?

Mr. BLOUGH. I don't think the statement means to say that.

Senator BYRD. It says "corporations have accumulated about \$30,000,000,000 in carry-back credits with the Treasury, which, in effect, constitutes a huge pool of contingent reserves that they can draw upon."

Mr. BLOUGH. The point I make is that every dollar of excess-profits tax that a corporation has paid and every dollar of income tax which a corporation has paid for the two preceding years constitutes a carry-back reserve in the sense in which it seems to be used in this statement.

Senator TAFT. If the corporation lost money.

Mr. BLOUGH. If the corporation lost enough money.

Senator BYRD. That isn't what the statement says. They say they have already accumulated those funds.

Mr. BLOUGH. There is no actual accumulation of funds. It is simply that the corporation can, in computing its tax for its later year, carry back losses and use unused credits.

Senator BYRD. I understand, but I want to make clear that this statement is misleading.

Senator HAWKES. It would be clearer if it said that the corporations have established a position under the tax law so that business is simply putrid and they are down and out. It is a misleading statement.

Senator BYRD. This statement doesn't say that.

Senator HAWKES. It is a misleading statement. It would lead you to believe that the corporation is going to draw back that amount.

Senator BYRD. I wanted to clear it up in the record.

Senator LUCAS. The corporations would have to lose that entire amount before they could draw it.

Mr. BLOUGH. They would have to lose well over \$30,000,000,000 to draw the \$30,000,000,000.

Senator CONNALLY. They wouldn't draw anything. They would get a credit on their tax.

Mr. BLOUGH. They could get either a credit on their current tax or a refund in cash. They would have to lose more than the \$30,000,000,000 because it is the tax that amounts to the \$30,000,000,000, and the income which gives rise to that amount of tax is more than that. The loss would have to be in terms of income and not in terms of tax.

If you wish I will elaborate this statement for the record.

Senator VANDENBERG. If the corporations maintained the business earnings which are prophesied in the CIO statement, the \$30,000,000,000 is out the window, isn't it?

Mr. BLOUGH. The figure would not be \$30,000,000,000, or anything like it.

Senator McMAHON. How much would they have to lose in order to draw that \$30,000,000,000?

Mr. BLOUGH. I don't know. Something considerably in excess of \$30,000,000,000, and it would have to be distributed in just the right way.

Senator BYRD. Will you make a clear statement on that for the record?

Mr. BLOUGH. I will do what I can, Senator.

(The statement requested is as follows:)

The question has been raised as to the meaning of the so-called \$30,000,000,000 potential carry-back credits which corporations have accumulated, and as to the conditions under which these credits may be turned into tax refunds.

In years of subnormal income or losses, the carry-backs of unused excess-profits credits and of losses require a redetermination of income and taxable excess-profits of the two preceding years and result in refunds of income and excess-profits taxes of those years. Theoretically, the total tax liabilities of those two years are available to be drawn on. Total corporate tax liabilities for 1943 and 1944 are estimated at \$30,000,000,000; for 1944 and 1945 they are estimated at \$25,000,000,000. These are the "carry-back credits" to which reference has been made.

To receive refunds to the full amount of \$25,000,000,000 in 1946, every corporation would have to sustain a loss in that year exactly equal to its profits in 1944 and 1945. For all corporations, this would require deficits of approximately \$40,000,000,000. By way of comparison, corporate deficits in the worst year on record—1932—were under \$8,000,000,000 and in 1938 were approximately \$3,000,000,000.

Senator McMAHON. If they lose \$100,000,000,000 we won't be worrying about taxes.

The CHAIRMAN. That is right.

Senator HAWKES. May I say just this? The prediction in the CIO statement that the corporations are going to make this tremendous profit and are being relieved if we take the excess-profits taxes off, that is thoroughly incompatible with the position that they are going to draw back this \$30,000,000,000 from the Treasury. The two things don't fit together at all.

The CHAIRMAN. Mr. Henry Wolf. Come around, Mr. Wolf.

STATEMENT OF HENRY H. WOLF, REPRESENTING THE NATIONAL COMMITTEE ON TAXATION OF THE NATIONAL LAWYERS GUILD

Mr. WOLF. Mr. Chairman, I offer this statement for the national committee on taxation of the National Lawyers Guild.

The House tax bill, in the opinion of the National Lawyers Guild, fails to meet the reconversion tax needs of the Nation in four major respects:

1. Our primary reconversion economic problem is to keep up the rapidly declining purchasing power of the people. The House bill fails to provide adequate relief for the millions of lower-bracket taxpayers whose pay envelopes have rapidly shrunk through loss of overtime and change-overs from wartime to lower-paying peacetime jobs, while at the same time giving the highest-bracket taxpayers special unwarranted reductions.

2. The excess-profits tax should be retained at the current 85½ percent rate until January 1, 1945, when the tax should be repealed, and the corporate surtax rate should remain at 16 percent. The House bill grants to a small number of the largest corporations in the country a huge windfall of excessive profits, through the reduction in the excess-profits tax rate to 60 percent.

3. The House bill fails to provide badly needed tax relief to hundreds of thousands of small corporations, which are vital to the economic health of the country.

4. The House bill fails to grant war veterans relief from back war-time taxes, which they have earned in the service of the Nation.

The sudden termination of the war—a suddenness for which every American home is deeply grateful—has brought in its wake a sharp reduction in the size of pay envelopes. The elimination of 8 hours of overtime has brought a 30-percent pay cut to millions of American

families. In addition, unemployment is rapidly rising and official Government estimates indicate that by next spring, from 8 to 10 million of our people will be jobless. At the same time, prices are not falling—indeed they are rising. With sharply lowered incomes, our people must feed, house, and clothe themselves at inflated wartime prices. Now, wholly apart from any consideration of the dread consequences to the 25 or 30 million people whose food and rent and clothing and other necessities of life are provided by the wage earners who face the awful prospect of no jobs and no incomes, we urge you to understand that the entire American economy depends on the purchasing power of our people. This is the motive power of our economic machine. And a slowing down of the machine now, at this critical moment when we are fashioning the pattern of the postwar economy is, we believe, an epoch-making error which is bound to have dangerous consequences for corporations, investors, management, and labor alike.

The House bill in effect repeals the Victory tax now embodied in the 3 percent normal tax. We heartily approve that step. But it is not enough. According to the authoritative Heller committee budget a family of four living in a large American city needs \$3,000 a year to maintain a standard of living of health and decency. That is also the minimum necessary to enable our people to buy back the goods required to keep agriculture, production, trade, and employment at high levels. Therefore, we urge, as an essential reconversion measure, that personal income tax exemptions be lifted for both the normal tax and the surtax, to \$1,000 for a single person and \$2,000 for a married couple, with credits for dependents remaining at the present level of \$500 each.

Mr. VANDENBERG. Have you any estimates as to what that would cost?

Mr. WOLF. We do not.

There are those who oppose the action of the House in removing 12,000,000 hard-pressed individuals from the tax rolls. The average saving of \$25 per person contemplated by the House action, results in a loss in revenue of only \$310,000,000, less than 6 percent of the total tax reduction provided in the House bill. It should be noted that the opponents of this action by the House are advocating outright repeal of the excess-profits tax.

We oppose, as a reconversion measure, the 10 percent special tax reduction which, in the House bill grants more than a four-percentage-point reduction in the surtax, to taxpayers in income brackets above \$20,000 to \$22,000 a year. This means that while the take-home pay of a clerk with dependents, earning \$3,000 a year, is increased by 3 percent, the take-home income of such a taxpayer receiving \$1,000,000 a year is increased by 90 percent. The tiny portion of the population in the highest income brackets who need relief least should not be specially favored by Congress.

We object to any proposal that the corporate excess profits tax be repealed at the end of this year. Repeals of this tax would cost the Treasury \$2,555,000,000 and would result in a tax reduction of \$1,797,000,000 to 900 corporations, of \$628,000,000 to 6,000 corporations and only \$130,000,000 to 12,200 corporations.

Thus, of the corporations which would be benefited by repeal of the tax, 70 percent of the tax reduction would go to only 900 corporations, three-tenths of 1 percent of the 261,000 corporations paying income taxes.

Our objection to the proposal to cut the corporate excess-profits tax rate from 85½ percent to 60 percent is grounded in a number of considerations. First, the rate cut will benefit primarily only the 900 largest corporations in America, which will receive tax reductions of an average of \$1,000,000 each.

Senator McMAHON. I don't suppose it is worth pointing out again the number of employees in those 900 larger corporations.

Mr. WOLF. I think that runs to about 50 or pretty close to 50 percent. I am not sure.

Senator McMAHON. About 7,000,000 people.

Senator GERRY. How many stockholders?

Mr. WOLF. That I don't know.

Senator HAWKES. The stockholders run into the millions, there is no question of that. As I set forth, Senator Gerry, this morning there are 758,000 stockholders of one of these corporations.

I would like to point out again that we have no way of knowing that this relief will be granted these 900 corporations because nobody knows if they will be in the excess-profits brackets next year. Nobody can estimate that.

Mr. WOLF. Chairman Doughton of the House used these figures during the tax debate.

Senator HAWKES. I know. We use a lot of figures. But I want to point out that we don't know. It is an assumption. I would like to point out the same thing I pointed out with the CIO that if these corporations are going to give this employment which you people are advocating, and with which I agree, and if they are going to consider favorably these increases in pay, certainly they have got to have profits to do it.

Mr. WOLF. We agree. I think it should be noted though that if the committee obtains figures on corporate investors, stockholders, in these various corporations, the figures should be graduated in terms of stockholders, because obviously the fact that one person has one share of a particular corporate stock is not particularly significant insofar as his income level is concerned or so far as the income is concerned and purchasing power is concerned, as against those persons whose holdings are greater.

Senator VANDENBERG. The figures will have to be screened for duplicating stockholders.

Mr. WOLF. Certainly. Indeed, yes.

It is important to remember that although billions of dollars or war contracts have been canceled, the Government still expects to pour out 50 billions during the current fiscal year for war expenditures. This means that billions of dollars are to be spent for shipping, transportation, and supplies under what are essentially war contracts. Excess profits under these contracts should be recaptured if we are, in the words President Roosevelt used in proposing the excess-profits tax, to prevent "a few from profiting at the expense of the many." Moreover, many billions of dollars will be received by corporations in 1946 under contract termination settlements. These

are war profits, they stem from war contracts. Corporations which settled their 1945 contracts in 1944 were subject to an 85½ percent rate. Why shouldn't 1946 settlements be subject to the same rate?

Certainly the repeal of or reduction in excess profits tax rates cannot be defended by asserting that it is necessary to provide business with reconversion capital. The large powerful corporations, which will be the principal beneficiaries of these reductions, have huge liquid reserves, the largest in their history. Studies of the Securities and Exchange Commission indicate that, on March 31, 1945, American corporations had liquid capital of approximately 47 billion dollars, or approximately 19½ billion dollars more than in 1940. This includes 2.3 billion dollars of postwar excess-profits credits, and 2.3 billion dollars of estimated carry-back credits or refunds. These reserves were built up out of wartime profits, the largest in our history. These profits, after taxes, amounted to the colossal sum of 39½ billion dollars for the 5 years 1940 to 1944. Therefore, we urge the retention of the existing excess-profits tax rate for 1946 and the repeal of the tax as of January 1, 1947. For the same reason, we believe that the corporate surtax should be kept at the present 16-percent rate and that the 4-percent reduction provided by the House bill should be rejected.

Little business, however, which is largely ignored by the House bill, needs relief and needs it badly. The small corporation does not have the financial resources of big business to reconvert, to develop new products, and recapture old markets. Its relative position has been considerably worsened by the heavy concentration of war contracts in the large corporations. To strengthen little business, we advocate, as an essential reconversion measure, that (1) the first \$5,000 of corporate income should be exempt from tax; (2) a graduated corporate tax should be applied to the first \$100,000 of taxable income, ranging from 5 percent on the first \$10,000 to 20 percent on corporate income from \$80,000 to \$100,000 a year; and (3) that corporations with incomes under \$100,000 a year should be permitted, at their option to be taxed as partnerships.

The House bill fails to do justice to our war veterans, the men and women who manned the ramparts to crush fascism and aggression. We believe that elementary justice requires that we wipe out back taxes for war years owed by veterans up to \$250, and grant refunds of the same amount in cases in which veterans paid wartime taxes.

These are the main features of the reconversion tax program which the National Lawyers Guild urges your committee to adopt. This program has the support of 16 leading national labor, consumer, church, education, professional, and other organizations, representing millions of our citizens throughout the Nation, which have joined together under the leadership of the Coordinating Committee for a Progressive Tax Program.

I would like the permission of the committee to insert in the record this supplementary statement.

(The statement referred to will be found at the end of Mr. Wolf's testimony.)

Senator BARKLEY. What are these organizations?

Mr. WOLF. I have the list of organizations.

Senator VANDENBERG. Those are the same organizations that the CIO listed.

Mr. WOLF. Yes. The CIO is one of the members of the coordinating committee.

Senator BAILEY. I would like to ask the Treasury representative: You have the proposal presented by the witness. I would like to know how much that would reduce the revenue.

Mr. BLOUGH. We will look into this and try to get the figures.

Senator BAILEY. I think the proposition is very reasonable.

(Estimates of tax reductions under the CIO program, which differs only in minor respects from the National Lawyers Guild program, are presented on p. 250.)

Senator CONNALLY. You represent the Lawyers Guild?

Mr. WOLF. Yes, sir.

Senator CONNALLY. Are you a full-time salaried man?

Mr. WOLF. No. I am a lawyer in New York. I am a member of the National Committee on Taxation.

Senator VANDENBERG. May I ask you what your attitude is toward the 150-percent increase in social-security taxes on January 1? Do you think that should be allowed to go in or should it be frozen?

Mr. WOLF. Senator, I am speaking for the committee, and we haven't discussed the matter of social security at all. It is pretty obvious to us that the social security, at least we thought that the social-security provisions would be left alone until there is an over-all consideration of the social-security measure.

Senator VANDENBERG. Your organization and the CIO have always opposed the freezing of the social-security taxes. The House bill freezes the existing 1-percent rate and stops the 150-percent increase January 1. I was wondering whether you still maintained the position that we should not freeze the social-security taxes.

Mr. WOLF. No; I don't think that that is so. I don't think the reconversion tax program would be the appropriate place for a change of the social-security tax, that the entire problem of changes to the social-security structure should be handled at one time.

Senator VANDENBERG. I totally agree, but that hasn't been your organization's position heretofore.

Mr. WOLF. I don't think the organization's position has changed with respect to the desire to increase the social security.

Senator BARKLEY. When your organization took a position on it all that was before us was the freezing of the tax.

Mr. WOLF. That is right.

Senator VANDENBERG. That is all that is before us now, Senator.

The CHAIRMAN. Thank you.

(The material submitted by Mr. Wolf, entitled "A Six-Point Reconversion Tax Program," is as follows:)

A SIX-POINT RECONVERSION TAX PROGRAM

(Prepared by National Committee on Taxation, National Lawyers Guild,
September 26, 1945)

Taxation was one of the major instruments employed by the Federal Government in the war against fascism and aggression. In the reconversion of our economy from war to peace, Federal taxation will inevitably play a vital role. The nature of the policies to be employed by Congress during the reconversion period will have profound effects on the human and industrial costs of the transition and in shaping our future economic life.

Labor and capital, management and workers, producers and consumers are all agreed on the objective to be achieved—the reconversion tax bill must be geared to achieving an economy of permanent full production and full employment, with a minimum of temporary unemployment and hardship and the smallest possible general dislocation of our economy.

THE WAR AND TAXES

We approach the fashioning of an interim tax program with the realization that the war has given a terrific jolt to traditional thinking as to the impact of taxes on our economy. During the war we achieved capacity production and capacity employment. We collected in Federal revenues in the last war year \$43,000,000,000 which was over 7 times the \$6,000,000,000 peak revenues in any peacetime year. The Federal Government spent over \$90,000,000,000 in the fiscal year 1945, nearly 10 times its peak peacetime expenditure of \$9,200,000,000. The national income was the highest in history; per capita incomes doubled between 1940 and 1944; and more than 60,000,000 men and women were employed in the war and civilian effort. Despite the highest taxes in history, corporate profits, after taxes, reached an all-time high of \$10,000,000,000, three times the average level of profits after taxes for the years 1936 through 1939.

THE REDUCTION OF PURCHASING POWER DURING RECONVERSION

The sudden termination of the war, without an adequate interim shock-absorbing program, has plunged us headlong into unemployment and dislocation. Six billion dollars of war contracts were canceled during the first week after VJ-day. One million workers lost their jobs in the first 48 hours and 5 million men and women are expected to join the ranks of the unemployed by December, and 8 to 10 million by next Spring. In addition, the wages of employed workers are falling rapidly. The restoration of the 40-hour week has sharply cut take-home pay, since overtime work, which was an important factor in wartime wages, has been very largely eliminated with the restoration of the 40-hour week. The loss of overtime pay may be disastrous to millions of families which must still pay wartime prices for food, clothing, rent, and other necessities of life. An exhaustive survey made by the United Steelworkers of America has shown that steel workers whose wages averaged approximately \$50 in 1945 will earn only \$38 a week as a result of a return to the 40-hour week; and that, taking into account a 30 percent increase in the cost of living since January 1941, their real wages, measured by peacetime dollars, will amount to only \$29.50 a week, 10 percent less than their prewar earnings.

There are other factors depressing wages. As workers shift from war to peace work, they are being forced to accept jobs at lower wage scales. Many workers are being downgraded, at lower wage scales.

All this—unemployment of millions of workers, the depressing of wage scales and the thinning out of take-home pay—means an ominous reduction in the purchasing power of the masses of the people, at a time when Government purchasing has dropped precipitously. War expenditures in the current fiscal year are expected to drop \$40,000,000,000 below last year's expenditures.

While workers lose jobs by the millions and pay envelopes become thinner, prices are not receding. Indeed, price control is being weakened on all sides. In the rent field, the OPA has announced that rent controls are to be lifted in many cities. Manufacturers and businessmen are bringing tremendous pressure on the OPA to allow high reconversion prices for the civilian articles which were war casualties and are now again being produced. The OPA's entire enforcement policy has been demoralized by the sweeping away of restriction on materials and sales by WPB and by a general administration policy of lifting wartime controls.

There has been too complacent an attitude on the part of some Government officials and of a large number of legislators toward the pressing problems of our working population. The generous treatment accorded industry in facilitating financial aid in the termination of war contracts and disposal of surplus war property, and recently in tax-relief legislation, contrasts sharply with the treatment accorded workers, particularly as reflected in the failure to provide adequate unemployment compensation benefits for the reconversion period. Bernard M. Baruch has warned that "there now prevails a 'no-man's land' of neglect of the human problems of the change-over from war to peace."

WARTIME SAVINGS

The prospects for the transition period are thus bleak and bitter for millions of workers who were the heroes of the production front during the war, and for millions of returning service men and women. Mass purchasing power, which is the lifeblood of our economy, rapidly diminishing. Many people have been deluded by the figures of vast wartime savings into believing that, despite large-scale unemployment and falling wages and inflated prices, the American people will rush out to spend large accumulated earnings, and thereby bring us a high level of prosperity. This is dangerous thinking, for the fact is that the masses of the people, who must do the mass buying needed to support full production, have accumulated only a small part of wartime savings. It has been estimated that the approximately three-fourths of our American families with incomes under \$3,000 a year have saved only \$8,000,000,000, or 14 percent of the total war savings. On the other hand, the small minority of the families with incomes over \$5,000 a year (9 percent of the families) have amassed nearly \$43,000,000,000, or 72 percent of the Nation's individual wartime savings. The American workers, therefore, who make up the mass of consumers and whose buying is the crucial factor in our economic life, do not have large savings. It has been estimated that, after allowing for normal "rainy day" savings, the average American industrial worker has only \$300 of savings, which represent deferred wartime purchasing. With 10,000,000 workers facing unemployment by next spring, with wages dropping, workers will be obliged to spend their meager savings for food and clothing and rent at inflated wartime prices—not for a burst of buying of household equipment, radios, refrigerators, or automobiles.

REDUCED PURCHASING POWER AND BUSINESS

Unemployment, lower wages, and reduced purchasing power are not merely the profound concern of American workers and their families. They are an equally serious menace to American business and industry. President Truman has warned that "nothing would be more harmful to our economy than to have every displaced war worker stop buying consumer goods."

The success of our entire reconversion program and the achievement of economic prosperity depend on maintaining mass purchasing power. Consumer demand is the motive power of our economic system. Therefore, a major objective of the reconversion tax program should be to sustain the mass purchasing power of the people, through reduced taxes on the lower-income groups. The tax reductions to be adopted for the transition period should have as their prime objective the relief of those with little incomes of a part of the heavy tax burdens they have carried during the war. Thereby, as has been aptly stated, the "blood clot" in our economic system due to the lack of spending power among the masses of the people may be eased.

PERSONAL-INCOME-TAX PROPOSALS

We, therefore, proposed that Congress make three changes in the personal-income tax in order to help pump "the blood of spending power" through our economic system during the critical reconversion period:

(1) Personal exemptions should be increased to a minimum of \$1,000 for a single person, \$2,000 for a married couple, with credits for dependents remaining at the present \$500 figure.

(2) The 3 percent normal tax on all incomes above \$500 regardless of marital status or dependents—the successor of the misnamed "Victory tax"—should be eliminated.¹

¹ Technically this proposal can be achieved by retaining the 3-percent normal tax, but allowing exemptions and credits on the basis of marital status and dependents, coupled with a downward revision of each surtax rate of 3 percent. Thus, if the proposed exemption of \$1,000 for a single person and \$2,000 for a married couple (with a \$500 credit for each dependent) is adopted, a married person with 2 dependents would be subject to a 3-percent normal tax on net income over \$3,000 and a surtax of 17 percent on net income above \$3,000; i. e., a combined tax of 20 percent on net income above \$3,000—in effect, the elimination of the existing 3-percent Victory tax. This technical method is desirable so that partially tax-exempt governmental securities (which are exempt from normal tax but subject to the surtax) should not reap any windfalls.

(3) Individuals should be permitted a 2-year carry-over and carry-back of their unused personal exemptions and credits for dependents.²

CARRY-OVER AND CARRY-BACK OF UNUSED EXEMPTIONS

During the reconversion period, when individual incomes will be declining, there should be extended to individuals the carry-over and carry-back principle which looms so large these days in corporate and business taxation. Corporations are allowed to carry forward and back for 2 years unused excess-profits credits and net operating losses. And individuals, partnerships, etc., are allowed the 2-year carry-over and carry-back of net operating losses to a trade or business.

Likewise, corporations and individuals may carry over net capital losses for 5 years. We suggest that individuals be permitted to carry over and to carry back for 2 years their unused personal exemptions and credits for dependents. This provision would be particularly important during reconversion, when workers are losing jobs and migrating from war centers in search of work. The tax refunds which workers would receive would mitigate the harshness of reconversion.

PERSONAL EXEMPTIONS AND VICTORY TAX

These measures would help sustain buying power and grant relief where the need is greatest. In addition, our proposals are highly desirable measures for a number of other reasons.

First, they are necessary in order to restore incomes required to maintain a minimum standard of living and health and decency. It should be axiomatic in a democracy that no taxes ought to be levied on any taxpayer whose income is insufficient to maintain a minimum standard of decent living. We know that, in addition to the present basic income taxes of 23 percent on incomes above exemptions, even in prewar days, families with incomes under \$2,000 a year paid out from 17 to 20 percent of their incomes in direct and indirect taxes. The authoritative study of the budget necessary to maintain a family of four in a large American city at a minimum standard of living of health and decency—the Heller committee budget—is approximately \$3,075. The exemptions here proposed would allow a family of four amounts approximating the Heller budget minimum standards to go tax-free.

Second, the Victory tax is a grossly inequitable levy and constitutes a flagrant violation of the democratic principle of taxation according to ability to pay. It is a flat tax at the rate of 3 percent on all incomes above \$500, without credits for dependents. The man whose income is \$50,000 a year or \$250,000 a year pays this tax at the same rate as the worker who earns more than \$10 a week. It is probably the most regressive levy in Federal fiscal history.

The repeal of the 3 percent normal tax would simplify the entire income-tax structure in eliminating 9,000,000 to 10,000,000 taxpayers least able to pay and most expensive to tax. The elimination of the 3 percent normal tax would also simplify tax computations and the preparation of tax returns. Thereby a single set of exemptions would be substituted for a double set, and a single tax computation for a double one. It would also alleviate the computations in returns filed by husbands and wives. It would likewise eliminate much clerical work incident to the collection of the withholding tax, which would be a welcome relief for business.

Moreover, the only possible justification for the extremely heavy tax burdens at existing rates on low income groups was the need to combat inflation during the war, at a time when civilian goods were scarce. While we do not believe that the low exemptions and high rates were in fact warranted to combat war-time inflation, it is apparent that, with civilian goods beginning to flow more freely, they are utterly unjustified. We need fear no inflation from the purchase of goods by the masses of people in the income brackets under \$3,000 a year. Not with prices having soared to from 30 to 45 percent over the prewar levels. What we do need to fear is that the average American family will be unable to clothe and feed and house itself and provide other minimum essentials of life, without which all thought of an economy of full production is sheer fantasy.

² The carry-back provision would operate in this manner: Assume that a married taxpayer had a 1945 income of \$3,500 on which the tax would be \$518. In 1946 the taxpayer's income was \$500 less than the person exemption and credits for dependents to which he may be entitled, the unused exemption and credit of \$500 would be carried back to 1945. Since the tax on \$3,000 (\$3,500 less \$500) is \$411, the taxpayer would be entitled to a refund of \$107 (\$518 minus \$411).

During the war exemptions were successively lowered from \$1,000 for a single person and \$2,500 for a married couple, to \$800 and \$2,000, then to \$750 and \$1,500 and finally to the present level of \$500 a person. The economic soundness of the country, the welfare and standard of living of the Nation and every principle of democratic taxation require an increase of exemptions to a minimum of \$1,000 a person, and the wiping off the books of the worst blot on our tax history—the 3 percent misnamed Victory tax.

THE PROPOSALS FOR RATE REDUCTIONS "ACROSS THE BOARD"

An alternative proposal which has been widely discussed is that Congress reduce all rate "across the board" by some flat percentage. A 20-percent reduction in all rates is being advocated in some quarters. We urge that all such proposals be summarily rejected, as being contrary to the economic and social welfare of the country and designed to help the comfortable and wealthy at the expense of lower-income groups. As we have already stated, what this country needs at this moment is to increase the purchasing power of the masses of the people. Decreased taxes on the higher-income groups will have only a comparatively minor effect on the number of radios, household equipment, and cars, and the amount of clothing, furniture, and other basic articles purchased. Decreased taxes on the lower incomes, on the other hand will mean that virtually all such amounts of lowered taxes will be spent.

The regressive and highly inequitable effects of an across-the-board cut in income-tax rates is shown by the tables which follow. We have set forth the effects of a flat 20-percent reduction in rates, as compared to the repeal of the Victory tax and the increase of personal exemptions to \$1,000 per person.

The proposal for a 20-percent flat cut offers a spurious equality which, in actual operation, discriminates against low incomes. A married person with two dependents earning \$40 weekly would secure a tax reduction of \$31, or less than the equivalent of 1 week's earnings. But a taxpayer earning \$500 weekly would get a reduction of \$1,941, equivalent to almost 4 weeks' earnings. And if his earnings were \$5,000 weekly, his tax reduction would be \$41,597, equivalent to more than 8 weeks' earnings. In actual effect, the across-the-board cut is most inequitable; it is an application of ability-to-pay in reverse. Under the proposed across-the-board cut, those best able to weather reconversion storms would obtain the largest benefits, while those whose needs are greatest would receive the smallest amount of relief.

COMPARISON OF INDIVIDUAL INCOME-TAX REDUCTIONS UNDER (1) THE 20-PERCENT ACROSS-THE-BOARD REDUCTION PROPOSAL AND (2) OUR PROPOSAL FOR HIGHER EXEMPTIONS, COUPLED WITH THE ELIMINATION OF THE 3-PERCENT NORMAL TAX

TABLE I.—Married person—two dependents

Income	Tax under existing law	1. Proposal for 20 percent across-the-board reduction			2. Our proposal: Personal exemption, \$2,000 for married persons, \$500 for each dependent; 3 percent normal tax eliminated. (Present law, \$500 exemption per capita.)		
		Amount of 20-percent reduction	Effective rate ¹ of reduction (to income)	Tax after 20-percent reduction	Amount of reduction under our proposal	Effective rate ¹ of reduction (to income)	Tax under our proposal
Gross income:			<i>Percent</i>			<i>Percent</i>	
\$1,000.....	\$12	\$2	0.2	\$10	\$12	1.2	\$0
\$1,500.....	26	5	.3	21	26	1.7	0
\$2,000.....	39	8	.4	32	39	2.0	0
\$2,500.....	105	21	.8	84	105	4.2	0
\$3,000.....	211	42	1.4	169	211	7.0	0
\$3,500.....	315	63	1.8	252	285	8.1	30
\$4,000.....	418	83	2.1	335	298	7.5	120
\$5,000.....	624	124	2.5	500	324	6.5	300
Net income:							
\$10,000.....	2,245	449	4.5	1,796	585	5.9	1,660
\$25,000.....	9,705	1,941	7.8	7,764	1,325	5.3	8,380
\$50,000.....	26,865	5,373	10.7	21,492	2,205	4.4	24,660
\$100,000.....	68,565	13,713	13.7	54,852	3,855	3.9	64,710
\$250,000.....	207,985	41,597	16.6	166,388	8,395	3.4	199,590
\$1,000,000.....	900,000	180,000	18.0	720,000	17,910	1.8	882,090

TABLE II.—Married person—no dependents

Income	Tax under existing law	1. Proposal for 20-percent across-the-board reduction			2. Our proposal: Personal exemption, \$2,000 for married persons; 3-percent normal tax eliminated. (Present law, \$500 exemption per capita).		
		Amount of 20-percent reduction	Effective rate ¹ of reduction (to income)	Tax after 20-percent reduction	Amount of reduction under our proposal	Effective rate ¹ of reduction (to income)	Tax under our proposal
Gross income:			<i>Percent</i>			<i>Percent</i>	
\$1,000.....	\$12	\$2	0.2	\$10	\$12	1.2	\$0
\$1,500.....	98	19	1.3	79	98	6.5	0
\$2,000.....	202	40	2.0	162	202	10.0	0
\$2,500.....	305	61	2.4	244	255	10.0	50
\$3,000.....	411	82	2.7	329	271	9.0	140
\$3,500.....	518	103	2.9	415	288	8.2	230
\$4,000.....	631	126	3.1	505	311	7.8	320
\$5,000.....	844	168	3.3	676	344	6.9	500
Net income:							
\$10,000.....	2,585	517	5.1	2,068	625	6.3	1,960
\$25,000.....	10,295	2,059	8.2	8,236	1,325	5.3	8,970
\$50,000.....	27,585	5,517	11.0	22,068	2,205	4.4	25,380
\$100,000.....	69,870	13,974	13.9	55,896	4,290	4.3	65,580
\$250,000.....	208,895	41,779	16.7	167,116	8,395	3.4	200,500
\$1,000,000.....	900,000	180,000	18.0	720,000	17,000	1.7	883,000

¹ Effective rate is the percentage of the amount of reduction to income.

TABLE III.—Single person—no dependents

Income	Tax under existing law	1. Proposal for 20-percent across-the-board reduction			2. Our proposal: Personal exemption, \$1,000 for married persons; 3 percent normal tax eliminated. (Present law, \$500 exemption per capita)		
		Amount of 20-percent reduction	Effective rate ¹ of reduction (to income)	Tax after 20-percent reduction	Amount of reduction under our proposal	Effective rate ¹ of reduction (to income)	Tax under our proposal
Gross income:			<i>Percent</i>			<i>Percent</i>	
\$750.....	\$43	\$8	1.1	\$35	\$43	5.7	\$0
\$1,000.....	95	19	1.9	76	95	9.5	0
\$1,500.....	198	39	2.6	159	128	8.5	70
\$2,000.....	302	60	3.0	242	106	5.3	196
\$2,500.....	405	81	3.2	324	155	6.2	250
\$3,000.....	516	103	3.4	405	176	5.9	340
\$3,500.....	628	125	3.5	503	195	5.6	433
\$4,000.....	741	148	3.7	593	209	5.2	532
\$5,000.....	954	190	3.8	764	224	4.5	730
Net income:							
\$10,000.....	2,755	551	5.5	2,204	455	4.6	2,300
\$25,000.....	10,590	2,118	8.4	8,472	1,030	4.1	9,560
\$50,000.....	27,945	5,589	11.1	22,356	1,845	3.6	26,100
\$100,000.....	69,870	13,974	13.9	55,896	3,420	3.4	66,450
\$250,000.....	209,350	41,870	16.7	167,480	7,040	3.2	201,410
\$1,000,000.....	900,000	180,000	18.0	720,000	16,000	1.6	883,910

¹ Effective rate is the percentage of the amount of reduction to income.

These tables also show that the effective rate of the reduction under the 20 percent across-the-board reduction varies from 0.2 to 3.3 percent for married persons with incomes under \$5,000; whereas the effective rate of the reduction for incomes above \$10,000 climbs from 4.5 to 18 percent on a \$1,000,000 income. This is the clearest demonstration how heavily loaded the across-the-board reduction favors the high incomes and how meager are the true benefits of the lower incomes.

An examination of these tables strikingly demonstrates that the advocates of across-the-board cuts are espousing a soak-the-poor policy for the benefit of the higher income levels. Under the proposal for a 20 percent flat rate cut, for example, all married taxpayers with two dependents who have incomes above \$15,000 a year would obtain larger tax reductions than under our proposals. Thus, such a taxpayer with an income of \$100,000 a year would have his taxes reduced by \$13,713 through the 20 percent cut, as compared with a reduction of \$3,855 under our plan. A taxpayer with an income of \$3,000 would save \$42 under the 20 percent flat cut, whereas he would save \$211 under our plan.

Likewise, the across-the-board reduction would favor married taxpayers with no dependents whose incomes are above \$13,000, whereas our proposals would favor taxpayers under that tax figure. Thus, such a married couple with an income of \$50,000 a year would have its tax bill reduced by \$5,517 under the proposed 20 percent reduction, whereas they would save \$2,205 under our plan. The couple with an income of \$2,000 would save \$202 under our plan, but only \$40 under the flat 20 percent reduction.

The issue is thus squarely put: Shall our tax reductions during the reconversion period favor the high levels at the expense of the low and middle levels? Are the people with incomes above \$15,000 a year in greater need of lower taxes than the men and women earning \$30 and \$40 and \$50 a week? There can be only one answer—our economy demands that mass purchasing power be kept up; the needs of our people for the daily necessities of life demand that the masses of the people be given tax relief; and every principle of fairness, equity and democracy of taxation call for rejecting across-the-board cuts and increasing personal exemptions and repealing the infamous Victory tax.

CORPORATE AND BUSINESS TAXES

The major change in business taxation which is being advocated by the mouthpieces for big business is the immediate repeal of the excess-profits tax. We believe that the excess-profits tax should be retained until after the reconversion period has been completed.

The elimination of the excess-profits tax cannot be defended by asserting that it is necessary to provide business with reconversion capital. War profits have provided business, particularly large, powerful corporations, with huge liquid reserves, the largest in our history. SEC studies estimate that on March 31, 1945, American corporations had 46.9 billion dollars of liquid capital, 19.4 billion dollars more than in 1940. This includes 2.3 billion dollars of excess-profits taxes paid during the war, which are required to be refunded or credited to taxpayers by the Federal Treasury. In addition, there are the tax carry-back provisions, which are expected to bring to corporate and business treasuries 2.7 billion dollars in refunds or credits. These huge reserves were built up out of wartime profits, after the payment of the largest dividends in history. For despite high rates of wartime taxes, corporate profits, after taxes, for the war years 1940-44 aggregated the colossal sum of 39.5 billion dollars, the largest profits ever experienced. Industry therefore, at least larger industry, has ample funds with which to reconvert to peacetime industry. War profits, refunds, and credits of excess-profits taxes, and the tax carry-back provisions have provided the financial resources for reconversion. It is important that the excess-profits tax should be continued during reconversion if we are to recapture excessive war profits. Billions of dollars will be received by industry during the reconversion period from war contracts. It must not be forgotten that, in a large measure, the reconversion period partakes of the nature of the war period. Although billions of dollars of war contracts have been canceled, many billions will continue. War expenditures in the current fiscal year are still expected to amount to 50 billion dollars. Shipping, transportation, clothing, food, medical supplies—all these and a thousand other items will continue to be supplied to our occupation forces abroad under war contracts. Excessive profits under these contracts should be recaptured, unless we are to violate the very purpose of the excess-profits tax to prevent "a few from profiting at the expense of the many." Moreover, many billions of dollars will be received by corporations under contract termination settlements. These are war profits; they stem from war contracts. If the excess-profits tax is repealed, a huge tax windfall will be given to industry for which there is utterly no warrant.

Nor may the repeal of the excess-profits tax during the reconversion period be defended as applied to corporations which turn from war work to civilian

production during that period. In fact, it is highly important that the levy be retained in order to offset the competitive advantages which early reconverters will obtain. The capture of postwar markets, of desirable distribution channels, etc., will be a tremendous boon to the early birds. The excess-profits tax should be kept so as to cut down that advantageous position in relation to businesses which continue to engage in carrying out war contracts.

Finally, we do not need the repeal of the excess-profits tax as an impetus to speed or encourage reconversion. The race to get in on the ground floor in selling civilian goods, coupled with tax carry-backs, will provide enormous inducements to plunge into civilian work with vigor. Under these provisions, losses, or even low profits, may be offset by Federal tax refunds. Therefore, even highly speculative risks and expansion may be undertaken with safety in the first 2 years after a corporation emerges from profitable war business, since the Federal Treasury will largely absorb the risks.

The excess-profits tax should, therefore, be retained as a reconversion measure. For the same reason, we believe that, except for smaller businesses, as stated below, the existing corporate income tax rates should be retained.

When the transition period has ended, we believe the excess-profits tax should be terminated, and with it should go the unused excess-profits tax carry-back. This carry-back provision was designed to equalize the excess-profits tax so that if in one year a tax had been paid and in another year profits had fallen so that the entire excess-profits credit had not been used, the unused credit will offset the tax for the earlier year. The entire conception of the carry-back is dependent on the existence of the excess-profits tax, for otherwise, there is nothing to equalize. It does not make sense to allow a carry-back of an unused excess-profits credit from a year in which there is no excess-profits tax, in order to obtain an equalization with an excess-profits tax paid for an earlier year. The advocates of the continuation of the unused excess profits credit carry-back are thus seeking a subsidy of hundreds of millions, and perhaps billions of dollars for which there is no justification.

Our insistence that the equalizing tail of the excess-profits tax, namely, the unused excess profits credit carry-back, must go with the body of the tax is not, of course, applicable to the 2-year net operating loss carry-overs or carry-backs. These are functions of the corporate (and business) income tax. They are designed to offset losses over a 5-year period against profits. That provision should be retained in the code, along with the corporate income tax, but the excess-profits tax carry-back should be eliminated with the ending of the excess-profits tax.

AID TO SMALL BUSINESS

Smaller business is not, in general, in the same financial or economic position as large business. The war has considerably worsened the relative position of little business, in relation to big business. The distribution of governmental contracts and shortages of materials, machinery, and manpower have wiped out numerous smaller enterprises and generally weakened their ability to survive in the competitive struggle. Nor does little business have the resources to finance reconversion available, either internally or in the money market, to the powerful corporations. Many small firms will be faced with the necessity of financing the conversion of their plants, of developing new products and of creating new markets. They have had little opportunity to prepare in advance for these changes, whereas large companies have been able to engage in extensive research and to expand their advertising budgets, the costs of which have been considered legitimate deductible expenses. In developing new products and markets, small business runs comparatively very large risks, for these businesses must concentrate on a few products and markets, lacking the benefits of diversification which large business enjoys. In order to strengthen such enterprises, we believe that it would be desirable to reduce corporate income tax rates on businesses with net incomes under \$100,000 a year, by providing a graduated scale of rates, with perhaps the first \$5,000 of net income exempt from tax, and the rate increasing to the current 40-percent rate on incomes above \$100,000 a year. In addition, such businesses should be permitted, at their option, to be taxed as partnerships. The latter recommendation would eliminate all corporate taxes and treat the stockholders of small business as if the business were directly owned by them as individual entrepreneurs. These proposals would make a substantial contribution to the encouragement and strengthening of the small business, which has played so significant a role in our economy.

EXCISE TAXES

During the reconversion period it is desirable that excise taxes on items and services used by large segments of our population should be relaxed. They are direct clogs on consumption and should be kept at a minimum. In this class is the excise tax on admissions which is now 1 cent for each 5 cents. The rate should be reduced and an exemption provided for low-priced admissions. Toilet preparations, electric light bulbs and tubes, and leather goods and luggage are now subject to a 20 percent excise tax. These should likewise be eliminated. The excise tax on local telephone service and transportation, increased to 15 percent during the wartime period, should be reduced to the prewar rate of 10 percent. The \$5 use tax on automobiles should be eliminated, as the revenue loss involved would be relatively small, while the psychological gain from the elimination of this tax irritant would be large. Excise taxes on other items should be reduced as soon as budgetary requirements permit, with priority given to items of mass consumption such as tobacco and tobacco products, gasoline, and beer.

During the war there was a huge increase in manufacturers' and retail Federal sales taxes. These sales taxes are highly regressive, are borne by the masses of people and curtail purchasing power. Their only justification was as war measures. They should be reduced or repealed promptly.

CONCLUSION

To summarize, we recommend the following six-point reconversion tax program:

(1) Increase personal exemptions from the present level of \$500 a person to at least \$1,000 for single persons, and \$2,000 for married persons, leaving the \$500 credit for each dependent intact.

(2) Eliminate the infamous, regressive flat 3 percent misnamed Victory tax, which is now designated the normal tax.

(3) Provide individuals a 2-year carry-back and carry-over of unused personal exemptions and credits for dependents.

(4) Retain the excess-profits tax until the reconversion period has ended, and thereupon repeal the tax and the unused excess-profits credit carry-back.

(5) Give relief to small business through an exemption from the corporate income tax of the first \$5,000 of net income, the adoption of a liberal graduation of corporate income tax rates on net incomes under \$100,000, and the granting to such corporations the option of being taxed in the same way as partnerships.

(6) Repeal the \$5 automobile use tax and excise taxes on electric light bulbs, toilet preparations, leather goods, and luggage and reduce other mass consumption excises.

Such a tax program will contribute, substantially to a transition to an era of full production and full employment. Such a tax program will help prevent the reaping of hundreds of millions of dollars of excessive profits out of war contracts during reconversion. Such a tax program will relieve the masses of the people of a portion of the heavy burden of wartime taxation which they have carried. Such a tax program will help maintain the lifeblood of our economy—mass purchasing power—which is being undermined by unemployment and cuts in take-home pay. Such a tax program will give relief to small business, in competing with its large, powerful competitors. Such a tax program would be in keeping with the principles of a democracy turning from war to peace.

NATIONAL COMMITTEE ON TAXATION, NATIONAL LAWYERS GUILD.

SEPTEMBER 26, 1945.

The CHAIRMAN. Mr. Hugh M. Bennett.

Mr. BENNETT. Mr. Chairman, the statement is not prepared and we would like to have it go over. If any is prepared, we will file the statement for the record. We will not make an oral presentation.

The CHAIRMAN. Very well.

Is Mr. George F. Parton present?

(No response.)

The CHAIRMAN. Mr. Rosefield.

Just have a seat, please.

STATEMENT OF J. L. ROSEFIELD, ROSEFIELD PACKING CO., LTD.

Mr. ROSEFIELD. Mr. Chairman and members, my name is J. L. Rosefield. I happen to be president of the Rosefield Packing Co., manufacturers of peanut butter. I also represent Good Foods, Inc., also manufacturers of the same product at Minneapolis, Minn.

I have not prepared a statement. I have not prepared a statement more or less purposely to impress upon the members of this committee the fact that I am simply a businessman of a smaller type. I do not know just what constitutes a small business, but we have always considered ourselves in that group.

I feel if I stumble for words or thoughts, at least I will impress you with my sincerity.

I have talked to many other small businessmen in the course of my activities. I have been led to believe that the small businessman is as a rule inarticulate for the reason that he doesn't get to Washington very often and if he does he is loath to appear in front of such an august body for fear he will fumble, make mistakes, and perhaps it would be better if he didn't appear.

So with that apology, I want to say that in my opinion the excess-profits tax was simply a war measure. I have seen quoted the President; the Secretary, Mr. Vinson; and very many other able tax men, who agree with this contention that the excess-profits tax is purely a war measure and that to continue it in peacetime is to practically extend something that was never intended to be extended during peace.

The mere fact that a large corporation, or a small corporation, makes good returns on its money is hardly germane to the subject, because I believe taxes as such are intended as revenue and not as some means of suppressing large or small business or wage earners.

I do not believe that our theory of taxation really embraces the theory of equalization of returns. I think it is a matter that is concerned strictly with some means of supporting our body politic.

With that in mind I believe the excess-profits tax, to continue it on past January 1, 1946, is rather a fallacy to even consider. And I want to say that as far as some of the effects on small business concerns, I can only speak, of course, for my own experience, but in writing that law originally the Senate and the House wrote in a provision known as 722, which was supposed to afford relief, particularly to those firms of the smaller type, which didn't rightfully fall under the provisions, and I am sorry to say that in our experience there has been little relief granted under 722.

So that as a matter of fact small business has been able to get no relief under that measure, and we have practically paid the excess-profits tax in full, and it has been a very burdensome thing.

Furthermore, in our own experience, the 10-percent refund which we were supposed to build up for reconversion—and sometimes I question what reconversion means—but as a postwar credit in our case at least it is practically nonexistent for the simple reason that we lost money during the years of, not 1936 to 1939, but during the years of 1931 to 1939, and, therefore, we had no base at all during 1936–39, and for that reason we had actual losses and the postwar refunds have all been used up; I won't say all, but practically all have been used

up in order to pay up the debts which we had accumulated in past years.

I have also understood from many other small businessmen that that is true in their case.

So this vast \$30,000,000,000 which has been mentioned as a pool on which we can draw will only be a pool if we lose money and if we pay no taxes. The theory of that, I think, is wrong from the standpoint of Government return, because not alone will we lose money but the Government won't get any taxes from that particular source if we had to draw any part of that \$30,000,000,000.

I am quite sure it is not the idea of business, large or small, to stand back and lose money in order to get back some of that \$30,000,000,000. We want to go ahead, not back. So that I feel that that is an erroneous assumption, that that \$30,000,000,000, or any very appreciable amount of it, will ever be used.

Another rather germane idea as to tax is this: The gentleman who preceded me shortly made the statement that they had accumulated a certain amount of postwar refunds but that it wasn't a very great amount. There is one angle of this tax, I think, that has been overlooked entirely, and I would like to draw it to your attention.

That is that in the conduct of ordinary business so-called profits do not accumulate as cash in the bank. They accumulate as new machinery, new capital investment, or a little larger inventory, a little larger accounts receivable, and so on down the line. But when we have to figure into our profits, or into our capital structure, and into what have you got, it isn't a question of taking out just a small portion of the profits that have accumulated in cash, but it is a problem of taking, actually getting out some 85 percent of your profits, and, gentlemen, they do not exist normally as cash in the bank.

So that where you have no adequate reserve, then your financial companies come in to help us to pay our taxes by offering to loan us money, at 4, or 5, or 6 percent, whatever they can get, to actually pay our taxes.

So please bear in mind that from the standpoint of the small taxpayer, the small businessman, I should say, this matter of tax is a very serious problem. It isn't easy at all.

It is our opinion, although it is only an opinion—we have no statistics to prove this—but it is our opinion that the larger corporations, and we have no quarrel with them, we think they should prosper, we want to see them prosper; we want to see prosperity not only for the small but the large businessman, as well as the wage earner, but it is our opinion that their expansion base period of 1936-39 is much more adequate than ours, and much more adequate than the small businessman's base, tax base, and therefore, that he will not be relieved.

When it comes down to repealing the excess-profits tax, we do not believe that his relief will be as great as is indicated by a lot of statistics.

In other words, we believe he made a fair amount of money, and it is only a belief, during 1939, the 1936-39 period, where as I know from our own company and from the facts told me by several other small companies that they have had no relief whatsoever, and that in 1946, if we are again called upon to pay excess profits, it will be

out of our earnings in their entirety and that we will have little or no relief at all from the standpoint of the base period.

I am sorry if I have lost the trend of my thought because there are many other things that I would like to say to you gentlemen. I don't want to get out of my chair for a moment. I might refer for a few moments, if you don't mind, to some notes, in order to be sure that I am not overlooking too much.

Yes; there was one thought that I wanted to bring to your minds, in addition.

In the case of my company, and I can speak of their past history authoritatively, for we have been in business since about 1914, we incorporated in 1926, we manufacture a rather lowly product, peanut butter, but we have had a considerable measure of success lately, and it has been the accumulation of research work, diligence, thought, energy, work, and yet now, when this is beginning to germinate, when it is beginning to be accumulative, when we face the prospect of perhaps becoming one of the larger units, rather than a small business, we are held back because all 85 percent of our profits have been paid to the Government. We do not complain because we are glad to have made our contribution, but, gentlemen, the time is ripe for us to be relieved from this need. Why should a firm, and your smaller firms are mostly of that type, who are paying excess profits, why should your small, aggressive firm, who promises to become a little bit more important in the scheme of things, be held back because he is being asked to pay 85 cents on every dollar he makes?

Just turn that into a larger amount. Just say he is only allowed to retain approximately \$15,000 on every \$100,000 he makes. It isn't an adequate return. It doesn't take care of his needs for expansion.

Why, to double our output in one little plant it would cost us about \$35,000 to buy the machinery alone. We look around for surplus profits which might be gathered in at maybe a fair valuation and it isn't there.

We don't grind down our union employees because we are very much in sympathy with them, but let us throw on the table what they ask and see what they are asking.

In 1936 and 1937 we were paying our girls about 40 cents an hour. Our minimum wage scale in California at that time was \$16 a week. We were paying our girls 40 and 45 cents an hour. We were paying our men about 65 cents an hour.

The unions have come to us every year with a new contract and the last one which was presented was in July. They asked us to increase our girls from 65 cents an hour, the day workers, to 70 cents an hour, and our night workers from 70 cents an hour to 80 cents an hour. We pointed out to them that according to Government regulations we could not make any such increase unless we had authority from the proper sources of Government, but we agreed that we would pay it if the Government would allow us to pay.

Then came the order that we could make such wage increases as we saw fit so long as it did not increase the cost of our finished product to the housewife.

We didn't wait for the union to come to us, but automatically gave our girls 70 cents an hour for the day shifts, not 65, not 40, but 70

cents an hour for the day shift, and 80 cents an hour for the night shift, and our men's salary remains at \$1 an hour.

We have been presented in the last week by the union—please don't think we have any quarrel with them, we stand very well in their estimation—but we have been presented with a demand that we pay our girls \$1 an hour and our men \$1.15 an hour, and that in turn we pay double time for Saturdays, and that in turn we pay triple time for Sundays, and that in turn, we grant them all 2 weeks vacation with pay, as well as sick time, and all the other benefits that we have tried to give them.

And when we point out that that might be inflationary and when we point out that that will probably make it impossible for us to maintain our present rate of cost to the consumer, we are told that that is our business, that that is our problem.

I don't entirely agree. I think it is the problem of all of us.

I happened to sit in with the conference of the Commodity Credit Corporation and industry, which was called to consider the 1946 crop of peanuts.

Now, peanuts have been classed as one of the six basic commodities in this country, along with corn and wheat and tobacco, and several others.

So that it is of some importance to you, too.

At that meeting it was decided that there would be no quotas on peanuts this year inasmuch as we have been urging the farmers to grow more and more of them.

I can remember not too long ago that the southern farmer received in the neighborhood of \$40 a ton for his peanuts in the field. Then it was raised to \$50, then to \$60, then to \$70, \$80, then to \$120, then to \$140, and during 1944 and 1945 the farmer was paid \$160 a ton.

When I gave those prices there are certain limitations as to quality and meat content, and so on.

Now we are told that the price should be 90 percent of parity, which is \$150 a ton, approximately, as of today. That is somewhat near close to four times what he was getting in normal times. Yet he is saying that that is not an ample return, that he should have 100 percent of parity; that in addition the salaries to his farm labor should be included in parity.

I am not here to discuss the parity price, but I just want to say this, gentlemen, that if everybody is going to get more, and the small businessman less—and it is all germane, even though it isn't collected with a repeal of the excess-profits tax—How are we going to live? How are we going to prevent inflation?

I have no statistics to offer to you, but I think this is something to think about. I think we need this slight relief, and it was a war measure. I don't think the repeal of the excess-profits tax should be characterized as a tax relief. I think it should be characterized as a tax justice. If it does benefit the larger corporations, why, so be it.

The truth and the rain falls on the just and on the unjust, and I believe that this tax repeal should not be a question of argument. It was a war measure. I think it was a very proper war measure.

I think we all gloried in it as a war measure, to think that we could offer in some small way our part in helping to win the war. But the

war is over. Thank God for that. I hope it is over. And when I said that to one Senator, he said, "I hope so, too."

We aren't even entirely certain it is over. We hope it is.

I think we are entitled to the relief that we should have on the repeal of this excess-profits tax.

There is just one other word that I would like to say. I think that we are entitled to some relief as of this year. As to the \$25,000 relief, I think it missed being enacted by one vote and surely that close a margin of voting shows that there was some real need for that relief in 1945, and now that the war ended so early in 1945, God be praised, why, why can't we have that relief in part now?

But if you don't give us even that \$25,000 relief, I do hope that the committee stands firm and insists on repeal of this excess-profits tax on the 1st of January 1946.

Thank you.

The CHAIRMAN. Are there any questions of Mr. Rosefield?

If there are no questions, thank you very much for your appearance here, Mr. Rosefield.

Is Mr. Walters here?

(No response.)

The CHAIRMAN. Is Mr. Parton in the room?

(No response.)

The CHAIRMAN. Mr. Thomas J. Reilly.

Mr. Reilly, you are on for tomorrow, but we understand that you can appear today.

Come around, please.

Has Mr. Parton come into the room?

(No response.)

The CHAIRMAN. Come around, Mr. Reilly. You will be the last witness today.

STATEMENT OF THOMAS J. REILLY

Mr. REILLY. Mr. Chairman, I would like to present my argument orally.

The CHAIRMAN. Yes, sir.

Mr. REILLY. I am a member of the bar from the State of Pennsylvania.

I represent two groups of investors who are interested in the commencement of business, and one corporation that is presently in business.

To me, the most important task facing the country today is the change from a war to a peacetime economy, and still retain as much of the wartime prosperity as possible.

To insure employment for the required 60,000,000 job holders and to guarantee some sense of security finally to the returning veteran, we need not only all existing enterprises continued, but as many new businesses formed as possible.

The Government must, therefore, encourage the investment of risk capital in new business so that many new jobs will be afforded and through the medium of affording reasonable returns to capital encourage such new enterprises.

House bill No. 4309 fails miserably in that respect for though previous earnings of old corporations are practically guaranteed from this burden of tax, companies founded during wartime, or companies to be formed, and investors seeking proper investment, have the profit opportunity door closed in their faces for, as Clinton Davidson, president of management planning, stated, "No investor is willing to risk capital in new enterprises today at that return."

A new company given an 8 percent allowance, based on invested capital as an excess-profit credit adjustment must operate at a great disadvantage compared with an old established company created prior to 1936, and with the high-g geared production now in the offing, we feel that this new company could not possibly operate on a sound economic basis.

It means, with the present bill as it now stands, no large new corporation will be formed under this legislation.

To quote Secretary of the Treasury Vinson, the House bill is an obstacle to the reconversion and expansion of business which is so necessary for a high level of employment and income. Judged as a peacetime tax, it has many defects.

Now, one of the patent defects is that the bill discriminates against new companies and enterprises, for, except for that 8 percent of its capital investment, it will pay 60 percent tax on all additional profits and earnings, whereas old companies will escape in the main the excess-profits tax on the credit allowed for its average base-period earnings during the prewar years.

As a result, expansion of new companies limited to such profits is negative.

The first year of this postwar era, 1946, will be accepted as the barometer of this country's economic cycle. It will be either prosperity or depression.

I would like to give you a few specific illustrations of how this tax will affect the groups that I represent.

There is a group of investors in the Philadelphia area who plan to construct a large apartment building. They have entered into it to the degree of taking options on the ground, and the plans have reached a blueprint stage.

The cost of the building will aggregate approximately \$5,000,000. There will be 1,250 different units in this apartment house. It will give direct employment to 1,000 people for an average of approximately 14 months. We are limited to \$57.50 per unit by the OPA ceiling.

With this we have no complaint because our competitors are likewise limited. But we must content ourselves with 8 percent on invested capital and on any amount over that we must pay the excess-profits tax. We cannot compete with other apartment-house owners in this area who have a prewar base established, permitting them to escape almost entirely any excess-profits tax.

Another group I represent is in the act of forming a corporation for the manufacture of cigarette lighters. It is to be capitalized at \$200,000. The investors have the money. They are able and willing to invest. The company will take over a plant that became vacant by reason of the cessation of the war, and we are ready to start operations.

We must compete with the already long-established firms. We believe we can successfully compete with these other companies, all things being equal, but we cannot compete when we pay approximately 60 percent more tax, based on the excess-profits tax, whereas they will escape practically every penny of tax in that direction.

The third group I represent is engaged in the plastics-manufacturing business. It is a corporation capitalized at \$300,000. It was born during the war, and made out very well, and flourished during the war years. The necessity now is to reconvert to serve the civilian consumer.

Other companies, larger companies, companies that have been established for many years are now getting into the plastics field. We would like to compete with those concerns. We would like to continue the employment of 135 people. But we cannot do it at such an unfair tax differential. We would receive nothing in the way of base-earning period. They, of course, would, having been established for the long period of time. We cannot continue operations if the excess-profits tax continues to be a part of the present legislation.

Although labor seems to be in favor of the retention of this excess-profits tax, I wonder how many of their leaders have looked carefully into it. Employers can well afford, when earnings are good, and they have reached a base-period earning, and from then on they must pay the excess-profits tax, they can be very independent as a result of that, and can ignore any constructive desire to negotiate any labor dispute. And who suffers by it? The wage earner suffers through a strike or a lock-out. The wage earner suffers by reason of the fact that he is indirectly affected if there is a shut-out in some other business. These shut-downs do nothing but cost a lot of earnings and profits, and in the final analysis, who pays for it but the Government? There is no tax on those profits, or earnings.

The Government pays the bill in the form of lost tax revenues.

The retention of the excess-profits tax not only discriminates against new companies, and capital investors, but it loses earnings for the job holders and revenues for the Government.

It would be far better to eliminate entirely the excess-profits tax so that all concerns, all businesses, all companies, could start even in this reconversion period.

To start from scratch and to pay the present corporate normal and surtax without change would be equality for all corporations and would cost very little in the lost revenues to the Government.

Why retard new business and new jobs? Why pass an act patently lacking in uniformity and so obviously discriminatory against new concerns and new business ventures? Why throttle initiative and kill competition, the only safeguard against inflation?

As the gentleman that preceded me stated, the excess-profits tax was a wartime control over abnormal profits and a prevention against wartime profiteering, but the war is over and so should be the controls, unnecessary controls on business.

It is necessary that the Government give every encouragement and every incentive to new, legitimate businesses, by, through legislation, being generous and helpful in peace, and removing all of these business controls as soon as possible, particularly the excess-profits tax.

And to quote, finally, what Secretary Vinson warned, "This is too erratic a tax to turn loose for even 1 full year of the postwar period."

Thank you very much for the opportunity to appear.

The CHAIRMAN. Thank you very much for your appearance.

Are there any other witnesses here who would like to appear this morning? We have time for one additional witness.

(No response.)

The CHAIRMAN. If there is not, why, the committee will recess until 10 o'clock in the morning.

This finishes all of the witnesses for today.

(Whereupon, at 12:40 p. m., the hearing was adjourned until 10 a. m. tomorrow morning, Wednesday, October 17, 1945.)

REVENUE ACT OF 1945

WEDNESDAY, OCTOBER 17, 1945

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met at 10 a. m., pursuant to adjournment, in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George (chairman), Walsh, Barkley, Connally, Bailey, Byrd, Gerry, Lucas, McMahon, Vandenberg, Taft, Butler, Millikin, and Hawkes.

The CHAIRMAN. The committee will come to order, please.

Is Mr. Clarence Laylin here? I agreed to call Mr. Laylin first this morning, at the request of Senator Hawkes.

STATEMENT OF CLARENCE D. LAYLIN, REPRESENTING THE NATIONAL ASSOCIATION OF STATE CHAMBERS OF COMMERCE

The CHAIRMAN. Will you give your name to the reporter and state for whom you are appearing?

Mr. LAYLIN. My name is Clarence D. Laylin. I am an attorney of Columbus, Ohio. I am here appearing for and representing the National Association of State Chambers of Commerce, and I am a member of the Federal taxation committee of that association.

Senator TAFT. I might add, Mr. Chairman, that when our committee was legislating the Ohio tax laws in 1931, Mr. Laylin was counsel, and a very helpful assistant. At that time I think he was professor in the Law School of the Ohio State University.

Mr. LAYLIN. I should like to add to that comment that it was a rare privilege to work with Senator Taft at that time.

The CHAIRMAN. We are glad to have you here today, Mr. Laylin. You may proceed.

Mr. LAYLIN. My membership on the Federal taxation committee of the national association is representative of the Ohio Chamber of Commerce.

The affiliated organizations of this association have a membership of more than 33,000, representing businesses, very largely small concerns, employing in the aggregate some 6,500,000 workers.

The tax program I would like to suggest to you in the long range is the outgrowth of an intensive 2-year study of the problems of Federal taxation in relation to the postwar budget and the public debt. Suggestions have been invited and accepted from businessmen, economists, accountants, lawyers, leaders in government, research organizations, and representatives of other groups developing Federal tax programs. Hence this program is not the expression of one or a few

persons, of any particular industry or segment of industry, or of any geographical locality. Rather, it is the thoughtfully prepared program of a great number of businessmen and tax students which has been approved and is being sponsored by 26 business organizations in various sections of the country, those being the constituent members of the National Association of State Chambers of Commerce.

Senator HAWKES. When you say "business organizations" you mean 26 associations of businessmen, don't you?

Mr. LAYLIN. You are correct, Senator.

Senator HAWKES. That might be misunderstood. It is 26 associations, each of which comprises a great number of business organizations.

Mr. LAYLIN. The membership of the typical State chamber of commerce consists of local chambers of commerce, individuals, corporations, and is representative usually of business such as mercantile business, transportation, agriculture, and so on.

With your permission, Mr. Chairman and members of the committee, I should like to file with you a complete copy of the program for the transitional period and the immediately following postwar years, which will indicate its details.

The CHAIRMAN. This committee will hardly get into that.

Mr. LAYLIN. The sudden termination of the war has precipitated the need for a transitional and a long-range Federal tax plan.

A law must now be enacted to bridge the gap between the present excessively high taxes and a tax program for the future. The interim tax legislation proposed, which should be adopted immediately and become effective January 1, 1946, should include several features.

Coming to the point, the interim tax legislation which we propose as introductory to our long-range ideas, and which should be adopted immediately and become effective January 1, 1946, or during the year 1946, should include several features.

1. It should repeal the wartime excess-profits tax but retain the 2-year carry-back of unused excess-profits credits for 2 years.

2. It should reduce the corporate-income-tax rate to 32 percent and continue the preferential treatment for corporations earning net incomes in the smaller brackets. Our suggestion, which has a mathematical relation to the rate, is \$40,000.

3. It should repeal the capital-stock tax and the related declared value excess-profits tax as of July 1, 1946.

4. It should repeal the present 3-percent normal tax on individuals and reduce the surtaxes by not less than 20 percent up to the \$200,000 bracket.

5. It should maintain the present social-security tax rates.

In addition, the tax legislation should apply the increase in the excess-profits-tax exemption from \$10,000 to \$25,000, as provided by the Tax Adjustment Act of 1945, retroactively to the year 1945 in view of the unexpected termination of the war in 1945 rather than in 1946, as evidently was contemplated when the Tax Adjustment Act of 1945 was enacted. Such a change would particularly benefit small corporations in meeting the problems of reconversion and postwar adjustment.

You will note immediately that we are asking for deeper tax cuts than those proposed in the bill recently passed by the House of Representatives. We do this because we believe it will be an inducement

to all-out production and employment and high-level consumption. We believe that substantial tax reductions at this time are essential stimuli to an effective system of free competitive enterprise.

Taxes must not be excessive on either business or individuals if the balance between consumption and production necessary for continuous high employment is to be maintained. Therefore, substantial tax reductions for both business and individuals are proposed.

The Nation must choose between a moderate budget and moderate taxes on business enterprise and individuals or a high budget and crushing taxes on all productive business and individuals. Because it is our conviction that the effective operation of the private enterprise system to provide a high national income, high employment, and high consumption requires drastic cuts in Federal taxation, we are proposing more substantial tax reductions that are included in the House bill.

Coming to the various features which I have mentioned, the wartime excess-profits tax, as I have said, we believe should be repealed completely, effective on January 1, 1946.

A peacetime excess-profits tax would be hopelessly complicated, invite corporation extravagance and inefficiency, and particularly burden small corporations, unwisely strengthen substantial monopolies, and discourage financing by equity capital.

Our observation has been—our information is gathered rather widely—that, contrary to the belief in certain quarters, the excess-profits tax bears rather heavily on many types of small-business enterprises.

This tax—that is, the excess-profits tax—was designed not so much as a revenue measure as to take the excessive profits out of war. Now that the war is over, there is no further need for such a tax. It is not required as a peacetime revenue measure.

And the unused excess-profits credit carry-back, we think, should be carried over for 2 years.

The costs of reconversion and adjustment to a peacetime basis are properly allocable to wartime operations and should be accounted for fully before it can be determined to what extent apparent wartime excess profits are real or merely illusory.

Accordingly, when the excess-profits tax is repealed, the repealing act should provide that a corporation may calculate its excess-profits credit for the 2 years following the effective date of repeal, and then carry back any unused credit for such years against its excess-profits-tax income in accordance with the present law.

This 2-year period which business has been consistently led to expect would be continued, and which Congress has recognized in the Tax Adjustment Act of 1945, is necessary to complete reconversion and the readjustments in production and marketing essential in meeting new peacetime conditions.

2. The corporate income tax rate should be reduced to 32 percent.

After 1946—in other words, when the postwar period comes in fully—we think it should be reduced further as fast as revenue requirements will permit and with a consideration of the effects of the tax on production and employment.

We feel that a continued corporate tax rate of 40 percent, which the war has introduced, would be an injuriously heavy burden on production under peacetime conditions. It would retard the ability

of many corporations to pay the current dividends required to attract investments by shareholders, to set aside the reserves needed for paying dividends in future years of low income or losses, and to finance expanded production and employment.

Senator MILLIKIN. Mr. Chairman, may I ask a question?

On what national budget to you premise your observations?

Mr. LAYLIN. The long-range view of the gentlemen, whom I am trying in my way to represent here, envisions a budget of 18½ billions, exclusive of social-security tax.

Admittedly the transition period will be a period of continued deficit, no matter what degree or reduction of revenues the bill now before you will ultimately achieve.

We have in mind the making of investments in business that will earlier bring about the high level of employment and in the national income that will sustain the budget ultimately.

Senator MILLIKIN. Don't you think you are a little low in that estimate? If we assume \$6,000,000,000 or \$7,000,000,000 and add to that a \$6,000,000,000 carrying charge on our indebtedness, and add to that \$3,000,000,000 or \$4,000,000,000 for veterans, and if we add to that the maintenance of a large military force of \$2,000,000,000 or \$3,000,000,000 or \$4,000,000,000, you have reached or passed your estimate without taking in to account any expansion in Government activities.

Mr. LAYLIN. That is right, if all those things happen.

Senator MILLIKIN. Veterans, that is unavoidable; maintenance of military force also, and it is unthinkable that we would go back to an expenditure of less than we had before the war.

Mr. LAYLIN. On the civil side?

Senator MILLIKIN. On the civil side. If you had a recession there you might take off \$1,000,000,000, but it would not affect the grand total substantially.

Senator TAFT. There is a doubt about the figures, because in your prewar figures you figured the Army and Navy. Take them out and apart from that cultural subsidy, and it would be less than \$5,000,000,000 or \$6,000,000,000—it is about \$2,000,000,000.

Senator MILLIKIN. Your Army and Navy combined was nothing compared to the foreseeable expenditures we will have to make for a time, at least, on the Army and Navy, and practically speaking it is unlikely that we will reduce our agricultural—

Senator TAFT. I don't think any of us know what the postwar budget is, and it is difficult to legislate until we have something on that.

Is it your position that we should now charge all aftermath of war expenditures to public debt and make the reduction you are now proposing for a permanent tax system?

Mr. LAYLIN. Not entirely. We would go about half way.

Senator MILLIKIN. For the time being.

Senator TAFT. If you go the other half way, you will be below the revenue we are going to have. So your program here is far more than half way to the ultimate stopping point, I think.

Mr. LAYLIN. That is not in accord with my calculations, but perhaps I am wrong.

I may add this in further comment on the colloquy that has just taken place. When I said 18½ billion dollars, that was on the assumption of \$125,000,000,000 of national income. Nobody knows what that is going to be, either, so it is all rather an assumption.

Senator MILLIKIN. If the figure were \$22,000,000,000 to \$25,000,000,000, your own thesis would have to undergo radical adjustment.

Senator TAFT. You are proposing roughly an adjustment of 7½ billion dollars, which would reduce your revenues for 1947 to \$25,000,000,000, according to Treasury estimates. They figure 32½ billion dollars, I think, if the tax system will produce that amount on \$130,000,000,000 national income. You get that down to \$25,000,000,000 immediately.

Mr. LAYLIN. I had hoped to be able to supply the figure. Senator Taft has kindly supplied it for me. But within the time we had available for preparation, we did not know the basis of the Treasury's calculations.

The CHAIRMAN. I don't think it will be very profitable to get into the postwar budget at this time. We will do very well to consider the matter of the immediate budgets ahead of us.

Senator TAFT. But I suggest, Mr. Chairman, you can't make a reduction as big as Mr. Laylin is proposing without facing the possibility of having to increase some of the items permanently. That is an important consideration.

The CHAIRMAN. Proceed, Mr. Laylin, because I put you ahead on the theory it would not take very long for your testimony.

Mr. LAYLIN. And I shall try to justify the faith which you have just expressed.

We have here a plan which we would like to commend to the committee for adjusting rates on smaller corporations. I am using certain rates which, however, may or may not be too low, but the mathematical relations involved are the same, no matter what scale of rates may be used. Ours begin with a rate of 16 percent on the smallest income corporations and reach 32 percent when an income of over \$40,000 is enjoyed.

To accomplish that result without excessive rates of taxation, we have a very simple schedule, and I think I shall not take time to read it. I shall take the liberty to file that, if I may.

The CHAIRMAN. Yes, sir; you may do so.

Mr. LAYLIN. To show how we think the present scheme of adjusting the income tax rates on the lower-level-income corporations may be somewhat improved—

Senator TAFT. If we change the normal and surplus rates at all on corporations.

Mr. LAYLIN. The House bill does make the change.

The next item in our program, I shall not comment upon. It is the capital stock and related declared value excess profits tax, which should be repealed promptly.

The CHAIRMAN. The House bill does that, Mr. Laylin.

Mr. LAYLIN. And fourth, the individual income tax.

As I have indicated, we advocate substantial reductions in certain of the brackets. The present normal tax, as I have said, with its limited exemptions and no credits for dependents, should be eliminated. This would exempt several million low-income individuals

from the payment of any income taxes and would provide more equitable exemptions and credits for dependents.

The exemptions and credits, we believe, should be continued at the present levels allowed for the surtax. The initial rate in 1946, we think, should be lowered to 16 percent.

And the surtax rates up to \$200,000 should be reduced approximately 20 percent. Above \$200,000 we do not advocate that degree of reduction, because, in our long-range view, we advocate continuing the progression beyond the \$200,000 level.

We feel it would be desirable and might well be a feature of the bill now before you, to substitute for the normal tax, the repeal of which we advocate, a basic tax at the beginning rate, and begin the surtax with the next bracket.

To care for the problem of the partially exempt Federal bond interest and the like, we would advocate a credit of 3 percent against the tax on the income from such partially tax-exempt sources.

We are in favor of something, I think, which the House bill does, maintaining the present rate levels of the Social Security taxes, for reasons which I believe it is not necessary for me to elaborate on.

We are in general agreement with the action of the House in its treatment of the excises, returning to the 1942 level as of July 1, 1946, with the repeal of certain very obvious nuisance taxes.

We do believe that as a part of the immediate postwar tax program the excises should be continued pretty largely, some of them perhaps shifted from the consumer to the manufacturer's level. But generally speaking, with the repeal of the normal tax and the other relief in the other brackets of the income tax which we advocate, we believe that both budgetary requirements and sound taxation policy will justify considerable resort to the excise taxes with the modification which has already been made.

Senator HAWKES. I would like to ask the witness a question, Mr. Chairman.

You may have said this before I got in here, because I was delayed a few moments. Did you make any statement, and if not will you make a statement, as to whether you consider the total repeal of the excess-profits tax will be of quite equal moment to the small businessman and small industry in the United States as it will be to the large one, or even more so?

Mr. LAYLIN. I did say that.

Senator WALSH. He indicated that, Senator, very strongly.

Senator HAWKES. That answers that question, and I feel very much that way myself. I feel it is very much in the interest of the small businessman and the new businessman.

Did you give any estimate as to the total reduction your program would involve for the year 1946?

Mr. LAYLIN. I was unable to do that, not knowing the basis of the estimates I have seen in the papers, but Senator Taft kindly supplied a figure.

Senator TAFT. I think \$7,000,000,000 for 1946, and \$8,000,000,000 for 1947.

Senator HAWKES. Do you think your program, as you have advanced it, will stimulate business to a point where there will be certain income revenue to the Government to offset the reductions that are made?

Mr. LAYLIN. That is the very idea of our program, Senator. We recognize the loss of revenue to which Senator Taft has called attention. We believe it would be a good investment for the reason you have suggested.

Senator HAWKES. Thank you, very much. The philosophy of the tax bill is that it does not make any difference how high the taxes are in the bill if it does not provide revenue. The answer is to make it so that it will provide revenue.

The CHAIRMAN. Thank you very much, Mr. Laylin.

Senator HAWKES. Mr. Chairman, I appreciate very much your hearing Mr. Laylin this morning.

(The prepared statement and program for Federal taxes submitted by Mr. Laylin are as follows:)

A PROGRAM FOR FEDERAL TAXES PRESENTED BY CLARENCE D. LAYLIN TO THE SENATE FINANCE COMMITTEE FOR THE NATIONAL ASSOCIATION OF STATE CHAMBERS OF COMMERCE ON OCTOBER 17, 1945

Mr. CHAIRMAN and gentlemen of the committee, my name is Clarence D. Laylin, I am a tax attorney of Columbus, Ohio, and I am here representing the National Association of State Chambers of Commerce. I am a member of the Federal Taxation Committee of the Association. Its affiliated organizations have a membership of more than 33,000 and they represent businesses, chiefly small concerns, employing more than 6,500,000 workers. The tax program I would like to suggest to you is the outgrowth of an intensive 2-year study of the problems of Federal taxation in relation to the postwar budget and the public debt. Suggestions have been invited and accepted from businessmen, economists, accountants, lawyers, leaders in Government, research organizations, and representatives of other groups developing Federal tax programs. Hence this program is not the expression of one or a few persons, of any particular industry or segment of industry, or of any geographical locality. Rather, it is the thoughtfully prepared program of a great number of businessmen and tax students which has been approved and is being sponsored by 26 business organizations in various sections of the country. With your permission, I shall file with you a complete copy of the program for the transitional period and the immediately following postwar years which will indicate its details.

The sudden termination of the war has precipitated the need for a transitional and a long-range Federal tax plan. A law must now be enacted to bridge the gap between the present excessively high taxes and a tax program for the future. The interim tax legislation proposed, which should be adopted immediately and become effective January 1, 1946, should include several features.

1. It should repeal the wartime excess profits tax but retain the 2-year carry-back of unused excess-profits credits for 2 years.

2. It should reduce the corporate income-tax rate to 32 percent and continue the preferential treatment for corporations earning net incomes not in excess of \$40,000.

3. It should repeal the capital-stock tax and the related declared value excess-profits tax.

4. It should repeal the present 3-percent normal tax on individuals and reduce the surtaxes approximately 20 percent.

5. It should maintain the present social security tax rates.

In addition, the tax legislation should apply the increase in the excess-profits-tax exemption to \$25,000, as provided by the Tax Adjustment Act of 1945, retroactively to the year 1945 in view of the unexpected termination of the war in 1945 rather than in 1946. Such a change would particularly benefit small corporations in meeting the problems of reconversion and postwar readjustment.

These recommendations call for comment, and I shall endeavor to indicate to you why the National Association of State Chambers of Commerce urges their adoption. You will note immediately that we are asking for deeper tax cuts than those proposed in the bill recently passed by the House of Representatives. We are proposing this program as an inducement to all-out production and employment and high level consumption because we believe that substantial tax reductions are essential stimuli to an effective system of free competitive enterprise. Taxes must not be excessive on either business or individuals if the balance

between production and consumption necessary for continuous high employment is to be maintained. Therefore, substantial tax reductions for both business and individuals are proposed.

We believe that all taxpayers want much lower taxes than we have borne during wartime, that the continuance of high taxes in the postwar period is an invitation to governmental waste and extravagance, and that only upon the unceasing insistence of the taxpayers will the Federal budget be reduced to moderate levels. The Nation must choose between (a) a moderate budget and moderate taxes on business enterprise and individuals or (b) a high budget and crushing taxes on all productive business and individuals. Because it is our conviction that the effective operation of the private-enterprise system to provide a high national income, high employment, and high consumption requires drastic cuts in Federal taxation, we are proposing more substantial tax reductions than are included in the House bill.

1. The wartime excess-profits tax should be repealed completely, effective on January 1, 1946. The repeal of the excess-profits tax would provide a powerful incentive to expand investment, production, and employment. It would promote competition and should also lower costs and prices and invite increased consumption.

A peacetime excess-profits tax would be hopelessly complicated, invite corporation extravagance and inefficiency, particularly burden small corporations, unwisely strengthen substantial monopolies, and discourage financing by equity capital. This tax is not required as a peacetime revenue measure. It was designed to take the excessive profits out of war. Now that the war is over, there is no further need for such a tax.

The unused excess-profits credit carry-back should be continued for 2 years. The cost of reconversion and adjustment to a peacetime basis are properly allocable to wartime operations, and should be accounted for fully before it can be determined to what extent apparent wartime excess profits are real or merely illusory.

Accordingly, when the excess-profits tax is repealed, the repealing act should provide that a corporation may calculate its excess-profits credit for the 2 years following the effective date of repeal, and then carry back any unused credit for such years against its excess-profits-tax income in accordance with the present law.

This 2-year period which business has been consistently led to expect would be continued and which Congress has recognized in the Tax Adjustment Act of 1945, is necessary to complete reconversion and the readjustments in production and marketing essential in meeting new peacetime conditions.

2. The corporate income tax rate should be reduced to 32 percent. After 1946 it should be reduced further as fast as revenue requirements will permit and with a consideration of the effects of the tax on production and employment.

A continued corporate tax rate of 40 percent, which the war has introduced, would be an injuriously heavy burden on production under peace-time conditions. It would retard the ability of many corporations to pay the current dividends required to attract investments by shareholders, to set aside the reserves needed for paying dividends in future years of low incomes or losses, and to finance expanded production and employment.

The tax rate must be reduced so that corporations struggling to overcome the obstacles of reconversion and readjustment to new peacetime production and marketing problems will not be handicapped by onerous taxes. To aid private enterprise to meet the challenge of providing millions of new jobs for returning veterans, former war workers, and new recruits to the labor force, the corporate and individual income-tax rates must be lowered materially both to provide the incentives to high-level production and the capital to finance it.

The tax rates on the smaller income corporations should be reduced so that they will range from 16 percent on the smallest income corporations upward to 32 percent when an income over \$40,000 is enjoyed. The corporate tax rate should be related to the individual income tax rate by imposing starting rates on corporate and individual incomes at the same level, or 16 percent.

Most small enterprises are unincorporated and both the individual and the corporate income tax rates must be lowered if small enterprises are to be organized and prosper.

The principle of lower tax rates for small income corporations is already recognized in the law and should be continued until all corporations can be taxed with a moderate flat-rate tax. Otherwise, new small enterprises will be retarded and some small concerns may be unable to survive.

The initial rate on the smallest-income corporations should not exceed the rate on the lowest bracket of individual income. This will tend to provide an approximate equality in the taxation of the smallest enterprises—corporate and non-corporate.

From this starting rate the effective tax rates on net income, that is, the ratios of total taxes to total net incomes, beginning January 1, 1946, should increase gradually for corporations with net incomes up to \$40,000. The maximum tax rate of 32 percent should be applied to corporations with incomes over \$40,000.¹

To accomplish this result without excessive rates of taxation on increases of income, which would either discourage business expansion or encourage the formation of separate corporations to avoid higher taxes, the following simple and equitable tax arrangement is suggested:

A. Corporations with net incomes not over \$10,000 should pay a tax at a rate of 16 percent on the first \$2,000 of net income and a tax at a rate of 22 percent on the net income in excess of \$2,000.

B. Corporations with net incomes over \$10,000 and not over \$20,000 should pay a tax of \$2,080 and in addition a tax at a rate of 28 percent of the net income in excess of \$10,000.

C. Corporations with net incomes over \$20,000 and not over \$30,000 should pay a tax of \$4,880 and in addition a tax at a rate of 36 percent on the net income in excess of \$20,000.

D. Corporations with net incomes over \$30,000 should pay a tax of \$8,480 and in addition a tax at a rate of 43 percent on the net income in excess of \$30,000, or a tax at a rate of 32 percent on their total net income, whichever is the lower.

3. The capital stock and the related declared value excess-profits taxes should be repealed promptly.

No taxes paid by business are more annoying and irritating. The taxes are based upon guesses of future earnings rather than net income realized.

They yield relatively little net revenue and are a serious drain upon the energy and patience of the taxpayers, who are annually required to undertake a needless chore of computing these unscientific taxes.

The capital stock and related declared value-excess profits taxes discriminate against corporations with fluctuating incomes and deficits and are especially onerous for new enterprises and the smaller corporations.

They are an adroit method of mulcting the taxpayers in a guessing game that involves inescapable penalties for the corporations which are unable to predict their future earnings accurately. Forecasting income with reasonable accuracy is always difficult and may be well nigh impossible during the readjustments of reconversion and the transition to peacetime production and marketing conditions.

These taxes should be discontinued in the interest of equity and simplicity. Adequate corporate revenues will be raised from the net-income tax proposed.

4. The individual income tax has become an essential revenue and should be continued, with substantial rate reductions.

The present normal tax, with its limited exemptions and no credits for dependents, should be eliminated. This would exempt several million low-income individuals from the payment of any income taxes and would provide more equitable exemptions and credits for dependents.

The exemptions and credits should be continued at the levels presently allowed for the surtax, the initial tax rate in 1946 should be lowered to 16 percent, and the surtax rates on all brackets should be reduced approximately 20 percent.

Economic considerations demand that substantial relief from the heavy wartime tax rates be given to the lower and middle income taxpayers. These tax reductions will benefit workers, the salaried group, farmers, the owners of small enterprises, annuitants, and other fixed income recipients.

At the top of the income scale, where individuals are best able to assume risks, the tax rates have been deadening to initiative, and should be reduced materially to encourage risk-taking and productive activity by the owners and managers of business enterprises.

The income tax should consist of a basic tax to be imposed on the first bracket of \$2,000 of taxable income at a rate of 16 percent, and a surtax on the additional brackets of income.

The suggested tax rates for 1946 are heavier than individuals should be asked to endure for any long period. It will be desirable to reduce the rates further as the national income rises and expenditures are cut to the minimum required for

¹ Actually, the rate schedule proposed would attain an effective rate of 32 percent when the income of corporation has reached \$40,181.78

effective peacetime Government. The goal should be a maximum tax rate, including both the basic tax and the surtax, not exceeding 50 percent, with proportionate reductions in the rates on the middle and lower incomes. The possibilities of future tax reductions will depend upon revenue requirements. The more expenditures can be lowered, the more taxes on all individual incomes can be reduced.

The exemptions must remain low for the present at least and the tax rates on all of the brackets must remain rather heavy. Otherwise great revenues will be lost.

An exemption of \$500 should be provided for single persons and an exemption of \$1,000 for married couples. A credit of \$500 should be allowed for dependents, as presently defined.

These exemptions and credits are now allowed for the surtax. The present normal tax limits the exemption of married couples to \$500, unless both husband and wife have an income, and allows no credits for dependents. These discriminations should now be abandoned.

The rate of the basic tax should be the rate imposed on the initial bracket of income. When revenue considerations require tax rate adjustments they could then be accomplished, within broad limits, without the necessity of adjusting the surtax rates. This would not preclude, of course, the possibility of lowering the surtax rates or of applying the maximum surtax rate at a higher income level, as fiscal and economic considerations permit. The total tax rates on the various income brackets would, by this arrangement, move downward, or upward, together.

The levy of two taxes, a basic tax and a surtax, likewise recognizes the American income-tax traditions. As in the prewar period, the lowest income bracket would not be subject to the surtax.

It is proposed that the tax on the first income bracket be called a basic tax rather than a normal tax. The new basic tax, unlike the present normal tax, would allow the same exemptions and credits as the surtax. The rate of the new tax would also be much higher than the rates of the normal tax in the past in order to raise the large revenues needed in the postwar period. However, this tax rate would be much lower than the present combination of a 3-percent normal and 20-percent surtax on the first income bracket.

The new tax should also be designated a basic tax in order to avoid the necessity of exempting from it the interest on the partially exempt Government bonds which were sold with the provision that they would be exempt from the normal tax. To recognize the contractual status of the exemption, the holders of the bonds should be allowed a credit of at least 3 percent of such interest against their tax on total income including such interest.

In effect, then, the present normal tax would be continued, so far as the partially exempt bonds are concerned, and the interest on the bonds would be exempted from at least a 3-percent tax.

In determining his income tax, the individual would apply to each bracket of income the combined basic and surtax rates, as indicated by the statute. Income would be defined in the same way for both the basic tax and the surtax and only one computation, showing the combined taxes, would be required. The complication of the present law, which defines income for the normal tax in a manner different from the income for the surtax, would thus be avoided.

5. The present rate levels of the social security taxes are yielding funds that are more than ample to meet the benefit requirements which they support and the provisions for automatic rate increases should be eliminated from the law. If subsequent increases in rates become necessary, they should be provided currently by legislation.

The Nation cannot afford, while taxing itself to the limit to balance the budget and retire the debt of World War II, to saddle itself with increased social security taxes which, because of their impact upon the economic system, would repress employment. While recognizing the necessity of a sound social security system, particular objection is raised to plans such as that encompassed in the Wagner-Murray-Dingell bills for vast programs of social insurance which would weaken the incentives of individuals to work and save and which would place upon the American people onerous new tax burdens.

The methods of financing social security and the existing system of benefits should be studied to determine what changes, if any, would be desirable. Consideration should be given to financing social security separately from the rest of the Federal budget. Any needed improvements or strengthening of the social security program can and should be made within the framework of the present social security taxation structure.

In my comments upon the provisions of the interim tax legislation which you are now considering, I have said nothing about the excises, which the House bill would return to the rates of the act of 1942 next July 1. We are in general agreement with this provision. In the period which we now face immediately following the war, consumer funds should be abundant because of the large savings in recent years and an employment outlook which should be favorable after a short period of readjustment. For some time the supplies of civilian goods will be scarce.

Under these conditions, taxes that tend to be shifted to consumers may properly be employed to raise substantial revenues while relieving some of the inflationary pressure against rising prices.

In order to give the production and employment, which provide incomes to consumers, urgently needed relief from the restrictive effects of excessive taxation, a substantial part of the tax revenues should be obtained from consumers.

Taxes on consumption reach virtually the entire population and obtain revenues from all classes, including those who do not pay the income tax but who have the capacity to pay some taxes.

The excises, after needed revision, will not excessively burden the low income groups in view of the proposed reductions in the individual income and other taxes which would stimulate the production of a greater national income.

The income taxes on the low incomes would either be removed or materially reduced by the adoption of this program. These groups, moreover, receive many benefits from Federal expenditures. In various ways the burdens of the excises on the masses would be more than offset by the benefits of other tax reductions and governmental expenditures.

The excises are practicable of administration, productive, in the aggregate, of large and relatively stable revenues, and generally acceptable to the American consumers because they are paid conveniently in small amounts.

Those excises which are serious nuisances to consumers and vendors, such as the use tax on automobiles and boats, can be removed without substantial revenue effect, and those which experience has shown to be excessive can be lowered to the level of the 1942 Revenue Act.

It may be desirable to change the basis for imposing certain of the excises in order to lessen their inconvenience and to remove inequalities. Thus the retail sales tax on handbags and luggage should, perhaps, be converted into a tax upon the manufacture of these items. The tax on electrical energy, on the other hand, should become a tax on the consumer like the excises on transportation and communication, if such types of utility service are to be taxed in the same manner and without discriminating against a certain kind of service.

By continuing the excises during the period immediately ahead, at levels as high as or higher than those of the 1942 Revenue Act, substantial revenues can be raised without serious inconvenience to consumers. Oppressive taxes on production and employment can thereby be avoided, and inflationary tendencies can be mitigated somewhat.

The excises should, in general, be continued as long as huge Federal revenues are required and general economic depression is not imminent. If a general economic depression should threaten the stability of the economy, the excises should be reduced to moderate levels. When prosperity returns, they should again provide substantial revenues.

It is our objective to work for lower taxes on consumers as well as on individual and corporate incomes by lowering postwar expenditures to the minimum essential level.

In addition to these several interim features, which should become effective January 1, 1946, our tax program includes a number of long-range features which should be adopted in the next tax legislation which will become effective January 1, 1947. In order that the taxpayers of the country will know how to plan the future development of an expanding economy, a long-range tax program should be enacted in 1946. Without the prompt enactment of such a program, the resultant confusion will add to the difficulties of achieving the goal of increased production, employment, and consumers' purchasing power which we are all seeking.

The long-range features of our program are explained in the booklet which I have given to you and here I wish merely to summarize them very briefly. For individuals we urge Congress to—

1. Reduce the individual income tax rates as revenue requirements permit and the national income increases.

2. Impose a top rate no higher than 75 percent and eventually no higher than 50 percent.
3. Retain existing exemptions and credits for the present.
4. Alleviate the double taxation of dividends as much as possible.
5. Reduce the tax rates on long-term capital gains and allow the deduction of capital losses on the same basis that capital gains are taxed.
6. Reduce the estate and gift taxes substantially.
7. Continue the principle of withholding and improve its procedures wherever possible.

For business we suggest these proposals:

1. Reduce corporate tax rates further as fast as revenue requirements will permit, with a consideration of the effects of the tax on production and employment.
2. Continue to provide a favorable tax climate for small business.
3. Extend the net-loss carry-forward to 7 years.
4. Discontinue the tax on the receipt of intercorporate dividends.
5. Eliminate the penalty tax on consolidated returns.
6. Allow discretion in choosing rates of depreciation.
7. Allow options in the methods of deducting research and developmental expenses.
8. Tax Government-financed enterprises on a basis comparable with competing private enterprises.

In addition we offer certain other recommendations:

1. Impose selective excises to raise substantial revenues.
2. Coordinate Federal, State, and local taxation.
3. Balance the budget and retire the national debt in times of high level employment, with attendant high national income.
4. Reduce Federal expenditures to a minimum consistent with the maintenance of essential Government services as the most effective means of reducing taxes.

Thank you, gentlemen, for this opportunity to discuss the tax program of the National Association of State Chambers of Commerce with you.

A PROGRAM FOR FEDERAL TAXES AS PROPOSED BY THE NATIONAL ASSOCIATION OF STATE CHAMBERS OF COMMERCE

This program for Federal taxes has been formulated by the National Association of State Chambers of Commerce, a voluntary nonprofit organization whose membership represents industry, trade, finance, and practically all segments of private business enterprise. The members of the affiliated organizations are predominantly small business concerns.

The member organizations cooperating in the development and publication of this program, which they approve and sponsor, are:

- Alabama State Chamber of Commerce.
- Arkansas Economic Council—State Chamber of Commerce.
- Colorado State Chamber of Commerce.
- Connecticut Chamber of Commerce, Inc.
- Chamber of Commerce, Delaware.
- Greater North Dakota Association.
- Greater South Dakota Association.
- Idaho State Chamber of Commerce.
- Illinois State Chamber of Commerce.
- Indiana State Chamber of Commerce.
- Kansas State Chamber of Commerce.
- Maine State Chamber of Commerce.
- Massachusetts State Chamber of Commerce, Inc.
- Montanans, Inc.
- New Jersey State Chamber of Commerce.
- Ohio Chamber of Commerce.
- Chamber of Commerce of the State of Oklahoma.
- Organized Business, Inc., of South Carolina.
- Pennsylvania State Chamber of Commerce.
- East Texas Chamber of Commerce.
- South Texas Chamber of Commerce.
- West Texas Chamber of Commerce.
- Vermont State Chamber of Commerce.
- Virginia State Chamber of Commerce.

West Virginia Chamber of Commerce.

Wisconsin State Chamber of Commerce.

This tax program is the outgrowth of an intensive 2-year study of the problems of postwar taxation in relation to the postwar budget and the public debt by the Federal taxation committee of the National Association of State Chambers of Commerce, to which was delegated the responsibility of formulating a sound postwar Federal tax plan.

The affiliated organizations of the National Association of State Chambers of Commerce consist of a membership of more than 33,000, and represent businesses, chiefly small concerns, employing approximately 6,500,000 workers.

To make this as comprehensive a study as possible, and to promulgate a program which would be economically and financially sound and adequate, conducive to high employment, production, and consumption, favorable to competitive private enterprise, equitable in its burdens and practicable in operation, the committee went beyond its own members in quest of knowledge.

Suggestions have been invited and accepted from businessmen, economists, accountants, lawyers, leaders in Government, research organizations, and representatives of other groups developing postwar Federal tax plans. The resultant program, therefore, is not the expression of one person, or of a few; of any particular industry or segment of industry; or of any geographical locality. Rather, it is the thoughtfully prepared program of a great number of men who have given generously of their time and efforts in this endeavor to prepare a program which will, we feel, find favor not only among businessmen throughout the country, but among all Americans who place the welfare of the Nation above everything else and who believe that in the free-enterprise system rests our hope of resuming and expanding America's economy and translating it into an ever higher standard of living.

To all who contributed to the formulation of the program, the committee is deeply grateful.

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INTRODUCTION

In proposing this tax program as an inducement to all-out peacetime production and employment, immediate tax reductions are essential stimuli to an effective system of free competitive enterprise.

Taxes must not be excessive on either business or individuals if the balance between production and consumption necessary for continuous high employment is to be maintained. Therefore, tax reductions for both business and individuals are proposed.

The sudden termination of the war has precipitated the need for a transitional and a long range Federal tax plan. A law must now be enacted to bridge the gap between the present excessively high taxes and a tax program for the future. Certain recommendations included in this program should be enacted into law immediately so that they will become effective January 1, 1946. Congress should promptly thereafter being work on and adopt without delay a long-range program in order that the taxpayers of the country will know how to plan the future development of an expanding economy. Without the prompt enactment of such a program the resultant confusion will add to the difficulties of achieving the goal of increased production, employment and consumers' purchasing power.

During the war, our free private enterprise demonstrated to the world its superiority over any other system of production. The war was won on our battle fronts of production as well as on the far-flung fields of actual combat. To make certain that private enterprise will produce the immense outpouring of civilian supplies which are now urgently needed and will provide the millions of jobs necessary for high level employment, favorable tax policies are essential.

The attainment of a balance in the Federal Budget, after the transition to high level peacetime employment is accomplished, will also be hastened by the tax reductions proposed. At best, taxes must be heavier than they were before the war, and business as well as individual citizens must accept these increased responsibilities. With the facts placed clearly before them, our people must choose between a moderate Budget and moderate taxes on business enterprise and individuals on the one hand or a high Budget and crushing taxes on the other.

This is not a perfect program. But it is a workable tax program, fair to the taxpayers, reasonably moderate in its burdens, and big enough in its revenue potentialities to finance the necessary cost of the Federal Government. It is a tax program which patriotic Americans, now engaged in the battle to provide jobs for our workers, more dollars of income for our consumers, and revenues to maintain the stability of our Government, should find acceptable.

As organizations representing businesses of many types and enterprises of all sizes, an earnest effort has been made to apply these proposals equitably to all classes and groups. It is realized that other groups may disagree with some of the conclusions reached even though we are all seeking common economic and fiscal objectives.

A POSTWAR TAX PROGRAM

The tax program here proposed includes the major reforms in Federal taxation which are imperative if the restrictive effects of heavy and unequal taxation are to be removed from productive business enterprise and the national income is to flow to our citizens in a large and steady stream to maintain the purchasing power of consumers.

POSTWAR TAX POLICIES

In planning our postwar revenue system, certain policies are essential if new high income and employment plateaus are to be realized.

All possible restraints should be removed from risk-taking by entrepreneurs and from the raising of the venture capital required for the financing of an expanding national production. This will require the removal of excessive wartime taxes from business enterprise and individuals.

Postwar taxes should be so moderate that new enterprises will not be crushed as soon as they attain a measure of success and existing enterprises will be encouraged to expand their activity.

The Federal tax system should be reformed to remove the blighting effects of all those taxes which create uncertainty, dull incentives, and invite inefficiency.

The stable structure of a postwar tax system should be adopted now so that business can plan for the future, and frequent major tax revisions, with their attendant confusion and job-delaying uncertainty, will be avoided.

If, in the future, increases in taxation become necessary, they should become effective prospectively rather than retroactively.

The tax system should be adequate in its revenue yield, definite in its requirements, simple in administration, convenient in compliance, and equitable in its distribution of burdens on the taxpayer.

All of those financially capable of self-support should contribute fairly to the upkeep of Government.

Every tax law should show clearly the intention of Congress and the limits of its application, and the Administration should carry out those intentions within the limitations specified.

The tax administrator is an agent of the people. He should be efficient, should show an understanding of the problems of the taxpayers as well as the Government, and should aid them impartially to determine their correct tax liabilities.

The tax system should be employed primarily for revenue purposes rather than for social regulations and reforms.

Federal, State, and local taxation should be coordinated effectively.

Timing the program

The timing of these tax changes is most important if the reconversion and readjustment of the economy to peacetime conditions is to be completed smoothly and quickly, with a minimum loss of jobs and income.

The interim tax legislation proposed, which should be adopted immediately and become effective January 1, 1946, should:

Repeal the wartime excess-profits tax but retain the 2-year carry-back of the unused excess-profits credit.

Reduce the corporate income-tax rate to 32 percent and continue the preferential treatment for corporations earning not in excess of \$40,000.

Repeal the capital-stock tax and the related declared-value excess-profits tax.

Repeal the present 3-percent normal tax and reduce the surtaxes approximately 20 percent.

Maintain the present social-security tax rates.

The increase in the excess-profits tax exemption from \$10,000 to \$25,000 as provided by the Tax Adjustment Act of 1945 should, in view of the proposed repeal of the excess-profits tax effective January 1, 1946, now apply to the year 1945. Such a change would particularly benefit small corporations in meeting the problems of reconversion.

As soon as Congress has enacted the necessary emergency measures, to become effective January 1, 1946, it should proceed at once to the task of reorganizing the revenue system with the Nation's long-range economic requirements in view. Those engaged in productive enterprise should be assured that their efforts to attain high-level production and employment will be rewarded more adequately with increased incomes after the payment of taxes, and consumers should find in the legitimate markets the increased supplies of goods and services they are daily demanding. The remaining features of the proposed program are designed to accomplish these purposes.

FEATURES OF THE BUSINESS-TAX PROGRAM

The corporate taxes fall directly on production at the very point where decisions are made to promote or reject new inventions, to expand or curtail output and sales, to hire or not to hire additional workers. The prospects of profits directly affect these decisions. But the real profits of a business are measured after, and not before, the payment of taxes.

The enormous aggregate of money taken from business and industry in taxes is money that they cannot invest in new productive facilities, put into the pay envelopes of added workers, return to consumers in lower prices, or distribute in dividends to investors. The less business and industry must pay in taxes, the more dynamic money there will be in the hands of enterprisers and managers eager to assume risks that hold out the hope of adequate returns. The more vital money there will also be in the hands of workers, investors, and consumers. The major features of the postwar Federal business-tax program, with these basic facts in mind, may now be indicated.

Repeal the wartime excess-profits tax now

The repeal should take effect January 1, 1946, and the increased excess-profits tax exemption to \$25,000 should be made applicable to 1945.

The repeal of the excess-profits tax would provide a powerful incentive to expand investment, production, and employment. It would promote competition and should also lower costs and prices and invite increased consumption.

A peacetime excess-profits tax would be hopelessly complicated, invite corporation extravagance and inefficiency, particularly burden small corporations, unwisely strengthen substantial monopolies, and discourage financing by equity capital. This tax is not required as a peacetime revenue measure. It was designed to take the excessive profits out of war. Now that the war is over, there is no further need for such a tax.

Continue the unused excess-profits credit carry-back for 2 years

The cost of reconversion and adjustment to a peacetime basis are properly allocable to wartime operations and should be accounted for fully before it can be determined to what extent apparent wartime excess profits are real or merely illusory.

Accordingly, when the excess-profits tax is repealed, the repealing act should provide that a corporation may calculate its excess-profits credit for the 2 years following the effective date of repeal, and then carry back any unused credit for such years against its excess-profits tax income in accordance with the present law.

This 2-year period which business has been consistently led to expect would be continued and which Congress has recognized in the 1945 Revenue Act, is necessary to complete reconversion and the readjustments in production and marketing essential in meeting new peacetime conditions.

Reduce the corporate income tax rate to 32 percent

The combined normal and surtax rate on corporate net income should be reduced to 32 percent. It should be reduced further as fast as revenue requirements will permit and with a consideration of the effects of the tax on production and employment.

A continued corporate tax rate of 40 percent, which the war has introduced, would be an injuriously heavy burden on production under peacetime conditions. It would retard the ability of many corporations to pay the current dividends required to attract investments by shareholders, to set aside the reserves needed for paying dividends in future years of low incomes or losses, and to finance expanded production and employment.

The tax rate must be reduced so that corporations struggling to overcome the obstacles of reconversion and readjustment to new peacetime production and marketing problems will not be handicapped by onerous taxes. To aid private enterprise to meet the challenge of providing millions of new jobs for returning veterans, former war workers, and new recruits to the labor force, the corporate and individual income tax rates must be lowered materially both to provide the incentives to high-level production and the capital to finance it.

The tax rates on the smaller income corporations, as subsequently explained, should be reduced so that they will range from 16 percent on the smallest income corporations upward to 32 percent when an income over \$40,000 is enjoyed. The corporate tax rate should be related to the individual income tax rate by imposing starting rates on corporate and individual incomes at the same level, or 16 percent.

Of the numerous methods and suggestions proposed for taxing corporate income and coordinating the corporate and individual income taxes which were

exhaustively studied, the method proposed here was found to have the fewest defects and the most merits. It is fundamentally sound for both the Government and the taxpayers, and appears to have the support of the great majority of businessmen.

This is also the traditional American method of taxing corporate income with which the Government and the taxpayers are familiar. With moderate rates, its effects upon production, as experienced has shown, will not be unduly repressive. The corporate net income tax is reasonably simple and equitable as well as fiscally and administratively practicable. The tax rate should be reduced to 32 percent and subsequently it should be reduced further to remove as many restraints as possible from production, the source of our national income.

Repeal the capital stock tax

The capital stock and the related declared-value excess-profits taxes should be repealed promptly.

No taxes paid by business are more annoying and irritating. The taxes are based upon guesses of future earnings rather than net income realized.

They yield relatively little net revenue and are a serious drain upon the energy and patience of the taxpayers, who are annually required to undertake a needless chore of computing these unscientific taxes.

The capital stock and related declared value excess profits taxes discriminate against corporations with fluctuating incomes and deficits and are especially onerous for new enterprises and the smaller corporations.

They are an adroit method of mulcting the taxpayers in a guessing game that involves inescapable penalties for the corporations which are unable to predict their future earnings accurately. Forecasting income with reasonable accuracy is always difficult and may be well nigh impossible during the readjustments of reconversion and the transition to peacetime production and marketing conditions.

These taxes should be discontinued in the interest of equity and simplicity. Adequate corporate revenues will be raised from the net income tax proposed.

Alleviate the double taxation of dividends

The inequities arising from the double taxation of dividends, first as corporate and later as individual income, should be alleviated.

The principle of a partial exemption of dividends from the individual income tax was recognized until 1936, when the ill-fated undistributed income tax was introduced.

In the opinion of many businessmen and economists, the postwar corporate income tax will tend to remain substantially with the owners of corporations and will be shifted only partially to consumers in higher prices or to workers in lower wages.

It seems only fair that some relief from double taxation should be granted to the holders of corporate stocks. Such discriminatory taxation now falls only on dividends and not on interest, rental payments, wages, salaries, or other payments by corporations to individuals, which are regarded as deductible expenses of corporations and are, therefore, taxed only once, in the hands of the recipients.

After computing the taxes on their income, including taxable dividends received from domestic corporations subject to the income tax, shareholders should be allowed to deduct from their taxes a credit of 16 percent of such dividends which is the rate of the basic tax on individual incomes later proposed in this program.

This is a simple method of coordinating the corporate and individual income taxes and alleviating the double taxation of dividends. It would require only one definition of income for both the basic tax and surtax on individual incomes. It is equitable and practicable and requires no tax refunds. It should have a wide popular appeal because it would reduce the effective tax rates on dividend income relatively most for the lowest income investors and relatively least for the highest income recipients. It should also stimulate the investment of venture capital in corporate undertakings and promote increased production and employment by enhancing the prospect of income remaining after the payment of taxes.

Extend the net loss carry-forward to 7 years

The 2-year net loss carry-forward should be extended to 7 years. The 2-year net loss carry-back should be continued for the two taxable years beginning January 1, 1946.

The effective averaging of net income for taxation, which is now possible under the 2-year carry-back and 2-year carry-forward of net losses, is sound in principle. Such averaging is available both to corporations and to unincorporated enterprises and the principle of effectively averaging income should be continued.

An extension of the present 5-year averaging period would result in greater equality in the taxation of different industries and different corporations. It would encourage the assumption of new business risks which might otherwise be rejected because of fears that losses in certain years would not be offset fully against income before taxes are paid in future years. It would particularly benefit the small growing concerns and young enterprises which are so vital in our competitive economy. Corporations with variable earnings would be enabled to recover their depreciation and other costs more completely. The averaging of income over a longer period, made possible by a 7-year carry-forward, would recognize more adequately the earnings cycles of certain industries, especially the important capital goods producers.

The results of conversion from war to peacetime operations will be reflected in the next 2 years. In large measure, net operating losses in those 2 years will be the result of this reconversion and are properly allocable back to war earnings. After the transition to peacetime production is fully accomplished, the carry-back provision should no longer be necessary, if the carry-forward period is extended to 7 years. This would be highly advantageous to new and growing concerns, and it would avoid the administrative and compliance complications of the carry-back. Reduced future tax payments would be substituted for refunds arising from the carry-back of losses to reduce the taxable income of preceding years.

Discontinue the tax on the receipt of intercorporate dividends

The taxation of 15 percent of the dividends received by a corporation from another corporation subject to the income tax results in multiple taxation, tends to discourage corporate investments and complicates the work of tax compliance.

The device is ineffective in curbing and preventing monopolies and should now be discontinued. Such punitive taxation should have no place in the Federal revenue system.

Eliminate penalty tax on consolidated returns

Consolidated returns should be encouraged because they usually conform to the accounting practices of corporations and present the most accurate statement of the income of a group of companies.

The penalty tax on the filing of consolidated returns complicates such returns by adding an additional tax factor and yields relatively little revenue. This tax has been imposed because intercorporate dividends were eliminated in consolidated returns. Since it is proposed that such dividends be exempt from taxation, the 2 percent penalty tax on consolidated returns should be abandoned. Corporations should have the option of filing consolidated returns, without the payment of a penalty tax.

Allow discretion in choosing rates of depreciation

Within the limits of sound accounting, business management should be allowed to exercise its discretion in the choice of the method and the rates of depreciation. This privilege should be granted by a statutory clarification of depreciation policy.

Corporate tax rates which are nominally uniform among different taxpayers may be distorted in effect by administrative changes in the definition of taxable income. The allowance and timing of deductions for depreciation is an important field in which unfairness has been evident and troublesome.

A statutory requirement for administrative leeway in this field would not hurt the revenues over a long period. Equity demands the widest possible reliance on business practice and judgment to determine rates of depreciation in the many types of business involved.

Business management can best determine the propriety of a particular method of depreciation in any given case.

The taxpayer should be allowed to follow any reasonably consistent accounting method, subject to change with the approval of the Commissioner of Internal Revenue. The method, which need not result in a uniform yearly rate or deduction, should aim at the recovery of capital investment against taxable income during the useful life of the investment. Changes affecting only part of the depreciable property should not constitute a change in the method of depreciation.

The depreciation or obsolescence claimed by a taxpayer should be presumed to be allowable and should be allowed by the tax officials.

Once a year has been closed, the amount of depreciation finally allowed for such year should be deemed correct and should not be changed. Any change in the method of computing depreciation should not apply to closed years.

Allow options in methods of deducting research and developmental expenses

Taxpayers have experienced increasing difficulties in obtaining adequate deductions for their research and developmental outlays.

So much of this type of expense is intangible that it is difficult for competent accountants to determine to what extent it should be identified with the depreciation allocated to a certain capital asset or with current expenses.

A generous administrative attitude, to be provided by statute, should allow taxpayers broad elective rights to deduct these costs as current expenses. This would powerfully aid the development of new products by scientific research and the expansion of production and employment.

Provide a favorable tax climate for small business

Most small enterprises are unincorporated and both the individual and the corporate income tax rates must be lowered if small enterprises are to be organized and prosper. No feature of the tax program has been more intensively studied. In fact, the whole tax program has been formulated with the needs of small, as well as medium and large, business in mind.

The principle of lower tax rates for small income corporations is already recognized in the law and should be continued until all corporations can be taxed with a moderate flat rate tax. Otherwise, new small enterprises will be retarded and some small concerns may be unable to survive.

The initial rate on the smallest income corporations should not exceed the rate on the lowest bracket of individual income. This will tend to provide an approximate equality in the taxation of the smallest enterprises, corporate and noncorporate.

From this starting rate the effective tax rates on net income, that is, the ratios of total taxes to total net incomes, beginning January 1, 1946, should increase gradually for corporations with net incomes up to \$40,000. The maximum tax rate of 32 percent should be applied to corporations with incomes over \$40,000.¹

To accomplish this result without excessive rates of taxation on increases of income, which would either discourage business expansion or encourage the formation of separate corporations to avoid higher taxes, the following simple and equitable tax arrangement is suggested:

A. Corporations with net incomes not over \$10,000 should pay a tax at a rate of 16 percent on the first \$2,000 of net income and a tax at a rate of 22 percent on the net income in excess of \$2,000.

B. Corporations with net incomes over \$10,000 and not over \$20,000 should pay a tax of \$2,080 and in addition a tax at a rate of 28 percent of the net income in excess of \$10,000.

C. Corporations with net incomes over \$20,000 and not over \$30,000 should pay a tax of \$4,880 and in addition a tax at a rate of 36 percent on the net income in excess of \$20,000.

D. Corporations with net incomes over \$30,000 should pay a tax of \$8,480 and in addition a tax at a rate of 43 percent on the net income in excess of \$30,000, or a tax at a rate of 32 percent on their total net income, whichever is the lower.

The taxes which would be imposed by the proposed rates may be compared with the taxes now levied upon the smaller income corporations. The tax reductions are greater at some income levels than others because the rates are lowered most at the lowest income levels and on incomes higher than \$40,000 and also because the present effective tax rates rise with somewhat less regularity than the effective tax rates proposed.

Present and proposed corporate taxes

Net income	Present tax	Percent of net income	Proposed tax	Percent of net income	Net income	Present tax	Percent of net income	Proposed tax	Percent of net income
\$1,000.....	\$250	25.00	\$160	16.00	\$30,000.....	\$9,400	31.33	\$8,480	28.27
\$5,000.....	1,250	25.00	980	19.60	\$35,000.....	12,050	34.43	10,630	30.37
\$10,000.....	2,600	26.00	2,080	20.80	\$40,000.....	14,700	36.75	12,780	31.95
\$15,000.....	3,950	26.33	3,480	23.20	\$45,000.....	17,350	38.56	14,400	32.00
\$20,000.....	5,300	26.50	4,880	24.40	\$50,000.....	20,000	40.00	16,000	32.00
\$25,000.....	6,750	27.00	6,680	26.72					

¹ Actually, the rate schedule proposed would attain an effective rate of 32 percent when the income of a corporation has reached \$40,181.78.

Other features of the tax program recommended here will also benefit small business. First of all, the increase in the excess-profits tax exemptions to \$25,000 would be effective for 1945. Unincorporated enterprises, as well as corporations, will benefit from the longer period of loss carry-overs and the more reasonable allowances for depreciation and research expenses. The reductions proposed in the rates of the individual income tax will also encourage the growth of small proprietorships and partnerships, as well as corporations, which are now highly important elements in the competitive economy.

The problems of small business have received so much attention because it is desired to encourage the birth and expansion of small concerns as a means of preserving a competitive system of free enterprise and also because their fullest possible contribution to production and employment will be required after the war if the Nation's economic goals are to be realized.

Tax Government-financed enterprises

Government-financed business enterprises should be made subject to Federal taxation on a basis comparable with the taxation of the private corporate businesses with which they compete. This would serve the dual purpose of raising needed revenue from presently untaxed sources and of eliminating highly discriminatory tax inequalities.

It is axiomatic in our free enterprise system that the consumer should be served by those who can best supply his needs at the lowest prices. Where competition is fair and free, this result will be accomplished. But when Government-financed undertakings are exempt from Federal taxation and competing private enterprise is subject to such taxation, a concealed and substantial subsidy is given to governmental business activities which will, unless it is removed, spell the ruin of our free enterprise system and increase the total costs of production and distribution.

Government-financed enterprises competing with private capital should stand on their own economic merits and should not require tax exemption to justify their existence or assure their survival. Because of their exemption, the public is paying a heavy hidden tax for the privilege of supporting projects which return no benefits to many of the taxpayers. Such tax exemption also results in a considerable loss of needed tax revenue; creates discriminatory competitive advantages; and diminishes progressively, as taxed businesses are absorbed, the tax base upon which Government must depend for revenue. Therefore, steps should be taken immediately to tax Government-financed businesses on a basis comparable with competing private enterprises.

TAXES ON INDIVIDUALS

The fundamental reforms needed to improve the taxation of productive business enterprise have been outlined. It will now be desirable to indicate the essential features of the individual income tax and the other taxes collected directly or indirectly from individuals.

The income tax

Repeal the present 3-percent normal tax and reduce the surtaxes approximately 20 percent to become effective January 1, 1946.

Thereafter—

Impose initial rate of 16 percent.

Reduce surtaxes substantially.

Impose top rate no higher than 75 percent.

Alleviate double taxation of dividends.

The individual income tax has become an essential revenue and should be continued, with substantial rate reductions.

The present normal tax, with its limited exemptions and no credits for dependents, should be eliminated. This would exempt several million low-income individuals from the payment of any income taxes and would provide more equitable exemptions and credits for dependents.

The exemptions and credits should be continued at the levels presently allowed for the surtax, the initial tax rate after 1946 should be lowered to 16 percent and the rates on all brackets should be reduced substantially.

To alleviate the double taxation of the income from risk-taking, dividend recipients should be allowed after 1946 a credit of 16 percent of their taxable dividends in computing their income taxes, without refunds, as previously proposed.

To assure the convenient payment and successful collection of the income tax, the pay-roll withholding method is essential. The present system, including short-cut methods of computation and simplified returns, increases the effectiveness of tax collection and should be retained. Its procedures should be improved wherever possible.

The tax rates

Economic considerations demand that substantial relief from the heavy war-time tax rates be given to the lower and middle income taxpayers. These tax reductions will benefit workers, the salaried group, farmers, the owners of small enterprises, annuitants, and other fixed income recipients.

At the top of the income scale, where individuals are best able to assume risks, the tax rates have been deadening to initiative, and should be reduced materially to encourage risk-taking and productive activity by the owners and managers of business enterprises.

After 1946 the income tax should consist of a basic tax to be imposed on the first bracket of \$2,000 of taxable income at a rate of 16 percent, and a surtax on the additional brackets of income at rates ranging from 2 percent on income over \$2,000 but not over \$4,000, to 59 percent on income over \$1,000,000. To illustrate the principles that should be applied in making these reductions effective, a rate schedule is suggested. The rates of the income tax would thus progress from 16 to 75 percent.

Schedule of suggested individual tax rates after 1946

Income bracket		Tax rates on income in bracket		Effective tax rates applicable to income shown in second column
Over	Not over	Present	Suggested	
\$0,000	\$2,000	23	16	16.00
2,000	4,000	25	18	17.00
4,000	6,000	29	20	18.00
6,000	8,000	33	22	19.00
8,000	10,000	37	24	20.00
10,000	12,000	41	26	21.00
12,000	14,000	46	28	22.00
14,000	16,000	50	30	23.00
16,000	18,000	53	32	24.00
18,000	20,000	56	34	25.00
20,000	24,000	59-62	36	26.83
24,000	28,000	62-65	38	28.43
28,000	32,000	65	40	29.88
32,000	36,000	68	42	31.22
36,000	40,000	68-72	44	32.50
40,000	46,000	72-75	46	34.26
46,000	52,000	75-78	48	35.85
52,000	58,000	78	50	37.31
58,000	64,000	78-81	52	38.69
64,000	70,000	81	54	40.00
70,000	80,000	84	56	42.00
80,000	90,000	87	58	43.78
90,000	100,000	90	60	45.40
100,000	200,000	92-93	62	53.70
200,000	300,000	94	64	57.13
300,000	400,000	94	66	59.35
400,000	600,000	94	68	62.23
600,000	800,000	94	70	64.18
800,000	1,000,000	94	72	65.74
1,000,000	-----	94	75	-----

The suggested schedule, which would reduce the total tax rates substantially for all income brackets, would lower the tax rate from 23 to 16 percent on the first income bracket. At \$10,000 the top tax rate would be 24 percent rather than the present 37 percent.

The tax rates would be lowered at \$20,000 from 56 to 34 percent, at \$40,000 from 72 to 44 percent, at \$100,000 from 90 to 60 percent, and at \$300,000 from 94 to 64 percent.

The reductions suggested are relatively somewhat greater in certain brackets than in others because a regular progression in rates is proposed to take the place of the present irregular progression.

The suggested tax rates are heavier than individuals should be asked to endure for any long period. It will be desirable to reduce the rates further as the national income rises and expenditures are cut to the minimum required for effective peacetime government. The goal should be a maximum tax rate, including both the basic tax and the surtax, not exceeding 50 percent, with proportionate reductions in the rates on the middle and lower incomes. The possibilities of future tax reductions will depend upon revenue requirements. The more expenditures can be lowered, the more taxes on all individual incomes can be reduced.

The exemptions

The exemptions must remain low for the present at least and the tax rates on all of the brackets must remain rather heavy. Otherwise great revenues will be lost.

An exemption of \$500 should be provided for single persons and an exemption of \$1,000 for married couples. A credit of \$500 should be allowed for dependents, as presently defined.

These exemption and credits are now allowed for the surtax. The present normal tax limits the exemption of married couples to \$500, unless both husband and wife have an income, and allows no credits for dependents. These discriminations should now be abandoned.

The basic tax and surtax

The rate of the basic tax should be the rate imposed on the initial bracket of income. When revenue considerations require tax rate adjustments they could then be accomplished, within broad limits, without the necessity of adjusting the surtax rates. This would not preclude, of course, the possibility of lowering the surtax rates or of applying the maximum surtax rate at a higher income level, as fiscal and economic considerations permit. The total tax rates on the various income brackets would, by this arrangement, move downward, or upward, together.

The levy of two taxes, a basic tax and a surtax, likewise recognizes the American income tax traditions. As in the prewar period, the lowest income bracket would not be subject to the surtax.

It is proposed that the tax on the first income bracket be called a basic tax rather than a normal tax. The new basic tax, unlike the present normal tax, would allow the same exemptions and credits as the surtax. The rate of the new tax would also be much higher than the rates of the normal tax in the past in order to raise the large revenues needed in the postwar period. However, this tax rate would be much lower than the present combination of a 3 percent normal tax and 20 percent surtax on the first income bracket.

The new tax should also be designated a basic tax in order to avoid the necessity of exempting from it the interest on the partially exempt Government bonds which were sold with the provision that they would be exempt from the normal tax. To recognize the contractual status of the exemption, the holders of the bonds should be allowed a credit of at least 3 percent of such interest against their tax on total income including such interest.

In effect, then, the present normal tax would be continued, so far as the partially exempt bonds are concerned, and the interest on the bonds would be exempted from at least a 3 percent tax.

In determining his income tax, the individual would apply to each bracket of income the combined basic and surtax rates, as indicated by the statute. Income would be defined in the same way for both the basic tax and the surtax and only one computation, showing the combined taxes, would be required. The complication of the present law, which defines income for the normal tax in a manner different from the income for the surtax, would thus be avoided.

INCREASING THE FLOW OF VENTURE CAPITAL

The achievement of an expanding economy requires an ever-increasing flow of venture capital into job-making enterprises. The deterrents to risk-taking should promptly be lessened in order to encourage individuals to invest in equity capital. This can be accomplished by lowering the tax rates on individual incomes, treating capital gains more favorably, and eliminating so far as possible the double taxation of dividend income, all of which are proposed in this program.

To note the effects of the suggested rates on the taxes which individual investors will have to pay on their incomes, a comparison may be made with the taxes which the present law imposes, assuming that the taxpayer's deductions equal 10 percent of his income and allowing for the exemptions and credits to which he is entitled. A worker or a farmer, unmarried and with no dependents and an

income of \$2,000, now pays a tax of \$302 if he files the simplified income tax form. His suggested tax, if he received no dividends, would be \$208.

A married couple with an income of \$4,000 and two dependent children now pay a tax of \$418, assuming the wife has no separate income and a simplified income tax form is filed. Their tax, if they received no dividends, would be \$256.

A business or professional man in the \$15,000 income bracket, who would probably have surplus funds to invest in the shares of corporations creating jobs, would find the proposed method of treating dividend income a direct inducement for such an investment. Assuming he is married, has two dependent children, and his wife has no independent income, his present tax would be approximately \$3,600, and his tax would be \$2,390. If half of his income should consist of dividends, his proposed tax would drop to \$1,190 in view of the consideration given to the tax previously paid by the corporation on his proportionate share of its earnings.

*Individual income taxes after 1946*¹

Income	Single person (no dependents)			Married couple (2 dependent children)		
	1945 tax	Suggested taxes		1945 tax ²	Suggested taxes	
		No dividend income	Income one-half dividends		No dividend income	Income one-half dividends
\$1,000	\$95	\$64	\$00	\$12	\$00	\$00
\$2,000	302	208	48	39	00	00
\$3,000	516	356	116	211	112	00
\$4,000	741	518	198	418	256	00
\$5,000	960	680	280	650	410	10
\$6,000	1,221	860	380	855	572	92
\$7,000	1,482	1,040	480	1,092	740	180
\$8,000	1,771	1,234	594	1,353	920	280
\$9,000	2,068	1,432	712	1,618	1,102	382
\$10,000	2,385	1,640	840	1,915	1,300	500
\$15,000	4,220	2,800	1,600	3,600	2,390	1,190
\$20,000	6,475	4,160	2,560	5,725	3,680	2,080
\$25,000	7,920	5,720	3,720	8,200	5,180	3,180
\$50,000	24,195	15,070	11,070	23,145	14,380	10,380
\$100,000	60,885	39,110	31,110	59,625	38,240	30,240
\$500,000	397,350	271,060	231,060	395,985	270,040	230,040
\$1,000,000	820,350	585,040	505,040	818,985	583,960	503,960

¹ Deductions are assumed to be 10 percent of income. The interest on partially exempt bonds is excluded. The 1945 taxes for incomes below \$5,000 are those prescribed in the optional, simplified tax form.

² It is assumed the wife has no separate income.

REDUCE TAX RATES ON LONG-TERM CAPITAL GAINS

The taxation of capital gains is actually the taxation of the fruits of an investment at the time it is sold or exchanged. Such taxation must not be too heavy if investors are to be encouraged to risk their funds in new ventures with the hope that their investment will grow in value if the venture succeeds.

The gains arising over periods longer than 6 months reflect an increase in the value of investments rather than income in the ordinary sense, and lower tax rates than those imposed on ordinary income are justified. The tax rates on long-term capital gains should be adjusted so that the maximum effective rate, which is now 25 percent, will be kept in line with the starting rate on individual and corporate incomes, which this program suggests shall be 16 percent, and will be reduced proportionately as they are reduced. Capital gains and losses, whether short or long term, should be offset against each other. In the interest of equity, the deduction of capital losses should be allowed on the same basis that capital gains are taxed.

Investments in new business undertakings which, because of the risks involved, would not have access to the capital markets for funds, would then be encouraged. Such investments may be made by the lower as well as by the middle and upper incomes, with the advantage of increasing production and employment.

The definition of capital assets and the holding period of 6 months or longer, as provided by the present law, should be continued. The existing treatment of gains and losses arising from compulsory or involuntary conversion and from the disposition of property used in trade or business should be retained.

REDUCE THE ESTATE AND GIFT TAXES SUBSTANTIALY

In recent years the rates of the estate tax have been carried to heights which confiscate funds that could otherwise be invested in private enterprise and further expand production and employment. At these high rates relatively little revenue is raised and future revenue will tend to decline unless the taxes are lowered.

If the Federal Government remains in this field, the maximum rate of the estate tax, like that of the present law, should apply to estates in excess of \$10,000,000 and should not exceed 50 percent. The gift tax rates should not exceed three-fourths of the estate tax rates.

When once fixed at the postwar level, these rates should be kept stable and should not be subject to variation with changing economic conditions. If the Government continues to impose taxes on estates and gifts, studies should be made looking toward a more scientific and equitable coordination of these taxes.

The credit against the Federal estate tax for the payment of State death taxes should be increased to allow fully for such taxes. It would be desirable for the Government to withdraw from the field of estate and gift taxation if proper safeguards could be provided to prevent the creation of tax-free areas in some of the States. It is recommended that this possibility be studied and adopted if it is found to be feasible. This reform would return to the States revenues which properly belong to them.

IMPOSE SELECTIVE EXCISES TO RAISE SUBSTANTIAL REVENUES

Selective excises should be employed to raise substantial revenues. Excessive wartime rates should be lowered, and highly obnoxious nuisance taxes should be eliminated.

In the period which we now face immediately following the war, consumer funds should be abundant, because of the large savings in recent years and the generally favorable outlook for employment after a short period of readjustment. For some time the supplies of civilian goods will be scarce. Under these conditions, taxes that tend to be shifted to consumers may properly be employed to raise substantial revenues while relieving some of the inflationary pressure against rising prices.

In order to give the production and employment, which provide incomes to consumers, urgently needed relief from the restrictive effects of excessive taxation, a substantial part of the tax revenues should be obtained from consumers.

Taxes on consumption reach virtually the entire population and obtain revenues from all classes, including those who do not pay the income tax but who have the capacity to pay some taxes.

The excises, after needed revision, will not excessively burden the low income groups in view of the proposed reductions in the individual income and other taxes which would stimulate the production of a greater national income. The income taxes on the low incomes would either be removed or materially reduced by the adoption of this program. These groups, moreover, receive many benefits from Federal expenditures. In various ways the burdens of the excises on the masses would be more than offset by the benefits of other tax reductions and governmental expenditures.

The excises are practicable of administration, productive, in the aggregate, of large and relatively stable revenues, and generally acceptable to the American consumers because they are paid conveniently in small amounts.

Those excises which are serious nuisances to consumers and vendors, such as the use tax on automobiles and boats, can be removed without substantial revenue effect, and those which experience has shown to be excessive can be lowered to the level of the 1942 Revenue Act.

It may be desirable to change the basis for imposing certain of the excises in order to lessen their inconvenience and to remove inequalities. Thus the retail sales tax on handbags and luggage should, perhaps, be converted into a tax upon the manufacture of these items. The tax on electrical energy, on the other hand, should become a tax on the consumer, like the excises on transportation and communication, if such types of utility service are to be taxed in the same manner and without discriminating against a certain kind of service.

By continuing the excises during the period immediately ahead, at levels as high as, or higher than, those of the 1942 Revenue Act, approximately 4.5 billion dollars in revenue can be raised without serious inconvenience to consumers. Oppressive taxes on production and employment can thereby be avoided, and inflationary tendencies can be mitigated somewhat.

The excises should, in general, be continued as long as huge Federal revenues are required and general economic depression is not imminent. If a general economic depression should threaten the stability of the economy, the excises should

be reduced to moderate levels. When prosperity returns, they should again provide substantial revenues.

It is our objective to work for lower taxes on consumers as well as on individual and corporate incomes by lowering postwar expenditures to the minimum essential level.

MAINTAIN THE PRESENT SOCIAL-SECURITY TAX RATES

The present rate levels of the social-security taxes are yielding funds that are more than ample to meet the benefit requirements which they support, and the provisions for automatic rate increases should be eliminated from the law. If subsequent increases in rates become necessary, they should be provided currently by legislation.

The Nation cannot afford, while taxing itself to the limit to balance the Budget and retire the debt of World War II, to saddle itself with increased social-security taxes which, because of their impact upon the economic system, would repress employment. While recognizing the necessity of a sound social-security system, particular objection is raised to plans such as that encompassed in the Wagner-Murray-Dingell bills for vast programs of social insurance which would weaken the incentives of individuals to work and save and which would place upon the American people onerous new tax burdens.

The methods of financing social security and the existing system of benefits should be studied to determine what changes, if any, would be desirable. Consideration should be given to financing social security separately from the rest of the Federal Budget. Any needed improvements or strengthening of the social-security program can and should be made within the framework of the present social-security taxation structure.

COORDINATE FEDERAL, STATE, AND LOCAL TAXATION

Federal, State, and local taxation should be coordinated as effectively as possible. Tax conflicts and inequalities should be removed, tax administration and compliance should be facilitated, and adequate revenues should be assured to State and local governments from independent sources.

Many plans for tax coordination have been advanced. The problems involved are highly complex, however, and no simple solution appears to be available. The study of these problems which are important to our governments and taxpayers should be continued. As soon as desirable and practicable methods of tax coordination can be developed, they should be applied.

ESTIMATED REVENUES

It has been the aim of this discussion to outline the major requirements and the major features of the Federal revenue system. The final choices concerning the rates of the taxes employed in the more remote future will be dependent upon economic conditions, but the goal should be the steady lightening of repressive taxes by the consistent reduction of expenditures. While the details of the Budget of future years, the amount of the national income, and the level of prices cannot be forecast with the assurance of accuracy, it is possible, however, now that the war has ended, to develop a sound and adequate tax structure immediately and to announce its essential features to the Nation.

The estimated revenues from the tax sources in the proposed Federal tax program may now be summarized. This program is not committed to any particular level of national income payments to individuals. For illustrative purposes, various levels of income payments are cited in relation to revenues and expenditures. If the annual national income payments should amount to at least \$125,000,000,000 and prices should continue at approximately the recent levels, the revenues below may be anticipated from the rates suggested:

	<i>Billion dollars</i>
Corporate net income tax (rates 16 to 32 percent)	5. 0
Individual net income tax (rates 16 to 75 percent)	7. 6
Excises	4. 5
Customs duties .....	. 5
Estate and gift taxes .....	. 5
Miscellaneous revenues .....	. 4
Total revenues	18. 5

It will be noted that social security receipts are excluded. They have been exceeding the benefit payments and apparently will continue to do so for some time to come, thus obviating borrowing to this extent from other sources or providing surplus revenues.

On the other hand, if the national income payments should approximate \$160,000,000,000, as some observers predict, the taxes proposed would yield substantially larger revenues and the debt could be retired at a faster rate with a budget of \$18,000,000,000.

If desirable public economies are effected, the Federal Budget, excluding social security, should run considerably below the estimated revenues, and substantial sums should be available for debt retirement.

Any economies which may be realized in Federal spending will lessen the pressure upon taxation. The more expenditures can be reduced, the more taxes can be lowered, and the faster the debt can be retired.

If, as some persons contend, a minimum budget of \$25,000,000,000, excluding social security and debt retirement, will be necessary, individuals and corporations must become reconciled to the continuance of onerous taxes. With national income payments of \$125,000,000,000, individuals could have a very modest reduction in their income-tax rates or the excises could be reduced somewhat to the levels of the 1942 Revenue Act, with such a Budget. Corporations could be relieved of the excess-profits tax and the capital-stock and declared-value excess-profits taxes, but their net income-tax rates would have to remain at the wartime levels.

Even if the national income payments should amount to \$160,000,000,000, to support a budget of \$25,000,000,000, excluding social security and debt retirement, the Nation might have to endure the repressive effect of even heavier taxation than proposed in this program.

The Nation must, therefore, choose between (a) a moderate Budget and moderate taxes on business enterprise and individuals or (b) a high Budget and crushing taxes on all productive business and individuals. Which do we want?

THE BUDGET AND DEBT POLICY

After the transitional period, during which an unbalanced Budget may be expected both because of abnormally high expenditures and the desirability of reducing taxes substantially as a stimulus to reconversion, expanded production, and employment, the revenues should be ample to balance the Budget and reduce the debt at high employment levels.

A Budget of 18.5 billion dollars, including substantial debt retirement, but excluding social security, should then be adequate to provide the essential governmental services after expenditures are reduced to minimum levels consistent with efficient government. Such a Budget will be feasible if the American people are determined to avoid all unnecessary expenditures.

The Federal debt is now approximately \$262,000,000,000. Before the Budget is balanced the debt may approximate \$300,000,000,000.

If our national financial and economic stability is to be preserved, we must adopt a policy of paring down the debt consistently. This can be done without imposing crushing taxes which would endanger high-level employment and consumption if the Budget, including substantial debt retirement but excluding social security, is reduced to 18.5 billion dollars or a lower figure, which we should continually strive to achieve. If the high national income and the high employment now predicted by many observers are realized, the revenues proposed will surpass 18.5 billion dollars. The excess of revenues from the proposed taxes over this sum should be utilized for debt retirement.

It is, therefore, recommended that a policy of substantial debt reduction be adopted. To accomplish this result, Congress should raise surplus revenues for debt retirement at high levels of employment by curtailing nonessential expenditures. These surplus revenues, with the proceeds from the disposal of surplus property and other available receipts, should be devoted to the reduction of the debt. The amount of debt retired at high-level employment should substantially exceed any debt that may be incurred during periods of economic depression.

ECONOMY AND EFFICIENCY IN BUDGETING

Now that the war is over, the battle of Federal finances will be the battle of the budget. It will be necessary to keep the budget within reasonable limits so that taxes may be moderate and the debt may be reduced substantially. Expenditures must be cut drastically and quickly if the budget is to be brought into balance at a high level of employment.

Whatever the minimum level of spending may be, it will undoubtedly greatly exceed former peacetime expenditures, and the importance of governmental economy and efficiency to individual and corporate taxpayers cannot be over-emphasized. Unnecessarily large expenditures may create a burden of taxation so heavy as to prevent high levels of production, employment, and consumption and may endanger the continuance of private business enterprise. Given a sound governmental attitude, which is favorable to the activity of private productive enterprise, endless deficit financing will not be needed to vitalize consumption and to provide jobs for workers.

Certain principles must be emphasized in budgeting if Federal expenditures are not to exhaust our national resources in wasteful activities.

Every appropriation request should be examined by the Bureau of the Budget and Congress to make certain that the funds required will not be taken from private hands unless the Government will increase the effectiveness of their use for the general welfare.

Permanent appropriations should be avoided wherever possible.

The abuses of deficiency and supplemental appropriations should be eliminated.

Appropriations should be apportioned in a manner which will assure their adequacy throughout the entire year.

The unobligated balances of appropriations should lapse at the end of each fiscal year.

Government corporations should be brought under the control of Congress and the financial supervision of the Bureau of the Budget, the Treasury, and the General Accounting Office.

Federal centralization by grants to State and local governments and by subsidies to agriculture and industry should not be extended further. Existing grants and subsidies should be examined with a view to their gradual elimination.

Every State and local chamber of commerce and every other business organization should refrain, and use its influence to persuade State and local authorities to refrain, from exerting pressure upon Members of Congress for the appropriation of Federal funds for local projects.

Requests for appropriations of indisputable merit should be presented to the Bureau of the Budget for its consideration in budget planning. No other appropriation proposals should be advanced.

To achieve the maximum economy and efficiency in spending, the Executive should have adequate fiscal controls for planning and carrying out the wishes of Congress, and congressional appropriation committees should be organized effectively with an adequate staff to examine and wisely limit spending requests.

The need for congressional spending controls has been convincingly demonstrated by the excellent work of the Joint Committee on the Reduction of Non-essential Federal Expenditures.

Measures now pending in Congress exhibit an encouraging awareness of the need for more efficient appropriation procedure and budgetary controls. Such measures should receive early consideration so that some legislation of this kind will be in effective working order in this critical period.

ECONOMIC BENEFITS OF THE PROPOSED TAX PROGRAM

A tax program has been proposed which would stimulate the productive activity of private enterprise needed to provide jobs for our millions of workers and the increased quantities and improved qualities of goods which consumers are eagerly awaiting in the new postwar era. More specifically how will the proposed tax program vitalize our economy in the manner envisioned and enable us to balance the Federal budget and retire the debt while the Nation is enjoying prosperity?

In the past, the free-enterprise system has provided ever more and better goods and services for American consumers. If consumers are to have larger incomes and enjoy higher standards of living, production must be encouraged in every possible way and existing tax restraints on risk-taking and employment must be removed.

The proposed tax program will promote production

It will invite entrepreneurs to expand production in order to increase the income left after taxes are paid by increasing the rewards to risk-taking and the investment of venture capital.

Onerous taxes on production will be removed. These include the wartime excess-profits tax, the capital-stock tax, the related declared value excess-profits tax, and other objectionable imposts.

The discriminatory double taxation of corporate dividends will be alleviated and the investment of venture capital by individuals will be stimulated.

Business will know definitely in advance what taxes it will have to pay; those taxes will be more equitable, and tax administration and compliance will be more convenient.

Needless expenses will not be invited as a way to avoid taxes.

Employment will be increased

Production means jobs, and more production means more jobs. More work and more income will be available to the workers if production is encouraged by more favorable tax policies.

Increased production will increase the demand for farm products. This means more work and more income for the farmers.

Our workers and farmers should have the opportunity to earn adequate rewards for their productive efforts. If their incomes can be maintained at high levels through greater production, their relative tax burdens will be lightened and their purchasing power will be increased.

Consumers will have more and better goods and services

Because of the greater inducement to efficient management, costs will be lowered and prices should be reduced for consumers.

Consumers will therefore enjoy gains in purchasing power from lower prices as well as from higher incomes.

Small and new business and competition in production will be encouraged

Competition acts to lower costs and prices and to bring better products to consumers.

Therefore, by adopting a tax program which will free production from harmful restraints, more jobs will be available, workers and farmers will have more incomes, and consumers will be able to purchase new and better products at prices below those they are now paying.

CONCLUSION

The basic structure of the Federal tax system proposed for the new postwar era in which we now find ourselves has been indicated.

Taxes must be reduced. They can be reduced by courageously cutting out needless expenditures.

The budget must be balanced and the debt must be retired at high levels of employment. This, again, will require drastic cuts in expenditures.

The tax program offered here is not the last word on the subject. Much work remains to be done in clarifying and simplifying the tax law and regulations, in removing inconveniences and inequities in the technical details of taxation, and in continuing to improve the tax structure and its many features.

It is, however, a program designed to:

Expedite our reconversion and readjustment from a war- to a peace-time economy.

Afford equitable tax relief to business and individuals.

Encourage the venturing of capital.

Provide high employment with well-paid and productive jobs.

Stimulate consumption.

Increase the national income.

In short, it is a program aimed at gearing up the Nation's economy to produce the unprecedented peacetime national income which will be required to pay the taxes needed to pay for the war while at the same time preserving, and ever raising, our standard of living.

SUMMARY

Taxes should be reduced to spur reconversion and the smooth and speedy transition to peacetime conditions of high levels of production, employment, and consumption. As these objectives are realized, taxes should be reduced further to stimulate the achievement of a stable and healthy peacetime economy. During the transitional period it may not be possible to achieve a balanced budget because of continued abnormal expenditures, but it will be desirable to remove tax restraints on economic activity and to prepare the way for balancing the budget and retiring the debt.

The sudden termination of the war has precipitated the need for a transitional and a long-range Federal tax plan. A law must now be enacted to bridge the

gap between the present excessively high taxes and a tax program for the future. Certain recommendations included in this program should be enacted into law immediately so that they will become effective January 1, 1946. Congress should promptly thereafter begin work on and adopt without delay a long-range program in order that the taxpayers of the country will know how to plan the future development of an expanding economy.

Tax policies

The tax system should be designed to meet the essential cost of the Federal Government. It should be definite in its requirements, simple in administration, convenient in compliance, equitable in its distribution of burdens on the taxpayers, and ample in its revenue yield.

The tax structure must also have stability, particularly in those features having to do with corporate and individual income taxes.

Risk-taking by entrepreneurs and the investment of equity capital should be relieved as far as possible from tax restraints. The effects of taxation on production, employment, and consumption should also be considered and injurious taxes should be removed.

The taxation of business

The wartime excess-profits tax should be repealed effective January 1, 1946. However, the 2-year carry-back of unused excess-profits credits should be continued for two taxable years beginning January 1, 1946.

The increase in the excess-profits tax exemption from \$10,000 to \$25,000 should be made applicable to the year 1945.

The maximum combined normal and surtax rate on corporate net income should be reduced to 32 percent, such reduction to become effective January 1, 1946, and should be reduced further thereafter as fast as revenue requirements will permit and with a consideration of the effect of the tax on production and employment.

The capital stock and related declared value excess-profits taxes should be repealed effective January 1, 1946.

A favorable tax climate should be provided for small business, with the tax rate rising from 16 to 32 percent at \$40,000, depending on the amount of income, effective January 1, 1946.

The double taxation of dividends, first as corporate and later as individual income, should be alleviated by allowing individuals a credit in computing their income taxes equal to 16 percent of their taxable dividends. This percentage coincides with the starting rate of the corporate and individual income taxes.

The 2-year net loss carry-forward should be extended to 7 years. The 2-year net loss carry-back should be continued for the two taxable years beginning January 1, 1946.

The penalty tax on consolidated returns should be eliminated.

The taxation of the receipt of intercorporate dividends should be discontinued.

Within the limits of sound accounting, business management should be allowed to exercise its discretion in the choice of rates of depreciation. This reform should be accomplished by a statutory clarification of depreciation policy.

Research and developmental expenditures should be allowed in computing taxable income.

Government-financed enterprise should be taxed on a basis comparable with competing private enterprise.

The taxation of individuals

Repeal the present 3 percent normal tax and reduce the surtaxes approximately 20 percent effective January 1, 1946.

Exemptions and credits for dependents should continue as they are presently defined for surtax purposes, the initial tax rate should be lowered to 16 percent, and all surtax rates should be reduced substantially with such further rate reductions as revenue requirements will permit. The principle of withholding should be retained and its procedures improved wherever possible.

The tax rate on long-term capital gains should be adjusted in line with the starting tax rate on individual and corporate incomes. In the interest of equity, the deduction of capital losses should be allowed on the same basis that capital gains are taxed.

The estate and gift taxes should be reduced substantially. It would be desirable, if feasible, for the Federal Government to withdraw from this field if proper safeguards to prevent the creation of tax-free areas in some of the States could be adopted.

Other taxes

The selective excises should be employed to raise substantial revenues. Excessive wartime rates should be lowered and highly obnoxious nuisance taxes should be eliminated.

The social-security tax rates should not be increased.

Federal, State, and local taxation should be coordinated as effectively as possible.

The Budget and debt policy

After the transitional period, during which an unbalanced budget may be expected both because of abnormally high expenditures and the desirability of reducing taxes substantially as a stimulus to reconversion, expanded production, and employment, the revenues should be ample to balance the Budget and reduce the debt at high employment levels. If the national and economic financial stability is to be preserved, a policy of consistent and substantial debt reduction must be adopted.

Federal expenditures

Expenditures should be lowered to the minimum necessary operating expenses consistent with essential and efficient government in order to achieve moderation in the taxation of individuals and business enterprise. Unnecessarily large expenditures may create a burden of taxation so heavy as to prevent high levels of production, employment, and consumption and may endanger the continuance of private business enterprise. The importance of efficient low-cost government must constantly be emphasized.

Economic benefits of program

The tax program proposed will stimulate the productive activity of private enterprise needed to provide jobs for our millions of workers and the increased quantities and improved qualities of goods which consumers are eagerly awaiting in the new postwar era.

The CHAIRMAN. We will now hear from Mr. Alvord, representing the Chamber of Commerce of the United States.

**STATEMENT OF ELLSWORTH C. ALVORD, CHAIRMAN, COMMITTEE
ON FEDERAL FINANCE, CHAMBER OF COMMERCE OF THE
UNITED STATES**

Mr. ALVORD. Mr. Chairman and gentlemen, I would like to follow my customary practice and file with the reporter a prepared statement and then speak extemporaneously.

The CHAIRMAN. You may file your statement with the reporter. Proceed, Mr. Alvord.

Mr. ALVORD. The bill pending before you, and the whole problem of immediate tax reduction, in our opinion, should be judged primarily from the point of view of effect upon reconversion.

In the minds and on the lips of everyone is the word "reconversion."

If we fail at reconversion, then all the estimates that have been given to you might just as well be discarded. If we succeed at reconversion, then we can be confident that the revenues of the Treasury will be benefited just as everyone in the country will be benefited.

We approach the problem from a very simple point of view. For many years to come, as we see the Federal budget, the Treasury will need maximum revenues, and concurrently must be prepared to spend only minimum expenditures.

So our point of view is twofold—the gaining of maximum revenues and the gaining of minimum expenditures.

Unless both objectives are attained, we may as well abandon all hope for several years to come of a balanced Federal budget.

If both objectives are attained, then you may expect with confidence a balanced budget by the fiscal year 1948.

We are now in the fiscal year 1946 and that is but 2 years beyond.

When we consider tax reductions and when we consider opportunities for minimum expenditures, the effect cannot be judged solely by statistical estimates on loss of revenue, for example, for the fiscal year 1946, or the calendar year 1946, or the fiscal year 1947.

And we might point out here that the Treasury estimates—and this is not criticism in the slightest—are based first upon calendar years, the calendar year 1946 and the calendar year 1947, and, second, that they are based upon reductions in tax liabilities, not upon the effect upon collections of cash by the Treasury.

Now, reductions in tax liabilities are a perfectly proper measure of the effect of pending legislation upon the taxpayer, but the Government still operates on a cash basis and on a fiscal-year basis.

We have a budget for 1946 which has been reduced considerably, almost \$20,000,000,000 knocked off of expenditures, and about \$3,000,000,000 knocked off of collections, and about \$15,500,000,000 knocked off the deficit.

We have no budget for 1947, and, again, that is not a criticism, because a budget for 1947 cannot presently be given.

But I have every confidence in Secretary Vinson's assertion the day before yesterday before your committee that the 1947 budget will show a deficit no greater than between \$5,000,000,000 and \$8,000,000,000—

Senator TAFT. You are more confident than I am, because I think it will be greater.

Senator WALSH. So do I.

Mr. ALVORD. The test will come not so much in tax reductions but in the reduction of expenditures.

Of course, very little of the tax reduction in the present bill—\$1,000,000,000, to be exact—will be felt in the fiscal year 1946. That comes solely by the reductions in individual taxes, because none of the other reductions will be felt until the fiscal year 1947.

Now, we have suggested that the Treasury will need maximum revenues.

You will recall that on previous occasions we suggested that the tax legislation be keyed to three principles, and are very happy to commend the Congress in its very successful efforts in so doing.

The first was the transition from peace to war, the second was the war period, and the third was the transition from war to peace. We are now in the third period.

I had hoped that a truly comprehensive tax bill could be enacted at the beginning of the transition period, to be enforced throughout the transition period, which may be 2 years or probably 3 or maybe 4 years, all integrated toward reaching a sound postwar system, because we all know we can stand high rates in 1946 and 1947 and probably in 1948 only if we know definitely that the rates are on the down grade, so that at the end of this transition period we will have something left after taxes.

Well, now, we can identify a few rather fundamental principles in measuring maximum taxation.

Everyone doubtless will have to pay the most he can conceivably pay. I remind you, however, that in dealing with the so-called transitional bill instead of the more comprehensive bill for the interim period, you are giving in effect to the taxpayers nothing but a yellow

light. They don't know whether the light will turn green or whether it will turn red.

A more comprehensive bill would say, "Gentlemen, the light ahead is green. Go to it."

So I trust that the assurances that the leaders of the House and Senate have given, that a more comprehensive bill will be given consideration after the enactment of this bill, can be realized.

Let us attempt to determine where we are going. I would say that the first objective is permanent peace.

I agree certainly with President Truman that another world war will ruin all humanity, not only the United States but all civilization, so it must be avoided regardless of the dollar cost.

If we are going to avoid war, I think we need strength, and strength means not only spiritual strength, industrial strength, but financial strength—financial strength of the Government and financial strength of the citizens, and it means a determined will to realize and conserve that strength.

Second, we need maximum production. We need maximum production even if we viewed it selfishly, because it will be only through maximum production that we can create enough wealth to obtain sufficient strength to have a chance at permanent peace.

Maximum production is the goal toward which interim tax legislation should strive. Correspondingly, it is the goal toward which this bill should strive.

Much can be done in this bill, with assurances of a similar attitude in the bill to come, to point toward maximum production.

There is no such ultimate end as prescribed volume of production, because, if our economy is sound, maximum production each year will constantly be increasing. So that we mean the greatest production possible as of any given time.

SENATOR MILLIKIN. Mr. Chairman, is there any more we can do about it than to provide a favorable background for it?

MR. ALVORD. That is about the greatest contribution you can give.

SENATOR MILLIKIN. That is the only contribution.

MR. ALVORD. It is the greatest contribution.

SENATOR MILLIKIN. Mr. Chairman, I mean to say we can set up a tax bill that sets up a favorable background, but that doesn't assure maximum production.

MR. ALVORD. That is true, sir. But your favorable background in fiscal matters will be a tremendous help.

As I point out in my written statement, a good many other policies and a good many other factors must likewise be coordinated. But I would hope in maximum production we would provide most of the answers to the fears of inflation and the fears of deflation.

In maximum production lies the best solution to problems of prices, wages, employment, cost, and of profits.

SENATOR TAFT. What is the United States Chamber of Commerce doing about keeping expenses down? I would say that is important.

MR. ALVORD. It is important.

SENATOR TAFT. They recommended \$6,000,000,000 be spent on Bretton Woods. They recommended \$500,000,000 a year for roads, and I think they are favoring this hospital bill that I am working on. I am for it, too. But I don't think the chamber's position is consistent.

They seem to be in favor of most of the expenditures and now they urge we should not engage in these various things.

Mr. ALVORD. I am not sure you are 100 percent correct with respect to Bretton Woods.

Senator TAFT. Eric Johnston came before our committee and endorsed it, and I have no doubt he would be for the British loan or gift.

Senator HAWKES. Of course, your reaction to that is that the chamber of commerce is no more consistent than the Congress of the United States.

Mr. ALVORD. I think probably the answer ought to be that we should be more consistent than the Congress of the United States.

Senator HAWKES. I think that is correct, but I don't think they have been lately.

Mr. ALVORD. But the policies are certainly perfectly clear.

Our next objective which follows maximum production, of course, is maximum jobs, jobs for everyone willing to work. Unless we succeed with our reconversion problems, we risk never attaining any one of the four goals, and certainly, from a purely fiscal point of view, we risk losing a tremendous amount in revenues and increasing expenditures by more than we lose in revenues.

So that the present bill, I think, should be faced with this point of view. Not how much does it cost in dollars and cents in any one particular year. That, of course, must be considered, because above all we must maintain the credit of the United States, and if that should ever falter there would be at least as much catastrophe as other countries and other peoples have been through.

But we must trust the Government is a long-lived government, and 1 year is a short period of time.

I am personally as much interested in revenue yields in 1950 as I am in revenue yields in 1946 or 1947, and if we get ourselves on a sound basis quickly, our revenue yields in 1950 and 1949 and 1948, as well as 1947, will be much larger regardless of the rate imposed.

Excessive and repressive rates will produce less revenues than a lesser rate, based upon sound rates and policies.

With respect to the bill before you, we would like to make the following recommendations.

We agree definitely with Secretary Vinson that the excess-profits tax should be repealed at the end of this year.

I am sorry Senator Connally is not here, because he seemed to be one member of the committee who thought that maybe an excess-profits tax should be continued on indefinitely.

At the risk of some repetition I would like to supplement the reasons why the excess-profits tax should be repealed.

First, it is designed solely as a war measure. Revenues were not involved in the formulation of the excess-profits tax. The primary purpose of the excess-profits tax was to prevent war profiteering.

You will recall the President's message at the time, in which he said, "There must be no more war millionaires." And that message came after we appeared before the Congress and, upon the declaration of war, we advocated the excess-profits tax.

And we are an early advocate of repeal. I think it is unwise to attempt to decide the repeal of the excess-profits tax on how much loss in revenue will result. I think everyone agrees that revenues will be benefited and reconversion stimulated by repeal of the excess-profits tax.

I put that down as No. 1 on the program.

Senator HAWKES. May I interrupt and ask Mr. Alvord: Do you feel, as was stated a moment ago, and as the other witnesses stated, that the repeal of the excess-profits tax is quite as much in the interest of the small concern and more in the interest of the concern that is new than it is in the interest of the concern that is established?

Mr. ALVORD. I am happy to go on record on that point.

The harshness of the present excess-profits tax was unavoidable and not intentional, and that is why I say there should never be an excess-profits tax in peacetime.

The excess-profits tax discriminates against the smaller company in favor of the older organized and larger companies.

There must be some way to measure normal profits and excess profits, and experience seems to be one of the most vital factors. New business has no experience; small business has had inadequate experience. New business is inadequately capitalized; small business is inadequately capitalized. New business and small business are one-man or two- or three-men affairs.

The excess-profits tax—I haven't the slightest doubt—will seriously interfere, if it is continued for but 1 year, not only with the larger problem of reconversion but with the formation of new enterprises, whether they be by veterans returning from the war, or by younger men becoming of age and getting into business, and will seriously interfere with the established but small business.

And in that connection, Senator, and on behalf of the small businessman, we urge that the \$25,000 exemption accorded in the Tax Adjustment Act passed last July be given for 1945.

Let me remind you: There was tremendous pressure at that time to make the \$25,000 exemption retroactive. I think it was in your minds to make the \$25,000 applicable to the last year of the excess-profits tax, and, back in July of 1945, we still predicted the continuation of the war and the excess-profits tax into 1946.

The war is over now and I think that the freeing of funds—and, after all, your small businessman has been terrifically discriminated against throughout the war—will pay very substantial dividends to the Treasury and to the country.

Senator GERRY. I take it that part of your idea is, you want to enable small business to build up a reserve to overcome any depressions that may follow the reconversion?

Mr. ALVORD. I would not expect them to build up reserves at the present time unless the reserves are put into brick and mortar or plant equipment.

But realize what a businessman faces at the present time and has faced for a couple of months now.

He must determine how much expansion he is going to attempt. He must acquire new plant, new facilities, either by purchase or by construction. He sits down today and says, "How much of this stuff can I sell if I build a plant big enough to produce so much?" He has lost his markets and his salesmen and he has got to reestablish them, and he doesn't know how successful he will be in that.

He must have a tremendous amount of cash in order to buy an adequate inventory of raw materials. If he doesn't have the cash, the chances are he doesn't have the credit. That inventory of raw materials which he buys today will not turn into cash tomorrow.

It will not turn into cash until he has produced the product he is going to sell, his end product, and it may be 2 months or 2 years or 3 years before the proceeds of that product are available to him.

When we even suggest maximum production we are asking him to gamble on the future.

My personal opinion is that there will be adequate demand for everything that can be produced for some time to come. What happens after that, I don't know.

His problems are several, and if he will discount his estimates—because, after all, all of us must have money left after taxes if we are going to continue to live—he must discount his estimates of production or employment or sales tremendously as he is compelled to discount his profits after taxes.

Senator HAWKES. Mr. Alvord, I would like to bring out something that I believe everybody should know. You see if I am right.

The great majority of your membership in the Chamber of Commerce of the United States are small and medium-sized concerns. Am I correct?

Mr. ALVORD. You are correct. And, Senator, I think you know it better than I do.

Senator HAWKES. I think it is important for everyone to know you are representing the smaller and medium-sized men of the United States to a greater extent than the larger business of the United States.

And I think the committee should know that the Chamber of Commerce of the United States represents and is deeply interested in the welfare of agriculture.

You have on your board a director, a man who gives his entire life to agriculture. Is that correct?

Mr. ALVORD. That is correct, sir. But if I were here representing nothing but big business I would still say that my prosperity depends to a great extent on the prosperity of small business—upon the prosperity of the entire country; because I can't sell my production without buyers.

Senator HAWKES. Yesterday we had witnesses here who left the impression that if the excess-profits tax were taken off, it would aid 900 great corporations in the United States and would not do any good for the business of the United States.

I am diametrically opposed to that.

Mr. ALVORD. Senator, you and I feel the same way. And let me make another statement. If our committee were interested, as some people in the administration at least in the past seemed to be interested, in creating monopoly, we would keep the excess-profits tax on.

The bigger businesses could live for a year or more. They have credit and they have reserves. But the excess-profits tax kills the fellow underneath them. And if I were encouraging monopoly, I would keep the tax.

But, quite to the contrary, I would encourage the smaller fellow as much as I could. Small enterprises are the backbone of the country and of democracy.

Senator BAILEY. What do you say about a graduated tax?

Mr. ALVORD. I oppose a graduated corporation tax because it does not work practically.

The number of dollars a firm earns in a particular year does not measure whether it is small or large.

Senator BAILEY. But you could fix that.

Mr. ALVORD. I am not so sure of that. I think you will find the Smaller War Plants Corporation struggled down to the present time attempting to determine who is small and who is large.

Senator BAILEY. I know the difference between a big apple and a little one.

Mr. ALVORD. You can see that.

Senator BAILEY. And I know the difference between big business and a little business, too. I have no trouble at all about that.

Mr. ALVORD. Senator, I doubt very much if you could draft a definition of either big business or small business so you could really distinguish between them.

Senator TAFT. It does seem to me, when a business is small, with earnings under \$100,000 or even \$40,000, we would properly encourage them with a reduction.

Mr. ALVORD. That is what we have already done.

The CHAIRMAN. I think that is what Senator Bailey had in mind.

Senator BAILEY. I wanted something more than the exemption.

Mr. ALVORD. Then you get into a great deal of difficulty, Senator. We have generally provided in one way or another for a smaller tax on corporations with incomes of \$25,000 or less, and the present bill provides reductions for those corporations, and we are in favor of that.

Senator BAILEY. The witness has made a suggestion here of a certain advantage—a rather high percent—and no advantage after earnings of \$100,000.

Mr. ALVORD. Let me refresh your memory, Senator. A very distinguished gentleman in this country who later became Speaker of the House of Representatives, was at one time chairman of the Committee on Ways and Means in the House, Mr. Garner.

When chairman of the Ways and Means Committee he did his best to work out a graduated tax on corporations.

It is quite true he put one in the House bill which you gentlemen killed, but he himself admitted his bill was no good.

We can't take the number of dollars—let's forget corporations—but suppose you and I are doing business as a partnership and make \$100,000. Between us it is \$50,000. Suppose we bring in Senator Gerry and it is still \$100,000—now we are down to thirty-three and one-third thousand dollars.

Senator BAILEY. Well, Senator Gerry would get it all then. [Laughter.]

Mr. ALVORD. Then we bring in Senator George, and there is only \$25,000 each.

That is one of the difficulties of the graduated tax. How many stockholders are you going to have?

True, as we think of a one- or two- or three-man concern, then maybe the dollars will have some bearing on their ability to pay. But as we spread it out over more than one or two or three, the amount of the income of the corporation itself has nothing to do with its ability to pay. The nub of the matter is that ability to pay is an individual attribute, not a corporate characteristic.

Senator BAILEY. Look at the corporation as a whole. You are talking in terms of a partnership which is an individual tax.

Mr. ALVORD. Yes.

Senator BAILEY. Why don't you tax a corporation as an entity?

Mr. ALVORD. The moment you do that, you tax the stockholder, the owner of the corporation, and in another case you treat him more favorably.

Let me add 1 factor—and I could add 20—but suppose you and I start in this business and chip in \$5,000. If we make \$100,000 on our two \$5,000, which is \$10,000, that would be pretty good.

Senator BAILEY. You mean we put in \$5,000? You mean we put in \$5,000 and make \$100,000?

Mr. ALVORD. But we are good. I am assuming you are good, and I handle the money. It is not unheard of.

Senator BAILEY. You might find a good man somewhere.

Mr. ALVORD. I am going from one extreme to another. Obviously we are in a position to pay more tax, but your proposition would let us pay less.

Let's assume we have started with \$5,000 some years ago and put in all the energy and ability we have and denied ourselves salaries and everything and plowed back the earnings and built a business which produced \$100,000.

I am not so sure we would have more ability to pay than our next-door neighbor. You are then taxing the capital that we contributed. Your personal energy that goes into a smaller corporation is given no weight whatsoever. But we normally give weight to the money contributed.

Senator BAILEY. I am not following you at all.

Mr. ALVORD. I am speaking of the years you and I have devoted to the corporation, which includes the accumulated earnings and profits we have not distributed plus the brains and energy we have put into it.

If you are going to have a graduated tax on corporations, you must take that into consideration or your tax is going to be unfair.

The number of dollars earned in any one year is not the measure.

Senator BAILEY. Suppose you limit it to actual capital invested—not experience but capital—and then relate your graduated tax to the ratio of earnings on the capital invested.

Mr. ALVORD. That is somewhat the idea that Senator Connally was approaching the other day.

I would not suppose, Senator, that I would have to take you back very far before you remember that is exactly what you refused to do.

Do you remember back in 1940, the Treasury wanted an excess-profits tax confined to invested capital? A graduated tax, or excess-profits tax, is substantially the same from this point of view.

As you gentlemen know, the Congress, particularly under the leadership of this committee, insisted upon the earnings credit. Why? Invested capital as a measure alone does exactly what Senator Hawkes pointed out. It gives to the long-established, well-capitalized organization a tremendous benefit, and gives to you and to me—

Senator BAILEY. You wouldn't get anything.

Mr. ALVORD. That is true. But what do you and I get for the energy we put in?

Senator BAILEY. That is not part of your capital.

Mr. ALVORD. Yes, it is, sir; and that is more important in a smaller corporation. It is vital. Earning power—brains and ability—is the strength of every small enterprise; not the money put in, but the personal energies of the owners.

Your smaller corporation is the organization that operates on the ability and brains of the individual owner.

Senator BAILEY. But for the purpose of taxation the value of the corporation is the actual money invested. Won't you agree to that?

Mr. ALVORD. No, sir; I never will agree to that.

Senator BAILEY. For purposes of taxation?

Mr. ALVORD. I would never agree to it.

Senator BAILEY. Where do we make the distinction now?

Mr. ALVORD. Quite to the contrary, you have never favored, so far as I know, except in the excess-profits tax of the last war, which was minimized considerably by your so-called relief provisions—you have never favored a well-capitalized, large corporation in any system of taxation you have ever proposed.

Senator BAILEY. I am dealing with you on the proposition that when we come to this part of taxation in Congress, we have never determined capitalization or the ratio of profits to investment by calculating on the personal feature. We don't say, "This man has applied so much brains and the other man didn't supply any," and therefore make some allowance.

Mr. ALVORD. That is exactly what you did with the present excess-profits tax when you used prewar earnings. It is earning power that counts. So that if our invested capital is not enough, and most of our income comes from earning power—

Senator BAILEY. The prewar earnings was simply a standard we fixed to find some base on which the capital related to excess profits. It didn't relate to management at all.

Mr. ALVORD. That is the effect of it, and you will recall, back in 1940, that is the reason you were for it.

But I am certain that you have never knowingly discriminated in favor of a highly capitalized organization, which is what your graduated tax would do if you use your basis, and if you don't use your basis you have no basis at all for it.

Senator BAILEY. You mean to say it would be a discrimination in favor of big business?

Mr. ALVORD. Certainly.

Senator BAILEY. If I make a rate of 5 percent on the first \$10,000, and 40 percent, 50 percent, or 60 percent on income over \$100,000, where am I discriminating in favor of the big fellow?

Mr. ALVORD. Maybe I misunderstood you, Senator, but it seems to me as though you shifted.

Your reply to me was on my first illustration, that you would first allow some sort of percentage on invested capital and then tax income in excess of that.

Senator BAILEY. You said to capitalize invested capital on the basis of the brains of the management.

Mr. ALVORD. Unless you are going to discriminate—

Senator BAILEY. It is a job to estimate the value of the brains in a corporation.

Mr. ALVORD. That is what your excess-profits tax does. You have a prewar period ending in 1939—

Senator HAWKES. Mr. Chairman, may I see if I understand what Mr. Alvord means?

You take two men that put in \$5,000 apiece to start a business, a small business, and they have hopes of developing that thing, and

instead of drawing \$250 a month apiece for their services for the first year and the second year and the third year, they do just what I did at one time.

I worked for a number of years for a very modest sum of money, which was not one-third of what I was worth—I took \$125 a month, and my brother did the same thing.

We accumulated the results of our energy and thoughts and ability and built that thing up.

Now, we come to a period after 10 years of that kind of prudence and thrift and the use of ability, and we get the company in a shape where it makes \$100,000.

Your contention is that to have a graduated tax, that takes a substantial part of that \$100,000 away, destroys initiative, and that has been the backbone of development in the United States?

Mr. ALVORD. That is exactly the point that I made. And may I add to it again, if, instead of you and your brother, 10 men were there under the same circumstances——

Senator BAILEY. I don't think you see what I am driving at. I was driving in the direction of incentive. You say it would destroy incentive.

Suppose I should go into a business like I once was. Under the present circumstances I couldn't borrow any money for the reason that my taxes were so great I couldn't possibly pay it back.

Mr. ALVORD. That is right, you have nothing left after taxes.

Senator BAILEY. That is a reality in America today.

Mr. ALVORD. That is true with every one of us. There is no such thing as earning power after taxes.

Senator BAILEY. Suppose I wished to borrow \$200,000 to put in the business and I would have to pay it back in 10 or 20 years. How could I pay the interest and the annual amortization and the taxes under the present circumstances?

Mr. ALVORD. You can't do it under the present law. I made that point.

Senator BAILEY. That is the bad end of it.

Now, take that situation and see if we can't correct it and fix it so I will be able from my profits to pay back \$10,000 a year. That is, by placing the rate low on the first \$10,000 and not quite as low on the next \$10,000, and graduate it. That is what I should think would be an incentive to me to invest.

Mr. ALVORD. I can only answer, Senator, that I think almost everyone who has gone into the graduated tax has agreed, "Yes, we will do something for the small fellow," meaning the corporation with the income of \$25,000 or less.

They would cut his rate, which is what you do, but above that let everybody pay a flat tax. It hurts in one particular year, but it is the most successful way, probably, of taxing corporations.

Senator BAILEY. That might be. But that is aside from the point.

I am talking about a fellow who comes along, a young fellow who wishes to expand his business and he wishes to borrow money, but the tax system makes it impossible to pay the debt, and, therefore, cuts him off of any possible credit.

Mr. ALVORD. Therefore get a tax system which will correct that.

Senator BAILEY. How would you correct that? What is your remedy?

Mr. ALVORD. Repeal the excess profits tax promptly.

And remedy No. 2, take the House rates, which help your little fellow, for 1946.

Then I would like to have you, as I said earlier, also prescribe the corporate rate for 1947, which I think should not be in excess of 30 percent, and also the corporate rate for 1948, which I think should not be in excess of 25 percent, and then, if your revenues will permit further cuts, go to it.

If the man you are thinking about could see back in 1946 that his tax rate would be 36 percent, and in 1947 it would be 30 percent, and in 1948, 25 percent, he could borrow money.

Senator BAILEY. Are you speaking of reductions in the rate?

Mr. ALVORD. In the bracket under \$25,000, as we have always done. We have always had a graduated rate to \$25,000.

Senator BAILEY. There is a difference there. You have taken \$25,000, and I would say \$100,000.

Mr. ALVORD. You say mine, and it is much more Congress' than mine.

The CHAIRMAN. Now, we understand excess profits. Repeal that as of December 31 this year. Is that right?

Mr. ALVORD. Yes, sir.

The CHAIRMAN. What about the cut in the surtax made by the House?

Mr. ALVORD. The cut in the surtax rate we approve, so that your combined rate for the calendar year 1946 will be 36 percent. That rate is too high. Industry can take it only with the knowledge it is going to be reduced in 1947 and again in 1948.

You can get more tax payment out of a person by holding out to him that he can make some money rather than by saying there is no hope at all.

We say, take the 36 percent rate and give us some assurance that the bill that is coming along will scale those rates down throughout this interim period until they come down to where they can be sound, and whether 25 percent would be sound or not, we don't know. But we can try it.

The CHAIRMAN. How will that affect your revenues for 1946?

Mr. ALVORD. Not at all, sir. I am answering for the fiscal year 1946, not the calendar year.

The CHAIRMAN. You are figuring on a fiscal year basis?

Mr. ALVORD. Yes, sir; the fiscal year 1946 which ends in June—you will receive collections on 1945 income, the first payment made on the 15th of March and the second payment made on the 15th of June.

You have no effect at all from the corporate proposals I have made except the \$25,000 exemption, which will affect your revenues in 1946.

Senator TAFT. Mr. Alvord, in view of the fact that the corporate rate is higher than originally and likely to stay higher, in spite of your wishes, don't you think the graduation could go a little higher than \$25,000, say to \$40,000 or \$50,000? In other words, a \$25,000 man can only keep \$15,000 now. That is very small for a new business.

Mr. ALVORD. If you will realize that whatever figure you use is arbitrary and fails to consider the number of stockholders and the investment and earning power, then there is nothing sacred about \$25,000; no, sir.

I don't think anybody could definitely say \$40,000 was more arbitrary than \$25,000, but \$25,000 has been the customary amount.

Senator BAILEY. Do you think we should take into consideration the number of stockholders?

Mr. ALVORD. That is true.

Senator BAILEY. Some corporations have 2,500 stockholders, and some have 2 or 3.

Mr. ALVORD. That is true.

Senator BAILEY. Do you distinguish between them?

Mr. ALVORD. That is one of the reasons why I would take the flat rate and let it go at that. But that is why your graduated tax to any great extent is severely discriminatory. It fails to consider the number of stockholders and the investment and the brains and ability of the management.

Senator BAILEY. I don't think that enters into it at all. If a corporation has three stockholders, and another corporation has 200,000 stockholders, and you have a corporation tax, you don't have it on the basis of relation to stockholders.

Mr. ALVORD. That is true.

Senator BAILEY. Why not look at your corporation and say, "Here is a little corporation that wants to grow. We will provide an incentive by way of taxation."

Mr. ALVORD. Maybe I misunderstood you in the first place, Senator.

You asked if I favored a graduated corporation rate, and I said no, and I don't.

That does not mean that we should not take the smaller corporation and give it a lower rate. You don't do it by way of incentive but on the over-all basis of capacity to pay.

Senator BAILEY. You are in favor of that?

Mr. ALVORD. And in favor of continuing it.

Senator BAILEY. You would start with the first \$25,000, but if that is not sufficient you would not stop there?

Mr. ALVORD. My answer to Senator Taft was that I am willing to go along with any reasonable figure you take.

Senator BAILEY. But would you be willing to put up with a certain amount of discrimination in order to give a great spurt in growth to all the strong corporations you represent?

Mr. ALVORD. You always have that discrimination. You are going to bring more corporations in. We will overlook discrimination for the sake of simplicity primarily, and when your tax rates aren't too high——

Senator BAILEY. You overlook it from the view of the general equity?

Mr. ALVORD. Yes. But as your tax rates are higher, your discrimination becomes more. You give more benefit to one group and less to another. So you don't want to put the figure too high.

Senator BAILEY. Here is a big company and we don't care if it grows or not, and here are thousands of little ones and we want them all to grow?

Mr. ALVORD. Let me point out again, Senator, that you take the X corporation with 250,000 stockholders and a \$2,000,000,000 investment. If you go into the record of that corporation you will find its income has been in the red a good many years, and it has

been less than \$25,000 and less than the \$100,000 figure that you picked, in a good many years.

Annual income is not the sole measure of the ability of a corporation to pay taxes, and you would be bringing in what you actually consider to be big corporations as you step the \$25,000 figure up—you would be bringing in larger corporations to whom you would not want to give the beneficial treatment.

I say that the annual income does not measure whether it is big or not or whether it has the capacity to pay.

I was going to throw at you the item of volume of business, one corporation doing business on one-half of 1 percent profit and the other on 10 percent profit. You run into some troublesome situations the moment you attempt to carry your graduation too far.

Senator BAILEY. I am not thinking of carrying it too far. I just think the way we have it now it is not carried far enough.

Mr. ALVORD. I haven't the slightest hesitancy in saying I will take your judgment as long as in formulating that judgment you realize you are being arbitrary.

Senator BAILEY. I am not worried about that. Practically every act of Congress is arbitrary.

Mr. ALVORD. That is true and everybody knows it. The \$25,000 was arbitrary.

Senator BAILEY. I sometimes think a little arbitrariness would be a good thing.

Mr. ALVORD. I would be inclined to take a little less.

The CHAIRMAN. All right, let's proceed.

Mr. ALVORD. Let me come down to individuals.

For the purpose of this so-called transitional bill, we think it is sounder and fairer to give a flat over-all reduction to everyone and then adjust rates, in the later bill that is to come, on the basis on which that bill will be formed, which I trust will take into consideration all the factors I have suggested.

Individual rates, as Senator Bailey has indicated, and as everyone knows, are way out of line. We could take them during the war because it didn't make so much difference if we had money.

Senator BAILEY. We were throwing everything in together to try to save the country.

Mr. ALVORD. And everybody went to work and did a magnificent job.

But now we are beginning to approach peace, and I venture to say that every Senator here knows more than one person who has said to him, "Why should I work the rest of the year? I get nothing out of it." And they say, "Why should I attempt to expand?"——

Senator BAILEY. And add to it, "Why should I borrow money when I know I can't pay it back?"

Mr. ALVORD. I advise you not to do it under the present tax system because you won't have enough left.

Senator TAFT. Mr. Alvord, may I read you a telegram which I am going to put into the record sooner or later, and I may as well put it in now. [Reading:]

Would like to furnish you with a specific instance of how the excess-profits tax acts as a deterrent to the creation of new business enterprise. A large apartment development planned by a newly formed corporation to cost \$5,000,000 and providing rental housing for 1,250 families and employment for a year for over 1,000

workers, will have to be abandoned as an unsound investment if the undue financial burden of the excess-profits tax is not immediately removed. There is no reason for new corporations to pay 60 percent tax while existing corporations pay only 36 percent, which amounts to 66½ percent differential.

I take it in that case the company will borrow probably \$4,000,000 of the \$5,000,000 required.

Mr. ALVORD. If they can.

Senator TAFT. And will have to earn enough to pay interest and pay off the amortization.

Mr. ALVORD. And they can't do it.

Senator TAFT. Therefore, under the excess-profits tax it will have to pay a very much larger tax than some corporation that is already in existence, and so big a tax that they can't meet the interest and amortization on their bonds, much less any return on their capital.

Mr. ALVORD. I haven't the slightest doubt that what the facts stated in that telegram are true. I see it every day of my life.

Senator HAWKES. Mr. Alvord, you won't have to go to Ohio or anywhere else. Just come to me.

Any number of people have brought me inventions and patents and wanted me to put up some money to start them in business, and with the tax structure as it is—and I think I am a patriotic citizen, but I am not trying to build up a lot of work for myself without any profit—regardless of all the professions of various people that you ought to work without regard to profit, the truth is that the human family in the United States has responded to the profit and loss motive and there isn't a Senator around this board that wants to take a chance on anything and put their money in anything when there isn't any hope of making money or keeping it.

Mr. ALVORD. There are many in the world not quite as old as you are, and consequently they have not had the opportunity to save as you have. Your test is, "Shall I put my savings in?" and ours is, "Can I get any savings?"

I think an over-all cut of 20 to 25 percent on individuals across the board is the better way of handling tax reductions and getting some incentive in the minds of individuals, again with the assurance that a much more sensible and sounder tax system will be enforced after the next bill than has been enforced in the past—leaving out the war period.

I don't think anybody has kicked much on the tremendous rates during the war. Whether we had anything left or not didn't make any difference.

But we are now coming into peace, and our problem is to have enough left after taxes so we can work and earn.

Senator VANDENBERG. You keep talking about possibly more cuts in the next bill. You had better keep something that we can cut.

Mr. ALVORD. You didn't hear the first of it, Senator. I tried to outline the program by which your next cuts should and could be made.

Senator VANDENBERG. I heard you say that about six times.

Mr. ALVORD. If you have excessive rates of taxation, you are not going to get any revenue.

Senator CONNALLY. How much did we get last year in revenue?

Mr. ALVORD. In the fiscal '45?

Senator CONNALLY. Yes.

Mr. ALVORD. You got an awful lot of money, Senator.

Senator CONNALLY. You say we can't get money with high taxes. We got \$44,000,000,000, didn't we?

Mr. ALVORD. \$46,450,000,000, and this year you estimate \$36,000,000,000. Why aren't you going to get the same amount this year?

Senator CONNALLY. Everybody knows that. It doesn't take an expert to see that.

Mr. ALVORD. The same thing happens.

Senator CONNALLY. Oh, no. You said with high rates we would not get any taxes. Speaking of the very small businessmen, that is a pretty good income.

Mr. ALVORD. That was the war period in which I urged war taxes.

Senator HAWKES. I was going to say in response to Senator Connally, I think we will get taxes and I think you will find the American people pretty good sports in going along with any program necessary to bring about a balanced budget, but I think you and I both realize there are certain burdens of taxation that most every patriotic American was willing to bear during the war that he won't pay during peace.

Senator CONNALLY. When anybody makes a bald statement like that, I can't keep still.

Mr. ALVORD. I made a statement before you came in.

Senator CONNALLY. We hear it every time we have a tax bill, that if you raise taxes you won't get so much money, therefore keep on lowering them and get more.

Mr. ALVORD. You know that during the war period we urged rates that you didn't put on. Take a look at our record over the last few years.

Senator MILLIKIN. I am not clear as to your proposal for people in the lower-income-tax bracket.

Mr. ALVORD. I would give an over-all 20 to 25 percent cut, and I am willing to give those in the lower brackets 25 percent or perhaps even more.

So far as I know, they are perfectly happy to contribute their share.

Senator MILLIKIN. Why isn't the feeling that applies to excess profits good also as to the wartime exactions which we put on people in the lower income-tax brackets? We put it on for war purposes. Why not take it off?

Mr. ALVORD. I think the answer will come almost entirely in revenues. Practically all your revenues come from individuals of less than \$5,000.

I think Senator Connally said you could take all the income of everyone making more than \$10,000, and you won't change your budget very much.

Senator MILLIKIN. If we are taking off the excess-profits tax because it was put on as a war measure, why not take off the taxes in the lower brackets put on as a war measure?

Mr. ALVORD. I don't think that has a repressive effect like the excess-profits tax.

You are going to need every penny you can get, and, as I stated, I think before you came in, the purpose of the bill and provisions of the bill should be considered primarily by effect on reconversion.

Senator TAFT. How can you justify a 3-percent tax and give him only an exemption of \$500 when you frankly admit the justification for giving him \$1,500 for a wife and child in the surtax. If the wife and

child should affect the tax he pays, why shouldn't it affect the normal tax as well as the surtax?

That feature of cutting out all exemptions for dependents was purely a war measure, and it seems to me we ought to get rid of it.

Mr. ALVORD. If that was the Senator's question, I have no objection to going back to 1942.

I think we should continue the normal tax, which was 4 percent, and I think it should be larger.

Then, in 1942, we shifted to the Victory tax, and in 1943 we shifted back with no exemptions and carried the no-exemption concept back to the normal tax reinstated in 1943.

But as you shift that back, be careful you are not giving too much.

Senator TAFT. I agree that \$500 for every dependent is high. But it seems to me the time is coming when we should get rid of the "no exemption."

Mr. ALVORD. The whole normal-tax concept was formulated to make it as simple as possible, and you mustn't overlook that.

I have a lot of dependents and I personally benefit as you increase exemptions.

But I am talking principally about the transitional bill, Senator, and I think the whole concept of the normal tax and exemptions is a longer-term job than can be dealt with in this bill. Possibly the normal tax should go way up and be paid by everybody, with reasonable exemptions, and your surtax be put on additional types of income which you don't tax for normal-tax purposes.

Senator TAFT. A man and wife used to have \$1,200, and \$300 for dependents, and this is \$1,500. I don't see any justification for not repealing the 3 percent tax, myself.

Senator MILLIKIN. We have the problem of not only getting up a tax bill but of making it widely accepted.

It is hard to reconcile the repeal of the excess-profits tax with the maintenance of war taxes on the large number of people in the lower brackets. You can cut your arguments pretty thin, but we have to think about what will be accepted.

Mr. ALVORD. You are governed by cost and revenues, and in individual taxes cost and revenues come much quicker.

Senator MILLIKIN. My sole point is that if you take off a specially imposed tax, imposed for war purposes exclusively, in one place, you have to take it off all the way along the line.

Senator BYRD. Wouldn't that apply to the higher brackets of the present income taxes?

Mr. ALVORD. Certainly.

Senator BYRD. So if you carry out that theory you will have a tremendous reduction and loss in revenue.

Mr. ALVORD. Not a tremendous loss.

Senator BYRD. If you take off all the taxes imposed during the war—after you earn your first \$100,000 you pay 92 percent. That was a war measure.

Senator MILLIKIN. And you run into ability to pay which is the fundamental concept of the whole income tax system. You have to keep that in mind.

Senator TAFT. I also suggest that the difference in rate is after all something that we can't check today back to peacetime purposes. This is a difference in principle and so is the profit tax.

Mr. ALVORD. I think your 3-percent tax today is really more closely related to the former normal tax than to the Victory tax.

Senator TAFT. It eliminates exemptions for dependents which have always been in the income tax.

Mr. ALVORD. I have no objection to restoring them so long as you don't get them too high.

Senator VANDENBERG. You took about a 25 percent horizontal reduction in the lower brackets. What do you mean by "lower brackets"?

Mr. ALVORD. All your brackets are high. I was speaking of the \$2,000 or under brackets.

Senator GERRY. Aren't all reductions of taxes highly inflationary at this time?

Mr. ALVORD. I wouldn't say so, not at all. Quite to the contrary.

Senator GERRY. I don't understand your argument.

Mr. ALVORD. First, let me point out that as I view it, although the consequences may be relatively the same, there are two types of inflation and I would like to be sure we know what we are talking about.

One type is what the governments have gone through in the past, attributable to lack of confidence in their treasuries. Their currency became worthless because there was nothing behind it, not even credit.

I am confident we will not reach that point unless we continue running deficits and make no effort to control that situation.

The other type of inflation is that which comes by more people seeking to buy than there are goods. In other words, demand is greater than supply.

In normal times that happens, within narrow ranges, as to some goods day in and day out throughout the year and nobody worries much about it. A product may go up 25 percent and nobody is worried about it. It happens that at that particular time there is not much or none of that commodity.

The best answer to that is more production so you have more goods for people to buy and our present system of taxation will give you less production.

If you get the taxes down, and the revenue system improved, so the reconversion problem is reasonably well met, and start producing as much as the people want, you don't have to worry about that type of inflation.

But there is still lack of raw materials and a good many things that will interfere with maximum production. But that is where you must head for or you will have a spiraling of prices which will be severe.

But if you look back over the prior wars you will find there has always been a tremendous increase in prices following each war. The tremendous increase in prices averaged about 40 percent, as I remember—

Senator TAFT. Over the prewar prices?

Mr. ALVORD. No; over the end of the war prices.

Senator TAFT. An increase immediately after the war the last time was more than reversed by the following fall.

Mr. ALVORD. That is true. Our normal over-all prices after the last war were considerably higher than before. I don't know the exact percentage.

Senator GERRY. Mr. Alvord, I presume you believe in balancing the budget and I don't know how you are going to balance the budget if you increase the expenditures and keep cutting down on taxes.

Mr. ALVORD. I have urged to the utmost that we keep the expenditures to a minimum. We can't go along much more as a general good fellow.

Senator BAILEY. Doesn't that mean the threat of disaster?

Mr. ALVORD. That is a very dangerous threat.

Senator BAILEY. I think we expect to spend during the balance of the fiscal year such an amount as will make the expenditures for the balance of the year not less than \$5,000,000,000.

Mr. ALVORD. Sixty-six billion, in all, for this fiscal year.

Senator BAILEY. That is already fixed. And we have to pay the soldiers their mustering-out pay.

Mr. ALVORD. That is included in the estimate.

Senator BAILEY. Already demands are being made to pay every soldier that went abroad \$5 a day while he was abroad. That is \$55,000,000 a day for 10,000,000 soldiers. You could have a bonus on that basis that would be 12 billion or 15 billion.

Mr. ALVORD. That is true, but—

Senator BAILEY. I am not through with the budget. I see in the papers where Congress will be called upon this week to take up some insurance and that is another 1 billion. Then you have your foreign loans and we will all go broke unless we lend Great Britain 6 billion, and if we lend Great Britain 6 billion Senator Pepper said we, by all means, should contribute to Turkey, and of course to Greece and Italy and Poland, and I think Russia will probably be satisfied with 5 billion or 6 billion.

Aren't we in a fair way of spending as much next year as we spent during the last war?

Mr. ALVORD. You are better off even under that type of spending program if you get your tax system to where it will produce maximum revenues which your present system won't.

No. 2, you must face the fact that you can't continue to pass out money.

We have suggested this principle before. The Congress proceeds in precisely the opposite way from business in determining expenditures. The Congress says, "This much we will spend; now let's tax and get enough to pay for it if we can."

Business turns it around the other way and I think Congress must sit down and say "This will be our income; our expenditures must be less than our income," and cut the expenditures accordingly.

Senator VANDENBERG. That is the end of Bretton Woods and everything else which you have approved.

Mr. ALVORD. I have approved no loans and I have personally approved only half of Bretton Woods and the next question is whether those are truly proper charges against current income.

We didn't make the RFC loans a charge against current income. We merely considered them loans to be repaid.

Senator VANDENBERG. You wouldn't say you can apply the rules now or in the immediate future?

Mr. ALVORD. I would determine loans to foreign countries on the basis of our ability to make the loan and not on the basis of the requirements of the borrower.

I think we pretty nearly have to come around to the place where most of us are individually. It is necessary for us to say we can't get a new coat because we can't afford it, and we say it individually many times in the course of a year.

And one way to cut expenditures, I think, is to say, "These are all we can get in revenues, this amount and no more. I am sorry we cannot afford to pay out what you ask."

Cuts in taxes, in addition to all the other advantages including increased revenues, will necessarily have a most desirable effect, I think, on expenditures.

I have just one last small point to make as to the repeal of excise taxes.

In the House bill no mention was made of the transportation tax on property. That is an unsound tax and I think it should be repealed.

We support the proposed repeal of the capital stock tax and revision of the excess-profits tax.

You will find in my written statement reference to an important problem, which arises in connection with these taxes, and which the House bill does not take care of. It is the real problem of proper treatment of recoveries of foreign war loans in connection with these taxes.

There are also references to a few other urgent situations which we recommend be given your consideration in connection with the present bill.

That covers all of my direct statement, gentlemen. I will be very glad to answer any questions.

Senator TAFT. You have something about renegotiation in your statement, haven't you?

Mr. ALVORD. Yes, sir.

Senator TAFT. Will you mention something about that?

Mr. ALVORD. We urge that the act be repealed. The renegotiation is the most vicious and undemocratic act ever passed and I am surprised that Congress ever passed it.

It is being administered as well as any such statute could be administered—not well, but still being administered.

Renegotiation of 1945, of course, will not be approached until 1946, and may not be closed until 1947. We are still working on 1943 cases in 1945.

The personnel is changing and I doubt very much that you can hold the personnel down there that has done a very much better job than I would do. And I think they are to be commended for it. That staff is rapidly disappearing and I don't think you will have a staff.

Senator BYRD. You want it made retroactive?

Mr. ALVORD. Back to December 31, 1944.

Senator BYRD. Suppose settlements or payments have been made.

Mr. ALVORD. Not for 1945 so far as I know.

Senator BYRD. There may have been some.

Mr. ALVORD. I don't think 1945 has been touched at all.

Senator BARKLEY. Is there any justice in making it retroactive to 1945 and eliminating it to 1944? If we are going to make it retroactive for this year why not make it retroactive for the whole period and let everyone keep what they got.

Mr. ALVORD. Some payments have been made.

Senator BYRD. But you propose to cancel it while the war was on.

Senator TAFT. 1945 is partly war and partly not war.

Mr. ALVORD. There is still a great deal of war production.

Senator BYRD. I could agree with a good deal of what you said but I can't agree with you on that repeal.

Mr. ALVORD. Let me point out that when the renegotiation was passed you did not have a 95 percent excess-profits tax.

Senator BYRD. You would have built up prejudice against the corporations of this country that would have been tremendously damaging. The businessmen of the country can't go before the country and show they made exorbitant profits during the war.

Mr. ALVORD. All the funds you say are recovered through renegotiation must have been recoverable through taxes.

Senator BYRD. You recover all the improper and unreasonable profits.

Mr. ALVORD. But unreasonable excess profits are measured by somebody else's idea.

Senator BYRD. You are putting the businessmen of the country in an unenviable position when you ask to cancel the renegotiation while the war is in progress.

Mr. ALVORD. They always publish the figures before tax. You have this problem which I think can be solved more simply by repeal as of the beginning of 1945, than any other way.

War contracts are terminated in August, September, and straight on through. You have tremendous pay rolls. You have a long period of non-income-producing activities and you are beginning to get ready for reconversion. You want to keep your workingmen, and your expenses are going on.

The Renegotiation Board says these expenses will not be allowed in renegotiation. I think they should be. They are all attributable to the war effort.

Senator BYRD. They will be paid for in the cancellation of contracts.

Mr. ALVORD. But these elements are not in.

Senator TAFT. Let me ask you this: Is one person or one or two departments going to do it—

Mr. ALVORD. Two different departments.

Senator TAFT. Might there not be some idea of combining it?

Mr. ALVORD. I don't think that is necessary because your termination of contract administration is proceeding satisfactorily as far as I know.

It looks like they are doing a pretty good job and we are getting our contracts adjusted and we are getting payment and the subcontractors are being paid.

I think certainly you should do this on renegotiation. I think certainly you should say for 1945 renegotiation it will be on the basis of net income for Federal tax purposes, and if you do that then anyone could administer renegotiation because there still isn't going to be anything left.

That is why you have the carry-back provisions in the present statute. You knew there would be expenses, costs, and losses occurring after the end of the excess-profits tax attributable to the war period, and in this connection let me urge you to retain the 2-year carry-backs.

Senator TAFT. I don't think we are going to repeal the renegotiation, but I have heard complaints of their refusal to have any carry-back or carry-over.

Mr. ALVORD. I think that should be done.

Senator MILLIKIN. We consider the Renegotiation Act in relation to the present scale of excess profits and my memory is that statistics show we would fail to collect about 2 billion a year from the corporations if we did not have renegotiation.

Mr. ALVORD. I think the figure is much less than that, Senator. The last figure I saw was an accumulation since renegotiation started—I think the figure is about 6 billion. You can guess about 80 percent of that would come back in taxes.

Senator MILLIKIN. I believe our figure was around 2 billion.

Senator BYRD. A maximum tax that any corporation need be prepared to pay is 80 percent. You can't collect all of these improper profits or unreasonable profits that the corporation could make.

Mr. ALVORD. Let me answer that. Most of the larger corporations pay the 95-percent rate.

Senator BYRD. The overall is 80 percent.

Mr. ALVORD. No corporation is compelled to pay more than 80 percent of its entire taxable net income. Most of the larger corporations pay the 95 percent rate.

The 80 percent rate you gentlemen considered and considered it in connection with renegotiation and decided no one should pay more than 80 percent of his net income.

Senator BYRD. You can't recover entirely an unreasonable charge under renegotiation.

Mr. ALVORD. That is true and certain types of the 80-percent fellows might have a little excess profits, but I don't think what they have conceivably justifies the continuation of the statute.

The CHAIRMAN. That is somewhat beside this particular question.

Mr. ALVORD. That is true, Senator, and I discussed it merely in answer to the Senator's question.

The CHAIRMAN. Any further questions? [No response.]

Thank you very much, Mr. Alvord.

Mr. ALVORD. I should like to leave this prepared statement for the record.

The CHAIRMAN. That may be done.

(The prepared statement is as follows:)

STATEMENT OF ELLSWORTH C. ALVORD, CHAIRMAN, COMMITTEE ON FEDERAL FINANCE, CHAMBER OF COMMERCE OF THE UNITED STATES, PRESENTED TO THE COMMITTEE ON FINANCE OF THE UNITED STATES SENATE, AT THE HEARINGS ON THE PROPOSED REVENUE ACT OF 1945—H. R. 4309—OCTOBER 17, 1945

Mr. Chairman, gentlemen, I am Ellsworth C. Alvord, of Washington, D. C., appearing as chairman of the committee on Federal finance of the Chamber of Commerce of the United States.

INTRODUCTION

There is so much to be said for the policies expressed to you by Secretary Vinson that our appearance before your committee would be fully justified if we did nothing but commend him. His keen grasp of current problems and his statesman's approach to their solution, coupled with his desire and ability to cooperate with the Congress, give to everyone long-awaited hope and confidence that our Government will be placed upon a sound fiscal basis.

RECONVERSION

In the minds and on the lips of everyone is "reconversion." Reconversion from 5 years of war and preparation for war. Reconversion to a peacetime economy—we trust, a permanent peace.

The problems of reconversion are not peculiar to business. They confront everyone. Knowing it or not, everyone faces them. The future of everyone is affected. No one will escape the consequences of our failure to solve the problems of the transition period. Everyone will benefit by success.

Successful solution does not lie within the grasp of any one group. And successful solution is dependent—perhaps mainly dependent—upon the policies of the Federal Government.

Although the problems and the policies before you are much broader and much deeper, your committee, because of the exigencies of time, is limiting its current consideration to the bill (H. R. 4309) now pending before you. You have properly requested that we likewise confine our remarks to fiscal policies. This we shall do—but with an emphatic reminder, again, that success in reconversion will not be governed solely by fiscal policies, nor solely by the outcome of the deliberations upon the proposed legislation. But failure in reconversion might be traceable directly to unwise fiscal policies during the transition period. Consequently, it is highly important that immediate tax reductions be fitted into the pattern of your basic policies for the present and the future. And we must also recognize that 1946 is not the only year involved.

If we were to present our views in one sentence, we would say:

Successful reconversion rests upon sound public policies, including a reconversion of Federal fiscal policies.

BASIC POLICIES

Without attempting to state them in order of importance, nor to analyze their interdependence, we submit an outline of basic policies and objectives:

(1) Permanent peace—with the strength and the determination to strive as hard to prevent another war as we have fought to win this one. President Truman has wisely and correctly declared that another world war will destroy our civilization.

(2) Maintenance of the credit of our Government—if our strength to preserve peace is not to be destroyed by such catastrophes as those experienced by other peoples and other governments. Expenditures, other than for retiring the public debt, must be reduced to the minimum in order that they may be currently defrayed by a system of taxes which is consistent with our basic policies and objectives. The day of deficits must end.

(3) Maximum production—For only through production can we acquire wealth adequate to overcome the wastage of the immediate past; to provide the revenues necessary to support and to maintain the credit of our Government; to provide protection and improvements through constant research, and development, and promotion; to prevent uncontrolled inflation; to guard against or conquer deflation and depressions. In maximum production lies the best answer to prices, wages, costs, profits, progress.

(4) Jobs for everyone willing and able to work—If we are to gain maximum production; maintain a maximum national income; give returning veterans (as well as others) the opportunities they deserve to acquire and maintain homes, and to support their families and educate their children; assist the less fortunate who are unable to work; follow a course of a constantly increasing standard of living; and end forever the era of spending for the sake of spending.

We assert with confidence that the foregoing goals are possible of attainment through our form of government and our system of private enterprise and private initiative upon which it rests. If proof were required, it would be found in the victory so recently won.

RECONVERSION PROBLEMS OF INDUSTRY

In our statements to you when the war revenue acts were under consideration, we emphasized that industry would, as it now does, face tremendous financial requirements for the immediate postwar period. We indicated that most of its needs could be envisaged. These may be summarized briefly.

New facilities must be acquired, through reconversion of war facilities, restoration and modernization of other facilities, purchase of improved equipment, and plant construction. New inventories must be acquired and carried until the proceeds from sale of finished products are obtained. New enterprises must be

established, new and improved products discovered, old markets regained, and new markets developed. New management, new sales forces, and new labor must be trained and meshed.

Research, engineering, and scientific services must be reestablished. Severance or dismissal wages, particularly for those engaged in war production, must be paid. A period of operating losses, ranging from a few weeks to many months, must be financed.

The amount of needed funds baffles accurate computation, but clearly is huge. These funds must be forthcoming.

There are but three ways to obtain them: (a) From private investors, (b) from accumulated earnings of industry, and (c) from Government. Must industry be compelled to resort to Government financing? That is one of the main issues involved.

The financial requirements of industry in this crucial period must be met from private sources if individual initiative and free enterprise are to be preserved. It is the hope of profits after taxes which attracts private funds and justifies risking them in new plant and facilities for the production of products we are demanding, for the discovery of new and better products, for expansion into new markets. The prospect of profits after taxes will govern the extent of our success to reach maximum production—and the continued ability of our form of government and our system of free enterprise and private initiative to meet the demands of our postwar world—to attain the objectives we have outlined.

Upon the volume and stability of profits after taxes and the adequacy of the return to investors after taxes, rest the hope of successful reconversion and a solvent economy—the hope for full-scale production, employment, and income.

These are the issues which weigh in approaching the pending bill for amelioration of the war-induced taxes upon business and individuals.

THE APPROACH TO INTERIM TAXATION

We commend the Congress and the Treasury upon their prompt proposals to reduce wartime taxes. We would have preferred more comprehensive legislation prescribing a system of taxation to apply throughout the interim period, and designed to reach a peacetime basis for the postwar period. Such a program would have produced higher revenues during the current years. But inasmuch as this is not immediately possible, we urge the early enactment of partial tax reductions, with full consideration of a much broader and a more comprehensive and thorough measure beginning immediately thereafter.

We suggest the following principles:

(1) Reductions now which will lay a sound foundation for maximum revenues in the future—consistent with the policies and objectives we have outlined.

(2) The present proposals should be weighed not alone by their effect upon the fiscal year 1946 or the calendar year 1946. Revenue yields in 1947 and subsequent years are at least as important, if not more important.

(3) A prompt and tireless attack upon expenditures must be made and continued so that they will be reduced to the minimum at the earliest possible date.

(4) Revenue and expenditure policies should be correlated. Instead of attempting to tax sufficiently to meet expenditures, our expenditures should be brought within the bounds of sound taxation.

(5) Tax and other policies designed to reduce the demand for expenditures, or to prevent the birth of those demands, are most effective and are more desirable and sounder than excessive and repressive rates designed to meet greater expenditures.

(6) Adequate provisions for debt retirement should be adopted without delay.

(7) The adoption of proper policies will produce a balanced budget, including adequate provision for debt retirement, by the fiscal year 1948.

(8) Deficit financing will be stopped—and all the resulting dangers and damage avoided—only by a policy of maximum revenues and minimum spending.

(9) Maximum revenues and minimum spending must both be measured by the objectives to be attained.

THE PENDING BILL

We point out the following facts with respect to the pending bill:

(1) None of the estimates gives effect to the favorable fiscal factors certain to follow the adoption of proper fiscal policies.

(2) All the estimates are based upon the assumption that the same economic conditions will exist in 1947 as in 1946.

(3) Excessive rates will produce declining yields, in other words lesser revenues for the future, and will concurrently create greater demands for ever-increasing expenditures.

(4) The proposed reductions for the fiscal year 1946 amount to only \$1,000,000,000.

(5) No fiscal 1947 budget estimates are given—although we agree with Secretary Vinson that the deficit for that year should not exceed 5 to 8 billion.

(6) The repeal of the excess-profits tax is listed as a reduction in revenues—but none of the estimated reduction will be felt in the fiscal year 1946, and only a portion will be felt in fiscal 1947.

(7) The prompt repeal of the excess-profits tax will not result in a permanent loss of revenues. On the contrary, failure to repeal it promptly will unquestionably have an unfavorable effect upon reconversion and upon revenues.

EXCESS-PROFITS TAX

We urge the repeal of the excess-profits tax as of December 31, 1945.

The case for prompt repeal has been stated forcibly and soundly by Secretary Vinson, and the eminent Carter Glass announced a similar policy in his 1919 report as Secretary of the Treasury. The same conclusions have been reached by many others, including successive chairmen of the Committee on Ways and Means and of this committee.

At the risk of some repetition, and in order to supplement somewhat the statement of Secretary Vinson, we summarize:

(1) The present excess-profits tax was designed solely as a war measure and primarily to prevent war profiteering. It has no present place in our revenue system.

We were an early advocate of an excess-profits tax—and urged the imposition of maximum rates upon the outbreak of war. And we were an early advocate of its prompt repeal upon the cessation of hostilities.

(2) The present excess-profits tax is discriminatory, arbitrary, monopolistic, and unfair. Its imperfections, hardships, unintended consequences, unforeseeable dangers, ambiguities, and uncertainties cannot be corrected—and numerous amendments have been awaiting congressional consideration and should be adopted retroactively. But even with their adoption, the present tax must not be continued even for a year.

(3) The present excess-profits tax will retard and restrict reconversion, by discouraging the formation of new enterprises and the investment of funds. Maximum production will be delayed for several years by its retention for a single year.

(4) The effect of the prompt repeal of the present excess-profits tax cannot and should not be measured in terms of tax reduction for any stated year. On the contrary, its repeal will unquestionably promote revenue yields.

(5) No sensible excess-profits tax can be devised for a peacetime economy.

With the prompt repeal of the excess-profits tax, we urge that the increased exemptions adopted in the Tax Adjustment Act of 1945 be made applicable to 1945. The freeing of funds in the hands of small businesses will pay dividends to the Treasury and to the country.

PRESERVATION OF CREDIT CARRY-BACK

The 2-year carry-back of the unused excess-profits tax credit should be continued.

In the Revenue Act of 1942, the Congress adopted provisions permitting a carry-back for 2 years of the unused excess-profits tax credit, for three reasons:

(1) To permit an averaging of profits over a period of years in order to make certain that the tax would apply only to true excess profits realized during the war period;

(2) To assure the deduction of reconversion losses and expenses incurred after the repeal of the tax; and

(3) To avoid current allowance of deductions for reserves for future inventory and other losses and for expenses for maintenance which were deferred by reason of material and manpower shortages or to avoid shut-downs in war production.

At the time of their adoption, it was well known by the committees of the Congress and the Treasury that a moral obligation to continue them was incurred. It was also recognized that the provisions would probably require some perfection to protect the revenues against intentional misuse, and to preserve their proper application in case of corporate reorganizations. Appropriate amendments are

justified. But there is no justification for restricting the carry-back principle to only the first year following the repeal of the excess-profits tax.

CORPORATE SURTAX

We urge that, in addition to repealing the excess-profits tax as of December 31, 1945, the measure should provide as much reduction in the corporate rate as revenue requirements will permit.

The House bill reduces each rate schedule for surtax net income by four percentage points which operates to reduce the present minimum combined normal and surtax rate of 25 to 21 percent, and the maximum combined rate from 40 to 36 percent.

Calculations of reduction in revenues which might result from decrease in the corporate rate should make full allowance for the stimulus to the production of future income. The reduction proposed in the House bill is helpful, but insufficient.

Reduction of the 1946 combined rate of normal and surtax is all the more defensible since it is the apparent intent of both Houses to defer until next year consideration of the rate for 1947 and the rate for 1948, rather than provide now, as we believe advisable, a series of reductions, such as to 36 percent maximum or less for 1946, to 30 percent maximum or less for 1947, and to 25 percent maximum or less for 1948.

The surtax, introduced in the Revenue Act of 1941, was a device used to increase the corporation tax without providing a benefit to holders of partially tax-exempt bonds and without damaging certain types of activities. Tax-exempt bonds are being eliminated through refunding operations so that the amount of interest involved is steadily decreasing. Nevertheless, the second purpose of the surtax should not be overlooked prior to its ultimate repeal. Abandonment of the surtax device will simplify the tax structure and help lay a foundation for eventual solution of the problem of double taxation now imposed upon corporation earnings.

CAPITAL STOCK AND DECLARED-VALUE EXCESS-PROFITS TAX

The House bill repeals the capital stock tax, effective with respect to years ending after June 30, 1945; it also repeals the declared-value excess-profits tax with respect to taxable years ending after June 30, 1946, the first year with respect to which the repeal of the capital stock tax is effective.

We support these proposals.

EXCISES

The bill would make effective as of July 1, 1946, reductions in the excise "war tax rates" to the 1942 rates; provide for refunds on certain floor stocks; repeal the tax on use of automobiles and certain boats; and makes other adjustments affecting excises.

We support these provisions of the bill, in general, although we question the wisdom of continuing the tax on luggage and converting it, at a 10-percent rate, into a retail excise.

EMPLOYMENT TAXES

The bill continues the employment taxes for the old-age and survivors insurance program through 1946 at the present rates of 1 percent on wages paid by employers and 1 percent on wages received by employees, instead of raising the rates in 1946, as provided by present law, to 2½ percent for each of these groups.

We support these provisions, recommending that the present rates be continued awaiting completion of the study of the social security program, with particular reference to its financing, which is now being undertaken in the Congress.

INDIVIDUAL INCOME TAXES

The bill makes the present surtax exemptions applicable to the normal tax by eliminating the normal tax exemption of \$500 for each income recipient and allowing in its place exemptions of \$500 each for the taxpayer, his spouse, and each dependent, effective on and after January 1, 1946; reduces the rate applicable to each surtax bracket by 4 percentage points, effective on and after January 1, 1946, thus making the starting rate of the combined normal and surtax 19 percent instead of the present 23 percent, and the rate of surtaxes from 16 to 81½ percent as compared with 20 to 91 percent under existing law; further revises the rates, effective January 1, 1946, so that generally the reduction of normal tax and surtax

combined for any taxpayer will not be less than 10 percent; and adjusts withholding tax provisions to agree to new rates and exemptions.

We prefer a flat percentage reduction of individual taxes with decreases to be as great as revenue requirements permit, with an estimate that a flat reduction of 20 to 25 percent is needed, as relief from present onerous rates and applicable to earned income, to investment income, and capital gains.

As we have so often pointed out, substantially everyone is happy and willing to pay, during the war period, rates of tax which leave but little after taxes. The fixed-income group was particularly hard hit. Many had to borrow to live. The current tax payment plan often took more than 100 percent of current income.

It was recognized that the war taxes would temporarily destroy every individual's incentive to maintain and increase his earning power. Our proposed reductions for 1946 do not reinstate that incentive. We urgently recommend that earning power be recognized and that an adequate credit for earned income be adopted. The abilities and energies of every individual are required for the job ahead of us. Certainly everyone should be entitled to retain for himself at least one-half of his earnings.

It is also recognized that the return after taxes to the individual investor will remain woefully inadequate. In its consideration of the next revenue legislation, the Congress will undoubtedly fix rates which will take the maximum in taxes but leave enough to the investor to justify the risks we want him to take.

RENEGOTIATION

Our recommendations with respect to the Renegotiation Act are as follows:

(1) The act should be repealed, as of December 31, 1944, for all purposes.

The abrupt termination of the war in August has removed the necessity for the extension of renegotiation previously voted. We urge that the act be repealed, retroactively, as of December 31, 1944, for the following reasons:

(a) Reconversion to normal business operations would be greatly aided by eliminating this burdensome and cumbersome law at the present time. Nineteen hundred and forty-five renegotiation proceedings cannot be instituted until 1946 and the resulting uncertainties will seriously impede reconversion plans.

(b) After 3 years of renegotiation and compulsory repricing, excessive profits have been either eliminated or reduced to the point where the excess-profits tax is an adequate control measure for 1945. It is believed that the amount of excessive profits which will be recovered through 1945 renegotiation will not be significant.

(c) Repeal of the act of 1945 will avoid the administrative difficulties of attempting to renegotiate a year which is part war and part peace. These difficulties are appreciated by the renegotiation agencies and contractors alike, and will present a continual source of controversy unless repeal is made retroactive to December 31, 1944.

(2) If the Renegotiation Act is not repealed retroactively as of December 31, 1944, provision should be made in the law to allow against renegotiable profits the expenses allowable for income-tax purposes, up to December 31, 1945.

Under the Renegotiation Act as it is now construed and administered by the price adjustment boards, expenses incurred by a contractor after the termination of the war are not allowed as a deduction in the determination of his renegotiable profits. Such expenses in the main represent war-induced costs and are properly allowable in renegotiation. This desirable objective can be readily accomplished by amendments to the effect that—

(a) Renegotiable profits for 1945 should not exceed the portion of 1945 taxable net income which is attributable to renegotiable business.

(b) Corporations with fiscal years ending before December 31, 1945, should have an option to include income and expenses incurred up to December 31, 1945, in their fiscal 1945 renegotiation.

(3) We renew our recommendations that the following technical amendments should be adopted, regardless of the repeal of the act as of December 31, 1944, or its continuance to December 31, 1945.

(a) Provide appeal from The Tax Court on questions of law.

(b) Stop collection of alleged excessive profits when appeal is made to The Tax Court, with payment deferred until final court determination.

(c) Recognize losses of contractors for both prior and subsequent years, through extension of carry-forward and carry-back provisions to renegotiation, now recognized for tax purposes.

(d) Provide for allowance of a deduction on account of disallowance of expenditures under cost-plus-fixed-fee contracts in a subsequent year, if not obtained by administrative action.

(e) Items disallowed in renegotiation but later allowed by the Bureau of Internal Revenue should be recognized for appropriate refund or credit allowance by the renegotiation boards.

(f) The provisions for compulsory repricing of contracts (title VIII of the Renegotiation Act) should be repealed, effective immediately.

ADMINISTRATIVE AMENDMENTS

We regret that time has not permitted the consideration of the many technical and administrative amendments required to correct errors, unintentional omissions and uncertainties, and unforeseen interpretations, and to smooth out the application and administration of our tax laws. We have already discussed many proposed amendments with your staff and with Treasury officials, and many of our memoranda appear in prior hearings. We urge prompt consideration at as early a date as possible, and are prepared to submit further memoranda discussing the need of amendments.

We invite your present consideration to the following provisions, the application of which will probably expire prior to the enactment of the forthcoming legislation next year; or which really require immediate consideration:

(1) *Powers of appointment.*—The House bill makes no provision with regard to the troublesome question of powers of appointment involved in the estate and gift taxes, although the present deferment of application of the generally disapproved provisions, adopted in 1942, expires July 1 next, which presumably will be before enactment of next year's revenue act.

The attention of the Senate committee is directed to this situation. If the subject is not dealt with in the pending measure, it presumably must have attention in a separate bill to be enacted before July 1, 1946.

(2) *Foreign war losses and the declared-value taxes.*—We urge upon your consideration that the bill does not meet a specific and rather acute situation which has arisen with respect to these taxes. Section 127 of the code, added by the Revenue Act of 1942, provided a fair and equitable basis for establishing and deducting losses on account of American-owned property and investments in enemy and enemy-occupied territories. The provision has worked very well with respect to deductions, but it is generally recognized that its provisions determining the tax consequences of recovery or recoupment of such losses are uncertain and defective and require revision. While such revision is not practicable prior to the comprehensive tax bill next year, there is one phase of the situation affecting recoveries which should be dealt with now.

It is possible that there will be substantial war loss recoveries in 1945 and up to June 30, 1946, but in the present state of section 127 it is virtually impossible for taxpayers to determine the date of such recoveries or their amount, since the amount will depend upon current valuation of the recovered properties. In the present chaotic economic conditions existing both in Europe and the Far East, valuation is reduced to pure guesswork. Consequently, taxpayers have not been able to make declarations of capital stock value this year adequate to cover income which they may be later held to have derived from such war losses and so are threatened with a serious and unfair penalty of the imposition of declared-value excess-profits taxes running up to 13.2 percent upon the amount thereof. Such highly uncertain and unpredictable income should not be subjected to this tax.

There are several alternative methods of dealing with this situation, each involving a simple amendment. Any income relieved from the burden of these taxes will continue to be subject to the other corporate taxes based upon income.

We would appreciate the opportunity to present to the chairman or staff of the committee a memorandum describing this technical matter and proposing concrete methods of dealing with it which we believe your committee may find helpful and in the general interest. We urge that the pending measure take account of this situation, since it will not be solved merely by the repeal of these taxes as of June 30, 1947.

(3) *Discharge of indebtedness.*—Section 22 (b) (9) of the code, providing for exclusion of income from discharge of indebtedness, and section 22 (b) (10) of the code, providing for exclusion of income from discharge of indebtedness of railroad corporations, expire as to taxable years beginning after December 31, 1945. Both provisions should be extended.

(4) *Expenses of contract termination.*—A serious problem also arises in connection with the tax treatment of lump-sum termination settlements where post-termination expenses are involved. Because of a statement of the Director of Contract Settlement that lump-sum settlements do not cover reimbursements for any specific items, the Bureau of Internal Revenue takes the view that the settlement

income must be reported in the termination year although the expenses which ought properly to be used as an offset are incurred in a subsequent year and may therefore not be deducted until then. The resulting inequity is obvious. It is imperative that a practical solution be worked out for correlating the income and deductions in such cases so as not to penalize taxpayers either because of a material variation in tax rates or because of a substantial difference in the taxpayer's profit position as between the 2 years. Either the deductions should be allowable in the termination year or sufficient income should be shifted from that year to the deduction year to avoid producing a fictitious net income from what is essentially not an income transaction at all.

CONCLUSION

The Treasury will need maximum revenues and minimum expenditures for many years to come if our debt and our expenditures are to be soundly financed. The country will need minimum expenditures for many years to come if policies to produce maximum revenues are promptly adopted and adhered to. Maximum revenues and minimum expenditures: both will be found in the policies we have proposed.

The CHAIRMAN. We will now hear from Mr. Humphreys, of the National Association of Manufacturers.

STATEMENT OF H. E. HUMPHREYS, JR., CHAIRMAN, FINANCE COMMITTEE, UNITED STATES RUBBER CO., AND CHAIRMAN, TAXATION COMMITTEE, NATIONAL ASSOCIATION OF MANUFACTURERS

The CHAIRMAN. Proceed, Mr. Humphreys.

Mr. HUMPHREYS. Mr. Chairman, I have prepared a statement which is now being distributed. With your permission, I would like to put it in the record, and read from what I have here, sir.

First, we appreciate the prompt attention this committee and the Congress is giving to the adjustment of wartime taxes in this critical transition tax bill.

While we were at war, industry supported the imposition of hitherto unknown tax burdens. The Congress will recall that in 1942, the National Association of Manufacturers was the first to recommend the 90-percent-excess-profits tax rate, and the combined 40 percent normal and surtax rate on corporations. We stated to you at that time:

Industry has put itself behind the war-production program with every fiber of its resources and ability. Industry also has a strong patriotic desire to pay toward the costs of war to the maximum of its ability. We sincerely desire the Congress to draft a bill which will take from industry every last dollar of taxes that can be taken consistent with the tremendous war production of the Government.

Now the war has ended, and we are faced with the problems of peacetime production. Just as industry supported a heavy tax burden to meet the problems of war, we now must support a tax program that will pay the costs of that war, balance the national budget, and help create an economy that will provide a full employment and even higher standards of living.

About three-quarters of our association's 14,000 members employ fewer than 500 workers, so the opinions I express here today represent the thinking of small as well as large employers who conduct business in all the 48 States.

As businessmen, small and large, see it, the primary function of this tax-reduction bill should be to stimulate full peacetime production. Speedy achievement of full production will cure most of the other ills that threaten our transition to a peacetime economy.

Industry appreciates that the tax bill as now written provides some encouragement to increased peacetime production. However, it regrets the defeatist attitude which characterizes the approach to this vital measure.

The integrity of the national credit and the protection of 85,000,000 Government bondholders is used to support a case for tightly limited tax reduction.

The best protection that those bondholders can get is production. If this tax bill does not encourage maximum production, they will not be getting maximum protection. The less encouragement there is to production, the more chance there is for inflation, and the dollars that those bondholders lent to the Government will buy less and less in real goods and services. The protection of war bondholders is a prime concern of American industry and anything less than full repayment in goods and services would be gross fraud.

It is extremely doubtful in our minds whether the present tax bill offers the maximum protection for those bondholders, because we do not believe it offers the maximum incentive to production.

Thus far, important facts about the vast billions of private spending and investment which must begin immediately to replace Government war spending, have been avoided. An analysis of the bill, as passed by the House, shows that of the more than \$5,000,000,000 tax relief afforded, the impact on Treasury receipts for the fiscal year 1946 will be held to one and a half billion dollars. The remainder of the relief will be spread over 1947 and 1948. When it is realized that because of, war ending, we were able to lop \$34,000,000,000 from the fiscal 1946 budget does it not stand to reason that we could afford to give the people more than one and a half billion dollars relief from back-breaking war-time taxes without impairing the national credit?

The other one and three-quarter billion dollars of proposed tax relief for individuals will not be felt by the Treasury until fiscal 1947. Corporate tax reductions would not affect fiscal 1946 revenues one penny and total corporate relief would be spread over 1947 and 1948, when the Budget has dropped from its war level by an estimated \$65 billion, or more.

This tax relief is too little and too late.

It does not meet the requirements for speedy reconversion of industry to peacetime production. It hobbles industry's hope to provide more and better jobs than ever before and produce more goods at cheaper prices than ever before.

Here is how the proposed \$5 billion tax relief compares with curtailed spending (in billions of dollars):

	Fiscal 1946	Fiscal 1947	Fiscal 1948
Drop from \$100 billion budget.....	34	1 65	1 75
Tax relief:			
Individuals.....	1½	1¾	.....
Corporations.....	.....	1	1

¹ Estimated for purpose of this table.

We urge a courageous and farsighted attitude toward this tax bill. We urge that it be improved by expanding its present encouragement to provide for:

1. A 20-percent reduction of individual rates, effective January 1, 1946.

2. The repeal of the excess-profits tax as of December 31, 1945, with a retention of the existing protective carry-backs.

Maximum relief now will do more to speed reconversion, stimulate investment into new businesses, and increase production, than will any manner of spending the Government might undertake.

Only the defeatist can fail to see that such tax reductions will increase the total tax take over the long haul—next year and the years to come. Tax encouragement should be made where it counts—in the family pocketbook, and in the wages and dividends that keep it supplied.

Present relief is an investment in the future, an investment to increase ultimate tax revenue. This is the time for bold, courageous investment in America.

We recommend that this committee look ahead, look past the horizon of \$130 billion national income, which has been used by the Treasury as a basis for estimating future revenue.

If we do not encourage productivity past the \$130 billion national income mark, we will have a static economy. We prefer to think that we can produce a higher national income, and the sooner we get about it, the more revenue the Government can expect and the faster we can retire our debts and strengthen our national credit.

For the purposes of comparison, we have projected the national income to the \$150 billion level by 1948 to estimate Federal expenditures, revenues, and deficits under the existing law, the House bill now under consideration, and the NAM proposals.

In table No. 1 following my statement, you will see that under the House-approved proposals we would still be running at a \$2 billion deficit in 1948 at \$130 billion national income.

Now look at the 1948 projection of a \$150 billion income. Under the NAM proposals, we could balance the budget and have a billion surplus.

Senator TAFT. That is an easy way to get a surplus.

Mr. HUMPHREYS. May I go on and elaborate that point, Senator? It is fundamental in our approach to this.

You only have to ask yourself which program is the more likely to stimulate production up to the \$150 billion income level. We earnestly believe that only under a program of such liberal reductions as we recommend, can the Nation hope to spur production to that level by 1948.

The emphasis here, gentlemen, is on production and the making of jobs.

Senator BYRD. What was your estimate of expenditures?

Mr. HUMPHREYS. For 1948 we arbitrarily assumed that Federal expenditures would total \$25 billion.

Senator BYRD. That is fiscal year or calendar year?

Mr. HUMPHREYS. Fiscal year 1948.

We must move steadily toward a balanced budget to protect the national credit, and we can only attain a balanced budget by a tax program that will encourage business to produce more goods and more revenue.

There will be more money in the Treasury from peacetime reasonable rates which encourage business than there will be by continuing war levies. Reasonable tax adjustments will help us establish a balanced budget faster.

Senator TAFT. Have you sat down and estimated \$150 billion national income with the number of things that are to be made and sold and no increase in national income?

Mr. HUMPHREYS. I am not forecasting the \$150 billion, but I say if we give adequate tax relief to business we are more apt to reach a \$150 billion national income than we are with the present rates.

Senator TAFT. But that does not justify us in predicting \$150 billion. The Treasury would want to predict as high an income as they could predict, and I am sure they could not squeeze it above \$130 billion.

The Government cuts down its purchases from \$100 billion to \$25 billion or \$30 billion. There are those things, automobiles, or anything else that can add to anything like the figure you suggest?

Mr. HUMPHREYS. Our American economy is not saturated with the things it would like to have.

Senator TAFT. We will get there in time, but we are on a certain basis today and will only approach that basis gradually, I would say, even with the greatest encouragement, and that is only one factor.

Mr. HUMPHREYS. Wouldn't we tend to get there quicker by reducing taxes now rather than by keeping them high?

Senator TAFT. Maybe you need the tax reductions kept to \$130,000,000,000. That is what it was before the war.

Senator MILLIKIN. You will have the temporary assistance of about \$200,000,000,000 of liquid assets in the hands of the people.

Mr. HUMPHREYS. That is true.

Senator MILLIKIN. In bank accounts and so forth.

Mr. HUMPHREYS. I believe on that point, getting a bit aside, that people tend to spend current income and keep their bonds and savings in a safe place.

Senator MILLIKIN. That is temporary aid.

Mr. HUMPHREYS. That is temporary aid, and we would like to see them now be in a position where they will not have to spend their rainy-day money.

Senator HAWKES. But the fact that they have the rainy-day money put aside justifies them in spending their present earnings.

Mr. HUMPHREYS. That is true.

The CHAIRMAN. All right, Mr. Humphreys.

Mr. HUMPHREYS. We must begin now to move toward a balanced budget, but we cannot allow penny-pinching shortsightedness to slow down our return to the high production level we must have if we are ever seriously to attempt to wipe out the national debt.

With the limited tax relief in this bill as now written, 1946 Federal taxes, including employment taxes, would total about \$29,000,000,000. State and local taxes add about \$10,000,000,000 to this burden.

The bill then contemplates a total tax burden of \$39,000,000,000, against \$130,000,000,000 of national income now estimated for next year. The limited tax relief provided by this bill would leave tax burdens at the dangerous point of 30 percent of national income.

No nation ever experienced rapid growth and expansion nor became strong with such a tremendous portion of its peacetime productivity diverted to government.

Individual income taxes must be reduced from their wartime levels sharply and quickly. In the lower-income brackets tax reductions are needed to provide additional mass purchasing power. Tax reductions will also offset declines in wages resulting from the elimination of overtime as employees shift from war work to peacetime occupations.

There are millions of small businesses in this country operated in individual form. The farmer, the druggist, and the grocer must now operate without the stimulus of billions of war spending. They must be encouraged to improve and expand. The returning veteran who wants to start his own business needs the encouragement of substantial reductions in individual rates.

In considering reduction of individual income taxes, we urge that this committee not overlook the fact that almost 4½ million businesses in this country are conducted in proprietorship or partnership form, and that tax relief to these businesses must be to the individuals who conduct them.

The CHAIRMAN. Do you know of any other way of giving real relief to the individual who is in business as a partnership or an individual except the reduction of individual rates?

Mr. HUMPHREYS. No, I do not.

The CHAIRMAN. Is there any other answer except the reduction in the individual rates?

Mr. HUMPHREYS. There could be some way evolved, but I think it would be rather complicated to separate that part of a man's income which comes from business, and that which does not.

The CHAIRMAN. A lot of people have been advocating the taxation of small corporations as partnerships. I don't see how that is going to help the individual who is in business, and I am not able to see any practical reform in our tax laws that will really help the individual in business or the firm in business, unincorporated, unless you do reduce your individual income-tax rates.

Mr. HUMPHREYS. I quite agree, sir.

The CHAIRMAN. Some time ago I insisted that we should reduce the income-tax rates and suggested at least around a 20-percent cut straight through as being about the only worth while immediate first step, but the administration and Treasury were against that view and they fell on me like a ton of brick.

I don't know how you are going to get by with them.

Mr. HUMPHREYS. We propose a 20-percent cut in individual income taxes, sir.

The CHAIRMAN. When you talk about stimulating purchasing power by taking off the 3-percent tax it sounds almost silly to me. There is not enough purchasing power saved there to start a windmill.

If this bill is worth reporting out, we ought to look through these wartime revenue measures that we have on the books and we ought to have the courage to eliminate those that are a definite break on production. Otherwise there is little excuse for this bill.

Mr. HUMPHREYS. May I proceed, Senator?

The CHAIRMAN. Yes, sir.

Mr. HUMPHREYS. Maximum relief to these employers will provide added incentive to expand and create more jobs. It is significant that the individual income taxes affect 90 percent of all business establishments in the country; corporation taxes affect only 10 percent.

Venture capital will be put to work only if the investment return after taxes is great enough to offset the risks involved. This risk capital is provided substantially by persons in the middle and upper brackets. The flow of investment funds from the usual sources is now choked off by war-established taxes. To offset the wartime role of Government in business, substantial reduction in individual taxes far beyond the House bill is essential to bring private capital into production ventures.

It takes an approximate investment of about \$6,000 to provide a job in manufacturing, as the following table shows:

Net capital per wage earner in manufacturing in 1941 (latest available data)

Total manufacturing-----	\$5, 937
Chemicals and allied products-----	15, 460
Food, liquor, tobacco, kindred products-----	6, 983
Leather and its products-----	2, 603
Lumber and wood products-----	3, 778
Metal products and processes-----	6, 405
Paper pulp and products-----	7, 815
Printing and publishing-----	5, 728
Rubber products-----	5, 410
Stone, clay, and glass products-----	4, 899
Textiles and their products-----	2, 514
Miscellaneous manufacturing-----	3, 896

These figures show clearly there must be a free flow of invested capital into industry if employment in this country is to be increased anything like the figure that will be needed for all who want to work.

Senator BARKLEY. Your total is based on your annual investment?

Mr. HUMPHREYS. That is your capital investment per wage earner, Senator Barkley.

Senator BARKLEY. The one job is based on the year's employment?

Mr. HUMPHREYS. The aggregate capital invested was divided by the number of employees.

Manufacturing industry has indicated the belief that it can employ 3½ million more people than in 1939. To do this, on the basis of invested capital costs, risk-taking must be made much more attractive than it is now, before capital will be ventured in anything like the necessary volume.

A flat percentage cut of 20 percent in individual income taxes at all levels would do much to stimulate this flow of capital and would provide substantial relief for all taxpayers. It would not only bring added investment into corporations, but would encourage the millions who own and operate farms and small businesses of every description.

Senator TAFT. I agree that the high rates discourage investments in risk enterprise, but I have not been able to see how we are going to get them down to where there is any encouragement.

Mr. HUMPHREYS. Related to our prewar level of rates, they will necessarily have to be high in the immediate postwar period. The maximum rate of tax on corporation income should be in the neighborhood of 20 to 25 percent in the postwar period.

Senator TAFT. I am talking about the individual investment. I don't see how we are going to get to a point where there will be any great inducement to a wealthy individual to invest in risk enterprise.

Mr. HUMPHREYS. That would be most unfortunate.

Senator TAFT. Because the removal of the capital-gains tax would provide an incentive because he will take a chance on putting it in and getting it out without tax or possibly accumulating capital from small investors, but I don't think we will ever get the high rates down to where there will be much inducement.

Mr. HUMPHREYS. I believe you can get the rates down to the level commensurate with the kind of government the people want and are willing to pay for.

When the rules of the game are known, some method will be found, but you get the Government too costly and the rates too high—

The CHAIRMAN. You have a very serious situation unless you can reduce your individual taxes throughout all brackets down to 40 percent or 50 percent of their present rates.

You will have to cut them practically in half, in other words. You won't have an individual now willing to take any risk and put all of his fortune and all of his possessions back of an obligation he will incur, and, about the only risk-takers you are going to find will be a corporate form with limited liabilities.

Whether it has been a wise development or not, we have developed as an industrial and commercial nation. We have had a wide expansion of the use of the corporate organization in this country. That is why I have not been so enthusiastic about the recommendations some of the people make about sales tax, because I know very well that corporations figure all taxes into their product as far as they can possibly do it, and, in fact, with the industrial and commercial system built largely on an industrial basis, you are taking hidden taxes from everybody who buys those products.

Mr. HUMPHREYS. Unless corporations can make profits they won't stay in business. Individuals pay all the taxes in the long run.

The CHAIRMAN. But it is under a highly developed corporate structure that you really are taking some of the taxes that you might take in the way of retail or wholesale manufacturers' sales taxes and everything else. They are obliged to be figured on.

You are correct in saying that unless a corporation can make some profits, it won't stay in business, and won't employ anybody.

Senator LUCAS. What would be the total amount of money saved by the taxpayers by a flat decrease of 20 percent as you suggested? What would be the decline in revenue?

Mr. HUMPHREYS. Table 2 following my statement shows that the individual income tax liability for 1946 would be reduced by \$2,668,000,000 if rates were cut by 20 percent. That is in the last column of the table. The figure is quite close to the estimate under the House bill.

The CHAIRMAN. You may proceed.

Mr. HUMPHREYS. Let us not lose sight of the vast increases in burden since the start of our war effort. For example, a married person with two dependents having less than \$3,000 of net income paid no taxes in 1939. In 1945 he will pay \$275 on an income of \$3,000. He would still pay \$220 after a 20 percent cut. Getting into the medium brackets, from which much venture capital must come, the tax burden for a married person with two dependents and with an income of \$10,000 was increased nearly sevenfold between 1939 and 1945.

The proposed 20 percent cut is actually quite modest when compared with peacetime levels, and can only be considered as a first step toward sensible taxation of individuals.

Even after reducing existing burdens by 20 percent, the remaining income tax would be far above the 1939 level. On a \$10,000 income, the married man with two dependents would pay \$1,796 after a 20-percent reduction in the existing burden compared with only \$343 in 1939. On an income of \$50,000 the tax would be more than twice as great after a 20 percent reduction as it was in 1939.

One of the most important things this Congress could do to stimulate business in the reconversion period is to repeal in its entirety the wartime excess-profits tax, effective at the end of this calendar year. The revenues of the Government would be weakened if this arbitrary and inequitable tax were retained beyond 1945, even at a reduced rate. It raises an unnecessary obstacle in the reconversion period.

The excess-profits tax was considered more important as a wartime control measure than as a producer of revenue.

Most tax authorities admit the excess-profits tax is unsound. It is acceptable only in wartime as a means of preventing war profiteering, and was suggested by NAM at the beginning of the war as a method of insuring this result. It is a war control which should be dropped without further delay.

The excess-profits tax has no place in a peacetime tax structure for many reasons. The simple fact that one company may be taxed arbitrarily at an excess-profits rate, while its competitor may be taxed only at the relatively lower normal and surtax rates, is condemnation enough for the tax as a peacetime measure.

The excess-profits tax is a serious handicap to new corporations. We must look to many new concerns to make use of wartime discoveries and to provide employment for thousands of persons.

The excess-profits tax is a real problem to corporations of all sizes and throughout all industry. It is barring progress and recovery at the very time when we need it most.

If we keep it in effect for another year, we are saying to the man who wants a new job, "Wait a year until this industry can afford to start in business."

Continuance of this tax after 1945 would harm many enterprises which operated at a loss or made only small profits in the prewar period, or which have small capital investment. It would retard the growth of established firms, opening of new businesses, and the creation of new jobs.

As chairman of the NAM taxation committee, I have had the privilege of discussing taxes with businessmen from all parts of the country. These men, the heads of businesses large and small, unanimously agree that the excess-profits tax is the main deterrent to business expansion.

We cannot afford to wait a year before removing this obstacle. We are in the reconversion period now. The war is over, and industry and all America is trying to get back to a peacetime basis. We can't do it by maintaining war controls over peacetime operations. It would be a grave mistake to continue the excess-profits tax beyond 1945.

The Government recognizes the need of funds for reconversion and when the excess-profits tax was designed, the Treasury Department

recommended the carry-back features of the existing law as a substitute for reconversion reserves and for deferred maintenance. Business plans have been made with the full expectation that the carry-back of unused excess-profits credit would continue to be available beyond the date of repeal of the excess-profits tax.

Costs resulting from the war will be incurred in substantial amounts beyond December 31, 1945, and should be allowed as deductions against the war profits of former years. The carry-back provisions as sponsored by the Treasury Department in lieu of adequate postwar reserves will help to provide the funds which business needs at this time to expand its production of civilian goods.

Good faith on the part of Government requires the retention of the carry-back provisions.

In considering a reduction of corporate taxes, I am sure the Congress realizes that the resulting cash benefit to business will not be received in 1946 but a year later. This fact has advantages to the Treasury. It is important to consider that of the total reduction in corporation income taxes, whatever it may finally be, none at all will be reflected in Treasury receipts in the fiscal year 1946, approximately one-half will show up in the fiscal year 1947, and the remaining half not until the fiscal year 1948.

More than 200,000 corporations do not have so-called excess profits. These companies must be encouraged to achieve their full productive and employment capacity.

We recommend a rapid return toward reasonable peacetime corporation taxation by establishing a combined normal and surtax rate of 32 percent effective January 1, 1946. The loss of revenue involved as compared to the loss under the 36 percent rate in the House bill is relatively small—some 600 million—but we feel it would be a most encouraging adjustment, particularly to the great number of smaller companies.

Maximum tax reductions both with respect to individual companies and to the number of corporations affected will provide maximum peacetime production and employment.

We endorse the repeal of the capital-stock tax and related declared value excess-profits tax as provided in the pending bill. The guessing of earnings which these levies make necessary provides the strongest argument for their repeal in these uncertain times.

Gentlemen, we have won the war, now let's win the peace.

Because of our productive capacity, we were able to help arm, feed, and clothe the world. We were able to give our allies not only guns, but bread and butter.

Today, of all the nations, ours alone has the capacity to produce the food and goods to pull the world to its feet, to give it sustenance and hope until it can gather its energies to recover and rebuild.

Our reconversion and peacetime problems are never going to be solved until we get back in production, and I mean maximum production. Let me emphasize:

Production is the only source of tax revenues to reduce the public debt and maintain our credit.

Production is the only answer to inflation.

Production means plentiful jobs, good wages, and reasonable prices.

Gentlemen, we have won the war. Let's win the peace.

The main purpose of this tax bill then must be to stimulate production and employment.

We insist that American industry wants to continue to pay its share of the Government costs to the limit of its ability. The recommendations we offer for adjustment of wartime taxes on businesses and individuals would still impose unprecedented burdens as the Nation reaches for new high levels of peacetime production and national income. They are burdens we expect to bear, but they must not be so great as to obstruct entirely our progress toward that goal which all of us so honestly want to reach—the goal of maximum production and jobs.

This tax bill must permit us to win the peace as we did the war by individual ingenuity and courage backed by the highest productivity in the world.

Mr. Chairman, I should like to insert these three tables.

The CHAIRMAN. That may be done.

Thank you very much, Mr. Humphreys.

Are there any further questions? [No response.]

(The tables referred to are as follows:)

TABLE 1.—Comparison of Federal expenditures, revenues, and deficit under existing law, the House bill (H. R. 4309) and the NAM program, fiscal years 1945-48

[In billions of dollars].

	Fiscal years				
	\$130,000,000,000 national income				\$150,000,000,000 national
	1945, actual	1946, estimated	1947, estimated	1948, estimated	1948, estimated
Total expenditures.....	100	66	1 35	1 25	1 25
Total receipts:					
Existing law.....	46	36	30	30	36
House bill.....	46	35	25	23	28
NAM program.....	46	35	24	22	26
Deficit (-) or surplus (+):					
Existing law.....	-54	-30	-5	+5	+11
House bill.....	-54	-31	-10	-2	+3
NAM program.....	-54	-31	-11	-3	+1

¹ Arbitrarily assumed for purposes of this table.

TABLE 2.—Comparison of House bill (H. R. 4309) and NAM program

[In millions of dollars]

	Decrease in liability compared with present law		
	House bill, calendar year 1946	House bill, calendar year 1947	NAM pro- gram
Corporation taxes:			
Excess-profits tax.....	1,300	2,555	2,555
Normal tax and surtax.....	405	646	1,292
Capital stock and declared value excess-profits tax.....	183	243	243
Total, corporation.....	1,888	3,444	4,090
Individual income taxes.....	2,627	2,627	2,668
Excise taxes and refunds.....	835	1,181	835
Grand total.....	5,350	7,252	7,593

TABLE 3.—Reasons for repeal of excess-profits tax on December 31, 1945

We favor repeal of the excess-profits tax at the end of 1945 for the following reasons:

1. The tax is primarily a wartime control measure and as such has no place in the peacetime tax structure.
2. The levy is varying, arbitrary, and inequitable, in its application.
3. It discriminates against the newly formed or growing corporation.
4. The tax favors the corporation having an inflated capital structure.
5. It is an obstacle to reconversion and plant expansion.
6. Relief from admitted inequities under this tax made by various complicated provisions presents almost insurmountable administrative problems.
7. The tax is a deterrent to the investment of venture capital.
8. The excess-profits tax penalizes superior efficiency and extraordinary risk taking.

The CHAIRMAN. We will have one more witness before we recess for lunch.

Mr. Iglauer, please.

STATEMENT OF JAY IGLAUER, CHAIRMAN, TAXATION COMMITTEE, NATIONAL RETAIL DRY GOODS ASSOCIATION

The CHAIRMAN. You may proceed, Mr. Iglauer.

Mr. IGLAUER. The National Retail Dry Goods Association is a trade association which includes in its membership some 7,000 stores in every State in the Union. I am Jay Iglauer, chairman of its taxation committee.

The program of its tax committee for postwar tax revision has been in the hands of your committee since the middle of September. Because of the nature of the interim tax proposals now before you, and because of our desire to save the time of your committee in its consideration of the bill, I shall confine my remarks to two phases of the proposed interim bill—namely, the excess-profits tax, and the excise taxes.

The excess-profits tax was clearly an essential part of a wartime tax system designed to return to Government undue profits resulting from operations under a war economy. It has no place in the interim tax structure.

During the war, many thousands of corporations were prevented from maintenance of plant and rehabilitation of obsolescent buildings and equipment, and the replacement of worn-out facilities of all kinds. They were prevented by the necessary limitations imposed by the War Production Board. Reserves of funds for such purposes were not permitted as tax deductions and the excess-profits tax preempted the profits that might otherwise have been set aside for such essential purposes.

Now that the war is over, there is no justification for the retention of the excess-profits tax in the first calendar year after the close of hostilities. Business is in the midst of conversion to a peacetime economy. We are expected to hire more workers and to pay higher wages. We are urged, by necessity itself, to take up, at once, the accumulated burden of renewing worn-out machinery, of repairing old buildings, of providing new employment through the rebuilding of old structures and the building of new ones. The profits of 1946 operations over and above the needs of peacetime government should be available for such purposes to the corporations that have earned them.

☐ The only alternatives are not to begin at all, or to delay such rehabilitation for another year.

We believe that immediate repeal of the excess-profits tax will encourage corporate management to undertake war-delayed expansion projects, to take up at once long-deferred maintenance of buildings, machinery, and equipment. Such plans are on the drawing boards in various stages of completion in hundreds of corporations today. Immediate repeal will advance by more than 1 year the solution of such problems as the reemployment of labor no longer needed in the war industries, the employment of returning veterans, a large percentage of whom never had jobs before entering military service. It will speed up the supply of goods and services discontinued during the war, for which a huge backlog of demand exists. It will help to prevent inflation by speeding up supply.

From the testimony of Secretary Vinson before the Ways and Means Committee on October 1, I quote the following:

The tax structure for the postwar years should be modernized to make the greatest possible contribution to a high level of employment, production, and national income.

A high level of production, employment, and income is a goal upon which government, labor, industry, and the public at large are united as never before in the Nation's history. There is abundant evidence of this in all the carefully prepared tax plans of our business associations and our economists.

The House Ways and Means Committee, in the proposal now before you, is to be commended for the effort it has made to enact a temporary measure to reduce the tax burden, but in our opinion, the Ways and Means Committee has not gone far enough when it made only a reduction in the rate of excess-profits tax for 1946. It certainly indicated its approval of repeal by setting complete repeal for the following year.

In our opinion, 1946 is the really critical year. This is the year when some unemployment is almost inevitable because of the change of status for so many millions of workers to peacetime activities. Now—not next year—is the time to make funds available to corporations for maintaining high employment and high production.

It takes \$6,000 of capital to provide one man with a job in industry and our figures show that in the field of retail distribution the amount required is approximately \$4,000 per employee. Where is business to obtain such resources, if not out of the profits of its own operations?

No stronger case, in our opinion, can be made for the immediate repeal as of December 31, 1945, than that made by Secretary Vinson on October 1. We heartily endorse the arguments there presented as being sound and in the public interest.

Granting that only 19,000 corporations, as pointed out by Mr. Doughton, will be given relief by the proposed reduction in excess profits taxes, it is from those very corporations, whose earnings have been high, that most of the impetus must come for high production and full employment. It will be interesting to examine the data on these 19,000 corporations when the Treasury presents its analysis; I should be surprised if it were not true that these comprise a large segment of the total industrial employment, and that the number of stockholders affected is also considerable. It is from these corporations that funds will be available for stimulating the building

industry, the hard-goods manufacturers, and all those industries with difficult reconversion problems.

Senator HAWKES. Where do you get the 19,000 corporations?

Mr. IGLAUER. From Representative Doughton's testimony.

Senator HAWKES. And when you say 19,000, I presume that means 19,000 who have been paying or would pay excess profits?

Mr. IGLAUER. Yes.

Senator HAWKES. I want to leave this thought. There are thousands and thousands of other corporations who will be stimulated to go ahead much more than if excess profits taxes were left on there, and they would ultimately get into the realm of being taxed and therefore destroy their incentive; is that correct?

Mr. IGLAUER. That is correct.

Senator HAWKES. Thank you very much.

Mr. IGLAUER. We believe that the present proposal is not in keeping with the commitments made by Congress when the excess-profits tax was first adopted. Congress and the President assured the country that the tax would be terminated when the war was over. That commitment should be carried out now, in the bill that is now before you.

May I refer to an excerpt from the late President Roosevelt's budget message dated January 3, 1940:

I am convinced that specific tax legislation should be enacted to finance the emergency national defense expenditures. Although these expenditures appear unavoidable, they will not increase the permanent wealth-producing capacity of our citizens. I believe that it is the general sense of the country that this type of emergency expenditure be met by a special tax or taxes. Moreover, this course will make for greater assurance that such expenditures will cease when the emergency has passed.

With respect to excise taxes, Secretary Vinson's report as Director of War Mobilization in July 1945, said:

We should eliminate as far as possible the sales and excise taxes because they not only put an unfair and hidden tax burden on those with low incomes, but they also restrict markets for business.

As you gentlemen already know, our tax committee recommends the elimination of all excise taxes on commodities except on liquor and on tobacco. These taxes have served their wartime purposes and their elimination entirely will stimulate sales and production of the products taxed. This will help to combat the deflationary efforts of the adjustments in employment and the reduction of take-home pay, and will help in the employment of returning veterans, many of whom have never worked before but will want jobs just the same as other veterans.

Excise taxes, especially those paid at the retail level, are rightly called nuisance taxes. They are a nuisance, not only to the consumer but to the wholesale and retail distributor; the administrative difficulties add not only to the cost of government but to the cost of distribution as well. Excise taxes, because their impact is limited only to that part of the consumers affected, have received less attention from taxpayers generally, and from tax experts in particular, than they deserve. Naturally other taxes universal in application and impact seem more important to them.

In time of peace such taxes are an unfair burden upon minority industries in our economy. They tend to restrict production and

employment and to increase the costs of distribution and slow up the selling at retail. They require the making and the storing of elaborate records of sales and returns for audit by the Bureau of Internal Revenue. They are no more palatable than a retail or a manufacturer sales tax would be. Repeal of the excise taxes is preferable to reduction in such taxes, because complete repeal will stimulate the sales of the products taxed, thus increasing employment and production. Repeal will tend to offset the deflationary effects of unemployment and lower current wage payments.

Senator TAFT. You insist on eliminating excise taxes on automobiles and gasoline, with which we are looking to finance a road program?

Mr. IGLAUER. We think that should be left to the State.

Senator TAFT. We have just engaged in spending \$5,000,000,000 a year Federal money, largely on the theory that we are getting the money from the motorists so nobody could object to our spending it for the motorists.

Mr. IGLAUER. We think that is something which should be left to the States.

Summarizing, the taxation committee of the National Retail Goods Association urges upon you the repeal of the excess-profits tax, rather than reduction of that tax. Its position is supported by the Secretary of the Treasury, a former member of the Ways and Means Committee. It has the support of the most expert and thoughtful minds in the field of taxation and economics. The Committee on Postwar Tax Policy of which Roswell McGill is chairman and Thomas Tarleau, formerly of the Treasury Department, and Victor Stempf, of Touche, Niven & Co., are members, is a conspicuous example of a representative nonpartisan group which advocates this course. Many others, both in and outside the administration, favor this course. The commitment to repeal at the close of hostilities should be carried out.

Secondly, we believe that the benefits of outright repeal on July 1, 1946, of the excise nuisance taxes far outweigh the loss of revenue and will help to offset the deflationary effects of lower current wage payments and unemployment.

I wish to read into the record a quotation from the report of John W. Snyder, Director, War Mobilization and Reconversion, October 1, 1945:

I recommend for the consideration of the Congress the following three-point transition tax plan:

1. Repeal of the 3 percent normal tax on individual incomes. Removal of this tax would restore purchasing power to every person who pays an income tax and is particularly important in the low income groups.

2. Establishment of a definite date for the reduction of wartime excises to the 1942 level. In the absence of such action, these temporary excises will not come to an end until 6 months after the President or the Congress proclaims a formal cessation of hostilities. This reduction will also restore purchasing power to those groups on which the maintenance of mass markets depends. Further reduction of excises, desirable from a long-run economic standpoint, should await the consideration of a more permanent tax program.

3. Repeal of the excess-profits tax to become effective as of January 1, 1946. This tax was an indispensable wartime safeguard against inflation and profiteering. In peacetime, it acts as a brake upon enterprise and expansion. Its repeal would stimulate business expansion and make funds available for higher wages, lower prices, or increased dividends.

The CHAIRMAN. Any questions? [No response.]

Thank you very much, sir.

The CHAIRMAN. The committee will stand adjourned until 2:30 p. m.

(Whereupon, at 12:50 p. m., an adjournment was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order. Mr. Hoepfel.
Mr. HOEPEL. Yes, sir.

The CHAIRMAN. Give your name and whom you represent, please.

STATEMENT OF JOHN H. HOEPEL, MANAGER, NATIONAL DEFENSE PUBLICATION

Mr. HOEPEL. My name is John H. Hoepfel, founder and publisher of National Defense Magazine, which I have been publishing for 17 years without compensation.

I am here this afternoon, Mr. Chairman and members of the committee, to represent those who live on the other end of the street from those who spoke this morning—the chamber of commerce and the Manufacturers Association. Your committee gave them every attention and I hope that I will receive the same consideration because I represent the inarticulate voiceless mass of Americans who are either afraid to express themselves or who do not know how to express themselves.

Primarily I came to Washington without compensation to work for the interests of the officers and men retired from the armed services, and it is in their interest that I speak specifically, and that of other veterans, and especially in behalf of the entire Army, Navy, Marine Corps, and Coast Guard retired enlisted men, who are the real down-trodden and neglected veterans of our wars.

From correspondence which comes to me unsolicited, as publisher of this national circulating periodical, and from contacts which I made in my journey east by automobile from California, I am satisfied that the patience of the American people in respect to what is taking place in Washington and in Congress is near the breaking point.

The fact that Congress is now deliberating with a view to reducing taxes of the lower-income groups is indeed comforting.

In my presentation to you I feel that I express the inarticulate and voiceless thought of America. I feel that I speak for the millions of Americans who live in homes not fit for human habitation. I feel I represent the fathers and mothers of America who with their children are in distress, because after paying taxes and suffering under the increased high cost of living, they do not have enough for the semblance of a decent existence. Personally I have inspected homes and conversed with people and I felt as though I was in a nightmare and I had to figuratively pinch myself to see if I was awake, viewing, as I did, appalling economic conditions of Americans as good as any of us.

Because of my experience and observation, I feel indebted and grateful indeed to the Honorable Chairman and members of the committee for permitting me to present and portray what millions of others are thinking and cannot express, or fear to express, concerning their opinions.

Before venturing into my recommendations, I would state that there are two distinct groups in America who are vitally and most essentially interested in what this committee does in respect to reduction of taxation.

The first and all-important group encompasses the farmers, the producers of our basic man-made wealth, along with others who work in mines and factories producing wealth. Let us call this group by its proper name. They are taxpayers.

The second group which has festooned itself on the backs of these taxpayers and which group lives on the product of the labor of the taxpayers is appropriately known as the taxeaters.

I wish that members of the committee would bear in mind the differentiation between a taxpayer and a taxeater.

To explain a bit more specifically what encompasses a taxeater I would affirm that anyone who receives his salary or compensation directly or indirectly from any public treasury is a taxeater.

Unfortunately, all encompassed in the taxeater group think they pay taxes the same as the producers of wealth. But such is not the case. The taxeaters live and subsist wholly on the backs of the taxpayers.

And that is one reason we have this poverty. There are too many taxeaters.

My remarks shall be directed specifically in behalf of the producers of wealth who toil and labor in factories and on farms. First, however, I wish to make an appeal for a limited income tax exemption for the veterans of all wars in which the United States has participated, whose families were left in near poverty or distress. They had insufficient on which to live while serving. Now they are coming home. There is not one individual that has proposed a decrease in taxation for them except in a general sense. I speak in that same connection concerning the retired enlisted men of our armed forces. Some of these men were wounded twice in battle, decorated twice for heroism, and receive the insignificant sum of \$78.75, but yet these men, totally disabled, unable to work, are forced to pay an income tax.

I think it is unfair that the defenders of our Nation, especially the aged and retired enlisted men, should be forced to pay an income tax on the small, insignificant retirement pay which they receive. Likewise, I feel that the veterans returning from this war should have an opportunity to rehabilitate themselves to provide for their wives and children and that they should be given the same income-tax exemption in the future as they had during this active service, notwithstanding that during their active-service days very few of them had sufficient income to be brought within the provisions.

If our veterans are to be safeguarded against paying for the food which we ate—I refer to food subsidies—while they were winning the war, then it is most important that this committee incorporate into the tax bill the Lemke provisions. The Lemke bill provides a \$2,000 income-tax exemption for all war veterans of any American war.

In this same connection I wish to refer to the fact that Dictator Stalin showed more sympathy for the Russian soldiers than did our own Veterans' Administrator, General Bradley, who disapproved the Lemke bill.

Senator BREWSTER. Was the Russian soldier subject to an income tax?

Mr. HOEPPEL. During the war? I don't know.

Senator BREWSTER. I thought that applied rather to the officers.

Mr. HOEPPEL. The item I read said it applied to all Russian veterans.

Senator BREWSTER. I didn't understand they were subject to any income tax at all. Their pay is negligible, you know.

Mr. HOEPPEL. That is true; just like ours.

Senator BREWSTER. Well, it is not like ours.

Mr. HOEPPEL. A married man gets \$22 and I think that is insignificant.

Senator BREWSTER. You say a soldier in our country gets \$22 a month?

Mr. HOEPPEL. He gets \$50, but \$28 goes to his starving wife.

The CHAIRMAN. On that basis, I don't get anything a month out of my salary.

Mr. HOEPPEL. Well, it is very good of you, Senator, if you give it to your wife and children.

I repeat, if Russia can extend such consideration to its soldiers, we should be able to do so.

Senator BREWSTER. If you will pardon the interruption, when I served I only got \$1.50 a month because all of my money went home to my family.

Mr. HOEPPEL. Most of the retired enlisted men served for \$15 a month.

What do I find when I come to Washington? I find every department, every bureaucrat, absolutely opposed to extending the merest vestige of justice to these men. They haven't received a pay increase, over 50 percent of them, since 1922, yet one of the Congressmen had the effrontery to indicate that if we gave the retired enlisted men an increase of 15 percent, it would cause inflation. It is stupid and silly.

I would like to read for the committee the views of General Bradley, the new Veterans' Administrator, when he reported adversely on the Lemke bill which proposed a \$2,000 income-tax exemption for the veterans of all our wars. Mr. Bradley stated:

The exemption provided by the bill would amount to a cash gratuity and would be available principally to those in the higher-than-average income-tax brackets.

Can anyone conceive that a rescission of tax is a gratuity on the part of the Government? It is my money. If this Congress sees fit to raise the income-tax exemptions, neither the Veterans' Administration nor the Government is giving me a gratuity? It is my money. It is a false theory.

Furthermore, General Bradley makes this statement:

It is believed that the veterans desire promptly to adjust themselves to civilian life with both its benefits and obligations.

Yes; and with all its handicaps and with unemployment.

General Bradley apparently is not averse to sending the returning veteran, whether disabled or not, into the hands of the money changers.

Senator MILLIKIN. General Bradley testified here and he showed great solicitude for the veteran. He asked us to appropriate billions of dollars a year for the veterans. He showed the utmost solicitude for every veteran. As to educational benefits, loan benefits, and all sorts of benefits. All of the benefits comprehended in the GI bill.

Mr. HOEPEL. I wish, Mr. Senator, that General Bradley had exhibited the same interest in the men who were to be provided for by giving them a \$2,000 income-tax exemption. It is unfortunate.

Now, Mr. Chairman, I have had Members of Congress tell me that—I am ex-Member, incidentally, I am a past commander of the Veterans of Foreign Wars—I have had Members of Congress tell me that in order to combat inflation that we cannot raise the pay of the workmen nor the pay of the retired soldier.

We have heretofore been told that in order to have prosperity that the people must have purchasing power.

It is ironic indeed that now the plea is: Take away from the low-income group citizen the little that he earns, for unless we take away from the small wage or income that he has, then surely we will have inflation.

In other words, unless we take bread from the mouths of his wife and children, unless we take clothes off his back, so to speak, we will have ruinous inflation.

I will speak of inflation in a moment when I get to it.

Senator BREWSTER. There is no proposal pending, is there, to increase the burdens of anybody? The only question is what burdens we shall lift. Isn't that the only question?

Mr. HOEPEL. That is the only question.

Senator BREWSTER. You spoke as though somebody was going to add to those burdens.

Mr. HOEPEL. I will stand corrected on that point.

Senator BREWSTER. You do agree that the man, like yourself—assume you have a Government grant?

Mr. HOEPEL. I am retired.

Senator BREWSTER. Yes. You will agree that it is people in your position who are more adversely affected by inflation than would be anybody else, because you are the last ones to get any increase?

Mr. HOEPEL. Absolutely.

Senator BREWSTER. So if there is inflation it comes out of your hide, so to speak?

Mr. HOEPEL. It certainly does; yes, sir.

Senator BREWSTER. You would agree with that?

Mr. HOEPEL. Yes. Not only us, but the millions of Americans who are on fixed incomes. The civil-service people.

Senator BREWSTER. Yes. So you join with everybody else in desiring to take any practical steps to avoid inflation, do you not?

Mr. HOEPEL. I will present that in a moment.

Senator BREWSTER. All right.

Mr. HOEPEL. As I proceed, I feel that I shall prove that what this committee does with this bill shall be indicative of whether we will have inflation, increased strikes, plus other social disorders.

Before proceeding to the subject of the farmers and workers, I would accentuate my appeal to the committee to consider the interest and welfare of the veterans of our wars by writing into this bill either the Lemke bill or by making the existing income-tax exemption for veterans in active service permanent legislation for the veterans of all our wars.

We are not combating the inflationary trend when we borrow money to subsidize foods or to subsidize any other private function. Nor are we combating inflation if we lend or give additional billions to foreigners.

It is important in the preservation of the Republic that the producers of our basic wealth, the farmers and other producers, enjoy the fullest measure of their production since it is these groups which find it necessary in order to live to spend almost, if not all, which they earn. The spending of the low-income groups stimulates production and thus increases national taxable income.

For instance, a retired man, he may need a washing machine in his home, but instead we take as high as 15 or more dollars per month from these men, and what do we do with it? We employ another tax eater or we give it to the foreign nations. It would be more desirable and just that this retired enlisted man and other veterans be entitled to retain their earnings in order that they can spend their own money into consumption.

I say that organized labor is right in seeking an increase in pay to counterbalance the increased higher cost of living and the present high income tax. The more pay they receive as wages, the more they must pay as an income tax.

I don't know whether this is generally known, but I know several individuals that have recently received an increase in pay of \$25 a month and yet only received a few dollars increase in their pockets.

Reducing income tax for the farmers and workers would have a tendency to stop or slow up the inflationary trend which follows every wage increase.

If you take the tax off the back of the worker, it will not be necessary for him to strike for higher wages. After all, what he is looking for is a right to live. But when you take his salary away from him before he gets it, naturally he will make a fight to have it returned to him in some other way. The result is that we have a spiral of increased prices which could be eliminated if we took the tax off his back.

I am asking, and I hope you will consider it, that you give the veterans of our wars, the farmers and the workers and all citizens, a \$2,000 income-tax exemption. You may ask, where will we get the money to run the Government? That is easy if we will follow the example set for us by Great Britain. We will take the money from he who has the money. I will explain this presently along with two methods to combat inflation.

If we would be fair to the veterans who won this and other wars, if we would be fair to the producers of the basic wealth, the farmers, and to labor, we would give them at the minimum a \$2,000 income-tax exemption.

Senator HAWKES. Does Great Britain do that?

Mr. HOEPEL. Well, I will tell you in a moment what Great Britain did. I don't know what Great Britain does. But if she does, she is only able to give it because we are so stupid as to dish out to her billions of dollars.

Senator HAWKES. You said, "if we do what Great Britain did." I am asking whether Great Britain did that.

Mr. HOEPEL. I am coming to that point.

Senator HAWKES. All right.

Mr. HOEPEL. Before I get to that question of taxation, I am going to cover a question here of how to combat inflation.

The CHAIRMAN. That is not our direct problem. Of course, we are concerned with it. But we have several other witnesses to be heard.

Mr. HOEPEL. Senator, it is your direct problem, because anything that increases the money flowing into the national treasury is your business.

The CHAIRMAN. Our immediate problem has to do with the tax bill before us.

Mr. HOEPEL. Exactly.

Inflation occurs when the flow of money is greatly in excess of the flow of goods and services. We are aiding inflation through our failure to demobilize the millions of unneeded men and women in the armed services. These millions are now, all of them, unnecessary taxeaters or more appropriately speaking, they are like unwilling leeches sucking the life blood from the taxpayers.

These millions of unnecessary taxeaters should be immediately placed in industry to produce wealth, rather than to remain inert and to consume wealth produced by others.

Congress should provide that in lieu of unemployment insurance that every unneeded enlisted man be immediately sent home and given a 6-month furlough with pay. His discharge and final statement can be sent to him by mail. In the event he finds employment, his furlough, as far as pay is concerned, should be terminated. He would thus become a producer, a taxpayer, and through his productivity and that of millions of others like him, the inflationary trend will be arrested.

This procedure would be a double gain to the United States Treasury for no longer would it be necessary to pay and subsist him as a tax-eater. Instead he would pay into the Treasury as a producer.

I repeat, from an unnecessary taxeater he would become a taxpayer.

A glance at any newspaper will show how industry is begging for individuals, men and women, to engage in production. Why not release these men and women from the armed services and put them to work producing wealth?

The Commander in Chief should decide how many men are required in our international venture and all in excess of this number should be sent home as fast as trains or boats will carry them. Put them to work immediately. Let the discharge and service clearance follow them by mail.

Now, I will propose, Mr. Senator, what Great Britain did in 1919.

Senator HAWKES. May I say that I am not interested in what Great Britain did in 1919. I am interested in what Great Britain has done in this war. I am not interested in what she did in 1919 because this is an entirely different situation. This was a much greater war. It has disturbed the economy of this country much more than the other war.

Can you tell us what Great Britain is doing in this war?

Mr. HOEPEL. What Great Britain did in the last war we are interested in now. That is as to inflation. I heard the gentleman this morning speaking. They are asking for lower taxes—abolishing the excess-profits tax. I haven't gone into it but it looks good. I think it ought to be done. But where should we get the taxes, I will explain that presently.

A soldier who returns home after 4 years of service, he arrives in the United States without an extra dollar in his pocket. True, we give him a small subsidy. Now, consider that man's plight in com-

parison with the fine condition of the war profiteers who have amassed millions during this war. I think that the Congress should levy a heavy immediate and continuing tax on the assets and the money of every American and every foreigner owning assets in America in accordance with the example shown us by Great Britain in 1919. We should evaluate the assets, money and credit of every American for the 4 years preceding September 1940, and then evaluate their present assets, and assess tax to absorb all of their present wealth which is in excess of their average holdings prior to 1940, plus a 25 percent tax.

If we give the munition makers and the war profiteers a profit of 25 percent over the assets they had in 1940, they then are receiving more than our veterans have when they come home, because they have nothing. Further, they are going to be called upon to pay interest coupons to these men who have millions of easily acquired and easily secured wealth.

I say let those who made billions pay for the cost of war and for the rehabilitation of veterans disabled as a result of war. To tax the veteran to pay for his own rehabilitation is the height of injustice.

Where are these billions I speak of? Congress, which appropriates the money, can certainly find them, and Congress then should follow the example set for us by Great Britain. England in 1919 placed a capital levy of 25 percent against entrenched wealth. We have followed Great Britain in almost every other thing. They are here now dictating to us in reference to securing a loan. We certainly ought to adopt their tax plan. We could take the burden off industry, the low-paid worker, and the farmer. We could start the wheels of production which would then in that order build us up such an income that we could pay our indebtedness and pay for the cost of running the Government.

If you want to consider anything as deflationary, I can conceive nothing which would be more deflationary than for the Congress to take these war profits from these war profiteers during the war, bring that money back into the Treasury, and then you can take care of your veterans, you can lower the taxes for the farmers, you can lower the taxes for the manufacturers and industry.

The more tax you put on us the worse will be our condition. The more grandeur and splendor you have in the city of Washington and in the localities and in the homes of the privileged rich, the more, in the highways and byways of America, you will find squalor and poverty and discontent. And that is what you have today.

The American people, those whom I contact, those who write to me, they are not a bit satisfied. I wager the thought, Mr. Chairman and members of the committee, that unless you hear this appeal I fear that there will be many who will regret it. The unfortunate plight of our American people, whose plight is more serious than many of you know, will be increased.

I thank you for your kind attention. Are there any questions?

The CHAIRMAN. Thank you, Mr. Hoeppe.

Are there any questions? [No response.]

Mr. Robinson, you may proceed with your statement

STATEMENT OF ARCHBOLD H. ROBINSON, EASTMAN KODAK CO.

Mr. ROBINSON. Mr. Chairman, I have a one-page statement and a one-page tabulation which I would like to have put in the record. I would also like to take about 3 minutes to comment on the tabulation, if I may do so.

The CHAIRMAN. You may.

Mr. ROBINSON. If those of you who have the statement will turn to the tabulation, I think you will find it of interest in regard to the excise tax situation.

The CHAIRMAN. Mr. Robinson, have you listed here all of the excise taxes?

Mr. ROBINSON. These are all the excise taxes on manufactured articles except alcoholic beverages and tobacco.

The CHAIRMAN. I see. I simply wanted to know if the list was complete.

Mr. ROBINSON. It is complete except for that, Mr. Chairman.

The CHAIRMAN. You may proceed.

Mr. ROBINSON. If you will refer to the tabulation, on the left-hand side, there is a list of these products and across the top are columns showing the various revenue acts and the rates which were applied in those acts.

I would like to make one point. This tabulation was prepared primarily to indicate changes. Where there are blanks, as there are in 1942, that means that the rates of the previous act still apply, the purpose being just to emphasize the changes.

In the 1943 act you see the wartime taxes put on those special commodities and in the last column the proposal in the present House bill.

I want to point out specifically that in the 1942 act there were 19 commodities on which there was no change made, there were seven which were eliminated, and on two commodities only, both of which were photographic, there were increases. Photographic equipment went to 25 percent—sensitized goods were increased to 15 percent.

In other words, the only increases in the 1942 act were made on those photographic products.

There was an exemption in the 1942 act for cameras weighing over 4 pounds, which constitute a relatively small portion of the business.

In view of that, I have three observations to make. One is that we feel that the increases in 1942 in reality constitute wartime tax rates, and in view of the consideration at the present time of repealing what are so-called wartime taxes, we feel that photographic products could justifiably be included for tax reduction at this time. In other words, the act of 1942, as far as photographic materials are concerned, predated by 1 year the other increases.

A second observation is that the amounts of 25 percent and 15 percent seem to us to be excessive. We felt we have been singled out at the time, and inasmuch as the listed products are directly competitive for the consumer dollar, we feel that the rates are now excessive and inequitable.

I would like to make a third comment. The general opinion of the photographic industry is that it is apt to be a snapshotting game, with small cameras, and small movie cameras, and the film for it. I might

point out, in the estimate we have prepared for 1946 and 1947, the amateur business, as we think of it, perhaps as a luxury, but the amateur business alone is less than 35 percent of the total business.

In other words, the tax which will be paid next year, and which in fact is now being paid, is borne largely by commercial, industrial, professional people as a business expense.

Speaking as a member of the photographic industry, I would like to suggest that the tax on photographic equipment and sensitized goods be considered as part of the wartime tax and that it revert back on the same basis as these other commodities that are being considered in the House bill and that it should go on to the 1941 rate.

Thank you.

The CHAIRMAN. Thank you very much. Are there any questions.

Senator VANDENBERG. What would that cost, Mr. O'Donnell, do you know?

Mr. O'DONNELL. I can insert that in the record. I don't have it at the moment.

Mr. ROBINSON. I can tell you. The total tax collection last year was about \$16,000,000. The estimates which we have prepared for 1946 and 1947 on the taxable commodities, and which we have extended at a 10-percent tax rate, indicate a yield within \$100,000 of the amount collected last year.

The CHAIRMAN. You are not asking that it be taken off but that it merely go back to the 1941 rate?

Mr. ROBINSON. That is right.

Senator HAWKES. Are you asking that it be on the basis of—as of July 1 next, or are you asking for immediate consideration?

Mr. ROBINSON. No. On the basis of July 1 next.

The CHAIRMAN. Thank you very much.

(The statement submitted by Mr. Robinson is as follows:)

STATEMENT FILED WITH SENATE FINANCE COMMITTEE ON REVENUE BILL OF
1945, H. R. 4309

As a member of the photographic industry, I should like to suggest that it would be appropriate to reduce the tax on photographic equipment and sensitized goods to the rates imposed by the Revenue Act of 1941. H. R. 4309 which is now before you provides that the wartime rates on certain commodities shall revert to the 1941 level. The attached tabulation will show at a glance what has happened in the field of excise taxes on various commodities, as distinguished from taxes on services, under the revenue acts beginning with that of 1940.

It will be observed that the Revenue Act of 1942 singled out the photographic industry, and in the face of the elimination of the excise tax on several articles, the rate on photographic equipment (except cameras weighing more than 4 pounds which are a very small part of the industry's production) was increased from 10 percent to 25 percent, while the rate on sensitized goods was increased from 10 percent to 15 percent. In 1943 increases were made in the tax on certain other commodities. In short, the wartime rate on photographic equipment and sensitized goods predated by a year the wartime rate on these other commodities. Secretary Vinson told this committee on Monday that the wartime increase in rates imposed by the Revenue Act of 1943 should be removed now that the war is over, and it seems to me that through inadvertence the 1942 war rate imposed on our goods was overlooked. H. R. 4309 proposes to cancel these war rates on other commodities so that the rates effective after June 30, 1946 will be the same as those in the 1941 act. I am asking your committee to propose that the 25 percent and 15 percent rates on photographic material also be reduced to the 10 percent in effect in 1941 so that we will be afforded equal treatment as is proposed to be given the manufacturers of other commodities.

May I make the remark that there is a tendency when considering the products of the photographic industry to think in terms of snapshot and small movie cameras and film for such cameras. Our estimates of postwar business indicate that the industry's sales of amateur goods of which these are a part will represent less than 35 percent of its total sales. Great quantities of film are used for copying bank checks, newspapers, books, and documents, in the movie industry which is already subject to a substantial admissions tax, by professional photographers who use these materials in making a livelihood, and in photoengraving, photolithography, and other commercial applications too numerous to mention. These commercial uses will constitute more than 65 percent of the industry's total sales. In the light of this, I am sure you will understand our feeling that our products should not continue to bear the highest rates of all manufacturers' excise taxes.

EASTMAN KODAK Co.,
A. H. ROBINSON,
Assistant Treasurer.

Changes in United States excise taxes on manufactured articles, excluding alcoholic beverages and tobacco, 1940 to date

[Purpose of chart is to indicate changes. Blanks indicate no changes from previous rate.]

Articles	Prior to Revenue Act of 1940	Revenue Act of—				H. R. 4309
		1940	1941	1942 ¹	1943 ²	
Tires (per pound).....	Cents 2 $\frac{1}{4}$	Cents 2 $\frac{1}{2}$	Cents 5			
Tubes (per pound).....	4	4 $\frac{1}{2}$	9			
Toilet preparations.....	Percent 10	Percent 11	Percent 10 ³	Percent	Percent 20 ³	Percent 10 ³
Truck chassis and bodies.....	2	2 $\frac{1}{2}$	5			
Automobile chassis and bodies.....	3	3 $\frac{1}{2}$	7			
Automobile parts.....	2	2 $\frac{1}{2}$	5			
Radios, etc.:						
Radios.....	5	5 $\frac{1}{2}$	10			
Records and musical instruments.....			10			
Refrigerators, etc.:						
Refrigerators (household).....	5	5 $\frac{1}{2}$	10			
Refrigerators (commercial).....			10	0		
Sporting goods.....			10			
Luggage.....			10		20 ³	10 ³
Electric gas, and oil appliances:						
Electric gas, and oil appliances.....			10			
Vacuum cleaners (household).....			10		0	
Photographic apparatus:						
Photo equipment.....			10	25		
Cameras over 4 pounds.....			10	0		
Sensitized goods.....			10	15		
Electric signs.....			10	0		
Business and store machines:						
Business machines.....			10			
Cash registers (retail sale type).....			10	0		
Rubber articles.....			10	0		
Washing machines.....			10	0		
Optical equipment.....			10	0		
Electric-light bulbs.....			5		20	5
Jewelry.....			10		20	10
Furs.....			10		20	10
Firearms (including pistols and revolvers).....	10	11				
Matches (per thousand).....			Cents 2			

¹ Effective Nov. 1, 1942.

² Effective Apr. 1, 1944.

³ Retail.

The CHAIRMAN. Mr. Parton.
You may proceed, Mr. Parton.

STATEMENT OF GEORGE F. PARTON, PRESIDENT, THE STANDARD SAFE DEPOSIT CO. OF NEW YORK

Mr. PARTON. Mr. Chairman, my name is George F. Parton, and my address is 25 Broad Street, New York City. I am president of the Standard Safe Deposit Co. of New York, but I am appearing before you at the request and on behalf of the New York State Safe Deposit Association.

That association was organized over 40 years ago. It is the first and the largest safe deposit association in the United States. It has a membership of 419 safe-deposit companies located in 43 States of the Union and in 9 foreign countries. These member safe-deposit companies own or control branch vaults numbering in the thousands, and their customers, whom we call box renters, number approximately 12,000,000.

I remember, Senator Vandenberg, that about 3 years ago you asked me the question whether there was anyone at that time who had anything to put in a safe-deposit box. Today it is hard to find a box that isn't rented.

Senator McMAHON. What are they filled with, black market cash?

Mr. PARTON. War bonds, sir, practically altogether.

Senator McMAHON. I hope so.

Mr. PARTON. I think that is true.

I shall take only a very few minutes of your time today, but there are one or two points in connection with our safe deposit tax which I am most anxious to present for your consideration.

In the Revenue Act of 1941 our tax was raised from 10 to 20 percent. That unquestionably was a war measure as funds were being raised by that act for war purposes. The high rate of our tax was therefore understandable.

The 1943 Revenue Act also raised several other excise taxes to the war rate of 20 percent, the same rate as ours, but in that act there was a provision for automatic repeal of those war taxes 6 months after the declared date of cessation of hostilities. And this current transition bill makes provision for the repeal of those excise war taxes on July 1, 1946.

The point which I should like to submit is whether it is fair to repeal certain wartime excise taxes next July and leave out of consideration entirely certain other wartime excise taxes where the rates in both cases are the same; namely, 20 percent.

Our 20-percent war tax has been on for 2 years longer than the war excise taxes listed in the 1943 act, yet this bill proposes no reduction for us while it does provide for reductions in the latter group.

The newspapers report, Mr. Chairman, that you favor a reduction of all war taxes now that the war is over.

Senator Taft has been reported as saying, and I quote: "Excise taxes should be reduced as soon as possible."

And I was pleased to hear Senator Millikin at the hearing this morning say that if one type of war tax is to be removed at this time, all war taxes should be removed if we are to be consistent.

Representative Knutson of the Ways and Means Committee has been reported as saying: "In addition to reducing income taxes, I would repeal all war taxes."

In view of these expressions, gentlemen, should our 20-percent war tax not be given some consideration at this time with other war excise taxes?

Senator MILLIKIN. Mr. Chairman, may I ask a question, please?

What was the origin of the tax on the safety-deposit box?

Mr. PARTON. It was put on originally, I think, in 1932 as an emergency tax.

Senator MILLIKIN. As a luxury, was that the theory of it?

Mr. PARTON. Well, I frankly don't know what it was put on for, except to raise revenue, but it was put on at that time as an emergency tax.

Senator MILLIKIN. Many of those excises are put on so-called luxury items.

Mr. PARTON. Yes.

Senator MILLIKIN. I was wondering what the assigned reason was for putting it on the safe deposit boxes.

Mr. PARTON. Frankly, I don't know. I do feel the safe-deposit business is not a luxury business.

Senator MILLIKIN. Mr. Chairman, what was the reason for putting a tax on safe deposit boxes?

The CHAIRMAN. I don't recall now, except to get some revenue. I think it was increased later.

Mr. PARTON. It was increased in 1940 by a 1 percent defense tax.

The CHAIRMAN. There was a general increase.

Mr. PARTON. That is right, and in 1941 it was increased to 20 percent.

The CHAIRMAN. I think that was due to the recommendations of the OPA Director, largely for the purpose of conserving scarce materials.

Mr. PARTON. It was put on as a war measure in 1941, raised from 10 to 20 percent; that is the way it was worded in the bill.

The CHAIRMAN. Mr. Stam is not here.

I don't recall, beyond the necessity of getting some little additional revenue.

Mr. PARTON. I think that is right. Originally that tax was put on safe deposit box rentals by Mayor LaGuardia when he was in Congress.

Senator HAWKES. How much does the tax on safe-deposit boxes yield over all, do you know?

Mr. PARTON. Yes, I have those figures, sir, right here. I have them for the year ending June 30, 1945, and preceding years.

For the year ending June 30, 1945, it was \$7,347,989.20; roughly, \$7,300,000.

Senator VANDENBERG. As I understand it, it hasn't stopped the popularity of safety deposit boxes.

Mr. PARTON. No, sir; it has not, because of the war, and because of war-bond purchases. I shall comment briefly on that in just a moment.

While our tax was doubtless justifiable as a war measure, now that the war is over it seems an exorbitant rate for a taxpayer to pay for the necessity of safeguarding his valuables, particularly his war bonds, which the Government had been so urgently pressing him to buy.

Surely it is not a luxury, but rather it is a necessity, to use a safe deposit box for the protection of war bonds, and yet taxes on strictly

luxury items such as furs, jewelry, cosmetics, liquor, amusements, cabaret fees, and so forth, are being reduced by this bill, while no mention whatever is made of the safe deposit tax. In other words, the spending of money for luxuries and amusements is being favored by this bill, while a 20-percent tax on a person's desire to save and protect his war bonds is ignored. But even if our tax were a luxury tax, which certainly it is not, should there be discrimination between one group of war excise taxes and another group of war excise taxes—one group having been imposed by the 1943 act and the other by the 1941 act? Our box renters do not regard this as either fair or equitable.

The Treasury Department has been urging that war bondholders refrain from redeeming their bonds. It is absolutely certain that if our 20-percent war tax is not repealed on at least the same basis as other war taxes on luxuries, there will be a definite tendency over the country to close out the boxes and cash in the war bonds. Safe deposit boxes from Maine to California are jammed with these bonds now, but I have a sheaf of hundreds of reports from all over the country stressing exactly what I am saying about these war-bond redemptions. Those who have been buying these bonds have been willing to pay the high tax for safeguarding them during the war, but now that the war is over they will not continue to pay that high war rate but instead will turn in their bonds. Would it not seem advisable, sir, to do everything possible to deter people from doing this?

And just one other point. This bill is prefaced by the statement of the Ways and Means Committee that they believe, and I quote, "moderate tax relief for all groups would be preferable to complete elimination of a few wartime taxes affecting only a relatively small number of taxpayers."

I agree wholeheartedly with that statement, but, very frankly, it does not seem to be followed out in this bill. Certainly safe deposit box renters should be considered as one group of taxpayers, for there are about 12,000,000 of them, and therefore we feel that they should have this tax relief in line with the Ways and Means Committee's statement. Furthermore, 12,000,000 is not only a large group for one type of taxpayer, but it is safe to say that most of them are owners of war bonds, which we should encourage them to keep. We believe, therefore, that they should not only be given consideration in this bill by having their wartime safe deposit tax removed at this time, but that it would be wise to do this from the viewpoint of war-bond redemptions. This would mean including in this current bill a provision to reduce our tax from the wartime rate of 20 percent to the prewar rate of 10 percent, effective July 1, 1946.

SENATOR VANDENBERG. May I ask whether banks do not take in war bonds for safekeeping without charge?

MR. PARTON. Federal Reserve banks do, Senator, but they have been so filled up with them that they have been urging against it. They have been trying to free themselves from some of these bonds.

SENATOR VANDENBERG. Do not practically all commercial banks take war bonds for safekeeping?

MR. PARTON. No, sir; not without charge. The commercial banks, nearly all of them, have safe deposit vaults. The bonds are put in safe deposit boxes, and the boxes are rented. They are not free of charge.

Senator VANDENBERG. What is the cheapest you could rent a box for?

Mr. PARTON. It depends entirely on the type of institution and the locality. As a rule, savings banks have small boxes. They rent for \$2 or \$3 a year. The commercial banks, however, have a minimum of \$5 or \$6. It varies.

Senator VANDENBERG. Under your theory one would have to have quite a few war bonds to break even as between the interest on the war bonds and the rent on the box to put the war bonds in.

Mr. PARTON. Yes; the tax certainly eats into the interest from the bonds.

Senator McMAHON. It is a deductible expense.

Mr. PARTON. It is a deductible expense, that is correct. That is, the tax is a deductible tax.

Senator McMAHON. The rent would be deductible, too.

Mr. PARTON. If the box is used for business purposes.

Senator McMAHON. Don't you suppose they are all used for business purposes when the time comes to make a return to the Treasury?

Mr. PARTON. No, I wouldn't say that. The majority are used personally, to keep personal belongings in. And, incidentally, on that point, where I spoke about it not being a luxury, surveys which we have made show that approximately 90 percent of all box renters in the country rent safe deposit boxes averaging \$4 a year. That certainly doesn't indicate a luxury business. It is a business where the box renter puts away his life insurance policy, his savings bank pass-book, a deed to his home, and perhaps a few war bonds. It is certainly not a luxury business.

Senator MILLIKIN. The more you have to deposit in the way of wealth, the less a luxury the box becomes.

Mr. PARTON. Well, people who have small belongings and who want to protect them, life-insurance policies, the deed to his home, and so on, the little fellow, he needs a box to protect such belongings.

Senator MILLIKIN. I heartily agree. I am just taking a slight exception to your thought that it becomes less of a luxury, the more money a man has.

Mr. PARTON. The fact remains that 90 percent of all these box renters rent a little box. That is all they can afford to take.

Senator MILLIKIN. It is not a luxury to them. That is why I was asking the chairman what was the history of that tax.

Mr. PARTON. I think myself it should not be on at all. It is the only form of rent that I know of that has been taxed. We don't tax, certainly, the rent paid for a home, and yet our business is a landlord-tenant business. We rent space exactly as one would rent space to live in. Yet a tax is put on that rent in our case and it is the only form of rent that I know of that is taxed. Frankly, I think it is not a fair tax. However, I am not proposing that that tax be eliminated. Only am I proposing that it be reduced to the prewar rate of 10 percent, effective July 1, 1946; not immediately.

May I most strongly urge, Mr. Chairman, that you give these points your careful consideration. And I would like to add that our views have the full support of the New York State Bankers Association and the American Bankers Association.

That completes my statement and I appreciate having the privilege of presenting it.

The CHAIRMAN. Thank you.

As I recollect, your company, Mr. Parton, the company with which you were formerly connected, was the principal manufacturer of these boxes.

Mr. PARTON. No, sir; I have never been identified with the manufacture of safe deposit boxes.

The CHAIRMAN. There were some manufacturers who did appear before the committee at one time, I think.

Mr. PARTON. If that is so, I am not aware of it. I am not identified in that way. I am identified solely with the renting of safe deposit boxes.

The CHAIRMAN. I see. Thank you.

(The tabulation presented by Mr. Parton in connection with his statement is as follows:)

Tax on leases of safe-deposit boxes

[Compiled from annual reports of the Commissioner of Internal Revenue]

Federal fiscal year ending—	Tax collected	Tax rate	Remarks
		<i>Percent</i>	
June 30, 1933.....	\$2, 365, 040. 83	10	Effective June 21, 1932, in accordance with section 741, part V, Revenue Act of 1932.
June 30, 1934.....	2, 715, 850. 67	10	
June 30, 1935.....	2, 317, 619. 30	10	
June 30, 1936.....	1, 997, 409. 57	10	
June 30, 1937.....	2, 039, 714. 37	10	
June 30, 1938.....	2, 013, 158. 73	10	
June 30, 1939.....	1, 980, 525. 03	10	
June 30, 1940.....	1, 988, 933. 79	10	
June 30, 1941.....	2, 215, 898. 10	11	
June 30, 1942.....	3, 662, 535. 73	11	
June 30, 1943.....	6, 070, 096. 08	20	
June 30, 1944.....	6, 593, 674. 78	20	
	35, 960, 456. 98		
June 30, 1945.....	7, 347, 989. 20	20	Compiled from monthly newspaper release issued by the Treasury Department. (This sometimes varies slightly from the annual report.)
	43, 308, 446. 18		

The CHAIRMAN. Mr. Samuel Fraser.

Miss CASEY. Mr. Fraser was unable to appear and asked me to appear in his place, Mr. Chairman. I am the Washington representative for the association.

The CHAIRMAN. You may come around. Give your name for the record.

STATEMENT OF KATHRYN CASEY

Miss CASEY. Mr. Chairman, I am merely submitting a letter which Mr. Fraser asked me to file. He was going to make his statement in writing. The letter is very short. He asked me to add to it.

The CHAIRMAN. You may file the letter.

(The letter referred to appears at the end of Miss Casey's testimony.)

Miss CASEY. The International Apple Association is a nonprofit membership organization of growers, shippers, and distributors. Its membership is located in all of the important producing sections and distributing markets of the United States.

It is composed of the leading apple and pear growers and shipping organizations, individual shippers and firms, apple and pear cooperative associations, wholesale dealers, distributors, exporters, and our members interested in other lines of our industry.

In addition, its membership extends to many foreign countries, including Canada, the United Kingdom, continental Europe, South America, and Australasia. The association is representative of the apple and pear industries of the United States.

The International Apple Association is now in its fifty-second year.

We want to suggest that the tax which at present is 25 percent on telephone and telegraph charges ought to be eliminated in its entirety or reduced so that it is not more than 10 percent of the charges.

The reason we ask it is because our membership, which ships yearly approximately between 1,000,000 and 1,500,000 cars of fruits and vegetables, pays a high tax on the distribution of this produce.

Many times it is essential to divert, or reconsign a car and that, because of the perishable nature of the commodity is done by telephone and telegraph.

In each case the tax applies.

I want to cite three cases, one in the East, one in the Middle West, one in the West, to give you a rough idea of what happens.

A carlot broker in Cincinnati, Ohio, advises that taxes on long-distance telephone and telegraph in connection with his handling of fruits and vegetables in carlots during the year 1944, the tax alone on his telephone and telegraph charges, amounted to \$1,200. During the year 1945, through September, these taxes amounted to \$1,100.

Senator HAWKES. What volume of business did that man who had a tax of \$1,200 do in that year?

Miss CASEY. I am sorry, Senator, I do not have that information, but I will be very glad to furnish it.

Senator HAWKES. You do not know what relation that \$1,200 bears to his total cost of doing business?

Miss CASEY. I don't have that information. I would be glad to file it with the committee.

Another case is one in Fleetwood, Pa. This is a cooperative organization. They paid a total of \$1,800, out of which, of course, they paid a tax of close to \$500.

The western instance is a larger corporation, the Fruit Growers Service Co. of Wenatchee, Wash., and for the 9 months ended April 1944 their total expense was \$3,100, of which almost \$1,000 was tax, and for the fiscal year ending April 30, 1945, the tax was over \$1,100.

(The following information was later supplied by Miss Casey:)

The Fleetwood, Pa., organization handled about 500 cars of apples on which the tax was \$468.

The western company, the Fruit Growers Service Co. of Wenatchee, Wash., in the 1943-44 season incurred a tax of \$3,139.77 on the movement of 687 cars of apples, or about \$5 a car. The figures given me for the 1944-45 season run a little more than \$5 a car on 850 cars, with a tax of \$4,440.88.

Miss CASEY. These are relatively small operators and in the case, of course, of larger operators, their expenses would be correspondingly higher and the tax would be correspondingly greater.

At the present time, of course, most of the fruits and vegetables are selling below the OPA ceiling, and it is an added cost of doing business, and is a direct burden on agriculture, because it eventually gets passed back to the grower.

Senator RADCLIFFE. You say that most of them are selling under the OPA ceiling now?

Miss CASEY. Yes, sir.

Senator RADCLIFFE. Because the supply is unusually large, or has the demand reduced?

Miss CASEY. I think it is a combination of both. Most crops were normal, or above normal this year, except for apples, which were below, and which, of course, are selling on the ceiling, but pears are selling below, and have been right along.

Senator RADCLIFFE. Do you know approximately how much the orders from the Government, especially from the War Department, have been reduced?

Miss CASEY. Most of the set-asides, except for apples, have been completely eliminated. We still have a set-aside on apples, but not on other commodities, so far as I know, this season.

Senator CONNALLY. Are citrus fruits selling below the ceiling?

Miss CASEY. Yes; I understand citrus fruits are also below the ceiling.

The CHAIRMAN. Are there any other questions? If not, thank you very much.

(The letter of Mr. Fraser, October 15, 1945, is as follows:)

INTERNATIONAL APPLE ASSOCIATION
Rochester 4, N. Y., October 15, 1945.

HON. WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

DEAR MR. CHAIRMAN: In re the matter of excise tax on telephone and telegraph communications, fruits and vegetables are perishables, their sales are made by telephone or by telegraph. Over half the supplies are grown 3,000 miles from the market. Sales are made, in many instances, while the commodity is in transit, and the goods are forwarded to a market which is in need of the particular commodity. This necessitates constant contact with the car while en route, and the diversion orders, as well as the sale are made by telephone or telegraph. This manner of doing business is required and the placing of a tax of 25 percent on the operators is proving a serious burden with the decline in price which is now in effect. It would be particularly helpful if this group could be recognized and the services they perform considered.

We, therefore, request that consideration be given to the elimination of the tax in the case of communications made in the sale and delivery of these commodities. If it is not possible to do this at this time, we trust it may be possible to reduce the tax to 10 percent instead of 20 percent, as carried in the House bill.

Respectfully submitted.

SAMUEL FRASER, *Secretary.*

(The following statement was later received for the record:)

THE USE OF TELEPHONES AND TELEGRAMS IN THE SALE AND MOVEMENT OF FRESH
FRUITS AND VEGETABLES

The annual volume, rail and truck, in the United States is the equivalent of about 1,500,000 cars. The perishability of the commodities necessitates close contact with the car when it is offered for sale, while in transit, and, frequently, after arrival at destination and during unloading. The average haul is about 1,588 miles. A large tonnage moves 2,500 miles.

FORMS OF SALE

1. Some large organizations may use the auction and sell on a delivered basis. This necessitates daily and sometimes hourly contact with a market to know arrivals, cars en route, and selling conditions.
2. Certain organizations may sell a large portion of their tonnage f. o. b.
3. Others may roll cars and sell while en route. This necessitates contact with the car and time of passing certain junctions from which diversions can be made.

MARKET CONDITIONS

During 1944, a war year, with supplies limited for civilian use due to heavy demands by Government agencies, the market was a seller's market, commodities moving at prices fixed by OPA. The use of telegrams and telephones for selling is less than when supplies are abundant and the conditions favor the buyer; then it is more effort to sell and a higher charge for telephone and telegraph is seen. Such a condition now prevails in many lines. Prices are below the ceilings fixed by OPA. Costs incurred in selling rise, both actually and percentage wise, because prices are lower.

SHIPPING POINT DISTRIBUTOR

This embraces firms who assemble cars at shipping point and sell. In California a common average for telephone and telegraph charges is \$4.50 to \$5 a car. In Maine in selling 10,000 cars of potatoes this year the average was \$4 a car. In other districts ranges are noted of from \$2.50 to \$7 a car.

BROKERS

Many firms and commodities have developed a method of sale through brokers. The country point distributor, who has purchased and loaded cars, may find it necessary to use another agency at destination to sell, place, and collect the money or, if necessary, divert and resell the car on arrival or prior.

We submit the certified audit of 1944 business of one broker in a large market, which is probably as typical as any.

Charges for selling the car are fixed by OPA at 1942 price, plus minor adjustments.

When using brokers, sales are made frequently for \$25 a car and, in the case of potatoes, \$15 per car.

In the case of the above illustration the total income averaged \$22.53 per car for 1944.

Telegrams and telephone averaged, per car, \$6.91, or 30.1 percent of the total income. Twenty-five percent tax on \$6.91 equals \$1.73, or 7.3 percent of total income.

Comparing 1944 with 1943, this firm handled 144 more cars and earned 25 cents per car less, and the prospect now is for a further increase in selling cost.

In another city of less population another of our members shows total cost of telephone and telegrams in 1944 averaged \$5.88. This includes sales of certain large blocks, which reduced the 1944 average.

NUMBER OF HANDLERS

The number of licensed handlers of fresh fruits and vegetables under the United States Department of Agriculture is about 20,720 at this date. Since the transactions on each car will go through at least two hands, this gives an average per year of about 361 cars per firm.

SMALL RECEIVERS IN SMALLER MARKETS

Telephone and telegraph charges of this group are additional to those shown on country point shippers. There must be an offer and acceptance. Certain of such receivers handling 150 to 200 cars show a range of costs from \$2 to \$7; part of their costs in this line may be borne by the broker.

ACTUAL PER CAR

From contacts with many representative firms and with the above illustrations, it is safe to place the telephone and telegraph charges per car for selling at \$8 to \$10 per car, and this does not allow anything for the wires incurred in reporting the movement of the car in transit.

At present the tax is \$2 to \$2.50 per car, and a large portion is borne by certain special services. In other words, it totals \$3,000,000 to \$3,750,000.

The increases in the tax were as follows:

	<i>Percent</i>
July 1932, Revenue Act of 1932.....	5
October 1941, increased to.....	10
Nov. 1, 1942 to Apr. 1, 1944, tax in effect.....	15
Apr. 1, 1944, tax increased to.....	25

We request that the tax be returned to the level of 1941 at least, or to 10 percent.

INTERNATIONAL APPLE ASSOCIATION,
SAMUEL FRASER, *Secretary*.

Dated at 154 East Avenue, Rochester 4, N. Y., October 19, 1945.

The CHAIRMAN. Mr. Stans.

STATEMENT OF M. H. STANS, CHAIRMAN OF THE BOARD, AND TREASURER, MOORE CORP., JOLIET, ILL.

Mr. STANS. Mr. Chairman, and members of the committee, my name is Maurice H. Stans. I am chairman of the board and treasurer of the Moore Corp. of Joliet, Ill., manufacturers of stoves.

I am testifying at this hearing on behalf of my own company and also as an authorized spokesman for the Institute of Cooking and Heating Appliance Manufacturers, which represents the stove manufacturing industry in the United States.

My reason for appearing before you today is to request that this committee and the Congress vote to repeal the excise tax imposed by section 3406 (a) (3) of the Internal Revenue Code on the products of this industry. The specific products to which I refer are electric, gas, and oil cooking stoves and water heaters, and direct motor-driven fan equipment used in connection with certain types of heating stoves for the purpose of circulating heated air. These products are now subject to an excise tax of 10 percent, imposed upon the manufacturer, producer, or importer.

The CHAIRMAN. Your tax was put on in 1941?

Mr. STANS. Yes.

The stove industry is not big business. It is made up predominantly of relatively small enterprises with average sales of less than \$1,000,000 per year and average employment of less than 200 workers per plant. On the average, the plants of the industry qualify as "small business," as indicated by the fact that more than half of the 375 companies making stoves and water heaters had less than \$500,000 in sales annually in normal prewar years. My own company normally does \$1,000,000 to \$1,500,000 worth of sales a year.

ENACTMENT

The excise tax on the products of this industry was imposed in the Revenue Act of 1941, for a twofold purpose; primarily, to restrict consumption of essential materials needed for the national defense; and, secondarily, to raise revenue for national defense. The original bill as passed by the House limited the tax on the products of this industry to electric appliances only and did not include gas and oil appliances. Subsequently, this Senate committee added gas and oil cooking stoves and water heaters in order to avoid an "unfair competitive situation."

The estimate of this committee at the time indicated that the total revenue to be collected on electric, gas, and oil appliances under section 3406 (a) (3) would be \$31,800,000 per year. Because of subsequent wartime limitations on production, actual collections have been materially less than this amount. (See exhibit A following.)

Section 3406 of the Revenue Act of 1941 also imposed excise taxes on various other types of consumer durable goods but did not by any means cover all such products. Since that time, this section has been amended frequently in successive tax bills with the result that some of the products originally covered under the section are now free of excise tax. Of the more common household appliances, washing machines were never subject to the excise tax, and vacuum cleaners which originally bore a 10-percent tax were removed by an amendment in 1943. The Senate Finance Committee's report on the Revenue Act of 1943 contained this statement regarding the removal of the tax on vacuum cleaners:

During the early part of the emergency, an excise tax was placed on vacuum cleaners. At the present time, the tax is meaningless since the article has not been manufactured since 1942. It does, however, threaten to put this industry at a competitive disadvantage as compared to producers of other untaxed electric appliances when manufacture is resumed. It was, therefore, felt advisable to repeal this tax now.

Therefore, this committee has recognized the importance of avoiding discrimination in the imposition of excise taxes.

SENATOR RADCLIFFE. About what percentage of your products did you cease to manufacture because of the needs of war production?

MR. STANS. It varied greatly between the years, but at the minimum, I would say that it was not more than 20 percent that was produced of normal, and at the maximum, not over 50 percent until the end of the war.

SENATOR RADCLIFFE. How far are you back now to resumption of peacetime operations?

MR. STANS. We are back to practically 60 percent. We hope to be back to 100 percent in the spring. The industry is converting very rapidly.

REASONS FOR REPEAL

Now, under my reasons for repeal, I have adopted the premise that most of the excise taxes were imposed by the Revenue Act of 1941, and the remarks at committee hearings and in Congress at that time convey the definite impression that these impositions were intended to be and are temporary measures and not part of the permanent tax structure of this country.

There seems to be general agreement that most of them should be removed at the earliest possible date, now that the war is over. Organizations which have studied the problem of postwar taxation, such as the Committee for Economic Development, the proponents of the Ruml-Sonne plan, and of the Twin Cities plan, are unanimous in recommending the complete elimination of excise taxes on consumer durable goods. In his July 1945 report to Congress on his work as Director of War Mobilization and Reconversion, Hon. Fred M. Vinson made this statement:

Nearly all sales and excise taxes should be eliminated. They put an unfair and hidden tax on those with low incomes; they restrict markets for business.

In his testimony before the Committee on Ways and Means of the House of Representatives, preliminary to the enactment of the Revenue Act of 1941, Mr. Leon Henderson, then Administrator of the Office of Price Administration and Civilian Supply, made this statement, which presumably expresses one of the principal reasons for the enactment of the excise taxes at that time:

Turning first to the proposals of excise taxes, the only case which may be made out for such additional taxation at the present time from a total defense point of view must rest upon its effectiveness in discouraging civilian production which competes with the defense program for men, materials, and machines. I have divided the excise-tax proposals of the Treasury into three groups. First, taxes on goods and services of mass consumption which in no way compete with the defense program. These are deflationary, unnecessary, and highly inequitable. Second, taxes on luxury items which likewise do not compete with the defense program. These are deflationary and unnecessary, but they are not so objectionable from the viewpoint of equity. And third, taxes on articles, such as automobiles and refrigerators—a whole range of things—which compete very heavily for materials, productive facilities, and skills with defense production. This is the type of excise which is called for today.

Inasmuch as the excise taxes on essential consumer goods are not a permanent part of the American system of taxation, and those with which we are now dealing were enacted as temporary measures for reasons which no longer exist, it seems to be clearly evident that most of them will ultimately be repealed by Congress, perhaps at the time when it undertakes to write a permanent tax program. If that were not apparent, I would not encroach upon the time of the committee today, because my purpose is to state the reasons why the stove industry believes that the excise tax on its products should be repealed now, without further delay.

Senator MILLIKIN. Mr. Chairman, may I ask whether it is your memory that the theory of Mr. Henderson was persuasive with the committee in putting this tax on, that is, to discourage the manufacture of goods of this particular type?

The CHAIRMAN. Why, I think that was generally true, Senator Millikin; of course, there was the question of revenue. We always seem to be in need of revenue. At the same time, I think that was the controlling reason in quite a number of these excise taxes.

Mr. STANS. The principal reasons supporting this request for an immediate repeal of the excise tax on products of the stove industry are these:

1. Cooking stoves and water heaters are essential home appliances, absolutely necessary to the health and comfort of the entire population. They are not luxuries.

The cooking stove is perhaps the most frequently used appliance in the American home. On it, three meals a day are cooked, and it is used even more frequently when there are babies and invalids in the house. Its prime essentiality, even when compared with such other appliances as washing machines and vacuum cleaners, is unquestionable. A cooking stove is the means of providing food, which is one of the triumvirate of "food, clothing, and shelter," which has been so highly respected as vital to the common welfare.

Only a negligible percentage of all stove sales result from a desire for more modern or stylish equipment. Original purchases and replacements are in almost all cases a result of absolute necessity.

A stove is not a luxury and should not be classified for tax purposes with such luxury articles as jewelry, furs, amusements, cosmetics, and luggage.

2. The present excise-tax schedule is discriminatory, because it places a tax on certain household appliances while exempting others less essential.

As has been stated, vacuum cleaners and washing machines are free of tax. The reasons which impelled this committee in 1943 to remove the tax on vacuum cleaners to avoid "a competitive disadvantage as compared to producers of other untaxed electric appliances" are equally valid to support a removal of the excise tax on stoves.

A returning veteran, reestablishing a home or building a new one, may purchase tax-free furniture, floor coverings, draperies, a washing machine, a vacuum cleaner, and many other items of household equipment. Yet the cooking range and water heater, which he must have for his family's health and comfort, are subject to a 10 percent excise tax.

An excise tax on stoves is not borne by the manufacturer, but is passed on (and sometimes pyramided in the process) to the buyer. It is a tax which reaches all income levels.

3. The elimination of this tax is important to the preservation of the small business units in this industry.

The encouragement of small business, and its preservation as part of our economic system, is an acknowledged national objective. Discrimination against the industry to an extent which would influence purchasing in other directions would be detrimental, particularly to the smaller manufacturers. The taxes on the net income of a profitable stove industry would, in the long run, be more productive of revenue to the Government than a tax on sales which would stifle buying and perhaps force the closing of some of the smaller plants.

4. Elimination of this consumer durable-goods tax as an incentive to buying would help to stimulate employment during the reconversion period.

The industry's conversion problems are not difficult and many of the companies are now back in stove production. The industry is in a position to take up some of the slack in employment during the reconversion period if artificial barriers to production and sales are removed. A prolonged continuation of excise taxes would retard sales within the industry as soon as present backlogs are exhausted.

If we are to achieve a program of full employment in this country with a minimum drain on the Federal Treasury for publicly financed work projects in the interim, essential private industry must be given every opportunity to expand its markets, and I have quoted no less authority than the present Secretary of the Treasury to the effect that excise taxes "restrict markets for business."

SUGGESTED AMENDMENT

To accomplish this proposed change, the following paragraph will be required in the pending Revenue Act for 1945:

SEC. —. Repeal of certain excise taxes.

SEC. 3406. (a) (3) of the Internal Revenue Code is amended to read as follows:

"(3) Electric, Gas, and Oil Appliances.—Electric direct motor-driven fans and air circulators (except when sold as accessories to space heating appliances);

electric flatirons; electric air heaters (not including furnaces); electric immersion heaters; electric heating pads and blankets; and electric mixers, whippers, and juicers; 10 per centum."

(Exhibit A is as follows:)

EXHIBIT A.—*Internal revenue collections on electric, gas, and oil appliances*

	Fiscal year July 1, 1941, through June 30, 1942	Fiscal year July 1, 1942, through June 30, 1943	Fiscal year July 1, 1943, through June 30, 1944	Fiscal year July 1, 1944, through June 30, 1945
July.....		\$1, 593, 908. 29	\$365, 402. 70	\$1, 417, 846. 53
August.....		1, 190, 793. 15	305, 464. 06	530, 830. 25
September.....		854, 495. 39	295, 464. 85	710, 970. 57
October.....		682, 657. 83	335, 409. 03	701, 472. 66
November.....	\$989, 535. 96	499, 537. 22	351, 862. 50	747, 700. 44
December.....	2, 696, 296. 51	457, 515. 57	321, 838. 13	900, 629. 95
January.....	3, 015, 489. 23	257, 451. 83	522, 360. 42	692, 604. 83
February.....	2, 336, 068. 73	265, 298. 28	412, 197. 81	809, 767. 03
March.....	1, 979, 544. 34	251, 348. 02	458, 080. 58	930, 997. 83
April.....	2, 701, 842. 10	238, 284. 82	478, 489. 24	1, 209, 834. 09
May.....	2, 251, 111. 96	348, 293. 07	627, 940. 09	2, 256, 912. 59
June.....	1, 731, 717. 86	273, 386. 36	552, 395. 99	1, 150, 540. 29
Total.....	17, 701, 606. 69	6, 912, 969. 83	5, 026, 905. 40	12, 060, 107. 06

Source: From Tabulation of Comparative Statements of Internal Revenue Collections by Months, published by Bureau of Internal Revenue, Treasury Department.

Senator RADCLIFFE. Do you represent the old-fashioned wood- and coal-stove manufacturers as well as the more modern type?

Mr. STANS. Yes; we make some in our plant, and so does the industry but I am afraid the trend is away from coal and wood.

Senator RADCLIFFE. Do you contemplate making any substantial number of wood and coal stoves?

Mr. STANS. I believe not. The only substantial use for coal and wood in the future is in connection with a specialized type of range, particularly adapted to farm use which uses coal and wood in the winter, and gas in the summer.

Senator RADCLIFFE. Do half of the farmers in the United States have the benefit of gas and electricity for cooking?

Mr. STANS. It is available to practically all of them. Gas is available to them through the use of bottled gas. The use of electricity is also being extended very much to the farmers through the Rural Electrification Administration.

Senator RADCLIFFE. Yes; but would you say that the majority of the farmers today use gas or electricity?

Mr. STANS. No, they do not; but I would say that it is available to them, and that the trend is in that direction.

Senator RADCLIFFE. But it will be a long time before they will stop using wood and coal for cooking. I should imagine that your plans would contemplate the manufacture of stoves of that type on a large scale.

Mr. STANS. Yes, they do. That is the reason for the introduction of the so-called combination range which permits the use of coal or wood in the winter when it is desired to heat the kitchen, and the use of gas in the summer, when it is desired to keep the kitchen cool.

The CHAIRMAN. Thank you very much.

Mr. Borbonus.

STATEMENT OF WILLIAM E. BORBONUS, CHAIRMAN, TAXATION AND FINANCE COMMITTEE OF INDUSTRIAL MANUFACTURERS ASSOCIATION, INC.

Mr. BORBONUS. Mr. Chairman and members of the committee, I will take about 3 minutes of your time, which I presume you are glad to hear.

My name is William E. Borbonus. I am chairman of the taxation and finance committee of the Industrial Furnace Manufacturers Association, Inc. I am also president of the R-S Products Corp., Philadelphia, a member of the industry.

I am also speaking on behalf of an affiliated group of businessmen known as the Metal Treating Institute, consisting of some 200 small companies who subscribe to our views.

The industry is composed of some 90 companies, all of them individually owned or closely held enterprises. While our industry is numerically small, production of ammunition, guns, planes, ships, airplanes, in fact any armaments, would not have been possible without the products of our industry.

So, while it is small, it was a very important group.

Small business, as a whole, had borne a relatively heavier load of wartime tax than probably any other group; therefore, we are vitally concerned with income taxes and their effect on our business.

If too large a portion of our earnings is taxed in good years, we cannot lay aside enough "seed money" to tide us over a greater number of poor years. That such a situation would seriously imperil our national stability is obvious if we consider the devastating effect upon our economy, should a few poor years cause wholesale bankruptcies of small companies.

Widespread unemployment would come first, closely followed by financial panic, with only the strongest and largest companies able to survive. Then, with the cornerstone of American opportunity destroyed, we would be headed straight for fascism or worse.

Senator CONNALLY. Have you paid a dividend in recent years?

Mr. BORBONUS. Yes, sir; we have.

Senator CONNALLY. How long has it been since you didn't pay one?

Mr. BORBONUS. Well, we have paid dividends ever since I took control of the company in 1939.

Senator CONNALLY. You can save up some backlog out of dividends if you have to?

Mr. BORBONUS. We think it is important for a company to pay dividends if they want to continue growing.

We consider a small company as one who has possibilities to become a large company. Most large companies started out small.

I think that is one of the backgrounds of the American industrial system, that we can start small, and if we have a good record of paying our bills, and paying dividends, and earning money for our stockholders, then we hope to grow.

Senator CONNALLY. That is right. There is no quarrel with that.

Fundamentally, the industrial furnace industry is analogous to that of the much larger machine tool or other capital goods industries,

in that we can expect only 3 to 5 years of good business in every decade. It is in this period that we, like many companies, lay aside a nest egg for continuing employment, for promotion of research and development work, buy new equipment, and provide funds for losses in operations which are certain to follow. But wartime conditions and taxes have upset this old-time, conservative policy of management. Excess-profits taxes and renegotiation have prevented any increase in earnings above the prewar average, but, in the 4-year period 1941 through 1944, our industry produced twice as much equipment as in the entire 15 years from 1926 to 1940, inclusive. Therefore, our industry in particular faces a future of declining sales, because much of the equipment sold during the war will last for many years in the future. Declining profits will force many small companies out of business.

Small business depends almost entirely on retaining profits to secure equity capital. Wartime taxes and renegotiation taxed earnings above the prewar average and have effectively prevented adequate accumulation of reserves during the era of greatest business activity, mainly because most small companies have a low base for computing excess-profits tax. Contrasted to this, the larger companies having access to the capital markets, materially improved their financial set-up and liquidity, while many smaller companies find their reserves inadequate to insure their perpetuation.

Being cognizant of this, the industrial furnace industry believes that a sound reconversion tax program should be enacted immediately to encourage business activity, but with certain safeguards necessary to prevent the discriminatory tax burdens on small enterprises.

For immediate inclusion in the tax bill presently under consideration, we recommend the following:

(1) Repeal the corporate excess-profits tax as of December 31, 1945, retaining the carry-back of unused excess-profits credit for 2 years following the repeal.

Someone may ask which of these two reliefs business would prefer. That is like asking a man whether he would rather be hanged or electrocuted. Small business is entitled to and expects both methods of relief—the elimination of the excess-profits tax because it was purely a war measure, and the retention of the carry-back provision because that was a promise of the Government. Small business in particular needs the right to retain a considerable portion of earnings they are able to make from their own efforts if they are successful; and to have some insurance in the form of carry-back of losses if their earnings are not equal to their exemption.

(2) Increase in exemption from excess-profits tax from \$10,000 to \$25,000, effective January 1, 1945.

This is particularly important for small companies to partially compensate them for the discriminatory tax burden we have been paying during the war. While it is true that all corporations would benefit from such a provision, the smaller companies would be the prime beneficiaries.

(3) Reduce individual income taxes by a flat 20 percent at all levels of income, effective with respect to 1946 incomes.

This is a necessity for the relief of those businesses which have not been subject to the excess-profits tax; namely, partnerships or individually owned companies which get no relief from the reduction in corporate taxes.

(4) Reduce the combined normal-surtax rate applied to corporations from 40 to 32 percent, effective with respect to 1946 incomes.

This amendment will assist small corporations in particular, and tend to interest the investment of risk capital in those companies.

I think, gentlemen, that is very important, that the small companies, as I said before not having access to capital markets, have some incentive to attract capital to their business.

Most companies, I believe, fail for lack of capital as much as for any other single reason.

(5) Repeal capital stock and declared-value excess-profits tax.

(6) Provide some means for small companies to escape double taxation on payments of dividends to stockholders.

Elimination of this double taxation would go a long way to help small business get new capital.

(7) Require the price adjustment boards who are renegotiating companies for 1945 to allow losses sustained after the end of war production as an offset to profits made on war orders, and to allow as deductible expenses reconversion costs and postwar servicing of equipment sold during the war.

Judging by the experience of our industry members in renegotiation proceedings, the price adjustment boards will not do this without specific instructions from Congress. The future servicing by our industry of war-swollen sales, represents a serious detriment toward profitable operations for at least the next year.

We believe the above points are essentials, to be enacted immediately. The adoption of these suggestions would greatly strengthen the financial position of smaller business concerns and make them better able to do their part in maintaining and increasing employment. It should also encourage the investment of risk capital and ultimately expand business operations so that there will be more profits to be taxed in years to come.

For consideration in the forthcoming postwar tax bill, we should like to briefly mention certain other fundamentals which we believe should be included. Among these we can list a gross corporation tax of 25 percent, reduction of individual income taxes, permission for companies to utilize accelerated depreciation for new capital goods purchases, cancellation of special war excise taxes, complete overhauling of our tax program so that it is distributed fairly on the shoulders of individuals and corporations, and last but not least, liberalize the interpretation of the relief provisions of sections 721 and 722 so that companies can secure tax refunds that Congress intended us to have if we qualified.

The CHAIRMAN. Are there any other questions?

Thank you very much.

Mrs. Algase.

STATEMENT OF MRS. JULIA ALGASE, NATIONAL LEAGUE OF WOMEN SHOPPERS, INC.

Mrs. ALGASE. Mr. Chairman and members of the committee.

Once again it is my privilege to come before you as a representative of the League of Women Shoppers, a national consumer organization which is primarily concerned with the protection and improvement of the American standard of living.

In making our brief statement in favor of tax reduction on low-income groups, and against repeal or reduction before 1947 of excess-profits taxes on corporations, and for an exemption of \$100,000 on excess profits, we wish to make two points:

Senator HAWKES. May I interrupt to ask a question: It has been repeatedly suggested that the repeal of the excess-profits tax should not take place in 1946, but it has been intimated that it would be agreeable to repeal it in 1947. Are you really in favor of its repeal in 1947?

Mrs. ALGASE. I would say that I am favorable to its repeal in 1947 on the theory that by 1947 we should be at the end of what I call the war period. The League of Women Shoppers, on advocating the continuation of price controls had always assumed that the war period would continue for two years after VJ-day. By January 1947 we feel that the reconversion period should be over and that is the reason we have picked that date.

To continue with the points I want to make, first:

Although a primary purpose of tax reduction now should be to stimulate mass purchasing power, the low-income groups who are the mass purchasers of consumer goods, will be unable to use their purchasing power, because the blanket of 10-percent reduction provided for in the House bill and the failure to increase exemptions do not give sufficient tax reduction to these groups so as to free their small incomes for purchasing use.

A glance at the crowded department stores shows plenty of purchasing going on, but only by those who have so much money—some of it as a result of uncurbed black-market operations—that fur coats at \$4,500 without tax, are common items of purchase.

This luxury buying indicates that the upper income groups are already consuming all they can. Giving tax relief to such groups does not add one whit to the mass purchasing power. The worker who needs household equipment, radios, refrigerators, washing machines, is faced with the fact that his wages are reduced by the reduction of hours, loss of overtime pay, and other causes so that his wartime wages are reduced to peacetime wages while he is still paying wartime taxes and wartime prices.

If I may comment here on the statement of the young attorney for the growers association, I was very much interested to hear her say that citrus fruits were selling below ceiling, because if they are, I haven't heard of it.

I have gone into stores to buy lemons, for instance, and have insisted on making my purchase at the ceiling price of 13½ cents a

pound and have seen the same vegetable man sell two lemons to some poor woman for 10 cents because she didn't understand the posted prices.

I talk on the basis of what actually happens in the stores.

My second point is that excess-profit taxes are essentially a war measure, designed to prevent swollen war profits.

It follows then that while some war profits are still being made, and, at least \$8,000,000,000 of profits will be made in the year 1946 according to Business Week, excess-profits taxes should not be eliminated or reduced until there are no war profits. The reconversion period, which is now, is still a war period. As President Truman has said, "A total war effort cannot be liquidated overnight."

Here again I want to interpolate.

This morning I listened with a great deal of interest to Mr. Alvord, and was a little bewildered. It seems that the purpose of reducing the excess-profits tax, or the purpose of eliminating the excess-profits tax, is to benefit small business, and that it will not have any effect at all on large business. That is, according to what Mr. Alvord said this morning.

My point is that if Mr. Alvord is sincere about it, and if we are interested in making small business able to carry on, and to encourage small business, then the suggestion that we have to offer is not to reduce the excess-profits tax, not to eliminate the excess-profits tax, but to give a \$100,000 exemption on excess-profits taxes, and then we say small business will be protected while the large corporation will go on as now until the end of the war period.

Senator HAWKES. I think it is only fair to Mr. Alvord to say that I didn't understand him to say that the removal of the excess-profits tax would not help large business. He was emphasizing the fact that in his mind it was more necessary for the small concern.

Mrs. ALGASE. I stand corrected then. It seemed to me that the emphasis was on the fact that it was absolutely vital for small business.

Senator HAWKES. There has been that emphasis all afternoon. The gentleman preceding you made that statement.

Mrs. ALGASE. Yes; but no one made our drastic suggestion.

Senator HAWKES. All of the other representatives of small business have made the same statement. I didn't want Mr. Alvord to be put in the position of having said there was no benefit to the larger concerns.

Mrs. ALGASE. Then I withdraw that as far as Mr. Alvord is concerned, but I reiterate that Mr. Alvord and the groups that have been advocating the repeal of the excess-profits tax have been pressing the fact that it is absolutely imperative for small business, and the concern seems to be about small business, and I must say we are concerned with small business, but we say approach it with constructive suggestions.

Our large corporations have made plenty of money with which to do the job of reconversion, and the provision for tax refunds is an additional factor toward accomplishing that goal. To reduce or eliminate excess-profits taxes before the war, in its economic sense, is actually over, is to grant to corporations a subsidy which they do not need.

The plan for tax reduction which we support and urge on this committee comprises the following eight points:

1. Repeal of the 3-percent normal tax.
2. Increased personal exemptions—\$1,000 for single persons—\$2,000 for married couples and \$500 for dependents.
3. Retention of excess-profits tax until January 1, 1947.
4. Carry-back and carry-forward provisions, similar to present provisions for corporations and businesses, which will permit individuals to carry back and carry forward for 2 years personal exemptions and credits in the current taxable year.
5. Veterans' income-tax forgiveness and refunds up to \$250 for the years 1941 to date of discharge.
6. Tax relief for small business by granting \$5,000 exemption from corporate tax; lowering rates for corporations with yearly net incomes under \$100,000 a year and permitting such corporations an option to be taxed as partnerships, as well as \$100,000 exemption on excess profits.

This is an approach to the question of encouraging small business.

7. Elimination of automobile use tax and abolition or reduction of wartime excise taxes on items of mass consumption.

8. Extend the holding period of long term capital assets to 36 months in order to curb inflationary speculation in securities, real estate, and farm land.

That does deserve, I think, a great deal of consideration, you know, the financial journals report that there is a terrific amount of speculation going on. I know owners of stock which is paying dividends very low in proportion to what it is selling for on the exchange. It is an indication of inflation.

We say that this program gives tax relief where it is really needed and provides effective purchasing power combined with sufficient revenue for a sound Government program. As an organization devoted to the maintenance of American living standards, we urge its adoption.

Here again, at the risk of incurring Mr. Alvord's displeasure, I must say that Congress, efficient though it would like to be, cannot be run like big business. After all, Congress is here to see that a sound Government program is put into effect, and it has to figure out what we need first, and then how we can raise our revenue.

Thank you very much.

The CHAIRMAN. Are there any questions?

(No response.)

The CHAIRMAN. Thank you.

Mr. Tancer, chairman of the committee on taxation and public revenue, Commerce and Industry Association.

(No response.)

The CHAIRMAN. Mr. Tancer is not here.

Mr. Julihn, I believe, has handed in a statement he wishes put in the record, on behalf of the business and store-machine manufacturers.

Does anyone wish to appear for the business and store machine manufacturers?

I have a memorandum here asking for the removal of the excise tax on business and store machines which I will put in the record at this point.

(The memorandum referred to is as follows:)

MEMORANDUM IN SUPPORT OF THE REMOVAL OF EXCISE TAX ON BUSINESS AND STORE MACHINES

The excise tax on business and store machines and many of the other excise taxes were placed in the Revenue Act of 1941 by virtue of the testimony given by Mr. Leon Henderson, then Administrator of the Office of Price Administration. Mr. Henderson's theory of these taxes, which was adopted by Congress, was the discouragement of civilian consumption of certain commodities and the channeling into defense production of the industries involved together with the necessary materials, such as steel, etc., so as not to compete with military demands. (See excerpt from Mr. Henderson's testimony attached, exhibit I).

The tax was not suggested by the Treasury Department. It was not primarily for the purpose of raising revenue.

Certain items which were added to the excise tax list as a result of Mr. Henderson's recommendations have already been removed through provisions of the 1942 and 1943 Revenue Acts as follows:

1942 act

Section 607: Exempted, effective November 1, 1942, from the tax, cameras weighing more than 4 pounds exclusive of lenses and accessories.

Section 611: Terminated, effective November 1, 1942, excise taxes on (a) electric signs, (b) rubber articles, (c) washing machines (commercial laundry type) and (d) optical equipment.

Section 615. Exempted retail cash registers from tax.

1943 act

Section 304: Suspended the 10 percent tax on luggage by the manufacturers during the time the tax on retail sales of such articles is in effect, i. e., April 1, 1944, to approximately 6 months after termination of hostilities.

Section 311. Terminated the tax on household type of electric vacuum cleaners, effective April 1, 1944.

Business machines have been properly called the tools of business. They bear the same relationship to business that machine tools do to factories, that farm machinery does to the farmer, or the hammer and saw to the carpenter, or the plumber's tools to the plumber. They are used in every kind of business, public and private, large and small. They are used by local, State, and Federal Governments, hospitals, schools, labor unions, professional men, hardware stores, grocers, bakeries, restaurants, barber shops, real estate agents, air lines, bus companies, laundries, tailor shops, and even the bootblack.

In the field of business both large and small these 54 classes of machines, among which are typewriters, adding, duplicating, calculating, bookkeeping, tabulating, addressing, billing, check-writing, dictating, time-recording machines and even pencil sharpeners are the means of maintaining the following vital basic functions: Purchasing, raw-materials inventories, production control, sales, shipping, pay rolls, ledgers (accounts receivable and payable), taxes, personnel and many others. Under our system of withholding income taxes, it is business machines which make it possible for employers in every State in the nation to promptly make payments direct to the Treasury Department of the taxes withheld from individual employees. These same machines provide the employee with an accurate record of the amounts withheld. When the new tax bill is enacted into law and changes in withholding taxes result it will be business machines which will speed the change-over, whatever the new basis may be.

In the field of government, countless examples may be given of the use of business machinery. It is felt that the mention of but one outstanding example is sufficient for this statement. It may very properly be said that our Federal Social Security System, which handles the accounts of over 50,000,000 individuals, could never have been installed and maintained as we all know it to exist today without the extended use of many of the items of business machinery upon which an excise tax is now imposed.

Statistics of the Smaller War Plants Corporation show that 250 of the Nation's businesses are considered "large" while 75,000 are listed as "small." The burden of this tax falls primarily on these small businesses at a time when the efforts of Government are properly being directed toward helping them in every way possible.

It is estimated that 4,000,000 employees use one or more of these machines in making their daily livelihood.

Revenue received

At the time this tax was imposed, it was estimated by the Federal Government that revenue would be approximately \$21,000,000 per year. The industry's estimate as presented to the Senate Finance Committee in the fall of 1941 was \$7,500,000.

Actual revenue received according to Government figures and expressed in even thousands of dollars has been:

1941 (November and December)	\$685, 000
1942	10, 993, 000
1943	3, 406, 000
1944	5, 913, 000
1945 (6 months)	6, 500, 000

In connection with the above figures, it should be pointed out that although sales to the Federal Government are exempt from this tax, it was ruled that as of July 1, 1944, the tax would be paid by the Government on sales made to it, the money so collected to be returned by the manufacturers to the Treasury Department along with other tax receipts. It is estimated that net collections by the Government under these circumstances were, for the year 1944, approximately \$4,020,000, and will be for the year 1945, approximately \$8,000,000. The average yearly net tax for the 4 years, 1942 through 1945, will be \$6,604,750.

Production of industry during war period

There is attached to this statement a tabulation (exhibit II) of War Production Board figures recently released by the Bureau of Census, Department of Commerce, Washington, D. C. The data presented show production, shipments, unfilled orders and inventories for the period 1941 through 1945 (5 months) for the greater part of the business machines upon which an excise tax is now imposed. Examination of these figures will show that by order of the War Production Board, production within the industry was cut in 1943 by as much as 100 percent in a few cases and ranging from 66 $\frac{2}{3}$ to 50 percent in others. By the end of 1944, the approved needs of the armed forces and essential civilian industries would have more than returned the 1941 levels of production in some categories within the industry, had the industry been able to produce the items required, and would have restored approximately 80 percent of 1941 production in most of the important basic office-machinery items.

Reconversion and estimated revenue for 1946, 1947, and 1948

It is at best difficult to estimate what deliveries of business and store machines may be for the years 1946, 1947, and 1948. Much progress has been made by the majority of the companies in the industry toward full reconversion. It is believed accurate to state that all manufacturers in the industry will be fully reconverted by the end of the first quarter of the calendar year 1946. If this should eventuate, it is estimated that shipments of business and store machines for the calendar years 1946, 1947, and 1948 would, if the excise tax were continued, return net revenues of—

1946	\$8, 500, 000
1947	10, 500, 000
1948	12, 500, 000

Conclusion and summation

1. The reason proposed to Congress for the imposition of this tax no longer exists.

2. The excise tax on business machines is clearly an impediment to business, both large and small.

3. The items involved are not luxury items which properly fall within the excise tax list but are basic necessities to our economic system.

4. It is essential that these tools of business, as well as the tools of labor, be freed from such tax burden.

5. The removal of this excise tax at the earliest possible moment will promote the public welfare.

6. President Truman, in his message to Congress September 6, 1945, in outlining plans for the reconversion period stated: "The agencies of Government are eager to bend every effort they can to assist communities, labor, management, agriculture, and finance in speeding reconversion."

EXHIBIT I.—EXCERPTS FROM MR. LEON HENDERSON'S TESTIMONY BEFORE THE
WAYS AND MEANS COMMITTEE, HOUSE OF REPRESENTATIVES, ON THE REVENUE
ACT OF 1941

"To the extent that transfer of resources from other industries to armaments industries is necessary to fulfill the greatly enlarged program which I foresee, the tax system ought to facilitate and not hinder such a transfer. This implies both positive encouragement of defense production and the discouragement of civilian consumption of those commodities and services which compete with military demands." (P. 642, hearings before Ways and Means Committee, House of Representatives, vol. 1, 77th Cong.)

* * * * *

"I have divided the excise-tax proposals of the Treasury into three groups. First, taxes on goods and services of mass consumption which in no way compete with the defense program. These are deflationary, unnecessary, and highly inequitable. Second, taxes on luxury items which likewise do not compete with the defense program. These are deflationary and unnecessary, but they are not so objectionable from the viewpoint of equity. And third, taxes on articles, such as automobiles and refrigerators—a whole range of things—which compete very heavily for materials, productive facilities, and skills with defense production. This is the type of excise which is called for today." (P. 645, hearings before Ways and Means Committee, House of Representatives, vol. 1, 77th Cong.)

* * * * *

"Where I would sock them is in automobiles and motorcycles, auto parts and accessories, second-hand cars, tires and tubes, photographic apparatus, clocks, watches, mechanical refrigerators, phonographs, radio sets, washing machines, and passenger transportation." (P. 662, hearings before Ways and Means Committee, House of Representatives, vol. 1, 77th Cong.)

The CHAIRMAN. Does anyone else wish to appear?

Mr. KNERR. Mr. Chairman, I have a statement from the American Institute of Smaller Business, which I would like to put in the record.

The CHAIRMAN. Very well. It may be put in the record.

(The statement of the American Institute of Smaller Business is as follows:)

AMERICAN INSTITUTE OF SMALLER BUSINESS,
Philadelphia 2, Pa., October 17, 1945.

Senator WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Washington, D. C.

MY DEAR SENATOR: The members of this institute are all companies which do not have access to the capital markets, and have to depend for their growth and expansion on plowing back their profits into the business. This has not been possible during the war due to the effect of war taxes on small business enterprises. We, therefore, strongly urge that the following measures be taken by your committee to correct the present tax discrimination against small business:

1. Terminate the excess-profits tax on December 31, 1945; continue the carry-back provision for 2 years.
2. Reduce individual income taxes 20 percent (important for partnerships which get no relief from reduction in corporate taxes).
3. Make the increase in exemption from excess-profits tax from \$10,000 to \$25,000 effective this year (1945).
4. Require price-adjustment boards, when renegotiating companies for 1945 to include operating costs for the entire calendar year, allowing profits made on war orders to offset expenses sustained in reconversion after termination.
5. Repeal the capital stock tax and the declared-value excess-profits tax.
6. Require the Treasury Department to permit the use of its declining-balance method of depreciation for:
 - (a) All equipment installed for the war effort without certificate of necessity, based on 7-year life, and
 - (b) All new equipment purchased postwar.
7. Remove technical obstructions so that "722" will provide the relief intended by the Congress.
8. Keep Federal old-age tax at 1 percent.

Yours truly,

EXECUTIVE COMMITTEE,
HORACE C. KNERR, *Chairman.*

Mr. KANNEE. Mr. Chairman, I spoke to you this morning about the possibility of appearing today to discuss the excise taxes on business machines. You indicated there might be an opportunity for me to appear.

The CHAIRMAN. Yes. You may do so now.

STATEMENT OF HENRY M. KANNEE

Mr. KANNEE. Mr. Chairman and members of the committee, my name is Henry M. Kannee. I represent a number of corporations, Remington Rand, Campbell & Co., Peerless Photo Products, and others which I won't take the time here to list, who are interested not alone in business machines, such as adding machines, typewriters, but also in machines and supply items such as film and sensitized papers used in the reproduction of drawings and business records.

The subject which I would like to discuss is discriminatory excise taxes, principally on these items.

President Truman, in a message published this morning, stated that "market exploitation must now replace wartime allocation of goods" and that "the consumer must be reached and sold at the lowest possible cost."

This conception of current basic need finds its counterpart in your committee's policy respecting excises.

I am referring, of course, to the indication that the excise-tax increases of 1942 shall be removed on July 1, 1947 or 1946.

Perhaps that policy springs from the rejection of the infamous excises of George III but, whatever its origin, we do not follow the feudal method of levying tribute on the seed that is to be sown. In fact, the contrary is evidenced by the efforts of Congress to encourage abundant harvests by agriculture and industry. It is obvious that only by full prosperity can we most easily absorb the expense of maintaining government and expanding its beneficial work.

War—or the desire to control certain commodities, such as intoxicants—may justify a departure from the precept against excises and even make it necessary for Congress to limit industry to war work. However, with the return of peace, the precept against excises and the obligation to encourage industry return and, as President Truman has pointed out, they must be applied now, perhaps as never before.

With these thoughts in mind, I wish to call your attention to an excise tax—several of them, in fact—that appears to have been overlooked by your committee. It is an excise which was directly intended as a deterrent tax rather than a revenue tax, hence it is all the more in direct conflict with the precept and obligation and the indicated policy of your committee.

Because I have not been afforded an opportunity to appear before either of your committees, permit me to explain how it originated, how it operated under war conditions and why, aside from the reasons stated above, it is obnoxious:

1. In 1941, at the opening of hearings before the Committee on Ways and Means, Secretary Morgenthau recommended new excises on commodities which he described as "not essential to the defense program."

Therefore, Mr. Leon Henderson, testifying as Administrator, recommended excises on articles which "compete very heavily for materials, productive facilities, and skills with defense production."

2. In the light of these recommendations, what might be termed "deterrent excise taxes" were levied on a few essentials to business as, for example, durable-goods items such as bookkeeping, pay-roll, accounting, and calculating machines, typewriters, and so forth. There was also a tax on photographic supplies which caught in its net such business supply items as film and sensitized paper made expressly for use in the reproduction of drawings and records for industrial purposes.

3. Actually, a deterrent tax on such items was not justified. They were essential to the war effort, virtually all production was going to war agencies and plants and finally, within a short time, the proper war move was made which was to channel all production of all essential materials into the war effort.

The tax, although not intended for revenue purposes, yielded little or no revenue so far as the specific items mentioned herein are concerned. At first we were heavily involved with exemption certificates; later the Government paid the tax which was put through accounting and banking systems and then returned to the Government. Corporations (with priority war contracts to obtain such items) charged the Government with the tax or charged it against profits or, in the case of capital items, indirectly against profits which, for the most part, were the property of the Government. In all probability the tax may have resulted in loss of revenue and manpower; for example, we had reason to complain of the accounting burden involved in handling business supply items sold in small quantities—a burden which repeats with each handling, being borne alike by distributors and purchasers as well as manufacturer-taxpayers and the Bureau of Internal Revenue.

4. With the end of the war, surely any shred of justification for a deterrent excise tax on such items must automatically disappear. Indeed, the retention of such a tax on the statute books is obnoxious for the following reasons:

(a) We must have broad consumption and production not merely to generate a high national income but to reemploy returning veterans in addition to employees previously engaged in war work.

For example, one corporation affected by the tax on the items specified is presently reemploying, as fast as they return and offer their services, some six thousand veterans—which is 25 to 30 percent of the prewar total of all employees—and they are being reemployed not only in plants but in distributing offices throughout the United States. Certainly, neither you nor we nor they want deterrents on their ability to work, to earn an American standard of living and, incidentally, to pay an income tax in terms that meant a little added effort rather than deprivation.

I can elaborate on that, gentlemen. I believe that you collect the income taxes after these men have fulfilled their requirement in order to enjoy the necessities of life at least. Their top dollar is really the bottom dollar of the income tax end. Up to a certain amount you cannot draw on their income. Above that you can. If they are unable to sell additional machines—they do not make their earnings on the tax, they make it on the machines—if they are unable to sell additional machines by the removal of this tax, those commissions are the dollars that you can tax from the income standpoint.

(b) It should be stressed that the deterrent excise taxes on the items herein specified affect machines and supply requirements of business enterprises, hence the tax tends to increase the cost of production.

(c) Finally, the tax on the items specified is discriminatory. Here we have a limited number of items which chanced to stray within the vision of people possessed of superficial knowledge who promptly misbranded them as "nonessential." Actually, WPB issued some 750 orders affecting several thousand items, including those specified.

It is not the intention here to argue whether or not such a deterrent tax on items selected at random in a broad field is contrary to the uniform tax section of our Constitution but when one surveys the commodities, some indirectly or even directly competitive, which are not so shackled by excises, it is easy to believe that the deterrent excise tax, as applied, is at least wholly inconsistent with the spirit of that section of the Constitution.

The Senate Finance Committee is not wholly unfamiliar with and gave sympathetic consideration to a previous attempt to obtain relief for the industrial film and paper industry. In 1942, the subject was discussed with representatives of the Treasury Department and the joint staff committee. At that time, on the recommendation of Mr. Stam and with the cognizance of the Treasury Department, the Senate Finance Committee saw fit to include in its proposed bill the following exemption clause to be added to section 607:

No tax shall apply under this subparagraph with respect to film and sensitized paper made expressly for use in the reproduction of drawings, records, and other documents for industrial purposes.

Unfortunately, however, this exemption clause which would have afforded the relief requested was omitted in the drafting of the joint bill due, I am informed, to the failure of the joint staff committee's refusal either to be present or to explain the purpose of the exemption clause.

As a result of this failure to obtain relief, such manufacturers and distributors not only had the burden of collecting taxes on a multitude of small sales of a supply item but have been and presently are confronted with the fact that their untaxed competition (to which attention was called in 1942) is favored and increasingly so as the market reverts to economy-mindedness.

In simple illustration, there are enclosed two sheets of sensitized paper. They are directly competitive. One sheet is taxed at 15 percent because it is construed as "photographic sensitized paper" (which it may well be) whereas the other is not taxed because it has been ruled as "not photographic" (which is probably true).

Any loss of business resulting from the tax is not restricted to current sales of paper. Machines are sold on the basis of economy in use which, of course, reflects the cost of paper. Such machines are constructed to develop the one type of paper, hence the purchase of the machine means the sale of one type of paper for the life of the machine.

In conclusion, it is respectfully requested that the "deterrent" excise taxes on bookkeeping, pay roll, accounting and calculating machines, on typewriters and on film and sensitized paper made expressly for use in the reproduction of drawings, and so forth, herein

complained of as discriminatory and otherwise inconsistent with democratic principles and current peacetime objectives, be terminated without delay.

The CHAIRMAN. Are there any questions?

Senator HAWKES. I would like to ask this question. Why was one type of sensitized paper, of which you have given a sample, not taken in under the tax while the other was?

Mr. KANNEE. It is not construed by Internal Revenue as a photographic paper. It is acknowledged to be a sensitized paper. Both types of paper are subjected to certain chemicals. They are both light-sensitive papers.

Senator HAWKES. Do they have a common usage, are they interchangeable?

Mr. KANNEE. No; they are not interchangeable. One can be used in only one type of machine and the other in another type.

Senator HAWKES. Can they be used to establish the same purpose in any particular field?

Mr. KANNEE. They can be.

Senator HAWKES. I think that is important.

Can anybody make that sensitized paper?

Mr. KANNEE. There are two firms that make that, sir.

Senator HAWKES. Are they covered by patents?

Mr. KANNEE. I don't know whether they are covered by patents, but I am sure that the machines that are used are covered by patents.

Senator HAWKES. In your machines you can only use the one type of paper and therefore you can't sell your paper for the use of the other type machine?

Mr. KANNEE. No, sir; we cannot. The machines are mechanically different.

The CHAIRMAN. Thank you very much.

I believe that completes the list of all witnesses who have asked to appear.

I have a statement from the American Farm Bureau Federation which will be inserted in the record.

(The statement referred to is as follows:)

**RESOLUTION ADOPTED BY ANNUAL MEETING, AMERICAN FARM BUREAU
FEDERATION, CHICAGO, ILL., DECEMBER 14, 1944**

A FEDERAL TAX PROGRAM

In order to obtain full production and full employment in the postwar period, it is essential to develop a national tax program which encourages individuals to greatly expand business activity under a system of private enterprise. The huge national debt, the large anticipated Federal expenditures, the tremendous problem of reconverting from war to a peace time economy requires very careful appraisal of our present tax system. We therefore urge that the Congress give serious consideration to the following principles in developing a national tax program.

A tax program should be coordinated with other phases of our national fiscal policy. It should not be used as a means of social reform. Tax programs must not unduly discourage private initiative. Long-range plans must be made for the gradual reduction of the national debt.

The importance of governmental economy cannot be overemphasized. The Federal Government must adopt a policy of strict economy in public expenditures. Congress and the appropriate agencies of Government must exercise more care in providing deficiency and supplemental appropriations for governmental agencies. A bipartisan Federal tax commission should be created with the primary responsibility of conducting research and making investigations concerning an

equitable taxing program. This agency should also encourage coordination of Federal, State, and municipal taxing policies.

The personal income tax should be the major source of revenue for the Federal Government. The income-tax base should be kept as broad as practicable through the retention of low exemptions. The income from all future issues of Federal, State, and local Government bonds should be subject to the same taxation as other bonds. The instructions attached to income-tax forms should be more clearly stated. The personal income-tax rate should be as high as necessary, so that, together with Federal revenues from other sources, they will provide the funds to meet the current expenses of Government and provide for the retirement of the national debt without destroying the incentive for greater business activity and production.

Realizing that if full employment is to be obtained in the postwar period the bulk of the jobs must be provided by private enterprise, the following recommendations are made pertaining to corporate taxes: The excess-profits tax should be repealed at the termination of excessive wartime earnings. Corporations should be exempt on that proportion of their annual earnings distributed to the stockholders as dividends. A reasonable proportion of corporation earnings retained should be taxed at the rate used in the first income bracket of the personal income tax. The balance of any amount retained should be taxed at a rate sufficient to encourage but not compel the distribution of earnings. If the foregoing recommendations are adopted, proper safeguards must be developed to prevent abuses in tax avoidance by the corporate form of business.

We favor the principle of carrying forward and back losses to be offset against gains for a reasonable period of time, both with regard to individual and corporate taxation.

There should be a declared public policy in regard to replacing net tax losses sustained by local governments, due to the acquisition of property by the Federal Government. Property acquired and utilized by the Federal Government, and managed on an earning basis in competition with private enterprise, should be taxed by all other governmental units.

The Federal social security taxes should not be increased until a study of the entire problem is made, showing the need for a change from the present rate. The Federal pay-roll tax for unemployment compensation should be repealed and each State left to finance its own administrative expenses. All Federal control over unemployment compensation should be discontinued. Taxes for unemployment compensation should be levied upon employer and employee alike.

Legislation should be enacted to bring the estate tax offset law of 1926 up-to-date.

Income-tax exemption for farmer cooperatives.—Recognizing the importance of the farmer-owned and controlled cooperative to the national agricultural economy, this federation will continue to support the right of income-tax exemption to those farmer cooperatives which do business with farmer members and otherwise comply with the restriction of the exemption provisions of the present law. This federation will also continue to support the right of nonexempt farmer cooperatives to make distribution of their margins or savings to members without subjecting such cooperatives to taxation on patronage refunds so distributed.

The CHAIRMAN. I will insert in the record a statement from Mr. Mitchell B. Carroll, special counsel, National Foreign Trade Council, Inc.

(The statement referred to is as follows:)

NATIONAL FOREIGN TRADE COUNCIL, INC.,
New York, N. Y., October 16, 1945.

Re extension of time for filing amended capital-stock-tax returns necessitated by uncertainty as to war loss recoveries.

HON. WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

DEAR SENATOR GEORGE: Reference is made to my letter of September 18 to Mr. Stam and to my conference with him of September 27. I wish to request, in behalf of the tax committee of the National Foreign Trade Council, that Congress incorporate in the contemplated tax bill an extension of the time for filing capital-stock-tax returns for the current year, or for filing amended returns, until the date of filing income-tax returns for taxable years beginning in 1945.

The reasons which have already been given you may be briefly summarized as follows:

(1) Due to the present situation in areas occupied by the United States and Allied Governments in Europe and in the Orient, in most instances it is impossible for companies now to determine whether or not they have recovered the properties deemed to have been destroyed or seized under section 127, Internal Revenue Code, or to foresee when they may be regarded as recovered. With the present Army controls, the dismantling of certain plants for reasons of security or reparations, and the general disturbed economic and financial situation in the various areas, it is impossible today, and probably will be for months to come, to know just what is the situation in regard to such properties. As you perhaps know, until now it has been practically impossible for representatives of the American companies controlling the stock in foreign companies even to visit their subsidiaries in the areas occupied by the military forces of the United States and especially of one of our allies.

(2) It is contemplated that a number of amendments to section 127 concerning the time and the evaluation of the recovery, and other questions relating to recoveries, will be presented for consideration in connection with the tax bill that is expected to be enacted next spring. Hence, it will be virtually impossible for any corporation to know the time and value of its recoveries until this legislation is passed.

It is also appropriate to mention that, in our opinion, the best way to settle this problem would be to exclude amounts recovered under section 127, Internal Revenue Code from declared value excess-profits tax net income, just as capital gains are excluded, because the recovery of a war loss is much more fortuitous and difficult to determine as to time and amount than the latter category of income.

While this is the preferred solution, we naturally yield to your superior judgment, if you think that the expedient of extending the time for filing original or amended returns is the only practical one for the moment, due to the urgency of prompt enactment of the pending revenue bill. As a recovery in a taxable year beginning in 1945 must be included in the return of net income for that year, the logical date to which the period for filing the original or amended capital-stock tax return for the current year should be extended is that on which such income-tax return is filed.

Yours sincerely,

MITCHELL B. CARROLL.

NATIONAL FOREIGN TRADE COUNCIL, INC.,
New York, N. Y., October 16, 1945.

Re extension of present excess-profits tax exemption under section 727 (g), Internal Revenue Code, to permanent establishments abroad.

HON. WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

DEAR SENATOR GEORGE: Reference is made to my letter of September 12, calling your attention to the fact that a domestic corporation with a branch or other permanent establishment in Australia or another country with rates higher than the United States effective rate bears taxes far in excess of the income derived. An example was cited of a case where the tax cost of deriving \$400,000 from a branch in Australia of a domestic corporation is about \$438,000. This is due to the fact that although double taxation is prevented to the extent of the United States effective rate by the credit for foreign taxes in section 131, Internal Revenue Code, nevertheless, the receiving of Australian income has the effect of increasing the income subject to excess-profits tax by an equal amount, which bears the present rate of 85 percent. If the excess-profits tax rate is reduced to 60 percent, as provided in the revenue bill just passed by the House of Representatives, the tax cost of deriving income from Australia will be reduced, but it will still exceed the income derived.

A solution suggests itself which is so simple that we should like to ask if it might not be included in the present bill. Under section 727 (g), Internal Revenue Code, a domestic corporation is exempt from excess-profits tax if, in substance, it derives 95 percent or more of its gross income from business carried on in a foreign country, such as Australia.

Why should not the same exemption be accorded in respect of the income of a domestic corporation which is derived by a branch in the same foreign country and is determined on the same basis as that of the foregoing domestic company, such as through goods being delivered to it at an independent factory price as provided in case 1A of section 29.119-10 of regulations 111, relating to section 119, Internal Revenue Code.

This could be accomplished by inserting the underscored language in section 727 (g) as follows:

SEC. 727. EXEMPT CORPORATIONS.

"The following corporations, except a member of an affiliated group of corporations filing consolidated returns under section 141, shall be exempt from the tax imposed by this subchapter:

* * * * *

"(g) Domestic corporations, or a domestic corporation to the extent of income allocable in accordance with section 119 to a permanent establishment situated in a foreign country or possession of the United States, satisfying the following conditions:

"(1) If 95 per centum or more of the gross income of such domestic corporation, or of the gross income allocable to such permanent establishment of a domestic corporation, for the three-year period immediately preceding the close of the taxable year (or for such part of such period during which the corporation or the permanent establishment was in existence) was derived from sources other than sources within the United States; and

"(2) If 50 per centum or more of its gross income for such period or such part thereof was derived from the active conduct of a trade or business."

It would be appreciated if something could be done in the present tax bill to alleviate this burden resulting from the superimposition of our excess-profit tax on income from a foreign country which has rates higher than our effective rate, such as Australia and other countries in the British Commonwealth of Nations

Yours sincerely,

MITCHELL B. CARROLL.

The CHAIRMAN. Also a brief submitted by the Honorable S. Wallace Dempsey, former Member of the House of Representatives, discussing the present tax bill.

(The statement referred to follows:)

STATEMENT OF HON. S. WALLACE DEMPSEY ON H. R. 4309, THE TAX BILL

The present excessive tax rates have repressed effort, prevented the Government receiving the far greater revenue reasonable rates would produce, and have greatly increased the burdens of all taxpayers, including those of modest incomes.

The one purpose of a tax bill should be to raise revenue in the manner least oppressive to the taxpayer, but the controlling purpose of the present tax bills is to enforce social reforms—to prevent men from accumulating, and so to force all to an equal position.

While this purpose was announced by New Deal supporters, who declared that no man should have an income of more than \$25,000, and that the tax bill had substantially accomplished this because under it a man must have a gross income of \$62,000 to net him \$25,000 after taxes, yet the effect of this social purpose was neither considered nor debated in the Senate or House. The social purpose was concluded desirable and no consideration was given as to how a tax bill, devised to achieve it, would affect the amount of revenue from it or affect the taxpayer otherwise.

The tax bills imposed excessive rates, and excessive rates inevitably result in the avoidance of payment.

The most destructive result of making a social reform measure out of a tax bill is that it kills ambition and effort and lessens and imperils prosperity.

The tax rate is so high that it lessens the efforts of those best able to increase prosperity and business. We all hear men of brains and energy say, in the midst of a tax year, that they have earned all they can keep; that anything more would go to the Government; and that they would make no more effort for the year. This has been frequent enough even in war time when men in position to aid the war effort, through patriotism, have worked to the utmost. They would have no such inspiration in times of peace, and the number of those whose efforts to help general prosperity would be of the greatest help but who would do nothing because the Government would take all they could make, would be multiplied.

The inevitable effect of excessive tax rates is to create extravagance and waste.

When the tax rate takes far the greater part of a corporation's or individual's profits, it is common knowledge that taxpayers become extravagant and wasteful. Then the taxpayer is induced to enter into wildcat schemes, to risk his profits in ventures so hazardous that they would not be considered except that nine-tenths of the money risked would otherwise go to the Government. One illustration is that of a taxpayer engaged in quite a different business hazarding its money in

the, to it, unfamiliar field of boring for oil or gas, or metals—with the Government contributing 90 cents out of every dollar, in such wasteful exploration. The temptation is too great to be resisted because the loss of the taxpayer is small if he fails, and the profit large should he succeed.

Another illustration is that of the unprecedentedly large advertising of all the department stores. With no advertising, every department store would sell far more than it could buy from the jobbers. What then is the reason for this huge advertising? It is that if the department store owner keeps his profits, 90 percent of it will go in taxes, and he concludes that it is worth more than his 10 percent for him to advertise and build up future good will. So he advertises, and the Government receives no taxes, the store owner realizes no profit. An acute paper shortage is caused (which would be a surplus with only the usual advertising), and shortage of manpower is accentuated to the extent of the advertising work.

If the tax had been 50 percent instead of 90 percent, advertising would have been only to the small extent of its real and present advantages, with the result that (whereas the Government on the high taxes gets nothing and the department store only 10 percent worth of good will), the Government would be paid 50 percent and the department stores would have 50 percent also, less their small advertising cost, as their profit.

Excessive rates always mean a large decrease in the number of taxpayers in the higher brackets and an equally great reduction in the taxes paid.

A comparison of the effect of excessive rates with reasonable ones shows that the Government gets a very much larger amount of taxes, and a larger number of taxpayers, from reasonable than from excessive rates.

The most enlightening speech ever made on income taxes was made by Senator Smoot April 24, 1924. He made a comparison of the results of reasonable rates under the 1916 tax with those of excessive rates under the 1920 tariff—the maximum surtax rate being 13 percent in 1916 and 65 percent in the 1920 tariff.

The principles involved and the results found would be the same for any other years. The comparisons were as follows:

Income over \$100,000 paid 29.5 percent of the tax collected in 1916, and but 5.4 percent of that in 1920 (returns from \$3,000 being eliminated).

Business and professional income fell from \$862,000,000, over 25 percent of the whole in 1916, to \$260,000,000, or 5½ percent in 1920.

Dividends in classes over \$100,000 fell from \$944,000,000, 44 percent of the whole in 1916, to \$465,000,000 or 18 percent, in 1920.

All these decreases in the amounts received from classes of \$100,000 or more were in spite of the fact that there was a large increase in the total of incomes:

Net income increased from \$6,298,577,620 in 1916 to \$19,577,212,528 in 1921, but net incomes of \$300,000 and more decreased from \$992,972,986 in 1916 to \$153,534,305 in 1921; and the number of taxpayers reporting incomes exceeding \$300,000 decreased from 1,296 to 245.

Then again, while the income collected from those in the highest surtax brackets and the number of taxpayers decreased to such an astonishing extent from 1916 to 1920, the amount of income collected from those in the moderate brackets and the number of those paying, both increased at an equally astonishing rate. Taking the reports on incomes between \$10,000 and \$50,000, we find that—

The number who paid such taxes increased 53 percent; the net income reported on such taxes increased 95 percent; the tax yields increased 1,020 percent.

In every aspect excessive tax rates on large incomes bring bad results to the country as a whole, and the small taxpayer suffers not only equally with all others, but more, because he is less able to bear it.

The taxpayer in the lowest brackets has a direct interest in seeing only reasonable rates exacted of those in the higher brackets because the reasonable rate insures a far larger number of large taxpayers and a much greater amount of taxes from them, and as the Government will aim to secure a certain amount of income from income taxes as a whole, as the taxes from the higher brackets increase, that from the lower brackets can and will be made less. This fact is clearly shown by the circumstances stated above, when under moderate taxes, the taxes collected on incomes over \$100,000 constituted 29.5 percent of the total collected, while under an excessive tax they paid only 5.4 percent.

This country, as demonstrated in the recent war, leads the world in lowest cost and rapid production and in the prosperity which results from it.

The present tax bill is a means for and a bid for mediocrity. It imposes on a man who receives a large payment for work of outstanding value to the country, a tax so excessive that he is able to keep less than others who have done only an

ordinary, everyday job. This disparages and disheartens men qualified to help largely in the effort to attain and retain prosperity.

This Nation does not stoop to mediocrity. It aspires to ever-increasing leadership, which can be gained only by compensating adequately those who make the greatest contribution to the common good. The country will not get anything more than it pays for. If a corporation took back from its most valuable employee two-thirds of his salary, leaving him less than other employees far less valuable, he would leave the corporation at once. But a corporation would not be so short-sighted as to follow such a course. A great country should be as fair and as far-sighted as corporations are.

The outstanding evil of the present law is that it makes it practically impossible to start a new business, and creates a monopoly for existing business.

Many businesses started with a small capital during the war and did extremely valuable war work. But, while they earned reasonable profits, the profits all went into buildings and machinery, and they have been left owing the Government for excess profits—95 percent of all of their profits—with no cash to pay the taxes; with nothing but the buildings and machinery which they provided to do patriotic war work. To pay these enormous taxes will spell ruin to many of these corporations and prevent new small-business ventures.

The new tax bill should be such as to—

1. Inspire men to put forth their utmost effort to add to the national income and aid prosperity; to end waste and extravagance because the whole loss falls on the Government.

2. To end stopping work in the middle of the year because the Government would take all that might be earned afterwards.

3. To return to the payment by the large income earners of 29.5 percent of the whole tax collected, as they paid under the 1916 act, with the highest rate 13 percent, instead of paying only 5.4 percent as they did under the 65-percent rate of the 1920 act—the effective way to reduce rates in the low-income brackets would be to have those in the highest brackets induced by reasonable rates, through continuous and wholehearted effort in economy, to pay a really helpful part of the whole tax, and thus relieve the small taxpayer.

4. Repeal the excess-profits tax on small business, which makes it impossible for a new small business to carry on, and creates a monopoly for existing business.

The country needs, as never before, a large national income—the largest we have ever had. The present act, designed to deprive people of money if they make it, will prevent, not produce, a large national income. People will not work to make money for huge income taxes for the Government and be restricted to only a nominal compensation for themselves. We need a bill which will induce a maximum of effort and economy to produce large incomes to pay the staggering taxes which must be levied for a considerable time to come.

The CHAIRMAN. Is there anything else?

Senator VANDENBERG. Mr. Chairman, I want to be sure that we get into the public record the estimate we asked for from the Treasury regarding the cost of some of the proposals that were submitted to us yesterday, particularly the CIO program.

The CHAIRMAN. Have those estimates been prepared?

Mr. O'DONNELL. Mr. Chairman, the CIO program is a rather comprehensive program. We have been working diligently on it all day but we have not yet completed our work. I am certain that in the public record of the hearings, the revised print, that we shall have the complete estimates for you.

The CHAIRMAN. You will have it ready for the record?

Mr. O'DONNELL. For the revised print. But for the unrevised print, I doubt if we can have it ready in time. There are some provisions in the CIO program that will be especially difficult to estimate, particularly the carry-forward and carry-back of unused exemptions for the individual income tax.

Senator VANDENBERG. I wanted to be sure it was available in the public print because I want to compare it with some of the other testimony.

The CHAIRMAN. As soon as you have it, file it with committee.

(The information requested is as follows:)

Estimated decrease of tax liability from present law under the tax proposals of the Congress of Industrial Organizations,¹ assuming income payments of \$130 billions in each of the calendar years 1946, 1947, and 1948

[In millions of dollars]

	1946 liability	1941-45 liability	Effect of unused 1947-48 exemptions carried to—		Total 1941-46
			1945	1946	
Individual income tax:					
Eliminate the normal tax and make surtax exemptions \$2,000 for a married couple, \$1,000 for a single person, and \$500 for each dependent ²	6, 118	-----	-----	-----	6, 118
Allow a 2-year carry-back and a 2-year carry-forward of unused exemptions ³	⁴ 5, 600	-----	3, 300	1, 220	10, 120
Other proposals ⁵	272	1, 107	-----	-----	1, 379
Total individual income tax	11, 990	1, 107	3, 300	1, 220	17, 617
Corporation taxes ⁶	514	-----	-----	-----	514
Use tax on automobiles and boats.....	140	-----	-----	-----	140
Excise taxes affected by reduction in wartime rates ⁷	535	-----	-----	-----	535
Total reduction of tax liabilities	13, 179	1, 107	3, 300	1, 220	18, 806

¹ Since the implementation of the proposals has not been made clear, several assumptions have had to be made concerning the intent of the proposals, as specified in the footnotes.

² It is assumed that a single person with 1 dependent is given the status of head-of-a-family with an exemption of \$2,000. It is also assumed that the definition of a dependent is the same as under present law.

³ The following assumptions have been made: (a) The unused portion of 1944 and 1945 present law exemptions are not permitted to be utilized against tax liabilities in other years; (b) the full amount of the unused portion of the proposed exemption in 1946 of \$2,000 for a married couple, \$1,000 for a single person, and \$500 for each dependent may be carried back separately against 1944 normal tax and surtax liability; thence the remaining unused portion carried forward separately against 1945 normal tax and surtax liability; and thence the remaining portion for surtax purposes carried forward in turn against the 1947 and 1948 liabilities (there is no normal tax after 1945 under the proposal). Then the full amount of the unused portion of the proposed exemption in 1947 may be carried back to 1945 and thence forward to 1946, 1948, and 1949 after utilization of as much as possible of the unused portion of the proposed 1946 exemption. Similarly the unused exemptions of 1948 and later years may be carried back 2 years and forward 2 years from the year in which the exemptions were not used; (c) economic conditions are the same in 1947 and 1948 as in 1946.

⁴ The reduction of tax liability has been attributed to the year in which the unused exemptions occur rather than to the year for which tax liability is reduced. Thus the \$5,600 millions consists of the reduction of tax liabilities in years other than the calendar year 1946 resulting from the carrying to other years of the unused portion of the proposed exemptions in 1946 of \$2,000 for a married couple, \$1,000 for a single person, and \$500 for each dependent.

⁵ The other proposals are as follows:

(a) Extend the holding period for long-term capital assets from 6 to 36 months.

(b) Extend the exclusion of up to \$1,500 of base pay to apply against all income of a member of the armed forces in the year of his discharge and in the year following his discharge, beginning with 1941.

(c) Forgive the income taxes of members of the armed forces up to \$250 for each year of full or partial service in the armed forces, beginning with 1941.

(d) Give an incentive tax cut of 25 percent of the regular tax on net profits of veterans opening new businesses, beginning with 1941. It is assumed that the incentive tax cut of 25 percent would be continued for any veteran starting a business as long as any part of the tax credit can be used by the veteran against payment of principle and interest on money borrowed up to \$25,000, irrespective of the portion of the loan guaranteed by the Federal Government.

The estimate given is the sequence effect as if the proposals were instituted after the prior proposals contained in the program had been instituted.

The corporation tax proposals are as follows:

(a) Grant a \$5,000 exemption for normal and surtax and have reduced normal tax rates for corporations with normal tax net income less than \$100,000.

(b) Allow corporations with less than \$100,000 net income to be taxed as partnerships if they so elect. The increase of the individual income tax is included here as an offset to the reduction of corporation tax liability under this proposal.

(c) Extend the holding period for capital gains to 3 years.

⁷ The proposal to "reduce or abolish wartime excises on items of mass consumption such as electric bulbs, movie tickets, and inexpensive toilet articles, cosmetics, and leather goods" has not been implemented. The estimate of the decrease of tax liability made by the Congress of Industrial Organizations is \$500 millions, or approximately the same as for the proposals contained in H. R. 4309 as passed by the House of Representatives with respect to the termination of the wartime rates if the provision for refunds on floor stocks is omitted.

Treasury Department, Oct. 30, 1945.

The CHAIRMAN. Is there anything further?

(No response.)

This closes the public hearings on the tax bill.

(Whereupon, at 4:35 p. m., the committee adjourned.)

(The following communications were later received for the record:)

THE PHOENIX GLASS CO.
Monaca, Pa., September 17, 1945.

HON. JOSEPH F. GUFFEY,
United States Senate, Washington, D. C.

DEAR SIR: We have been following the different courses of action taken by the Government since VJ-day, and have been most pleased to see the manner in which Government controls have been released. There is one stumbling block that bothers us, however, as it must bother other business concerns in our category, and that is the uncertainty concerning taxes.

We were led to believe that with the cessation of hostilities and the cancellation of war orders, excess-profits taxes would be immediately abandoned, but now, according to Mr. Truman's message to Congress, nothing was said about the elimination of this particular tax.

The reason our company is interested might be stated as follows: Our industry and the Phoenix Glass Co. are very closely allied with the building industry, and as such we suffered from the depression between the years 1930 to 1940. During part of this 10-year period, some industries got some relief and the years 1926 to 1939, inclusive, were selected as base years for the purpose of determining average earnings. Our company and our industry did not benefit from the improvement in these years, and subsequently we had no choice as to the selection of the average-earnings method as against the invested-capital method in establishing a credit for excess-profits determination.

We were slowly coming out of our dilemma, beginning with the year 1939, and in that year and for the two succeeding years before the war, our company prospered very nicely—this without the benefit of war orders. All of this improvement was brought about by a change in management methods, which finally resulted in the installation of more modern equipment and the adoption of modern techniques—the net of which resulted in a vastly improved earnings picture. About the time we were “getting our feet back on the ground,” the law leveling excess-profits taxes on business was passed, and since we had no suitable average earnings to use as a base, between the years 1936 to 1939, and since our company suffered almost continual losses between 1930 and 1940, (having earned a profit only in the years 1934 and 1937) our surplus was almost completely depleted. Our invested capital base, then, was low and consequently the credit which we have received up to this time has helped us very little.

We intend to embark upon a modernization program which will not only greatly increase our production, but also necessitate the employment of about 100 to 150 men, including skilled, semiskilled, and unskilled workers, as well as technicians, engineers, and men of this caliber. We have already made financial arrangements to borrow up to \$500,000 for this improvement program, but we're stopped because, through the introduction of this modern equipment, we will greatly increase our earnings, but at the same time, if the excess-profits tax is not repealed, all of those earnings, which have nothing to do with the war, will go to the United States Treasury in the form of tax payments. Our amortization requirements, with respect to the new financial arrangements, preclude the possibility of our paying excess-profits taxes on production to which excess-profits taxes should not attach.

We would like to pose the question as to why, after the war has been won and we're all settling down to reconversion, there should be any necessity of any such thing as excess-profits taxes, and why doesn't the Government carry out the idea that it had implanted in the minds of businessmen; to wit, this tax would be repealed immediately upon the cessation of hostilities.

We understand that Senator George of the Senate Finance Committee is favorable to the outright repeal of this tax, and while Chairman Doughton of the Ways and Means Committee has, as far as we know, not committed himself, nevertheless we believe the Government is duty-bound to carry out its stated and implied promises.

We respectfully ask that you refer this letter to the Senate Finance Committee, and if we are in order, we would like to have this made part of the committee's record.

Yours very truly,

THE PHOENIX GLASS CO.,
J. C. McCREARY,
Executive Vice President.

THE AMERICAN MINING CONGRESS,
Washington 4, D. C., October 17, 1945.

Re H. R. 4309.

To the CHAIRMAN AND MEMBERS OF THE
COMMITTEE ON FINANCE, UNITED STATES SENATE,
Washington, D. C.

GENTLEMEN: On behalf of the mining industry, we respectfully submit to you this statement in writing, recognizing the need for prompt action on the pending tax-reduction bill and your desire to limit the time for personal appearances before your committee.

We have confined this statement to certain features which bear directly on the principle which Secretary Vinson has stated to the Committee on Ways and Means, that—

“Taxes should be levied in such a way that they have the least harmful effect on the expansion of business investment and the creation of jobs, because productive employment is the source of our standard of living, of all income, and of the revenue which the Government collects from taxes.”

Much of our tax law, substantive and administrative, should have your attention, not long delayed; but we limit our present statement to certain items which we believe fall within the intended scope of the present bill, and most seriously affect business activity, investment, and employment in the reconversion period.

The urgent problem is to see that our tax laws do not obstruct or deter employment in the immediate present. This employment is needed for those returning from war service and for those dislocated from wartime jobs. But it is also needed for Government revenues. We cannot expect substantial Government revenues in the ensuing year unless there is broad business activity and general employment.

Removal of tax obstructions should not be considered as involving loss of revenues. We believe the measures we urge will encourage business investment, development, expansion, and employment, and should be classed as revenue-producing measures which the Government can hardly afford not to take.

1. The excess-profits tax

This tax should be immediately repealed. As stated by Secretary Vinson, “this is too erratic a tax engine to turn loose for even one full year of the postwar period.” This law with its arbitrary and unreal standards, its intricacies, uncertainties, and vagaries, may and does work most inequitable results, intolerable except in war emergency.

But even if the worst defects of our present law could be remedied it would still be undesirable as a peacetime measure, particularly undesirable in the reconversion period. Its very nature is to impose additional taxes as a penalty for having profits which exceed some more or less arbitrarily determined amount. It leaves little or no incentive for any enterprise to expand activities and earnings beyond the marked line which profit shall not pass without being branded as excessive and penalized by the high tax.

The excess-profits tax is such a measure as we might impose if we wished to deter development and expansion of existing enterprises, and to discourage investment of risk capital in new enterprises which would furnish employment of productive labor and markets for the products of other industries. While the mining industry is deeply concerned that its own taxes should not be such as will remove incentive for development and operation of the mines themselves, it is no less concerned in maintaining a generally high level of industrial activity and demand for the products of the mines.

We concur in the Treasury recommendation that the excess-profits tax be now repealed because it is not a proper tax engine to turn loose in the postwar

period. This is radically different from saying that, even though we recognize it is an undesirable tax, we will still continue it for one more year because we need the revenue. If that argument is well founded for this year it must leave doubt whether a similar argument might not prevail year by year for the future as long as the Government felt it still needed money. The capital stock tax and declared-value excess-profits tax imposed in 1933 were automatically to cease with the repeal of the eighteenth amendment, but are still continued in effect. If the excess-profits tax is actually repealed we do not believe it will be reestablished except in case of war. If, however, we adopt a policy of continuing this tax which we know is erratic and inequitable, simply for the revenue yield we hope may come from it in the next year, we must not expect the stimulus to business and investment which would come with its prompt repeal.

We accordingly urge the repeal of the excess-profits tax, effective at the end of this year, not as a question of how much revenue the Government can afford to sacrifice, but on the ground that from the revenue standpoint alone the Government cannot afford to continue this tax in effect.

2. Retention of unused excess-profits credit

The repeal of the excess-profits tax should not carry with it a retroactive denial of the right to carry back the unused excess-profits credit to years subject to excess-profits tax. When the extremely high rates of excess-profits tax were adopted, the 2-year carry-back was recognized as an accompanying equitable allowance in computing the taxable income of the years to which such rates related. Also, the carry-back provisions were intended in some degree to give allowance in lieu of tax-free reserves for deferred maintenance and underdevelopment which were prevalent during the war years.

The unused excess profits carry-back from 1946 and 1947 against the years 1944 and 1945 would benefit only those subject to excess-profits tax for the earlier years but with earnings for 1946 and 1947 less than their excess-profits standard. The carry-back was an essential part of the law which imposed the tax upon them for those earlier years, and their tax for those years should not now be retroactively increased over the amount determinable under the then effective law.

3. Repeal of capital stock tax and declared-value excess-profits tax

This tax, originally imposed as a temporary measure, has never been considered, an appropriate part of a permanent revenue system. So far as it represents a tax on excess profits it has the defects and detriments of any excess-profits tax, whatever may be the standard of excess-profits measurement. So far as it rests on a mere guessing game, where the amount of its yield depends entirely on how nearly a taxpayer guesses the amount of his income for the period, it is not a proper tax. It should have been long since repealed. It is particularly inappropriate in this postwar conversion period. We do not want employment and business development held back in the latter part of the year because any taxpayer has misguessed his possible earnings for that year. Certainly it is unfair to impose this tax on anyone willing to expand his activities and give additional employment, even though he underestimated earlier in the year what he would be able to do. This tax also ought to be repealed, not with the thought of sacrifice of revenue but to avoid an obstruction to maximum revenue possibilities.

4. Reduction in rates on income tax on corporations

We believe the present 40 percent combined normal and surtax rate is too high to be maintained without deterrent effect on business enterprise. We have heretofore urged that the rate should not exceed 33 percent, with further reductions later to be made. This is particularly true where dividends are again taxable to the stockholder. We believe the net effect of such a reduction will not in the long run mean loss of revenue; rather, by leaving greater incentive for business activity, development and employment, it will tend to give increased revenues to the Government. As an immediate measure this does not compare in importance with repeal of the excess-profits tax. No reduction in normal and surtax on corporate income should be considered as a substitute for repeal of the excess-profits tax, but only as a desirable measure supplemental thereto.

5. Individual income-tax rates

From the business standpoint, our concern is primarily with those individual tax rates most deterrent to business investment and development. We strongly urge that no individual income should be subject to income tax liability in excess

of 50 percent of the taxable income. There should undoubtedly be a general revision of the individual income tax rate structure. If such a revision of rates for 1946 is not practicable at this time, we urge a reduction of at least 20 percent in all individual income taxes for 1946, with general revision of rates thereafter for 1947 and subsequent years; and with this we urge a provision which would place a ceiling of 50 percent of his income as the maximum which any individual would be required to pay. Such action, which we urge from a business and investment standpoint, is without opposition to any action you may feel appropriate with respect to lower incomes.

6. *Taxation of corporate dividends*

The present cumulative effect of corporate and individual tax rates largely removes incentive for risk investments. In taxation of the individual, it should be recognized that dividend payments to him are from the previously taxed earnings of the corporation. Against the tax on dividends received by individuals there should be allowed a credit at a rate at least equal to that of the normal tax plus the initial surtax rate.

Moreover, the intercorporate dividend tax should be eliminated.

7. *The 2-percent penalty on consolidated returns should be eliminated*

There should be no such penalty tax against consolidated returns.

8. *The present rate of 1 percent for Federal old-age benefits should not be permitted to increase on January 1, 1946*

We support the recommendation of the Secretary of the Treasury, which is reflected in the House bill, maintaining the pay-roll tax for old-age benefits at the existing rate until such time as Congress has completed its broad study of social-security financing.

9. *Repeal of wartime excise taxes*

Since most of the wartime excises do not directly affect the mining industry, we are not attempting to speak with regard to them. The tax on transportation is, however, an exceedingly burdensome one on mining. While it was imposed as a war revenue measure, it seems not to be included in those excises which are repealed or reduced under the pending bill. We urge its prompt repeal.

It is our belief that adoption of these recommendations will not involve a net loss of revenue, but will—in the long run at least—produce greater revenue. It is with this conviction that our recommendations are presented to you.

Respectfully submitted.

THE AMERICAN MINING CONGRESS,
HENRY B. FERNALD,
Chairman, Tax Committee.
JULIAN D. CONOVER, *Secretary.*

COMMENTS ON THE PENDING TAX BILL BY WILLFORD I. KING OF THE DEPARTMENT OF ECONOMICS, NEW YORK UNIVERSITY, CHAIRMAN OF THE COMMITTEE FOR CONSTITUTIONAL GOVERNMENT, INC., OCTOBER 17, 1945

Now that the war has ended, it is but natural that many persons are demanding that taxes be reduced. Members of the United States Senate obviously cannot be oblivious to the demands of their constituents, but, before taking action on a measure of such far-reaching importance, they should consider not only the immediate desires of their constituents, but also the long-time effect of the legislation upon the economic interests of the people as a whole.

Economic fundamentals

Persons not especially versed in economics are likely to overlook the following fundamental facts repeatedly stressed by economists:

1. Voters who do not pay direct taxes are likely to take but little interest in keeping down governmental expenditures; hence, if any large body of voters is included in this class, waste and extravagance are almost certain to run riot.
2. Taxes have an almost irresistible tendency to shift until they are spread over the whole population; hence the voters who believe themselves to be escaping taxation are, as a rule, grossly deceived, for they pay their shares indirectly.

3. An unbalanced budget usually means inflation, and inflation normally brings disaster to all classes.
4. Excess-profit taxes penalize efficiency and thus cut down production.
5. Retention of confiscatory taxes in the upper income brackets (the highest rate will be 81 percent under the House bill) destroys the incentive for our topflight business executives to strive for efficiency. This hampers production, and reduces both the wages of employees and the profits of employers.
6. The rate of economic progress in any nation is usually determined by the rate of capital accumulation in the nation.

It seems worth while to show how each of these points bears upon the tax issues now before the Senate.

Direct taxes and governmental economy

It is estimated that the House tax bill, if enacted into law, will exempt some 12,000,000 of present income taxpayers from the necessity of paying any Federal income tax. Is it reasonable to assume that these 12,000,000 persons, a large proportion of whom are voters, will, if exempted from direct taxation, thereafter be as much interested as at present in governmental economy? Will they not instead be inclined to support any candidate who favors governmental spending for any purpose that they deem worthy, entirely ignoring the issue of where the Government is to get the money? Will not this situation mean the continuance either of inflation or ruinous taxation of those who remain on the tax rolls? Experience gives an affirmative answer to all of these questions.

All benefit from Government—all should support it

In recent years, the belief appears to have become widespread that the duty of supporting the Federal Government is primarily a function of the rich. Does this belief rest upon sound principles? Certainly the services of the Government benefit the poor as well as the rich. Can anyone seriously contend that the recent war—the thing responsible for so much of the current expense—was a rich man's war? Such a view seems preposterous. Since Government serves all the citizens, is there any logical reason why the expense of maintaining the Government should not fall upon all the citizens?

Table I and chart 1 show that, in 1942, (the last year for which income-tax statistics are available), persons having incomes under \$3,000 received more than 77 percent of the entire national income. If every dollar of income were taxed equally, this class would, obviously, pay 77 percent of the tax bill. Since the dollar has less utility to the rich man than to the poor man, there may be justification for placing on a dollar of rich man's income a tax somewhat higher than that levied on the poor man's dollar, but there seems to be little logic in saying that the poor man's dollar shall not be taxed at all.

TABLE I.—*Employed individuals classified on the basis of net income, United States, 1942*

Income of individual	Number of individuals in class (thousand)	Total income of class (millions)	Federal income tax (millions)	Percent taken by Federal income tax
\$0 up to \$3,000.....	¹ 47,561	¹ \$90,740	² \$2,853	3.1
\$3,000 up to \$5,000.....	² 3,289	² 12,338	² 1,371	11.1
\$5,000 up to \$10,000.....	² 779	² 5,210	² 894	17.1
\$10,000 up to \$20,000.....	² 255	² 3,484	² 901	25.8
\$20,000 up to \$50,000.....	² 105	² 3,072	² 1,241	40.4
\$50,000 up to \$200,000.....	² 24	² 1,912	² 1,144	59.8
\$200,000 and over.....	² 1	² 544	² 419	76.9
Total.....	³ 52,114	⁴ 117,300	² 8,823	7.5

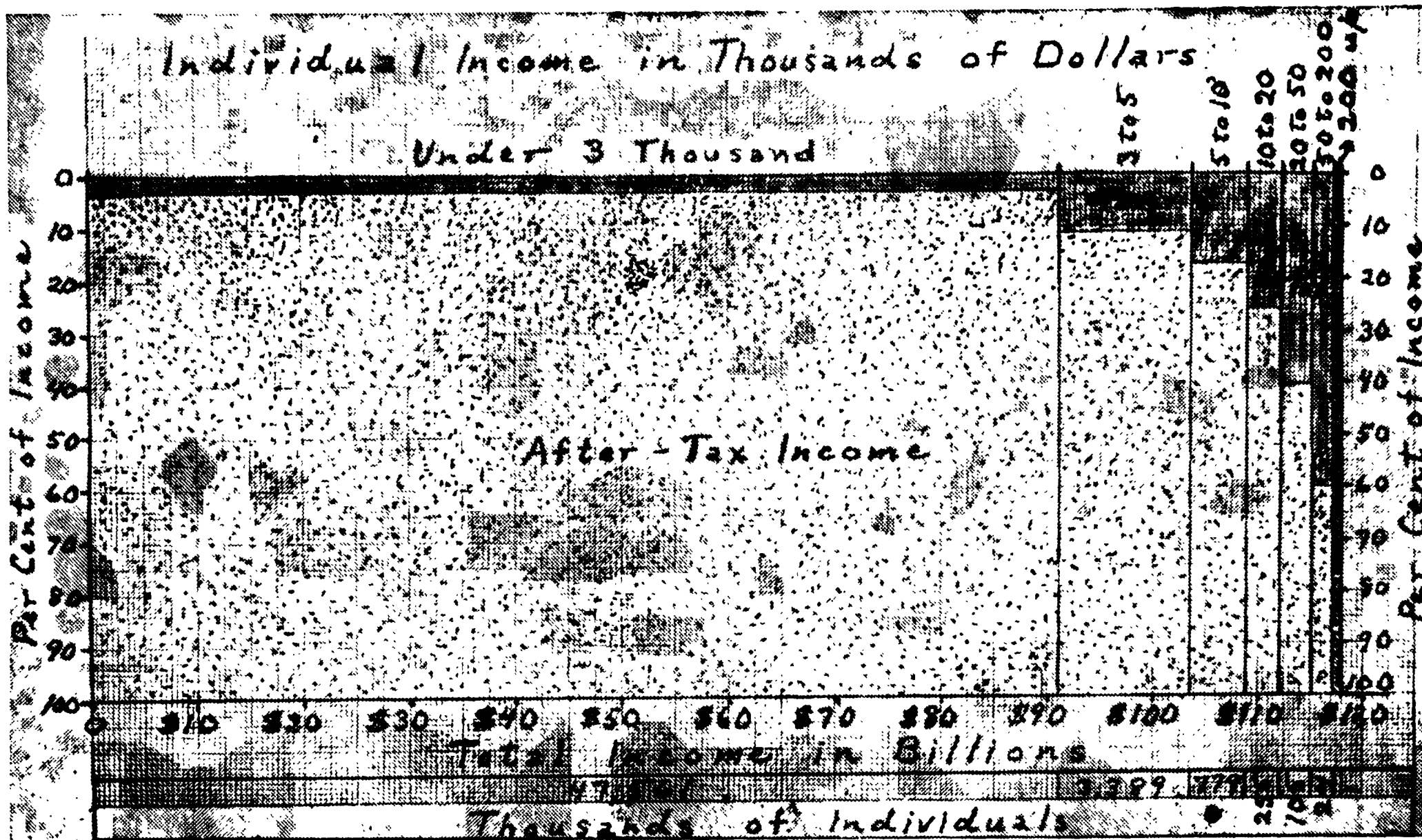
¹ Obtained by subtraction.

² U. S. Treasury Department press release No. 45-55, Mar. 31, 1945.

³ United States Survey of Current Business, February 1945, p. 23.

⁴ Equals total of "income payments to individuals." See the United States Survey of Current Business, February 1945, p. 5.

CHART 1.—Percentages of various individual incomes taken by the Federal income tax, 1942



Common man cannot escape taxation—direct or indirect

As a matter of fact, if the Federal postwar budget is going to run in the neighborhood of 20 billion dollars the conclusion seems to be inevitable that, willy-nilly, the burden cannot be confined to the rich. At present, the national income is running in the neighborhood of 162 billion dollars per annum, and is likely to decline in the immediate future. In 1942 all individual incomes of \$10,000 or over, together made up only 7.7 percent of the national income. It seems likely that persons in the over \$10,000 bracket are not receiving a larger proportion of the 1945 total. But 7.7 percent of 162 billion dollars is only 12.5 billion dollars. It follows that, if the Government taxed away every dollar of the income of every man and woman receiving \$10,000 or over, it would not even approach the 20 billion dollars of total revenue which it presumably seeks. Clearly, then, the only question at issue is whether persons in the lower brackets shall pay Federal taxes directly or indirectly and, as noted above, direct and not indirect taxes make for governmental economy.

Insofar as taxes upon corporations and wealthy persons contribute to inefficiency, reduced production will increase the prices of the goods bought by the poor as well as of the goods bought by the rich. Furthermore, inefficiency diminishes incomes all along the line. And, if governmental expenses are met by inflating the currency, every section of the population eventually suffers.

Surreptitious taxation by means of inflation

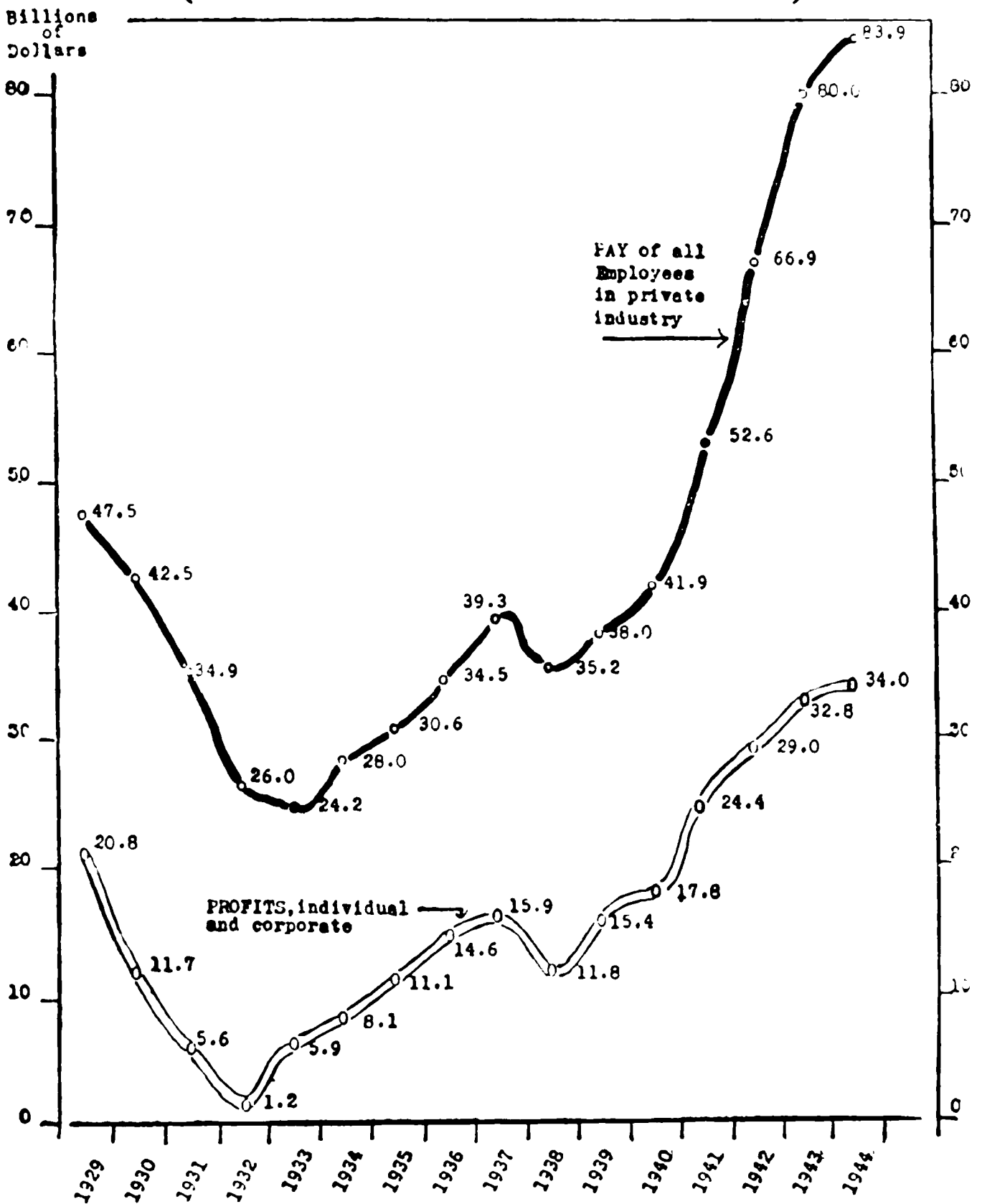
Recently, certain officials have comforted the public by offering assurances that the dangers of inflation are rapidly disappearing. The fact remains, however, that Federal expenses are still more than double the Federal revenues. The difference is adding hundreds of millions monthly to the Nation's debt. The deficit is being met largely by borrowing from the banks—in other words, by inflation. In the last three calendar years, the Government inflated the currency to the extent of nearly \$61,000,000,000, thus more than doubling the amount of money and bank deposits in circulation. Inflation surreptitiously taxes away the savings of the thrifty, for it lessens the real worth of every dollar of money or obligations payable in terms of money. By this process, since Pearl Harbor, owners of mortgages, corporate bonds, bank deposits, money, Government bonds, life insurance policies, annuities, etc., have paid into the Federal Treasury hidden taxes of \$61,000,000,000, for which they have received no credit, and which do not show on their books. In this manner, the thrifty workingman who has a hard-earned accumulation of war bonds, insurance, and savings-bank deposits amounting to \$3,000 has, without realizing it, had at least \$1,000 of his savings filched away while he was enjoying the illusion that the war tax was costing him each year a mere hundred dollars or so.

Funds to meet governmental deficits do not fall down from heaven. If the Government does not levy enough taxes to meet its expenditures, the savings of all thrifty citizens—rich or poor alike—will continue to be the source used to make good the deficits.

Defects of the excess-profits tax

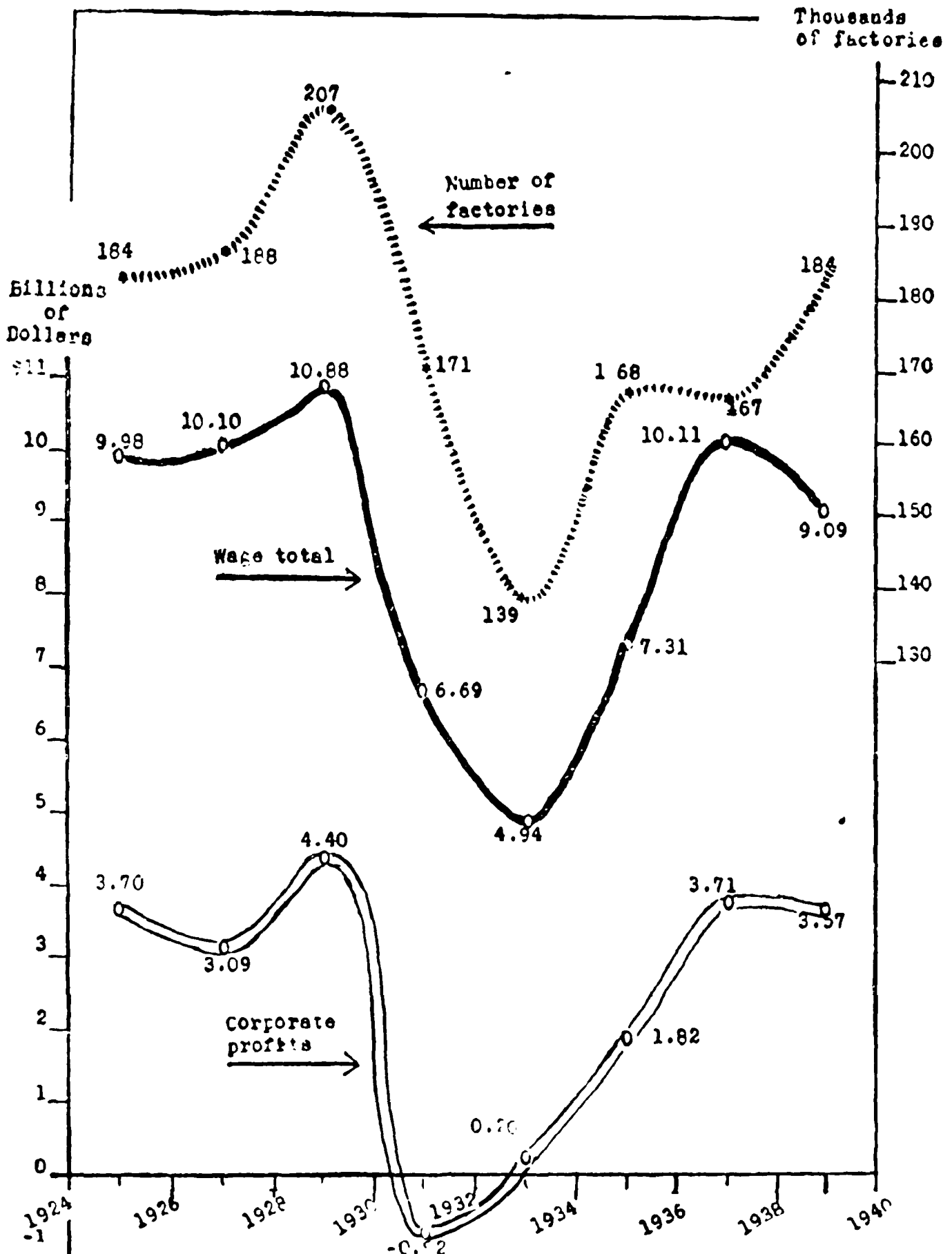
Doubtless, most of the 12,000,000 persons whom the House bill proposes to exempt from taxation look with favor upon the excess-profits tax, for they feel sure that this tax does not cost them a penny. The truth is, however, that if continued, it will burden them heavily. Profit is the fuel that powers the motor of free enterprise. When profits fall, wages fall. When profits rise, the earnings of the working class move up in unison. The validity of this statement is illustrated by charts 2 and 3.

CHART 2.—Take-home pay compared with total profits
(All Industries in the United States)



Data from U.S. Survey of Current Business, Apr. 1944, p. 15; Feb. 1945, p. 5 and May, 1945, p. 20.

CHART 3.—Take-home pay compared with number of factories and with corporate profits



Data as to factories and wage total from Statistical Abstract of U.S., 1943, p. 766; corporate profits from same source, year 1934, p. 191, 1938, p. 194, 1943, p. 261.

Clearly, any tax on excess profits leads to inefficiency and waste. How can one expect any corporation president to work hard to improve methods of production and to economize on expenses, if he knows that the corporation will receive only a small fraction of the gains? Excess profits taxes may be justified in wartime on the ground that war production is largely for one customer only—the Government—and that much of the work is Government financed. These conditions do not hold in peacetime. Therefore, there is no excuse for continuing the excess profits tax.

If it is imperative to use indirect taxes to raise essential revenue, reliance should be placed mainly upon excise taxes. They have little tendency to lessen either total production or the national income. Since, however, they are largely hidden taxes, revenues derived therefrom should be used solely to meet debt charges.

Confiscatory taxes on high incomes lessen efficiency

Our forebears, both at Jamestown and Plymouth, experimented briefly with communism, but found that when all shared alike, the lazy failed to produce, and that the results were disastrous—in Massachusetts actual starvation resulting. Both colonies, therefore, adopted promptly the principle of “a fair field and no favor—and may the best man win.” This is the basic idea underlying the American system of private property and free enterprise—the only system that has yet been discovered which brings prosperity to the common man as well as to the favored few.

Under this American system the man who plays the game according to the rules is entitled not only to win but to keep his winnings. Success is not a crime; therefore, there is no ethical reason for treating the successful man as a criminal. When a majority uses its voting power to take away in peacetime 60 or 70 or 80 or 90 percent of a man's income, merely because he has won in a fairly played business game, and is not strong enough to protect himself, the seizure of his income is, from the moral standpoint, nothing but robbery, no matter how legal the process may be.

Efficiency in industrial production is lessened when confiscatory taxes are placed upon high incomes. Why should an executive work long hours, if his gains are largely taken away by the Government?

Capital abundance the basis of the common man's prosperity

As it happens, this process of “soaking the rich” results in a certain poetic justice, for it penalizes the ruthless majority as well as their victims. This vengeance on the majority is brought about in a very indirect way. What happens is that taxing away the incomes of the wealthy dries up the source of capital—and the economic progress of all classes of the population is dependent mainly upon the extent to which capital is accumulated. The amazing increase in real wages which has occurred in the last century in the United States has been mainly due to the tremendously improved tools, machinery, and equipment provided for labor by those who saved and accumulated capital. The facts in the case, in the field of manufacturing, are illustrated by charts 4 and 5 and tables II and III.

TABLE II.—*Manufacturing capital investment per wage worker compared with gross annual value product per wage workers*

[Value per wage earner]

Year	Capital, actual	End of year relative to 1849=100	Gross annual value of product	Year	Capital, actual	End of year relative to 1849=100	Gross annual value of product
1849.....	\$557	100	¹ \$1, 065	1904.....	\$2, 319	417	² \$2, 700
1859.....	769	138	¹ 1, 436	1909.....	2, 790	501	² 3, 130
1869.....	825	148	¹ 1, 646	1914.....	3, 240	583	² 3, 450
1879.....	1, 021	183	¹ 1, 970	1919.....	4, 885	877	² 6, 850
1889.....	1, 532	276	¹ 2, 200	1929.....	² 6, 152	1, 152	² 8, 120
1899.....	1, 880	338	¹ 2, 435	1939.....	² 5, 080	912	² 7, 210

¹ Includes hand trades.

² Excludes hand trades. For 1899, both figures are available. They are approximately the same.

³ Equals net capital assets plus inventories plus cash plus miscellaneous assets.

Source of data: United States Censuses of Manufactures and United States Statistics of Incomes of Corporations.

TABLE III.—Hourly earnings of and hours worked by factory workers

[Continental United States]

Year	Indexes of average hourly earnings of factory wage workers		Average number of hours worked per week	Year	Indexes of average hourly earnings of factory wage workers		Average number of hours worked per week
	Current money	Real wages			Current money	Real wages	
1850.....	1 100	1 100	1 69.0	1919.....	8 604	8 240	.....
1860.....	1 115	1 103	1 66.0	1920.....	8 767	8 265	8 48.2
1870.....	1 202	1 124	1 63.0	1925.....	8 711	8 279	8 48.2
1880.....	1 176	1 149	1 61.8	1929.....	8 748	8 305	8 48.3
1890.....	1 214	1 203	1 60.0	1930.....	8 745	8 314	8 43.9
1900.....	1 222	1 211	8 58.8	1934.....	8 736	8 377	8 44.7
1907.....	.....	.....	8 56.6	1939.....	8 815	8 391	8 37.6
1910.....	8 285	8 212	.....	1940.....	8 935	8 446	8 39.4
1914.....	4 313	4 224	8 51.5				

1 Calculated from data in the Aldrich S. Rept. 1934, pt. 1, Mar. 3, 1893, pp. 176-179.
 2 Estimated by Noel Sargent of the National Association of Manufacturers.
 3 Estimated from data on pp. 194-195 of The Wealth and Income of the People of the United States, by Wilford I. King.
 4 Estimated from p. 521 of Bulletin 604 of the U. S. Bureau of Labor Statistics.
 5 Calculated from data in the various issues of the United States Survey of Current Business.

INDEX OF MANUFACTURING CAPITAL INVESTMENT PER WAGE WORKER* COMPARED WITH INDEX OF AVERAGE HOURLY EARNINGS† AND AVERAGE HOURS WORKED WEEKLY BY FACTORY WORKERS† (BASE, 1850)

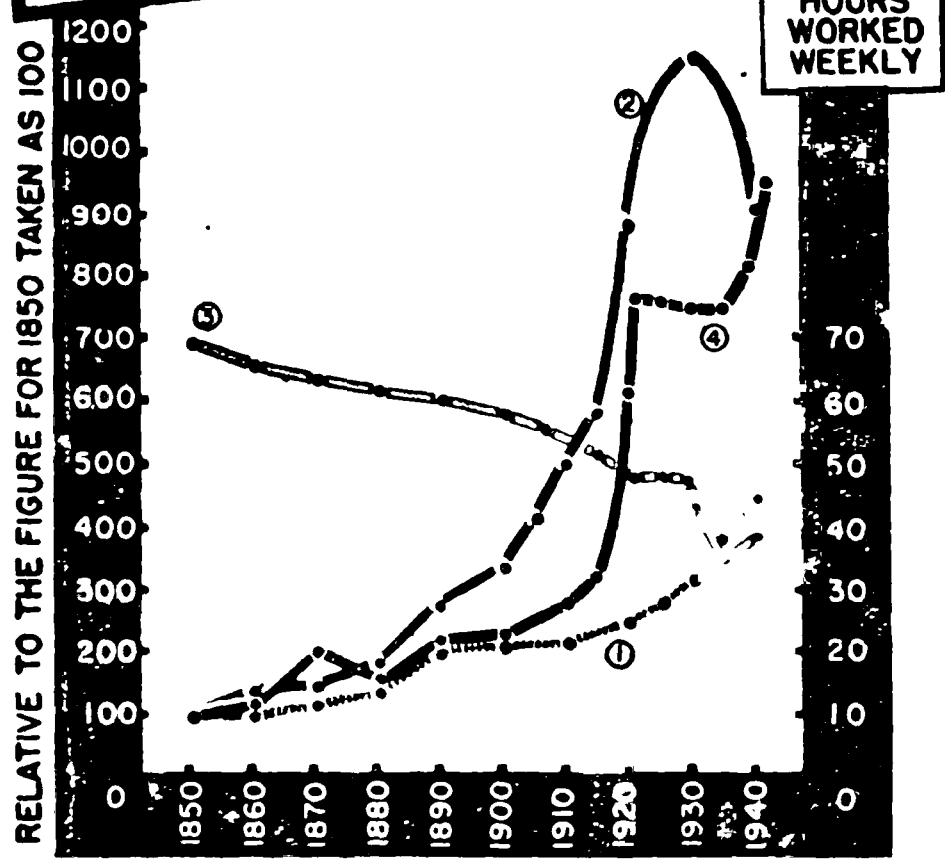


CHART 4

Here we see how the vast increase in capital invested in tools and equipment for each wage worker multiplied four fold the worker's pay as measured in the goods and services which he bought. This investment by thrifty savers also made possible the shortening of the working time per week from 69 to 39 hours."

* For data, see Table II † For data, See Table III

① Hourly real wage ③ Hours per week
 ② Capital per worker ④ Hourly money wage

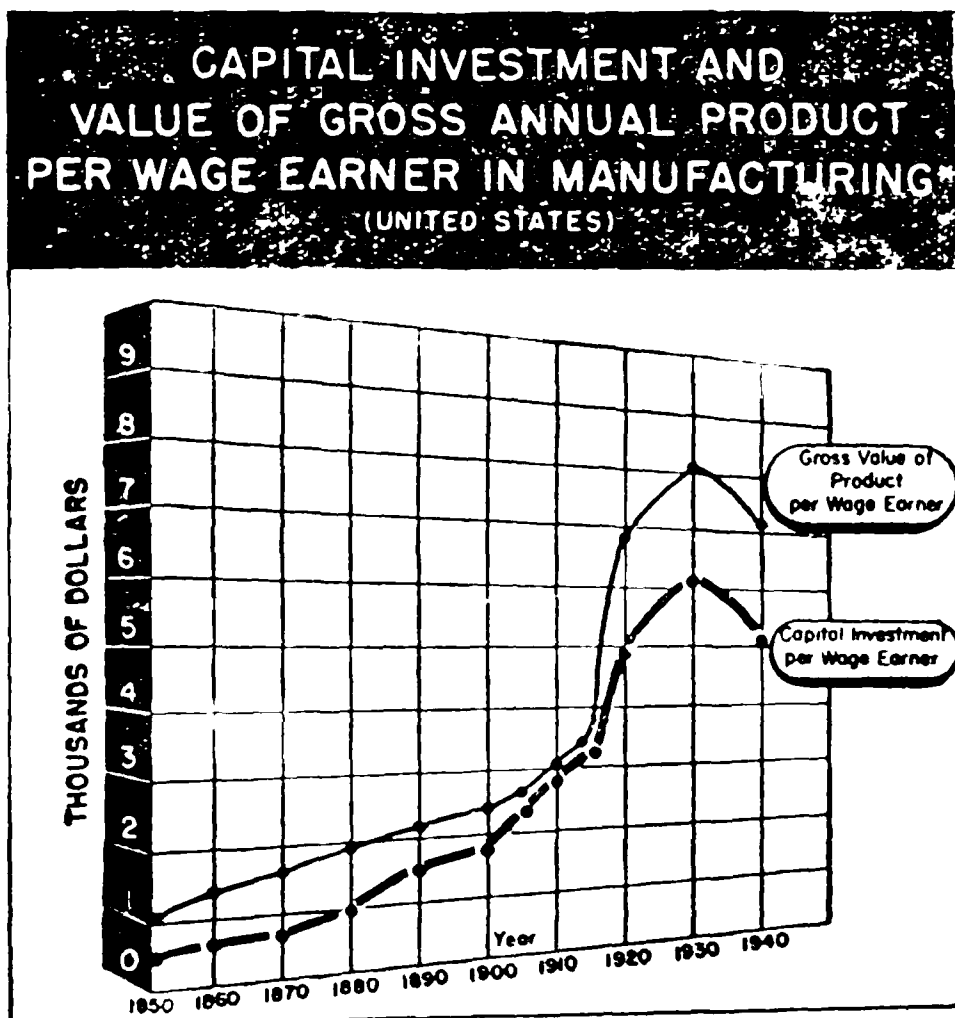
The abilities of men are limited by nature. However, when capital is abundant, machines and power multiply men's ability to produce. Thus, charts 4 and 5 show that, in American factories, growth in capital supply was paralleled by a great increase in annual output per worker. In the 90-year interval, the average working time was cut more than 43 percent, the typical factory worker in 1940 putting in but 39 hours weekly as compared to the 69 hours worked in 1850. The 30 hours-per-week additional time for leisure and recreation can practically all be ascribed to the growth in capital supply. Capital has transformed the factory worker from a worn-out drudge to a self-respecting citizen who can do his work without undue fatigue and has plenty of time to enjoy life fully.

Chart 4 shows that, in 1940, average hourly earnings of factory workers were more than nine times as high as they were in 1850, this increase being almost identical with the increase in capital supply per worker. In the case of both capital and wages, part of this nominal increase is explained by shrinkage in the purchasing power of the dollar. The graph in the lower part of chart 4 shows the rise in average hourly earnings after the figures have been corrected for changes in the value of money. This graph indicates that, in 1940, the average factory worker's hourly wage would buy nearly four and one-half times the volume of necessities and luxuries purchasable with an hour's wage of the factory worker of 1850—an amazing advance. This means that if today's worker were to put in but 16 hours of labor per week, he could live as well as did his great-grandfather who worked 69 hours per week.

The evidence just presented shows that the prosperity of the working class is due primarily to the fact that our industries have been steadily provided with a vast quantity of new capital. But who has furnished this capital?

Whence comes the capital?

There can, of course, be no capital accumulation without saving. For the great majority of people, saving is extremely difficult—so difficult, in fact, that they do little of it. An enlightening study made by the National Resources Committee appointed by President Roosevelt shows clearly what sections of the population are responsible for most of the saving. The facts are summarized in chart 6.



Labor's Progress Dependent upon Increasing Capital Supply

CHART 5

During the ninety years between 1849 and 1939 the gross output per factory worker was multiplied by seven. Why? Because in 1939 capitalists had supplied each worker with \$5,080 worth of tools and equipment instead of the \$557 worth available to each in 1849.

* The data here plotted appear in Table II

TOTAL FAMILY SAVINGS IN THE UNITED STATES

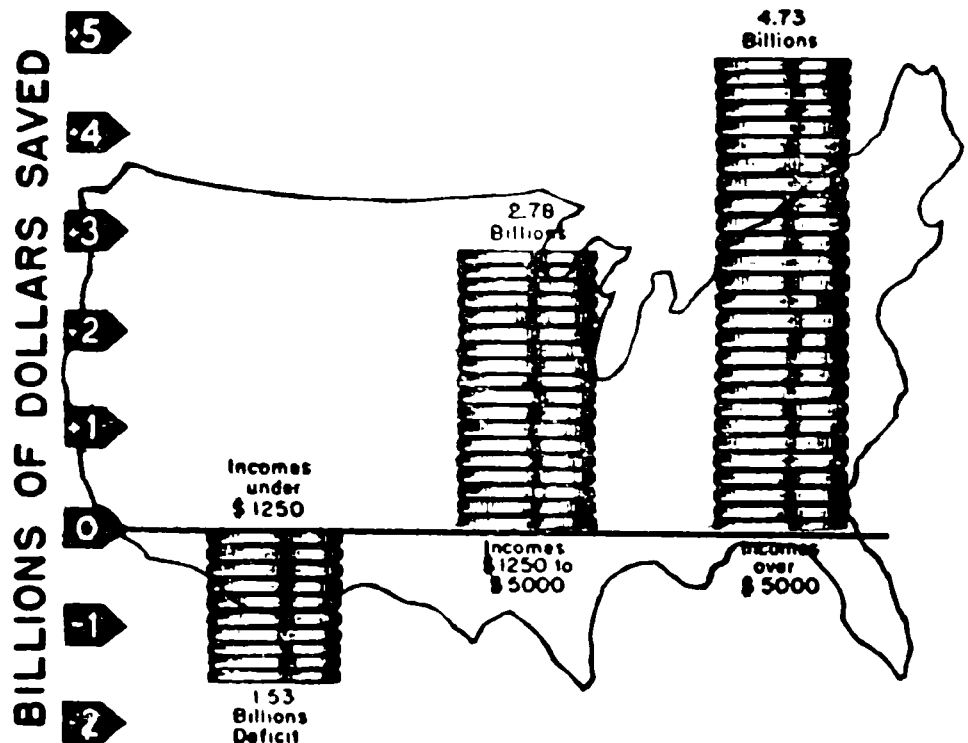
CLASSIFIED ACCORDING TO

THE RESPECTIVE INCOMES OF THE FAMILIES*

CHART 6

This chart shows that current expenses absorb most of the income of families in the lower brackets. Savings in the \$1,250 to \$5,000 class go to purchase homes, meet emergencies, etc. Thus the burden of accumulating that vast supply of new capital which is primarily responsible for the nation's economic progress rests upon high earners or those with incomes from past labor.

* Data taken from the *Statistical Abstract of the U. S.*, 1941, p. 349 and compiled by the *National Resources Committee's report on Consumer Expenditures in 1935-36*.



This chart makes it plain that the bulk of saving in the United States is done by families having incomes of \$5,000 or more each. Furthermore, to a large extent, the savings in the \$1,250 to \$5,000 class go to purchase homes, or are used to meet emergencies of one kind or another. The result is that the new capital necessary to provide for the expansion of industry—the new capital that, therefore, makes for better real wages for the laboring class—must come mostly from families having incomes of \$5,000 or larger.

As previously stated, the last year for which the United States Bureau of Internal Revenue has published statistics on income is 1942. In that year, as indicated in table I and chart 1, persons having incomes of \$5,000 or more each, received but 12.1 percent (roughly one-eighth) of the total national income, but chart 6 shows that this is the class responsible for around four-fifths of the net saving done by all individuals in the Nation.

It follows that excessive taxing of the higher income classes tends to dry up the well-springs from which new capital flows, and hence tends to prevent economic progress.

This is not a mere hypothesis; it is a principle which actually works in practice. It is clearly shown by table IV and chart 7.

TABLE IV.—The total value of new issues of stocks and bonds (excluding bonds issued directly by the Federal Government) compared annually with the aggregates of after-tax incomes

A Calendar year	B Total after tax income of all individuals re- ceiving \$5,000 or more ¹ (weighted averages)	C Column B minus \$3,000 ²	D 74 percent of column C (expected investment)	E Actual invest- ment in new issues ³	F Percentage error of estimate 100 (E-D)
	<i>Millions</i>	<i>Millions</i>		<i>Millions</i>	E
1919	\$6,894	\$3,894	\$2,883	\$3,264	-11.7
1920	7,556	4,556	3,371	3,095	+8.9
1921	6,341	3,341	2,473	3,415	-27.5
1922	6,603	3,603	2,666	4,199	-36.5
1923	7,485	4,485	3,319	4,160	-20.2
1924	8,632	5,632	4,168	5,316	-21.6
1925	11,069	8,069	5,971	5,999	-0.4
1926	12,024	9,024	6,678	6,095	+9.6
1927	12,999	9,999	7,399	7,570	-2.3
1928	14,953	11,953	8,845	7,904	+11.9
1929	15,733	12,733	9,423	9,997	-5.7
1930	11,936	8,936	6,613	6,503	+1.7
1931	7,821	4,821	3,568	2,827	+26.2
1932	4,872	1,872	1,385	1,158	+19.6
1933	3,860	860	636	693	-8.2
1934	4,287	1,287	952	1,354	-29.6
1935	5,160	2,160	1,598	1,400	+14.1
1936	6,988	3,988	2,951	1,950	+51.4
1937	7,745	4,745	3,512	2,052	+71.2
1938	6,745	3,745	2,772	2,352	+17.9
1939	6,789	3,789	2,804	2,293	+22.2
Average of per- centages					19.9

¹ Given-year income weighted 2 and preceding year income weighted 1. The figures here given are the weighted averages.

² Combined living expenses of all families having incomes above \$5,000 apparently amount to about \$3,000,000,000 per year.

³ These are Commercial and Financial Chronicle compilations as recorded in various issues of the Statistical Abstract of the United States. Refunding issues are not included.

THE TOTAL VALUE OF NEW ISSUES OF STOCKS AND BONDS
 (Excluding Bonds Issued Directly By The Federal Government)
COMPARED ANNUALLY WITH
THE AGGREGATES OF AFTER-TAX INCOMES
OF \$5000 OR LARGER*

* For data see Table IX

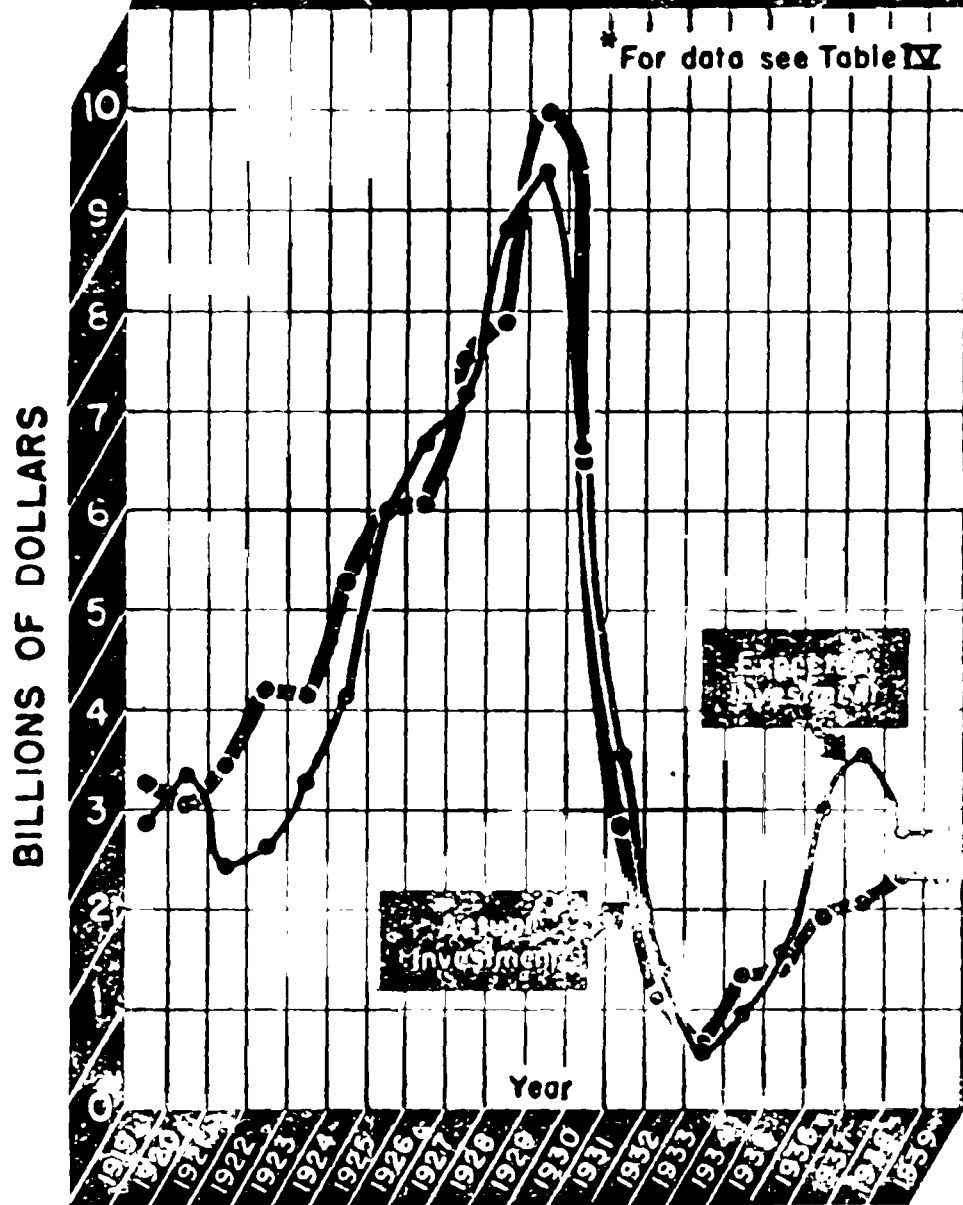


CHART 7

Carl Snyder's studies show that, in every society, the funds to finance industry are furnished by those competent and thrifty persons who, because of outstanding organizing or managerial ability, obtain large incomes. This chart shows that, during the last two decades in the United States, the ability to float new security issues has depended almost entirely upon the amount of money which persons with incomes of \$5,000 or more had left after paying their income taxes.

Since, obviously, funds needed for financing enterprise can only be saved from that part of net income remaining after taxes have been paid, the figures here presented cover incomes remaining after payment of Federal income taxes.¹

What table IV indicates is that all families in the United States having incomes of \$5,000 or more spend each year for living expenses about \$3,000,000,000. They then proceed, directly or indirectly, to invest about 74 percent of their remaining income in newly issued securities. Whether or not industry expands, whether or not new jobs are created, whether or not production grows, and hence whether or not real wages rise, appears, therefore, to depend mainly upon whether or not families having incomes above \$5,000 have anything left after meeting their customary \$3,000,000,000 expense account. When profits are large and taxes in the upper brackets are moderate, the volume of saving, capital accumulation, and investment is large, production increases, and therefore wages rise. When profits are small and taxes on the higher incomes are oppressive or confiscatory, funds for new enterprise are scarce, industry languishes, and wages fall.

¹ Apparently, about one-third of the investment made in any given year is from income received in the previous year, hence the income figures presented in table IV are weighted averages of the income in the given year and in the preceding year, the earlier year being weighted 1 and the current year 2.

At present, it is next to impossible to accumulate capital to finance new private enterprise. Heavy taxes on corporate profits greatly reduce the share going to stockholders. Individual incomes in the upper income brackets are subject to crushing taxes. Thus, half of 1942 incomes of \$50,000 to \$60,000 went as Federal income taxes, while persons having incomes of \$1,000,000 to \$1,500,000 paid nearly 83 percent into the Federal Treasury. In 1944 tax rates were still higher. In addition, these large income recipients—the ones who do much of the financing of new enterprise—must pay State income taxes. Unless these confiscating taxes are discontinued promptly, now that the war has ended, it is hard to imagine how the capital can be raised to make possible a continuation of that onward march of industry which has brought prosperity to all classes of our population.

Had our present system of income taxes been in vogue when Henry Ford started the making of automobiles, his concern could never have had the meteoric rise which, within a few years, made it possible for millions of Americans to have cheap and serviceable motorcars. What Mr. Ford has received from his enterprise is a paltry bagatelle as compared to the benefits received by his employees and by those who have bought motorcars. The same principle holds in most of our other great enterprises. The capital invested served primarily the workers and the customers, and only incidentally the owners of the capital.

The basic issues to be considered

Therefore, in laying the foundations for our postwar system of taxation, Senators should give primary consideration to two things:

1. How to eliminate those taxes which hamper capital accumulation, lessen productive efficiency, and thus reduce the incomes of all classes of the population.
2. How to secure revenues which will be ample to cover the expenditures. They certainly ought not to consider any proposals which will postpone until some indefinite future date the balancing of the Budget, and should beware of inflating the currency until the value of the dollar goes the way of the German mark in 1923 or the Chinese dollar in 1944. They ought, instead, to return to the time-honored principles of sound finance, trim our expenses until they fall well beneath our revenues, and begin at once the unpleasant but highly necessary task of paying off our \$300,000,000,000 debt. Wildcat financing has been tried by almost every supposedly civilized government on earth, but there is no record of its ever having generated enduring prosperity anywhere. Instead, it has brought poverty and degradation for all classes. Therefore, from a purely selfish standpoint, it is to the interest of all citizens to insist upon the prompt adoption by our Nation of a pay-as-you-go policy.

ILLINOIS MANUFACTURERS' ASSOCIATION,
Chicago, Ill., October 23, 1945.

The Illinois Manufacturers' Association embraces 4,000 member firms. While the membership of the association comprises firms—large, small, and middle-sized—engaged in practically every variety of production, over 82 percent of the members of the association employ less than 200 persons.

Illinois industry is, of course, determined to supply the maximum number of jobs during the reconversion period and to reconvert to the production of civilian goods as quickly as the elimination of controls and reduction of Federal taxes will permit. The ability of industry, however, to successfully reconvert to peacetime production, to produce the maximum volume of civilian goods, and to supply the maximum number of jobs will be largely dependent upon governmental policies affecting industry, and particularly the taxation policies of our Federal Government. It is clear that Federal taxation policies which now prevail and which were based upon an all-out war production economy are not suited to conditions which will prevail in industries during the reconversion period. We, accordingly, recommend the following changes in the Federal tax laws.

1. The Federal corporate excess-profits taxes should be repealed as of December 31, 1945, with the retention of the present carry-back provisions for 2 years. The excess-profits tax is imposing serious and unwarranted burdens on companies of all sizes during the reconversion period.

The excess-profits tax will check the growth of the small concerns and the tax will freeze creative work and will impair individual incentive. The 1940 excess-

profits-tax law may properly be styled "a law against progress." The tax compels management to ignore normal rules of financial judgment for temporary advantage. Ordinary conservative business policies are suspended as decisions are dictated by tax considerations. Continuation of the present tax structure will tend to eliminate the smaller enterprises.

2. Corporate normal and surtaxes should also be subject to immediate reduction. There are many corporations that are unable to adequately expand and increase employment with the net income retained after taxes at the present rates.

3. The capital stock and declared value excess-profits tax, the 2-percent penalty tax on consolidated returns, and the tax on 15 percent of dividends received by corporations should be repealed. These so-called nuisance taxes produce a relatively small amount of revenue for the Government and they confuse and harass corporate taxpayers.

4. Business should be permitted greater latitude in making annual allowances for depreciation, obsolescence, and maintenance charges

5. Present duplicate taxation of corporate earnings should be eliminated and such earnings should carry only one tax, either on the corporation or on the stockholder, but not on both.

6. A single income tax on corporate returns should be adopted in order to simplify the tax return.

7. All wartime excise taxes should be promptly repealed.

We commend President Truman and the Members of Congress for the enactment of the Tax Adjustment Act of 1945 and for the recent efforts to curtail governmental expenditures. We urge the continuation and expansion of such efforts. The cost of the Government can and must be reduced to the point where ultimately the budget will not only be balanced but also a gradual reduction of public debt will be accomplished.

Respectfully submitted.

ILLINOIS MANUFACTURERS' ASSOCIATION,
JAMES L. DONNELLY,
Executive Vice President.

FEDERAL TAXATION OF PROPRIETOR AND PARTNERSHIP VENTURE CAPITAL ON A CORPORATION BASIS

(By F. N. Bard)

A very large part of the tax program of Congress, the tax thinking of Congress, and the tax thinking of tax experts, revolves around the corporate structure. In fact, almost all laws dealing with business are greatly influenced, if not entirely influenced, by corporate business practices and problems.

The individual is given his proper place in the tax structure as an individual, but nowhere do we find any recognition by Congress or the tax experts of the fact that the individual may be a businessman as well as an income receiver. It is only necessary to refer to the fact that corporations are subject to a maximum tax of 80 percent with a 10 percent refund in war bonds at a specified time, and they have certain carry-back and carry-forward provisions and excess-profits tax provisions, which are not available to an individual. The individual tax goes to 90 percent of the total income, or 94 percent on part of the income, and there are no refunds and no provisions for carry-back and carry-forward of unused excess-profits credits. While it is true that some increased tax was passed on to the lower income tax individuals, it is also true that the tax was punitive and destructive in its higher brackets on individual incomes.

A very important economic fact which must not be lost sight of is that many individuals acting as proprietors, or in partnerships, owe a large part or all of their income to the conduct of a business, just as a corporation does, and they must compete with corporations for the purchasers' dollars. While it is true that the tax penalty which applies to the individual businessman is not so punitive in the lower brackets as compared with corporate taxes, it is also true that a much smaller percentage of the individuals in the lower brackets are the proprietors or partners in business enterprises competing with corporations. It is the group with venture capital invested in business enterprises, the employers of workmen, and the consumers of commodities and materials, who should be given more serious consideration than the individual taxpayer not conducting a business, because if recovery is to be rapid and sustained, all the constructive elements

of our national economy must be in a position to return to normal with the least possible delay.

An example of the Government's unfairness in the treatment of individuals with venture capital in proprietorships and partnerships lies in the recent amendments which allow return of the 10 percent postwar credit to the corporations at once instead of allowing the law to take its course. Such amendments also permit corporations to anticipate operating losses for carry-back purposes and to reduce thereby their current tax obligations instead of filing refund claims next year. The corporations are receiving much attention and some favors in this and other respects, but no mention is made of the individual acting as a proprietor or partner, who has risked his money and his efforts in the promotion of the war. In fact, he faces the competition of returned soldiers starting up in business with Government money.

It might be said that a proprietor or partner who did not like the treatment he was receiving under the present rules should take on the corporate structure. The law provides for proprietorships, partnerships, and corporations; the natural operation is the proprietorship and the partnership, and the corporation is a creature of the State and of relatively recent conception. It is un-American to force anyone into a business position by penalties and adverse legislation. Every American citizen is entitled to choose his mode of business operation without penalties; in fact, we are proud of the fact that in America a man can do as he pleases within reasonable limits.

Operating as a proprietor or partner has certain advantages and conveniences which, while not contributing materially to the profit of the operation, may contribute materially to the ease of operation. For example, there is no board of directors to consult—no minority interest of stockholders to be dealt with and sometimes under substantial difficulties. An individual does not have to be licensed to do business or incorporate in other States to maintain his business operations, and he is free from keeping certain corporate records, charters, and taxes.

It is interesting to note that in 1941 there were 100,000 corporations in what is generally known as the South, as against 800,000 unincorporated businesses, or in other words, proprietorships and partnerships. It is probably true that many of these were small, but the relative proportion is very interesting.

As a means of removing the inequities of the individual operating as a proprietor or partner in competition with corporations, it is suggested that the individual's income be divided into two classes:

1. The income obtained from his venture capital, or in other words, the direct operation of a business.
2. The income which he receives from investments in stocks, bonds, and other purely investment items.

The individual would then pay the individual income tax on his individual income, and the equivalent of the corporation tax on his income from his venture capital or his operation of a bona fide business, with certain modifications and adjustments in the interest of equity and fairness.

The individual should be permitted to choose whether he would elect to operate in this manner, i. e., by the operation of investment and venture capital, or whether he chooses to pay his income taxes based solely on the individual rates. He should have the privilege of making this choice every year.

Not all corporations pay dividends, but practically all corporations pay salaries. However, all corporations are presumed to be organized for the purpose of paying dividends, and if the individual is to be truly competitive with the corporation, he should pay to himself out of the earnings of his venture capital a sum of money which would correspond to dividends and salary which he would receive from a corporate structure if he were operating such a structure and receiving a salary and dividends. It would not be practical for every individual to set up the amount of his salary and dividends which he paid to himself and include it in his invested capital earnings. For the purpose of simplification and uniformity, the individual should be required to pay 20 percent or 25 percent of the earnings from his venture capital into his earnings from his invested capital. The earnings remaining in his venture capital after he has paid out 20 percent or 25 percent as salary and dividends should be taxed according to the same taxes as corporations. The income which he received from his investments, to which would be added the 20 to 25 percent earnings and salary of the venture capital, would be taxed at the individual tax rates.

The venture capital of a proprietorship or partnership should be that money or those assets allocated to the conduct of a bona fide commercial, industrial, mining, or other productive business in which a corporation reasonably might be expected to engage. The business should be operated by the proprietors or partners personally. The capital should be an amount reasonably required for the operation of the business and exposed to the risk of the business.

A more detailed outline of the proposal is attached.

PLAN FOR SEGREGATING THE VENTURE CAPITAL OF PROPRIETORSHIPS AND PARTNERSHIPS FROM INDIVIDUAL INCOME, SO THAT THESE UNITS MAY MORE EFFECTIVELY COMPETE WITH INCORPORATED BUSINESS, PROPOSED BY F. N. BARD, CHICAGO, ILL.

Proprietors or partnerships operating a business are in competition with corporations, who can and do perform the same business functions as the proprietorship or partnership.

Proprietorships and partnerships carry a tax burden considerably in excess of that of the corporation, and the corporation can, because of lower tax costs, produce and sell, assuming the same operating efficiency as a proprietorship and partnership, for less money. The proprietorships and partnerships should not be handicapped taxwise in their competition with corporations, nor should they be required to take out the corporate structure if they prefer to retain their operating identity as individuals. They have certain advantages operating as individuals, such as:

1. The right to do business in any State without licensing or incorporation in each State (now required of corporations).
2. They do not have the legal requirements of corporations, including a board of directors and a minority interest.

It is un-American to force anyone to carry on their business in a prescribed way by a threat of heavy taxation. An American should be free to choose his own form of doing business without penalty.

My proposal is that the proprietorship or partnership set up his venture or business capital, at their election, separately from his invested capital in stocks, bonds, real estate, etc., and that he pay corporate taxes on his venture business capital, and pay individual income taxes on his invested capital. This procedure is judged by tax experts to be sound and practical, if properly provided for and safeguarded, including the following provisions:

1. The net income of the enterpriser should be reported separately from the net income from investments and nonbusiness sources.

2. In computing the business income, the statute should provide that an arbitrary amount, perhaps 35 percent of the net income, be deducted from the net income and included in the individual's or partner's personal income of invested capital so that the proprietorship or partnership would be in the position of paying themselves a dividend and salary, just as the corporation would do. This makes the proprietorship or partnership bookkeeping and tax position comparable with that of the corporation. In order to make this administratively easy, the requirement that dividends be paid into the income part of the individual's taxable income should be compulsory, although this is not the case with corporations.

3. Any net income remaining from the business operations of the proprietorship or partnership, after the payment of salary and dividends has been properly deducted and paid into the owner's income, should be taxed at corporate rates with a standard excess-profit tax exemption, treating business assets as invested capital or with reconstructed earnings during the base period years as the basis of the credit.

4. The venture capital of a proprietorship or partnership should be that money or those assets allocated to the conduct of a bona fide commercial, industrial, mining, or other productive business in which a corporation might reasonably be expected to engage. The business must be operated by the individuals or partners personally, and the capital employed must be of an amount reasonably required for the operation of the business and exposed to the risk of the business. As a matter of law, the entire personal capital of the proprietor or partner is exposed to the risk of the business, but for bookkeeping and tax purposes only the capital actually required in the business should be used. Where a loss occurs in excess of the capital normally in-

cluded in the business, such loss should be deducted, in a manner provided by law, from the individual's income tax basis, but such invested capital should not be otherwise used for tax purposes in computing taxes on venture capital.

As an illustration of the tax situation of a sole proprietor of a prosperous manufacturing business, let us assume he nets \$60,000 a year from his business operations, and collects \$15,000 personally from outside sources in the form of rent, bond interest, dividends, etc.

Under the present taxation system, he would pay the Treasury \$48,420 in income taxes. If he had only paid taxes on his personal income of \$15,000, the tax would be \$5,480. This would indicate that he is paying a total of \$42,940 on his \$60,000 business income, and retaining only \$17,060.

If his business were incorporated, it would pay taxes separately as a corporation—it would pay a salary to the owner, and would declare dividends as desirable. Paying a salary of \$12,000 to the owner, the corporation income and excess-profits tax would amount to \$25,050. The owner would pay an additional tax on his salary, which would make a total of \$6,690 on his income and invested capital. This would make a total tax to be paid of \$31,740, as opposed to \$42,940 under a proprietorship.

If the profits of the corporation were distributed, the owner of the corporation would be subject to further taxation, or what is known as double taxation of corporate dividends, but he is not interested in this double taxation in conducting a business, because it has no place in computing the profits from the business, or in putting him in competition with corporations taxwise so that he may sell his goods. He is only interested in the double taxation of dividends as an individual investor, and the subject of this proposal does not deal with individual income. It only deals with the separation of business capital from invested capital.

Under my proposed plan of separating the invested from the venture capital, the taxation figures would be as follows:

Gross income from venture capital.....	\$60,000
Less 35 percent compulsory deduction to account for dividend and salary.....	21,000
	39,000
Venture capital subject to corporate tax.....	39,000
Tax.....	17,357
Additional tax to owner because of receipt of \$21,000 in invested capital income.....	13,140
	30,497
Total tax cost.....	30,497

The total tax cost of \$30,497 compares with a total tax of \$42,940 under present law, and also compares more favorably with the tax produced under corporate conditions.

TAX PROGRAM OF THE 16 NATIONAL ORGANIZATIONS COMPRISING THE COORDINATING COMMITTEE FOR A PROGRESSIVE TAX PROGRAM

The tax bill adopted by the House requires drastic revision to eliminate unnecessary windfalls and to provide relief where it is critically needed in the reconversion period. The House bill suffers from these major defects:

(a) *The House bill grants huge windfalls to the most prosperous corporations.*—The provision reducing the excess-profits tax rate from 85.5 to 60 percent for 1946 will benefit prosperous corporations by \$1,270,000,000. Estimates based on official data indicate that about \$910,000,000 of the \$1,270,000,000 would go to 850 corporations with \$1,000,000 or more of net income subject to the excess-profits tax. These estimates also indicate that 6,960 companies with incomes running from \$100,000 to \$1,000,000 would benefit by \$290,000,000; while only about \$70,000,000 of tax savings would go to 12,190 companies with incomes under \$100,000. None of this \$1,270,000,000 would go to the 250,000 corporations paying the regular corporate taxes but which do not earn enough profits to pay excess-profits taxes.

Thus, the 850 large corporations which have been making tremendous profits during the wartime period and which will continue to make excessive profits in 1946 will be the chief beneficiaries of the reduced excess-profits tax rate. At a time when budgetary requirements permit only limited tax reductions, it is indefensible that tax cuts should be granted to these most prosperous corporations. Only 3 months ago Congress passed the Tax Adjustment Act, which bettered the cash position of corporations—mainly the large corporations subject

to excess-profits taxes—by \$5,500,000,000. This tax relief includes the redemption of \$1,300,000,000 in outstanding postwar refund bonds for 1942 and 1943; \$1,500,000,000 in currently available 10 percent excess profits credits; \$1,000,000,000 in carry-back refunds; and \$1,700,000,000 in accelerated amortization of emergency facilities. If the excess-profits tax rate is cut to 60 percent and the ordinary corporate rates are cut 4 percent in each bracket—for a total revenue loss of \$1,674,000,000, the result would be that the 850 large corporations, or 3½ percent of the 250,000 taxpaying corporations, would receive 54 percent of the corporate tax reductions, apart from the savings flowing from the 4-percent bracket reductions.

The provision reducing the ordinary corporate rates by 4 percentage points in each bracket, from the 40 percent maximum on down, means a revenue loss of \$404,000,000 which will largely benefit the big corporations with large incomes.

The large, powerful corporations require no tax relief for they have huge liquid reserves—the largest in history—for reconversion. The SEC estimates that on March 31, 1945, American corporations had \$46,900,000,000 of liquid capital, \$22,300,000,000 more than in 1939. These huge liquid reserves were built up out of wartime profits, after the payment of the largest dividends in history. According to Department of Commerce estimates, corporations paid \$25,900,000,000 in dividends from 1940 through 1945. Despite high rates of wartime taxes, corporate profits after payment of taxes for the war years 1940–45 aggregated the colossal sum of \$52,000,000,000, the largest profits ever made. Small business, however, will receive only modest relief from the 4 percentage point reductions and requires greater assistance so that it may be able to reconvert more rapidly and so as to encourage the organization of new enterprises by veterans.

(b) *The House bill, by retaining substandard personal exemptions, grants only meager relief to low and middle income groups.*—The failure to raise personal exemptions, lowered during the war to \$500 for a single person and \$1,000 for a married couple, is a major deficiency. The only possible justification for such substandard exemptions was the need to combat inflation during the war, at a time when civilian goods were scarce. But, with civilian goods beginning to flow more freely, the substandard exemptions become utterly unjustified. We need fear no inflation from the purchase of goods by the bulk of the people in the income brackets under \$3,000 a year. Not with prices having soared from 30 to 45 percent over prewar levels, and workers' incomes shrinking through unemployment, loss of overtime pay, downgrading to lower-paid jobs, new jobs at lower wage levels. Conservative estimates indicate that wage and salary payments will drop from the VJ-day rate of \$115,000,000,000 a year to \$78,000,000,000 in 1946. Nearly 90 percent of the shrinkage in income payments will be suffered by working groups. The committee proposals would allow a family of four an exemption of only \$2,000 which is insufficient to maintain a minimum standard of living at a level of health and decency. These substandard exemptions should be raised.

On the positive side, the House bill contains two very commendable provisions. These are the repeal of the inequitable 3-percent tax on all incomes above \$500 a year, regardless of family responsibilities, and the reduction next July of many of the sales taxes which burden the low-income groups, such as the \$5 automobile use tax and the heavy taxes on movie tickets, electric bulbs, luggage, travel, and telephones.

The provision applying surtax exemptions to the normal tax and reducing taxes in all brackets by 4 percentage points eliminates the oppressive effects of the "normal" tax. This provision removes a most inequitable tax burden and merits full support.

However, the House's adoption of the Knutson proposal providing a minimum cut of 10 percent in taxes for all individual taxpayers is unwarranted. This \$100,000,000 concession will benefit exclusively taxpayers whose incomes exceeds \$21,000 a year. The minimum 10-percent cut means that a taxpayer with a \$1,000,000 net income will save \$90,000 in taxes; without the 10-percent cut, the tax savings would have been \$26,980, which is quite ample.

The prime objective of reconversion tax legislation should be to sustain mass purchasing power, assist small business, and grant relief where the need is greatest so as to minimize hardship and speed an orderly transition to an era of full employment and high-level capacity production. To achieve this objective, the following changes should be made in the House bill:

(1) Excess-profits tax rates should not be reduced for 1946, but should be repealed as of January 1, 1947, along with the unused excess-profits credit carry-

back. The continuation of the excess-profits tax, without reduction, will prevent windfalls to the most prosperous corporation. It will recapture excessive profits made from meeting the pent-up wartime demand for goods. Moreover, war expenditures in the fiscal year 1946 will still amount to \$50,000,000,000 according to revised Budget estimates released August 31. Retention of the excess-profits tax would provide \$2,500,000 in revenues. It is also of great value in offsetting competitive advantage which early reconverters will obtain, and this is particularly desirable from the viewpoint of encouraging small business. The House very properly rejected the Treasury proposal to repeal the excess-profits tax in 1946 but it erred in reducing the excess-profits tax rate.

(2) Personal exemptions should be raised to \$1,000 for single persons and \$2,000 for married persons, while continuing the \$500 credit for each dependent. The existing substandard exemptions should be lifted to restore incomes required to maintain a minimum standard of living at a level of health and decency. The authoritative estimate of the budget necessary to maintain a family of four at a minimum standard of living—the Heller committee budget—is approximately \$3,075. The exemptions here proposed would allow amounts approximating the Heller budget minimum standards to go tax-free. The purchasing power thus released by increased exemptions would stimulate production and employment and help offset the decline in workers' incomes during the reconversion period.

(3) Provide individuals with a 2-year carry-over and carry-back of unused personal exemptions and credit for dependents. The carry-over and carry-back principle which looms so large these days in corporate enterprises and business should be extended to individuals. This provision would be particularly important during reconversion, when workers' incomes are sharply declining.

(4) Veterans should be forgiven their unpaid income taxes within reasonable limits. The House bill neglects to give needed relief to veterans with unpaid income taxes. These should be forgiven within reasonable limits so that veterans seeking jobs or undertaking small businesses should not be burdened with these liabilities. This is a must for the reconversion tax bill.

(5) The corporate tax rate of 40 percent on net incomes above \$100,000 should be retained with small business given relief through an exemption from the corporate income tax of the first \$5,000 of net income, the adoption of a liberal graduation of corporate income-tax rates on net incomes under \$100,000, and the granting to such corporations the option of being taxed as partnerships.

Substantial tax relief for small businesses is needed so that small business may be speedily reconverted and new enterprises encouraged. Small business does not have the resources to finance reconversion available, either internally or in the money market, to the big corporations. In developing new products and markets, small business runs comparatively very large risks, for these businesses must concentrate on a few products and markets, lacking the benefits of diversification which large business enjoys. The ability of small business to survive in the competitive struggle has been considerably weakened by the wartime distribution of governmental contracts and reconversion shortages of materials and machinery. Small business must therefore be strengthened in the transition and post-transition periods. Our proposals are much sounder than the 4-percent across-the-board tax reductions provided in the House bill.

The enactment of these measures would help pump the blood of purchasing power through our economic system during the reconversion period. It would help assure mass markets on which the prosperity of labor, agriculture, and industry depend.

The complete reconversion tax program supported by all the 16 national organizations comprising the coordinating committee is as follows:

1. Repeal the grossly unfair 3-percent "normal" tax which is applied at a flat rate to all levels of taxable income without regard for family status and the number of dependents. Relief would be given to 12,000,000 families whose incomes are so low that they are not subject to the surtax. About four-fifths of relief would go to families earning less than \$5,000 a year. Abolition of the "normal" tax would bring tax savings of about \$2,000,000,000 which would be converted into additional purchasing power.

2. Increase exemptions for single individuals to \$1,000 and for married couples to \$2,000, while maintaining existing credits of \$500 for children and dependents. This would give a family with two children an exemption of \$3,000 which is what the Heller committee finds is necessary to maintain a minimum standard of living at a level of health and decency. These cost-of-living exemptions would bring tax savings of around \$4,000,000,000.

3. Permit individual taxpayers to carry back and carry forward for 2 years that portion of their personal exemptions and credits that is not used in the current taxable year. Corporations are now given this form of tax relief. Carry-backs and carry-forwards for individual taxpayers would provide some measure of relief for families whose incomes have been drastically cut by the impact of reconversion.

4. Forgive income taxes up to \$250 owed by veterans for the years 1941 to the date of their discharge. To equalize this benefit for veterans who have paid their taxes, grant refunds up to \$250 on tax payments made during this period. Job-seeking veterans should not have the burden of paying past tax liabilities, and the tax refunds will be helpful to veterans who start their own small businesses.

5. Give tax relief to small business by granting an exemption of \$5,000 from the corporate income tax, lowering existing rates for corporate enterprises with net incomes below \$100,000, and giving such incorporated small businesses the option of being taxed as partnerships. This tax relief would also assist the hundreds of thousands of veterans who are planning to operate their own business enterprises.

6. Retain the excess-profits tax until January 1, 1947. At that time, the excess-profits tax and the carry-back and carry-forward of unused excess-profits credits should be repealed. The Government would lose \$2,500,000,000 in revenue if the excess-profits tax were not retained during 1946. Even with the excess-profits tax, corporations in 1946 will make profits after taxes of over \$8,000,000,000, which is about 100 percent more than their profits after taxes in 1939.

7. Eliminate the automobile use tax and reduce or abolish wartime excises on items of mass consumption such as electric bulbs, movie tickets, and inexpensive toilet articles, cosmetics, and leather goods. These excise taxes are highly regressive and can only be justified as a wartime emergency measure. This tax saving of about \$500,000,000 would primarily increase the purchasing power of low-income families.

8. Curb inflationary speculation in securities, real estate, and farm land by extending the holding period for long-term capital assets to at least 36 months. Gains realized from the sale or exchange of capital assets held for less than 36 months should be taxed as ordinary income.

These eight measures comprise a sound reconversion tax program. Individual taxpayers, particularly the low income groups, would have savings of about \$6,500,000,000 on income and excise taxes during 1946. But retention of the excess-profits tax would bring in \$2,500,000,000. Across-the-board cuts in individual tax rates and repeal of the excess-profits tax would give the largest benefits to the high income brackets and corporations earning excessive profits. By contrast, our eight-point program would give tax relief where it is needed most; its tax reductions would be converted into effective purchasing power, thus speeding up the tempo of reconversion and paving the way to full employment and general prosperity during the postwar period, while providing adequate revenues for the Government.

NEWARK, N. J., October 16, 1945.

SENATE FINANCE COMMITTEE,
Washington, D. C.

NOBLE SENATORS: The writer respectfully presents herewith his original modern finance plan how to finance the National Budget without destructive taxation.

To reduce taxation it is necessary to remove the cause of the destructive taxation such as taking money out of the pay envelope of the workers or taxing the people with small incomes. The cause of this destructive taxation is the fallacious and erroneous method of financing the National Budget. The writer realizes he is a dark horse in finance. The refusal of the Treasury officials to cooperate with the writer prevents our representatives to learn the official truth of this modern method of how to finance a National Budget. Unless our representatives are correctly informed it is impossible for them to formulate just tax laws. The chaos is universal because all nations labor under the same fallacies.

The writer's plan does not interfere with private banking. The writer confines himself with the solution of the tax problem by suggesting a finance system which will correct present evils.

The present finance system uses the national credit in reverse. It creates nothing but unpayable national debts, as every payment made by the Govern-

ment is shackled with a debt. The national debt can never be paid with this system nor will it ever be possible to balance the National Budget. Solve the money problem and you solve all.

In order to demonstrate the fallacies of the present finance system the writer presents the following example:

A contractor having rendered goods and services to the Government for \$1,000,000, receives:

1. A Treasury check for \$1,000,000.
2. He presents this check to his bank and demands cash.
3. The teller hands over \$1,000,000 cash and the minute this money has left his hands, he demands a bond with interest as security for having paid out this money.
4. The depositor of the Treasury check goes as far as the door of the bank and changes his mind. He turns back into the bank and redeposits this \$1,000,000.
5. The banker opens banker's credit because it was his money he deposited.

Now we have the following situation:

- (a) The banker has the money back, he is not out 1 cent.
- (b) In his right hand he holds a \$1,000,000 Treasury check.
- (c) In his left hand he holds a \$1,000,000 bond.

What did the banker pay for the bond?

The answer is: Nothing. The people must pay interest to the bankers on the wholly preposterous and false claim that he paid out his money. To pay the interest you must raise taxes.

In order to correct this fallacy the writer suggests the following American system:

1. Issue Treasury checks for all governmental needs as before.
2. Let the recipient of these Treasury checks deposit them with his bank.
3. Instruct the bank to return this check to the Treasury Department, where the banker receives "national credit" on the books.
4. The banker in turn opens banker's credit on the books of the bank for the depositor of the Treasury check.
5. As the banker renders a national service pay the banker a service charge, because he is only handling the people's money and not advancing his money.
6. To protect the banker against any losses, present him with a national-credit bond which bears no interest.

The adoption of this simple, honest method of financing the National Budget would enable you to immediately reduce all Federal taxation at least 50 percent at once instead of spreading it out over a period of years.

This method of financing the National Budget would use the National credit as it should be used and not as a debt-creating instrument for the sole benefit of the bankers.

Communism cannot be defeated with bombs or wars. It must be converted with kindness and enlightenment. It is up to the capitalists to admit the error of their ways and be frank about it.

Universal prosperity and peace can only be created by adopting an honest finance system which will benefit all the people instead of only one class of people.

The adoption of this simple method would immediately stop all inflation as the reduction in taxation would enable the merchants to reduce their prices and labor would benefit to the extent of about 30 percent if all Federal taxation is removed and automatically increases their spending power and creates additional jobs.

The clamor for strikes would fade away.

The writer suggests respectfully that the honorable Finance Committee appoint a special committee to look into the merits of the writer's proposals who has made how to finance a government a life study.

Respectfully submitted for the records by August Walters.

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