Calendar No. 932.

64TH CONGRESS, 2d Session. } SENATE. { REPORT No. 1039.

REVENUE FOR ARMY AND NAVY APPROPRIATIONS.

FEBRUARY 13, 1917.—Ordered to be printed.

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

REPORT.

[To accompany H. R. 20573.]

The Committee on Finance, to whom was referred the bill (H. R. 20573) entitled "An act to provide increased revenue to defray the expenses of the increased appropriations for the Army and Navy and the extensions of fortifications, and for other purposes," having had the same under consideration, report it back to the Senate with sundry amendments and recommend that the bill as amended do pass.

The purposes of the bill and the necessity for this legislation are fully stated in the report of the Committee on Ways and Means of the House of Representatives, part of which is as follows:

NECESSITY FOR THIS LEGISLATION.

This legislation is made necessary because of the urgent need of funds with which to meet the extraordinarily large appropriations for the military and naval establishments and fortifications.

Taking the appropriations for the fiscal year ending June 30, 1916, carried in the Army, Navy, and fortifications appropriation bills, together with the appropriations for arsenals and military posts carried in the sundry civil appropriation bill, as representing the normal appropriations for national defense, the like appropriations for the fiscal year ending June 30, 1917, and the similar estimates for the fiscal year ending June 30, 1918, will show an increase in the appropriations for national defense during these two years amounting to over $873,000,000.

The following table shows the appropriations carried by the Army, Navy, and fortifications bills and the appropriations for arsenals and military posts carried in the sundry civil appropriation bill for the fiscal years ending June 30, 1916

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and 1917, and the like estimated appropriations for the fiscal year ending June 30, 1918:

Item.	Appropriations, fiscal year ending June 30—		
	1916	1917	1918 [1]
Appropriation bill:			
Army	$101,974,195.87	$267,596,530.10	$298,636,011.28
Navy	149,661,864.88	313,300,555.84	379,151,701.67
Fortifications	6,060,216.90	25,747,550.00	56,999,481.21
Sundry civil—			
Arsenals	653,600.00	5,214,395.00	6,435,700.00
Military posts	570,924.99	1,727,859.99	8,841,890.23
Supplemental estimates for Army and Navy			27,500,000.00
Total	258,920,802.64	613,586,890.93	[2] 777,564,784.39

[1] Estimates. [2] Does not include any estimate for the Mexican situation.

ESTIMATED APPROPRIATIONS, DISBURSEMENTS, AND RECEIPTS FOR THE FISCAL YEAR ENDING JUNE 30, 1918.

The regular annual estimates and the supplemental estimates of appropriations for the fiscal year ending June 30, 1918, amount to $1,711,000,000. In this total is included $60,748,000 for the sinking fund, which is merely a bookkeeping account, and $325,355,820 for the Postal Service, which takes care of itself. In estimating the necessary revenue to meet appropriations it is therefore proper to deduct both of these estimates. The amount for which it is necessary to provide revenue after deducting the aforementioned estimates is, therefore, $1,324,896,180.

During the fiscal year ending June 30, 1918, the Secretary of the Treasury estimates that because of the expenditures to meet authorizations under existing law the total disbursements will be $1,368,445,910, or $43,549,730 greater than the estimated appropriations after deducting the estimates for the sinking fund and the Postal Service.

The following statement shows the estimated disbursements for the fiscal year ending June 30, 1918, the estimated revenue to be collected under existing law, the estimated excess of disbursements over receipts, and the amount necessary to be raised by bond issues or new revenue legislation:

Total estimated disbursements for the fiscal year ending June 30, 1918		$1,368,445,910
Estimated revenue under present law:		
Customs	$230,000,000	
Internal revenue—		
Ordinary	325,000,000	
Emergency revenues and receipts from munition manufacturers' and estate taxes	134,000,000	
Income tax—		
Corporation	133,000,000	
Individual	111,750,000	
Miscellaneous	56,000,000	
Panama Canal tolls, etc	10,000,000	
Deposits for postal savings bonds	2,000,000	
Total		1,001,750,000
Estimated excess disbursements over receipts		366,695,910
Deduct estimated balance in general fund, June 30, 1917		64,305,971
Estimated deficit in general fund, June 30, 1918		302,389,939
For necessary working balance in the Treasury		100,000,000
Estimated amount necessary to be raised by bond issues or new revenue legislation		402,389,939

THE PROBLEM PRESENTED.

The question that immediately arises is, How shall this money be raised? After carefully considering the various available sources of additional revenue, your committee recommends that the necessary funds to meet the extraordinary appropriations for the Army and Navy and fortifications be secured by additional internal taxation upon excess profits and by increasing the estate tax. Your committee also recommends that the expenditures incident to the Mexican situation, the construction of the armor-plate plant, the Alaskan railway, and the purchase of the Danish West Indies be met by the receipts from bonds. The amount of Panama bonds unissued being insufficient, your committee recommends that a new issue of bonds similar to the Panama bonds be authorized. In the opinion of your committee it is an unwise and unsound policy to issue bonds to meet current expenditures of the Government, and it believes that we should pay as we go. Your committee, however, believes that it is proper to issue bonds to meet expenditures for permanent improvements, in the nature of permanent investments, such as the construction of the Alaskan railway, the construction of the armor-plate plant, and the purchase of the Danish West Indies. It also believes that extraordinary expenditures, due to national emergencies, which are impossible to anticipate in revenue legislation, such as the Mexican situation, should also be financed by bond issues, as is always done by this and other nations under similar circumstances.

THE PROPOSED BILL.

The proposed bill is divided into four separate parts called titles, viz, Title I, which specifies that the revenue collected under Title II of this act and one-third of the receipts collected under Title III, together with the additional revenue collected under the act of September 8, 1916, to the extent of $175,000,000, shall constitute a special preparedness fund; Title II, the excess-profits tax; Title III, the amended estate tax; and Title IV, miscellaneous, which provides (1) for a bond issue, (2) for the issue of additional certificates of indebtedness, and (3) that the Commissioner of Internal Revenue may have authority, within his discretion, to require a corporation to state in its return to whom it has paid dividends and the amount thereof.

TITLE I: SPECIAL PREPAREDNESS FUND.

This title provides that the receipts from the excess-profits tax and one-third of the receipts from the estate tax provided in this bill, together with $175,000,000, the additional revenue collected from the taxes levied in the revenue act of September 8, 1916, shall be set aside as a special preparedness fund to be used toward defraying the expenses for the Army and Navy and fortifications. It is provided, however, that should there be no other money available in the Treasury to meet current obligations that the Secretary of the Treasury may use this fund for other purposes, but any sums so disbursed must be returned to this fund.

TITLE II: EXCESS PROFITS TAX.

This title places a tax of 8 per cent on the net profits of corporations, joint stock companies or associations, insurance companies, and partnerships, which are in excess of $5,000 and in excess of an amount equivalent to 8 per cent of the actual capital invested. That is, before the tax attaches there is a flat deduction of $5,000 from the total net profits and a further deduction of 8 per cent on the actual capital invested.

Section 202 of this title defines "actual capital invested" to mean (1) actual cash paid in, (2) the actual cash value, at the time of payment, of assets other than cash paid in, and (3) paid in or earned surplus and undivided profits used or employed in the business. Money borrowed through bonds or otherwise is not included in the actual capital invested.

This title also provides that the excess tax upon corporations shall be computed upon the corporation returns made in accordance with the corporations' income tax returns. It requires partnerships to make returns and gives them the privilege of selecting their fiscal year, giving them the same privilege as is now allowed to corporations. Corporations, joint-stock companies, or associations, and insurance companies exempt under section 11 of the income tax, and partnerships carrying on or doing the same business, and the income of partnerships derived from agriculture or from professional services, are exempt from the excess profits tax. The income derived from the business of life, health, and accident insurance combined in one policy under the weekly premium plan is also exempt from this tax.

The tax imposed upon corporations and partnerships is to be computed upon the basis of the net income shown by their income-tax returns made under the income-tax law and is to be assessed and collected at the same time and in the same manner as the income tax. Every corporation having a net income of $5,000 or more is required to return a detailed statement of its actual capital invested. Partnerships are required to make a return of the income of the partnership for each taxable year, setting forth the actual cash invested and the gross income for such year. In determining the net income partnerships will be allowed the same deductions as are allowed individuals under sections 5 (a) and 6 (a) of the income-tax act.

It is estimated that the proposed tax upon excess profits will yield during a 12-month period $226,000,000, distributed as follows: Upon corporations, $170,000,000, and upon partnerships, $56,000,000.

TITLE III. ESTATE TAX.

This title increases the present estate-tax rates 50 per cent. The proposed rates are as follows:

1½ per cent of the amount of the net estate not in excess of $50,000.

3 per cent of the amount by which the net estate exceeds $50,000 and does not exceed $150,000.

4½ per cent of the amount by which the net estate exceeds $150,000 and does not exceed $250,000.

6 per cent of the amount by which the net estate exceeds $250,000 and does not exceed $450,000.

7½ per cent of the amount by which the net estate exceeds $450,000 and does not exceed $1,000,000.

9 per cent of the amount by which the net estate exceeds $1,000,000 and does not exceed $2,000,000.

10½ per cent of the amount by which the net estate exceeds $2,000,000 and does not exceed $3,000,000.

12 per cent of the amount by which the net estate exceeds $3,000,000 and does not exceed $4,000,000.

13½ per cent of the amount by which the net estate exceeds $4,000,000 and does not exceed $5,000,000.

15 per cent of the amount by which the net estate exceeds $5,000,000.

It is estimated that the proposed increase in the estate tax will yield during the first 12-month period $22,000,000 additional revenue.

TITLE IV: MISCELLANEOUS.

BONDS.

This title gives the Secretary of the Treasury authority to issue an additional $100,000,000 worth of bonds to meet public expenditures, on account of the Mexican situation, the construction of the armor-plate plant, the construction of the Alaskan railway, and the purchase of the Danish West Indies, or to reimburse the Treasury for such expenditures.

The Secretary of the Treasury at the present time has authority to issue $222,000,000 worth of Panama Canal bonds to reimburse the Treasury.

The act commonly known as the "shipping bill" authorizes the issuance of $50,000,000 worth of Panama Canal bonds, the proceeds from which are to be used for the construction or purchase of ships. The act authorizing the construction of the nitrate plant also authorizes the sale of $20,000,000 worth of Panama Canal bonds and the use of the proceeds for the construction of the nitrate plant. In addition to meeting these extraordinary appropriations by bonds, your committee recommends that the disbursements incident to the Mexican situation and to the construction of the armor-plate plant, the Alaskan railway, and the purchase of the Danish West Indies, be met by the issuance of bonds. Your committee therefore recommends the following bond issues:

Bond issues:		
To meet the expenditures incident to the Mexican situation to June 30, 1917, estimated at	$162,418,000	
Construction of Alaskan railway	35,000,000	
Armor-plate plant	11,000,000	
Danish West Indies	25,000,000	
Total		$233,418,000

Bonds already authorized:		
Shipping act	$50,000,000	
Nitrate plant	20,000,000	
Total		$70,000,000
Total proposed bond issue		303,418,000
Panama Canal bonds which can be issued at this time		222,000,000
Additional authorization of bonds necessary		81,418,000

CERTIFICATES OF INDEBTEDNESS.

Under the present system of taxation a considerable portion of the receipts are not due and payable until the last month of each fiscal year. It is therefore deemed advisable to increase the authority of the Secretary of the Treasury to issue certificates of indebtedness for a period not exceeding one year from the date of issue. At the present time the Secretary of the Treasury has the power to issue $200,000,000 worth of such certificates. This act proposes to give the Secretary of the Treasury authority to issue an additional $100,000,000 worth of such certificates.

RETURN OF DIVIDENDS.

Section 402 of this act merely provides that the Commissioner of Internal Revenue may at his discretion require a corporation to include in its return a statement of its dividend payments, stating whether the same are made in cash or its equivalent, or in stock, and may require the names and addresses of the stockholders and the number of shares owned by each. The purpose of this provision is merely to enable the Commissioner of Internal Revenue to check doubtful individual returns.

RECAPITULATION.

Estimated amount necessary to be raised by bond issues and new revenue legislation		$402,389,939
Bond issues to reimburse the Treasury:		
For expenditures incident to the Mexican situation to June 30, 1917	$162,418,000	
For construction of Alaskan railway to June 30, 1918	21,838,292	
For construction of armor-plate plant	11,000,000	
Total		195,256,292
Estimated amount to be raised by taxation		207,133,647
Estimated additional receipts under proposed bill:		
Excess profits tax	226,000,000	
Estate tax	22,000,000	
Total		248,000,000

Your committee believes that the margin of $41,00,000 above shown, between the estimated receipts under the proposed bill and the estimated revenue required, is necessary in order to be on the safe side. Allowance must be made for the fact that the amount of revenue which it is estimated the excess profits tax will yield is after all only an estimate, and because of this a substantial margin is advisable.

Your committee has made but few changes in the bill as it came from the House. The amendments suggested are as follows:

EXCESS PROFITS TAX.

In addition to certain minor changes in verbiage in the interest of clarity your committee recommend that the title of the bill relating to excess profits be amended in the following respects:

(1) The House bill exempts the income of certain insurance companies from the provisions of this title. Your committee recommend that this provision be stricken out so that the income of all insurance companies will be treated alike and upon the same basis.

(2) The House bill exempts the income of partnerships derived from agriculture or from personal services. Your committee recommend an amendment confining this exemption to the income of corporations or partnerships derived exclusively from personal services.

(3) Your committee recommend an amendment to the House bill providing that the provisions of Titles I and II shall cease to be in effect on and after July 1, 1921.

Title IV.

ADDITIONAL BOND ISSUE.

The House bill contained no provision for the redemption of the 3 per cent loan of 1908–1918, the Spanish War loan, which matures August 1, 1918. Your committee recommend that the Secretary of the Treasury be authorized to issue an additional number of bonds, not exceeding $63,945,460, similar to those authorized by the House bill, the proceeds to be used in the redemption of these Spanish War bonds, and for no other purpose. Four hundred million dollars of these bonds were authorized by the Spanish War act of June 13, 1898, but only $198,792,600 were actually issued and sold at par. There are now outstanding of this loan $63,945,460.

CERTIFICATES OF INDEBTEDNESS.

The House bill authorized the Secretary of the Treasury to issue so that there shall at no time be outstanding in excess of $300,000,000 of the short-term certificates of indebtedness under authority of the Spanish war act of June 13, 1898. Your committee recommend that this amount be increased to $500,000,000. A large portion of the total revenues of the Government is now payable during the last month of the fiscal year. Under the present law and the provisions of this bill probably over $500,000,000 of revenue will be collected during June, 1918. The income tax, the munitions manufacturers tax, and the excess profits tax are all due and payable in June of each year. This is practically as much as will be collected during the entire preceding 11 months. That is, while the disbursements for 1918 may be less than the receipts for that year, still at certain periods prior to June the Treasury may need these certificates of indebtedness to tide it over until the June receipts begin to come in.

INCOME TAX.

Your committee recommend that Title I of the revenue act of September 8, 1916, be amended so that no taxable person shall be released from the payment of income tax, and that any contract hereafter entered into for the payment of any fixed or determinable periodical payments without the withholding of the sums authorized by the income-tax laws or for the reimbursements of any such amount so deducted or withheld, shall be void.

MUNITION MANUFACTURERS' TAX.

Your committee recommend that the time limitation as to when this tax shall cease to be in effect be changed from one year, as provided in the act of September 8, 1916, to six months, after the expiration of the present European war.

MARGARINE TAX.

The amendment to the House bill recommended by your committee relating to oleomargarine provides that what is now known as oleomargarine shall hereafter be known as margarine and that instead of the present tax of ten cents per pound on artifically colored margarine and one-fourth of one cent per pound on other margarine a flat tax of two cents per pound shall be imposed upon all margarine. Regulations and machinery for the prevention of the sale of margarine as any other product than margarine is provided for in the amendment, as are also the license taxes to be paid by manufacturers of and dealers in margarine.

REFINED SUGAR IN BOND.

Your committee recommend an amendment so that the works of refiners of sugar may be designated as bonded refining warehouses. This amendment gives to these refiners certain privileges that they would not have under the general provisions of paragraph M, section 4, of the tariff act of 1913.

Since the estimates of disbursements for 1918 set out in the report of the Committee of Ways and Means of the House, hereinbefore quoted, the Treasury Department has informed your committee of additional estimated disbursements upon the part of the War and Navy Departments for the fiscal year 1918 amounting to about $31,000,000. This will result as follows:

Estimated deficit in the general fund, June 30, 1918		$333, 400, 000
Necessary working balance in the Treasury		100, 000, 000
Estimated amount necessary to be raised by bonds and new revenue legislation		433, 400, 000
Bond issues to reimburse the Treasury:		
For expenditures on account of Mexican situation to June 30, 1917	$162, 418, 000	
For construction of Alaskan railway, to June 30, 1918	21, 838, 000	
For construction armor-plate plant	11, 000, 000	
Total bonds		195, 256, 000
Balance necessary to be raised by new taxation		238, 144, 000
Estimated additional revenue under proposed act:		
Excess profits tax	$226, 000, 000	
Estate tax	22, 000, 000	
Total from taxation		248, 000, 000
Estimated receipts over disbursements for 1918		9, 856, 000

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64TH CONGRESS, 2d Session. } SENATE. { REPT. 1039, Part 2.

ADDITIONAL TAXATION STILL FURTHER TO MAKE GOOD THE LOSS OF REVENUE UNDER TARIFF ACT OF OCTOBER 3, 1913.

FEBRUARY 20 (calendar day, February 21), 1917.—Ordered to be printed.

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

VIEWS OF THE MINORITY.

[To accompany H. R. 20573.]

The undersigned minority members of the Committee on Finance were not consulted by the majority members of the committee in the preparation and consideration of this bill and were only given opportunity at a perfunctory session of the committee to record their disapproval of it. Hearings, so-called, were held, to which the minority members of the committee were not invited officially; and persons whose interests the bill affects vitally were not called to testify. These "hearings" are valueless to the committee and to the country.

The minority members protest against those methods as well as against the bill itself.

That additional revenue is necessary can not be gainsaid; that it would be necessary, notwithstanding three previous attempts of the Democratic Party to bolster the Underwood tariff law by direct taxation, was foretold by Republicans only last summer. The wild, reckless extravagance of the Democratic Party was then brought to the attention of the country, and the inadequacy of relief measures pointed out. Military and naval preparedness is not alone responsible for this present emergency. Appropriations, exceeding the actual necessary domestic needs and demands of the Government, if economically administered, are largely responsible for it. There has been no fiscal situation, not created by the short-sighted policies of the Democratic Party, that could not have been met adequately by the imposition of duties upon the flood of foreign-made goods imported into this country since the enactment of the Underwood tariff law. But the Democratic Party, in the light of recent experience and in the face of an empty Treasury, persists in ignoring the indirect, historic, and easy method of collecting revenue at the customhouses and continues to saddle direct taxes upon an already burdened people.

That these additional tremendous taxes are largely responsible for the high cost of living we have no doubt. The average American citizen finds it more and more difficult daily to make ends meet; hardships and deprivations are his lot, as he is confronted with the ever decreasing purchasing value of his hard-earned dollar. For the cause he has only to be told that the Government is draining the people's pockets for useless objects, such as the fruitless Mexican expedition costing nearly $200,000,000; the building of a railroad in frigid Alaska to cost $35,000,000; the construction of a fertilizer plant to cost $20,000,000; an armor plant at $11,000,000; for the purchase of ships at exorbitant prices, $50,000,000; for many thousands of new offices at a yearly cost of over $40,000,000; and for manifold activities and agencies, many of them experimental and of doubtful value, running the cost of government far in excess of practical business and necessary demands. All this load the consumer is bearing; it is a tax on consumption in the long run, and never before has the American consumer so sorely felt the sting of direct taxation. All over the country he is asking the question to-day: "When will prices stop going up?" The only answer vouchsafed by the Democratic Party is more taxation.

The responsibility for present conditions rests upon the Democratic Party.

The minority members of the Finance Committee have repeatedly called attention to the unscientific methods of the majority party in their mismanagement of the country's finances. Trusting doggedly to their tariff policy, refusing blindly to admit the failure of the Underwood law to produce revenue in the face of unprecedented imports, the majority through pride of opinion continues to draw upon the substance of our own people rather than recede from its erroneous position and resort to the Republican method of raising revenue indirectly upon imports.

Estimates of receipts and expenditures and statements of the present and prospective condition of the Treasury, as given in the report of the majority are confusing and misleading. This, however, is to be expected when the daily Treasury statement continues to show a net balance in the general fund, when in fact there is a deficit of approximately $50,000,000. There is no balance in the general fund; what purports to be a balance consists of liabilities.

There are no reliable estimates. We know in a general way only that the Treasury is in dire straits. Since the Book of Estimates was submitted in December supplemental estimates keep coming in. Congress must guess at the Treasury's true condition to-day and next year. No figures upon which it is asked to formulate revenue legislation intelligently are even fairly within many millions of remaining authoritative reasonably long.

The estimates of the amounts to be raised by the additional taxation in this bill are guesswork. They are arbitrary. No basis is given for the estimated revenue from the profits tax because there is none to give.

The pending bill not only disregards the opportunity for raising revenue from imports which aggregated $2,391,716,335 in value during the last calendar year, but it takes no account of the future industrial preparedness of the United States against the invasion of European-made goods which is bound to come after the war. In this, as in its predecessors, this bill fails to safeguard the industries of the United States.

Of this bill we will say as we have said of other like revenue bills which have ignored sound economic principles and the "American system" of protection, that it will be inadequate to meet the demands upon the Treasury by reason of wasteful appropriations; and not until the Democratic Party makes a serious attempt instead of pretense at economy and recognizes its utter inability adequately to finance the Government without adopting the natural and economically sound method of raising revenue by protective tariff duties will that party be able to escape the just condemnation of an overtaxed but long suffering people.

We believe the estimates of revenue under existing law will be less by $100,000,000; that the disbursements this fiscal year and for 1918 will exceed the estimates; that the deficits both years will aggregate in excess of $500,000,000; that this bill together with existing direct taxation laws will be fastened upon the people permanently unless relief be had by restoration of import duties that will yield $200,000,000 more revenue annually and at the same time conserve our productive energies, both of capital and labor.

BOIES PENROSE.
H. C. LODGE.
PORTER J. MCCUMBER.
REED SMOOT.
JACOB H. GALLINGER.
CLARENCE D. CLARK.

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