

C C N T E N T S

STATEMENT OF

PAGE

Honorable J. William Fulbright,
United States Senator from the State of
Arkansas

4

H. R. 9166

TAX RATE EXTENSION ACT OF 1956

Wednesday, March 21, 1956

United States Senate,
Committee on Finance,
Washington, D. C.

The committee met, pursuant to recess, at 10:25 o'clock a.m., in Room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Martin, Long, Smathers, Frear, Williams, Flanders and Carlson.

Also Present: Elizabeth B. Springer, Chief Clerk,

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The Chairman. The committee will come to order.

The purpose of the meeting is to consider the amendments offered by Senator Fulbright, and others, to H. R. 9166.

The chairman would like to make this statement.

H. R. 9166 passed the House on March 13th and came over to the Senate on March 14th.

(H. R. 9166, with amendments, is as follows:)

84TH CONGRESS
2D SESSION

H. R. 9166

IN THE SENATE OF THE UNITED STATES

MARCH 14 (legislative day, MARCH 13), 1956

Read twice and referred to the Committee on Finance

AN ACT

To provide a one-year extension of the existing corporate normal-tax rate and of certain excise-tax rates.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 *That this Act may be cited as the "Tax Rate Extension Act*
4 *of 1956".*

5 **SEC. 2. ONE-YEAR EXTENSION OF CORPORATE NORMAL-**
6 **TAX RATE.**

7 Section 11 (b) (relating to corporate normal tax), sec-
8 tion 821 (a) (1) (A) (relating to mutual insurance com-
9 panies other than interinsurers), and section 821 (b) (1)
10 (relating to interinsurers) of the Internal Revenue Code of
11 1954 are amended as follows:

1 (1) By striking out "APRIL 1, 1956" each place
2 it appears and inserting in lieu thereof "APRIL 1, 1957";

3 (2) By striking out "April 1, 1956" each place it
4 appears and inserting in lieu thereof "April 1, 1957";

5 (3) By striking out "MARCH 31, 1956" each place
6 it appears and inserting in lieu thereof "MARCH 31,
7 1957";

8 (4) By striking out "March 31, 1956" each place
9 it appears and inserting in lieu thereof "March 31,
10 1957".

11 **SEC. 3. ONE-YEAR EXTENSION OF CERTAIN EXCISE TAX**
12 **RATES.**

13 (a) **EXTENSION OF RATES.**—The following provisions
14 of the Internal Revenue Code of 1954 are amended by strik-
15 ing out "April 1, 1956" each place it appears and insert-
16 ing in lieu thereof "April 1, 1957"—

17 (1) section 4041 (c) (relating to special fuels) ;

18 (2) section 4061 (relating to motor vehicles) ;

19 (3) section 4081 (relating to gasoline) ;

20 (4) section 5001 (a) (1) (relating to distilled
21 spirits) ;

22 (5) section 5001 (a) (3) (relating to imported
23 perfumes containing distilled spirits) ;

24 (6) section 5022 (relating to cordials and liqueurs
25 containing wine) ;

- 1 (7) section 5041 (b) (relating to wines);
- 2 (8) section 5051 (a) (relating to beer); and
- 3 (9) section 5701 (c) (1) (relating to cigarettes).

4 (b) TECHNICAL AMENDMENTS.—The following provi-
5 sions of the Internal Revenue Code of 1954 are amended as
6 follows:

7 (1) Section 5063 (relating to floor stocks refunds
8 on distilled spirits, wines, cordials, and beer) is amended
9 by striking out "April 1, 1956" each place it appears
10 and inserting in lieu thereof "April 1, 1957", and by
11 striking out "May 1, 1956" and inserting in lieu thereof
12 "May 1, 1957".

13 (2) Section 5134 (a) (3) (relating to drawback
14 in the case of distilled spirits) is amended by striking
15 out "March 31, 1956" and inserting in lieu thereof
16 "March 31, 1957".

17 (3) Subsections (a) and (b) of section 5707
18 (relating to floor stocks refunds on cigarettes) are
19 amended by striking out "April 1, 1956" each place it
20 appears and inserting in lieu thereof "April 1, 1957",
21 and by striking out "July 1, 1956" and inserting in
22 lieu thereof "July 1, 1957".

23 (4) Subsections (a) and (b) of section 6412
24 (relating to floor stocks refunds on motor vehicles and
25 gasoline) are amended by striking out "April 1, 1956"

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1 each place it appears and inserting in lieu thereof "April
2 1, 1957", and by striking out "July 1, 1956" each place
3 it appears and inserting in lieu thereof "July 1, 1957".
4 Section 497 of the Revenue Act of 1951 (relating to re-
5 funds on articles from foreign trade zones), as amended,
6 is amended by striking out "April 1, 1956" each place it
7 appears and inserting in lieu thereof "April 1, 1957".

Passed the House of Representatives March 13, 1956.

Attest:

RALPH R. ROBERTS,

Clerk.

84TH CONGRESS
2d Session

H. R. 9166

AN ACT

To provide a one-year extension of the existing corporate normal-tax rate and of certain excise-tax rates.

MARCH 14 (legislative day, MARCH 13), 1956
Read twice and referred to the Committee on Finance

84TH CONGRESS
2D Session

H. R. 9166

IN THE SENATE OF THE UNITED STATES

MARCH 15 (legislative day, MARCH 13), 1956

Referred to the Committee on Finance and ordered to be printed

AMENDMENTS

Intended to be proposed by Mr. FULBRIGHT (for himself, Mr. SPARKMAN, Mr. CAPELLART, Mr. KENNEDY, Mr. FREAR, Mr. BEALL, Mr. DUFF, Mr. MORSE, Mr. SMATHERS, Mr. LEHMAN, Mr. DOUGLAS, and Mr. HUMPHREY) to the bill (H. R. 9166) to provide a one-year extension of the existing corporate normal-tax rate and of certain excise-tax rates, viz:

1 On page 1, beginning with line 5, strike out all through
2 line 10 on page 2, and in lieu thereof insert the following:

3 **"SEC. 2. ADJUSTMENT OF CORPORATE NORMAL TAX AND**
4 **SURTAX RATES.**

5 "(a) CORPORATE NORMAL TAX RATE.—Section 11
6 (b) of the Internal Revenue Code of 1954 (relating to rate
7 of corporate normal tax) is amended to read as follows:

8 "(b) Normal Tax.—The normal tax is equal to 22
9 percent of the taxable income."

1 “(b) CORPORATE SURTAX RATE.—Section 11 (c) of
2 such Code (relating to rate of corporate surtax) is amended
3 by striking out ‘22 percent’ and inserting in lieu thereof ‘30
4 percent’.

5 “(c) CERTAIN MUTUAL INSURANCE COMPANIES.—

6 “(1) NORMAL TAX RATE.—Section 821 (a) (1)
7 (A) of such Code (relating to rate of normal tax on
8 certain mutual insurance companies) is amended to read
9 as follows:

10 “(A) NORMAL TAX.—A normal tax of 22
11 percent of the mutual insurance company taxable in-
12 come, or 44 percent of the amount by which such
13 taxable income exceeds \$3,000, whichever is the
14 lesser; plus’.

15 “(2) SURTAX RATE.—Section 821 (a) (1) (B)
16 of such Code (relating to rate of surtax on certain mutual
17 insurance companies) is amended by striking out ‘22
18 percent’ and inserting in lieu thereof ‘30 percent’.

19 “(d) INTERINSURERS AND RECIPROCAL UNDER-
20 WRITERS.—

21 “(1) NORMAL TAX RATE.—Section 821 (b) (1)
22 of such Code (relating to rate of normal tax on certain
23 interinsurers and reciprocal underwriters) is amended
24 to read as follows:

1 “(1) **NORMAL TAX.**—A normal tax of 22 percent
2 of the mutual insurance company taxable income, or
3 44 percent of the amount by which such taxable income
4 exceeds \$50,000, whichever is the lesser; plus’.

5 “(2) **SURTAX RATE.**—Section 821 (b) (2) of
6 such Code (relating to rate of surtax on certain inter-
7 insurers and reciprocal underwriters) is amended to read
8 as follows:

9 “(2) **SURTAX.**—A surtax of 30 percent of the mu-
10 tual insurance company taxable income (computed as
11 provided in subsection (a) (1)) in excess of \$25,000,
12 or 45 percent of the amount by which such taxable
13 income exceeds \$50,000, whichever is the lesser.’

14 “(c) **EFFECTIVE DATE.**—The amendments made by
15 this section shall apply only to taxable years beginning after
16 March 31, 1956.”

17 On page 1, line 3, strike out “**TAX RATE EXTENSION**”
18 and insert “**REVENUE**”.

Amend the title so as to read: “An Act to adjust cor-
porate normal tax and surtax rates and to provide a one-year
extension of certain excise taxes.”

AMENDMENTS

Intended to be proposed by Mr. FULBRIGHT (for himself, Mr. SPARKMAN, Mr. COPENHART, Mr. HUMPHREY, Mr. KENNEDY, Mr. BEALL, Mr. DUFF, Mr. MORSE, Mr. SMATHERS, Mr. LEHMAN, and Mr. DOUGLAS) to the bill (H. R. 9166) to provide a one-year extension of the existing corporate normal-tax rate and of certain excise-tax rates.

MARCH 13 (legislative day, **MARCH 13**), 1956

Referred to the Committee on Finance and ordered to be printed

TAX RATE EXTENSION ACT OF 1956

MARCH 8, 1956.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. COOPER, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H. R. 9166]

The Committee on Ways and Means, to whom was referred the bill (H. R. 9166) to provide a 1-year extension of the existing corporate normal-tax rate and of certain excise-tax rates, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. GENERAL STATEMENT

H. R. 9166, reported unanimously by your committee, provides for a 1-year extension of the present corporate income tax rate and the existing rates of certain excises. The rates of these taxes otherwise are scheduled for reduction on April 1, 1956.

The present 52 percent corporate income tax rate, without the 1-year extension provided in the bill, would revert to 47 percent as of the first of this April through a reduction in the normal tax rate from 30 to 25 percent. The excise-tax rates, which without this bill also would be decreased this April, are those on alcoholic beverages, cigarettes, gasoline, automobiles, trucks and buses, automobile parts and accessories, and diesel and special motor fuel.

Your committee has agreed to the extensions of the present corporate and excise tax rates because of their effect on the Federal budget in the fiscal years 1956 and 1957. If these rates are not extended there would be no surplus in the fiscal year 1956 and there would be a deficit of nearly \$2 billion in the fiscal year 1957. This is shown in greater detail in the following section of this report.

The President in his budget message made the following statement

To reach a balanced budget in the fiscal year 1956 and in the fiscal year 1957 it will be necessary in addition to continuing everyday efforts to keep spending under control, to continue all the present excise taxes without any reduction and the corporation income taxes at their present rates for another year beyond April 1, 1956.

II. REVENUE AND BUDGET EFFECTS

The revenue effects of your committee's bill for the fiscal years 1956 and 1957, and also on a full year's basis, are shown in table 1. Only the extension of the excise taxes is expected to have any effect on budget receipts in the fiscal year 1956. Under existing law the excise tax reductions would be effective for April, May, and June in the fiscal year 1956, and the collections for the fiscal year 1956 would reflect most of the reductions for these months. This decrease in revenue is avoided under the bill.

The reduction in corporate taxes under existing law will not be reflected in receipts in fiscal year 1956 because of the lag in corporate tax collections. Most of the revenue effect from extending the present corporate income tax rate for 1 year beyond April 1, 1956, will be reflected in collections for the fiscal year 1957, but some effect will carry over into the fiscal year 1958.

If the various excise tax rates provided for in this bill were not extended until April 1, 1957, refunds of approximately \$200 million would have to be paid to dealers with respect to their floor stocks, or inventories of taxed articles, on which the rates would be reduced. For the most part these refunds would have been paid in the fiscal year 1957 if these excise tax rates are not extended. With the 1-year extension provided in this bill, expenditures for these floor-stock refunds will for the most part be postponed until the fiscal year 1958.

TABLE 1.—Estimated revenue gain from extension of existing corporate and excise tax rates

[Extension from Apr. 1, 1956, to Apr. 1, 1957]

	Change in rate which would occur without bill	Estimated revenue gain (in millions of dollars)		
		Fiscal 1956	Fiscal 1957	Full-year effect
Corporation (income tax).....	52 to 47 percent (normal tax reduced from 20 to 25 percent).		1,160	2,020
Excises:				
Alcohol taxes:				
Distilled spirits.....	\$10.50 to \$9 per gallon.....	26	90	126
Beer.....	30 to 26 per barrel.....	21	64	85
Wine.....	Various rates.....	3	6	9
Total, alcoholic beverages.....		50	160	225
Tobacco taxes: Cigarettes, small.....	34 to 21.50 per 1,000.....	40	145	185
Manufacturers' excise taxes:				
Gasoline.....	2 to 1 1/2 cents per gallon.....	20	220	240
Passenger cars.....	30 to 7 percent.....	47	226	273
Trucks, buses, and trailers.....	3 to 5 percent.....	6	39	45
Auto parts and accessories.....	3 to 5 percent.....	6	46	52
Total, manufacturers' excises.....		79	531	610
Retail taxes: Diesel and special motor fuels.....	2 to 1 1/2 cents per gallon.....	1	6	7
Total excises.....		204	962	1,166
Total, corporate income tax and excises.....		204	2,142	3,186

NOTE.—Floor stock refunds of about \$200 million will be postponed by the extension of existing excise tax rates.

Source: Prepared by the staff of the Joint Committee on Internal Revenue Taxation.

On a full year's basis the extension of the present corporate rate will increase revenues by \$2,020 million and the excise taxes by \$1,160, making a total full-year effect under the bill of \$3,180 million.

Table 2 shows the effect of your committee's bill on the budgets for the fiscal years 1956 and 1957. Expenditures in the budget as presented by the President for the fiscal years 1956 and 1957 are estimated at \$64.3 billion and \$65.9 billion, respectively. Receipts for these years are estimated at \$64.5 billion and \$66.3 billion, respectively. These figures reflect a surplus of \$200 million in 1956 and \$400 million in 1957. As was indicated in table 1, if the present corporate income and excise tax rates were not extended there would be a loss in revenue of \$204 million in the fiscal year 1956 and \$2,142 million in the fiscal year 1957. Moreover, if these rates were not extended floor-stock refunds of about \$200 million also would have to be paid during the fiscal year 1957. Thus, the failure to extend these rates would remove budgetary surplus in the fiscal year 1956 and result in a deficit of nearly \$2 billion in the fiscal year 1957.

TABLE 2.—Effect on the 1956 and 1957 budgets of allowing terminations of rates as scheduled Apr. 1, 1956

	Fiscal year	
	1956	1957
Budget expenditures	\$64.3	\$65.9
Budget receipts	64.5	66.3
Budget surplus (+)	0.2	0.4
Effect of termination of corporate and excise tax rates		
Decrease in revenue		-2.1
Payment of floor stock refunds		2.0
Budget surplus (+) or deficit (-) without extension of rates	0	-1.9

Source: Prepared by the staff of the Joint Committee on Internal Revenue Taxation.

III. SUMMARY OF BILL

The first section of the bill indicates that this act is to be cited as the "Tax Rate Extension Act of 1956."

Section 2 of the bill extends for 1 year the present 52 percent corporate income tax rate which otherwise is due to revert to 47 percent as of April 1, 1956. The 5 percentage point reduction will occur in the 30 percent normal tax to which all corporate taxable income is subject. The 22 percent surtax, which applies only to income above \$25,000, remains unchanged.

The rate extension provided by section 2 in the case of the corporate income tax makes the 52 percent rate applicable to taxable years beginning before April 1, 1957, and a 47 percent rate applicable with respect to taxable years beginning on or after this date. A proration formula, already in section 21 of the Internal Revenue Code, provides for corporations whose taxable years overlap April 1, 1957.

Section 2 extends the present corporate income tax rate not only for ordinary corporations but also for mutual insurance companies and interinsurers.

Section 3 of the bill extends for 1 year the present excise tax rates due to be automatically reduced as of April 1, 1956. These include the excise taxes on distilled spirits, beer, wine, cigarettes, gasoline,

automobiles, trucks and buses, automobile parts and accessories,^f and diesel and special motor fuel. These excises are described more fully in table 3 which shows the unit of tax and the rates before and after April 1, 1957, under this bill.

TABLE 3.—Excise tax rates extended until Apr. 1, 1957¹

	Unit of tax	Rate extended for period from Apr. 1, 1954, to Mar. 31, 1957	Rate to become effective Apr. 1, 1957 ²
Liquor taxes:			
Distilled spirits.....	Per proof gallon	\$10.50	\$0.
Beer.....	Per barrel.....	\$0.	\$0.
Wine:			
Still wine:			
Containing less than 14 percent alcohol.....	Per wine gallon	17 cents	15 cents
Containing 14 to 21 percent alcohol.....	Per wine gallon	67 cents	60 cents
Containing 21 to 24 percent alcohol.....	Per wine gallon	\$2.25	\$2.
Containing more than 24 percent alcohol.....	Per wine gallon	\$10.50	\$0.
Sparkling wines, liqueurs, cordials, etc.:			
Champagne or sparkling wine.....	Per wine gallon	\$2.40	\$3.
Liqueurs, cordials, etc.....	Per wine gallon	\$1.92	\$1.60.
Artificially carbonated wines.....	Per wine gallon	\$2.40	\$2.
Tobacco taxes: Cigarettes.....			
Manufacturer's excise.....	Per 1,000	54	\$2.50.
Manufacturer's excise:			
Gasoline.....	Per gallon	2 cents	1½ cents
Passenger cars.....	Manufacturers' sale price	30 percent	7 percent
Trucks, buses, truck trailers.....	Manufacturers' sale price	8 percent	8 percent
Auto parts and accessories.....	Manufacturers' sale price	8 percent	5 percent
Retailers' excise: Diesel and special motor fuel.....	Per gallon	2 cents	1½ cents.
Total excises.....			

¹ These rates were increased by the Revenue Act of 1951 and the increases were scheduled to terminate on Apr. 1, 1954. The Excise Tax Reduction Act of 1954 extended these rate increases to Apr. 1, 1955, and the Tax Rate Extension Act of 1955 extended these rate increases to Apr. 1, 1956.

Sources: Prepared by the staff of the Joint Committee on Internal Revenue Taxation.

In addition to extending the rates specified above, section 3 of the bill postpones for 1 more year the floor-stock refunds or credits presently effective with respect to stocks of various tax-paid products on hand on April 1, 1956. These floor-stock refunds are available in the case of distilled spirits, wines and beer, cigarettes, gasoline, and automobiles, trucks, and buses, and automobile parts and accessories.

Section 3 also extends for 1 year the present drawback of \$9.50 per proof gallon for distilled spirits used in the manufacture of medicines, medicinal preparations, food products, flavors, or flavoring extracts, which are unfit for beverage purposes. In conformance with the change in the distilled spirits tax, as of April 1, 1957, this drawback under the bill decreases to \$8 per proof gallon in order to maintain a net tax of \$1 per proof gallon on distilled spirits used for these purposes.

IV. CHANGES IN EXISTING LAW

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as introduced, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1954

SEC. 11. TAX IMPOSED.

(a) CORPORATIONS IN GENERAL.—A tax is hereby imposed for each taxable year on the taxable income of every corporation. The tax shall consist of a normal tax computed under subsection (b) and a surtax computed under subsection (c).

(b) NORMAL TAX.—

(1) TAXABLE YEARS BEGINNING BEFORE APRIL 1, [1956] 1957.—In the case of a taxable year beginning before April 1, [1956] 1957, the normal tax is equal to 30 percent of the taxable income.

(2) TAXABLE YEARS BEGINNING AFTER MARCH 31, [1956] 1957.—In the case of a taxable year beginning after March 31, [1956] 1957, the normal tax is equal to 25 percent of the taxable income.

SEC. 821. TAX ON MUTUAL INSURANCE COMPANIES (OTHER THAN LIFE OR MARINE OR FIRE INSURANCE COMPANIES ISSUING PERPETUAL POLICIES).

(a) IMPOSITION OF TAX ON MUTUAL COMPANIES OTHER THAN INTERINSURERS.—There shall be imposed for each taxable year on the income of every mutual insurance company (other than a life or a marine insurance company or a fire insurance company subject to the tax imposed by section 831 and other than an interinsurer or reciprocal underwriter) a tax computed under paragraph (1) or paragraph (2), whichever is greater:

(1) If the mutual insurance company taxable income (computed without regard to the deduction provided in section 242 for partially tax-exempt interest) is over \$3,000, a tax computed as follows:

(A) NORMAL TAX.—

(i) TAXABLE YEARS BEGINNING BEFORE APRIL 1, [1956] 1957.—In the case of taxable years beginning before April 1, [1956] 1957, a normal tax of 30 percent of the mutual insurance company taxable income, or 60 percent of the amount by which such taxable income exceeds \$3,000, whichever is the lesser;

(ii) TAXABLE YEARS BEGINNING AFTER MARCH 31, [1956] 1957.—In the case of taxable years beginning after March 31, [1956] 1957, a normal tax of 25 percent of the mutual insurance company taxable income, or 50 percent of the amount by which such taxable income exceeds \$3,000, whichever is the lesser; plus

(B) SURTAX.—A surtax of 22 percent of the mutual insurance company taxable income (computed without regard to the deduction provided in section 242 for partially tax-exempt interest) in excess of \$25,000.

(2) If for the taxable year the gross amount of income from interest, dividends, rents, and net premiums, minus dividends to policyholders, minus the interest which under section 103 is excluded from gross income, exceeds \$75,000, a tax equal to 1 percent of the amount so computed, or 2 percent of the excess of the amount so computed over \$75,000, whichever is the lesser.

(b) IMPOSITION OF TAX ON INTERINSURERS.—In the case of every mutual insurance company which is an interinsurer or reciprocal underwriter (other than a life or a marine insurance company or a fire insurance company subject to the tax imposed by section 831), if the mutual insurance company taxable income (computed as provided in subsection (a) (1)) is over \$50,000, there shall be imposed for each taxable year on the mutual insurance company taxable income a tax computed as follows:

(1) NORMAL TAX.—

(A) TAXABLE YEARS BEGINNING BEFORE APRIL 1, [1956] 1957.—In the case of taxable years beginning before April 1, [1956] 1957, a normal tax of 30 percent of the mutual insurance company taxable income, or 60 percent of the amount by which such taxable income exceeds \$50,000, whichever is the lesser;

(B) TAXABLE YEARS BEGINNING AFTER MARCH 31, [1956] 1957.—In the case of a taxable year beginning after March 31, [1956] 1957, a normal tax of 25 percent of the mutual insurance company taxable income, or 50 percent of the amount by which such taxable income exceeds \$50,000, whichever is the lesser; plus

(2) **SURTAX.**—A surtax of 22 percent of the mutual insurance company taxable income (computed as provided in subsection (a) (1)) in excess of \$25,000, or 33 percent of the amount by which such taxable income exceeds \$50,000, whichever is the lesser.

SEC. 4041. IMPOSITION OF TAX.

(a) **DIESEL FUEL.**—There is hereby imposed a tax of 2 cents a gallon upon any liquid (other than any product taxable under section 4081)—

(1) sold by any person to an owner, lessee, or other operator of a diesel-powered highway vehicle, for use as a fuel in such vehicle; or

(2) used by any person as a fuel in a diesel-powered highway vehicle unless there was a taxable sale of such liquid under paragraph (1).

(b) **SPECIAL MOTOR FUELS.**—There is hereby imposed a tax of 2 cents a gallon upon benzol, benzene, naphtha, liquefied petroleum gas, or any other liquid (other than kerosene, gas oil, or fuel oil, or any product taxable under section 4081 or subsection (a) of this section)—

(1) sold by any person to an owner, lessee, or other operator of a motor vehicle, motorboat, or airplane for use as a fuel for the propulsion of such motor vehicle, motorboat, or airplane; or

(2) used by any person as a fuel for the propulsion of a motor vehicle, motorboat, or airplane unless there was a taxable sale of such liquid under paragraph (1).

(c) **RATE REDUCTION.**—On and after April 1, [1956] 1957, the taxes imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon.

SEC. 4061. IMPOSITION OF TAX.

(a) **AUTOMOBILES.**—There is hereby imposed upon the following articles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to the specified percent of the price for which so sold:

(1) Articles taxable at 8 percent, except that on and after April 1, [1956] 1957, the rate shall be 5 percent—

Automobile truck chassis.

Automobile truck bodies.

Automobile bus chassis.

Automobile bus bodies.

Truck and bus trailer and semitrailer chassis.

Truck and bus trailer and semitrailer bodies.

Tractors of the kind chiefly used for highway transportation in combination with a trailer or semitrailer.

A sale of an automobile truck, bus, truck or bus trailer or semitrailer shall for the purposes of this paragraph, be considered to be a sale of the chassis and of the body.

(2) Articles taxable at 10 percent except that on and after April 1, [1956] 1957, the rate shall be 7 percent—

Automobile chassis and bodies other than those taxable under paragraph (1).

Chassis and bodies for trailers and semitrailers (other than house trailers) suitable for use in connection with passenger automobiles.

Motorcycles.

A sale of an automobile, trailer, or semitrailer shall, for the purposes of this paragraph, be considered to be a sale of the chassis and of the body.

(b) **PARTS AND ACCESSORIES.**—There is hereby imposed upon parts or accessories (other than tires and inner tubes and other than automobile radio and television receiving sets) for any of the articles enumerated in subsection (a) sold by the manufacturer, producer, or importer a tax equivalent to 8 percent of the price of which so sold, except that on and after April 1, [1956] 1957, the rate shall be 5 percent.

SEC. 4081. IMPOSITION OF TAX.

There is hereby imposed on gasoline sold by the producer or importer thereof or by any producer of gasoline, a tax of 2 cents a gallon. On and after April 1, [1956] 1957, the tax imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon.

SEC. 5001. IMPOSITION, RATE AND ATTACHMENT OF TAX.**(a) RATE OF TAX.—**

(1) **IN GENERAL.**—There is hereby imposed on all distilled spirits in bond or produced in or imported into the United States an internal revenue tax at the rate of \$10.50 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon. On and after April 1, [1956] 1957, the rate of tax imposed by this paragraph shall be \$9 in lieu of \$10.50.

(2) **PRODUCTS CONTAINING DISTILLED SPIRITS.**—All products of distillation, by whatever name known, which contain distilled spirits or alcohol, on which the tax imposed by law has not been paid, shall be considered and taxed as distilled spirits.

(3) **IMPORTED PERFUMES CONTAINING DISTILLED SPIRITS.**—There is hereby imposed on all perfumes imported into the United States containing distilled spirits a tax of \$10.50 per wine gallon, and a proportionate tax at a like rate on all fractional parts of such wine gallon. On and after April 1, [1956] 1957, the rate of tax imposed by this paragraph shall be \$9 in lieu of \$10.50.

SEC. 5022. TAX ON CORDIALS AND LIQUEURS CONTAINING WINE.

On all liqueurs, cordials, or similar compounds produced in the United States and not sold as wine, which contain more than 2½ percent by volume of wine of an alcoholic content in excess of 14 percent by volume (other than bottled cocktails), there shall be paid, in lieu of the tax imposed by section 5021, a tax at the rate of \$1.92 per wine gallon and a proportionate tax at a like rate on all fractional parts of such wine gallon until April 1, [1956] 1957, and on or after April 1, [1956] 1957, at the rate of \$1.60 per wine gallon and a proportionate tax at a like rate on all fractional parts of such wine gallon. All other provisions of law applicable to rectification shall apply to the products subject to tax under this section.

SEC. 5041. IMPOSITION AND RATE OF TAX.

(a) **IMPOSITION.**—There is hereby imposed on all wines, including imitation, substandard or artificial wine, and compounds sold as wine, having not in excess of 24 percent of alcohol by volume, in bond in, produced in, or imported into, the United States, taxes at the rates shown in subsection (b), such taxes to be determined as of the time of removal for consumption or sale. All wines containing more than 24 percent of alcohol by volume shall be classed as distilled spirits and taxed accordingly.

(b) RATES OF TAX.—

(1) On still wines containing not more than 14 percent of alcohol by volume, 17 cents per wine gallon, except that on and after April 1, [1956] 1957, the rate shall be 15 cents per wine gallon:

(2) On still wines containing more than 14 percent and not exceeding 21 percent of alcohol by volume, 67 cents per wine gallon, except that on and after April 1, [1956] 1957, the rate shall be 60 cents a wine gallon:

(3) On still wines containing more than 21 percent and not exceeding 24 percent of alcohol by volume, \$2.25 per wine gallon, except that on and after April 1, [1956] 1957, the rate shall be \$2.00 per wine gallon:

(4) On champagne and other sparkling wines, \$3.40 per wine gallon, except that on and after April 1, [1956] 1957, the rate shall be \$3.00 per wine gallon and

(5) On artificially carbonated wines, \$2.40 per wine gallon, except that on and after April 1, [1956] 1957, the rate shall be \$2.00 per wine gallon.

SEC. 5031. IMPOSITION AND RATE OF TAX.

(a) **RATE OF TAX.**—There is hereby imposed on all beer, brewed or produced and sold, or removed for consumption or sale, within the United States, or imported into the United States, a tax of \$9 for every barrel containing not more than 31 gallons, and at a like rate for any other quantity or for the fractional parts of a barrel authorized and defined by law. On and after April 1, [1956] 1957, the tax imposed by the preceding sentence shall be at the rate of \$8 in lieu of \$9. In estimating and computing such tax, the fractional parts of a barrel shall be halves, thirds, quarters, sixths, and eighths, and any fractional part of a barrel.

containing less than one-eighth, shall be accounted one-eighth; more than one-eighth, and not more than one-sixth, shall be accounted one-sixth; more than one-sixth, and not more than one-fourth, shall be accounted one-fourth; more than one-fourth, and not more than one-third, shall be accounted one-third; more than one-third and not more than one-half, shall be accounted one-half; more than one-half and not more than one barrel, shall be accounted one barrel; and more than one barrel, and not more than 63 gallons, shall be accounted two barrels, or a hogshead. The provisions of this section requiring the accounting of hogsheads, barrels, and fractional parts of barrels at the next higher quantity shall not apply where the contents of such hogsheads, barrels, or fractional parts of barrels are within the limits of tolerance established by the Secretary or his delegate by regulations which he is hereby authorized to prescribe; and no assessment shall be made and no tax shall be collected for any excess in any case where the contents of the hogsheads, barrels, or fractional parts of barrels heretofore or hereafter used are within the limits of the tolerance so prescribed.

* * * * *

SEC. 5063. FLOOR STOCKS TAX REFUNDS ON DISTILLED SPIRITS, WINES, CORDIALS AND BEER.

(a) **GENERAL.**—With respect to any article upon which tax is imposed under this part, upon which internal revenue tax (including floor stocks tax) at the applicable rate prescribed has been paid, and which, on April 1, [1956] 1957, 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 Secretary or his delegate an amount equal to the difference between the tax so paid and the rate made applicable to such articles on and after April 1, [1956] 1957, if claim for such credit or refund is filed with the Secretary or his delegate prior to May 1, [1956] 1957, or within 30 days from the promulgation of such regulations.

(b) **LIMITATIONS ON ELIGIBILITY FOR CREDIT OR REFUND.**—No person shall be entitled to credit or refund under subsection (a), unless such person, for such period or periods both before and after April 1, [1956] 1957 (but not extending beyond 1 year thereafter), as the Secretary or his delegate shall by regulations prescribe, makes and keeps, and files with the Secretary or his delegate, such records of inventories, sales, and purchases as may be prescribed in such regulations.

(c) **OTHER LAWS APPLICABLE.**—All provisions of law, including penalties, applicable in respect of internal revenue taxes on distilled spirits, wines, liquors and cordials, imported perfumes containing distilled spirits, and beer shall, insofar as applicable and not inconsistent with this section, be applicable in respect of the credits and refunds provided for in this section to the same extent as if such credits or refunds constituted credits or refunds of such taxes.

* * * * *

SEC. 5134. DRAWBACK.

(a) In the case of distilled spirits on which the tax has been determined and used as provided in this subpart, a drawback shall be allowed:

- (1) At the rate of \$6 on each proof gallon upon which tax is paid at a rate of \$9 per proof gallon prior to November 1, 1951;
- (2) at the rate of \$9.50 on each proof gallon upon which tax is determined at the rate of \$10.50 per proof gallon on and after November 1, 1951;
- (3) at the rate of \$8 on each proof gallon upon which tax is determined at a rate of \$9 per proof gallon after March 31, [1956] 1957.

* * * * *

SEC. 5701. RATE OF TAX.

(c) **CIGARETTES.**—On cigarettes, manufactured in or imported into the United States, there shall be imposed the following taxes:

- (1) **SMALL CIGARETTES.**—On cigarettes, weighing not more than 3 pounds per thousand, \$4 per thousand until April 1, [1956] 1957, and \$3.50 per thousand on and after April 1, [1956] 1957;
- (2) **LARGE CIGARETTES.**—On cigarettes, weighing more than 3 pounds per thousand, \$8.10 per thousand; except that, if more than 6½ inches in length,

they shall be taxable at the rate prescribed for cigarettes weighing not more than 3 pounds per thousand, counting each $2\frac{1}{4}$ inches, or fraction thereof, of the length of each as one cigarette.

SEC. 5707. FLOOR STOCKS REFUND ON CIGARETTES.

(a) **IN GENERAL.**—With respect to cigarettes, weighing not more than 3 pounds per thousand, upon which the tax imposed by subsection (c) (1) of section 5701 has been paid, and which, on April 1, [1956] 1957, are held by any person and intended for sale, or are in transit from foreign countries or insular possessions of the United States to any person in the United States for sale, there shall be credited or refunded to such person (without interest), subject to such regulations as shall be prescribed by the Secretary or his delegate, an amount equal to the difference between the tax paid on such cigarettes and the tax made applicable to such articles on April 1, [1956] 1957, if claim for such credit or refund is filed with the Secretary or his delegate before July 1, [1956] 1957.

(b) **LIMITATIONS ON ELIGIBILITY FOR CREDIT OR REFUND.**—No person shall be entitled to credit or refund under subsection (a) of this section unless such person, for such period or periods both before and after April 1, [1956] 1957 (but not extending beyond 1 year thereafter), as the Secretary or his delegate shall, by regulation, proscribe, makes and keeps, and files with the Secretary or his delegate such records of inventories, sales, and purchases as shall be prescribed in such regulations.

SEC. 412. FLOOR STOCKS REFUNDS.

(a) MOTOR VEHICLES.—

(1) **IN GENERAL.**—Where before April 1, [1956] 1957, any article subject to the tax imposed by section 4061 (a) or (b) has been sold by the manufacturer, producer, or importer, and on such date is held by a dealer and has not been used and is intended for sale, there shall be credited or refunded (without interest) to the manufacturer, producer, or importer an amount equal to the difference between the tax paid by such manufacturer, producer, or importer on his sale of the article and the amount of tax made applicable to such article on and after April 1, [1956] 1957.

(2) **DEFINITIONS.**—For purposes of this subsection—

(A) The term "dealer" includes a wholesaler, jobber, distributor, or retailer.

(B) An article shall be considered as "held by a dealer" if title thereto has passed to such dealer (whether or not delivery to him has been made), and if for purposes of consumption title to such article or possession thereof has not at any time been transferred to any person other than a dealer.

(3) **REFUNDS TO DEALERS.**—Under regulations prescribed by the Secretary or his delegate, the refund provided by this subsection may be made to the dealer instead of the manufacturer, producer, or importer, if the manufacturer, producer, or importer waives any claim for the amount so to be refunded.

(4) **REIMBURSEMENT OF DEALERS.**—When the credit or refund provided for in this subsection has been allowed to the manufacturer, producer, or importer, he shall remit to the dealer to whom was sold the article in respect of which the credit or refund was allowed so much of that amount of the tax corresponding to the credit or refund as was included in or added to the price paid or agreed to be paid by the dealer.

(5) **LIMITATION ON ELIGIBILITY FOR CREDIT OR REFUND.**—No person shall be entitled to credit or refund under this subsection unless— (A) he has in his possession such evidence of the inventories with respect to which the credit or refund is claimed as may be required by regulations prescribed under this subsection, and (B) claim for such credit or refund is filed with the Secretary or his delegate before July 1, [1956] 1957.

(b) GASOLINE.—

(1) **IN GENERAL.**—With respect to any gasoline taxable under section 4081, upon which tax (including floor-stocks tax) at the applicable rate has been paid, and which, on April 1, [1956] 1957, is held and intended for sale by any person, there shall be credited or refunded (without interest) to the producer or importer who paid the tax, subject to such regulations as may be prescribed by the Secretary or his delegate, an amount equal to so much of the difference between the tax so paid and the amount of tax made applicable to such gasoline on and after April 1, [1956] 1957, as has been paid by such producer or importer to such person as reimbursement for the tax reduction on such gasoline, if claim for such

credit or refund is filed with the Secretary or his delegate prior to July 1, [1956] 1957. No credit or refund shall be allowable under this subsection with respect to gasoline in retail stock held at the place where intended to be sold at retail, nor with respect to gasoline held for sale by a producer or importer of gasoline.

(2) **LIMITATION ON ELIGIBILITY FOR CREDIT OR REFUND.** No producer or importer shall be entitled to a credit or refund under paragraph (1) unless he has in his possession satisfactory evidence of the inventories with respect to which he has made the reimbursements described in such paragraph, and establishes to the satisfaction of the Secretary or his delegate with respect to the quantity of gasoline as to which credit or refund is claimed under such paragraph, that on or after April 1, [1956] 1957, such quantity of gasoline was sold to the ultimate consumer at a price which reflected the amount of the tax reduction.

SECTION 497 OF THE REVENUE ACT OF 1951

SEC. 497. REFUNDS ON ARTICLES FROM FOREIGN TRADE ZONES.

(a) **IMPORTED ARTICLES.**—With respect to any article specified in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150 (a) of the Internal Revenue Code of 1939 (or section 5701 (c), 5001 (a), 5022, 5011 (b), or 5051 (a) of the Internal Revenue Code of 1954) on which internal revenue tax at the applicable rate prescribed in such section has been determined pursuant to section 3 of the Act of June 18, 1934, as amended (U. S. C., title 19, sec. 81c), prior to April 1, [1956] 1957, and which on or after such date is brought from a foreign trade zone into customs territory of the United States and the tax so determined thereon paid, there shall be credited or refunded (without interest) to the taxpayer, subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference between the tax so paid and the amount of tax made applicable to such articles on and after April 1, [1956] 1957, if claim for such credit or refund is filed with the Secretary within thirty days after payment of the tax.

(b) **PREVIOUSLY TAXED ARTICLES.**—With respect to any article specified in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150 (a) of the Internal Revenue Code of 1939 (or section 5701 (c), 5001 (a), 5022, 5011 (b), or 5051 (a) of the Internal Revenue Code of 1954), upon which internal revenue tax (including floor stock tax) at the applicable rate prescribed in such section has been paid, and which was taken into a foreign trade zone from the customs territory of the United States and placed under the supervision of the collector of customs, pursuant to the second proviso of section 3 of the Act of June 18, 1934, as amended (U. S. C., title 19, sec. 81c), prior to April 1, [1956] 1957, and which on or after such date is (without loss of identity) returned from a foreign trade zone to customs territory of the United States, there shall be credited or refunded (without interest) to the person so returning such article, subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference between the tax so paid and the amount of tax made applicable to such articles on and after April 1, [1956] 1957, if claim for such credit or refund is filed with the Secretary within thirty days after the return of the article to customs territory.

The Chairman. On March 16th Senator Fulbright wrote to the Chairman requesting that if witnesses in opposition to his amendments desired to be heard, that an opportunity should be given to those witnesses to be heard.

Now there are quite a number of witnesses who have indicated they desire to be heard in opposition; but as the Bill was passed on March 14th it was impossible last week to arrange any hearings, and sometime ago Secretary Fulson was requested to appear on tomorrow, Thursday, before the Committee, on the Social Security Bill. Then on Friday, Secretary Humphrey.

It would be necessary, I believe, to report this Bill as early as possible to the Senate, next week, as the taxes terminate on March 30th.

Now for the purpose of the record I will ask that the letter to Senator Fulbright be inserted; also a letter to the Chairman from Senator Fulbright dated March 13, 1956. Also a letter to Senator Fulbright dated March 16, 1956 from Secretary Humphrey, in opposition to the amendments.

(The letters above referred to are as follows:)

COMMITTEE SECRETARY

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United States Senate

COMMITTEE ON BANKING AND CURRENCY

J. W. FULBRIGHT, CHAIRMAN
ROBERT A. WALLACE, STAFF DIRECTOR

March 13, 1956

Honorable Harry F. Byrd
Chairman, Committee on Finance
United States Senate
Washington, D. C.

Dear Senator Byrd:

I have your letter of February 25, 1956 and am most grateful for the opportunity to appear before your committee in support of the bills, S. 3128 and S. 3129. I understand that the House of Representatives will probably pass H. R. 9166 today; and upon its passage in the House, I intend to offer the substance of the bills, S. 3128 and S. 3129, as amendments to H. R. 9166.

Since the introduction of these two bills, it has come to my attention that opposition may be expected from corporations which would experience a small tax increase under S. 3129, and from persons who derive income from partially tax exempt interest on certain Federal securities. Of course, I am quite anxious that my proposals not be prejudiced on the grounds that anyone adversely affected by them was not given an opportunity to be heard. I do not know whether the committee has received any other requests to testify, although I gave notice on February 3, that I intended to offer these bills as amendments to the House bill. You will also recall that I wrote you on February 22, requesting an opportunity to testify.

Therefore, if you consider the absence of opposition witnesses as a possible source of objection to my amendments, or the testimony of such witnesses to be significant to the committee's consideration of my proposals on their merits, may I respectfully suggest that the committee afford possible opponents of my amendments an opportunity to testify.

Sincerely yours,

J. W. Fulbright

The Chairman. . Senator Fulbright, we are very happy indeed to hear from you at this time. We will be glad to hear from you either where you are, or from any place.

Senator Fulbright. I expect the reporter could hear me better down there, Mr. Chairman.

The Chairman. Now we have a statement from Senator Sparkman. Will he appear in person, or does he wish it inserted?

Senator Fulbright. I will give that.

The Chairman. That is made a part of the record, then.

(The statement is as follows:)

COMMITTEE INSERT

STATEMENT BY SENATOR SPARKMAN BEFORE SENATE FINANCE COMMITTEE

ON H.R. 9166, TAX RATE EXTENSION ACT OF 1956

MR. CHAIRMAN AND MEMBERS OF THE FINANCE COMMITTEE:

No problem is more acute to the small-business man than the impact of high Federal taxes; no action that Congress takes is more important than our votes on the level of those Federal taxes.

The Senate Small Business Committee has been aware of this basic fact of business life since it was first established in 1950. During 1951 and 1952, our Subcommittee on Taxes held seven hearings throughout the country and gave hundreds of small-business men the opportunity to present their testimony and advice on the peculiar tax problems of small business. As a result of those extensive hearings and comprehensive study, the Committee submitted a report to the Senate on June 18, 1953, on "The Tax Problems of Small Business."

Our report made five specific recommendations:

1. End the excess profits tax- this was done.
2. Establish more reasonable depreciation policies- a good start on this task has also been made.
3. Set more definite standards for administering Section 102- the 1954 revisions of the Code did much in this direction.
4. Lessen the impact of death levies on small, privately-held firms - administrative action has made possible some progress here, and
5. Increase the exemption from surtax rates from the present \$25,000 to \$50,000 or \$100,000- only here has no action been taken.

The Senate Small Business Committee still feels that the present \$25,000 exemption from surtax imposts is too low for small firms who must depend almost exclusively upon retained earnings for their very life. As long as the Federal Government alone demands 52% of all profits, the small firm has little opportunity for expansion or modernization of his plant facilities and even less protection for his working capital position in case of even a short period of economic retraction. Surely, even a short recession will spell doom for many thousands of small businesses which have not been able to accumulate any earnings during prosperous years because of the high levels of Federal excess profits and surtax levies.

Two weeks ago, on the Floor of the Senate, I pointed out the alarming rise in the number of business failures as reported by Dun and Bradstreet. Just yesterday, the financial papers reported that failures for the preceding week hit the 300 mark for the first time in over fifteen years. I submit that many of these firms would still be in production if there were more flexibility in our corporate tax laws and if these young and growing concerns were able to retain more of their earnings during profitable years for protection against the lean years.

On the other hand, I am a realist and I know that revenue is needed to carry on the activities of the Federal Government. There is no possibility at this time of making all the revisions in the tax code that we desire. Therefore, I was pleased to have been asked by Senator Fulbright to co-sponsor Senate Bills 3128 and 3129, since I feel that they represent a

step in the right direction. Six members of the Senate Small Business Committee joined in supporting Senator Fulbright's proposals. It is my feeling that all thirteen would have served as co-sponsors had there been time to contact all of them and explain the meaning of S. 3128 and S. 3129.

The inclusion of the provisions of one of those bills in H.R. 9166 by the Finance Committee and by the Senate will show the four million small businesses in the country that we are doing everything in our power to bring them relief and that this first installment will be followed by similar actions as soon as our fiscal situation allows. Furthermore, and more importantly, I feel that reversing the normal and the surtax rates will bring relatively substantial relief to those who need it most. Thus, it meets three important tests: (1) it will aid small businesses, (2) it is a logical and rational step, and (3) the revenue losses are minimal and can, if desired, be offset completely by adopting the 31% surtax rate provided in S. 3129.

I hope that this Committee will consider favorably these amendments to the pending Bill. Thank you for this opportunity to present this testimony.

4

STATEMENT OF HONORABLE J. WILLIAM FULBRIGHT
UNITED STATES SENATOR FROM THE STATE OF ARKANSAS

Senator Fulbright. Mr. Chairman and members of the Committee on Finance, I appreciate very much this opportunity to present an argument in favor of these amendments to H. R. 9166.

Mr. Chairman, I have a prepared statement which is fairly long. If the chairman would permit, I would like to have that put in the record.

The Chairman. Yes, that is all right.

(The statement is as follows:)

COMMITTEE INSERT

AMENDMENTS TO H. R. 9166--
TAX REDUCTION FOR LOW-INCOME CORPORATIONS--
BEFORE THE SENATE FINANCE COMMITTEE

Mr. Chairman, and members of the committee, on February 3, I introduced two bills, S. 3128, co-sponsored by Senators Sparkman, Capehart, Kennedy, Frear, Hall, Duff, Morse, Smathers, Lehman, Douglas, and Humphrey, and S. 3129, co-sponsored by Senators Sparkman, Capehart, Humphrey, Kennedy, Beall, Duff, Morse, Smathers, Lehman, and Douglas. Both of these bills would reduce the impact of Federal income taxes on low-income corporations. On March 13, the House of Representatives passed a bill, H. R. 9166, which would extend present corporate tax rates for an additional year. The extension of these rates was recommended by the President in his Economic Report to the Congress. On March 15, I submitted two alternative amendments to H. R. 9166, which amendments adopt the proposals contained in S. 3128 and S. 3129, and in which I was joined by the same co-sponsors. I am here to request your endorsement of one of these amendments.

Under present law, which the President wishes to continue, corporations generally are subject to a "normal" tax rate on net earnings of 30 percent, plus a surtax rate of 22 percent on net earnings in excess of \$25,000. The amendment (S. 3129-15-56-C) patterned after S. 3129, which appears to be more compatible with current estimates of revenue requirements, provides a normal tax rate of 22 percent and a surtax rate of 31 percent. According to the staff of the Joint Committee on Internal Revenue Taxation, this would result in an estimated increase in revenue of approximately \$20 million.

The distribution of the benefits, or increased liabilities, under this proposal are shown in Exhibit 1, which is attached to this statement. The effects can be illustrated by these examples taken from the table. Corporations with incomes of \$25,000 and less would have their tax burden reduced by 26.7 percent. A corporation with income of \$100,000 would be given tax relief of 2.7 percent. Corporations with incomes of \$500,000 and over would have increased tax liabilities from 1.1 percent, in the case of a corporation with that income, to 1.9 percent in the case of a corporation with income of \$100 million.

The "break even" point under this amendment occurs at the \$225,000 income level -- all firms earning less than \$225,000 would receive a tax reduction and firms earning more than \$225,000 would receive a tax increase. Obviously this

... as it would be determined that a revenue loss is feasible, the committee could adopt my other amendment (3-15-56-B) which is patterned after S. 3128. This amendment would merely reverse the present tax rates by providing for a 22 percent "normal" tax upon net earnings and a 30 percent surtax on all earnings in excess of \$25,000. The staff of the Joint Committee on Internal Revenue Taxation advises me that the revenue loss from this proposal would be somewhere between \$300 million and \$400 million. Your committee must consider whether the budget outlook is such that the revenue loss can be afforded. The effect of this alternative amendment upon the various income levels is shown by the table which appears in Exhibit 2 to this statement.

Mr. Chairman, a healthy community of small businesses is essential to national growth, national prosperity, and political health. We must prevent the development of an economic no-man's land for small business. This means that some form of encouragement must be devised for the modest-sized enterprise to enable it to grow and to remain strong.

As I see it, the chief competitive handicaps of the small business are: (1) great difficulty and expense in obtaining equity capital, (2) high interest rates upon borrowed money, and (3) insufficient funds for management personnel. Our tax structure emphasizes and compounds these discriminations against small business.

The small businesses have three principal sources for funds with which to maintain and expand production: first, new capital investment; second, borrowing; and third, business earnings.

Small business has difficulty in obtaining equity capital because it does not have the large financial resources which will guarantee stockholders against severe loss on their investment. A small businessman who needs equity capital usually is told that the expense of raising up to \$300,000 in the securities market averages almost 20 percent and may reach 25 percent or 30 percent. He may ask, "Why," and point to the recent Ford or General Motors issues where the expense was a small fraction of 1 percent. But he must face the uncomfortable fact that it will cost him 40 or 50 times as much to tap the capital markets as it costs the larger corporations.

Because of the difficulty in obtaining equity financing, the small businessman usually must borrow money for a short term from a bank or other lender to realize his capital needs. Long-term borrowings in the securities markets would be

established at 6 percent or even higher for the small businessman. The large corporations may either float a debt issue of securities or borrow money at interest rates of $3\frac{1}{2}$ percent or 4 percent for long terms. This gives larger corporations a competitive advantage which reduces their costs and, therefore, could result in lower prices to customers or higher returns on their stockholders' investments.

In this connection, however, it is interesting to note that the lower costs made possible by these competitive advantages are not necessarily passed on to consumers. The FTC-SEC Quarterly Financial Report for the 2nd quarter of 1955 shows that corporate profits as a percentage of sales rise in proportion to the asset size of the corporation. For example, the smallest corporations (assets under \$250,000) earned only 1.1 cents per dollar of sales, while the largest corporations (\$100 million and over) were earning 7.4 cents per dollar of sales. This disparity in profits occurs while the largest manufacturing corporations increased their sales volume by 19 percent between the 3rd quarter of 1954 and the 3rd quarter of 1955, in contrast to a mere 3 percent increase in sales volume of the smallest manufacturing corporations. Thus, the small manufacturer is losing out in both volume of sales and percent of profit per dollar of sales.

The difficulties which the smaller corporation has in obtaining equity capital from stock issues or borrowings makes it much more dependent on retained earnings than are larger companies. Hence, unless its profits are greater, or its tax burden is less, the small company finds itself in a position of relative weakness compared to larger companies with which it must often compete.

In terms of profits upon investment we find that corporations in the smallest category, as reported by the Federal Trade Commission and the Securities and Exchange Commission -- those with under \$250,000 in assets -- sustained a net loss in the 4th quarter of 1954, returned 3.6 percent upon their equity in the 1st quarter of 1955, returned 5.3 percent upon their equity in the 2nd quarter of 1955, and returned 10.4 percent upon their equity in the 4th quarter of 1955. Contrast this record with that of corporations with \$100 million or over. During every quarter of the last year, they returned more than 13.5 percent upon the equity investment of their stockholders. During the 2nd quarter of 1955 the return reached 15.0 percent. Furthermore, total corporate profits after taxes in 1955 have been exceeded only by profits in 1950. However, as shown by the statistics above, the profit ratios of the largest corporations greatly exceed the ratios of

diversification of product, and a smaller financial cushion against initial reverses. This is illustrated most dramatically by the business failure statistics based on companies listed with Dun and Bradstreet. Very few, if any, failures are recorded for large corporations; but the rise in these dismal statistics for small businesses has been alarming in recent years. In 1945 there were only 809 failures. In 1953 there were approximately 8,862. In 1954 there were 11,086. The latest reports for 1955 indicate that there were almost as many, 10,969, in that boom year as there were in 1954.

Either one of my amendments will not only permit the retention of more capital in the small business, so that less high cost financing is necessary; but this retained income will also serve as a countervailing pressure against mergers and consolidations. The more favorable tax treatment for small corporations will enable many of them to survive whereas they might otherwise end up among the failure statistics.

In addition to failures, statistics of the Federal Trade Commission show the following trend in the number of manufacturing and mining concerns acquired or merged during the last 30 years. Beginning in 1922, the number of mergers rose steadily from 297 to a peak of 1,216 in 1929. Thereafter, the number of mergers leveled off at less than 200 in 1932 and varied within a range from 87 to 419 throughout the forties. However, mergers rose rapidly in 1951, reached 322 in 1952, and stayed at a high level in 1953 and 1954.

While I don't pretend to be an expert on tax matters, it is very obvious to me that the ability to carry over business losses from one year, to offset profits in another year, is a strong factor in this merger movement. It is very difficult for the small corporation, suffering losses caused in many instances by its smallness alone, to resist the eager embrace of the profitable giant seeking a variety of tax advantages to be derived from the prior losses of the unfortunate side-to-be.

I do not have a solution to this problem. But until some solution is found, we must do whatever we can to strengthen small companies and thus make them less attractive to the rich suitor with a loss carry-over gleam in his eye. My amendments will reduce the taxes on small companies, and the income retained thereby will contribute directly to this strength.

porate tax structure favors the growth of large businesses as against small businesses. For instance, last December when testifying before the Subcommittee on Policy of the Joint Committee on the Economic Report, Mr. Dexter M. Keezer, President and Director of the Economics Department of the McGraw-Hill Publishing Company, made the following statement:

"I think we have at the present time a high and satisfactory level of business investment But simply in terms of maintaining an adequate level of investment, I would not say that the present is an occasion to reduce the corporate tax rate. Except, may I give this qualification? Maintaining this rate means that you are going to have larger and larger corporate units at the expense of smaller units. This seems to be a matter of great social, political, and economic significance. Over a period with which we are concerned, the smaller corporations, as you well know, have not had the same rate of growth and capital acquisition." (underlining supplied)

Mr. Chairman, that is exactly my position. Unless some action is taken to reverse the present trend, the growth of small businesses will continue to lag their relative position in our economy will continue to worsen. And while on the general subject of "growth", we should expect that as population grows and as business activity expands, there should be an expansion of business opportunity and an increase in the number of business firms. But look at the record as shown on page 231 of the President's Economic Report. While there was an annual increase of about 55,000 firms during the period between 1948 and 1952, the number of new starting firms increased by only 28,300 from June, 1954 to June, 1955. And this period has been characterized as a booming economy. If this is what happens in a boom, I submit that the small businesses of this country might be better off without it.

Now, Mr. Chairman, I want to point out some specific and significant advantages which large corporations have under our present Federal tax laws. One of the elements of existing big business bias in our corporate tax laws involves the accelerated depreciation of new machinery, while similar treatment is not available for used machinery. It is well known that small businesses are the principal purchasers of used machinery. Thus, the very significant benefit of the accelerated depreciation tax provisions are not available to many smaller corporations.

Now, some people advocate including secondhand machinery under the accelerated depreciation provisions, but I think that this action alone would merely accentuate the problem. For example, under present law a large corporation can, in a relatively short time, depreciate new machinery to a figure below its market value. The large corporation can then sell this machinery for more than its depreciated value and treat the income as a capital gain. If secondhand machinery had the benefit of accelerated depreciation, small businesses would be more eager to buy secondhand equipment. Then the giant corporations would realize even greater profits from the sales and greater capital gain windfalls.

The way to treat small businesses fairly would be to permit accelerated depreciation of both old and new machinery, and to tax income derived from the sale of depreciated machinery at the regular rates for corporate income. But until such changes are made, this is one more factor contributing to the financial dilemma of small businesses.

Another advantage for large corporations is their ability to attract and hold highly skilled management and technical personnel by deferred compensation plans. These plans reduce the impact of individual income tax rates and give a higher real income to such employees. For instance, a special bonus is given large corporations by those provisions of the tax laws which deal with stock options. All salaried employees must pay taxes upon their incomes at the regular income tax rates. The fortunate recipient of a stock option, however, pays no tax, in most instances, when he receives the option; pays no tax when he exercises the option; and pays only a capital gains tax upon any profit he makes when he sells the stock.

To qualify for this preferred treatment, the corporation must be able to value its stock by some acceptable reference to market value at the time the option is granted. The small corporation, which is closely held, has great difficulty in meeting this requirement. As a result, it is the large publicly-held corporations which benefit. Almost half the corporations listed on the New York Stock Exchange have such plans. The revenue loss to the government cannot be estimated, but it is very substantial.

By this and similar devices, big business is able to attract and to hold the most able technical and executive talent. A small corporation must pay much higher salaries, if its employees who do not have stock options, are to be able to pay, after taxes, as much as the employees of the large corporation which does

Even the owner of the small corporation may believe that he himself can find refuge against business risk, attain relative security, and provide a fund for his retirement by giving up his small business and going to work for a large corporation. The tax laws foster this trend by such provisions as restricted stock options.

Mr. Chairman, I believe that the amendments I have offered will serve to relieve, to some extent, the constant drain of management personnel from small business. A growing, expanding enterprise presents a challenge to management, and good management will stay with the business so long as they can participate in its growth. If our tax policies militate against growth, there is little incentive to the personnel. In addition, higher retained earnings would enable the business to pay higher salaries and this, too, would serve to keep good management from accepting positions with larger companies.

Still another advantage of the large corporations is their ability to adjust to tax rates with little effect upon their rates of earnings after taxes. This is possible because large corporations can, to a considerable extent, shift a large portion of their taxes to consumers in the form of higher prices. This is especially the case in industries which are dominated by one or a few corporate plants, and where competition does not operate to hold prices down.

Small corporations can rarely set prices to absorb taxes. There are too many of them and generally no single one is in a position to exert substantial control over prices in its industry.

Actually, the small corporation gets hit from both sides under the present corporate tax structure. His raw materials tend to be produced by giant concerns which can pass on a large share of their taxes to him. Thus, corporate taxes, for the small corporation, will generally result in higher costs. At the same time, he does not have the economic power to set prices to absorb his own taxes.

And finally, some very wise provisions in the tax law, designed to encourage research and experimental programs by industry, operate to the primary benefit of big business. These provisions offer favorable tax treatment of expenditures made for research. While these provisions have considerable merit, I think we should frankly admit that the benefits inure almost exclusively to big businesses.

... the defense needs of the nation require direct Federal expenditures for research for weapons and other items of military necessity. The size of these Federal expenditures amounts to over a billion dollars every year, and the contracts go primarily to our huge industrial corporations. It would seem that the law has compounded the advantage of big business in the field of research -- or, as I have heard it said more colloquially -- "them as has gets".

This is just one more set of circumstances illustrating an economic bias in favor of big business. Tax relief for small businesses is the best way to offset some of this bias, and I think that such relief must be granted.

And while on the subject of Federal expenditures for the output of industrial concerns, we should remember that a very substantial part of the total business in this country is associated with the national defense. Defense contracts awarded in 1955 totaled over \$15 billion. And in spite of Congressional efforts to divert some of this spending to small firms, the major portion has gone to a few giant corporations.

The Senate Armed Services Committee recently reported that from June, 1950 through June, 1953, over 63 percent of the value of all defense contracts went to the 100 largest defense contractors. During the period of July, 1953 through December, 1954, this percentage rose to over 68 percent. It is no answer to pretend that such conditions are inevitable. The ability to accumulate capital and grow through more equitable corporate tax rates would be a very important factor in reversing this trend of defense buying from the largest corporations.

Mr. President, since the introduction of my bills, S. 3126 and S. 3129, I have been admonished that I should not forget those small businesses which are proprietorships or partnerships, and which do not choose to file a corporate tax return as permitted under the 1954 Revenue Act. I assure you that I have not forgotten these businesses, and I urge the committees of Congress who study and draft our tax laws not to forget them. Some way should be found to relieve the tax burden of all those with low and middle incomes, whether their incomes are derived from wages, farms, professional services, proprietorships, or partnerships. However, it should be noted that any corporate income which is saved by my amendments, which is not retained for corporate growth, will be taxed as individual income of the stockholders receiving it.

Although I could recommend other changes in the tax laws, including changes in the individual tax rates, I am forced to view the situation realistically and recognize that Rome wasn't built in a day. Frankly, here is the situation. The House of Representatives has passed a bill which will continue the corporate tax rate and certain excise tax rates at their present levels. While diverse amendments on diverse subjects could be offered on such a bill, the practical approach and courteous approach to the committees of Congress is to limit amendments to the subject matter treated in the bill.

Under the circumstances, I think amendments should relate only to changes in the corporate tax structure. However, I respectfully urge your committee to give early and earnest consideration to a revision of the individual income tax rates in the interest of all our low and middle income taxpayers.

Mr. Chairman, I have tried to show that small businesses are in a bad way in this country. This is shown by business failures, by business mergers, and by profit ratios and sales volume of different size classes of corporations. I believe that conditions exist in our general economy as well as in the tax law itself which contribute to and aggravate this situation. In considering a bill to extend the present corporate tax rates, you have an opportunity to offset in a real way some of the disadvantages faced by the small businessman.

The present rate structure seems to have contributed to the decline in the relative importance of small business in recent years. To the extent that our tax laws foster larger and larger business units, our political democracy is weakened. I am sure that we all recognize the relationship between the survival of our thriving business units and the survival of our political democracy.

These amendments will assist those companies in the formative or development stage to overcome initial capital difficulties, and will assure a continuing supply of capital when it is needed to maintain the competitive position of the small business enterprise. I can think of no action more vital to the maintenance of our system of free enterprise than the encouragement and development of small businesses. They are the very foundation of our national economy.

(Proposal in S. 3128)

Income subject to normal tax and surtax	Present Tax Liability		Proposed Tax Liability		Change	
	(Normal rate 30%, surtax rate 22%)		(Normal rate 22%, surtax rate 31%)		Amount \$	Percent %
5,000	\$ 1,500		\$ 1,100		\$ - 400	-26.7
10,000	3,000		2,200		- 800	-26.7
15,000	4,500		3,300		-1,200	-26.7
20,000	6,000		4,400		-1,600	-26.7
25,000	7,500		5,500		-2,000	-26.7
50,000	20,500		18,750		-1,750	- 8.5
100,000	46,500		45,250		-1,250	- 2.7
225,000	111,500		111,500		No Change	No Change
500,000	254,500		257,250		+2,750	+ 1.1
1,000,000	514,500		522,250		+7,750	+ 1.5
10,000,000	5,194,500		5,292,250		+97,750	+ 1.9
100,000,000	51,994,500		52,992,250		+997,750	+ 1.9

EXHIBIT 2

EFFECT OF A NORMAL TAX RATE OF 22% AND A SURTAX RATE OF 30%
(Proposal in S. 3128)

Income subject to normal tax and surtax	Present Tax Liability		Proposed Tax Liability		Change	
	(Normal rate 30%, surtax rate 22%)		(Normal rate 22%, surtax rate 30%)		Amount \$	Percent %
5,000	\$ 1,500		\$ 1,100		\$ - 400	-26.7
10,000	3,000		2,200		- 800	-26.7
15,000	4,500		3,300		-1,200	-26.7
20,000	6,000		4,400		-1,600	-26.7
25,000	7,500		5,500		-2,000	-26.7
50,000	20,500		18,500		-2,000	- 9.8
100,000	46,500		44,500		-2,000	- 4.3
225,000	111,500		109,500		-2,000	- 1.8
500,000	254,500		252,500		-2,000	- 0.8
1,000,000	514,500		512,500		-2,000	- 0.4
10,000,000	5,194,500		5,192,500		-2,000	- 0.04
100,000,000	51,994,500		51,992,500		-2,000	- 0.004

Senator Fulbright. Then I would like to comment upon it, and I hoped I would save a little time and develop the points more fully.

The Chairman. It is satisfactory that you do that.

Senator Fulbright. I also have a letter from the Secretary of Treasury. I am not sure this is the same letter.

Senator Carlson. This is a carbon made on March 16th, 1956.

Senator Fulbright. The Senator has already made that a part of the record.

I also ask that the statement by Senator Sparkman, who is a co-sponsor of this amendment, be made a part of the record.

The Chairman. That has been done.

Senator Fulbright. Also, Mr. Chairman, at the end of my remarks, I have a number of memoranda which supports specific points which I believe would be helpful to the record, which I do not want to put in now because I want to refer to them. But I want to put them in the record at the end.

The Chairman. Anything the Senator desires to put in the record, we will be glad to have.

Proceed, Senator Fulbright.

Senator Fulbright. Mr. Chairman, There were two amendments of course that are described in my prepared statement. But in view of the letter from the Secretary of the Treasury, and I think the now general feeling on the part of members of the Senate and Congress, that this is not a proper time to reduce taxes, I shall not take up any time in discussing the first amendment which would entail a reduction of some \$350-million.

So I would like to discuss only the amendment which --

The Chairman (interposing). Is it "B" or "C"?

Senator Fulbright. Number "C".

The Chairman. "B" you do not desire to discuss at this time?

Senator Fulbright. There is no use discussing it now. I think everyone agrees this is not a time for a reduction in the income.

This amendment reduces the normal corporate tax rate from 30 per cent to 22 percent, and increases the surtax rate to 31 percent. The 31 percent rate applies to income over \$25,000.

The effects of this amendment are threefold; it would reduce taxes for corporations earning less than \$250,000. Approximately 98 percent of all active corporations

Mr. Chairman, I used 1952 because that is the latest year the statistics have been fully developed. Later years have not been fully developed. At least we could not find them.

So for purposes of dealing in the averages and in statistics we used that year. As of that year 98 per cent, then, of all corporations, which earned less than \$250,000 a year would receive some reduction under this amendment; it increases taxes for corporations earning more than \$225,000, which is about two per cent of the active corporations, and it would increase the Federal revenue by an estimated \$20-million.

I have a table showing all of the changes there, which I won't read in detail.

The Chairman. That will go in the record, will it not?

Senator Fulbright. Yes. It is in my statement, Mr. Chairman.

Senator Martin. Mr. Chairman, I have got to go shortly, and I am very much interested in anything which will be helpful to the small business people of our country.

To my mind the small business people and the small corporations is the stability of our economy. But I have wondered whether Senator Fulbright has given any thought

to the matter of dividend? There is a double taxation, and in so many of our small corporations they are family-held, and there is a double taxation there, whether or not you may have given any thought that some way there might be relief there?

Senator Fulbright. Well, I say to the Senator from Pennsylvania that I have an extensive memorandum; first, relating to the ownership of large publicly held corporations and small ones. I think that I would favor of course additional relief to the small ones.

Senator Martin. Well, have you given it any thought?

Senator Fulbright. I most certainly have.

Senator Martin. And in the manner in which it could be done?

Senator Fulbright. Well, I have. This is the trouble about this item of costing the Treasury any income.

If this committee would entertain amendments which would provide reduction in total income, I would be more than willing to propose them. But I have been told in no uncertain terms that is a rather futile endeavor. Therefore, I am concentrating on this one which does not entail any loss to the Treasury; yet at the same time gives

have. That is, in the \$5,000 and \$10,000 classes or brackets.

As I say, 98 per cent of them fall within this bracket that will get some relief which is substantial. A little company making \$5,000 that has a relief of 26.7 is quite a relief. \$400 to a family paying \$1500 is a lot.

Senator Martin. As you know, there is a great number of small corporations, and I think they ought to be encouraged in every possible way. But they pay out the dividends, when they are closely held, when that is true they take unreasonably high salaries for officers which discourages outside capital to come into these corporations.

There is a tendency in my own State now -- and I think maybe it could be worked out, that maybe we could increase the revenues. I think we could increase the revenues, probably. But it is a serious problem, this thing of paying out dividends. The corporation pays taxes on that, and then the recipient to the dividends, he has to pay taxes, and it is really double taxation. In many of these cases these corporations are very closely held; and some rather large corporations are pretty closely held.

I just wondered whether you had given it any thought, because I believe there is some relief there for our smaller people.

Senator Fulbright. As I say, I would certainly be in favor of it if you think it could be done without losing a substantial amount of income to the Treasury.

But I was more or less given to understand there is no use speculating about that at the present time.

Senator Martin. I think you are right. As long as we are going to approve these enormous expenditures we have to raise money to pay them.

Senator Fulbright. I think this suggestion comes as close to giving relief to the people you speak of, and yet entails no reduction in income to the treasury, as any.

Existing laws I believe foster growth of large corporate units and the decline of the small corporate units. The failures, bankruptcies, rising, these are almost exclusively in small business.

In 1945 for example, there were 809 bankruptcies; in 1953, 8,862; in 1954, 11,086; and in 1955, 10,969. So that the vulnerable organizations of course are in this same class.

Mergers arise. The mergers have some effect.

was the low point, rose rapidly in '51, and 797 in '53, and over 600 in 1954. They are still not as high as 1929, which was the heyday of the holding companies and mergers and so on. But they have shown a very distinct increase.

The Federal Trade Commission Report, May 1955, commented upon this in I think a very significant way. If I may, I would like to read that. It is just a paragraph which I think is pertinent to this point.

This is Page 11 of the Federal Trade Commission Report, entitled Corporate Mergers in Acquisitions.

"Savings possible under various provisions of the Internal Act granting more favorable rates on capital against as compared with the rates applicable to operating profits of corporations and personal incomes of individuals, the provisions covering tax-free exchanges of stock, and the provisions governing the carrying forward of past operating losses as credits against future earnings are also important factors; and in numerous instances, these savings have been cited by representatives of both parties as important considerations in acquisitions and mergers. Ageing owners and managers of successful closely owned concerns desiring to retire and adjust their

estates often prefer to sell their companies to larger corporations in order to convert their holdings into securities having a more ready market than the unregistered securities of smaller companies. Tax savings attainable by a company that has large taxable earnings merging with one that has substantial deductible past losses, with the latter continuing as the surviving corporation, are such that those wishing to promote such mergers have been advertising publicly their desire to acquire financially weak companies.

"Mergers and acquisitions growing out of the various tax laws are not new. The division of Research of the Graduate School of Business Administration of Harvard University found that for the period 1940-47 taxes were 'a major reason for sale for about two-fifths, or a little more, of the transactions in which the selling company had assets of between \$15 and \$20-million as of the date of sale, for between one-fourth and one-third of the companies sold in the \$5-15 million asset class, and only rarely for the sale of companies with assets of under \$1-million."

annual increase from 1948 to 1952, new companies --

Senator Flanders. What is meant by those figures?

Senator Fulbright. Those are gross.

The annual increase from 1948 to 1952; the number of new operating firms increased by only 28,300 from June 1954 to June, 1955, as against almost 55,000 firms during the period between 1948 and 1952.

Senator Flanders. You say that is gross?

Senator Fulbright. Yes, I think that is correct. These are the new formations, and from that you would deduct the bankruptcies and failures.

But the rate of formation of the small companies, they mostly are small of course, is declining very rapidly.

They are gross figures, yes.

Now I thought the statement of Mr. Keezer's that I put in the record -- it is in the record but I think I want to call it to your attention. It is particularly significant, and it contains within it the thought which to me is the most important of all, in connection with this matter.

This is a statement of Mr. Dexter M. Keezer, Vice President and Director of the Economics Department of the McGraw-Hill Publishing Company. This was made to

The Subcommittee on Tax Policy of the Joint Committee
on the Economic Report:

" I think we have at the present time a high and satisfactory level of business investment. But simply in terms of maintaining an adequate level of investment, I would not say that the present is an occasion to reduce the corporate tax rate. Except, may I give this qualification? Maintaining this rate means that you are going to have larger and larger corporate units at the expense of smaller units. This seems to be a matter of great social, political, and economic significance. Over a period with which we are concerned, the smaller corporations, as you well know, have not had the same rate of growth and capital acquisition."

Now I think that indicates to me what is most important of all; that is, the great social, political and economic significance. The development that is now taking place in this country in this field is very similar, I think, has many of the similarities of what took place in Germany before World War I and certainly before World War II, and in Italy. That is, the growth of these enormous aggregations of capital which I think, under our system, if we are to have State Socialism is the road to that, and not from through the revolution from below.

mean by the great social, political and economic significance?

Every time you have one of these failures you create a number of people disillusioned with our democratic government as we have known it before. I think this is the aspect with which we should be particularly concerned, if we are interested -- and I assume all this Committee is -- in preserving what is known as a free democratic economy.

You cannot continue to destroy the small companies at the rate we are, and to discourage the formation of individual private industry as is obvious from this drop in the formation of new companies. There is a drop in the course of some seven years -- almost half, from 55,000 down to 28,000.

Senator Martin. Mr. Chairman, I wonder whether the Senator has given thought to this? If it is discouraging the small corporation it makes it much more difficult for the very small community.

Now in Pennsylvania we used to have a great number of concerns in the towns of populations of a thousand where we would have two or three little industries. Those have been gobbled up by the larger concerns now, and that means they go to the larger areas of population because the larger concern requires more help of interest.

...of it, that you had the clerical end of it,
and so on.

It has meant that we have up there in Pennsylvania, we have several little communities that had a creamery or a tannery or something of that kind that has gone out of existence.

Senator Fulbright. Senator, it is not only on a State basis but it is on a national basis.

In my own State we have a very distinct movement of that sort, not only from there to the city but to Detroit, in the Pittsburgh area, and in California. I think that involves this great social, political and economic implication.

I don't know that we can stop the trend toward your urbanization. I don't wish to use the power of government in taxation to increase it and to make it come about faster, and because of that cause even greater dislocation, and I think that is what is doing it.

I think these rates as they are now set by our laws are decidedly to the disadvantage of small companies, and in a way it is unjustifiable -- not only in the point of view of the smaller ones, but in a social, political and economic manner.

Senator Martin. I like to encourage people in

unities. Now, I am not against big business.

Senator Fulbright. Now, no, we are not against them. This isn't intended to be against them.

Senator Martin. I am not against big business. But on the other hand, I am very much worried about the difficulty there is to get business to come to our small areas.

Senator Fulbright. Of course I am more worried than you are, Senator. We are going through a very difficult period in my State. This transition from rural, agricultural, we hope, simply as a matter of survival, we cannot survive unless we do, and this problem is a very acute one; and I couldn't agree with you more that this is a great problem that I think this would end.

I don't mean it would solve it all. It is a very slight step in that direction, however.

Senator Carlson. Just admitting we are in this trend, I think the Senator from Arkansas and from Kansas appreciates the effect it is having on our rural section in the Middle West. In this age of atomization and all, does the tax part have very much to do with it?

Senator Fulbright. I think this tax is utterly outlandish. To tax 30 per cent of a man making \$5,000, and 32 per cent and a half from a man making \$2-100,000.

To me it is ridiculous, the impact that you put on the two different companies.

These figures ruin an amount of business. They can't survive. Small companies are the vital part of our economy. The growth of that is what is giving it its resiliency and adaptive quality and all of that. But we are destroying it.

A big corporation is necessary in many respects. But it tends to become bureaucratic like big business in big government. I cannot say the big major and continued development is going to always come from the big company, which has gotten so big and so diverse that it becomes almost like our own government, it becomes so big.

We continually try to do something about our government. We at least break it down and try all kinds of experiments. But I think there again you only have the one government. I don't know what you can do about that.

But here I think it is indefensible to put that kind of burden on a little company that is getting started. I don't see why we have got to take 30 per cent of any \$5,000. That is a bigger per cent than 32 per cent of \$2-1/2 million. Even after they pay taxes on that total.

with it.

They can't pay it out in dividends, so they will have to go out and buy up competitors, which they do every year.

Senator Carlson. Out in our particular State, political and social and many other changes are taking place, and in agriculture. It is a change I regret very sincerely. I don't know how we are going to stop it.

Senator Fulbright. What I say is that we shouldn't aid the facts by artificial stimulation from the tax laws. That is about as far as I can go. I don't know whether we can stop it or not. We can slow it down perhaps.

I think we have moved too rapidly along this line. I don't approve of it and I don't think we ought to encourage it. Now I can't tell you this will positively stop it. I think it will slow it down. I am going to try to mention a few points here that I think will have effect.

Senator Carlson. I think it is very important that we do not only in industry, but in agriculture, if we can. But I was wondering if there aren't some more basic, fundamental reasons we need to look to than tax structure?

Senator Fulbright. Well, to a business man there may be other things -- intangible things. But I

convinced that taxes is a very important element. It is the most important economic part of the business.

All kinds of policies have developed. Today, as you know, because of taxes, all kinds of ingenious schemes for evading -- that isn't a good word, I guess. I don't mean it in an illegal sense.

Senator Flanders. Tax avoidance.

Senator Fulbright. Yes, taking advantage of capital gains, which I will refer to later, which is a further burden upon the little fellow who can't do that himself.

Senator Martin. Mr. Senator, I am awfully sorry, I have to go over to the House side. But I was anxious to get your idea. I will read very carefully your testimony.

Senator Fulbright. I am much more sorry that you have to leave that you are. It isn't often I run into a sympathetic boy on these matters, so I do hate to see you go.

Senator Martin. Well, you are talking about big government, it is over 75 years ago that a very distinguished senator -- Senator Hill -- made a marvelous speech that ought to be read by every American quite often, to the effect that he didn't fear the big government, he was afraid of the little fellow.

big government.

Who is there that can regulate big government? We are trying to do it ourselves, but it is awfully hard. It keeps growing and growing.

I think we could be of greater help if we would cut down the cost of government at the tree level, although I am very sympathetic with what you are saying.

The Chairman. I am sorry you have to leave.

Senator Martin. Yes. I am sorry.

Senator Fulbright. Mr. Chairman, a few of the points that further justify in my view some of the relief for small business. The raising of equity capital is much too expensive for small business. A smaller company seeking to raise, say, \$300,000 by floating of stock, studies have been made indicating costs up to 30 per cent to do that if you seek to float a stock issue through the usual channels.

Yet the huge issues by such corporations as the Ford people, recently, the floating of their stock by the Ford Company, which was recently done, cost less than one per cent. There is testimony on this subject in the House Committee, and also the F.C.C. has made a study on the relative cost of floating of small issues and big ones by percentage, it would indicate that a not unusual cost of a small business would be 30 per cent.

The interest on loans to a small company is much too high. They will raise up to six per cent. It is a very normal situation; whereas the large companies can borrow money from three to four per cent.

I observed that in the R.F.C. case. That lending program was in response to this need of small business. Yet the basic trouble is their inability to accumulate their earnings and then hold them for their own use. They were so vulnerable and so likely to go broke that naturally the risk would justify a high rate. I mean, I don't think that the lenders are to blame. They could not, in view of this bankruptcy rate and the view of the precarious nature of the small business, I think that that rate was justified in view of that.

The taxes of course preventing the accumulation of it forces the small business to resort to loans at these high rates.

I think a \$6,000 tax bill is much more significant to a company earning \$20,000 than is the \$52,000,000 tax bill for a company earning a hundred million. After all, they will have left there a very sizeable amount which enables them to finance their expansion in many respects. But if not, at least to sell stock.

Small business es are much more dependent on their

dollar of sales.

We used to think -- we thought, at least -- that these big mass production industries were going to operate a very narrow margin, -- on a very narrow margin. Well, that is not the truth any more, if it ever was.

I used to think that. I guess I was badly informed. For example, the second quarter of 1955, corporations with assets of under \$250,000 earned 1.1 cents per dollar of sales.

Those with assets of \$100 million and over were earning 7.4 cents per dollar of sales -- nearly seven times. Thus, small businesses are losing out in volume of sales, and per cent of profit per dollar of sales.

Their volume increased only three per cent in '54 to '55, whereas the volume of large corporations went up 19 per cent in '54 and '55.

The profit ratios in the second quarter of 1955 the large corporations earned 13.5 per cent upon the equity investment, as distinguished from sales; while the small corporations earned only 5.3 per cent upon their equity. So that your margin of profit on sales is far less, and certainly the marg'n on investment is far less.

Other features of the tax laws which favor big business -- you can either put it favor, and have no

desire to injure big business, I know it is necessary in big government and big defense and so on. But I think it is unnecessary to give the special favors to big business as opposed to the little ones as a relative matter.

Take an item like depreciation on new machinery. Typically the situation in this field is that the big prosperous company buys the machinery and the little company starts out with secondhand or used machinery. But the depreciation schedules, particularly those adopted in the '54 law, give a very special benefit to the big company which buys the new machinery.

As you know the depreciation permitted, there are some alternative ways but one of the ways permitting three-fourths of the investment to be depreciated in the first half of the estimated period.

Assuming that it had a 10-year period of life, you depreciated three-quarters in the first half of the period. Then you can sell it and realize a capital gain.

Where again the big company has the opportunity to take a capital gain, which has now become the main objective of everybody whether it is a corporation or individual. But under our system as we have it here, while the law itself doesn't exclude a little company from buying it, the fact that the big company can take a

big one that gets advantage of it, so that you have a very special advantage in that connection.

Take stock options. It is true that a small company can theoretically pay its top employees by stock options; but they can't do it as a practical matter because in order to use the stock option method of payment you have got to have a market for your stock, it has got to be an ascertainable value at the time it is given, and so on. That is in the nature of the operation.

So what you have here is a device that has grown up here in recent years in a very large way; the large company paying its officials, best officials, by the methods of stock options on which they pay only 25 per cent, but the little fellow can not take advantage of it.

So what happens? When he suffers, he suffers from loss of his best management; it is almost impossible for him to compete with the big companies that is in a position to give stock options.

I only mention this is an illustration which under existing laws the big ones have, and I think further justifies some consideration being given to relief to the small one.

The growth of the stock option is remarkable. In

our study last spring, in the Banking & Currency Committee it became evident that they are all flocking into this. This is now the accepted way to pay your President and top officials, a relatively small salary, but very beneficial options which they do not have to pay on until they finally sell the stock, which may be many years hence, if ever, and even if they do, only at the reduced rate.

So it is an extremely important and very favorable circumstance for the big boys or big companies.

Another item is on the deduction for research and experimentation. This is a thing which is extremely useful to the big companies. They are the only ones who can really afford to do it. But it is a business deduction and I think this accounts, in many cases, for the enormous progress that the bigger ones have made so far.

Now I am not advocating you disallow that. I am only mentioning it as a further point of, I would say, in a sense discrimination against the little one, who is not in a position to take advantage of that. Yet he has to pay this I think relatively outrageous rate of 30 per cent on the first dollar he earns.

I mention this only to show that there are many

one cannot take advantage of or cannot benefit from either.

Two other advantages of large corporations are their ability to administer prices and maintain high net earnings regardless of the tax rates. A very good example of that is in the automobile business. It became quite evident last year in our studies there, in the automobile business, that there is no real competition in prices among them. Their margins of profit keep going up and they keep raising their profits because the market would absorb it.

Last year, although prices were increased, the margins have never been higher on both sales and on investment, and yet you had more sales. You still have a very high rate of sale.

Now in those businesses you can do it. You do have in many cases very bitter competition price-wise among the small companies dealing in the things of more local interest in contrast to the national sales such as automobiles and some of the other large companies where you have the national markets.

Of course the other obvious point in which you find this great advantage is in the ability to obtain the lion's share of defense contracts. That is now a very important part of our economy.

In 1950 to '53 over 63 per cent of the value of defense contracts went to 100 of our largest firms receiving contracts. This rose to 68 per cent in 1954.

In other words, you are well over half of the total of defense contracts going to 100 of your large contractors.

The Chairman. Does that include the subcontractors?

Senator Fulbright. Well, they do subcontract part of that out. But the profit and the determination of who gets what is in the hand of the big contractor.

The Chairman. I think a great deal if that goes to the smaller companies and subcontractors, does it not, Senator?

Senator Fulbright. Yes, they will subcontract part of it.

You remind me of an example of what happens in the defense contracts. Last December 12, the profits were reported on in '54, of 21 aircraft manufacturers. Of those 21 companies, practically all of their business -- except government -- is contractors. But there are a few like Douglas and Boeing and one or two other make some of their sales, it is a relatively small percentage of the overall sales, some of it is. Those companies make at least a small amount of their

before taxes; and after taxes -- this is the report of the committee -- they retain but 29.4 per cent of their net worth. I call that a very generous treatment. I don't know of anyone else in any field that can compare with it. That is typical.

Senator Flanders. What was the percentage of the sale price?

Senator Fulbright. Oh yes, that is very small.

Senator Flanders. I think that is pertinent that it is very small.

Senator Fulbright. I don't think so, when these are negotiated contracts. The sales are just whatever the department gives them. The department furnishes in many cases much of the most expensive machinery, many of the plants, and they bring in a group of managers and they supply the organizing ability and in many cases they take very little if any responsibility for the failures.

A good illustration of that was the McDonald experience in the Cutlass -- wasn't that the name of that plane? Well, it turned out a flop. But McDonald didn't bear that. The Navy bore the cost.

Senator Flanders. I wanted to get on the record that even if these companies work without profit, still the sales price wouldn't be properly reduced, --

Senator Fulbright. Well, it is a matter of profit, it was just under \$5 million. \$472 million as I recall it, approximately. I have not seen the report for three or four months. But a very substantial amount.

Senator Flanders. Yes, yes.

Senator Fulbright. But it seems to me that when you have known of the problems that a normal little business has, going out and meeting competition, price-wise and all else, the point is what do they make on their investment?

I see no reason for them to make sixty per cent on net worth before taxes. I will put it this way. That is not my business. Using an illustration, I don't know any small businesses in Arkansas or anywhere else that makes anything like it.

Senator Flanders. I say if they forewent the profit, the reduction in price, to the government, wouldn't be a tremendous one. I want the record to show that.

Senator Fulbright. Well, you know, it wouldn't hurt the government if they would excuse me of my income tax. They wouldn't miss it. But I don't know anybody thinking of doing it. It means a lot to me, but it doesn't mean very much to the government. I don't see that that argument has a great deal of significance. It amounts to quite a lot, that amount. Their effort is just to get

as anybody's dollar.

I don't see the reason why take that particular industry -- many of which are big industries, certainly the Convair Company, and I am not trying to criticize those companies, I am still using this as an illustration that little businesses don't participate in anything like that, and they have no way to.

It isn't because the laws are drawn to exclude them. It is simply the nature of their size and their capacity, which doesn't qualify them for it. I use that only as an illustration, at this time, again, that the idea that we have got to keep the tax laws about the same or the old idea of a flat rate for big and little, I don't think is a valid way to apply it when there are so many other factors that have developed in recent years that are exclusively for the benefit of the very largest manufacturing companies -- particularly manufacturing companies.

This drift toward the larger companies, at the expense of the smaller ones, it seems to me, as I said in the beginning, is a drift toward the corporate stage, and I think does have the possibilities of doing what Mr. Keezer said, that it has the great social, political and economic difference. I believe the Anti-Trust laws which we thought in the beginning would meet that problem

I think are not meeting it. I think it is extremely difficult to enforce, by the time the application of the law seems to be justified, that the harm is already done, and I agree it is extremely difficult then to go back and undo the mergers that occurred.

I think the much more intelligent approach is to give some incentive in a natural way for the keeping alive of small ones and an incentive for the formation of them.

The redistribution of the tax burden I believe will help restore a better balance between the large and small ones, and I think that it certainly ought to be tried. I think it would relieve, in many other government activities, I think the tax relief is far more helpful than the small business administration loans.

If they will have a reasonable prospect of survival and profit, then they can borrow money from the regular banks and they won't be crying for government help. I think the real excuse to a great extent, over a long period, for S.B.A. and R.F.C. was this very unwise distribution of the tax burden.

Well, Mr. Chairman, that is my main statement.

As I said, I have a number of memoranda that pertains to specific points.

these big companies are owned by a lot of poor widows and orphans and that you are only penalizing them.

I have a rather, I think, pertinent memorandum which was drawn from very reputable studies made by the Brookings Institution, by the New York Stock Exchange, indicating who,† is that owns the big, publicly-owned corporations.

It is true that a large number of people may own a little bit of it, but these figures clearly show that a very high concentration of the ownership of these companies in here lies in people who are well off, with \$10 and \$25-thousand a year incomes.

Now I won't take the time of the committee to read this.

Senator Flanders. May I make an observation on the widows? There are a lot of widows in Boston who live on the interest of their investment, and I have even heard of one or two who live on the interest of the interest. So there are widows and widows.

Senator Fulbright. Yes. I would like to read just this last paragraph from the Brookings Institution study that concluded with this:

"The level of income has a direct influence on share ownership." It is speaking of the share income of the purchasers. Now this is not quoted: It

is perhaps also significant that it is this group, with the highest incomes, who are the shareowners of the large publicly-held corporations, which has been benefited most by the stock market rise of the past two years, when \$90 billion has been added to the value of the securities listed on the New York Stock Exchange alone. Assuming there are as many as 7 million holders of securities on the New York Stock Exchange, this averages approximately \$13,000 per person.

But this memorandum I believe demonstrates quite clearly that the major part of the publicly owned corporations, the major part of the shares of the publicly owned corporations are owned by people who are extremely well off, which is very natural.

The Chairman. Is that in the record?

Senator Fulbright. No. I do not have that. They are not included in it.

The Chairman. I think that would be important, the \$13,000 per person.

Senator Fulbright. There are approximately 25 per cent of the stocks owned by investment trusts and corporations, and other types, which is not feasible really.

The Chairman. There are many instances of people with small means, either that or charity. There are some

those calculations I should think you ought to show the situation, these big trust funds, pension funds, of all kinds and descriptions.

Senator Fulbright. As I say, I didn't calculate these figures. These are figures from the best sources I know.

The Chairman. As I understand it, what is it, 7 million people? How many people did you think?

Senator Fulbright. About 7 million.

The Chairman. And you divided the two of them up. Well, that doesn't take into consideration that there is some of that, probably a pretty good part, are owned by these Trust Companies, probably many of them charitable, and pension funds.

Senator Fulbright. Some of them are charitable, yes.

The Chairman. I don't think it is quite accurate to say you can divide the total amount by 7 million and say all of them own \$13,000 on an average.

Senator Fulbright. Well I didn't say they did. I put it in the form of an example that if they were owned, what it would amount to. That is what it would amount to.

The Chairman. I think it would be very interesting to find out how much stocks these different ones own.

Do you cover any part of that?

Senator Fulbright. Yes, there is very extensive figures on that, in billions of dollars. This is the staff report of last year, of the Committee on Banking, April, 1955. It shows there, for example, the Life Insurance Companies own 3.4 billion dollars; the Fire and Casualty Insurance Companies 6.460 billions; Mutual Savings Bank, \$620 million; bank administered personal funds -- trust funds. You see, the trust funds in the bank, which of course would be owned actually, partly sometimes by individuals and sometimes say by labor unions, they are mixed up. But that point was 37 billion.

Over three-fourths of this institutional investment, however, does not benefit the average family. It benefits other stockholders, as these figures would indicate. This is true of holdings by Fire and Casualty Stock Insurance Companies.

The Chairman. What about the charitable funds, like the Ford fund?

Senator Fulbright. The charitable foundations, religious and other charitable, \$5.1 billion.

Pension funds, non-insured, \$3.1; College, University and Endowments Fund, \$2.5.

In other words, I doubt that any of these institutional stockholders

the small increase in taxes for these blue chip corporations.

If the Senator is interested I would like to read this one paragraph relating to the New York Stock Exchange. They made a little study of this last year.

"Recently the New York Stock Exchange made a study of its transactions to determine how the various income groups share the volume of transactions on the New York Stock Exchange. For the test period in June 1955, persons with incomes of under \$5,000 participated in only 5.9 per cent of the transactions. Those with incomes of \$5,000 to \$10,000 participated in 25.5 per cent of the transactions. Those with \$10,000 to \$25,000 estimated annual income participated in 36 per cent of the transactions; and those with annual incomes of over \$25,000 participated in 32.6 per cent of the transactions. Expressed in terms of the number of shares bought, those with incomes of under \$5,000 purchased 329,000; those with between \$5,000 and \$10,000 estimated annual income purchased 1,429,000 shares; those with between \$10,000 and \$25,000 annual income purchased 2,020,000 shares and those with over \$25,000 annual income purchased 1,526,000 shares."

Those were the New York Exchange studies indicating quite clearly the concentration of the purchases of stocks by people in the higher income brackets.

So I think the argument that this would be an imposition upon the poor, small stockholder, is not justified by the facts as revealed in the best studies that I know.

Senator Flanders. Mr. Chairman, I would like to ask a couple of questions.

When you stated that this amendment would not reduce the income of the Federal government, I take it that you are increasing the total from fifty two to fifty three, is a part of the measure which makes it possible to maintain the income, is that right?

Senator Fulbright. That is correct. The surtax is increased from 30 to 51 per cent. I say that as opposed to the other amendment. It is increased under the existing law from 22 to 31. The normal tax decreased from 30 to 22.

If you are interested, let me give you two examples on an income of \$5,000 there would be a decrease in the tax of \$400 or 26.7 per cent; on an income of \$10 million there would be an increase of 1.9 per cent, or \$97,000, on \$10 million.

Senator Flanders. Just a moment more, please.

This is "C" that we are considering?

Senator Fulbright. That is "C", yes.

It is estimated the estimated result would be an increase of \$20 million, a net increase of \$20 million to the Treasury. That is estimated by the Joint Committees of the Staff, I believe.

Senator Flanders. One other question: were you preparing to say anything about the parenthesis small "c" or are you leaving that out of your discussion? We passed a Bill the other day.

Senator Fulbright. Well that was to try to keep them on the same basis as other corporations, under the present law.

Senator Flanders. I would like to inquire of Mr. Stam, Mr. Chairman, whether the matters from line five from page two on, are those taken care of in the insurance tables bill we passed the other day?

Mr. Stam. Is that on his statement?

Senator Flanders. Yes, that is on "C".

Senator Fulbright. On the Bill, of the amendment itself.

Senator Flanders. Yes, of the amendment itself.

Mr. Stam. Well, all this does is an attempt to increase the corporate rate, and in order to do this you have to make these adjustments that are already pro-

vided for.

Now in the bill the other day we merely were concerned with the amount that the insurance companies could deduct before applying the corporate rate. Now when this bill goes into effect the corporate rate which is made applicable by this bill by the increased rates will apply to the insurance companies. We were mainly concerned with determining what sort of deductions the insurance company should be entitled to.

Senator Flanders. That is right.

Now let me ask another question: in the insurance procedures which were set forth in the bill which we passed last week, are there these provisions for normal tax and surtax, yes, but on this new proposed basis are there these provisions for reciprocal underwriters and inter-insurers, that appear in here? Is this anything new?

Mr. Stam. No.

Senator Flanders. So that the tax and surtax with the deductions which we established last week, this follows as a logical method of getting the taxes out of those deductions which we fixed.

Mr. Stam. That is right. Existing law proposes except for the increase the senator has talked about.

Senator Flanders. Yes, that clears it up.

Senator Fulbright. I wanted to put in a memorandum relating to the partially exempted interest, -- partially taxed exempted interest.

There is still outstanding a small amount, I think about \$3 billion of partially exempt bonds -- Federal bonds -- that is, exempt from the normal tax; and if that is considered by the Committee a matter of substantial interest, it would warrant, although there is no guarantee, no assurance, in those bonds that they would have any particular rate exempt, except an open covenant that whatever the tax is, and it has already been changed during the life of those bonds, it has certainly been increased, and decreased. If that is a major matter, of course I would be very glad to go into an amendment in that connection.

I will put in the record the memoranda referring to that which I doubt it is necessary to go into now.

The Chairman. You mean the bonds that part of them are non-taxable?

Senator Fulbright. Exempt from the normal tax.

I think at the present time it is just slightly over \$3 billion. However, 900 million of those are due, I believe, this coming September. By 1960 they will all be out of the way. They are held by I think a few insurance

companies and commercial banks.

The Chairman. That is the bonds issued prior to '41?

Senator Fulbright. That is right. But it doesn't contract that will exempt them from any specific rate: That has been changed. I don't think this would be a violation of any contract at all or any moral or any other kind of understanding. It is simply that if you do change it you exempt them from less than you do now, that is the effect.

If the Committee should feel that is a matter of great importance, I assume some of the people who own some of those may very well come and testify, if they did I would have no objection to modifying that. It seems to me a very minor matter not only because they are a relative smaller amount but because they will be due and out of the way in the very near future.

I have a memorandum with regard to that if you are interested.

The Chairman. Give it to the record.

(The statement is as follows:)

COMMITTEE INSERT

PARTIALLY TAXED EXEMPT INTEREST

At present, the income from certain Federal securities is exempt from the "normal" tax, and all such income over \$25,000 is subject to the "surtax" of 22%. My amendment would affect the recipients of this income in two ways: (1) it would raise the actual tax on the income by 9%; and (2) it would reduce the relative significance of the normal tax exemption -- that is, it would exempt income from a 22% rate whereas the present exemption is from a 30% rate.

But I think we should remember that the special tax treatment for this income has never specified the actual rates to which the exemption would apply. And purchasers of these securities have no more reason to expect that their tax rates will remain unchanged than have the recipients of income derived from any other source. Therefore, I am not disturbed by the slight effect which this amendment would have upon income from partially tax exempt interest. But if the committee should feel that it would be unfair to revise the basic provision which this interest is now taxed, I can submit for your consideration alternative language for my amendment. This alternative language would not subject partially tax exempt interest to the 22% income tax applicable to other corporate dividends over the \$25,000 level.

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Senator Williams. Which one is that?

Senator Fulbright. That is "C". In view of the Treasury and others that the government can't afford a decrease in income, well there was no use in urging that one that would.

This is "C" and it entails no loss. It entails an estimated increase.

Senator Williams. Could I ask one further question? Are you asking for the committee to study this or are you offering it as an amendment to this Bill?

Senator Fulbright. Well, this it seems to me is an appropriate place to offer them. It is up to the committee to decide whether it will accept it. I have stated I am offering it as an amendment to this Bill for the consideration of the Committee.

Senator Williams. I had some amendments I was considering to offer too. I was just wondering what you thought of it.

Senator Fulbright. I am familiar with the Senator's offers. He can offer them at any time to any issues that are germane. He can offer anything at any time. That has nothing to do with the appropriateness or merit of these amendments.

Senator Williams. I think they are all germane. I was thinking it might be well to offer them all.

Senator Fulbright. That is the Senator's responsibility. I have no objection to his offering any amendments he wishes to offer at any time. This amendment in my opinion under the circumstances is long overdue. The rates put in here are wartime rates.

Senator Williams. I am very sympathetic to your amendment, don't get me wrong on that.

Senator Fulbright. It isn't for me to make that decision. I am offering it to the committee. I think it is high time something be done to give the smaller companies at least a fighting chance to survive which they do not have at the present time, in my view.

Mr. Chairman, if I may, I wish to offer from the U. S. News & World Report, their Finance Week, an excerpt of March 23, 1956, in which they point out that twelve firms pay \$4 billion in taxes, and it sets out what they pay. I think it is very interesting. They raise the point of the dependence of government on the profits of these twelve big companies.

They are among the finest big companies in this country. The only point I wish to make with regard to that is to say that this confirms what I said earlier in my statement, the growing dependence upon our government of a fewer and fewer enormous companies, and that I would regret that if we keep reducing the numbers which

25

furnish the taxes in excluding the smaller ones and eliminating the smaller ones to the point where there may be only one left, in which case I think we would have a situation which we now find in the Soviet Union, in which there is only one company, and that is government.

If you have the tax laws so the small ones are liquidated, more and more rapidly, and are unable to re-form again, as is indicated in the decrease of the number of new companies, I think that would be the case.

So I think that is at least an appropriate study for this record, and I would like that to be in the record.

The Chairman. Yes, it may go in the record.

(The statement is as follows:)

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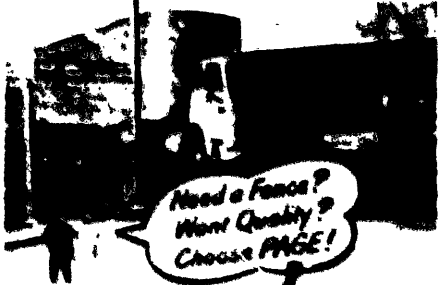
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COLORADO CLIMATE - THE MAGIC INGREDIENT

Finance Week (continued)

Another big source of Treasury income: the taxes stockholders of large corporations pay on dividends . . .

no account of the many millions of dollars of excise taxes collected on GM cars and appliances, or the millions to be paid by the firm's employes on the wages and salaries they received from the corporation last year.

AT&T, next-largest taxpayer, had earnings of nearly 1.3 billion dollars before taxes in 1955. About 627 million of that is due the Government. So AT&T will keep 664 million.

In addition, AT&T paid dividends of 465 millions last year, and the Treasury's share of that should come to something like 143 millions. Added up, the Government's slice of the company's profits comes to about 770 million dollars. That's close to 60 per cent of what AT&T earned—and considerably more than twice as much as AT&T stockholders get after taxes.

Ford earnings, up sharply in 1955, were crowding the billion-dollar mark. With a liability to the Government of 530 million, however, the company will be left with about 437 million. And the Government will collect about 55 million dollars of the 175 million that Ford paid out last year in dividends.

Government's share of Ford profits, thus, will total about 585 million dollars or more than 60 per cent of what the company earned.

Standard Oil (N. J.) fared better at Government's hands than most other

large firms. Depletion allowances granted oil producers by Congress sharply reduce the company's regular income tax. So do credits allowed the company as offset for taxes paid to foreign governments on income earned abroad.

Of Esso's 532 million dollars of 1955 profits, Government will claim 1 billion, leaving the corporation 717 million. In addition, Government will claim off for its Treasury about 105 million dollars of the 345 million paid out by Esso in dividends last year.

Altogether, the Government's share of Esso profits will be about 223 millions or a shade less than 27 per cent of total earnings.

Du Pont, meanwhile, finds itself with a federal tax liability of 313 million dollars on its 1955 earnings of nearly three quarters of a billion. And the company's stockholders will pay to the Treasury about 103 million. But after 329 million they received in Du Pont dividends last year. Altogether, 416 million dollars or about 56 per cent of what Du Pont earned in 1955 will be diverted to the Federal Treasury.

Half for U.S. But the entire profits of 12 corporations together, with the taxes shown in the chart and here, will find 5.6 billions. Nearly 4 billions of that due the Government. So the corporations will be left with 1.6 billions.

What Taxes Take Out of Profits

	1955 Earnings*	Government's Take in Taxes	Left for Companies After Taxes
(MILLIONS OF DOLLARS)			
General Motors	\$2,400	\$1,211	\$1,189
American Tel. & Tel.	1,291	627	664
Ford Motor	967	530	437
Standard Oil (N.J.)	832	115	717
Du Pont	744	313	431
U. S. Steel	736	366	370
General Electric	369	168	201
Bethlehem Steel	361	181	180
Union Carbide & Carbon	283	142	141
Kennecott Copper	234	108	126
Chrysler	219	119	100
Eastman Kodak	178	92	86
12 CORPORATIONS	\$8,614	\$3,972	\$4,642

SO: Government takes \$46 of each \$100 of profits, leaves corporations \$54.

*Profits after State and foreign income taxes are paid.

There will be obstacles to conversion to an industrial economy. In addition, as the Government sees it, new industries in Ireland will face sharp competition from those in Britain and Germany.

That is why the emphasis is on attracting American firms. If American manufacturers come to Ireland, the men in Dublin reason, they will bring with them American production techniques, and the Irish figure that those techniques are more than a competitive match for the British and the Germans.

Financial inducements. While the Government is basing its campaign on persuasion, the campaign up here in the North is run along slightly different lines. The Government of Northern Ireland, backed by officials in London, is offering substantial financial concessions to American industries.

The Government here, for example, will pay 25 per cent of any company's capital expenditures for three years. Or the Government will pay part of the cost of dismantling a plant and shipping its machinery to Northern Ireland, and also will build a factory to house the machinery. Under this second plan, a company which locates here can also get exemption from local property taxes for as long as 10 years, and during its first few years it is charged a low rent which is based on 1939 values.

Companies may remit profits and dividends in any amount and may sell their properties and send the capital home, at any time. The Government will contribute to the cost of coal, gas and electricity so as to bring the price levels down to those in England.

The North's head start. With such a program, Northern Ireland is outstripping its rival in the South, and several new American factories have been built. These American businesses are changing the looks of things.

Out in County Down, about 10 miles from here, you can see a brand-new factory which manufactures women's stockings, using the latest machinery and methods. The owner is an American company. The factory, built of bright brick, stands on a hill overlooking the ancient village of Newtownards. It stands out in sharp contrast with the old, weather-beaten buildings nearby, including a 16th-century inn. The manager of this factory, J. Howard Ward—an Englishman—shows you around with pride.

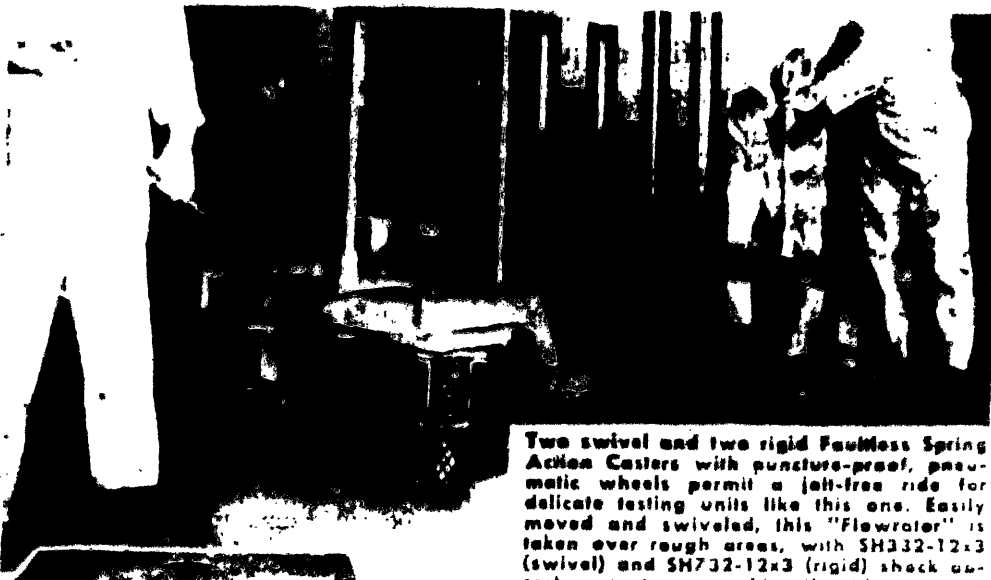
"Everything in this factory is done as it would be done in a mill back in the States," he says. "The methods we use here give us a great competitive advantage over British manufacturers because we produce more, at lower cost."

Whether the North will hold its lead remains to be seen. But, whoever wins, the Irish of both the North and the South figure that American business, with its efficient methods, can help to pull Ireland out of an economic slump.

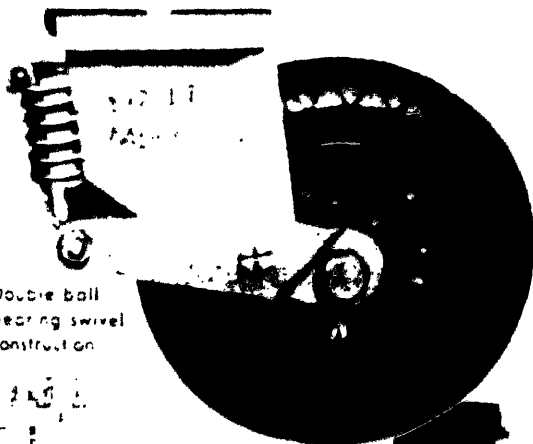
Faultless

FASTER MATERIALS HANDLING FACTS

DOUGLAS AIRCRAFT COMPANY, TULSA, SOLVES DIFFICULT MATERIALS HANDLING PROBLEM FOR INSTRUMENTS

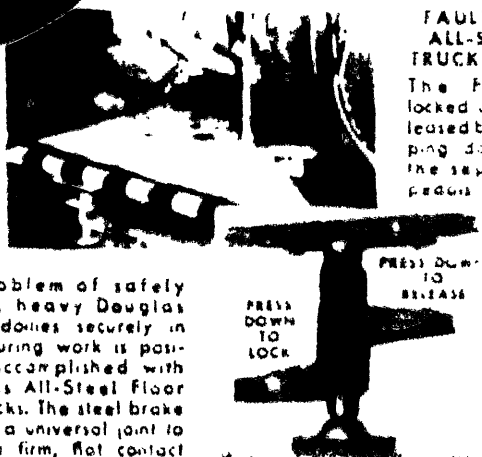


Two swivel and two rigid Faultless Spring Action Casters with puncture-proof, pneumatic wheels permit a jolt-free ride for delicate testing units like this one. Easily moved and swiveled, this "Flowrator" is taken over rough areas, with SH332-12x3 (swivel) and SH732-12x3 (rigid) shock absorbing casters smoothing the ride.



Double ball bearing construction

Douglas Tool Engineers designed the Flowrator, mobile test unit, mounted on Faultless Double Action Spring Casters. Sensitive test equipment thus is moved speedily and safely over uneven floor areas—inside and outside doors. Production costs are cut at testing locations because readjustment of the gauges is unnecessary. Equipment arrives ready for immediate use. To get the complete story, simply call your local Faultless Caster Distributor listed in your phone directory, or write us today.



FAULTLESS ALL-STEEL TRUCK LOCK
The FTL is locked and released by stepping down on the separate pedals.

Series SH300 Casters absorb impact shocks through use of large durable springs under constant compression. Spring assembly is an interchangeable member. Load rides at constant level. Standard, interchangeable wheels.

The problem of safely holding heavy Douglas engine dollies securely in place during work is positively accomplished with Faultless All-Steel Floor Truck Locks. The steel brake disc has a universal joint to assure a firm, flat contact even when floor surface is not level.

FAULTLESS SOLVES THE TOUGH JOBS

FAULTLESS CASTER CORPORATION

12 FIRMS THAT PAY 4 BILLIONS

Big Companies Account for Fifth of Corporate Taxes

A sharp rise in profits of "big business" in 1955 now is balancing the U.S. budget.

The tax increase resulting from higher profits of just five corporations means an extra billion dollars for Government.

Whatever the critics of big corporations think, the Treasury is wishing the industrial giants a long and increasingly prosperous life.

A new picture of "big business," one familiar to only a few, is unfolding as corporations in this country report their 1955 earnings and taxes to their stockholders and the public.

What the picture shows is the degree to which the U. S. Government depends on revenues collected from large corporations—a mere handful of companies, really.

Just one firm, General Motors Corporation, must pay Government more than 1.2 billion dollars in income taxes

on 1955 earnings. That's roughly \$1 out of every \$19 that all corporations must pay on 1955 profits.

The Big Three among taxpayers, GM, American Telephone & Telegraph Company and Ford Motor Company, must pay nearly 2.4 billions.

Dependence of Government on profits of big business is revealed in the charts on pages 130 and 132.

Altogether, more than 600,000 corporations will file tax returns on their 1955 earnings.

More than 400,000 of those actually will owe some taxes. Their combined liability to Government will come to about 20.9 billion dollars.

Nearly 4 billions of that will come from the earnings of a dozen of the biggest taxpaying corporations—the 12 companies shown in the chart on page 132.

Just 12 companies, in other words, will be called upon to pay \$1 out of every \$5 that corporations owe on their 1955 earnings.

As you might judge from these few figures, "big business" doesn't mean quite the same thing to the revenue-hungry Treasury as it does to the average individual who hears that phrase bandied about.

These figures, moreover, take no account of the second layer of income tax that Government applies to some corporation profits—the tax that is collected from individuals on corporation profits paid out in the form of dividends.

Treasury-eye view of a few big corporations offers a new insight to the Administration's efforts to balance the U. S. budget.

General Motors, for example, earned about 2.1 billion dollars last year, after allowing for State and local taxes and foreign income taxes. Of that amount a bit more than 1.2 billion dollars is due the Government. GM, thus, is to be left with slightly less than 1.2 billion.

In addition, the Government will get a rake-off from the 605 million dollars that GM paid out in dividends last year. Assuming that GM's stockholders pay the same tax rates that the average dividend receiver pays, this extra rake from GM profits will come to about 189 million dollars.

Altogether, then, the Treasury is siphoning off approximately 1.4 billion of the company's profits, or about 58 per cent of the total.

Even that huge total of corporate taxes is only a fraction of the total tax revenue.

Continued on page 132

How Government Depends on Profits of Big Business

MORE THAN
400,000
corporations get
income-tax bills
totaling about
\$20.9 billion



12 of those
corporations get
income-tax bills
totaling
\$4 billion

So: 12 corporations pay about **\$1** of every **\$5** of corporate taxes

Senator Fulbright. I would like to refer to one other thing. I believe it would be useful.

The Joint Committee on the Economic Report, as this Committee knows, has a very fine staff, and they study matters of this kind among other things. They had on page 80 of their report, -- let's see the date, it is a recent one. Where is the date? Why hasn't it got a date on it?

All it has is the printing date of '56, 84th Congress, First Session. Well the stenographer may identify it.

At any rate, Session of Congress, 1st Session of the 84th Congress, on Page 80: Taxation of Small and New Businesses. The next four pages has a discussion of this matter which I think is very pertinent and would be helpful to the committee, and I would like to suggest that be included in the record purely for the information of the committee. Beginning page 80 and ending on page 84.

The Chairman. Very well.

(The statement is as follows:)

The Chairman. Before you say anything, Senator Fulbright, I would like to call attention to the statement made by Senator Sparkman. He referred to a report of June, 1953. He says his committee on small business made five recommendations:

- (1) End the excess profits tax -- this was done.
- (2) Establish more reasonable depreciation policies -- a good start on this task has also been made.
- (3) Set more definite standards for administering Section 102 -- the 1954 revisions of the Code did much in this direction.
- (4) Lessen the impact of death levies on small, privately-held firms -- administrative action has made possible some progress here, and
- (5) Increase the exemption from surtax rates from the present \$25,000 to \$50,000 or \$100,000 -- only here has no action been taken.

I simply mention that to indicate the Senate Finance Committee has been sympathetic to small-business problems and has enacted four out of five of the recommendations of the Sparkman Committee.

Now you will have the fullest consideration of this committee.

Senator Fulbright. I thank the Chairman and the Committee for your attention.

BEST AVAILABLE COPY

Senator Carlson. I know how hard the junior Senator from Arkansas has been working in an effort to secure industry in his own State, and in the Middle West, we have some real problems out there, and I have no doubt this tax problem was one of them.

One I notice the Senator did not mention, and these affects both large and small corporations. We have difficulties with that in our particular area when it comes to industry.

Senator Fulbright. That is right. It is a great handicap. Of course it is not as great now as it was until they made a start toward the elimination of the discriminatory rates.

Of course that was one of the major ways our yankee friends in the northeast built up their industry. But there is some progress being made or some progress has been made in that particular field, although we are still far from any of the markets. I agree that is another handicap to the beginning of industry in all of that area. There are many others that I could mention. I tried to mention a few of them.

The Chairman. Senator Fulbright, as I indicated at the beginning of the meeting, I don't see any possibility of having hearings on the part of those who oppose you on this particular Bill, because the Bill expires on

...of that
...course the
...later.
...satisfactory to you to
...and then permit the op-
...as you indicated in your letter,
...if you desire.

Senator Fulbright. Of course it is the Commit-
tee's jurisdiction to make decisions of that kind. I
wouldn't say it is satisfactory; but on the other hand I
would say that I don't know that I could do anything
about it. I would accept it because I have no alterna-
tive.

The Chairman. I want the senator to understand
the situation. Because when the Bill came over to us
last Tuesday, we were in the midst of a session --

Senator Fulbright. I understand that.

The Chairman. And we have already arranged for a
hearing tomorrow, Secretary Fulson, on Social Security;
we have a number of requests of those who are opposed.
He, himself, wants those persons of those corporations
to be heard. It is impossible to hear it unless we
would endanger the passage of the legislation which must

be passed by the 30th and go to the House.

If you have an amendment on it of course there will have to be a conference. But even one day delay in its passage will confuse the excise taxes of which there are a large number in a way that would be very difficult to administer, even if we pass the legislation after March 30th.

I wanted the senator to understand the situation.

Senator Fulbright. I understand that. I say to the senator if the committee in its wisdom does not feel it would attach an amendment to this bill, I would of course seek the earliest opportunity to offer this to some other bill. That is what I intend to do.

But I have announced long ago that this Bill extending the corporate tax, I intended offering this as an amendment to it, and I have made the record on it. I think that a certain amount of education has to be done on matters of this kind.

I hope that people in various parts of the country will pay some attention to it, and then if the committee does not feel that it can do it on this Bill, as I say, at the earliest opportunity, or in any other committee, I will offer it again and again.

The Senator knows, I think, five or six years ago I offered bill. I have offered bills

every year. If I may be permitted to say so, this grew out of the R.F.C. study. I spent two years studying that, and it became quite evident that the smaller companies, especially in the west, southeast and far west, needed capital and one of the difficulties was their tax rate that was imposing on them, and I offered bills increasing exemption.

I put it in the ~~inter~~ alternative, so from the surtax I was trying to inspire a little interest in this committee to do something for the smaller company. Now this is merely the latest bill in this general field, and I have a feeling that maybe this one has attracted a little more interest and maybe a little more sympathy, and the tremendous success recently of the big companies, in contrast to your little companies in agriculture, I thought might appeal to people.

The contrast every day, the market is making something on your big companies, and every day the rate of bankruptcies is increasing. I believe only last week it hit a new high of 300, or two weeks ago.

Last year the bankruptcies ran along 235. But now in the face of this incredible increase, almost, in the prosperity of your big ones, you are having your little ones go out faster than ever.

So I thought maybe this would be a time when the

26

Committee and the Congress would be sympathetic to a change.

As I say it is nothing new. This business of liquidation of your smaller companies has been going on in an increasing pace since World War II.

Senator Williams. I would like to reply to the senator. My reason for asking the question a few moments ago, as I said, I am very sympathetic to the objective of your amendments here, and I think they are well worth giving serious consideration to. But the chairman in his persuasive manner -- and I am inclined to agree with him -- had pointed out to me, when I applied and suggested offering the amendment to this, the same argument that was given to you.

I realize we are operating under a deadline and that is the reason I asked the question, if there could not be a bill later in which it could be mutually agreed that we could offer the amendments and have our day in court and then at the very same time give an opportunity to those who would differ with our respective proposals so that they might have their opportunity to present their side. Yet at the same time we would have the opportunity to get our side presented in our day in court.

That is the reason I mentioned that to the senator; not in opposition to his amendment, because I don't know

I am in opposition to the amendment.

Senator Fulbright. I wouldn't expect the committee to accept this without hearing from the other side. They have a legitimate interest in it, and the people who have a different view ought to be heard. That is the last thing I would suggest.

I don't expect any great and sudden reform in this or any other field. This is a long, continuing process. I only hope the committee will see the need for it.

It is a little more acute now than it has been in the past, and I hope the time has arrived when some change can be made to make it possible for the little ones to survive.

• • if the committee does not wish to have it now I will be glad to offer it again.

The Chairman. I assure the senator this, if he offers it to another bill there will be hearings and full hearings. But it seems to me it would be unwise, I believe.

Senator
Mr. Frear. May I ask if you have any legislation coming, that this may be appropriately offered?

The Chairman. I have no desire -- I want the Senator to fully understand -- to suppress it. He himself recognizes the need of hearings. It is a very

important bill. It changes to some extent the policies, although we have a differential as the senator knows of up to \$25,000 the tax is 30 per cent. \$50,000 the tax is 40 per cent. \$100,000 is different. So there is a differential that exists now.

Senator Fulbright. That is right. It just changes it slightly.

The Chairman. The Senator's bill is different from that.

Senator Fulbright. It changes it slightly.

The Chairman. The Senator will offer it to some other bill. We have very many important bills before this committee. We have very many. When we can work it in we will be glad to.

Senator Fulbright. I would welcome a suggestion from the committee or the chairman. If you have any you think it is especially appropriate to, I would be glad to have a suggestion about that. I certainly will endeavor to find one myself.

The Chairman. I guess the staff can refer it for the senator.

Senator Fulbright. I will confer with the staff.

Senator Smathers. Mr. Chairman, suppose we didn't think it would be appropriate to any of these bills as an amendment; would the chairman desire to see this down

55

as an independent tax proposal and have hearings on it and let the bill stand on its own feet?

Senator Williams. It would almost have to be offered as an amendment.

Senator Fulbright. To conform with that requirement it has to be an amendment.

Senator Williams. One could be selected that would be, or to which it could be attached.

Senator Fulbright. I would be very glad to do that. I am patient about it. I am willing to abide by the committee.

Senator Frear. Is there anyone over in the House, would that originate there?

Senator Fulbright. I have discussed it with the members from Arkansas and the Committee, Mr. Mills. I don't like to speak for other people or their attitude toward the Bills in any case, because they will speak for themselves. But I have discussed it with Mr. Mills recently. However, it was too late for them to consider it.

The Chairman. They are sending bills over constantly. It would be better to originate from the House because it is a major tax measure. Under the Constitution all such measures should come from the House.

Senator Frear. Mr. Chairman, I certainly must

agree with the Senator from Arkansas, that I believe there would be no more appropriate Bill to add this Bill to than the one now before us.

But I also recognize, as Senator Seathers stated, the fact of not having an opportunity to be heard.

Senator Fulbright. Mr. Chairman, I overlooked one thing. If the reporter would include Senator Wiley as one of the co-sponsors, please, he telephoned me after I had already had that prepared statement mimeographed, and it doesn't appear there. But he wishes ^{it} to be included for the record.

The Chairman. Yes, that will be done.

Senator Fulbright. And any and all of the papers I have referred to, which are not already in the record, I wish to offer.

The Chairman. Yes.

Statement of Equitable Readjustment of Tax Burden for Small Business -- Without Revenue Loss, is as follows:)

COMMITTEE INSERE

**EQUITY ADJUSTMENT OF TAX BURDEN
FOR SMALL BUSINESS WITHOUT REVENUE LOSS**

Sponsored by: Senators Fulbright, Sparkman, Capwell, Humphrey, Kennedy, Beall, Duff, Morse, Eastman, Lehman, Douglas and Wiley.

Present Law provides normal tax rate of 30%, surtax rate of 22%. The first \$25,000 is exempt from surtax.

The Amendment reduces the normal corporation tax rate to 22%, and increases the surtax to 31%. The 31% rate would apply to income over \$25,000.

Effect on Revenue -- Increase by \$20,000,000 a year.

Effect on Corporations -- see table below. Examples: Corporations with incomes \$5,000 and less -- save \$400, 26.7%; \$15,000, save \$1,200, 26.7%; \$25,000, save \$2,000, 26.7%; smaller savings on incomes up to \$225,000; slight increase on incomes above \$225,000.

Number affected -- Latest figures (1952 income tax returns) show out of 672,071 active corporations, only 13,194 earned over \$250,000. This proposal would reduce taxes for 90% of all corporations -- with no revenue loss.

NEED

Three sources of small business capital: Equity, Loans, and Retained Earnings. Expense of raising equity of \$300,000 in securities market: 20% to 30%. Large corporation financing may be fraction of 1%. 40 to 50 times as expensive to small corporations. Loans: 6% or higher for small, 3 1/2% or 4% for large.

Small corporations are, therefore, more dependent on retained earnings, yet earn less per dollar of sales. (2nd quarter of 1955 corporations with assets under \$250,000 earned 1.1 cents per dollar of sales; corporations \$100,000,000 and over 7.4 cents per dollar.) Smaller corporations also losing out in volume of sales -- increased only 3% 1954-55, as against 19% for large corporations. Large corporation greatly exceeds small in ratios of profit on investment. (2nd quarter of 1955, 5.3% for small, 13.5% for large.)

Number of new firms declines: Annual increase of new firms 55,000, 1945 to 1952; only 28,300 from 1954 to 1955.

Business failures -- Increasing -- Exclusively small businesses. In 1945, 809; 1953, 8,862; 1954, 11,086; 1955, 10,969.

Mergers also increasing. Dexter M. Keezer, V.P., McGraw-Hill Publishing Company: "Maintaining this rate (present corporate tax rate) means that you are going to have larger corporate units at the expense of smaller units, a matter of great social, political and economic significance."

EFFECT OF A NORMAL TAX RATE OF 22% AND A SURTAX RATE OF 31%

Income subject to normal tax and surtax	Present Tax Liability		Proposed Tax Liability		Change	
	Amount	Percent	Amount	Percent	Amount	Percent
\$ 5,000	\$ 1,500	30%	\$ 1,100	22%	\$ - 400	-26.7
10 000	3 000	30%	2 000	31%	1 000	26.7

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Income subject to normal tax and surtax	Present Tax Liability		Proposed Tax Liability		Change	
	:(Normal rate 30%, surtax rate 22%)		:(Normal rate 22%, surtax rate 31%)		Amount	Percent
					\$	%
\$ 5,000	\$ 1,500	\$ 1,100	\$ - 400	-26.7		
10,000	3,000	2,200	- 800	-26.7		
15,000	4,500	3,300	-1,200	-26.7		
20,000	6,000	4,400	-1,600	-26.7		
25,000	7,500	5,500	-2,000	-26.7		
50,000	20,500	18,750	-1,750	- 8.5		
100,000	46,500	45,250	-1,250	- 2.7		
225,000	111,500	111,500	No Change	No Change		
500,000	254,500	257,250	+2,750	+ 1.1		
1,000,000	514,500	522,250	+7,750	+ 1.5		
10,000,000	5,194,500	5,292,250	+97,750	+ 1.9		
100,000,000	51,994,500	52,992,250	+997,750	+ 1.9		

(Statement of Funds, Expenditures and Ownership,
is as follows:)

COMMITTEE INSERT

It has been contended that a tax change which imposes a normal tax of 22 percent and a surtax of 31 percent would not benefit the persons most in need of corporate tax relief. An analysis of the corporate returns for 1952 shows how fallacious this contention is.

The latest statistics of income available are those for the year 1952. These show that there were 705,497 corporations filing returns in that year. Of these, 33,426 were inactive, and 672,071 were active. By far the greatest concentration of corporate returns is in the class earning less than \$250,000 per year. 658,877 of the 672,071 corporations earned less than that amount. A table showing the distribution of the corporations in the various income categories is as follows:

<u>Earnings</u>	<u>Number of Corporations</u>
Deficits	22,9194
Under \$5,000	207,201
5,000 - 50,000	186,495
50,000 - 250,000	35,687
250,000 - 500,000	5,368
500,000 - 1,000,000	3,243
1,000,000 - 5,000,000	3,020
5,000,000 - 10,000,000	455
Over 10,000,000	508

In terms of their share of the national income, however, the corporations earning \$250,000 or more received a disproportionate share of the total corporate income. The net income of all the corporations was approximately \$40 billion. Of this sum, corporations earning \$250,000 per year or more accounted for approximately \$33 billion, or approximately 82 percent of the total. In other words, 2 percent of the corporations earned approximately 82 percent of all corporate earnings. It is apparent that those with the smaller incomes require some encouragement.

From a different point of view, in terms of asset sizes, the Internal Revenue Service shows that 615,098 of the 672,071 corporations filed balance sheets with their returns. It would be reasonable to assume that the 57,973 which did not file balance sheets were the smaller corporations. However, even if those which did not file balance sheets were eliminated from the calculations, a heavy concentration of small corporations is apparent. 602,777, or 98 percent of those filing returns, had assets of less than \$5 million. The distribution of the corporations among the various asset classifications is as follows:

<u>Asset Size</u>	<u>Number of Corporations</u>	
Under \$50,000 in assets	253,029	} 602,777
Between \$50,000 and \$250,000	231,903	
Between \$250,000 and \$1 million	84,266	
Between \$1 million and \$5 million	33,579	} 12,921
Between \$5 million and \$10 million	6,139	
Between \$10 million and \$50 million	5,220	
Between \$50 million and \$100 million	708	
Over \$100 million	854	

Character of Ownership

It is apparent from the statistics showing the concentration of corporations among those with small earnings and few assets that the typical entrepreneur has a very limited capital and small earnings. Contrast this with the typical stockholder. The last full study of share ownership was made in the same year for which I have just listed corporate income and asset statistics. This study, made by the Brookings Institution, shows that 4.2 percent of the total population own stocks of public corporations. The publicly-owned corporations are, of course, the larger corporations; for the day when a Henry Ford might personally own a huge aggregation of capital, which does business under the corporate form, has passed.

The Brookings Institution study, as might be expected, shows that persons earning over \$5,000 per year comprise the bulk of the stockholders. Of the estimated 6,490,000 shareholders, 4,440,000 earned over \$5,000 per year. Of these stockholders, 1,560,000 earned over \$10,000 per year. Persons earning over \$10,000 per year comprised only 4.1 percent of the total population, but 24 percent of the stockholders are in this income bracket. Persons reporting incomes of between \$5,000 and \$10,000 per year comprised 23 percent of the population, but they constituted 44 percent of the shareholders. An analysis was also made of families holding publicly-owned stocks according to income groups. This analysis is even more striking. It shows that of those 3.7 percent of the families in the highest income category, over 55 percent are stock owners; and furthermore, that this small percentage of American families accounts for over 21 percent of the stock holding families in the country. That table is as follows:

**Family Units Holding Publicly Owned Stocks
Distributed by Combined Family Income**

Reported Combined Family Income ^a	Total Family Population		Share-Ownng Family Units		
	Per- cent:	Number	% of Group: Population:	Estim- ated Number	% of Total
Less than \$2,000	19.2	9,910,000	2.2	220,000	4.6
\$2,000 to \$3,000	17.1	8,560,000	3.6	310,000	6.5
3,000 to 4,000	22.0	10,990,000	4.5	510,000	10.7
4,000 to 5,000	16.4	8,210,000	7.4	610,000	12.9
5,000 to 10,000	21.6	10,480,000	19.2	2,000,000	43.2
10,000 and over	3.7	1,850,000	55.1	1,020,000	21.9
Total families	100.0	50,000,000	9.5	4,750,000	100.0

^a Based on anticipated 1952 income before taxes as reported by a representative family member, usually the head.

Recently the New York Stock Exchange made a study of its transactions to determine how the various income groups share the volume of transactions on the New York Stock Exchange. For the test period in June 1955, persons with incomes of under \$5,000 participated in only 5.9 percent of the transactions. Those with incomes of \$5,000 to \$10,000 participated in 21.5 percent of the transactions. Those with \$10,000 to \$25,000 estimated annual income participated in 36 percent of the transactions; and those with annual incomes of over \$25,000

4

participated in 32.6 percent of the transactions. Expressed in terms of the number of shares bought, those with incomes of under \$5,000 purchased 329,000; those with between \$5,000 and \$10,000 estimated annual income purchased 1,429,000 shares; those with between \$10,000 and \$25,000 annual income purchased 2,020,000 shares and those with over \$25,000 annual income purchased 1,826,000 shares. It is apparent that despite the numerical superiority of those who earn less than \$5,000 per year, they comprise a very small segment of the stockholders of publicly-owned companies. Conversely, despite the small number of persons who earn over \$25,000 per year, their transactions make up approximately one third of the market on the New York Stock Exchange.

The Brookings Institution study concluded: "The level of income has a direct influence on share ownership." It is perhaps also significant that it is this group, with the highest incomes, who are the shareowners of the large publicly-held corporations, which has been benefited most by the stock market rise of the past two years, when \$20 billion has been added to the value of the securities listed on the New York Stock Exchange alone. Assuming there are as many as 7 million holders of securities on the New York Stock Exchange, this averages approximately \$13,000 per person.

(Statement of Number of Manufacturing and Mining
Concerns Acquired or Merged, is as follows:)

COMMITTEE INSERT

NUMBER OF MANUFACTURING AND MINING CONCERNS ACQUIRED OR MERGED

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual Total
1919	57	82	147	125	411
1920	209	186	188	166	749
1921	184	99	80	122	485
1922	86	53	82	76	297
1923	84	67	44	105	300
1924	110	71	87	85	353
1925	124	104	127	175	530
1926	286	236	171	146	839
1927	161	247	220	213	841
1928	197	315	242	274	1,028
1929	349	395	312	160	1,216
1930	204	237	156	189	786
1931	163	142	87	71	463
1932	7	102	46	40	195
1933	19	43	33	12	107
1934	19	25	34	23	101
1935	36	27	38	24	125
1936	39	25	27	32	123
1937	32	27	29	31	119
1938	32	20	22	33	107
1939	24	22	16	25	87
1940	29	45	37	36	140
1941	22	23	24	42	111
1942	19	17	31	51	118
1943	44	43	47	79	213
1944	68	73	79	104	324
1945	59	53	79	142	333
1946	95	132	109	83	419
1947	98	97	84	125	404
1948	65	81	60	59	265
1949	37	35	30	35	137
1950	42	51	50	57	200
1951	117	179	205	202	703
1952	189	171	244	218	822
1953	230	232	141	190	793
1954	156	139			

SOURCE: 1919 through 1939—Federal Reserve Board; Economic Committee; 1940 through 1954—Federal Reserve Board; Economic Committee.

(Statement of Proprietorships and Partnerships
is as follows:)

PROPRIETORSHIPS AND PARTNERSHIPS

I have been charged with overlooking the proprietorship and the partnership. I assure you that this is not the case. Your committee is considering a bill to extend certain corporate tax rates, and I am proposing changes germane to the bill. As I stated in my speech when introducing these amendments, there are many changes in the tax laws which might be wise or desirable -- but we cannot achieve Utopia overnight.

I think that the individual tax rates should be reviewed by your committee at the earliest opportunity, and that some way be found to relieve the burden on individual taxpayers from whatever source their income may be derived. However, I do not think that my amendment should fail merely because other worthy changes cannot be accomplished simultaneously. If the Federal income requirements cannot permit a revenue reduction, then I urge your committee to seek other means to encourage the survival and growth of small businesses which are not incorporated, or which do not file tax returns as corporations, as permitted by existing law.

I sincerely hope that you will not delay this highly desirable tax change merely because other worthy proposals are not contemplated by H. R. 2166.

(Statement of Who Bears the Burden of Redistributed
Corporate Taxes is as follows:)

WHO BEARS THE BURDEN OF REDISTRIBUTED CORPORATE TAXES

I have heard it said that my amendment, which would provide a small increase in taxes for large corporations, would thereby increase the taxes, or decrease the incomes, of a large number of small stockholders of large corporations; and would benefit the entrepreneurs of small corporations, who are said to be people of considerable means.

Since one of my amendments (3-15-56-B) would reduce taxes for all corporations, it needs no defense against this charge. The other amendment (3-15-56-C) would raise taxes only on those corporations having a taxable income in excess of \$225,000. It is very interesting to note from tax returns for 1952 -- the latest statistics available, that out of 672,071 active corporations only 13,194 earned over \$250,000. So, this is the affect of my amendment -- (1) it would reduce taxes for approximately 98% of all corporations, (2) it would increase taxes for approximately 2% of all corporations, and (3) it would increase revenue by approximately \$20 million.

Now, consider for a moment who would be affected by this slight tax increase for only 2% of all active corporations. A recent study on this subject, made by the Survey Research Center of the University of Michigan, shows that (1) only 7% of all American families owned publicly held stocks and (2) that 8% of this stock owning group owned over 4/5ths of all stock. It would appear therefore that less than 1% of all American families owned over 4/5ths of all publicly held stocks owned by individuals in 1952. Another study made at Harvard

University in 1949 estimated that about 65% of all privately owned stock was held by that 1% of the families in the country which have annual incomes of \$15,000 and over.

So it would seem that a small tax increase for the top 2% of corporations would have little effect upon low-income stockholders, if indeed, it would have any effect at all upon the dividends paid out by these large corporations with enormous earnings.

I realize that these figures do not account for the stock holdings of large institutional investors, who held about 25% of stocks outstanding in 1954. Over three-fourths of this institutional investment, however, does not benefit the average family. It benefits *or other beneficiaries of trusts.* other stockholders? This is true of holdings by the fire and casualty stock insurance companies, open and closed end investment companies, and bank administered personal trusts. In other words, I doubt that any of these institutional stockholders will be significantly affected by the small increase in taxes for "blue chip" corporations.

Probably the best example of the effect on stockholders can be illustrated by General Motors common stock. If the dividends of General Motors were to be reduced by the entire amount of their tax increase, which of course would not happen, it would reduce the annual dividend by less than 20¢ per share. In order for such a dividend reduction to amount to as much as \$50 a year from the standpoint of an individual stockholder, the stockholder would have to own 500 shares -- now valued at approximately \$24,000. I do not believe that 500 shares

3

Contrast this with the owners of the other 98% of corporations -- those which will get a tax reduction. Over 80% of these corporations earned less than \$5,000 in 1952. Does this indicate a tax cut for the "wealthy" owners of small businesses? It doesn't look that way to me. On the contrary, I think this amendment lowers taxes in a significant way for the small struggling corporation; and recovers the revenue from large corporations by a tax increase which will be hardly noticeable by the corporations and noticed not at all by the relatively few families who own stock in them.

157, 18

I have received some criticism from those who feel that my amendment would perpetuate a so-called "emergency" corporate tax rate. The only basis for this argument is that H. R. 9166 proposes a maximum effective rate drop of 5% in 1957; whereas, my amendment has no such automatic reduction provision. Now, we all know that tax rates can be changed at any time, and that such rates depend largely upon the revenue requirements of the Federal Government.

I see no particular magic in providing for a tax cut in a succeeding year, when it is well known that such a cut will or will not take place depending upon the state of the Federal budget.

However, if the committee feels that an automatic reduction provision would enhance the appeal of my amendment, I would not object. In fact, I can submit for your consideration alternative language which would reduce the maximum effective rate by 5% in 1957. One proposal would set the normal tax at 21% and the surtax at 27%; the other proposal would make them 20% and 28%, respectively. *In either case the revenue loss would be less than that contemplated by the reduction for 1957 as contained in H.R. 9166.*

such.

Senator Fulbright. Thank you, Mr. Chairman.

I have appreciated this opportunity to appear
before the committee.

(Whereupon, at 11:45 o'clock a.m., the
committee recessed.)