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SENATE

} REPORT  
No. 48

## TAX RELIEF FOR 1929

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DECEMBER 4 (calendar day, DECEMBER 9), 1929.—Ordered to be printed

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

### REPORT

[To accompany H. J. Res. 133]

The Committee on Finance, to whom was referred the joint resolution (H. J. Res. 133) reducing rates of income tax for the calendar year 1929, having had the same under consideration, reports it back to the House without amendment and recommends that the resolution do pass.

#### THE PROPOSED REDUCTION

The joint resolution reduces the rates of normal tax on the taxable net incomes of individuals from 1½ to one-half of 1 per cent on the first \$4,000; from 3 to 2 per cent on the second \$4,000; and from 5 to 4 per cent on the balance; and reduces the corporation rate from 12 to 11 per cent. The reduction is applicable only to the rates for the calendar year 1929, and will effect a saving to our taxpayers of approximately \$160,000,000, about \$90,000,000 of which is attributable to the reduction of the corporation rate and about \$70,000,000 to the reduction in the individual rates.

The following table shows the aggregate benefits to the various classes of individual taxpayers;

*Aggregate reduction in individual taxes*

(The total net tax includes the tax on dividends, capital gains, interest on Government bonds, etc., less all tax credits, and is the estimated current individual income tax to be paid during the calendar year 1929.)

Class	Net income	Taxpayers		Net total tax		Tax reduction	
		Number	Per cent of total number	Amount	Per cent of total	Amount	Per cent
1	Not over \$10,000.....	2,095,000	85.86	\$50,000,000	4.59	\$28,000,000	56.00
2	From \$10,000 to \$25,000.....	252,000	10.33	100,000,000	9.17	18,500,000	18.50
3	From \$25,000 to \$50,000.....	60,100	2.46	150,000,000	13.76	11,250,000	7.50
4	From \$50,000 to \$75,000.....	15,700	.64	125,000,000	11.47	4,350,000	3.48
5	From \$75,000 to \$100,000.....	6,100	.25	85,000,000	7.80	2,100,000	2.47
6	In excess of \$100,000.....	11,100	.46	580,000,000	53.21	5,800,000	1.00
	Total.....	2,440,000	100.00	1,090,000,000	100.00	70,000,000	6.42

The following table gives a comparison of the total tax, both normal and surtax, payable under the present law and under the rates fixed for 1929 by the joint resolution, by a single person and by a married person with no dependents. The table is based upon the assumption that all the income not in excess of \$10,000 is earned income, and in addition that one-fourth of the income in excess of \$10,000, until the limit of \$30,000 earned income is reached, is also earned; and that the total net income is all the income received and does not include dividends, capital gains, or interest upon Government bonds.

Total net income	Single person						Married man, no dependents							
	Normal tax, present law	Normal tax, proposed for 1929	Surtax	Total tax, present law	Total tax, proposed for 1929	Reduction in tax		Normal tax, present law	Normal tax, proposed for 1929	Surtax	Total tax, present law	Total tax, proposed for 1929	Reduction in tax	
						Amount	Per cent						Amount	Per cent
\$4,000	\$28.13	\$9.38	-----	\$28.13	\$9.38	\$18.75	66.66	\$5.63	\$1.88	-----	\$5.63	\$1.88	\$3.75	66.61
5,000	39.38	13.13	-----	39.38	13.13	26.25	66.66	16.88	5.63	-----	16.88	5.63	11.25	66.66
6,000	56.25	22.50	-----	56.25	22.50	33.75	60.00	28.13	9.38	-----	28.13	9.38	18.75	66.66
7,000	78.75	37.50	-----	78.75	37.50	41.25	52.38	39.38	13.13	-----	39.38	13.13	26.25	66.66
8,000	101.25	52.50	-----	101.25	52.50	48.75	48.15	56.25	22.50	-----	56.25	22.50	33.75	60.00
9,000	123.75	67.50	-----	123.75	67.50	56.25	45.45	78.75	37.50	-----	78.75	37.50	41.25	52.38
10,000	153.75	90.00	-----	153.75	90.00	63.75	41.46	101.25	52.50	-----	101.25	52.50	48.75	48.15
15,000	398.12	277.50	\$56.88	445.00	334.38	110.62	24.86	311.88	216.25	\$56.88	368.76	273.13	95.63	25.93
20,000	622.50	455.00	213.75	836.25	678.75	157.50	18.83	547.50	405.00	213.75	761.25	618.75	142.50	18.72
25,000	856.87	652.50	500.63	1,357.50	1,153.13	204.37	15.05	781.88	592.50	500.63	1,282.51	1,093.13	189.38	14.77
30,000	1,091.25	840.00	865.00	1,956.25	1,705.00	251.25	12.84	1,016.25	780.00	865.00	1,881.25	1,645.00	236.25	12.56
40,000	1,560.00	1,215.00	1,768.75	3,328.75	2,983.75	345.00	10.36	1,485.00	1,155.00	1,768.75	3,253.75	2,923.75	330.00	10.14
50,000	2,028.75	1,590.00	2,925.00	4,953.75	4,515.00	438.75	8.86	1,953.75	1,530.00	2,925.00	4,878.75	4,455.00	423.75	8.69
60,000	2,497.50	1,965.00	4,312.50	6,810.00	6,277.50	532.50	7.82	2,422.50	1,905.00	4,312.50	6,735.00	6,217.50	517.50	7.68
70,000	2,966.25	2,340.00	5,932.50	8,898.75	8,272.50	626.25	7.04	2,891.25	2,280.00	5,932.50	8,823.75	8,212.50	611.25	6.93
80,000	3,435.00	2,715.00	7,688.75	11,123.75	10,403.75	720.00	6.47	3,360.00	2,655.00	7,688.75	11,048.75	10,343.75	705.00	6.38
90,000	3,903.75	3,090.00	9,540.00	13,443.75	12,630.00	813.75	6.05	3,828.75	3,030.00	9,540.00	13,368.75	12,570.00	798.75	5.97
100,000	4,403.75	3,490.00	11,440.00	15,843.75	14,930.00	913.75	5.77	4,328.75	3,430.00	11,440.00	15,768.75	14,870.00	898.75	5.70
250,000	11,903.75	9,490.00	41,440.00	53,843.75	50,930.00	2,413.75	4.52	11,828.75	9,430.00	41,440.00	53,268.75	50,870.00	2,398.75	4.50
500,000	24,403.75	19,490.00	91,440.00	115,843.75	110,930.00	4,913.75	4.24	24,328.75	19,430.00	91,440.00	115,768.75	110,870.00	4,898.75	4.23
1,000,000	49,403.75	39,490.00	191,440.00	240,843.75	230,930.00	9,913.75	4.12	49,328.75	39,430.00	191,440.00	240,768.75	230,870.00	9,898.75	4.11

## THE ESTIMATED SURPLUS

The estimated surplus for the fiscal year 1930 is approximately \$226,000,000 and the estimated surplus for the fiscal year 1931 is approximately \$123,000,000. The probable surplus is shown by the following table, which gives the actual receipts and expenditures for the fiscal year 1929 (on the basis of the daily Treasury statements, unrevised) and the estimated receipts and expenditures for the fiscal years 1930 and 1931:

*Receipts and expenditures for the fiscal year 1929, on the basis of daily Treasury statements (unrevised), and estimated receipts and expenditures for the fiscal years 1930 and 1931*

	1929	1930	1931
<b>RECEIPTS, ORDINARY</b>			
Customs.....	\$602,262,786.17	\$602,000,000.00	\$602,000,000.00
Internal revenue:			
Income tax.....	2,330,711,822.66	2,480,000,000.00	2,460,000,000.00
Miscellaneous internal revenue.....	607,307,548.98	635,000,000.00	640,000,000.00
	2,938,019,371.64	3,115,000,000.00	3,100,000,000.00
Miscellaneous receipts.....	492,968,067.24	532,263,434.00	523,727,666.00
Total ordinary receipts.....	4,033,250,225.05	4,249,263,434.00	4,225,727,666.00
<b>EXPENDITURES</b>			
Total ordinary expenditures.....	3,298,859,485.88	3,393,316,300.00	3,467,614,700.00
Public-debt retirements chargeable against ordinary receipts.....	549,603,703.75	630,365,600.00	635,324,000.00
Total expenditures chargeable against ordinary receipts.....	3,848,463,189.63	4,023,681,900.00	4,102,938,700.00
Excess of ordinary receipts over total expenditures chargeable against ordinary receipts.....	184,787,035.42	225,581,534.00	122,788,966.00

Corporations enjoyed a very prosperous year in 1928 and all reports indicate that their 1929 income will exceed that of 1928. However, an analysis of the available statistics and information shows that the surplus for the fiscal year 1929 is attributable almost entirely to the unusual increase in taxable incomes of individuals. The outstanding item is an increase of approximately \$2,000,000,000 in profits from the sale of capital assets. The individual income taxes increased from approximately \$790,000,000 for the fiscal year 1928 to approximately \$1,019,000,000 for the fiscal year 1929. It is quite impossible to estimate the effect which the recent precipitous decline in security values will have on the profits from security transactions.

Because of the unusual conditions, your committee believes that the estimated surplus for 1930 and 1931 does not permit a permanent tax reduction. Nevertheless, it is convinced that the benefits of the probable surpluses should be passed on to the taxpayers rather than applied to debt reduction. Ample provision for the retirement of our national debt, in accordance with our well-established policy, is made in the Budget. It will be noted that the estimated expenditures for 1930 and 1931 include, respectively, \$630,000,000 and \$635,000,000 for debt retirement chargeable against ordinary receipts.

If there were reasonable assurances that the probable surpluses were of a permanent nature, your committee would consider, as it has in the past, a permanent revision of our tax laws, attempting

to equalize and at the same time lessen the burdens now imposed upon our various classes of taxpayers. However, such an undertaking at the present time is not justified. The surpluses may be only of a temporary character. The extraordinary increase in the gains reported by individuals may disappear. Undoubtedly, substantial losses have been sustained. Whether these losses will be more than offset by future gains can not be reliably predicted. Again, it should be borne in mind that the income tax has become our principal source of revenue, and that the yield of any income tax is necessarily subject to the fluctuations of business. Our balanced Budget should not be subjected to the risks of uncertainties.

#### EXTENT OF PROPOSED REDUCTION

Although the estimated surpluses can not be classed with reasonable certainty as of a permanent nature, your committee is convinced that a temporary tax reduction is proper at the present time, and that the relief should be granted to the greatest extent consistent with sound Government finance and to the greatest possible number of taxpayers. By dividing the effect of the reduction between the fiscal years 1930 and 1931, it is believed that an aggregate reduction of \$160,000,000 is within a reasonable margin of safety. By decreasing the normal individual and the corporation tax rates, the benefit is accorded all the taxpayers. Furthermore, the greatest relief is granted taxpayers of relatively small incomes, consisting primarily of salaries and wages. The proposed relief to taxpayers of this class is undoubtedly at least as great, if not greater, than would result from a revision of the "earned income" provisions of the present law.

It is generally admitted that the present corporation rate of 12 per cent is out of line with the rates imposed upon individuals. Undoubtedly, the corporation rate should be reduced as soon as the revenue requirements permit. The number of individuals contributing directly to the support of the Federal Government through the Federal income tax has been strictly limited, and, of those contributing, the vast majority pay but an insignificant amount. Of 2,434,000 individual returns showing taxable income, 2,059,000 returned but \$32,861,000 of income tax, while 375,000 returned a tax of \$1,109,000,000. The average rate of tax on the net incomes of the 2,059,000 individuals was 0.42 per cent, whereas these and other millions of individuals owning stock in corporations are virtually paying taxes through their corporations at 12 per cent on that portion of their income arising from the profits of the business enterprises in which they are shareholders. For the calendar year 1927, 24.46 per cent of their net income was taken by taxes, if all taxes paid are taken into consideration; and for every dollar paid in dividends, 46 cents were paid in taxes. If all corporations be included—that is to say, corporations reporting a deficit as well as those reporting net income—the percentage of net income paid in taxes is 34.84 per cent. It can hardly be denied that the way to give the greatest Federal tax relief to the greatest number is through a reduction of the corporation rate. Furthermore, no reduction is made in the surtax rates, the rates at which dividends received by individuals are taxed. Whether the theory is adopted that the corporation income tax is passed on to consumers or that the burden falls upon the stockholders, it must be admitted that our corporate taxpayers and their stockholders are clearly deserving of the proposed reduction.

## REDUCTION CONFINED TO 1929

The reduction of rates proposed by the joint resolution is confined to the calendar year 1929, and the resolution is so framed that without further legislation the rates prescribed by the revenue act of 1928 automatically apply to the calendar year 1930 and all subsequent years unless changed by act of Congress.

All taxpayers whose books are kept on the basis of the calendar year will take advantage of the reduction in their return due March 15. The benefits of the reduction are, however, also applicable to taxpayers having a fiscal year different from the calendar year. The existing law makes express provision for this class. Section 105 of the 1928 act provides:

SEC. 105. *Taxable period embracing years with different laws.*—If it is necessary to compute the tax for a period beginning in one calendar year (hereinafter in this section called "first calendar year") and ending in the following calendar year (hereinafter in this section called "second calendar year") and the law applicable to the second calendar year is different from the law applicable to the first calendar year, then the tax under this title for the period ending during the second calendar year shall be the sum of (1) the same proportion of a tax for the entire period, determined under the law applicable to the first calendar year and at the rates for such year, which the portion of such period falling within the first calendar year is of the entire period; and (2) the same proportion of a tax for the entire period; determined under the law applicable to the second calendar year and at the rates for such year, which the portion of such period falling within the second calendar year is of the entire period.

An example will illustrate the application of this section to the contemplated rate reduction. Suppose that a corporation has its fiscal year beginning on July 1. For its taxable year from July 1, 1928, to June 30, 1929, it has presumably already made return. If the taxable net income shown thereby is \$100,000 its tax will be computed as follows:

Twelve per cent of \$100,000 is \$12,000. One-half of this (since it had six months in the calendar year 1928) is \$6,000. Eleven per cent of \$100,000 is \$11,000. One-half of this (representing the six months falling within the calendar year 1929) is \$5,500. Its tax for its taxable year ending June 30, 1929, will therefore be \$6,000 plus \$5,500, or \$11,500. If it has already paid the \$12,000 tax under the 1928 act rates it will be entitled to a refund or credit of \$500. The remainder of the benefit of the rate reduction will be availed of in its return for its taxable year ending June 30, 1930, the tax for which will be one-half of 11 per cent of its taxable net income (representing the six months in 1929), plus one-half of 12 per cent of its taxable net income, representing the six months in 1930 as to which the 12 per cent rate of the 1928 act automatically applies.

## TAXES TO WHICH REDUCTION APPLIES

The reduction applies to all classes of taxpayers. Individuals, including nonresident aliens, benefit so far as normal tax is concerned, but the surtax rates of the 1928 act are not reduced. The benefit of this reduction in normal tax automatically is extended to estates and trusts, since section 161 of the 1928 act provides that the taxes imposed upon individuals shall apply to the income of estates and trusts.

The tax on corporations and insurance companies is not divided into normal tax and surtax, the rate being a flat 12 per cent tax, re-

duced by the resolution to 11 per cent. It should be noted that no reduction is proposed in the 50 per cent tax imposed by section 104 of the 1928 act in the case of the accumulation of surplus to evade surtaxes.

#### REFUNDS, CREDITS, AND DEFICIENCIES

In the case of taxpayers not keeping their books on the basis of the calendar year it will result that many will already have filed their returns for the taxable year 1929 (i. e., for their fiscal year ending within 1929). The overpayment of tax resulting thereby will be within the provisions of section 322 of the present law which provides that "where there has been an overpayment of tax imposed by this title, the amount of such overpayment shall be credited" against any installments interest at 6 per cent will be allowed from the date of overpayment, in accordance with section 614 of the 1928 act.

Section 271 of the 1928 act defines a deficiency as the amount by which the tax properly computed exceeds the amount shown as the tax upon the return. If the return has been filed before the enactment of this joint resolution the taxpayer will, of course, have computed the tax at the rates under the 1928 act. In determining the amount of the deficiency under this provision the new rates will, of course, be applied in determining the correct amount of the tax, and also the amount of tax shown on the return will have to be recomputed at the new rates.

#### REVENUE ACT OF 1928 NOT AFFECTED

Nothing in the joint resolution in any way impairs or affects the revenue act of 1928, except as to the rates of tax for the calendar year 1929 only. The various taxes, whose rates are affected for this temporary period, remain "taxes imposed by" Title I of the revenue act of 1928 within the meaning of all the various sections of that act in which such language occurs.

#### TEXT OF SECTIONS AFFECTED BY RATE REDUCTION

##### INDIVIDUALS

Sec. 11. **NORMAL TAX ON INDIVIDUALS.**—There shall be levied, collected, and paid for each taxable year upon the net income of every individual a normal tax equal to the sum of the following:

- (a) 1½ per centum of the first \$4,000 of the amount of the net income in excess of the credits against net income provided in section 25;
- (b) 3 per centum of the next \$4,000 of such excess amount; and
- (c) 5 per centum of the remainder of such excess amount.

##### NONRESIDENT ALIENS

Sec. 211. **NORMAL TAX.**—(a) *General rule.*—In the case of a nonresident alien individual who is not a resident of a contiguous country, the normal tax shall be 5 per centum of the amount of the net income in excess of the credits against net income allowed to such individual.

(b) *Aliens resident in contiguous countries.*—In the case of an alien individual resident in a contiguous country, the normal tax shall be an amount equal to the sum of the following:

- (1) 1½ per centum of the amount by which the part of the net income attributable to wages, salaries, professional fees, or other amounts received as compensation for personal services actually performed in the United States, exceeds the personal exemption and credit for dependents; but the amount taxable at such 1½ per centum rate shall not exceed \$4,000;

(2) 3 per centum of the amount by which such part of the net income exceeds the sum of (A) the personal exemption and credit for dependents, plus (B) \$4,000; but the amount taxable at such 3 per centum rate shall not exceed \$4,000; and

(3) 5 per centum of the amount of the net income in excess of the sum of (A) the amount taxed under paragraphs (1) and (2) of this subsection plus (B) the total credits against net income allowed to such individual.

(c) *In lieu of normal tax under section 11.*—The tax imposed by this section shall be in lieu of the normal tax imposed by section 11.

#### ESTATES AND TRUSTS

SEC. 161. IMPOSITION OF TAX.—(a) *Application of tax.*—The taxes imposed by this title upon individuals shall apply to the income of estates or of any kind of property held in trust, including—

(1) Income accumulated in trust for the benefit of unborn or unascertained persons or persons with contingent interests, and income accumulated or held for future distribution under the terms of the will or trust;

(2) Income which is to be distributed currently by the fiduciary to the beneficiaries, and income collected by a guardian of an infant which is to be held or distributed as the court may direct;

(3) Income received by estates of deceased persons during the period of administration or settlement of the estate; and

(4) Income which, in the discretion of the fiduciary, may be either distributed to the beneficiaries or accumulated.

(b) *Computation and payment.*—The tax shall be computed upon the net income of the estate or trust and shall be paid by the fiduciary, except as provided in section 166 (relating to revocable trusts) and section 167 (relating to income for benefit of the grantor). For return made by beneficiary, see section 143.

#### CORPORATIONS

Sec. 13. TAX ON CORPORATIONS.—(a) *Rate of tax.*—There shall be levied, collected, and paid for each taxable year upon the net income of every corporation, a tax of 12 per centum of the amount of the net income in excess of the credits against net income provided in section 26.

(b) *Exempt corporations.*—For corporations exempt from tax, see section 103.

(c) *Improper accumulation of surplus.*—For tax on corporations which accumulate surplus to evade surtax on stockholders, see section 104.

#### LIFE INSURANCE COMPANIES

Sec. 201. TAX ON LIFE INSURANCE COMPANIES.—(a) *Definition.*—When used in this title the term "life insurance company" means an insurance company engaged in the business of issuing life insurance and annuity contracts (including contracts of combined life, health, and accident insurance), the reserve funds of which held for the fulfillment of such contracts comprise more than 50 per centum of its total reserve funds.

(b) *Rate of tax.*—In lieu of the tax imposed by section 13, there shall be levied, collected, and paid for each taxable year upon the net income of every life insurance company a tax as follows:

(1) In the case of a domestic life insurance company, 12 per centum of its net income;

(2) In the case of a foreign life insurance company, 12 per centum of its net income from sources within the United States.

#### OTHER INSURANCE COMPANIES

Sec. 204. INSURANCE COMPANIES OTHER THAN LIFE OR MUTUAL.—(a) *Imposition of tax.*—In lieu of the tax imposed by section 13 of this title, there shall be levied, collected, and paid for each taxable year upon the net income of every insurance company (other than a life or mutual insurance company) a tax as follows:

(1) In the case of such a domestic insurance company, 12 per centum of its net income;

(2) In the case of such a foreign insurance company, 12 per centum of its net income from sources within the United States.



## WITHHOLDING AT SOURCE

Sec. 144. WITHHOLDING OF TAX AT SOURCE.—(a) *Tax-free covenant bonds.*—

(1) Requirement of withholdings: In any case where bonds, mortgages, or deeds of trust, or other similar obligations of a corporation contain a contract or provision by which the obligor agrees to pay any portion of the tax imposed by this title upon the obligee, or to reimburse the obligee for any portion of the tax, or to pay the interest without deduction for any tax which the obligor may be required or permitted to pay thereon, or to retain therefrom under any law of the United States, the obligor shall deduct and withhold a tax equal to 2 per centum of the interest upon such bonds, mortgages, deeds of trust, or other obligations, whether such interest is payable annually or at shorter or longer periods, if payable to an individual, a partnership, or a foreign corporation not engaged in trade or business within the United States and not having any office or place of business therein: *Provided*, That if the liability assumed by the obligor does not exceed 2 per centum of the interest, then the deduction and withholding shall, after the date of the enactment of this act, be at the following rates: (A) 5 per centum in the case of a nonresident alien individual, or of any partnership not engaged in trade or business within the United States and not having any office or place of business therein and composed in whole or in part of nonresident aliens, (B) 12 per centum in the case of such a foreign corporation, and (C) 2 per centum in the case of other individuals and partnerships: *Provided further*, That if the owners of such obligations are not known to the withholding agent the commissioner may authorize such deduction and withholding to be at the rate of 2 per centum, or, if the liability assumed by the obligor does not exceed 2 per centum of the interest, then at the rate of 5 per centum.

(2) Benefit of credits against net income: Such deduction and withholding shall not be required in the case of a citizen or resident entitled to receive such interest, if he files with the withholding agent on or before February 1 a signed notice in writing claiming the benefit of the credits provided in section 25(c) and (d); nor in the case of a nonresident alien individual if so provided for in regulations prescribed by the commissioner under section 215.

(3) Withholding at lower rate: Such deduction and withholding shall be at the rate of 1½ per centum instead of at the rate of 2 per centum in the case of a citizen or resident entitled to receive such interest if he files with the withholding agent on or before February 1 a signed notice in writing that his net income in excess of the credits against net income provided in section 25 does not exceed \$4,000.

(4) Income of obligor and obligee: The obligor shall not be allowed a deduction for the payment of the tax imposed by this title, or any other tax paid pursuant to the tax-free covenant clause, nor shall such tax be included in the gross income of the obligee.

(b) *Nonresident aliens.*—All persons, in whatever capacity acting, including lessees or mortgagors of real or personal property, fiduciaries, employers, and all officers and employees of the United States, having the control, receipt, custody, disposal, or payment of interest (except interest on deposits with persons carrying on the banking business paid to persons not engaged in business in the United States and not having an office or place of business (therein), rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits, and income, of any nonresident alien individual, or of any partnership not engaged in trade or business within the United States and not having any office or place of business therein and composed in whole or in part of nonresident aliens (other than income received as dividends of the class allowed as a credit by section 25(a)) shall (except in the cases provided for in subsection (a) of this section and except as otherwise provided in regulations prescribed by the commissioner under section 215) deduct and withhold from such annual or periodical gains, profits, and income a tax equal to 5 per centum thereof: *Provided*, That the commissioner may authorize such a tax to be deducted and withheld from the interest upon any securities the owners of which are not known to the withholding agent.

(c) *Return and payment.*—Every person required to deduct and withhold any tax under this section shall make return thereof on or before March 15 of each year and shall on or before June 15, in lieu of the time prescribed in section 56, pay the tax to the official of the United States Government authorized to receive it. Every such person is hereby made liable for such tax and is hereby indemnified against the claims and demands of any person for the amount of any payments made in accordance with the provisions of this section.

(d) *Income of recipient.*—Income upon which any tax is required to be withheld at the source under this section shall be included in the return of the recipient of such income, but any amount of tax so withheld shall be credited against the amount of income tax as computed in such return.

(e) *Tax paid by recipient.*—If any tax required under this section to be deducted and withheld is paid by the recipient of the income, it shall not be re-collected from the withholding agent; nor in cases in which the tax is so paid shall any penalty be imposed upon or collected from the recipient of the income or the withholding agent for failure to return or pay the same, unless such failure was fraudulent and for the purpose of evading payment.

(f) *Refunds and credits.*—Where there has been an overpayment of tax under this section any refund or credit made under the provisions of section 322 shall be made to the withholding agent unless the amount of such tax was actually withheld by the withholding agent.

Sec. 145. PAYMENT OF CORPORATION INCOME TAX AT SOURCE.—In the case of foreign corporations subject to taxation under this title not engaged in trade or business within the United States and not having any office or place of business therein, there shall be deducted and withheld at the source in the same manner and upon the same items of income as is provided in section 144 a tax equal to 13½ per centum thereof in respect of all payments of income made before the enactment of this act, and equal to 12 per centum thereof in respect of all payments of income made after the enactment of this act, and such tax shall be returned and paid in the same manner and subject to the same conditions as provided in that section: *Provided*, That in the case of interest described in subsection (a) of that section (relating to tax-free covenant bonds) the deduction and withholding shall be at the rate specified in such subsection.

