

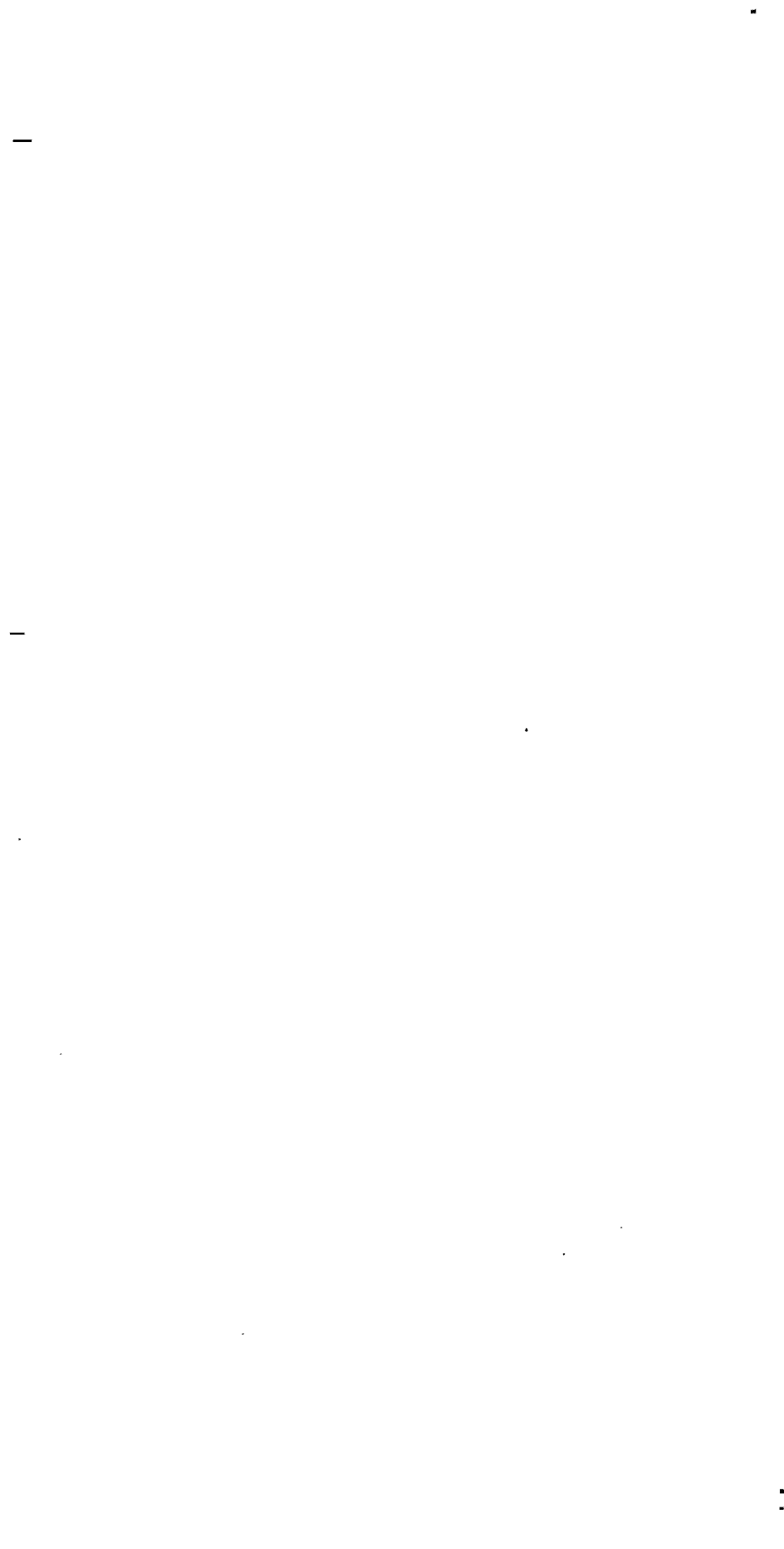
S. 11, 311

Legislative History
OF THE
CURRENT TAX PAYMENT ACT
OF 1943

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1946

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LEGISLATIVE HISTORY OF THE CURRENT TAX PAYMENT ACT OF 1943

1. Introductory

The main features of the Current Tax Payment Act of 1943 are a combination of a Treasury plan for withholding and collecting at the source of a portion of income taxes upon wage earners and salaried persons, and the so-called "Ruml Pay-As-You-Go Tax Plan" for transition to complete currency in tax payment, effected by "skipping" the taxable year 1942, simultaneously proposed by Mr. Beardsley Ruml, treasurer of R. H. Macy and Company, and chairman of the Federal Reserve Bank of New York, modified in two respects, namely, first, in respect of the inclusion of two so-called windfall provisions and, second, in respect of limiting the cancellation of the 1942 tax liabilities to 75 percent thereof.

As regards the proposal for the withholding and collection of income taxes at the source, particularly upon the wage earners and salaried persons, this appears first to have been presented to both the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the United States Senate at hearings held before these committees in 1941, by Dr. Albert G. Hart, associate Professor of Economics, Iowa State College, Ames, Iowa. Dr. Hart testified at length at these hearings with regard to the necessity for instituting "withholding at the source" in order effectively to implement the income tax as a means of curbing inflation.¹ Dr. Hart stated that he not only spoke on behalf of himself, but also expressed the unanimous opinion of some 170 other economists who had signed a memorandum on defense taxation. At the hearings before the Finance Committee, Dr. Hart introduced an article on withholding by a leading English student of finance, Mrs. Ursula H. Hicks, dealing primarily with the British system, as well as one by Walter H. Heller, of the University of Wisconsin, which dealt not only with the experiences of withholding at the source of certain American states and municipalities, but also with those of British Columbia and Canada. Also introduced at these hearings was a reproduction of Chapter X, relating to details of a proposal for prompt collection of income taxes, of "Fi-

¹ Hearings entitled "Revenue Revision of 1941." before the Committee on Ways and Means, House of Representatives, 77th Cong., 1st Sess., on Revenue Revisions of 1941, revised April 24, 28, 29, 30, May 1, 2, 5, 6, 7, 8, 9, 1941, Vol. I, pp. 324, 333-334, 336-337, 348-349; and hearings entitled "Revenue Act of 1941." before the Committee on Finance United States Senate, 77th Congress, 1st Sess., on H. R. 5427, revised August 8, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, and 23, 1941, pp. 337, 393-440. It is to be noted that the general withholding provisions of the Income Tax Act of 1918 and the Revenue Act of 1916 were, on the recommendation of the Treasury, abandoned in 1917. See S. Rep. No. 103, 65th Cong., 1st Sess., p. 20. The War Revenue Act of 1917 and subsequent revenue acts retained these provisions, generally speaking, only in respect of non-resident alien individuals deriving income from sources within the United States.

nancing Defense," written by Dr. Hart himself, and various withholding returns employed in British Columbia.

The Treasury's plan for "withholding at the source" was first presented to the Ways and Means Committee of the House on March 3, 1942,² and later described.³ It was informally the sense of the committee that the Treasury and Joint Committee⁴ staffs should study the suggestion and report back to the committee for its consideration before the bill was reported;⁵ and, in its final action, the committee adopted the suggestion.⁶

Accordingly, Section 153 of the 1942 revenue bill as it was reported to the House on July 14, 1942, contained elaborate provisions for collection at the source.⁷

However, the Finance Committee amended the bill by striking out the withholding features thereof and substituting therefor the "victory tax" with its withholding provisions, which the committee in its report explained at length.⁸ The bill, as it passed the Senate, contained the "victory tax" provisions proposed by the Finance Committee. In passing, it should be mentioned that the report of that committee made no reference to Section 153 of the bill as it passed the House or to its own action in striking it from the House bill. The House receded from its disagreement to the amendment.⁹

As regards Mr. Ruml's "Pay-As-You-Go Tax Plan," it is to be noted that it is the only one ever submitted which was designed to make all individual taxpayers fully current. Mr. Ruml revised it on July 20, 1942, and again on November 16, 1942. Originally, the plan entailed the cancellation of the entire 1941 tax liabilities, for which the 1942 liabilities were later substituted. He first submitted his plan to the Finance Committee of the Senate at hearings held before that committee on the Revenue Act of 1942, on July 27, 1942, and testified with regard thereto at length.¹⁰

Mr. Ruml testified again at hearings entitled "Withholding Tax," held in executive session on August 13, 1942, before a subcommittee of the Finance Committee on "Data Relating to Withholding Provisions of the 1942 Revenue Act." These hearings have since been published.¹¹

At the same hearings, the Treasury presented a memorandum showing the results of field investigations into the employers' problems in introducing collection at the source for wages and salaries.¹² It was stated on behalf of the Treasury that the whole collection at the source

² Hearings entitled "Revenue Revision of 1942," before the Committee on Ways and Means, House of Representatives, 77th Cong., 2d Sess., p. 5.

³ *Ibid.*, pp. 81-82, 98.

⁴ Reference here is to the Joint Committee on Internal Revenue Taxation, created by Section 1203 of the Revenue Act of 1926, c. 27, 44 Stat. 9.

⁵ See Treasury mimeograph "Committee Action on Revenue Bill of 1942, June 26, 1942," Sec. B (4), Collection at the Source, p. 8. A copy of this mimeograph is included in Vol 1 of the 1942 revenue bill in its various forms as compiled by the writer.

⁶ Treasury mimeograph entitled "Committee Action on Revenue Bill of 1942" (revised July 20, 1942, in accordance with H. R. 7378 and passed by the House of Representatives), Sec. B, (4), p. 8. A copy of this mimeograph is also included in Vol. 1 of the 1942 revenue bill in its various forms compiled by the writer.

⁷ For a full explanation of the provisions of Section 153, see H. Rep. No. 2833, 77th Cong., 2d Sess., pp. 126-135.

⁸ S. Rep. No. 1631, same Congress and Session, pp. 6-28, 162-174.

⁹ H. Conf. Rep. No. 2586, pp. 1, 55-57.

¹⁰ See hearings entitled "Revenue Act of 1942," before the Committee on Finance, U. S. Senate, 77th Cong., 2d Sess., on H. R. 7378, an act to provide revenue and for other purposes, held in July and August, 1942, p. 178, *et seq.*

¹¹ Hearings entitled "Withholding Tax," before a subcommittee of the Committee on Finance, U. S. Senate, 77th Cong., 2d Sess., on data relating to withholding provisions of the 1942 Revenue Act, p. 2.

¹² *Ibid.*, pp. 18-56.

program had been carefully examined since the House bill was "enacted" (H. R. 7378, 77th Cong., 2d Sess.),¹³ with the idea of making improvements, and that it was thought the objective had been very definitely established.¹⁴ At these hearings, however, the Treasury indicated its ideas regarding the Ruml plan only very generally.¹⁵

On August 24, 1942, the sub-committee unanimously approved the Ruml plan, rejecting certain suggested modifications made by the Treasury, and, in an oral report made to the Finance Committee on that day, recommended the cancellation of the 1941 taxes and their application to 1942 incomes.¹⁶ But, on August 26, 1942, the Finance Committee rejected the Ruml plan by a vote of 13 to 3, as also an amended version thereof to limit its benefits to persons receiving small incomes, by a vote of 11 to 6.¹⁷

In the period intervening between the close of the hearings held before the sub-committee of the Finance Committee, which were concluded on August 22, 1942, and the opening of the 78th Congress, Mr. Ruml made repeated public statements with regard to his position, as did also the Treasury.¹⁸

After the opening of the 78th Congress the discussion continued, others joining therein, including the President.¹⁹

Thereafter, between February 2 and 15, 1943, hearings were held before the Committee on Ways and Means, House of Representatives, on a proposal to place income tax of individuals on a pay-as-you-go basis.²⁰ The Treasury presented a formal statement at these hearings on February 3, 1943, and also adduced testimony with regard to its position, both as regards its proposal for withholding at the source and as regards various methods of transition, including the Ruml plan of "skipping" a year.²¹

Mr. Ruml also testified at length at these hearings on February 4, 1943,²² submitting the same formal statement of the plan, dated March 25, 1942.²³

2. The first Ruml-Carlson bill (H. R. 2042)

Thereafter, on March 2, 1943, Mr. Carlson introduced H. R. 2042, which, like House Joint Resolution 17, introduced by him previously, on January 6, 1943, contained the Ruml plan, but did not contain any

¹³ Revenue Act of 1942, c. 619, 56 Stat. 798.

¹⁴ Hearings entitled "Withholding Tax," before a sub-committee of the Committee on Finance, U. S. Senate, 77th Cong., 2d Sess., on data relating to withholding provisions of the 1942 Revenue Act, pp. 111, *et seq.*

¹⁵ *Ibid.*, pp. 144-147.

¹⁶ The New York Times, August 25, 1942, p. 2, col. 2.

¹⁷ *Ibid.*, August 27, 1942, p. 1, col. 1.

¹⁸ See e. g., The Washington Evening Star, August 25, 1942, p. 1, cols. 6-7; The New York Times, September 1, 1942, p. 22, col. 1; *ibid.*, September 11, 1942, p. 11, col. 1; *ibid.*, September 15, 1942, p. 20, col. 7; *ibid.*, September 26, 1942, p. 9, col. 5; *ibid.*, September 27, 1942, p. 24, col. 8; *ibid.*, October 22, 1942, p. 36, col. 7; *ibid.*, October 23, 1942, p. 12, col. 6; The Washington Post, December 17, 1942, p. 18, col. 4; *ibid.*, November 20, 1942, p. 10, col. 4; *ibid.*, January 7, 1943, p. 21, col. 5; 89 Cong. Rec., January 14, 1943, pp. A127-130.

¹⁹ The New York Times, January 9, 1943, p. 1, col. 4; 89 Cong. Rec., January 12, 1943, pp. 130-131; *ibid.*, January 25, 1943, pp. A808-809; The New York Times, January 24, 1943, p. 31, col. 1; *ibid.*, January 27, 1943, p. 12, col. 8; hearings entitled "Individual Income Tax," before the Committee on Ways and Means, House of Representatives, 78th Cong., 1st Sess., A Proposal to Place Individual Income Taxes on a Pay-As-You-Go Basis, pp. 243, 244; 89 Cong. Rec., January 26, 1943, pp. A823-824; The New York Times, March 22, 1943, p. 22, col. 2; *ibid.*, April 21, 1943, p. 19, col. 1.

²⁰ Hearings entitled "Individual Income Tax," before the Committee on Ways and Means, House of Representatives, 78th Cong., 1st Sess., on a proposal to place income tax of individuals on a pay-as-you-go basis.

²¹ *Ibid.*, pp. 9-24, 25-197.

²² *Ibid.*, pp. 155-244.

²³ *Ibid.*, pp. 168-182.

withholding provisions. The bill did, however, contain what was afterwards, in modified form, to become the first of two anti-windfall provisions. To this end, Section 2 (b) provided a special rule for 1942 for those having an income of \$20,000 or more for a taxable year beginning in 1942 or in 1943, whichever was lower. In such cases, the bill provided that the lower liability should be discharged. No explanation was given by Mr. Carlson of this bill, no doubt because it was shortly to be displaced by another (H. R. 2245), hereafter more particularly referred to.

3. The first Ways and Means Committee bill (H. R. 2218)

On March 15, 1943, there was printed a committee print of a bill for introduction by Mr. Doughton as Chairman of the Ways and Means Committee, to provide a method for the payment of individual income taxes, and on March 17, 1943, Committee Print No. 2 of this bill was printed. The bill was introduced by Mr. Doughton on March 17, 1943, as H. R. 2218. It provided merely for the collection of taxes at the source on wage earners and salaried persons, in general crediting the amounts so withheld on tax liabilities for the prior year. The bill did not, however, contain any compulsory provisions for current tax payments. Instead, it provided that any taxpayer might in any taxable year voluntarily put himself on a current tax payment basis by paying, in addition to the tax for the previous year, the estimated tax for the then current year. To make the plan attractive, a discount was allowed on this advance payment.²⁴

It is to be noted that Section 5 of the bill provided for an amendment of Section 22 (b) (13) of the Internal Revenue Code, so as to exclude from gross income of military and naval personnel without distinction as to rank an amount not to exceed \$3,500 over the personal exemption claimed under Section 25 (b); and Section 6 provided for the abatement of the tax for members of the armed forces who died while in active service.

4. The House report on the first Ways and Means Committee bill (H. R. 2218)

H. R. 2218 was reported to the House on March 19, 1943.²⁵ It appears from the report that the Ways and Means Committee had rejected the Ruml plan as outlined in the Ruml-Carlson bill (H. R. 2245). As stated in the report, the primary basis for such rejection was that all of the 1942 tax of \$10,000,000,000 was to be cancelled, which it was said the Government could not afford to do. The report also stressed the inequity of total cancellation, pointing out that taxpayers with large windfalls in 1942 would entirely escape the tax thereon. For a summary of the Treasury's additional technical objections to the plan, see the minority report on the bill.²⁶

²⁴ On March 25, 1943, Mr. Doughton stated to the House that H. R. 2218 had not been written by the Treasury. 89 Cong. Rec., p. 2487.

²⁵ H. Rep. No. 268. Only the bills upon which action was taken, or those having a direct relation thereto, are here discussed. Many others were introduced, both in the House and the Senate, upon which no action was taken. A copy of each of these is, however, included in the two volumes of the bills in their various forms relating to the Current Tax Payment Act of 1943, as compiled by the author.

²⁶ H. Rep. No. 268, Part 2, p. 7.

5. The second Ruml-Carlson bill (H. R. 2245) and the House minority report on the first Ways and Means Committee bill (H. R. 2218)

On March 22, 1943, Mr. Carlson advised the House that he would offer H. R. 2245, which he had that day introduced, as a substitute for H. R. 2218, and that H. R. 2245 contained (1) the withholding provisions of the Committee bill; (2) the "notch" provisions in the anti-windfall section of his first bill (H. R. 2042), hereinafter again referred to; (3) a further anti-windfall provision designed to recapture a portion of the tax cancelled in respect of the taxpayer's abnormal income in 1942 or 1943 over 1941, and (4) the so-called Woodruff amendment relating to members of the armed forces, identical with those in H. R. 2218.²⁷

The minority report on H. R. 2218, which was made by nine Republican members of the Ways and Means Committee,²⁸ already referred to,²⁹ was also a report on the second Ruml-Carlson bill (H. R. 2245). While this bill provided for the cancellation of the entire 1942 tax, it contained two provisions intended to tax windfalls, first, in cases where the 1942 income was higher than the 1943 income and, second, where both the 1942 income and 1943 income were higher than the 1941 income. As the minority report explained in respect of the first, an exception was made as regards cancellation of 1942 income in the case of those taxpayers with more than \$20,000 income in 1942 and whose 1943 income was less than the 1942 income. These would, in effect, be required to pay taxes in 1943 on the basis of their higher 1942 income, and the assessment against their 1943 income would be abated instead. As regards the second, the report explained that, in order to prevent windfalls in cases where both 1942 and 1943 incomes were abnormally higher than 1941 income, a special tax was imposed on the abnormal portion of the income, in the place of the tax for 1942 or 1943, whichever was higher and abated. In such cases, if the 1942 income was equal to or less than the 1943 income, a 25 percent tax was imposed on the excess of 1942 income over \$50,000 or over the 1941 income, whichever was greater, plus 25 per cent in addition to so much of the excess as exceeded \$500,000. Upon furnishing security, the taxpayer was allowed an extension of not exceeding 18 months within which to pay the tax, and in exceptional cases, an extension of an additional 12 months.³⁰ For further detailed explanation of H. R. 2245, see Mr. Carlson's statement in the House, made on March 27, 1943.³¹

6. The Congressional debates on the first Ways and Means Committee bill (H. R. 2218)

The first Ways and Means Committee bill (H. R. 2218) was debated in the Committee of the Whole House on the State of the Union on

²⁷ 89 Cong. Rec., March 22, 1943, p. 2282.

²⁸ The other Republican member, Mr. Gearhart, of California, did not sign the report. He opposed forgiveness. See, e. g., his statements on the floor of the House on March 24, 27 and 30, 1943. 89 Cong. Rec. pp. 2411, 2591-2593, 2752, 2769-2770.

²⁹ H. Rep. No. 268, Part 2, cited in footnote 26, *supra*.

³⁰ *Ibid.*, pp. 15-16.

³¹ 89 Cong. Rec. March 27, 1943, pp. 2582-2585.

March 25,³² 26,³³ 27,³⁴ and 29,³⁵ 1943, and each time the committee reported to the House that it had come to no conclusion thereon. In the course of these debates a number of amendments were offered, but none was accepted.

7. The House rejects both the first Ways and Means Committee bill (H. R. 2218) and the second Ruml-Carlson bill (H. R. 2245)

On March 30, 1943, Mr. Doughton again moved that the House resolve itself into the Committee of the Whole House on the State of the Union for further consideration of the first Ways and Means Committee bill (H. R. 2218). The motion was agreed to, and thereupon Mr. Carlson offered an amendment to the bill, in the nature of a substitute therefor, by striking out all of the bill except the enacting clause and inserting the matter thereafter, set forth in the Record in the place thereof, which embodied the provisions of the second Ruml-Carlson bill (H. R. 2245).³⁶ The motion was debated at length. The amendment was adopted by the committee by a vote of 199 to 188. However, the committee thereupon rose and, being put to a vote of the House, the amendment was rejected by a vote of 215 to 198.³⁷ But, immediately thereafter, on motion of Mr. Carlson, H. R. 2218 was recommitted to the Ways and Means Committee by a vote of 248 to 168.³⁸

8. The second Ways and Means Committee bill (H. R. 2570) and the report thereon

Thereafter, on April 22, 1943, Mr. Doughton introduced H. R. 2570, and on April 30, 1943, he reported the bill to the House.³⁹ The report explained that, in meeting the criticism of the House implied in its rejection of the first Ways and Means Committee bill (H. R. 2218), that this did not go far enough towards placing taxpayers on a current basis, the committee had worked out a substitute which had the effect of relieving approximately one-half of the total individual tax liability for 1942 on the only basis which the committee deemed fair, namely, by forgiving so much of the 1942 tax as represented the reduction in personal exemptions and the increase in the rates made by the Revenue Act of 1942.⁴⁰ Tables set out on pages 16 to 20 of the report show both the amount of the tax forgiven and that unforgiven, the portion forgiven ranging from 100 per cent in the case of small incomes (of from \$500 to \$1,500, as the case might be) to 10 per cent in cases of the largest incomes. As regards the unforgiven portion of the 1942 tax, it was provided that this was payable over a three-year period, one-third on March 15, 1944, one-third on March 15, 1945, and one-third on March 15, 1946. Discounts were provided to encourage taxpayers to liquidate the 1942 liability as quickly as possible and thus to place themselves on a current basis. The bill contained the identical relief

³² *Ibid.*, March 25, 1943, pp. 2467-2512.

³³ *Ibid.*, March 26, 1943, pp. 2528-2584.

³⁴ *Ibid.*, March 27, 1943, pp. 2576-2609.

³⁵ *Ibid.*, March 29, 1943, pp. 2614-2667.

³⁶ *Ibid.*, March 30, 1943, pp. 2742, 2748-2750.

³⁷ *Ibid.*, p. 2771.

³⁸ *Ibid.*, p. 2772.

³⁹ H. Rep. No. 461.

⁴⁰ *Ibid.*, p. 2.

provisions for members of the armed forces as the first Ways and Means Committee bill, H. R. 2218.

9. The minority report on the second Ways and Means Committee bill (H. R. 2570)

The minority report on H. R. 2570, made contemporaneously with the majority report on April 30, 1943, expressed the views of the nine Republican members of the committee who had made the minority report on the first Ways and Means Committee bill (H. R. 2218).⁴¹ Aside from a criticism of H. R. 2570,⁴² the minority report contained an explanation of a revised Ruml-Carlson plan.⁴³

The revised plan provided for the discharge of 1942 tax liabilities as of September 1, 1943, except in cases of fraud. The two windfall provisions of the second Ruml-Carlson bill (H. R. 2245) were changed in certain important particulars. As regards the first anti-windfall provision, the revised plan provided, similarly as did H. R. 2245, that, if the 1942 tax was \$1,050 (the tax on surtax net income of \$5,000) or more, and also more than the 1943 tax, the 1942 tax was abated, but the tax for 1943 was increased by the amount which the 1942 tax exceeded the 1943 tax, or by the amount which the 1942 tax exceeded \$1,050 in cases where the 1943 tax was less than that amount. The effect of the provision was to require such a taxpayer to pay in 1943 a tax equal to the higher of the two years with one exception, namely, if the 1943 tax was less than \$1,050, the 1943 tax was increased only by the excess of the 1942 tax over \$1,050. This is the so-called "notch" provision, already referred to, here applied to a taxpayer whose income was slightly over \$5,000 in 1942, instead of to one whose income was over \$20,000, as provided in H. R. 2245.⁴⁴

A substantial change was made by the revised plan in the second anti-windfall provision contained in H. R. 2245. The revised plan provided that if both 1942 and 1943 incomes exceeded the 1941 income by \$5,000, the tax for 1943 should be increased by an amount equal to a tax computed as if the portion of the surtax net income for 1942 which (1) exceeded \$5,000 plus the surtax net income for 1941 and (2) did not exceed the surtax net income for 1943 constituted both the surtax net income and the net income for the taxable year 1943. The minority report explained that the revised plan provided a special rule in case both the 1942 and 1943 incomes were more than \$5,000 in excess of the 1941 income.⁴⁵

The revised plan also, of course, contained the withholding provisions of the second committee bill (H. R. 2570), as well as its relief provisions for members of the armed forces.

Thereafter, on May 3, 1943, the revised Ruml-Carlson plan was incorporated in a committee print of a bill for introduction by Mr. Carlson. This was the third Ruml-Carlson bill. While the bill was not introduced, its provisions, as hereinafter explained, were thereafter offered by Mr. Carlson as a substitute for H. R. 2570.

⁴¹ H. Rep. No. 401, Part 2.

⁴² *Ibid.*, pp. 1-7.

⁴³ *Ibid.*, pp. 8-10.

⁴⁴ *Ibid.*, p. 8. See also the committee print of the revised Ruml-Carlson plan, dated May 2, 1943, hereinafter referred to.

⁴⁵ *Ibid.*, p. 8. See also the committee print of the revised Ruml-Carlson plan dated May 2, 1943, hereinafter referred to.

10. Mr. Doughton's explanation on the floor of the House of the differences in the first Ways and Means Committee bill (H. R. 2218), the second Ruml-Carlson bill (H. R. 2245) and the second Ways and Means Committee bill (H. R. 2570)

On the same day, May 3, 1943, Mr. Doughton stated on the floor of the House, similarly as in the House report on the bill, that, if he understood the temper of the House, it considered that the first Ways and Means Committee bill (H. R. 2218) did not go far enough and that the second Ruml-Carlson bill (H. R. 2245) went too far as regards forgiveness of the 1942 tax. He explained that, since the second Ways and Means Committee bill (H. R. 2570) relieved the taxpayer of the added burden of the 1942 Act resulting from the lowering of the exemptions thereby and the increase in rates, the entire amount of the 1942 tax forgiven was \$5,000,000,000. Thus, new taxpayers were entirely relieved from the tax and the old ones to the extent indicated. Mr. Doughton explained, as has already been stated, that the uncancelled portion of the 1942 tax was to be spread over a three-year period commencing on March 15, 1944. He further said that the withholding provisions of H. R. 2570 were identical with those of H. R. 2218 and H. R. 2245.⁴⁶

11. The Robertson-Forand bills (H. R. 2277 and 2577)

On March 23, 1943, Mr. Forand (a Democratic member of the Ways and Means Committee) had introduced H. R. 2277, known as the Robertson-Forand bill, and on March 25, 1943, Mr. Forand had discussed the measure at some length.⁴⁷ This bill contained withholding-at-the-source provisions identical with those contained in the first Ways and Means Committee bill (H. R. 2218). In addition, the bill contained provisions for the current payment of basic liabilities amounting approximately to the normal tax, the surtax at the first bracket rate, and the net "victory tax." The balance of tax liability for any taxable year was to be collected in the year following the receipt of income as under existing law. In addition, the bill contained a provision for the cancellation and discharge of an amount of the 1942 tax equal to the normal tax of 6 percent and the surtax at the first bracket rate of 13 percent. This proposal appears to have been made by Mr. Robertson, another Democratic member of the committee, and it is on this account that the bill came to be known as the Robertson-Forand bill.⁴⁸

On May 3, 1943, Mr. Forand introduced his second bill (H. R. 2577), also known as the Robertson-Forand bill. This contained substantially similar provisions to those of H. R. 2277. On the same day, Mr. Robertson explained at length the provisions of this bill on the floor of the House.⁴⁹ Mr. Forand explained them more briefly, and how they worked. He stated that 99 percent of taxpayers would be put on a 75 percent current basis and that the bill (1) forgave 19 units, 6 per-

⁴⁶ 89 Cong. Rec., May 3, 1943, pp. 8836.

⁴⁷ *Ibid.*, March 23 and 25, 1943, pp. 2409, A1422-A1424.

⁴⁸ See H. Rep. No. 268, Part 2, pp. 10-11. The suggestion that the percentage to be withheld approximate a percentage equal to the normal tax of 6 percent and the first surtax bracket of 13 percent appears first to have been made by the Treasury. See hearings, entitled "Withholding Tax," held in August, 1942, before the Subcommittee of the Committee on Finance, United States Senate, on data relative to withholding provisions of the 1942 Revenue Act, pp. 57, 59.

⁴⁹ 89 Cong. Rec., May 3, 1943, pp. 2850-2853.

cent normal tax and 13 percent surtax, (2) withheld 20 percent, i. e., 3 percent "victory tax" and 17 percent income tax, (3) increased exemptions for members of our armed forces to \$3,500, less personal exemptions on compensation received for military service, and (4) abated all taxes owed by members of our armed forces who died while in active service.⁵⁰

12. The House rejects the second Ways and Means Committee bill (H. R. 2570), as well as the revised Ruml-Carlson plan, and substitutes for the committee bill the provisions of the second Robertson-Forand bill (H. R. 2577) as H. R. 2570

The second Ways and Means Committee bill (H. R. 2570) came on for consideration by the Committee of the Whole House on May 4, 1943. In the course of the debate,⁵¹ Mr. Carlson offered his revised Ruml-Carlson plan as contained in the committee print of his bill dated March 3, 1943, heretofore referred to, as an amendment to H. R. 2570 and in the nature of a substitute therefor, by striking out all of H. R. 2570 after the enacting clause and inserting the provisions of the committee print of the Ruml-Carlson bill in the place thereof.⁵² An amendment to the Carlson amendment, offered by Mr. Andresen, of Minnesota, striking out 1941 as the base year used for comparison with 1942 or 1943, as the case might be, and substituting therefor 1940 as the base year, was agreed to.⁵³ A number of other amendments to the Carlson amendment were rejected.⁵⁴ The amendment as thus amended was agreed to in the Committee of the Whole House by a vote of 197 to 166,⁵⁵ but was rejected by the House itself by a vote of 206 to 202.⁵⁶

Thereupon, Mr. Knutson (a Republican member of the Ways and Means Committee) moved⁵⁷ to recommit H. R. 2570 with instructions to the committee to report the same back to the House forthwith with the following amendment, namely, striking out all of the bill excepting the enacting clause and inserting thereafter the provisions of the second Robertson-Forand bill (H. R. 2577).⁵⁸ The motion was agreed to by a vote of 230 to 180. Mr. Doughton forthwith reported H. R. 2570 back as so amended.⁵⁹ In answer to an inquiry from the floor, Mr. Cooper (a Democratic member of the Ways and Means Committee) stated that the amendment was H. R. 2577, the bill which had been introduced by Mr. Forand (May 3, 1943). The bill as thus amended was adopted by a vote of 313 to 95.⁶⁰ A motion to reconsider the vote by which the amendment was adopted was laid on the table.⁶¹

13. Hearings held on H. R. 2570, as amended (the second Robertson-Forand bill), before the Finance Committee of the Senate on May 6, and 7, 1943

H. R. 2570, as it passed the House (that is, the Robertson-Forand bill), was introduced in the Senate and referred to its Committee on

⁵⁰ *Ibid.*, pp. 3860-3861.

⁵¹ *Ibid.*, May 4, 1943, pp. 3915-3956.

⁵² *Ibid.*, pp. 3929-3937.

⁵³ *Ibid.*, pp. 3945-3946.

⁵⁴ *Ibid.*, pp. 3941-3942, 3942-3943, 3943-3944, 3944-3945.

⁵⁵ *Ibid.*, p. 3947.

⁵⁶ *Ibid.*, 3947-3948.

⁵⁷ *Ibid.*, p. 3948.

⁵⁸ *Ibid.*, pp. 3948-3957.

⁵⁹ *Ibid.*, p. 3957.

⁶⁰ *Ibid.*, pp. 3957-3958.

⁶¹ *Ibid.*, p. 3958.

Finance on May 5, 1943.⁶³ On May 6 and 7, 1943, that committee held hearings on the bill. Only representatives of the Treasury and of the staff of the Joint Committee on Internal Revenue Taxation testified at them.⁶⁴

14. The Finance Committee rejects the House bill (H. R. 2570), and by an amendment substitutes its own measure therefor which embodies the Ruml plan

On the day the hearings were concluded, May 7, 1943, the Finance Committee, by a vote of 13 to 7, voted to adopt the Ruml plan.⁶⁴ Accordingly, it rejected the House bill in toto. It did so by an amendment striking out the whole of it and substituting its own measure therefor, which it explained in its report dated May 10, 1943.⁶⁵

The bill as thus amended contained provisions for (1) current payment of individual income taxes for 1943 and subsequent years, (2) treatment of the 1942 tax, (3) soldiers' and sailors' relief, and (4) an extension of time in connection with the release of powers of appointment.

The withholding provisions were correlated with the social security tax withholding provisions instead of with those pertaining to the "victory tax," of which they were made an amendment by the bill as it passed the House. These provisions were similar to those in the House bill and applied only to wages. The amount to be deducted was 20 percent, 3 percent representing the "victory tax," and 17 percent the estimated amount of the normal tax and the surtax at the first bracket rate. Withholding was to commence July 1, 1943. Provision was also made to place non-wage earners upon a current basis, as well as for the payment currently of the liability of wage earners in excess of the amount withheld at the source. There were also provisions for the current payment of tax not collected at the source.

As regards cancellation of the 1942 tax, the bill provided, as did the final Ruml-Carlson bill, for the discharge of such liability in its entirety as of September 1, 1943, and that all individual taxpayers were to be placed upon a current basis for the year 1943. By way of the first anti-windfall provision, the bill provided that where the 1942 tax was greater than the 1943 tax, the latter should be increased by such excess, except in the case of taxpayers who had entered upon active military or naval service in 1942 or 1943, in which case the tax for 1943 should not be increased by any portion of such excess which was attributable to earned income as defined by Section 25 (a) (4) of the Internal Revenue Code. There was a second windfall provision designed to limit the discharge of the 1942 tax in cases where the surtax income for 1942 or 1943, whichever was less, was greater than the surtax income in one of the base years 1938, 1939 or 1940, which the taxpayer might choose, plus the sum of \$10,000. In such case, the

⁶³ Prior thereto, on February 18, 1943, there was laid before the Senate a joint resolution of the assembly of the State of Nevada memorializing Congress to amend the law on collection of income tax to a pay-as-you-go basis. 89 Cong. Rec., pp. 1082-1083. And on March 23, 1943, there was presented to the Senate a joint memorial of the legislature of the State of Washington addressed to the Finance Committee to put into effect some plan of collecting income taxes each month as the money is actually earned. *Ibid.*, p. 2316.

⁶⁴ Hearings, entitled "Current Payment Tax Act of 1943," before the Committee on Finance, United States Senate, 75th Cong., 1st Sess., on H. R. 2570, an act to provide for the current payment of the individual income tax, and for other purposes.

⁶⁵ The New York Times, May 8, 1943, p. 1, col. 2.

⁶⁶ S. Rep. No. 221.

discharge was limited to the amount of the tax computed upon the income for such year plus \$10,000. The provision was designed so as not to forgive the tax on substantial increases of income in the current year over the income of pre-war years.⁶⁶ The bill, as reported to the Senate, also provided for the payment of the increase in the 1943 tax, made by the anti-windfall provisions, in four equal annual installments, commencing March 15, 1945.

As regards the relief provisions for members of the armed forces, Section 22 (b) (13) of the Internal Revenue Code was amended so as to exclude from income so much of their compensation as did not exceed \$1,500, and the provisions relating to abatement of tax at death were made more specific than those contained in the bill as it passed the House.⁶⁷

And, finally, the bill provided for an extension of time in connection with the release of powers of appointment for estate and gift tax purposes from July 1, 1943, to March 1, 1944.

15. Senator La Follette's individual views

There was no minority report, but Senator La Follette of Wisconsin, on May 11, 1943, presented his individual views in a separate report.⁶⁸ Senator La Follette disapproved cancellation of 1942 liabilities and suggested a plan for the commencement of current collection against the 1943 income on July 1 without cancelling 1942 liability, allowing the individual taxpayer the right to pay in quarterly installments in the calendar year 1944 that part of the 1943 liability not met in the current collections from July to December, 1943, and thereby increasing the revenue for the fiscal year 1944 by approximately \$8,000,000,000.

16. Action in the Senate on H. R. 2570 as amended by the Senate Finance Committee

On May 12, 1943, Mr. George explained to the Senate at considerable length the amendment made by the Senate Finance Committee to H. R. 2570 as it passed the House, particularly as to the treatment of the 1942 liability.⁶⁹ On the same day a number of technical amendments to the bill, offered by Senator George, were adopted.⁷⁰ Senator George also offered an amendment reducing the amount of cancellation of the tax liabilities for the year 1942 to 75 percent.⁷¹ As hereinafter noted, this amendment, together with a number of others, was rejected.

On May 13, 1943, Senator Ellender offered an amendment providing that the payment of the 1942 tax should be payable in ten installments, one payable every six months for five years,⁷² and on May 14, 1943, Senator Connally offered H. R. 2570, as reported to the House April 30, 1943 (that is, the second Ways and Means Committee bill), as a substitute.⁷³

⁶⁶ *Ibid.*, pp. 12-13.

⁶⁷ *Ibid.*, pp. 13-14.

⁶⁸ S. Rep. No. 221, Part 2.

⁶⁹ 89 Cong. Rec., May 12, 1943, pp. 4268-4271.

⁷⁰ *Ibid.*, pp. 4285-4286.

⁷¹ *Ibid.*, pp. 4286-4287.

⁷² *Ibid.*, May 13, 1943, p. 4346.

⁷³ *Ibid.*, May 14, 1943, pp. 4398-4407.

On May 14, 1943, Senator Ellender stated that his amendment provided that the 1942 tax should be spread over a period of five years.⁷⁴ The amendment was rejected by a vote of 57 to 21.⁷⁵

On the same day, Senator Clark, of Missouri, offered an amendment whose purpose was to clarify one of the provisions intended to relieve persons who died while serving in the armed forces.⁷⁶ The amendment was rejected.⁷⁷

On the same day, Senator George's amendment, corrected as to form,⁷⁸ limiting cancellation of the 1942 tax liabilities to 75 percent thereof, was defeated by a vote of 50 to 32,⁷⁹ but certain further perfecting amendments offered by him were agreed to.⁸⁰

Also on the same day, an amendment by Senator O'Daniel intended to substitute for the Finance Committee amendment the provisions of H. R. 2218 (the original Ways and Means Committee bill), which the House had, as stated, rejected,⁸¹ was rejected by a vote of 48 to 29.⁸² And on the same day, Senator Connally's amendment to substitute H. R. 2570 as reported to the House April 30, 1943, was rejected by a vote of 50 to 29.⁸³ And, finally, on the same day, Senator Bankhead offered an amendment,⁸⁴ the effect of which was to substitute the bill as it passed the House, i. e., the Robertson-Forand bill (H. R. 2577).⁸⁵ The amendment was rejected by a vote of 52 to 27.⁸⁶

Thereafter, still on the same day, the Finance Committee amendment, as amended, was agreed to by a vote of 48 to 31.⁸⁷ The bill passed the Senate by a vote of 49 to 30.⁸⁸ The text of the bill as it passed the Senate was then read into the Record.⁸⁹ All but two Republicans with 18 Democrats voted for full abatement of the 1942 tax liabilities.⁹⁰ Thereupon Senator George moved the Senate to insist upon its amendment; that it request a conference with the House thereon, and that the chairman appoint the conferees on the part of the Senate. The motion was agreed to, and the presiding officer appointed Mr. George, Mr. Walsh, Mr. Connally (for whom Mr. Byrd was later substituted), Mr. Clark, of Missouri, Mr. Danaher, Mr. Vandenberg, and Mr. Davis conferees on the part of the Senate.⁹¹

17. The President's identical letters of May 17, 1943, addressed respectively to Senator George and Mr. Doughton

On May 17, 1943, the President addressed identical letters to Senator George and Mr. Doughton hinting that he would veto the bill in the form passed by the Senate, because he could not acquiesce in the elimination of a whole year's tax burden.⁹²

⁷⁴ *Ibid.*, pp. 4392-4395.

⁷⁵ *Ibid.*, p. 4395.

⁷⁶ *Ibid.*, p. 4396.

⁷⁷ *Ibid.*, p. 4398.

⁷⁸ *Ibid.*, p. 4417.

⁷⁹ *Ibid.*, p. 4421.

⁸⁰ *Ibid.*, pp. 4426-4427, 4441.

⁸¹ *Ibid.*, p. 4427.

⁸² *Ibid.*, pp. 4440-4441.

⁸³ *Ibid.*, pp. 4441-4442.

⁸⁴ *Ibid.*, pp. 4442-4443.

⁸⁵ *Ibid.*, p. 4443.

⁸⁶ *Ibid.*, p. 4447.

⁸⁷ *Ibid.*, p. 4447.

⁸⁸ *Ibid.*, p. 4448.

⁸⁹ *Ibid.*, pp. 4448-4458.

⁹⁰ *New York Times*, May 15, 1943, p. 1, col. 1.

⁹¹ *89 Cong. Rec.*, May 14, 1943, p. 4458.

⁹² *New York Times*, May 18, 1943, p. 1, col. 1; p. 28, col. 3.

18. The bill as amended in the Senate is defeated in the House

On May 18, 1943, Mr. Knutson made a motion that the managers on the part of the House at the conference on the disagreeing votes of the two Houses on the bill H. R. 2570 be instructed to agree to the amendment of the Senate.⁹⁵ The motion was rejected by a vote of 202 to 194.⁹⁶ The speaker thereupon appointed the following conferees: Messrs. Doughton, Cooper, Disney, Dingell, Knutson, Reed of New York, and Jenkins.

19. The action in conference

The conference remained in deadlock until May 26, 1943. On that day, the vote stood 11 (sic) to 4, for compromise on 75 percent cancellation, four Democrats opposing.⁹⁷ The seven Senate members of the Conference Committee and three of the seven House members thereof voted to sustain the compromise. That this vote represented a deadlock resulted from the fact that the unit rule prevails in conference committees, so that it required the votes of four of the seven House members to break it. But on that day Mr. Doughton broke the deadlock by a change in position, when there appeared no other way out. The other three Democratic House conferees, Messrs. Cooper, Disney, and Dingell did not change their votes;⁹⁸ nor did they sign either the conference report or the statement of the managers on the part of the House annexed thereto.⁹⁹

As appears from the statement of the managers on the part of the House, the withholding provisions of the Senate bill were retained with minor amendments.¹⁰⁰ As regards the current tax payment provisions, however, the conference agreed to substitute a 75 percent discharge (proposed by Senator George), for the 100 percent discharge in the Senate bill based on the lower of the liabilities for 1942 or 1943, except in cases where the lower liability was \$50 or less, in which event the entire liability was discharged.¹⁰¹ Of the 25 percent of the 1942 tax liabilities not discharged, one-half was payable May 15, 1944, and the balance March 15, 1945. The windfall provisions of the Senate bill were retained with certain modifications, among which is to be mentioned that the year 1937 was added to the years from which the taxpayer might select his base year, and in addition it was provided that \$20,000, instead of \$10,000, was to be added to the surtax income of the base year in computing the tentative tax which is the limit of discharge of tax liability for 1942.¹⁰² The conference also made some changes with respect to the time of the payment of amounts added to the 1943 liability.¹⁰³

20. The House agrees to the conference report

On May 28, 1943, Mr. Doughton submitted the conference report to the House, together with the statement of the managers on the part

⁹⁵ 89 Cong. Rec., May 18, 1942, p. 4566.

⁹⁶ *Ibid.*, p. 4580.

⁹⁷ *Ibid.*, May 26, 1943, p. 1, col. 0.

⁹⁸ *Ibid.*

⁹⁹ H. Rep. No. 310, pp. 27, 70.

¹⁰⁰ *Ibid.*, pp. 44-46, 49, 58.

¹⁰¹ *Ibid.*, pp. 63-64.

¹⁰² *Ibid.*, p. 65.

¹⁰³ *Ibid.*, pp. 66-67.

of the House, the report and statement being printed in the record in full.¹⁰² Thereafter, on June 1, 1943, Mr. Doughton explained the action in conference at considerable length.¹⁰³ Mr. Doughton thereupon yielded to Mr. Robertson, co-author of the Robertson-Forand bill, who said that the conference report met every definition of a compromise, which he intended to support. Immediately thereafter, the conference report was agreed to by the House by a vote of 257 to 114.¹⁰⁴

21. The Senate agrees to the conference report

On June 2, 1943, Senator George presented the conference report to the Senate and briefly explained it,¹⁰⁵ and after a short debate, the report was adopted in the Senate by a vote of 62 to 19.

22. The President approves the Act

The bill was signed by the Speaker of the House on June 3, 1943,¹⁰⁶ and by the Vice President on June 4, 1943.¹⁰⁷ It was presented to the President on the same day,¹⁰⁸ and was approved and signed by him on June 9, 1943.¹⁰⁹

23. The nature of the Act

While, as has already been stated, the Act imposes no new taxes, it was estimated that the measure would add about \$3,000,000,000 to federal resources in the next 12 months. Furthermore, its withholding provisions, as well as those relating to transition, were made to apply only to individuals; estates, trusts and corporations being expressly excepted therefrom.

SUMMARY

The steps in the passage of the "Current Tax Payment Act of 1943" may be summarized as follows:

1. In 1942 the Treasury proposed a plan for withholding and collecting at the source 10 per cent of income derived from wages, bond interest, and dividends. The House included provisions therefor in the 1942 revenue bill, but the Senate substituted the Victory Tax and its withholding provisions therefor.

2. In the meantime, Mr. Ruml had proposed his "skip" a year plan in order to put individuals upon a so-called "pay-as-you-go" basis, which the Treasury opposed.

3. The first Ways and Means Committee bill, H. R. 2218, contained only provisions for withholding 20 percent of the tax at the source upon wage earners. This would, however, have placed a large majority of the taxpayers upon a current basis. It did not contain any provisions designed to carry the Ruml plan into effect. Transition was entirely to be effected by a postponement of the payment of the 1942 tax liability.

¹⁰² 89 Cong. Rec., May 28, 1943, pp. 5085, 5123-5161.

¹⁰³ *Ibid.*, June 1, 1943, pp. 5151-5153.

¹⁰⁴ *Ibid.*, pp. 5166, 5167.

¹⁰⁵ *Ibid.*, June 2, 1943, p. 5203.

¹⁰⁶ *Ibid.*, June 3, 1943, p. 5353.

¹⁰⁷ *Ibid.*, June 4, 1943, p. 5355.

¹⁰⁸ *Ibid.*, p. 5403.

¹⁰⁹ *Ibid.*, June 9, 1943, p. 5726.

4. The second Ruml-Carlson bill, for which the minority of the Ways and Means Committee stood sponsor, contained the committee's withholding provisions plus provisions for the cancellation of the 1942 tax liability (the Ruml plan) as a means of effecting immediate transition to a current basis for all individual taxpayers.

5. Both bills were rejected by the House.

6. The Ways and Means Committee then reported H. R. 2570 (the second Ways and Means Committee bill), which contained the withholding provisions of H. R. 2218, as well as provisions for the discharge of the tax liabilities, represented by the increase in rates over 1941 resulting from a reduction of exemptions made by the Revenue Act of 1942 and by an increase in rates. Payment of the unforgiven part of the 1942 tax was spread over a three-year period commencing in 1944. An effort to substitute a revised (third) Ruml-Carlson bill was defeated, but the committee bill was recommitted with instructions to return an amended bill which, in the place of the provisions of H. R. 2570 (the second Ways and Means Committee bill) as it had been reported, incorporated the provisions of the second Robertson-Forand bill (H. R. 2577). This bill contained withholding provisions limited to 20 percent of the tax, the balance being payable in the following year. In addition, the bill contained a provision for cancellation and discharge of the 1942 normal tax and first bracket surtax liabilities. Mr. Doughton forthwith reported H. R. 2570 as thus amended and the House passed it by an overwhelming vote.

7. The Senate, however, rejected the bill as it passed the House in toto, and substituted therefor the revised Ruml-Carlson measure (third Ruml-Carlson bill), amended by it in relatively minor particulars. The amended measure retained the 100 percent forgiveness of the 1942 tax liabilities with exceptions in respect of certain anti-windfall provisions. The withholding provisions were correlated with those pertaining to social security taxes instead of with those pertaining to the Victory Tax, with which they had been correlated in the bill as it passed the House.

8. In conference, the bill as it passed the Senate was amended in several respects. Both Houses accepted the conference report. The major conference change was to limit the amount of tax cancellation to 75 percent of one year's tax, 12½ percent of the unforgiven portion of the tax being payable on March 15, 1944, and the balance of 12½ percent on March 15, 1945.

9. The President signed the bill on June 9, 1943.

10. The bill imposes no new taxes, and applies only to individuals.

CARLTON FOX,
Special Assistant to the Attorney General.

SEPTEMBER 1, 1943.