OFFICE OF THE SECRETARY

Treasury File

TREASURY DEPARTMENT

WASHINGTON

May 15, 1936.

MEMORANDUM

From: Mr. Upham

To: Mr. Eccles

I am attaching a memorandum which I gave to the Secretary Wednesday, May 13th.

Yesterday I gave copies of your memoranda on the tax bill to the Legislative Counsel of the House and to L.H. Parker, Chief of Staff of the Joint Committee on Internal Revenue Taxation.

I told them that in my opinion your memoranda contained a great deal of sound sense and that I was very decidedly of the opinion that they would find it of value and merit and would conclude that it was worthy of serious thought and consideration. I suggested to Mr. Parker that he pass a copy along to the Chairman of the Committee, Senator Harrison. I now learn that he did this, and the memoranda were read to the Senate Finance Committee in Executive Session yesterday afternoon. It is possible for newspaper men waiting in the outer office to hear some things which transpire in the committee room. Some of them did overhear enough to know that the memorandum being read had been submitted by someone at this end of the Avenue.

By inquiring of certain Senators on the committee they learned that the memorandum came from you. Senator Harrison denied that you had sent him any memorandum, and when confronted with the statement that other Senators had revealed the existence of a memorandum prepared by you, he stated that he requested your views. He has stated positively to them that you are not interfering with the tax bill or volunteering your views on it.

I am prepared to accept full responsibility for bringing your memoranda to the attention of the committee and the experts. I think it would have been unfortunate had consideration of the tax proposals gone further without them having had the benefit of your views, and I believe that the presentation of your views has been of some benefit.

Mr. Parker tells me that he is convinced that there is much merit in your proposal to grant a $15,000 exemption to small corporations. He told me that he was sure if you could sit down with him and the other experts on the Hill an interchange of views would be helpful and clarifying. It is felt that your proposed amendments would remove some of the complexities of the present bill, but that it would retain others and add some new ones.

There is very little sympathy among the members of the Senate Finance Committee for economic theory of forced distribution of earnings. Indeed there is very strong opposition to any tax on undistributed earnings at all.

I am sorry that your name got into the papers this morning. I appreciate your attitude about not wanting to seem to be injecting yourself into the tax situation. It seems that nothing can happen in an Executive Session of a Congressional Committee that does not get into the papers.

Upham

May 13, 1936.

<u>For the Secretary</u>:

I give you herewith an extremely brief digest of the Eccles memorandum on the tax bill, without the supporting arguments. I can easily elaborate it, if you wish. There are some questions which can be raised about his proposals, but they are highly worthy of serious study. It is a well-reasoned document. I should like to see revenue estimates based on it.

One conclusion I greatly doubt --- that the Eccles amendments will reduce the complexities. They may increase them. Relief provisions and cushions are what cause complexity. The only way to eliminate complexity is to be hard boiled, impose a tax, and then let it do what it may to the taxpayers.

My experts are helping me to study the proposals.

Eccles on the tax bill.

Taxation of undistributed earnings of large corporations is desirable. Forcing distribution of such earnings will aid recovery.

The House bill does not achieve "equality of tax burden; it is excessively complex; the public will not understand it; and revenue yield under it is questionable.

Certain changes should be made, the most important of which are:

1. The present corporate income tax should be retained, thus assuring the continuance of revenue of over a billion dollars a year,
2. The superimposed tax on undistributed earnings should be applied to the small group of large corporations which make a practice of ploughing back earnings. To accomplish this, the first $15,000 of corporation income should be exempted from the super-tax. Over 90 per cent of all net income is earned by less than 10 per cent of the corporations. The super-tax should be concentrated on them. If they retain less than 50 per cent of their earnings, tax the retained portion at 40 per cent. If they retain more than 50 per cent of their earnings, tax the retained portion at 60 per cent.
3. The tax on undistributed earnings should be high (see rates of 40 and 60 per cent above), to force distribution. Big corporations <u>can</u> distribute, because they have access to the capital market, for new capital; small corporations do not have that access, and should be favored by substantial exemptions.