

A TAX PROGRAM

Excess Profits Tax - The present statute, falling far short of the intention stated in your message of July 1, 1940, "to see that a few do not gain from the sacrifices of the many" in the task of arming for national defense, should be drastically revised. Labor can not well be asked to moderate its demands if employers are permitted to retain huge profits. After paying taxes reflecting increases already made and in prospect, many individuals will have less money left than they had before the defense program got under way; meanwhile, many corporations are making more money, even after taxes, than they ever made before. In contrast to individual earnings, these corporate earnings escape the full force of the individual surtaxes because they may be retained without penalty. An effective excess profits tax is the best way to make them bear their fair share of the tax load.

Specific Proposal - Fix the excess profits base at not more than 10 per cent or less than 6 per cent on invested capital, the exact figure within these limits to be determined by past earnings experience. Eliminate borrowed capital from the statutory invested capital base. Retain the present specific exemption of \$5,000. On excess profits over this exemption, levy rates as follows:

	(Per Cent)
First \$20,000	25
Between \$20,000 & 45,000	50
Over \$45,000	75

Retain the provisions of the present law allowing personal service corporations to escape excess profits tax if stockholders are taxed on their appropriate share of corporate earnings under the individual income tax.

Special Defense Tax on Corporate Income - Raising the rate of normal corporate income tax would increase the value of the tax exemption privilege on income from over \$20 billion of outstanding Federal Government securities. In order to levy upon such income, enjoying immunity from normal tax but not from surtaxes, a fair share of the increased tax burdens which the community at large will be called upon to pay, a defense surtax on corporate income of 6 per cent, in addition to the present normal rate of 24 per cent, is proposed.

Personal Income Tax - This is the most equitable of all taxes and should be made the backbone of our tax structure. Up to now, however, we have failed to make as full use of the personal income tax as other democratic countries have done, with the result that it yields only about 20 per cent of total Federal revenue. Pressures on the Congressional Committees have resulted in an income tax statute shot through with inconsistencies, inequities and immunities for minority groups of taxpayers.

Specific Proposal -

(a) Tax the incomes of husbands and wives as a single income. The privilege of filing separate returns in a tax-avoidance device that in practice is valuable only to wealthy couples, and practically all wealthy couples make use of it. Professional services of a high order at the Government's disposal are adequate to remove the legal obstacles to this proposal if the use of those services is not blocked by objectors whose opposition rests basically on political conservatism rather than on legal grounds.

(b) Eliminate the present \$4,000 surtax exemption, but retain the present allowance of personal exemption and credit for dependents for surtax purposes. Since an increase in the normal tax would increase the value of the tax-exempt privilege borne by outstanding Federal securities, increased revenue from the individual income tax should be obtained by increasing the surtax rates.

Accompanying upward revision of surtax rates the Defense Tax, amounting to 10 per cent of the tax computed at present scheduled rates, should be eliminated.

The following specific rates are proposed. (Only a part of the schedule is shown here. See Appendix A for the complete schedule.)

Surtax net income (Thousands of dollars)	Rate per cent		Surtax net income (Thousands of dollars)	Rate per cent	
	Proposed	Existing 1/		Proposed	Existing 1/
0 - 2	2	0	10 - 12	17	10
2 - 4	4	0	12 - 14	21	12
4 - 6	7	4	14 - 16	25	15
6 - 8	10	6	16 - 18	29	18
8 - 10	13	8	18 - 20	34	21

1/ An additional Defense Tax of 10 per cent of total income tax is now imposed.

**Estate and Gift Taxes** - On June 19, 1935, you said "The transmission from generation to generation of vast fortunes by will, inheritance or gift, is not consistent with the ideals and sentiments of the American people. Great accumulations of wealth cannot be justified on the basis of personal or family security. Such inherited economic power is as inconsistent with the ideals of this generation as inherited political power was inconsistent with the ideals of the generation which established our government." The task of bringing law into conformity with popular ideals, begun in the Revenue Act of 1935, ought to be finished now.

1. Establish a single schedule of rates applicable to the cumulative total of gifts during life plus estate passing at death. Under present practice, gifts subject to tax in the lowest brackets of the gift tax can be used as a means of avoiding taxes in the highest brackets of the estate tax. Great accumulations of wealth can be transmitted by gift as well as by bequest, and a consistent public policy would tax both types of transfer at the same effective rates. But if it were thought desirable to leave an incentive for the making of gifts, the total tax assessed on a gift might be arbitrarily reduced by ten per cent from the tax assessed on a transfer of the same amount made at death. Raise the now unduly low rates applicable to estates under \$10 million.

2. For the present exemptions of \$40,000 under the gift tax, \$40,000 general under the estate tax, and \$40,000 insurance under the estate tax -- a total of \$120,000 -- substitute a single exemption of \$25,000, applicable to insurance proceeds or property in any other form.

3. Limit the right to make tax-exempt gifts and bequests to educational and charitable institutions either by limiting the amount of such transfers or by requiring the gift or bequest to be certified as truly in the public interest by qualified expert opinion. Such transfers often merely reflect the whims of the donor and serve no useful public purpose.

4. Broaden the legal concept of "gifts" and "transfer at death" to include all transfers of property that transmit wealth from one generation to the next.

**Excise Taxes on Durable goods** - The following increases in the rates of existing taxes are proposed as a means of helping to postpone civilian demands for goods requiring the use of scarce materials and skills required for the defense program.

	Proposed rate	Existing rate
Passenger automobiles and motorcycles	25	3.5
Automobile parts and accessories	18	2.5
Radio sets	11	5.5
Mechanical refrigerators	11	5.5
Firearms, shells, pistols, revolvers	50	11

Note: These taxes are collected from manufacturers and the rate applies to the manufacturers' sale price. Sales of firearms, shells, pistols, and revolvers to Federal, State, and municipal governments are exempt from tax.

Revenue Yield - The yield of these proposals in the calendar year 1942 may be roughly estimated as follows:

	(Millions of dollars)
1. Excess profits tax revisions	800
2. Special defense tax on corporate income	600
3. Individual income tax: 1/	
(a) Tax incomes of couples as single income	200
(b) Raise surtax rates and lower exemption	500
4. Estate and gift tax 2/	---
5. Excise taxes on durable goods	<u>550</u>
	2,650

With a national income of \$100 billion, the excess profits tax in its present form would yield about \$1,750 million. The revisions proposed here would yield an additional \$1,750 million, resulting in total revenue from excess profits tax of \$3,500 million.

1/ In the estimates of individual income tax yields, full account has been taken of the effect of increased corporate taxation on dividends.

2/ Because of the long lag in collections, no appreciable yield is to be expected in calendar 1942, but about \$500<sup>1</sup> in revenue would be realized in 1943 and subsequent years.

APPENDIX A

Surtax net income (Thousands of dollars)	Rate (Per Cent)	Surtax net income (Thousands of dollars)	Rate (Per Cent)
0 - 2	2	50 - 60	52
2 - 4	4	60 - 70	54
4 - 6	7	70 - 80	56
6 - 8	10	80 - 90	58
8 - 10	14	90 -100	60
10 - 12	17	100 -150	62
12 - 14	20	150 -200	63
14 - 16	24	200 -250	64
16 - 18	29	250 -300	66
18 - 20	34	300 -400	67
20 - 22	35	400 -500	68
22 - 26	38	500 -750	70
26 - 32	41	750-1000	72
32 - 38	44	1000-2000	73
38 - 44	46	2000-5000	74
44 - 50	49	5000 and over	75