

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 1, 1942

To Chairman Eccles

Subject: _____

From Martin Krost

I am transmitting a memorandum
summarizing the Senate Finance Committee
hearings on the tax bill.

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Date August 1, 1942.

To Mr. Krost

Subject: Hearings on Revenue Bill of
1942 - Senate Finance Committee.
July 24 - 28.

From R. A. Musgrave R.A.M.

July 24 - Changes in the revenue law proposed under the House Bill were reviewed by legislative counsel. In the discussion, Senator Taft inquired why the Treasury had proposed to classify corporations according to total capital invested in order to determine the excess profits tax credit and why a higher percentage credit should apply to the smaller than to the larger corporations. The Treasury explained that this proposal had been made because statistics indicated that the rate of return on invested capital was under pre-war conditions normally higher for smaller than for larger corporations.

Senator Taft objected to the 5 per cent withholding tax because it would eliminate the possibility of a compulsory savings plan which would also have to be based on withholding at the source. Mr. Paul replied that on the contrary the withholding tax would set up the machinery which would facilitate the operation of a compulsory savings program.

July 27 - In executive session the Senate Finance Committee rejected the Treasury's recommendations for mandatory joint income tax returns and for the taxation of outstanding issues of State and municipal securities. This action which involves a loss of approximately 400 million dollars of revenue was considered as final but other parts of the "special privilege" program of the Treasury were left open, including the taxation of future State and municipal issues, percentage depletion and the taxation of income of families in community property States. Senator George indicated that the question of sales taxation was still open.

Mr. Beardsley Ruml advocated his pay-as-you-go income tax plan according to which taxes due on income earned in 1941 would be cancelled and payments during 1942 would be credited as on 1942 income. Since this would eliminate the duplicate taxation involved in the initial period under the original Treasury withholding program, Mr. Ruml suggested that it would permit a considerably higher withholding rate.

Mr. Seidman, Chairman of the Tax Committee of the New York Board of Trade, criticized the House Bill as altogether inadequate and proposed a 10 per cent war tax to be levied on all incomes without exemptions together with a normal income tax rate of 4 per cent, which program would yield a net addition to revenue of 5 billion dollars. He opposed the withholding tax as imposing an excessively heavy collection burden upon business.

July 28 - Mr. Julian Goldman of New York recommended a compulsory savings program and Senator George indicated that if compulsory savings would become necessary the best thing would be to step up personal and corporate income tax rates with the provision that 20 per cent of these taxes would be invested in war bonds. Senator George asserted that he was in favor of a withholding tax but that there was considerable opposition among other committee members because of the book-keeping burden which it would impose upon corporations.

July 29 - Testimony by several representatives of the C.I.O., including a statement from Mr. Murray urged adoption of the Treasury program, the closing of income tax loop-holes and the acceptance of the President's proposal for a \$25,000 limit to individual incomes. All opposed a sales tax and Mr. Murray's statement suggested that the "little steel" case would have to be reopened and the wage structure be reconsidered should a sales tax be introduced.

Roy Little, President of the Atlantic Rayon Corporation, Providence, Rhode Island, proposed a drastic tax program including a 10 per cent sales tax and a steep withholding tax. Senator George agreed with Mr. Little that whatever the rate of the withholding tax it should be a flat rate without personal exemptions, so that the accounting burden upon the withholding agent could be minimized.

Howard Kellogg of Buffalo opposed the House provision under which fiscal year companies would, for tax purposes, compute income on a calendar basis.

It is expected that hearings will not be completed by the end of next week as originally planned. The impression is that the Finance Committee will follow the general outline of the House Bill and limit major changes to the corporation taxes. It does not seem likely that a sales tax will be seriously considered by the Finance Committee but if so, there is a probability the Treasury may suggest an expenditure tax as a substitute.