

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date October 8, 1943.

To Chairman Eccles

Subject: Summary of Treasury Tax

From R. A. Musgrave

Program.

The total annual yield of the program is estimated at 10.56 billion dollars, that is 1.5 billion dollars below the previously announced Treasury objective. The additional revenue is to be derived from these sources:

In billion dollars

Individual income tax	6.53
Corporation net income tax	1.14
Estate and gift taxes	.40
Excise taxes	2.49

Individual income tax

(1) For the year 1943, the victory tax is to be changed so that only the net tax is retained. Effective January 1, 1944, the victory tax is to be repealed entirely. This would involve a net loss of 3.3 billion dollars.

(2) Income tax exemptions for married taxpayers are lowered from \$1,200 to \$1,100 and the credit for dependents is lowered from \$350 to \$300. The earned income credit is repealed. The normal rate is unchanged but surtax rates are increased throughout the scale. (A chart showing present and proposed effective rates is attached.)

AMOUNT OF INDIVIDUAL INCOME TAX UNDER PRESENT LAW AND PROPOSAL  
(Married taxpayer with no dependents)

<u>Net income before personal exemptions</u>	<u>Present tax</u>	<u>Proposed tax</u>
\$1,000	\$15	\$ -
1,500	79	108
2,000	188	255
3,000	405	594
5,000	894	1,409
10,000	2,467	3,885
20,000	7,100	10,356
50,000	27,075	35,571
100,000	68,584	82,005

On a full-year basis, the proposed rates would yield 23.9 billion dollars or 9.8 billion more than the present law. The loss of 3.3 billion dollars from the repeal of the net victory tax reduces the gain to 6.5 billion dollars.

(3) No definite recommendation is made with respect to postwar refunds. However, two possible refund schedules are submitted for consideration, providing respectively for the refund of one-third and one-half of the additional income tax yield. Both provide for a 50 per cent refund for the first \$50 of tax and both set an upper limit to the amount of refund per taxpayer. If Congress should provide for refunds, it is recommended that the taxpayer be permitted later on to purchase a fully paid-up life insurance policy with his refund credit.

(4) No definite recommendation is made with respect to relief for fixed income groups. However, it is recommended that taxpayers whose incomes failed to increase should be forgiven all or part of the refundable tax.

(5) The withholding system is to be extended to collect at the source a larger portion of taxes in the middle income groups. As a result, fewer taxpayers will have to file estimated returns. No recommendation is made for reducing the number of taxpayers who have to file final returns.

#### Corporation income taxes

An increase in surtax rates under the Corporation Income Tax is recommended, raising the combined normal and surtax rates to the following level:

<u>Net Income</u>	<u>Present rates</u>	<u>Proposed rates</u>
Not over \$25,000	25-29%	29-33%
Over 50,000	40%	50%

This increase in rates is estimated to yield an additional 1.1 billion dollars. No recommendations are made regarding the treatment of post-war reserves.

#### Excise taxes

The proposed increases in excise taxes are estimated to yield 2.5 billion dollars. Of this, over 1 billion is to be derived from increased taxes on alcoholic beverages and tobacco. Other important increases are in the taxes upon admissions, transportation of persons (25% of charge) and jewelry. Sizeable new taxes are recommended on soft drinks, candy, and chewing gum.

#### Estate and gift taxes

The Treasury proposes a reduction in estate tax exemptions from \$60,000 to \$40,000 and a sharp increase in estate tax rates. Gift tax rates are to be raised to three-fourths of the new and higher estate tax rates. The increase in yield from both sources is estimated at 400 million dollars.

Social Security program

The Secretary recommended "enthusiastically" that the Social Security program be extended. If this recommendation were followed, and payroll taxes on employees were raised substantially, the income tax rates here proposed should be reduced for the lower income groups.

R. B. W.

Attachment