August 26, 1943

Miss Egbert:

Attached I am sending the mimeographed material (the Chairman's revenue program) for distribution. Two additional copies are attached for your personal use.

R. A. Musgrave.

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August 24, 1943

Mr. Colin S. Stam,
Chief of Staff,
Joint Committee on
Internal Revenue Taxation,
1336 New House Office Building,
Washington, D. C.

Dear Mr. Stam:

In reply to your request I am sending you the enclosed material presenting my views on the coming revenue program. I regret that I was unable to respond sooner, but hope that you may still find it useful at this time. I shall be glad to be of further assistance to you or the Committees of the Congress in the development of the program.

Very truly yours,

(Signed) M. S. Eccles

M. S. Eccles.

Enclosure

RAM:ald
8/24/43

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August 25, 1943

Dear Randolph:

For your personal and confidential information I am enclosing a copy of a memorandum which I am sending to Mr. Colin Stam in response to a request from the Joint Committee on Internal Revenue Taxation for suggestions as to measures for raising additional revenue.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles.

Enclosure

Honorable Randolph E. Paul,
General Counsel,
Treasury Department,
Washington, D. C.

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August 25, 1943

Honorable Fred M. Vinson,
Director of the Office
of Economic Stabilization,
Washington, D. C.

Dear Judge Vinson:

For your personal and confidential information I am enclosing a copy of a memorandum which I am sending to Mr. Colin Stam in response to a request from the Joint Committee on Internal Revenue Taxation for suggestions as to measures for raising additional revenue.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles.

Enclosure

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Form 10
Joint Committee on
Internal Revenue
Taxation

REQUEST FOR DATA AND INFORMATION

CONGRESS OF THE UNITED STATES

Washington, D. C.

July 14, 1943.

The Joint Committee on Internal Revenue Taxation

To Honorable Marriner S. Eccles, Board of Governors of the Federal Reserve System, Washington, D. C.

GREETING:

Section 5012 of the Internal Revenue Code provides as follows:

"ADDITIONAL POWERS TO OBTAIN DATA.

(*a*) The Joint Committee on Internal Revenue Taxation or the Chief of Staff of such Joint Committee, upon approval of the Chairman or Vice Chairman, is authorized to secure directly from the Bureau of Internal Revenue (including the Assistant General Counsel for the Bureau of Internal Revenue), or directly from any executive department, board, bureau, agency, independent establishment or instrumentality of the Government, information, suggestions, data, estimates, and statistics, for the purpose of making investigations, reports and studies relating to internal revenue taxation.

(*b*) The Bureau of Internal Revenue (including the Assistant General Counsel for the Bureau of Internal Revenue), executive departments, boards, bureaus, agencies, independent establishments and instrumentalities are authorized and directed to furnish such information, suggestions, data, estimates, and statistics directly to the Joint Committee on Internal Revenue Taxation or to the Chief of Staff of such Joint Committee, upon request made pursuant to this section."

By virtue of the authority vested in me under the above-quoted section of law, I hereby request that the following information, suggestions, data, estimates, and statistics be furnished directly to me at Room 1336, New House Office Building, within 25 days from the date of this request:

Any alternative suggestions of your staff for raising additional revenue or combating inflation.

Note: The source of this material will be kept confidential if you so desire. It is intended to be used for study purposes by the staff.

Colin F. Stam
Chief of Staff.

Approved: Walter F. George
Chairman.

Date: July 14, 1943.

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Confidential

August 24, 1943

Revenue Program

Suggestions Submitted by M. S. Eccles in Response to
Request of the Joint Committee on Internal Revenue Taxation

Early adoption of additional tax legislation is of vital importance at this time not merely because of the Government's heavy financial requirements but mainly because the financing of the war has created conditions that call for stronger fiscal measures to prevent an upward spiral in the cost of living.

The basic facts essential to a realistic approach to the tax problem are by now familiar. In the calendar year 1944 disposable civilian incomes (available, after payment of taxes, for the purchase of civilian goods and services and for savings) may be expected to exceed the value of consumer goods and services available for purchase (at present price levels) by as much as $50 billion. Of this excess civilians may voluntarily save in various ways perhaps as much as $30 billion. The remainder, some $20 billion, is not an accurate estimate, but it indicates the general order of magnitude of the income which if spent will result in dangerous and destructive bidding up of prices. It is this excess that must either be absorbed by taxes, more purchases of savings bonds, or otherwise remain unspent.

Unless the pressure of income on prices is substantially reduced, no efforts to hold down the cost of living can be successful. For these reasons, prompt action to strengthen the fiscal attack on inflation is urgently needed. Up to date this attack has fallen short and has left the whole stabilization program in an exposed position. Decisions as to what additional amount of taxes will be necessary to maintain a sound national economy cannot be made on the basis of arithmetic alone. A practical and balanced judgment of many intangible factors is required. Responsibility for that judgment rests with the Congress. While no precise figure is proposed in this memorandum, it is clear that the program should be large enough to remove as much as is practically possible of the excess income that is pressing against price ceilings. As a means of concrete presentation, the measures that are here suggested for consideration have been aimed at a net total of roughly $15 billion of additional taxes and of additional savings turned over to the Government. In my personal view, a revenue program producing much less than this would be entirely inadequate. This additional burden will mean infinitely less hardship than would be experienced by everyone were inflation permitted to run its course.

If an additional $12 to $15 billion were turned over to the Treasury in the calendar year 1944 income receivers as a group would, after payment of taxes, be left with as much income at their disposal in the calendar year 1944 as they had during the past twelve months. And bitter experience has shown that disposable income during that

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period was sufficiently high to exert serious pressure on the price structure of the civilian economy. To be sure we cannot estimate the exact contribution of fiscal measures to the effectiveness of price and rationing controls but we know that these controls will be jeopardized severely by a failure to act on the fiscal front. We know, moreover, that price and rationing controls will have to become the more cumbersome and drastic the less adequate the fiscal program remains.

In his budget message of January 6, 1943, the President called for not less than $16 billion of additional funds by taxation, savings, or both to be collected during the fiscal year 1944. In his summation of the 1944 budget dated July 27, 1943, the President reasserted the need of a truly stiff revenue program. Since the major part of the additional revenue to be provided by the forthcoming bill will not be obtained prior to the calendar year 1944, it will scarcely be feasible to reach the earlier objective for the fiscal year 1944. But every effort should be made in that direction for the coming calendar year.

Levies necessary to produce such an amount will necessarily bear for the most part directly on individuals. It is generally recognized that, because of the already high level of taxes on corporation income and profits and on large individual incomes, no further large amounts can be looked for from those sources. This does not mean that the well-to-do should not contribute more where possible. But there is not a great deal of room for further increase in taxes at the upper end of the income scale. Not much can be gained by such taxes, either from the fiscal or the anti-inflation point of view, since the increased yield would not be great, relative to the total to be raised, and since these incomes are not the chief source of the pressure on prices of consumers' goods.

If the forthcoming revenue bill is to be formulated mainly with a view to absorbing or immobilizing the bulk of the excess of purchasing power that endangers our economic stability, then it is necessary to take special account of the areas where the bulk of income and of civilian buying is found. It is estimated that taxpayers with net incomes of $3,000 or less receive as much as 60 per cent of total net incomes, and that individuals with net incomes of $5,000 or less receive over 80 per cent of total net income. The share of total consumption expenditures, made by those income groups, would be considerably larger. This does not mean that indiscriminate taxation of the lower incomes is either justified or necessary. But it shows that as a practical matter increases in taxes and in required savings must reach farther down the scale of incomes than would be considered justified except in time of war and under the threat of inflation. It is the recipients of these incomes that have the highest stake in avoiding an upward spiral in the

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cost of living. The very nature of the present situation requires that they must pay higher taxes and lend to the war effort substantially larger amounts of their incomes, which have been enlarged as a result of the war. When the war is over these wartime savings will be an element of strength and security.

The severity of the requisite fiscal measures imposes on those who frame them a particularly heavy responsibility for giving close attention to equity considerations. For this reason the suggestions that follow include a proposal for special relief to taxpayers that have not participated in the wartime expansion of incomes, and another that would provide for refunds, after the war, of a considerable part of the additional payments required of taxpayers with incomes in the lower and middle income brackets.

These proposals do not, however, cover loopholes that should be closed in the present tax law. The more important of these loopholes are controversial and should be taken care of later so as not to delay the needed increases in taxes.

There follow five proposals which together make up a program which is submitted for consideration.

I. <u>More income taxes--the core of the program.</u>

a. Primary reliance should be placed upon the basic income tax structure which by now is familiar to millions of taxpayers and which -- now that provision has been made for withholding at the source -- is well adapted to collections even from the lower income groups.

As between higher income taxes and a general <u>sales tax</u>, I am not prepared to recommend the latter, at least not until <u>income</u> taxes have reached much higher levels. (Recommendations for sharp increases in specific excise taxes are found below.) Note, however, that a modified sales tax with personal exemptions would be a different matter. With respect to the burden upon the lower income groups, such an arrangement could work out much the same as the income tax approach. However, the administrative task of setting up a Federal retail sales tax and the operating difficulties for retailers, as well as for taxpayers, would be very substantial and providing for exemptions would add to those difficulties. More income taxes is thus by far the best alternative.

b. Since main reliance is placed on the income tax, an additional net yield of the general magnitude of $10 billion should be drawn from this source. Part of the total should take the form of a refundable tax. To obtain this increase in yield, <u>exemptions must be lowered and rates be raised.</u>

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In the preparation of the accompanying tables and chart the exemption for a married taxpayer or head of family was put at $800 (compared with $1,200 under the present law) and the credit for dependents was put at $250 (compared with $350 at present). If a truly serious effort is to be made to strengthen the fiscal defenses against inflation, then all except the very lowest income groups should be asked to contribute. It should be made very clear, however, that the main impact of the reduction in exemptions would not be upon the lowest income groups, just included above the new exemption level, but upon groups already subject to the income tax. Also a substantial part of the tax paid by the lowest income groups should be made refundable as suggested below.

The main job must be done through higher rates. It is important first to focus on the effective overall rates by which we want to obtain the desired increase in yield -- then various ways of imposing these rates can be considered. If a net yield of about $10 billion is to be obtained, we must aim at a somewhat higher gross yield, say $12 billion, to allow for reduced voluntary purchases of savings bonds -- particularly since it is proposed that a substantial part of the additional tax be refundable. Column 4 of Table I shows the approximate overall level of taxes required to provide the desired net increase. It reflects the view, previously expressed, that the essential objectives of the revenue bill cannot be achieved unless the greater portion of the additional collections is drawn from the lower and middle incomes and that little is to be gained by further drastic increases in taxes on the very large incomes.

c. In raising income taxes it is desirable to draw a clearcut distinction between the tax liability under the law as it now stands and the further increase, so as to identify the latter with the problems arising out of wartime financing. The present income tax should be left unchanged with the exception of (1) reduction in exemptions, and (2) incorporation of the net victory tax by increasing the normal tax to 10 per cent (see below). A supplementary wartime (sur) tax should then be imposed. (Exhibit B gives an illustration of a supplementary rate schedule.) The 90 per cent overall limit would remain in force. Column 2 in Table I represents the liability under the adjusted income tax, adjusted as above, and column 3 represents the liability under the proposed supplementary war tax. If Congress should decide to retain the victory tax, the proposed increase in the normal rate could be eliminated.

d. The present income tax structure is excessively complicated due to the combination of two bases upon which taxes are computed (income tax basis and victory tax basis) and three different types of rates which are applied, (income tax rate, victory tax rate, and withholding rate). A drastic simplification of the income tax structure could be obtained as follows:

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(1) Drop the refundable portion of the victory tax (in view of the extensive refunds under the adjusted income tax) and incorporate the net victory tax into the income tax by increasing the normal rate from 6 to 10 per cent. The failure of the victory tax to allow adequately for dependency credit disqualifies it as a basis upon which to build further requirements. The advantage of the victory tax of being assessed on gross income may be retained by adjusting the withholding procedure as shown in the following paragraph.

(2) It is proposed that the amount withheld be the final tax for taxpayers whose incomes do not exceed the first surtax bracket, and who do not receive more than a nominal amount of income from sources not subject to withholding. No return would be required from these taxpayers, but an allowance would be made for average deductions in determining the withholding rate and optional returns would be permitted to take care of those cases where deductions are unusually large. This procedure, the principle of which has already been recognized in the simplified return, would (even with the present exemption level) save some 30 million taxpayers the trouble of having to file returns and the Treasury the task of having to check them.

The withholding rate would have to be raised to meet the increased requirements. A rate of about 33 1/3 per cent on gross income in excess of present withholding exemptions would be needed.

II Refundable Taxes (compulsory savings)

a. Certain general considerations should control the place of compulsory savings in a revenue program.

(1) Under a system of compulsory savings the Government can retain some measure of control over the timing of redemption payments after the war. This is of vital importance. Savings bonds sold on a voluntary basis permit no such control with the result that their untimely redemption might contribute greatly to the danger of postwar inflation. From this point of view compulsory savings are thus superior, dollar for dollar, to savings bonds of the type now sold on a voluntary basis. Any revenue program--and compulsory savings in particular--will tend to reduce voluntary purchases of savings bonds. This is no decisive argument against a compulsory savings plan, but makes it necessary to distinguish between the gross yield of a revenue program and its net yield.

(2) Since any plan for compulsory savings should be closely integrated with the requirements under the income tax, it appears preferable to deal with the problem in terms of refundable taxes rather than separate compulsory savings requirements.

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(3) Taxes come first. Refundable payments should be relied upon only after it is felt that a thorough job has been done with taxes. They are justified mainly because the wartime emergency requires that a heavy burden be imposed upon the lower and lower-middle income groups, which burden becomes more equitable if a part of the taxes is refunded after the war when at some time these groups especially will need an assured backlog of savings. It follows that the refundable portion of the total liability should be largest for smaller incomes and fall off as income increases.

(4) There would be little point in applying refundable taxes to the upper-middle and upper income groups. Any practicable rate of compulsory savings for these groups would fall below the rate of voluntary savings so that compulsory savings requirement would tend to result in a mere shift from one type of savings to another. The taxpayer who has fixed savings commitments will only be inconvenienced by having to shift from one type of savings to another (i.e., refundable taxes) although such shifts will contribute nothing to inflation control.

b. It is proposed that the refundable portion of the tax be determined by a simple schedule of percentages to be applied to the tax liability, showing the portion of the tax that would be refundable. Since it is proposed that the major increase in income taxes should be obtained from a supplementary war tax the refund schedule as here presented applies against the liability under the supplementary (not the total) income tax. A schedule of this type is presented in Exhibit B and the breakdown of the taxpayer's liability into outright and refundable taxes is shown in Table II. Column 3 of that table indicates the outright tax and column 4 shows that part of the tax which will be refundable after the war. Column 5 shows the refund as a percentage of the supplementary tax and column 6 as a percentage of the total tax. As shown in the table the percentage of refundable tax declines while incomes increase. Refunds are limited to $1,000.

The rate schedules reflected in these liabilities would provide for an increase in income tax yield of about $12 billion (after allowing for the loss of the net victory tax yield) -- or several billion dollars less than this amount if allowance is made for a resulting decline in voluntary purchases of savings bonds. Of this $12 billion approximately one-half would be refundable.

c. The question arises whether certain types of voluntary savings should be permitted as credits against refundable taxes. Voluntary purchases of savings bonds, clearly, should not be allowed as credits; otherwise one of the main advantages of a compulsory

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program (public control over the timing of redemption payments) would be lost. The answer is less clear with respect to some other types of savings, but there are strong reasons why savings credits should be avoided if at all possible. Most important, the granting of credits would greatly complicate, if not preclude, the current collection of refundable taxes at the source. Moreover, once some credits were granted it would be difficult to exclude others. Excessive credits would undermine the effectiveness of the program, resulting in a low net yield even though rates might be stiff. There will be much less need for such credits if, as here suggested, the refundable taxes are concentrated in the lower and middle income groups and adequate relief is provided for people with fixed incomes. (See below).

d. It must be recognized that the proposed or any other tax program will not in any way lessen the need for the Government to obtain the maximum amount of funds that it can through voluntary purchases of government securities by individuals and private corporations. There is a point--not specifically definable but nonetheless important--beyond which tax levies, whether refundable or otherwise, cannot go without resulting in serious hardship and injustice simply because it is impossible to eliminate all the sources of inequity from a revenue law and have it administrable. Taxes are the first and most important instrument of war financing. After them come individual, and then corporate, loans to the Government. They must play a vital part in financing the war, determining in no small measure the residual amount of funds that the Government must raise through expansion of bank credit. Voluntary purchases of government securities are the final means by which the innumerable differences in the financial position of individuals and families can be fully reflected in their financial support of the war effort.

III Relief for Taxpayers with Fixed or Declining Incomes

It is clear that people with fixed or reduced incomes--already faced with higher living costs--are much less able to pay additional taxes than are the people who have participated in the drastic expansion of money incomes of the past three years. Tax policy should recognize and not accentuate the hardships of the fixed income groups. A tax on personal excess income would allow for this consideration but it would be extremely complex administratively, and does not appear feasible as a major source of revenue. The problem can be met more simply and directly by granting relief against the increase in income tax to those taxpayers whose income has declined, remained stable, or increased by some designated small percentage.

It is proposed that the taxpayer be permitted a certain percentage reduction of his tax, the reduction to be the greater the smaller the percentage increase (or the greater the decline) in his income. The relief should be given largely against the refundable part of the income tax. A

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three or four bracket schedule, showing the percentage reduction in tax permitted for various changes in income would suffice. A minimum base income should be allowed. Certain administrative difficulties would arise -- e.g., with respect to source collection, particularly if the requirement for the filing of returns for taxpayers in the lower income groups is dropped -- but they should not prove insurmountable. If the group to which the relief is granted is limited properly, adequate relief could be given without a very substantial loss of yield.

IV Broadening of Excises

Heavy excise taxes on a broad group of commodities, primarily luxuries and nonessentials, are called for. Taxes of this kind should not only provide an additional yield of about $3 billion but should also prove of substantial help in price control. If the selling price of certain commodities were raised drastically by excises, prices could be controlled more easily. Consumers would be encouraged to shift to lower quality products which are more economical and the efforts of direct price control could be concentrated more fully on the real necessities of life. Excise taxes of the kind here proposed would not fall upon necessities and would thus not affect the cost of what should be considered a wartime standard of living. They should not be permitted, therefore, to be reflected in either wage or parity formulae.

Both the United Kingdom and Australia have developed a system of sales taxes at the wholesale level, covering a broad group of nonessential commodities but excluding those already subject to substantial sales taxes. Differential rates are imposed, ranging from 16 to 100 per cent in the United Kingdom. To obtain a similar result in the United States it will be most convenient to strengthen and broaden the existing system of federal excise and sales taxes. The rates of the alcoholic beverage and tobacco taxes should be increased substantially as well as the rates of most of the excises (excepting those which would be reflected in increased cost of production), particularly those on luxuries. There should also be substantial increases in some minor sales taxes, especially those on passenger transportation and communications services. An additional group of consumers' goods should be subjected to federal excises, such as furniture and nonessential clothing. Wherever possible the distinction between taxed and nontaxed commodities should be drawn by price lines rather than by broad categories of essential and nonessential commodities. A sales tax on utility shoes or clothing, for instance, would be undesirable, while a tax on high-priced shoes and clothing would be sound. The possibility of taxing different price lines at differential rates should be examined. Where possible, the new taxes should be imposed at the point of distribution to the retailer.

V Corporation Taxes

Corporation taxes are already high, as compared to taxes on individual incomes. Not only are the direct corporate rates high, but

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corporate income--unlike the British procedure--is again taxed under the personal income tax after dividends have been distributed to the shareholders. The contribution of corporation taxes to the new revenue bill must thus be minor. However, corporate profits after tax in most manufacturing industries are still above the prewar level and in most cases appear to have been well maintained as compared to last year. A moderate further increase in the corporation income tax by, say, 5 (or perhaps 10) points would not be unreasonable.

Relief provisions made available under the Revenue Act of 1942 provide liberal protection against undue hardship under the excess profits tax. But they have also added further complications to an already complex corporate tax picture. If possible, new complicating provisions should be avoided. With respect to a special relief provision for the accumulation of postwar reserves, it is urged that alternative methods of facilitating postwar readjustment appear more promising and important. Such considerations as the policy of the Government regarding the cancellation of contracts, the disposition of Government-owned plants, the release of materials, and other aspects of industrial adjustment should be gone into first. If satisfactory provision is made with respect to these issues, it is unlikely that a possible lack of funds will prove critical. Corporate liquidity has increased greatly during the war period and Federal Reserve policies should assure easy availability of credit after the war if the Regulation V loan principle now applied in the financing of war production is continued thereafter, and if such other credit facilities or as may prove necessary are provided. If we fail to solve the major problem of industrial transition to postwar production, no reserves accumulated under special relief provisions in the tax law could suffice to maintain industrial labor forces for even a short period.

Summary of Recommendations

Action along the lines here suggested should make it possible to provide for an additional gross yield of approximately $14 billion and net yield of approximately $12 billion as follows:

	Gross	Net	
Income taxes--			
Non-refundable	6	6	6
Refundable	6	4	2
Relief for fixed income group*	- 2	- 2	4
Excises	3	3	3.
Corporation tax	.8	.8	.8
	13.8	11.8	

If we add the additional yield from the scheduled increase in (old age) payroll taxes, we obtain a net additional yield of approximately $14 billion.

* This figure is entirely provisional, the actual amount depending upon the extent of the relief granted.

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If the Congress should choose to consider a bill aimed at a lower overall yield than that underlying the above proposals, the program could be adjusted readily. If any curtailment should prove necessary, the proposed increase in the corporation income tax should be eliminated first, and the proposed increase in income tax rates be scaled down, second. The proposed increase in excise taxes should not be cut. If an extensive scaling down of the proposed increase in income taxes should prove necessary, a tightening of the capital gains provisions should be considered.

8/24/43

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TABLE I

Total Requirements - Present and Proposed

Married Taxpayer - no dependents

Net Income Before Exemption	(1) Present Income and net Victory Tax	(2) Income Tax Adjusted	(3) Proposed Supplementary War Tax	(4) Total Proposed Liability
$ 1,000	$ 15	$ 36	$ 20	56
1,500	79	146	70	216
2,000	188	256	134	390
3,000	405	482	304	786
5,000	894	990	644	1,634
10,000	2,467	2,616	1,494	4,110
20,000	7,100	7,372	2,550	9,922
50,000	27,075	27,516	4,090	31,606
100,000	68,584	68,304	6,590	74,894
200,000	160,092	158,272	11,590	169,862
500,000	440,747	434,264	15,736	450,000*
		(As percent of net income)		
1,000	1.5	3.6	2.0	5.6
1,500	5.3	9.7	4.7	14.4
2,000	9.4	12.8	6.7	19.5
3,000	13.5	16.1	10.1	26.2
5,000	17.9	19.8	12.9	32.7
10,000	24.7	26.2	14.9	41.1
20,000	35.5	36.9	12.8	49.6
50,000	54.2	55.0	8.2	63.2
100,000	68.6	68.3	6.6	74.9
200,000	80.0	79.1	5.8	84.9
500,000	88.1	86.9	3.1	90.0*

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Column (1) Does not inclue $12\frac{1}{2}$ percent for part of 1942 liability.

(2) The surtax schedule is unchanged, but the normal tax is raised to 10%. The exemption for married taxpayers is lowered to $800. The Victory Tax is dropped.

(3) Based on supplementary Rate Schedule, Exhibit A.

(4) Sum of Columns (2) and (3).

* Overall rate not to exceed 90%.

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TABLE II

Proposed Requirements - Non-Refundable and Refundable

Married Taxpayer - No Dependents

Net Income before Exemption	(1) Income Tax and Victory Tax	(2) Total Proposed Liability	(3) Proposed Non-Refundable Tax	(4) Proposed Refundable Tax: Amount	(5) Proposed Refundable Tax: Percent of Supplementary Tax	(6) Proposed Refundable Tax: Percent of Total Proposed Liability
$ 1,000	$ 15	$ 56	$ 36	$ 20	100.0	35.7
1,500	79	216	152	64	91.4	29.6
2,000	188	390	286	104	77.6	26.7
3,000	405	786	589	197	64.8	25.1
5,000	894	1,634	1,250	384	59.6	23.5
10,000	2,467	4,110	3,332	778	52.1	18.9
20,000	7,100	9,922	8,922	1,000	39.2	10.1
50,000	27,075	31,606	30,606	1,000	24.4	3.2
100,000	68,584	74,894	73,894	1,000	15.2	1.3
200,000	160,092	169,862	168,862	1,000	8.6	0.6
500,000	440,747	450,000	449,000	1,000	6.4	0.2
			(As percent of Net Income)			
1,000	1.5	5.6	3.6	2.0	--	--
1,500	5.3	14.4	10.1	4.3	--	--
2,000	9.4	19.5	14.3	5.2	--	--
3,000	13.5	26.2	19.6	6.6	--	--
5,000	17.9	32.7	25.0	7.7	--	--
10,000	24.7	41.1	33.3	7.8	--	--
20,000	35.5	49.6	44.6	5.0	--	--
50,000	54.2	63.2	61.2	2.0	--	--
100,000	68.6	74.9	73.9	1.0	--	--
200,000	80.0	84.9	84.4	0.5	--	--
500,000	88.1	90.0	89.8	0.2	--	--

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Column (1) Income Tax and Net Victory Tax. Does not include 12½% for part of 1942 liability, which has not been cancelled.

(2) Combined liabilities under adjusted income tax and supplementary war tax. (Col. 4, Table I).

(3) Col. 2 minus Col. 4.

(4) Refundable part of Col. 2 computed by applying refund schedule (Exhibit B) to supplementary tax liability (Col. 3, Table I).

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EXHIBIT A

Rate Schedule

for

Supplementary War Tax

Amounts of Surtax Net Income	Rate
$ 0-1,000	10%
1,000-10,000	17%
10,000-20,000	10%
above 20,000	5%, but the combined income tax and war tax rate not to exceed 90% of net income.

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EXHIBIT B

Schedule

for

Refunds under Supplementary War Tax

Amounts of Supplementary War Tax Liability	Portion Refundable (%)
$ 0-50	100
50-100	70
100-1,000	55
above 1,000	40, but total refund not to exceed $1,000.

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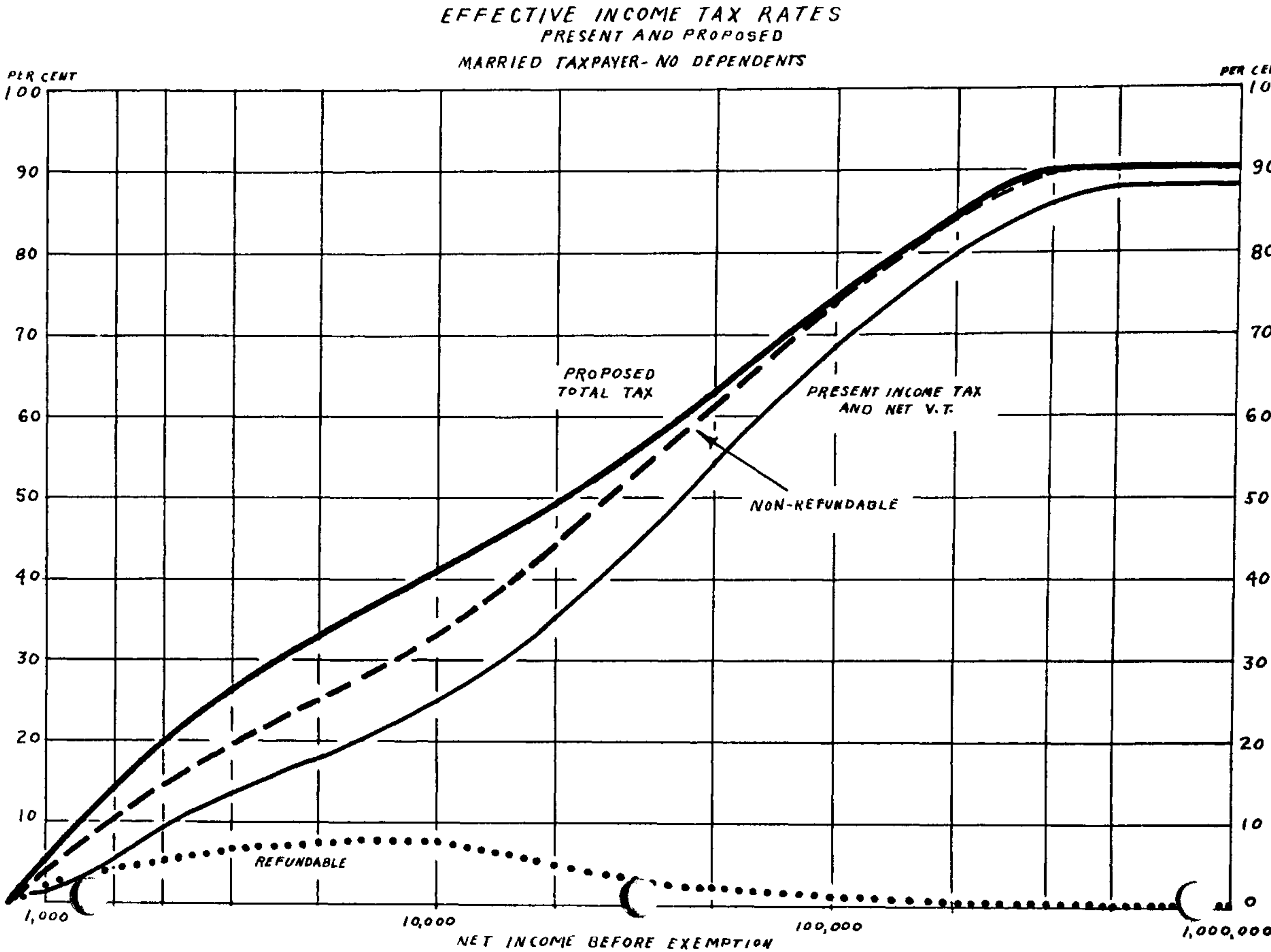

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