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SELECT COMMITTEE ON SMALL BUSINESS
OF THE
HOUSE OF REPRESENTATIVES OF THE UNITED STATES
SEVENTY-NINTH CONGRESS
WASHINGTON, D. C.

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M E M O R A N D U M:

Feb. 17, 1945

To: Hon. Wright Patman, Chairman

From: Dan W. Eastwood, Chief Investigator

Subject: Digest of Suggestions for Relief of Small Business in Matters of Taxation.
(Taken from approximately 350 letters received by the Committee from small businessmen and others during past 90 days.)

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1. With the first important cutback in government war expenditures, probably following the cessation of active European hostilities, excess-profits tax rates should be sharply reduced to a maximum of 60 per cent without postwar refund.

2. Also after V-E Day, the specific exemption from the excess-profits tax, which is now $10,000, should be raised. (Majority of letters on this point suggest raising exemption limit to $50,000.)

3. As soon as possible after complete cessation of hostilities, the excess-profits tax should be completely repealed. (Majority of letters suggest this be done no later than the end of the second year following cessation of active hostilities.)

4. The present double taxation of corporate income -- once to the earning corporation, and again to the stockholders upon distribution of such income as dividends -- should be eliminated as soon as revenue needs permit. (Majority suggest this be done in the year in which the excess-profits tax is finally repealed.)

5. The capital-stock tax and declared-value excess-profits tax should be repealed immediately. (Majority of letters declare that these taxes are based upon "guesswork" and raise very little real revenue.)

6. The loss carry-back principle should be incorporated in the Renegotiation Act for a period extending back to April 28, 1942, to continue until the transition period is completed. (Many small manufacturers allege they have suffered more in a marginal sense through arbitrary renegotiation procedures than from the excess-profits tax.)

7. The carry-back provisions of the tax law should be revised to allow all businesses which do not have ready access to the capital markets (those with assets of less than $1 million) and who accumulate deficits, to postpone current tax payments in the amount of their estimated refunds accruing under the carry-back provisions.

8. Post-war refund bonds resulting from the 10 per cent credit of excess-profits taxes should be made immediately negotiable.

9. The two-year carry-back of the unused excess-profits credit, which would expire with the repeal of the tax, however, should be continued for two taxable years after the repeal date.

10. The present carry-over of business losses should be lengthened to a period of at least six years.

11. The corporate income tax, with rates adjusted to postwar budgetary needs, should provide for a scale of graduated rates applicable to all corporations. (Suggestions vary with a tax rate of 15 per cent on taxable corporate income under $20,000 up to 40 per cent on income more than $100,000. Such graduation is designed to permit smaller enterprises having no access to the capital markets to expand and build reserves from earnings in a period of necessarily heavy taxation. Special exemptions for low income corporations will not be necessary if the graduated scale is made effective, it is alleged.)

12. Corporation should be given the privilege of electing to be taxed as partnerships. (This proposed by some as means to eliminate double taxation -- see No. 4 -- and to equalize the taxation of incorporated and unincorporated enterprises.)

13. Greater flexibility should be allowed in charging off depreciation expenses and research and development costs.

14. Recognition should be given to the necessity of adequate salaries for the administration of smaller enterprises.

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