

TO _____

FROM _____

REMARKS:

This letter was sent to Dr. Currie
to deliver to the President at 4:00
o'clock 4/22/41.

4/24/41 - Copy of letter and memo
sent to Secretary Morgenthau.

CHAIRMAN'S OFFICE

April 22, 1941.

My dear Mr. President:

At your suggestion, Mr. Sullivan of the Treasury briefly outlined to me the Treasury's tax program. As a result of that conference and of previous extensive studies made of the tax problem, I have prepared a tax program as outlined in the enclosed memorandum. It is similar to the Treasury's proposals both as to its total yield and in the general revenue sources on which it draws.

It differs materially, however, in the method of computation of excess profits and the tax rates thereon, the Treasury's proposal, in my opinion, being entirely inadequate.

The proposals in the attached memorandum call for less revenue from individual surtaxes and certain excise taxes, which are offset by a greater revenue from excess profits tax.

Respectfully yours,

The Honorable
The President of the United States,
The White House.

A TAX PROGRAM

Excess Profits Tax - The present statute, falling far short of the intention stated in the President's 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 5 per cent on invested capital, the exact figure within these limits to be determined by past earnings experience. Retain the present specific exemption of \$5,000. On excess profits over this exemption, levy rates as follows: 25 per cent on the first \$20,000; 50 per cent on the next \$25,000; 75 per cent on the remainder of excess profits. Retain the provisions of the present law providing for special treatment of hardship cases.

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 2½ 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 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 is 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.

(b) Lower the present personal exemption of \$2,000 for married persons to \$1,600. The revenue thus obtained from the better paid wage-earners, together with existing and proposed consumption taxes paid by this group, will go far toward making good possible losses in excess profits revenue if governmental price-control, in combination with rising wage rates, should restrict the growth of profits.

(c) Eliminate the present \$4,000 surtax exemption, but continue to allow deduction of personal exemption (reduced as proposed above) 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 primarily 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 proposed schedule of rates is shown in Appendix A.

Estate and Gift Taxes - On June 19, 1935, the President 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. 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. Raise the now unduly low rates applicable to estates under \$10 million. The proposed schedule of rates is shown in Appendix A.

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.

3. Broaden the legal concepts of "gifts" and "transfer at death" so that the estate tax will effectively reach all transfers of property that transmit wealth from one generation to the next. Transfers from life tenant to remainderman are among the widely used devices for avoiding estate tax.

4. 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.

Excise Taxes - The following excise taxes would fall largely on goods requiring the use of scarce materials and skills needed for the defense program.

	Proposed rate (Per cent of manufacturers' price)	Existing rate
Passenger automobiles and motorcycles	20	3.5
Automobile parts and accessories	15	2.5
Radio sets	11	5.5
Mechanical refrigerators	11	5.5
Firearms, shells, pistols, revolvers	25	11
	(Specific rates)	
Gasoline	2¢ per gal.	1.5¢ per gal
Tires	3.0¢ per lb	2.5¢ per lb
Tubes	5.5¢ per lb	4.5¢ per lb
Luxury goods (furs, jewelry, etc.)	Various rates	

Revenue Yield - The yield of these proposals on a full year basis may be roughly estimated as follows: (Millions of dollars)

1. Excess profits tax revisions	700
2. Special defense tax on corporate income	600
3. Individual income tax:	
(a) Tax incomes of couples as single income	225
(b) Lower married persons exemption to \$1,600	100
(c) Raise surtax rates and lower exemption	700
4. Estate and gift tax	500
5. Excise taxes	625
	<hr/> 3,450

APPENDIX AEXISTING AND PROPOSED SURTAX RATES

Surtax net income (Thousands of dollars)		Rate (per cent)		Surtax net income (Thousands of dollars)		Rate (per cent)	
		Existing	Proposed			Existing	Proposed
0 to	2	0	4	50 to	60	44	52
2 to	4	0	7	60 to	70	47	54
4 to	6	4	10	70 to	80	50	56
6 to	8	6	13	80 to	90	53	58
8 to	10	8	16	90 to	100	56	60
10 to	12	10	19	100 to	150	58	62
12 to	14	12	22	150 to	200	60	63
14 to	16	15	25	200 to	250	62	64
16 to	18	18	28	250 to	300	64	66
18 to	20	21	31	300 to	400	66	67
20 to	22	24	34	400 to	500	68	68
22 to	26	27	37	500 to	750	70	70
26 to	32	30	40	750 to	1,000	72	72
32 to	38	33	43	1,000 to	2,000	73	73
38 to	44	36	46	2,000 to	5,000	74	74
44 to	50	40	49	5,000 and over		75	75

EXISTING AND PROPOSED ESTATE TAX RATES

Net Estate		Rate (per cent)		Net Estate		Rate (per cent)	
		Existing	Proposed			Existing	Proposed
Exceeding	Equalling			Exceeding	Equalling		
(\$000)				(\$000)			
---	10	2	3	1,000	1,500	32	46
10	20	4	6	1,500	2,000	35	49
20	30	6	10	2,000	2,500	38	51
30	40	8	12	2,500	3,000	41	53
40	50	10	15	3,000	3,500	44	55
50	70	12	18	3,500	4,000	47	57
70	100	14	21	4,000	4,500	50	59
100	150	17	25	4,500	5,000	53	61
150	200	17	25	5,000	6,000	56	63
200	250	20	30	6,000	7,000	59	64
250	400	20	30	7,000	8,000	61	65
400	450	23	35	8,000	9,000	63	66
450	600	23	35	9,000	10,000	65	67
600	750	26	39	10,000	20,000	67	68
750	800	26	39	20,000	50,000	69	69
800	1,000	29	43	50,000	---	70	70

Note: Under existing law "net estate" is computed by deducting a specific exemption of \$40,000; under the proposed law the specific exemption would be reduced to \$25,000.