April 9, 1941
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A substantial revision of the tax structure is now essential, in view of present and prospective Government outlays. As a minimum objective, $3 billion of revenue should be sought from increased taxation of 1941 incomes. Increased taxes are required not merely to meet the Treasury's need for revenue, but, more important, for broad economic, political and social reasons.

Our national income in money terms is growing rapidly under the impetus of defense. It will reach $85 or $90 billion this year and will probably approach $100 billion in 1942. Production of civilian goods cannot keep pace with this expansion of money incomes. Over a widening area civilian output will be hemmed in by requirements of defense. Thus, purchasing power is bound to become redundant in relation to the available supplies of civilian goods. In a few critical fields this situation can be dealt with by rationing and priorities only, but in other areas sharp price increases are inevitable unless vigorous steps are taken to tax away redundant purchasing power. If this burden is not equitably distributed through "ability to pay" taxes it will be inequitably distributed through price inflation.

Increased revenues should be sought exclusively from the "ability to pay" taxes, i.e., individual and corporate income and excess profit taxes, and estate and gift taxes; additional regressive taxes at this stage would introduce inequities as great as those which they would seek to prevent.

A strengthening of our inadequate excess profits tax should be the center of this year's tax program. Vigorous reconstruction of this tax is important not only because of its own large revenue potentialities, but also because of its political and social implications. Individuals and corporations without abnormal profits will accept their tax increases more readily if they know that corporations with defense orders are not being permitted to pile up huge earnings. Organized workers will have less strong grounds for demanding wage increases if excess profits are heavily taxed. The temptation to profiteer should be weaker if only a small part of the abnormal profits can be retained.

The following program is designed to accomplish the objectives indicated above:

1. Vigorous reconstruction of the excess profits tax. Subject to administrative discretion in special cases, establish normal profits ceiling of 10 per cent on invested capital. Establish floor at 4 per cent. Exclude borrowed money from the invested capital base. Raise excess profits tax rate to 75 per cent on excess profits in excess of $50,000 instead of present maximum of 50 per cent on excess profits in excess of $500,000.

2. Increase present maximum rate of normal corporation income to 30 per cent from the present 24 per cent level.

3. Consolidate present separate structures of estate and gift taxes, allowing only a single exemption of $10,000 against combined total of gifts plus estate. Present excessively generous exemptions are $40,000 under the gift tax, and $40,000 general and $40,000 insurance under the estate tax -- a total of $120,000. Apply single schedule of tax rates to cumulative total of gifts plus estate. This would stop transfers to avoid high-bracket estate tax rates by paying low-bracket gift tax rates. Revise rates to produce taxes on a given estate substantially similar to the comparable British death duties.

4. Raise individual normal tax rate to 8 per cent, with appropriate adjustments in surtax rates, and lower exemptions to $750 for single persons and $1,500 for married persons. Abolish privilege of filing separate returns for husbands and wives. Abolish allowance of personal exemptions and credits for dependents as a deduction from income subject to surtax.

During calendar year 1942, total revenues of the Federal Government under existing law will amount to about $11 billion. The foregoing proposals would add about $3 billion in additional revenue, distributed as follows:

	(Millions of dollars)
Revision of excess profits tax	1,000
Increase in normal corporation tax	600
Increase in individual normal tax, and lowering of exemptions	500
Taxing income of husband and wife as single income	200
Elimination of personal exemption and credit for dependents as surtax credit	200
Increase in surtaxes	500
TOTAL	3,000

The suggested change in estate and gift taxes will yield about $500 million a year but, because of the 15-month period allowed for payment of estate taxes, substantial increased revenue will only begin to be realized in calendar year 1943.