

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date August 12, 1942

To Chairman Eccles

Subject: Senate hearings on the

From Martin Krost

tax bill

I am transmitting a memorandum summarizing recent hearings before the Senate Finance Committee on the tax bill.

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# Office Correspondence

Date August 12, 1942

To Mr. Krost

Subject: Hearings on Revenue Bill of

From Richard A. Musgrave

1942 - Senate Finance Committee  
July 29 - August 10

- July 29 - The Finance Committee showed increased interest in compulsory savings and Senator George indicated that, if introduced, these savings should be combined with income taxation through the investment of a part of tax receipts in savings bonds. Commenting on the possibility of an individual excess profits tax, Senator George pointed to the lack of success with this tax in the first World War.
- July 30 - Mr. C. F. Hotchkiss of Binghamton, New York, presented the case of a small corporation which had to go into heavy indebtedness to the RFC in order to meet the capital requirements of greatly expanded war output and now found it impossible to meet both tax and debt payments. As a relief measure he suggested that additional credit might be granted under excess profits tax to corporations with greatly increased capital requirements. Senator George predicted that the Committee would grant relief for debt amortization to both individuals and corporations.
- July 31 - Witnesses protested a provision in the House Bill under which a limitation would be imposed upon the amount of immediate tax deductions permitted against payments into pension trust funds. A subcommittee was appointed to consider the matter with Treasury experts.
- August 3 - Mayor LaGuardia, Professor Fairchild, Professor Lutz, and others testified against Federal taxation of state and municipal securities. Mayor LaGuardia also thought that the proposed tax schedules would leave little possibility for people to continue investing 10 per cent of their income in savings bonds.
- August 4 - Mr. G. A. Witherspoon, President of the National Association of Life Underwriters, recommended that an exemption be allowed under the income tax for payment of insurance premiums and that the specific insurance exemption of \$40,000 be retained under the estate tax. Senator Taft pointed out that it would be unfair to discriminate against people who invested their funds in forms other than life insurance and that if relief was to be given to policy holders, similar relief would have to be provided to other investors. Senator George favored a policy of providing debt relief and suggested a deduction allowable against either the purchase of bonds, the payment of life insurance, or the payment of previous debt obligations.

August 5 - Senator George indicated that the Senate Finance Committee did not plan to suggest any substantial increase in the rates on individual and corporate income taxes from which sources the Treasury had proposed to collect an additional 1.2 billion of revenues. This pointed to the need for a sales tax if the revenue goal of the Treasury was to be reached.

August 6 - The Treasury announced that it was to seek a policy which would protect corporations against a double burden arising from payment of excess profits taxes on profits subsequently recaptured by the Government through renegotiation of war contracts.

Mr. R. F. Berry suggested a method of administering source collection on wages and salaries according to which the employer would purchase stamps from the Government and pass these on to his employees in place of withheld wages thus saving himself considerable paper work.

Seven witnesses requested elimination of the fiscal year provision as imposing an unfair and retroactive burden upon some corporations.

August 7 - Mr. Emile Schram, President of the New York Stock Exchange, recommended basic changes in the taxation of capital gains. He suggested in particular that the holding period be eliminated or that short-term holdings be defined as holdings of less than six months.

August 10 - The Committee heard several witnesses protesting against the Treasury's proposal to limit percentage depletion allowances on mines, oil and gas well properties. Following an earlier rejection of the Treasury's proposal for the taxation of outstanding state and local securities, the Committee rejected the Treasury's request for adjusting the treatment of individual incomes in the eight community property States to that applicable to other states. It is likely that the limitation on percentage depletion will be similarly rejected.

It is expected that the hearings will close August 13, and that the Committee will begin with the framing of the Bill after a week's recess.

R. D. U.