

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 18, 1942

To Chairman Eccles

Subject: _____

From Martin Krost

I am sending you attached a summary of the concluding hearings of the Senate Finance Committee on the Revenue Bill of 1942.

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Date August 18, 1942

To Mr. Krost

Subject: Hearings on Revenue Bill of

From Richard A. Musgrave

1942 - Senate Finance Committee.

August 11 - August 14

August 11 - A subcommittee was appointed to consider possible simplifications of the withholding tax including (1) elimination of credit for dependents, (2) distribution of stamps to employees for amount withheld, these stamps to be submitted to Treasury with remaining tax payment, (3) the Rumml plan, and (4) computation of amounts withheld by broad wage brackets.

Senator MacCaran announced that he would seek more liberal depletion allowance for mines producing essential minerals.

August 12 - Representatives of the utility industry appealed for special tax relief for utility companies, basing their claims on the large capital equipment of such corporations and on prevailing rate regulation.

Mr. E. C. Alvord presented the tax program of the United States Chamber of Commerce containing proposals for (1) a retail sales tax of 10 per cent without exemptions coupled with a 5 per cent withholding tax on payrolls supplementary to income taxes, to yield an additional 12 billion; (2) combined corporate normal and surtax rates of not over 35 per cent; (3) special relief provisions under the excess profits tax for corporations with inadequate base period earnings or invested incomes; (4) Rumml plan for current taxation of incomes; (5) tax deductions to encourage investment in Government securities.

A representative of the A. F. of L. opposed a general sales tax but expressed willingness to accept a luxury sales tax if necessary. He favored post-war refunds to all corporations for taxes in excess of 75 per cent of net income, and objected to the withholding tax as a possible step towards a flat tax on wages.

August 13 - Mr. J. C. Cowdin presented the tax program of the Association of Manufacturers. He predicted that the present House Bill would yield 24 billion for the fiscal year 1943, including corporate tax yields of 4 billion in excess of Treasury estimates. He proposed an 8 per cent sales tax which would yield 4.8 billion in the current fiscal year, a 10 per cent tax credit for repayment of debt or purchase of Government bonds, and various relief provisions for the computation of excess profit income. He opposed the withholding tax and the fiscal year provision.

Mr. A. R. Barr, representing the Associated State Chamber of Commerce, favored a retail sales tax, a 35 per cent combined normal and surtax rate on corporations, and post-war refund of excess profit payments above 80 per cent. Mr. H. E. Bowman, representing Boeing Aircraft Corporation, testified that the provision of the House Bill would threaten the existence of his firm, whose net income would be taxed at 88.75 per cent. The particular difficulty of his firm, like that of other aviation companies, was due to low earnings in pre-war years which had been re-invested in new equipment, and to the small volume of invested capital.

A representative of the WFB urged that all incentives be given in the tax bill to the development and mining of essential mineral resources. Mr. C. H. Mylander, of the AEA, objected to the withholding of income tax on bond interest and dividends since this would require an "almost insuperable" amount of work by the banks.

August 14 - Professor Irving Fisher proposed the exemption of savings under income taxation and the placing of an additional tax upon spending with exemptions similar to those under the income tax.

The hearings were closed and the Committee adjourned until August 24. Chairman George expressed the hope that the draft of the Bill would be available for the Senate's consideration early in September and that the Senate would pass the bill by October 1. The history of previous revenue legislation suggests that the progress of the bill is likely to be somewhat slower.

Among the most likely changes in the House Bill are various relief provisions under the corporate income tax such as lower rates, post-war refunds, or a possible over-all tax ceiling. It is also likely that the relief will be granted for debt repayment to both corporate and individual taxpayers. There is strong sentiment to modify the withholding provision and some possibility that a sales tax measure will be considered. Senator Barkley said that he would insist upon finding new revenue sources to raise the yield of the Bill to \$8.7 billion as required by the Treasury in order to avoid the need for a second tax bill this year.

Q.D.U.