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Individual income tax: Number of individual
income tax returns, 1938 - 1943

Income year	Number of returns				
	Total	Non-taxable	Taxable		
			Total	Full paid	Part paid
			(in millions)		
1938	6.4	3.3	3.1	2.1	1.0
1939	7.8	3.8	4.0	2.8	1.2
1940	15.0	7.4	7.6	5.5	2.1
1941	26.4	8.6	17.8	10.7	7.1
1942 <u>1/</u>			34.9		
1943 <u>1/</u>			40.2		

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1/ Estimated

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Individual net income tax: Estimated number of taxpayers
for 1942 and 1943, by surtax net income and type of income

Type of income	1942			1943		
	Surtax net income			Surtax net income		
	Total	Less than \$2,000	More than \$2,000	Total	Less than \$2,000	More than \$2,000

Number of taxable income recipients

(in millions)

Wages and salaries plus a nominal amount of other income	28	26.5	1.5	32	30	2
All other	11	9.0	2.0	12	10	2
Total	39	35.5	3.5	44	40	4

Number of taxable returns

Wages and salaries plus a nominal amount of other income	25	23.5	1.5	29	27	2
All other	10	8.0	2.0	11	9	2
Total	35	31.5	3.5	40	36	4

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Individual income tax: Estimated number of taxpayers for
1943, by change in amount of income since 1942
and type of income ^{1/}

Type of Income	Number	Number of taxable income recipients			
	of tax-	Income in 1943			
	able	Total	Approximately	Substantially	Substantially
	returns	: same as	: higher than	: lower than in	
		: in 1942	: in 1942	: 1942	
(in millions)					
Wages and salaries plus a nominal amount of other income	29	32	11	16	5
All other	11	12	3	6	3
Total	40	44	14	22	8

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^{1/} It should be noted that this table excludes persons who were
taxable in 1942 but whose incomes fell sufficiently in 1943
to make them nontaxable in 1943.

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Victory Tax

- calendar year
1. Number of taxpayers and revenue for/1943, by taxable status under net income tax

	Number of	Revenue from
Taxable	Taxable	Victory tax
income 1/ returns:		Net after
recipients: 2/		Gross postwar credit
(in millions)		(billions of dollars)

Taxpayers whose 1943 income is:

Not taxable under net income tax	13	12.5	.5	.3
Taxable under net income tax	44	40.0	3.9	2.4
Total	57	52.5	4.4	2.7

2. Surtax rate increase for 1943 needed to replace Victory tax revenue, by exemption level

Exemption levels	Percentage point increase in surtax rates for 1943 required to replace:	Gross Victory Tax	Net Victory tax after postwar credit
Present law (\$500-\$1200-\$350)	8.6		5.3
Exemptions of \$500-\$1000-\$250	7.6		4.7
Exemptions of \$400-\$800-\$200	6.6		4.1

- 1/ Number of individuals receiving income in excess of exemption.
2/ Number of returns that will be filed on which a tax will be due.
This is less than the number of taxable income recipients because of the filing of joint returns including the income of more than one taxable income recipient.

Victory Tax (Continued)

3. Amount of Victory tax for persons not subject to net income tax, for selected net incomes

	<u>Amount of Victory tax 1/</u>		
		Postwar	Net, after
Net income before	:	:	:
personal exemption	Total	credit	postwar credit

Married person - no dependents

500	-	-	-
600	\$2	\$1	\$1
700	8	3	5
800	13	5	8
900	19	8	11
1,000	22	10	15
1,200	35	14	21

Married person - two dependents

500	-	-	-
600	2	1	1
700	7	3	4
800	13	6	7
900	19	8	11
1,000	25	11	14
1,200	36	16	20
1,500	52	23	29
1,800	69	30	39

1/ Computed by assuming that deductions are 10 percent of Victory tax net income; i.e., that Victory tax net income is ten-ninths of net income shown.

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**Federal Retail Sales Tax ^{1/} Estimates: Net tax base and yields,
and number of taxpayers, calendar year 1943**

(In billions of dollars)

Description	: Net ^{2/} :		Net ^{2/} revenue
	: tax :		yields
	: base :		5% rate: 10% rate
Net base and yield including foods	\$51.8	\$2.59	\$5.18
Net base and yield excluding foods ^{3/}	33.2	1.66	3.32

Number of taxpayers 2.6 ^{4/} millions

Treasury Department, Division of Tax Research January 27, 1943

- ^{1/} The type of retail sales tax being considered would tax the following:
- A. All retail sales of tangible personal property except sales of the following:
(Note: Retail sales consist of all sales except those made for resale. Sales for resale consist of sales of articles to be resold in the form in which purchased or as ingredients or component parts of other tangible personal property.)
1. Commercial, industrial, and agricultural machinery
(Note: It is intended that the concept of machinery be interpreted broadly to include not only those classes of goods which are ordinarily considered to be machinery, but also such items as trucks (but not automobiles), truck trailers, railroad cars, and other similar items specifically designed for commercial, industrial, and agricultural use.)
 2. Military machinery and ordnance
 3. Feed, seed, and fertilizer
 4. All kinds of fuel
- B. The following types of services:
1. All repair, renovation, etc., of taxable property
 2. Laundry, dry cleaning, barber shops, and beauty parlors
 3. Rental of taxable property
- ^{2/} The net tax base and net revenue yields exclude taxable sales to the Federal Government.
- ^{3/} As estimated, foods include retail sales for home consumption and restaurant meals.
- ^{4/} It is estimated that the number of taxpayers under a manufacturers' sales tax would be about 157,000 and under a wholesale sales tax about 306,000, assuming that manufacturers and wholesalers with annual sales of less than \$5,000 would be exempted.

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**Total Consumer Expenditures Classified by Taxable and
Nontaxable Groups Under Federal Retail Sales Tax,
Calendar 1943**

(In billions)

A. Total of taxable group	\$47.8 <u>1/</u>
1. Foods <u>2/</u>	\$18.6
2. Services	2.5
3. Commodities subject to excises <u>3/</u> ..	12.0
4. Other	14.7
 B. Total of nontaxable group	 27.2
1. Housing	\$ 9.7
2. Household utility services	2.5
3. Medical and death services	3.1
4. All other services	9.2
5. Fuels <u>4/</u>	2.0
6. State and local retail taxes7
 C. Total consumer expenditures	 75.0

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- 1/ Not included in taxable consumer expenditures are taxable retail sales to State and local governments and to business concerns, estimated to aggregate \$4 billion.
- 2/ Includes retail sales for home consumption and restaurant meals, but excludes foodstuffs produced and consumed on farms.
- 3/ Excludes fuels and machinery items classified as exempt.
- 4/ Not including fuel produced and consumed on farms.

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8, Estimated yield from a graduated
retail sales tax with exemptions, calendar 1943

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Structure of tax

Taxable expenditures

Taxable expenditures are to be defined as indicated in footnote 1 of Exhibit 6. It is assumed that an effective method could be devised to exempt sales to the Federal Government, State and local governments, and business concerns, without providing a loophole for tax-free sales of goods intended for individual consumption.

Annual exemption

Each adult	\$200
Each dependent	\$100

Rates

<u>Amount of taxable expenditures :</u>		<u>Rate</u>
<u>Adult</u>	<u>: Dependent</u>	
0 - 200	0 - 100	0 %
200 - 400	100 - 200	5
400 - 600	200 - 300	10
Over 600	Over 300	15

Method of providing exemption and graduation

Stamps or coupons would be used as a means of granting the exemption, and as a means of enabling individuals to make purchase at less than the maximum rate. It is assumed that stamps or coupons would not be transferable except within family groups, and that a method could be devised to prevent black markets in the stamps or coupons.

Yield

At calendar 1943 levels of expenditure, it is estimated that taxable consumer expenditures will be \$47.8 billion, and the yield of the above tax will be approximately \$2 billion. This implies an effective rate of approximately 8 percent on expenditures in excess of the exemptions.

The exemptions will account for almost half of aggregate taxable expenditures, and the first bracket for almost a third. The maximum rate of 15 percent will apply to only about one-tenth of aggregate taxable expenditures, and the 10 percent rate, to only a little more than this.

Somewhat less than a quarter of the population would have all of their expenditures exempt from tax.

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Estimated average tax payment under specified retail sales tax plans, 1/
by money income groups, calendar year 1943

Money income groups 2/	Number of consumer units (000)	Average money income	Average tax payment					Average tax payment as percent of money income				
			10%	16.4%	10%	10%	rate	10%	16.4%	10%	10%	rate
			rate	rate	rate	with	per	rate	rate	rate	with	per
			includ-	exclud-	exclud-	capita	includ-	exclud-	exclud-	capita	includ-	exclud-
			ing	ing	ing	exemption	ing	ing	ing	exemption	ing	ing
			food	food 3/	food	4/	food	food 3/	food	4/	food	4/
Under \$500	2,734	\$ 331	\$ 30	\$ 25	\$ 15	-	9.0%	7.5%	4.6%	0.0%		
500 - 1,000	5,401	768	50	41	25	\$ 8	6.5	5.3	3.2	1.0		
1,000 - 1,500	5,608	1,254	75	65	40	33	6.0	5.2	3.2	2.6		
1,500 - 2,000	5,432	1,747	91	84	52	46	5.2	4.8	3.0	2.6		
2,000 - 2,500	4,692	2,241	108	106	65	62	4.8	4.7	2.9	2.7		
2,500 - 3,000	3,587	2,730	126	125	76	79	4.6	4.6	2.8	2.9		
3,000 - 4,000	4,862	3,451	154	158	96	105	4.5	4.6	2.8	3.0		
4,000 - 5,000	3,261	4,424	188	197	120	136	4.3	4.5	2.7	3.1		
5,000 - 7,500	2,931	6,161	235	255	156	183	3.8	4.1	2.5	3.0		
7,500 - 10,000	832	8,161	252	282	172	200	3.1	3.5	2.1	2.4		
10,000 and over	1,010	19,264	289	331	202	238	1.5	1.7	1.0	1.2		
Total	40,350	2,910	118	118	72	73	4.1	4.1	2.5	2.5		

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Source: Estimated on the basis of confidential data supplied by Division of Research, Office of Price Administration, and Division of Research and Statistics, Treasury Department.

- 1/ For scope of sales tax and yields of the specified plans, see page 2.
- 2/ Income is money income only, excluding all imputed items, such as the value of home-produced food, the rental value of owned homes, and wages paid in kind.
- 3/ Estimated to yield the same amount of revenue as a 10-percent rate including food.
- 4/ The 10-percent rate with the yearly per capita exemption of \$186 for an adult and \$93 for each dependent is estimated to yield the same revenue as a 10-percent rate excluding food.

The type of retail sales tax being considered would tax the following:

- A. All retail sales of tangible personal property except sales of the following:
(Note: Retail sales consist of all sales except those made for resale. Sales for resale consist of sales of articles to be resold in the form in which purchased or as ingredients or component parts of other tangible personal property.)
 - 1. Commercial, industrial, and agricultural machinery
(Note: It is intended that the concept of machinery be interpreted broadly to include not only those classes of goods which are ordinarily considered to be machinery, but also such items as trucks (but not automobiles), truck trailers, railroad cars, and other similar items specifically designed for commercial, industrial, and agricultural use.)
 - 2. Military machinery and ordnance
 - 3. Feed, seed, and fertilizer
 - 4. All kinds of fuel
- B. The following types of services:
 - 1. All repair, renovation, etc., of taxable property
 - 2. Laundry, dry cleaning, barber shops, and beauty parlors
 - 3. Rental of taxable property

In addition to the taxable consumer expenditures (\$47.8 billions including food and \$29.2 billions excluding food) used in estimating the distribution of tax payments, the net retail sales tax base would also cover \$4 billions of sales to State and local governments and to business concerns. Taxable sales to the Federal Government are excluded from the net tax base.

The net yields of the specified sales tax plans, insofar as they apply to consumer expenditures, are estimated as follows:

	(In billions of dollars)
10% rate including food	\$4.8
16.4% rate excluding food	4.8
10% rate excluding food	2.9
10% rate with per capita exemption	2.9

State and local sales taxes: Rates applicable
to retail sales as of January 1, 1943, and
total collections for the fiscal year 1942

	Type of tax	Rate ^{1/}	Collections (\$000)
Alabama	Retail sales	2	\$ 9,312
Arizona	General sales	2	5,343
Arkansas	Retail sales	2	8,038
California	Retail sales	3	132,617
Colorado	Retail sales	2	10,335
Illinois	Retail sales	2	85,589
Indiana	Gross income	1/2	33,601
Iowa	Retail sales	2	21,521
Kansas	Retail sales	2	13,111
Louisiana	Retail sales	1	2/
Michigan	Retail sales	3	82,710
Mississippi	Gross receipts	2	9,907
Missouri	Retail sales	2	29,547
New Mexico	Gross receipts	2	5,282
North Carolina	General sales	3	15,663
North Dakota	Retail sales	2	4,188
Ohio	Retail sales	3	63,119
Oklahoma	Retail sales	2	14,074
South Dakota	Retail sales	2	3,650
Utah	Retail sales	2	5,324
Washington	Retail sales	3	32,095
	Gross receipts	1/4	7,836
West Virginia	Retail sales	2	10,930
	Gross income	1/2	19,336
Wyoming	Retail sales	2	2,296
New Orleans	Retail sales	2	3,031 ^{3/}
New York City	Retail sales	1	53,214

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- ^{1/} Rate shown is the general rate applicable to retail sales of tangible personal property. Differential rates are sometimes applied to selected items.
- ^{2/} The Louisiana sales tax was repealed as of December 31, 1940, but was reenacted on September 1, 1942.
- ^{3/} Collections for fiscal year 1941.

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Spending tax schedule to raise
\$4 billion, assuming total expenditure
of \$70 billion

Married couple - No dependents
Exemption: - \$1,200

Spending ^{1/} in excess of exemption	Bracket rate	Cumulative tax
\$ 0 - 1,000	20%	\$ 200
1,000 - 2,000	30	500
2,000 - 3,000	40	900
3,000 - 4,000	45	1,350
4,000 - 6,000	50	2,350
6,000 - 8,000	55	3,450
8,000 - 10,000	60	4,650
10,000 - 20,000	65	11,150
Over 20,000	70	-

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^{1/} For single persons the brackets and exemptions will be half of those shown; for families with dependents the brackets and exemptions will be increased by 25 percent of those shown for each dependent.

The Individual Spendings Tax Schedule

(To be used by persons subject to the spendings surtax and by persons not eligible to use simplified income tax return. A simplified spendings tax schedule will be available to all other persons subject to the spendings tax.)

Funds at the disposal of the individual

1. Salaries, wages, and other compensation for personal services... \$
2. Dividends and interest received, including government interest..
3. Rents, royalties, annuities, pensions.....
4. Withdrawals from business, professions, partnerships, trusts....
5. Cash receipts from gifts, bequests, and insurance.....
6. Receipts from sale of capital assets.....
7. Receipts from repayment of loans made to others.....
8. Receipts from borrowing, including debts incurred on
installment purchases.....
9. Cash and bank balances at beginning of year.....
10. Other receipts.....
11. Total disposable funds (items 1 to 10)..... \$

Deductions: Non-taxable use of funds

12. Cash and bank balances at end of year..... \$
13. Cash gifts and contributions.....
14. Interest and taxes paid, except on owner-occupied homes.....
15. Expenditures on the purchase of capital assets.....
16. Life insurance premiums, annuity, and pension payment.....
17. Outlays for repayment of debt, including installment debt.....
18. Loans made to others.....
19. Other nontaxable disbursements.....
20. Total deductions (items 12 to 19)..... \$

21. Expenditures subject to tax (item 11 minus item 20)..... \$