



THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON

JAN 23 1943

Dear Marriner:

Following our discussion this morning I am attaching an analysis of the Ruml plan. You will see from this that the effect of the plan will be to eliminate the impact of increases of taxes for several years past.

There is also attaching a copy of a proposed tax program which was handed to me by Senator Taft.

Sincerely,

A handwritten signature in cursive script, appearing to read "Wendell Phillips Phillips".

Hon. Marriner Eccles,

Federal Reserve Board.

Attachments.

Effect of Ruml plan at selected levels of income

Married person - no dependents

Taxable year	Income tax liability on selected net incomes 1/						
	\$2,000	\$3,000	\$5,000	\$10,000	\$25,000	\$100,000	\$1,000,000
1938	-	\$ 8	\$ 80	\$ 415	\$ 2,489	\$ 32,469	\$ 679,044
1939	-	8	80	415	2,489	32,469	679,044
1940	-	31	110	528	3,843	43,476	717,584
1941	\$ 42	138	375	1,305	6,864	52,704	732,554
1942	140	324	746	2,152	9,220	64,060	854,000
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Tax liability 1938-42							
Total	\$182	\$ 509	\$1,391	\$ 4,815	\$24,905	\$225,178	\$3,662,226
If 1942 tax forgiven	42	185	645	2,663	15,685	161,118	2,808,226
If no 1942 tax increase	84	323	1,020	3,968	22,549	213,822	3,540,780
If no 1941-42 tax increases	-	109	490	2,414	16,507	195,366	3,510,840
If no 1940-42 tax increases	-	40	400	2,075	12,445	162,345	3,395,220
If no 1936-42 tax increase	-	40	400	2,075	12,445	152,970	2,856,970
Treasury Department, Division of Tax Research							January 21, 1943

1/ Net income, before personal exemption.

*Fraser
Sept 1942*

PROPOSED TAX PROGRAM

I propose the following program to be enacted as early in 1943 as possible:

(1) Increase the exemptions on the net income tax to \$700.00 in the case of single persons and \$1560.00 in the case of heads of families. Increase the surtax rate from 13% to 14%, and increase the rates on all incomes from \$3000 up to \$100,000, so that heads of families without dependents would pay roughly according to the following scale:

<u>Income</u>	<u>Tax</u>
\$4,000	\$300
5,000	1,250
6,000	1,600
10,000	2,500
15,000	6,000
25,000	12,500

(2) Impose a 20% withholding tax on all income over \$15.00 a week in the case of single persons and \$30.00 a week in the case of heads of families. Apply this withholding also to dividends.

(3) Adopt a modified Rual plan by forgiving the tax on 1942 income up to at least the first \$3000 of income. Permit tax over that amount to be paid at death, or in ten annual instalments beginning in 1945.

(4) Impose a 10% sales tax, exempting only food sold in stores. This tax should follow the California plan, which has many less exemptions than the Ohio plan.

(5) Change the Victory Tax so that the entire amount of the tax is refunded in bonds, and the tax becomes in fact a compulsory savings plan. Consider increasing the exemption in 1944 and increasing the rate from 5% to 10%.

The foregoing plan has the advantage of greatly simplifying the tax structure. It will reduce tremendously the number of income-tax-payers and the number of people with whom the government has to keep books. The tax of those below the new exemptions will be collected through the sales procedure, which requires the government to keep accounts with only 1-1/2 million retailers instead of with 50 million taxpayers. It eliminates the difficulty of collecting the Victory Tax from agricultural laborers, household servants, and many others where withholding is impossible. Since the Victory Tax becomes a compulsory savings plan, it is not essential that there be the same equality as in the case of a tax, so that if these other groups escape the tax, there is no tremendous discrimination. The program will yield about \$ in excess of the present system.