

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 8, 1943

To Chairman Eccles

Subject: Ways and Means Committee

From Martin Krost

Hearings

MK

I am transmitting a brief summary of the Hearings
before the Ways and Means Committee last week.

BOARD OF GOVERNORS
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FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 6, 1943

To Mr. Krost

Subject: Ways and Means Committee

From Richard A. Kusgrave R. M.

Hearings

Ways and Means Committee Hearings on source collection and current payment of income taxes opened on February 3. They are expected to close the middle of next week. Legislation for additional revenue (taxes or compulsory savings) will not be considered in this session of the Committee.

February 3

Undersecretary Sullivan warned that whatever procedure would be decided on, annual returns and payments of quarterly instalments on March 15 would be required. The Committee agreed unanimously.

Randolph Paul presented the Treasury's recommendation for source collection of income tax payments and for placing income taxes on a more nearly current basis. He was anxious not to commit the Treasury to any specific program.

Regarding source collection, he suggested a possible plan under which 19% (6% normal tax and 13% first bracket surtax) of all wage and salary payments in excess of exemptions would be withheld at the source. The taxpayer would file a report at the end of the year and make adjustments for over- or under-payment. Small taxpayers with incomes not adaptable to source collection would file tentative quarterly returns and adjust at the end of the year. Large taxpayers would follow the same procedure in regard to the first 19% of tax. Payment of taxes on income in excess of the first surtax bracket would continue as under the present system.

Mr. Paul favored placing the income tax on a current basis but strongly opposed forgiving of tax liabilities on 1942 incomes. He argued that forgiving would entail a loss to the Treasury of \$10 billion worth of assets. He suggested that proposals to forgive taxes on 1942 income or to require their payment (fully or in part) during 1943 in addition to taxes on 1943 incomes should be considered in the light of the President's request for additional revenue of \$16 billion. If all 1942 taxes are forgiven, new taxes (or compulsory savings) must be added to present liabilities if the revenue goal is to be met.

Chairman Doughton suggested that one way of treating liabilities on 1942 income might be to compute taxes on 1942 incomes on the basis of 1941 rather than 1942 rates. Mr. Paul added that this approach had been given serious consideration by the Treasury.

Representative Robertson had submitted a bill under which the first 19% of taxes (normal rate and first bracket surtax rate) on 1942 income would be forgiven. Combined with the Treasury's suggestion for withholding, taxpayers would thus be on a current basis regarding the first 19% of tax, while they would stay on the present basis as far as the remainder of the tax is concerned. Although this plan is believed to have originated in the Treasury, Mr. Paul denied that it was a Treasury proposal.

February 4

Mr. Beardsley Ruml presented his case for shifting income taxes to a current basis and for forgiving the full liability on 1942 incomes. He maintained that the Treasury would experience no financial loss but strengthen its position in following his plan.

The Committee's reaction to Mr. Ruml's proposal for complete forgiving of 1942 liabilities was decidedly unsympathetic. Chairman Doughton reiterated the point that the forgiving of taxes on 1942 income would constitute a loss of assets to the Treasury. He based his argument on an analogy between the Treasury and a corporation and on the loss which a corporation would incur by writing off its assets. Mr. Ruml's rejoinder stayed within the framework of this analogy (instead of arguing that the only real asset of the Treasury is the income of the nation) with the result that Mr. Doughton carried the point.

There was agreement, however, that the Ruml procedure might lead to a gain in Treasury receipts during the war period. Mr. Ruml argued that if more revenue had to be collected, this should be done by increasing rates, not by adding payment of liabilities on 1942 income to payment of liabilities on 1943 income.

February 5

Criticism of the Ruml proposal for forgiving 1942 liabilities continued.

There seemed to be all-around agreement that collection at source is highly desirable. Also, most Committee members seemed to favor the idea of placing payments on a current basis, but the majority was unwilling to do so by forgiving the full liability on 1942 incomes. Committee members emphasized repeatedly that the new scheme could not possibly go into effect prior to July 1.