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January 8, 1946.

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Mr. M. S. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington 25, D.C.

Dear Mr. Eccles:

Referring to our previous correspondence, (*"Capital & Labor"*)
I am enclosing a copy of a speech made on December
20, 1945 by the Honorable Herman P. Eberharter, a
member of the Ways and Means Committee, in which he
states that at the opening session of Congress in
January he is going to introduce a bill embodying
the Incentive Income Tax Plan. This bill is to be
known as "Incentive Income Tax Act, 1946."

Sincerely yours,

Frank Wilbur Main

FWM.LMR

Incentive Tax Plan of 1946

Speech of
Hon. Herman P. Eberharter
of Pennsylvania
in the
House of Representatives
December 20, 1945

*Not printed
at Government
expense*

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SPEECH

OF*

HON. HERMAN P. EBERHARTER

Mr. EBERHARTER. Mr. Speaker, this first session of the Seventy-ninth Congress will adjourn within a few hours. When it reconvenes for its second session shortly after the first of the year, I will have ready and will introduce a new income-tax bill.

The purpose of my bill will be to bring an entirely fresh concept of Federal income taxation before the Congress and the country. Its aim will be to place our revenue program upon a basis of a peacetime economy.

Our taxing program of today is based upon a war-emergency background. The senior Members of the House will remember the days of 1913 and 1914, when revenue-gathering seemed rather simple and taxation was not a burden either on individuals or on business enterprise.

When we entered World War I, emergency revenues were needed. Legislation was quickly prepared and enacted. From that date to the present moment we have developed a taxation program of successive revisions and amendments—one after another, resulting in what I think everyone agrees is a confused and unbalanced tax structure.

It is my considered opinion that our country needs a reformation of the Federal tax system. We must stop writing amendments on top of amendments. Our people back home do not want any more revisions of revisions. They do not want more patchwork. They want a single and sensible tax program, a

program they can understand. They will applaud a Congress that enacts a tax law that is just and equitable.

One of the greatest needs today throughout our country is to allow every individual and every corporation to have more spendable income—more income free from tax. More spendable income means more money available for investment, and improvement, and for betterment of our national standard of living.

Manpower and machinery alone do not make for economic prosperity. Millions of our income taxpayers must be substantially relieved of their income-tax burden. I speak particularly of those whose incomes are close to or below the \$3,000 a year figure.

In this period of labor unrest, one of the basic reasons why such strong demands for wage increases have been made by labor is the heavy burden of income taxes. Income taxes are part of the cost of living. In war years our income taxation was bearable to some degree. The high level of take-home pay made it so. Now the withholding of such a large percentage of earnings for income tax is a vital contributing factor to the current appeals by labor for wage increases for take-home pay which will allow men and women to have more spendable income.

We all look forward to 1946 as a year when we shall again have available to us those goods from our factories which make life more comfortable, a little less arduous. We look forward to having washing machines and automobiles, new heating plants for our homes, new clothes to wear, and many other items.

Is there any chance of obtaining the mass market needed for a high level of economic prosperity if millions of our taxpayers do not have enough spendable income to buy these goods?

In the bill I shall introduce, personal exemptions for single persons will be raised from \$500 to \$1,250. I am also advocating that the exemption for married couples be increased from \$1,000 to \$2,500.

This raising of exemptions will reduce the number of income taxpayers from 36,000,000 to around 18,000,000.

Some will say that such a reduction in the number of Federal income taxpayers is impractical, is not equitable, and places an unfair burden on those remaining on the tax rolls.

May I dwell for a moment on the result as I see it?

By raising the exemptions we shall automatically provide more spendable income for the goods required to maintain a reasonably high standard of living. It gives incentive to save, also, and among other things this should result in a wider market than ever before for new and modernized homes. It gives incentive to the individual to forge ahead. With this incentive, there is every reason to hope that a high percentage of those thus removed from the tax rolls will better their position in life and within a few years will come back to the tax rolls to pay their share, at a time when they are financially able to do so.

To those who would say that every citizen should support the operation of the Federal Government and that none should be exempt from paying income tax, my answer is: Through sales, excise

and other taxes, all the citizens of our country contribute most substantially to the total revenue of our Government. Those in the lower earning brackets will continue to support the Government through these taxes. They should not be asked to bear, in addition, a heavy burden of taxation on their income altogether out of proportion to their financial ability.

My bill proposes the continuance of the \$500 exemption for each dependent.

With respect to corporations, it proposes to set up a \$2,500 annual exemption from income tax. Deductions for charitable contributions, interest payments, taxes, as well as all other allowable deductions, will be continued. I am proposing that individuals and corporations be taxed upon a graduated scale, starting at 25 percent of the first \$5,000 of net taxable income and extending upward to a taxation of 50 percent on all net taxable income in excess of the initial \$25,000.

With the exception of the differences in exemptions which would be allowed single persons, married couples with dependents, the income tax paid by either individuals or corporations on the same amount of net taxable income would therefore be identical.

Can anyone say with any accuracy that there is a good, sound, equitable reason why the teacher, lawyer, merchant or farmer should have his income taxed at one rate and the business enterprise, known as a corporation, be taxed on an entirely different basis? Since income tax is necessary to our Government's operation, let us have a tax on income. If an individual has a net taxable in-

come of \$4,000 he should pay relatively the same tax as the small machine shop down the street that has a net taxable corporate income of \$4,000. Income is income; so let us tax income and not apply a tax on individuals with the right hand and a tax on corporations with the left hand.

In addition, I shall propose that dividend income be exempt from taxation to the stockholder. The double tax of dividends should be eliminated, for it is not only unfair but uneconomic; it discourages venture capital in the form of stock issues, and puts a premium on corporate debt. The elimination of this unjust double taxation of dividends will in itself provide incentive and encouragement, so that there will be greater interest in investments, particularly in the new and risk-taking opportunities which must be provided as we complete reconversion and enter a period of peacetime effort.

Some of you may have sensed that the bill I shall introduce incorporates the proposal for a postwar income-tax program suggested almost a year ago by Frank Wilbur Main, of Pittsburgh. If it is adopted, my bill will enact into law the incentive income-tax plan conceived by Mr. Main. He is a constituent of mine and is one of Pittsburgh's outstanding citizens. Mr. Main is a certified public accountant and directs a Nation-wide auditing and accounting organization. His abilities have been recognized by his profession, which has honored him with many important duties, including the presidency of the American Society of Certified Public Accountants.

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My bill will produce sufficient revenue for a balanced Federal budget, including the vital consideration of meeting our obligations to our veterans, plus allowing an orderly retirement of our indebtedness.

The peacetime Federal budget will probably be at least \$25,000,000,000. With a budget at that figure, in order to have a vigorous and dynamic national economy, we must maintain in this country a national income of approximately \$160,000,000,000. Even the briefest review of our country's economic life reveals that such assumption is based on recorded history. Any smaller sum of national income would put an unbearable strain on the economic life of our country, and it would encourage the very thing we desire to gradually eliminate as quickly as we can—deficit financing.

The bill I shall introduce, being geared to a peacetime economy, will increase spendable income, encourage investment of capital, stimulate employment, and so make possible a national income of approximately \$160,000,000,000.

Each day, more and more war veterans are returning to take up civilian life. A generous proportion have already indicated their faith in our future by going into business for themselves. Hundreds of thousands of others have expressed the desire to own their own businesses. We must give these veterans the utmost in encouragement and incentive. We can do this by asking them to pay an income tax that is within their capacity to pay and still allow them to retain sufficient funds to conduct their enterprises, raise their families and contribute

to the highest degree possible to a mass market for the products of industry.

The farmer, too, needs the opportunity to expand his acreage and increase his crops and herds. As the farmer prospers he is increasingly able to pay a higher income tax. Under my bill he will be given the opportunity of paying an equitable tax geared to his financial ability.

Today, the United States has the greatest productive capacity in its history. Purchasing power of a widely diffused nature has been developed. Human wants are practically without limit. Confidence—individual confidence, corporate confidence, and national confidence—is the ingredient that needs to be added.

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How is that confidence to be created? In my judgment, the bill I shall introduce opens a pathway to the restoration of confidence. For if individuals and industry can be given an incentive—if they realize that encouragement is being offered—they will soon gain the confidence needed to guide them through this transition period into an era of peaceful prosperity.

I am convinced that the Incentive Income Tax Act of 1946, as proposed, will offer the incentive and the encouragement to individuals and to industry, and it will do more than any other single thing the Congress can do to create that feeling of confidence in our future which is so urgently desired by all our people today.

