Facto

# Factors Favorable To The Excess Profits Tax Listed Under Crucial Points Of Analysis

## Prices

- 1. The excess profits tax is considerably less general than the corporate income tax and is therefore much more likely to rest on profits rather than being passed on in higher prices.
- 2. An increase of corporate income tax rates would become a part of the costs of public utilities, this would force them to appeal to the regulatory commissions for higher prices which would be granted if the higher corporate income tax rates had forced their earnings down below those guaranteed by these commissions.
- 3. The greater ease generally of passing the regular corporate tax on in higher prices and the greater likelihood of the excess profits tax resting on profits would on this basis make the excess profits tax more effective in holding down stockmarket prices.
- 4. Permitting corporations to retain very high profits would cause the stocks of these corporations to rise rapidly.
- 5. The excess profits tax by claiming a large portion of the profits of firms would force them to raise new funds by new offerings, this would tend to hold the market down through the expansion of the quantity of stock issues and through the reduced amount of retained invested earnings and therefore the expansion of earnings per share of stock.
- 6. It would reduce the pressure on scarce materials by growing industries because they would not have the funds readily available for expansion.
- 7. The tax would take the bloom off many of the leaders in the current stock market boom.
- 8. The excess profits reduces the justifiability appeals for higher wages because most of the additional profits of corporations will be paid out in taxes. The effect would be reduced support of public opinion for labor's demands.
- 9. A number of labor organizations have created the impression that wage control hinges on the adoption of an excess profits tax.
- 10. If an excess profits tax is not collected a firm not customarily the leader in an industry but a high profit earner may lead the parade to new and higher wage levels.

### Efficiency and Waste

- 1. The excess profits tax discourages speculative investment in industries experiencing war stimulated profits.
- 2. The tax reduces the desirability of labor and material hoarding because additional profits that might arise from an advantage over competitors would be largely taxed away.
- 3. It would permit utilities and similar basic industries to expand without competing with industries enjoying greatly expanded war related profit.
- 4. American industry was subject to a very high excess profits tax during World War II and accomplished the world's best production job.
- 5. The collections of an excess profits tax are from profits that are in excess of those formerly considered adequate to pay necessary dividends and the like.
- 6. Profits considerably in excess of normal reutrn are too high a payment for management and these excess payments are a waste of the nation's resources.
- 7. The 1950 tax law has been written to eliminate most of the renegotiation that arose under Section 722.
- 8. Expediting war production requires the offer of liberal terms, when these terms result in very large profits it is only decent to provide for their recapture in an excess profits tax and contract renegotiation.
- 9. The Government must get the money where the money is.
- 10. Permitting corporations to keep unusually high profits would encourage wasteful expansion of expenditures of all types.
- 11. The information available through the renegotiation of the World War II excess profits tax would assure efficient administration of an excess profits tax during the current crisis.

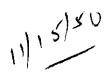
# General Economic Considerations

- 1. It is very desirable to get large amounts of funds through high rates at the start of a defense program and this is possible with the excess profits tax.
- 2. It reduces the possibility of avoiding higher personal income tax rates on profits from very successful enterprises through keeping profits with the company.
- 3. The collections of an excess profits tax would fluctuate quickly in a cyclically desirable manner.
- 4. The excess profits tax is a tax on corporations that is most nearly paid according to the ability of the corporation.
- 5. A high normal tax rate is very hard on the corporation which is just jogging along.
- 6. Under conditions of full employment and an aggressive sellers market an increase in the regular corporate tax is similar to a retail sales tax with the disadvantage that it is passed through the economy resulting in a price increase by more than the increased tax collections.
- 7. Government must get the money where it can be got with the least disturbance to the economy.
- 8. The determinant of the quantity of production in a war economy is the amount of labor and not the amount of funds corporations may have available.
- 9. The most profitable corporations have substantially increased their holdings of liquid assets during the past year.

## Psychological and Political Acceptability

- 1. The excess profits tax is a traditional war tax in the United States and most democratic countries of the world.
- 2. It reduces the likelihood of government operation of industry during the war because greater and greater profits would be avoided while boys are being killed on the battlefield.
- 3. The support for the excess profits tax arises from large population groups of the nation while the opposition is centered in those controlling large capital concentrations.
- 4. The close association of the tax with the control of a war economy would reduce the general feeling of urgency if it were not enacted early in the period of the development of a preparedness program.

5. The burden of the excess profits tax is relatively lighter on the small corporation and heavier on the large corporation than the regular corporate income tax.



Percentage distribution of net income and taxes for nonfinancial corporations with net income, by assets size classes, for returns with balance sheets only, 1944

Total assets classes (thousands)	Net income after renegotiation	income subject to excess profits tax after renegotiation	Taxes after renegotiation		
			Income tax	Excess profits tax	Total taxes
Under \$50	1.52%	•13%	1.99%	.15%	.72%
\$50 under 100	1.64	•60	1.96	•63	1.04
100 under 250	3.77	2.66	<b>3•77</b>	2.76	3.09
250 under 500	4.25	4.09	3.98	4.15	4.12
500 under 1,000	5.33	5.69	5.08	5.71	5.54
1,000 under 5,000	15.37	17.50	14.16	17.36	بلبل 16
5,000 under 10,000	7.79	8.81	7.25	8.74	8.30
10,000 under 50,000	17.58	8با.19	16.81	19.35	18,60
50,000 under 100,000	7.68	8.61	7.17	8.49	8.08
100,000 and over	35.06	32.43	37.85	32.68	34.07
Total	100.00	100.00	100.00	100.00	100,00

Sources: Appendix Table 8, Exhibit 1, of the Secretary's Statement before the House Ways and Means Committee on November 15, 1950 and Statistics of Income for 1964, Part 2.