

SUMMARY OF TAX SUGGESTIONS

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Made at the request of the Joint Committee on Internal Revenue Taxation, August 24, 1943, and again submitted when requested to appear before the House Ways and Means Committee in Executive Session, October 29, 1943.

The proposals made to the Committee call for what appears at first a staggering additional amount of taxation, \$13.8 billions, of which, however, \$4 billions would be refundable after conversion to peacetime production, so that the net additional taxation would be \$9.8 billions.

Any less at this time, in view of prospective deficits (\$70 billion for the fiscal year 1943-44) would fall short of coping with the danger to the economy resulting from continued accumulation in the hands of the public of spendable funds that vastly exceed the amount of civilian goods that will be available during the war and in the reconversion period.

No dependable alternative exists to taxing back into the Treasury at this time as much as is practically possible of this dangerous surplus. While striving to remove from the marketplace spendable funds that cannot be spent now or until reconversion without ruinous effects for all of the people, we must still adhere to the principle of ability to pay. By providing refunds, especially for people in the lower-income groups, a share in future production will be assured to them.

Now, if ever, is the time to cut the deficit to the utmost, when individual incomes are at a peak, when purchasable goods are increasingly scarce, and when war expenditures have leveled out. When the war ends, a natural desire to relax rationing and price controls and reduce taxation will make it additionally difficult, if not impossible, to prevent destructive inflationary developments in the transition period after the war.

The facts of the situation are incontrovertible -- rapidly increasing war expenditures now approaching a peak level, a rapidly widening deficit notwithstanding increased taxes, and a steadily growing excess of consumer buying power over and above available consumer goods. Economy, though well worthwhile if it does not impair the war effort, at best still leaves a dangerous deficit and a need for strong measures of taxation, directed especially at people with incomes of \$5,000 or less, who receive about 80% of total individual incomes.

The gross yield of the suggestions to the Committee is estimated at \$13.8 billions. Of this total, \$10 billions would be obtained from levies on personal incomes, \$3 billions from excises, and .8 billion from corporation taxes. Of the \$10 billions to be obtained from personal incomes, \$6 billions would be outright taxes and \$4 billions would be refundable taxes. On the whole, the yield would thus be \$9.8 billions in outright taxes and \$4 billions in refundable taxes or compulsory savings. (See table below.)

The more important points of the suggestions are as follows:

1. The additional yield from the individual income tax would be derived by lowering exemptions for married persons to \$800, by lowering the credit for dependents to \$250, and by imposing a supplementary wartime (sur) tax. The supplementary tax would be in addition to the present income tax, resulting in a withholding rate of 33 per cent of gross income in excess of withholding exemptions.

2. The proposed broadening of the income tax and the substantial increase in rates for all income ranges is based on the belief that the income tax is the most equitable means of obtaining the necessary increase in wartime taxation. Even though a drastic lowering of exemptions is proposed, the burden upon people in the lower income groups, say, a family with an income of \$1,000, would be much less under the proposed income tax than it would be under a sales tax. At the same time, the contribution of a family with an income of, say, \$1,500, would be considerably increased over its present level.

3. Half of the yield of the supplementary tax would be refundable at some time after the war. After deducting \$2 billion for relief to fixed income groups, refundable taxes would amount to \$4 billion. The refundable portion of the supplementary tax would be the largest for the lower incomes and would decline as incomes increase. The first \$50 of supplementary tax would be fully refundable. Refunds would be limited to \$1,000 to be reached at an income of about \$15,000.

The combination of a sharp increase in income taxes with substantial refundable taxes (compulsory savings) recognizes that wartime taxes on the lower income groups must be high, but that considerations of equity call for refunding part of the increased taxes after conversion to peacetime production. An additional point is that compulsory savings should be so arranged that they would become available at once when individuals and the economy of the country would be most benefitted.

4. Relief to taxpayers with fixed or declining incomes would be provided for by allowing these taxpayers an immediate reduction of the proposed increase in income tax, the reduction to be the greater the smaller the increase (or the greater the decline) in their incomes. The relief would apply largely against the refundable part of the tax and might amount to 1 or 2 billion dollars.

5. Simplification of the income tax is recommended as follows:

a. The net Victory Tax should be absorbed into the normal tax of the regular income tax by raising this rate to 10 per cent.

b. Mandatory tax returns should be eliminated for taxpayers whose incomes do not exceed the first surtax bracket. For these taxpayers, the amount deducted from their pay on the basis of withholding tax provisions should be accepted as a final tax.

6. An increase of from 5 to 10 per cent in the corporation income tax to yield \$800 million is recommended.

7. The additional yield of \$3 billion from excises should come from a broad group of commodities classified as non-essentials: This approach would be superior to a general sales tax since necessities would be excluded and differential rates would be applied to other commodities. Price increases due to the imposition of such taxes should not be considered as part of the cost of a wartime standard of living, and thus should not be permitted to be reflected in either wage or parity formulae.

The following table summarizes the suggestions presented above. It should be noted, however, that the approach taken might be easily adapted to overall yields of different magnitudes.

Estimated Yield of Revenue Program
(in billion dollars)

	<u>Total</u>	<u>Refundable Tax</u>	<u>Outright Tax</u>
Personal Income Tax	10 <u>1/</u>	4 <u>1/</u>	6
Excise Taxes	3	-	3
Corporate Income Tax	<u>.8</u>	<u>-</u>	<u>.8</u>
Total	13.8	4	9.8

1/ After allowing \$2 billion for relief to fixed income groups.

November 1, 1943

INTEREST-BEARING U. S. GOVERNMENT DEBT - SEPTEMBER 30, 1943
(In millions of dollars)

Nonmarketable public issues:

Savings bonds:

Series A to D	3,614
Series E	13,510
Series F and G	7,204
Unclassified	150

Total 24,478

Tax and savings notes 8,851

Depository bonds 361

Adjusted service bonds 220

Total nonmarketable public issues 33,910

Marketable public issues, due or callable:

Within 1 year:

Treasury bills 13,054

Certificates 21,136

Treasury notes 2,270

Treasury bonds 2,920

Postal savings bonds 117

Total 39,497

In 1 - 5 years:

Treasury notes 9,326

Treasury bonds 12,447

Conversion bonds 29

Total 21,802

In 5 - 10 years:

Treasury bonds 27,013

After 10 years:

Treasury bonds 23,064

Panama Canal loan 50

Total 23,114

Total marketable public issues 111,426

Special issues 11,717

Total interest-bearing direct debt 157,053

Fully guaranteed issues:

Commodity Credit Corporation 488

Federal Farm Mortgage Corporation 930

Federal Housing Administration 22

Federal Public Housing Authority 114

Home Owners' Loan Corporation 1,533

Reconstruction Finance Corporation 876

Tennessee Valley Authority --

U. S. Maritime Commission --

Total fully guaranteed issues 3,964

Total interest-bearing debt outstanding 161,018