THE CURRENCY TRUST FUND AND THE GOLD RESERVE FUND

The respective amounts of gold coin and bullion, and silver dollars held in the Treasury on June 30, 1928, against equal amounts of outstanding gold certificates, silver certificates, and Treasury notes of 1890, were as follows:

Gold coin and bullion	$1, 513, 730, 839
Silver dollars	471, 726, 701
Silver dollars, 1890	1, 303, 600
Total	1, 986, 761, 140

On June 30, 1928, the gold reserve against United States notes and Treasury notes of 1890 was $156,039,088, an increase of $618,367 on account of franchise tax receipts from the earnings of the Federal reserve banks and Federal intermediate credit banks which the Secretary of the Treasury, exercising the discretion given him under provisions of existing law, directed should be applied to supplement this gold reserve. The United States notes, for which this reserve is held, are outstanding in the amount of $346,681,016, a sum which is fixed by law. When such notes are received they are reissued. The Treasury notes of 1890, for which this gold reserve is also held, were outstanding on June 30, 1928, in the amount of $1,303,600. When such notes are received they are not reissued.

GOLD HELD FOR THE FEDERAL RESERVE BOARD

The Treasury also holds in trust a large amount of gold for the account of the Federal Reserve Board. This is known on the books of the Treasury as "Gold fund, Federal Reserve Board," and amounted on June 30, 1928, to $1,387,650,413, a decrease of $324,352,523 in the fiscal year. The fund is an aggregate of net deposits of gold made by the Federal reserve banks, principally for the purpose of effecting clearance settlements among themselves, and by the Federal reserve agents of gold received by them as part of the security against outstanding Federal reserve notes.

REVENUE ACT OF 1928

For the fourth time since 1920, the condition of Federal finances has permitted a reduction in taxation. Economical management of expenditures, a sound policy of debt retirement, and the prosperity of the country have combined to make possible in rapid succession one tax reduction after another. The various revenue acts since the war have been enacted as promptly as the volume of ordinary receipts in excess of expenditures chargeable against those receipts indicated taxes in excess of government needs. These acts have eliminated many levies of the war period, such as excise taxes on sales and war and excess profits taxes, and have relieved undue burdens on the various classes of taxpayers by reducing income tax rates and increasing exemptions and credits. Such a method of gradually establishing a peace-time revenue system from extensive war taxes at high rates requires that in each revision attention be directed to those remaining taxes and rates which are the least desirable for a permanent revenue system.

The major changes in taxes and rates in the revenue act of 1928 were as follows:

Corporation income tax: The rate of tax was reduced from 13½ to 12 per cent, applicable to incomes of 1928 and succeeding years The "specific credit" allowed domestic corporations having a net income of $25,000 or less was increased from $2,000 to $3,000.

Individual income tax: The maximum net income on which an earned income credit is allowed was increased from $20,000 to $30,000.

Automobile tax: The tax of 3 per cent on manufacturers' sales of passenger automobiles was repealed.

Admissions and dues: Amounts paid for admissions to theaters and other places of amusement of $3 or less were exempted from tax as compared with 75 cents or less under the preceding act. On admissions of $5 or more to prize fights, however, the rate was increased from 10 to 25 per cent. The annual club dues exempted from tax were increased from $10 to $25.

Miscellaneous: The amount withheld at the source was increased in the case of certain tax-free covenant bonds owned by nonresident aliens foreign corporations, and unknown holders. The tax of 1 cent per gallon on cereal beverages was repealed. The tax was reduced on still wines from 16 cents, 40 cents, and $1, to 4, 10, and 25 cents, respectively, per gallon according to alcoholic content; and on grape brandy from 60 cents to 10 cents per proof gallon. The special tax on retailers of narcotics was reduced from $6 to $3 per annum. The tax on the use of foreign-built boats was repealed, but the term "motor boat" in the tariff act of 1922 was defined to include yachts and pleasure boats.

The reduction in the tax rate on corporation incomes will have the largest effect on the volume of tax receipts. The change applies to incomes for the calendar year 1928, and will therefore not affect income tax collections until the calendar year 1929, or until the last half of the fiscal year 1929. Corporation taxes had not been reduced since the revenue act of 1921 when the normal rate on income was increased from 10 to 12½ per cent as a partial offset to the repeal of the excess profits tax; and this rate was again increased by the revenue act of 1926 from 12½ to 13½ per cent at the time of the repeal of the capital stock tax. In the meantime, other forms of business ownership conducted by individuals and partnerships received successive tax reductions in the revenue acts of 1921, 1924, and 1926. The resulting inequality in tax rates was adjusted in part by the changes in corporation income taxes in the revenue act of 1928. The effective tax rate on large corporations was reduced by about 11 per cent, while that on small corporations was reduced by more than this percentage.

The repeal of the tax on passenger automobiles ranks next in importance as to the effect on tax receipts. Of the excise taxes levied on sales during the war, those on manufacturers' sales of automobiles, parts, and accessories were the most important revenue producers, and yielded 15 to 17 per cent of the miscellaneous internal revenue receipts during the fiscal years 1923–1926. The taxes were repealed on auto trucks and on parts and accessories by the revenue act of 1926 and on passenger automobiles by the revenue act of 1928. All the excise taxes on manufacturers' sales are now eliminated, except a tax of negligible importance on pistols and revolvers.

In addition to revenue reductions amounting, for the first full year under the 1928 act, to approximately $222,000,000 net, the new revenue act contains many provisions which will assist materially in the Treasury's efforts to bring about substantial administrative simplicity. The present Treasury policy and the application and probable effectiveness of the various provisions are discussed in detail elsewhere in the report.

There was also a very substantial step toward simplicity of form in the revenue act of 1928. A rearrangement of the income tax title makes it unnecessary for ordinary taxpayers whose income is derived from ordinary transactions to examine the many necessarily complicated provisions applicable to extraordinary taxpayers or to extraordinary transactions. The income tax title is applicable only to the taxable year 1928 and thereafter, and the revenue act of 1926 remains in force for prior years. The estate tax and miscellaneous taxes are not repeated. The use of bold-face type, descriptive headings of sections and subsections, and a new system of paragraphing and indention produce a convenient separation of sections and subsections.

The changes in Federal taxation since the war may be briefly appraised by the amount of total tax reduction in dollars and by the character of the remaining tax system. A very rough measure of the reduction under each revision is a comparison of the receipts during the last 12 months under the old act with what might have been collected had the new act been effective for that year. Such estimates of recurring reductions in tax collections under the respective revenue acts were:

Revenue act of 1921	$663, 000, 000
Revenue act of 1924	519, 000, 000
Revenue act of 1926	422, 000, 000
Revenue act of 1928	222, 000, 000

During this period of tax reduction, however, there has been a large increase in the taxable resources, due to the normal growth of the country and to the remarkable prosperity. Had these estimates been made on the basis of the later and larger taxable resources the recurring reductions shown would be considerably larger.

As a result of tax revisions since the war, the internal revenue system consists primarily of three groups of taxes: The income tax on corporations, the graduated income tax on individuals, and the tax on various tobacco products. These three sources produce approximately 95 per cent of the internal revenue and 78 per cent of the customs and internal revenue. The remainder of the internal revenue comes from a number of taxes, each of which produces a comparatively small amount, such as stamp taxes on playing cards and on a variety of documents, including issues of capital stock, capital stock transfers, and sales of produce for future delivery; a graduated tax on estates of decedents which is no longer an important source of revenue due to the decreased rates and the increased credits under the 1926 act, expecially the credit which is allowed for State inheritance taxes paid up to 80 per cent of the Federal tax; taxes on distilled spirits, fermented liquors, admissions and dues; and the taxes on oleomargarine, narcotics, and other products.

SURVEY OF BUREAU OF INTERNAL REVENUE

In October, 1927, there was published as Volume III of the Report of the Joint Committee on Internal Revenue Taxation a survey of the administration of the income and profits taxes, prepared and submitted by the Treasury Department. This survey frankly faced a condition of congestion in the Board of Tax Appeals and the office of the general counsel that called for an immediate remedy. The seriousness of the situation was not minimized. Definite recommendations were made for its correction.

It is fitting at this time to contrast the present situation with that disclosed in the survey, pointing out in what respects an improvement can be noted, and in what matters further effort is needed.

Status of work

The work of the Bureau of Internal Revenue is on a more current basis now than when the survey was prepared with respect to the accumulation of returns for the war years, and the returns filed in recent years.

On October 14, 1927, there awaited audit in the Bureau of Internal Revenue 5,716 returns for 1917 to 1921, inclusive (the excess-profits tax years). On September 28, 1928, these had been reduced to 2,375 returns. Most of these are pending on claims for refund, having been closed once by the bureau and reopened on the taxpayer's own request. In the survey the number of cases arising in the war years and still awaiting original audit were also set forth, together with the