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stability of our postwar economy. Unfortunately, it becomes even more apparent that existing taxes are, in fact, not playing any such role. Instead of building bulwarks against postwar inflation and unemployment, our inadequate taxes provide aid and comfort to these disruptive forces. Instead of distributing the bulk of war's costs once and for all, our inadequate taxes will saddle the postwar tax system -- and incidentally our fighting men -- with a heavier burden of debt service.

Postwar considerations heavily underscore the need for a courageous program of additional taxes. Failure to meet that need will expose our postwar economy to the ravages of inflation and unemployment. In this setting, the Treasury's proposal for $10.5 billion of additional taxes stands out even more clearly than before as truly a minimum program.

to recapture, corporations unable to reconvert rapidly will find their competitive position impaired. Small and medium-sized concerns would be most likely to suffer in the postwar scramble for the financial and material wherewithal of reconversion. Thus, forces which hinder reconversion will not only bring on a postwar economic crisis, but also encourage the growth of monopolies. Insofar as corporate tax policy in wartime removes postwar stumbling blocks, it contributes tellingly to the reestablishment of a strong peacetime economy.

VII. Conclusion

I have said comparatively little this evening about specific provisions of current tax proposals. It seemed more urgent to review some of the principles -- perhaps I should say "neglected principles" -- that should govern wartime tax decisions.

It becomes apparent in the course of review that wartime taxes could play a major role in providing for the health and stability of

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The Treasury has recognized, however, that the carry-backs will not serve their maximum purpose unless the promise of refunds is quickly converted into the fact of cash payments. Immediate access to cash will be the vital need in the demobilization period. The Treasury has therefore recommended a number of measures to accelerate refunds of war taxes under the carry-back provisions. If these measures are adopted, a substantial sector of the war economy will be guaranteed the lubricant of cash for the process of postwar reconversion.

Nearly 50 percent of American industry is currently engaged in the production of war goods. Delay in reconverting it to peacetime production might mean inflation, or unemployment, or both. It might also spell loss of markets for the firms caught in the bottleneck. Since lost markets will be difficult or even impossible to recapture,

evidence the credits do not mature immediately upon the cessation of hostilities, they become negotiable at that time. They may be sold or used as the basis for loans. The excess-profits tax credit will thus supply many corporations with badly needed funds for the process of reconversion.

Our existing tax law provides further assistance to many corporations by allowing the so-called carry-back of losses and unused excess-profits tax credits. Under the loss carry-back provision, the corporation may offset its current year losses against profits in the preceding two years and obtain a corresponding tax refund. Unused credits under the excess-profits tax may be similarly carried back. These provisions recognize the arbitrariness of the annual accounting period. They will grant corporations whose wartime profits are converted into postwar losses a refund of at least part of their wartime taxes. These refunds are a potential source of funds for the difficult transition period.

The Treasury

reserve figures indicate that wartime taxes have performed this function generously. The average total annual profits after taxes for 1941, 1942, and 1943 will equal the peak profits of 1929 and will more than double the profits for 1937. Even after taxes and dividends, corporations will have accumulated over $15 billion of undistributed corporate profits during 1942, 1943, and 1944. These figures do not, of course, imply that every corporation will have a sound financial position at the end of the war. But they do indicate that wartime taxes have not, generally speaking, prevented the attainment of such a position.

With respect to the postwar liquidity of corporate assets, tax policy can serve a positive function. One source of reconversion funds with roots in tax policy is the postwar credit under the excess profits tax. Corporations are entitled to a rebate of 10 percent of their excess-profits tax payments. Although the bonds issued to

evidence the

to exceed reasonable bounds, it would be difficult to justify denials of wage and price increases. If the defense line against such increases crumbles, costs will rise sharply. But on the other hand, unduly high corporate taxes may weaken the resistance of management to pressures for higher costs. Once costs have pushed upward, it is very difficult to put them back into their former place. Since a high cost level tends to hobble production, wartime taxes on corporations must walk a perilous tight rope. They must be high enough not to give labor and farmers a cause for action on the wage and price fronts; yet, they must not be so high as to remove the profit brake on costs.

Effect on Financial Position. The postwar health of corporations depends also on the amount and liquidity of corporate accumulations. With respect to their amount, taxes have a negative function, namely, to avoid impeding their normal growth. Corporate profit and

reserve figures

From this cursory resume, it becomes clear that the taxes we levy in wartime powerfully affect postwar distributions of costs among income groups. If war finance leaves a legacy of huge war debts and regressive taxes, we shall be ill-equipped to follow the traditional precepts of equity in government finance. To guard against this outcome, war finance should rely heavily on taxes, especially personal income taxes, and should continue to direct a large part of its bond-selling efforts to the lower income groups.

VI. Corporate Tax Policy

In appraising the postwar effects of wartime taxes it is also important to examine the postwar impact of corporate tax policy. This impact revolves around the effect of corporation taxes on both cost structures and financial positions.

Effect on Cost Structures. Corporate taxes must be high enough to prevent disproportionate war profits. If profits were allowed

to exceed

difficult to uproot it after the war. The burden of postwar taxes would press more heavily on the low income groups in that case than if the same revenue were raised through the income tax. By the same token, increased wartime reliance on personal income taxes will have long-run advantages in distributing war costs.

From this cursory

~~are evidence on this point.~~ Large wartime accumulations of paper money are also generally thought to represent savings from low and moderate incomes. In addition, many people whose incomes and savings have risen sharply during the war will slide back into moderate or low income brackets after the war. These factors reduce the likelihood that Government bonds will be as heavily concentrated in the hands of the higher income groups as they have been in previous wars. In terms of an undesirable postwar redistribution of burdens, then, the social cost of inadequate war taxes, though high, may be lower in this than in previous wars.

Not only the magnitude but also the type of wartime taxes we levy will affect the postwar distribution of burdens. If, for example, we adopted a sales tax during the war, we might find it

difficult to

Although as in previous wars

~~In the present war~~, the larger part of the public debt is being absorbed by savers in the higher income brackets. ~~It is unlikely that War Bonds with a face value of $500 or more, calling for lump~~ sums of at least $375, are very widely bought out of the current savings of people with low or moderate incomes. Yet we find that in the year ending September 30, 1943, the sales of Series E Bonds of less than $500 face value amounted to only $6.7 billion. In the same period, sales of the larger Series E Bonds were $2.9 billion, while sales of other series totalled $6.7 billion. Out of total sales of $16.6 billion to individuals for the year, nearly $10 billion represents bonds which do not generally attract investors in lower income groups.

~~Although the higher bracket savings predominate,~~ savers in the lower income brackets are accounting for a substantial share of total savings. They are buying a large volume of war bonds

~~The figures I just cited for Series E Bond sales~~

~~are evidence~~

the other to share pro rata in the burden of servicing the bonds held by civilians who were prospering at home. Yet, by setting wartime taxes too low, we shall be causing precisely this injustice.

Distribution Among Income Groups. Our decisions on war finance will affect the distribution of war costs not only between soldiers and civilians but also among different income groups after the war. The level of wartime taxes, through its effect on borrowing, governs the amount of taxes we shall have to levy after the war to service the public debt. Moreover, it determines in large part what income groups become government creditors. A war financed mainly by borrowing, especially if accompanied by inflation, builds up heavy credits in the hands of high-income groups against the rest of the population. Depending on the postwar distribution of tax burdens, such debt financing may lead to a postwar redistribution of burdens bearing heavily on the lower income groups.

In the present

Despite tax and price increases and a huge war effort, they are maintaining consumption comfortably above subsistence levels. At the same time, they are saving as never before, and with these savings will exercise a claim on postwar goods and services. In large part, these savings reflect our failure to tax more heavily in wartime. As one would expect, they take the form primarily of direct or indirect ownership of public debt. The combination of insufficient taxes in wartime and the handmaiden of a huge public debt means heavier taxes in the postwar period than would otherwise be necessary.

These taxes will fall partly on the fortunate owners of wartime savings, but also in part on people who have not shared in the savings boom because they were in military service. It seems a curious way of distributing war burdens to ask our fighting men on one hand to bear the dangers and forego the profits of war, and on the other to share

and thus leave the future with a better equipped economic system. On the other hand, borrowing may have a psychological advantage over taxation because the fallacy of postponement persists. People may feel that they are postponing costs and therefore accept more willingly the direct sacrifices of war.

Distribution of Costs Between Civilians and Servicemen. What is really postponed through borrowing is not the cost of war but the distribution of its cost. War finance can do a great deal to shift burdens among the people who will be members of the community after the war. As I hinted previously, the patterns of war finance into which we are drifting involve a discrimination against men now serving in the armed forces. Civilians at home are, with few exceptions, better paid than they ever have been in their lives.

Despite tax and

(10)

V. Distribution of Tax Burdens

Costs of War. The fallacy still persists that the cost of the war in economic terms can be postponed until after the war. It persists in spite of the fact that exploding this particular fallacy is one of the favorite "indoor sports" of economists. They are fond of pointing out that no method of war finance can shift real burdens from the war to the postwar period. Methods of finance cannot give people more food, housing, and clothing during the war at the expense of less after the war, nor can any financial legerdemain levy on the future to put weapons into the hands of our fighting forces in Italy and the Solomons. Whether we borrow or whether we tax will have only a minor effect on our total burden. Generally speaking, heavy taxes tend to minimize the wear and tear on the plant and equipment of our civilian economy and

and thus leave

Social Security. Another wartime fiscal measure which does yeoman service for the postwar period is the Social Security program. Expansion of unemployment insurance, and schemes providing for dismissal or separation pay on an insurance basis, offer an attractive hedge against our combination of inflation and unemployment dangers. They withdraw spending power steadily during periods of strong employment, both during and after the war. During periods of weak employment, they offer life blood to a faltering economic system. If unemployment is widespread, a strong Social Security program will support markets. If unemployment is spotty, which is more likely, Social Security will protect the individuals whose luck is bad. On all counts, the strengthening of Social Security deserves high rank as a war measure which provides insurance against postwar instability.

V. Distribution of Tax Burdens

Costs of War.--The

Current payment has another important advantage in this connection. It permits speedy legislative adjustment of tax collections to the fluctuating requirements of our economy. It permits tax adjustments to be paired with Government spending policy in smoothing out the extreme fluctuations of the business cycle.

Under our present withholding system, we have not yet achieved the maximum exactness in current collection of liabilities. Year-end adjustments are necessary, and some of these will be fairly substantial. The Treasury has, therefore, recommended that the withholding system be adjusted to match the amount withheld more closely with the amount of taxes owed. This would be accomplished by graduating the withholding rates and by narrowing wage brackets in withholding tables. This adjustment is urged with an eye to avoiding a tax overhang in the demobilization period.

Social Security. Another wartim

consumer markets and reinforce the downtrend. The situation during the rising phase of the cycle is analogous. If taxes in the current year are based on the smaller income of the preceding year, people will be in a fictitiously easy financial position. Upward pressures may be unduly reinforced.

In connection with the effects of taxation on the business cycle, the Current Tax Payment Act, passed earlier this year, is an extremely important safeguard. For the most part, and especially in the lower brackets, current payment avoids the lag which tends to accentuate fluctuations. Or, put positively, current payment has a countercycle effect. Taxes drop when income drops, and rise when income rises. The drain on purchasing power is minimized when incomes are on the downgrade, and maximized when incomes are on the upgrade.

Current payment has

some pressure toward higher prices may actually be beneficial, since it will activate production and employment. But until we have cleared the decks for action, we are only too likely to burn up our wartime savings accumulations in a post-armistice spending spree that will express itself not in more goods, but only in higher prices.

(9) The Impact of Current Tax Payment. Given the prospect of unemployment and cyclical fluctuation after the war, it becomes important to correlate tax payments closely with the receipt of income. During an economic downturn and a period of developing unemployment, a mass of accruing but unpaid taxes can have a seriously depressing effect. If taxes payable out of a declining income in the current year are based on a higher income in the preceding year, the effect will be to dampen consumer markets and

metaphor, it is even possible that we will have to wrestle with both at the same time!

Nature of the Problem. The inflation danger and the unemployment danger unfortunately do not cancel out. It is true, of course, that the same pressure of spending power which threatens inflation creates a strong market for many key products. It does not follow, however, that it automatically creates employment. The danger of unemployment during demobilization results not from any lag in consumer demand, but from a lack of the equipment and materials needed to employ labor in satisfying that demand. The initial problem of post-armistice unemployment is thus likely to be a bottleneck problem. After the bottlenecks are broken, the danger of unemployment becomes largely one of inadequate purchasing power. In this situation,

some pressure

from the cumulative effects of increases in money and bank deposits during the war. Heavy wartime taxes and maintenance of such taxes until it is clear that postwar inflationary pressure is under control are the best weapons against these dangerous inflationary forces. The inflation thunderheads on the postwar horizon should have a sobering effect on any optimism about wartime taxation. They afford little aid and comfort to the enemies of a vigorous additional tax program.

IV. Postwar Unemployment Dangers

Our economic system in the postwar period faces not only the menace of inflation, but also the rigors of unemployment. Inflation and unemployment are the Scylla and Charybdis of demobilization periods. If we escape one, we are reasonably sure to have trouble with the other. We may, in fact, run athwart both in the same stormy voyage; and contrary to the metaphor, it is even

ending September 30, 1943, will be a further inflationary threat after the war. Business will quite naturally want to draw these funds out and put them into circulation. With business, as well as with consumers, any signs of a runaway market will be the signal for a rush to spend accumulated funds before their value melts away. A flash flood of business spending will eventually pour into the same stream as consumer spending. In the postwar period, the two forces will be reinforcing and not offsetting, and will tend to make a joint attack on price stability.

Records of past wars make it clear that post-armistice inflations are commonly more drastic than actual wartime inflations. This is no mere coincidence. It results from a relaxation of wartime controls, from impatience with restrictions, from the unleashing of speculative motives, and from the cumulative

During the war, business is steadily piling up cash balances. It is selling inventories it cannot replace. It is wearing out machinery it cannot fully maintain. And, because credit restrictions and shortages of suitable goods severely limit new sales on an installment basis, it is reducing outstanding installment debts. Its opportunities and temptations to spend these balances are severely restricted by wartime regulations. Thus, liquid funds of business are fairly non-inflammable as regards wartime inflation.

(8)

But with the return of peace, business will naturally strive to replenish its inventories, renovate its equipment, and again push instalment selling. Accumulated funds of business will tend to go into circulation at least as rapdily as those held by consumers. Some $15 billion of reserve funds which corporations have put into Government bonds during the year

ending September 30, 1943,

to rely heavily on self-restraint and very likely also on an extension of direct controls into the immediate postwar era.

Increased Money Supply and the Role of Business Savings. The total increase in the money supply in recent years is enormous. Combined business and individual accumulations of currency and checking deposits rose $26.5 billion, or 59 percent, in the two years ended last June. Of this growth, $19 billion occurred in the second of the two years. Although we lack figures showing who holds the added currency, Federal Reserve figures are available on checking deposits. From these it is clear that ~~most of~~ a large part of the added checking deposits belong to business rather than to consumers. Some people are very much comforted by this fact. This sense of comfort is legitimate in wartime, when liquid business funds are largely tied down by priorities and other restrictions. However, in the postwar period, these business accumulations will be a real source of concern.

add I see suggestion

During the war,

accounts; $21 billion are in the form of redeemable or marketable bonds.

If our direct and indirect controls, on one hand, and our capacity to revert to peacetime production, on the other, prove sufficient to cope with postwar inflation, these accumulations may settle down into permanent savings. But if people make up their minds that prices are rising and are likely to keep on rising, the process of spontaneous combustion may kindle the fires of inflation. People will want to spend their funds before price rises sap their purchasing power and devaluate their savings. To keep these combustible funds within manageable limits is one of the chief assignments of wartime taxes. I must confess that the taxes we have and seem likely to get may not keep liquid savings within manageable limits. We shall have

to rely heavily

rather as one of our best guarantees, though a negative one, of of the free democratic system we are fighting to retain.

However, if the impatience of the American people with wartime control bursts its bounds too soon after the war, we may be faced with economic disaster. A great fund of accumulated war savings will overhang our postwar market. Desirable as it is to have a large volume of savings out of current income to lessen current inflationary pressure, such savings are not an unmixed blessing. In fact, the greater the contribution they make to the present fight against inflation, the greater the threat they offer to future price stability.

In the three and one-half years ending June 30, 1943, the American people added the staggering total of $55 billion to their accumulated savings. Of this total increase in individual savings, $24 billion are in the form of currency and checking accounts; $21 billion

It is especially in the post-armistice period that inflation may disrupt our economic processes.

Insert A →

Inflation Forces. The end of active hostilities will unleash political and economic forces that may irresistibly drive us to post-armistice inflation. There will be an inevitable dilution of patriotism and of the willingness to accept controls that smack of regimentation. Patriotic appeals to saving will no longer have their present effectiveness. The red tape of price control and rationing, which is accepted as a necessary nuisance in wartime, will become a galling and intolerable restriction when victory has been won. Enforcement of controls will become much more difficult when civilians regain their mobility by renewed access to gasoline and rubber. I do not decry the unwillingness of the American people to retain restrictive wartime controls for a long period after the war, I regard it

rather as one of

Insert A - Page 20

In speaking of inflation and its dangers, whether in time of war or in the postwar period, I am not talking about the German type of inflation after the last war when German money became valueless. We are in virtually no danger of such a catastrophe. Rather I have in mind the kind of inflation we had after the last war when the cost of living went to 211 percent of its prewar level and wholesale prices went to 240 percent of their prewar level. That kind of inflation, even if no worse than it was after the last war, would be disastrous enough to warrant very great effort and sacrifice to avoid it.

III. Postwar Inflation Dangers

Every day the press is full of news about measures to hold the line against inflation. I cannot refrain from adding parenthetically that such news rarely assigns taxes their rightful place in the fight to hold the line. However that is probably quite natural, since taxes are a background force, operating to relieve pressure on the front-line forces of price control and rationing. Most students of the question have been agreeably surprised at the degree of success achieved by our inflation controls to date, wherever they have not been breached by direct political pressure. But it must be recognized that inflation will not stay put. It will crop up at the first, and, indeed, at every opportunity where the aggregate of spending power exceeds the available supply of consumer goods and services.

It is especially

demanding that they stop learning from experience and giving the nation the benefit. True, our war outlays are so huge that a saving of only a small fraction justifies diligent effort in rooting out inefficiency. But we must not overestimate the amount of genuine economy that can result from our efforts.

Incidentally, even where we find serious inefficiency, it does not follow that aggregate government outlays should be cut. Where inefficiency is exposed and corrected, it means that somebody has discovered a way of getting the same supplies with less work and less expense. But it also means that, if we do as much work as before by more efficient methods, we can get more supplies for the same money. Where heightened efficiency opens this sort of opportunity, we should seize it for the same reason that we should reject suggestions to expand consumption goods output by skimping our fighting men.

III. Postwar Inflation Dangers

Every day the

always easy to find fifty glaring examples of situations which in fact are very rare. By such "examples" you can readily make out a case that Americans stand over six feet six in their stocking feet or that they are under five feet tall -- just as you can make out a case for astounding efficiency or outrageous inefficiency in war production.

Secondly, there is a tendency to identify inefficiency with higher costs. A good deal of what looks like "inefficiency," is simply the cost of adapting to changes in war conditions. To start producing anti-submarine craft, for instance, and then shift suddenly to other types of production raises costs. But it isn't necessarily inefficient, any more than it is inefficient to pay money for fire insurance on a factory and then not have a fire. To demand that our procurement agencies should cut costs by blocking costly shifts in war production would amount to

demanding that they

production to civilian production would be perverted economy. It would be extravagant squandering of the time needed for victory and, more important, of the lives of countless fighting men.

Few of the advocates of economy, of course, are so extreme as to advocate reducing war production in such a short-sighted effort to benefit civilian consumers. Most of them center their attention on eliminating inefficiency in war production -- that is, on getting value for our money. Getting value for money spent is genuine economy, and the Treasury is deeply concerned about such economy. But opportunities for cutting government expenditures through the elimination of waste and inefficiency are smaller than many people suppose.

In the first place, the prevalence of "inefficiency" is exaggerated. The vivid examples often mentioned are unrepresentative. In a country of 130,000,000 people, it is always easy to

The Possibility of Effecting Economy. As I implied a moment ago, it is far from clear that we can in fact cut war expenditures at all sharply without impairing the war effort. Economy at the expense of war output is unthinkable. To my mind, economy means to buy only what is needed and to make sure that full value is received for the money outlay. In a global war, there is practically no limit to what is needed. The gods of war are insatiable. Expenditures could, of course, be cut and inflationary pressure eased by cutting war production. But the fact is that while we civilians have enough, and even more than enough, to take care of our minimum needs, our own armed forces and those of our fighting allies still have unfilled war needs. Moreover, the rapidly changing technology of modern war constantly turns up new and pressing needs. To sacrifice war

production to

fraction of any cut in expenditures. The designers of the Treasury's $10.5 billion revenue program were conscious that it was uncomfortably close to the wartime economic minimum, But it was difficult to go beyond this goal in the face of the limited taxable capacity of taxpayers in the lower and middle brackets, who have not shared in wartime increases in income or who are bound by pre-war commitments. There is little likelihood that a wartime economy program will affect the taxable capacities of this group. Consequently, the $10.5 billion program continues to be the smallest we can conscientiously recommend. The most we can expect from any feasible cut in expenditures is a narrow and much-needed margin of taxes above the economic minimum demanded by war.

The Possibility of Effecting Economy.
As I implied

too anxious to have more manpower and materials to tool up for postwar production and to provide more housing, transportation, equipment, and so forth. Accordingly, any drop in the income of war workers as a result of reductions in government expenditures would probably be offset in large part by increases in the employment and income of workers in civilian industry. If a net decrease in the income paid to consumers did occur, moreover, it would be more likely to cut into their savings than into their attempted spendings. Some lessening of inflationary pressure would, of course, be achieved to the extent that supplies of ~~civilian~~ Consumption goods were expanded. But ~~since a government economy move that pampered civilians at the expense of the war effort would be indefensible, no very large expansion would be sanctioned.~~ any resources released to civilian industry would in large part be used for repairs, maintenance and retooling rather than to produce finished consumers' goods.

The upshot is that the wartime economic minimum of revenue needed for inflation control could be reduced only by a small fraction of any

would not be so urgent ~~weakened~~ if economy materially lessened inflationary pressure. Actually, the reduction in this pressure would be only a fraction of the cut in expenditures. In the first place, insofar as the cut resulted from reduction of prices for war supplies ~~renegotiation of war contracts~~, it would be offset largely by a reduction in excess profits and ~~there would be little impact on income payments to individuals.~~ income tax revenues. ~~The principal effect of renegotiation is to reduce the prices under future contracts and to forestall government outlays which would in large part return to the Treasury in the form of the 90 percent excess-profits tax.~~ No real easing of the inflationary situation results from taking what was going to be excess-profits tax revenue and rechristening it "reduction of expenditures," ~~even though this may be better accounting.~~

In the second place, even where the cut in expenditures is real and not nominal, it does not ~~is unlikely to~~ result in an equivalent ~~a material~~ reduction in inflationary pressure. Civilian industry is only too anxious to have

expenditures can in large part be substituted for additional taxes. It is a matter of record that the Treasury has strongly and repeatedly urged the adoption of rigid economy measures in government. But such economy must be consistent with the demands of an unstinting war effort. I cannot visualize a cut in expenditures during total war that would give us license to set our revenue sights below the Treasury's $10.5 billion program.

The Effect of Economy on Tax Needs. However, to forestall the charge that I am evading the issue, let me entertain for a moment the unrealistic assumption that we can do justice to the Nation's war needs and yet pare expenditures far below estimates. How would such economy affect our tax goals?

~~Since the danger of inflation is the mainspring of the movement for sharply higher taxes,~~ the case for higher taxes ~~would be weakened~~

economic maximum, the more we can restrict the growth of the public debt and the piling up of potentially explosive holdings of currency, bank deposits, and redeemable or negotiable bonds. The closer we can get to the wartime economic maximum, the stronger will be our postwar tax weapons against the forces of postwar inflation. The danger of spontaneous combustion of our vast savings backlog will be greatly reduced if we go into the immediate postwar period with a strong and even severe tax structure. Finally, the closer we can get to the wartime maximum, the less we shall be in the position of discriminating against our fighting men. It would be discrimination of the rankest sort to levy on the postwar earnings of servicemen ~~to pay off the war bonds that are held by~~ the taxes that well-paid civilians, that is, ourselves ought to have paid during the war.

II. The Panacea of Substituting Economy for Taxes

4

It is argued in some quarters that economy in government expenditures can

~~a determinant of wartime tax levels, it has primarily a postwar orientation~~. When we refer to "revenue needs," we are really referring to the need to avoid borrowing, and thus to hold down the debt with which we shall have to deal in the postwar period. ~~Taxes or no taxes,~~ There can be no doubt that we will, ~~of course~~, get the money needed to finance the war. The crucial question is how we get the money we need. The more taxes we have now, the less the chance that our wartime borrowing will put our postwar taxes into a straitjacket of debt service.

Postwar Considerations. We begin to see that between the maximum and minimum tax limits set by the wartime situation the optimum level will be determined by postwar considerations. And those considerations point toward the economic maximum rather than the economic minimum. The closer we can get to the wartime economic maximum, the more

is much blacker. There are ominous signs that during 1943 the two limits may have crossed, bringing the political maximum below the economic minimum. Applying the measuring rods I have just discussed to the $10.5 billion tax program advocated by the Treasury, I am forced to conclude that it is the minimum needed to bring us into the safety zone of wartime taxation. Congressional action to date is not in fact bringing us into that zone. Only by a trebling or quadrupling of the present Congressional tax effort can the Treasury goal be approximated and the safety zone be reached.

You will note that in discussing wartime tax considerations I have not mentioned the traditional factor of revenue need as an element in tax policy. ~~Insofar as revenue need is valid as a determinant of~~

most of it should be made by somebody else. Allied to this is the irrational hope that by refusing to accept the fiscal symbol of wartime hardships, the hardships themselves can be conjured out of existence. Finally, one encounters sheer unwillingness to recognize that, in wartime, customary ways of living and customary values have to give way to the all-embracing effort to preserve freedom and prevent further aggression. This witches' brew of limiting factors is familiar to every intelligent observer of the home front in this war.

Setting the various limits side by side, we find that the economic maximum of wartime taxes lies a long way above the necessary minimum. Taxes can pull their share of the wartime load without cutting into incentives and production. But setting the political maximum against the necessary minimum, the picture is much blacker.

the smaller the share of the job left for taxation to do. If taxes were left with the whole job of curbing inflation, the necessary minimum would be high. Consequently, there would be a narrow spread between the economic minimum and the economic maximum of wartime taxation. In fact, the measures I have just listed do an important part of the job and therefore broaden the area between the upper and lower limits.

The Political Maximum. So far, I have talked in terms of the economic limits of taxation. No one is more aware than I that there is also a political maximum, a limit compounded, I might say, of quite different elements than the economic maximum. One of these elements is an almost sentimental fear that taxes will reach levels where they really hurt. Another is the tendency of each group in the community to feel that sacrifice is needed, but that

most of it

The type of taxes we choose to do our wartime tax job will also affect the minimum and maximum economic limits. If we choose a sales tax with its callous indifference to variations in individual circumstances and its tendency to work against, not with, our direct controls, the necessary minimum war taxes will be higher and the economic maximum will be lower. If, on the other hand, we depend most heavily on the income tax and tailor it carefully to individual circumstances, we increase the spread between the economic minimum and maximum.

The size of our necessary minimum program also depends on the other measures we take to deal with the problem of inflation and the problem of distributing our short supply of consumer goods. The larger the share of the job done by such measures as bond-selling campaigns, credit restrictions, price and wage control, and rationing

the smaller the

financial incentives and morale that war production would suffer. The upper economic limit of war taxes, then, is found where the taxes reduce total output either by impairing incentives or by releasing resources from civilian production which cannot be utilized in war production.

Spread Between Minimum and Maximum. I do not mean to imply that the upper and lower economic limits of wartime taxation are absolute limits, nor that they are a question merely of the amount of taxes we levy. These limits will depend in substantial degree on the understanding of the people and their willingness to participate in an all-out war effort. The greater the understanding and sense of sacrifice, the lower we can set the minimum needed to prevent inflation, and the higher we can push the maximum to which taxes can go without impairing morale and war production.

The type of taxes

They are conditioned by the scale of war expenditures and by the character of the non-tax controls we have set up to curb inflation and distribute fairly the necessities of life. Until taxes reach a level where, in concert with other control measures, they give us a fighting chance to throttle inflation and to distribute the costs of war fairly, they are dangerously inadequate.

(3) The Economic Maximum. Turning to the upper limit of wartime taxes, we find both an economic and a political maximum for efficient war taxation. The economic maximum is reached at the lower of the two following levels. The first is the level at which further taxes would so reduce the demand for consumer goods that men and machinery would be released that could not be absorbed by the war sector of our economy and would therefore run to waste. The second is the level at which further taxes would so impair

financial incentives

slacken our current war effort. And, as this audience knows, the Treasury's recent tax recommendations were designed to intensify, not slacken, that effort. But the makers of wartime tax policy must increasingly have in mind the impact of current tax legislation on the postwar economy.

I. Determinants of Wartime Tax Levels

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From: MR. PAUL

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I think we face a somewhat different situation today. The postwar element of all our activities, including our tax activities, looms ever larger. It would be tragic to assume that this growing significance of postwar problems gave us license to slacken our current war effort. And, as this audience knows, the Treasury's recent tax recommendations were designed to intensify, not slacken, that effort. But the makers of wartime tax policy must increasingly have in mind the impact of current tax legislation on the postwar economy.

I. Determinants of Wartime Tax Levels

In attempting to set in proper perspective the demands of the present and the demands of the future on our wartime tax system, it may be helpful to examine the factors that determine the upper and lower limits of efficient war taxation.

The Necessary Minimum. The minimum level, the lower limit of safety in war taxes, is primarily a function of the need for inflation control and the companion need for equitable distribution of war's economic burdens. These needs do not operate in a vacuum. They are conditioned by the scale of war expenditures and by the character of the non-tax controls we have set up to curb inflation and distribute fairly the necessities of life. Until taxes reach a level where, in concert with other control measures, they give us a fighting chance to throttle inflation and to distribute the costs of war fairly, they are dangerously inadequate.

The Economic Maximum. Turning to the upper limit of wartime taxes, we find both an economic and a political maximum for efficient war taxation. The economic maximum is reached at the lower of the two following levels. The first is the level at which further taxes would so reduce the demand for consumer goods that men and machinery would be released that could not be absorbed by the war sector of our economy and would therefore run to waste. The second is the level at which further taxes would so impair financial incentives and morale that war production would suffer. The upper economic limit of war taxes, then, is found where the taxes reduce total output either by impairing incentives or by releasing resources from civilian production which cannot be utilized in war production.

Spread Between Minimum and Maximum. I do not mean to imply that the upper and lower economic limits of wartime taxation are absolute limits, nor that they are a question merely of the amount of taxes we levy. These limits will depend in substantial degree on the understanding of the people and their willingness to participate in an all-out war effort. The greater the understanding and sense of sacrifice, the lower we can set the minimum needed to prevent inflation, and the higher we can push the maximum to which taxes can go without impairing morale and war production.

The type of taxes we choose to do our wartime tax job will also affect the minimum and maximum economic limits. If we choose a sales tax with its callous indifference to variations in individual circumstances and its tendency to work against, not with, our direct controls, the necessary minimum war taxes will be higher and the economic maximum will be lower. If, on the other hand, we depend most heavily on the income tax and tailor it carefully to individual circumstances, we increase the spread between the economic minimum and maximum.

The size of our necessary minimum program also depends on the other measures we take to deal with the problem of inflation and the problem of distributing our short supply of consumer goods. The larger the share of the job done by such measures as bond-selling campaigns, credit restrictions, price and wage control, and rationing, the smaller the share of the job left for taxation to do. If taxes were left with the whole job of curbing inflation, the necessary minimum would be high. Consequently, there would be a narrow spread between the economic minimum and the economic maximum of wartime taxation. In fact, the measures I have just listed do an important part of the job and therefore broaden the area between the upper and lower limits.

The Political Maximum. So far, I have talked in terms of the economic limits of taxation. No one is more aware than I that there is also a political maximum, a limit compounded, I might say, of quite different elements than the economic maximum. One of these elements is an almost sentimental fear that taxes will reach levels where they really hurt. Another is the tendency of each group in the community to feel that sacrifice is needed, but that most of it should be made by somebody else. Allied to this is the irrational hope that by refusing to accept the fiscal symbol of wartime hardships, the hardships themselves can be conjured out of existence. Finally, one encounters sheer unwillingness to

recognize that, in wartime, customary ways of living and customary values have to give way to the all-embracing effort to preserve freedom and prevent further aggression. This witches' brew of limiting factors is familiar to every intelligent observer of the home front in this war.

Setting the various limits side by side, we find that the economic maximum of wartime taxes lies a long way above the necessary minimum. Taxes can pull their share of the wartime load without cutting into incentives and production. But setting the political maximum against the necessary minimum, the picture is much blacker. There are ominous signs that during 1943 the two limits may have crossed, bringing the political maximum below the economic minimum. Applying the measuring rods I have just discussed to the $10.5 billion tax program advocated by the Treasury, I am forced to conclude that it is the minimum needed to bring us into the safety zone of wartime taxation. Congressional action to date is not in fact bringing us into that zone. Only by a trebling or quadrupling of the present Congressional tax effort can the Treasury goal be approximated and the safety zone be reached.

You will note that in discussing wartime tax considerations I have not mentioned the traditional factor of revenue need as an element in tax policy. When we refer to "revenue needs," we are really referring to the need to avoid borrowing, and thus to hold down the debt with which we shall have to deal in the postwar period. There can be no doubt that we will get the money needed to finance the war. The crucial question is how we get the money we need. The more taxes we have now, the less the chance that our wartime borrowing will put our postwar taxes into a straitjacket of debt service.

Postwar Considerations. We begin to see that between the maximum and minimum tax limits set by the wartime situation the optimum level will be determined by postwar considerations. And those considerations point toward the economic maximum rather than the economic minimum. The closer we can get to the wartime economic maximum, the more we can restrict the growth of the public debt and the piling up of potentially explosive holdings of currency, bank deposits, and redeemable or negotiable bonds. The closer we can get to the wartime economic maximum, the stronger will be our postwar tax weapons against the forces of postwar inflation. The danger of spontaneous combustion of our vast savings backlog will be greatly reduced if we go into the immediate postwar period with a strong and even severe tax structure. Finally, the closer we can get to the wartime maximum, the less we shall be in the position of discriminating against our fighting men. It would be discrimination of the rankest sort to levy on the postwar earnings of servicemen the taxes that well-paid civilians, that is, ourselves, ought to have paid during the war.

II. The Panacea of Substituting Economy for Taxes

It is argued in some quarters that economy in government expenditures can in large part be substituted for additional taxes. It is a matter of record that the Treasury has strongly and repeatedly urged the adoption of rigid economy measures in government. But such economy must be consistent with the demands of an unstinting war effort. I cannot visualize a cut in expenditures during total war that would give us license to set our revenue sights below the Treasury's $10.5 billion program.

The Effect of Economy on Tax Needs. However, to forestall the charge that I am evading the issue, let me entertain for a moment the unrealistic assumption that we can do justice to the Nation's war needs and yet pare expenditures far below estimates. How would such economy affect our tax goals?

The case for higher taxes would not be so urgent if economy materially lessened inflationary pressure. Actually, the reduction in this pressure would be only a fraction of the cut in expenditures. In the first place, insofar as the cut resulted from reduction of prices for war supplies, it would be offset largely by a reduction in excess profits and income tax revenues. No real easing of the inflationary situation results from taking what was going to be excess-profits tax revenue and rechristening it "reduction of expenditures."

In the second place, even where the cut in expenditures is real and not nominal, it does not result in an equivalent reduction in inflationary pressure. Civilian industry is only too anxious to have more manpower and materials to tool up for postwar production and to provide more housing, transportation, equipment, and so forth. Accordingly, any drop in the income of war workers as a result of reductions in government expenditures would probably be offset in large part by increases in the employment and income of workers in civilian industry. If a net decrease in the income paid to consumers did occur, moreover, it would be more likely to cut into their savings than into their attempted spendings. Some lessening of inflationary pressure would, of course, be achieved to the extent that supplies of consumption goods were expanded. But any resources released to civilian industry would in large part be used for repairs, maintenance and retooling rather than to produce finished consumers' goods.

The upshot is that the wartime economic minimum of revenue needed for inflation control could be reduced only by a small fraction of any cut in expenditures. The designers of the Treasury's $10.5 billion revenue program were conscious that it was uncomfortably close to the wartime economic minimum. But it was difficult to go beyond this goal in the face of the limited taxable capacity of taxpayers in the

lower and middle brackets, who have not shared in wartime increases in income or who are bound by pre-war commitments. There is little likelihood that a wartime economy program will affect the taxable capacities of this group. Consequently, the $10.5 billion program continues to be the smallest we can conscientiously recommend. The most we can expect from any feasible cut in expenditures is a narrow and much-needed margin of taxes above the economic minimum demanded by war.

The Possibility of Effecting Economy. As I implied a moment ago, it is far from clear that we can in fact cut war expenditures at all sharply without impairing the war effort. Economy at the expense of war output is unthinkable. To my mind, economy means to buy only what is needed and to make sure that full value is received for the money outlay. In a global war, there is practically no limit to what is needed. The gods of war are insatiable. Expenditures could, of course, be cut and inflationary pressure eased by cutting war production. But the fact is that while we civilians have enough, and even more than enough, to take care of our minimum needs, our own armed forces and those of our fighting allies still have unfilled war needs. Moreover, the rapidly changing technology of modern war constantly turns up new and pressing needs. To sacrifice war production to civilian production would be perverted economy. It would be extravagant squandering of the time needed for victory and, more important, of the lives of countless fighting men.

Few of the advocates of economy, of course, are so extreme as to advocate reducing war production in such a short-sighted effort to benefit civilian consumers. Most of them center their attention on eliminating inefficiency in war production -- that is, on getting value for our money. Getting value for money spent is genuine economy, and the Treasury is deeply concerned about such economy. But opportunities for cutting government expenditures through the elimination of waste and inefficiency are smaller than many people suppose.

In the first place, the prevalence of "inefficiency" is exaggerated. The vivid examples often mentioned are unrepresentative. In a country of 130,000,000 people, it is always easy to find fifty glaring examples of situations which in fact are very rare. By such "examples" you can readily make out a case that Americans stand over six feet six in their stocking feet or that they are under five feet tall -- just as you can make out a case for astounding efficiency or outrageous inefficiency in war production.

Secondly, there is a tendency to identify inefficiency with higher costs. A good deal of what looks like "inefficiency," is simply the cost of adapting to changes in war conditions. To start producing anti-submarine craft, for instance, and then shift suddenly to other types of production raises costs. But it isn't necessarily inefficient, any more than it is inefficient to pay money for fire insurance on a factory and then not have a fire. To demand that our procurement agencies should cut costs by blocking costly shifts in war production would amount to demanding that they stop learning from experience and giving the nation

the benefit. True, our war outlays are so huge that a saving of only a small fraction justifies diligent effort in rooting out inefficiency. But we must not overestimate the amount of genuine economy that can result from our efforts.

Incidentally, even where we find serious inefficiency, it does not follow that aggregate government outlays should be cut. Where inefficiency is exposed and corrected, it means that somebody has discovered a way of getting the same supplies with less work and less expense. But it also means that, if we do as much work as before by more efficient methods, we can get more supplies for the same money. Where heightened efficiency opens this sort of opportunity, we should seize it for the same reason that we should reject suggestions to expand consumption goods output by skimping our fighting men.

III. Postwar Inflation Dangers

Every day the press is full of news about measures to hold the line against inflation. I cannot refrain from adding parenthetically that such news rarely assigns taxes their rightful place in the fight to hold the line. However, that is probably quite natural, since taxes are a background force, operating to relieve pressure on the front-line forces of price control and rationing. Most students of the question have been agreeably surprised at the degree of success achieved by our inflation controls to date, wherever they have not been breached by direct political pressure. But it must be recognized that inflation will not stay put. It will crop up at the first, and, indeed, at every opportunity of consumer goods and services. It is especially in the post-armistice period that inflation may disrupt our economic processes.

In speaking of inflation and its dangers, whether in time of war or in the postwar period, I am not talking about the German type of inflation after the last war when German money became valueless. We are in virtually no danger of such a catastrophe. Rather I have in mind the kind of inflation we had after the last war when the cost of living went to 211 percent of its prewar level and wholesale prices went to 240 percent of their prewar level. That kind of inflation, even if no worse than it was after the last war, would be disastrous enough to warrant very great effort and sacrifice to avoid it.

Inflation Forces. The end of active hostilities will unleash political and economic forces that may irresistibly drive us to post-armistice inflation. There will be an inevitable dilution of patriotism and of the willingness to accept controls that smack of regimentation. Patriotic appeals to saving will no longer have their present effectiveness. The red tape of price control and rationing, which is accepted as a necessary nuisance in wartime, will become a galling and intolerable restriction when victory has been won. Enforcement of controls will become much more difficult when civilians regain their mobility by renewed access to gasoline and rubber. I do not decry the unwillingness of the American people to retain restrictive wartime controls for a long period after the war. I regard it rather as one of our best guarantees, though a negative one, of the free democratic system we are fighting to retain.

However, if the impatience of the American people with wartime control bursts its bounds too soon after the war, we may be faced with economic disaster. A great fund of accumulated war savings will overhang our postwar market. Desirable as it is to have a large volume of savings out of current income to lessen current inflationary pressure,

such savings are not an unmixed blessing. In fact, the greater the contribution they make to the present fight against inflation, the greater the threat they offer to future price stability.

In the three and one-half years ending June 30, 1943, the American people added the staggering total of $55 billion to their accumulated savings. Of this total increase in individual savings, $24 billion are in the form of currency and checking accounts; $21 billion are in the form of redeemable or marketable bonds.

If our direct and indirect controls, on one hand, and our capacity to revert to peacetime production, on the other, prove sufficient to cope with postwar inflation, these accumulations may settle down into permanent savings. But if people make up their minds that prices are rising and are likely to keep on rising, the process of spontaneous combustion may kindle the fires of inflation. People will want to spend their funds before price rises sap their purchasing power and devaluate their savings. To keep these combustible funds within manageable limits is one of the chief assignments of wartime taxes. I must confess that the taxes we have and seem likely to get may not keep liquid savings within manageable limits. We shall have to rely heavily on self-restraint and very likely also on an extension of direct controls into the immediate postwar era.

Increased Money Supply and the Role of Business Savings. The total increase in the money supply in recent years is enormous. Combined business and individual accumulations of currency and checking deposits rose $26.5 billion, or 59 percent, in the two years ended last June. Of this growth, $19 billion occurred in the second of the two years. Although we lack figures showing who holds the added currency, Federal Reserve figures are available on checking deposits. From these it is clear that most of the added checking deposits belong to business rather than to consumers. Some people are very much comforted by this fact. This sense of comfort is legitimate in wartime, when liquid business funds are largely tied down by priorities and other restrictions. However, in the postwar period, these business accumulations will be a real source of concern.

During the war, business is steadily piling up cash balances. It is selling inventories it cannot replace. It is wearing out machinery it cannot fully maintain. And, because credit restrictions and shortages of suitable goods severely limit new sales on an installment basis, it is reducing outstanding installment debts. Its opportunities and temptations to spend these balances are severely restricted by wartime regulations. Thus, liquid funds of business are fairly non-inflammable as regards wartime inflation.

But with the return of peace, business will naturally strive to replenish its inventories, renovate its equipment, and again push installment selling. Accumulated funds of business will tend to go into circulation at least as rapidly as those held by consumers. Some $15 billion of reserve funds which corporations have put into Government bonds during the year ending September 30, 1943, will be a further inflationary threat after the war. Business will quite naturally want to draw these funds out and put them into circulation. With business, as well as with consumers, any signs of a runaway market will be the signal for a rush to spend accumulated funds before their value melts away. A flash flood of business spending will eventually pour into the same stream as consumer spending. In the postwar period, the two forces will be reinforcing and not offsetting, and will tend to make a joint attack on price stability.

Records of past wars make it clear that post-armistice inflations are commonly more drastic than actual wartime inflations. This is no mere coincidence. It results from a relaxation of wartime controls, from impatience with restrictions, from the unleashing of speculative motives, and from the cumulative effects of increases in money and bank deposits during the war. Heavy wartime taxes and maintenance of such taxes until it is clear that postwar inflationary pressure is under control are the best weapons against these dangerous inflationary forces. The inflation thunderheads on the postwar horizon should have a sobering effect on any optimism about wartime taxation. They afford little aid and comfort to the enemies of a vigorous additional tax program.

IV. Postwar Unemployment Dangers

Our economic system in the postwar period faces not only the menace of inflation, but also the rigors of unemployment. Inflation and unemployment are the Scylla and Charybdis of demobilization periods. If we escape one, we are reasonably sure to have trouble with the other. We may, in fact, run athwart both in the same stormy voyage; and contrary to the metaphor, it is even possible that we will have to wrestle with both at the same time!

Nature of the Problem. The inflation danger and the unemployment danger unfortunately do not cancel out. It is true, of course, that the same pressure of spending power which threatens inflation creates a strong market for many key products. It does not follow, however, that it automatically creates employment. The danger of unemployment during demobilization results not from any lag in consumer demand, but from a lack of the equipment and materials needed to employ labor in satisfying that demand. The initial problem of post-armistice unemployment is thus likely to be a bottleneck problem. After the bottlenecks are broken, the danger of unemployment becomes largely one of inadequate purchasing power. In this situation, some pressure toward higher prices may actually be beneficial, since it will activate production and employment. But until we have cleared the decks for action, we are only too likely to burn up our wartime savings accumulations in a post-armistice spending spree that will express itself not in more goods, but only in higher prices.

The Impact of Current Tax Payment. Given the prospect of unemployment and cyclical fluctuation after the war, it becomes important to correlate tax payments closely with the receipt of income. During an economic downturn and a period of developing unemployment, a mass of accruing but unpaid taxes can have a seriously depressing effect. If taxes payable out of a declining income in the current year are based on a higher income in the preceding year, the effect will be to dampen consumer markets and reinforce the downtrend. The situation during the rising phase of the cycle is analogous. If taxes in the current year are based on the smaller income of the preceding year, people will be in a fictitiously easy financial position. Upward pressures may be unduly reinforced.

In connection with the effects of taxation on the business cycle, the Current Tax Payment Act, passed earlier this year, is an extremely important safeguard. For the most part, and especially in the lower brackets, current payment avoids the lag which tends to accentuate fluctuations. Or, put positively, current payment has a countercycle effect. Taxes drop when income drops, and rise when income rises. The drain on purchasing power is minimized when incomes are on the downgrade, and maximized when incomes are on the upgrade.

Current payment has another important advantage in this connection. It permits speedy legislative adjustment of tax collections to the fluctuating requirements of our economy. It permits tax adjustments to be paired with Government spending policy in smoothing out the extreme fluctuations of the business cycle.

Under our present withholding system, we have not yet achieved the maximum exactness in current collection of liabilities. Year-end adjustments are necessary, and some of these will be fairly substantial. The Treasury has, therefore, recommended that the withholding system be adjusted to match the amount withheld more closely with the amount of taxes owed. This would be accomplished by graduating the withholding rates and by narrowing wage brackets in withholding tables. This adjustment is urged with an eye to avoiding a tax overhang in the demobilization period.

Social Security. Another wartime fiscal measure which does yeoman service for the postwar period is the Social Security program. Expansion of unemployment insurance, and schemes providing for dismissal or separation pay on an insurance basis, offer an attractive hedge against our combination of inflation and unemployment dangers. They withdraw spending power steadily during periods of strong employment, both during and after the war. During periods of weak employment, they offer life blood to a faltering economic system. If unemployment is widespread, a strong Social Security program will support markets. If unemployment is spotty, which is more likely, Social Security will protect the individuals whose luck is bad. On all counts, the strengthening of Social Security deserves high rank as a war measure which provides insurance against postwar instability.

V. Distribution of Tax Burdens

Costs of War. The fallacy still persists that the cost of the war in economic terms can be postponed until after the war. It persists in spite of the fact that exploding this particular fallacy is one of the favorite "indoor sports" of economists. They are fond of pointing out that no method of war finance can shift real burdens from the war to the postwar period. Methods of finance cannot give people more food, housing, and clothing during the war at the expense of less after the war. Nor can any financial legerdemain levy on the future to put weapons into the hands of our fighting forces in Italy and the Solomons. Whether we borrow or whether we tax will have only a minor effect on our total burden. Generally speaking, heavy taxes tend to minimize the wear and tear on the plant and equipment of our civilian economy and thus leave the future with a better equipped economic system. On the other hand, borrowing may have a psychological advantage over taxation because the fallacy of postponement persists. People may feel that they are postponing costs and therefore accept more willingly the direct sacrifices of war.

Distribution of Costs Between Civilians and Servicemen. What is really postponed through borrowing is not the cost of war but the distribution of its cost. War finance can do a great deal to shift burdens among the people who will be members of the community after the war. As I hinted previously, the patterns of war finance into which we are drifting involve a discrimination against men now serving in the armed forces. Civilians at home are, with few exceptions, better paid than they ever have been in their lives. Despite tax and price increases and a huge war effort, they are maintaining consumption comfortably above subsistence levels. At the same time, they are saving as never before, and with these savings will exercise a claim on postwar goods and services. In large part, these savings reflect our failure to tax more heavily in wartime. As one would expect, they take the form primarily of direct or indirect ownership of public debt. The combination of insufficient taxes in wartime and the handmaiden of a huge public debt means heavier taxes in the postwar period than would otherwise be necessary.

These taxes will fall partly on the fortunate owners of wartime savings, but also in part on people who have not shared in the savings boom because they were in military service. It seems a curious way of distributing war burdens to ask our fighting men on one hand to bear the dangers and forego the profits of war, and on the other to share pro rata in the burden of servicing the bonds held by civilians who were prospering at home. Yet, by setting wartime taxes too low, we shall be causing precisely this injustice.

Distribution Among Income Groups. Our decisions on war finance will affect the distribution of war costs not only between soldiers and civilians but also among different income groups after the war. The level of wartime taxes, through its effect on borrowings, governs the amount of taxes we shall have to levy after the war to service the public debt.

Moreover, it determines in large part what income groups become government creditors. A war financed mainly by borrowing, especially if accompanied by inflation, builds up heavy credits in the hands of high-income groups against the rest of the population. Depending on the postwar distribution of tax burdens, such debt financing may lead to a postwar redistribution of burdens bearing heavily on the lower income groups.

Although as in previous wars the larger part of the public debt is being absorbed by savers in the higher income brackets, savers in the lower income brackets are accounting for a substantial share of total savings. They are buying a large volume of War Bonds. Large wartime accumulations of paper money are also generally thought to represent savings from low and moderate incomes. In addition, many people whose incomes and savings have risen sharply during the war will slide back into moderate or low income brackets after the war. These factors reduce the likelihood that Government bonds will be as heavily concentrated in the hands of the higher income groups as they have been in previous wars. In terms of an undesirable postwar redistribution of burdens, then, the social cost of inadequate war taxes, though high, may be lower in this than in previous wars.

Not only the magnitude but also the type of wartime taxes we levy will affect the postwar distribution of burdens. If, for example, we adopted a sales tax during the war, we might find it difficult to uproot it after the war. The burden of postwar taxes would press more heavily on the low income groups in that case than if the same revenue were raised through the income tax. By the same token, increased wartime reliance on personal income taxes will have long-run advantages in distributing war costs.

From this cursory resume, it becomes clear that the taxes we levy in wartime powerfully affect postwar distributions of costs among income groups. If war finance leaves a legacy of huge war debts and regressive taxes, we shall be ill-equipped to follow the traditional precepts of equity in government finance. To guard against this outcome, war finance should rely heavily on taxes, especially personal income taxes, and should continue to direct a large part of its bond-selling efforts to the lower income groups.

VI. Corporate Tax Policy

In appraising the postwar effects of wartime taxes it is also important to examine the postwar impact of corporate tax policy. This impact revolves around the effect of corporation taxes on both cost structures and financial positions.

Effect on Cost Structures. Corporate taxes must be high enough to prevent disproportionate war profits. If profits were allowed to exceed reasonable bounds, it would be difficult to justify denials of wage and price increases. If the defense line against such increases crumbles, costs will rise sharply. But on the other hand, unduly high corporate taxes may weaken the resistance of management to pressures for higher costs. Once costs have pushed upward, it is very difficult to put them back into their former place. Since a high cost level tends to hobble production, wartime taxes on corporations must walk a perilous tight rope. They must be high enough not to give labor and farmers a cause for action on the wage and price fronts; yet, they must not be so high as to remove the profit brake on costs.

Effect on Financial Position. The postwar health of corporations depends also on the amount and liquidity of corporate accumulations. With respect to their amount, taxes have a negative function, namely, to avoid impeding their normal growth. Corporate profit and reserve figures indicate that wartime taxes have performed this function generously. The average total annual profits after taxes for 1941, 1942, and 1943 will equal the peak profits of 1929 and will more than double the profits for 1937. Even after taxes and dividends, corporations will have accumulated over $15 billion of undistributed corporate profits during 1942, 1943, and 1944. These figures do not, of course, imply that every corporation will have a sound financial position at the end of the war. But they do indicate that wartime taxes have not, generally speaking, prevented the attainment of such a position.

With respect to the postwar liquidity of corporate assets, tax policy can serve a positive function. One source of reconversion funds with roots in tax policy is the postwar credit under the excess-profits tax. Corporations are entitled to a rebate of 10 percent of their excess-profits tax payments. Although the bonds issued to evidence the credits do not mature immediately upon the cessation of hostilities, they become negotiable at that time. They may be sold or used as the basis for loans. The excess-profits tax credit will thus supply many corporations with badly needed funds for the process of reconversion.

Our existing tax law provides further assistance to many corporations by allowing the so-called carry-back of losses and unused excess-profits tax credits. Under the loss carry-back provision, the corporation may offset its current year losses against profits in the preceding two years and obtain a corresponding tax refund. Unused credits under the excess-profits tax may be similarly carried back. These provisions recognize the arbitrariness of the annual accounting period. They will grant corporations whose wartime profits are converted into postwar losses a refund of at least part of their wartime taxes. These refunds are a potential source of funds for the difficult transition period.

The Treasury has recognized, however, that the carry-backs will not serve their maximum purpose unless the promise of refunds is quickly converted into the fact of cash payments. Immediate access to cash will be the vital need in the demobilization period. The Treasury has therefore recommended a number of measures to accelerate refunds of war taxes under the carry-back provisions. If these measures are adopted, a substantial sector of the war economy will be guaranteed the lubricant of cash for the process of postwar reconversion.

Nearly 50 percent of American industry is currently engaged in the production of war goods. Delay in reconverting it to peacetime production might mean inflation, or unemployment, or both. It might also spell loss of markets for the firms caught in the bottleneck. Since lost markets will be difficult or even impossible to recapture, corporations unable to reconvert rapidly will find their competitive position impaired. Small and medium-sized concerns would be most likely to suffer in the postwar scramble for the financial and material wherewithal of reconversion. Thus, forces which hinder reconversion will not only bring on a postwar economic crisis, but also encourage the growth of monopolies. Insofar as corporate tax policy in wartime removes postwar stumbling blocks, it contributes tellingly to the reestablishment of a strong peacetime economy.

VII. Conclusion

I have said comparatively little this evening about specific provisions of current tax proposals. It seemed more urgent to review some of the principles -- perhaps I should say "neglected principles" -- that should govern wartime tax decisions.

It becomes apparent in the course of review that wartime taxes could play a major role in providing for the health and stability of our postwar economy. Unfortunately, it becomes even more apparent that existing taxes are, in fact, not playing any such role. Instead of building bulwarks against postwar inflation and unemployment, our inadequate taxes provide aid and comfort to these disruptive forces. Instead of distributing the bulk of war's costs once and for all, our inadequate taxes will saddle the postwar tax system -- and incidentally our fighting men -- with a heavier burden of debt service.

Postwar considerations heavily underscore the need for a courageous program of additional taxes. Failure to meet that need will expose our postwar economy to the ravages of inflation and unemployment. In this setting, the Treasury's proposal for $10.5 billion of additional taxes stands out even more clearly than before as truly a minimum program.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
~~Tuesday, December 14, 1942.~~
Monday, November 15, 1943.

Press Service
~~No. 34-62~~ 39-52

During the month of ~~November~~ October 1943 no market transactions took place in direct and guaranteed securities of the Government for Treasury investment and other accounts, Secretary Morgenthau announced today.

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O.P.A.

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TREASURY DEPARTMENT
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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 16, 1943.

Press Service

The Secretary of the Treasury announced last evening that the tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated November 18, 1943, and to mature February 17, 1944, which were offered on November 12, were opened at the Federal Reserve Banks on November 15.

The details of this issue are as follows:

Total applied for - $1,221,697,000
Total accepted - 1,001,415,000 (includes $74,198,000 entered on a fixed-price basis at 99.905 and accepted in full)
Average price - 99.905/ Equivalent rate of discount approx. 0.375% per annum

Range of accepted competitive bids:

High - 99.925 Equivalent rate of discount approx. 0.297% per annum
Low - 99.905 " " " " " 0.376% " "

(82 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 18,340,000	$ 16,864,000
New York	810,755,000	627,346,000
Philadelphia	28,760,000	24,692,000
Cleveland	29,920,000	28,643,000
Richmond	25,441,000	24,820,000
Atlanta	13,250,000	12,944,000
Chicago	145,951,000	128,725,000
St. Louis	20,498,000	18,738,000
Minneapolis	11,560,000	10,800,000
Kansas City	24,715,000	23,833,000
Dallas	21,382,000	19,887,000
San Francisco	71,125,000	64,123,000
TOTAL	$1,221,697,000	$1,001,415,000

Miss Simpson

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TOTAL	$1,221,697,000	$1,001,415,000

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Press Service
No. 39-54

FOR IMMEDIATE RELEASE,
Tuesday, November 16, 1943.

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	Quota Quantity (Pounds) 1/	Authorized for entry for consumption	
		As of (Date)	(Pounds)
Signatory Countries:			
Brazil	1,353,183,480	Nov. 6, 1943	153,277,118
Colombia	458,336,340	"	58,077,233
Costa Rica	29,100,720	"	1,620,560
Cuba	11,640,288	"	1,409,396
Dominican Republic	17,460,432	"	2,455,868
Ecuador	21,825,540	"	5,798,917
El Salvador	87,302,160	"	787,587
Guatemala	77,844,426	"	412,724
Haiti	40,013,490	"	1,379,312
Honduras	2,910,072	"	460,402
Mexico	69,114,210	"	1,880,472
Nicaragua	28,373,202	"	-
Peru	3,637,590	"	59,587
Venezuela	61,111,512	"	2,204,542
Non-signatory Countries:	51,653,778	"	1,993,028

1/ Quotas as established by action of the Inter-American Coffee Board on March 11, 1943.

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TREASURY DEPARTMENT

Washington

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Tuesday, November 16, 1943

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Stencil -

To Editors and publishers:

This is the most comprehensive story of advertising at war that I have seen to date. I strongly urge that you read it yourself for your own information and interest.

Paul B. West,
President, Association
of National Advertisers
Vice-Chairman, War Advertising
Council.

Editorial Writers -
Publishers
Radio Commentators

Rome Before (?)

Unconditional surrender is a large order, and there may be a temptation to settle for less as the possibility of peace approaches. I hope you will remember that. I hope you will put your minds to doing something about it, and thus continue the patriotic record that some of you started back in those early days of Defense.

-oOo-

bells and newspaper boys selling extras.

But it is also possible that we can waste a great deal of precious time thinking about that morning, and we can divert a great deal of our precious energy into making ready for it, and then find that it shows no signs of coming. And in the meantime, good American young men are losing their lives trying to end the war the hard way, because they have no choice except to do it that way, or not at all.

I am glad that you and I have been partners so often in the use of advertising in connection with this war. I have gone over the whole story because I thought you would be interested in it. I have liked working with you. I think you have established a remarkable record. I think the stature of advertising has improved immeasurably as a result of what you people, who have thrown aside all thought of political differences, have done.

But this is no funeral oration. Your job is barely begun. And the job is going to get more difficult every week, and every month, that the war wears on. Because we are going to get tired. Everybody is going to get tired. We are going to want peace and relief from the restrictions that war puts on what we do, and what we eat, and what we have.

When I returned from the front early this month, I still felt sure we would win but I felt far more grim about the war than I did a year ago. I had an opportunity to discuss the actual fighting and the nature of our enemy with many American and British officers and men. I was given a pretty clear idea of the heroism required of our men when they face the tough, fanatic Nazis, and as a result I achieved a healthy respect for the blood and sweat that goes into every foot of enemy ground we take. And I found no evidence anywhere along the line that we are near the and, unless the end should come through some freak of circumstance.

I do not want to underestimate, however, the effects that the terrible defeats in Russia, or the destruction of Germany, must have on the Nazi Home Front. That destruction must be fantastic. In Italy I saw what bombs can do. I saw the Port of Naples, lying in a mass of ruins. I saw the Port of Palermo in Sicily battered so badly that one sizable ship lay high and dry on a wharf, blown completely out of the water. But General Patton assured me that Palermo was only three or four percent destroyed. Hamburg has been seventy-[illegible] percent destroyed, and several other [illegible] cities have received ~~almost as much~~ even more destruction. the Germans themselves admit Nazi

Yes, it is conceivable that the Germans can't take it. It is possible that the same thing will happen that happened the last time. We may be awakened some morning by whistles and

I wondered what the effect would be on the drive. I was not long finding out. One of our State Chairmen called up and said: "Well, I guess the Third War Loan is off -- the war's over and there's no need to raise money."

So we called in the Advertising Council. I asked them: "Write us an advertisement that will stop this in its tracks." They went to work and in a few hours produced a great advertisement. You may remember it. It said: "Will the Surrender of Italy mean a Home Front Defeat?" Then, because of the smooth working arrangement between your people and ours, the ad started running, the next day, in 970 newspapers throughout the Nation. We followed this up by telling the people the bitter truth about our equipment losses in Sicily. We must have had a sobering effect on a lot of people, because we didn't get any more phone calls, and that particular surge of optimism soon faded away.

I want to make one more observation.

A year ago, I went to England. What I saw there gave me a lot of inspiration, and a lot of confidence about the outcome of this war. I came back knowing in my heart that we were going to win. The British had survived the Blitz; the Russians had stopped the German advance; we had halted the Jap drive in the far East. Slowly and painfully the Allies were overtaking the enemy's lead. Obviously, it would take a long time, but in the end we would win.

Much of this change was due to the Jap attack at Pearl Harbor. But even while the Japs were pulling their sneak attack, three out of every ten Americans still felt that it was most important to stay out of the European war.

The striking reversal of public sentiment from narrow isolationism to a complete acceptance of international responsibility is a monument to public education. And some of you who are here in this room, by writing and financing advertising campaigns, had as much to do with that education over a period of time as any other group of people.

Since the early days, when most of the work was done in spare time by patriotic volunteers you have taken the war as your professional assignment. It is no longer a spare time operation. You are putting your best brains on and converting sizable portions of your appropriations to this war information job. This job which I want to repeat must be stepped up, not tapered off, as we march toward Victory.

Some of this increased war information effort can and should be channeled through bond advertising. Promoting bonds, I feel, is a double-headed job. Half the job is raising money, but the other half is maintenance of interest in this war, and what it means to every American.

We hit a high spot in this job, I believe, the day the Third War Loan opened, which also was the day Italy surrendered.

A few months later there was another educational job to be done. Nazi U boats were preventing our shipping from reaching its destination. It became necessary either to convoy our freighters or simply to consign a good part of our materiel to Davy Jones. An advertising campaign was planned by you ad men to tell the public about the problem, and again you were helped by many influential editorial columns. I remember one of the advertisements. It was headed "Okay, Mr. President, go ahead and clear the Atlantic."

What the President was able to do in a fireside chat, plus what you were able to do, gained the support of a majority of American voters behind the idea of arming and convoying our ships. Fifty-five percent of the people backed the decision, and only thirty-eight percent definitely opposed it. A few weeks before, fifty percent of the people had been definitely against it and only forty-one percent were willing to see it done. Here again was a victory for the policy of letting the people know the facts.

Public sentiment is much improved now. Today the Nation is not only solidly behind the war, but has gone on record as wishing to take on a big share of the responsibility in helping keep the world peace through world organization.

Not long after that, advertising began to appear. It was bought and paid for by patriotic Americans who took upon themselves the responsibility of making their friends and neighbors aware of the situation. They were written by some of you advertising men, I think, who are here tonight. You were pioneers then. You were pioneering the biggest job of public information in history. And you were pioneering too in giving advertising the dignity of social responsibility.

Obviously we could not continue indefinitely to find antiquated guns and odd bits of equipment in private hands for the British to buy and use. The time had come to take drastic steps. We knew for example that a few months later there would be a crisis in the British Navy; that with the rising power of the German Navy, Britain would have too few ships to defend herself, let alone keep the invading Naxis in any kind of check.

The public had to be made aware of this situation. The majority of newspapers went to work on the problem editorially and you prepared an advertising campaign that helped achieve amazing results. That was only three months after Dunkirk, but the Gallup box score began to look much different than it had before. Sixty percent of the American people stood solidly back of the President in transferring over-aged destroyers to the British to help bolster their Navy. The people were beginning to see.

What was more important, we found that this equipment could be sold legally to the British without involving the American Government in an act of war.

When I look back over the last three or four years, I think this meeting stands out above all else in my mind, because the stakes were so great. I am proud and happy to have had a hand in arranging for this materiel to go to England in her darkest moment. I shudder a little to think of our cast-off equipment being thrown into battle against the Nazi's modern machinery of war, but it was certainly better than nothing. Britain was again armed, inefficient and meager though the armament may have been, and civilization passed a crisis. But it was a mighty narrow squeak.

It was back in these days when we were struggling to make the public see what stark dangers lay ahead that American advertising men first came to the aid of their Government. It seemed obvious, at least to me, that the American people were not getting the true significance of the news reports. They did not see the approaching danger. Something more positive had to be done. That something, it seemed to me, was some good, factual, hard hitting advertising to help the people see and feel what we were up against.

The British needed help. Somehow, by some means, we had to get them some rifles, and enough other equipment to prepare them for the invasion which seemed imminent -- and which, if it had been imminent, almost certainly would have been successful.

General Marshall, and a group from the War and Navy Departments came several times to my office to discuss what might be done. After twenty years of peace, we had very little equipment of any sort to use in fighting a war. But we felt that if we dug deeply enough we could find some obsolete materiel, and perhaps some equipment in private hands, that would help out. Before long we found quite a collection of usable materiel. For example, we found five hundred old 75 millimeter guns, and four hundred Thompson sub-machine guns left over from the last war. The Navy turned up five thousand obsolete 30-pound bombs and the Army found 560 hundred pounders. Some place, we found 80 out-of-date torpedoes, and someone came up with five hundred 38 caliber revolvers which antedated even the first World War.

To arm the foot soldiers and the Home Guard, we managed to dig up nearly a half million rifles. We might have added to this several thousand more old Springfield 30-30's, but there was no ammunition to be found anywhere in the world, and the guns were no good without bullets.

inviting war; inviting war simply because we admitted its approach. But even then we had a good idea of Hitler's program. We felt sure he intended to take Britain in the Spring of 1941, and then join forces with Japan and go to work on us in the fall. And we could not be sure that this program would not succeed.

Today everyone everywhere agrees that we were scheduled on the aggressors' program as much as Poland, Czechoslovakia, or Britain. But things were different then.

Even Dunkirk, and the Fall of France, did not arouse the American people to a sense of the reality of the danger ahead.

Here was the very moment when the light of civilization in Europe came nearest to dying, perhaps forever. The British were desperate. Their entire future, their whole defense depended upon getting materiel, and getting it quickly.

Winston Churchill had made it clear that equipment losses at Dunkirk had been staggering. Britain needed everything -- artillery, ammunition, aircraft, and most of all rifles. Every able-bodied man in England had to be prepared to fight off invasion, but in all Britain there were no rifles for them, and not much of anything else, and you can't stop Nazis with stocks and stones.

A National survey made afterward revealed that 90% of the people in the country knew about the Bond Drive, and understood that extra Bond purchases were the measurement of participation. This was an important contribution, for in previous Drives, too much of the public took the position that "They don't mean me."

You see, therefore, something of the job advertising has done.

You may be interested to know that my experience with advertising in connection with this war started even before the War Loans.

It started back in the days when those of us who felt that an attack on the United States was inevitable, were trying to get the country ready to defend our shores against any aggressor. Our biggest job was trying to make the people see that, as the President said, we couldn't simply climb into bed and pull the covers over our heads.

In those days -- about four years ago -- Gallup polls pointed out that 92% of all Democrats and 94% of all Republicans were saying that we simply should not fight.

Yet steps had to be taken to protect ourselves -- steps that worried some Americans because they thought we were

us by the War Advertising Council.

Throughout the Drive, I am told, practically all of the 10,000 weeklies carried advertisements which were paid for by one or more local businesses.

In daily and weekly newspapers, business supported the campaign with more than eight and one-half million dollars worth of space.

On the radio you did a magnificent job. The National Association of Broadcasters tells me 3,382 hours of radio time and 200,000 announcements (valued at $12,000,000) carried Third War Loan messages to the public, throughout the days and nights of the Drive. Through the Allocation Plan and additionally contributed time, advertisers played a most important part. You gave us the use of your best radio audiences.

At least $3,000,000 in magazine space was provided by advertisers and the magazines themselves. 250 general magazines, 56 farm journals and 450 business and trade magazines each contributed a full page.

Advertisers and the Outdoor Industry provided by all odds the most expansive outdoor showing of all time. I am told this had a value of $1,700,000.

This 3 week campaign, provided by advertisers, would have cost a commercial advertiser $30,000,000 -- 10 million dollars a week!

ditional surrender while her troops are planted within gunshot of Great Britain?

But because the Nazis promise, through their propaganda bureau, to fold up; and because we'd like to get on with the peace, too many of us are getting eager to sidetrack the main job.

Personally, I think it is serious enough to call for somebody to do something; and I came here tonight because I think you advertisers and advertising people who are already using your talents and facilities and genius to make the American people understand many of the facts of war, can do still more.

I asked your help once before. Representatives of your group came to Washington a year ago and I told them, if I recall correctly, that we were faced with the biggest selling job in history with practically no precedent to go on.

Through your advertising council, you secured the volunteer help of the ablest advertising people in the United States and the cooperation of advertisers and media, and went to work. I think everyone knows what a splendid job has been done.

During the Third War Loan, advertisers sponsored 89,000 advertisements in the daily newspapers - a total of 61,573,588 lines, at a cost to themselves of more than six and one-half million dollars. Two-thirds of the advertisements were prepared by the advertisers themselves, and one-third were prepared for

I talked to General Doolittle about that in Tunis. In his war room, lined with huge maps of the entire Allied battle front, he showed me how aircraft are dispatched almost on a moment's notice to any fighting sector to take care of difficult enemy implacements or stubborn resistance. Just two days before I arrived in Tunis, Doolittle said, ~~General Montgomery was~~ some of the forces in Italy were caught in what might have been a serious trap had it not been for the medium bombers ~~that he~~ called to the scene.

In an hour or two the bombers had done ~~what General Montgomery's artillery could not have done in days -- if indeed the ground forces could have done the job at all without heavy, bloody losses.~~ a job that would have been next to impossible without them and certainly would have meant heavy, bloody losses. This was only one case that Doolittle pointed out where a temporary setback had been turned, through immediate air support, into a victory.

But now the winter is here, and the weather is closing in. Jimmie Doolittle and Air-Marshal Tedder cannot send airplanes anywhere, at any time, on a moment's notice, as they did this summer. Is there any promise of early peace about that?

Or, can you find hope of quick victory in the fact that the Allies have still not crossed that narrow ditch called the English Channel, for the simple reason that the other side is lined solidly with sudden death? Can anyone <u>really</u> think it is going to be easy to bring Germany to her knees in uncon-

slow and difficult process. When I broadcast from Algiers, I pointed out some of the difficulties of fighting over there. "I had no idea," I said, "of the terrible terrain in this area over which we must fight the Nazis. The area between Naples and Rome is mountainous and thick with trees and foliage. It is ideal for defensive action, because the Nazi forces can hide high in the mountains, and fire on our forces without being seen. And when they are driven from one mountain, they need only to retreat a few hundred yards to another and it is the same thing all over again."

Since I left Dragoni, the Allied Armies have managed to get fifteen miles closer to Rome. Five bloody, hard-earned miles a week, that's all. But it isn't the fault of our fighting men. They are tough and in the pink of condition. The fact is that no army in the world could move any faster. ~~It will be almost a miracle if we are in Rome before Christmas.~~

And that's the picture on the Italian front while we, back here, are congratulating ourselves on polishing off the war in a hurry.

But even that's not the whole story.

The weather is closing in over there. Our troops may be without air protection more of the time than they will have it, and they tell me that air protection is just about the most important single factor in modern invasion.

this, gentlemen -- they say their next Fuehrer will win the next great war. So here they are -- these defeated prisoners -- already planning another assault on civilization.

This is one reason why we must concentrate on fighting the war right up to the last bitter day. There is a good chance that letting down now can needlessly prolong the war for weeks and months.

I was in Italy three weeks ago. I went with General Mark Clark up to the front lines. I drove in a jeep through the mountains to a spot within a mile of the Nazi troops. I went through a small village -- or what had, a few days before, been a village -- called Dragoni. It was still smouldering. American bulldozers were busy clearing debris out of the streets so that our supply trucks could get through; and at one spot our jeep had to climb high over a pile of masonry and stones that the day before had been a public building. That was about all there was left of Dragoni -- that huge pile of wreckage. It was the same in a half dozen other small towns that we passed through. That happens because the Nazis don't like fighting in the open. They run from building to building, and Mark Clark's Fifth Army or Jimmy Doolittle's planes simply have to take the buildings down around them. It is, I can tell you, a mighty

But if the Nazi Home Front should crack, that would be a wind-fall. In the meantime, we are only playing Hitler's game when we see peace just around the corner.

I am convinced, by the way, that the Nazis have a proprietary interest in this wave of optimism. The early signs of German collapse came from stories printed in Nazi controlled newspapers; then from travelers out of Germany, who reported their observations to neutral newspapers, chiefly those with pro-Nazi tendencies. Finally, Hitler himself managed to convey the impression in his most recent speech that life in Germany is hell. I cannot think that he and Mr. Goebbels would be so tender about keeping us posted of a coming crisis unless there is a rabbit in the hat somewhere.

Those who hail an early crack-up of the German nation have not talked to German prisoners, I can assure you of that. I had some first hand reports on the state of mind of prisoners when I was in Italy. They are mighty arrogant. They believe in Adolf Hitler, and say the Russian campaign is the fault of the German generals. They don't understand when you talk to them about Democracy. They say: "What? A nation without a Fuehrer? That is chaos!" Then if you pursue the subject of their present leader, they may admit he is not perfection -- but he will ~~have to~~ very well do until they ~~can~~ find another. And -- get

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Gentlemen:

I am glad to have this opportunity tonight to talk to the Nation's leading advertising people, because I have confidence in the ability of advertising men to bring the facts of the war to the American public. And today, perhaps more than at any ti since the war began, there is a vital job to be done on that front.

The dangerous dream of a quick end to this war grows more serious every day. It is particularly pressing right now. On every hand we see a surge of activity to prepare for post-war, sometimes at the expense of the vital job at hand. The stock market has been in a steady ~~plunge~~ decline ever since word first got around that the Nazis are about to crack. The newspapers regularly report new signs of the coming collapse of Germany. In Washington the exodus to after-the-war jobs has started in earnest.

No one in Washington can give me any concrete evidence that Germany is tottering on the brink of capitulation -- and I have sought out practically everyone who would have any reason to know. And I can tell you that on the Italian front the Nazi troops are not near cracking.

It is always possible, of course, that the people on the Nazi Home Front will be unable to take the bad news from Russia or the terrible destruction our bombs are raining upon them;

TREASURY DEPARTMENT

Washington

FOR RELEASE AT 8:00 P.M., EWT,
Thursday, November 18, 1943.

Press Service
No. 39-55

(The following address by Secretary Morgenthau before the annual convention of the Association of National Advertisers at the Hotel Commodore, New York City, is scheduled for delivery at 8.00 P.M., E.W.T., Thursday, November 18, 1943, and is for release at that time.)

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(The following address by Secretary Morgenthau before the annual convention of the Association of National Advertisers at the Hotel Commodore, New York City, is scheduled for delivery at 8:00 P.M., E.W.T., Thursday, November 18, 1943, and is for release at that time.)

Gentlemen:

I am glad to have this opportunity tonight to talk to the Nation's leading advertising people, because I have confidence in the ability of advertising men to bring the facts of the war to the American public. And today, perhaps more than at any time since the war began, there is a vital job to be done on that front.

The dangerous dream of a quick end to this war grows more serious every day. It is particularly pressing right now. On every hand we see a surge of activity to prepare for postwar, sometimes at the expense of the vital job at hand. The stock market has been in a steady decline ever since word first got around that the Nazis are about to crack. The newspapers regularly report new signs of the coming collapse of Germany. In Washington the exodus to after-the-war jobs has started in earnest.

No one in Washington can give me any concrete evidence that Germany is tottering on the brink of capitulation -- and I have sought out practically everyone who would have

any reason to know. And I can tell you that on the Italian front the Nazi troops are not near cracking.

It is always possible, of course, that the people of the Nazi home front will be unable to take the bad news from Russia or the terrible destruction our bombs are raining upon them.

But if the Nazi home front should crack, that would be a wind-fall. In the meantime, we are only playing Hitler's game when we see peace just around the corner.

I am convinced, by the way, that the Nazis have a proprietary interest in this wave of optimism. The early signs of German collapse came from stories printed in Nazi controlled newspapers; then from travelers out of Germany, who reported their observations to neutral newspapers, chiefly those with pro-Nazi tendencies. Finally, Hitler himself managed to convey the impression in his most recent speech that life in Germany is hell. I cannot think that he and Mr. Goebbels would be so tender about keeping us posted of a coming crisis unless there is a rabbit in the hat somewhere.

Those who hail an early crack-up of the German nation have not talked to German prisoners, I can assure you of that. I had some first hand reports on the state of mind of prisoners when I was in Italy. They are mighty arrogant. They believe in Adolf Hitler, and say the Russian campaign is the fault of the German generals. They don't understand when you talk to them about Democracy. They say: "What? A nation without a Fuehrer? That is chaos!" Then if you pursue the subject of their present leader, they may admit he is not perfection -- but he will do very well until they find another. And -- get this, gentlemen -- they say their next Fuehrer will win the next great war. So here they are -- these defeated prisoners -- already planning another assault on civilization.

This is one reason why we must concentrate on fighting the war right up to the last bitter day. There is a good chance that letting down now can needlessly prolong the war for weeks and months.

I was in Italy three weeks ago. I went with General Mark Clark up to the front lines. I drove in a jeep through the mountains to a spot within a mile of the Nazi troops.

I went through a small village -- or what had, a few days before, been a village -- called Dragoni. It was still smouldering. American bulldozers were busy clearing debris out of the streets so that our supply trucks could get through; and at one spot our jeep had to climb high over a pile of masonry and stones that the day before had been a public building. That was about all there was left of Dragoni -- that huge pile of wreckage. It was the same in a half dozen other small towns that we passed through. That happens because the Nazis don't like fighting in the open. They run from building to building, and Mark Clark's Fifth Army or Jimmie Doolittle's planes simply have to take the buildings down around them. It is, I can tell you, a mighty slow and difficult process. When I broadcast from Algiers, I pointed out some of the difficulties of fighting over there. "I had no idea," I said, "of the terrible terrain in this area over which we must fight the Nazis. The area between Naples and Rome is mountainous and thick with trees and foliage. It is ideal for defensive action, because the Nazi forces can hide high in the mountains, and fire on our forces without being seen. And when they are driven from one mountain, they need only to retreat a few hundred yards to another and it is the same thing all over again."

Since I left Dragoni, the Allied Armies have managed to get fifteen miles closer to Rome. Five bloody, hard-earned miles a week, that's all. But it isn't the fault of our fighting men. They've got what it takes to lick the Nazis, man for man. They are tough and in the pink of condition. The fact is that no army in the world could move any faster.

And that's the picture on the Italian front while we, back here, are congratulating ourselves on polishing off the war in a hurry.

But even that's not the whole story.

The weather is closing in over there. Our troops may be without air protection more of the time than they will have it, and they tell me that air protection is just about the most important single factor in modern invasion.

I talked to General Doolittle about that in Tunis. In his war room, lined with huge maps of the entire Allied battle

front, he showed me how aircraft are dispatched almost on a moment's notice to any fighting sector to take care of difficult enemy implacements or stubborn resistance. Just two days before I arrived in Tunis, Doolittle said, some of the forces in Italy were caught in what might have been a serious trap had it not been for the medium bombers called to the scene.

In an hour or two the bombers had done a job that would have been next to impossible without them and certainly would have meant heavy, bloody losses. This was only one case that Doolittle pointed out where a temporary setback had been turned, through immediate air support, into a victory.

But now the winter is here, and the weather is closing in. Jimmie Doolittle and Air Marshal Tedder cannot send airplanes anywhere, at any time, on a moment's notice, as they did this summer. Is there any promise of early peace about that?

Or, can you find hope of quick victory in the fact that the Allies have still not crossed that narrow ditch called the English Channel, for the simple reason that the other side is lined solidly with sudden death? Can anyone really think it is going to be easy to bring Germany to her knees in unconditional surrender while her troops are planted within gunshot of Great Britain?

But because the Nazis promise, through their propaganda bureau, to fold up; and because we'd like to get on with the peace, too many of us are getting eager to sidetrack the main job.

Personally, I think it is serious enough to call for somebody to do something; and I came here tonight because I think you advertisers and advertising people who are already using your talents and facilities and genius to make the American people understand many of the facts of war, can do still more.

I asked your help once before. Representatives of your group came to Washington a year ago and I told them, if I recall correctly, that we were faced with the biggest selling job in history with practically no precedent to go on.

Through your advertising council, you secured the volunteer help of the ablest advertising people in the United States and the cooperation of advertisers and media, and went to work. I think everyone knows what a splendid job has been done.

During the Third War Loan, advertisers sponsored 89,000 advertisements in the daily newspapers - a total of 61,573,588 lines, at a cost to themselves of more than six and one-half million dollars. Two-thirds of the advertisements were prepared by the advertisers themselves, and one-third were prepared for us by the War Advertising Council.

Throughout the Drive, I am told, practically all of the 10,000 weeklies carried advertisements which were paid for by one or more local businesses.

In daily and weekly newspapers, business supported the campaign with more than eight and one-half million dollars worth of space.

On the radio you did a magnificent job. The National Association of Broadcasters tells me 3,382 hours of radio time and 200,000 announcements (valued at $12,000,000) carried Third War Loan messages to the public, throughout the days and nights of the Drive. Through the Allocation Plan and additionally contributed time, advertisers played a most important part. You gave us the use of your best radio audiences.

At least $3,000,000 in magazine space was provided by advertisers and the magazines themselves. Two hundred and fifty general magazines, 56 farm journals and 450 business and trade magazines each contributed a full page.

Advertisers and the Outdoor Industry provided by all odds the most expansive outdoor showing of all time. I am told this had a value of $1,700,000.

This 3-week campaign, provided by advertisers, would have cost a commercial advertiser $30,000,000 -- 10 million dollars a week!

A national survey made afterward revealed that 90% of the people in the country knew about the Bond Drive, and

understood that extra Bond purchases were the measurement of participation. This was an important contribution, for in previous Drives, too much of the public took the position that "They don't mean me."

You see, therefore, something of the job advertising has done.

You may be interested to know that my experience with advertising in connection with this war started even before the War Loans.

It started back in the days when those of us who felt that an attack on the United States was inevitable, were trying to get the country ready to defend our shores against any aggressor. Our biggest job was trying to make the people see that, as the President said, we couldn't simply climb into bed and pull the covers over our heads.

In those days -- about four years ago -- Gallup polls pointed out that 92% of all Democrats and 94% of all Republicans were saying that we simply should not fight.

Yet steps had to be taken to protect ourselves -- steps that worried some Americans because they thought we were inviting war; inviting war simply because we admitted its approach. But even then we had a good idea of Hitler's program. We felt sure he intended to take Britain in the spring of 1941, and then join forces with Japan and go to work on us in the fall. And we could not be sure that this program would not succeed.

Today everyone everywhere agrees that we were scheduled on the aggressors' program as much as Poland, Czechoslovakia, or Britain. But things were different then.

Even Dunkirk, and the Fall of France, did not arouse the American people to a sense of the reality of the danger ahead.

Here was the very moment when the light of civilization in Europe came nearest to dying, perhaps forever. The British were desperate. Their entire future, their whole defense depended upon getting materiel, and getting it quickly.

Winston Churchill had made it clear that equipment losses at Dunkirk had been staggering. Britain needed everything -- artillery, ammunition, aircraft, and most of all rifles. Every able-bodied man in England had to be prepared to fight off invasion, but in all Britain there were no rifles for them, and not much of anything else, and you can't stop Nazis with sticks and stones.

The British needed help. Somehow, by some means, we had to get them some rifles, and enough other equipment to prepare them for the invasion which seemed imminent -- and which, if it had been imminent, almost certainly would have been successful.

General Marshall, and a group from the War and Navy Departments came several times to my office to discuss what might be done. After twenty years of peace, we had very little equipment of any sort to use in fighting a war. But we felt that if we dug deeply enough we could find some obsolete materiel, and perhaps some equipment in private hands, that would help out. Before long we found quite a collection of usable materiel. For example, we found five hundred old 75 millimeter guns, and four hundred Thompson sub-machine guns left over from the last war. The Navy turned up five thousand obsolete 30-pound bombs and the Army found 560 hundred pounders. Some place, we found 80 out-of-date torpedoes, and someone came up with five hundred 38 caliber revolvers which antedated even the first World War.

To arm the foot soldiers and the Home Guard, we managed to dig up nearly a half million rifles. We might have added to this several thousand more old Springfield 30-30's, but there was no ammunition to be found anywhere in the world, and the guns were no good without bullets.

What was more important, we found that this equipment could be sold legally to the British without involving the American Government in an act of war.

When I look back over the last three or four years, I think this meeting stands out above all else in my mind, because the stakes were so great. I am proud and happy to have had a hand in arranging for this materiel to go to England in her darkest moment. I shudder a little to think

of our cast-off equipment being thrown into battle against the Nazi's modern machinery of war, but it was certainly better than nothing. Britain was again armed, inefficient and meager though the armament may have been, and civilization passed a crisis. But it was a mighty narrow squeak.

It was back in these days when we were struggling to make the public see what stark dangers lay ahead that American advertising men first came to the aid of their Government. It seemed obvious, at least to me, that the American people were not getting the true significance of the news reports. They did not see the approaching danger. Something more positive had to be done. That something, it seemed to me, was some good, factual, hard hitting advertising to help the people see and feel what we were up against.

Not long after that, advertising began to appear. It was bought and paid for by patriotic Americans who took upon themselves the responsibility of making their friends and neighbors aware of the situation. They were written by some of you advertising men, I think, who are here tonight. You were pioneers then. You were pioneering the biggest job of public information in history. And you were pioneering too in giving advertising the dignity of social responsibility.

Obviously we could not continue indefinitely to find antiquated guns and odd bits of equipment in private hands for the British to buy and use. The time had come to take drastic steps. We knew for example that a few months later there would be a crisis in the British Navy; that with the rising power of the German Navy, Britain would have too few ships to defend herself, let alone keep the invading Nazis in any kind of check.

The public had to be made aware of this situation. The majority of newspapers went to work on the problem editorially and you prepared an advertising campaign that helped achieve amazing results. That was only three months after Dunkirk, but the Gallup box score began to look much different than it had before. Sixty percent of the American people stood solidly back of the President in transferring over-aged destroyers to the British to help bolster their Navy. The people were beginning to see.

A few months later there was another educational job to be done. Nazi U-boats were preventing our shipping from reaching its destination. It became necessary either to convoy our freighters or simply to consign a good part of our materiel to Davy Jones. An advertising campaign was planned by you ad men to tell the public about the problem, and again you were helped by many influential editorial columns. I remember one of the advertisements. It was headed "Okay, Mr. President, go ahead and clear the Atlantic."

What the President was able to do in a fireside chat, plus what you were able to do, gained the support of a majority of American voters behind the idea of arming and convoying our ships. Fifty-five percent of the people backed the decision, and only thirty-eight percent definitely opposed it. A few weeks before, fifty percent of the people had been definitely against it and only forty-one percent were willing to see it done. Here again was a victory for the policy of letting the people know the facts.

Public sentiment is much improved now. Today the Nation is not only solidly behind the war, but has gone on record as wishing to take on a big share of the responsibility in helping keep the world peace through world organization.

Much of this change was due to the Jap attack at Pearl Harbor. But even while the Japs were pulling their sneak attack, three out of every ten Americans still felt that it was most important to stay out of the European war.

The striking reversal of public sentiment from narrow isolationism to a complete acceptance of international responsibility is a monument to public education. And some of you who are here in this room, by writing and financing advertising campaigns, had as much to do with that education over a period of time as any other group of people.

Since the early days, when most of the work was done in spare time by patriotic volunteers, you have taken the war as your professional assignment. It is no longer a spare time operation. You are putting your best brains on and converting sizable portions of your appropriations to this war information job. This job which I want to repeat must be stepped up, not tapered off, as we march toward Victory.

Some of this increased war information effort can and should be channeled through bond advertising. Promoting bonds, I feel, is a double-headed job. Half the job is raising money, but the other half is maintenance of interest in this war, and what it means to every American.

We hit a high spot in this job, I believe, the day the Third War Loan opened, which also was the day Italy surrendered. I wondered what the effect would be on the drive. I was not long finding out. One of our State Chairmen called up and said: "Well, I guess the Third War Loan is off -- the war's over and there's no need to raise money."

So we called in the Advertising Council. I asked them: "Write us an advertisement that will stop this in its tracks." They went to work and in a few hours produced what I think was a great advertisement. You may remember it. It said: "Will the Surrender of Italy mean a Home Front Defeat?" Then, because of the smooth working arrangement between your people and ours, the ad started running, the next day, in 970 newspapers throughout the Nation. We followed this up by telling the people the bitter truth about our equipment losses in Sicily. We must have had a sobering effect on a lot of people, because we didn't get any more phone calls, and that particular surge of optimism soon faded away.

I want to make one more observation.

A year ago I went to England. What I saw there gave me a lot of inspiration, and a lot of confidence about the outcome of this war. I came back knowing in my heart that we were going to win. The British had survived the Blitz; the Russians had stopped the German advance; we had halted the Jap drive in the far East. Slowly and painfully the Allies were overtaking the enemy's lead. Obviously, it would take a long time, but in the end we would win.

When I returned from the front early this month, I still felt sure we would win but I felt far more grim about the war than I did a year ago. I had an opportunity to discuss the actual fighting and the nature of our enemy with many American and British officers and men. I was given a pretty clear idea of the heroism required of our men when they face the tough, fanatic Nazis, and as a result I achieved a healthy respect

for the blood and sweat that goes into every foot of enemy ground we take. And I found no evidence anywhere along the line that we are near the end, unless the end should come through some freak of circumstance.

I do not want to underestimate, however, the effects that the terrible defeats in Russia, or the destruction of Germany, must have on the Nazi home front. That destruction must be fantastic. In Italy I saw what bombs can do. I saw the Port of Naples, lying in a mass of ruins. I saw the Port of Palermo in Sicily battered so badly that one sizable ship lay high and dry on a wharf, blown completely out of the water. But General Patton assured me that Palermo was only three or four percent destroyed. Hamburg has been seventy percent destroyed, the Germans themselves admit, and several other Nazi cities have received even more destruction.

Yes, it is conceivable that the Germans can't take it. It is possible that the same thing will happen that happened the last time. We may be awakened some morning by whistles and bells and newspaper boys selling extras.

But is is also possible that we can waste a great deal of precious time thinking about that morning, and we can divert a great deal of our precious energy into making ready for it, and then find that it shows no signs of coming. And in the meantime, good American young men are losing their lives trying to end the war the hard way, because they have no choice except to do it that way, or not at all.

I am glad that you and I have been partners so often in the use of advertising in connection with this war. I have gone over the whole story because I thought you would be interested in it. I have liked working with you. I think you have established a remarkable record. I think the stature of advertising has improved immeasurably as a result of what you people, who have thrown aside all thought of political differences, have done.

But this is no funeral oration. Your job is barely begun. And the job is going to get more difficult every week, and every month, that the war wears on. Because we are going

to get tired. Everybody is going to get tired. We are going to want peace and relief from the restrictions that war puts on what we do, and what we eat, and what we have.

Unconditional surrender is a large order, and there may be a temptation to settle for less as the possibility of peace approaches. I hope you will remember that. I hope you will put your minds to doing something about it, and thus continue the patriotic record that some of you started back in those early days of Defense.

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for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on November 26, 1943 (12).

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, November 19, 1943 (1).

The Secretary of the Treasury, by this public notice, invites tenders for $ 1,000,000,000 (2), or thereabouts, of 90 (3)-day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated November 26, 1943 (4), and will mature February 24, 1944 (5), when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern War time, Monday, November 22, 1943 (6). Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal

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(Over)

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Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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November 12, 1943

Dear Mr. Lilienthal:

I have just learned that the Tennessee Valley Authority is the first Federal agency or department whose employees are regularly devoting over 15 per cent of their pay checks for the purchase of war bonds. I want, through you, to congratulate your entire organization for this outstanding achievement.

Last February, the President expressed a desire that Government employees lead the way in this essential part of our war program. Applying 15 per cent of every pay check to the purchase of war bonds is not only a sure method for the individual to accumulate financial reserves, but it also is a positive means whereby every citizen can render an additional essential service to his country at home and abroad. I hope that this standard of investment in war bonds achieved by Tennessee Valley Authority employees will soon be attained throughout the Federal service.

I wish to commend you and your entire organization of over 24,000 employees for the whole-hearted support of this part of our national program to defeat tyranny abroad and to combat inflation at home.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable David E. Lilienthal,
Chairman,
Tennessee Valley Authority,
Knoxville, Tennessee.

EFB:FS:gr
11/12/43

TREASURY DEPARTMENT
Washington

Immediate

FOR RELEASE Thursday, November 18, 1943,

Press Service
No. 3957

Secretary Morgenthau today commended the Tennessee Valley Authority on becoming the first Federal agency or department whose employees are regularly devoting ~~over~~ more than 15 percent of their pay checks to the purchase of War Bonds.

The Secretary, in a letter to Chairman David E. Lilienthal, conveyed his congratulations to the more than 24,000 employees of the agency for "this outstanding achievement."

"Last February, the President expressed a desire that Government employees lead the way in this essential part of our war program," the Secretary's letter said. "Applying 15 percent of every pay check to the purchase of War Bonds is not only a sure method for the individual to accumulate financial reserves, but it also is a positive means whereby every citizen can render an additional essential service to his country at home and abroad. I hope that this standard of investment in War Bonds achieved by Tennessee Valley Authority employees will soon be attained throughout the Federal Service."

In closing the Secretary said, "I wish to commend you and your entire organization of over 24,000 employees for the whole-hearted support of this part of our national program to defeat tyranny abroad and to combat inflation at home."

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Thursday, November 18, 1943.

Press Service
No. 39-57

Secretary Morgenthau today commended the Tennessee Valley Authority on becoming the first Federal agency or department whose employees are regularly devoting more than 15 percent of their pay checks to the purchase of War Bonds.

The Secretary, in a letter to Chairman David E. Lilienthal, conveyed his congratulations to the more than 24,000 employees of the agency for "this outstanding achievement."

"Last February, the President expressed a desire that Government employees lead the way in this essential part of our war program," the Secretary's letter said. "Applying 15 percent of every pay check to the purchase of War Bonds is not only a sure method for the individual to accumulate financial reserves, but it also is a positive means whereby every citizen can render an additional essential service to his country at home and abroad. I hope that this standard of investment in War Bonds achieved by Tennessee Valley Authority employees will soon be attained throughout the Federal service."

In closing the Secretary said "I wish to commend you and your entire organization of over 24,000 employees for the whole-hearted support of this part of our national program to defeat tyranny abroad and to combat inflation at home."

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So oft in theologic wars
The disputants, I ween,
Rail on in utter ignorance
Of what each other mean,
And prate about an elephant
Not one of them has seen!

In simplifying our tax laws we need, like the men of Indostan, to recover our sight. We need the miracle of restored vision so we can see the whole elephant.

oOo

Is mighty plain," quoth he:
"'Tis clear enough the elephant
Is very like a tree!"

The fifth who chanced to touch the ear
Said: "E'en the blindest man
Can tell what this resembles most;
Deny the fact who can,
This marvel of an elephant
Is very like a fan!"

The sixth no sooner had begun
About the beast to grope
Than, seizing on the swinging tail
That fell within his scope,
"I see," quoth he, "the elephant
Is very like a rope!"

And so these men of Indostan
Disputed loud and long,
Each in his own opinion
Exceeding stiff and strong,
Though each was partly in the right,
And all were in the wrong!

So oft in theologic

The first approached the elephant
And, happening to fall
Against his broad and sturdy side
At once began to bawl:
"God bless me! but the elephant
Is very like a wall!"

The second feeling of the tusk,
Cried: "Ho! what have we here
So very round and smooth and sharp?
To me 'tis mighty clear
This wonder of an elephant
Is very like a spear!"

The third approached the animal
And happening to take
The squirming trunk within his hands
Thus boldly up and spake:
"I see," quoth he, "the elephant
Is very like a snake!"

The fourth reached out his eager hand,
And felt about the knee:
"What most this wondrous beast is like

Is mighty plain,"

Conclusion

"Simplify Our Tax Laws" has become a kind of slogan. Slogans are valuable instruments at times. They engender the enthusiasm needed to produce results. But they may also be dangerous weapons. Applied to tax law they are dangerous because they compress too much into too few words - a fault, I hasten to add, which cannot always be fairly ascribed to lawyers. They end by meaning nothing, or perhaps whatever anyone wants them to mean. In meaning all things to all men they mean nothing to any man. There is profound significance in the tale of "The Blind Men and the Elephant:"

It was six men of Indostan
To learning much inclined
Who went to see the elephant
(Though all of them were blind).
That each of observation
Might satisfy his mind.

The first approached

the present tax the amount of tax paid by deficit corporations is relatively small - only about 11 percent of total collections at 1942 levels of income.

Nor does this small amount of revenue come in an equitable fashion from deficit corporations. The taxes falling on such corporations bear no relation to equity, to capital, to total assets, to invested capital, to gross sales, to the size of the deficit, or to any reasonable measure of privilege or taxpaying ability. The impact of the tax is capricious. It depends upon the accuracy of a forecast made by the corporate directors at a time when prophecy is a perilous adventure. In all these circumstances there remains little excuse for encumbering corporate tax structure with this freakish tax.

Conclusion

"Simplify Our Tax Laws"

under $5,000 paid capital stock and excess profits taxes equal to 6.5 percent of their aggregate net income while corporations with net incomes of $5 million and over paid taxes of only 1 percent of their net income.

It is argued by some that this tax is a suitable method of taxing deficit corporations. I had thought that our purpose today should be in the other direction - to tax corporations with swollen war profits at high rates and to relieve corporations with deficits occasioned in large part by economic events beyond their control. It is true that the old capital stock tax of the Twenties fell to a considerable extent on deficit corporations because those corporations were obliged to pay taxes on the fair value of capital stock regardless of their expectations of income or deficit. Under the present tax

upon this point leads to the very clear conclusion that small corporations are relatively harder hit by the tax than are larger corporations. This is because small corporations experience fluctuating earnings to much greater extent than do large corporations. For example, in 1937 corporations with total assets of less than $50,000 had an average declared value of 197 percent of their equity capital while corporations with 50 million dollars or more of total assets had an average declared value of less than 62 percent of equity capital. In 1937 the ratio of tax to normal tax net income was 2.7 percent for corporations with under $50,000 of total assets. The ratio for corporations with assets of $100,000,000 and over was 1.8 percent. In 1936 corporations with net income of under $5,000 paid

based upon actual, and not declared, value. The tax was abandoned because of valuation difficulties. The year 1933 saw the origin of the present type of capital stock tax, which totally disregards actual value and is based upon the value the corporation wishes to declare, with no regard for book, market value of assets, or earnings record. The function of a declaration is simply to take out insurance against the declared value excess profits tax; this tax penalizes corporations which guess wrong in making their declaration. In actual practice corporations make their declaration of value entirely with the purpose of saving themselves from the heavier impact of the declared value excess-profits tax.

You may be interested in the relative impact of the tax upon large and small corporations. The Treasury's research upon this point leads

not the least of which is that the same revenues could be collected from substantially the same corporations by increasing the corporate tax rate. These taxes are, therefore, nothing more than an unreasonable duplication in the corporate tax structure, requiring for compliance scarce manpower and trained personnel.

The Treasury did not again in 1943 specifically recommend the elimination of the capital stock and declared value excess-profits taxes, but I would like to discuss the subject briefly with you because I believe the days of these taxes are numbered. I would also like to secure your cooperation in effecting their ultimate repeal.

You all know the history of the capital stock tax. Beginning in 1917 and through 1926 we had a capital stock tax based upon actual,

Corporate Tax Simplification

So far I have been talking about simplification on behalf of individual taxpayers. I have limited my discussion of that subject to the return front. Much more remains to be said on other individual tax fronts, but I should like to say a few words before I close regarding one item of corporate tax simplification.

Capital Stock and the Declared-Value Excess Profits Tax

In 1942 I attempted on behalf of the Treasury to persuade Congress to eliminate the capital stock and the declared-value excess-profits taxes. I was unable to persuade the Ways and Means Committee, but was more successful with the Senate Finance Committee. The latter committee receded in conference, however, and we still have in the statute these utterly indefensible taxes. They are indefensible for many reasons, not the least of which

addition we raised the present requirement relating to outside income, other than salaries, from $100 to a somewhat higher figure.

Additional Suggestions for Simplifying Returns

I do not want you to think that I have attempted to cover even the limited subject of simplification on the return front. Many additional suggestions are in the mill which, I might add, grinds slowly. Could we have different filing dates by classes of taxpayers, corporate and individual, or by divisions within one class of taxpayers on an alphabetical basis? How may return forms be set up to enable taxpayers to do their arithmetic more easily? These are merely examples of activity in the Treasury in its constant effort to improve the administration of our tax laws and to make taxpayer compliance less burdensome than it now is.

Corporate Tax Simplification

So far I have been

Investigation of this proposal reveals further interesting data. At present the first $2,000 bracket covers about 33,000,000 taxpayers. The remaining 23 brackets cover less than 7,000,000 taxpayers. The lesson of these figures is that our rate structure lacks refinement for the great majority of taxpayers. However, the moment we try to provide better progression, we have to face the necessity for graduated withholding. As I have said, this can be accomplished. The by-product of graduated withholding -- which enables us to accomplish the desirable objective of refining the rate structure for the great majority of taxpayers -- is the elimination of many quarterly declarations for persons in receipt of salaries above the present first bracket of surtax. A greater number of declarations could be eliminated if in addition we raised

Employer groups with whom withholding problems have been discussed have indicated the desirability of graduated withholding from the standpoint of their relationships with employees. At the time for filing the first of the new quarterly declarations this past September, several large employers reported that requests from employees for information as to total amounts of wage and of withholding over the year, as well as for assistance in the computations and the preparation of the form, resulted in significant additional burdens for their tax and accounting staffs. The question arises whether graduated withholding would unduly complicate the preparation of payrolls. Careful study, as well as discussions with employer groups, indicates that little or no extra burden upon employers would result.

Investigation of this

Treasury has recommended to the Committee that collection at the source be made to apply to the taxpayer's full liability rather than merely to his partial liability under the normal tax and the first bracket of surtax. The method for accomplishing this result would be to have a series of withholding rates applicable to gross wages, as a substitute for the present precise rates. This series of withholding rates would be expressed in tables based on the status of the taxpayer. There could also be tables calculating the amounts to be withheld, as at the present time.

Any objections to the inaccuracies resulting from the wide brackets in the present-law tables would be minimized by providing substantially narrower brackets over the ranges of wage within which most employees fall.

Employer groups with

to claim refunds and those who have substantial additional taxes to pay would be permitted or required to file. A third interpretation of "elimination" is that taxpayers would be required to furnish only a minimum of information; their taxes would be computed for them by the government and refunds or additional assessments would be issued without further action on their part. These alternative solutions and others are being closely examined in the Treasury.

Graduated Withholding

Simplification is possible also in the domain of withholding. One suggestion, originated with Judge Vinson and recently made to the Ways and Means Committee, was that withholding would be on a gross basis under a system which would enable taxpayers to understand instantly what percentage of their salaries was being withheld at the source. The Treasury has recommended

returns play in educating citizens in their role as taxpayers and in stimulating a sense of direct participation in government should not be overlooked.

In discussing the elimination of returns it is important to recognize that different people mean different things by the phrase, "elimination of returns". Some mean that we should go from an annual accounting period to a payroll accounting period, and that withholding should itself be the tax. Under this interpretation a broad class of taxpayers would be neither required nor permitted to file. The inequities of such a solution and the great difficulty of drawing a line between filers and non-filers make its adoption highly questionable. Other people mean by "elimination of returns" that the annual accounting period be retained, but that only those who wish

to claim refunds

and find the making of returns most difficult. It is also argued that paper work would be reduced and administration simplified.

On the other hand, several important considerations militate against the elimination of returns. If returns are eliminated, administrative controls over taxpayers and employers will be weakened. The morale value of a tax return made under penalty of perjury will be lost. The possibility of a cross-check of employee returns against employer reports will be gone. It is well to remember also that taxpayer returns serve as the basis for adjusting the over-collections and under-collections which are inevitable in any withholding system. In cases of part-year unemployment, change of family status, and double employment, for example, these adjustments may be quite substantial. Then, too, the function which

returns play in

still compute their tax both ways in order to be sure that they were paying the lowest possible tax. We are working on this problem in the Treasury and hope to present definite recommendations to the Congress in the near future.

Eliminating Some March 15 Returns

Now that we have collection at the source, you have heard much discussion of the possibility of eliminating March 15 returns for persons entirely in the first surtax bracket, whose liabilities are collected at the source. This is another matter under serious consideration in the Treasury. There are arguments on both sides of the question. On the one hand, it is certain that the elimination of March 15 returns would simplify taxpayer compliance and reduce taxpayer irritation. The persons relieved of filing returns would be those in the lowest taxable bracket; these taxpayers are least familiar with tax procedures and find the making

which permits the use of Form 1040A by taxpayers having gross income of not more than $3,000 consisting of salaries, dividends, interest and annuities. It has been suggested that the $3,000 boundary be raised. There are 5 million taxpayers having gross income between $3,000 and $5,000, of which 2 million taxpayers would be eligible to use Form 1040A, if it were extended. It would be a convenience to taxpayers with incomes above $3,000 to use Form 1040A. Taxpayer convenience coincides with administrative economy, since the estimated cost of handling the simpler form is less than half the cost of handling the longer Form 1040.

On the other hand, the extension I have suggested would cost about $17 million in revenue, and no doubt many persons entitled to use the simplified form under the extension would still compute their

outlines of which can be explained by one neighbor to another. The minimum tax, and the table it requires, can be explained by one expert to another, but not by neighbors over the back fence. It seems clear that the collection of about $300,000,000 of tax from these particular individuals, less than 2 percent of our income tax collections from individuals, is not worth the complexity involved in this minimum tax. Moreover, to exact a tax from incomes at the subsistence level is a questionable contribution to the fight against inflation. The revenue will not be lost, since it can be distributed throughout the surtax brackets.

Extending use of Form 1040A

I now turn to a possible simplification -- a homely remedy for the deductions tangle. You are familiar with Supplement T, which permits the use

calls for a set of exemptions different from those applicable for purposes of the regular income tax. This necessitates a table, giving a series of breaking points showing which tax applies -- the minimum tax or the regular income tax. The treatment of joint and separate returns presents further complications as to choice of return. There are several zones in which one of two forms of filing is more desirable, the limits of the zones varying with dependency status and division of income between husband and wife. Taxpayers will be forced to make alternative computations in order to ascertain whether to file Form 1040A or Form 1040 and whether to file joint or separate returns.

Simplicity is not to be found in mechanical forms which are not easily understood. It calls for a tax the basic outlines of which

elimination of the Victory tax. The adoption of these proposals would have enormously simplified returns. Indeed, it is doubtful whether any adequate simplification can be achieved without the elimination of the Victory tax.

The Ways and Means Committee has adopted a minimum tax plan in lieu of the Victory tax. The minimum tax is three percent of regular statutory net income with exemptions of $500 for a single person, $700 for married persons without dependents, and $100 for each dependent. Married persons filing separate returns are entitled to a single person's minimum tax exemption, and are required to take a single person's regular tax exemption. This proposal also increases the normal tax to 10 percent.

I shall not burden you with a long explanation of the defects of this substituted proposal. You will note that it

calls for a set

a separate concept of taxable income. The tax has a different set of exemptions. The dependency credit is recognized only in a complicated postwar credit. The faulty structure of the tax was recognized by Congress when it eliminated the postwar aspects of the credit for 1943. The Ways and Means Committee has followed by integrating the tax with the regular income tax for 1944.

In his statement of October 4 before the Ways and Means Committee, the Secretary of the Treasury proposed the elimination of the Victory tax and the lowering of the regular exemptions for married persons without dependents from $1,200 to $1,100, and from $350 for each dependent to $300. The Secretary also proposed raising the surtax and the elimination of the earned income credit to recapture some of the revenue lost by the elimination of the

Elimination of the Victory Tax

In the 1942 Act the Senate Finance Committee inserted, and the conference committee accepted, the famous "Victory" tax. The object was to reach by a special tax incomes below the exemption levels of the 1942 Act -- $1200 for a married person without dependents, $500 for a single person and $350 for each dependent. As a matter of fact, the Victory tax collected from persons in these low brackets only about $300,000,000 of revenue. The balance of the $3 billion yield of the tax came from persons already subject to the regular income tax. It is a matter of indifference to these higher bracket taxpayers whether a particular dollar of tax paid is labeled Victory or income tax.

To you, I need not elaborate upon the complications of the Victory tax. Its special set of deductions results in

a separate concept

tax-exempt bondholders the exact benefit they possess today and would limit extra computations to the few taxpayers who own tax exempt bonds. I am confident that such an amendment would be constitutional.

Our rate for the first $2,000 of net income could then be 19 percent -- 6 percent present normal tax plus 13 percent, the first surtax bracket. For the second $2,000, the rate could be 22 percent -- 6 percent plus 16 percent. This simplification can be extended throughout the rate structure.

Treatment of Tax-Exempt Securities

One precaution need be taken. About $7 billion dollars of partially tax-exempt securities are outstanding. We do not wish to enlarge the benefits of this exemption, nor do we wish to repudiate a contract of exemption. The status quo can be preserved by allowing, in lieu of the present credit against net income, a credit against the tax of 6 percent of partially tax exempt interest, or of net income after the exemption, whichever is lower. This would give partially

tax-exempt bondholders

palliative remedy, the Treasury has recommended the consolidation of the normal tax and the surtax. You are well aware of the defects of the present system. The earned income credit and the issuance prior to 1941 of partially exempt federal bonds are the only remaining excuses for two concepts of net income -- one for normal tax purposes and the other for surtax purposes. If we eliminate the earned income credit, only one reason remains for submitting to the difficulty involved in expressing the rates of tax. This complicates returns, making necessary two statements of net income and two computations of separate tax liability which must be added together.

The obvious solution is to integrate rates into one schedule and limit ourselves to one concept of net income.

Our rate for the first

If this earned income credit were a true earned income credit, it might be worth the complication it involves. The extension of the credit to the first $3,000 of net income, irrespective of its character, thwarts the objective of favoring earned income. This presumption is required by administrative necessity; it would be impossible for the Bureau to check the type of income received by the millions of taxpayers in the lowest brackets. Since we cannot achieve a practicable discrimination in favor of earned income, we may as well avoid the complexities inherent in an unsuccessful attempt. The elimination of the credit will be a distinct step toward simplification.

Consolidation of Normal Tax and Surtax

Part of the trouble with tax calculation arises from the fact that we have so many different rates. As a partial and palliative remedy, the

this level. I should like to discuss some of these changes with you in detail. We shall need your help. In the campaign for simplification you can help best if you understand what we are trying to do.

The Earned Income Credit

At the suggestion of the Treasury the House Ways and Means Committee voted the elimination of the earned income credit now in the statute. This credit, as you know, is 10 percent of earned net income or of net income, whichever is lower, up to $14,000. The first $3,000 of income, whatever its character -- even though it be dividends or bond interest - is presumed to be earned income. The credit is only for normal tax purposes, which means that its maximum value at the $14,000 level is $84.

If this earned income

Simplification at the Return Level

In 1932 exemptions and national income were at such a level that slightly less than 2 million returns were filed with the Bureau of Internal Revenue. For the year 1944 it is expected that more than 44 million returns will be received. This increase in the number of taxpayers intensifies the need for simplification. The income tax must permit of simple acts by taxpayers if full compliance is to be achieved. Most taxpayers are not concerned with what the statute or the regulations or the court decisions say. To the man in the street the income tax return and the instructions on that return are the whole story. It is logical then that simplification should commence at the return level.

The Treasury has recommended a number of changes in our tax structure which will help to achieve simplification at this level. I should

may be done quickly on the basis of sufficient knowledge at hand, and there are things which it would be unwise to attempt without a further clarification of issues and considerable additional investigation of law and facts. In this latter category fall changes in the "reorganization" provisions and more satisfactory correlation of the income, estate and gift taxes. Powers of appointment remain troublesome, but perhaps it is well to make haste slowly in this highly technical field of estate tax law. Trusts are a thorn in the flesh of the income, estate, and gift taxes. The Treasury is working upon these and many other problems, and has called upon the outside Tax Bar for suggestions and advice; a special committee is working upon estate and gift tax correlation. We hope to be able to deal intelligently with these problems when we get to the 1944 administrative revenue act.

Simplification at the Return Level

In 1932 exemptions and

be handled by the Bureau of Internal Revenue is a vital matter, but it is even more vital that these returns be as simple as possible. The difficulty with complicated returns does not end with their filing; they must be audited. Correspondence may be necessary. Interviews with taxpayers and their representatives may be required. The number of direct contacts with the individual taxpayer, and the clerical work of keeping accounts with him and his employer, are matters of intense concern to a Bureau of Internal Revenue which desires to afford every aid possible to puzzled taxpayers. Finally, there is the process of judicial review. The simpler our tax laws are made, the easier the whole process of administration and interpretation becomes.

Dual Nature of the Problem

Simplification is a vast subject. There are things that may be done quickly

Basic policy conflicts are frequent in the statute; the essential pattern of objective is vague. Concepts have changed; the desire to prevent inflation is a novel tax motive. Taxation has new folkways. The future is a black imponderable. In all this whirl taxpayers glance with nostalgia toward the old certainties they once thought they had, and the present becomes more uncertain than ever.

From the standpoint of the Treasury simplification has still another definition. We certainly recognize that the success of the income tax depends on achieving the utmost desirable simplicity. This is essential to taxpayer good-will, which in turn is essential to successful administration. But we have our own internal problems, which at the moment are greatly intensified by our inability to secure accounting machinery and hold personnel. The number of returns which must

be handled by the Bureau

a few lines which can be filled in swiftly without digging deep into old papers. In short, it means a tax structure which the casual newspaper reader can understand with no more mental strain than it takes to follow Joe Palooka.

Some taxpayers probably use the word "simplification" in the sense of certainty. They are perplexed by our tax laws. They don't know how much they owe. The statute is filled with provisions which only the expert can understand, and he sometimes has a hard time. In fact, the expert's difficulty ~~sometimes~~ now and then parallels the situation in which Robert Browning found himself in "The Barretts of Wimpole Street." You remember that Elizabeth Barrett asked the poet the meaning of some of his lines. After Browning had read them aloud three times he said: "Elizabeth, when those lines were written, God and Robert Browning knew what they meant. Now God alone knows."

Basic policy conflicts

The Meaning of Simplification

When any words become as popular as the words "tax simplification" have recently become, one may be very sure that the phrase means many different things to many different people. The words may mean so much that they mean little or nothing. Certainly the term "tax simplification" is a vague abstraction, and it is necessary to look behind it for the concrete meanings which it holds. I have tried to gather together from conversations, newspaper stories, and revenue hearings some of these diverse meanings.

From the standpoint of individual taxpayers and the small business man simplification means a number of things. It means a minimization of tax arithmetic. It means the elimination of unnecessary records. It means the reduction of tax forms to a few lines which can be

In the pay-as-you-go procedure we were putting a burden upon employers. In one sense we were asking them to become deputy collectors of internal revenue. It was only fair, therefore, to consider their convenience, as well as the convenience of employees. This meant that we had to reduce the classification of employees to a minimum in order that the accounting problems of employers would not be too irksome. In other words, we had to withhold on an approximate basis, grouping particular employees according to the band method. We did not wish to require employers to make specific computations which would result in exact withholding. Nor did we want to permit too many changes in exemption status during the year. A choice had to be made between the relative convenience of employers and employees.

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For example, it seemed very desirable when we were working on the 1942 Revenue Act to introduce collection at the source into our tax structure. You will remember that such a system was introduced at the beginning of 1943 to expedite the collection of the Victory tax. It was extended in the Current Tax Payment Act to cover the normal tax and the first bracket of surtax. In connection with collection at the source we found specific application of the maxim that one man's meat is another man's poison.

It is to the interest of employees that the amount of tax withheld at the source be matched as closely as possible with final tax liability. Under-withholding may mean loss to the Government. Over-withholding may mean inconvenience, and even hardship, to employees. But the question cannot be approached only from this one angle.

In the pay-as-you-go

What is simple may not be equitable. What is equitable may of necessity be complicated. In other words, simplicity and equity are often incompatible and we are forced to choose between them. In choosing we must weigh advantages gained against advantages lost, knowing what we are doing when we make an election. A sufficiently desirable objective, either by way of relief or by way of preventing tax avoidance, may be worth some complication. A particular item of simplicity may not be worth the inequity it entails. The question is one of price, and our first choice should be the simplicities that are the best bargains.

Then, too, there is something ad hominem about simplification. What is simple to one taxpayer may not be simple to another who plays a part in administering the tax. For example, it seemed

very simply. But the relief provisions which that rate makes imperative must be extremely complicated. Still another contribution to complexity stems from our manifold system of administrative and judicial interpretation.

War taxation adds its own complications. You are all familiar with the paradox on the economic front that in wartime increased purchasing power means fewer purchasable goods. The same condition that produces plentitude of income also produces scarcity of goods. On the simplification front one finds another curious paradox. War taxation leads at the same time to a general demand for simplification and a maximum of specific requests for complicating amendments.

Competing Considerations

We have then a basic conflict. In tax law, as more generally, there are almost always competing considerations. What is simple may

Apparently I did not talk for thirty minutes when I was last in Chicago for I do not believe that I said everything there is to say about simplification. Perhaps you will allow me to begin now where I left off then.

Today we sometimes think that we are victims of a malady which never attacked anyone before. But complaints about the complexity of our tax laws are an old story. The patient has been suffering for a long time; the disease has become a national scourge; it has even crossed national boundary lines.

Causes of Complexity

The first thing we discover when we attempt to diagnose this complaint is that there is no single cause. Our tax system did not become complicated overnight. Some complexity originates in a commendable Congressional desire to prevent tax avoidance. Sometimes a commendable desire to give tax relief results in complication. A 90 percent excess profits tax can be written very simply.

SIMPLIFYING OUR TAX LAWS

I am at a peculiar disadvantage this afternoon. A little more than a month ago here in Chicago, I addressed a group of business men. My subject was "Simplification of Our Tax Laws." I am here today to discuss "Simplifying Our Tax Laws." You see my dilemma.

It reminds me of a story which is told of the eminent naturalist, Agassiz. When he was to deliver his first visiting lecture in Zurich, he had grave doubts about his ability to occupy the prescribed three-quarters of an hour. He was speaking without notes, and from time to time he glanced anxiously at the watch that lay before him on the desk. When he had spoken half an hour, he felt that he had told the audience everything he knew in the world. "From that point on", he said, "I began to repeat myself and I have done nothing else ever since."

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TREASURY DEPARTMENT
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The simpler our tax laws are made, the easier the whole process of administration and interpretation becomes.

Dual Nature of the Problem

Simplification is a vast subject. There are things that may be done quickly on the basis of sufficient knowledge at hand, and there are things which it would be unwise to attempt without a further clarification of issues and considerable additional investigation of law and facts. In this latter category fall changes in the "reorganization" provisions and more satisfactory correlation of the income, estate and gift taxes. Powers of appointment remain troublesome, but perhaps it is well to make haste slowly in this highly technical field of estate tax law. Trusts are a thorn in the flesh of the income, estate, and gift taxes. The Treasury is working upon these and many other problems, and has called upon the outside Tax Bar for suggestions and advice; a special committee is working upon estate and gift tax correlation. We hope to be able to deal intelligently with these problems when we get to the 1944 administrative revenue act.

Simplification at the Return Level

In 1932 exemptions and national income were at such a level that slightly less than 2 million returns were filed with the Bureau of Internal Revenue. For the year 1944 it is expected that more than 44 million returns will be received. This increase in the number of taxpayers intensifies the need for simplification. The income tax must permit of simple acts by taxpayers if full compliance is to be achieved. Most taxpayers are not concerned with what the statute or the regulations or the court decisions say. To the man in the street the income tax return and the instructions on that return are the whole story. It is logical then that simplification should commence at the return level.

The Treasury has recommended a number of changes in our tax structure which will help to achieve simplification at this level. I should like to discuss some of these changes with you in detail. We shall need your help. In the campaign for simplification you can help best if you understand what we are trying to do.

The Earned Income Credit

At the suggestion of the Treasury the House Ways and Means Committee voted the elimination of the earned income credit now in the statute. This credit, as you know, is 10 percent of earned net income or of net income, whichever is lower, up to $14,000. The first $3,000 of income, whatever its character -- even though it be dividends or bond interest - is presumed to be earned income. The credit is only for normal tax purposes, which means that its maximum value at the $14,000 level is $84.

If this earned income credit were a true earned income credit, it might be worth the complication it involves. The extension of the credit to the first $3,000 of net income, irrespective of its character, thwarts

the objective of favoring earned income. This presumption is required by administrative necessity; it would be impossible for the Bureau to check the type of income received by the millions of taxpayers in the lowest brackets. Since we cannot achieve a practicable discrimination in favor of earned income, we may as well avoid the complexities inherent in an unsuccessful attempt. The elimination of the credit will be a distinct step toward simplification.

Consolidation of Normal Tax and Surtax

Part of the trouble with tax calculation arises from the fact that we have so many different rates. As a partial and palliative remedy, the Treasury has recommended the consolidation of the normal tax and the surtax. You are well aware of the defects of the present system. The earned income credit and the issuance prior to 1941 of partially exempt federal bonds are the only remaining excuses for two concepts of net income -- one for normal tax purposes and the other for surtax purposes. If we eliminate the earned income credit, only one reason remains for submitting to the difficulty involved in expressing the rates of tax. This complicates returns, making necessary two statements of net income and two computations of separate tax liability which must be added together.

The obvious solution is to integrate rates into one schedule and limit ourselves to one concept of net income. Our rate for the first $2,000 of net income could then be 19 percent -- 6 percent present normal tax plus 13 percent, the first surtax bracket. For the second $2,000, the rate could be 22 percent -- 6 percent plus 16 percent. This simplification can be extended throughout the rate structure.

Treatment of Tax-Exempt Securities

One precaution need be taken. About $7 billion of partially tax-exempt securities are outstanding. We do not wish to enlarge the benefits of this exemption, nor do we wish to repudiate a contract of exemption. The status quo can be preserved by allowing, in lieu of the present credit against net income, a credit against the tax of 6 percent of partially tax exempt interest, or of net income after the exemption, whichever is lower. This would give partially tax-exempt bondholders the exact benefit they possess today and would limit extra computations to the few taxpayers who own tax exempt bonds. I am confident that such an amendment would be constitutional.

Elimination of the Victory Tax

In the 1942 Act the Senate Finance Committee inserted, and the conference committee accepted, the famous "Victory" tax. The object was to reach by a special tax incomes below the exemption levels of the 1942 Act -- $1,200 for a married person without dependents, $500 for a single person and $350 for each dependent. As a matter of fact, the Victory tax collected from persons in these low brackets only about $300,000,000 of revenue.

The balance of the $3 billion yield of the tax came from persons already subject to the regular income tax. It is a matter of indifference to these higher bracket taxpayers whether a particular dollar of tax paid is labeled Victory or income tax.

To you, I need not elaborate upon the complications of the Victory tax. Its special set of deductions results in a separate concept of taxable income. The tax has a different set of exemptions. The dependency credit is recognized only in a complicated postwar credit. The faulty structure of the tax was recognized by Congress when it eliminated the postwar aspects of the credit for 1943. The Ways and Means Committee has followed by integrating the tax with the regular income tax for 1944.

In his statement of October 4 before the Ways and Means Committee, the Secretary of the Treasury proposed the elimination of the Victory tax and the lowering of the regular exemptions for married persons without dependents from $1,200 to $1,100, and from $350 for each dependent to $300. The Secretary also proposed raising the surtax and the elimination of the earned income credit to recapture some of the revenue lost by the elimination of the Victory tax. The adoption of these proposals would have enormously simplified returns. Indeed, it is doubtful whether any adequate simplification can be achieved without the elimination of the Victory tax.

The Ways and Means Committee has adopted a minimum tax plan in lieu of the Victory tax. The minimum tax is three percent of regular statutory net income with exemptions of $500 for a single person, $700 for married persons without dependents, and $100 for each dependent. Married persons filing separate returns are entitled to a single person's minimum tax exemption, and are required to take a single person's regular tax exemption. This proposal also increases the normal tax to 10 percent.

I shall not burden you with a long explanation of the defects of this substituted proposal. You will note that it calls for a set of exemptions different from those applicable for purposes of the regular income tax. This necessitates a table, giving a series of breaking points showing which tax applies -- the minimum tax or the regular income tax. The treatment of joint and separate returns presents further complications as to choice of return. There are several zones in which one of two forms of filing is more desirable, the limits of the zones varying with dependency status and division of income between husband and wife. Taxpayers will be forced to make alternative computations in order to ascertain whether to file Form 1040A or Form 1040 and whether to file joint or separate returns.

Simplicity is not to be found in mechanical forms which are not easily understood. It calls for a tax the basic outlines of which can be explained by one neighbor to another. The minimum tax, and the table it requires, can be explained by one expert to another, but not by neighbors over the back fence. It seems clear that the collection of about $300,000,000 of tax from these particular individuals, less than 2 percent of our income tax collections from individuals, is not worth the complexity involved in this minimum tax. Moreover, to exact a tax from incomes at the subsistence level is a questionable contribution to the fight against inflation. The revenue will not be lost, since it can be distributed throughout the surtax brackets.

Extending Use of Form 1040A

I now turn to a possible simplification -- a homely remedy for the deductions tangle. You are familiar with Supplement T, which permits the use of Form 1040A by taxpayers having gross income of not more than $3,000 consisting of salaries, dividends, interest and annuities. It has been suggested that the $3,000 boundary be raised. There are 5 million taxpayers having gross income between $3,000 and $5,000, of which 2 million taxpayers would be eligible to use Form 1040A, if it were extended. It would be a convenience to taxpayers with incomes above $3,000 to use Form 1040A. Taxpayer convenience coincides with administrative economy, since the estimated cost of handling the simpler form is less than half the cost of handling the longer Form 1040.

On the other hand, the extension I have suggested would cost about $17 million in revenue, and no doubt many persons entitled to use the simplified form under the extension would still compute their tax both ways in order to be sure that they were paying the lowest possible tax. We are working on this problem in the Treasury and hope to present definite recommendations to the Congress in the near future.

Eliminating Some March 15 Returns

Now that we have collection at the source, you have heard much discussion of the possibility of eliminating March 15 returns for persons entirely in the first surtax bracket, whose liabilities are collected at the source. This is another matter under serious consideration in the Treasury. There are arguments on both sides of the question. On the one hand, it is certain that the elimination of March 15 returns would simplify taxpayer compliance and reduce taxpayer irritation. The persons relieved of filing returns would be those in the lowest taxable bracket; these taxpayers are least familiar with tax procedures and find the making of returns most difficult. It is also argued that paper work would be reduced and administration simplified.

On the other hand, several important considerations militate against the elimination of returns. If returns are eliminated, administrative controls over taxpayers and employers will be weakened. The morale value of a tax return made under penalty of perjury will be lost. The possibility of a cross-check of employee returns against employer reports will be gone. It is well to remember also that taxpayer returns serve as the basis for adjusting the over-collections and under-collections which are inevitable in any withholding system. In cases of part-year unemployment, change of family status, and double employment, for example, these adjustments may be quite substantial. Then, too, the function which returns play in educating citizens in their role as taxpayers and in stimulating a sense of direct participation in government should not be overlooked.

In discussing the elimination of returns it is important to recognize that different people mean different things by the phrase, "elimination of returns". Some mean that we should go from an annual accounting period

to a payroll accounting period, and that withholding should itself be the tax. Under this interpretation a broad class of taxpayers would be neither required nor permitted to file. The inequities of such a solution and the great difficulty of drawing a line between filers and non-filers make its adoption highly questionable. Other people mean by "elimination of returns" that the annual accounting period be retained, but that only those who wish to claim refunds and those who have substantial additional taxes to pay would be permitted or required to file. A third interpretation of "elimination" is that taxpayers would be required to furnish only a minimum of information; their taxes would be computed for them by the government and refunds or additional assessments would be issued without further action on their part. These alternative solutions and others are being closely examined in the Treasury.

Graduated Withholding

Simplification is possible also in the domain of withholding. One suggestion, originating with Judge Vinson and recently made to the Ways and Means Committee, was that withholding would be on a gross basis under a system which would enable taxpayers to understand instantly what percentage of their salaries was being withheld at the source. The Treasury has recommended to the Committee that collection at the source be made to apply to the taxpayer's full liability rather than merely to his partial liability under the normal tax and the first bracket of surtax. The method for accomplishing this result would be to have a series of withholding rates applicable to gross wages, as a substitute for the present precise rates. This series of withholding rates would be expressed in tables based on the status of the taxpayer. There could also be tables calculating the amounts to be withheld, as at the present time.

Any objections to the inaccuracies resulting from the wide brackets in the present-law tables would be minimized by providing substantially narrower brackets over the ranges of wage within which most employees fall.

Employer groups with whom withholding problems have been discussed have indicated the desirability of graduated withholding from the standpoint of their relationships with employees. At the time for filing the first of the new quarterly declarations this past September, several large employers reported that requests from employees for information as to total amounts of wage and of withholding over the year, as well as for assistance in the computations and the preparation of the form, resulted in significant additional burdens for their tax and accounting staffs. The question arises whether graduated withholding would unduly complicate the preparation of payrolls. Careful study, as well as discussions with employer groups, indicates that little or no extra burden upon employers would result.

Investigation of this proposal reveals further interesting data. At present the first $2,000 bracket covers about 33,000,000 taxpayers. The remaining 23 brackets cover less than 7,000,000 taxpayers. The lesson of these figures is that our rate structure lacks refinement for the great majority of taxpayers. However, the moment we try to provide better progression, we have to face the necessity for graduated withholding.

As I have said, this can be accomplished. The by-product of graduated withholding -- which enables us to accomplish the desirable objective of refining the rate structure for the great majority of taxpayers -- is the elimination of many quarterly declarations for persons in receipt of salaries above the present first bracket of surtax. A greater number of declarations could be eliminated if in addition we raised the present requirement relating to outside income, other than salaries, from $100 to a somewhat higher figure.

Additional Suggestions for Simplifying Returns

I do not want you to think that I have attempted to cover even the limited subject of simplification on the return front. Many additional suggestions are in the mill which, I might add, grinds slowly. Could we have different filing dates by classes of taxpayers, corporate and individual, or by divisions within one class of taxpayers on an alphabetical basis? How may return forms be set up to enable taxpayers to do their arithmetic more easily? These are merely examples of activity in the Treasury in its constant effort to improve the administration of our tax laws and to make taxpayer compliance less burdensome than it now is.

Corporate Tax Simplification

So far I have been talking about simplification on behalf of individual taxpayers. I have limited my discussion of that subject to the return front. Much more remains to be said on other individual tax fronts, but I should like to say a few words before I close regarding one item of corporate tax simplification.

Capital Stock and the Declared-Value Excess Profits Tax

In 1942 I attempted on behalf of the Treasury to persuade Congress to eliminate the capital stock and the declared-value excess-profits taxes. I was unable to persuade the Ways and Means Committee, but was more successful with the Senate Finance Committee. The latter committee receded in conference, however, and we still have in the statute these utterly indefensible taxes. They are indefensible for many reasons, not the least of which is that the same revenues could be collected from substantially the same corporations by increasing the corporate tax rate. These taxes are, therefore, nothing more than an unreasonable duplication in the corporate tax structure, requiring for compliance scarce manpower and trained personnel.

The Treasury did not again in 1943 specifically recommend the elimination of the capital stock and declared value excess-profits taxes, but I would like to discuss the subject briefly with you because I believe the days of these taxes are numbered. I would also like to secure your cooperation in effecting their ultimate repeal.

You all know the history of the capital stock tax. Beginning in 1917 and through 1926 we had a capital stock tax based upon actual, and not declared, value. The tax was abandoned because of valuation difficulties. The year 1933 saw the origin of the present type of capital stock tax, which

totally disregards actual value and is based upon the value the corporation wishes to declare, with no regard for book, market value of assets, or earnings record. The function of a declaration is simply to take out insurance against the declared value excess profits tax; this tax penalizes corporations which guess wrong in making their declaration. In actual practice corporations make their declaration of value entirely with the purpose of saving themselves from the heavier impact of the declared value excess-profits tax.

You may be interested in the relative impact of the tax upon large and small corporations. The Treasury's research upon this point leads to the very clear conclusion that small corporations are relatively harder hit by the tax than are larger corporations. This is because small corporations experience fluctuating earnings to much greater extent than do large corporations. For example, in 1937 corporations with total assets of less than $50,000 had an average declared value of 197 percent of their equity capital while corporations with 50 million dollars or more of total assets had an average declared value of less than 62 percent of equity capital. In 1937 the ratio of tax to normal tax net income was 2.7 percent for corporations with under $50,000 of total assets. The ratio for corporations with assets of $100,000,000 and over was 1.8 percent. In 1936 corporations with net income of under $5,000 paid capital stock and excess profits taxes equal to 6.5 percent of their aggregate net income while corporations with net incomes of $5 million and over paid taxes of only 1 percent of their net income.

It is argued by some that this tax is a suitable method of taxing deficit corporations. I had thought that our purpose today should be in the other direction - to tax corporations with swollen war profits at high rates and to relieve corporations with deficits occasioned in large part by economic events beyond their control. It is true that the old capital stock tax of the Twenties fell to a considerable extent on deficit corporations because those corporations were obliged to pay taxes on the fair value of capital stock regardless of their expectations of income or deficit. Under the present tax the amount of tax paid by deficit corporations is relatively small - only about 11 percent of total collections at 1942 levels of income.

Nor does this small amount of revenue come in an equitable fashion from deficit corporations. The taxes falling on such corporations bear no relation to equity, to capital, total assets, to invested capital, to gross sales, to the size of the deficit, or to any reasonable measure of privilege or taxpaying ability. The impact of the tax is capricious. It depends upon the accuracy of a forecast made by the corporate directors at a time when prophecy is a perilous adventure. In all these circumstances there remains little excuse for encumbering corporate tax structure with this freakish tax.

Conclusion

"Simplify Our Tax Laws" has become a kind of slogan. Slogans are valuable instruments at times. They engender the enthusiasm needed to produce results. But they may also be dangerous weapons. Applied to tax law they are dangerous because they compress too much into too few words - a fault, I hasten to add, which cannot always be fairly ascribed to lawyers. They end by meaning nothing, or perhaps whatever anyone wants them to mean. In meaning all things to all men they mean nothing to any man. There is profound significance in the tale of "The Blind Men and the Elephant:"

It was six men of Indostan
To learning much inclined
Who went to see the elephant
(Though all of them were blind).
That each of observation
Might satisfy his mind.

The first approached the elephant
And, happening to fall
Against his broad and sturdy side
At once began to bawl:
"God bless me! but the elephant
Is very like a wall!"

The second feeling of the tusk,
Cried: "Ho! what have we here
So very round and smooth and sharp?
To me 'tis mighty clear
This wonder of an elephant
Is very like a spear!"

The third approached the animal
And happening to take
The squirming trunk within his hands
Thus boldly up and spake:
"I see," quoth he, "the elephant
Is very like a snake!"

The fourth reached out his eager hand,
And felt about the knee:
"What most this wondrous beast is like
Is mighty plain," quoth he:
"'Tis clear enough the elephant
Is very like a tree!"

The fifth who chanced to touch the ear
Said: "E'en the blindest man
Can tell what this resembles most;
Deny the fact who can,
This marvel of an elephant
Is very like a fan!"

The sixth no sooner had begun
About the beast to grope
Than, seizing on the swinging tail
That fell within his scope,
"I see," quoth he, "the elephant
Is very like a rope!"

And so these men of Indostan
Disputed loud and long,
Each in his own opinion
Exceeding stiff and strong,
Though each was partly in the right,
And all were in the wrong!

So oft in theologic wars
The disputants, I ween,
Rail on in utter ignorance
Of what each other mean,
And prate about an elephant
Not one of them has seen!

In simplifying our tax laws we need, like the men of Indostan, to recover our sight. We need the miracle of restored vision so we can see the whole elephant.

oOo

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, November 22, 1943.

Press Service
39-59

Secretary of the Treasury Morgenthau today announced an offering, through the Federal Reserve Banks, of 7/8 percent Treasury Certificates of Indebtedness of Series G-1944, open on an exchange basis, par for par, to holders of Treasury Certificates of Indebtedness of Series E-1943, maturing December 1, 1943. Cash subscriptions will not be received.

The certificates now offered will be dated December 1, 1943, and will bear interest from that date at the rate of seven-eighths of one percent per annum, payable semiannually on June 1 and December 1, 1944. They will mature December 1, 1944. They will be issued in bearer form only, with two interest coupons attached, in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000.

Pursuant to the provisions of the Public Debt Act of 1941, interest upon the certificates now offered shall not have any exemption, as such, under Federal tax Acts now or hereafter enacted. The full provisions relating to taxability are set forth in the official circular released today.

Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington, and should be accompanied by a like face amount of the maturing certificates. Subject to the usual reservations, all subscriptions will be allotted in full.

There are now outstanding $3,799,736,000 of the Series E-1943 certificates.

The text of the official circular follows:

O.P.O.

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The text of the official circular follows:

UNITED STATES OF AMERICA

7/8 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES G-1944

Dated and bearing interest from December 1, 1943 Due December 1, 1944

1943
Department Circular No. 727

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, November 22, 1943.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par, from the people of the United States for certificates of indebtedness of the United States, designated 7/8 percent Treasury Certificates of Indebtedness of Series G-1944, in exchange for Treasury Certificates of Indebtedness of Series E-1943, maturing December 1, 1943.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated December 1, 1943, and will bear interest from that date at the rate of 7/8 percent per annum, payable semiannually on June 1 and December 1, 1944. They will mature December 1, 1944, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4. Bearer certificates with interest coupons attached will be issued in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000. The certificates will not be issued in registered form.

5. The certificates will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States certificates.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of certificates applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par for certificates allotted hereunder must be made on or before December 1, 1943, or on later allotment, and may be made only in Treasury Certificates of Indebtedness of Series E-1943, maturing December 1, 1943, which will be accepted at par, and should accompany the subscription.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for certificates allotted, to make delivery of certificates on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive certificates.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

(42)

75 Burnet v. Guggenheim, 288 U.S. 280, 287 (1933).

76 See Lowndes, Tax Avoidance and the Federal Estate Tax (1940) 7 Law & Contemp. Prob. 309.

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This discussion of the gift tax possibilities released by a reverter may appear quite grim to some of us. In any event, we meet here but another example of the failure to work out legislatively a coherent tax pattern, with the estate and gift taxes, as well as the income tax, sensitively attuned to the demands of each other. As Mr. Justice Cardozo once observed, "the concept of a transfer" has passed through a period of painful development.[75] At times the courts have been burdened with the Herculean task of clearing a path without the necessary awareness of what lay beyond. Considering the difficulties involved, they have done remarkably well, if we discount early aversion to the estate tax.[76] Undoubtedly, however, the time has finally arrived for a comprehensive reappraisal of our transfer concepts in the light of our rich, if saddening, experience and reoriented tax objectives.

Court has held that a reversionary interest dependent upon the prior death of the grantor's children without issue surviving is too remote to be valued. The appellate courts, however, seem to have more faith in the Tax Court's valuation capacities. See, e.g., Central Hanover Bank & Trust Co. v. Comm., 118 F. (2d) 270 (C.C.A. 2d, 1941).

66 The value of the reversionary interest may depend solely on the grantor's life expectancy. Thus in Daisy B. Plummer, 2 T.C. 263, the grantor reserved a right to regain a stated portion of principal during her lifetime and the reverter was actuarially computed.

67 If the entire corpus is taxed, there is the additional question whether a release of the reversionary interest at a later date would be subject to gift tax. As a matter of justice, the tax on the initial transfer should suffice.

68 Brotherhood v. Pinkaton, 293 U.S. 96 (1934).

69 Cf. Matter of Rothfeld, 163 Misc. 11, 296 N.Y. Supp. 320 (1937); see Note (1938) 47 Yale L.J. 1354, 1361. But cf. Comm. v. State Street Trust Co., 128 F. (2d) 618 (C.C.A. 1st, 1942).

70 Cf. Brief for Respondent, p. 9, Robinette v. Helvering, 318 U.S. 184 (1943).

71 See Comm. v. Marshall, 135 F. (2d) 943, 946 (C.C.A. 2d, 1943).

72 See Humes v. United States, 276 U.S. 487 (1928).

73 Cf. Matter of Gregan, 278 N.Y. 337, 346, 9 N.E. (2d) 953, 956 (1937).

74 United States v. Frank, 133 F. (2d) 1009 (C.C.A. 7th, 1943). Cf. Pauline Wilkens Tidemann, 1 T.C. 968 (1943). The Tax

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64 Cf. Estate of Lester Field, 2 T.C. 21, 24 (1943). See, however, Charles A. H. Goodhart, T.C. Memo. Op., June 14, 1943, C.C.H. Dec. 13, 279, holding that a donee is not liable as transferee because the value of his contingent interests is too remote for valuation. The Robinette decision is cited in support of the conclusion.

65 In Hughes v. Comm., 104 F. (2d) 144, 148 (C.C.A. 9th, 1939), the court indicated that the Treasury should consider actual health factors in addition to the expectancies revealed by the mortality tables. The general practice is to the contrary (see 3 Bonbright, Valuation of Property (1937) 741; Note (1938) 47 Yale L. J. 1354, 1358, including that of the Treasury. See Meierhof v. Higgins, 129 F. (2d) 1002, 1006 (C.C.A. 2d, 1942). In view of Ithaca Trust Co. v. United States, 279 U.S. 151 (1929), events after the date of gift should not affect the valuation as of such date, based on the teachings of the mortality tables. See further Estate of Simon Guggenheim, 1 T.C. 843 (1943). Cf. Matter of White, 208 N.Y. 64, 101 N.E. 793 (1913). But cf. Note (1938) 47 Yale L.J. 1354, 1358-9, 1361.

It is difficult to estimate the effect, in the present context, of Helvering v. Taylor, 293 U.S. 507 (1935), refusing to sustain a deficiency which is "arbitrary and excessive" despite the taxpayer's failure to establish the correct amount of tax.

upon the decedent's survival of his wife, his son, the son's wife, and the decedent's descendants. The endless process of exclusion and inclusion, inhering in all legal principles, has begun.

The significance of the valuation factor is driven home by the uncomfortable fact that the burden of valuation is placed upon the taxpayer, who must pay a gift tax upon the entire value if the actuarial art is not sufficiently mature to deal with the complexities of his arrangement.[63] Of course, the gift tax credit should provide some consolation.[64] At one extreme is the Smith case, which should settle in the affirmative the question whether a reversionary interest dependent upon the prior death of one of two persons[65] is deductible from the tax base.[66] At the other is the Robinette decision, including the entire corpus where the reverter depends upon the grantor's marriage, birth of children, and the children's reaching majority.[67] Would the Court include the entire corpus if the contingency were solely marriage or the birth of issue? In another context the Court has been willing to evaluate the possibility of re-marriage,[68] but it does not follow that it would be prepared to import the same method of appraisal into the gift tax statute.[69] At any rate, it would hardly require a valuation of the reverter involved in the McLean case, where the grantor's reacquisition of the property hinged upon the earlier death of his spouse and daughter, and the latter's failure to leave issue and to appoint the property after reaching the age of twenty-five.[70] Valuation necessarily calls for a guess, but it must at least be an "educated guess"[71] deriving from reasonably convincing data.[72] At the present time it is not clear where education ends and guessing, pure and simple, begins.[73] The Seventh Circuit has refused to allow any deduction for the reverter where it depended

60 Cf. Doris Bond Sherman, 41 B.T.A. 898 (1940), wherein the Board held that a power to extend the trust benefits to children born thereafter was governed by the Sanford case and that the gift was incomplete. The Supreme Court has indicated, in another connection, that the contingency of remarriage is not the retention of control since the consent of another party is required. Brotherhood v. Pinkston, 293 U.S. 96, 100 (1934).

61 In either event the property should be subject to estate tax.

62 But cf. Brotherhood v. Pinkston, 293 U.S. 96 (1934); Comm. v. State Street Trust Co., 128 F. (2d) 618 (C.C.A. 1st, 1942).

The Smith and Robinette decisions leave open at least two basic problems. The first involves the determination of whether economic control has passed out of the grantor, and the second revolves about the valuation factor. In so far as the first is concerned, it is not always a simple matter to conclude that the donor has relinquished economic control. For example, the donor may provide for a return of the trust principal to him if he marries or has children. Is it correct to hold in such a case that control has been relinquished, subject to a provision for its return if a specified contingency occurs, or is it more appropriate to conclude that control is still retained because the occurrence of the contingency depends, to an indefinable extent, upon the donor himself? Realistically speaking, of course, one has a difficult degree question here and it is equally difficult to predict how the courts will react.[60] If a contingency of this character is not regarded as the retention of control,[61] the property would in all probability be taxed in toto on the ground that the actuarial art is not prepared to cope with such contingencies.[62] This brings us to the second important issue following in the wake of the Smith and Robinette cases.

It is assumed that the statute of limitations as to all other interests, running from the date of creation of the trust, has expired.

This result, it seems, would allow some value to escape tax. The value of the reversionary interest ordinarily declines after the date of initial transfer and the gift tax on the surrender of the reversionary interest would apparently be on the reduced value.

Even if the reverter were assigned to charity, there would probably still be a gift tax because of the uncertainties involved. But cf. Meierhof v. Higgins, 129 F. (2d) 1002 (C.C.A. 2d, 1942).

in trusts created many years ago

Even in tax law it is an ill wind that blows no good. As a result of the Hallock decision many grantors having remote reversionary interests were anxious to get rid of them. The extent of the cost in gift tax, however, was not clear. Thus the tax might be confined to the value of the reversionary interest at the moment of surrender[59] or it might embrace the entire property on the ground that the original transfer was not complete until the release of the reversionary interest. The latter alternative would flow from Mr. Justice Roberts' position. In view of the Smith and Robinette decisions the gift tax would be imposed only upon the value of the reverter when relinquished or transferred, since other property interests composing the trust are subject to tax at the date of the initial transfer.[58] The gift tax cost entailed by an escape from the tentacles of the Hallock decision may thus be exceedingly small.[59]

54 Cf. E. A. Hayes, B.T.A. Memo. Op., April 20, 1942, C.C.H. Dec. 12, 506-A.

55 318 U.S. at 183. Cf. Goodwin v. McGowan, 47 F. Supp. 798 (1942), where the interest of the grantor never ripened into possession but its transfer was nevertheless subjected to gift tax.

56 See Warren, Correlation of Gift and Estate Taxes (1941) 55 Harv. L. Rev. 1, 17.

Another objection apparently made by Mr. Justice Roberts, by reference to the Sanford opinion, is that the beneficiaries may be required to pay tax, in satisfaction of their secondary liability, despite the fact that they may be deprived of their benefits under the transfer. But the same unfortunate contingency besets all trusts containing a complex of varied interests even though the grantor has relinquished all "strings" however remote. Mr. Justice Roberts apparently concedes, though, that such a transfer would be a taxable gift.[54] Any other result would absolve from tax the very type of transfer intended to be reached by Congress.[55] The unhappy possibilities foreseen by the Justice seem to be equally insignificant where the grantor has a contingent reversionary interest. Chief Justice Stone had exaggerated administrative difficulties and possible inequities in the Sanford case,[56] and the Court conducted an orderly retreat from the unnecessary and untenable positions occupied in that case.

52a 318 U.S. at 182.

53a Compare, e.g., the computation required under section 812 (d), where taxes are payable out of the property bequeathed to charity. See Harrison v. Northern Trust Co., 317 U.S. 476, 481 (1942). The courts themselves are not always hesitant in adding new burdens of valuation. See Helvering v. Safe Deposit & Trust Co. of Baltimore, 316 U.S. 56 (1942); Comm. v. State Street Trust Co., 128 F. (2d) 618 (C.C.A. 1st, 1942); Central Hanover Bank & Trust Co. v. Comm., 118 F. (2d) 270 (C.C.A. 2d, 1941).

Mr. Justice Roberts' emphasis upon the intricacies of valuation does not present a formidable objection to tax. Even he admits that a transfer reserving a reversionary interest would probably be subject to gift tax if the Hallock decision had never arrived on the scene.[52] In that event, the same valuation difficulties would obviously confront taxpayers. Equally complex valuation problems have not frustrated the administration of the estate tax.[53] The erection of tax results, in the present case, upon the basis of the valuation factor, would lead to extremely anomolous results. If a grantor, for example, established a trust reserving a life estate to himself, he would be liable for a gift tax on the remainder, but if he transferred away the entire property except for an extremely remote contingency, he would be free of gift tax.

45 See Higgins v. Comm., 129 F. (2d) 237, 241 (C.C.A. 1st, 1943), cert. denied, 317 U.S. 658 (1942).

46 See 2 Paul, Federal Estate and Gift Taxation (1942) §17.12.

47 See id. §17.09.

48 See id. §16.09.

49 "We must put to one side questions that arise under sections of the estate tax law other than §302 (c) [now § 811(c)] ---sections, that is, relating to transfers taking place at death. Section 302 (c) deals with property not technically passing at death but with interests theretofore created. The taxable event is a transfer inter vivos. But the measure of the tax is the value of the transferred property at the time when death brings it into enjoyment." Helvering v. Hallock, 309 U.S. 106, 110-11 (1940). See Higgins v. Comm., 129 F. (2d) 237, 241 (C.C.A. 1st, 1942), cert. denied, 317 U.S. 658 (1942).

50 Cf. Nossaman, Taxes on Gifts Subject to Contingencies (1941) 20 Taxes 650, 694.

51 Cf. Comm. v. Beck's Estate, 129 F. (2d) 243, 245 (C.C.A. 2d, 1942).

For if the drafters contemplated such sharply drawn ~~levies~~ lines of incidence, except for an isolated blur, it is strange that they remained silent when it was so easy to be explicit.[51]

There is little to add, in the way of justification or criticism, to the Court's disposition of the reverter problem. The main burden of Mr. Justice Black's opinions -- that a gift is completed when economic control is surrendered by the donor -- is adequately borne. Certainly this concept of a transfer by gift is fundamental, once any theory of mutual exclusiveness is cast aside. It is hardly an adequate response to say that the Hallock opinion unqualifiedly holds that a reverter renders a transfer incomplete, and that the Court blows either hot or cold to suit the requirements of taxability. The estate tax reaches various transfers which are ordinarily regarded as complete gifts, but are nevertheless treated as incomplete until death overtakes the grantor.[45] Common examples are an irrevocable transfer reserving a life estate in the grantor,[46] a trust revocable by the grantor in conjunction with persons possessing a substantial adverse interest,[47] and tenancies by the entirety created by one of the spouses.[48] A transfer subject to a reverter is of a similar character.[49] The theory that the estate and gift tax concepts of completeness are coterminous would simply wipe the gift tax off the books unless the grantor released all possible contacts with the property. In other words, Congress would be presumed to have intended that only a transfer in contemplation of death should feel both the estate and gift tax.[50] Mr. Justice Black's theory that the gift tax is a form of down-payment or security with respect to the estate tax seems to be a much more logical deduction from the present system of transfer taxation

41 See his dissenting opinions in Wisconsin v. J. C. Penney Co., 311 U.S. 435, 446 (1940); Whitney v. State Tax Commission, 309 U.S. 530, 542 (1940); Helvering v. Clifford, 309 U.S. 331, 338 (1940); Helvering v. Hallock, 309 U.S. 106, 123 (1940); Deputy v. duPont, 308 U.S. 488, 499 (1940); Higgins v. Smith, 308 U.S. 473, 480 (1940); United States v. Jacobs, 306 U.S. 363, 373 (1939); Welch v. Henry, 305 U.S. 134, 151 (1938). But compare his opinion in Helvering v. Bruun, 309 U.S. 461 (1940).

42 Helvering v. St. Louis Union Trust Co., 296 U.S. 39 (1935); Becker v. St. Louis Union Trust Co., 296 U.S. 48 (1935).

43 Compare the dissenting opinion in Helvering v. St. Louis Union Trust Co., 296 U.S. 39, 47 (1935).

44 318 U.S. at 183.

The reasoning in the Smith and Robinette cases inspired a dissent by Mr. Justice Roberts, who has repeatedly opposed the recent shifts in the Court's tax attitudes.[41] He agreed that as long as a transfer reserving a reverter was complete for estate tax purposes under the rule of the discarded St. Louis Trust decisions,[42] the same transfer might properly be considered a definitive taxable gift. But the Hallock decision had created a different context, and the disappearance of a reverter was placed in the same category as a trust reserving to the grantor until the instant of death a power to revoke or change beneficiaries.[43] The reasoning of the Sanford case accordingly required the conclusion that a transfer reserving a reverter was an incomplete gift. Mr. Justice Roberts referred to the Court's concern, in that case, over "the difficulties of administration and probable inequities of a contrary decision," and contended that the same considerations were applicable here. "Indeed," he concluded, "a system of taxation which requires valuation of the donor's retained interest, in the light of the contingencies involved, and calculation of the value of the subsequent remainders by resort to higher mathematics beyond the ken of the taxpayer, exhibits the artificiality of the Government's application of the Act."[44]

Reg. 79 (1936 Ed.), Art. 3. See note 33.

Cf. Higgins v. Comm., 129 F. (2d) 237, 242 (C.C.A. 1st, 1942), cert. denied, 317 U.S. 658 (1942); Herzog v. Comm., 116 F. (2d) 591, 595 (C.C.A. 2d, 1941); Hernstadt v. Hoey, 47 F. Supp. 874, 876 (1942)

318 U.S. at 187.

Id. at 188.

In the companion Robinette case Mr. Justice Black disposed of two additional taxpayer objections. The first was to the effect that the gifts were not complete because there were no donees in existence to accept the remainders. This argument was overcome by pointing out that the gift tax statute, as correctly construed by the regulations,[37] is imposed upon the donor's transfer or surrender of dominion over the property.[38] The taxpayers "purported to give the property to someone whose identity could be later ascertained and this was enough."[39] The second objection to the Commissioner's position was that in any event he had erred in refusing to make allowance for the value of the donor's reversionary interest. However, the Court concluded that despite past progress "in appraising the value of that which seems to be unappraisable," the actuarial art was not competent to cope with a reversionary interest dependent upon such factors as whether the daughter would marry and have children and whether the children would attain majority.[40] Gift tax was therefore imposed upon the entire corpus.

318 U.S. at 180.

See note 24. Mr. Justice Black also referred to Reg. 79 (1936 Ed.), Arts. 2, 3, 17, 19. The first two articles deal with the concept of a transfer and the other two relate to valuation. In Rasquin v. Humphreys, 308 U.S. 54, 56 (1939), the Court had not been very impressed by Article 3 as affecting reserved powers to alter beneficial interests. See also Higgins v. Comm., 129 F. (2d) 237, 243 (C.C.A. 1st, 1942), cert. denied, 317 U.S. 658 (1942).

318 U.S. at 180.

Id. at 181.

Cf. Albert D. Lasker, 1 T.C. 208 (1942).

Having disposed of the annoying theory of mutual exclusiveness, the Court considered the "basic question" whether the grantor had completed a gift of the remainder. The taxpayer relied on the already familiar argument that "no realistic value" could be placed on the interest because of the contingencies surrounding it. The Court, however, refused to "accept any suggestion that the complexity of a property interest created by a trust can serve to defeat a tax. For many years Congress has sought vigorously to close tax loopholes against ingenious trust instruments. Even though these concepts of property and value may be slippery and elusive they can not escape taxation so long as they are used in the world of business."[32] The statutory language, as reinforced by the House and Senate Committee Reports,[33] was considered sufficiently broad to embrace "property, however conceptual or contingent."[34] The Court then defined a gift in trust as "the abandonment of control over the property put in trust."[35] Finally, economic control was considered abandoned even though the terms of the transfer stipulated for its return in the event that the grantor survived another person.[36]

27 318 U.S. at 178.

28 Ibid.

29 Ibid.

30 Compare criticism in 2 Paul, Federal Estate and Gift Taxation (1942) §17.07.

31 318 U.S. at 179.

The Supreme Court granted certiorari in the Smith and Robinette cases because of an alleged conflict with the Court's opinions in the Hallock and Sanford cases.[27] In the Smith case the Government again conceded that the value of the reversionary interest was immune from gift tax,[28] and the Court, through Mr. Justice Black, addressed itself solely to the remainder interest. The Justice emphatically disapproved the notion that the Sanford opinion "intimated a general policy against allowing the same property to be taxed both as an estate and a gift."[29] He alluded to language in the Sanford opinion which had noted that the two taxes are not "always mutually exclusive" and had referred to the gift tax credit, designed to soften the blow of two levies. In the Sanford case the emphasis obviously had been against overlapping, but the Court was now apparently aware of the fact that it had unfortunately swept too far afield in justifying the previous decision.[30] Mr. Justice Black now articulated a new philosophy as a framework for the interpretative process: "Under the statute the gift tax amounts in some instances to a security, a form of down-payment on the estate tax which secures the eventual payment of the latter; it is in no sense double taxation as the taxpayer suggests."[31] This system of down-payments was regarded by the Court as the Congressional plan for integrating the estate and gift levies.

22 128 F. (2d) 742 (C.C.A. 2d, 1942), rev'g 40 F. Supp. 19 (1941).

23 See Brief for Respondent, p. 8, Smith v. Shaughnessy, 318 U. S. 176 (1943).

24 Compare the Supreme Court's acquiescence in the Government's concession in the Hallock case. See 1 Paul, Federal Estate and Gift Taxation (1942) § 7.25. But cf. Estate of Sanford v. Comm., 308 U. S. 39, 50-1 (1939).

25 116 F. (2d) 591 (C.C.A. 2d, 1941).

26 The mystery deepens when it is noted that one of the three judges who concurred in the Marshall opinion participated in the Smith decision.

The reverter question appeared once more in the Second Circuit in Smith v. Shaughnessy,[22] which dealt with a trust providing for a life estate in the grantor's wife and a return of the corpus to the grantor if he survived her. In the event that the grantor predeceased her, the property was to pass to her appointees, or, in default of appointment, to her distributees. The district court had allowed a gift tax confined to the wife's life estate. The Second Circuit, on the other hand, imposed a tax upon the entire value of the trust property despite the Government's concession that the tax base should be reduced by the value of the grantor's reversionary interest.[23] More baffling than the court's refusal to recognize the concession[24] was its method of reversal. The opinion was per curiam, consisted of one sentence, made no mention of the painstaking opinion in the Marshall case which was directly in point, and relied exclusively upon Herzog v. Commissioner,[25] which involved a different problem.[26]

(14)

✓ 2/2 129 F. (2d) at 835.

Upon a rehearing[21] the court considered the supplementary question whether an allowance should be made for the value of the reversionary interests. The court refused to sanction an adjustment in tax base on the ground that the value of the remainders was not affected by the possibility that the daughter might never have offspring attaining majority. If her children eventually received the remainders, they would enjoy their full value, unimpaired by the alternative possibility under the scheme of disposition. But this disposition of the valuation issue ignores all contingencies which affect the chances of realization. The remainders are, in effect, treated as if they were entirely free of contingencies. The loss of control by the grantor should be decisive in determining whether or not a taxable gift has been made; other contingencies, however, may still affect the value of the gift, although as a practical matter they may not be amenable to the art of valuation and are therefore ignored for administrative reasons.

19 Helvering v. Robinette, 129 F. (2d) 832 (C.C.A. 3d, 1942).

20 129 F. (2d) at 834. Cf. Comm. v. Marshall, 125 F. (2d) 943, 947 (C.C.A. 2d, 1942).

The problem of reversionary interests and the gift tax turned up again in the Robinette case[19] decided by the Third Circuit. This case involved two taxpayers, a mother and daughter. The latter had created two trusts providing for the payment of income to herself for life, and thereafter to her mother and stepfather, and, upon the death of either, to the survivor. After the termination of the life estates the principal was to be paid over to the daughter's issue attaining the age of twenty-one, or, in default of such issue, to the appointees of the survivor of the three life tenants. The mother had established a similar trust except that the initial life estate was for her benefit. The court again sustained the Commissioner, selecting as the vital factor the grantor's surrender of economic control over the trusts except for the possibility that the daughter remained childless or her children failed to reach majority. "Thus, the settlors could not themselves bring about the exercise of their powers of appointment without committing a crime."[20] Furthermore, since the gift tax is imposed upon the donor's transfer rather than the donee's receipt, it was deemed immaterial that the ultimate takers of the remainder were not in existence.

(12)

15 127 F. (2d) 942 (C.C.A. 5th, 1942). Another question in the case related to reciprocal transfers as affecting the concept of adequate and full consideration.

16 127 F. (2d) at 943. Cf. Estate of Horatio Gates Lloyd, 47 B.T.A. 349 (1942).

17 Id. at 944. Cf. Estate of J. G. Dodson, 1 T. C. 416, 422 (1943).

18 Cf. Hughes v. Comm., 104 F. (2d) 144 (C.C.A. 9th, 1939).

A similar issue came before the Fifth Circuit in Commissioner v. McLean,[15] involving trusts which provided for a reverter contingent upon the prior death of the grantor's spouse and daughter, and the latter's failure to leave issue and to appoint the property after attaining the age of twenty-five. It was held that a taxable gift had been effected "to the extent and value of the estates and interests in the property then transferred,"[16] and that the provision for a reverter did not affect the completeness of the gift but only its value. The court refused to delve deeply into the problem because since the Hallock and Sanford decisions "came down to confuse and confound followers and expounders of gift tax law, the voices of both board members and circuit judges are merely voices crying in the wilderness, and perhaps until the Supreme Court has spoken authoritatively on the question they would do best to decide the questions posed with as little bewordling and as few reasons as possible."[17] This left only the troublesome question of valuation, the Commissioner claiming that the entire value was taxable either because the reverter was too remote to make allowance therefor or because its value had not been established.[18] The court rejected the first reason, and considered the second inadequate since no valuation issue had been raised below. The case was accordingly remanded to the Board in order to evaluate the reverter.

14¢ H. R. Rep. No. 708, 72d Cong., 1st Sess., p. 27 (C.B. 1939-1, Part 2, p. 476); Sen. Rep. No. 665, 72nd Cong., 1st Sess., p. 396 (C.B. 1939-1, Part 2, p. 524). See also Hughes v. Comm., 104 F. (2d) 144 (C.C.A. 9th, 1939), approved in the Marshall opinion.

10 125 F. (2d) at 945.

11 A similar "parade of imaginary horribles" takes place in the Sanford opinion. 308 U. S. at 46. Cf. Eisenstein, Powers of Appointment and Estate Taxes: II (1943) 52 Yale L. J. 494, 539.

12 125 F. (2d) at 946, referring to Ithaca Trust Co. v. United States, 279 U. S. 151 (1929). See also Estate of Simon Guggenheim, 1 T. C. 845 (1943). Judge Frank urges that the fallacy in the taxpayer's contention "stems largely from lack of recognition of the eely character of the word 'value'. It is a bewitching word which, for years, has disturbed mental peace and caused numerous useless debates. Perhaps it would be better for the peace of men's minds if the word were abolished. Reams of good paper and gallons of good ink have been wasted by those who have tried to give it a constant and precise meaning." See also Judge Frank's opinion in Andrews v. Comm., 135 F. (2d) 314, 317 (C.C.A. 2d, 1943), cert. denied, Oct. 11, 1943.

13 For some mysterious reason the court observes (at 947) that it is not settled whether the remainders in question would be included in the decedent's gross estate under the Hallock case, but that such inclusion is assumed for present purposes. There does not seem to be any doubt on the subject.

In the present case control had passed out of the donor's hands and a completed transfer had been effected within the broad and comprehensive language of the statute as reinforced by the explanatory committee reports.[14]

The first argument endeavored to distinguish, for gift tax purposes, between a vested and contingent remainder, on the theory that a contingent remainder is not a completed gift. This dogged reliance on property law was dismissed by a reference to the Hallock case, which had conclusively "destroyed such a word-juggling contention."[10] Another argument advanced by the taxpayer emphasized that Congress did not intend to impose a tax determined by estimates of value which may turn out to be wrong in actuality, especially since the donees might be required to pay a tax on property which they never finally enjoyed.[11] But, replied the court, this argument "would preclude a tax on any 'value' which is not almost certain to correspond with actual enjoyment," although value "seldom does so correspond." In tax law, "as almost always, 'value' involves a conjecture, a guess, a prediction, a prophecy. With reference to the taxation of life estates the Supreme Court has relied on educated guesses, as of a given date based on the mortality tables, disregarding the fact that actually, in the particular case before it, the prophecy has turned out to be wrong because the life tenant did not live up to her expectancy."[12] Finally, the court rejected the argument thriving on the Sanford case, namely, that since the remainders would feel the impact of an estate tax they were immune from gift tax. Judge Frank confined the broad language of the Sanford opinion to a trust wherein the donor retains the power to determine the recipients of its benefits.[13]

8 See Meta Biddle Robinette, 44 B.T.A. 701 (1941); Morris Michel, 43 B.T.A. 1036 (1941); Carl J. Schmidlapp, 43 B.T.A. 829 (1941); Margaret White Marshall, 43 B.T.A. 99 (1940); Marrs McLean, 41 B.T.A. 1266 (1940).

9 125 F. (2d) 943 (C.C.A. 2d, 1942). See (1942) 9 U. of Chi. L. Rev. 747.

The Board's interpretation, which accepted taxpayers' understanding of the Hallock and Sanford cases,[8] underwent initial appellate scrutiny in Commissioner v. Marshall.[9] The grantor in this case had established two irrevocable trusts providing that the property was to return to her if she survived the life tenant. If the grantor died first, the property was to pass to her children and their issue. The Commissioner and taxpayer agreed that the life estate was taxable and that the value of the reversionary interest was not taxable. Hence the only question left for consideration was whether the value of the remainder -- described as contingent -- was subject to gift tax. This issue was resolved by the Second Circuit in the Commissioner's favor after painstaking analysis by Judge Frank of the taxpayer's various arguments.

1 309 U. S. 106 (1940), overruling Helvering v. St. Louis Union Trust Co., 296 U. S. 39 (1935); Becker v. St. Louis Union Trust Co., 296 U. S. 48 (1935).

2 See 2 Paul, Federal Estate and Gift Taxation (1942) § 17.14, n. 11.

3 See, e.g., Higgins v. Smith, 308 U. S. 473, 477 (1940).

4 Estate of Sanford v. Comm., 308 U. S. 39 (1939).

5 See 2 Paul, Federal Estate and Gift Taxation (1942) §§ 17.06, 17.07.

6 318 U. S. 176 (1943), noted in 56 Harv. L. Rev. 1010 (1943).

7 318 U. S. 184 (1943).

J. P. WENCHEL
NOV 13 1943

REVERTERS UNDER THE GIFT TAX

The mounting estate tax misfortunes of grantors who have retained reversionary interests have recently been paralleled by similar unhappy experiences with the gift tax. In Helvering v. Hallock,[1] you will recall, it was valiantly contended that a reverter did not subject a transfer to estate tax since it did not prevent the completion of the gift prior to the decedent's demise. This argument having failed to convince a reconstituted Supreme Court, which had become more alive than ever to the pitfalls of property law,[2] taxpayers thereupon argued that a reverter was equally potent to render a transfer incomplete for gift tax purposes. The claim that what is good for the goose should in all fairness be good for the gander -- we know, of course, that this canon is not unyielding in the tax field[3] -- was bolstered by the unnecessarily broad language of the Sanford opinion[4] which dwelt upon the mutually exclusive character of the estate and gift taxes.[5] Again the Supreme Court was not impressed, and in Smith v. Shaughnessy[6] and Robinette v. Helvering[7] it interred, with a minimum of ceremony, the attractive theory of mutual exclusiveness. I have chosen to discuss today in some detail this new and provocative chapter in gift tax incidence. Proceeding on the familiar principle that the present and future may be better understood if we glance back at the past, I shall preface my analysis of the recent Supreme Court decisions and their implications with a running review of earlier decisions in the lower courts.

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1/ 125 F. (2d) at 945.

2/ A similar "parade of imaginary horribles" takes place in the Sanford opinion. 308 U. S. at 46. Cf. Eisenstein, Powers of Appointment and Estate Taxes: II (1943) 52 Yale L. J. 494, 539.

3/ 125 F. (2d) at 946, referring to Ithaca Trust Co. v. United States, 279 U. S. 151 (1929). See also Estate of Simon Guggenheim, 1 T. C. 845 (1943). Judge Frank urges that the fallacy in the taxpayer's contention "stems largely from lack of recognition of the eely character of the word 'value'. It is a bewitching word which, for years, has disturbed mental peace and caused numerous useless debates. Perhaps it would be better for the peace of men's minds if the word were abolished. Reams of good paper and gallons of good ink have been wasted by those who have tried to give it a constant and precise meaning." See also Judge Frank's opinion in Andrews v. Comm., 135 F. (2d) 314, 317 (C.C.A. 2d, 1943), cert. denied, Oct. 11, 1943.

confined the broad language of the Sanford opinion to a trust wherein the donor retains the power to determine the recipients of its benefits. 1/ In the present case control had passed out of the donor's hands and a completed transfer had been effected within the broad and comprehensive language of the statute as reinforced by the explanatory committee reports. 2/

A similar issue came before the Fifth Circuit in Commissioner v. McLean, 3/ involving trusts which provided for a reverter contingent upon the prior death of the grantor's spouse and daughter, and the latter's failure to leave issue and to appoint the property after attaining the age of twenty-five. It was held that a taxable gift had been effected "to the extent and value of the estates and interests in the property then transferred," 4/ and that the provision for a reverter did not affect the completeness of the gift but only its value. The court refused to delve deeply into the problem because since the Hallock and Sanford decisions "came down to confuse and confound followers and expounders of gift tax law, the voices of both board members and circuit judges are merely voices crying in the wilderness, and perhaps until the Supreme Court has spoken authoritatively on the question they would do best to decide the questions posed with as little bewordling and as few reasons as possible." 5/ This left only the troublesome question of valuation, the Commissioner claiming that the entire value was taxable either because the reverter was too remote to make allowance therefor or because its value had not been established. 6/ The court rejected the first reason, and considered the second inadequate since no valuation issue had been raised below. The case was accordingly remanded to the Board in order to evaluate the reverter.

1/ For some mysterious reason the court observes (at 947) that it is not settled whether the remainders in question would be included in the decedent's gross estate under the Hallock case, but that such inclusion is assumed for present purposes. There does not seem to be any doubt on the subject.

2/ H. R. Rep. No. 708, 72d Cong., 1st Sess., p. 27 (C.B. 1939-1, Part 2, p. 476); Sen. Rep. No. 665, 72nd Cong., 1st Sess., p. 396 (C.B. 1939-1, Part 2, p. 524). See also Hughes v. Comm., 104 F. (2d) 144 (C.C.A. 9th, 1939), approved in the Marshall opinion.

3/ 127 F. (2d) 942 (C.C.A. 5th, 1942). Another question in the case related to reciprocal transfers as affecting the concept of adequate and full consideration.

4/ 127 F. (2d) at 943. Cf. Estate of Horatio Gates Lloyd, 47 B.T.A. 349 (1942).

5/ Id. at 944. Cf. Estate of J. G. Dodson, 1 T. C. 416, 422 (1943).

6/ Cf. Hughes v. Comm., 104 F. (2d) 144 (C.C.A. 9th, 1939).

The problem of reversionary interests and the gift tax turned up again in the Robinette case 1/ decided by the Third Circuit. This case involved two taxpayers, a mother and daughter. The latter had created two trusts providing for the payment of income to herself for life, and thereafter to her mother and stepfather, and, upon the death of either, to the survivor. After the termination of the life estates the principal was to be paid over to the daughter's issue attaining the age of twenty-one, or, in default of such issue, to the appointees of the survivor of the three life tenants. The mother had established a similar trust except that the initial life estate was for her benefit. The court again sustained the Commissioner, selecting as the vital factor the grantor's surrender of economic control over the trusts except for the possibility that the daughter might remain childless or her children fail to reach majority. "Thus, the settlors could not themselves bring about the exercise of their powers of appointment without committing a crime." 2/ Furthermore, since the gift tax is imposed upon the donor's transfer rather than the donee's receipt, it was deemed immaterial that the ultimate takers of the remainder were not in existence.

Upon a rehearing 3/ the court considered the supplementary question whether an allowance should be made for the value of the reversionary interests. The court refused to sanction an adjustment in tax base on the ground that the value of the remainders was not affected by the possibility that the daughter might never have offspring attaining majority. If her children eventually received the remainders, they would enjoy their full value, unimpaired by the alternative possibility under the scheme of disposition. But this disposition of the valuation issue ignores all contingencies which affect the chances of realization. The remainders are, in effect, treated as if they were entirely free of contingencies. The loss of control by the grantor should be decisive in determining whether or not a taxable gift has been made; other contingencies, however, may still affect the value of the gift, although as a practical matter they may not be amenable to the art of valuation and are therefore ignored for administrative reasons.

The reverter question appeared once more in the Second Circuit in Smith v. Shaughnessy, 4/ which dealt with a trust providing for a life estate in the grantor's wife and a return of the corpus to the grantor if he survived her. In the event that the grantor predeceased her, the property was to pass to her appointees, or, in default of appointment, to her distributees. The district court had allowed a gift tax confined to the wife's life estate. The Second Circuit, on the other hand, imposed a tax upon the entire value of the trust property despite the Government's concession that the tax base should be reduced by the value of the grantor's

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1/ Helvering v. Robinette, 129 F. (2d) 832 (C.C.A. 3d, 1942).
2/ 129 F. (2d) at 834. Cf. Comm. v. Marshall, 125 F. (2d) 943, 947 (C.C.A. 2d, 1942).
3/ 129 F. (2d) at 835.
4/ 128 F. (2d) 742 (C.C.A. 2d, 1942), rev'g 40 F. Supp. 19 (1941).

reversionary interest. 1/ More baffling than the court's refusal to recognize the concession 2/ was its method of reversal. The opinion was per curiam, consisted of one sentence, made no mention of the painstaking opinion in the Marshall case which was directly in point, and relied exclusively upon Herzog v. Commissioner, 3/ which involved a different problem. 4/

The Supreme Court granted certiorari in the Smith and Robinette cases because of an alleged conflict with the Court's opinions in the Hallock and Sanford cases. 5/ In the Smith case the Government again conceded that the value of the reversionary interest was immune from gift tax, 6/ and the Court, through Mr. Justice Black, addressed itself solely to the remainder interest. The Justice emphatically disapproved the notion that the Sanford opinion "intimated a general policy against allowing the same property to be taxed both as an estate and a gift." 7/ He alluded to language in the Sanford opinion which had noted that the two taxes are not "always mutually exclusive" and had referred to the gift tax credit, designed to soften the blow of two levies. In the Sanford case the emphasis obviously had been against overlapping, but the Court was now apparently aware of the fact that it had unfortunately swept too far afield in justifying the previous decision. 8/ Mr. Justice Black now articulated a new philosophy as a framework for the interpretative process: "Under the statute the gift tax amounts in some instances to a security, a form of down-payment on the estate tax which secures the eventual payment of the latter; it is in no sense double taxation as the taxpayer suggests." 9/ This system of down-payments was regarded by the Court as the Congressional plan for integrating the estate and gift levies.

Having disposed of the annoying theory of mutual exclusiveness, the Court considered the "basic question" whether the grantor had completed a gift of the remainder. The taxpayer relied on the already familiar argument that "no realistic value" could be placed on the interest because

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1/ See Brief for Respondent, p. 8, Smith v. Shaughnessy, 318 U. S. 176 (1943).

2/ Compare the Supreme Court's acquiescence in the Government's concession in the Hallock case. See Paul, Federal Estate and Gift Taxation (1942) § 7.25. But cf. Estate of Sanford v. Comm., 308 U. S. 39, 50-1 (1939).

3/ 116 F. (2d) 591 (C.C.A. 2d, 1941).

4/ The mystery deepens when it is noted that one of the three judges who concurred in the Marshall opinion participated in the Smith decision.

5/ 318 U.S. at 178.

6/ Ibid.

7/ Ibid.

8/ Compare criticism in 2 Paul, Federal Estate and Gift Taxation (1942) §17.07.

9/ 318 U.S. at 179.

of the contingencies surrounding it. The Court, however, refused to "accept any suggestion that the complexity of a property interest created by a trust can serve to defeat a tax. For many years Congress has sought vigorously to close tax loopholes against ingenious trust instruments. Even though these concepts of property and value may be slippery and elusive they can not escape taxation so long as they are used in the world of business." 1/ The statutory language, as reinforced by the House and Senate Committee Reports, 2/ was considered sufficiently broad to embrace "property, however conceptual or contingent." 3/ The Court then defined a gift in trust as "the abandonment of control over the property put in trust." 4/ Finally, economic control was considered abandoned even though the terms of the transfer stipulated for its return in the event that the grantor survived another person. 5/

In the companion Robinette case Mr. Justice Black disposed of two additional taxpayer objections. The first was to the effect that the gifts were not complete because there were no donees in existence to accept the remainders. This argument was overcome by pointing out that the gift tax statute, as correctly construed by the regulations, 6/ is imposed upon the donor's transfer or surrender of dominion over the property. 7/ The taxpayers "purported to give the property to someone whose identity could be later ascertained and this was enough." 8/ The second objection to the Commissioner's position was that in any event he had erred in refusing to make allowance for the value of the donor's reversionary interest. However, the Court concluded that despite past progress "in appraising the value of that which seems to be unappraisable," the actuarial art was not competent to cope with a reversionary interest dependent upon such factors as whether the daughter would marry and have children and whether the children would attain majority. 9/ Gift tax was therefore imposed upon the entire corpus.

1/ 318 U.S. at 180.
2/ See note 2/ page 3. Mr. Justice Black also referred to Reg. 79 (1936 Ed.), Arts. 2, 3, 17, 19. The first two articles deal with the concept of a transfer and the other two relate to valuation. In Rasquin v. Humphreys, 308 U.S. 54, 56 (1939), the Court had not been very impressed by Article 3 as affecting reserved powers to alter beneficial interests. See also Higgins v. Comm., 129 F. (2d) 237, 243 (C.C.A. 1st, 1942), cert. denied, 317 U.S. 658 (1942).
3/ 318 U.S. at 180.
4/ Id. at 181.
5/ Cf. Albert D. Lasker, 1 T.C. 208 (1942).
6/ Reg. 79 (1936 Ed.), Art. 3. See note 2/ above.
7/ Cf. Higgins v. Comm., 129 F. (2d) 237, 242 (C.C.A. 1st, 1942), cert. denied, 317 U.S. 658 (1942); Herzog v. Comm., 116 F. (2d) 591, 595 (C.C.A. 2d, 1941); Hernstadt v. Hoey, 47 F. Supp. 874, 876 (1942).
8/ 318 U.S. at 187.
9/ Id. at 188.

The reasoning in the Smith and Robinette cases inspired a dissent by Mr. Justice Roberts, who has repeatedly opposed the recent shifts in the Court's tax attitudes. 1/ He agreed that as long as a transfer reserving a reverter was complete for estate tax purposes under the rule of the discarded St. Louis Trust decisions, 2/ the same transfer might properly be considered a definitive taxable gift. But the Hallock decision had created a different context, and the disappearance of a reverter was placed in the same category as a power reserved, until the instant of death, to revoke the trust or change beneficiaries. 3/ The reasoning of the Sanford case accordingly required the conclusion that a transfer reserving a reverter was an incomplete gift. Mr. Justice Roberts referred to the Court's concern, in that case, over "the difficulties of administration and probable inequities of a contrary decision," and contended that the same considerations were applicable here. "Indeed," he concluded, "a system of taxation which requires valuation of the donor's retained interest, in the light of the contingencies involved, and calculation of the value of the subsequent remainders by resort to higher mathematics beyond the ken of the taxpayer, exhibits the artificiality of the Government's application of the Act." 4/

There is little to add, in the way of justification or criticism, to the Court's disposition of the reverter problem. The main burden of Mr. Justice Black's opinions -- that a gift is completed when economic control is surrendered by the donor -- is adequately borne. Certainly this concept of a transfer by gift is fundamental, once any theory of mutual exclusiveness is cast aside. It is hardly an adequate response to say that the Hallock opinion unqualifiedly holds that a reverter renders a transfer incomplete, and that the Court blows either hot or cold to suit the requirements of taxability. The estate tax reaches various transfers which are ordinarily regarded as completed gifts, but are nevertheless treated as incomplete until death overtakes the grantor. 5/ Common examples are an irrevocable transfer reserving a life estate in the grantor, 6/ a trust

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1/ See his dissenting opinions in Wisconsin v. J. C. Penney Co., 311 U.S. 435, 446 (1940); Whitney v. State Tax Commission, 309 U.S. 530, 542 (1940); Helvering v. Clifford, 309 U.S. 331, 338 (1940); Helvering v. Hallock, 309 U.S. 106, 123 (1940); Deputy v. duPont, 308 U.S. 488, 499 (1940); Higgins v. Smith, 308 U.S. 473, 480 (1940); United States v. Jacobs, 306 U.S. 363, 373 (1939); Welch v. Henry, 305 U.S. 134, 151 (1938). But compare his opinion in Helvering v. Bruun, 309 U.S. 461 (1940).

2/ Helvering v. St. Louis Union Trust Co., 296 U.S. 39 (1935); Becker v. St. Louis Union Trust Co., 296 U.S. 48 (1935).

3/ Compare the dissenting opinion in Helvering v. St. Louis Union Trust Co., 296 U.S. 39, 47 (1935).

4/ 318 U.S. at 183.

5/ See Higgins v. Comm., 129 F. (2d) 237, 241 (C.C.A. 1st, 1942); cert. denied, 317 U.S. 658 (1942).

6/ See 2 Paul, Federal Estate and Gift Taxation (1942) §17.12.

revocable by the grantor in conjunction with persons possessing a substantial adverse interest, 1/ and a tenancy by the entirety created by one of the spouses. 2/ A transfer subject to a reverter is of a similar character. 3/ The theory that the estate and gift tax concepts of completeness are coterminous would simply wipe the gift tax off the books unless the grantor released all possible estate tax contacts with the property. In other words, Congress would be presumed to have intended that only a transfer in contemplation of death should feel both the estate and gift tax. 4/ Mr. Justice Black's theory that the gift tax is a form of down-payment or security with respect to the estate tax seems to be a much more logical deduction from the present system of transfer taxation. For if the drafters contemplated such sharply drawn lines of incidence, except for an isolated blur, it is strange that they remained silent when it was so easy to be explicit. 5/

Mr. Justice Roberts' emphasis upon the intricacies of valuation does not present a formidable objection to tax. Even he admits that a transfer reserving a reversionary interest would probably be subject to gift tax if the Hallock decision had never arrived on the scene. 6/ In that event, the same valuation difficulties would obviously confront taxpayers. Equally complex valuation problems have not frustrated the administration of the estate tax. 7/ The erection of tax results, in the present case, upon the

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1/ See id. §17.09.

2/ See id. §16.09.

3/ "We must put to one side questions that arise under sections of the estate tax law other than §302 (c) [now §811 (c)] — sections, that is, relating to transfers taking place at death. Section 302 (c) deals with property not technically passing at death but with interests theretofore created. The taxable event is a transfer inter vivos. But the measure of the tax is the value of the transferred property at the time when death brings it into enjoyment." Helvering v. Hallock, 309 U.S. 106, 110-11 (1940). See Higgins v. Comm., 129 F. (2d) 237, 241 (C.C.A. 1st, 1942), cert. denied, 317 U.S. 658 (1942).

4/ Cf. Nossaman, Taxes on Gifts Subject to Contingencies (1941) 20 Taxes 650, 694.

5/ Cf. Comm. v. Beck's Estate, 129 F. (2d) 243, 245 (C.C.A. 2d, 1942).

6/ 318 U.S. at 182.

7/ Compare, e.g., the computation required under section 812 (d), where taxes are payable out of the property bequeathed to charity. See Harrison v. Northern Trust Co., 317 U.S. 476, 481 (1942). The courts themselves are not always hesitant in adding new burdens of valuation. See Helvering v. Safe Deposit & Trust Co. of Baltimore, 316 U.S. 56 (1942); Comm. v. State Street Trust Co., 128 F. (2d) 618 (C.C.A. 1st, 1942); Central Hanover Bank & Trust Co. v. Comm., 118 F. (2d) 270 (C.C.A. 2d, 1941).

basis of the valuation factor, would lead to extremely anomalous results. If a grantor, for example, established a trust reserving a life estate to himself, he would be liable for a gift tax on the remainder, but if he transferred away the entire property except for an extremely remote contingency, he would be free of gift tax on the same interest.

Another objection apparently made by Mr. Justice Roberts, by reference to the Sanford opinion, is that the beneficiaries may be required to pay tax, in satisfaction of their secondary liability, despite the fact that they may be deprived of their benefits under the transfer. But the same unfortunate contingency besets all trusts containing a complex of varied interests even though the grantor has relinquished all "strings" however remote. Mr. Justice Roberts apparently concedes, though, that such a transfer would be a taxable gift. 1/ Any other result would absolve from tax the very type of transfer intended to be reached by Congress. 2/ The unhappy possibilities foreseen by the Justice seem to be equally insignificant where the grantor has a contingent reversionary interest. Chief Justice Stone had exaggerated administrative difficulties and possible inequities in the Sanford case, 3/ and the Court conducted an orderly retreat from the unnecessary and untenable positions occupied in that case.

Even in tax law it is an ill wind that blows no good. As a result of the Hallock decision many grantors having remote reversionary interests in trusts created many years ago were anxious to get rid of them. The extent of the cost in gift tax, however, was not clear. Thus the tax might be confined to the value of the reversionary interest at the moment of surrender 4/ or it might embrace the entire property on the ground that the original transfer was not complete until the release of the reversionary interest. The latter alternative would flow from Mr. Justice Roberts' position. In view of the Smith and Robinette decisions the gift tax would be imposed only upon the value of the reverter when relinquished or transferred, since other property interests composing the trust are subject to tax at the date of the initial transfer. 5/ The gift tax cost entailed by an escape from the tentacles of the Hallock decision may thus be exceedingly small. 6/

1/ Cf. E. A. Hayes, B.T.A. Memo. Op., April 20, 1942, C.C.H. Dec. 12, 506-A.

2/ 318 U.S. at 183. Cf. Goodwin v. McGowan, 47 F. Supp. 798 (1942), where the interest of the grantor never ripened into possession but its transfer was nevertheless subjected to gift tax.

3/ See Warren, Correlation of Gift and Estate Taxes (1941) 55 Harv. L. Rev. 1, 17.

4/ It is assumed that the statute of limitations as to all other interests, running from the date of creation of the trust, has expired.

5/ This result, it seems, would allow some value to escape tax. The value of the reversionary interest ordinarily declines after the date of initial transfer and the gift tax on the surrender of the reversionary interest would apparently be on the reduced value.

6/ Even if the reverter were assigned to charity, there would probably still be a gift tax because of the uncertainties involved. But cf. Meierhof v. Higgins, 129 F. (2d) 1002 (C.C.A. 2d, 1942).

The Smith and Robinette decisions leave open at least two basic problems. The first involves the determination of whether economic control has passed out of the grantor, and the second revolves about the valuation factor. In so far as the first is concerned, it is not always a simple matter to conclude that the donor has relinquished economic control. For example, the donor may provide for a return of the trust principal to him if he marries or has children. Is it correct to hold in such a case that control has been relinquished, subject to a provision for its return if a specified contingency occurs, or is it more appropriate to conclude that control is still retained because the occurrence of the contingency depends, to an indefinable extent, upon the donor himself? Realistically speaking, of course, one has a difficult degree question here and it is equally difficult to predict how the courts will react. 1/ If a contingency of this character is not regarded as the retention of control, 2/ the property would in all probability be taxed in toto on the ground that the actuarial art is not prepared to cope with such contingencies. 3/ This brings us to the second important issue following in the wake of the Smith and Robinette cases.

The significance of the valuation factor is driven home by the uncomfortable fact that the burden of valuation is placed upon the taxpayer, who must pay a gift tax upon the entire value if the actuarial art is not sufficiently mature to deal with the complexities of his arrangement. 4/ Of course, the gift tax credit should provide some consolation. 5/ At one extreme is the Smith case, which should settle in the affirmative the question whether a reversionary interest dependent upon the prior death of

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1/ Cf. Doris Bond Sherman, 41 B.T.A. 898 (1940), wherein the Board held that a power to extend the trust benefits to children born thereafter was governed by the Sanford case and that the gift was incomplete. The Supreme Court has indicated, in another connection, that the contingency of remarriage is not the retention of control since the consent of another party is required. Brotherhood v. Pinkston, 293 U.S. 96, 100 (1934).

2/ In either event the property should be subject to estate tax.

3/ But cf. Brotherhood v. Pinkston, 293 U.S. 96 (1934); Comm. v. State Street Trust Co., 128 F. (2d) 618 (C.C.A. 1st, 1942).

4/ See, however, Charles A. E. Goodhart, T.C. Memo. Op., June 14, 1943, C.C.H. Dec. 13, 279, holding that a donee is not liable as transferee because his contingent interest is too remote for valuation. The Robinette decision is cited in support of the conclusion.

5/ Cf. Estate of Lester Field, 2 T.C. 21, 24 (1943).

one of two persons 1/ is deductible from the tax base. 2/ At the other is the Robinette decision, including the entire corpus where the reverter is affected by the grantor's marriage, birth of children, and the children's reaching majority. 3/ Would the Court include the entire corpus if the contingency were solely marriage or the birth of issue? In another context the Court has been willing to evaluate the possibility of remarriage, 4/ but it does not follow that it would be prepared to import the same method of appraisal into the gift tax statute. 5/ At any rate, it would hardly require a valuation of the reverter involved in the McLean case, where the

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1/ In Hughes v. Comm., 104 F. (2d) 144, 148 (C.C.A. 9th, 1939), the court indicated that the Treasury should consider actual health factors in addition to the expectancies revealed by the mortality tables. The general practice is to the contrary (see 2 Bonbright, Valuation of Property (1937) 741; Note (1938) 47 Yale L. J. 1354, 1358, including that of the Treasury. See Meierhof v. Higgins, 129 F. (2d) 1002, 1006 (C.C.A. 2d, 1942). In view of Ithaca Trust Co. v. United States, 279 U.S. 151 (1929), events after the date of gift should not affect the valuation as of such date, based on the teachings of the mortality tables. See further Estate of Simon Guggenheim, 1 T.C. 843 (1943). Cf. Matter of White, 208 N.Y. 64, 101 N.E. 793 (1913). But cf. Note (1938) 47 Yale L. J. 1354, 1358-9, 1381.

It is difficult to estimate the effect, in the present context, of Helvering v. Taylor, 293 U.S. 507 (1935), refusing to sustain a deficiency which was "arbitrary and excessive" despite the taxpayer's failure to establish the correct amount of tax.

2/ The value of the reversionary interest may depend solely on the grantor's life expectancy. Thus in Daisy B. Plummer, 2 T.C. 263, the grantor reserved a right to regain a stated portion of principal during her lifetime and the reverter was actuarially computed.

3/ If the entire corpus is taxed, there is the additional question whether a release of the reversionary interest at a later date would be subject to gift tax. As a matter of justice, the tax on the initial transfer should suffice.

4/ Brotherhood v. Pinkston, 293 U.S. 96 (1934).

5/ Cf. Matter of Rothfeld, 163 Misc. 11, 296 N.Y. Supp. 320 (1937); see Note (1938) 47 Yale L. J. 1354, 1361. But cf. Comm. v. State Street Trust Co., 128 F. (2d) 618 (C.C.A. 1st, 1942).

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Saturday, November 20, 1943

Press Service
No. 39-61

The report made to Secretary Morgenthau last March by the Committee on Intergovernmental Fiscal Relations will receive prominent ~~major~~ attention at the annual conference of the National Tax Association opening its business sessions in Chicago today, the Treasury has been advised.

In its report, the committee, made up of leading authorities on taxation and public finance, recommended an action program to resolve conflicts between Federal, State and local governments over taxation and to improve generally all intergovernmental fiscal relationships.

A session of the National Tax Conference starting at 2:30 P.M. Sunday in the Palmer House, Chicago, will be devoted to a study of these recommendations and of a report to be made by an NTA committee on Coordination of Federal, State and Local Taxes. Speakers will include Roy Blough, Director of Tax Research, Treasury Department, and Harold M. Groves, Professor of Economics at the University of Wisconsin. Prof. Groves was a member of the Committee on Intergovernmental Fiscal Relations and served as its chief of staff.

The Intergovernmental Fiscal Relations report has just been made available to the public in revised form. It was printed at the order of the Senate Finance Committee, to which the Secretary of the Treasury transmitted the report in accordance with a Senate resolution authorizing the study which the committee made. The title of the printed version is "Federal, State and Local Government Fiscal Relations", and copies may be had from the Superintendent of Documents, Government Printing Office, Washington, at 75 cents each. The official designation is Senate Document 69.

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of Indebtedness offered, and that the market not trade in any of the marketable securities offered in the Drive.

To avoid unnecessary transfers of funds from one locality to another, the Treasury requests that all subscriptions by corporations and firms be entered and paid for through the banking institutions where funds are located. This request is made to prevent disturbance to the money market and the banking situation. The Treasury will undertake to see that statistical credit is given to any locality for such subscriptions that the corporations and firms may request; except subscriptions from insurance companies will be credited to the State of the Home Office as in the past.

In order to help in achieving its objective of selling as many securities as possible outside of the banking system, the Treasury requests the cooperation of all banking institutions in declining to make speculative loans for the purchase of Government securities. The Treasury is in favor of the banks making loans to facilitate permanent investment in Government securities, provided such loans are made in accord with the Joint Statement issued by the National and State Bank Supervisory Authorities on November 23, 1942.

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in the 2-1/4% and 2-1/2% Bonds-under a formula to be announced later.

The 2-1/2% Bond will be dated February 1, 1944, due March 15, 1970, callable March 15, 1965, and will be issued in coupon or registered form at the option of the buyers, in denominations from $500 to $1,000,000. Commercial banks, which are defined for this purpose as banks accepting demand deposits, will not be permitted to own these bonds until ~~February 1, 1954~~ March 15, 1955, except for the limited investment of time deposits.

The 2-1/4% Bond will be dated February 1, 1944, due Sept. 15, 1959, callable Sept. 15, 1956, and will be issued in coupon or registered form at the option of the buyers, in denominations of $500 to $1,000,000. Commercial banks, which are defined for this purpose as banks accepting demand deposits, will not be permitted to own these bonds until September 15, 1946, except for the limited investment of time deposits.

The 7/8% Certificate of Indebtedness will be dated February 1, 1944, due February 1, 1945, and will be issued in denominations of $1,000 to $1,000,000 and in coupon form only.

The Treasury will request that, until after February 15, 1944, commercial banks not buy the 7/8% Certificates

investors - the quota for which is $8-1/2 billion. This will not preclude the acceptance of subscriptions from other non-banking investors at any time during the Drive.

All subscriptions for Savings Bonds and Savings Notes received at the Federal Reserve Banks or at the Treasury of the United States between January 1 and February 29, 1944, will be credited to the Drive.

The goal and the type of securities to be offered were determined by the Treasury after consultation with the Chairmen of the State War Finance Committees, officials of the Federal Reserve System, the American Bankers Association and other investment authorities.

The securities to be sold under the direction of the War Finance Committees will consist of:

Series E Savings Bonds

Series F and G Savings Bonds

Series C Savings Notes

2-1/2% Bonds of 1965-70

2-1/4% Bonds of 1956-59

7/8% Certificate of Indebtedness

In view of the fact that many commercial banks accept time deposits and perform in their own communities the same functions as those performed by other savings institutions, the Treasury will permit such commercial banks to make a limited investment of their time deposits only

PRESS RELEASE

Secretary Morgenthau announced today that the Fourth War Loan Drive would start January 18, and would run until February 15, 1944.

The goal has been set at $14 billion. Five and one-half billion dollars of this amount is to be raised directly from individuals.

The State War Finance Committees will have the task of raising this $14 billion. These committees are being strengthened and expanded to meet the necessity of increasing the number of people who are buying War Bonds. Millions of volunteer salesmen are now ready to carry this campaign for funds to every individual investor in homes and in plants throughout the nation.

The major emphasis throughout the entire peiod of the Drive, January 18 to February 15, will be placed on the quota of $5-1/2 billion for individuals. During the period from January 18 to February 1 only sales to individuals will be reported by the Treasury. The reporting of sales to individuals will be supplemented starting February 1 with reports of sales to other non-banking

investors - the quota for which is $8,500,000,000. This will not preclude the acceptance of subscriptions from other non-banking investors at any time during the Drive.

All subscriptions for Savings Bonds and Savings Notes received at the Federal Reserve Banks or at the Treasury of the United States between January 1 and February 29, 1944, will be credited to the Drive.

The goal and the type of securities to be offered were determined by the Treasury after consultation with the Chairmen of the State War Finance Committees, officials of the Federal Reserve System, the American Bankers Association and other investment authorities.

The securities to be sold under the direction of the War Finance Committees will consist of:

Series E Savings Bonds
Series F and G Savings Bonds
Series C Savings Notes
2-1/2% Bonds of 1965-70
2-1/4% Bonds of 1956-59
7/8% Certificate of Indebtedness

In view of the fact that many commercial banks accept time deposits and perform in their own communities the same functions as those performed by other savings institutions, the Treasury will permit such commercial banks to make a limited investment of their time deposits only

~~PRESS RELEASE~~

39-68

Monday- AM 1/22/43

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, November 22, 1943.

Press Service
No. 39-62

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Series C Savings Notes
2-1/2% Bonds of 1965-70
2-1/4% Bonds of 1956-59
7/8% Certificate of Indebtedness

In view of the fact that many commercial banks accept time deposits and perform in their own communities the same functions as those performed by other savings institutions, the Treasury will permit such commercial banks

to make a limited investment of their time deposits only in the 2-1/4% and 2-1/2% Bonds under a formula to be announced later.

The 2-1/2% Bond will be dated February 1, 1944, due March 15, 1970, callable March 15, 1965, and will be issued in coupon or registered form at the option of the buyers, in denominations from $500 to $1,000,000. Commercial banks, which are defined for this purpose as banks accepting demand deposits, will not be permitted to own these bonds until February 1, 1954, except for the limited investment of time deposits.

The 2-1/4% Bond will be dated February 1, 1944, due Sept. 15, 1959, callable Sept. 15, 1956, and will be issued in coupon or registered form at the option of the buyers, in denominations of $500 to $1,000,000. Commercial banks, which are defined for this purpose as banks accepting demand deposits, will not be permitted to own these bonds until September 15, 1946, except for the limited investment of time deposits.

The 7/8% Certificate of Indebtedness will be dated February 1, 1944, due February 1, 1945, and will be issued in denominations of $1,000 to $1,000,000 and in coupon form only.

The Treasury will request that, until after February 15, 1944, commercial banks not buy the 7/8% Certificates of Indebtedness offered, and that the market not trade in any of the marketable securities offered in the Drive.

To avoid unnecessary transfers of funds from one locality to another, the Treasury requests that all subscriptions by corporations and firms be entered and paid for through the banking institutions where funds are located. This request is made to prevent disturbance to the money market and the banking situation. The Treasury will undertake to see that statistical credit is given to any locality for such subscriptions that the corporations and firms may request; except subscriptions from insurance companies will be credited to the State of the home office as in the past.

In order to help in achieving its objective of selling as many securities as possible outside of the banking system, the Treasury requests the cooperation of all banking institutions in declining to make speculative loans for the purchase of Government securities. The Treasury is in favor of the banks making loans to facilitate permanent investment in Government securities provided such loans are made in accord with the joint statement issued by the National and State Bank Supervisory Authorities on November 23, 1942.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 23, 1943.

Press Service

39-L

The Secretary of the Treasury announced last evening that the tenders for $1,000,000,000, or thereabouts of 90-day Treasury bills to be dated November 26, 1943, and to mature February 24, 1944, which were offered on November 19, were opened at the Federal Reserve Banks on November 22.

The details of this issue are as follows:

Total applied for - $1,621,636,000
Total accepted - 1,008,704,000 (includes $78,182,000 entered on a fixed-price basis at 99.905 and accepted in full)
Average price - 99.906/ Equivalent rate of discount approx. 0.376% per annum

Range of accepted competitive bids:

High - 99.910 Equivalent rate of discount approx. 0.360% per annum
Low - 99.906 " " " " " 0.376% " "

(63 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 48,235,000	$ 34,548,000
New York	1,123,203,000	683,667,000
Philadelphia	28,815,000	20,216,000
Cleveland	49,146,000	35,725,000
Richmond	18,275,000	15,615,000
Atlanta	31,362,000	14,525,000
Chicago	131,520,000	74,613,000
St. Louis	19,079,000	10,430,000
Minneapolis	7,825,000	7,441,000
Kansas City	23,581,000	20,399,000
Dallas	20,820,000	10,600,000
San Francisco	119,775,000	80,925,000
TOTAL	$1,621,636,000	$1,008,704,000

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 23, 1943.
11-22-43

Press Service
No. 39-63

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Dallas	20,820,000	10,600,000
San Francisco	119,775,000	80,925,000
TOTAL	$1,621,636,000	$1,008,704,000

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TREASURY DEPARTMENT

Washington

Press Service

39-64

FOR IMMEDIATE RELEASE,
Tuesday, November 23, 1943.

Secretary of the Treasury Morgenthau announced today that the subscription books for the current offering of 7/8 percent Treasury Certificates of Indebtedness of Series G-1944, open to the holders of Treasury Certificates of Indebtedness of Series E-1943 maturing December 1, 1943, will close at the close of business tomorrow, November 24.

Subscriptions addressed to a Federal Reserve Bank or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Wednesday, November 24, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve Districts will be made later.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, November 23, 1943.

Press Service
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November 23, 1943

STATEMENT BY SECRETARY MORGENTHAU:

When the Treasury made public the tentative proposal for an International Stabilization Fund, I said that we were studying means of encouraging and facilitating international investment for reconstruction and development. A few weeks ago I appeared before the Congressional Committees and summarized for them the principles which we believe should guide us in the establishment of a United Nations Bank for Reconstruction and Development.

The technical staffs of the Treasury and other interested departments and agencies have now prepared a tentative proposal for such a Bank. This tentative proposal is being sent to the Finance Ministers of the United Nations and the countries associated with them, for consideration and for study by their technical staffs. The Finance Ministers have been informed that this tentative proposal does not represent the official views of this Government but it is an indication of the views held by our technical staffs.

We are releasing for publication the tentative proposal for a United Nations Bank for Reconstruction and Development and a covering memorandum on the problem of international investment. These two documents, sent to the Finance Ministers, are being released to make them available for public discussion. It is our intention to discuss the tentative proposal with business, banking and other interested groups in this country.

The technical staffs of the Treasury and other departments of this Government are of the opinion that an International Stabilization Fund and a Bank for Reconstruction and Development could help provide a sound financial foundation on which private enterprise can build a prosperous world economy.

A United Nations Bank
For Reconstruction and Development

One of the important international economic and financial problems which will confront the United Nations at the end of the war will be the unprecedented need for foreign capital. In the areas devastated by war or plundered and ravaged by the enemy, factories and mines, public utilities and railroads, public buildings and public works will have to be repaired or restored. In all of the United Nations, industries now producing war goods will require capital for reconversion to peacetime production. Finally, in many areas of the world, large investment will be needed for industrial, agricultural and commercial development.

Countries whose productive capacity has been seriously impaired by war will find that their industries cannot provide the capital goods and their people cannot provide the savings they require for reconstruction. Most non-industrial countries will of necessity be dependent upon foreign investment to acquire the funds for the purchase of machinery, equipment, and other capital goods for development. And even in those countries where a considerable part of the need for capital can be met locally, there will be some need for foreign capital to supplement the funds that can be raised at home.

With the return of an assured peace, private financial agencies may be expected to supply most of the needed short-term foreign capital. When the shipping situation is improved and peacetime industry here and abroad has recovered, many business firms will be eager to sell their products abroad on reasonable and even generous credit terms. And banks likewise will hasten to expand their foreign business, reopening and establishing branches abroad, and assisting in the financing of international trade.

It is not unreasonable to hope that with the return of peace there will also be a gradual resumption of long-term international investment, particularly in the form of the establishment of foreign branch plants and the acquisition of shares in established foreign enterprises. With the growth of confidence in monetary stability, foreign investments will gradually assume the form of publicly floated loans to governments and municipalities, and to public utilities and other industries.

This flow of private capital to war stricken countries will be encouraged by an adequate program of international relief and rehabilitation which helps to quickly restore to a working basis the economic life of those countries. Another, and possibly even more important, stimulant to foreign investments, would be the existence of an international agency, such as the International Stabilization Fund, designed to promote stability of foreign exchange rates and freedom from restrictions on the withdrawal of earnings. Such an agency could do much to enhance the attractiveness of foreign investments.

While there will undoubtedly be substantial amounts of long-term foreign investment even in the early postwar period, the flow of capital to countries greatly in need of foreign capital is likely to be inadequate for many years to come. Private capital will understandingly hesitate to venture abroad in anything like the required volume. It has suffered too many losses from war, from depreciating currencies, from exchange restrictions, and from business failures and defaults. There is little evidence to justify the hope that in the years immediately after the war investors will lend the large sums that can be economically used in foreign countries.

Obviously, it would be desirable to encourage in every way, the provision of capital for productive purposes through the usual private investment channels, and to the extent that private investment is inadequate, to provide supplemental facilities. The problem is fundamentally an international problem and only an international governmental agency equipped with broad powers and large resources can effectively encourage private capital to flow abroad in adequate amounts and provide a part of the capital not otherwise available.

The primary aim of such an agency should be to encourage private capital to go abroad for productive investment by sharing the risks of private investors and by participating with private investors in large ventures. The provision of some of the capital needed for reconstruction and development, where private capital is unable to take the risk, is intended to remain secondary in the operations of such an agency. It should, of course, scrupulously avoid undertaking loans that private investors are willing to make on reasonable terms. It should perform only that part of the task which private capital cannot do alone.

The need for foreign capital will be so great and the provision of adequate capital so important that it would be extremely shortsighted to neglect this urgent international problem. If private capital should suffice there would then be little for an international agency to do, beyond encouraging private investment. If, however, private capital were to prove unable fully to meet the needs, then such an international agency would be able to fill the breach until private capital again flowed freely and the demand for foreign capital throughout the world became less urgent.

It is imperative that we recognize that the investment of productive capital in undeveloped and in capital needy countries means not only that those countries will be able to supply at lower costs more of the goods the world needs, but that they will at the same time become better markets for the world's goods. By investing in countries inneed of capital, the lending countries, therefore, help themselves as well as the borrowing countries. If the capital made available to foreign countries would not

otherwise have been currently employed, and if it is used for productive purposes, then the whole world is truly the gainer. Foreign trade everywhere will be increased; the real cost of producing the goods the world consumes will be lowered; and the economic well-being of the borrowing and lending countries will be raised.

One great contribution that the United Nations can make to sustained peace and world-wide prosperity is to make certain that adequate capital is available on reasonable terms for productive uses in capital-poor countries. With abundant capital, the devastated countries can move steadily toward rehabilitation and a constantly improving standard of living. Nothing could be more conducive to political stability and to international collaboration. Without adequate supplies of capital, however, recovery in Europe and Asia will be slow and sporadic, and economic discontent and international bitterness will in time assume disturbing proportions. To spend hundreds of billions to fight a war thrust upon us, and then to balk at investing a few billions to help assure peace and prosperity would appear to be a singularly unwise policy.

Accompanying this memorandum is a draft proposal for a Bank for Reconstruction and Development of the United and Associated Nations. The draft was prepared by the technical staff of the United States Treasury in consultation with the technical staffs of other departments of this Government. The proposal has neither official status nor the approval of any department of this Government. It is in outline form touching on the more important points and is intended only to stimulate thoughtful discussion of the problem in the hope that such discussion will call forth constructive criticism, suggestions, and alternative proposals for possible later submission to the appropriate authorities and to the public.

A United Nations Bank for Reconstruction and Development is proposed as another international agency needed to help attain and maintain world-wide prosperity after the war. It is designed as a companion agency to an International Stabilization Fund. Each agency could stand and function effectively without the other; but the establishment of such a Bank would make easier the task of an International Stabilization Fund, and the successful operation of an International Stabilization Fund would enhance the effectiveness of the Bank. Together, the two institutions could help provide a sound financial foundation on which private enterprise can build a prosperous world economy.

Henry Morgenthau, Jr.
Secretary of the Treasury.

Washington, D. C.
November, 1943.

U. S. Treasury
November, 1943

Preliminary Draft Outline of a Proposal for A United Nations Bank For Reconstruction and Development

Preamble

1. The provision of foreign capital will be one of the important international economic and financial problems of the postwar period. Many countries will require capital for reconstruction, for the conversion of their industries to peacetime needs, and for the development of their productive resources. Others will find that foreign investment provides a growing market for their goods. Sound international investment can be of immense benefit to the lending as well as to the borrowing countries.

2. Even in the early postwar years it may be hoped that a considerable part of the capital for international investment will be provided through private investment channels. It will undoubtedly be necessary, however, to encourage private investment by assuming some of the risks that will be especially large immediately after the war and to supplement private investment with capital provided through international cooperation. The United Nations Bank for Reconstruction and Development is proposed as a permanent institution to encourage and facilitate international investment for sound and productive purposes.

3. The Bank is intended to cooperate with private financial agencies in making available long-term capital for reconstruction and development and to supplement such investment where private agencies are unable to meet fully the legitimate needs for capital for productive purposes. The Bank would make no loans or investments that could be secured from private investors on reasonable terms. The principal function of the Bank would be to guarantee and participate in loans made by private investment agencies and to lend directly from its own resources whatever additional capital may be needed. The facilities of the Bank would be available only for approved governmental and industrial projects which have been guaranteed by national governments. Operating under these principles, the Bank should be a powerful factor in encouraging the provision of private capital for international investment.

4. By making certain that capital is available for productive uses on reasonable terms, the Bank can make an important contribution to enduring peace and prosperity. With adequate capital, countries affected by the war can move steadily toward reconstruction, and the newer countries can undertake the economic development of which they are capable. International investment for these purposes can be a significant factor in expanding trade and in helping to maintain a high level of business activity throughout the world.

I. The Purposes of the Bank

1. To assist in the reconstruction and development of member countries by cooperating with private financial agencies in the provision of capital for sound and constructive international investment.

2. To provide capital for reconstruction and development, under conditions which will amply safeguard the Bank's funds, when private financial agencies are unable to supply the needed capital for such purposes on reasonable terms consistent with the borrowing policies of member countries.

3. To facilitate a rapid and smooth transition from a wartime economy to a peacetime economy by increasing the flow of international investment, and thus to help avoid serious disruption of the economic life of member countries.

4. To assist in raising the productivity of member countries by helping to make available through international collaboration long-term capital for the sound development of productive resources.

5. To promote the long-range balanced growth of international trade among member countries.

II. Capital Structure of the Bank

1. The authorized capital shall be equivalent to about $10 billion consisting of shares having a par value equal to $100,000.

2. The shares of the Bank shall be non-transferable, non-assessable, and non-taxable. The liability on shares shall be limited to the unpaid portion of the subscription price.

3. Each government which is a member of the International Stabilization Fund shall subscribe to a number of shares to be determined by an agreed upon formula. The formula shall take into account such relevant data as the national income and the international trade of the member country.

Such a formula would make the subscription of the United States approximately one-third of the total.

4. Payments on subscriptions to the shares of the Bank shall be made as follows:

a. The initial payment of each member country shall be 20 percent of its subscription, some portion of which (not to exceed 20 percent) shall be in gold and the remainder in local currency. The proportions to be paid in gold and local currency shall be graduated according to an agreed upon schedule which shall take into account the adequacy of the gold and free foreign exchange holdings of each member country.

b. The member countries shall make the initial payments within 60 days after the date set for the operations of the Bank to begin. The remainder of their respective subscriptions shall be paid in such amounts and at such times as the Board of Directors may determine, but not more than 20 percent of the subscription may be called in any one year.

c. Calls for further payment on subscriptions shall be uniform on all shares, and no calls shall be made unless funds are needed for the operations of the Bank. The proportion of subsequent payments to be made in gold shall be determined by the schedule in II-4-a as it applies to each member country at the time of each call.

5. A substantial part of the subscribed capital of the Bank shall be reserved in the form of unpaid subscriptions as a surety fund for the securities guaranteed by the Bank or issued by the Bank.

6. When the cash resources of the Bank are substantially in excess of prospective needs, the Board may return, subject to future call, uniform proportions of the subscriptions. When the local currency holdings of the Bank exceed 20 percent of the subscription of any member country, the Board may arrange to repurchase with local currency some of the shares held by such a country.

7. Each member country agrees to repurchase each year its local currency held by the Bank amounting to not more than 2 percent of its paid subscription, paying for it with gold; provided, however, that:

   a. This requirement may be generally suspended for any year by a three-fourths vote of the Board.

   b. No country shall be required to repurchase local currency in any given year in excess of one-half of the addition to its official holdings of gold during the preceding year.

   c. The obligation of a member country to repurchase its local currency shall be limited to the amount of the local currency paid on its subscription.

8. All member countries agree that all of the local currency holdings and other assets of the Bank located in their countries shall be free from any special restrictions as to their use, except such restrictions as are consented to by the Bank, and subject to IV-13, below.

9. The resources and the facilities of the Bank shall be used exclusively for the benefit of member countries.

III. The International Monetary Unit

1. The monetary unit of the Bank shall be the Unitas of the International Stabilization Fund (137-1/7 grains of find gold, that is, equivalent to $10 U.S.).

2. The Bank shall keep its accounts in terms of unitas. The local currency assets of the Bank are to be guaranteed against any depreciation in their value in terms of unitas.

IV. Powers and Operations

1. To achieve the purposes stated in Section I, the Bank may guarantee, participate in, or make loans to any member country and through the government of such country to any of its political subdivisions or to business or industrial enterprises therein under conditions provided below.

   a. The payment of interest and principal is fully guaranteed by the national government.

   b. The borrower is otherwise unable to secure the funds from other sources, even with the national government's guaranty of repayment, under conditions which in the opinion of the Bank are reasonable.

c. A competent committee has made a careful study of the merits of the project or the program and, in a written report, concludes that the loan would serve directly or indirectly to raise the productivity of the borrowing country and that the prospects are favorable to the servicing of the loan. The majority of the committee making the report shall consist of members of the technical staff of the Bank. The committee shall include an expert selected by the country requesting the loan who may or may not be a member of the technical staff of the Bank.

d. The Bank shall make arrangements to assure the use of the proceeds of any loan which it guarantees, participates in, or makes, for the purposes for which the loan was approved.

e. The Bank shall guarantee, participate in or make loans only at reasonable rates of interest with a schedule of repayment appropriate to the character of the project and the balance of payments prospects of the country of the borrower.

2. In accordance with the provisions in IV-1, above, the Bank may guarantee in whole or in part loans made by private investors provided further:

a. The rate of interest and other conditions of the loan are reasonable.

b. The Bank is compensated for its risk in guaranteeing the loan.

3. The Bank may participate in loans placed through the usual investment channels, provided all the conditions listed under IV-1 above are met except that the rate of interest may be higher than if the loans were guaranteed by the Bank.

4. The Bank may encourage and facilitate international investment in equity securities by securing the guarantee of governments of conversion into foreign exchange of the current earnings of such foreign held investments. In promoting this objective the Bank may also participate in such investments, but its aggregate participation in such equity securities shall not exceed 10 percent of its paid in capital.

5. The Bank may publicly offer any securities it has previously acquired. To facilitate the placing of such securities, the Bank may, in its discretion, guarantee them.

6. The Bank shall make no loans or investments that can be placed through the usual private investment channels on reasonable terms. The Bank shall by regulation prescribe procedure for its operations that will assure the application of this principle.

7. The Bank shall impose no condition upon a loan as to the particular member country in which the proceeds of the loan must be spent; provided, however, that the proceeds of a loan may not be spent in any country which is not a member country without the approval of the Bank.

8. The Bank in making loans shall provide that:

   a. The foreign exchange in connection with the project or program shall be provided by the Bank in the currencies of the countries in which the proceeds of the loan will be spent and only with the approval of such countries.

   b. The local currency needs in connection with the project shall be largely financed locally without the assistance of the Bank.

   c. In special circumstances, where the Bank considers that the local part of any project cannot be financed at home except on very unreasonable terms, it can lend that portion to the borrower in local currency.

   d. Where the developmental program will give rise to an increased need for foreign exchange for purposes not directly needed for that program yet resulting from the program, the Bank will provide an appropriate part of the loan in gold or desired foreign exchange.

9. When a loan is made by the Bank it shall credit the account of the borrower with the amount of the loan. Payment shall be made from this account to meet drafts covering audited expenses.

10. Loans participated in or made by the Bank shall contain the following payment provisions:

a. Payment of interest due on loans shall be made in currencies acceptable to the Bank or in gold. Interest will be payable only on amounts withdrawn.

b. Payment on account of principal of a loan shall be in currencies acceptable to the Bank or in gold. If the Bank and the borrower should so agree at the time a loan is made, payment on principal may be in gold, or at the option of the borrower, in the currency actually borrowed.

c. In event of an acute exchange stringency the Bank may in its judgment accept for periods not exceeding 3 years at a time the payments of interest and principal in local currency. The Bank shall arrange with the borrowing country for the repurchase of such local currency over a period of years on appropriate terms that safeguard the value of the Bank's holdings of such currency.

d. Payments of interest and principal, whether made in member currencies or in gold, must be equivalent to the unitas value of the loan and of the contractual interest thereon.

11. The Bank may levy a charge against the borrower for its expenses in investigating any loan placed, guaranteed, participated in, or made in whole or in part by the Bank.

12. The Bank may guarantee, participate in, or make loans to international governmental agencies for objectives consonant with the purposes of the Bank, provided that one-half of the participants in the international agencies are members of the Bank.

13. In considering any application to guarantee, participate in, or make a loan to a member country, the Bank shall give due regard to the effect of such a loan on business and financial conditions in the country in which the loan is to be spent, and shall accordingly obtain the consent of the country affected.

14. At the request of the countries in which portions of the loan are spent, the Bank will repurchase for gold or needed foreign exchange a part of the expenditures in the currencies of those countries made by the borrower from the proceeds of the loan.

15. With the approval of the representatives of the governments of the member countries involved, the Bank may engage in the following operations:

a. It may issue, buy or sell, pledge, or discount any of its own securities and obligations, or securities and obligations taken from its portfolio, or securities which it has guaranteed.

b. It may borrow from any member governments, fiscal agencies, central banks, stabilization funds, private financial institutions in member countries, or from international financial agencies.

c. It may buy or sell foreign exchange, after consultation with the International Stabilization Fund, where such transactions are necessary in connection with its operations.

16. The Bank may act as agent or correspondent for the governments of member countries, their central banks, stabilization funds and fiscal agencies, and for international financial institutions.

The Bank may act as trustee, registrar or agent in connection with loans guaranteed, participated in, made, or placed through the Bank.

17. Except as otherwise indicated the Bank shall deal only with or through:

a. The governments of member countries, their central banks, stabilization funds and fiscal agencies.

b. The International Stabilization Fund and any other international financial agencies owned predominantly by member governments.

The Bank may, nevertheless, with the approval of the member of the Board representing the government of the country concerned deal with the public or institutions of member countries in its (the Bank's) own securities or securities which it has guaranteed.

18. If the Bank shall declare any country as suspended from membership, the member governments and their agencies agree not to extend any financial assistance to that country without the approval of the Bank until the country has been restored to membership.

19. The Bank and its officers shall scrupulously avoid interference in the political affairs of any member country. This provision shall not limit the right of an officer of the Bank to participate in the political life of his own country.

The Bank shall not be influenced in its decisions with respect to applications for loans by the political character of the government of the country requesting a loan. Only economic considerations shall be relevant to the Bank's decisions.

V. Management

1. The administration of the Bank shall be vested in a Board of Directors composed of one director and one alternate appointed by each member government in a manner to be determined by it.

The director and alternate shall serve for a period of three years, subject to the pleasure of their government. Directors and alternates may be reappointed.

2. Voting by the Board shall be as follows:

a. The director or alternate of each member country shall be entitled to cast 1,000 votes plus one vote for each share of stock held. Thus a government owning one share shall cast 1,001 votes, while a government having 1,000 shares shall cast 2,000 votes.

b. No country shall cast more than 25 percent of the aggregate votes.

c. Except where otherwise provided, decisions of the Board of Directors shall be by simple majority of the votes cast, each member of the Board casting the votes allotted to his government. When deemed to be in the best interests of the Bank, decisions of the Board may be made, without a meeting, by polling the directors on specific questions submitted to them in such manner as the Board shall by regulation provide.

3. The Board of Directors shall select a President of the Bank, who shall be the chief of the operating staff of the Bank and ex-officio a member of the Board, and one or more vice presidents. The President and vice presidents of the Bank shall hold office for four years, shall be eligible for reelection, and may be removed for cause at any time by the Board. The staff of the Bank shall be selected in accordance with regulations established by the Board of Directors.

4. The Board of Directors shall appoint from among its members, an Executive Committee of not more than nine members. The President of the Bank shall be an ex-officio member of the Executive Committee.

   The Executive Committee shall be continuously available at the head office of the Bank and shall exercise the authority delegated to it by the Board. In the absence of any member of the Executive Committee, his alternate on the Board shall act in his place. Members of the Executive Committee shall receive appropriate remuneration.

5. The Board of Directors shall select an Advisory Council of seven members. The Council shall advise with the Board and the officers of the Bank on matters of general policy. The Council shall meet annually and on such other occasions as the Board may request.

   The members of the Advisory Council shall be selected from men of outstanding ability, but not more than one member shall be selected from the same country. They shall serve for two years, and the term of any member may be renewed. Members of the Council shall be paid their expenses and a remuneration to be fixed by the Board.

6. The Board of Directors may appoint such other committees as it finds necessary for the work of the Bank. It may also appoint advisory committees chosen wholly or partially from persons not regularly employed by the Bank.

7. The Board of Directors may at any meeting authorize any officers or committees of the Bank to exercise any specified powers of the Board except the power to make, guarantee or participate in loans. Such powers shall be exercised in a manner consistent with the general policies and practices of the Board.

The Board may by a three-fourths vote delegate to the Executive Committee the power to make, guarantee or participate in loans in such amounts as may be fixed by the Board. In passing upon applications for loans, the Executive Committee shall act under the requirements specified for each type of loan.

8. A member country failing to meet its financial obligations to the Bank may be declared in default and it may be suspended from membership during the period of its default provided a majority of the member countries so decide. While under suspension, the country shall be denied the privileges of membership, but shall be subject to the obligations of membership. At the end of one year the country shall be automatically dropped from membership in the Bank unless it has been restored to good standing by a majority of the member countries.

If a member country elects to withdraw or is dropped from the Bank its shares of stock shall, if the Bank has a surplus, be repurchased at the price paid. If the Bank's books show a loss, such country shall bear a proportionate share of the loss. The Bank shall have 5 years in which to liquidate its obligations to a member withdrawing or dropped from the Bank.

Any member country that withdraws or is dropped from the International Stabilization Fund, shall relinquish its membership in the Bank unless three-fourths of the member votes favor its remaining as a member.

9. The yearly net profits shall be applied as follows:

a. All profits shall be distributed in proportion to shares held, except that one-fourth of the profits shall be applied to surplus until the surplus equals 20 percent of the capital.

b. Profits shall be payable in a country's local currency, or in gold at the option of the Bank.

10. The Bank shall collect and make available to member countries and to the International Stabilization Fund financial and economic information and reports relating to the operations of the Bank.

Member countries shall furnish the Bank with all information and data that would facilitate the operations of the Bank.

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39-65

FOR IMMEDIATE RELEASE,
November 23, 1943

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	Quota Quantity (Pounds) 1/	Authorized for entry for consumption	
		As of (Date)	(Pounds)
Signatory Countries:			
Brazil	1,353,183,480	Nov. 13, 1943	169,986,734
Colombia	458,336,340	"	66,797,382
Costa Rica	29,100,720	"	1,620,537
Cuba	11,640,288	"	1,716,157
Dominican Republic	17,460,432	"	2,569,114
Ecuador	21,825,540	"	5,979,455
El Salvador	87,302,160	"	787,587
Guatemala	77,844,426	"	450,791
Haiti	40,013,490	"	1,379,312
Honduras	2,910,072	"	460,402
Mexico	69,114,210	"	3,094,976
Nicaragua	28,373,202	"	-
Peru	3,637,590	"	59,587
Venezuela	61,111,512	"	3,205,675
Non-signatory Countries:	51,653,778	"	1,993,069

1/ Quotas as established by action of the Inter-American Coffee Board on March 11, 1943.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, November 24, 1943.

Press Service
No. 39-65

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

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for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on December 2, 1943.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid

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TREASURY DEPARTMENT
Washington

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FOR RELEASE, MORNING NEWSPAPERS,
Friday, November 26, 1943.

The Secretary of the Treasury, by this public notice, invites tenders for $ 1,000,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated December 2, 1943, and will mature March 2, 1944, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern War time, Monday, November 29, 1943. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal

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Washington

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Friday, November 26, 1943.
11-24-43

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income tax and also for any taxes withheld from wages. The payments of estimated tax, to be made in connection with the filing, are only the difference between the total estimated tax and these credits.

While most farmers do not work for wages, some of them who work part-time during slack farming seasons -- perhaps at a near-by cannery, packing house, or stock yard -- may have had some tax withheld from such wages and therefore will be entitled to take credits accordingly.

The general requirements for filing a declaration, for both farmers and non-farmers, include all persons who had in the calendar year 1942 or expect to have in the calendar year 1943 any of the following amounts or types of income:

1. More than $100 gross income from a source outside of wages subject to withholding and <u>also</u> sufficient gross income to require filing an income tax return ($500 for a single person, $1200 for a married couple, or $624 for an individual married person).

2. Wages subject to withholding totaling more than $2,700 if single, or $3,500 if married (married couples must file declarations if such wages of husband and wife, together exceed $3,500).

In addition, the declaration is required of any person who was required to file an income tax return for 1942 and who expects his wages subject to withholding in 1943 to be less than similar wages were in 1942.

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Anyone who filed a declaration on or before September 15 but who underestimated his tax substantially -- 20 per cent in the case of a non-farmer, or 33-1/3 per cent in the case of a farmer -- should file an amended declaration by December 15 to avoid penalties prescribed by law for such substantial underestimates. The special provisions relative to farmers will apply to all persons who expect that at least 80 per cent of their total estimated gross income from all sources will be from farming.

The other persons who must file by December 15 are those who did not file in September because they anticipated that their income for the year would not be sufficient to require filing but who now find that their income will be high enough to require filing a declaration.

"Extensive efforts have been made to provide farmers with all the information they will need to complete this filing, and I have instructed the Collectors' offices to give every possible assistance to farmers," Commissioner Hannegan said.

"Many farmers already have the forms which were sent them in August. These forms are still good and may be used. Any farmers needing more forms, however, will be supplied promptly upon request to the Collectors.

"In addition, any farmer who desires to make a precise estimate, for which Form 1040F (Schedule of Farm Income and Expenses) is useful, may also get these forms from Collectors. However, farmers desiring only to approximate their tax -- within the permissible 33-1/3 per cent margin of error -- will find the simplified worksheet, which is supplied to all taxpayers, adequate for this purpose."

Farmers and others filing declarations for the first time will find that the form provides credit for any tax paid this year on account of their 1942

~~If Advance for Release Thursday, Dec. 2~~

FOR Release Morning Newspapers (Copy)

~~PROPOSED PRESS RELEASE~~

Thursday, December 2, 1943

Press Service
No. 39-67

December 15, 1943 is a special tax date for American farmers, Commissioner of Internal Revenue Robert E. Hannegan said today.

Although a limited number of non-farmers also will have tax payments to make or declarations of estimated tax to file, Commissioner Hannegan explained that December 15 will be the first date by which farmers will be required to file "Declarations of Estimated Income and Victory Tax", similar to the declarations filed by nearly twelve million persons on September 15.

"By the very nature of his business, the farmer could not be put on quite the same basis as the city wage earner when Congress adopted the pay-as-you-go system," Commissioner Hannegan explained.

"In the first place, the farmer usually has no wages from which tax can be withheld. In the second place, because of the hazards of weather and other conditions of agriculture, the farmer could not be expected to estimate his income until most of the crops were gathered and sold.

"Therefore, to make the pay-as-you-go system as fair as possible to farmers, the law makes two special provisions. First, farmers who file returns on a calendar year basis need not estimate their income and tax until December 15 of each year, and second, a farmer's estimate will be exempt from penalties for understatement if the tax estimate is within a 33-1/3 per cent margin of error (based on the annual tax return to be filed, as usual, the following March).

"Under these provisions, the farmer is enabled to pay his income taxes substantially in the same year as the income is received, which is the primary objective of the pay-as-you-go system -- with due regard for the special difficulties of the farming business."

December 15 is also a filing date for two other groups of citizens.

TREASURY DEPARTMENT

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placed in charge of the Memphis office in 1901. Later assignments carried him to New York City, Philadelphia, St. Louis, and other districts, and in 1903 he was placed in charge of the New England district, with headquarters at Boston, remaining there, with interruptions for assignments with President Taft, until he became a part of Woodrow Wilson's official family in 1912.

While with Wilson at Versailles, Mr. Murphy surprised himself by readily picking up the rudiments of conversational French, and quickly found himself at ease with Europeans. He later was able to turn this faculty into good account on a tour of European capitals in which he did much to further cooperation and friendly relations between United States authorities and foreign police organizations. Information he obtained on operations of international counterfeit rings proved of great value to the Service.

Mr. Murphy was born in Columbus, Ohio, November 29, 1878. He was educated in the public schools there. His father was a Secret Service Officer for thirteen years, until his death in 1906, being Agent in Charge in the St. Louis District for much of this time, and it was natural for his son to turn to the Service.

The retiring Assistant Chief is an enthusiastic golfer and bridge-player. He is a member of the National Press Club and the ~~Congressional~~ Burning Tree Country Club of Washington. He lives at 2915 Connecticut Avenue, N. W., and will continue to make his home in Washington, after spending the winter in Florida. He is a bachelor.

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the World War President's tenure. He was placed at the head of the White House Detail in 1912, and on July 27, 1919, became Assistant Chief on direction of ~~Mr.~~ Wilson.

Mr. Murphy accompanied President Wilson to Versailles after the armistice, and on visits to Belgium, Italy, France, England and Scotland, and later on a trip to the West Coast of the United States.

In November 1920, he accompanied President Elect Harding on a vacation in Florida, and remained with him until the inauguration on March 4, 1921. After Harding's death on August 2, 1923, Mr. Murphy was in charge of the Detail with President Coolidge until after Warren Harding was buried. He later headed the Detail with President-Elect Herbert Hoover until Hoover took office March 4, 1929.

The Assistant Chief was on vacation in Florida on the night ~~Chrisloppe~~ Zangara attempted to assassinate President-Elect Franklin D. Roosevelt, and he promptly took charge of the investigation of the crime and cooperated with the State's Attorney until Zangara was convicted. When President Roosevelt decided to visit South America in 1937, Secretary Morgenthau placed the protective responsibility on Mr. Murphy, and he has had similar assignments on several other of the Roosevelt trips.

Mr. Murphy made a spectacular debut with the Service in which his father, John E. Murphy, also served with distinction. When young Joe entered the service in 1899 the Elder Murphy had for more than a year been on the trail of one of the shrewdest counterfeiting gangs ever known to the Service, the Philadelphia-Lancaster gang. These clever and wealthy criminals had selected a location for their manufacturing plant that was extremely difficult of observation, the exit being visible only from the nearby home of a wealthy, elderly lady.

Young Joe "obtained a job" with an express company at Lancaster. He approached the old lady as a young stranger far from home, urgently in need of living quarters, and was permitted to occupy her front room.

From this vantage he and the agents assigned to the case covered the operations of the counterfeiters. In a few weeks the country was astounded by the news of arrest of persons prominent in society, charges of bribery against public officials and the subsequent withdrawal of a $100 note from circulation because of the clever counterfeits introduced by the gang. The investigation disclosed that the same gang had defrauded the government of millions of dollars through use of counterfeit revenue stamps as well as currency.

Having thus established himself as an investigator, the Younger Murphy rose rapidly in the Secret Service organization. He was given temporary charge of the Kansas City office the next year, and was

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Joseph E. Murphy, Assistant Chief of the United States Secret Service since 1919, who more than any other one man has carried personal responsibility for the safety of Presidents of the United States, will retire from active service November 30, the Treasury announced today.

Mr. Murphy is 65 years old.

For most of his 45 years with the Secret Service Mr. Murphy's major assignment has been guarding or directing the protection of seven Chief Executives, from Theodore Roosevelt to Franklin Delano Roosevelt. Yet during this period he figured prominently in scores of counterfeiting and other law enforcement investigations, including the Teapot Dome oil frauds ~~inquiry~~ case.

Mr. Murphy is the second veteran Secret Service intimate of presidents to retire this year. Colonel Edmund W. Starling retired on November 1 after 25 years with the White House Detail. Colonel Starling joined the Service in 1914, served under Mr. Murphy, like Mr. Murphy accompanied President Wilson to the Versailles peace conference and on his later European tour, and participated in the protective arrangements thrown about subsequent presidents at home and abroad.

Colonel Starling ~~himself~~ headed the White House Detail for ~~seven~~ ~~Thomas~~ 7 years.

Secret Service Chief Frank J. Wilson, ~~in announcing the retirement~~, said today that the lengthy services of the two men in efficient performance of duties of exceptional responsibility constituted a bright chapter in the history of the organization.

~~The new Assistant Chief's~~ Joe Murphy's first duty as a protector of Presidents came when he was a youngster both in years and in the Service. When President Theodore Roosevelt visited Seattle in May 1903, Mr. Murphy was one of the guarding force. Later he went with ~~"Teddy."~~ T. R. on a trip to Panama, the first time a President had left the Continental United States.

For most of a decade Mr. Murphy matched his wits against the counterfeiters that were plaguing the New England district, but he was detached for White House duty frequently during the Taft Administration. He spent four seasons with the President at his summer home, and accompanied Mr. Taft on two trips across the continent, to Panama, and on other tours.

In November 1912 Mr. Murphy was assigned to the protection of President-Elect Woodrow Wilson, and he remained with the White House Detail of the Secret Service after Mr. Wilson took office and throughout

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, November 26, 1943.

Press Service
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In November 1912 Mr. Murphy was assigned to the protection of President-Elect Woodrow Wilson, and he remained with the White House Detail of the Secret Service after Mr. Wilson took office and throughout the World War President's tenure. He was placed at the head of the White House Detail in 1912, and on July 27, 1919, became Assistant Chief on direction of President Wilson.

Mr. Murphy accompanied President Wilson to Versailles after the armistice, and on visits to Belgium, Italy, France, England and Scotland, and later on a trip to the West Coast of the United States.

In November 1920, he accompanied President-Elect Harding on a vacation in Florida, and remained with him until the inauguration on March 4, 1921. After President Harding's death on August 2, 1923, Mr. Murphy was in charge of the Detail with President Coolidge until after Warren Harding was buried. He later headed the Detail with President-Elect Herbert Hoover until Mr. Hoover took office March 4, 1929.

The Assistant Chief was on vacation in Florida on the night Giuseppe Zangara attempted to assassinate President-Elect Franklin D. Roosevelt, and he promptly took charge of the investigation of the crime and cooperated with the State's Attorney until Zangara was convicted. When President Roosevelt decided to visit South America in 1937, Secretary Morgenthau placed the protective responsibility on Mr. Murphy, and he has had similar assignments on several other of the Roosevelt trips.

Mr. Murphy made a spectacular debut with the Service in which his father, John E. Murphy, also served with distinction. When young Joe entered the service in 1899 the elder Murphy had for more than a year been on the trail of one of the shrewdest counterfeiting gangs ever known to the Service, the Philadelphia-Lancaster gang. These clever and wealthy criminals had selected a location for their manufacturing plant that was extremely difficult of observation, the exit being visible only from the nearby home of a wealthy, elderly lady.

Young Joe "obtained a job" with an express company at Lancaster. He approached the old lady as a young stranger far from home, urgently in need of living quarters, and was permitted to occupy her front room.

From this vantage he and the agents assigned to the case covered the operations of the counterfeiters. In a few weeks the country was astounded by the news of arrest of persons prominent in society, charges of bribery against public officials and the subsequent withdrawal of a $100 note from circulation because of the clever counterfeits introduced by the gang. The investigation disclosed that the same gang had defrauded the Government of millions of dollars through use of counterfeit revenue stamps as well as currency.

Having thus established himself as an investigator, the younger Murphy rose rapidly in the Secret Service organization. He was given temporary charge of the Kansas City office the next year, and was placed in charge of the Memphis office in 1901. Later assignments carried him to New York City, Philadelphia, St. Louis, and other districts, and in 1903 he was placed in charge of the New England district, with headquarters at Boston, remaining there, with interruptions for assignments with President Taft, until he became a part of Woodrow Wilson's official family in 1912.

While with Wilson at Versailles, Mr. Murphy surprised himself by readily picking up the rudiments of conversational French, and quickly found himself at ease with Europeans. He later was able to turn this faculty into good account on a tour of European capitals in which he did much to further cooperation and friendly relations between United States authorities and foreign police organizations. Information he obtained on operations of international counterfeit rings proved of great value to the Service.

Mr. Murphy was born in Columbus, Ohio, November 29, 1878. He was educated in the public schools there. His father was a Secret Service Officer for thirteen years, until his death in 1906, being Agent in Charge in the St. Louis District for much of this time, and it was natural for his son to turn to the Service.

The retiring Assistant Chief is an enthusiastic golfer and bridge player. He is a member of the National Press Club and the Burning Tree Country Club of Washington. He lives at 2915 Connecticut Avenue, N. W., and will continue to make his home in Washington after spending the winter in Florida. He is a bachelor.

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the March return, the Collector will then give you a refund or credit.

Q. Suppose I made a big mistake and overestimated in September, what can I do?

A. You too may file an amended declaration by December 15. In this case if you receive a bill from the Collector for an instalment resulting from your September declaration, you should send this bill with your amended declaration to the Collector, along with any revised payment shown to be due for December on your amended declaration.

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Q. Will I still have to file an annual tax return by next March 15?

A. Yes. Nothing in the pay-as-you-go system changes the requirement for filing an annual tax return. The only difference is that when you do file your annual return you will have paid all or a substantial part of the tax, and the only payment that you will have to make on the annual return will be any amount of tax which your annual return may show that you owe after deducting the amounts already paid under the pay-as-you-go system. In fact, many persons may be eligible for refunds or credits because their annual returns may show that they have paid somewhat more than the correct tax.

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sources to require filing an annual income tax return ($500 for a single person, $1200 for a married couple, or $624 for an individual married person).

b. Wages subject to withholding exceeding $2700 if single or exceeding $3500 if married ($3500 either individually or together in the case of husbands and wives both receiving wages).

In addition, a declaration must be filed by any person who was required to file an income tax return for 1942 and who expects his wages subject to withholding in 1943 to be less than the wages received in 1942.

Q. How accurate must my estimate be?

A. It should be as accurate as you can reasonably make it, especially since by December 15 there will be only two weeks of the year left. However, no penalty will be assessed if the tax is not underestimated by more than 20 percent in the case of a non-farmer or 33-1/3 percent in the case of farmers.

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(a) Net estimated tax plus taxes withheld is $500; tax shown on final return is $650; 80% of $650 is $520. Since $500 is outside the margin of error, the penalty is 6% of $150 (the difference between $500 and $650) or $9. This penalty of $9 is applicable because it is less than $20, the difference between $500 and $520.

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For farmers the margin of error is 33-1/3 percent instead of 20 percent, and in computing the penalty, 66-2/3 percent is used instead of 80 percent.

Q. When will the penalties, if any, be determined?

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FOR RELEASE, Morning Newspapers,

~~ADVANCE FOR RELEASE~~

WEDNESDAY, DECEMBER 8, 1943.

Press Service
No. 39-69

QUESTIONS AND ANSWERS ABOUT THE
DECEMBER 15 INCOME TAX DECLARATION

Q. What kind of tax filing is to be made December 15?

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Q. Wasn't that done September 15?

A. Yes. Nearly twelve million taxpayers filed declarations September 15. The only persons who have to file now are those who did not file then but are required to do so by December 15 either because, in the case of farmers, they had an automatic postponement, or because they did then not expect enough income to require filing but now anticipate higher incomes which do require filing of declarations. Also, any persons who filed in September who underestimated the tax--by 20 percent if non-farmers or 33-1/3 percent if farmers--should file amended declarations by December 15 to avoid penalties.

Q. What is an amended declaration?

A. It is, in reality, a substitute declaration. It is filed on a similar form and is distinguished only by writing the word "amended" at the top of the front page of the form.

Q. What is the purpose of these declarations?

A. To put all taxpayers, as nearly as possible, on the pay-as-you-go system of tax payment, so that they will be able to pay their taxes in the same year that they get their income.

Q. What information is required?

A. You estimate your 1943 income and Victory tax, based on your estimate of 1943 income and then deduct any payments made this year on 1942 tax (probably instalments in March and June)--and also any taxes withheld and estimated to be withheld from wages. The remainder is the amount you owe and must be paid on or before December 15.

P. 2

Q. How do I know if I have to file a declaration by December 15?

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TREASURY DEPARTMENT

WASHINGTON 25

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

November 26, 1943.

MEMORANDUM FOR:

Mr. Schwarz or
Mr. Shaeffer:

Attached questions and answers have been approved by Mr. Hannegan and all other necessary persons in the Bureau.

Please distribute them as soon as possible to your regular lists, also your farm list and please advise me if copies can also be mailed promptly to all individual daily and weekly newspapers.

Irving Perlmeter

Irving Perlmeter,
Public Relations Officer.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, December 8, 1943.
11-27-43

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The exemption provisions require the determination of the questions whether sales are made to governmental agencies and whether the articles or services are for the exclusive use of these agencies. Because of the numerous types of contracts under which sales are made to the Government and the greatly expanded scope of its activities, considerable work is required to establish proof of the conditions upon which the exemptions depend. The services of employees taking care of these details could be better utilized in other activities. Repeal of the exemption privileges also may well increase the net revenues of the Federal Government because it is believed that the present system results in considerable loss of revenue through carelessness, errors, and possible fraud. The tremendous volume of paper work involved makes it impossible for the personnel now available to check adequately transactions for which tax exemptions are requested.

4. Termination of certain governmental excise tax exemptions

Section 307 of the House bill provides for the termination of numerous excise tax exemptions on sales of goods and services to the Federal Government as requested by the President in a letter dated August 11, 1943, to the Chairman of the Committee on Ways and Means. The chief taxes affected are the manufacturers' and retailers' excise taxes, the taxes on the transportation of persons and property, and those upon charges for the use of communication facilities. It is believed that this amendment would achieve considerable savings in the manpower now used by the Federal Government and private business to administer these exemptions.

Another consideration involves the retailers' excise taxes. At the present time these are levied at 10-percent rates. The House bill follows the Treasury's proposals in providing for 25-percent rates on fur and fur-trimmed articles, toilet preparations, and luggage and related goods. With respect to the jewelry excise, however, the bill provides for a 20-percent rate, compared to the 30-percent rate recommended by the Treasury. In the light of the optional character of the bulk of the items covered by the jewelry tax, the unprecedentedly high demand for these items, and the limited supplies that are available, the Treasury believes that the jewelry tax should be at least as high as the other retailers' excises.

The Federal Communications Commission has indicated the desirability of maintaining the present 10-percent rate on international cable and radiotelegraph messages in order to facilitate its efforts in promoting international communications. The Commission has also indicated the desirability of continuing the existing tax differential between the taxes on telephone toll message charges and domestic telegraph charges. The House bill proposes to tax these two services at 25-percent rates. It should also be noted that because of competitive relationships existing between domestic telegraph messages and leased wire services, the taxes on these two types of services should preferably be at the same level. The House bill provides for a 25-percent tax on domestic telegraph messages and a 20-percent tax on leased wire, teletypewriter, and talking circuit special services.

Finally, special problems are raised by the excise tax provisions in the House bill. The first relates to the amount of tax increase on fermented malt liquors. An increase of $1 per barrel as provided in the House bill would represent .2 cents per 8-oz. glass and .3 cents per 12-oz. bottle. If distributors were permitted to increase their unit selling prices by a full cent they would gain larger profits because of the tax and the Treasury would not get the full benefit of the higher consumer outlays. On the other hand, if price increases were not permitted, distributors would be compelled to absorb a part of the higher tax. A $3 per barrel tax increase as originally recommended by the Treasury would more nearly approximate full cent price increases on customary units of sale.

A further difference between the House bill and the Treasury's excise proposals is the failure to repeal the tax on transportation of property which was enacted last year. This tax is undesirable, since it disturbs existing price and competitive relationships and results in discrimination among competing producers. It conflicts with the Government's efforts to stabilize prices and the advantages which would follow its repeal would more than offset the $170 million decrease in revenue.

The second reason why the House bill does not meet the Treasury's $2\frac{1}{2}$ billion excise tax goal is that it includes rate increases below the levels recommended by the Treasury for the taxes on distilled spirits, fermented malt liquors, wines, general admissions, transportation of persons, and jewelry. The higher rates proposed by the Treasury would raise $689 million more than those in the House bill. The Treasury again recommends the wartime increases originally proposed for these taxes. These increases are fully warranted in view of the great wartime increases in demand for these articles and services and the prevailing scarcities in their supply.

Taxing soft drinks and candy and chewing gum, as recommended by the Treasury, would raise $367 million. The supplies of these items are appreciably below the wartime demands of consumers and, consequently, the proposed taxes could be shifted forward to consumers without reducing the total volume of sales. While vending machine operators probably could not find a satisfactory method of shifting the taxes on these products, it is believed that they generally could continue to operate profitably by distributing non-taxable products such as nuts, raisins, cookies, and non-aerated soft drinks.

The first reason is that the recommended increases in tobacco taxes and the proposals for taxing soft drinks and candy and chewing gum were not adopted in the House. These recommendations would raise $852 million. Failure to provide for wartime increases in the tobacco taxes cannot be justified on the basis of the prevailing demand and supply conditions in the industries involved. The proposed tax increases could be passed forward to consumers without burdening tobacco growers, manufacturers or distributors. From the standpoint of the probable effects on consumers and the industries, there are just as good reasons for obtaining additional revenue from the tobacco taxes as from the other excise taxes included in the House bill.

3. Analysis of excise tax provisions in House Bill

The magnitude of our war finance requirements and the need for absorbing excess consumer spending power to the greatest extent possible demand that every effort be made to reach the $2½ billion excise tax goal recommended by the Treasury. The provisions in the House bill would go only about half the way toward meeting the Treasury's goal. There are two principal reasons for this difference.

12. (Appendix F cont'd.)

A detailed comparison of the Treasury's excise tax proposals with the changes contained in the House bill and the existing rates, together with the estimated revenue effects, is shown in Exhibit 18.

The Treasury also proposed to raise an additional $852 million from rate increases in the tobacco taxes and from new taxes on soft drinks and candy and chewing gum. None of these proposals is included in the House bill. Finally, the House bill does not provide for repeal of the tax on transportation of property.

Excise tax changes included in the House bill, but not in the Treasury's proposals, are the increases in rates on electric light bulbs, international telegraph messages, and wire equipment services, and the new excise on pari-mutuel betting. The additional revenue from these changes is estimated to be about $51 million.

In most cases the items selected for heavier taxation in the House bill are the same as those in the Treasury's recommendations. Some of the rate increases in the House bill, however, are not as great as those suggested by the Treasury. As a result the House bill would raise an additional $1.1 billion from items included in the Treasury's proposals, whereas the Treasury suggested raising about $1.8 billion from these same sources.

2. General comparison of Treasury recommendations and the House action on excise taxes and postal rates

The Treasury's excise tax proposals to the Committee on Ways and Means were designed to raise an additional $2 1/2 billion of revenue, through increases in the rates and changes in the basis of existing excises and through two new excises. It was further recommended that the tax on transportation of property be repealed. The excise tax changes embodied in the House bill are estimated to raise an additional $1.2 billion of revenue. The bill also provides for higher postal rates estimated to produce an increase of $184 million in postal revenues.

Third, under the excise method, we would be certain that a net gain, rather than a loss, would be achieved on the anti-inflation front. The excise tax proposals would not affect the farm parity index, while a general retail sales tax designed to raise the same amount of revenue would increase the index by more than 2 per cent. The excise proposals would increase the cost-of-living index by about 1 per cent, while an equivalent sales tax would raise it by almost 3 per cent. These increases would occur at a time when vigorous action is being taken along many fronts to keep living costs down. The net effect on business costs would be minor under the excise method, particularly if the recommended repeal of the tax on transportation of property is accepted. Under the sales tax method price ceiling adjustments to compensate for the sales tax on various business cost items would be unavoidable. From the standpoint of the effects on the parity index, the cost-of-living index, and on business costs, therefore, the excise method offers significant advantages. There would be no risk of upsetting the Government's wartime stabilization program, particularly because the costs of basic necessities would not be affected.

Second, the lower income groups would not be forced to reduce their consumption of the necessities of life as they inevitably would under a sales tax. A retail sales tax, applying to the bulk of consumer purchases, does not give these groups any real choice between paying the tax and escaping it by cutting their taxable purchases. Higher prices for the things they buy, whether induced by a sales tax or any other cause, simply mean that many low-income consumers must exist at a still lower living standard.

5. (Appendix ~~A~~ Cont.)

There are at least three fundamental reasons why the selective excise method is to be preferred. First, the added administrative and compliance effort would be only a small fraction of what would be entailed by a retail sales tax. There would be no substantial enlargement of Bureau of Internal Revenue staff. Few new administrative procedures would have to be established, and the added number of taxpayers would be far less than the 2 1/2 million firms ~~which~~ that would be covered by a retail sales tax.

4. (Appendix A Cont'd.)

While formulating the Treasury's excise program, we made comparisons with a sales tax proposal designed to yield an equivalent amount of revenue. To raise $2 1/2 billion by means of a sales tax would require about a 4 per cent rate on all retail sales, on basic living needs as well as on non-essentials and luxuries. If food sales were exempted, the required rate would be more than 6 per cent, and if the exemption were extended to cover also medicines and clothing, the required rate would be over 9 per cent.

Similarly, there is every reason to believe that the higher taxes would not cause hardship for consumers. The prices of only a relatively few non-basic commodities and services would be affected. Consumers in a difficult economic situation would be given a real choice between paying the higher taxes and decreasing their purchases of these non-essentials and thereby relieving themselves of part or all of the taxes.

2. (Appendix 7)

Substantial wartime increases in our excise taxes on consumer goods and services are justified on several grounds. The additional administrative costs would be relatively small for the Government, as would the taxpayers' costs of compliance. There is every reason to believe that few, if any, of the business concerns affected would be unduly burdened, since the higher levies generally could be shifted to consumers with little difficulty. Wartime supply shortages are troublesome for many industries, to be sure, but these very shortages, coupled with the high level of consumer income, create a market situation extremely favorable to forward shifting of excise taxes.

Appendix 7.

Excise taxes

1. General basis for recommendations

We have recommended that an additional $2 1/2 billion be raised through increases in the rates and changes in the basis of several existing excise taxes and through enacting two new excises. In addition, the tax on the transportation of property is recommended for repeal. The specific items selected for heavier taxation, as well as the level of the proposed rates, were determined after detailed analysis had been made of the demand and supply conditions in the different industries, and after consideration had been given to the manner in which producers and consumers would be affected. Moreover the Treasury recommendations on excises are part of a program that includes increases in the income tax. The Treasury would not have recommended obtaining so much as $2.5 billion more from excises except as part of a program that also included substantial increases in other taxes. Without those increases, a disproportionate share of the additional burden would be imposed on taxpayers in the lowest income groups.

However, if the coal and iron and timber rule is to be retained in Section 735, ~~the Treasury does not object to~~ the amendments introduced in the House Bill are appropriate. In the case of coal mines and timber blocks, the distinction between new and old properties appears to be a tenuous one which has resulted in some inequities. ~~On the other hand, there ap-~~ As to the other amendment, ~~pears to be no reason why~~ corporate lessors of coal, iron, and timber properties should ~~not~~ be entitled to the same relief now granted by the law to the operators of such properties.

Last year, when the Revenue Bill of 1942 was being considered by your Committee, the Treasury pointed out the undesirability of the special formula which was made applicable to producers of coal, iron, and timber. We believed then, as we believe today, that a measure which distributes tax relief without regard to need not only deprives the Government of much needed revenues, but also results in an inequitable distribution of the wartime tax burden among business enterprises.

B. Extension of the coal and iron rule in Section 735 to new properties and to corporate lessors.

The House Bill extends the treatment awarded by Section 735 to operators of coal and iron mines and of lumber tracts in two respects: (1) corporate lessors are given the same treatment as operators; and (2) new mines and timber properties are allowed to treat one-third of their output as excess output.

Second, we believe that the problem faced by the natural gas industry as a result of accelerated output is primarily a depreciation rather than a depletion problem. ~~Relief from taxes is sought by the industry in order to amortize its debts and to finance the construction of new pipe lines. The need for new capital is one which is common to many industries.~~ The Treasury is of the opinion that the position of the natural gas industry is not so unique with respect to accelerated depreciation that it should be relieved of the wartime taxes which Congress has imposed upon industry as a whole.

The relief given in the House Bill does not appear to provide an appropriate remedy for the wartime problems of this industry.

Our reasons are twofold. First, ~~we believe that the relief granted under the House Bill is excessive.~~ From an examination of the tax returns of a number of the representative companies in this industry it appears that the industry, as a whole, is now earning as much per unit of output, but before corporation income taxes, after excess-profits taxes, as it earned during the base period years. It is our belief that the excess-profits tax cannot be said to be injuring an industry if this tax allows the industry to retain its normal unit profits.

The Treasury recognizes that natural gas is a depletable resource, the production of which has greatly increased since the beginning of the war. It would not be opposed to the amendment of Section 735 to include producers of natural gas. However, the natural gas companies which will benefit most under the provisions of the House bill are primarily engaged in the operation of pipe lines. Some of these companies produce no natural gas and all of them buy a substantial percentage of the gas carried in their pipe lines. The Treasury believes it would be undesirable to extend the relief now afforded to depletable resource industries to these companies.

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Appendix ~~B~~ E

Special excess-profits tax treatment with respect to the accelerated output of certain natural resources

A. The extension of the coal and iron ~~mine~~ rule of Section 735 to the natural gas industry

The House bill provides special excess-profits tax treatment for natural gas companies with respect to income from the production, storage and transportation by pipe lines of natural gas. The treatment given would be the same as that now granted under Section 735 (b)(2) with respect to income from coal and iron mines.

On the other hand, the Treasury does not believe that the extension of percentage depletion to vermiculite, feldspar, lepidolite, spodumene and potash can be justified even as a war measure. Although the first four of these minerals are used in war production, we have been informed by the War Production Board that the current output of all of them is adequate to meet present wartime requirements. Consequently, these four minerals stand in no different position from all the other minerals which have important wartime uses but with respect to which no critical supply situation exists. Potash also has important wartime uses, but officials of the War Production Board do not believe that the granting of percentage depletion to this mineral can be expected to bring about the discovery and development of any new potash deposits. The vast bulk of the potash reserves in this country were discovered by Government geologists and are found on public lands. The exploitation of these deposits is controlled by the Department of the Interior, and without the approval of the Secretary of this Department it would be impossible for new companies to engage in the production of potash.

The Treasury's position with respect to the extension of percentage depletion to strategic minerals as a wartime measure is the same as that with respect to the exemption of these minerals from excess-profits taxes. If, but only if, the allowance of percentage depletion for the duration of hostilities will contribute to the war effort, the Treasury recognizes the advantages of such allowances despite our firm conviction that the percentage depletion provisions in the present law have, in general, enabled many individual and corporate taxpayers to avoid their fair share of the Nation's tax burden. Generally, our position with respect to percentage depletion is the same as was expressed in hearings on the 1942 Revenue Bill. 1/ However, on the basis of the representations of the War Production Board that percentage depletion for these metals for the duration of the war will contribute to the war effort, we concur in the action taken in the House Bill in granting percentage depletion to fluorspar, flake graphite, sheet mica, and beryl.

1/ See Secretary Morgenthau's statement, page 8, and testimony of Randolph Paul pp. 84, 2988, 3438, Hearings Before Ways and Means Committee, 77th Congress, Second Session.

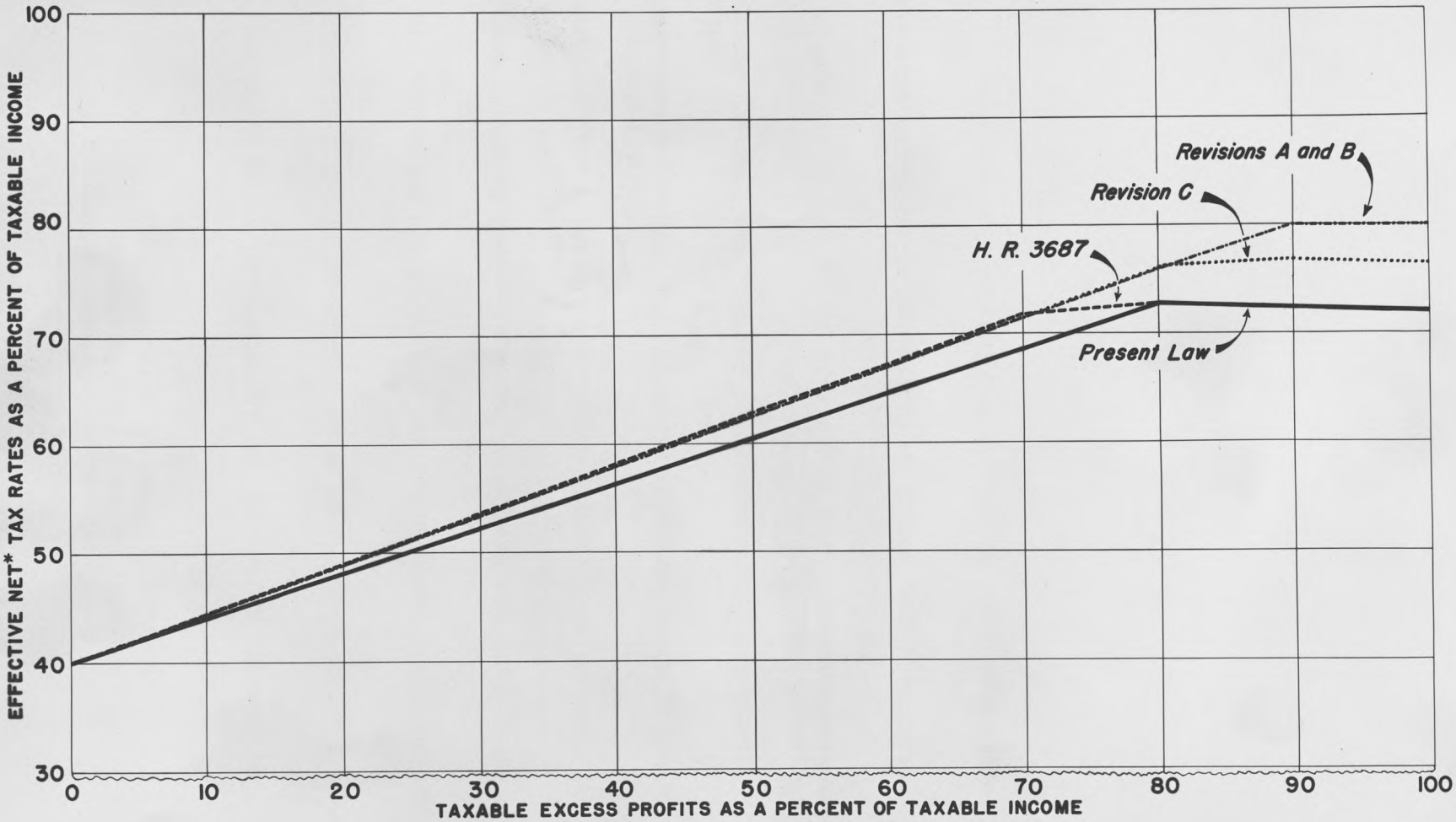
A year ago the Treasury, after consultation with officials of the War Production Board, recommended that the income from the production of 11 strategic minerals be exempt from excess-profits taxes. ~~We have no objection to~~ The addition of fluorspar, and flake graphite, to this list of minerals is proper; both of these minerals are of ~~high~~ strategic importance. However, we see no possible reason for the inclusion of vermiculite among these strategic minerals in connection with war production. Although this mineral has some ~~strategic~~ uses, it is the opinion of officials in the War Production Board that the present supply is more than adequate. The bulk of this mineral is used for building insulation in competition with rock wool and asbestos, products which no one would presume to say were of strategic importance.

Appendix D

Additional tax relief for corporations engaged in the mining of certain strategic minerals

The Treasury recognizes the importance of encouraging the discovery and development of mines capable of yielding minerals of high strategic value in the production of war materials. In those cases where the exemption from excess-profits taxation and the allowance of more liberal depletion allowances will increase the output of these strategic minerals, the Treasury believes that such additional tax relief measures are proper. However, the Treasury believes it undesirable to extend relief to minerals which, in the opinion of the War Production Board, cannot be designated as strategic minerals. Tax relief should not be permitted to become tax avoidance.

EFFECTIVE NET* TAX RATES ON CORPORATION INCOME
AS THE PROPORTION OF TAXABLE EXCESS PROFITS VARIES
Under Present Law, H. R. 3687 and Suggested Revisions in 80 Percent Limitation



*After postwar refund.

Note: Normal tax and surtax net income assumed equal and greater than $50,000.

Office of the Secretary of the Treasury
Division of Tax Research

B-476

Chart to go with
Appendix ~~A~~ C comes here

Appendix "C"

Table I

Effective tax rates on corporation income as the proportion of taxable excess-profits varies, under present law, H. R. 3687, and suggested revisions in the 80-percent limitation

Taxable excess profits as a percent of taxable income	Total taxes as a percent of income under									
	Present law		H. R. 3687		Revision A		Revision B		Revision C	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
10	45.0	44.1	45.5	44.6	44.5	44.5	45.5	44.6	45.5	44.6
20	50.0	48.2	51.0	49.1	49.0	49.0	51.0	49.1	51.0	49.1
30	55.0	52.3	56.5	53.7	53.5	53.5	56.5	53.7	56.5	53.7
40	60.0	56.4	62.0	58.2	58.0	58.0	62.0	58.2	62.0	58.2
50	65.0	60.5	67.5	62.8	62.5	62.5	67.5	62.8	67.5	62.8
60	70.0	64.6	73.0	67.3	67.0	67.0	73.0	67.3	73.0	67.3
70	75.0	68.7	78.5	71.9	71.5	71.5	78.5	71.9	78.5	71.9
80	80.0	72.8	80.0	72.8	76.0	76.0	80.0	76.4	80.0	76.4
90	80.0	72.4	80.0	72.4	80.0	80.0	80.0	80.0	80.0	76.9
100	80.0	72.0	80.0	72.0	80.0	80.0	80.0	80.0	80.0	76.5

Note: "Gross" and "Net" refer to taxes before and after the postwar refund, respectively. The capital-stock and declared-value excess-profits tax are not included in this computation. Normal-tax and surtax net income are assumed equal and greater than $50,000.

excess profits, and in order that a smoother graduation in effective tax rates may be provided as taxable excess-profits represent a larger and larger percentage of total income, three possible revisions could be made in the 80-percent limitation.

Revision A would substitute an 85-percent excess-profits tax with no postwar refund for the 95-percent excess-profits tax and 10-percent postwar refund in the House Bill. The 80-percent limitation would remain in effect.

Revision B would lease the 80-percent limitation as applied to gross taxes but taxes after the postwar refund would be determined as if there were no postwar refund, rather than before the postwar refund. This would have the effect, in most instances, of charging the reduction in taxes resulting from the 80-percent limitation against the taxpayer's postwar refund, rather than against gross taxes. 1/ This would have the effect of no 80-percent limit.

Revision C would raise the present limit of 80 percent to 85 percent, but would not change the basic structure of the limitation.

The effective tax rates which would result from these changes are presented in Table I, both before and after the postwar refund, if any. In Chart I the effective tax rates after the postwar refund are shown.

1/ However, in no case would total taxes after the postwar refund exceed 80 percent of surtax net income.

taxable excess profits reduces taxable normal profits. A reduction in normal profits, and, therefore, a reduction in normal taxes and surtaxes, increases the portion of total tax liabilities (80 percent of surtax net income which remains unchanged) called excess-profits taxes and increases the postwar credit. Although gross taxes remain at 80 percent of income, net taxes after the postwar refund are thus reduced.

Therefore, increases in the excess-profits-tax base will reduce taxes on corporations subject to the 80-percent limitation, and increases in the excess-profits-tax rate will leave them unaffected. Only increases in the normal-tax or surtax rate, by reducing their postwar refunds, can increase the overall tax burden on these corporations without a change in the limitation.

Under a 95-percent excess-profits tax, or 85½ percent after deducting the postwar refund, a still greater limitation in the excess-profits tax results. In order that an increase in excess-profits taxes will apply to those corporations earning the largest

OK

Appendix ~~A~~ C

Possible revisions in the 80-percent limitation to effect a more satisfactory graduation in effective rates

The Revenue Act of 1942 provided for a limitation on the excess-profits tax so that in combination with the normal tax and surtax it will not exceed 80-percent of surtax net income. This limitation was imposed on gross taxes before deducting the postwar refund of 10 percent of excess-profits taxes as limited.

The excess-profits tax as limited is computed by taking 80 percent of surtax net income and subtracting normal taxes and surtaxes from this figure. The balance is termed excess-profits taxes and is used in computing the postwar refund of 10 percent of excess-profits taxes.

Thus on a given level of income subject to the 80-percent limitation, effective tax rates after the postwar refund ~~are reduced~~ decrease as the percentage of that income represented by taxable excess profits increases. Since normal profits (normal-tax net income) are determined by subtracting taxable excess profits from total income, an increase in

Illustration of Possible computations under the House Bill on Form 1040 (Appendix B) to determine the smallest tax liability for a husband who has $1,250 net income and wife who has $875 net income with three dependents

	Net income (1)	Regular personal exemption and credit for dependents (2)	Income subject to regular rates (3)	Regular tax (4)	Personal exemption and credit for dependents for purpose of minimum tax (5)	Income subject to minimum tax (6)	Minimum tax (7)	Tax liability (the larger of column 4 or 7 for each numbered line) (8)
Joint return								
(1) Husband and wife	$2,125	$2,250	None	None	$1,000	$1,125	$33.75	$33.75
Separate returns - Husband claiming credit for 3 dependents, wife claiming credit for no dependents								
(2) Husband	1,250	1,550	None	None	800	450	13.50	13.50
(3) Wife	875	500	375	86.25	500	375	11.25	86.25
Total	2,125	2,050	375	86.25	1,300	825	24.75	99.75
Separate returns - Husband claiming credit for 2 dependents, wife claiming credit for 1 dependent								
(4) Husband	1,250	1,200	50	11.50	700	550	16.50	16.50
(5) Wife	875	850	25	5.75	600	275	8.25	8.25
Total	2,125	2,050	75	17.25	1,300	825	24.75	24.75
Separate returns - Husband claiming credit for 1 dependent, wife claiming credit for 2 dependents								
(6) Husband	1,250	850	400	92.00	600	650	19.50	92.00
(7) Wife	875	1,200	None	None	700	175	5.25	5.25
Total	2,125	2,050	400	92.00	1,300	825	24.75	97.25
Separate returns - Husband claiming credit for no dependents, wife claiming credit for 3 dependents								
(8) Husband	1,250	500	750	172.50	500	750	22.50	172.50
(9) Wife	875	1,550	None	None	800	75	2.25	2.25
Total	2,125	2,050	750	172.50	1,300	825	24.75	174.75

Source: Bureau of Internal Revenue, November 10, 1943.

The following table shows the number of taxpayers and the amount of tax increase or tax decrease and the net change, by net income classes under the House bill and the Treasury integration plan.

Net income class (in thousands)	House bill: Number of taxpayers (millions)	House bill: Amount (millions)	Treasury integration Plan: Number of taxpayers (millions)	Treasury integration Plan: Amount (millions)
Reduced taxes				
$ 0 - $ 3	23.2	$ - 342.3	15.7	$ - 357.2
3 - 5	2.7	- 24.5	1.8	- 27.9
Over 5	.3	- 3.5	.5	- 50.7
Total	26.2	- 370.3	18.0	- 435.9
Increased taxes				
$ 0 - $ 3	20.2	189.6	27.5	406.0
3 - 5	4.1	52.7	5.0	99.0
Over 5	2.0	217.1	1.9	206.3
Total	26.2	459.2	34.4	711.3
Net change				
$ 0 - $ 3	3.2	- 152.7	11.8	48.8
3 - 5	1.4	28.2	3.2	71.1
Over 5	1.7	213.6	1.4	155.6

Note: Due to rounding the sum of the individual items may not add to totals.

The Treasury plan would exempt 9.1 million taxpayers who now pay a net Victory tax of $274.9 million. Including these, there would be 18 million taxpayers with a total reduction in tax of $435.9 million. The Treasury plan would increase the liability of approximately 34 million taxpayers by $711.3 million.

7. The House Bill would exempt only about 130,000 taxpayers who now pay a net Victory tax of about $600,000. Including these taxpayers, a total of approximately 26 million taxpayers would obtain a reduction in tax of $370.3 million. On the other hand, another 26 million taxpayers would pay an increase in tax aggregating $459.2 million.

It seems definitely undesirable to fetter the income tax with such complications in order to collect $160.7 million from the 9.1 million persons who would be exempt from tax under the Treasury plan and who are now subject only to victory tax.

6. It is clear that the House Bill would make the income tax more complicated and would impose greater administrative burdens than the Treasury integration plan. The repeal of the Victory tax is an important step toward simplification but under the House Bill this is offset to a large extent by other complications introduced by the Bill, which would not exist under the Treasury plan.

5. Another difficulty under the House Bill is that some taxpayers who may now file a simplified return would be precluded from doing so. Under the regular income tax, the exemptions which would be allowed on separate returns are lower than those on a joint return. Many married couples with a combined gross income of more than $3,000, wishing to file a joint return to take advantage of the higher exemptions, will therefore not be able to file a simplified form, since Form 1040A is limited to a return with a gross income of $3,000 or less.

5 using form 1040A) after making 18 different computations of tax liability for the husband (illustration) and the wife before ascertaining the least combined tax liability (See ~~Table 1~~, attached). Under the Treasury integration plan and under the present law the multiplicity of computations is not necessary.

4. A further complication for many taxpayers introduced by the House bill is the necessity, if separate returns are filed, to allocate the dependent exemption in such a manner as to reduce the tax liability to a minimum. Many computations may be needed by taxpayers with several dependents to find the procedure that will result in the least tax for a couple. It is true that in many cases it would be possible for information to be provided to guide married couples to the expeditious determination of their tax liability under either the minimum tax or the regular tax. Nonetheless, the problem of complying with the income tax law will be much more complicated for many couples with low incomes under the House bill than under the present law or under the Treasury integration plan. Many couples with low incomes in the area where it is now a matter of indifference whether they filed joint or separate returns or how they divided the dependent credit would, under the House bill, need to make numerous computations before reaching the most advantageous tax result. For example, a married couple with an aggregate net income of $2,125 and with three dependents could, depending upon the procedure that happened to be selected, reach 10 different tax results (5 using form 1040 and

The relationship between the personal exemptions and dependent credits under the minimum tax and the regular tax may result in much confusion. For example, a husband and wife having two dependents may file separate returns, each claiming one dependent. Under the House Bill one spouse may have an exemption of $100 for one dependent and be subject to a 3 percent tax rate, while the other spouse may have an exemption of $350 for the other dependent and be subject to a 23 percent tax rate.

The complexities with respect to joint or separate returns under the House Bill follow from (a) the provision that a married couple filing separate returns shall each be allowed an exemption of $500 in contrast with the $1,200 allowed on a joint return under the ordinary income tax, (b) the provision that no part of the personal exemption allowed on a separate return may be transferred from one spouse to another, and (c) the variation between the personal exemption and dependent credit under the minimum tax as compared with the regular tax.

Under the simple integration plan suggested by the Treasury, there is only one breaking point which can be stated in terms of surtax net income for all taxpayers, just as under present law. The accompanying chart (relating to a married couple without dependents) illustrates the difference in this respect between the Treasury proposal and the House Bill.

culation can be simplified, but for those required to use the regular income tax form, complexities could not be avoided. The breaking points are difficult to compute and would not be known to most taxpayers unless the Treasury undertook to supply a complicated series of tables indicating the zones of advantage under joint and separate returns. A sample of this type of table, relating only to one assumed division of income (50-50) between husband and wife, and only to a married couple with one dependent, follows:

Combined net income	Type of return resulting in lesser tax
$ 800.00 - $1,070.60	Separate
1,070.60 - ~~5,083.33~~ 5,166.67	Joint
Over ~~5,083.33~~ 5,166.67	Separate

Under present law it is to the advantage of a married couple to file separate returns if their combined surtax net income exceeds $2,000. If their surtax net income is below that amount, it is ordinarily a matter of indifference to them whether they file separate or joint returns. The House bill, however, ~~removes that indifference and~~ makes it advantageous for some such couples to file joint returns and for others to file separate returns. At the same time, however, it makes the determination of whether a joint return or separate returns should be filed, a complex problem for many of these taxpayers. Instead of one breaking point, as under present law, there are two. Instead of one breaking point fixed in terms of surtax net income, as under present law, the House bill results in two sets of breaking points. On incomes above the higher breaking point and on incomes below the lower breaking point separate returns are advantageous. In the area between, joint returns are advantageous. Moreover, the ~~lower~~ breaking points are ~~is~~ not fixed. Because no part of the $500 exemption on a separate return may be shifted between husband and wife, the breaking points vary with ~~in terms of surtax net income, but is indeterminate, depending primarily on~~ the division of income between husband and wife and also with ~~on~~ the number of dependents. For individuals filing under Supplement T the cal-

3. Married taxpayers would find it much easier to comply with the income tax under the simpler Treasury integration plan than under the House Bill, since under the bill the determination of whether a joint return or separate return would be more advantageous may involve numerous complications.

Under the simpler integration plan suggested by the Treasury, there would be 43.2 million taxpayers, a reduction of 9.1 million. The total number of taxable returns would be 36.5 million, of which 6.7 million would be joint returns.

2. The administration of the income tax would be much easier under the simpler Treasury integration plan than under the House bill. For one thing, there would be a large reduction in the number of returns involving a small amount of tax. Under the present income tax and Victory tax the estimated number of taxpayers for calendar year 1944 is approximately 52.3 million. Under the House Bill the number of taxpayers would remain approximately the same as under present law. Because of the filing of joint returns, the number of taxable returns is less than the number of taxpayers. The number of taxable returns would be reduced from 44.1 million under present law to 41.7 million under the House bill. Compared with the 8.2 million joint returns under present law there would be 10.7 million joint returns under the House Bill.

Appendix B

Integration of the Victory tax with the income tax under the House bill and the Treasury integration proposal, compared with present law

1. Both integration plans, the one contained in the House bill and the Treasury proposal, would repeal the Victory tax and the earned income credit. The House Bill increases the normal tax rate from 6 percent to 10 percent, reduces the surtax rates by one percentage point in some brackets and increases them by 1 to 3 percentage points in others. A taxpayer would be required to pay the tax computed on the basis of these changes but not less than a minimum tax of 3 percent on net income in excess of exemptions of $500 for a single person or a married person filing a separate return, $700 for a married couple filing a joint return, and $100 for each dependent. Under the Treasury integration proposal exemptions are reduced from $500, $1,200 and $350 to $500, $1,100 and $300, and the surtax rates are increased by ~~from~~ 3 to 7 percentage points.

APPENDIX "A" (CONTINUED)

The Treasury recommended increases in corporate surtax rates, but no change in the amount of excess-profits taxes. The House bill does not change surtax rates. It increases the revenue from excess-profits taxes by increasing the rate from 90 to 95 percent and by making changes in the excess-profits credit. The Treasury recommended an increase in estate and gift tax rates and a reduction in exemptions. The House bill does not change the estate and gift taxes. In the case of excise taxes, the House bill differs from the Treasury's recommendations in that (1) it does not increase tobacco taxes, (2) it does not tax soft drinks, candy and chewing gum, (3) its rate increases generally are lower than those recommended, and (4) it retains the tax on transportation of property. Finally, the House bill provides for increases in postal rates on which the Treasury made no recommendations.

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APPENDIX A

Summary Comparison of the Treasury Proposals

With the House Bill

It may be helpful to the Committee to compare in summary form the major provisions of the Treasury proposals with those of the House bill as background for its consideration of that bill. While the Treasury proposals rely heavily on the individual income tax for additional revenue, the income tax changes in the House bill are designed primarily to integrate the Victory tax with the income tax. Both would repeal the Victory tax and the earned income credit. The Treasury proposal would effect a small reduction in the credit for dependents and the exemption for married persons; it would increase surtax rates substantially, both to replace the Victory tax and to increase revenues. The House bill imposes a 3-percent minimum tax with lower exemptions than the regular tax; it also increases normal tax rates and adjusts surtax rates, primarily in order to replace the Victory tax burden.

LIST OF APPENDIXES

A. Summary Comparison of the Treasury Proposals with the House Bill

B. Integration of the Victory Tax with the Income Tax Under the House Bill and the Treasury Integration Proposal, Compared with the Present Law

C. Possible Revisions of the 80-percent Limitation to Effect More Satisfactory Graduation in Effective Rates

D. Additional Tax Relief for Corporations Engaged in the Mining of Certain Strategic Minerals

E. Special Excess-Profits Tax Treatment with Respect to the Accelerated Output of Certain Natural Resources

F. Excise Taxes

Exhibit 11

~~EXHIBIT III~~

~~Table 1~~

Corporation income and excess profits tax rates

	~~Present~~ Law rates	~~Treasury proposal~~ Proposed rates	H.R. 3687
1. Normal tax rates			
Normal tax net income			
Not over $25,000			
First $5,000	15%	No change	No change
Next 15,000	17%		
Next 5,000	19%		
Over $25,000 to $50,000 (notch)	$4,250 plus 31% of excess over $25,000		
Over $50,000	24%		
2. Surtax rates			
Surtax net income			
Not over $25,000	10%	14%	~~No change~~
Over $25,000 to $50,000 (notch)	$2,500 plus 22% of excess over $25,000	$3,500 plus 38% of excess over $25,000	No change
Over $50,000	16%	26%	
3. Combined normal and surtax rates			
Not over $25,000	25% to 29%	29% to 33%	
Over $25,000 to $50,000 (notch)	53%	69%	No change
Over $50,000	40%	50%	
4. Excess profits tax rates	90%	No change	95%

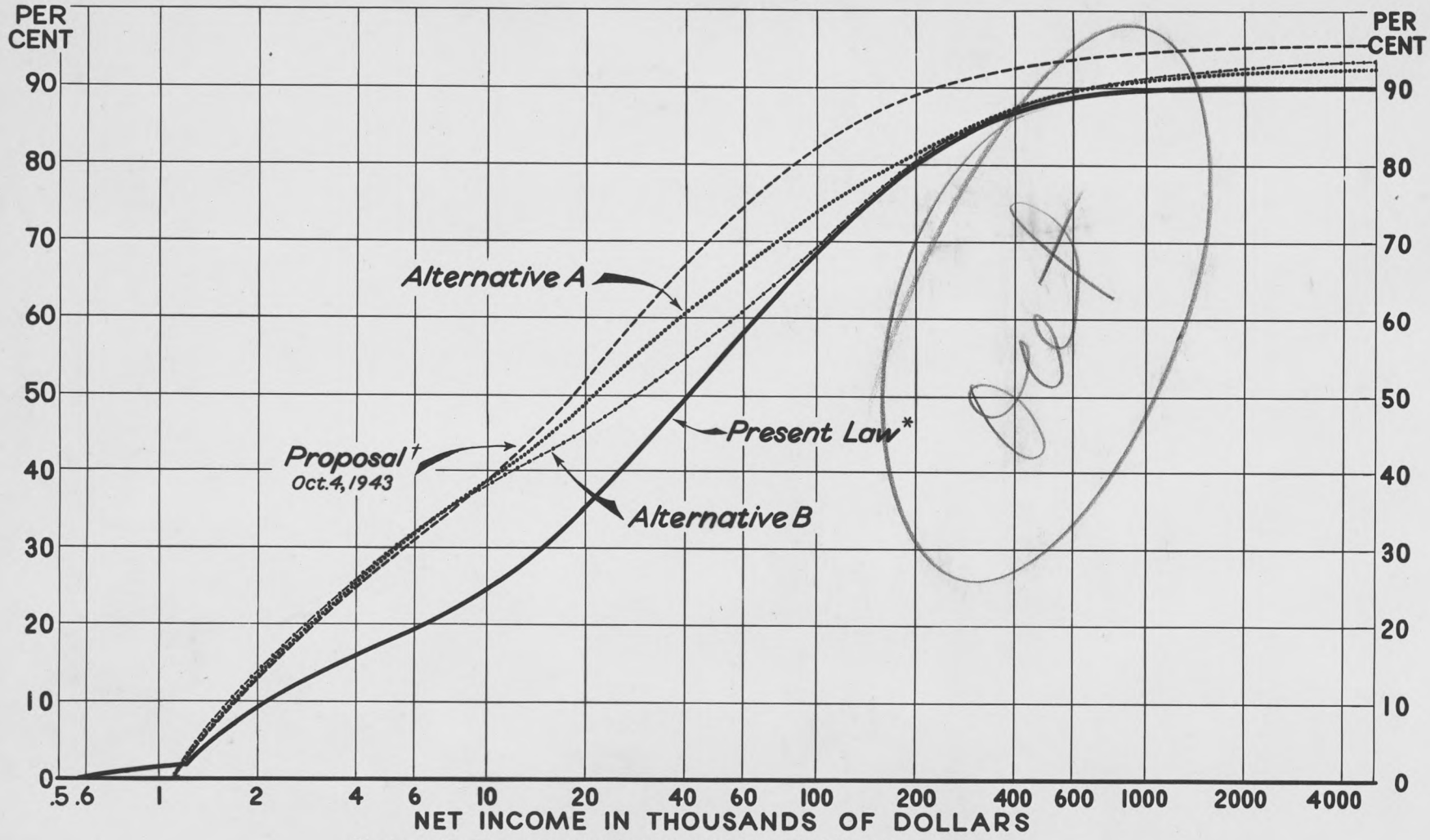
Treasury Department, Division of Tax Research

~~October 4, 1943~~ November 29, 1943

Exhibit 10

INDIVIDUAL INCOME TAX

Effective Rates for Married Person without Dependents



*Includes Net Victory Tax; net income assumed to be 90% of gross income.

†Exemptions $500-$1,100-$300; and net Victory Tax and earned income credit eliminated.

Office of the Secretary of the Treasury
Division of Tax Research

B-450-2

Exhibit 18

Estimated excise tax liability under the Treasury proposal as presented to the Committee on Ways and Means of the House of Representatives on October 4, 1943, as compared with present law for a full year of operation 1/

Article or service	Present tax	Proposed tax	Estimated additional revenue from proposals (in millions) [1]
1. Distilled spirits	$6 per gallon (draw-back of $3.75 per gallon on nonbeverage alcohol).	$10 per gallon (draw-back of $7 per gallon on nonbeverage alcohol).	2 $487.2
2. Beer	$7 per barrel	$10 per barrel	210.5
3. Wine:			
(a) Still:			
Under 14 percent alcohol	10 cents per gallon	50 cents per gallon	61.1
14 to 21 percent alcohol	40 cents per gallon	$1 per gallon	
Over 21 percent alcohol	$1 per gallon	$2 per gallon	
(b) Sparkling	10 cents per half pint	20 cents per half pint	
(c) Other	5 cents per half pint	10 cents per half pint	
4. Cigarettes	$3.50 per thousand	$5 per thousand	371.3
5. Cigars	Intended retail price— Over / Not over / Tax per thousand: *Cents* — *Cents* — $2.50; 2½ — 4 — 3.00; 4 — 6 — 4.00; 6 — 8 — 7.00; 8 — 15 — 10.00; 15 — 20 — 15.00; 20 — ——— — 20.00	Intended retail price— Over / Not over / Tax per thousand: *Cents* — *Cents* — $12.50; ——— — 3½ — 12.50; 3½ — 5 — 13.00; 5 — 7 — 14.00; 7 — 9 — 17.00; 9 — 17 — 30.00; 17 — 22 — 35.00; 22 — ——— — 40.00	67.7
6. Chewing and smoking tobacco and snuff.	18 cents per pound	34 cents per pound	46.2
7. General admissions	1 cent per 10 cents	3 cents per 10 cents	327.0
8. Cabarets	5 percent of charge	30 percent of charge	91.3
9. Club dues and initiation fees	11 percent of charge	20 percent of charge	5.1
10. Bowling alleys, billiard parlors	$10 per alley $10 per table	20 percent of charge $20 per table	27.0
11. Transportation of persons	10 percent of charge	25 percent of charge	212.7
12. Communications:			
(a) Toll service	20 percent of charge	do	3.15
(b) Telegraph, etc.:			
(1) Domestic	15 percent of charge	20 percent of charge	
(2) International	10 percent of charge	10 percent of charge	
(c) Leased wires, etc.	15 percent of charge	20 percent of charge	
13. Local telephone service	10 percent of charge	15 percent of charge	48.9
14. Jewelry	10 percent of retail price	30 percent of retail price	167.3
15. Fur and fur-trimmed articles	do	25 percent of retail price	54.8
16. Luggage, handbags, wallets, etc.	10 percent of manufacturers' sales price on luggage only.	do	53.4
17. Toilet preparations	10 percent of retail price	25 percent of retail price	51.4
18. Soft drinks	None	Bottled drinks, 1 cent per each 5 cents of intended retail price; the equivalent taxes of $1 per gallon on sirup and 25 cents per pound on carbonic acid gas used in unbottled soft drinks.	177.0
19. Candy and chewing gum	None	Articles intended to retail from 5 to 15 cents per bar or package, 1 cent per each 5 cents of intended retail price; other items, the equivalent tax of 35 percent of manufacturers' sales price.	$190.0
Total additional revenue, items 1 to 19			2,681.4
20. Less repeal of tax on transportation of property			- 170.3 3/
Total additional revenue, items 1 to 20			$2,511.1

Treasury Department,
Division of Research and Statistics.

November 29, 1943

1/ Estimates of additional revenue are for a full year of operation at levels of business estimated for calendar year 1944.

2/ Estimated additional net revenue yield after allowance for increased drawback on nonbeverage alcohol of $12.8 millions.

3/ Including the effects of H. R. 3339, Public Law 180, approved November 4, 1943.

Exhibit 9 - Table 3a

Effective rates of individual income tax under present law, the Treasury proposal of Oct. 4, 1943, and two alternative schedules

Married person - two dependents

Exemptions: Present law - $1,200, $350
Proposals - $1,100, $300

Net income before personal exemption	Effective rates				Increase		
	Present law including net Victory tax 1/	Treasury proposal, Oct. 4, 1943	Treasury proposal A	Treasury proposal B	Treasury proposal, Oct. 4, 1943	Treasury proposal A	Treasury proposal B
$ 1,700	2.1%	-	-	-	- 2.1%	- 2.1%	- 2.1%
1,800	2.2	1.5%	1.6%	1.7%	- .7	- .6	- .5
1,900	2.2	2.8	2.9	3.2	.6	.7	.9
2,000	2.9	4.1	4.2	4.5	1.2	1.3	1.6
2,500	6.4	9.0	9.3	9.8	2.6	3.0	3.5
3,000	8.9	12.8	13.2	13.7	3.9	4.3	4.8
4,000	12.1	18.8	19.4	19.8	6.7	7.3	7.7
5,000	14.6	23.3	23.9	24.2	8.7	9.3	9.6
6,000	16.3	26.5	27.1	27.4	10.2	10.8	11.1
8,000	19.4	31.5	32.0	32.0	12.1	12.6	12.6
10,000	22.1	35.6	35.5	35.0	13.5	13.4	12.9
12,500	25.2	39.7	39.0	38.0	14.5	13.8	12.8
15,000	28.0	43.3	41.9	40.2	15.2	13.8	12.2
20,000	33.5	49.6	46.9	43.8	16.1	13.5	10.3
25,000	38.3	55.0	51.1	46.7	16.7	12.8	8.4
50,000	52.8	70.1	62.7	57.0	17.3	9.9	4.2
75,000	61.6	77.2	68.9	63.6	15.6	7.2	2.0
100,000	67.8	81.4	73.2	68.7	13.6	5.4	.9
500,000	88.0	93.1	88.6	88.4	5.1	.6	.4
1,000,000	89.9 2/	94.5	90.8	91.2	4.7	.9	1.3
5,000,000	90.0 2/	95.7	92.6	93.4	5.7	2.6	3.5

Treasury Department, Division of Tax Research — November 29, 1943

1/ Maximum earned income credit assumed. Victory tax net income assumed to be ten-ninths of net income.

2/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 9 - Table 3

Amounts of individual income tax under present law, the Treasury proposal of Oct. 4, 1943, and two alternative schedules

Married person - two dependents

Exemptions: Present law - $1,200, $350
Proposals - $1,100, $300

Net income before personal exemption	Amount of tax				Amount of increase		
	Present law including net Victory tax 1/	Treasury proposal, Oct. 4, 1943	Treasury proposal A	Treasury proposal B	Treasury proposal, Oct. 4, 1943	Treasury proposal A	Treasury proposal B
$ 1,700	$ 35	-	-	-	- $35	- $35	- $35
1,800	39	$ 27	$ 28	$ 30	- 12	- 11	- 9
1,900	42	54	56	60	12	14	18
2,000	58	81	84	90	23	26	32
2,500	159	225	233	246	66	74	87
3,000	267	384	397	412	117	130	145
4,000	485	753	776	791	268	291	306
5,000	730	1,163	1,196	1,211	433	466	481
6,000	979	1,588	1,628	1,643	609	649	664
8,000	1,553	2,523	2,557	2,563	970	1,004	1,010
10,000	2,208	3,555	3,546	3,495	1,347	1,338	1,287
12,500	3,144	4,962	4,870	4,745	1,818	1,726	1,601
15,000	4,207	6,489	6,284	6,034	2,282	2,077	1,827
20,000	6,693	9,912	9,388	8,753	3,219	2,695	2,060
25,000	9,574	13,750	12,780	11,678	4,176	3,206	2,104
50,000	26,392	35,037	31,344	28,481	8,645	4,952	2,089
75,000	46,209	57,919	51,642	47,678	11,710	5,433	1,469
100,000	67,803	81,435	73,174	68,726	13,632	5,371	923
500,000	439,931	465,418	443,089	442,107	25,487	3,158	2,176
1,000,000	898,800 2/	945,418	908,089	912,107	46,618	9,289	13,307
5,000,000	4,498,800 2/	4,785,418	4,628,089	4,672,107	286,618	129,289	173,307

Treasury Department, Division of Tax Research — November 29, 1943

1/ Maximum earned income credit assumed. Victory tax net income assumed to be ten-ninths of net income.

2/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 9 - Table 2a

Effective rates of individual income tax under present law, the Treasury proposal of Oct. 4, 1943, and two alternative schedules

Married person - no dependents

Exemptions: Present law - $1,200
Proposals - $1,100

Net income before personal exemption	Effective rates				Increase		
	Present law including net Victory tax 1/	Treasury proposal, Oct. 4, 1943	Treasury proposal A	Treasury proposal B	Treasury proposal, Oct. 4, 1943	Treasury proposal A	Treasury proposal B
$ 1,100	1.6%	-	-	-	- 1.6%	- 1.6%	- 1.6%
1,200	1.8	2.3%	2.3%	2.5%	0.5	0.6	0.8
1,500	5.3	7.2	7.5	8.0	1.9	2.2	2.7
1,600	6.3	8.4	8.8	9.4	2.1	2.4	3.1
1,800	8.0	10.8	11.2	11.9	2.8	3.2	3.9
1,900	8.7	11.8	12.3	12.9	3.1	3.5	4.2
2,000	9.4	12.8	13.2	13.9	3.4	3.8	4.5
2,500	11.9	16.7	17.2	17.8	4.8	5.4	6.0
3,000	13.5	19.8	20.4	20.9	6.3	6.9	7.4
4,000	16.2	25.0	25.7	26.1	8.8	9.5	9.9
5,000	17.9	28.2	29.0	29.3	10.3	11.1	11.4
6,000	19.6	31.1	31.7	32.0	11.5	12.2	12.4
8,000	22.3	35.4	35.6	35.5	13.1	13.4	13.2
10,000	24.7	38.9	38.6	38.0	14.2	13.9	13.3
12,500	27.5	42.5	41.6	40.4	15.0	14.1	12.9
15,000	30.2	45.8	44.2	42.3	15.6	14.0	12.1
20,000	35.5	51.8	48.9	45.4	16.3	13.4	9.9
25,000	40.1	56.9	52.8	48.2	16.8	12.7	8.0
50,000	54.2	71.1	63.6	57.8	17.0	9.5	3.7
75,000	62.6	78.0	69.5	64.2	15.4	6.9	1.6
100,000	68.6	82.0	73.7	69.2	13.4	5.1	.7
500,000	88.1	93.2	88.7	88.5	5.0	.6	.4
1,000,000	89.9 2/	94.6	90.9	91.3	4.7	1.0	1.4
5,000,000	90.0 2/	95.7	92.6	93.5	5.7	2.6	3.5

Treasury Department, Division of Tax Research — November 29, 1943

1/ Maximum earned income assumed. Victory tax net income assumed to be ten-ninths of net income.

2/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 9 - Table 2

Amounts of individual income tax under present law, the Treasury proposal of Oct. 4, 1943 and two alternative schedules

Married person - no dependents

Exemptions: Present law - $1,200
Proposals - $1,100

Net income before personal exemption	Amounts of tax				Increase		
	Present law including net Victory tax 1/	Treasury proposal, Oct. 4, 1943	Treasury proposal A	Treasury proposal B	Treasury proposal, Oct. 4, 1943	Treasury proposal A	Treasury proposal B
$ 1,100	$ 18	-	-	-	- $18	- $18	- $18
1,200	21	$ 27	$ 28	$ 30	6	7	9
1,500	79	108	112	120	29	33	41
1,600	101	135	140	150	34	39	49
1,800	144	195	202	214	51	58	70
1,900	166	225	233	246	59	67	80
2,000	188	255	264	278	67	76	90
2,500	297	417	431	446	120	134	149
3,000	405	594	613	628	189	208	223
4,000	647	999	1,028	1,043	352	381	396
5,000	894	1,409	1,448	1,463	515	554	569
6,000	1,173	1,864	1,904	1,919	691	731	746
8,000	1,780	2,829	2,851	2,839	1,049	1,071	1,059
10,000	2,467	3,885	3,858	3,795	1,418	1,391	1,328
12,500	3,437	5,316	5,200	5,045	1,879	1,763	1,608
15,000	4,533	6,867	6,632	6,352	2,334	2,099	1,819
20,000	7,100	10,356	9,784	9,089	3,256	2,684	1,989
25,000	10,035	14,230	13,200	12,044	4,195	3,165	2,009
50,000	27,075	35,571	31,812	28,913	8,496	4,737	1,838
75,000	46,955	58,477	52,146	48,164	11,522	5,191	1,209
100,000	68,584	82,005	73,702	69,248	13,421	5,118	664
500,000	440,747	465,994	443,647	442,671	25,247	2,900	1,924
1,000,000	899,000 2/	945,994	908,647	912,671	46,994	9,647	13,671
5,000,000	4,499,000 2/	4,785,994	4,628,647	4,672,671	286,994	129,647	173,671

Treasury Department, Division of Tax Research

November 29, 1943

1/ Maximum earned income assumed. Victory tax net income assumed to be ten-ninths of net income.
2/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 9 - Table 1a

Effective rates of individual income tax under present law,
the Treasury proposal of October 4, 1943, and two alternative schedules

Single person - no dependents
Exemptions: Present law - $500 Proposals - $500

Net income before personal exemption	Effective rates: Present law including net Victory tax 1/	Effective rates: Treasury proposal Oct. 4, 1943	Effective rates: Treasury proposal A	Effective rates: Treasury proposal B	Increase: Treasury proposal Oct. 4, 1943	Increase: Treasury proposal A	Increase: Treasury proposal B
$ 500	-	-	-	-	-	-	-
600	2.8%	4.5%	4.7%	5.0%	1.7%	1.8%	2.2%
800	7.8	10.1	10.5	11.3	2.4	2.8	3.5
900	9.4	12.0	12.4	13.3	2.6	3.0	3.9
1,000	10.7	13.5	14.0	15.0	2.8	3.3	4.3
1,100	11.8	15.0	15.5	16.5	3.2	3.7	4.7
1,200	12.8	16.3	16.8	17.8	3.5	4.1	5.1
1,500	14.7	19.0	19.7	20.7	4.3	5.0	6.0
1,600	15.2	19.9	20.6	21.5	4.7	5.4	6.3
2,000	16.7	22.5	23.3	24.0	5.9	6.6	7.4
2,500	17.8	25.2	26.0	26.6	7.4	8.2	8.8
3,000	19.1	27.8	28.7	29.2	8.7	9.5	10.0
4,000	20.7	31.1	32.0	32.4	10.4	11.3	11.7
5,000	22.1	33.6	34.4	34.7	11.5	12.3	12.6
6,000	23.4	35.7	36.3	36.6	12.3	13.0	13.2
8,000	25.7	39.2	39.3	38.9	13.5	13.7	13.3
10,000	27.8	42.2	41.7	41.0	14.3	13.9	13.1
12,500	30.4	45.4	44.2	42.8	14.9	13.8	12.3
15,000	33.1	48.4	46.6	44.5	15.3	13.5	11.3
20,000	38.1	54.0	50.9	47.1	15.9	12.8	9.0
25,000	42.6	58.8	54.5	49.6	16.3	11.9	7.1
50,000	56.1	72.2	64.6	58.7	16.1	8.4	2.6
75,000	64.0	78.7	70.2	64.9	14.7	6.2	.9
100,000	69.7	82.6	74.2	69.8	12.9	4.6	.1
500,000	88.4	93.3	88.8	88.6	4.9	.5	.3
1,000,000	90.0 2/	94.7	90.9	91.3	4.7	1.0	1.4
5,000,000	90.0 2/	95.7	92.6	93.5	5.7	2.6	3.5

Treasury Department, Division of Tax Research — November 29, 1943

1/ Maximum earned net income assumed. For Victory tax purposes, gross income is assumed to be ten-ninths of net income.

2/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 9 - Table 1

Amounts of individual income tax under present law,
the Treasury proposal of October 4, 1943, and two alternative schedules

Single person - no dependents
Exemptions: Present law - $500 Proposals - $500

Net income before personal exemption	Amounts of tax: Present law including net Victory tax 1/	Amounts of tax: Treasury proposal Oct. 4, 1943	Amounts of tax: Treasury proposal A	Amounts of tax: Treasury proposal B	Increase: Treasury proposal Oct. 4, 1943	Increase: Treasury proposal A	Increase: Treasury proposal B
$ 500	-	-	-	-	-	-	-
600	$ 17	$ 27	$ 28	$ 30	$ 10	$ 11	$ 13
800	62	81	84	90	19	22	28
900	85	108	112	120	23	27	35
1,000	107	135	140	150	28	33	43
1,100	130	165	171	182	35	41	52
1,200	153	195	202	214	42	49	61
1,500	220	285	295	310	65	75	90
1,600	243	318	329	344	75	86	101
2,000	333	450	465	480	117	132	147
2,500	446	630	650	665	184	204	219
3,000	574	835	860	875	261	286	301
4,000	829	1,245	1,280	1,295	416	451	466
5,000	1,105	1,680	1,720	1,735	575	615	630
6,000	1,401	2,140	2,180	2,195	739	779	794
8,000	2,052	3,135	3,145	3,115	1,083	1,093	1,063
10,000	2,783	4,215	4,170	4,095	1,432	1,387	1,312
12,500	3,802	5,670	5,530	5,345	1,868	1,728	1,543
15,000	4,968	7,265	6,995	6,670	2,297	2,027	1,702
20,000	7,626	10,800	10,180	9,425	3,174	2,554	1,799
25,000	10,644	14,710	13,620	12,410	4,066	2,976	1,766
50,000	28,058	36,105	32,280	29,345	8,047	4,222	1,287
75,000	48,001	59,035	52,650	48,650	11,034	4,649	649
100,000	69,665	82,575	74,230	69,770	12,910	4,565	105
500,000	441,863	466,570	444,205	443,235	24,707	2,342	1,372
1,000,000	899,500 2/	946,570	909,205	913,235	47,070	9,705	13,735
5,000,000	4,499,500 2/	4,786,570	4,629,205	4,673,235	287,070	129,705	173,735

Treasury Department, Division of Tax Research — November 29, 1943

1/ Maximum earned net income assumed. For Victory tax purposes, gross income is assumed to be ten-ninths of net income.

2/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 4 - Table 3

Amounts of individual income tax and effective rates under present law, under the proposal to integrate the Victory tax, and under H. R. 3687

Married persons - two dependents

Exemptions: Present law and H.R. 3687 - $1,200, $350
Integration proposal - $1,100, $300

Net income before personal exemption	Amount of tax					Effective rates				
	Present law, including net Victory tax 1/	Proposal to integrate Victory tax	H.R. 3687	Increase: Proposal to integrate Victory tax	Increase: H.R. 3687	Present law, including net Victory tax 1/	Proposal to integrate Victory tax	H.R. 3687	Increase: Proposal to integrate Victory tax	Increase: H.R. 3687
$ 600	$ 1	-	-	$ - 1	$ - 1	.2%	-	-	- .2%	- .2%
800	7	-	-	- 7	- 7	.9	-	-	- .9	- .9
1,000	14	-	3 2/	- 14	- 11	1.4	-	.3% 2/	- 1.4	-1.1
1,200	20	-	9 2/	- 20	- 11	1.7	-	.8 2/	- 1.7	- .9
1,500	29	-	18 2/	- 29	- 11	1.9	-	1.2 2/	- 1.9	- .7
1,700	35	-	24 2/	- 35	- 11	2.1	-	1.4 2/	- 2.1	- .6
1,900	42	$ 44	30 2/	2	- 12	2.2	2.3%	1.6 2/	.1	- .6
2,000	58	66	33 2/	8	- 25	2.9	3.3	1.7 2/	.4	-1.3
2,300	116	132	92	16	- 24	5.1	5.7	4.0	.7	-1.0
2,500	159	176	138	17	- 21	6.4	7.0	5.5	.7	- .8
3,000	267	286	253	19	- 14	8.9	9.5	8.4	.6	- .5
4,000	485	515	486	30	1	12.1	12.9	12.2	.8	*
5,000	730	765	746	35	16	14.6	15.3	14.9	.7	.3
10,000	2,208	2,291	2,277	83	69	22.1	22.9	22.8	.8	.7
25,000	9,574	9,713	9,762	139	188	38.3	38.9	39.0	.6	.8
50,000	26,392	26,662	26,935	270	543	52.8	53.3	53.9	.5	1.1
100,000	67,803	68,190	68,650	387	847	67.8	68.2	68.7	.4	.8
250,000	206,042	207,622	208,074	1,580	2,032	82.4	83.0	83.2	.6	.8
500,000	439,931	442,622	443,074	2,691	3,143	88.0	88.5	88.6	.5	.6
1,000,000	898,800 3/	912,622	900,000 3/	13,822	1,200	89.9 3/	91.3	90.0 3/	1.4	*

Treasury Department, Division of Tax Research, November 29,1943

1/ Maximum earned income assumed. For Victory tax purposes, gross income is assumed to be ten-ninths of net income.
2/ Minimum tax
3/ Taking into account maximum effective rate limitation of 90 percent.
* Less than .05 percent.

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Exhibit 4 - Table 2

Amounts of individual income tax and effective rates under present law, under the proposal to integrate the Victory tax and under H. R. 3687

Married person - no dependents

Exemptions: Present law and H.R. 3687 - $1,200
Integration proposal-$1,100

Net income before personal exemption	Amounts of tax					Effective rates				
	Present law, including net Victory tax 1/	Proposal to integrate Victory tax	H.R. 3687	Increase: Proposal to integrate Victory tax	Increase: H.R. 3687	Present law, including net Victory tax 1/	Proposal to integrate Victory tax	H.R. 3687	Increase: Proposal to integrate Victory tax	Increase: H.R. 3687
$ 600	$ 1	-	-	$ - 1	$ - 1	.2 %	-	-	- .2 %	- .2 %
800	8	-	$ 3 2/	- 8	- 5	1.0	-	.4% 2/	- 1.0	- .6
1,000	15	-	9 2/	- 15	- 6	1.5	-	.9 2/	- 1.5	- .6
1,200	21	$ 22	15 2/	1	- 6	1.8	1.8 %	1.3 2/	.1	- .5
1,500	79	88	69	9	- 10	5.3	5.9	4.6	.6	- .7
1,700	123	132	115	9	- 8	7.2	7.8	6.8	.5	- .5
1,900	166	176	161	10	- 5	8.7	9.3	8.5	.5	- .3
2,000	188	198	184	10	- 4	9.4	9.9	9.2	.5	- .2
2,300	253	264	253	11	0	11.0	11.5	11.0	.5	0
2,500	297	308	299	11	2	11.9	12.3	12.0	.4	.1
3,000	405	418	414	13	9	13.5	13.9	13.8	.4	.3
4,000	647	665	668	18	21	16.2	16.6	16.7	.5	.5
5,000	894	915	928	21	34	17.9	18.3	18.6	.4	.7
10,000	2,467	2,513	2,536	46	69	24.7	25.1	25.4	.5	.7
25,000	10,035	10,079	10,196	44	161	40.1	40.3	40.8	.2	.6
50,000	27,075	27,106	27,460	31	385	54.2	54.2	54.9	.1	.8
100,000	68,584	68,730	69,280	146	696	68.6	68.7	69.3	.1	.7
250,000	206,858	208,186	208,732	1,328	1,874	82.7	83.3	83.5	.5	.7
500,000	440,747	443,186	443,732	2,439	2,985	88.1	88.6	88.7	.5	.6
1,000,000	899,000 3/	913,186	900,000 3/	14,186	1,000	89.9 3/	91.3	90.0 3/	1.4	*

Treasury Department, Division of Tax Research — November 29, 1943

1/ Maximum earned income assumed. For Victory tax purposes, gross income assumed to be ten-ninths of net income.

2/ Minimum tax.

3/ Taking into account the maximum effective rate limitation of 90 percent.

* Less than .05 percent.

Exhibit 4 - Table 1

Amounts of individual income tax and effective rates under present law, under the proposal to integrate the Victory tax and under H. R. 3687

Single person - no dependents

Exemptions: Present law - $500
Proposal - $500

Net income before personal exemption	Amounts of tax					Effective rates				
	Present law, including net Victory tax 1/	Proposal to integrate Victory tax	H.R. 3687	Increase: Proposal to integrate Victory tax	Increase: H.R. 3687	Present law, including net Victory tax 1/	Proposal to integrate Victory tax	H.R. 3687	Increase: Proposal to integrate Victory tax	Increase: H.R. 3687
$ 600	$ 17	$ 22	$ 23	$ 5	$ 6	2.8%	3.7%	3.8%	.8%	1.0%
800	62	66	69	4	7	7.8	8.3	8.6	.5	.9
1,000	107	110	115	3	8	10.7	11.0	11.5	.3	.8
1,200	153	154	161	1	8	12.8	12.8	13.4	.1	.7
1,500	220	220	230	0	10	14.7	14.7	15.3	0	.7
1,700	265	264	276	-1	11	15.6	15.5	16.2	-.1	.6
1,900	310	308	322	-2	12	16.3	16.2	16.9	-.1	.6
2,000	333	330	345	-3	12	16.7	16.5	17.3	-.2	.6
2,300	401	396	414	-5	13	17.4	17.2	18.0	-.2	.6
2,500	446	440	460	-6	14	17.8	17.6	18.4	-.2	.6
3,000	574	565	590	-9	16	19.1	18.8	19.7	-.3	.5
4,000	829	815	850	-14	21	20.7	20.4	21.3	-.4	.5
5,000	1,105	1,085	1,130	-20	25	22.1	21.7	22.6	-.4	.5
10,000	2,783	2,735	2,795	-48	12	27.8	27.4	28.0	-.5	.1
25,000	10,644	10,445	10,630	-199	-14	42.6	41.8	42.5	-.8	-.1
50,000	28,058	27,550	27,985	-508	-73	56.1	55.1	56.0	-1.0	-.1
100,000	69,665	69,270	69,910	-395	245	69.7	69.3	69.9	-.4	.2
250,000	207,974	208,750	209,390	776	1,416	83.2	83.5	83.8	.3	.6
500,000	441,863	443,750	444,390	1,887	2,527	88.4	88.8	88.9	.4	.5
1,000,000	899,500 2/	913,750	900,000 2/	14,250	500	90.0 2/	91.4	90.0 2/	1.4	*

Treasury Department, Division of Tax Research — November 29, 1943

1/ Maximum earned income assumed. For Victory tax purposes, gross income is assumed to be ten-ninths of net income.

2/ Taking into account maximum effective rate limitation of 90 percent.

* Less than .05 percent.

LIST OF EXHIBITS (Cont.)

LIST OF EXHIBITS

EXHIBIT 1 -- Estimated Increase of Treasury Proposals Over Yield of Present Law

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EXHIBIT 3 -- Comparison of Combined Normal and Surtax Rates Under Present Law, Treasury Proposal to Integrate Victory Tax, and House Bill

EXHIBIT 4 -- Amounts of Individual Income Tax and Effective Rates Under Present Law, Treasury Proposal to Integrate Victory Tax, and House Bill

(Tables 1, 2, and 3)

EXHIBIT 5 -- Comparison of Surtax Rates Under Present Law and Proposal

EXHIBIT 6 -- Amounts of Individual Income Tax and Effective Rates Under Present Law and Proposal

Tables 1, 2, and 3

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EXHIBIT 10 -- Chart: Individual Income Tax -- Comparison of Effective Rates for Married Person Without Dependents Under Present Law, Proposal, and Alternate Schedules To be supplied later.

EXHIBIT 11 -- Comparison Corporation Income and Excess Profits Tax Rates of Present and Proposed

EXHIBIT 12 -- Corporate Net Income, Income Taxes and Dividends, 1936-1944

EXHIBIT 13 --The Effect of Borrowing on Net Income After Taxes of an Excess-Profits Taxpayer Using the Invested-Capital Credit

EXHIBIT 14 -- Comparison of Estate Tax Rates ~~Schedule~~ Under Present Law and Proposal

EXHIBIT 15 -- Amounts of Estate Taxes and Effective Rates Under Present Law and Proposal

Comparison of excise taxes and postal rates under present law, Treasury proposal and House bill (H.R. 3687)
(concluded)

1/ Estimated change in budget position of the United States for a full year of operation at levels of income for the calendar year 1944.
2/ Estimated additional net revenue yield after allowance for increased drawback on nonbeverage alcohol of $12.8 million.
3/ Estimated additional net revenue yield after allowance for increased drawback on nonbeverage alcohol of $ 4.9 million.

Comparison of excise taxes and postal rates under present law, Treasury proposal and House bill (H.R. 3687)
(continued - 4)

Article or service	Present law	Treasury proposal	House bill	Estimated additional revenue 1/	
				Treasury proposal	House bill
EXCISES - (Concluded)					
21. Pari-mutuel wagering	None	None	5% of amount wagered	-	$ 29.1
22. Transportation of property	3% of charge (4¢ per short ton on coal)	Repeal	No change	$ -170.3	-
Additional revenue from excises				$2,511.1	$1,194.8
POSTAL RATES					
a. First class -- local	2¢ per oz.	No change	3¢ per oz.	-	$ 56.6
b. Airmail	6¢ per oz.	No change	8¢ per oz.	-	10.4
c. Third class	1¢ and 1½¢ per 2 oz.	No change	2¢ and 3¢ per 2 oz.	-	73.8
d. Fourth class	Various	No change	3% of present law rate or 1¢, whichever is greater	-	4.7
e. Registered mail	15¢ to $1 per article	No change	20¢ to $1.35 per article	-	4.3
f. Insured mail	5¢ to 35¢ per article	No change	10¢ to 70¢ per article)	-	[illegible]
g. C.O.D. mail	12¢ to 45¢ per article	No change	24¢ to 90¢ per article)	-	12.1
h. Money orders	6¢ to 22¢ per article	No change	10¢ to 37¢ per article	-	21.9
Additional revenue from postal rates				-	$ 183.8
Additional revenue from excise taxes and postal rates				$2,511.1	$1,378.6

Treasury Department, Division of Tax Research
Footnotes continued on following page.

November 26, 1943

Comparison of excise taxes and postal rates under present law, Treasury proposal and House bill (H.R. 3687)
(continued - 3)

Article or service	Present law	Treasury proposal	House bill	Estimated additional revenue 1/	
				Treasury proposal	House bill
		EXCISES - (cont'd.)			
14. Jewelry	10% of retail price	30% of retail price	20% of retail price (exempts silver-plated flatware)	$ 167.3	$ 81.9
15. Fur and fur-trimmed articles	10% of retail price	25% of retail price	25% of retail price	54.8	54.8
16. Luggage, handbags, wallets, etc.	10% of mfrs. sales price on luggage only	25% of retail price	25% of retail price	53.4	53.4
17. Toilet preparations	10% of retail price	25% of retail price	25% of retail price	51.4	51.4
18. Electric light bulbs and tubes	5% of mfrs. sales price	No increase	25% of mfrs. sales price	-	20.0
19. Soft drinks	None	Bottled drinks, 1¢ per each 5¢ of intended retail price; the equivalent taxes of $1 per gal. on sirup and 25¢ per lb. on carbonic acid gas used in unbottled soft drinks	None	177.0	-
20. Candy and chewing gum	None	Articles intended to retail from 5¢ to 15¢ per bar or package, 1¢ per each 5¢ of intended retail price; other items, the equivalent tax of 35% of mfrs. sales price	None	190.0	-

Comparison of excise taxes and postal rates under present law, Treasury proposal and House bill (H.R. 3687)
(continued - 2)

Article or service	Present law	Treasury proposal	House bill	Estimated additional revenue 1/	
				Treasury proposal	House bill
		EXCISES - (cont'd.)			
6. Chewing, smoking tobacco and snuff	18¢ per lb.	34¢ per lb.	No increase	$ 46.2	-
7. General admissions, lease of boxes or seats, etc.	1¢ per 10¢ 11% of charge	3¢ per 10¢ 30% of charge	2¢ per 10¢ 20% of charge	327.0	$ 163.5
8. Cabarets	5% of charge	30% of charge	30% of charge	91.3	91.3
9. Club dues and initiation fees	11% of charge	20% of charge	20% of charge	5.1	5.1
10. Bowling alleys, billiard parlors	$10 per alley $10 per table	20% of charge $20 per table	20% of charge $20 per table	27.0	27.0
11. Transportation of persons	10% of charge	25% of charge	15% of charge	212.7	70.9
12. Communications					
a. Toll service	20% of charge	25% of charge	25% of charge		
b. Telegraph, etc.					
(1) Domestic	15% of charge	20% of charge	25% of charge		
(2) International	10% of charge	10% of charge	15% of charge	31.5	36.9
c. Leased wires, etc.	15% of charge	20% of charge	20% of charge		
d. Wire and equipment services	5% of charge	No increase	7% of charge		
13. Local telephone service	10% of charge	15% of charge	15% of charge	48.9	48.9

Comparison of excise taxes and postal rates under present law, Treasury proposal and House bill (H.R. 3687)

Article or service	Present law	Treasury proposal	House bill	Estimated additional revenue 1/	
				Treasury proposal	House bill
		EXCISES			
1. Distilled spirits	$6 per gal. (drawback of $3.75 per gal. on nonbeverage alcohol)	$10 per gal. (drawback of $7 per gal. on nonbeverage alcohol)	$9 per gal. (drawback of $5 per gal. on nonbeverage alcohol)	$ 487.2 2/	$ 370.1 3/
2. Beer	$7 per barrel	$10 per barrel	$8 per barrel	210.5	70.5
3. Wine					
a. Still:					
Under 14% alcohol	10¢ per gal.	50¢ per gal.	15¢ per gal.		
14-21% alcohol	40¢ per gal.	$1.00 per gal.	60¢ per gal.		
Over 21% alcohol	$1.00 per gal.	$2.00 per gal.	$2.00 per gal.	61.1	20.0
b. Sparkling	10¢ per half pt.	20¢ per half pt.	15¢ per half pt.		
c. Other	5¢ per half pt.	10¢ per half pt.	10¢ per half pt.		
4. Cigarettes					
a. Small	$3.50 per M	$5.00 per M	No increase	371.3	-
b. Large	$8.40 per M	$12.00 per M			
5. Cigars	Intended retail price: Over / Not over; Tax per M	Intended retail price: Over / Not over; Tax per M	No increase	67.7	-
	Not over 2½¢: $ 2.50	Not over 3½¢: $12.50			
	2½¢ / 4¢: 3.00	3½¢ / 5¢: 13.00			
	4¢ / 6¢: 4.00	5¢ / 7¢: 14.00			
	6¢ / 8¢: 7.00	7¢ / 9¢: 17.00			
	8¢ / 15¢: 10.00	9¢ / 17¢: 30.00			
	15¢ / 20¢: 15.00	17¢ / 22¢: 35.00			
	20¢: 20.00	22¢: 40.00			

NOT for statement

Estimated change in the Budget position of the United States resulting from the Revenue Bill of 1945 (H.R. 3687) as passed by the House of Representatives, November 24, 1945, for a full year of operation at levels of income estimated for the calendar year 1944 1/

(In millions of dollars)

	Increase over present law 2/
Individual income tax: Eliminate the earned income credit; increase the normal tax rate from 6 percent to 10 percent, deny deduction for Federal excise taxes except as incurred in trade or business; provide a special deduction for blind individuals; alter surtax rates applicable above $6,000 surtax net income; repeal the Victory tax, provide for a minimum tax of 5 percent of the excess of net income over $500 for a single person or a married person filing a separate return, $700 for a head of a family or a married couple filing one return, and $100 for each dependent; require a married person filing a separate return to take personal exemption of $500; limit tax to 90 percent of taxpayer's net income	226.0
Corporation income and excess profits taxes: Increase excess profits tax rate from 90 percent to 95 percent; increase excess profits tax specific exemption from $5,000 to $10,000; reduce excess profits credit based on invested capital in brackets over $5 million; allow relief under Section 735 of the Internal Revenue Code to coal and iron properties and timber tracts not in operation during the base period and to natural gas pipelines; and limit the scope of the Act pertaining to renegotiation of war contracts --	
Total (gross) 515.8	
Less postwar credit ..... - 45.9	
Total corporation (net)	467.9
Excise taxes	1,194.8 1/
Miscellaneous receipts --	
Increase postal rates	185.8
Limit the scope of the Act pertaining to renegotiation of war contracts	- 25.0
Total increase	2,047.5

Treasury Department, Division of Research and Statistics. November 29, 1945.

1/ The estimates are intended to reflect the net improvement in the Budget position of the United States resulting from the bill. Therefore, the portion of the bill which increases Federal receipts and expenditures to the same extent by terminating certain governmental excise tax exemptions (Title III, Section 307 of the bill) does not increase the present estimate of the net yield of the bill over present law.

2/ The net Victory tax after postwar credit, rather than the gross Victory tax, is contained in the yield of the present law.

growth of the public debt, and the imminence of inflation, force the conclusion that the Treasury's $10.5 billion additional revenue goal is much nearer the minimum than the maximum demanded by total war.

ooo

of the tax law.

I. Conclusion

This statement has dealt largely with the technical aspects of the Treasury proposals and the House Bill. I believed that I could be of most assistance to the Committee by concentrating on these aspects of the pending bill.

I have given special emphasis to simplification because of the crucial necessity of simplifying our tax laws. Unnecessary complications can put our entire wartime income tax program in jeopardy.

I hope that the Committee will not misunderstand my emphasis upon simplification and technical matters. Total war makes broad demands on our tax system. Present taxes do not meet these demands, either in terms of paying for the war as we go, or in terms of combatting inflation. The legacy of taxes at present levels will be not only a huge debt, but may also be a demoralized price structure both during and after the war. The

growth

post-war crisis, without the addition of complex renegotiation-of-contracts issues to its calendar.

The renegotiation statute is not a taxing statute, but this proposal would tend to confuse renegotiation with taxes. It is also to be recognized that renegotiation cases, under the terms of the House amendments, will demand a large part of the time of any tribunal. Many issues will be presented, often difficult of proof; take for example the issue of a large contractor's efficiency or lack of it, which might occupy the Court for weeks. It seems inevitable that few cases will be susceptible of quick disposition.

It is my very firm conviction that if the trial of renegotiation cases is added to the task that will confront the Tax Court, the prompt collection of revenue will be impaired, the rights of the Government and of taxpayers will be prejudiced, and the deservedly high reputation of the Court may greatly suffer. Any impairment of the reputation and efficiency of the Court would constitute a most serious blow to the proper administration of the tax law.

H. ~~E.~~ Renegotiation of Contracts

I think the agencies principally concerned may wish to present their views on the renegotiation provisions of the House Bill. However, I should like to present the Treasury position on one of the renegotiation provisions that vitally affects the revenue system. I refer to the provision permitting aggrieved contractors to secure a redetermination of excessive profits by the Tax Court of the United States. I think it cannot be too strongly emphasized that the choice of the Tax Court as a forum for renegotiation litigation is an unwise one. For many years it has been recognized that the volume and complexity of Federal tax cases require a specially qualified and skilled tribunal, such as the Tax Court, which shall devote its entire time and efforts to their consideration and disposition. This need threatens to become even more pressing after the war. The inevitable accumulation of cases during the war and the development of many excess profits tax cases, particularly those arising under the general relief provisions of Section 722, make it obvious that the Tax Court faces a possible post-war crisis,

It is very doubtful ~~if~~ whether a general sales tax without the exemption of necessities of life would really be helpful in financing the war or restraining inflationary price rises. The imposition of a substantial sales tax would almost surely be the signal for widespread demands for higher wages and farm prices which, if allowed, would result in large additional costs to Government and increases in the cost of living over and beyond the amount of the tax. These dangers are much greater in the sales tax than in excise taxes or income taxes. Excise taxes touch in only minor respects commodities that are necessities of life, while income taxes have personal exemptions which protect minimum living standards.

Personal exemptions could be introduced into the sales tax, but the inconvenience of distributing and using exemption coupons and the resultant reduction in revenue would be serious factors. Even the most simple sales tax would require the use of much precious manpower and machines by Government and business. It is doubtful ~~if~~ whether that manpower and those machines could be secured without interfering with the war effort.

H. Renegotiation of Contracts.

at that point. A sales tax with such exemptions would yield about $2.6 billion. However, of that amount about $1.2 billion would come from goods and services already subject to Federal excise taxes. The tax yields from the sale of these commodities can be increased or decreased by adjusting the excise tax rates. No sales tax is needed to produce revenue from them. All that is left after excluding such commodities is $1.4 billion. Nearly $600 million of the $1.4 billion would come from equipment, chemicals, and materials used in business and thus entering into the costs of doing business, with resultant increases in the costs of doing business and in prices to the Government and to the public.

Most of the remaining $800 million tax would be on items that might properly be subject to sales taxation. It is hardly necessary to point out that the expenses to 2 1/2 million businessmen and increased costs to Government, as well as the use of precious manpower, would not be justified by yields of this kind when there are other methods of raising money at hand which do not call for heavy increases in costs of administration and compliance.

It is very doubtful

Such a tax would be very harsh, especially on low income families with children. It is completely lacking in any relation to ability to pay because it hits families much harder than single individuals at the same income levels and it hits people with small incomes much harder than people with larger ones. Such a tax would be opposed to every principle of tax equity and would in my opinion interfere with the war effort.

There are many proponents of the sales tax who would agree with these criticisms and who propose to meet them by allowing exemptions of the necessities of life. Such exemptions would indeed improve the character of the tax, although they would still leave the discrimination against large families. However, the exemptions would quickly remove so much of the tax base as to leave little more than an empty shell.

The exemption of food would reduce the yield by $2.4 billion; the exemption of medicine would reduce the yield another $200 million; the exemption of clothing would reduce the yield by another $1.1 billion. Those exemptions do not include all of the necessities of life, but let us stop at that point.

For an elaboration of the points just made, I should like to refer you to Appendix F. This appendix also compares the Treasury excise tax proposals with the House Bill provisions, analyzes those provisions, and indicates why it is desirable to terminate excise tax exemptions on sales to the Federal Government, as recommended by the President.

G. The Sales Tax

The Treasury proposals do not include a general sales tax. I should like briefly to state the reasons for our decision.

The form of sales tax which would produce the most revenue and cause the least rupturing of price ceilings is the retail sales tax. The highest rate I have heard mentioned is 10 per cent. That is over three times as high as the rate now in force in any State.

A 10 per cent sales tax with no exemptions for necessities of life would raise at current sales levels about $6 billion, or about one-tenth of this year's estimated deficit.

Such a tax would

taxation and in setting the proposed rates, the Treasury gave careful consideration to the demand and supply conditions in affected industries and to the impact on producers and consumers. The $2.5 billion excise tax recommendation was designed to be a part of a balanced overall program.

Selected excises have much to commend them as a source of wartime revenue. They involve little increase in administrative machinery and compliance costs. At the same time, in most cases the higher levies would be shifted to consumers, thus avoiding undue burdens on business concerns. Since only a few non-essentials are affected, and since the tax can be avoided or reduced by cutting consumption of the taxed items, the excises will not cause hardship for consumers.

Excise taxes are far superior to a sales tax. They involve only a small fraction of the administrative and compliance effort demanded by a sales tax. Second, they bear on non-essentials rather than necessities. Third, they support rather than jeopardize the Government's program to stabilize the cost of living.

For an elaboration

I should like to report to the Committee that the Treasury is now making an extensive study of all phases of estate and gift taxation. For example, we are investigating the possibility of integrating the estate and gift taxes and correlating them with the income tax. An advisory committee, comprising some of the leading tax practitioners in the estate and gift tax field, is aiding us in this study. It is hoped that the study will lead to recommendations which will simplify these taxes and make them more effective and more equitable. It is anticipated that this study will be completed before the Congress considers the next tax bill.

F. ~~E~~ Excise Taxes

The Treasury recommended that an additional $2.5 billion be raised through increases in the rates and changes in the base of several existing excise taxes and through the enactment of two new excises. (See Exhibit 18.) It further recommended that the tax on transportation of property be repealed. In selecting specific items for heavier

taxation and in

The proposed changes in the estate and gift tax provisions should be permanent, rather than simply for the duration of the war. 1/

I should like

1/ Two technical estate and gift tax provisions of the House Bill deserve comment. As passed by the House, the bill contains an estate tax amendment which provides that in valuing stock or securities the value of which cannot be determined by reference to bid and asked prices or to sales prices by reason of the absence of listings for sales, there shall be considered, in addition to all other factors, the value of stock or securities of comparable corporations which are listed on an exchange. It is believed that this amendment is highly undesirable because it can only lead to continuous, unnecessary and costly litigation, and harbors dangerous potentialities for imposing unjust tax burdens upon the recipients of closely held stock.

The House Bill also provides that in certain instances the appointment of a trustee, the vesting of discretion in a trustee as to the selection of beneficiaries or the distribution of benefits, or the exercise by a trustee of such discretion shall not be deemed a taxable gift. This provision is completely divorced from any reasonable classification of trusts and is enmeshed in ambiguities which can only produce manifold administrative difficulties and increase the litigation burden of taxpayers.

E. ~~F.~~ Estate and Gift Taxes

In seeking sources of additional wartime revenue, we cannot afford to overlook estate and gift taxes. Increases in these taxes have not kept pace with tax increases generally. Small as their relative contribution to the total has been in the past, it has fallen during the war. Estate and gift tax collections for the fiscal year 1944 are expected to represent a smaller proportion of total tax receipts than at any time during the past 10 years. (See Exhibit 16.)

In a period when huge additional revenues are needed, the beneficiaries of estates and gifts should contribute their full share to the cost of the war along with other groups of taxpayers. Yet, relatively few estates are subject to tax, and rates in the lower and middle brackets continue to be moderate. The Treasury has, therefore, recommended that the estate tax exemption be reduced from $60,000 to $40,000 and that estate tax rates be raised. Corresponding increases in the gift tax are also suggested. For a comparison of rates and tax under the present law and the proposals, see Exhibits 14, 15 and 17. These changes would add $400 million to our revenues on a full-year basis.

The proposed changes

part ceased, and that a taxpayer seeks to use the deduction or credit as an offset to the profits of an enterprise to which the deduction or credit does not bear a reasonable business relationship. The amendment in no way abridges the privilege of doing business in individual, partnership, or corporate form, or the privilege of filing a separate or a consolidated return, or any of the numerous choices which the structure of the tax system is intended to afford. But the amendment does operate whenever under any of these privileges or choices such a distortion or perversion of a deduction or credit appears. Hence the scope of the amendment in its field is precisely the same as that of Sections 45 and 141 of the present law, where analogous distortions or perversions have been frequently described by the Committee as "milking" or shifting of deductions and credits. The Treasury believes with the House that the amendment is a significant part of an equitable tax structure and that it is well adapted to accomplish its purpose.

C. Estate and Gift Taxes

defunct corporation having large current, past, or prospective losses, deficits, or large current or unused profits credits. The utilization and advertisement of such devices has disturbed responsible taxpayers and their attorneys who have refused to use these schemes. It is also disturbing to the Government in its effort to administer the revenue laws equitably and uniformly.

The amendment disallows the part of the deduction or credit involved in the tax avoidance device, but only if the acquisition of an interest in or control of a corporation or property has occurred on or after October 8, 1940, and then only if one of the principal purposes "for which (the) *** acquisition was made or availed of is the avoidance of *** tax by securing the benefit of" such deduction or credit. The amendment is directed solely at those devices which distort or pervert the natural business relationship between a deduction or credit and the enterprise which produced it, and for the benefit of which the deduction or credit was provided by law. The gist of the distortion is the circumstance that such natural relationship has in whole or in

part ceased,

producers of natural gas, this provision in the House Bill appears to be undesirable. This point is further developed in Appendix E. This appendix also contains a statement of the Treasury position with respect to the broadening of the excess-profits-tax relief for coal and iron mines and timber tracts.

Tax relief measures can serve very useful purposes. But unless they are handled very carefully, they may simply become tax loopholes. If tax relief is distributed without regard to need, it deprives the Government of much needed revenue, and distributes tax burdens inequitably among business enterprises. It must not be forgotten than reduction in the tax liabilities of especially favored taxpayers means increased tax burdens on all other taxpayers.

4. Acquisitions to Avoid Income or Excess-Profits Tax.

At this point I would like to discuss one technical amendment which is of major importance. Section 115 of the House Bill is intended to curb the development of a public market in which alleged tax benefits may be bought and sold. The currently advertised schemes are designed to enable a taxpayer with large war profits to avoid income and excess-profits taxes by purchasing for such purpose a losing or

defunct corporation

generally has a higher credit standing than the small and therefore gets larger tax benefits from borrowing than the small corporation. This advantage will be reduced by the reduction in percentage allowances on invested capital. 1/

3. Specific Relief Measures in the House Bill

The House Bill provides special tax treatment for certain mine owners and operators. It extends percentage depletion and excess-profits-tax exemption to several minerals as a means of stimulating their wartime production. In so far as these fall within the category of strategic minerals designated by the War Production Board, the Treasury concurs with tax measures which will accelerate their output. But for minerals not so designated it is believed that the proposed treatment is unwarranted. A further statement on the Treasury position is contained in Appendix D.

The House Bill also extends to the natural gas industry the special excess-profits-tax treatment now granted with respect to the accelerated output of depletable natural resources. In so far as this treatment is extended to non-producers of natural gas,

1/ An illustration of the effect of borrowing on net income after taxes of an excess-profits taxpayer using the invested-capital credit will be found in Exhibit 13.

The Treasury also agrees with the provisions reducing by one percentage point the invested capital credit in each of the brackets above $5 million. Invested capital is generally used as a base for computing excess-profits credits only by those corporations which earned a low rate of return during the base period. Where such earnings were abnormally low, corporations are protected by the remedy in Section 722. But corporations the base-period earnings of which were normally low should not be provided an escape from taxes on war-increased profits. Since a large invested-capital credit unrelated to base-period earnings tends to provide such an escape, the proposed reduction will reduce an unfair advantage gained by large corporations having a history of low normal earnings.

The proposed reduction of the invested capital credit will also reduce the advantage gained by large corporations on borrowed capital. Because 50 percent of borrowed capital is included in invested capital, corporations can get a tax advantage by borrowing at rates of interest below the percentages allowed on invested capital. The large corporation generally has a

2. Changes in Excess-Profits Tax Exemptions and Credits under the House Bill

The House Bill provides for an increase from $5,000 to $10,000 in the specific excess-profits-tax exemption. 1/ This provision, which was recommended by the Treasury last year, will distribute the excess-profits-tax burden more equitably between large and small business enterprises.

The profits of small business are likely to fluctuate more widely than profits of large business. Base-period earnings under the average-earnings method are, therefore, a less reliable index of normal earnings for small business than for large. An increase in exemption tends to avoid a penalty on normal fluctuations and earnings without forcing a resort to the relief provisions of Section 722.

Moreover, profits of small business are ~~also~~ more likely to reflect a return on managerial efforts than a return on invested capital. Consequently, the increased exemption also aids small corporations using the invested capital base for determining excess profits.

The Treasury also

1/ See House Report on Revenue Bill of 1943, Report No. 871, p. 57.

1/ See Page 57, House Report No. 871 on the Revenue Bill of 1943.

excess-profits-tax rates will reach only a limited range of excess profits.1/

1/ A revision of the 80 percent limitation will improve the relationship of net taxes payable by corporations not subject to the tax ceiling and those which are subject to the tax ceiling. In Appendix C to this statement, there are outlined three alternative methods of revising the 80 percent limitation to gain these advantages, which would still prevent net corporate taxes from exceeding 80 percent of net income.

It is recognized that the combined corporate and individual taxes on dividend income are higher in this country than in England and in Canada, and that steps must be taken after the war to relieve corporate stockholders of their disproportionate tax burden. However, so long as the war continues and corporations generally are able to maintain present abnormally high levels of earnings, the discrimination against this class of income recipient will continue to be more apparent than real. The taxation of the excessive profits of corporation imposes no real burden on corporate stockholders.

I have indicated why the Treasury prefers to raise additional revenue by means of an increase in surtax rather than an increase in excess-profits tax. However, if your Committee should decide in favor of an increase in the excess-profits-tax rate, the Treasury suggests an upward revision of the 80 percent limitation on corporate taxes. Without this revision the increase in

excess-profits-tax rates

~~was~~ were distributed.[1] In spite of war taxes, dividends for 1941, 1942, and 1943 are estimated at $4.5 billion, $4.1 billion, and $4.0 billion, respectively. It is estimated that even after paying taxes and dividends, American corporations will accumulate over $12 billion of undistributed profits for the three years 1941, 1942, and 1943, ~~and 1944~~.

Recent studies show that liquid assets of corporations have risen even faster than retained earnings. Non-financial corporations increased their holdings of currency, bank deposits, and United States Government securities by $12 billion during the two years 1941 and 1942 according to an estimate prepared by the Securities and Exchange Commission. If the accumulation of liquid assets in the first half of 1943 should continue at the present rate through the year, the total increase would be $25 billion for the three years 1941, 1942, and 1943. A study just released by the Federal Reserve Board indicates that business deposits, both corporate and non-corporate, totalled $30 billion on July 31, 1943.

It is recognized

1/ Dividend payments in 1936 and 1937 are generally conceded to have been abnormally high as a result of the undistributed profits tax in effect during those years.

and without impairing the sound financial condition of corporations generally. Corporate profits (excluding dividends received) will reach an estimated level of $22.6 billion for 1943. This is more than four times the corporate profits for the year 1937, one of the most prosperous years of the Thirties. Taxes have also risen sharply during this period, both because of increases in corporate income and because of increases in rates. But they have failed to keep pace with earnings. In 1937 corporations had left less than $4 billion, after paying $1-1/4 billion of taxes. In 1943 corporations will have left nearly $9.2 billion, even after paying $13.5 billion of taxes. In 1944 corporate profits after taxes at present rates are expected to reach $9.9 billion, or three times the average annual profits after taxes from 1936 through 1939.

Figures on dividends and undistributed profits ~~figures~~ are also impressive.1/ Average dividends from 1936 to 1940 were $4.1 billion, 1937 being the peak year, when $4.8 billion were distributed.

1/ See Exhibit 12.

credit) on each dollar of excess-profits from 81 to 85-1/2 cents. Under the Treasury proposal for an increase in surtax rates, not more than 50 cents would ordinarily be taken out of each dollar of normal profits, and the present figure of 81 cents for excess profits would not be touched. 1/ The increase in surtax proposed by the Treasury is less likely to impair financial incentives than would an increase in the excess-profits tax rate. With corporate rates at their present levels, the impact on incentives cannot be ignored in making tax decisions.

The Treasury agrees that our corporations should be kept "in a sound financial condition so that they may be able to convert to peacetime production and provide employment for men leaving the armed forces after the war." 2/ But figures on corporate earnings, dividends, and accumulations make it clear that added taxes can be levied without unduly burdening profits and profit incentives,

and without impairing

1/ Corporations with income between $25,000 and $50,000 will, of course, be subject to higher marginal surtax rates as a result of the notch provision.

2/ See ~~Page~~ 5, House Report No. 871 on the Revenue Bill of 1943. ~~Report No. 871~~

capital but low normal earnings, receive substantial war profits without becoming subject to excess-profits taxes. The same is true of corporations with high base-period earnings now engaged in the production of war materials. Other corporations have had their excess-profits tax liabilities substantially reduced by the special relief provisions in the tax law. Still others will ultimately have a substantial proportion of their excess-profits taxes refunded to them under the operation of the carry-back provisions. The surtax thus offers greater assurance that all corporations which have benefited from the war will make an additional tax contribution.

A further reason in favor of a surtax-rate increase, as distinguished from an excess-profits-tax rate increase, may be found in the comparative effect on managerial profit incentives. Financial incentives to efficient management depend upon the number of cents the corporation retains out of each additional dollar of profit. The House Bill would increase the net tax (after postwar

credit)

corporate profits. On the other hand, it will not strike approximately one-half of the excess-profits, nor will it touch the most profitable corporations. To reach corporate profits generally, an increase in surtax rates would be necessary. To reach the bulk of excess-profits and the most profitable corporations, added excess-profits taxes would have to be coupled with an upward revision of the 80 percent limitation.

Because of its broad coverage, the corporate surtax affords an instrument for tapping war profits that are not defined as excess profits in our tax law. At best, it is extremely difficult to single out excess profits and war profits by legal definition. An excess-profits tax cannot be a perfect instrument; a 90 percent or a 95 percent excess-profits-tax rate does not mean that the Government will recapture 90 or 95 percent of the war profits of corporations. In the area labelled "normal profits" there are bound to be some war profits. For example, many corporations with large invested

capital

become subject to the 80 percent ceiling as a result of the 5 percentage-point increase in the excess-profits tax rate. The effect will be to limit still further the range of corporations to whom the full increase would apply. It would apply only to the residual class, namely, corporations that pay excess-profits taxes, but will not become subject to the 80 percent tax ceiling.

In contrast with the House Bill, the Treasury proposal would increase the net liability of all corporations. For those subject to the 80 percent ceiling, an increase in the surtax would mean a decrease in the share of their 80 percent tax represented by excess-profits taxes. As a result, their postwar credit would be smaller and their net liabilities correspondingly larger, even though their gross tax payments were unaffected. For all other corporations, both the gross payment and the net liability would be increased.

From the foregoing analysis it is apparent on the one hand that the House Bill will not strike corporate profits generally, but only a restricted segment of

corporate profits.

The House Bill increases Corporate Tax revenues by $468 million

unused excess-profits credits; and (f) provides special tax treatment for certain natural resources industries. 1/ I should like to discuss these matters in detail.

4. Comparative Effects of Increases in Surtax and Increases in Excess-Profits Tax.

Unlike an increase in surtax rates, which would increase the net tax liability (after postwar credit) of all taxpaying corporations, the increase in the excess-profits-tax rate under H. R. 3687 will increase liabilities for comparatively few corporations. Corporations not subject to the excess-profits tax and those already subject to the 80 percent ceiling on corporate taxes will have no added tax to pay. Of 263,000 taxable corporate returns estimated for 1944, 71,000, or about 27 percent, will be subject to excess-profits tax. Moreover, the 80 percent ceiling will apply to 4,300 corporations or approximately 6 percent of all excess-profits taxpayers. This 6 percent, however, will pay about 40 percent of total excess-profits taxes in 1944. An additional 3,200 corporations will become subject

1/ A comparison of corporation income and excess-profits tax rates is shown in Exhibit 11.

years are combined with the net income for two years, as they should be, it becomes apparent that the 75-percent cancellation is a windfall which has made it easier, not harder, to pay taxes on 1944 income.

D. Corporation Taxes.

The Treasury suggested to the Ways and Means Committee (a) that the surtax on larger corporations (those with net income in excess of $25,000) be increased by 10 percentage points and on smaller corporations by 4 percentage points; (b) that no change be made in the excess-profits-tax rates; and (c) that certain changes be made in the existing provisions for carry-back of losses and unused excess-profits credits. The Treasury proposals would increase corporate tax revenues by $1,138 million.

The bill passed by the House (a) makes no change in the surtax rate; (b) raises the excess-profits-tax rate to 95 percent; (c) reduces the excess-profits credit for some corporations by lowering the percentages allowed on invested capital; (d) raises the specific exemption for excess-profits taxes from $5,000 to $10,000; (e) makes no change in the carry-back of losses and

unused

existing income tax rates are confiscatory. Those who make this contention point to the combined burden of current taxes, uncanceled 1942 liabilities, and State income taxes. It is said that this combination will exceed 100 percent of income in 1944.

Such statements are grossly misleading. They ignore two facts. The first is that the Federal income tax allows for the deduction of State income taxes in computing net income. This deduction protects the taxpayer from a confiscatory combination of State and Federal taxes, even if the State tax does not permit the deduction of the Federal tax.

The second fallacy lies in comparing two years' taxes, or 1-1/8 year's taxes, with one year's income. The uncanceled part of the 1942 tax is in no sense a tax on 1944 income. This becomes entirely clear when it is realized that a person having no 1942 income has no uncanceled tax to pay in 1944, and would therefore not be covered by the schedules combining the two years' taxes. As a matter of fact, when the taxes for two

years

In an attempt to prove that American taxes are too high, it is argued that taxes in the United States are higher in terms of dollars per capita than in the United Kingdom and Canada.1/ This argument is, of course, grossly misleading, since it gives absolutely no indication of real burdens. How burdensome a given tax will be is determined by the ratio of the tax to the income from which the tax is paid. Personal incomes here are larger than in either Canada or Great Britain. Furthermore, the rates of income tax and excise taxes are higher in the Allied countries than here. Practically any citizen of the United States, if given the choice of paying American, Canadian, or British taxes, would choose the American tax system, since his tax here would be the lowest. ~~would be lower than in the leading foreign countries.~~

c. The argument of confiscation.

In connection with the argument that taxes will exceed capacity to pay, it is contended that our

existing

1/ See ~~House Rept. No. 871,~~ Page 8, House Report No. 871 on the Revenue Bill of 1943.

the fiscal year 1944. The corresponding figures before subtracting personal taxes are $68 billion and $148 billion. In other words, personal taxes show an increase of $19 billion while incomes before taxes show an increase of $80 billion. Less than one-fourth of the increase in annual income payments generated by defense and war activities is being absorbed by taxes.

In an attempt to prove

before taxes will be $1650, and after existing taxes, about $1,500. The demands of wartime living on incomes of this size leave little margin for additional taxes and afford few opportunities for inflationary spending.

Nevertheless, the urgent requirements of war finance demand that we tap even this small margin of disposable income. Under the Treasury proposals one-half of the income tax increases would fall on persons with net incomes of less than $5,000 and about one-fourth on persons with less than $3,000. Much the same proportions hold for the complete Treasury program, including proposed changes in corporation taxes and in excise taxes.

b. Capacity to pay.

A second contention is that the American people do not have the capacity to pay additional income taxes. The facts contradict this contention. Individual incomes after personal taxes amounted to $65 billion in the fiscal year 1939 and are expected to amount to $126 billion in the fiscal year 1944.

a. Tax burdens on the lower income groups.

It is contended that persons with incomes of less than $5,000 are the major source of inflationary pressure and that these persons would escape their fair share of the additional tax load under the Treasury proposals. Although at 1944 levels of income about 81 percent of the total cash income will be received by persons with incomes under $5,000, only 65 percent of the net income above income tax exemptions will be received by this group. Likewise, although 61 percent of total income will be received by persons with incomes under $3,000, only 39 percent of the net income above income tax exemptions will be received by this group.

Looking behind these aggregates to individual cases, we find that the margin of disposable income over and above wartime needs is very narrow for the millions of persons in the lower income brackets. Out of 67.3 million income recipients in the calendar year 1944, 58.2 million are expected to receive net incomes of less than $3,000. The average cash income per recipient

before taxes

b. The House Bill

Revenue is only an incidental consideration in the income tax provisions of the House Bill. Those provisions will add $226 million to income tax revenues. Of this amount about $90 million is attributable to the changes made in connection with Victory tax integration. About $150 million is attributable to the disallowances of deductions for Federal import duties and miscellaneous excise and stamp taxes not otherwise deductible as business expenses. 1/ The other individual income tax changes made by the House bill are of a technical character.

3. Answer to Criticisms of the Treasury Proposals for Higher Income Taxes.

I should now like to examine with you some criticisms that have been made of the Treasury's affirmative income tax proposals. The three arguments I shall examine are (1) that the Treasury proposals would not bear heavily enough on the lower income brackets; (2) that the American people do not have the capacity to pay more income taxes; and (3) that income tax rates in 1944 will be confiscatory.

1/ This disallowance was recommended by the Treasury. At present, the allowance of deductions under Section 23(c) is inconsistent and depends entirely on the legal language used in imposing the tax. For example, admissions taxes are allowed as deductions, but the cabaret tax is not. Uniformity in the matter of deductibility is desirable. Revenue, administrative, and equity considerations also suggest disallowance of these taxes in so far as they constitute personal expenses.

integration segment of the Treasury individual income tax proposal. The Treasury has also recommended as part of a $10.5 billion program of wartime taxes that an additional $6.5 billion of revenue be raised in individual income taxes. The surtax rate increases suggested to raise this revenue of course include the changes designed to absorb the Victory tax. Exhibit 5 appended to this statement shows the schedule of surtax rates proposed to the Ways and Means Committee on October 4, 1943. 1/ (See also Exhibits 6 and 7.) Two alternative schedules for raising approximately $6.5 billion of added income tax revenue are also attached for the convenience of your Committee (See Exhibits 8, 9 and 10). It will be seen that these alternative schedules would impose a heavier burden in the lower income brackets than the October 4 proposal. 2/

1/ It will be seen from Exhibit 5 that the Treasury is recommending that 4 separate surtax brackets of $500 each be substituted for the present first bracket of $2,000. This change enables a better adjustment of taxes to capacities to pay in the lower income brackets.

2/ Persons with net incomes of less than $5,000 would pay $3.5 billion out of the total of $6.5 billion additional income tax under the Treasury proposal of October 4; $3.9 billion out of $6.7 billion under Alternative proposal A; and $4.4 billion out of $6.8 billion under Alternative proposal B.

b. The House bill

Putting the minimum tax in its proper perspective, it is not an overstatement to say that its complexities will jeopardize the whole income tax system. Merely to collect $161 million from 9 million taxpayers near the bottom of the income scale, it endangers the collection of more than $17 billion from over 50 million taxpayers throughout the scale. The House Bill offers the American taxpayer a minimum tax "cure" that is worse than the Victory tax "disease". We cannot afford to disappoint the mass of taxpayers who have been promised relief from the complexities of our present dual tax structure. We cannot risk a breakdown in the mainstay of our Federal tax system in the midst of total war.

The question of Victory tax integration is of crucial importance. I am firmly convinced that the Treasury integration proposal would achieve real simplification at a modest and entirely reasonable cost.

2. Increase in Revenue

a. The Treasury proposal

Thus far, I have discussed only the Victory tax integration segment

e. Conclusion on simplification

Simplicity in income taxation implies both mechanical ease of compliance and understandability of the basic tax rules. The integration scheme in H. R. 3687 violates both of these standards. It has been amply illustrated that the mechanical problems of compliance under the minimum tax may be even more burdensome than those associated with the Victory tax. But even assuming that master tables could be developed to cope with most of the mechanical complexities of the House Bill, the problem of simplicity would not be solved. The minimum tax and its relationship to the regular tax completely defy understanding on the part of the average taxpayer. A tax law which affects over 50 million people must be made understandable to them if it is to survive. It must be explainable to them over the radio, in the press, and through the mails. I might be able to visualize mechanical guides which would help taxpayers to stumble in robot fashion ~~stumble~~ through income tax compliance under the House Bill. I cannot visualize an information campaign that could make this tax understandable to taxpayers generally.

Putting the

proposal would simplify the entire income tax structure in eliminating $275 million of tax for the 9 million taxpayers least able to pay and most expensive to tax. In contrast, the House bill complicates that structure and multiplies the compliance burdens of over 50,000,000 persons merely to keep the 9 million taxpayers on the rolls, and to exact from them the relatively small sum of $161 million. It seems utterly unreasonable to erect a mountain of complexity for such a molehill of revenue.

e. Conclusion on simplification.

totaling $711 million. The House Bill increases liabilities for 26.3 million taxpayers, the increases totaling $459 million. While the 9 million taxpayers who would be exempted under the Treasury proposal pay $275 million under present law, they would pay only $161 million under the House Bill. This figure of $161 million measures the reduction involved in their elimination from the income tax rolls.

Any integration plan will inevitably change liabilities of many taxpayers. The major concern should be that the changes meet the tests of simplicity and fairness. The Treasury changes meet these tests far better than the changes in H. R. 3687. While the Treasury integration proposal would reduce taxes only for taxpayers in the lowest brackets and subject to family responsibilities, the House Bill would apply reductions to taxpayers with incomes as high as $3,931 (married person with 2 dependents) and $4,572 (married person with 3 dependents). More important, the Treasury

proposal

their necessarily complicated annual return next March with the assurance that future income tax returns would be both more understandable and simpler.

d. Tax increases and decreases under the House Bill and the Treasury integration proposal.

Some contend that the Treasury proposal achieves simplicity at an excessively high cost in tax reduction for taxpayers in the lowest brackets and that the House Bill involves no corresponding cost. I should like to cite the facts refuting this contention.

The Treasury integration proposal would exempt entirely 9.1 million taxpayers who now pay a net Victory tax of $275 million. Including these, it would reduce taxes for 18 million taxpayers, the combined reduction totaling $436 million. The House Bill exempts only 130,000 taxpayers, but reduces taxes for a total of 26.2 million taxpayers; the aggregate reduction is $370 million, only $66 million less than the Treasury proposal. The Treasury proposal would increase liabilities for 34.4 million taxpayers, the increases

totaling

c. Contrast of House Bill with Treasury integration proposal from the standpoint of simplicity.

The contrast between the House Bill and the Treasury proposal on the score of simplicity is complete. What the House Bill gains in removing the Victory tax, it loses in introducing the minimum tax. It retains the complexities of a double tax system and adds special vagaries of its own. It burdens administration with new problems at a time when it is still faced by the enormous task of adjusting itself to current collection. Worst of all, it will require taxpayers to struggle with the new minimum tax concept even before they finish hurdling the Victory tax barrier.

Under the Treasury proposal, on the other hand, there would be no double tax base, no double exemptions, and no multiple choices and computations. Administration would be simplified by dropping the Victory tax. Similarly, withholding would be simplified by dropping the minimum withholding feature necessary to guarantee collection of the Victory tax. Most important, compliance would be simplified. Taxpayers could face the prospect of filing

their

of 41.7 million returns, representing 52.4 million taxpayers, in contrast with the Treasury proposal, which would require only 36.5 million returns representing 43.2 million taxpayers. 1/ The House Bill, like the present law, requires millions of returns from persons in those income brackets in which the ratio of administrative effort to tax proceeds is highest. Moreover, the complexity and confusion generated by the double exemptions and computations and by the involved choice between joint and separate returns will inevitably burden administration. Both in terms of the taxpayers who will throng the collectors' offices for help, and in terms of the volume of errors that taxpayers will make, the House Bill magnifies the problems of administration.

c. Contrast of House Bill with Treasury integration, etc.

1/ Under present law the figures would be 44.1 million returns and 52.3 million taxpayers.

No shift of part of the exemption from one to the other is permitted as under present law ~~by an appropriate division of the total exemption.~~ Situations will frequently arise, therefore, where one spouse is entitled to a refund and the other is subject to additional tax. Yet, because the exemption is fixed at $500, the opportunity that exists today for canceling out the refund and the additional liability is removed. For example, if the wife works part of the year but does not take any of the withholding exemption, she is entitled to a refund. The husband, who takes the entire withholding exemption, will probably have to pay additional tax. But even if the wife's refund is equal to or greater than the husband's remaining liability, there is no way of shifting the personal exemption and thus offsetting one against the other. He will have to pay the tax and she will have to wait for a refund.

(5) Complication of the administrative process

The House Bill also makes heavy demands upon administration. For 1944, it will require the filing and processing of 41.7 million

(4) Complication of the withholding process.

In addition to complicating tax returns and the filing process, H. R. 3687 complicates collection at the source and raises new problems for employers. Many employers withhold on the "exact" basis instead of by wage brackets, either to approximate the final liability more closely or because their mechanical equipment requires the use of the exact computation. Since the Victory tax exemption is $624 regardless of family status, present law requires the employer to apply only one set of exemptions varying with family status. But under the House Bill the minimum tax will also have variable exemptions. Employers will thus be confronted with two sets of varying exemptions, as well as two tax rates, in determining how much to withhold.

The problem of year-end refunds and additional tax payments is also aggravated. 1/ Husbands and wives filing separate returns have fixed exemptions of $500 each.

1/ The Treasury has recommended changes in the withholding procedure that would minimize the problem of year-end refunds and additional tax payments. The Treasury proposed that withholding be applied on a graduated basis to the taxpayer's full liability rather than merely to his partial liability under the normal tax and the first bracket of surtax. It also proposed narrower withholding brackets to adjust amounts withheld more closely to actual tax liabilities.

(3) Decreased use of the simplified return.

Another undesirable by-product of the House bill is that it would in effect deny the use of the simplified form (1040A) to many taxpayers now able to use that form. Husband and wife may use Form 1040A as a separate return as long as both use it and neither has more than $3,000 of gross income. The House Bill, by providing married couples with a $1,200 exemption if they file joint returns but a combined exemption of only $1,000 if they file separate returns, places a premium on joint returns. As a result, many married persons with combined gross incomes between $3,000 and $6,000, who now file separate returns on Form 1040A, will be penalized by a $200 reduction in exemption if they continue to use Form 1040A. Plainly, they will turn to the more complicated Form 1040. Since it is desirable to extend rather than restrict the use of the simplified form, this effect of the House Bill is unfortunate.

(4) Complication of the withholding

(b) The illustration in Appendix B shows that the tax differentials under the various procedures for computing the tax can be very substantial. On the modest income of $2,125 in the example cited, the tax liability computed on Form 1040 ranges from $24.75 under the most advantageous method to $174.75 under the least advantageous method of filing.

(c) Estimates indicate that the House Bill will confront well over 10 million married couples with the choice between joint and separate returns. Under that bill it is estimated that 10.7 million joint returns will be filed for 1944. 1/ In addition, a number of separate returns will also be filed by married couples where both receive income. The great majority of millions of married couples will decide to file either joint or separate returns only after making difficult, time-consuming comparisons.

(3) Decreased use of

1/ Under present law, 8.2 million joint returns are expected, while under the Treasury integration proposal, the figure would be 6.7 million.

(See illustration in Appendix B.)

of the dependents between husband and wife. To be absolutely certain that they have arrived at their lowest possible tax, this couple would also have to make nine tax determinations on the short form (1040A). The actual case in which 18 tax computations would be made to ascertain the lowest tax would be rare. But the mere fact that such cases can occur and that a problem similar in kind, if not in degree, will be faced by many taxpayers is a serious indictment of this phase of the House Bill.

With such extreme complexity established beyond any doubt, the question might still arise (a) whether the number of necessary tax computations is much larger than under present law, (b) whether the tax differentials involved are substantial, and (c) whether many taxpayers will be affected.

(a) There is no incentive under present law for married persons with small incomes to file separate returns, and the problem of allocating dependents is thereby avoided.

(b) The illustration

(5)

The regular tax exemption, on the other hand, will be greater under a joint return than under separate returns, thus offering an inducement to file joint returns. By setting the credit for dependents at $100 for the minimum tax in contrast with $350 for the regular tax, the House Bill further complicates the choice between joint and separate returns.

The large number of variables injected by the House Bill will force husband and wife who both receive income to compute a series of alternative taxes to ascertain their lowest possible liability. I should like to cite an example which brings home more forcibly than any lengthy explanation the nature of the compliance burden imposed on these taxpayers. The example is that of a married couple with three children and a net income of $2,125, of which the husband receives $1,250 and the wife, $875. Using Form 1040, this couple could reach five different tax results. This would involve nine separate tax computations. These computations are necessary to determine the maximum tax advantage under (1) joint or separate returns and (2) different divisions

of the

Because of these variables, no clear dividing lines or income zones can be established to guide taxpayers into one type of return or the other. In order to determine their lowest tax liability, they will have to resort to a method of trial and error involving numerous alternative computations.

Merely stating the provisions of the House Bill on this point demonstrates how bewildered the taxpayer will be. Under the minimum tax husband and wife receive an exemption of $500 each, or a total of $1,000, if they file separate returns, but only one $700 exemption if they file a joint return. Under the regular income tax, their exemption is still $500 each, or a total of $1,000, on separate returns, but is $1,200 on a joint return. 1/ In other words, the minimum tax exemption will be smaller under a joint return than under separate returns, thus offering an inducement to file separate returns.

The regular

1/ None of the $500 exemption allowed on a separate return may be shifted from one spouse to the other under either the minimum or the regular tax.

but is forced upon millions of taxpayers not now affected by it because of the difference in aggregate exemptions depending upon whether separate or joint returns are filed. Under present law the problem is restricted to the comparatively few married couples having combined net incomes reaching beyond the first surtax bracket. The choice is fairly clear. It involves persons who are for the most part familiar with tax procedure. To married couples with surtax net incomes below $2,000, it is generally a matter of indifference whether they file separate or joint returns.

However, under the House Bill it is no longer a matter of indifference. Married taxpayers in even the lowest income brackets, many of them newcomers to the income tax, will be driven to compare the tax advantages of joint and separate returns. They will find that the advantage shifts with the size of income, with the particular division of income between husband and wife, and with the number and division of dependents.

Because of these

tax applies and below which the minimum tax applies. But this mechanical guide cannot remove the confusion inherent in having two alternative taxes side by side.

The confusion caused by the House Bill may perhaps best be visualized by a specific example. Take the case of a married couple with two dependents, the husband having $900 of net income from business and the wife $700. Their minimum combined liability under the House Bill will be realized by filing separate returns, each claiming one dependent. The husband will be subject to the regular tax, the wife, to the minimum tax. The husband will get a $350 credit for the one dependent and will apply a 23 percent rate to his income. The wife will get a $100 credit for the other dependent and will apply a 3 percent rate to her income. The confusion in this family is apparent.

(2) The necessity of comparing taxes under separate and joint returns.

Under the House Bill the problem of choosing between joint and separate returns is not only greatly complicated, but is

provided for users of the simplified form. This is all to the good, but it is only a small part of the simplification that is needed.

The House Bill does not eliminate the dual set of personal exemptions and will still require users of the "long form" (Form 1040) to determine which of two taxes applies to their incomes. In addition, it will confuse taxpayers with its complicated minimum tax. It will make it disadvantageous for many taxpayers now using the simplified form to use that form in the future. It will require millions of married couples to go through a series of alternative tax computations to ascertain their lowest possible liability.

(1) Confusion caused by minimum tax.

The House Bill provides that taxpayers shall pay either the minimum tax or the regular tax, whichever is larger. Two alternative taxes with different rates and exemptions will confront taxpayers using the "long form". A table can be appended to that form showing the net income "breaking points" above which the regular tax applies

b. Analysis of the integration plan in H.R. 3687

In the process of absorbing the Victory tax into the regular income tax structure, both the House Bill and the Treasury proposal eliminate the earned income credit and thereby simplify tax computation. But the real promise of simplification this year lies in substituting a single income base for a double base, a single set of exemptions for a double set, and a single tax computation for a double one. The Treasury integration proposal would realize this promise in full. The House Bill realizes the same promise only in a minor degree, and at the same time adds some complexities found neither in the present law nor in the Treasury proposal.

The House Bill eliminates the "gross" base of the Victory tax and substitutes a single for a double tax computation on the simplified form (Form 1040A). Both the regular income tax and the minimum tax are computed on the basis of income tax net income. Moreover, a table indicating the regular tax and minimum tax is

provided for

new exemptions; ~~for the Victory tax in the approximate income ranges now subject only to Victory tax;~~ the Treasury proposal employs no minimum tax but would reduce the credit for dependents by $50 and the exemption for a married couple by $100. Comparative burdens under the House Bill and the Treasury integration proposal are shown in Exhibit 4. 1/

1/ A comparison of surtax and normal tax rates under the House and Treasury proposals will be found in Exhibit 3 appended to this statement. The combined normal tax and surtax under the House Bill is one percentage point higher than the combined taxes under the Treasury integration proposal in the ranges from zero to $6,000, and $12,000 to $70,000. In the ranges between $6,000 and $12,000, and above $70,000, the two plans apply the same combined tax rates.

over special personal exemptions ($500 for a single individual or a married person filing a separate return, and $700 for a married couple filing a joint return, plus $100 for each dependent) 1/; (d) sets the personal exemption under the regular income tax at $500 for each married person filing a separate return; (e) increases the normal tax rate from 6 percent to 10 percent; and (f) decreases surtax rates by 1 percentage point on surtax net income between $6,000 and $12,000 and increases them by 1 to 3 percentage points on surtax net income above $38,000. The combined normal tax and surtax increase would be 4 percentage points on net taxable income up to $6,000; 3 points between $6,000 and $12,000; 4 points between $12,000 and $38,000; and 5 to 7 points above that level.

Comparing the Treasury proposal with the House Bill, we find that they differ sharply in the technique of integration. The principal difference is this: The House Bill substitutes for the Victory tax a 3 percent minimum tax with new exemptions;

1/ The taxpayer pays either this minimum tax or the tax computed at the regular rates and exemptions, whichever is higher.

Victory tax. Both the Treasury proposal and the House Bill recognize this fact by replacing the Victory tax with adjustments in the regular income tax. 1/

a. Comparison of Treasury and House Bill Methods of Integration.

The method suggested by the Treasury to absorb the Victory tax into the regular income tax structure would (a) repeal the Victory tax; (b) eliminate the earned income credit; (c) reduce the personal exemption for a married person or head of family from $1,200 to $1,100, and the dependent credit from $350 to $300, leaving the single person's exemption unchanged; and (d) increase surtax rates by 3 percentage points on surtax net income up to $38,000, and by 4 to 7 points above that level.

The House Bill (a) repeals the Victory tax; (b) eliminates the earned income credit; (c) imposes a minimum tax of 3 percent on the excess of net income

over

1/ One proposal for simplification recommended by the Treasury has already been adopted and will apply to 1943 tax returns filed next March. In Public Law 178, ~~[illegible]~~, the Congress changed the Victory tax rate from a gross to a net basis by providing for automatic current allowance of the postwar credit. This change eliminates a complicated step in computing the Victory tax.

C. The Individual Income Tax.

The major objectives of the Treasury individual income tax proposal are (1) to simplify the income tax by absorbing the Victory tax into the regular income tax structure, and (2) to add $6.5 billion to tax revenues. The major objective of the income tax provisions in the House Bill is to replace the Victory tax with a minimum tax and adjustments in the regular income tax.

1. Simplification Through Victory Tax Integration.

The Chairman of this Committee and many others have expressed concern over the complexities of our tax laws and an urgent desire to simplify our tax structure. The Treasury shares the view that simplification is a first order of business, and on several occasions has made specific suggestions to this end. Especially in the case of the individual income tax, which directly affects more than 50 million taxpayers, simplification has become crucially important. No really effective simplification is possible without eliminating the

Victory tax.

as follows:

	Increases Under	
	Treasury proposals 1/	House Bill
Individual income taxes	$ 6,528.5 million	$ 226.0 million
Corporate taxes	1,138.1	467.9
Estate and Gift taxes	401.6	--
Excise taxes	2,511.1	1,194.8
Postal revenues	--	158.8
	$10,579.3	$2,047.5 2/

There is attached hereto as Appendix A a statement comparing the proposals made by the Treasury to the Ways and Means Committee with the provisions of the House Bill.

1/ For a detailed comparison of estimated liabilities under the present law and the Treasury proposals, see Exhibit 2.

2/ This estimate is in contrast with the Ways and Means Committee's estimate of a yield of $2,139 million.

A. Introduction

The purpose of my statement today is, first, to explain in detail the specific recommendations of the Treasury and to compare them with the provisions of H. R. 3687, the House Bill; second, to indicate some of the technical considerations underlying the Treasury proposals; and, third, to examine with you some of the principal criticisms which have been made of the Administration's proposals for $10.5 billion of additional taxes.

B. Revenue comparison of the Treasury proposals and the House Bill (H. R. 3687)

In his statement to the Ways and Means Committee on October 4, 1943, the Secretary recommended wartime tax increases totaling $10.58 billion for a full year of operation. (See Exhibit 1) The bill now before you would raise $2.05 billion. These totals are made up as follows:

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39-70

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Estate and Gift taxes	401.6	--
Excise taxes	2,511.1	1,194.8
Postal revenues	--	158.8
	$10,579.3	$2047.5 2/

There is attached hereto as Appendix A a statement comparing the proposals made by the Treasury to the Ways and Means Committee with the provisions of the House Bill.

C. The Individual Income Tax

The major objectives of the Treasury individual income tax proposal are (1) to simplify the income tax by absorbing the Victory tax into the regular income tax structure, and (2) to add $6.5 billion to tax revenues. The major objective of the income tax provisions in the House Bill is to replace the Victory tax with a minimum tax and adjustments in the regular income tax.

1/ For a detailed comparison of estimated liabilities under the present law and the Treasury proposals, see Exhibit 2.

2/ This estimate is in contrast with the Ways and Means Committee's estimate of a yield of $2,139 million.

1. Simplification Through Victory Tax Integration

The Chairman of this Committee and many others have expressed concern over the complexities of our tax laws and an urgent desire to simplify our tax structure. The Treasury shares the view that simplification is a first order of business, and on several occasions has made specific suggestions to this end. Especially in the case of the individual income tax, which directly affects more than 50 million taxpayers, simplification has become crucially important. No really effective simplification is possible without eliminating the Victory tax. Both the Treasury proposal and the House Bill recognize this fact by replacing the Victory tax with adjustments in the regular income tax. 1/

a. Comparison of Treasury and House Bill methods of integration

The method suggested by the Treasury to absorb the Victory tax into the regular income tax structure would (a) repeal the Victory tax; (b) eliminate the earned income credit; (c) reduce the personal exemption for a married person or head of family from $1,200 to $1,100, and the dependent credit from $350 to $300, leaving the single person's exemption unchanged; and (d) increase surtax rates by 3 percentage points on surtax net income up to $38,000, and by 4 to 7 points above that level.

The House Bill (a) repeals the Victory tax; (b) eliminates the earned income credit; (c) imposes a minimum tax of 3 percent on the excess of net income over special personal exemptions ($500 for a single individual or a married person filing a separate return, and $700 for a married couple filing a joint return, plus $100 for each dependent) 2/; (d) sets the personal exemption under the regular income tax at $500 for each married person filing a separate return; (e) increases the normal tax rate from 6 percent to 10 percent; and (f) decreases surtax rates by 1 percentage point on surtax net income between $6,000 and $12,000 and increases them by 1 to 3 percentage points on surtax net income above $38,000. The combined normal tax and surtax increase would be 4 percentage points on net taxable income up to $6,000; 3 points between $6,000 and $12,000; 4 points between $12,000 and $38,000; and 5 to 7 points above that level.

Comparing the Treasury proposal with the House Bill, we find that they differ sharply in the technique of integration. The principal difference is this: The House Bill substitutes for the Victory tax a 3 percent minimum tax with new exemptions; the Treasury proposal employs no minimum tax but would reduce the credit for dependents by $50 and the exemption for

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1/ One proposal for simplification recommended by the Treasury has already been adopted and will apply to 1943 tax returns filed next March. In Public Law 178, the Congress changed the Victory tax rate from a gross to a net basis by providing for automatic current allowance of the postwar credit. This change eliminates a complicated step in computing the Victory tax.

2/ The taxpayer pays either this minimum tax or the tax computed at the regular rates and exemptions, whichever is higher.

a married couple by $100. Comparative burdens under the House Bill and the Treasury integration proposal are shown in Exhibit 4. 1/

b. Analysis of the integration plan in H.R. 3687

In the process of absorbing the Victory tax into the regular income tax structure, both the House Bill and the Treasury proposal eliminate the earned income credit and thereby simplify tax computation. But the real promise of simplification this year lies in substituting a single income base for a double base, a single set of exemptions for a double set, and a single tax computation for a double one. The Treasury integration proposal would realize this promise in full. The House Bill realizes the same promise only in a minor degree, and at the same time adds some complexities found neither in the present law nor in the Treasury proposal.

The House Bill eliminates the "gross" base of the Victory tax and substitutes a single for a double tax computation on the simplified form (Form 1040A). Both the regular income tax and the minimum tax are computed on the basis of income tax net income. Moreover, a table indicating the regular tax and minimum tax is provided for users of the simplified form. This is all to the good, but it is only a small part of the simplification that is needed.

The House Bill does not eliminate the dual set of personal exemptions and will still require users of the "long form" (Form 1040) to determine which of two taxes applies to their incomes. In addition, it will confuse taxpayers with its complicated minimum tax. It will make it disadvantageous for many taxpayers now using the simplified form to use that form in the future. It will require millions of married couples to go through a series of alternative tax computations to ascertain their lowest possible liability.

(1) Confusion caused by minimum tax

The House Bill provides that taxpayers shall pay either the minimum tax or the regular tax, whichever is larger. Two alternative taxes with different rates and exemptions will confront taxpayers using the "long form." A table can be appended to that form showing the net income "breaking points" above which the regular tax applies and below which the minimum tax applies. But this mechanical guide cannot remove the confusion inherent in having two alternative taxes side by side.

The confusion caused by the House Bill may perhaps best be visualized by a specific example. Take the case of a married couple with two dependents, the husband having $900 of net income from business and the wife $700.

1/ A comparison of surtax and normal tax rates under the House and Treasury proposals will be found in Exhibit 3 appended to this statement. The combined normal tax and surtax under the House Bill is one percentage point higher than the combined taxes under the Treasury integration proposal in the ranges from zero to $6,000, and $12,000 to $70,000. In the ranges between $6,000 and $12,000, and above $70,000, the two plans apply the same combined tax rates.

Their minimum combined liability under the House Bill will be realized by filing separate returns, each claiming one dependent. The husband will be subject to the regular tax, the wife, to the minimum tax. The husband will get a $350 credit for the one dependent and will apply a 23 percent rate to his income. The wife will get a $100 credit for the other dependent and will apply a 3 percent rate to her income. The confusion in this family is apparent.

(2) The necessity of comparing taxes under separate and joint returns.

Under the House Bill the problem of choosing between joint and separate returns is not only greatly complicated, but is forced upon millions of taxpayers not now affected by it because of the difference in aggregate exemptions depending upon whether separate or joint returns are filed. Under present law the problem is restricted to the comparatively few married couples having combined net incomes reaching beyond the first surtax bracket. The choice is fairly clear. It involves persons who are for the most part familiar with tax procedure. To married couples with surtax net incomes below 2,000, it is generally a matter of indifference whether they file separate or joint returns.

However, under the House Bill it is no longer a matter of indifference. Married taxpayers in even the lowest income brackets, many of them newcomers to the income tax, will be driven to compare the tax advantages of joint and separate returns. They will find that the advantage shifts with the size of income, with the particular division of income between husband and wife, and with the number and division of dependents. Because of these variables, no clear dividing lines or income zones can be established to guide taxpayers into one type of return or the other. In order to determine their lowest tax liability, they will have to resort to a method of trial and error involving numerous alternative computations.

Merely stating the provisions of the House Bill on this point demonstrates how bewildered the taxpayer will be. Under the minimum tax husband and wife receive an exemption of $500 each, or a total of $1,000, if they file separate returns, but only one $700 exemption if they file a joint return. Under the regular income tax, their exemption is still $500 each, or a total of $1,000, on separate returns, but is $1,200 on a joint return. 1/ In other words, the minimum tax exemption will be smaller under a joint return than under separate returns, thus offering an inducement to file separate returns. The regular tax exemption, on the other

1/ None of the $500 exemption allowed on a separate return may be shifted from one spouse to the other under either the minimum or the regular tax.

hand, will be greater under a joint return than under separate returns, thus offering an inducement to file joint returns. By setting the credit for dependents at $100 for the minimum tax in contrast with $350 for the regular tax, the House Bill further complicates the choice between joint and separate returns.

The large number of variables injected by the House Bill will force husband and wife who both receive income to compute a series of alternative taxes to ascertain their lowest possible liability. I should like to cite an example which brings home more forcibly than any lengthy explanation the nature of the compliance burden imposed on these taxpayers. The example is that of a married couple with three children and a net income of $2,125, of which the husband receives $1,250 and the wife, $875. Using Form 1040, this couple could reach five different tax results. This would involve nine separate tax computations. These computations are necessary to determine the maximum tax advantage under (1) joint or separate returns and (2) different divisions of the dependents between husband and wife. (See illustration in Appendix B.) To be absolutely certain that they have arrived at their lowest possible tax, this couple would also have to make nine tax determinations on the short form (1040A). The actual case in which 18 tax computations would be made to ascertain the lowest tax would be rare. But the mere fact that such cases can occur and that a problem similar in kind, if not in degree, will be faced by many taxpayers is a serious indictment of this phase of the House Bill.

With such extreme complexity established beyond any doubt, the question might still arise (a) whether the number of necessary tax computations is much larger than under present law, (b) whether the tax differentials involved are substantial, and (c) whether many taxpayers will be affected.

(a) There is no incentive under present law for married persons with small incomes to file separate returns, and the problem of allocating dependents is thereby avoided.

(b) The illustration in Appendix B shows that the tax differentials under the various procedures for computing the tax can be very substantial. On the modest income of $2,125 in the example cited, the tax liability computed on Form 1040 ranges from $24.75 under the most advantageous method to $174.75 under the least advantageous method of filing.

(c) Estimates indicate that the House Bill will confront well over 10 million married couples with the choice between joint and separate returns. Under that bill it is estimated that 10.7 million joint returns will be filed for 1944. 1/ In addition, a number of separate returns will

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1/ Under present law, 8.2 million joint returns are expected, while under the Treasury integration proposal, the figure would be 6.7 million.

also be filed by married couples where both receive income. The great majority of millions of married couples will decide to file either joint or separate returns only after making difficult, time-consuming comparisons.

(3) Decreased use of the simplified return

Another undesirable by-product of the House bill is that it would in effect deny the use of the simplified form (1040A) to many taxpayers now able to use that form. Husband and wife may use Form 1040A as a separate return as long as both use it and neither has more than $3,000 of gross income. The House Bill, by providing married couples with a $1,200 exemption if they file joint returns but a combined exemption of only $1,000 if they file separate returns, places a premium on joint returns. As a result, many married persons with combined gross incomes between $3,000 and $6,000, who now file separate returns on Form 1040A, will be penalized by a $200 reduction in exemption if they continue to use Form 1040A. Plainly, they will turn to the more complicated Form 1040. Since it is desirable to extend rather than restrict the use of the simplified form, this effect of the House Bill is unfortunate.

(4) Complication of the withholding process

In addition to complicating tax returns and the filing process, H. R. 3687 complicates collection at the source and raises new problems for employers. Many employers withhold on the "exact" basis instead of by wage brackets, either to approximate the final liability more closely or because their mechanical equipment requires the use of the exact computation. Since the Victory tax exemption is $624 regardless of family status, present law requires the employer to apply only one set of exemptions varying with family status. But under the House Bill the minimum tax will also have variable exemptions. Employers will thus be confronted with two sets of varying exemptions, as well as two tax rates, in determining how much to withhold.

The problem of year-end refunds and additional tax payments is also aggravated. 1/ Husbands and wives filing separate returns have fixed exemptions of $500 each. No shift of part of the exemption from one to the other is permitted as under present law. Situations will frequently

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1/ The Treasury has recommended changes in the withholding procedure that would minimize the problem of year-end refunds and additional tax payments. The Treasury proposed that withholding be applied on a graduated basis to the taxpayer's full liability rather than merely to his partial liability under the normal tax and the first bracket of surtax. It also proposed narrower withholding brackets to adjust amounts withheld more closely to actual tax liabilities.

arise, therefore, where one spouse is entitled to a refund and the other is subject to additional tax. Yet, because the exemption is fixed at $500, the opportunity that exists today for canceling out the refund and the additional liability is removed. For example, if the wife works part of the year but does not take any of the withholding exemption, she is entitled to a refund. The husband, who takes the entire withholding exemption, will probably have to pay additional tax. But even if the wife's refund is equal to or greater than the husband's remaining liability, there is no way of shifting the personal exemption and thus offsetting one against the other. He will have to pay the tax and she will have to wait for a refund.

(5) Complication of the administrative process

The House Bill also makes heavy demands upon administration. For 1944, it will require the filing and processing of 41.7 million returns, representing 52.4 million taxpayers, in contrast with the Treasury proposal, which would require only 36.5 million returns representing 43.2 million taxpayers. 1/ The House Bill, like the present law, requires millions of returns from persons in those income brackets in which the ratio of administrative effort to tax proceeds is highest. Moreover, the complexity and confusion generated by the double exemptions and computations and by the involved choice between joint and separate returns will inevitably burden administration. Both in terms of the taxpayers who will throng the collectors' offices for help, and in terms of the volume of errors that taxpayers will make, the House Bill magnifies the problems of administration.

c. Contrast of House Bill with Treasury integration proposal from the standpoint of simplicity

The contrast between the House Bill and the Treasury proposal on the score of simplicity is complete. What the House Bill gains in removing the Victory tax, it loses in introducing the minimum tax. It retains the complexities of a double tax system and adds special vagaries of its own. It burdens administration with new problems at a time when it is still faced by the enormous task of adjusting itself to current collection. Worst of all, it will require taxpayers to struggle with the new minimum tax concept even before they finish hurdling the Victory tax barrier.

Under the Treasury proposal, on the other hand, there would be no double tax base, no double exemptions, and no multiple choices and computations. Administration would be simplified by dropping the Victory tax. Similarly, withholding would be simplified by dropping the minimum

1/ Under present law the figures would be 44.1 million returns and 52.3 million taxpayers.

withholding feature necessary to guarantee collection of the Victory tax. Most important, compliance would be simplified. Taxpayers could face the prospect of filing their necessarily complicated annual return next March with the assurance that future income tax returns would be both more understandable and simpler.

d. Tax increases and decreases under the House Bill and the Treasury integration proposal

Some contend that the Treasury proposal achieves simplicity at an excessively high cost in tax reduction for taxpayers in the lowest brackets and that the House Bill involves no corresponding cost. I should like to cite the facts refuting this contention.

The Treasury integration proposal would exempt entirely 9.1 million taxpayers who now pay a net Victory tax of $275 million. Including these, it would reduce taxes for 18 million taxpayers, the combined reduction totaling $436 million. The House Bill exempts only 130,000 taxpayers, but reduces taxes for a total of 26.2 million taxpayers; the aggregate reduction is $370 million, only $66 million less than the Treasury proposal. The Treasury proposal would increase liabilities for 34.4 million taxpayers, the increases totaling $711 million. The House Bill increases liabilities for 26.3 million taxpayers, the increases totaling $459 million. While the 9 million taxpayers who would be exempted under the Treasury proposal pay $275 million under present law, they would pay only $161 million under the House Bill. This figure of $161 million measures the reduction involved in their elimination from the income tax rolls.

Any integration plan will inevitably change liabilities of many taxpayers. The major concern should be that the changes meet the tests of simplicity and fairness. The Treasury changes meet these tests far better than the changes in H. R. 3687. While the Treasury integration proposal would reduce taxes only for taxpayers in the lowest brackets and subject to family responsibilities, the House Bill would apply reductions to taxpayers with incomes as high as $3,931 (married person with 2 dependents) and $4,572 (married person with 3 dependents). More important, the Treasury proposal would simplify the entire income tax structure in eliminating $275 million of tax for the 9 million taxpayers least able to pay and most expensive to tax. In contrast, the House Bill complicates that structure and multiplies the compliance burdens of over 50,000,000 persons merely to keep the 9 million taxpayers on the rolls, and to exact from them the relatively small sum of $161 million. It seems utterly unreasonable to erect a mountain of complexity for such a molehill of revenue.

e. Conclusion on simplification

Simplicity in income taxation implies both mechanical ease of compliance and understandability of the basic tax rules. The integration scheme in H. R. 3687 violates both of these standards. It has been amply

illustrated that the mechanical problems of compliance under the minimum tax may be even more burdensome than those associated with the Victory tax. But even assuming that master tables could be developed to cope with most of the mechanical complexities of the House Bill, the problem of simplicity would not be solved. The minimum tax and its relationship to the regular tax completely defy understanding on the part of the average taxpayer. A tax law which affects over 50 million people must be made understandable to them if it is to survive. It must be explainable to them over the radio, in the press, and through the mails. I might be able to visualize mechanical guides which would help taxpayers to stumble in robot fashion through income tax compliance under the House Bill. I cannot visualize an information campaign that could make this tax understandable to taxpayers generally.

Putting the minimum tax in its proper perspective, it is not an overstatement to say that its complexities will jeopardize the whole income tax system. Merely to collect $161 million from 9 million taxpayers near the bottom of the income scale, it endangers the collection of more than $17 billion from over 50 million taxpayers throughout the scale. The House Bill offers the American taxpayer a minimum tax "cure" that is worse than the Victory tax "disease". We cannot afford to disappoint the mass of taxpayers who have been promised relief from the complexities of our present dual tax structure. We cannot risk a breakdown in the mainstay of our Federal tax system in the midst of total war.

The question of Victory tax integration is of crucial importance. I am firmly convinced that the Treasury integration proposal would achieve real simplification at a modest and entirely reasonable cost.

2. Increase in Revenue

a. The Treasury proposal

Thus far, I have discussed only the Victory tax integration segment of the Treasury individual income tax proposal. The Treasury has also recommended as part of a $10.5 billion program of wartime taxes that an additional $6.5 billion of revenue be raised in individual income taxes. The surtax rate increases suggested to raise this revenue of course include the changes designed to absorb the Victory tax. Exhibit 5 appended to this statement shows the schedule of surtax rates proposed to the Ways and Means Committee on October 4, 1943. 1/ (See also Exhibits 6 and 7.)

1/ It will be seen from exhibit 5 that the Treasury is recommending that 4 separate surtax brackets of $500 each be substituted for the present first bracket of $2,000. This change enables a better adjustment of taxes to capacities to pay in the lower income brackets.

Two alternative schedules for raising approximately $6.5 billion of added income tax revenue are also attached for the convenience of your Committee (See Exhibits 8, 9 and 10). It will be seen that these alternative schedules would impose a heavier burden in the lower income brackets than the October 4 proposal. 1/

b. The House Bill

Revenue is only an incidental consideration in the income tax provisions of the House Bill. Those provisions will add $226 million to income tax revenues. Of this amount about $90 million is attributable to the changes made in connection with Victory tax integration. About $150 million is attributable to the disallowances of deductions for Federal import duties and miscellaneous excise and stamp taxes not otherwise deductible as business expenses. 2/ The other individual income tax changes made by the House Bill are of a technical character.

3. Answer to Criticisms of the Treasury Proposals for Higher Income Taxes

I should now like to examine with you some criticisms that have been made of the Treasury's affirmative income tax proposals. The three arguments I shall examine are (1) that the Treasury proposals would not bear heavily enough on the lower income brackets; (2) that the American people do not have the capacity to pay more income taxes, and (3) that income tax rates in 1944 will be confiscatory.

a. Tax burdens on the lower income groups

It is contended that persons with incomes of less than $5,000 are the major source of inflationary pressure and that these persons would escape their fair share of the additional tax load under the Treasury proposals. Although at 1944 levels of income about 81 percent of the

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1/ Persons with net incomes of less than $5,000 would pay $3.5 billion out of the total of $6.5 billion additional income tax under the Treasury proposal of October 4; $3.9 billion out of $6.7 billion under Alternative proposal A; and $4.4 billion out of $6.8 billion under Alternative proposal B.

2/ This disallowance was recommended by the Treasury. At present, the allowance of deductions under Section 23(c) is inconsistent and depends entirely on the legal language used in imposing the tax. For example, admissions taxes are allowed as deductions, but the cabaret tax is not. Uniformity in the matter of deductibility is desirable. Revenue, administrative, and equity considerations also suggest disallowance of these taxes in so far as they constitute personal expenses.

total cash income will be received by persons with incomes under $5,000, only 65 percent of the net income above income tax exemptions will be received by this group. Likewise, although 61 percent of total income will be received by persons with incomes under $3,000, only 39 percent of the net income above income tax exemptions will be received by this group.

Looking behind these aggregates to individual cases, we find that the margin of disposable income over and above wartime needs is very narrow for the millions of persons in the lower income brackets. Out of 67.3 million income recipients in the calendar year 1944, 58.2 million are expected to receive net incomes of less than $3,000. The average cash income per recipient before taxes will be $1,650, and after existing taxes, about $1,500. The demands of wartime living on incomes of this size leave little margin for additional taxes and afford few opportunities for inflationary spending.

Nevertheless, the urgent requirements of war finance demand that we tap even this small margin of disposable income. Under the Treasury proposal one-half of the income tax increases would fall on persons with net incomes of less than $5,000 and about one-fourth on persons with less than $3,000. Much the same proportions hold for the complete Treasury program, including proposed changes in corporation taxes and in excise taxes.

b. Capacity to pay

A second contention is that the American people do not have the capacity to pay additional income taxes. The facts contradict this contention. Individual incomes after personal taxes amounted to $65 billion in the fiscal year 1939 and are expected to amount to $126 billion in the fiscal year 1944. The corresponding figures before subtracting personal taxes are $68 billion and $148 billion. In other words, personal taxes show an increase of $19 billion while incomes before taxes show an increase of $80 billion. Less than one-fourth of the increase in annual income payments generated by defense and war activities is being absorbed by taxes.

In an attempt to prove that American taxes are too high, it is argued that taxes in the United States are higher in terms of dollars per capita than in the United Kingdom and Canada. 1/ This argument is, of course, grossly misleading, since it gives absolutely no indication of real burdens. How burdensome a given tax will be is determined by the ratio of the tax to the income from which the tax is paid. Personal incomes here are larger than in either Canada or Great Britain. Furthermore, the rates of income tax and excise taxes are higher in the Allied countries than here. Practically any citizen of the United States, if given the choice of paying

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1/ See Page 8, House Report No. 871 on the Revenue Bill of 1943.

American, Canadian, or British taxes, would choose the American tax system, since his tax here would be the lowest.

c. The argument of confiscation

In connection with the argument that taxes will exceed capacity to pay, it is contended that our existing income tax rates are confiscatory. Those who make this contention point to the combined burden of current taxes, uncanceled 1942 liabilities, and State income taxes. It is said that this combination will exceed 100 percent of income in 1944.

Such statements are grossly misleading. They ignore two facts. The first is that the Federal income tax allows for the deduction of State income taxes in computing net income. This deduction protects the taxpayer from a confiscatory combination of State and Federal taxes, even if the State tax does not permit the deduction of the Federal tax.

The second fallacy lies in comparing two years' taxes, or 1-1/8 year's taxes, with one year's income. The uncanceled part of the 1942 tax is in no sense a tax on 1944 income. This becomes entirely clear when it is realized that a person having no 1942 income has no uncanceled tax to pay in 1944, and would therefore not be covered by the schedules combining the two years' taxes. As a matter of fact, when the taxes for two years are combined with the net income for two years, as they should be, it becomes apparent that the 75 percent cancellation is a windfall which has made it easier, not harder, to pay taxes on 1944 income.

D. Corporation Taxes

The Treasury suggested to the Ways and Means Committee (a) that the surtax on larger corporations (those with net income in excess of $25,000) be increased by 10 percentage points and on smaller corporations by 4 percentage points; (b) that no change be made in the excess-profits-tax rates; and (c) that certain changes be made in the existing provisions for carry-back of losses and unused excess-profits credits. The Treasury proposals would increase corporate tax revenues by $1,138 million.

The bill passed by the House (a) makes no change in the surtax rate; (b) raises the excess-profits-tax rate to 95 percent; (c) reduces the excess-profits credit for some corporations by lowering the percentages allowed on invested capital; (d) raises the specific exemption for excess-profits taxes from $5,000 to $10,000; (e) makes no change in the carry-back of losses and unused excess-profits credits; and (f) provides special tax treatment for certain natural resources industries. 1/ The House Bill

1/ A comparison of corporation income and excess-profits tax rates is shown in Exhibit 11.

increases corporate tax revenues by $468 million. I should like to discuss these matters in detail.

1. Comparative Effects of Increases in Surtax and Increases in Excess-Profits Tax

Unlike an increase in surtax rates, which would increase the net tax liability (after postwar credit) of all taxpaying corporations, the increase in the excess-profits-tax rate under H. R. 3687 will increase liabilities for comparatively few corporations. Corporations not subject to the excess-profits tax and those already subject to the 80 percent ceiling on corporate taxes will have no added tax to pay. Of 263,000 taxable corporate returns estimated for 1944, 71,000, or about 27 percent will be subject to excess-profits tax. Moreover, the 80 percent ceiling will apply to 4,300 corporations or approximately 6 percent of all excess-profits taxpayers. This 6 percent, however, will pay about 40 percent of total excess-profits taxes in 1944. An additional 3,200 corporations will become subject to the 80 percent ceiling as a result of the 5 percentage-point increase in the excess-profits tax rate. The effect will be to limit still further the range of corporations to whom the full increase would apply. It would apply only to the residual class, namely, corporations that pay excess-profits taxes, but will not become subject to the 80 percent tax ceiling.

In contrast with the House Bill, the Treasury proposal would increase the net liability of all corporations. For those subject to the 80 percent ceiling, an increase in the surtax would mean a decrease in the share of their 80 percent tax represented by excess-profits taxes. As a result, their postwar credit would be smaller and their net liabilities correspondingly larger, even though their gross tax payments were unaffected. For all other corporations, both the gross payment and the net liability would be increased.

From the foregoing analysis it is apparent on the one hand that the House Bill will not strike corporate profits generally, but only a restricted segment of corporate profits. On the other hand, it will not strike approximately one-half of the excess-profits, nor will it touch the most profitable corporations. To reach corporate profits generally, an increase in surtax rates would be necessary. To reach the bulk of excess-profits and the most profitable corporations, added excess-profits taxes would have to be coupled with an upward revision of the 80 percent limitation.

Because of its broad coverage, the corporate surtax affords an instrument for tapping war profits that are not defined as excess profits in our tax law. At best, it is extremely difficult to single out excess profits and war profits by legal definition. An excess-profits tax cannot be a perfect instrument; a 90 percent or a 95 percent excess-profits-tax rate does not mean that the Government will recapture 90 or 95 percent

of the war profits of corporations. In the area labelled "normal profits" there are bound to be some war profits. For example, many corporations with large invested capital but low normal earnings, receive substantial war profits without becoming subject to excess-profits taxes. The same is true of corporations with high base-period earnings now engaged in the production of war materials. Other corporations have had their excess-profits tax liabilities substantially reduced by the special relief provisions in the tax law. Still others will ultimately have a substantial proportion of their excess-profits taxes refunded to them under the operation of the carry-back provisions. The surtax thus offers greater assurance that all corporations which have benefited from the war will make an additional tax contribution.

A further reason in favor of a surtax-rate increase, as distinguished from an excess-profits-tax rate increase, may be found in the comparative effect on managerial profit incentives. Financial incentives to efficient management depend upon the number of cents the corporation retains out of each additional dollar of profit. The House Bill would increase the net tax (after postwar credit) on each dollar of excess-profits from 81 to 85-1/2 cents. Under the Treasury proposal for an increase in surtax rates, not more than 50 cents would ordinarily be taken out of each dollar of normal profits, and the present figure of 81 cents for excess profits would not be touched. 1/ The increase in surtax proposed by the Treasury is less likely to impair financial incentives than would an increase in the excess-profits-tax rate. With corporate rates at their present levels, the impact on incentives cannot be ignored in making tax decisions.

The Treasury agrees that our corporations should be kept "in a sound financial condition so that they may be able to convert to peacetime production and provide employment for men leaving the armed forces after the war." 2/ But figures on corporate earnings, dividends, and accumulations make it clear that added taxes can be levied without unduly burdening profits and profit incentives, and without impairing the sound financial condition of corporations generally. Corporate profits (excluding dividends received) will reach an estimated level of $22.6 billion for 1943. This is more than four times the corporate profits for the year 1937, one of the most prosperous years of the Thirties. Taxes have also risen sharply during this period, both because of increases in corporate income and because of increases in rates. But they have failed to keep pace with earnings. In 1937 corporations had left less than $4 billion, after paying $1-1/4 billion of taxes. In 1943 corporations will have left nearly $9.2 billion, even after paying $13.5 billion of taxes. In 1944 corporate profits after taxes at present rates are expected to reach $9.9 billion, or three times the average annual profits after taxes from 1936 through 1939.

1/ Corporations with income between $25,000 and $50,000 will, of course, be subject to higher marginal surtax rates as a result of the notch provision.

2/ See Page 5, House Report No. 871 on the Revenue Bill of 1943.

Figures on dividends and undistributed profits are also impressive.1/ Average dividends from 1936 to 1940 were $4.1 billion, 1937 being the peak year, when $4.8 billion were distributed. 2/ In spite of war taxes, dividends for 1941, 1942, and 1943 are estimated at $4.5 billion, $4.1 billion, and $4.0 billion, respectively. It is estimated that even after paying taxes and dividends, American corporations will accumulate over $12 billion of undistributed profits for the three years 1941, 1942, and 1943.

Recent studies show that liquid assets of corporations have risen even faster than retained earnings. Non-financial corporations increased their holdings of currency, bank deposits, and United States Government securities by $12 billion during the two years 1941 and 1942 according to an estimate prepared by the Securities and Exchange Commission. If the accumulation of liquid assets in the first half of 1943 should continue at the present rate through the year, the total increase would be $25 billion for the three years 1941, 1942, and 1943. A study just released by the Federal Reserve Board indicates that business deposits, both corporate and non-corporate, totalled $30 billion on July 31, 1943.

It is recognized that the combined corporate and individual taxes on dividend income are higher in this country than in England and in Canada, and that steps must be taken after the war to relieve corporate stockholders of their disproportionate tax burden. However, so long as the war continues and corporations generally are able to maintain present abnormally high levels of earnings, the discrimination against this class of income recipient will continue to be more apparent than real. The taxation of the excessive profits of corporation imposes no real burden on corporate stockholders.

I have indicated why the Treasury prefers to raise additional revenue by means of an increase in surtax rather than an increase in excess-profits tax. However, if your Committee should decide in favor of an increase in the excess-profits-tax rate, the Treasury suggests an upward revision of the 80 percent limitation on corporate taxes. Without this revision the increase in excess-profits-tax rates will reach only a limited range of excess profits.3/

1/ See Exhibit 12.

2/ Dividend payments in 1936 and 1937 are generally conceded to have been abnormally high as a result of the undistributed profits tax in effect during those years.

3/ A revision of the 80 percent limitation will improve the relationship of net taxes payable by corporations not subject to the tax ceiling and those which are subject to the tax ceiling. In Appendix C to this statement, there are outlined three alternative methods of revising the 80 percent limitation to gain these advantages, which would still prevent net corporate taxes from exceeding 80 percent of net income.

2. Changes in Excess-Profits Tax Exemptions and Credits under the House Bill

The House Bill provides for an increase from $5,000 to $10,000 in the specific excess-profits-tax exemption. 1/ This provision, which was recommended by the Treasury last year, will distribute the excess-profits-tax burden more equitably between large and small business enterprises.

The profits of small business are likely to fluctuate more widely than profits of large business. Base-period earnings under the average-earnings method are, therefore, a less reliable index of normal earnings for small business than for large. An increase in exemption tends to avoid a penalty on normal fluctuations and earnings without forcing a resort to the relief provisions of Section 722.

Moreover, profits of small business are more likely to reflect a return on managerial efforts than a return on invested capital. Consequently, the increased exemption also aids small corporations using the invested capital base for determining excess profits.

The Treasury also agrees with the provisions reducing by one percentage point the invested capital credit in each of the brackets above $5 million. Invested capital is generally used as a base for computing excess-profits credits only by those corporations which earned a low rate of return during the base period. Where such earnings were abnormally low, corporations are protected by the remedy in Section 722. But corporations the base-period earnings of which were normally low should not be provided an escape from taxes on war-increased profits. Since a large invested-capital credit unrelated to base-period earnings tends to provide such an escape, the proposed reduction will reduce an unfair advantage gained by large corporations having a history of low normal earnings.

The proposed reduction of the invested capital credit will also reduce the advantage gained by large corporations on borrowed capital. Because 50 percent of borrowed capital is included in invested capital, corporations can get a tax advantage by borrowing at rates of interest below the percentages allowed on invested capital. The large corporation generally has a higher credit standing than the small and therefore gets larger tax benefits from borrowing than the small corporation. This advantage will be reduced by the reduction in percentage allowances on invested capital. 2/

1/ See Page 57, House Report No. 871 on the Revenue Bill of 1943.

2/ An illustration of the effect of borrowing on net income after taxes of an excess-profits taxpayer using the invested-capital credit will be found in Exhibit 13.

3. Specific Relief Measures in the House Bill

The House Bill provides special tax treatment for certain mine owners and operators. It extends percentage depletion and excess-profits-tax exemption to several minerals as a means of stimulating their wartime production. In so far as these fall within the category of strategic minerals designated by the War Production Board, the Treasury concurs with tax measures which will accelerate their output. But for minerals not so designated it is believed that the proposed treatment is unwarranted. A further statement on the Treasury position is contained in Appendix D.

The House Bill also extends to the natural gas industry the special excess-profits-tax treatment now granted with respect to the accelerated output of depletable natural resources. In so far as this treatment is extended to non-producers of natural gas, this provision in the House Bill appears to be undesirable. This point is further developed in Appendix E. This appendix also contains a statement of the Treasury position with respect to the broadening of the excess-profits-tax relief for coal and iron miners and timber tracts.

Tax relief measures can serve very useful purposes. But unless they are handled very carefully, they may simply become tax loopholes. If tax relief is distributed without regard to need, it deprives the Government of much needed revenue, and distributes tax burdens inequitably among business enterprises. It must not be forgotten that reduction in the tax liabilities of especially favored taxpayers means increased tax burdens on all other taxpayers.

4. Acquisitions to Avoid Income or Excess-Profits Tax

At this point I would like to discuss one technical amendment which is of major importance. Section 115 of the House Bill is intended to curb the development of a public market in which alleged tax benefits may be bought and sold. The currently advertised schemes are designed to enable a taxpayer with large war profits to avoid income and excess-profits taxes by purchasing for such purpose a losing or defunct corporation having large current, past, or prospective losses, deficits, or large current or unused profits credits. The utilization and advertisement of such devices has disturbed responsible taxpayers and their attorneys who have refused to use these schemes. It is also disturbing to the Government in its effort to administer the revenue laws equitably and uniformly.

The amendment disallows the part of the deduction or credit involved in the tax avoidance device, but only if the acquisition of an interest in or control of a corporation or property has occurred on or after October 8, 1940, and then only if one of the principal purposes "for which (the) *** acquisition was made or availed of is the avoidance of *** tax by securing the benefit of" such deduction or credit. The amendment is directed solely

at those devices which distort or pervert the natural business relationship between a deduction or credit and the enterprise which produced it, and for the benefit of which the deduction or credit was provided by law. The gist of the distortion is the circumstance that such natural relationship has in whole or in part ceased, and that a taxpayer seeks to use the deduction or credit as an offset to the profits of an enterprise to which the deduction or credit does not bear a reasonable business relationship. The amendment in no way abridges the privilege of doing business in individual, partnership, or corporate form, or the privilege of filing a separate or a consolidated return, or any of the numerous choices which the structure of the tax system is intended to afford. But the amendment does operate whenever under any of these privileges or choices such a distortion or perversion of a deduction or credit appears. Hence the scope of the amendment in its field is precisely the same as that of Sections 45 and 141 of the present law, where analogous distortions or perversions have been frequently described by the Committee as "milking" or shifting of deductions and credits. The Treasury believes with the House that the amendment is a significant part of an equitable tax structure and that it is well adapted to accomplish its purpose.

E. Estate and Gift Taxes

In seeking sources of additional wartime revenue, we cannot afford to overlook estate and gift taxes. Increases in these taxes have not kept pace with tax increases generally. Small as their relative contribution to the total has been in the past, it has fallen during the war. Estate and gift tax collections for the fiscal year 1944 are expected to represent a smaller proportion of total tax receipts than at any time during the past 10 years. (See Exhibit 16.)

In a period when huge additional revenues are needed, the beneficiaries of estates and gifts should contribute their full share to the cost of the war along with other groups of taxpayers. Yet, relatively few estates are subject to tax, and rates in the lower and middle brackets continue to be moderate. The Treasury has, therefore, recommended that the estate tax exemption be reduced from $60,000 to $40,000 and that estate tax rates be raised. Corresponding increases in the gift tax are also suggested. For a comparison of rates and tax under the present law and the proposals, see Exhibits 14, 15 and 17. These changes would add $400 million to our revenues on a full-year basis.

The proposed changes in the estate and gift tax provisions should be permanent, rather than simply for the duration of the war. 1/

I should like to report to the Committee that the Treasury is now making an extensive study of all phases of estate and gift taxation. For example, we are investigating the possibility of integrating the estate and gift taxes and correlating them with the income tax. An advisory committee, comprising some of the leading tax practitioners in the estate and gift tax field, is aiding us in this study. It is hoped that the study will lead to recommendations which will simplify these taxes and make them more effective and more equitable. It is anticipated that this study will be completed before the Congress considers the next tax bill.

F. Excise Taxes

The Treasury recommended that an additional $2.5 billion be raised through increases in the rates and changes in the base of several existing excise taxes and through the enactment of two new excises. (See Exhibit 18.) It further recommended that the tax on transportation of property be repealed. In selecting specific items for heavier taxation and in setting the proposed rates, the Treasury gave careful consideration to the demand and supply conditions in affected industries and to the impact on producers and consumers. The $2.5 billion excise tax recommendation was designed to be a part of a balanced overall program.

Selected excises have much to commend them as a source of wartime revenue. They involve little increase in administrative machinery and compliance costs. At the same time, in most cases the higher levies would be shifted to consumers, thus avoiding undue burdens on business concerns. Since only a few non-essentials are affected, and since the

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1/ Two technical estate and gift tax provisions of the House Bill deserve comment. As passed by the House, the bill contains an estate tax amendment which provides that in valuing stock or securities the value of which cannot be determined by reference to bid and asked prices or to sales prices by reason of the absence of listing for sales, there shall be considered, in addition to all other factors, the value of stock or securities of comparable corporations which are listed on an exchange. It is believed that this amendment is highly undesirable because it can only lead to continuous, unnecessary and costly litigation, and harbors dangerous potentialities for imposing unjust tax burdens upon the recipients of closely held stock.

The House Bill also provides that in certain instances the appointment of a trustee, the vesting of discretion in a trustee as to the selection of beneficiaries or the distribution of benefits, or the exercise by a trustee of such discretion shall not be deemed a taxable gift. This provision is completely divorced from any reasonable classification of trusts and is enmeshed in ambiguities which can only produce manifold administrative difficulties and increase the litigation burden of taxpayers.

tax can be avoided or reduced by cutting consumption of the taxed items, the excises will not cause hardship for consumers.

Excise taxes are far superior to a sales tax. They involve only a small fraction of the administrative and compliance effort demanded by a sales tax. Second, they bear on non-essentials rather than necessities. Third, they support rather than jeopardize the Government's program to stabilize the cost of living.

For an elaboration of the points just made, I should like to refer you to Appendix F. This appendix also compares the Treasury excise tax proposals with the House Bill provisions, analyzes those provisions, and indicates why it is desirable to terminate excise tax exemptions on sales to the Federal Government, as recommended by the President.

G. The Sales Tax

The Treasury proposals do not include a general sales tax. I should like briefly to state the reasons for our decision.

The form of sales tax which would produce the most revenue and cause the least rupturing of price ceilings is the retail sales tax. The highest rate I have heard mentioned is 10 per cent. That is over three times as high as the rate now in force in any State.

A 10 per cent sales tax with no exemptions for necessities of life would raise at current sales levels about $6 billion, or about one-tenth of this year's estimated deficit.

Such a tax would be very harsh, especially on low income families with children. It is completely lacking in any relation to ability to pay because it hits families much harder than single individuals at the same income levels and it hits people with small incomes much harder than people with larger ones. Such a tax would be opposed to every principle of tax equity and would in my opinion interfere with the war effort.

There are many proponents of the sales tax who would agree with these criticisms and who propose to meet them by allowing exemptions of the necessities of life. Such exemptions would indeed improve the character of the tax, although they would still leave the discrimination against large families. However, the exemptions would quickly remove so much of the tax base as to leave little more than an empty shell.

The exemption of food would reduce the yield by $2.4 billion; the exemption of medicine would reduce the yield another $200 million; the exemption of clothing would reduce the yield by another $1.1 billion. Those exemptions do not include all of the necessities of life, but let us stop at that point. A sales tax with such exemptions would yield

about $2.6 billion. However, of that amount about $1.2 billion would come from goods and services already subject to Federal excise taxes. The ta x yields from the sale of these commodities can be increased or decreased by adjusting the excise tax rates. No sales tax is needed to produce revenue from them. All that is left after excluding such commodities is $1.4 billion. Nearly $600 million of the $1.4 billion would come from equipment, chemicals, and materials used in business and thus entering into the costs of doing business with resultant increases in the costs of doing business and in prices to the Government and to the public.

Most of the remaining $800 million tax would be on items that might properly be subject to sales taxation. It is hardly necessary to point out that the expenses to 2 1/2 million businessmen and increased costs to Government, as well as the use of precious manpower, would not be justified by yields of this kind when there are other methods of raising money at hand which do not call for heavy increases in costs of administration and compliance.

It is very doubtful whether a general sales tax without the exemption of necessities of life would really be helpful in financing the war or restraining inflationary price rises. The imposition of a substantial sales tax would almost surely be the signal for widespread demands for higher wages and farm prices which, if allowed, would result in large additional costs to Government and increases in the cost of living over and beyond the amount of the tax. These dangers are much greater in the sales tax than in excise taxes or income taxes. Excise taxes touch in only minor respects commodities that are necessities of life, while income taxes have personal exemptions which protect minimum living standands.

Personal exemptions could be introduced into the sales tax, but the inconvenience of distributing and using exemption coupons and the resultant reduction in revenue would be serious factors. Even the most simple sales tax would require the use of much precious manpower and machines by Government and business. It is doubtful whether that manpower and those machines could be secured without interfering with the war effort.

H. Renegotiation of Contracts

I think the agencies principally concerned may wish to present their views on the renegotiation provisions of the House Bill. However, I should like to present the Treasury position on one of the renegotiation provisions that vitally affects the revenue system. I refer to the provision permitting aggrieved contractors to secure a redetermination of excessive profits by the Tax Court of the United States. I think it cannot be too strongly emphasized that the choice of the Tax Court as a forum for renegotiation litigation is an unwise one. For many years it has been recognized that the volume and complexity of Federal tax cases require a specially qualified and skilled tribunal, such as the Tax Court, which

shall devote its entire time and efforts to their consideration and disposition. This need threatens to become even more pressing after the war. The inevitable accumulation of cases during the war and the development of many excess profits tax cases, particularly those arising under the general relief provisions of Section 722, make it obvious that the Tax Court faces a possible postwar crisis, without the addition of complex renegotiation-of-contracts issues to its calendar.

The renegotiation statute is not a taxing statute, but this proposal would tend to confuse renegotiation with taxes. It is also to be recognized that renegotiation cases, under the terms of the House amendments, will demand a large part of the time of any tribunal. Many issues will be presented, often difficult of proof; take for example the issue of a large contractor's efficiency or lack of it, which might occupy the Court for weeks. It seems inevitable that few cases will be susceptible of quick disposition.

It is my very firm conviction that if the trial of renegotiation cases is added to the task that will confront the Tax Court, the prompt collection of revenue will be impaired, the rights of the Government and of taxpayers will be prejudiced, and the deservedly high reputation of the Court may greatly suffer. Any impairment of the reputation and efficiency of the Court would constitute a most serious blow to the proper administration of the tax law.

I. Conclusion

This statement has dealt largely with the technical aspects of the Treasury proposals and the House Bill. I believed that I could be of most assistance to the Committee by concentrating on these aspects of the pending bill.

I have given special emphasis to simplificiation because of the crucial necessity of simplifying our tax laws. Unnecessary complications can put our entire wartime income tax program in jeopardy.

I hope that the Committee will not misunderstand my emphasis upon simplification and technical matters. Total war makes broad demands on our tax system. Present taxes do not meet these demands, either in terms of paying for the war as we go, or in terms of combatting inflation. The legacy of taxes at present levels will be not only a huge debt, but may also be a demoralized price structure both during and after the war. The growth of the public debt, and the imminence of inflation, force the conclusion that the Treasury's $10.5 billion additional revenue goal is much nearer the minimum than the maximum demanded by total war.

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EXHIBIT 1 -- Estimated Increase of Treasury Proposals Over Yield of Present Law

EXHIBIT 2 -- Estimated Tax Liability by Sources, Present Law and Proposals

EXHIBIT 3 -- Comparison of Combined Normal and Surtax Rates Under Present Law, Treasury Proposal to Integrate Victory Tax, and House Bill

EXHIBIT 4 -- Amounts of Individual Income Tax and Effective Rates Under Present Law, Treasury Proposal to Integrate Victory Tax, and House Bill

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EXHIBIT 5 -- Comparison of Surtax Rates Under Present Law and Proposal

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EXHIBIT 10 --To be Supplied later

EXHIBIT 11 --Comparison of Present and Proposed Corporation Income and Excess Profits Tax Rates

EXHIBIT 12 --Corporate Net Income, Income Taxes and Dividends, 1936-1944

EXHIBIT 13 --The Effect of Borrowing on Net Income After Taxes of an Excess-Profits Taxpayer Using the Invested-Capital Credit

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Exhibit 1

Estimated increase of the revenue program of the Treasury presented to the Committee on Ways and Means of the House of Representatives on October 4, 1943, over the yield of the present law assuming a full year of operations at levels of income estimated for the calendar year 1944

(In billions of dollars)

	Increase over present law 1/
Individual income tax: Increase surtax rates; reduce the personal exemption of married couples and heads of families to $1,100 and reduce the dependent credit to $300; repeal the Victory tax and repeal the earned income credit	6.53
Corporation income taxes: Increase surtax rates, the combined normal and surtax rate reaching a maximum of 50 percent as compared with the present maximum of 40 percent on corporations with income in excess of $50,000	1.14
Estate and gift taxes: Increase estate tax rates, reduce specific exemption from $60,000 to $40,000, and increase gift tax rates to three-quarters of the new and higher estate tax rates	.40
Excise taxes	2.51
Total increase	10.58

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1/ The net Victory tax after postwar credit, rather than the gross Victory tax, is contained in the yield of the present law.

Exhibit 2

Estimated tax liability under the Treasury proposal as presented to the Committee on Ways and Means of the House of Representatives on October 4, 1943, as compared with the tax liability under the present law for a full year of operation 1/

(In millions of dollars)

General and special accounts	Yield of tax program	Yield of present law	Increase or decrease (-) over yield of present law
1. Internal revenue:			
(1) Income and excess profits taxes:			
Corporation:			
Income 2/	5,872.7	4,734.6	1,138.1
Excess profits tax	10,888.8	10,888.8	--
Declared value excess profits tax	105.6	105.6	--
Total corporation (gross)	16,867.1	15,729.0	1,138.1
Less postwar credit	1,088.9	1,088.9	--
Total corporation (net)	15,778.2	14,640.1	1,138.1
Individual:			
Net income tax (gross)	23,892.1	14,105.5	9,786.6
Victory tax (gross)	--	5,324.1	- 5,324.1
Less postwar credit	--	- 2,066.0	2,066.0
Victory tax (net)	--	3,258.1	- 3,258.1
Total individual	23,892.1	17,363.5	6,528.5
Total income and excess profits taxes	39,670.3	32,003.6	7,666.6
(2) Miscellaneous internal revenue:			
Capital stock, estate, and gift taxes:			
Capital stock tax	400.0	400.0	--
Estate tax	902.1	522.4	379.7
Gift tax	62.1	40.2	21.9
Total capital stock, estate, and gift taxes	1,364.2	962.6	401.6
Taxes on commodities and services:			
Liquor taxes:			
Distilled spirits (domestic and imported) (excise tax) 2/ 3/	1,222.4	735.2	487.2
Fermented malt liquors 2/	714.5	504.0	210.5
Rectification tax 2/	11.5	11.5	--
Wines (domestic and imported) (excise tax) 2/	97.7	36.6	61.1
Special taxes in connection with liquor occupations	11.0	11.0	--
Container stamps	9.4	9.4	--
Floor stocks taxes	.6	.6	--
All other	1.6	1.6	--
Total liquor taxes	2,068.7	1,309.9	758.8
Tobacco taxes:			
Cigarettes (small) 2/	1,264.1	892.8	371.3
Tobacco (chewing and smoking) 2/	85.0	45.0	40.0
Cigars (large) 2/	99.5	31.7	67.7
Snuff	13.2	7.0	6.2
Cigarette papers and tubes	1.3	1.3	--
All other 2/	.1	.1	--
Total tobacco taxes	1,463.2	977.9	485.2
Stamp taxes:			
Issues of securities, bond transfers, and deeds of conveyance	25.0	25.0	--
Stock transfers	19.0	19.0	--
Playing cards 2/	7.5	7.5	--
Silver bullion sales or transfers	4/	4/	--
Total stamp taxes	51.6	51.6	--
Manufacturers' excise taxes:			
Gasoline	251.1	251.1	--
Lubricating oils	54.3	54.3	--
Passenger automobiles and motorcycles	.9	.9	--
Automobile trucks, busses and trailers	3.5	3.5	--
Parts and accessories for automobiles	25.0	25.0	--
Tires and inner tubes	40.0	40.0	--
Electrical energy	48.5	48.5	--
Electric, gas, and oil appliances	3.6	3.6	--
Electric light bulbs	5.0	5.0	--
Radio receiving sets, phonographs, phonograph records, and musical instruments	3.5	3.5	--
Refrigerators, refrigerating apparatus and air-conditioners	1.1	1.1	--
Business and store machines	2.8	2.8	--
Photographic apparatus	11.9	11.9	--
Matches	10.5	10.5	--
Luggage 5/	--	5.0	- 5.0
Sporting goods	2.0	2.0	--
Firearms, shells, pistols and revolvers	.8	.8	--
Candy and chewing gum	190.0	--	190.0
Soft drinks	177.0	--	177.0
Total manufacturers' excise taxes	831.5	469.5	362.0
Retailers' excise taxes:			
Jewelry, etc.	256.5	89.2	167.3
Furs	93.0	38.2	54.8
Toilet preparations	86.4	35.0	51.4
Luggage 5/, handbags, wallets, etc.	58.4	--	58.4
Total retailers' excise taxes	494.3	162.4	331.9
Miscellaneous taxes:			
Telephone, telegraph, radio and cable facilities, leased wires, etc.	152.7	121.2	31.5
Telephone bill	146.7	97.8	48.9
Transportation of oil by pipe line	14.5	14.5	--
Transportation of persons	354.5	141.8	212.7
Transportation of property	--	170.3 6/	- 170.3
General admissions	490.4	163.5	327.0
Cabarets, etc.	110.7	19.4	91.3
Club dues and initiation fees	11.3	6.2	5.1
Leases of safe deposit boxes	6.5	6.5	--
Use of motor vehicles and boats	115.5	115.5	--
Coconut and other vegetable oils processed 2/	2.0	2.0	--
Oleomargarine, etc., including special taxes and adulterated butter	3.1	3.1	--
Sugar tax	61.0	61.0	--
Coin-operated amusement and gaming devices	12.2	12.2	--
Bowling alleys and billiard and pool tables	28.8	1.8	27.0
All other, including repealed taxes 7/	1.2	1.2	--
Total miscellaneous taxes	1,511.1	938.0	573.2
Total taxes on commodities and services	6,420.4	3,909.3	2,511.1
Total miscellaneous internal revenue	7,784.6	4,871.9	2,912.7
(3) Employment taxes:			
Employment by other than carriers:			
Federal Insurance Contributions Act	2,799.0	2,799.0	--
Federal Unemployment Tax Act	207.0	207.0	--
Total	3,006.0	3,006.0	--
Taxes on carriers and their employees (Chap. 9, Subchap. B of the Internal Revenue Code)	262.7	262.7	--
Total employment taxes	3,268.7	3,268.7	--
Total internal revenue	50,723.6	40,144.2	10,579.3
2. Railroad unemployment insurance contributions	12.1	12.1	--
3. Customs	400.0	400.0	--
4. Miscellaneous receipts	581.0	581.0	--
Total yield, general and special accounts	51,716.7	41,137.3	10,579.3

Treasury Department, Division of Research and Statistics. November 29, 1943.

Note: Figures are rounded and will not necessarily add to totals.

1/ Estimates of the yield of the tax program and of present law are at levels of income estimated for the calendar year 1944.
2/ Collections for credit to trust funds are not included.
3/ These estimates are after allowances for drawbacks of $27.6 millions under the proposal and of $14.8 millions under present law.
4/ Less than $.05 million.
5/ The tax on luggage has been changed from a manufacturers' excise to a retailers' excise tax.
6/ Including the effects of H.R. 3338, Public Law 180, approved November 4, 1943.
7/ Includes collections from taxes on narcotics; taxes under the National Firearms Act; and the tax on hydraulic mining, all of which are effective currently. In addition includes collections from repealed taxes not reinstated by the Revenue Act of 1941 and collections from the following excise taxes repealed by the Revenue Act of 1942: Rubber articles, electric signs, optical equipment, and washing machines.

Exhibit 3

Comparison of combined normal and surtax rates under present law, under the proposal to integrate the Victory tax, and under H.R.3687 1/

Surtax net income (In thousands)	Present law 2/	Proposal to integrate Victory tax 2/	H. R. 3687 3/
0 - 2	19	22	23
2 - 4	22	25	26
4 - 6	26	29	30
6 - 8	30	33	33
8 - 10	34	37	37
10 - 12	38	41	41
12 - 14	42	45	46
14 - 16	46	49	50
16 - 18	49	52	53
18 - 20	52	55	56
20 - 22	55	58	59
22 - 26	58	61	62
26 - 32	61	64	65
32 - 38	64	67	68
38 - 44	67	71	72
44 - 50	69	74	75
50 - 60	72	77	78
60 - 70	75	80	81
70 - 80	78	84	84
80 - 90	81	87	87
90 - 100	83	90	90
100 - 150	85	92	92
150 - 200	87	93	93
Over 200	88	94	94

Treasury Department, Division of Tax Research
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1/ The present exemptions of $500 for a single person, $1,200 for a married couple, and $350 for each dependent are retained in H. R. 3687. Under the proposed integration plan, they are $500, $1,100, and $300, respectively. The earned income credit is eliminated under both H. R. 3687 and the proposed integration plan.

2/ Includes 6 percent normal tax. However, under present law the earned income credit reduces the normal tax rate by 0.6 percent with respect to earned net income up to $14,000.

3/ Includes 10 percent normal tax.

Exhibit 4 - Table 1

Amounts of individual income tax and effective rates under present law, under the proposal to integrate the Victory tax and under H. R. 3687

Single person - no dependents

Exemptions: Present law - $500

Proposal - $500

Net income before personal exemption	Amounts of tax				Effective rates			
	Present law, including net Victory tax 1/	Proposal to integrate Victory tax	Increase: Proposal to integrate Victory tax	Increase: H.R. 3687	Present law, including net Victory tax 1/	Proposal to integrate Victory tax	Increase: Proposal to integrate Victory tax	Increase: H.R. 3687
$ 600	$ 17	$ 22	$ 5	$ 6	2.8%	3.7%	.8%	1.0%
800	62	66	4	7	7.8	8.3	.5	.9
1,000	107	110	3	8	10.7	11.0	.3	.8
1,200	153	154	1	8	12.8	12.8	.1	.7
1,500	220	220	0	10	14.7	14.7	0	.7
1,700	265	264	-1	11	15.6	15.5	-.1	.6
1,900	310	308	-2	12	16.3	16.2	-.1	.6
2,000	333	330	-3	12	16.7	16.5	-.2	.6
2,300	401	396	-5	13	17.4	17.2	-.2	.6
2,500	446	440	-6	14	17.8	17.6	-.2	.6
3,000	574	565	-9	16	19.1	18.8	-.3	.5
4,000	829	815	-14	21	20.7	20.4	-.4	.5
5,000	1,105	1,085	-20	25	22.1	21.7	-.4	.5
10,000	2,783	2,735	-48	12	27.8	27.4	-.5	.1
25,000	10,644	10,445	-199	-14	42.6	41.8	-.8	-.1
50,000	28,058	27,550	-508	-73	56.1	55.1	-1.0	-.1
100,000	69,665	69,270	-395	245	69.7	69.3	-.4	.2
250,000	207,974	208,750	776	1,416	83.2	83.5	.3	.6
500,000	441,863	443,750	1,887	2,527	88.4	88.4	.4	.5
1,000,000	899,500 2/	913,750	14,250	500	90.0 2/	91.4	1.4	*

Treasury Department, Division of Tax Research

1/ Maximum earned income assumed. For Victory tax purposes, gross income is assumed to be ten-ninths of net income.

2/ Taking into account maximum effective rate limitation of 90 percent.

* Less than .05 percent.

Exhibit 4 - Table 2

Amounts of individual income tax and effective rates under present law, under the proposal to integrate the Victory tax and under H. R. 3687

Married person - no dependents

Exemptions: Present law and H.R. 3687 - $1,200
Integration proposal - $1,100

Net income before personal exemption	Amounts of tax					Effective rates				
	Present law, including net Victory tax 1/	Proposal to integrate Victory tax	H.R. 3687	Increase Proposal to integrate Victory tax	Increase H.R. 3687	Present law, including net Victory tax 1/	Proposal to integrate Victory tax	H.R. 3687	Increase Proposal to integrate Victory tax	Increase H.R. 3687
$ 600	$ 1	-	-	$ - 1	$ - 1	.2%	-	-	-.2%	-.2%
800	8	-	$ 3 2/	- 8	- 5	1.0	-	.4% 2/	-1.0	-.6
1,000	15	-	9 2/	- 15	- 6	1.5	-	.9 2/	-1.5	-.6
1,200	21	$ 22	15 2/	1	- 6	1.8	1.8%	1.3 2/	.1	-.5
1,500	79	88	69	9	-10	5.3	5.9	4.6	.6	-.7
1,700	123	132	115	9	- 8	7.2	7.8	6.8	.5	-.5
1,900	166	176	161	10	- 5	8.7	9.3	8.5	.5	-.3
2,000	188	198	184	10	- 4	9.4	9.9	9.2	.5	-.2
2,300	253	264	253	11	0	11.0	11.5	11.0	.5	0
2,500	297	308	299	11	2	11.9	12.3	12.0	.4	.1
3,000	405	418	414	13	9	13.5	13.9	13.8	.4	.3
4,000	647	665	668	18	21	16.2	16.6	16.7	.5	.5
5,000	894	915	928	21	34	17.9	18.3	18.6	.4	.7
10,000	2,467	2,513	2,536	46	69	24.7	25.1	25.4	.5	.7
25,000	10,035	10,079	10,196	44	161	40.1	40.3	40.8	.2	.6
50,000	27,075	27,106	27,460	31	385	54.2	54.2	54.9	.1	.8
100,000	68,584	68,730	69,280	146	696	68.6	68.7	69.3	.1	.7
250,000	206,858	208,186	208,732	1,328	1,874	82.7	83.3	83.5	.5	.7
500,000	440,747	443,186	443,732	2,439	2,985	88.1	88.6	88.7	.5	.6
1,000,000	899,000 3/	913,186	900,000 3/	14,186	1,000	89.9 3/	91.3	90.0 3/	1.4	*

Treasury Department, Division of Tax Research — November 29, 1943

1/ Maximum earned income assumed. For Victory tax purposes, gross income assumed to be ten-ninths of net income.

2/ Minimum tax.

3/ Taking into account the maximum effective rate limitation of 90 percent. * Less than .05 percent.

Exhibit 4 - Table 3

Amounts of individual income tax and effective rates under present law, under the proposal to integrate the Victory tax, and under H. R. 3687

Married person - two dependents
exemptions: Present law and H.R. 3687 - $1,200, $350
Integration proposal - $1,100, $300

Net income before personal exemption	Amount of tax					Effective rates				
				Increase					Increase	
	Present law including net Victory tax 1/	Proposal to integrate Victory tax	H.R. 3687	Proposal to integrate Victory tax	H.R. 3687	Present law including net Victory tax 1/	Proposal to integrate Victory tax	H.R. 3687	Proposal to integrate Victory tax	H.R. 3687
$ 600	$ 1	-	-	$ - 1	$ - 1	.2%	-	-	- .2%	- .2%
800	7	-	-	- 7	- 7	.9	-	-	- .9	- .9
1,000	14	-	3 2/	- 14	- 11	1.4	-	.3% 2/	- 1.4	-1.1
1,200	20	-	9 2/	- 20	- 11	1.7	-	.8 2/	- 1.7	- .9
1,500	29	-	18 2/	- 29	- 11	1.9	-	1.2 2/	- 1.9	- .7
1,700	35	-	24 2/	- 35	- 11	2.1	-	1.4 2/	- 2.1	- .6
1,900	42	$ 44	30 2/	2	- 12	2.2	2.3%	1.6 2/	.1	- .6
2,000	58	66	33 2/	8	- 25	2.9	3.3	1.7 2/	.4	-1.3
2,300	116	132	92	16	- 24	5.1	5.7	4.0	.7	-1.0
2,500	159	176	138	17	- 21	6.4	7.0	5.5	.7	- .8
3,000	267	286	253	19	- 14	8.9	9.5	8.4	.6	- .5
4,000	485	515	486	30	1	12.1	12.9	12.2	.8	*
5,000	730	765	746	35	16	14.6	15.3	14.9	.7	.3
10,000	2,208	2,291	2,277	83	69	22.1	22.9	22.8	.8	.7
25,000	9,574	9,713	9,762	139	188	38.3	38.9	39.0	.6	.8
50,000	26,392	26,662	26,935	270	543	52.8	53.3	53.9	.5	1.1
100,000	67,803	68,190	68,650	387	847	67.8	68.2	68.7	.4	.8
250,000	206,042	207,622	208,074	1,580	2,032	82.4	83.0	83.2	.6	.8
500,000	439,931	442,622	443,074	2,691	3,143	88.0	88.5	88.6	.5	.6
1,000,000	898,800 3/	912,622	900,000 3/	13,822	1,200	89.9 3/	91.3	90.0 3/	1.4	*

Treasury Department, Division of Tax Research,
November 29, 1943

1/ Maximum earned income assumed. For Victory tax purposes, gross income is assumed to be ten-ninths of net income.
2/ Minimum tax
3/ Taking into account maximum effective rate limitation of 90 percent.
* Less than .05 percent.

EXHIBIT 5

Comparison of individual surtax rate schedule under present law and proposal 1/

Surtax net income (In thousands)	Bracket rate		Total surtax cumulative	
	Present law	Proposal	Present law	Proposal
$ 0 - $ .5	13 %	21 %	$ 65	$ 105
.5 - 1	13	24	130	225
1 - 1.5	13	27	195	360
1.5 - 2	13	30	260	510
2 - 4	16	35	580	1,210
4 - 6	20	40	980	2,010
6 - 8	24	45	1,460	2,910
8 - 10	28	49	2,020	3,890
10 - 12	32	53	2,660	4,950
12 - 14	36	57	3,380	6,090
14 - 16	40	61	4,180	7,310
16 - 18	43	65	5,040	8,610
18 - 20	46	68	5,960	9,970
20 - 22	49	71	6,940	11,390
22 - 26	52	74	9,020	14,350
26 - 32	55	77	12,320	18,970
32 - 38	58	79	15,800	23,710
38 - 44	61	81	19,460	28,570
44 - 50	63	83	23,240	33,550
50 - 60	66	85	29,840	42,050
60 - 70	69	86	36,740	50,650
70 - 80	72	87	43,940	59,350
80 - 90	75	88	51,440	68,150
90 - 100	77	89	59,140	77,050
100 - 150	79	90	98,640	122,050
150 - 200	81	90	139,140	167,050
200 and over	82	90	-	-
Normal tax	6	6	-	-

Treasury Department, Division of Tax Research November 29, 1943

1/ Under the proposal, the Victory tax and earned income credit are eliminated. The proposed exemptions are $500 for a single person, $1100 for a married couple, and $300 for each dependent; under present law, the exemptions are $500, $1200, and $350, respectively.

Exhibit 6 - Table 1

Amounts of individual income tax and effective rates
under present law and proposal

Single person - No dependents

Exemptions: Present law - $500
Proposal - $500

Net income before personal exemption	Amounts of tax			Effective rates		
	Present law, including net Victory tax 1/	Proposal 2/	Increase	Present law, including net Victory tax 1/	Proposal 2/	Increase
$ 600	$ 17	$ 27	$ 10	2.8%	4.5%	1.7%
800	62	81	19	7.8	10.1	2.4
900	85	108	23	9.4	12.0	2.6
1,000	107	135	28	10.7	13.5	2.8
1,100	130	165	35	11.8	15.0	3.2
1,200	153	195	42	12.8	16.3	3.5
1,500	220	285	65	14.7	19.0	4.3
1,600	243	318	75	15.2	19.9	4.7
2,000	333	450	117	16.7	22.5	5.9
2,500	446	630	184	17.8	25.2	7.4
3,000	574	835	261	19.1	27.8	8.7
4,000	829	1,245	416	20.7	31.1	10.4
5,000	1,105	1,680	575	22.1	33.6	11.5
6,000	1,401	2,140	739	23.4	35.7	12.3
8,000	2,052	3,135	1,083	25.7	39.2	13.5
10,000	2,783	4,215	1,432	27.8	42.2	14.3
12,500	3,802	5,670	1,868	30.4	45.4	14.9
15,000	4,968	7,265	2,297	33.1	48.4	15.3
20,000	7,626	10,800	3,174	38.1	54.0	15.9
25,000	10,644	14,710	4,066	42.6	58.8	16.3
50,000	28.058	36,105	8,047	56.1	72.2	16.1
75,000	48,001	59,035	11,034	64.0	78.7	14.7
100,000	69,665	82,575	12,910	69.7	82.6	12.9
500,000	441,863	466,570	24,707	88.4	93.3	4.9
1,000,000	899,500 3/	946,570	47,070	90.0 3/	94.7	4.7
5,000,000	4,499,500 3/	4,786,570	287,070	90.0 3/	95.7	5.7

Treasury Department, Division of Tax Research — November 29, 1943

1/ Maximum earned income credit assumed. Victory tax net income assumed to be ten-ninths of net income.
2/ Victory tax and earned income credit eliminated.
3/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 6 - Table 2

Amounts of individual income tax and effective rates under present law and proposal

Married person - No dependents

Exemptions: Present law - $1,200
Proposal 1,100

Net income before personal exemptions	Amounts of tax: Present law including net Victory tax 1/	Amounts of tax: Proposal 2/	Amounts of tax: Increase	Effective rates: Present law, including net Victory tax 1/	Effective rates: Proposal 2/	Effective rates: Increase
$ 1,000	$ 15	-	$ -15	1.5%	-	-1.5%
1,250	29	$ 41	12	2.3	3.2%	1.0
1,500	79	108	29	5.3	7.2	1.9
1,750	134	180	46	7.7	10.3	2.6
2,000	188	255	67	9.4	12.8	3.4
2,250	242	335	93	10.8	14.9	4.1
2,500	297	417	120	11.9	16.7	4.8
2,750	351	504	153	12.8	18.3	5.6
3,000	405	594	189	13.5	19.8	6.3
4,000	647	999	352	16.2	25.0	8.8
5,000	894	1,409	515	17.9	28.2	10.3
6,000	1,173	1,864	691	19.6	31.1	11.5
8,000	1,780	2,829	1,049	22.3	35.4	13.1
10,000	2,467	3,885	1,418	24.7	38.9	14.2
15,000	4,533	6,867	2,334	30.2	45.8	15.6
20,000	7,100	10,356	3,256	35.5	51.8	16.3
25,000	10,035	14,230	4,195	40.1	56.9	16.8
50,000	27,075	35,571	8,496	54.2	71.1	17.0
75,000	46,955	58,477	11,522	62.6	78.0	15.4
100,000	68,584	82,005	13,421	68.6	82.0	13.4
500,000	440,747	465,994	25,247	88.1	93.2	5.0
1,000,000	899,000 3/	945,994	46,994	89.9 3/	94.6	4.7
5,000,000	4,499,000 3/	4,785,994	286,994	90.0 3/	95.7	5.7

Treasury Department, Division of Tax Research November 29, 1943

1/ Maximum earned income credit assumed. Victory tax net income assumed to be ten-ninths of net income.
2/ Victory Tax and earned income credit eliminated.
3/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 6 - table 3

Amounts of individual income tax and effective rates
under present law and proposal

Married person - two dependents

Exemptions: Present law - $1200, $350
Proposal - $1100, $300

Net income before personal exemption	Amounts of tax			Effective rates		
	Present law, including net Victory tax 1/	Proposal 2/	Increase	Present law, including net Victory tax 1/	Proposal 2/	Increase
$ 1,800	$ 39	$ 27	$ - 12	2.2%	1.5%	- .7%
2,000	58	81	23	2.9	4.1	1.2
2,300	116	165	49	5.0	7.2	2.1
2,500	159	225	66	6.4	9.0	2.6
3,000	267	384	117	8.9	12.8	3.9
4,000	485	753	268	12.1	18.8	6.7
5,000	730	1,163	433	14.6	23.3	8.7
6,000	979	1,588	609	16.3	26.5	10.2
8,000	1,553	2,523	970	19.4	31.5	12.1
10,000	2,208	3,555	1,347	22.1	35.6	13.5
12,500	3,144	4,962	1,818	25.2	39.7	14.5
15,000	4,207	6,489	2,282	28.0	43.3	15.2
20,000	6,693	9,912	3,219	33.5	49.6	16.1
25,000	9,574	13,750	4,176	38.3	55.0	16.7
50,000	26,392	35,037	8,645	52.8	70.1	17.3
75,000	46,209	57,919	11,710	61.6	77.2	15.6
100,000	67,803	81,435	13,632	67.8	81.4	13.6
500,000	439,931	465,418	25,487	88.0	93.1	5.1
1,000,000	898,800 3/	945,418	46,618	89.9 3/	94.5	4.7
5,000,000	4,498,800 3/	4,785,418	286,618	90.0 3/	95.7	5.7

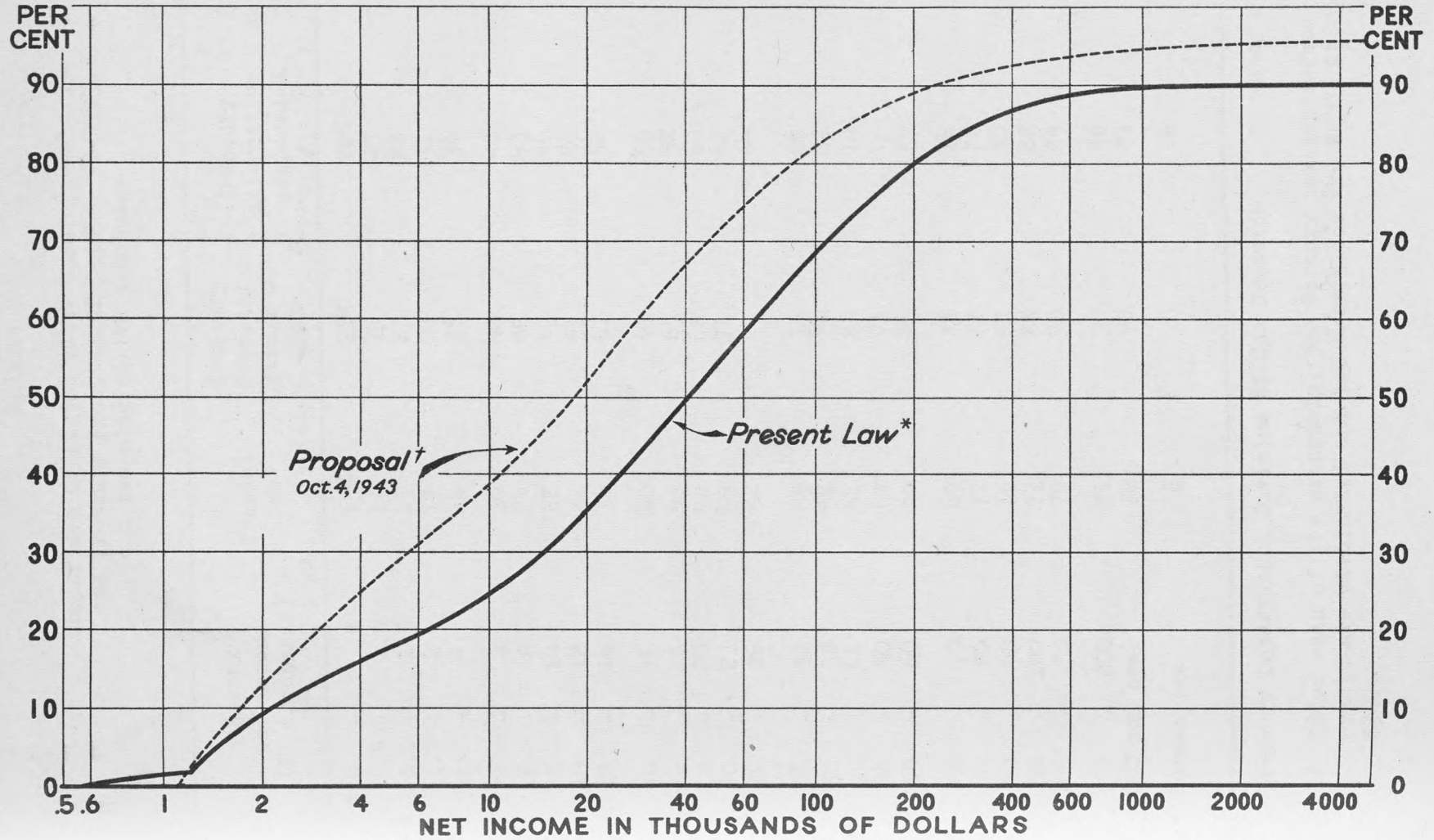
Treasury Department, Division of Tax Research November 29, 1943

1/ Maximum earned income credit assumed. Victory tax net income assumed to be ten-ninths of net income.
2/ Victory tax and earned income credit eliminated.
3/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 7

INDIVIDUAL INCOME TAX

Effective Rates for Married Person without Dependents



*Includes Net Victory Tax; net income assumed to be 90% of gross income.

†Exemptions $500-$1,100-$300; and net Victory Tax and earned income credit eliminated

Office of the Secretary of the Treasury
Division of Tax Research

B-450-1

Exhibit 8

Comparison of surtax rates under present law, the Treasury Proposal of October 4, 1943, and two alternative schedules 1/

Surtax net income (In thousands)	Present law	Treasury Proposal October 4, 1943	Treasury alternative proposal-A	Treasury alternative proposal-B
$ 0 - .5	13%	21%	22%	24%
.5 - 1.0	13	24	25	26
1.0 - 1.5	13	27	28	28
1.5 - 2	13	30	31	31
2 - 4	16	35	36	36
4 - 6	20	40	40	40
6 - 8	24	45	43	40
8 - 10	28	49	46	44
10 - 12	32	53	49	44
12 - 14	36	57	52	47
14 - 16	40	61	55	47
16 - 18	43	65	58	50
18 - 20	46	68	60	50
20 - 22	49	71	62	53
22 - 26	52	74	64	55
26 - 32	55	77	66	58
32 - 38	58	79	68	61
38 - 44	61	81	70	64
44 - 50	63	83	72	66
50 - 60	66	85	74	69
60 - 70	69	86	76	72
70 - 80	72	87	78	75
80 - 90	75	88	80	78
90 - 100	77	88	82	81
100 - 150	79	90	84	84
150 - 200	81	90	86	87
200 and over	82	90	87	88
Normal tax	6	6	6	6

Treasury Department, Division of Tax Research November 29, 1943

1/ Under each of the proposals, the Victory tax and earned income credit are eliminated and the exemptions are $500, $1,100, and $300.

Exhibit 9 - Table 1

Amounts of individual income tax under present law, the Treasury proposal of October 4, 1943, and two alternative schedules

Single person - no dependents
Exemptions: Present law - $500 Proposals - $500

Net income before personal exemption	Amounts of tax					Increase		
	Present law including Victory tax 1/	Treasury proposal Oct. 4, 1943	Treasury Proposal A	Treasury Proposal B	Treasury proposal Oct. 4, 1943	Treasury proposal A		Treasury proposal B
$ 500	-	-	-	-	-	-		-
600	$ 17	$ 27	$ 28	$ 30	$ 10	$ 11		$ 13
800	62	81	84	90	19	22		28
900	85	108	112	120	23	27		35
1,000	107	135	140	150	28	33		43
1,100	130	165	171	182	35	41		52
1,200	153	195	202	214	42	49		61
1,500	220	285	295	310	65	75		90
1,600	243	318	329	344	75	86		101
2,000	333	450	465	480	117	132		147
2,500	446	630	650	665	184	204		219
3,000	574	835	860	875	261	286		301
4,000	829	1,245	1,280	1,295	416	451		466
5,000	1,105	1,680	1,720	1,735	575	615		630
6,000	1,401	2,140	2,180	2,195	739	779		794
8,000	2,052	3,135	3,145	3,115	1,083	1,093		1,063
10,000	2,783	4,215	4,170	4,095	1,432	1,387		1,312
12,500	3,802	5,670	5,530	5,345	1,868	1,728		1,543
15,000	4,968	7,265	6,995	6,670	2,297	2,027		1,702
20,000	7,626	10,800	10,180	9,425	3,174	2,554		1,799
25,000	10,644	14,710	13,620	12,410	4,066	2,976		1,766
50,000	28,058	36,105	32,280	29,345	8,047	4,222		1,287
75,000	48,001	59,035	52,650	48,650	11,034	4,649		649
100,000	69,665	82,575	74,230	69,770	12,910	4,565		105
500,000	441,863	466,570	444,205	443,235	24,707	2,342		1,372
1,000,000	899,500 2/	946,570	909,205	913,235	47,070	9,705		13,735
5,000,000	4,499,500 2/	4,786,570	4,629,205	4,673,235	287,070	129,705		173,735

Treasury Department, Division of Tax Research
November 29, 1943

1/ Maximum earned net income assumed. For Victory tax purposes, gross income is assumed to be ten-ninths of net income.

2/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 9 - Table 1a

Effective rates of individual income tax under present law, the Treasury proposal of October 4, 1943, and two alternative schedules

Single person - no dependents

Exemptions: Present law - $500 Proposals - $500

Net income before personal exemption	Effective rates: Present law including net Victory tax 1/	Effective rates: Treasury proposal Oct. 4, 1943	Effective rates: Treasury proposal A	Effective rates: Treasury proposal B	Increase: Treasury proposal Oct. 4, 1943	Increase: Treasury proposal A	Increase: Treasury proposal B
$ 500	-	-	-	-	-	-	-
600	2.8%	4.5%	4.7%	5.0%	1.7%	1.8%	2.2%
800	7.8	10.1	10.5	11.3	2.4	2.8	3.5
900	9.4	12.0	12.4	13.3	2.6	3.0	3.9
1,000	10.7	13.5	14.0	15.0	2.8	3.3	4.3
1,100	11.8	15.0	15.5	16.5	3.2	3.7	4.7
1,200	12.8	16.3	16.8	17.8	3.5	4.1	5.1
1,500	14.7	19.0	19.7	20.7	4.3	5.0	6.0
1,600	15.2	19.9	20.6	21.5	4.7	5.4	6.3
2,000	16.7	22.5	23.3	24.0	5.9	6.6	7.4
2,500	17.8	25.2	26.0	26.6	7.4	8.2	8.8
3,000	19.1	27.8	28.7	29.2	8.7	9.5	10.0
4,000	20.7	31.1	32.0	32.4	10.4	11.3	11.7
5,000	22.1	33.6	34.4	34.7	11.5	12.3	12.6
6,000	23.4	35.7	36.3	36.6	12.3	13.0	13.2
8,000	25.7	39.2	39.3	38.9	13.5	13.7	13.3
10,000	27.8	42.2	41.7	41.0	14.3	13.9	13.1
12,500	30.4	45.4	44.2	42.8	14.9	13.8	12.3
15,000	33.1	48.4	46.6	44.5	15.3	13.5	11.3
20,000	38.1	54.0	50.9	47.1	15.9	12.8	9.0
25,000	42.6	58.8	54.5	49.6	16.3	11.9	7.1
50,000	56.1	72.2	64.6	58.7	16.1	8.4	2.6
75,000	64.0	78.7	70.2	64.9	14.7	6.2	.9
100,000	69.7	82.6	74.2	69.8	12.9	4.6	.1
500,000	88.4	93.3	88.8	88.6	4.9	.5	.3
1,000,000	90.0 2/	94.7	90.9	91.3	4.7	1.0	1.4
5,000,000	90.0 2/	95.7	92.6	93.5	5.7	2.6	3.5

Treasury Department, Division of Tax Research — November 29, 1943

1/ Maximum earned net income assumed. For Victory tax purposes, gross income is assumed to be ten-ninths of net income.

2/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 9 - Table 2

Amounts of individual income tax under present law, the Treasury proposal of Oct. 4, 1943 and two alternative schedules

Married person - no dependents

Exemptions: Present law - $1,200
Proposals - $1,100

Net income before personal exemption	Amounts of tax				Increase		
	Present law including net Victory tax 1/	Treasury proposal, Oct. 4, 1943	Treasury proposal A	Treasury proposal B	Treasury proposal, Oct. 4, 1943	Treasury proposal A	Treasury proposal B
$ 1,100	$ 18	-	-	-	- $18	- $18	- $18
1,200	21	$ 27	$ 28	$ 30	6	7	9
1,500	79	108	112	120	29	33	41
1,600	101	135	140	150	34	39	49
1,800	144	195	202	214	51	58	70
1,900	166	225	233	246	59	67	80
2,000	188	255	264	278	67	76	90
2,500	297	417	431	446	120	134	149
3,000	405	594	613	628	189	208	223
4,000	647	999	1,028	1,043	352	381	396
5,000	894	1,409	1,448	1,463	515	554	569
6,000	1,173	1,864	1,904	1,919	691	731	746
8,000	1,780	2,829	2,851	2,839	1,049	1,071	1,059
10,000	2,467	3,885	3,858	3,795	1,418	1,391	1,328
12,500	3,437	5,316	5,200	5,045	1,879	1,763	1,608
15,000	4,533	6,867	6,632	6,352	2,334	2,099	1,819
20,000	7,100	10,356	9,784	9,089	3,256	2,684	1,989
25,000	10,035	14,230	13,200	12,044	4,195	3,165	2,009
50,000	27,075	35,571	31,812	28,913	8,496	4,737	1,838
75,000	46,955	58,477	52,146	48,164	11,522	5,191	1,209
100,000	68,584	82,005	73,702	69,248	13,421	5,118	664
500,000	440,747	465,994	443,647	442,671	25,247	2,900	1,924
1,000,000	899,000 2/	945,994	908,647	912,671	46,994	9,647	13,671
5,000,000	4,499,000 2/	4,785,994	4,628,647	4,672,671	286,994	129,647	173,671

Treasury Department, Division of Tax Research November 29, 1943

1/ Maximum earned income assumed. Victory tax net income assumed to be ten-ninths of net income.

2/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 9 - Table 2a

Effective rates of individual income tax under present law, the Treasury proposal of Oct. 4, 1943, and two alternative schedules

Married person - no dependents

Exemptions: Present law - $1,200
Proposals - $1,100

Net income before personal exemption	Effective rates				Increase		
	Present law including net Victory tax 1/	Treasury proposal, Oct. 4, 1943	Treasury proposal A	Treasury proposal B	Treasury proposal, Oct. 4, 1943	Treasury proposal A	Treasury proposal B
$ 1,100	1.6%	-	-	-	- 1.6%	- 1.6%	- 1.6%
1,200	1.8	2.3%	2.3%	2.5%	0.5	0.6	0.8
1,500	5.3	7.2	7.5	8.0	1.9	2.2	2.7
1,600	6.3	8.4	8.8	9.4	2.1	2.4	3.1
1,800	8.0	10.8	11.2	11.9	2.8	3.2	3.9
1,900	8.7	11.8	12.3	12.9	3.1	3.5	4.2
2,000	9.4	12.8	13.2	13.9	3.4	3.8	4.5
2,500	11.9	16.7	17.2	17.8	4.8	5.4	6.0
3,000	13.5	19.8	20.4	20.9	6.3	6.9	7.4
4,000	16.2	25.0	25.7	26.1	8.8	9.5	9.9
5,000	17.9	28.2	29.0	29.3	10.3	11.1	11.4
6,000	19.6	31.1	31.7	32.0	11.5	12.2	12.4
8,000	22.3	35.4	35.6	35.5	13.1	13.4	13.2
10,000	24.7	38.9	38.6	38.0	14.2	13.9	13.3
12,500	27.5	42.5	41.6	40.4	15.0	14.1	12.9
15,000	30.2	45.8	44.2	42.3	15.6	14.0	12.1
20,000	35.5	51.8	48.9	45.4	16.3	13.4	9.9
25,000	40.1	56.9	52.8	48.2	16.8	12.7	8.0
50,000	54.2	71.1	63.6	57.8	17.0	9.5	3.7
75,000	62.6	78.0	69.5	64.2	15.4	6.9	1.6
100,000	68.6	82.0	73.7	69.2	13.4	5.1	.7
500,000	88.1	93.2	88.7	88.5	5.0	.6	.4
1,000,000	89.9 2/	94.6	90.9	91.3	4.7	1.0	1.4
5,000,000	90.0 2/	95.7	92.6	93.5	5.7	2.6	3.5

Treasury Department, Division of Tax Research — November 29, 1943

1/ Maximum earned income assumed. Victory tax net income assumed to be ten-ninths of net income.

2/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 9 - Table 3

Amounts of individual income tax under present law, the Treasury proposal of Oct. 4, 1943, and two alternative schedules

Married person - two dependents

Exemptions: Present law - $1,200, $350
Proposals - $1,100, $300

Net income before personal exemption	Amount of tax				Amount of increase		
	Present law including net Victory tax 1/	Treasury proposal Oct. 4, 1943	Treasury proposal A	Treasury proposal B	Treasury proposal Oct. 4, 1943	Treasury proposal A	Treasury proposal B
$ 1,700	$ 35	-	-	-	-$35	- $35	-$35
1,800	39	$ 27	$ 28	$ 30	- 12	- 11	- 9
1,900	42	54	56	60	12	14	18
2,000	58	81	84	90	23	26	32
2,500	159	225	233	246	66	74	87
3,000	267	384	397	412	117	130	145
4,000	485	753	776	791	268	291	306
5,000	730	1,163	1,196	1,211	433	466	481
6,000	979	1,588	1,628	1,643	609	649	664
8,000	1,553	2,523	2,557	2,563	970	1,004	1,010
10,000	2,208	3,555	3,546	3,495	1,347	1,338	1,287
12,500	3,144	4,962	4,870	4,745	1,818	1,726	1,601
15,000	4,207	6,489	6,284	6,034	2,282	2,077	1,827
20,000	6,693	9,912	9,388	8,753	3,219	2,695	2,060
25,000	9,574	13,750	12,780	11,678	4,176	3,206	2,104
50,000	26,392	35,037	31,344	28,481	8,645	4,952	2,089
75,000	46,209	57,919	51,642	47,678	11,710	5,433	1,469
100,000	67,803	81,435	73,174	68,726	13,632	5,371	923
500,000	439,931	465,418	443,089	442,107	25,487	3,158	2,176
1,000,000	898,800 2/	945,418	908,089	912,107	46,618	9,289	13,307
5,000,000	4,498,800 2/	4,785,418	4,628,089	4,672,107	286,618	129,289	173,307

Treasury Department, Division of Tax Research — November 29, 1943

1/ Maximum earned income credit assumed. Victory tax net income assumed to be ten-ninths of net income.
2/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 9 - Table 3a

Effective rates of individual income tax under present law, the Treasury proposal of Oct. 4, 1943, and two alternative schedules

Married person - two dependents

Exemptions: Present law - $1,200, $350
Proposals - $1,100, $300

Net income before personal exemption	Effective rates				Increase		
	Present law including net Victory tax 1/	Treasury proposal Oct. 4, 1943	Treasury proposal A	Treasury proposal B	Treasury proposal, Oct. 4, 1943	Treasury proposal A	Treasury proposal B
$ 1,700	2.1%	-	-	-	- 2.1%	- 2.1%	- 2.1%
1,800	2.2	1.5%	1.6%	1.7%	- .7	- .6	- .5
1,900	2.2	2.8	2.9	3.2	.6	.7	.9
2,000	2.9	4.1	4.2	4.5	1.2	1.3	1.6
2,500	6.4	9.0	9.3	9.8	2.6	3.0	3.5
3,000	8.9	12.8	13.2	13.7	3.9	4.3	4.8
4,000	12.1	18.8	19.4	19.8	6.7	7.3	7.7
5,000	14.6	23.3	23.9	24.2	8.7	9.3	9.6
6,000	16.3	26.5	27.1	27.4	10.2	10.8	11.1
8,000	19.4	31.5	32.0	32.0	12.1	12.6	12.6
10,000	22.1	35.6	35.5	35.0	13.5	13.4	12.9
12,500	25.2	39.7	39.0	38.0	14.5	13.8	12.8
15,000	28.0	43.3	41.9	40.2	15.2	13.8	12.2
20,000	33.5	49.6	46.9	43.8	16.1	13.5	10.3
25,000	38.3	55.0	51.1	46.7	16.7	12.8	8.4
50,000	52.8	70.1	62.7	57.0	17.3	9.9	4.2
75,000	61.6	77.2	68.9	63.6	15.6	7.2	2.0
100,000	67.8	81.4	73.2	68.7	13.6	5.4	.9
500,000	88.0	93.1	88.6	88.4	5.1	.6	.4
1,000,000	89.9 2/	94.5	90.8	91.2	4.7	.9	1.3
5,000,000	90.0 2/	95.7	92.6	93.4	5.7	2.6	3.5

Treasury Department, Division of Tax Research — November 29, 1943

1/ Maximum earned income credit assumed. Victory tax net income assumed to be ten-ninths of net income.
2/ Taking into account maximum effective rate limitation of 90 percent.

Exhibit 11

Corporation income and excess profits tax rates

	Present law	Treasury proposal	H.R. 3687
1. Normal tax rates			
Normal tax net income			
Not over $25,000			
First $5,000	15%	No change	No change
Next 15,000	17%		
Next 5,000	19%		
Over $25,000 to $50,000 (notch)	$4,250 plus 31% of excess over $25,000		
Over $50,000	24%		
2. Surtax rates			
Surtax net income			
Not over $25,000	10%	14%	
Over $25,000 to $50,000 (notch)	$2,500 plus 22% of excess over $25,000	$3,500 plus 38% of excess over $25,000	No change
Over $50,000	16%	26%	
3. Combined normal and surtax rates			
Not over $25,000	25% to 29%	29% to 33%	
Over $25,000 to $50,000 (notch)	53%	69%	No change
Over $50,000	40%	50%	
4. Excess profits tax rates	90%	No change	95%

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Exhibit 12

Corporate net income, income taxes and dividends, 1936 - 1944

(In millions of dollars)

	Actual						Estimated		
	1936	1937	1938	1939	1940	1941 1/	1942 2/	1943 2/	1944
All returns									
1. Compiled net profit 3/	7,771	7,830	4,131	7,178	9,348	16,675	21,750	24,100	26,100
2. Net operating loss deduction 4/	--	--	--	--	123	330	350	600	500
3. Net income (line 1 minus line 2) 5/	7,771	7,830	4,131	7,178	9,225	16,345	21,400	23,500	25,600
4. Dividends received 6/	2,677	2,682	1,791	1,906	2,021	2,238	1,550	1,500	1,600
5. Tax-exempt interest 7/	724	741	732	763	783	809	800	800	700
6. Net income excluding dividends received and tax-exempt interest (line 3 minus line 4 minus line 5) 5/	4,370	4,407	1,608	4,508	6,421	13,298	19,050	21,200	23,300
7. Net income excluding dividends received (line 3 minus line 4) 5/	5,094	5,148	2,340	5,272	7,204	14,107	19,850	22,000	24,000
8. Compiled net profit excluding dividends received (line 1 minus line 4)	5,094	5,148	2,340	5,272	7,327	14,437	20,200	22,600	24,500
Income and excess profits taxes:									
9. Income tax	1,025	1,057	854	1,216	2,144	3,745	4,300	4,500	4,700
10. Undistributed profits tax	145	176	--	--	--	--	--	--	--
11. Excess profits tax (after deduction of entire postwar credit)	--	--	--	--	374	3,357	7,350	8,850	9,800
12. Declared value excess profits tax	22	43	6	16	31	64	100	100	100
13. Total income and excess profits taxes	1,191	1,276	860	1,232	2,549	7,166 8/	11,750 8/	13,450 8/	14,600 8/
14. Compiled net profit excluding dividends received, after taxes (line 8 minus line 13)	3,903	3,872	1,480	4,040	4,778	7,271	8,450	9,150	9,900
15. Net dividends paid 9/	4,703	4,832	3,222	3,841	4,068	4,463	4,100	4,000	4,100
16. Compiled net profit or loss excluding dividends received, after taxes and net dividends paid (line 14 minus line 15)	800*	960*	1,742*	199	710	2,808	4,350	5,150	5,800
17. Net income excluding dividends received, after taxes (line 7 minus line 13) 5/	3,903	3,872	1,480	4,040	4,655	6,941	8,100	8,550	9,400
18. Net income or deficit excluding dividends received, after taxes and net dividends paid (line 17 minus line 15) 5/	800*	960*	1,742*	199	587	2,478	4,000	4,550	5,300
Returns with net income									
1. Compiled net profit 3/	9,726	9,848	6,725	9,028	11,406	18,316	22,550	25,300	27,400
2. Net operating loss deduction 4/	--	--	--	--	123	330	350	600	500
3. Net income (line 1 minus line 2)	9,726	9,848	6,725	9,028	11,283	17,986	22,200	24,700	26,900
4. Dividends received 6/	2,504	2,515	1,625	1,779	1,852	2,092	1,350	1,300	1,400
5. Tax-exempt interest 7/	488	419	420	464	485	502	600	600	500
6. Net income excluding dividends received and tax-exempt interest (line 3 minus line 4 minus line 5)	6,734	6,915	4,680	6,785	8,946	15,391	20,250	22,800	25,000
7. Net income excluding dividends received (line 3 minus line 4)	7,222	7,334	5,100	7,248	9,431	15,894	20,850	23,400	25,500
8. Compiled net profit excluding dividends received (line 1 minus line 4)	7,222	7,334	5,100	7,248	9,554	16,224	21,200	24,000	26,000
Income and excess profits taxes:									
9. Income tax	1,025	1,057	854	1,216	2,144	3,745	4,300	4,500	4,700
10. Undistributed profits tax	145	176	--	--	--	--	--	--	--
11. Excess profits tax (after deduction of entire postwar credit)	--	--	--	--	374	3,357	7,350	8,850	9,800
12. Declared value excess profits tax	22	43	6	16	31	64	100	100	100
13. Total income and excess profits taxes	1,191	1,276	860	1,232	2,549	7,166 8/	11,750 8/	13,450 8/	14,600 8/
14. Compiled net profit excluding dividends received, after taxes (line 8 minus line 13)	6,031	6,058	4,240	6,016	7,005	9,058	9,450	10,550	11,400
15. Net dividends paid 9/	4,675	4,794	3,155	3,783	4,036	4,426	4,000	3,900	4,000
16. Compiled net profit excluding dividends received, after taxes and net dividends paid (line 14 minus line 15)	1,356	1,264	1,085	2,233	2,969	4,632	5,450	6,650	7,400
17. Net income excluding dividends received, after taxes (line 7 minus line 13)	6,031	6,058	4,240	6,016	6,882	8,728	9,100	9,950	10,900
18. Net income excluding dividends received, after taxes and net dividends paid (line 17 minus line 15)	1,356	1,264	1,085	2,233	2,846	4,302	5,100	6,050	6,900
Returns with no net income									
1. Compiled net loss or deficit 3/	1,955	2,018	2,594	1,850	2,058	1,641	800	1,200	1,300
2. Dividends received 6/	173	168	166	126	169	146	200	200	200
3. Tax-exempt interest 7/	236	322	312	300	299	307	200	200	200
4. Deficit, excluding dividends received and tax-exempt interest (line 1 plus line 2 plus line 3)	2,364	2,507	3,072	2,276	2,525	2,094	1,200	1,600	1,700
5. Deficit, excluding dividends received (line 1 plus line 2)	2,128	2,186	2,760	1,977	2,226	1,787	1,000	1,400	1,500
6. Net dividends paid 9/	27	38	67	58	32	37	100	100	100
7. Deficit, excluding dividends received after net dividends paid (line 5 plus line 6) 10/	2,155	2,223	2,827	2,035	2,258	1,824	1,100	1,500	1,600

Treasury Department, Division of Research and Statistics.

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Note: Figures are rounded and will not necessarily add to totals.
Source for years 1936-1941, Statistics of Income, Part 2.

(*) Compiled net loss or deficit.

1/ Preliminary figures.
2/ Estimates prepared in connection with the Statement by the President on the Summation of the 1944 Budget, released August 1, 1943.
3/ Compiled net profit (or loss) as defined in Statistics of Income, equals compiled receipts which include dividends received and tax-exempt interest, minus compiled deductions, which exclude net operating loss deduction.
4/ The first year's net loss allowed to be carried over is for a taxable year beginning on or after January 1, 1939; the first year in which this loss is allowed as a deduction is in a taxable year beginning on or after January 1, 1940.
5/ Cumulation of this item for the years 1940-1944 would involve double counting of net operating loss deduction: once in the year in which the net operating loss occurs, and once in the year to which it is carried forward.
6/ Dividends from domestic corporations subject to income taxation under the Federal tax law. This is the amount used for computation of dividends received credit.
7/ Includes both partially and wholly tax-exempt interest.
8/ Excludes the effect of the carryback of net operating losses and the carryback of unused excess profits credit.
9/ Dividends paid to stockholders other than domestic corporations; includes cash and assets other than corporation's own stock.
10/ Deficit corporations are liable for only the capital stock tax which is included as a deduction in compiled net profit or loss.

Exhibit 13

The effect of borrowing on net income after taxes of an excess-profits taxpayer using the invested-capital credit

A corporation with an invested capital of $5,000,000 earns $500,000. It is, therefore, subject to the excess-profits tax which it computes by using the invested-capital credit.

Assume that it borrows $100,000 at 3-percent interest and uses the funds for building up working capital, therefore, actually decreases its net profits before taxes by the amount of interest - $3,000. Yet, its net profits after taxes are increased by this debt. The computation is as follows, ignoring the specific excess profits exemption of $5,000.

Excess-profits tax	Before borrowing	After borrowing
Net income before taxes and before interest deduction	$500,000	$500,000
Interest deduction (50 percent)	0	1,500
Net income before taxes	500,000	498,500
Excess-profits credit:		
$5,000,000 x 8 percent	400,000	400,000
$100,000 x 7 percent (50 percent)	0	3,500
Total	400,000	403,500
Taxable excess profits	100,000	95,000
Excess-profits tax (81 percent)	81,000	76,950
Normal-tax and surtax		
Net income before taxes and before interest deduction	$500,000	$500,000
Interest deduction (100 percent)	0	3,000
Net income before taxes	500,000	497,000
Income subject to excess-profits tax	100,000	95,000
Taxable normal profits	400,000	402,000
Normal-tax and surtax (40 percent)	160,000	160,800
Total tax	241,000	237,750
Net income after interest and taxes	$259,000	$259,250

The taxpayer, therefore, gained $250 after taxes, merely by borrowing and increasing working capital.

This gain may be compared with the effect on net income after taxes if this taxpayer had used the average-earning credit. In this event, net income after taxes would have decreased by $570. The advantage to the corporation with the invested-capital credit is almost 1 percent of the loan.

EXHIBIT 14

Comparison of estate tax rate schedule under present law and proposal 1/

Net estate after specific exemption (000) 2/	Bracket rate		Total estate tax cumulative	
	Present law	Proposal	Present	Proposal
Not over $ 5	3%	5%	$ 150	$ 250
$ 5 - 10	7	8	500	650
10 - 15	11	12	1,050	1,250
15 - 20	11	16	1,600	2,050
20 - 30	14	20	3,000	4,050
30 - 40	18	24	4,800	6,450
40 - 50	22	28	7,000	9,250
50 - 60	25	31	9,500	12,350
60 - 70	28	34	12,300	15,750
70 - 100	28	37	20,700	26,850
100 - 150	30	40	35,700	46,850
150 - 200	30	43	50,700	68,350
200 - 250	30	45	65,700	90,850
250 - 300	32	48	81,700	114,850
300 - 350	32	51	97,700	140,350
350 - 400	32	54	113,700	167,350
400 - 450	32	57	129,700	195,850
450 - 500	32	60	145,700	225,850
500 - 600	35	63	180,700	288,850
600 - 700	35	66	215,700	354,850
700 - 800	35-37	69	251,700	423,850
800 - 900	37	72	288,700	495,850
900 - 1,000	37	75	325,700	570,850
1,000 - 1,250	39	78	423,200	765,850
1,250 - 1,500	42	79	528,200	963,350
1,500 - 2,000	45	80	753,200	1,363,350
2,000 - 2,500	49	80	998,200	1,763,350
2,500 - 3,000	53	80	1,263,200	2,163,350
3,000 - 4,000	56-59	80	1,838,200	2,963,350
4,000 - 5,000	63	80	2,468,200	3,763,350
5,000 - 6,000	67	80	3,138,200	4,563,350
6,000 - 7,000	70	80	3,838,200	5,363,350
7,000 - 8,000	73	80	4,568,200	6,163,350
8,000 - 9,000	76	80	5,328,200	6,963,350
9,000 - 10,000	76	80	6,088,200	7,763,350
Over 10,000	77	80	-	-

Treasury Department, Division of Tax Research November 29, 1943

1/ Before deduction of credit for State Death taxes.
2/ The specific exemption under present law is $60,000, under the proposal $40,000.

EXHIBIT 15

Amount of estate taxes and effective rates
under present law and proposal 1/

Net estate before specific exemption (000) 2/	Amount of tax			Effective rate		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in effective rates
$ 50	$ 0	$ 650	$ 650	-	1.3%	1.3%
60	0	2,050	2,050	-	3.4	3.4
80	1,600	6,450	4,850	2.0%	8.1	6.1
100	4,800	12,350	7,550	4.8	12.4	7.6
150	17,900	30,850	12,950	11.9	20.6	8.6
200	32,700	51,150	18,450	16.4	25.6	9.2
400	94,500	145,750	51,250	23.6	36.4	12.8
600	159,700	263,650	103,950	26.6	43.9	17.3
800	229,700	396,250	166,550	28.7	49.5	20.8
1,000	303,500	540,850	237,350	30.4	54.1	23.7
2,000	726,200	1,331,350	605,150	36.3	66.6	30.3
4,000	1,802,800	2,931,350	1,128,550	45.1	73.3	28.2
6,000	3,098,000	4,531,350	1,433,350	51.6	75.5	23.9
10,000	6,042,600	7,731,350	1,688,750	60.4	77.3	16.9
20,000	13,742,000	15,731,350	1,989,350	68.7	78.7	9.9
40,000	29,142,000	31,731,350	2,589,350	72.9	79.3	6.5
100,000	75,342,000	79,731,350	4,389,350	75.3	79.7	4.4

Treasury Department, Division of Tax Research November 29, 1943

1/ Before deduction of credit for State death taxes.
2/ The specific exemption under the present law is $60,000, under the proposal $40,000.

EXHIBIT 16

Estate and gift tax collections as a percent of net receipts

Fiscal years 1917-44

(Dollar amounts in millions)

Fiscal year	Estate tax	Gift tax	Total estate and gift taxes	Net receipts	Total estate and gift taxes as % of net receipts
1917	$ 6.1	-	$ 6.1	$ 1,124.3	.54%
1918	47.5	-	47.5	3,664.6	1.30
1919	82.0	-	82.0	5,152.3	1.59
1920	103.6	-	103.6	6,694.6	1.55
1921	154.0	-	154.0	5,624.9	2.74
1922	139.4	-	139.4	4,109.1	3.39
1923	126.7	-	126.7	4,007.1	3.16
1924	103.0	-	103.0	4,012.0	2.57
1925	101.4	$ 7.5	108.9	3,780.1	2.88
1926	116.0	3.2	119.2	3,962.8	3.01
1927	100.3	-	100.3	4,129.4	2.43
1928	60.1	-	60.1	4,042.3	1.49
1929	61.9	-	61.9	4,033.3	1.53
1930	64.8	-	64.8	4,177.9	1.55
1931	48.1	-	48.1	3,190.0	1.51
1932	47.4	-	47.4	2,005.7	2.36
1933	29.7	4.6	34.3	2,079.7	1.65
1934	104.0	9.2	113.2	3,115.6	3.63
1935	140.4	71.7	212.1	3,800.5	5.58
1936	218.8	160.1	378.9	4,116.0	9.21
1937	281.6	23.9	305.5	5,028.8	6.08
1938	382.2	34.7	416.9	5,854.7	7.12
1939	332.3	28.4	360.7	5,164.8	6.98
1940	330.9	29.2	360.1	5,387.1	6.68
1941	355.2	51.9	407.1	7,607.2	5.35
1942	340.3	92.2	432.5	12,799.1	3.38
1943	414.5	33.0	447.5	22,071.6	2.03
1944 (est.)	511.8	44.8	556.6	38,147.9	1.46

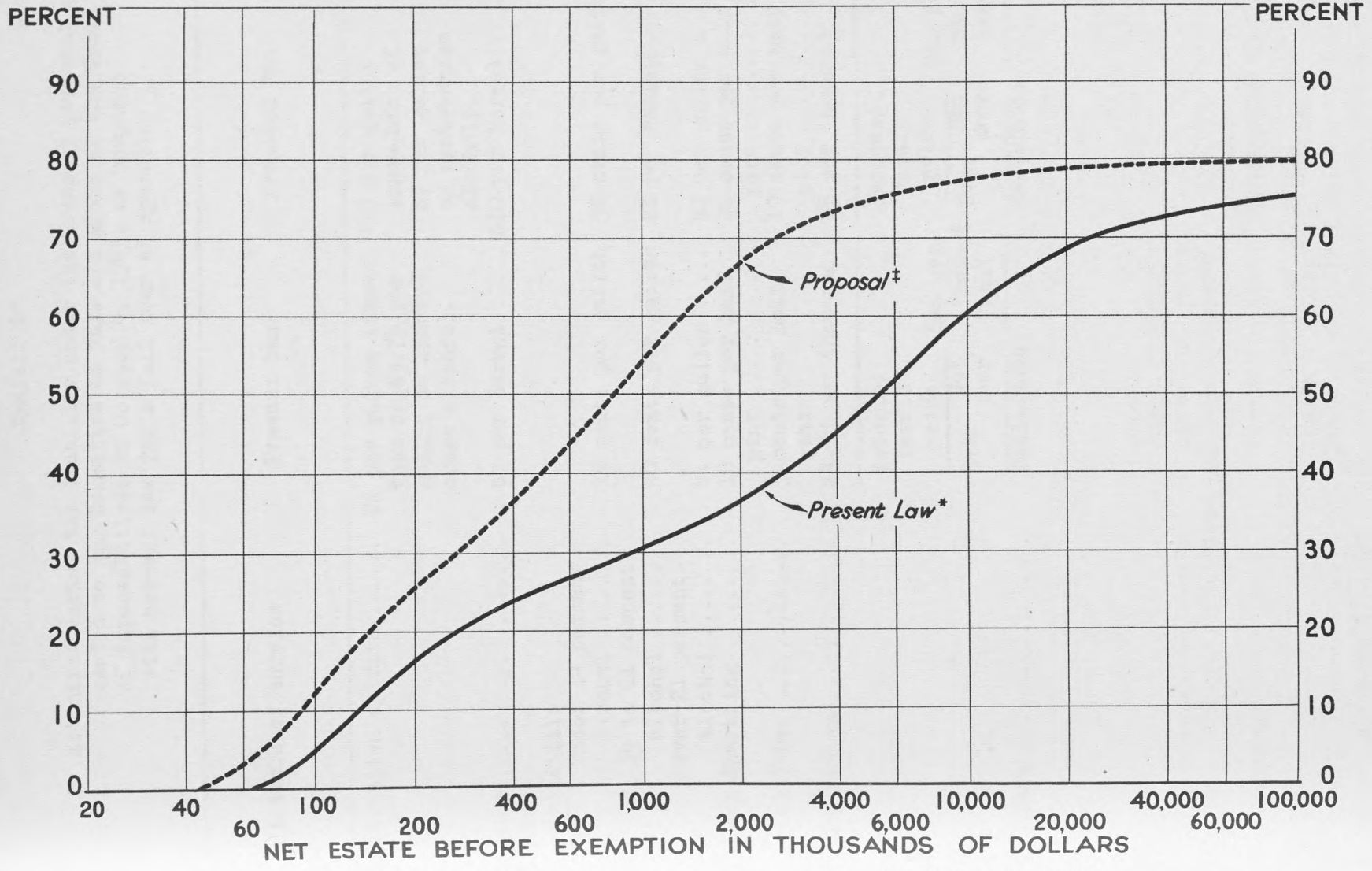
Treasury Department, Division of Tax Research November 29, 1943

Source: Annual Report of the Secretary of the Treasury, 1942 and Statement of the President on the Summation of the 1944 Budget, August 1943.

Exhibit 17

FEDERAL ESTATE TAX

Effective Rates, Before Credit for State Death Taxes



* Specific Exemption $60,000

‡ Specific Exemption $40,000

Office of the Secretary of the Treasury

Exhibit 18

Estimated excise tax liability under the Treasury proposal as presented to the Committee on Ways and Means of the House of Repesentatives on October 4, 1943, as compared with present law for a full year of operation 1/

Article of service	Present tax	Proposed tax	Estimated additional revenue from proposals (in millions) 1/
1. Distilled spirits	$6 per gallon (draw-back of $3.75 per gallon on nonbeverage alcohol).	$10 per gallon (draw-back of $7 per gallon on nonbeverage alcohol).	2/ $487.2
2. Beer	$7 per barrel	$10 per barrel	210.5
3. Wine:			
(a) Still:			
Under 14 percent alcohol	10 cents per gallon	50 cents per gallon	61.1
14 to 21 percent alcohol	40 cents per gallon	$1 per gallon	
Over 21 percent alcohol	$1 per gallon	$2 per gallon	
(b) Sparkling	10 cents per half pint	20 cents per half pint	
(c) Other	5 cents per half pint	10 cents per half pint	
4. Cigarettes	$3.50 per thousand.	$5 per thousand ...	371.3

Intended retail price- Over	Not over	Tax per thousand	Intended retail price- Over	Not over	Tax per thousand	
Cents	Cents		Cents	Cents		
5. Cigars						67.7
---	2½	$2.50	---	3½	$12.50	
2½	4	3.00	3½	5	13.00	
4	6	4.00	5	7	14.00	
6	8	7.00	7	9	17.00	
8	15	10.00	9	17	30.00	
15	20	15.00	17	22	35.00	
20	--	20.00	22	--	40.00	

6. Chewing and smoking tobacco and snuff.	18 cents per pound	24 cents per pound	46.2
7. General admissions	1 cent per 10 cents	3 cents per 10 cents	327.0
8. Cabarets	5 percent of charge	30 percent of charge	91.3
9. Club dues and initiation fees	11 percent of charge	20 percent of charge	5.1
10. Bowling alleys, billiard parlors	$10 per alley	20 percent of charge	27.0
	$10 per table	$20 per table	
11. Transportation of persons	10 percent of charge	25 percent of charge	212.7
12. Communications:			
(a) Toll service	20 percent of charge	.....do.....	
(b) Telegraph, etc.:			
(1) Domestic	15 percent of charge	20 percent of charge	3.15
(2) International	10 percent of charge	10 percent of charge	
(c) Leased wires, etc.	15 percent of charge	20 percent of charge	
13. Local telephone service	10 percent of charge	15 percent of charge	48.9
14. Jewelry	10 percent of retail price	30 percent of retail price	167.3
15. Fur and fur-trimmed articles	.....do.....	25 percent of retail price	
16. Luggage, handbags, wallets, etc.....	10 percent of manufacturers' sales price on luggage only.	.....do.....	53.4

Exhibit 18 (Continued)

Article or service	Present tax	Proposed tax	Estimated additional revenue from proposals (in millions) 1/
17. Toilet preparations...	10 percent of retail price.....	25 percent of retail price.....	51.4
18. Soft drinks.....	None.....	Bottled drinks, 1 cent per each 5 cents of intended retail price; the equivalent taxes of $1 per gallon on sirup and 25 cents per pound on carbonic acid gas used in unbottled soft drinks.	177.0
19. Candy and Chewing gum.	None.....	Articles intended to retail from 5 to 15 cents per bar or package, 1 cent per each 5 cents of intended retail price; other items, the equivalent tax of 35 percent of manufacturers' sales price.	190.0
Total additional revenue, items 1 to 19.....			2,681.4
20. Less repeal of tax on transportation of property.....			- 170.3 3/
Total additional revenue, items 1 to 20.....			$2,511.1

Treasury Department,
Division of Research and Statistics.

November 29, 1943

1/ Estimates of additional revenue are for a full year of operation at levels of business estimated for calendar year 1944.

2/ Estimated additional net revenue yield after allowance for increased drawback on nonbeverage alcohol of $12.8 millions.

3/ Including the effects of H. R. 3338, Public Law 180, approved November 4, 1943.

Inevitably we shall experience much greater financial sacrifice than we have thus far. Taxation now, during the war, is the easiest way to make that sacrifice.

In presenting our national fiscal problem to you, I have endeavored to perform the duty placed on the Secretary of the Treasury by law and tradition. I have endeavored to show you as objectively and as clearly as I can that a tax program of not less than $10.5 billion is needed to safeguard the financial and economic future of this country during the war and after the war.

From every point of view it is a minimum fiscal program in the light of the deficit, the accumulated debt, and the inflationary pressure.

In view of all these facts, the House Bill, in my opinion, falls far short even of an attempt to meet our fiscal needs in a realistic or courageous way.

Let us bear in mind that an essential part of fighting a war is paying for it in the right way at the right time. There is no escape from the costs of war. It is a great fallacy to suppose that we can fight history's greatest war to save what we hold most dear without financial sacrifice.

The budget revisions do not alter the fact that we can pay much higher taxes; they do not in any degree affect our moral obligation to meet now all of the costs of the war that can be met by current taxation; and they do not affect in significant degree the serious inflationary dangers that face us for the balance of this fiscal year, the succeeding fiscal years as long as the war shall last, and in the postwar period. Our tax goal, as I pointed out to the Ways and Means Committee, was the amount that we believed could be fairly distributed without undue sacrifice and hardship.

There is nothing in the new budget figures in our opinion to warrant reducing our goal below $10.5 billion of additional wartime taxes. If no one had originally expected more than a $57 billion deficit for the fiscal year 1944, the amount would appear tremendous, which it truly is. It is no less so because it represents a reduction from a previously estimated higher figure. $57 billion is equal to last year's record deficit, and is almost three times the deficit of 1942.

The Bureau of the Budget has just released estimates that total expenditures for the fiscal year 1944 which ends next June 30 will amount to $98 billion instead of the $106 billion in the estimate issued last August. It is understood that this decrease in expenditures represents a combination of changes in the war program and a delay in reaching the production goals of some items. Revenues were estimated at $41 billion instead of $38 billion. The over-all result of the revision is to reduce the previously expected deficit from $68 billion to $57 billion for the fiscal year 1944.

That means we cannot significantly relax our spending. I am not in sympathy with any measures or any proposal to cut expenditures in any way that will make our total production anything less than an all-out effort.

At the time I appeared before the Ways and Means Committee, I said that "while it may be possible, and I hope it is, to curtail some governmental expenditures, even that will not lessen our need for getting at this time all that the American people can possibly give us in additional taxation." That is still my position.

Perhaps the most superficially plausible and therefore the most insidious argument I have recently heard is that economy in governmental expenditures is a substitute for higher taxes. Economy is always an important objective and a tax bill makes it neither more nor less desirable. I am in complete and hearty sympathy with any measure that can be adopted to reduce governmental costs, to reduce even war costs so long as the reductions do not impair our war effort. But if we are to fight the war to a speedy conclusion we cannot relax our fighting or our production for war.

I think this would be a poor excuse to give to the returning soldier who will be interested to know what sacrifices we incurred at home to protect his future.

In fact, however, $10.5 billion of additional taxes would have very important effects on the deficit, the debt, and the inflationary pressure. In its direct effects on spending, in the renewed assurance it would give that the elected and appointed representatives of the people take the problems of the public debt seriously, and in the sobering influence it would have on public understanding of the true cost of the war, a $10.5 billion increase in taxes would be immensely beneficial.

There are few indeed who have followed with care the developments of the recent past who are not concerned over the possible breakdown of the stabilization program. Higher wartime taxes obviously cannot meet the danger alone but they are necessary if it is to be met.

I have also been told that some people have a defeatist attitude toward our fiscal problem. They argue that since the deficit is so large, the Government debt so huge, and the inflationary possibilities of surplus income and accumulated private savings so great, a few billion dollars more or less will not make a great deal of difference and that therefore we might as well avoid the unpopularity of imposing additional taxes.

I have been told that the American people do not believe in the dangers of inflation. I cannot believe that is true, but there may be a confusion of meaning. If by inflation is meant a situation where money becomes worthless, I agree that the danger now is not of that character. It is rather the danger of substantial and continuous and, at least in part, permanent rises in prices that would undermine standards of living, reduce the value of investments and impair the security we seek to achieve through savings and insurance. Unfortunately, lack of belief in the danger of inflation does not remove that danger.

But we cannot expect these controls to hold indefinitely in the face of a continued large surplus of income over goods and a great accumulation of spendable liquid wartime savings. Day after day, the continuous pressure of spending power has been cracking our price controls a little here and a little there and threatens to produce a major breakdown. We are courting danger if we do not do all that is possible through the tax mechanism to strengthen the foundations of our stabilization program.

If those who hold this surplus income try to spend it on consumer goods the inevitable result will be black markets, ruptured price ceilings, and substantial increases in the cost of living, followed by tremendous pressures for higher wages and farm prices, which will set in motion further forces in the spiral of inflation.

Up to this point spending has been held down and we have avoided disastrous price increases. We have done this through a variety of measures. Price ceilings and rationing, wage and salary stabilization, and the taxes already imposed have all had a restraining effect. The campaigns for the voluntary purchase of War Bonds with their emphasis on saving have been a strong influence in curbing spending.

The incomes of the American people are not only ample to pay much higher taxes. The spending power of these incomes is so great as to threaten rapid and burdensome increases in the cost of living. About half of American productive effort is going into war equipment and supplies for our armed forces. These products are not available for civilian consumption. Yet our people are being paid for all they produce. They thus have far more money to spend than there are goods on which to spend it. In the fiscal year 1944 this surplus of income over goods is expected to amount to about $36 billion after payment of personal taxes.

It is clear that we are not paying all the wartime taxes that we can and should pay. We are not now fighting an all-out war on the fiscal front. All the estimates of national income, by whomever made, bear eloquent testimony to the fact that the ability of the American people to pay increased taxes is far from being exhausted. In the fiscal year 1939 individuals had incomes, after personal taxes, of $65 billion. In the fiscal year 1944, it is estimated that individuals will have incomes of $126 billion, after allowance for all present taxes. That is, after paying taxes, incomes of people in the United States will have almost doubled since 1939.

In this situation if we pay in taxes any less than we can now afford to pay, we shall be unfair to those who must face the accumulated bill after the war has been fought and won. We shall be doing a particularly great injustice to the men who are fighting our battles on foreign soil. We shall not only be asking the 10,000,000 members of the armed forces to give the most important years out of their lives to fight the war. We shall also be requiring them as a large body of future taxpayers to pay in taxes after the war what we could and should have paid while they were fighting.

The outstanding fact in our financial picture is the stupendous bill which this war will leave behind. On that point there can be no quibbling. We are accumulating debt at the rate of over $150 million a day. Last month (October, 1943) the Federal Government spent $5.6 billion more than it collected in revenue. In the fiscal year 1942 the deficit was $21 billion, in 1943 it was $57 billion, and in 1944 it is expected to be $57 billion again. On the basis of any estimates we can now make, we foresee a public debt at the end of the present fiscal year of about $200 billion. On such a debt the interest charges alone will be close to $4 billion a year. As the war continues, the debt, the interest, and the problems of repayment will grow larger and larger.

Secretary's Statement,
Senate Finance Cmte.
Nov. 29, 1943

When I appeared before the Ways and Means Committee of the House on October 4 to present the Administration's suggestions for increased war taxes, I gave to that Committee as best I could a picture of the financial position of the nation and its wartime revenue needs. I stated that the fiscal situation required much heavier wartime taxation and that it was our opinion that the people could pay additional wartime taxes of at least $10.5 billion. The Ways and Means Committee and the House reached a different result and approved a bill increasing revenues by only $2 billion. In view of this wide difference on a matter so important to the present and future welfare of this nation, we have carefully reviewed the fiscal situation. I am appearing before you today to present our conclusions.

39-71

Statement of Secretary Morgenthau before the
Finance Committee of the
United States Senate

November 29, 1943.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 30, 1943.

Press Service
39-72

The Secretary of the Treasury announced last evening that the tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated December 2, 1943, and to mature March 2, 1944, which were offered on November 26, were opened at the Federal Reserve Banks on November 29.

The details of this issue are as follows:

Total applied for - $1,544,032,000
Total accepted - 1,006,307,000 (includes $63,543,000 entered on a fixed-price basis at 99.905 and accepted in full)
Average price - 99.905 Equivalent rate of discount approx. 0.375% per annum

Range of accepted competitive bids: (Excepting one tender of $10,000)

High - 99.925 Equivalent rate of discount approx. 0.297% per annum
Low - 99.905 " " " " " 0.376% " "

(61 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 17,705,000	$ 15,053,000
New York	1,144,478,000	690,244,000
Philadelphia	29,945,000	20,234,000
Cleveland	42,798,000	37,565,000
Richmond	14,191,000	11,578,000
Atlanta	19,180,000	18,818,000
Chicago	148,838,000	109,542,000
St. Louis	17,785,000	14,431,000
Minneapolis	5,140,000	5,062,000
Kansas City	17,857,000	17,038,000
Dallas	8,445,000	8,182,000
San Francisco	77,670,000	58,560,000
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Kansas City	17,857,000	17,038,000
Dallas	8,445,000	8,182,000
San Francisco	77,670,000	58,560,000
TOTAL	$1,544,032,000	$1,006,307,000

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39-73

FOR IMMEDIATE RELEASE,
November 30, 1943.

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	Quota Quantity (Pounds) 1/	Authorized for entry for consumption	
		As of (Date)	(Pounds)
Signatory Countries:			
Brazil	1,353,183,480	Nov. 20, 1943	171,490,961
Colombia	458,336,340	"	73,659,174
Costa Rica	29,100,720	"	1,696,892
Cuba	11,640,288	"	1,716,157
Dominican Republic	17,460,432	"	2,569,114
Ecuador	21,825,540	"	6,449,376
El Salvador	87,302,160	"	940,160
Guatemala	77,844,426	"	2,512,417
Haiti	40,013,490	"	1,379,318
Honduras	2,910,072	"	460,324
Mexico	69,114,210	"	3,582,062
Nicaragua	28,373,202	"	499,439
Peru	3,637,590	"	307,182
Venezuela	61,111,512	"	3,687,973
Non-signatory Countries:	51,653,778	"	1,991,001

1/ Quotas as established by action of the Inter-American Coffee Board on March 11, 1943.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, December 1, 1943.

Press Service
No. 39-73

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TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Wednesday, December 1, 1943.

Press Service
No. 39-74

The Secretary of the Treasury today announced the final subscription and allotment figures with respect to the current offering of 7/8 percent Treasury Certificates of Indebtedness of Series G-1944.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

Federal Reserve District	Total Subscriptions Received and Allotted
Boston	$ 184,829,000
New York	1,918,558,000
Philadelphia	138,438,000
Cleveland	140,937,000
Richmond	79,521,000
Atlanta	96,005,000
Chicago	414,034,000
St. Louis	86,099,000
Minneapolis	82,577,000
Kansas City	79,064,000
Dallas	76,300,000
San Francisco	222,554,000
Treasury	1,236,000
TOTAL	$3,520,152,000

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170

TREASURY DEPARTMENT

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Treasury	1,236,000
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New London, Connecticut."

Age matched the spirit of the California youngster's contribution, in a letter from Kingston, New York, reading: "Enclosed please find a small contribution (five dollars). I am an elderly man (nearly 77) who can have only temporary employment, but I want to help a little, if I can, and want no interest on anything I can do."

There was a heart throb, too, in a note from a Brooklyn woman: "Please accept the enclosed for the Treasury of the United States as a New Year token ($18.75) for the safe return of my son."

The names of four sergeants, four corporals, eleven privates first class and eleven privates were listed as contributors to a fund of $40 which the Treasury received from a platoon of Army Engineers, apparently on foreign service. "This is a voluntary patriotic gesture to our fine Government," wrote the sergeant who collected the fund. An unnamed officer of the company gave $8 of the $40, the sergeant said, and the enlisted men gave the rest.

If a donation is made unconditionally, it goes into the general fund of the Treasury. If the donor specifies a particular use of his money, the amount is added to a Congressional appropriation covering such a purpose. Every contributor receives a Treasury acknowledgement.

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The proprietor of a second-hand store in Seymour, Missouri, sent $25 with the explanation that the sum represented the proceeds of a pie supper at his place of business November 11. "Please use this money to help whip Hitler and the Japs," he added.

Two recent remittances not only aided the war effort but also helped relieve the penny shortage. The postmaster at Oran, Missouri, forwarded 149 pennies to the Treasury, reporting that a resident of Oran turned them in at the Post Office and asked that the Government make use of them. "He wanted nothing in return," the postmaster's message said. A woman's Bible class in Austin, Texas, at about the same time sent 1,503 pennies to be used for the purchase of oxygen for the Army Air Force.

A nine-year-old of Sacramento, California, became a benefactor of the Coast Guard when he sent $20 with this letter: "On October 28 I will be 9 years old. My grandfather is giving me $20 for my birthday. Here it is. My birthday will be a very happy one if you will give this $20 to the Coast Guard Academy at

"Some time ago I sent you one hundred and ten dollars. I am now sending you four defense bonds I purchased while in the Army. This will make up in full the money I received over $21 a month, which I feel is sufficient pay for a soldier. Use this money to purchase medical supplies for wounded soldiers."

Hundreds of regular contributors began making weekly or monthly remittances in 1942 or 1943. One of these, an American oil company official stationed at Maracaibo, Venezuela, has had his New York bank send the Treasury $416 each month for the last fourteen months, his total now being $5,824. Thirty-one checks totaling $4,650.48 have been received since March, 1942, from the proprietor of a souvenir store in Mexico City. The storekeeper explained in the beginning that he intended to remit 25 percent of each month's sales by his store to American citizens, and would add $200 occasionally out of his own means.

It is not unusual for a regular contributor to regard his or her donation schedule as a definite pledge. Letter writers now and then apologize to the Treasury for failure to remit "on time."

Most of the expressions accompanying the gifts are brief but heartfelt, such as this recent one from a Dayton, Ohio, resident: "Because of the many blessings received from the goodness of this country, I felt that I should make a gift to

General Dwight D. Eisenhower, Allied commander-in-chief in North Africa-Sicily-Italy, has just joined the list of contributors. General Eisenhower received a $25 war bond as a gift from a Philadelphia admirer, and forwarded it to the adjutant general of the War Department at Washington with a memorandum stating: "I request that you deliver this to the United States Treasury with the request that proceeds be used to further the war effort."

In the same mail was another $25 war bond which Private Gilbert M. Tuoni, member of an Army boat company on duty at an eastern port of embarkation, said he was presenting to the Treasury "as my modest contribution toward our victory."

There have been many other gifts from military or near-military sources. A Missourian who felt that he was overpaid for the time he spent in the Army recently squared his account in accordance with that view. Writing from St. Louis, he said:

"Being an ex-soldier, having served seven months in the U.S. Army, I feel that fifty dollars and up a month is too much money to pay a soldier, especially one in training.

[redacted]

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Sunday, December 5, 1943
12/2/43

Press Service
No. 39-75

In the two years since the Japanese attacked Pearl Harbor, approximately 40,000 men, women and children have donated to the Government for war purposes a total of $5,106,989.44, a Treasury report revealed today.

The cash gifts, in amounts ranging upward from one cent, came from almost as wide a variety of persons as could be found in the returns from a Federal census. Some of the contributors not only made their donations but also paid taxes and bought bonds in large amounts; some sent their gifts because they had no taxes to pay; some donated their money instead of buying bonds or war savings stamps because they "wanted nothing in return."

Thousands of letters, all warm with simply-phrased love of country, have accompanied the contributions. The letters are filed in the Treasury's Division of Bookkeeping and Warrants, and it is not a mere figure of speech to say that in the rooms where the files are kept, the wartime beat of the American heart can be heard.

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for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on December 9, 1943.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, December 3, 1943 .
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39-76

The Secretary of the Treasury, by this public notice, invites tenders for $ 1,000,000,000 , or thereabouts, of 91 -day Treasury bills, to be issued ~~(2)~~ ~~(3)~~ on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated December 9, 1943 , and will ~~(4)~~ mature March 9, 1944 , when the face amount will be payable without ~~(5)~~ interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern War time, Monday, December 6, 1943 . ~~(6)~~ Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal

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Washington

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12-2-43

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations,

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In both drives a minimum of from two and one-half to seven times as many people personally solicited bought bonds compared to those who were not personally solicited. What is more, it was precisely in the non-urban market that the greatest increases in bond buying were evidenced as a result of personal solicitation. It is clear that we have not reached the point of diminishing returns insofar as personal solicitation is concerned.

That is the area of opportunity we are more fully cultivating. But to do so effectively unnecessary hazards and obstacles must not be placed in our path. To us, at the War Finance Division, this means one thing, above all, at the present time -- that S. 1457 should not be enacted.

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Some sponsors of S. 1457 have charged that the Government is indirectly paying the cost of War Bond advertising inasmuch as the individuals engaged in such advertising are permitted as a practical matter to charge the cost of the advertising as a part of the cost of operating the business.

This is a dangerous half-truth. What those who favor Government paid advertising fail to point out is that the very same firms who are sponsoring War Bond advertising today would be advertising their own products rather than War Bonds if S. 1457 were enacted. And what they fail to mention also is that advertising expenses incurred in the promotion of commercial products or a trade name is likewise deductible as a legitimate cost of operating a business.

The great merit of voluntary sponsored advertising has been its ability to induce many advertisers to replace straight commercial copy with War Bond copy.

Surveys of the Second and Third War Loan Drives indicate pretty clearly where the areas for real improvement in our War Bond campaigns really lie. It is not primarily in advertising - rural or otherwise. And in saying this I want to emphasize as strongly as I know how that no group in our national life has made a greater contribution to the success of the War Finance program than the rural press of this nation. From its ranks has developed the rural advertising offensive of which we at the Treasury are so proud. From its ranks have been recruited many of our greatest leaders. In its columns our messages have found thrilling expression and the most faithful support. The militant volunteer support that we have received from this field is in the finest traditions of the free press. It is because of the truly American, volunteer support that we have received in such great measure from the nation's rural press that we are so reluctant to have the relationship disturbed.

According to the surveys we have made, the real areas for improvement in coming War Bond Drives lie, not in advertising, but in utilizing more fully the opportunities for personal solicitation. Every investigation that we have made and every report we receive from the field underline again and again the importance of searching out Mr. John Q. Citizen at his home, approaching him at the factory bench, calling on him at his office, seeking him out, if necessary, in the field. This we have begun to do. During the Third Drive, both in urban and rural areas, solicitors reached more than twice as many people as in the April Drive. Of more importance, while the solicitation campaign reached many more people than before, the effectiveness of solicitation remained undiminished.

It was also contended before the Senate Committee that War Bond advertising copy is not of proper quality. The advertising released to daily and weekly newspapers by the Treasury Department is written by leading advertising agencies whose outstanding ability is recognized by commercial advertisers and the advertising fraternity generally. The best advertising brains in America, specialists in framing appeals to all strata of the population, are available to the Treasury Department, without charge, through the facilities of the War Advertising Council - the very people who would have to be consulted, and paid, if S. 1457 were enacted into law.

An argument levelled against the present voluntary sponsored program is that the Treasury is spending a very large sum of money in the preparation of mats and materials which are sent to all newspapers in the United States and which are not being used. Government paid advertising, it is claimed, will eliminate this waste. This charge is completely unjustified since all Treasury mats and materials, with what we consider to be only unavoidable exceptions, are distributed only on request.

It has been stated, also, that the name of the Government should appear in War Bond advertising. Advertisements now released by the Treasury Department already include the statement "This advertisement prepared under the auspices of the U. S. Treasury Department and the War Advertising Council", thereby signifying its official nature.

It is regrettable that the Canadian experience has been drawn upon to justify Government sponsored advertising. I have the greatest admiration for the Canadian war effort and nothing that I say is intended as a reflection upon it. I do believe, however, that while there are many lessons in the Canadian experience we might profitably take to heart, there are many pointers too that they might profitably pick up from us.

There is no warrant for the inference that "the high productivity of the Canadian paid advertising plan in volume of sales to individuals and at low cost attest to the feasibility of the Government using its own resources and controlling its official messages". It may well be true, as the Committee Report asserts, that in Canada "all the press advertising amounts to four and one-half hundredths of one percent of the amount of bonds sold". But we repeat again what we said in another connection — there simply is no evidence whatsoever that advertising, and advertising alone, is responsible for the notable War Bond record, either of the Canadians or of ourselves, to date.

Furthermore, to declare, as does the Report, that "paid Government advertisements must be used to persuade earlier buyers to retain these Bonds" and, thus, cut down the number of redemptions, is to show a lack of understanding of the Canadian experience. The redemption of Canadian War Savings Certificates and the resale of their Victory Loan Bonds to the banks are proceeding at a rate considerably higher than in the United States.

an awareness in the minds of the public as to the desirability of a given product. That, voluntary sponsored advertising has done in greater measure than we ever had reason to expect. Surveys conducted for the Treasury indicate that from 84 to 90 percent of the American public, in urban and rural regions, are aware of War Bonds and War Bond Drives.

What is more, these surveys indicate an ever-growing awareness of War Bonds and War Bond Drives. And the growth in awareness is greatest precisely in those rural areas that the sponsors of S. 1457 declare are most in need of Government paid advertising. In the Second War Loan Drive 67 percent of all those living in rural areas knew of the drive; in the Third War Loan, this awareness figure had jumped to 84 percent.

A recent study of Bond buying during the Third War Loan Drive indicates, moreover, that there was no difference whatsoever in the percentage of the non-farm population that bought extra Bonds in counties with a town of 10,000 or over as compared with the percentage of the non-farm population that bought extra Bonds in counties without a town of 10,000. In both types of communities precisely the same proportion of the people bought extra War Bonds -- 39 percent to be exact. And since the income of people in counties with no large towns is lower, it appears that they were more adequately covered by the Drive as many of them bought extra Bonds in spite of their lower income.

Of equal interest in this connection, the advertising appearing in weekly newspapers -- and the weeklies, for the most part, circulate in the smaller towns and cities -- increased in value from $1,201,000 in the Second War Loan Drive to $1,942,000 in the Third War Loan. There was also an increase in the number of separate advertisements run -- from 33,164 in the Second War Loan Drive to 63,846 in the Third. This is a striking refutation to the claim by various witnesses before the Senate Committee of "the growing resistance to locally sponsored Bond advertising in smaller communities".

It would be erroneous to infer that the striking results achieved in counties with towns of population of 10,000 or less were produced by advertising in weeklies alone, and we draw no such inference. We do not imagine that these smaller communities are closed off from the rest of America -- that radio wave lengths stop at county boundaries -- that farm and other magazines do not regularly go into these areas -- that newspapers published in larger cities are not read in the smaller communities -- that these areas have been stripped of all the bill-boards which carried War Bond messages in the Third War Loan Drive -- that theaters were suddenly nailed up in these areas, with all their War Bond trailers and patriotic posters. No, we don't imagine any of these things any more than we believe that the 67,976,376 lines -- the equivalent of about 40,000 pages -- of Third War Loan advertising printed in weekly newspapers was not read. But the report of the Senate Banking and Currency Committee declared that "the heavy barrage of eye appeals is seldom, if ever, seen by 52% of our population residing in the smaller cities, towns and rural regions."

> "The question of paid advertising presents a serious problem for the Government. The value of such advertising cannot be doubted, and if the operation could be governed by the same considerations as those which determine the action of private enterprises, it would be much simplified. A private enterprise may advertise in a selected number of mediums most useful for its purpose without any limitation except its own desires or ability to pay. If the Government engages in such a campaign, it must advertise in every newspaper and periodical in America without discrimination. All must have equal treatment, and should have equal treatment. The Government must be thoroughly democratic and impartial in a matter of this sort. To make the advertisement thorough and effective, it should be done on a broad and liberal scale. The cost of such an undertaking would be very great and would exceed the appropriation which the Congress has thus far made available for the sale of Liberty Bonds."

The development, since the Liberty Loan days, of radio broadcasting and the motion picture only give added force to this reasoning of Secretary McAdoo.

So much by way of general remarks on the proposed legislation. I come now to the arguments advanced in favor of Senate Bill 1457.

The sponsors of the measure take the position that Government paid advertising will evoke a sustained demand for Government securities on the part of all citizens even though the advertising would be permitted in weekly, semiweekly and triweekly newspapers wherever published, but as to daily newspapers would be limited to those published in cities, towns, villages, townships and communities of 10,000 population or less.

We of the War Finance Division do not share this view. While we have a healthy respect for advertising learned from intimate association with the industry and from experience in the War Bond Drives, we also have a pretty fair idea of what may legitimately be expected from advertising, and what may not.

There is no exact, automatic cause - effect relationship between advertising and the sale of War Bonds any more than there is such a relationship between commercial advertising and the sale of any product. The purpose of advertising, as we understand it, is to create

Advertisers and the Outdoor Industry provided by all odds the most expansive outdoor showing of all time, with 20,000 sponsored 24-sheet poster panels and 30,000 donated by the industry. The estimated value of the outdoor advertising was $1,800,000, including car cards and three-sheets.

The National Association of Broadcasters reports that advertisers and radio stations devoted radio time and talent which they valued at $12,000,000 to Third War Loan messages to the public, throughout the days and nights of the Drive.

This 5-week campaign put on by advertisers alone would have cost a commercial sponsor $24,000,000 -- double the proposed annual appropriation under S. 1457!

Add to this the value of publicity contributed by the motion picture industry -- producers, distributors, and exhibitors; chain radio and newspapers; department store displays; bank, school and railroad displays; and most important of all, the selfless, untiring work of five million War Bond volunteers, who without by-line or credit-line, carried the national message by word of mouth into every nook and cranny of the country; -- and one begins to form some comprehensive idea of the staggering scope of this unparalleled undertaking.

Senate Bill 1457 authorizes and directs the Secretary of the Treasury to purchase from 12½ to 15 million dollars of advertising. To attempt to duplicate out of public funds the estimated value of measurable advertising contributed in support of the War Bond campaign during 1943 would require, however, an authorization to spend a minimum of 100 million dollars. And this estimate takes no account of the voluntary assistance of advertising agencies and millions of individuals whose contribution to the selling effort is literally incalculable.

A 12 or 15 million dollar subsidy will add nothing to the advertising and publicity the Bond effort is already receiving. On the contrary, it may work irreparable harm. The War Finance Division cannot, in good conscience, ask some newspapers to contribute War Bond advertising voluntarily as a patriotic service while others are free to withhold their support until they receive a Government subsidy. Far from increasing the total amount of advertising, a Government subsidy on the scale envisaged by S. 1457 might decidedly lessen the volume we now enjoy.

The demand for Government sponsored advertising is nothing new. Secretary McAdoo, directly in charge of the Nation's Bond effort in the last war, had to face the problem. His words are worthy of quotation for they express in essential particulars our views today:

Statement of Ted R. Gamble,
National Director of the War Finance Division of
the Treasury Department,
before the Committee on
Ways and Means of the House of Representatives.

December 3, 1943.

As National Director of the United States Treasury Department's War Finance Division, entrusted with the task of promoting the sale of Government securities, I feel it my duty to lay before you my views on Senate Bill 1457 and the majority report of the Committee on Banking and Currency which accompanies it.

Permit me to say, first of all, that, given the total tax revenues under existing legislation, "The broad objective of a Nationwide stabilization plan can best be achieved", as the Committee Report correctly points out, "by Government borrowing from all its citizens by means of Bond sales to individuals." It is my considered opinion, however, that the passage of S. 1457 and its enactment into law might well be the means of retarding the very stabilization program it sets out to aid.

The Treasury today is already favored with the greatest advertising operation in the history of the world -- a consistent, carefully conceived effort reaching, we have reason to believe, into every city, town, hamlet and county in America. This nation-wide effort, conducted along voluntary lines, attains volume peaks, during drive periods, which have never before been equalled on either a paid or a voluntary basis.

Let me itemize briefly the advertising record for the recent Third War Loan Drive in September 1943.

Daily and Sunday newspapers published 88,947 War Bond advertisements -- a total of 61,573,588 agate lines, with a value at published national rates of $6,697,358.45. Approximately 92.5 per cent of this space was paid for by advertisers and about 7.5 per cent was contributed by the newspapers.

Weekly and semi-weekly newspapers carried 63,846 advertisements aggregating 67,976,376 agate lines valued at $1,942,181.60. About 87 per cent of this space was paid for by advertisers.

Daily and weekly newspapers published Third War Loan advertising with a value of $8,639,540.05 of which 91.2 per cent was purchased by advertisers.

At least $1,380,000 in magazine space was provided by advertisers and the magazines themselves. Two hundred and thirty-six general magazines, 55 farm journals, and 513 business and trade magazines each contributed a free War Bond advertisement.

As you know, we now depend upon cooperation by advertisers, publications, radio, and the advertising industry generally, to provide, without cost to the Treasury, the huge amount of advertising space and time required to reach and convince 130 million people. By this means we are amply reaching all the important markets that would be available through this subsidy. The added impact, if there is any, would be of doubtful value.

So far, our cooperative plan has worked very successfully. Had the Treasury paid for the advertising used during the three weeks of the Third War Loan, it would have cost $30 millions. This includes the value of only those advertisements, radio programs, or billboards given over to War Bond promotion; it does not take into account the innumerable "reminders" in advertisements for products.

But we cannot continue this method if we pay some of those cooperating, and leave the others in status quo. Either we must pay all or none. And it certainly seems wasteful to pay any of them as long as the vast majority are willing to continue supporting Bond drives on a patriotic basis.

At the Senate hearings on this Bill, it was indicated that firms advertising Bonds can, as a result, take certain credits on their tax liabilities which are not otherwise available. This is untrue. Under present regulations, a firm is permitted to regard a reasonable amount of advertising, if this has been its custom in the past, as legitimate business expense. Advertising used to promote War Bonds represents conversion of publication or billboard space, or radio time, which the advertiser would use otherwise to promote his products or to keep his trade name alive during the war. It cannot be said, therefore, that the Treasury is paying for Bond advertising even indirectly.

I think it might be wise for your Committee to lend its weight now in stopping this proposal from becoming law, rather than waiting until it has become law, and then attempting to curtail the funds involved. Judging by any standards, the money involved in this useless and dangerous subsidy represents non-essential spending.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Senator Harry F. Byrd
United States Senate
Washington, D. C.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, December 3, 1943.

Press Service
No. 39-78

Secretary Morgenthau last night made public the following letter to Senator Byrd, voicing the Treasury's opposition to the Bankhead Bill scheduled to be taken up by the Ways and Means Committee of the House of Representatives at 10:00 A.M., today:

December 2, 1943

My dear Senator:

On November 14, 1941, I made to the Joint Committee on Reduction of Non-Essential Federal Expenditures, of which I am a member, a number of recommendations for reducing non-essential Government costs. Most of these recommendations were taken, and resulting savings are noted in your recent report.

I should like now to call the attention of the Committee to another potential waste of Government funds which, in my estimation, should be stopped in its tracks. I refer to the $15 million subsidy to certain small newspapers, recently voted by the Senate in the Bankhead Bill. A companion bill now in the House, calls for a similar subsidy of $30 millions.

At this time, when your Committee and most of the rest of us are seeking ways of curtailing non-essential Government spending, I think this proposal to distribute a sizable amount of the taxpayers' money in such a way that it will not contribute to winning the war, or to any legitimate requirement of our economy, is inexcusable.

Ostensibly, this proposal was made in an effort to help sell War Bonds. I should like to have it on the record that it will <u>not</u> help sell War Bonds, and as a matter of fact, it is likely to prove an almost insurmountable hurdle to the continued promotion of War Bonds.

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(In thousands of dollars)

	Oct. 18, 1943	June 30, 1943	Dec. 31, 1942	Increase or decrease since June 30, 1943		Increase or decrease since Dec. 31, 1942	
				Amount	Percent	Amount	Percent
LIABILITIES							
Deposits of individuals, partnerships and corporations:							
Demand	$30,901,323	$30,518,146	$26,730,691	$383,177	1.26	$4,170,632	15.60
Time	9,501,379	8,971,178	8,307,519	530,201	5.91	1,193,860	14.37
Postal Savings deposits	6,134	6,918	9,073	-784	-11.33	-2,939	-32.39
Deposits of U. S. Government	10,847,053	4,582,436	4,833,109	6,264,617	136.71	6,013,944	124.43
Deposits of States and political subdivisions	2,603,884	2,900,361	2,695,194	-296,477	-10.22	-91,310	-3.39
Deposits of banks 1/	7,313,763	7,156,360	7,401,534	157,403	2.20	-87,771	-1.19
Other deposits (certified and cashiers' checks, etc.)	613,519	633,962	671,696	-20,443	-3.22	-58,177	-8.66
Total deposits 1/	61,787,055	54,769,361	50,648,816	7,017,694	12.81	11,138,239	21.99
Bills payable, rediscounts & other liabilities for borrowed money	36,718	4,231	3,516	32,487	767.83	33,202	944.31
Other liabilities	414,641	373,355	390,291	41,286	11.06	24,350	6.24
Total liabilities, excluding capital accounts 1/	62,238,414	55,146,947	51,042,623	7,091,467	12.86	11,195,791	21.93
CAPITAL ACCOUNTS							
Capital stock:							
Preferred stock	132,126	137,076	146,047	-4,950	-3.61	-13,921	-9.53
Common stock	1,364,329	1,360,932	1,357,635	3,397	.25	6,694	.49
Total	1,496,455	1,498,008	1,503,682	-1,553	-.10	-7,227	-.48
Surplus	1,510,737	1,474,673	1,438,645	36,064	2.45	72,092	5.01
Undivided profits	635,839	584,169	540,524	51,670	8.85	95,315	17.63
Reserves	275,539	268,555	255,504	6,984	2.60	20,035	7.84
Total surplus, profits, and reserves	2,422,115	2,327,397	2,234,673	94,718	4.07	187,442	8.39
Total capital accounts	3,918,570	3,825,405	3,738,355	93,165	2.44	180,215	4.82
Total liabilities & capital accounts 1/	66,156,984	58,972,352	54,780,978	7,184,632	12.18	11,376,006	20.77
Reciprocal balances with banks in the United States	360,484	327,657	349,306	32,827	10.02	11,178	3.20
Ratio of loans to total deposits	17.44%	16.78%	20.14%				

NOTE: Minus sign denotes decrease.

1/ Excludes reciprocal interbank demand balances with banks in the United States, the amounts of which are shown above.

Statement showing comparison of principal items of assets and liabilities of active national banks as of October 18, 1943, June 30, 1943, and December 31, 1942

(In thousands of dollars)

	Oct. 18, 1943	June 30, 1943	Dec. 31, 1942	Increase or decrease since June 30, 1943		Increase or decrease since Dec. 31, 1942	
				Amount	Percent	Amount	Percent
Number of banks	5,058	5,066	5,087	-8	-.16	-29	-.57
ASSETS							
Loans on real estate	$10,775,316	($2,136,260	$2,187,264)	$1,585,173	17.25	$574,518	5.63
Other loans, including overdrafts		7,053,883	8,013,534)				
Total loans	10,775,316	9,190,143	10,200,798	1,585,173	17.25	574,518	5.63
U. S. Government securities:							
Direct obligations	35,709,814	(28,514,634	22,261,410)	5,519,412	18.28	11,884,463	49.88
Obligations fully guaranteed		1,675,768	1,563,941)				
Total U. S. securities	35,709,814	30,190,402	23,825,351	5,519,412	18.28	11,884,463	49.88
Obligations of States and political subdivisions	1,984,169	2,026,333	2,022,493	-42,164	-2.08	-38,324	-1.89
Other bonds, notes and debentures	1,266,527	1,340,099	1,441,184	-73,572	-5.49	-174,657	-12.12
Corporate stocks, including stock of Federal Reserve Banks	145,811	171,744	193,760	-25,933	-15.10	-47,949	-24.75
Total investments	39,106,321	33,728,578	27,482,788	5,377,743	15.94	11,623,533	42.29
Total loans and investments	49,881,637	42,918,721	37,683,586	6,962,916	16.22	12,198,051	32.37
Currency and coin	813,067	806,546	733,499	6,521	.81	79,568	10.85
Reserve with Federal Reserve Banks	7,876,313	7,853,296	8,249,513	23,017	.29	-373,200	-4.52
Balances with other banks 1/	6,733,858	6,567,549	7,267,258	166,309	2.53	-533,400	-7.34
Total cash, balances with other banks, including reserve balances and cash items in process of collection 1/	15,423,238	15,227,391	16,250,270	195,847	1.29	-827,032	-5.09
Other assets	852,109	826,240	847,122	25,869	3.13	4,987	.59
Total assets 1/	66,156,984	58,972,352	54,780,978	7,184,632	12.18	11,376,006	20.77

decreased $142,000,000 since June and $261,000,000 since December last year.

Cash of $813,000,000, balances with other banks, including cash items in process of collection, of $6,734,000,000, and reserves with Federal Reserve banks of $7,876,000,000, a total of $15,423,000,000, increased $196,000,000 since June but showed a decrease of $827,000,000 under the amount reported in December last year.

The unimpaired capital stock of the banks on October 18, 1943, was $1,496,000,000 including $132,000,000 of preferred stock. Surplus of $1,511,000,000, undivided profits of $636,000,000, and reserves of $275,000,000, a total of $2,422,000,000, increased $95,000,000 since June and $187,000,000 since December 1942.

The percentage of loans and discounts to total deposits on October 18, 1943, was 17.44, in comparison with 16.78 on June 30, 1943, and 20.14 on December 31, 1942.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, Morning Newspapers,
Tuesday, December 7, 1943.

Press Service
No. 39-79

The total assets of national banks on October 18 of this year amounted to more than $66,000,000,000, it was announced today by Comptroller of the Currency Preston Delano. Returns from the call covered the 5,058 active national banks in the United States and possessions. The assets reported were greater by $7,000,000,000 than those reported by the 5,066 national banks on June 30, 1943, the date of the previous call, and an increase of $11,000,000,000 over the amount reported by the 5,087 active banks on December 31, 1942.

The deposits of the national banks on October 18, 1943, were nearly $62,000,000,000, an increase since June 30, 1943 of $7,000,000,000, and an increase since December 31 last year of $11,000,000,000. Included in the current deposit figures are demand and time deposits of individuals, partnerships and corporations of $30,901,000,000 and $9,501,000,000, respectively, United States Government deposits, including War loan and Series E bond accounts of $10,847,000,000, deposits of States and political subdivisions of $2,600,000,000, postal savings of $6,000,000, deposits of banks of $7,314,000,000, and certified and cashiers' checks, cash letters of credit and travelers' checks outstanding of $614,000,000.

Loans and discounts were $10,775,000,000, an increase of $1,585,000,000, or 17 percent, since June 30, 1943, and an increase of $575,000,000, or nearly 6 percent, since December 31, 1942.

Investments in United States Government obligations, direct and guaranteed, of $35,710,000,000, showed an increase of $5,519,000,000, or over 18 percent, since June 30, 1943, and an increase of $11,884,000,000, or nearly 50 percent, since December 1942. Other bonds, stocks and securities held of $3,397,000,000, which included obligations of States and political subdivisions of $1,984,000,000,

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12-4-43

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Time	9,501,379	8,971,178	8,307,519	530,201	5.91	1,193,860	14.37
Postal Savings deposits	6,134	6,918	9,073	-784	-11.33	-2,939	-32.39
Deposits of U. S. Government	10,847,053	4,582,436	4,833,109	6,264,617	136.71	6,013,944	124.43
Deposits of States and political subdivisions	2,603,884	2,900,361	2,695,194	-296,477	-10.22	-91,310	-3.39
Deposits of banks 1/	7,313,763	7,156,360	7,401,534	157,403	2.20	-87,771	-1.19
Other deposits (certified and cashiers' checks, etc.)	613,519	633,962	671,696	-20,443	-3.22	-58,177	-8.66
Total deposits 1/	61,787,055	54,769,361	50,648,816	7,017,694	12.81	11,138,239	21.99
Bills payable, rediscounts & other liabilities for borrowed money	36,718	4,231	3,516	32,487	767.83	33,202	944.31
Other liabilities	414,641	373,355	390,291	41,286	11.06	24,350	6.24
Total liabilities, excluding capital accounts 1/	62,238,414	55,146,947	51,042,623	7,091,467	12.86	11,195,791	21.93
CAPITAL ACCOUNTS							
Capital stock:							
Preferred stock	132,126	137,076	146,047	-4,950	-3.61	-13,921	-9.53
Common stock	1,364,329	1,360,932	1,357,635	3,397	.25	6,694	.49
Total	1,496,455	1,498,008	1,503,682	-1,553	-.10	-7,227	-.48
Surplus	1,510,737	1,474,673	1,438,645	36,064	2.45	72,092	5.01
Undivided profits	635,839	584,169	540,524	51,670	8.85	95,315	17.63
Reserves	275,539	268,555	255,504	6,984	2.60	20,035	7.84
Total surplus, profits, and reserves	2,422,115	2,327,397	2,234,673	94,718	4.07	187,442	8.39
Total capital accounts	3,918,570	3,825,405	3,738,355	93,165	2.44	180,215	4.82
Total liabilities & capital accounts 1/	66,156,984	58,972,352	54,780,978	7,184,632	12.18	11,376,006	20.77
Reciprocal balances with banks in the United States	360,484	327,657	349,306	32,827	10.02	11,178	3.20
Ratio of loans to total deposits	17.44%	16.78%	20.14%				

NOTE: Minus sign denotes decrease.

1/ Excludes reciprocal interbank demand balances with banks in the United States, the amounts of which are shown above.

December 2, 1943

STATUTORY DEBT LIMITATION
AS OF NOVEMBER 30, 1943

Section 21 of the Second Liberty Bond Act, as amended, provided that the face amount of obligations issued under authority of that Act, "shall not exceed in the aggregate $210,000,000,000 outstanding at any one time."

The following table shows the face amount of obligations outstanding and the face amount which can still be issued under this limitation:

Total face amount that may be outstanding at any one time			$210,000,000,000
Outstanding as of November 30, 1943:			
Interest-bearing:			
Bonds -			
Treasury	$67,940,349,000		
Savings (Maturity value)*	33,022,858,825		
Depositary	399,824,250		
Adjusted Service	719,672,907	$102,082,704,982	
Treasury notes	27,687,610,400		
Certificates of Indebtedness	28,066,911,000		
Treasury Bills (Maturity value)	13,073,822,000	68,828,343,400	
		$170,911,048,382	
Matured obligations, on which interest has ceased		200,825,575	
Bearing no interest (U.S. Savings stamps)		202,415,459	171,314,289,416
Face amount of obligations issuable under above authority			$ 38,685,710,584

Reconcilement with Daily Statement of the United States Treasury November 30, 1943

Total face amount of outstanding public debt obligations issued under authority of the Second Liberty Bond Act.		$171,314,289,416
Deduct, unearned discount on Savings bonds (difference between current redemption value and maturity value)		6,325,845,506
		164,988,443,910
Add other public debt obligations outstanding but not subject to the statutory limitation:		
Interest-bearing (Pre-War, etc.)	$195,942,720	
Matured obligations on which interest has ceased	7,936,840	
Bearing no interest	966,076,765	1,169,956,325
Total gross debt outstanding as of November 30, 1943		$166,158,400,235

*Approximate maturity value. Principal amount (current redemption value) according to preliminary public debt statement $26,697,013,319

39-80

December 6, 1943

STATUTORY DEBT LIMITATION
AS OF NOVEMBER 30, 1943

Section 21 of the Second Liberty Bond Act, as amended, provided that the face amount of obligations issued under authority of that Act, "shall not exceed in the aggregate $210,000,000,000 outstanding at any one time."

The following table shows the face amount of obligations outstanding and the face amount which can still be issued under this limitation;

Total face amount that may be outstanding at any one time			$210,000,000,000
Outstanding as of November 30, 1943:			
Interest-bearing:			
Bonds -			
Treasury	$67,940,349,000		
Savings (Maturity value)*	33,022,858,825		
Depositary	399,824,250		
Adjusted Service	719,672,907	$102,082,704,982	
Treasury notes	27,687,610,400		
Certificates of Indebtedness	28,066,911,000		
Treasury Bills (Maturity value)	13,073,822,000	68,828,343,400	
		$170,911,048,382	
Matured obligations, on which interest has ceased		200,825,575	
Bearing no interest (U.S. Savings stamps)		202,415,459	171,314,289,416
Face amount of obligations issuable under above authority			$ 38,685,710,584

Reconcilement with Daily Statement of the United States Treasury, November 30, 1943

Total face amount of outstanding public debt obligations issued under authority of the Second Liberty Bond Act.		$171,314,289,416
Deduct, unearned discount on Savings bonds (difference between current redemption value and maturity value)		6,325,845,506
		164,988,443,910
Add other public debt obligations outstanding but not subject to the statutory limitation:		
Interest-bearing (Pre-War, etc.)	$195,942,720	
Matured obligations on which interest has ceased	7,936,840	
Bearing no interest	966,076,765	1,169,956,325
Total gross debt outstanding as of November 30, 1943		$166,158,400,235

*Approximate maturity value. Principal amount (current redemption value) according to preliminary public debt statement $26,697,013,319

39-80

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, December 7, 1943.

Press Service

The Secretary of the Treasury announced last evening that the tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated December 9, 1943, and to mature March 9, 1944, which were offered on December 3, were opened at the Federal Reserve Banks on December 6.

The details of this issue are as follows:

Total applied for - $1,694,400,000
Total accepted - 1,011,452,000 (includes $63,887,000 entered on a fixed-price basis at 99.905 and accepted in full)
Average price - 99.905 Equivalent rate of discount approx. 0.375% per annum

Range of accepted competitive bids:

High - 99.910 Equivalent rate of discount approx. 0.356% per annum
Low - 99.905 " " " " " 0.376% " "

(52 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 15,155,000	$ 10,067,000
New York	1,153,216,000	612,977,000
Philadelphia	82,836,000	66,660,000
Cleveland	63,705,000	50,985,000
Richmond	13,862,000	10,958,000
Atlanta	8,445,000	8,003,000
Chicago	167,263,000	109,241,000
St. Louis	31,270,000	19,990,000
Minneapolis	4,395,000	4,366,000
Kansas City	23,821,000	21,589,000
Dallas	19,946,000	18,842,000
San Francisco	110,486,000	77,774,000
TOTAL	$1,694,400,000	$1,011,452,000

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, December 7, 1943.

Press Service

39-81

The Secretary of the Treasury announced last evening that the tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated December 9, 1943, and to mature March 9, 1944, which were offered on December 3, were opened at the Federal Reserve Banks on December 6.

The details of this issue are as follows:

Total applied for - $1,694,400,000
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Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 15,155,000	$ 10,067,000
New York	1,153,216,000	612,977,000
Philadelphia	82,836,000	66,660,000
Cleveland	63,705,000	50,985,000
Richmond	13,862,000	10,958,000
Atlanta	8,445,000	8,003,000
Chicago	167,263,000	109,241,000
St. Louis	31,270,000	19,990,000
Minneapolis	4,395,000	4,366,000
Kansas City	23,821,000	21,589,000
Dallas	19,946,000	18,842,000
San Francisco	110,486,000	77,774,000
TOTAL	$1,694,400,000	$1,011,452,000

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, December 7, 1943.
12-6-43

Press Service
No. 39-81

The Secretary of the Treasury announced last evening that the tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated December 9, 1943, and to mature March 9, 1944, which were offered on December 3, were opened at the Federal Reserve Banks on December 6.

The details of this issue are as follows:

Total applied for - $1,694,400,000
Total accepted - 1,011,452,000 (includes $63,887,000 entered on a fixed-price basis at 99.905 and accepted in full)

Average price - 99.905/Equivalent rate of discount approx. 0.375% per annum

Range of accepted competitive bids:

High - 99.910 Equivalent rate of discount approx. 0.356% per annum
Low - 99.905 Equivalent rate of discount approx. 0.376% per annum

(52 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 15,155,000	$ 10,067,000
New York	1,153,216,000	612,977,000
Philadelphia	82,836,000	66,660,000
Cleveland	63,705,000	50,985,000
Richmond	13,862,000	10,958,000
Atlanta	8,445,000	8,003,000
Chicago	167,263,000	109,241,000
St. Louis	31,270,000	19,990,000
Minneapolis	4,395,000	4,366,000
Kansas City	23,821,000	21,589,000
Dallas	19,946,000	18,842,000
San Francisco	110,486,000	77,774,000
TOTAL	$1,694,400,000	$1,011,452,000

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COTTON CARD STRIPS,[2] COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE. Annual quotas commencing September 20, by Countries of Origin:

Total quota, provided, however, that not more than 33-1/3 percent[2] of the quotas shall be filled by cotton wastes other than card strips[2] and comber wastes made from cottons of 1-3/16 inches or more in staple length in the case of the following countries: United Kingdom, France, Netherlands, Switzerland, Belgium, Germany and Italy:

(In Pounds)

Country of Origin	Established TOTAL QUOTA	TOTAL IMPORTS Sept. 20, 1943 Nov. 27, 1943	ESTABLISHED 33-1/3% of Total Quota	Imports Sept. 20, 1943, to Nov. 27, 1943 1/
United Kingdom	4,323,457	-	1,441,152	-
Canada	239,690	-	-	-
France	227,420	-	75,807	-
British India	69,627	-	-	-
Netherlands	68,240	-	22,747	-
Switzerland	44,388	-	14,796	-
Belgium	38,559	-	12,853	-
Japan	341,535	-	-	-
China	17,322	-	-	-
Egypt	8,135	-	-	-
Cuba	6,544	-	-	-
Germany	76,329	-	25,443	-
Italy	21,263	-	7,088	-
TOTALS	5,482,509	-	1,599,886	-

1/ Included in total imports, column 2.

2/ The President's proclamation, signed March 31, 1942, exempts from import quota restrictions card strips made from cottons having a staple 1-3/16 inches or more in length.

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FOR IMMEDIATE RELEASE,
December 7, 1943.

39-8r

The Bureau of Customs announced today that preliminary reports from the collectors of customs show imports of cotton and cotton waste chargeable to the import quotas established by the President's proclamations of September 5, 1939, and December 19, 1940, as follows, during the period September 20, 1943, to November 27, 1943:

COTTON HAVING A STAPLE OF LESS THAN 1-11/16 INCHES (OTHER THAN HARSH OR ROUGH COTTON OF LESS THAN 3/4 INCH IN STAPLE LENGTH AND CHIEFLY USED IN THE MANUFACTURE OF BLANKETS AND BLANKETING, AND OTHER THAN LINTERS). Annual quotas commencing September 20, by Countries of Origin:

(In Pounds)

Country of Origin	Staple length less than 1-1/8"		Staple length 1-1/8" or more but less than 1-11/16"	
	Established Quota	Imports Sept. 20, 1943, to Nov. 27, 1943	Established Quota 45,656,420	Imports Sept. 20, 1943, to Nov. 27, 1943
Egypt and the Anglo-Egyptian Sudan	783,816	-		16,362,697
Peru	247,952	73,576		368,913
British India	2,003,483	-		-
China	1,370,791	-		-
Mexico	8,883,259	8,883,259		-
Brazil	618,723	410,330		-
Union of Soviet Socialist Republics	475,124	-		-
Argentina	5,203	-		-
Haiti	237	-		-
Ecuador	9,333	-		-
Honduras	752	-		-
Paraguay	871	-		-
Colombia	124	-		-
Iraq	195	-		-
British East Africa	2,240	-		-
Netherlands East Indies	71,388	-		-
Barbados	-	-		-
Other British West Indies 1/	21,321	-		-
Nigeria	5,377	-		-
Other British West Africa 2/	16,004	-		-
Other French Africa 3/	689	-		-
Algeria and Tunisia	-	-		-
	14,516,882	9,367,165	45,656,420	16,731,610

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Other than Gold Coast and Nigeria.
3/ Other than Algeria, Tunisia, and Madagascar.

(Over)

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, December 8, 1943.

Press Service
No. 39-82

The Bureau of Customs announced today that preliminary reports from the collectors of customs show imports of cotton and cotton waste chargeable to the import quotas established by the President's proclamations of September 5, 1939, and December 19, 1940, as follows, during the period September 20, 1943, to November 27, 1943:

COTTON HAVING A STAPLE OF LESS THAN 1-11/16 INCHES (OTHER THAN HARSH OR ROUGH COTTON OF LESS THAN 3/4 INCH IN STAPLE LENGTH AND CHIEFLY USED IN THE MANUFACTURE OF BLANKETS AND BLANKETING, AND OTHER THAN LINTERS). Annual quotas commencing September 20, by Countries of Origin:

(In Pounds)

Country of Origin	Staple length less than 1-1/8"		Staple length 1-1/8" or more but less than 1-11/16"	
	Established Quota	Imports Sept. 20, 1943, to Nov. 27, 1943	Established Quota 45,656,420	Imports Sept. 20, 1943, to Nov. 27, 1943
Egypt and the Anglo-Egyptian Sudan	783,816	-		16,362,697
Peru	247,952	73,576		368,913
British India	2,003,483	-		-
China	1,370,791	-		-
Mexico	8,883,259	8,883,259		-
Brazil	618,723	410,330		-
Union of Soviet Socialist Republics	475,124	-		-
Argentina	5,203	-		-
Haiti	237	-		-
Ecuador	9,333	-		-
Honduras	752	-		-
Paraguay	871	-		-
Colombia	124	-		-
Iraq	195	-		-
British East Africa	2,240	-		-
Netherlands East Indies	71,388	-		-
Barbados	-	-		-
Other British West Indies 1/	21,321	-		-
Nigeria	5,377	-		-
Other British West Africa 2/	16,004	-		-
Other French Africa 3/	689	-		-
Algeria and Tunisia	-	-		-
	14,516,882	9,367,165	45,656,420	16,731,610

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Other than Gold Coast and Nigeria.
3/ Other than Algeria, Tunisia, and Madagascar.

COTTON CARD STRIPS, 2/ COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE. Annual quotas commencing September 20, by Countries of Origin:

Total quota, provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes other than card strips 2/ and comber wastes made from cottons of 1-3/16 inches or more in staple length in the case of the following countries: United Kingdom, France, Netherlands, Switzerland, Belgium, Germany and Italy:

(In Pounds)

Country of Origin	Established TOTAL QUOTA	TOTAL IMPORTS Sept. 20, 1943 Nov. 27, 1943	ESTABLISHED 33-1/3% of Total Quota	Imports Sept. 20, 1943, to Nov. 27, 1943 1/
United Kingdom	4,323,457	-	1,441,152	-
Canada	239,690	-	-	-
France	227,420	-	75,807	-
British India	69,627	-	-	-
Netherlands	68,240	-	22,747	-
Switzerland	44,388	-	14,796	-
Belgium	38,559	-	12,853	-
Japan	341,535	-	-	-
China	17,322	-	-	-
Egypt	8,135	-	-	-
Cuba	6,544	-	-	-
Germany	76,329	-	25,443	-
Italy	21,263	-	7,088	-
	5,482,509	-	1,599,886	-

1/ Included in total imports, column 2.

2/ The President's proclamation, signed March 31, 1942, exempts from import quota restrictions card strips made from cottons having a staple 1-3/16 inches or more in length.

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Commodity	Established Quota: Period and Country	Established Quota: Quantity	Unit of Quantity	Imports as of Nov. 27, 1943
Silver or black foxes, furs, and articles: Foxes valued under $250 each and whole furs and skins	Period - May - Nov. 1943 All countries	33,229	Number	(Quota filled)
Tails	12 months from Dec. 1, 1942	5,000	Piece	463
Paws, heads, or other separated parts	"	500	Pounds	(Quota filled)
Piece plates	"	550	Pounds	-
Articles, other than piece plates	"	500	Unit	105

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39-83

FOR IMMEDIATE RELEASE,
December 7, 1943.

The Bureau of Customs announced today preliminary figures for imports of commodities within quota limitations provided for under trade agreements, from the beginning of the quota periods to November 27, 1943, inclusive, as follows:

Commodity	Established Quota		Unit of Quantity	Imports as of Nov. 27, 1943
	Period and Country	Quantity		
Whole milk, fresh or sour	Calendar year	3,000,000	Gallon	6,566
Cream, fresh or sour	Calendar year	1,500,000	Gallon	844
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk and rosefish	Calendar year	17,804,128	Pound	14,828,350
White or Irish potatoes:	12 months from Sept. 15, 1943			
certified seed		90,000,000	Pound	14,303,720
Other		60,000,000	Pound	3,158,658
Red cedar shingles	Calendar year	2,506,072	Square	1,339,824
Cuban filler tobacco, unstemmed or stemmed (other than cigarette leaf tobacco), and scrap tobacco	Calendar year	22,000,000	Pound (unstemmed equivalent)	(Quota filled)
Molasses and sugar sirups containing soluble nonsugar solids equal to more than 6% of total soluble solids	Calendar year	1,500,000	Gallon	310,055

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, December 8, 1943.

Press Service
No. 39-83

The Bureau of Customs announced today preliminary figures for imports of commodities within quota limitations provided for under trade agreements, from the beginning of the quota periods to November 27, 1943, inclusive, as follows:

Commodity	Established Quota		Unit of Quantity	Imports as of Nov. 27, 1943
	Period and Country	Quantity		
Whole milk, fresh or sour	Calendar year	3,000,000	Gallon	6,566
Cream, fresh or sour	Calendar year	1,500,000	Gallon	844
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk and rosefish	Calendar year	17,804,128	Pound	14,828,350
White or Irish potatoes:	12 months from Sept. 15, 1943			
certified seed		90,000,000	Pound	14,303,720
Other		60,000,000	Pound	3,158,658
Red cedar shingles	Calendar year	2,506,072	Square	1,339,824
Cuban filler tobacco, unstemmed or stemmed (other than cigarette leaf tobacco), and scrap tobacco	Calendar year	22,000,000	Pound (unstemmed equivalent)	(Quota filled)
Molasses and sugar sirups containing soluble nonsugar solids equal to more than 6% of total soluble solids	Calendar year	1,500,000	Gallon	310,055

(Over)

Commodity	Established Quota: Period and Country	Established Quota: Quantity	Unit of Quantity	Imports as of Nov. 27, 1943
Silver or black foxes, furs, and articles: Foxes valued under $250 each and whole furs and skins	Period - May - Nov. 1943 All countries	33,229	Number	(Quota filled)
Tails	12 months from Dec. 1, 1942	5,000	Piece	463
Paws, heads, or other separated parts	"	500	Pounds	(Quota filled)
Piece plates	"	550	Pounds	-
Articles, other than piece plates	"	500	Unit	105

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39-84

FOR IMMEDIATE RELEASE,
December 7, 1943.

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and wheat flour entered, or withdrawn from warehouse, for consumption under the import quotas established in the President's proclamation of May 28, 1941, as modified by the President's proclamations of April 13, 1942, and April 29, 1943, for the 12 months commencing May 29, 1943, as follows:

Country of Origin	WHEAT		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Established Quota (Bushels)	Imports May 29, 1943 to Nov. 27, 1943 (Bushels)	Established Quota (Pounds)	Imports May 29, 1943 to Nov. 27, 1943 (Pounds)
Canada	795,000	795,000	3,815,000	196,840
China	-	-	24,000	-
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	-
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	-
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	-
Netherlands	100	-	1,000	-
Argentina	2,000	-	14,000	-
Italy	100	-	2,000	-
Cuba	-	-	12,000	-
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Danzig	-	-	1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-	-	1,000	-
Norway	-	-	1,000	-
Canary Islands	-	-	1,000	-
Rumania	1,000	-	-	-
Guatemala	100	-	-	-
Brazil	100	-	-	-
Union of Soviet Socialist Republics	100	-	-	-
Belgium	100	-	-	-
	800,000	795,000	4,000,000	196,840

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, December 8, 1943.

Press Service
No. 39-84

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and wheat flour entered, or withdrawn from warehouse, for consumption under the import quotas established in the President's proclamation of May 28, 1941, as modified by the President's proclamations of April 13, 1942, and April 29, 1943, for the 12 months commencing May 29, 1943, as follows:

Country of Origin	WHEAT		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Established Quota	Imports May 29, 1943 to Nov. 27, 1943	Established Quota	Imports May 29, 1943 to Nov. 27, 1943
	(Bushels)	(Bushels)	(Pounds)	(Pounds)
Canada	795,000	795,000	3,815,000	196,840
China	-	-	24,000	-
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	-
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	-
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	-
Netherlands	100	-	1,000	-
Argentina	2,000	-	14,000	-
Italy	100	-	2,000	-
Cuba	-	-	12,000	-
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Danzig	-	-	1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-	-	1,000	-
Norway	-	-	1,000	-
Canary Islands	-	-	1,000	-
Rumania	1,000	-	-	-
Guatemala	100	-	-	-
Brazil	100	-	-	-
Union of Soviet Socialist Republics	100	-	-	-
Belgium	100	-	-	-
	800,000	795,000	4,000,000	196,840

39-85

FOR IMMEDIATE RELEASE,
December 7, 1943.

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	Quota Quantity (Pounds) 1/	Authorized for entry for consumption	
		As of (Date)	(Pounds)
Signatory Countries:			
Brazil	1,353,183,480	Nov. 27, 1943	180,402,035
Colombia	458,336,340	"	83,342,496
Costa Rica	29,100,720	"	1,696,911
Cuba	11,640,288	"	1,716,157
Dominican Republic	17,460,432	"	2,664,122
Ecuador	21,825,540	"	7,341,998
El Salvador	87,302,160	"	938,025
Guatemala	77,844,426	"	2,510,843
Haiti	40,013,490	"	1,379,318
Honduras	2,910,072	"	460,324
Mexico	69,114,210	"	9,362,423
Nicaragua	28,373,202	"	500,406
Peru	3,637,590	"	307,300
Venezuela	61,111,512	"	4,850,381
Non-signatory Countries:			
	51,653,778	"	1,991,173

1/ Quotas as established by action of the Inter-American Coffee Board on March 11, 1943.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, December 8, 1943.

Press Service
No. 39-85

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

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Ecuador	21,825,540	"	7,341,998
El Salvador	87,302,160	"	938,025
Guatemala	77,844,426	"	2,510,843
Haiti	40,013,490	"	1,379,318
Honduras	2,910,072	"	460,324
Mexico	69,114,210	"	9,362,423
Nicaragua	28,373,202	"	500,406
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Non-signatory Countries:	51,653,778	"	1,991,173

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-oOo-

result of a self-imposed rationing system inaugurated by distillers, combined with an order of the War Production Board restricting the use of bottles to 65 percent of the number used in certain base periods of 1942.

"This reduction in withdrawals, together with increased purchasing power of the public, has created a large shortage of liquor, and has resulted in black market prices and the hoarding of stocks by some wholesalers and retailers, and, to some extent, by preferred consumer customers.

"This Unit has been conducting an extensive survey of the black market conditions, which has disclosed numerous violations of Internal Revenue laws and price ceiling violations on the part of wholesalers and retailers. These investigations are resulting in the seizure of liquors, the arrest of violators, the reporting of cases to United States Attorneys for prosecution, and the institution of proceedings to annul or revoke permits of wholesalers."

He said a survey by the Unit indicated the bottle scarcity might be alleviated to considerable extent if bottlers shifted to quart packages instead of the various sizes used heretofore.

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O.P.A.

contain little or no Juniper flavoring -- the essential flavoring material for gin under the standards of identity -- and that in many instances the product was made from inferior spirits. The Bureau of Customs has been asked to withhold release of imported gin products until samples have been examined in Treasury laboratories.

Similar difficulties have developed in connection with some "whiskies" in the import trade, and the Unit is withholding action on label applications until samples are analyzed. The so-called whiskies in some cases have been found to be cane spirits and flavoring, often bearing little resemblance to whisky. Steps are being taken to require age statements on products that are found to be whisky.

Mr. Berkshire said the Unit would enforce the labelling regulations stringently on these imports, as the quality of much of the product examined is so inferior as to cause adverse consumer reaction.

Recent weeks have seen several substantial seizures and arrests in connection with "cutting" and bottling operations in New York, Pennsylvania, and New Jersey, with some cases also involving counterfeit revenue stamps and labels. This traffic in adulterated and mislabelled liquors constituted a serious enforcement problem in prohibition days and in the early years following repeal. The isolated seizures of this type in November were the first of importance in many months.

As to the general liquor situation, Mr. Berkshire said:

"~~Tax payments on~~ withdrawal of distilled spirits from bond for consumption for the past six months are at the rate of approximately 65 percent of withdrawals during 1942. This is the

Failure of wholesalers to keep required records of sales and falsification of these records have been among the most numerous violations discovered. The agents have been interested particularly in tracing large unit sales which might indicate a diversion into black market channels. Proceedings looking to revocation of permits to do business are being instituted in cases where regulations have been violated. Prosecutions for failure to obtain retail permits also are being instituted against some "peddlers" operating outside regular trade channels.

Mr. Berkshire emphasized that the Alcohol Tax Unit's particular concern is the administering of the revenue laws as applied to alcoholic beverages and the maintenance of fair trade practices.

In the revenue field, the drive against illicit distilling brought seizures of 507 stills in a four weeks' period, an increase of 46 percent over the same four weeks last year when "moonshining" was at the lowest level since the repeal of national prohibition. The amount of mash seized at these stills increased 106 percent over the 1942 period, indicating some increase in the size of the plants captured. Sugar rationing and other war factors have helped to keep illicit distilling at extremely low levels despite the high level of federal taxes and the shortage of tax-paid liquor.

The southeast Atlantic states continue to provide the bulk of still seizures, with a tendency in recent months toward an increase in such violations, compared with the autumn of 1942.

Agents are giving close scrutiny to imports of gin from Cuba and Mexico. Mr. Berkshire said that it has been found that many such shipments of gin

TO: Mr Colbert

Public Relations

I think it's a good idea and a good story, but your quoted words don't need to be quoted even though they are. Cant phrases. Don't be so coy.

FROM: MR. GASTON W.E.G.

TO:

Mr. Gaston

What do you think of the wisdom of taking some of the wraps off our activities against the liquor black market?

I will clear with Revenue, of course.

Mr. Berkshire goes up before the Van Nuys committee on Friday, but plans to be available just for questioning, without making a formal statement.

Could we release some of this before the hearings?

Coffelt

Mr. Schwarz

Friday ams

39-86

Striking at the so-called Black Market in liquor by invoking Internal Revenue regulations set up to protect the revenue and insure fair trade practices in the industry, the Treasury's Alcohol Tax Unit is conducting a nationwide investigation which is resulting in numerous civil and criminal cases against violators, it was revealed today.

The Unit also moved vigorously against what has the appearance of an incipient mild revival of moonshining, and has stepped on several isolated cutting and false-labelling conspiracies. Working with the Bureau of Customs, the Unit has acted to halt importation of synthetic and substandard spirits where mislabelling is involved.

The fair trade investigation, which is continuing, constitutes a new approach to the problems resulting from shortage of distilled spirits resulting from wartime conditions.

Stewart Berkshire, head of the Alcohol Tax Unit of the Bureau of Internal Revenue, pointed out that violations of rationing orders primarily are a responsibility of state or local liquor control boards, and that violations of price ceilings primarily are matters for the Office of Price Administration.

However, a widespread probe by Alcohol Tax agents has shown that in many cases corollary violations of Internal Revenue laws and regulations have occured which are subject to federal prosecution or civil action. The Unit is cooperating with the other agencies where violations outside its immediate jurisdiction are uncovered.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, December 10, 1943.
12-9-43

Press Service
No. 39-86

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for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on December 16, 1943 (7).

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid

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TREASURY DEPARTMENT
Washington

39-87

FOR RELEASE, MORNING NEWSPAPERS,
Friday, December 10, 1943 (1).

The Secretary of the Treasury, by this public notice, invites tenders for $1,000,000,000 (2), or thereabouts, of 91 (3)-day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated December 16, 1943 (4), and will mature March 16, 1944 (5), when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern War time, Monday, December 13, 1943 (6). Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, December 10, 1943.
12-9-43

The Secretary of the Treasury, by this public notice, invites tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated December 16, 1943, and will mature March 16, 1944, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

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Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final.

(Over)

Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on December 16, 1943.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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For Immediate Release

3758

Vincent F. Callahan, radio executive and former newspaperman, today resigned as Director of Advertising, Press and Radio of the War Finance Division of the Treasury Department. ~~Mr. Callahan~~ He leaves the Treasury to return to private business.

In 1941, Mr. Callahan was appointed Chief of Radio for the Defense Savings Staff. Later he was placed in charge of all advertising, press and radio in connection with the promotion of the sale of War Bonds.

During the current year, ~~under Mr. Callahan's direction,~~ the War Bond program was supported with more than $100,000,000 worth of contributed advertising in all media, the greatest promotion campaign in history.

~~Employees of the advertising, radio and press sections of the War Finance Division have arranged a farewell dinner for Mr. Callahan on Wednesday of next week.~~ #

12/10/43

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, December 10, 1943.

Press Service
No. 39-88

Vincent F. Callahan, radio executive and former newspaperman, today resigned as Director of Advertising, Press and Radio of the War Finance Division of the Treasury Department. He leaves the Treasury to return to private business.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, December 13, 1943.

Press Service

39-89

Secretary of the Treasury Morgenthau announced today that all outstanding 3-1/4 percent Treasury Bonds of 1944-46 are called for redemption on April 15, 1944. Approximately $1,519,000,000 of these bonds are now outstanding.

The text of the formal notice of call is as follows:

THREE AND ONE-QUARTER PERCENT TREASURY BONDS OF 1944-46

NOTICE OF CALL FOR REDEMPTION

To Holders of 3-1/4 percent Treasury Bonds of 1944-46, and Others Concerned:

1. Public notice is hereby given that all outstanding 3-1/4 percent Treasury Bonds of 1944-46, dated April 16, 1934, are hereby called for redemption on April 15, 1944, on which date interest on such bonds will cease.

2. Holders of these bonds may, in advance of the redemption date, be offered the privilege of exchanging all or any part of their called bonds for other interest-bearing obligations of the United States, in which event public notice will hereafter be given and an official circular governing the exchange offering will be issued.

3. Full information regarding the presentation and surrender of the bonds for cash redemption under this call will be found in Department Circular No. 666, dated July 21, 1941.

Henry Morgenthau, Jr.,
Secretary of the Treasury.

TREASURY DEPARTMENT,
Washington, December 13, 1943.

TREASURY DEPARTMENT
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FOR RELEASE, MORNING NEWSPAPERS,
Monday, December 13, 1943.
12-11-43

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To holders of 3-1/4 percent Treasury Bonds of 1944-46, and Others Concerned:

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2. Holders of these bonds may, in advance of the redemption date, be offered the privilege of exchanging all or any part of their called bonds for other interest-bearing obligations of the United States, in which event public notice will hereafter be given and an official circular governing the exchange offering will be issued.

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TREASURY DEPARTMENT,
Washington, December 13, 1943.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, December 14, 1943.

Press Service

The Secretary of the Treasury announced last evening that the tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated December 16, 1943, and to mature March 16, 1944, which were offered on December 10, were opened at the Federal Reserve Banks on December 13.

The details of this issue are as follows:

Total applied for - $1,814,954,000
Total accepted - 1,000,179,000 (includes $65,767,000 entered on a fixed-price basis at 99.905 and accepted in full)
Average price - 99.905 Equivalent rate of discount approx. 0.375% per annum

Range of accepted competitive bids:

High - 99.925 Equivalent rate of discount approx. 0.297% per annum
Low - 99.905 " " " " " 0.376% " "

(46 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 15,915,000	$ 10,380,000
New York	1,221,238,000	605,210,000
Philadelphia	54,467,000	33,907,000
Cleveland	58,400,000	52,163,000
Richmond	22,364,000	19,475,000
Atlanta	18,418,000	12,660,000
Chicago	190,251,000	114,543,000
St. Louis	33,455,000	20,490,000
Minneapolis	5,788,000	5,724,000
Kansas City	35,618,000	26,978,000
Dallas	19,860,000	13,982,000
San Francisco	139,180,000	84,667,000
TOTA:	$1,814,954,000	$1,000,179,000

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, December 14, 1943.

Press Service

39-90

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, December 14, 1943.
12-13-43

Press Service
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Dallas	19,860,000	13,982,000
San Francisco	139,180,000	84,667,000
TOTAL	$1,814,954,000	$1,000,179,000

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, December 14, 1943.

Press Service
No. 39-91

The Treasury received today the sum of $233,915.06 from the Government of Finland, representing a payment of principal in the amount of $84,000 and the semiannual payment of interest in the amount of $136,220.00 under the Funding Agreement of May 1, 1923, and $13,695.06 as the sixth semiannual annuity due under the postponement agreement of May 1, 1941. This payment represents the entire amount due from the Government of Finland on December 15, 1943 under these agreements.

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Exhibit 2

Income ranges within which it is advantageous for married couples to file (a) separate or (b) joint returns under H. R. 3687, assuming three different dependency statuses 1/

Combined net income			Type of return resulting in lesser tax
No dependents	One dependent	Two dependents	
$ 700 - $1,045	$ 800 - $1,433	$ 900 - $1,820	Separate
1,045 - 4,733	1,433 - 5,083	1,820 - 5,433	Joint
Over 4,733	Over 5,083	Over 5,433	Separate

Treasury Department, Division of Tax Research December 8, 1943

1/ Division of income between husband and wife assumed to be such that the potential advantage from the use of either type of return will be at a maximum.

after 16 ①

Exhibit 1

Income ranges within which it is advantageous for married couples to file (a) separate or (b) joint returns under H. R. 3687, assuming three different percentage divisions of income between husband and wife

Married couple - one dependent 1/

Combined net income			Type of return resulting in lesser tax
Income divided 50 - 50	Income divided 60 - 40	Income divided 70 - 30	
$ 800 - $1,071	$ 800 - $1,363	$ 800 - $1,309	Separate
1,071 - 5,167	1,363 - 5,558	1,309 - 5,898	Joint
Over 5,167	Over 5,558	Over 5,898	Separate

Treasury Department, Division of Tax Research — December 8, 1943

1/ Assuming dependent credit taken by spouse with larger income.

D. Consistency of Treasury position

Although not a technical point there is one other statement in the Joint Staff statement that calls for comment. On page 3 it is stated that the Treasury position before the House Ways and Means Committee was that "there was no better way of accomplishment" of the objective of taxing those now subject only to Victory tax than the integration plan now contained in the House Bill. This is not an adequate presentation of the position taken by the Treasury before the Ways and Means Committee. The Treasury was asked its opinion of the plan with no advance knowledge of the plan. On the basis of a hasty review of the major points of the proposal over a few minutes a tentative reaction was given to the Committee that at the moment no better alternative came to mind to accomplish the objective of keeping on the tax rolls the 9,000,000 taxpayers at the bottom of the taxable income scale.

After the Treasury had had an opportunity to study the integration plan now in the House Bill, it stated unequivocally to the Committee on Ways and Means that the plan was "hopelessly complicated." However, the Treasury was not afforded an opportunity to discuss its objections in detail before the Ways and Means Committee. It is to be noted that the Joint Staff statement failed to mention the later clarification of the Treasury position on the House Bill integration plan.

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C. Relationship of Treasury integration proposal to remainder of the Treasury individual income tax proposal

The Joint Staff statement indicates (pp. 3, 4) that the Treasury did not present an integration proposal to the Committee on Ways and Means. The Treasury income tax proposals to the Congress this fall have from the first contained the integration element. The proposal submitted to the Ways and Means Committee was designed not only to raise revenue but to absorb the Victory tax burden into the regular income tax structure. At that time, no need was seen for singling out the integration features of the proposal for separate presentation. It was thought that integration would be accomplished as part of a general increase in income tax rates together with other changes (such as lowered exemptions and repeal of the earned income credit), and that a separate discussion of the integration segment of the proposal would merely complicate the problems before the Ways and Means Committee.

However, the Senate Finance Committee was confronted with a specific integration proposal in the House Bill. Hopes for a general upward revision of income tax rates had not materialized. Therefore, to aid the Committee in the consideration of matters before it, the integration segment of the Treasury proposal was treated separately to facilitate analysis and comparison with the integration provisions of the House Bill. (Hearings, pp. 25-32)

2. On page 15 of the Joint Staff statement it is argued that the costs of administration attributable to the returns of the 9 million taxpayers eliminated under the Treasury integration plan would not be as great as the revenue that would be collected from them. Quite aside from the untenable implication that a tax is worthwhile if it does not cost 100 percent to collect is the fact that in judging whether an administrative expenditure is worthwhile alternative operations must be considered. Insofar as personnel is freed from the administrative tasks involved in the handling of these millions of minor items, increased attention could be devoted to more adequate collection from other more profitable areas of the tax base with results that might be expected to exceed the amount of revenue lost by eliminating these small taxpayers. Moreover, any consideration of the costs of maintaining these small accounts on the tax rolls should include the withholding burdens imposed upon employers and the taxpayers' own tasks of compliance, as well as merely costs to the Bureau of Internal Revenue.

B. Estimated revenue from the minimum tax

On page 13 the Joint Staff statement implies that the Treasury represented the yield of the minimum tax at $161,000,000, whereas the actual yield would be more. The Treasury figure does not relate and was never intended to relate to the whole minimum tax. It is the estimate of how much the 9 million persons who would be wholly relieved from income tax under the Treasury proposal would pay under the House Bill.

merely of the application of a 3 percent rate to the excess of the wages over a uniform withholding exemption, for example, $12 for a weekly payroll, regardless of the wage-earner's family status. Under the House Bill if he found that minimum tax withholding applied, his computations would require use of a separate set of exemptions that vary with family status as do those for regular income-tax withholding. Under the Treasury integration proposal, withholding would be least complicated since there would be only one set of exemptions and rates to apply. Under present law, payroll procedures are simplified by the fact that all wage earners subject merely to Victory tax withholding can be treated uniformly. Under the House Bill, complications would be increased since differentiation according to family status would be required for both minimum and regular taxes.

IV. Other points on integration

A. Administrative problem under House Bill

1. The Joint Staff statement attempts to rebut the Treasury's contention that the House Bill would unduly complicate the administrative process by stating (on page 12) that elimination of 2.4 million returns "cannot be termed an addition to the problem of administration." This truism does not constitute an answer to the evidence presented by the Treasury to show that administrative burdens would be greatly increased under the House Bill. The benefits of eliminating 2.4 million returns would be far more than offset by the complexities of the tax computations, the resultant large numbers of errors, and the necessity for furnishing the majority of taxpayers with assistance in determining the most advantageous method of filing under the House Bill.

will be subject to two different taxes, with different exemptions and rates, will not be at all rare under the House bill. Taking merely the case cited in the Treasury's statement, we see that with the husband's income at $900, he would be subject to the regular tax, while his wife would be subject to the minimum tax if her income fell anywhere between $600 and $888. Two taxes side by side will be a very real problem for numerous taxpayers.

III. Complication of withholding under House Bill

The Treasury has stated that the provision of the House Bill substituting varying minimum tax exemptions for the present fixed Victory tax exemption would complicate withholding operations (Hearings, p. 28, 29). This conclusion is attacked on page 13 of the Joint Staff statement. It is asserted that a table would be provided from which employers could readily determine, in each individual case, whether withholding is to be computed by use of the minimum tax or the regular income tax rates and exemptions.

This answer does not meet the point in question for the many employers who use the more accurate "precise" method of withholding. A table of this sort would of course be provided, and is in fact in use under present law. The complication is introduced, however, in the next step after the employer has used such a table to determine which of the alternative bases for withholding applies. Under present law if he finds that Victory tax withholding is appropriate, the remaining computation consists

II. Complexity in having a minimum tax side by side with the regular tax

The Committee staff states on page 4 that, because a table guiding taxpayers into either the minimum or the regular tax can be prepared, the Treasury is wrong in asserting that there will be two alternative taxes, that is, the minimum tax and the regular tax, side by side under the House bill. Aside from the disadvantage that the tabular guide will itself be a device new to American taxpayers, it is obvious that the preparation of mechanical guides does not conjure the minimum tax out of existence. There are still two taxes (one of them entirely new) to be explained, two taxes to be understood, and two taxes to be dealt with. Those who explain the tax by written or spoken word will have to labor through both the minimum tax and the regular tax; no mechanical guide can relieve them of the task of explaining, nor the taxpayer from the task of trying to understand, two different taxes with intricate interrelations.

For many married couples, moreover, the two taxes will actually be side by side as a practical matter in the course of their tax computations. Many couples filing separate returns will find that the husband is subject to the regular tax and the wife to the minimum tax, or vice versa. It is to be noted that the Joint Committee staff did not dispute the example given in the Treasury's statement illustrating this point (page 26 of the Hearings). The cases where husband and wife

of the Joint Staff statement would hold only under the 50-50 division of income which is implicitly assumed in the table. If, for example, a couple without dependents had somewhat more than $4,734 (2 times $2,367) divided 45-55 instead of 50-50 as in table 4, separate returns would not be desirable. 1/ With a more uneven distribution of income the incomes at the breaking points increase.

On page 10 the Joint Staff statement asserts as an advantage of the House bill that it raises the amount of combined net income above which it is desirable for a married couple without dependents to file separate returns from $3,200 to $4,733. At the same time it cites the lowering of this amount to $1,600 under the Treasury proposal as a disadvantage. This argument entirely misses the essential point that, putting aside equity questions and looking at the problem from the standpoint of simplification or complexity, it makes no significant difference whether this point is high or low. The important thing for purposes of simplification is that the point be clearly defined and readily determinable. Under both the present law and the Treasury proposal the breaking-point is constant in terms of surtax net income, and may be computed at a glance in terms of net income. Under the House bill the breaking-point is variable and difficult to determine.

1/ If the split was 45-55, separate returns would result in a total tax of $862 as compared with $859 under a joint return. An increase in the inequality of the division of income between husband and wife would increase the disadvantage of separate returns at this combined net income level.

complexity. As the number of such guide tables was increased, an increasing number of taxpayers would come within the purview of one or more tables. The complexity of such a system of multiple guides would render them impracticable.

An analysis of table 4, page 10 of the statement of the Joint Committee Staff brings out clearly the essential difference between the joint vs. separate returns problem in the regular income tax area under the House bill as compared with the problem under either the present law or the Treasury integration proposal.

As the table shows, the amount of combined net income above which separate returns become advantageous varies under all three tax methods with the number of dependents. What the table does not show is the fact that the point above which separate returns become advantageous is fixed in terms of surtax net income under both present law and the Treasury proposal. Under present law this point is at $2,000 of combined surtax net income; under the Treasury proposal involving a $500 first income bracket, this point would be at $500 combined surtax net income. These points are constant regardless of the number of dependents and regardless of the division of income. By striking contrast, under the House bill this point varies in terms of surtax net income with both the number of dependents and the percentage division of income.

In this connection, it should be noted that, just as in table 3, the breaking-points under the House bill indicated in table 4, page 10

(11)

(10)

Nevertheless, the advantage of joint returns for this couple would exceed that of a couple with the same income, equally divided. With a 40-60 split the combined tax under separate returns would be $868.87 as compared with $858.67 under joint returns. An additional table would be necessary to guide the couple with the 40-60 split of income. Separate additional tables would likewise be required for each different division of income if taxpayers are to be guided to joint or separate returns by the use of tables. 1/ Some of the variations in the ranges of advantage caused by variations in the division of income are illustrated in the attached Exhibit 1.

It should be noted that, as the figures in table 3 in the statement indicate, the ranges of advantage vary with the number of dependents. This is further dmmonstrated in Exhibit 2.

From these examples and the tables here presented, it is clear, as the Treasury previously pointed out, that both the division of income and the number of dependents are important in determining the zones of advantage for one type of return or the other. Moreover, they bring into clear focus the important practical consideration that a number of tables like sample table 3 would be necessary to meet the bulk of taxpayer situations. These tables would have various maximum and minimum limits for the income of each spouse for various dependency statuses. Such tables would tend to overlap, with a taxpayer finding himself on more than one table, thus adding to the confusion and

1/ In addition to the defects of the lower limits, admitted on page 12 of the statement of the Joint Committee Staff, this analysis shows that the upper limits of table 3 are ambiguous.

not meet the conditions under which joint returns were advantageous, since the gross income of one spouse was less than the minimum of $555.85. Actually, however, this couple should file joint returns since the liability under joint returns would be $10.35 as compared with $36.34 under separate returns.

Again, take the case of a couple without dependents receiving a combined gross income equal to $5,035.46. If their income was divided equally each receiving $2,517.73 they would be guided by the table into joint returns. 2/ 1/ If, however, they received the same combined gross income, or $5,035.46, divided unequally, 40-60, one would receive $2,014.18; the other, $3.021.28. The table would offer no guide. It would in fact imply that joint returns would not be advantageous, since the income of one spouse exceeded the maximum allowed by the table.

2-1/ At this income level with a 50-50 split of income their liability would ~~XXX~~ be the same or $858.67 under either joint or separate returns.

However, the adequacy and usefulness of this type of table as a guide to the taxpayer is dubious and at best limited. There is no guidance for great numbers of taxpayers. For example, suppose the husband earns $2,600 and the wife $1,000. If they have no dependents, table 3 would not guide them because the husband's earnings would exceed the maximum income for one spouse to which the table would be applicable. If they have ~~XXXX~~ four dependents, table 3 would not answer their problems because the wife's income would be less than the minimum amount assumed for one spouse where there are four dependents.

The table sets limits within which joint returns give the lowest tax. If it is to be a guide to the taxpayer, he would presumably have a right to expect that outside these limits joint returns would not give the lowest tax. But in numerous situations this is not the case. For example, suppose that a married couple with no dependents received a combined gross income of $1,111.70, i.e., two times $555.85. If their income was divided equally, each receiving $555.85, the table would guide them into joint returns. 1/ Suppose, however, they received the same gross income of $1,111.70, divided $700 and $411.70. This table in itself would imply that they did

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1/ At this combined income level the liability under joint or separate returns would be identical, i. e., $10.35.

Point that perlexity is same on the short as it is on the long form

At several points, notably page 9 (~~second sentence~~) the Joint Staff statement suggests that couples using the short form (1040A) would avoid any laborous computations. ~~This~~ ~~suggestion is erroneous~~. In fact, however, the fundamental perplexity with respect to the choice of joint or separate returns is by no means limited to users of Form 1040. It is practically the same whether the taxpayer uses or intends to use either 1040 or 1040A. The simplification of the arithmetic in the final computation does not affect the basic perplexity. Furthermore, even though to reach the smallest tax the taxpayer ultimately chooses the short form, in the process of arriving at this decision he would in many cases have to make trial computations involving both long and short forms.

C. Determination of income levels affected by complexity of choice

The Joint Staff statement (page 9) denies the truth of the assertion that because of variables in the possible division of income and dependents between husband and wife "no clear dividing lines or income zones can be established to guide taxpayers into one type of return or the other." Table 3 on page 9 of the Joint Staff statement appears to be offered as a sample of the type of table which might be used to guide the taxpayer into the type of return which would be advantageous for him to use.

This table is consistent with ~~figures~~ a table previously submitted by Treasury; it differs from the Treasury figures in that it is on a gross income basis rather than a net income basis and that it makes certain limiting assumptions as to the division of income by assuming maximum and minimum incomes for each spouse. If the gross income figures in Table 3 for a married couple with one dependent are converted to net income by subtracting 6 percent for average deductions, and are multiplied by two, they ~~tally exactly~~ check with the Treasury's figures for breaking points assuming a 50-50 division of income, given on page 2 of Appendix B of the November 29, 1943 statement (page 578 of Finance Committee Hearings).

similar dilemma. Under the Treasury proposal the choice between joint and separate returns would not only be clear-cut but would be the same as it is under present law, thus requiring no reappraisal of the most advantageous method of filing.

the tax if he uses Form 1040, while he may find the tax in a table for each alternative if he uses Form 1040-A.

The Joint Staff statement (on page 8) questions the Treasury assertion that the House bill will confront more than 10 million married couples with the choice between joint and separate returns. The figure of 10 million is, if anything, an understatement. Under the House bill, virtually every husband and wife, both receiving income, except those in relatively high brackets, will face the complex problem of choosing between joint and separate returns. The choice will, as noted above, require the weighing of many complicated factors not now involved in the tax law. While guides may be established to reduce the complexity for some taxpayers, they can at best cover only part of these married couples. With or without the guides, however, the problem will be confusing and often complex.

The Joint Staff statement goes on to say (page 11) that even if the Treasury assertion is true, "it follows that the only possible reason that the Treasury proposal would not confront a good many more than 10 million couples with this dilemma is that their proposal completely relieves 9 million persons of any tax whatsoever." It is not clear whether an implication is intended that the Treasury proposal would confront more than 10 million married couples with a

B. Number of taxpayers affected by the complexity

It is asserted on page 3 of the Joint Staff statement that the cases where complications arise under the House bill are "limited to those persons who choose to file on the long form of return with the hope that a few dollars of tax could be saved." The quoted statement implies that persons filing the long form to save taxes should pay the penalty of such complexity. However, the fact that people in very large numbers compare liabilities when there is a chance of saving money (as is indicated by the fact that about ~~half~~ 40 percent of the persons eligible to use Form 1040A ~~normally file~~ filed on Form 1040 in 1942) makes the problem one of taxpayer understanding and convenience, not one of penalty. The further implication that only persons seeking to save tax use the long form is contrary to the fact that many persons are required to file the long form because the sources or the size of their incomes may bar them from the use of the short form 1040A.

Moreover, the complications in the choice between joint and separate returns and in the division of dependents between spouses are not limited to Form 1040, the long form. Persons filing Form 1040-A, the short form, also have to make the choice by comparing liabilities under joint and separate returns and various divisions of dependents. The only difference between Forms 1040 and 1040-A is that for each of these possible divisions the taxpayer has to compute

law offers no incentive for married couples with small incomes to file separate returns, and on the other that it makes no difference to such taxpayers which type of return they file. First of all, it should be said that there is no inherent contradiction between the two statements, even without qualifications. Second, the Treasury's statement that under present law it is a matter of indifference to married couples with surtax net income below $2,000 whether they file separate or joint returns clearly applies only so long as no exemption is wasted. If the filing of separate returns results in unused exemptions under present law, it is no longer a matter of indifference; it is simply irrational. Filing separate returns may waste and thereby reduce the exemption. It cannot result in an increase in exemption. Therefore, while it may be a matter of indifference whether joint or separate returns are filed (where no exemption is wasted), there cannot in any event be any incentive (in terms of rates and exemptions) to file separate returns. The Treasury's statements are wholly consistent with each other.

The points just made clearly indicate the irrelevancy of the assertions in the Joint Staff statement that there is "absolutely no difference between the number of possible computations under the present law and under the House bill ..." (Page 8) One or two other assertions on this subject require mention. On page 8 it is noted that in 4 of the 5 cases listed in the table prepared by the Treasury showing alternative computations, some of the regular income tax exemption was unused. This was said to be an "absurd" assumption. However, because of the existence of the minimum tax, it is entirely possible to "waste" some of the regular income tax exemption and yet obtain the lowest combined tax liability in the face of such wastage. ~~An example of this is given below in Section ___.~~ Therefore, loss of part of the regular exemption is no guarantee that a given method of filing is disadvantageous.

The further point is made that "many of the possible allocations of the dependency credit would not be permitted under the existing law which requires that the taxpayer receiving dependency credit must provide the major support of the dependent." (Page 8) As a matter of practice, it is well known that dependents are not in fact allocated according to the major support principle. To enforce this principle would be well-nigh impossible. The Bureau of Internal Revenue has not attempted to prevent taxpayers from allocating dependents in any manner they see fit.

On page 8 the Joint Staff statement asserts that the Treasury's testimony contradicts itself in saying on the one hand that present

than $2,000 produces no tax advantage, and (2) this is a fact easily explained to and understood by taxpayers, the problem of alternative tax computations is, for all practical purposes, non-existent under present laws.

Under the House bill, where (1) the amounts of the exemption ~~is~~ are different under joint and separate returns and under both the minimum tax and the regular tax, and (2) the rates may also differ as between joint and separate returns and different allocations of dependents, the choice between joint and separate returns is anything but clear. The advantages do not run all in the direction of joint returns in one income area and all in the direction of separate returns in another. There are several opposing factors and several different zones of advantages. Where husband and wife are subject to the minimum tax, separate returns result in a larger exemption than a joint return; where they are subject to the regular tax, separate returns result in a smaller exemption. In addition, the credit for dependents varies as between the minimum tax and the regular tax. The combination of these factors makes the choice between joint and separate returns and different divisions of dependents a very real and very complex one under the House bill.

in part of the area where separate returns have been preferable, joint returns will become advantageous. Therefore, there will not only be a problem of complexity in choosing the method of filing, there will also be a shift to separate returns for many persons now filing joint returns, and vice versa.

(6) Under present law there is no incentive to file separate returns on Form 1040 as long as combined surtax net income does not exceed $2,000. It is common knowledge that no advantage results from the use of separate returns in this area. Conceivably, married couples can go through the motions of the alternative computations. It is entirely unrealistic to assume that they will do so, however, since the choice is entirely clear without such computations. Filing separate returns, results in neither lower rates nor higher exemptions; in fact, the only possible change in liability by filing separate returns in the area under $2,000 is an increase in liability resulting from loss of part of the personal exemption under the regular tax and a decrease in the amount of postwar credit under the Victory tax. Table 2 prepared by the Joint Committee supports exactly this view. It is to be noted that every one of the liabilities computed on separate returns is greater than the joint-return liability. Since (1) the filing of separate returns for combined surtax net incomes of less

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The whole point is that for the very taxpayer involved in the example separate returns would now be more advantageous than the joint return. Moreover the advantage lies in a particular division of dependents, two to the husband and one to the wife, but this advantage becomes known only after numerous computations are made.

file jointly, the regular tax if they file separately, or vice versa; the minimum tax may apply if dependents are allocated in one way, the regular tax, if another. Several alternative computations, often involving first the minimum and then the regular tax, will therefore be necessary in many cases to arrive at the filing combination involving the smallest amount of tax.

The statement questions the validity of the Treasury's example illustrating the series of alternative tax computations necessary under the House bill to determine the lowest combined tax for a husband and wife both having income. (Example ~~XXXXXX~~ reproduced on page 5 of statement.) The Joint Staff does not deny that 18 tax determinations would be necessary under the House bill. However, on pages 5 through 8, the Committee ~~XXX~~ attempts to show that the same choices and alternative computations would be possible under present law. It is true that 18 computations could be made under present law in the situation cited. The crux of the matter, however, is not that the computations are possible, but that taxpayers would not find any point in making them. Under present law, the choice between joint and separate returns is perfectly clear and requires no alternative computations. Under the House bill, the choice is not clear; in fact, in a considerable part of the area where joint returns have heretofore been clearly preferable, separate returns will become advantageous. Likewise,

(5)

Line 3

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The points regarding complexity, raised by the Joint Committee Staff statement, are answered in the following discussion.

I. The problem of the choice between joint and separate returns

The Treasury and the Staff of the Joint Committee differ sharply on the complexity involved in the choice between joint and separate returns under the minimum tax. The chief points of difference center on: (1) the nature and magnitude of the complexity under the House Bill and its comparison with present law; (2) the number of taxpayers affected by the complexity involved in the choice; (3) the income ranges in which the choice between joint and separate returns must be faced.

A. The nature and magnitude of alternative tax computations

On page 3 the Joint Staff states that "no income taxpayers will have to compute two different taxes to determine their tax liability." This statement is in error. Although once the decision to use joint or separate returns has been made and the allocation of dependents decided upon, only one tax -- either the regular or the minimum -- will apply to each spouse, the process of choosing will itself frequently involve confusing switches between the regular and minimum tax. Many married couples where both spouses receive income will have to compute both minimum and regular taxes in comparing the advantages of joint and separate returns and of different divisions of dependents between spouses. The minimum tax may apply if they

Mr Paul took proof
two pages of this
speech for his reading
copy
12/13

ATTENTION OF Mr Mann

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This is part of draft of this A.M. 12/15
N.R.

Statement of Randolph E. Paul,
General Counsel for the Treasury,
before the Senate Finance Committee

December 15, 1943

It was very kind of the Committee to give an opportunity to answer the statement of the Joint Staff made before the Committee yesterday. The time available has not been all I should have liked to have since some of the points involved are complicated and require extensive analysis. However, I am presenting to the Committee at this time a general answer to the Joint Staff statement and I am also furnishing a detailed answer to all points in that statement. In my answer I have endeavored to keep discussion on an objective basis and to avoid questioning the motives or the frankness of any person whose opinion may differ from mine. I think it clear that any other course is not in the interest of expeditious procedure or intelligent assistance to this Committee.

It cannot be denied -- and I see no denial in the Joint Staff statement of December 14 -- that the Treasury's integration proposal is far simpler than either the present law or the House bill. If simplicity is the controlling objective, the Treasury's integration proposal is clearly the preferable method of integration.

However, I pointed out in my statement of November 29 that under this proposal 9 million taxpayers are relieved of income tax. These 9 million taxpayers would have paid only $161 million of tax under the House bill. Under the Treasury's proposal, the amount payable by these taxpayers would have been collected from other taxpayers. There would, therefore, have been no loss of revenue. It is generally agreed that real simplification cannot be achieved without dropping these 9 million taxpayers from the rolls.

The removal of these taxpayers from the rolls is a question of policy for the Committee. The pertinent policy considerations on this point have been fully explored and there is no need to repeat them at this time. If the Committee desires to keep these 9 million taxpayers on the rolls even at the expense of obvious complication of the tax structure, the question for the Committee then becomes, What type of income tax should be used to reach them?

Eliminating the Treasury integration proposal, the alternatives are the present victory tax and the minimum tax contained in the House bill. The issue is not simply between the Treasury integration proposal and the minimum tax. If the Treasury proposal is rejected, the issue -- and it is a vital issue -- is between the victory tax and the minimum tax. The dropping of taxpayers from the rolls is not involved in this issue.

The Treasury and everybody else who recommended integration of the victory tax did so in the hope that integration would eliminate existing complications. Unless these complications are clearly and unmistakably removed by the minimum tax, there is absolutely no point in making this switch to another income tax method. The Joint Staff has presented arguments in an attempt to prove that the House bill is less complicated than the victory tax. We are answering these arguments point by point later in this statement. We are convinced that the victory tax is less complicated than the minimum tax.

Both taxes are admittedly complex. In view of the sharp difference of opinion among the experts, your Committee must at least have reached the conclusion that it is debatable whether one is more complicated than the other. Under these circumstances every policy argument is against switching from the victory tax to the minimum tax.

The taxpayer confusion and misunderstanding that would arise from a switch at this time is in itself an unanswerable argument against turning to the minimum tax. In the next few months the Treasury will be devoting every effort and cooperating with every educational facility to explain the victory tax so that millions will be enabled to fill out their March 15 returns.

This education of taxpayers is necessary even if the victory tax is replaced by the minimum tax, since returns for 1943 to be filed in March, 1944, will still be based on the victory tax.

This process of education under the victory tax will be difficult enough. But just as soon as it is achieved, the Treasury would have to turn around and go through the entire process of education all over again for the minimum tax. As a matter of fact it will be necessary to explain both the victory tax and the minimum tax at the same time to millions of taxpayers who would on March 15, 1944 file 1943 returns on the victory tax basis and 1944 declarations on the minimum tax basis. Satisfactory taxpayer education and compliance is impossible under these conditions.

Adoption of the minimum tax would necessitate new withholding tables and new withholding exemptions, presumably to become effective on April 1, 1944. Retention of the victory tax, without other changes in the income tax rates, would make unnecessary any change in the withholding tables and exemptions. Consequently, in addition to all of the taxpayer confusion which a switch from the victory tax to the minimum tax would involve, an added burden would be thrown on employers by the change in withholding necessitated by the minimum tax.

This problem can only be approached from the standpoint of administration and taxpayer compliance. The Treasury Department through the Bureau of Internal Revenue must administer the income tax. In the opinion of the Commissioner of Internal Revenue both the victory tax and the minimum tax are a handicap to satisfactory administration. However, the Commissioner has stated his opinion that of the two the victory tax is the lesser evil. I quote from a letter the Commissioner of Internal Revenue sent to the head of the Joint Staff dated December 2, 1943:

* * *

> "I should like to state at the outset that the minimum tax of the type proposed or any other tax separate from the regular income tax which will involve exemptions and credits for dependents different from those allowed for the regular income tax will be very difficult of administration."

* * *

> "Comparison with Victory Tax
>
> As between the minimum tax in H. R. 3687 and the present Victory tax which includes the compulsory current use of post-war credit, the administrative burden would be less if the Victory tax were continued."

* * *

> "* * * Especially in view of the change from one system to another, the minimum tax * * * would cause greater difficulties than those under the present law. In this regard, as I stated above, the Victory tax or any minimum tax necessarily adds serious administrative burdens to the regular income tax system and serious difficulties for the taxpayers."

It is earnestly urged upon the Committee that the judgment of the administrative agency having the burden of collecting the $17 billion under our existing income tax system is entitled to great weight when the question is one chiefly of administration. It is, in our opinion, a compelling reason against switching at this time from one complicated tax to another complicated tax.

It is possible within the framework of the Victory tax to take some steps in the direction of simplification. The Victory tax rate could be fixed at a flat 3% rate. This change would involve the least sacrifice in taxpayer education in respect to 1943 tax liability under the Victory tax. It would avoid the confusion involved in switching from a 3% Victory tax with one set of concepts to a 3% minimum tax with a totally different set of concepts. This suggestion was made to the Ways and Means Committee before that committee commenced its work on the Treasury proposals of October 4, 1943.

As I have said, I am replying point by point to the Joint Staff's criticism of my statement of November 29, 1943. At this stage, I would like to repeat the main arguments made in my statement:

1. The minimum tax involves the difficult problem of two alternative taxes and obliges taxpayers to decide which of the two taxes is applicable.

2. For millions of taxpayers it will necessitate a comparison of tax liability under separate and joint returns that is not present today.

3. It will decrease the use of simplified form 1040A.

4. It will complicate the withholding process and place additional burdens on employers.

5. It will greatly increase the administrative burden upon the Bureau of Internal Revenue.

6. It unnecessarily reduces the present tax liability of about 26 million taxpayers.

I said in my statementof November 29, 1943, that the minimum tax in its proper perspective may jeopardize the whole income tax system. The recent statement of the Joint Staff does not face the reality of this possibility. It is necessary to the survival of a tax law affecting over 50 million people that the law be made understandable to those people. I see no hope of satisfactorily explaining to millions of taxpayers over the radio, in the press, and through the mail two complicated taxes under which they must file at the same time returns for the year 1943 and declarations for the year 1944.

I therefore repeat what I said in my original statement that the minimum tax endangers the collection of more than $17 billion from over 50 million taxpayers throughout the income scale. I also repeat what I said in response to a question asked during my testimony of November 29th that the Victory tax is the lesser of the two evils with which the Committee is confronted if it decides as a matter of policy that it is essential to keep on the tax rolls 9 million taxpayers who pay a total tax of only $161 millions.

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The points regarding complexity, raised by the Joint Committee Staff statement, are answered in the following discussion.

I. The problem of the choice between joint and separate returns

The Treasury and the Staff of the Joint Committee differ sharply on the complexity involved in the choice between joint and separate returns under the minimum tax. The chief points of difference center on: (1) the nature and magnitude of the complexity under the House bill and its comparison with present law; (2) the number of taxpayers affected by the complexity involved in the choice; (3) the income ranges in which the choice between joint and separate returns must be faced.

A. The nature and magnitude of alternative tax conputations

On page 3 the Joint Staff states that "no income taxpayers will have to compute two different taxes to determine their tax liability." This statement is in error. Although once the decision to use joint or separate returns has been made and the allocation of dependents decided upon, only one tax -- either the regular or the minimum -- will apply to each spouse, the process of choosing will itself frequently involve confusing switches between the regular and minimum taxes. Many married couples where both spouses receive income will have to compute both minimum and regular taxes in comparing the advantages of joint and separate returns and of different divisions of dependents between spouses. The minimum tax may apply if they file jointly, the regular tax if they file separately, or vice versa; the minimum tax may apply if dependents are allocated in one way, the regular tax, if another. Several alternative computations, often involving first the minimum and then the regular tax, will therefore be necessary in many cases to arrive at the filing combination involving the smallest amount of tax.

The statement questions the validity of the Treasury's example illustrating the series of alternative tax computations necessary under the House bill to determine the lowest combined tax for a husband and wife both having income. (Example reproduced on page 5 of statement.) The Joint Staff does not deny that 18 tax determinations would be necessary under the House bill. However, on pages 5 through 8, the Committee attempts to show that the same choices and alternative computations would be possible under present law. It is true that 18 computations could be made under present law in the situation cited. The crux of the matter, however, is not that the computations are possible, but that taxpayers would not find any point in making them. Under present law, the choice between joint and separate returns is perfectly clear and requires no alternative computations. Under the House bill, the choice is not clear; in fact, in a considerable part of the area where joint returns have heretofore been clearly preferable, separate returns will become advantageous. The whole point is that for the very taxpayer involved in the example separate returns would now be more advantageous than the joint return. Moreover the advantage lies in a particular division of dependents, two to the husband and one to the wife, but this advantage becomes known only after numerous computations are made. Likewise, in part of the area where separate returns have been preferable, joint returns will become advantageous. Therefore, there will not only be a problem of complexity in choosing the method of filing, there will also be a shift to separate returns for many persons now filing joint returns, and vice versa.

Under present law there is no incentive to file separate returns on Form 1040 as long as combined surtax net income does not exceed $2,000. It is common knowledge that no advantage results from the use of separate returns in this area. Conceivably, married couples can go through the motions of the alternative computations. It is entirely unrealistic to assume that they will do so, however, since the choice is entirely clear without such computations. Filing separate returns results in neither lower rates nor higher exemptions; in fact, the only possible change in liability by filing separate returns in the area under $2,000 is an increase in liability resulting from loss of part of the personal exemption under the regular tax and a decrease in the amount of postwar credit under the Victory tax. Table 2 prepared by the Joint Committee supports exactly this view. It is to be noted that every one of the liabilities computed on separate returns is greater than the joint-return liability. Since (1) the filing of separate returns for combined surtax net incomes of less than $2,000 produces no tax advantage, and (2) this is a fact easily explained to and understood by taxpayers, the problem of alternative tax computations is, for all practical purposes, non-existent under present laws.

Under the House bill, where (1) the amounts of the exemption are different under joint and separate returns and under both the minimum tax and the regular tax, and (2) the rates may also differ as between joint and separate returns and different allocations of dependents, the choice between joint and separate returns is anything but clear. The advantages do not run all in the direction of joint returns in one income area and all in the direction of separate returns in another. There are several opposing factors and several different zones of advantages. Where husband and wife are subject to the minimum tax, separate returns result in a larger exemption than a joint return; where they are subject to the regular tax, separate returns result in a smaller exemption. In addition, the credit for dependents varies as between the minimum tax and the regular tax. The combination of these factors makes the choice between joint and separate returns and different divisions of dependents a very real and very complex one under the House bill.

The points just made clearly indicate the irrelevancy of the assertions in the Joint Staff statement that there is "absolutely no difference between the number of possible computations under the present law and under the House bill ..." (Page 8) One or two other assertions on this subject require mention. On page 8 it is noted that in 4 of the 5 cases listed in the table prepared by the Treasury showing alternative computations, some of the regular income tax exemption was unused. This was said to be an "absurd" assumption. However, because of the existence of the minimum tax, it is entirely possible to "waste" some of the regular income tax exemption and yet obtain the lowest combined tax liability in the face of such wastage. Therefore, loss of part of the regular exemption is no guarantee that a given method of filing is disadvantageous.

The further point is made that "many of the possible allocations of the dependency credit would not be permitted under the existing law which requires that the taxpayer receiving dependency credit must provide the major support of the dependent." (Page8) As a matter of practice, it is well known that dependents are not in fact allocated according to the major support principle. To enforce this principle would be well-nigh impossible. The Bureau of Internal Revenue has not attempted to prevent taxpayers from allocating dependents in any manner they see fit.

On page 8 the Joint Staff statement asserts that the Treasury's testimony contradicts itself in saying on the one hand that present law offers no incentive for married couples with small incomes to file separate returns, and on the other that it makes no difference to such taxpayers which type of return they file. First of all, it should be said that there is no inherent contradiction between the two statements, even without qualifications. Second, the Treasury's statement that under present law it is a matter of indifference to married couples with surtax net income below $2,000 whether they file separate or joint returns clearly applies only so long as no exemption is wasted. If the filing of separate returns results in unused exemptions under present law, it is no longer a matter of indifference; it is simply irrational. Filing separate returns may waste and thereby reduce the exemption. It cannot result in an increase in exemption. Therefore, while it may be a matter of indifference whether joint or separate returns are filed (where no exemption is wasted), there cannot in any event be any incentive (in terms of rates and exemptions) to file separate returns. The Treasury's statements are wholly consistent with each other.

B. Number of taxpayers affected by the complexity

It is asserted on page 3 of the Joint Staff statement that the cases where complications arise under the House bill are "limited to those persons who choose to file on the long form of return with the hope that a few dollars of tax could be saved." The quoted statement implies that persons filing the long form to save taxes should pay the penalty of such complexity. However, the fact that people in very large numbers compare liabilities when there is a chance of saving money (as is indicated by the fact that about 40 percent of the persons eligible to use Form 1040A filed on Form 1040 in 1942) makes the problem one of taxpayer understanding and convenience, not one of penalty. The further implication that only persons seeking to save tax use the long form is contrary to the fact that many persons are required to file the long form because the sources or the size of their incomes may bar them from the use of the short form 1040A.

Moreover, the complications in the choice between joint and separate returns and in the division of dependents between spouses are not limited to Form 1040, the long form. Persons filing Form 1040A, the short form, also have to make the choice by comparing liabilities under joint and separate returns and various divisions of dependents. The only difference between Forms 1040 and 1040A is that for each of these possible divisions the taxpayer has to compute the tax if he uses Form 1040, while he may find the tax in a table for each alternative if he uses Form 1040A.

The Joint Staff statement (on page 8) questions the Treasury assertion that the House bill will confront more than 10 million married couples with the choice between joint and separate returns. The figure of 10 million is, if anything, an understatement. Under the House bill, virtually every husband and wife, both receiving income, except those in relatively high brackets, will face the complex problem of choosing between joint and separate returns. The choice will, as noted above, require the weighing of many complicated factors not now involved in the tax law. While guides may be established to reduce the complexity for some taxpayers, they can at best cover only part of these married couples. With or without the guides, however, the problem will be confusing and often complex.

The Joint Staff statement goes on to say (page 11) that even if the Treasury assertion is true, "it follows that the only possible reason that the Treasury proposal would not confront a good many more than 10 million couples with this dilemma is that their proposal completely relieves 9 million persons of any tax whatsoever." It is not clear whether an implication is intended that the Treasury proposal would confront more than 10 million married couples with a similar dilemma. Under the Treasury proposal the choice between joint and separate returns would not only be clear-cut but would be the same as it is under present law, thus requiring no reappraisal of the most advantageous method of filing.

At several points, notably page 9, the Joint Staff statement suggests that couples using the short form (1040A) would avoid any laborious computations. In fact, however, the fundamental perplexity with respect to the choice of joint or separate returns is by no means limited to users of Form 1040. It is practically the same whether the taxpayer uses or intends to use either 1040 or 1040A. The simplification of the arithmetic in the final computation does not affect the basic perplexity. Furthermore, even though to reach the smallest tax the taxpayer ultimately chooses the short form, in the process of arriving at this decision he would in many cases have to make trial computations involving both long and short forms.

C. Determination of income levels affected by complexity of choice

The Joint Staff statement (page 9) denies the truth of the assertion that because of variables in the possible division of income and dependents between husband and wife "no clear dividing lines or income zones can be established to guide taxpayers into one type of return or the other." Table 3 on page 9 of the Joint Staff statement appears to be offered as a sample of the type of table which might be used to guide the taxpayer into the type of return which would be advantageous for him to use.

This table is consistent with a table previously submitted by Treasury; it differs from the Treasury figures in that it is on a gross income basis rather than a net income basis and that by assuming maximum and minimum incomes for each spouse it makes certain limiting assumptions as to the division of income. If the gross income figures in Table 3 for a married couple with one dependent are converted to net income by subtracting 6 percent for average deductions, and are multiplied by two, they check with the Treasury's figures for breaking points assuming a 50-50 division of income, given on page 2 of Appendix B of the November 29, 1943 statement (page 58 of Finance Committee Hearings).

However, the adequacy and usefulness of this type of table as a guide to the taxpayer is dubious and at best limited. There is no guidance for great numbers of taxpayers. For example, suppose the husband earns $2,600 and the wife $1,000. If they have no dependents, table 3 would not guide them because the husband's earnings would exceed the maximum income for one spouse to which the table would be applicable. If they have four dependents, table 3 would not answer their problems because the wife's income would be less than the minimum amount assumed for one spouse where there are four dependents.

The table sets limits within which joint returns give the lowest tax. If it is to be a guide to the taxpayer, he would presumably have a right to expect that outside these limits joint returns would not give the lowest tax. But in numerous situations this is not the case. For example, suppose that a married couple with no dependents received a combined gross income of $1,111.70, i.e., two times $555.85. If their income was divided equally, each receiving $555.85, the table would guide them into joint returns. 1/ Suppose, however, they received the same gross income of $1,111.70, divided $700 and $411.70. This table in itself would imply that they did not meet the conditions under which joint returns were advantageous, since the gross income of one spouse was less than the minimum of $555.85. Actually, however, this couple should file joint returns since the liability under joint returns would be $10.35 as compared with $36.34 under separate returns.

Again, take the case of a couple without dependents receiving a combined gross income equal to $5,035.46. If their income was divided equally each receiving $2,517.73 they would be guided by the table into joint returns. 2/ If, however, they received the same combined gross income, or $5,035.46, divided unequally, 40-60, one would receive $2,014.18; the other, $3,021.28. The table would offer no guide. It would in fact imply that joint returns would not be advantageous, since the income of one spouse exceeded the maximum allowed by the table.

1/ At this combined income level the liability under joint or separate returns would be identical, i.e., $10.35.

2/ At this income level with a 50-50 split of income their liability would be the same or $858.67 under either joint or separate returns.

Nevertheless, the advantage of joint returns for this couple would exceed that of a couple with the same income, equally divided. With a 40-60 split the combined tax under separate returns would be $868.87 as compared with $858.67 under joint returns. An additional table would be necessary to guide the couple with the 40-60 split of income. Separate additional tables would likewise be required for each different division of income if taxpayers are to be guided to joint or separate returns by the use of tables. 1/ Some of the variations in the ranges of advantage caused by variations in the division of income are illustrated in the attached Exhibit 1.

It should be noted that, as the figures in table 3 in the statement indicate, the ranges of advantage vary with the number of dependents. This is further demonstrated in Exhibit 2.

From these examples and the tables here presented, it is clear, as the Treasury previously pointed out, that both the division of income and the number of dependents are important in determining the zones of advantage for one type of return or the other. Moreover, they bring into clear focus the important practical consideration that a number of tables like sample table 3 would be necessary to meet the bulk of taxpayer situations. These tables would have various maximum and minimum limits for the income of each spouse for various dependency statuses. Such tables would tend to overlap, with a taxpayer finding himself on more than one table, thus adding to the confusion and complexity. As the number of such guide tables was increased, an increasing number of taxpayers would come within the purview of one or more tables. The complexity of such a system of multiple guides would render them impracticable.

An analysis of table 4, page 10 of the statement of the Joint Committee Staff, brings out clearly the essential difference between the joint vs. separate returns problem in the regular income tax area under the House bill as compared with the problem under either the present law or the Treasury integration proposal.

As the table shows, the amount of combined net income above which separate returns become advantageous varies under all three tax methods with the number of dependents. What the table does not show is the fact that the point above which separate returns become advantageous is fixed in terms of surtax net income under both present law and the Treasury proposal. Under present law this point is at $2,000 of combined surtax net income; under the Treasury proposal involving a $500 first income bracket, this point would be $500 combined surtax net income. These points are constant regardless of the number of dependents and regardless of the division of income. By striking contrast, under the House bill this point varies in terms of surtax net income with both the number of dependents and the percentage division of income.

1/ In addition to the defects of the lower limits, admitted on page 12 of the statement of the Joint Committee Staff, this analysis shows that the upper limits of table 3 are ambiguous.

In this connection, it should be noted that, just as in table 3, the breaking-points under the House bill indicated in table 4, page 10 of the Joint Staff statement would hold only under the 50-50 division of income which is impliciitly assumed in the table. If, for example, a couple without dependents had somewhat more than $4,734 (2 times $2,367) divided 45-55 instead of 50-50 as in table 4, separate returns would not be desirable. 1/ With a more uneven distribution of income the incomes at the breaking points increase.

On page 10 the Joint Staff statement asserts as an advantage of the House bill that it raises the amount of combined net income above which it is desirable for a married couple without dependents to file separate returns from $3,200 to $4,733. At the same time it cites the lowering of this amount to $1,600 under the Treasury proposal as a disadvantage. This argument entirely misses the essential point that, putting aside equity questions and looking at the problem from the standpoint of simplification or complexity, it makes no significant difference whether this point is high or low. The important thing for purposes of simplification is that the point be clearly defined and readily determinable. Under both the present law and the Treasury proposal the breaking-point is constant in terms of surtax net income, and may be computed at a glance in terms of net income. Under the House bill the breaking-point is variable and difficult to determine.

II. Complexity in having a minimum tax side by side with the regular tax

The Committee staff states on page 4 that, because a table guiding taxpayers into either the minimum or the regular tax can be prepared, the Treasury is wrong in asserting that there will be two alternative taxes, that is, the minimum tax and the regular tax, side by side under the House bill. Aside from the disadvantage that the tabular guide will itself be a device new to American taxpayers, it is obvious that the preparation of mechanical guides does not conjure the minimum tax out of existence. There are still two taxes (one of them entirely new) to be explained, two taxes to be understood, and two taxes to be dealt with. Those who explain the tax by written or spoken work will have to labor through both the minimum tax and the regular tax; no mechanical guide can relieve them of the task of explaining, nor the taxpayer from the task of trying to understand, two different taxes with intricate interrelations.

For many married couples, moreover, the two taxes will actually be side by side as a practical matter in the course of their tax computations. Many couples filing separate returns will find that the husband is subject to the regular tax and the wife to the minimum tax, or vice versa. It is to be noted that the Joint Committee staff did not dispute the example given in the Treasury's statement illustrating this point (page 26 of the Hearings). The cases where husband and wife will be subject to two different taxes, with different exemptions and rates, will not be at all rare under the House bill. Taking merely the case cited in the Treasury's statement, we see that with the husband's income at $900, he would be subject to the regular tax, while his wife would be subject to the minimum tax if her income fell anywhere between $600 and $888. Two taxes side by side will be a very real problem for numerous taxpayers.

1/ If the split was 45-55, separate returns would result in a total tax of $862 as compared with $859 under a joint return. An increase in the inequality of the division of income between husband and wife would increase the disadvantage of separate returns at this combined net income level.

III. Complication of withholding under House Bill

The Treasury has stated that the provision of the House Bill substituting varying minimum tax exemptions for the present fixed Victory tax exemption would complicate withholding operations (Hearings, p. 28, 29). This conclusion is attacked on page 13 of the Joint Staff statement. It is asserted that a table would be provided from which employers could readily determine, in each individual case, whether withholding is to be computed by use of the minimum tax or the regular income tax rates and exemptions.

This answer does not meet the point in question for the many employers who use the more accurate "precise" method of withholding. A table of this sort would of course be provided, and is in fact in use under present law. The complication is introduced, however, in the next step after the employer has used such a table to determine which of the alternative bases for withholding applies. Under present law if he finds that Victory tax withholding is appropriate, the remaining computation consists merely of the application of a 3 percent rate to the excess of the wages over a uniform withholding exemption, for example, $12 for a weekly payroll, regardless of the wage-earner's family status. Under the House Bill if he found that minimum tax withholding applied, his computations would require use of a separate set of exemptions that vary with family status as do those for regular income-tax withholding.

Under the Treasury integration proposal, withholding would be least complicated since there would be only one set of exemptions and rates to apply. Under present law, payroll procedures are simplified by the fact that all wage earners subject merely to Victory tax withholding can be treated uniformly. Under the House Bill, complications would be increased since differentiation according to family status would be required for both minimum and regular taxes.

IV. Other points on integration

A. Administrative problem under House Bill

1. The Joint Staff statement attempts to rebut the Treasury's contention that the House Bill would unduly complicate the administrative process by stating (on page 12) that elimination of 2.4 million returns "cannot be termed an addition to the problem of administration." This truism does not constitute an answer to the evidence presented by the Treasury to show that administrative burdens would be greatly increased under the House Bill. The benefits of eliminating 2.4 million returns would be far more than offset by the complexities of the tax computations, the resultant large numbers of errors, and the necessity for furnishing the majority of taxpayers with assistance in determining the most advantageous method of filing under the House Bill.

2. On page 15 of the Joint Staff statement it is argued that the costs of administration attributable to the returns of the 9 million taxpayers eliminated under the Treasury integration plan would not be as great as the revenue that would be collected from them. Quite aside from the untenable implication that a tax is worthwhile if it does not cost 100 percent to collect is the fact that in judging whether an administrative expenditure is worthwhile alternative operations must be considered. Insofar as personnel is freed from the administrative tasks involved in the handling of these millions of minor items, increased attention could be devoted to more adequate collection from other more profitable areas of the tax base with results that might be expected to exceed the amount of revenue lost by eliminating these small taxpayers. Moreover, any consideration of the costs of maintaining these small accounts on the tax rolls should include the withholding burdens imposed upon employers and the taxpayers' own tasks of compliance, as well as merely costs to the Bureau of Internal Revenue.

B. Estimated revenue from the minimum tax

On page 13 the Joint Staff statement implies that the Treasury represented the yield of the minimum tax at $161,000,000, whereas the actual yield would be more. The Treasury figure does not relate and was never intended to relate to the whole minimum tax. It is the estimate of how much the 9 million persons who would be wholly relieved from income tax under the Treasury proposal would pay under the House Bill.

C. Relationship of Treasury integration proposal to remainder of the Treasury individual income tax proposal

The Joint Staff statement indicates (pp. 3, 4) that the Treasury did not present an integration proposal to the Committee on Ways and Means. The Treasury income tax proposals to the Congress this Fall have from the first contained the integration element. The proposal submitted to the Ways and Means Committee was designed not only to raise revenue but to absorb the Victory tax burden into the regular income tax structure. At that time, no need was seen for signling out the integration features of the proposal for separate presentation. It was thought that integration would be accomplished as part of a general increase in income tax rates together with other changes (such as lowered exemptions and repeal of the earned income credit), and that a separate discussion of the integration segment of the proposal would merely complicate the problems before the Ways and Means Committee.

However, the Senate Finance Committee was confronted with a specific integration proposal in the House Bill. Hopes for a general upward revision of income tax rates had not materialized. Therefore, to aid the Committee in the consideration of matters before it, the integration segment of the Treasury proposal was treated separately to facilitate analysis and comparison with the integration provisions of the House Bill. (Hearings, pp. 25-32)

D. Consistency of Treasury position

Although not a technical point there is one other statement in the Joint Staff statement that calls for comment. On page 3 it is stated that the Treasury position before the House Ways and Means Committee was that "there was no better way of accomplishment" of the objective of taxing those now subject only to Victory tax than the integration plan now contained in the House Bill. This is not an adequate presentation of the position taken by the Treasury before the Ways and Means Committee. The Treasury was asked its opinion of the plan with no advance knowledge of the plan. On the basis of a hasty review of the major points of the proposal over a few minutes a tentative reaction was given to the Committee that at the moment no better alternative came to mind to accomplish the objective of keeping on the tax rolls the 9,000,000 taxpayers at the bottom of the taxable income scale.

After the Treasury had had an opportunity to study the integration plan now in the House Bill, it stated unequivocally to the Committee on Ways and Means that the plan was "hopelessly complicated." However, the Treasury was not afforded an opportunity to discuss its objections in detail before the Ways and Means Committee. It is to be noted that the Joint Staff statement failed to mention the later clarification of the Treasury position on the House Bill integration plan.

Exhibit 1

Income ranges within which it is advantageous for married couples to file (a) separate or (b) joint returns under H. R. 3687, assuming three different percentage divisions of income between husband and wife

Married couple - one dependent 1/

Combined net income			Type of return resulting in lesser tax
Income divided 50 - 50	Income divided 60 - 40	Income divided 70 - 30	
$ 800 - $1,071	$ 800 - $1,363	$ 800 - $1,309	Separate
1,071 - 5,167	1,363 - 5,558	1,309 - 5,898	Joint
Over 5,167	Over 5,558	Over 5,898	Separate

Treasury Department, Division of Tax Research December 8, 1943

1/ Assuming dependent credit taken by spouse with larger income.

Exhibit 2

Income ranges within which it is advantageous for married couples to file (a) separate or (b) joint returns under H. R. 3687, assuming three different dependency statuses 1/

Combined net income			Type of return resulting in lesser tax
No dependents	One dependent	Two dependents	
$ 700 - $1,045	$ 800 - $1,433	$ 900 - $1,820	Separate
1,045 - 4,733	1,433 - 5,083	1,820 - 5,433	Joint
Over 4,733	Over 5,083	Over 5,433	Separate

Treasury Department, Division of Tax Research December 8, 1943

1/ Division of income between husband and wife assumed to be such that the potential advantage from the use of either type of return will be at a maximum.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for certificates allotted, to make delivery of certificates on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive certificates.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

tions of $1,000, $5,000, $10,000, $100,000 and $1,000,000. The certificates will not be issued in registered form.

5. The certificates will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States certificates.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Commercial banks are requested not to purchase and subscribers are requested not to trade in the securities allotted hereunder until after February 15, 1944. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions must be accompanied by payment in full for the amount of certificates applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of certificates applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for certificates allotted hereunder must be made on or before February 1, 1944, or on later allotment. One day's accrued interest is $0.024 per $1,000. Any qualified depositary will be permitted to make payment by credit for certificates allotted to its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

UNITED STATES OF AMERICA

7/8 Percent Treasury Certificates of Indebtedness of Series A-1945

Dated and bearing interest from February 1, 1944 Due February 1, 1945

1944
Department Circular No. 731

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, January 18, 1944.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for certificates of indebtedness of the United States, designated 7/8 percent Treasury Certificates of Indebtedness of Series A-1945. These certificates will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits. The amount of the offering is not specifically limited.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated February 1, 1944, and will bear interest from that date at the rate of 7/8 percent per annum, payable semiannually on August 1, 1944, and February 1, 1945. They will mature February 1, 1945, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4. Bearer certificates with interest coupons attached will be issued in denomina-

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

due course by formal receipt from the Collector of Internal Revenue.

6. Except as provided in the preceding paragraphs, the bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers are requested not to trade in the securities allotted hereunder until after February 15, 1944. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, and to the limitations on commercial bank subscriptions prescribed in Section I of this circular, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made on or before February 1, 1944, or on later allotment. One day's accrued interest is $0.062 per $1,000. Any qualified depositary will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

5. Any bonds issued hereunder which upon the death of the owner constitute part of his estate, will be redeemed at the option of the duly constituted representatives of the deceased owner's estate, at par and accrued interest to date of payment,[1] Provided:

(a) that the bonds were actually owned by the decedent at the time of his death; and
(b) that the Secretary of the Treasury be authorized to apply the entire proceeds of redemption to the payment of Federal estate taxes.

Registered bonds submitted for redemption hereunder must be duly assigned to "The Secretary of the Treasury for redemption, the proceeds to be paid to the Collector of Internal Revenue at _____ for credit on Federal estate taxes due from estate of _____." Owing to the periodic closing of the transfer books and the impossibility of stopping payment of interest to the registered owner during the closed period, registered bonds received after the closing of the books for payment during such closed period will be paid only at par with a deduction of interest from the date of payment to the next interest payment date;[2] bonds received during the closed period for payment at a date after the books reopen will be paid at par plus accrued interest from the reopening of the books to the date of payment. In either case checks for the full six months' interest due on the last day of the closed period will be forwarded to the owner in due course. All bonds submitted must be accompanied by Form PD 1782,[3] properly completed, signed and sworn to, and by a certificate of the appointment of the personal representatives, under seal of the court, dated not more than six months prior to the submission of the bonds, which shall show that at the date thereof the appointment was still in force and effect. Upon payment of the bonds appropriate memorandum receipt will be forwarded to the representatives, which will be followed in

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1. An exact half-year's interest is computed for each full half-year period irrespective of the actual number of days in the half year. For a fractional part of any half year, computation is on the basis of the actual number of days in such half year.
2. The transfer books are closed from February 16 to March 15, and from August 16 to September 15 (both dates inclusive) in each year.
3. Copies of Form PD 1782 may be obtained from any Federal Reserve Bank or from the Treasury Department, Washington, D. C.

at the rate of 2-1/4 percent per annum, payable on a semiannual basis on September 15, 1944, and thereafter on March 15 and September 15 in each year until the principal amount becomes payable. They will mature September 15, 1959, but may be redeemed at the option of the United States on and after September 15, 1956, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will be acceptable to secure deposits of public moneys. They will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of $500, $1,000, $5,000, $10,000, $100,000 and $1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury. Except as provided in Section I of this circular, these bonds may not, before September 15, 1946, be transferred to or be held by commercial banks, which are defined for this purpose as banks accepting demand deposits; however, the bonds may be pledged as collateral for loans, including loans by commercial banks, but any such bank acquiring such bonds before September 15, 1946, because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks.

UNITED STATES OF AMERICA

2-1/4 PERCENT TREASURY BONDS OF 1956-59

Dated and bearing interest from February 1, 1944 Due September 15, 1959

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER SEPTEMBER 15, 1956

Interest payable March 15 and September 15

1944
Department Circular No. 730

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, January 18, 1944.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 2-1/4 percent Treasury Bonds of 1956-59. The amount of the offering is not specifically limited.

2. These bonds will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits, except as follows: a commercial bank holding savings deposits as defined in Regulation Q of the Board of Governors of the Federal Reserve System may subscribe to the bonds offered hereunder, to the 2-1/2 percent Treasury Bonds of 1965-70 offered simultaneously herewith under Treasury Department Circular No. 729, and to Series F-1944 and Series G-1944 United States Savings Bonds under Treasury Department Circular No. 654, Second Revision, but the amount of such subscriptions shall not exceed, in the aggregate, 10 percent of the savings deposits as shown on the bank's books as of the date of the most recent call statement required by the supervising authorities prior to the date of subscription for such bonds, or $200,000, whichever is less. No such bank shall hold more than $100,000 (issue price) of Series F and Series G Savings Bonds (Series 1944), combined

II. DESCRIPTION OF BONDS

1. The bonds will be dated February 1, 1944, and will bear interest from that date

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

memorandum receipt will be forwarded to the representatives, which will be followed in due course by formal receipt from the Collector of Internal Revenue.

6. Except as provided in the preceding paragraphs, the bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers are requested not to trade in the securities allotted hereunder until after February 15, 1944. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, and to the limitations on commercial bank subscriptions prescribed in Section I of this circular, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made on or before February 1, 1944, or on later allotment. One day's accrued interest is $0.069 per $1,000. Any qualified depositary will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

5. Any bonds issued hereunder which upon the death of the owner constitute part of his estate, will be redeemed at the option of the duly constituted representatives of the deceased owner's estate, at par and accrued interest to date of payment,[1] Provided:

(a) that the bonds were actually owned by the decedent at the time of his death; and
(b) that the Secretary of the Treasury be authorized to apply the entire proceeds of redemption to the payment of Federal estate taxes.

Registered bonds submitted for redemption hereunder must be duly assigned to "The Secretary of the Treasury for redemption, the proceeds to be paid to the Collector of Internal Revenue at _____ for credit on Federal estate taxes due from estate of _____." Owing to the periodic closing of the transfer books and the impossibility of stopping payment of interest to the registered owner during the closed period, registered bonds received after the closing of the books for payment during such closed period will be paid only at par with a deduction of interest from the date of payment to the next interest payment date;[2] bonds received during the closed period for payment at a date after the books reopen will be paid at par plus accrued interest from the reopening of the books to the date of payment. In either case checks for the full six months' interest due on the last day of the closed period will be forwarded to the owner in due course. All bonds submitted must be accompanied by Form PD 1782,[3] properly completed, signed and sworn to, and by a certificate of the appointment of the personal representatives, under seal of the court, dated not more than six months prior to the submission of the bonds, which shall show that at the date thereof the appointment was still in force and effect. Upon payment of the bonds appropriate

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1. An exact half-year's interest is computed for each full half-year period irrespective of the actual number of days in the half year. For a fractional part of any half year, computation is on the basis of the actual number of days in such half year.
2. The transfer books are closed from February 16 to March 15, and from August 16 to September 15 (both dates inclusive) in each year.
3. Copies of Form PD 1782 may be obtained from any Federal Reserve Bank or from the Treasury Department, Washington, D. C.

at the rate of 2-1/2 percent per annum, payable on a semiannual basis on September 15, 1944, and thereafter on March 15 and September 15 in each year until the principal amount becomes payable. They will mature March 15, 1970, but may be redeemed at the option of the United States on and after March 15, 1965, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will be acceptable to secure deposits of public moneys. They will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of $500, $1,000, $5,000, $10,000, $100,000 and $1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury. Except as provided in Section I of this circular, these bonds may not, before February 1, 1954, be transferred to or be held by commercial banks, which are defined for this purpose as banks accepting demand deposits; however, the bonds may be pledged as collateral for loans, including loans by commercial banks, but any such bank acquiring such bonds before February 1, 1954, because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks.

UNITED STATES OF AMERICA

2-1/2 PERCENT TREASURY BONDS OF 1965-70

Dated and bearing interest from February 1, 1944 Due March 15, 1970

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER MARCH 15, 1965

Interest payable March 15 and September 15

1944
Department Circular No. 729

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, January 18, 1944.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 2-1/2 percent Treasury Bonds of 1965-70. The amount of the offering is not specifically limited.

2. These bonds will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits, except as follows: a commercial bank holding savings deposits as defined in Regulation Q of the Board of Governors of the Federal Reserve System may subscribe to the bonds offered hereunder, to the 2-1/4 percent Treasury Bonds of 1956-59 offered simultaneously herewith under Treasury Department Circular No. 730, and to Series F-1944 and Series G-1944 United States Savings Bonds under Treasury Department Circular No. 654, Second Revision, but the amount of such subscriptions shall not exceed, in the aggregate, ~~an amount in aggregate of~~ 10 percent of the savings deposits as shown on the bank's books as of the date of the most recent call statement required by the supervising authorities prior to the date of subscription for such bonds, or $200,000, whichever is less. No such bank shall hold more than $100,000 (issue price) of Series F and Series G Savings Bonds (Series 1944), combined.

II. DESCRIPTION OF BONDS

1. The bonds will be dated February 1, 1944, and will bear interest from that date

Miss Simpson

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, December 16, 1943.

Press Service
39-93

Secretary of the Treasury Morgenthau today released the official circulars containing the detailed terms and conditions of the 2-1/2 percent and 2-1/4 percent Treasury bonds, and the 7/8 percent Treasury certificates of indebtedness, which will be sold, together with Series E, F and G savings bonds and Treasury savings notes, during the Fourth War Loan Drive beginning January 18.

The Secretary announced that commercial banks holding savings deposits will be permitted to subscribe during the Fourth War Loan Drive to the 2-1/4 percent and the 2-1/2 percent bonds. Such banks will also be permitted to subscribe to Series F and Series G savings bonds on and after January 1, 1944. The formula for commercial bank participation in these securities is that any bank holding savings deposits as defined in Regulation Q of the Board of Governors of the Federal Reserve System may subscribe to any or all of the four bonds in an amount not to exceed, in the aggregate, 10percent of its savings deposits as shown on the bank's books as of the date of the most recent call statement required by the supervising authorities prior to the date of subscribing for such bonds, or $200,000, whichever is less. Under no circumstances, however, will a bank be allowed to hold more than $100,000 (issue price) of Series F and Series G savings bonds (Series 1944), combined.

All subscriptions received from commercial banks under this formula are to be considered outside of the goal of $14,000,000,000 and will not be a part of any quotas.

The texts of the official circulars follow:

D.W.H.
D.P.S.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, December 16, 1943.

Press Service
No. 39-93

Secretary of the Treasury Morgenthau today released the official circulars containing the detailed terms and conditions of the 2-1/2 percent and 2-1/4 percent Treasury bonds, and the 7/8 percent Treasury certificates of indebtedness, which will be sold, together with Series E, F and G savings bonds and Treasury savings notes, during the Fourth War Loan Drive beginning January 18.

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All subscriptions received from commercial banks under this formula are to be considered outside of the goal of $14,000,000,000 and will not be a part of any quotas.

The texts of the official circulars follow:

UNITED STATES OF AMERICA

2-1/2 PERCENT TREASURY BONDS OF 1965-70

Dated and bearing interest from February 1, 1944 Due March 15, 1970

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER MARCH 15, 1965

Interest payable March 15 and September 15

1944
Department Circular No. 729

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, January 18, 1944.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 2-1/2 percent Treasury Bonds of 1965-70. The amount of the offering is not specifically limited.

2. These bonds will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits, except as follows: a commercial bank holding savings deposits as defined in Regulation Q of the Board of Governors of the Federal Reserve System may subscribe to the bonds offered hereunder, to the 2-1/4 percent Treasury Bonds of 1956-59 offered simultaneously herewith under Treasury Department Circular No. 730, and to Series F-1944 and Series G-1944 United States Savings Bonds under Treasury Department Circular No. 654, Second Revision, but the amount of such subscriptions shall not exceed, in the aggregate, 10 percent of the savings deposits as shown on the bank's books as of the date of the most recent call statement required by the supervising authorities prior to the date of subscription for such bonds, or $200,000, whichever is less. No such bank shall hold more than $100,000 (issue price) of Series F and Series G Savings Bonds (Series 1944), combined.

II. DESCRIPTION OF BONDS

1. The bonds will be dated February 1, 1944, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable on a semiannual basis on September 15, 1944, and thereafter on March 15 and September 15 in each year until the principal amount becomes payable. They will mature March 15, 1970, but may be redeemed at the option of the United States on and after March 15, 1965, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the

Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by an local taxing authority.

3. The bonds will be acceptable to secure deposits of public moneys. They will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registed as to principal and interest, will be issued in denominations of $500, $1,000, $5,000, $10,000, $100,000 and $1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury. Except as provided in Section I of this circular, these bonds may not, before February 1, 1954, be transferred to or be held by commercial banks, which are defined for this purpose as banks accepting demand deposits; however, the bonds may be pledged as collateral for loans, including loans by commercial banks, but any such bank acquiring such bonds before February 1, 1954, because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks.

5. Any bonds issued hereunder which upon the death of the owner constitute part of his estate, will be redeemed at the option of the duly constituted representatives of the deceased owner's estate, at par and accrued interest to date of payment, 1/ Provided:

(a) that the bonds were actually owned by the decedent at the time of his death; and
(b) that the Secretary of the Treasury be authorized to apply the entire proceeds of redemption to the payment of Federal estate taxes.

Registered bonds submitted for redemption hereunder must be duly assigned to "The Secretary of the Treasury for redemption, the proceeds to be paid to the Collector of Internal Revenue at _____ for credit on Federal estate taxes due from estate of _____." Owing to the periodic closing of the transfer books and the impossibility of stopping payment of interest to the registered owner during the closed period, registered bonds received after the closing of the books for payment during such closed period will be paid only at par with a deduction of interest from the date of payment to the next

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interest payment date; 1/ bonds received during the closed period for payment at a date after the books reopen will be paid at par plus accrued interest from the reopening of the books to the date of payment. In either case checks for the full six months' interest due on the last day of the closed period will be forwarded to the owner in due course. All bonds submitted must be accompanied by Form PD 1782, 2/ properly completed, signed and sworn to, and by a certificate of the appointment of the personal representatives, under seal of the court, dated not more than six months prior to the submission of the bonds, which shall show that at the date thereof the appointment was still in force and effect. Upon payment of the bonds appropriate memorandum receipt will be forwarded to the representatives, which will be followed in due course by formal receipt from the Collector of Internal Revenue.

6. Except as provided in the preceding paragraphs, the bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers are requested not to trade in the securities allotted hereunder until after February 15, 1944. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, and to the limitations on commercial bank subscriptions prescribed in Section I of this circular, all subscriptions will be allotted in full. Allotment notices will be sent our promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made on or before February 1, 1944, or on later allotment. One day's accrued interest is $0.069 per $1,000. Any qualified depositary will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

1/ The transfer books are closed from February 16 to March 15, and from August 16 to September 15 (both dates inclusive) in each year.

2/ Copies of Form PD 1782 may be obtained from any Federal Reserve Bank or from the Treasury Department, Washington, D. C.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

UNITED STATES OF AMERICA

2-1/4 PERCENT TREASURY BONDS OF 1956-59

Dated and bearing interest from February 1, 1944 Due September 15, 1959

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER SEPTEMBER 15, 1956

Interest payable March 15 and September 15

1944
Department Circular No. 730

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, January 18, 1944.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 2-1/4 percent Treasury Bonds of 1956-59. The amount of the offering is not specifically limited.

2. These bonds will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits, except as follows: a commercial bank holding savings deposits as defined in Regulation Q of the Board of Governors of the Federal Reserve System may subscribe to the bonds offered hereunder, to the 2-1/2 percent Treasury Bonds of 1965-70 offered simultaneously herewith under Treasury Department Circular No. 729, and to Series F-1944 and Series G-1944 United States Savings Bonds under Treasury Department Circular No. 654, Second Revision, but the amount of such subscriptions shall not exceed, in the aggregate, 10 percent of the savings deposits as shown on the bank's books as of the date of the most recent call statement required by the supervising authorities prior to the date of subscription for such bonds, or $200,000, whichever is less. No such bank shall hold more than $100,000 (issue price) of Series F and Series G Savings Bonds (Series 1944), combined.

II. DESCRIPTION OF BONDS

1. The bonds will be dated February 1, 1944, and will bear interest from that date at the rate of 2-1/4 percent per annum, payable on a semiannual basis on September 15, 1944, and thereafter on March 15 and September 15 in each year until the principal amount becomes payable. They will mature September 15, 1959, but may be redeemed at the option of the United States on and after September 15, 1956, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The income derived from the bonds shall be subject to all Federal taxes, now or herafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will be acceptable to secure deposits of public moneys. They will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of $500, $1,000, $5,000, $10,000, $100,000 and $1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury. Except as provided in Section I of this circular, these bonds may not, before September 15, 1946, be transferred to or be held by commercial banks, which are defined for this purpose as banks accepting demand deposits; however, the bonds may be pledged as collateral for loans, including loans by commercial banks, but any such bank acquiring such bonds before September 15, 1946, because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks.

5. Any bonds issued hereunder which upon the death of the owner constitute part of his estate, will be redeemed at the option of the duly constituted representatives of the deceased owner's estate, at par and accrued interest to date of payment,1/ Provided:

(a) that the bonds were actually owned by the decedent at the time of his death; and
(b) that the Secretary of the Treasury be authorized to apply the entire proceeds of redemption to the payment of Federal estate taxes.

Registered bonds submitted for redemption hereunder must be duly assigned to "The Secretary of the Treasury for redemption, the proceeds to be paid to the Collector of Internal Revenue at _____ for credit on Federal estate taxes due from estate of _____." Owing to the periodic closing of the transfer books and the impossibility of stopping payment of interest to the registered owner during the closed period, registered bonds received after the closing of the books for payment during such closed period will be paid only at par with a deduction of interest from the date of payment to the next interest payment date;2/ bonds received during the closed period for payment at a date after the books reopen will be paid at par plus accrued interest from the reopening of the

1/ An exact half-year's interest is computed for each full half-year period irrespective of the actual number of days in the half year. For a fractional part of any half year, computation is on the basis of the actual number of days in such half year.

2/ The transfer books are closed from February 16 to March 15, and from August 16 to September 15 (both dates inclusive) in each year.

books to the date of payment. In either case checks for the full six months' interest due on the last day of the closed period will be forwarded to the owner in due course. All bonds submitted must be accompanied by Form PD 1782, 1/ properly completed, signed and sworn to, and by a certificate of the appointment of the personal representatives, under seal of the court, dated not more than six months prior to the submission of the bonds, which shall show that at the date thereof the appointment was still in force and effect. Upon payment of the bonds appropriate memorandum receipt will be forwarded to the representatives, which will be followed in due course by formal receipt from the Collector of Internal Revenue.

6. Except as provided in the preceding paragraphs, the bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers are requested not to trade in the securities allotted hereunder until after February 15, 1944. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, and to the limitations on commercial bank subscriptions prescribed in Section I of this circular, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made on or before February 1, 1944, or on later allotment. One day's accrued interest is $0.062 per $1,000. Any qualified depositary will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

1/ Copies of Form PD 1782 may be obtained from any Federal Reserve Bank or from the Treasury Department, Washington, D. C.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

UNITED STATES OF AMERICA

7/8 Percent Treasury Certificates of Indebtedness of Series A-1945

Dated and bearing interest from February 1, 1944 Due February 1, 1945

1944
Department Circular No. 731

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, January 18, 1944.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for certificates of indebtedness of the United States, designated 7/8 percent Treasury Certificates of Indebtedness of Series A-1945. These certificates will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits. The amount of the offering is not specifically limited.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated February 1, 1944, and will bear interest from that date at the rate of 7/8 percent per annum, payable semiannually on August 1, 1944, and February 1, 1945. They will mature February 1, 1945, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4. Bearer certificates with interest coupons attached will be issued in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000. The certificates will not be issued in registered form.

5. The certificates will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States certificates.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Commercial banks are requested not to purchase and subscribers are requested not to trade in the securities allotted hereunder until after February 15, 1944. Banking institutions generally may

submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions must be accompanied by payment in full for the amount of certificates applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of certificates applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for certificates allotted hereunder must be made on or before February 1, 1944, or on later allotment. One day's accrued interest is $0.024 per $1,000. Any qualified depositary will be permitted to make payment by credit for certificates allotted to its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for certificates allotted, to make delivery of certificates on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive certificates.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

39-94

FOR IMMEDIATE RELEASE,
December 14, 1943.

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	Quota Quantity (Pounds) 1/	Authorized for entry for consumption	
		As of (Date)	(Pounds)
Signatory Countries:			
Brazil	1,353,183,480	Dec. 4, 1943	195,714,775
Colombia	458,336,340	"	103,112,835
Costa Rica	29,100,720	"	1,795,258
Cuba	11,640,288	"	2,197,675
Dominican Republic	17,460,432	"	2,679,500
Ecuador	21,825,540	"	8,869,133
El Salvador	87,302,160	"	938,518
Guatemala	77,844,426	"	3,847,429
Haiti	40,013,490	"	1,379,318
Honduras	2,910,072	"	460,324
Mexico	69,114,210	"	9,699,148
Nicaragua	28,373,202	"	500,406
Peru	3,637,590	"	342,525
Venezuela	61,111,512	"	5,239,657
Non-signatory Countries:			
	51,653,778	"	1,991,188

1/ Quotas as established by action of the Inter-American Coffee Board on March 11, 1943.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, December 15, 1943.

Press Service
No. 39-94

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

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I do not believe that the glory of America belongs only to the past. I believe that the real promise of America belongs to the future. Between the goal of securing maximum utilization of our resources and the goal of achieving a more equitable distribution of wealth, there need be no conflict. Our history has been testimony to that fact, and our future will be the record of its fulfillment.

Perhaps for a long time to come, if the post-war period lives up to our hopes and expectations.

But this would take me into new vistas beyond the scope of tonight's address for I have no intention of discussing the broader phases of fiscal policy beyond the reconversion period.

I would like to make, however, a few general observations. The war has opened the eyes of the American people to the tremendous productivity of industrial and agricultural America. The shortages of peacetime goods and services that exist now have not blinded us to the enormous potentialities for abundance inherent in our productive mechanism. It is precisely this unexampled capacity to produce upon which the future prosperity and welfare of our people ultimately depend.

To help society achieve more fully the promise of abundance implicit in our capacity to produce; to help maintain output and employment at a level more nearly corresponding to our true productive potential; and to secure this at a price that a peaceful democracy can pay; -- that will constitute the greatest task of economic statesmanship in the post-war world.

rationing, should be kept in effect as long as necessary; and high income taxes, as long as possible.

Let me explain the difference between "necessary" and "possible" in the statement which I have just made.

While I believe that we should keep the direct controls as long after the war as necessary, I do not believe that this will be very long. I feel certain that the last of them can be done away with as soon as the reconverted plants commence to pour their flood of consumers' goods on the market.

I have said, however, that the high rates of taxation should be kept as long as possible. I think that the case here is very different. High personal taxes serve the anti-inflationary purpose of absorbing surplus purchasing power; and this may be very useful and necessary in the reconversion period. But they also serve the purpose of helping to pay off the national debt; and this purpose is also useful and necessary.

It seems to me, therefore, that, while the criterion with respect to the removal of the controls should be "How soon can we remove them without risking inflation?"; the criterion with respect to wartime rates of taxation should be "How long can we keep them without risking unemployment?"

from work in demobilizing the war effort and reconverting private industry, but also the large liquid resources piled up during wartime, it is easy to conjure up the specter of a post-war inflation.

Against this must be set the powerful force of human foresight and sobriety. The reconversion period is bound to be attended by considerable unemployment, and each individual will naturally ask himself how he is going to come out in the swirl of readjustments he sees around him. His natural tendency will be to "play it close to the chest" and handle his reserve funds as carefully as possible. This human tendency alone may maintain a high rate of saving during the reconversion period, and so forestall the possibility of a post-war inflation.

We hope that this will be so; but counting on it would be as improvident as counting on an internal smash-up in Germany to win the war. We must consequently lay our plans to prevent a post-war inflation from occurring, but stand ready to adjust any such plans on short notice to conditions as they actually develop during the reconversion period.

What should these plans be? It seems to me that the direct controls, such as price ceilings, priorities, and

which the Treasury has made recommendations to the Congressional committees -- will be available to carry on the work of reconversion. In addition, there is provided in the present law a post-war refund, irrespective of future tax status, of ten per cent of the excess profits tax paid in the war period.

For the reasons given, I do not believe that the adequacy of business funds for reconversion purposes will present a major problem. But I cannot speak with equal assurance with respect to the prospects for the control of individual spending during the reconversion period -- the third post-war problem to be discussed.

Immediately following the end of the actual fighting, we can probably expect a let-down in the willingness of people to submit from patriotic motives to a continued reduction in their consumption. There is likely to be a demand for an immediate end of the direct controls; and this demand may, to some extent, succeed. For some time, however, while industry is being reconverted and the war effort demobilized, there will be only a very gradual increase in the supply of consumers' goods. When it is considered that there will be available to be spent currently, in addition to the incomes being received for the production of consumers' goods, not merely the incomes

Second, in addition to their savings from undistributed earnings, American corporations have piled up a large volume of liquid assets as a result of repayment of receivables, and in some cases reduction in inventories, and the general inability to expend depreciation and depletion reserves which has been brought about by wartime conditions. According to the estimates of the Federal Reserve Board, the demand deposits of nonfinancial businesses, including unincorporated enterprises, amounted to over 30 billion dollars at the end of last July; and, according to Treasury estimates, the holdings of Government securities -- payable for the most part on demand or at very short term -- by nonfinancial corporations alone, amount at the present time to about 20 billion dollars. Each of these figures is far above any peacetime precedent; but, to make the picture brighter, American business, during the same time it has been acquiring them, has reduced the amount of both its bank loans and its bonded debt.

Third, generous carry-back and carry-forward provisions included in the corporation tax laws insure that corporations suffering losses during the reconversion period, or even earning incomes of less than their excess profits credit, will receive substantial refunds of the taxes paid in their prosperous years. These refunds -- for the expediting of

My second point with respect to the reconversion period relates to the adequacy of corporate financial resources to carry on the work of reconversion. The adequacy of these resources is important, not merely or even principally from the point of view of the corporations involved, but from the point of view of the whole economic system.

We in the Treasury have given careful consideration to this matter, and believe that funds for the reconversion of war industry will be ample, provided that a prompt settlement is made of canceled war contracts. Our reasons for believing this are as follows:

First, the wartime period has been a profitable one for American corporations as a whole. Net corporate profits, after taxes, have averaged about twice as much per year during the wartime period as they did in the years 1935 through 1939 (the base period for the FRB index of industrial production); and, by and large, the greatest increases have gone to those firms whose problems of reconversion will be greatest. Corporate dividend ploicy, furthermore, has been so conservative that most of the increase in corporate earnings has been added to surplus.

Payments to contractors should be just in accordance with a fixed standard of equity; that is, they should be enough to make the contractors and their subcontractors whole for the losses they have sustained as the result of the contract cancelations.

It is important also, that payments to contractors should be prompt. This is not primarily for the benefit of the contractors themselves -- although I have no doubt that they will appreciate it -- but for the benefit of the country as a whole. A dollar paid out in the settlement of war contracts during the early reconversion period may -- in terms of national well being -- be worth several dollars paid out a year or so later. It is far more important, therefore, that the settlements be prompt than that they be accurate to the last dollar according to some accounting concept, which may itself be open to question.

The settlement of war contracts along the lines which I have just outlined will involve a heavy outflow of funds from the Treasury in the few months immediately following the end of the war. We are prepared for this outflow, and we feel that there will be few occasions when a disbursement of funds may be made with so little real cost to the Government and so much benefit to the economy.

and material resources involved in making goods which we will never use; and, second, it gives the maximum stimulation to the men and management released from making such goods to seek employment in the production of goods for which there is a human need, and so hastens the process of reconversion.

The abrupt cancelation of war contracts will give rise to two problems. These are: First, provision for the labor thrown out of employment; and second, compensation for the contractors.

The first of these problems should be settled with liberality; the second, with the utmost of speed.

A generous treatment of the labor displaced by contract cancelation is required, not merely by considerations of common humanity and fair dealing, but also by considerations of economy; for without it, we are unlikely to secure abrupt cancelation at all, and there is no form of relief more expensive than the production of unneeded tools of war. We should be sure, however, that the treatment accorded labor displaced from war production is of such a character that it encourages, rather than slows down, its quest for peacetime employment.

carry on the work of reconversion; and, third, the control of individual spending during the reconversion period.

If the war should end today on all fronts, there would be outstanding more than 75 billion dollars of war contracts on which deliveries had not yet been made. Much of the material covered by these contracts would be of no use to the Government if it were delivered after the immediate emergency of this war had passed. This is because there are no goods with respect to which obsolescence runs faster than it does for the goods of war; so the best preparation for future wars consists in maintaining the skills and plant capacity necessary for the development, production, and use of new war goods rather than in hoarding vast quantities of old ones.

Part of the undelivered contracts would still exist merely in blue-prints in the hands of the contractors, while part would be represented by goods in process, some of which in turn could be converted into peacetime goods.

In my opinion, all war contracts should be canceled immediately upon the passing of the military need for the goods contracted for. This is desirable for two important reasons. First, it avoids the tremendous waste of human

from a lack of demand for goods and inflation from a shortage of goods. The unemployment of the reconversion period will be caused, however, not by a lack of demand for the finished products, but because the plants are not yet ready for mass reemployment, and so may go hand-in-hand with inflation.

Once the period of reconversion is over and the tremendous potentialities of the American economy which have been demonstrated during the war period are directed to the production of the goods of peace, the main hazard of inflation will be over.

The task of statesmanship in the period immediately following the war will be to hasten the reconversion process while mitigating its hardships and reducing its human costs. This task will, of course, be easier if a termination of the war on one front before the other should make it possible to complete part of the reconversion process under a wartime environment. But we must press for victory against Japan as well as Germany without regard for the economics of reconversion.

This evening I shall discuss only three aspects of fiscal planning for the reconversion period, and these briefly. They are, first, the cancelation of war contracts; second, the adequacy of corporate financial resources to

Immediately following the close of the war, we will be confronted with the problem of reconversion. The period of reconversion will be a time fraught with exceptional hazard to our economic structure.

During normal times, most of our people are engaged in producing goods which they and their fellow workers can buy with their wages. During wartime, they are largely engaged in producing war goods which they cannot purchase with their incomes, but the excess purchasing power which is thereby created is held in check by direct controls, by personal taxation and by Government borrowing from individuals. The people are willing to accept and cooperate with these measures because of patriotism and the all-pervading spirit of sacrifice which exists during wartimes. During the reconversion period, however, while the tools of production for peace goods are being made ready, purchasing power may outrun the goods available for purchase, while wartime measures of control may be relaxed if the people do not recognize the need for continued restraint.

A price inflation is, consequently, one of the hazards of the reconversion period. Stalking hand-in-hand with it goes the hazard of unemployment. Normally, these two are never seen together, since unemployment usually rises

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I think it can be fairly said of the United States, as the late Chancellor of the Exchequer, Sir Kingsley Wood, recently said of Great Britain, that ". . . we have revolutionized public opinion as to what are fair rates for Government war borrowing." I believe that this revolution in opinion has a sound basis in underlying economic realities, and is applicable to the coming times of peace also. I hope that the policies of the Government will be directed to this end.

Financing the Post-War Readjustment

I come now to the second major division of my topic, that is, the problems of the post-war readjustment period.

I approach this subject with some trepidation. No post-war plan will be of any value unless we win the war and are in a position to put it into effect. The war is not yet in the bag. Hitler's post-war plan is slavery, and there will not be room for both his plan and our own.

You all remember the recipe for rabbit stew which begins "First catch the rabbit." So it is with post-war planning. We must first win the war; and we must not let anything, even post-war planning, distract our minds from this for an instant.

investment of their demand deposits with a maturity at time of issuance of over ten years. The great majority of the securities sold to commercial banks have had maturities far shorter than this. Indeed, more than half of the total increase in the portfolios of commercial banks since Pearl Harbor has been in the form of three-month Treasury bills and one-year certificates of indebtedness. This concentration of sales to commercial banks in short securities insures that our banking system will be in a strong and liquid position to meet the problems of the post-war period.

Finally, we have financed this war at an average rate of slightly less than 1-3/4 per cent. This compares with an average rate of about 4-1/4 per cent on the securities issued to finance the last World War.

Interest rates have remained stable during the wartime period and confidence in the continuation of this stability has been and is widespread and well justified, and has caused investors to subscribe to new issues of Government securities in successive war loans without any sign of holding back in anticipation of higher rates.

Marketable securities, by contrast, would be offered in small blocks, oftentimes through irregular channels where the original holders may not receive full value, and might dribble into the market in such a way as to keep it continually disturbed. They might not be fitted by coupon rate, maturity, or other characteristics for the predominant demand then existing in the market, but they would have been cast in whatever mold they were, once and for all, and the market would have to make the best of it.

To the extent that the refunding of demand obligations would have been accomplished by the sale of securities to banks, so also would the marketable securities find their ultimate lodgment in banks, but only after a roundabout journey, probably involving both loss to their original purchasers and a higher interest cost to the Treasury.

It seems clear, therefore, that the Treasury is in a much better position to refund the non-negotiable securities than the individual would be to refund negotiable securities through the market.

The third of the principles governing our borrowing policy has been the maintenance of the liquidity of the banking system. We have laid down the policy that no securities will be offered to commercial banks for the

This problem is that the holders of these securities may dispose of them and spend the proceeds on consumers' goods at a time when the supply of such goods will be scarce; and the spending can result only in price rises. This problem would exist, however, whether the securities were payable on demand or were negotiable and payable at the close of a fixed term, and will be somewhat less troublesome for demand securities, because, as I have already pointed out, the liquidation of this type of security will never be precipitated by the fear of a fall in the price of the security itself.

The other problems which will be caused by holdings of Government debt by small investors in the post-war period are minor, relative to the major problem which I have just mentioned; and will be less serious with demand obligations than with negotiable obligations of fixed term.

When savings bonds are presented for redemption to the Treasury and it is necessary to refund them, the Treasury offers the type and maturity of new securities best suited to the market at the time, and offers these securities for distribution through the regular channels of the Government security market.

of savings bonds to small investors than it would be with the only practicable alternative to this course. This alternative would be the sale to small investors of marketable securities payable by the Treasury only after the expiration of a fixed term of years.

The fixing of a definite term on securities sold to small investors by no means insures that they will be held by these investors for the full term. By and large, the holders of marketable securities would sell them on the same occasions when holders of redeemable securities would redeem theirs. Indeed, there is one important occasion upon which marketable securities would be sold, but redeemable securities would not be redeemed -- that is, the fear of a decline in price, from which the nonnegotiable securities are immune.

Now it may appear, at first glance, that while the Treasury should be properly concerned with redemptions, it should not be concerned with market sales, since it must meet the redemptions out of its own pocket; while the market sales will be taken up by somebody else. This type of reasoning would suffice for a private borrower, but it is entirely inadequate for the Treasury since it overlooks the real problem which the holdings of Government securities -- whether redeemable or marketable -- by small investors will present in the post-war period.

the banks to provide this necessary circulating medium, even if adequate markets exist for them elsewhere.

The amount of Government securities which would thus have to be sold to the banks in any event is substantial; but, in practice, I must admit that this has proved little of a problem, since it has taken care of itself by the rapid expansion of the borrowing needs of the Federal Government and the slower development of nonbanking sources for Federal borrowing.

For this reason, we have directed our main effort to the sale of securities to nonbanking investors. During the past year, we have sold to such investors, net after all switches and redemptions, about forty billion dollars of Government securities, as compared with about thirty billions absorbed by the banks.

Second, we have tried to make the securities sold to the small investor as riskless as possible. The Treasury has considered itself the trustee of the inexperienced investor. It is with this in view that the Department's appeal to small investors has been confined to Series E bonds which are non-negotiable, payable on demand and hence are guaranteed against fluctuations in market values.

The Treasury is less concerned with the large volume of demand obligations which is being built up by the sale

excises proposed by the Treasury this year and the spendings tax proposed last year are cases in point. The test should be rigid, however, and the considerations of public policy should be important before a tax is placed on the statute books, the burden of which is distributed in a manner other than that in which we would be willing to distribute the burden of an increase in the individual income tax.

I turn now to our policies with respect to wartime borrowing. These have been dominated by the following considerations.

First, we have tried to borrow as much as possible from investors other than commercial banks. This principle must be stated subject to some qualification. It would neither be possible nor desirable to do all of our borrowing outside of the banking system. I have already explained that one of the reasons for borrowing at all, rather than relying exclusively upon taxation, is that an expanding wartime economy needs -- even at a constant price level -- a greatly increased amount of currency and bank deposits. These can be obtained, under existing institutions and in wartime, only by a corresponding increase in the Government security holdings of commercial and Federal Reserve Banks; and a sufficient amount of securities have to be sold to

to enter war plants in order to earn incomes supplementary to those of their husbands. It would, therefore, aggravate the labor shortage.

It would be very difficult to administer. This would be true, not only for the Treasury, but also for the taxpayers, as it would require the use of forms and questionnaires far more complex than any involved in the administration of the individual income tax.

It seems to me that the basic problem of the taxation of individuals in wartime is really not very complex. Aggregate individual income is higher, and the Government must tax a portion of it away. There may be a great deal of dispute as to which income brackets should be drawn upon the most heavily, but any reasonable pattern of withdrawal can be effected by means of the individual income tax.

I think it is a good rule when any other tax is proposed, that you first express the distribution of its burden in terms of the individual income tax, and then ask yourself whether you would consider it reasonable that the burden of the individual income tax itself should be so altered. If the answer is "No," then the other tax should be placed on the defensive and its proponents made to justify it by reasons of strong public policy. Sometimes this can be done -- for example, I believe that the luxury

hundred dollars for a single person, twelve hundred dollars for a married couple, and three hundred fifty dollars for each dependent. I cannot accept this view; and I do not believe that the advocates of the sales tax would, if they realized the full implications of their proposal.

Third, it is often proposed that we should place a special tax on increases in individual incomes; that is, tax a man with an income of, say, three thousand dollars more heavily if he has recently come up from one thousand dollars than if he had been receiving three thousand dollars for some time. This proposal seems to me to be wrong on a number of counts.

(5) It is unfair. It seems to me that, consciously or unconsciously, it is based in part on the feudal concept that every man should stay in his place, and it strikes at the root of the principle that every man may rise according to his worth -- a principle which has given so much life and hope to the American scene for generations past.

It is uneconomic. It would undermine the incentive of workers to transfer to war industries located in inconvenient places and to work long hours at hard jobs. Particularly, it would strike at the incentive for wives

taxes, for it means that we have more dollars to spend than things to buy with them.

Second, the view is sometimes voiced that, while we have exhausted our ability to pay some kinds of taxes, such as income taxes, we have not exhausted our ability to pay other kinds of taxes, such as sales taxes. I can see no merit in this view. Ability to pay resides in persons, rather than in kinds of taxes -- both income and sales taxes must be met from the same pay envelopes; and if we have the ability to pay one, we have the ability to pay the other.

The income tax can be adjusted, and is adjusted to the personal circumstances of those upon whom it is levied. Exemptions are granted commensurate with family status, so that the tax does not fall with merciless brutality upon those with small incomes and large families. No such adjustment mechanism is customary or practicable for the sales tax. The view that we have exhausted our ability to pay additional income taxes, but still have the ability to pay a sales tax, logically reduces itself to the view that the principal additional ability to pay in the economy resides in that portion of incomes falling within the exemptions from the individual income tax -- that is, five

Government is purchasing about one-half of the total volume of goods and services being produced, while the remaining 50 percent is being purchased for private use. Federal taxes, however, are bringing in only about 20 percent of the gross income generated by production, leaving about 80 percent in private hands. There is, thus, a discrepancy equivalent to about 30 percent of the value of total output which makes up the Federal deficit on the one hand and the corresponding necessary private savings on the other hand.

To the extent that total borrowing exceeds the aggregate amount of savings consciously and intentionally undertaken, we are placing liquid assets in the hands of persons who may use them to put added pressure on price ceilings. It is to aid in immobilizing such unstable accumulations, as well as for fiscal and equitable reasons, that the Treasury considers the need for additional taxes so urgent.

I do not desire to go into the matter of particular types of wartime taxes at any length this evening, but I should like to make some general observations.

First, there can be no doubt of the ability of the people of the United States to pay taxes much higher than those now levied. Of course, it would be hard because war itself is hard. But the very fact that we are threatened with inflation is evidence of our ability to pay higher

enterprises were taxed away, there would be no economic incentive to call forth these exertions.

The borrowing which is justified entirely by the special considerations which I have just enumerated would have to take place for our wartime economy to operate smoothly, no matter how willing Congress might be to levy additional taxes or the people to bear them. This borrowing alone would amount to a great deal of money by peacetime standards; but it would certainly be much less than the nearly fifty billion dollars a year which we should have to borrow even if the Treasury tax proposals were granted in full.

An additional amount of borrowing -- over and above the minimum required on economic grounds -- can also be accomplished without danger of inflation to the extent that individuals can be induced, for patriotic reasons, to increase their savings. This the Treasury is endeavoring to do by means of the payroll savings plan and the War Loan campaigns.

The volume of total savings required is dictated by the size of the deficit and may differ materially from the sum total of savings which would occur from economic and patriotic motives. At the present time the Federal

than they are being replaced, and the depreciation reserves set aside to offset this wear and tear are piling up in cash. At the same time, the accounts receivable of these firms are running down, which results also in piling up cash. These funds are all available to be lent to the Government; but they are not available to be taxed since they represent capital, rather than income, of the firms possessing them, and represent very different proportions of the total capital of different firms, depending upon the type of business. A policy of borrowing these funds, rather than taxing them away, is, therefore, clearly indicated.

In the third place, the great wartime expansion in the economy requires -- even at a constant price level -- a great increase in the available supply of currency and bank deposits; and this increase, under our existing institutions and under wartime conditions, can be supplied only by an increase in Government borrowing.

Finally, it is necessary that some financial incentive be supplied to individuals to work long hours, and to corporations to operate with the utmost efficiency. If the whole of the extra incomes resulting from the overtime pay of individuals and the efficient management of business

been increased by the war to levels considerably above those required to meet their former standards of living, are ready and willing to lend a substantial proportion of their increased incomes to the Government in order to insure their future security.

Ultimately, if the war should last long enough, these adjustments might be continued under a steadily increasing burden of taxation until each person's standard of living and financial commitments had become adjusted to his place in the war economy. This is unlikely to occur, except in a very long war; and, in the meantime, a considerable proportion of the total war cost must be borrowed in order to avoid unnecessary disruption in the economy.

In the next place, the magnitude of our war effort is fixed by our full gross product, rather than by our net national income. This means that during wartime replacements and repairs on plant and equipment must be postponed, as far as possible, so that the manpower and materials which they would otherwise have absorbed can be thrown into the war effort. Producers, as well as consumers, are asked by their Government to "Use it up, Wear it out, Make it do, or Do without."

This means that during the war period, the capital assets of most business firms are wearing out more rapidly

recommended to Congress that the whole cost of the war should be paid for out of current taxation. But it is these exceptions, and not the general rule, which need special justification; and I should like to explain to you tonight, not why the Treasury has recommended to Congress additional taxes, which if enacted would only provide sufficient revenue to cover about one-half of total Federal expenditures, but rather why it has not asked for taxes to cover the full cost.

The use of borrowing, to the extent that it is justified by special circumstances, makes for a smoother working of our war economy than would the exclusive use of taxation. What are these circumstances under which borrowing is thus the superior instrument of war finance?

In the first place, the burden of a tax -- or of any other compulsory levy, even if it is subsequently reimbursable -- must be levied according to fixed rules. These rules can take but little account of individual circumstances. It requires considerable time for many individuals to adjust their living standards and commitments to the new and lower levels which would be dictated by all-out wartime taxation.

While some individuals are revising their living standards downward, other individuals, whose incomes have

larger extent, by postponing the replacement of capital goods wearing out during its course. With these exceptions, the whole physical cost of a war must be paid for while it is being fought.

What then, it may be asked, is the role of war borrowing. The answer must be that war borrowing is a method of postponing, not the cost itself, but the final allocation of the total burden of the war to some future date, when the costs now paid for through the sale of bonds are finally assessed in the form of taxes -- at which time it is inevitable that a much larger portion of them will be paid by the persons now in the armed forces than if they were assessed today.

(2) When this fact is seen in its stark reality, it is clear that the money cost of the war should be met as far as possible by taxes, and so be paid for once and for all by today's civilians at the same time that the men in the services are paying their much higher price in human cost on the fighting fronts. Exceptions from this rule should be permitted only when clearly justified by special circumstances.

There are a number of these special circumstances, and it is because of them that the Treasury Department has never

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Financing the War and the Post-War Readjustment

I welcome the opportunity to discuss with you this evening the problems of financing the war and the post-war readjustment. It is because we feel that these two problems are so closely tied together that I have chosen to discuss some aspects of each in the same address.

War Finance

It has come to be generally recognized that the real cost of a war must be paid for while it is being fought. This real cost consists in the labor put forth and the sacrifices endured in order to produce and to use the goods of war. Guns cannot be fired until they and their shells have been made, nor can they be fired with time borrowed from tomorrow. The labor and sacrifice involved in these things must be made today and cannot be postponed.

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Washington

FOR RELEASE, 7 6.30 P.M., E.W.T.
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Press Service
No. 39-95

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There are, of course, some exceptions to this rule. A war may be fought, in small part, by the use of stocks of goods accumulated before it begins; and, to a much larger extent, by postponing the replacement of capital goods wearing out during its course. With these exceptions, the whole physical cost of a war must be paid for while it is being fought.

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There are a number of these special circumstances, and it is because of them that the Treasury Department has never recommended to Congress that the whole cost of the war should be paid for out of current taxation. But it is these exceptions, and not the general rule, which need special justification; and I should like to explain to you tonight, not why the Treasury has recommended to Congress additional taxes, which if enacted would only provide sufficient revenue to cover about one-half of total Federal expenditures, but rather why it has not asked for taxes to cover the full cost.

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While some individuals are revising their living standards downward, other individuals, whose incomes have been increased by the war to levels considerably above those required to meet their former standards of living, are ready and willing to lend a substantial proportion of their increased incomes to the Government in order to insure their future security.

Ultimately, if the war should last long enough, these adjustments might be continued under a steadily increasing burden of taxation until each person's standard of living and financial commitments had become adjusted to his place in the war economy. This is unlikely to occur, except in a very long war; and, in the meantime, a considerable proportion of the total war cost must be borrowed in order to avoid unnecessary disruption in the economy.

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This means that during the war period, the capital assets of most business firms are wearing out more rapidly than they are being replaced, and the depreciation reserves set aside to offset this wear and tear are piling up in cash. At the same time, the accounts receivable of these firms are running down, which results also in piling up cash. These funds are all available to be lent to the Government; but they are not available to be taxed since they represent capital, rather than income, of the firms possessing them, and represent very different proportions of the total capital of different firms, depending upon the type of business. A policy of borrowing these funds, rather than taxing them away, is, therefore, clearly indicated.

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The volume of total savings required is dictated by the size of the deficit and may differ materially from the sum total of savings which would occur from economic and patriotic motives. At the present time the Federal Government is purchasing about one-half of the total volume of goods and services being produced, while the remaining 50 percent is being purchased for private use. Federal taxes, however, are bringing in only about 20 percent of the gross income generated by production, leaving about 80 percent in private hands. There is, thus, a discrepancy equivalent to about 30 percent of the value of total output which makes up the Federal deficit on the one hand and the corresponding necessary private savings on the other hand.

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I do not desire to go into the matter of particular types of wartime taxes at any length this evening, but I should like to make some general observations.

First, there can be no doubt of the ability of the people of the United States to pay taxes much higher than those now levied. Of course, it would be hard because war itself is hard. But the very fact that we are threatened with inflation is evidence of our ability to pay higher taxes, for it means that we have more dollars to spend than things to buy with them.

Second, the view is sometimes voiced that, while we have exhausted our ability to pay some kinds of taxes, such as income taxes, we have not exhausted our ability to pay other kinds of taxes, such as sales taxes. I can see no merit in this view. Ability to pay resides in persons, rather than in kinds of taxes -- both income and sales taxes must be met from the same pay envelopes; and if we have the ability to pay one, we have the ability to pay the other.

The income tax can be adjusted, and is adjusted to the personal circumstances of those upon whom it is levied. Exemptions are granted commensurate with family status, so that the tax does not fall with merciless brutality upon those with small incomes and large families. No such adjustment mechanism is customary or practicable for the sales tax. The view that we have exhausted our ability to pay additional income taxes, but still have the ability to pay a sales tax, logically reduces itself to the view that the principal additional ability to pay in the economy resides in that portion of incomes falling within the exemptions from the individual income tax -- that is, five hundred dollars for a single person, twelve hundred dollars for a married couple, and three hundred fifty dollars for each dependent. I cannot accept this view; and I do not believe that the advocates of the sales tax would, if they realized the full implications of their proposal.

Third, it is often proposed that we should place a special tax on increases in individual incomes; that is, tax a man with an income of, say, three thousand dollars more heavily if he has recently come up from one thousand dollars than if he had been receiving three thousand dollars for some time. This proposal seems to me to be wrong on a number of counts.

It is unfair. It seems to me that, consciously or unconsciously, it is based in part on the feudal concept that every man should stay in his place, and it strikes at the root of the principle that every man may rise according to his worth — a principle which has given so much life and hope to the American scene for generations past.

It is uneconomic. It would undermine the incentive of workers to transfer to war industries located in inconvenient places and to work long hours at hard jobs. Particularly, it would strike at the incentive for wives to enter war plants in order to earn incomes supplementary to those of their husbands. It would, therefore, aggravate the labor shortage.

It would be very difficult to administer. This would be true, not only for the Treasury, but also for the taxpayers, as it would require the use of forms and questionnaires far more complex than any involved in the administration of the individual income tax.

It seems to me that the basic problem of the taxation of individuals in wartime is really not very complex. Aggregate individual income is higher, and the Government must tax a portion of it away. There may be a great deal of dispute as to which income brackets should be drawn upon the most heavily, but any reasonable pattern of withdrawal can be effected by means of the individual income tax.

I think it is a good rule when any other tax is proposed, that you first express the distribution of its burden in terms of the individual income tax, and then ask yourself whether you would consider it reasonable that the burden of the individual income tax itself should be so altered. If the answer is "No," then the other tax should be placed on the defensive and its proponents made to justify it by reasons of strong public policy. Sometimes this can be done — for example, I believe that the luxury excises proposed by the Treasury this year and the spendings tax proposed last year are cases in point. The test should be rigid, however, and the considerations of public policy should be important before a tax is placed on the statute books, the burden of which is distributed in a manner other than that in which we would be willing to distribute the burden of an increase in the individual income tax.

I turn now to our policies with respect to wartime borrowing. These have been dominated by the following considerations.

First, we have tried to borrow as much as possible from investors other than commercial banks. This principle must be stated subject to some qualification. It would neither be possible nor desirable to do all of our borrowing outside of the banking system. I have already explained that one of the reasons for borrowing at all, rather than relying exclusively upon taxation, is that an expanding wartime economy needs — even at a constant price level — a greatly increased amount of currency and bank deposits. These can be obtained, under existing institutions and in wartime, only by a corresponding increase in the Government security holdings of commercial and Federal Reserve Banks; and a sufficient amount of securities have to be sold to the banks to provide this necessary circulating medium, even if adequate markets exist for them elsewhere.

The amount of Government securities which would thus have to be sold to the banks in any event is substantial; but, in practice, I must admit that this has proved little of a problem, since it has taken care of itself by the rapid expansion of the borrowing needs of the Federal Government and the slower development of nonbanking sources for Federal borrowing.

For this reason, we have directed our main effort to the sale of securities to nonbanking investors. During the past year, we have sold to such investors, net after all switches and redemptions, about forty billion dollars of Government securities, as compared with about thirty billions absorbed by the banks.

Second, we have tried to make the securities sold to the small investor as riskless as possible. The Treasury has considered itself the trustee of the inexperienced investor. It is with this in view that the Department's appeal to small investors has been confined to Series E bonds which are non-negotiable, payable on demand and hence are guaranteed against fluctuations in market values.

The Treasury is less concerned with the large volume of demand obligations which is being built up by the sale of savings bonds to small investors than it would be with the only practicable alternative to this course. This alternative would be the sale to small investors of marketable securities payable by the Treasury only after the expiration of a fixed term of years.

The fixing of a definite term on securities sold to small investors by no means insures that they will be held by these investors for the full term. By and large, the holders of marketable securities would sell them on the same occasions when holders of redeemable securities would redeem theirs. Indeed, there is one important occasion upon which marketable securities would be sold, but redeemable securities would not be redeemed -- that is, the fear of a decline in price, from which the nonnegotiable securities are immune.

Now it may appear, at first glance, that while the Treasury should be properly concerned with redemptions, it should not be concerned with market sales, since it must meet the redemptions out of its own pocket; while the market sales will be taken up by somebody else. This type of reasoning would suffice for a private borrower, but it is entirely inadequate for the Treasury since it overlooks the real problem which the holdings of government securities -- whether redeemable or marketable -- by small investors will present in the post-war period.

This problem is that the holders of these securities may dispose of of them and spend the proceeds on consumers' goods at a time when the supply of such goods will be scarce; and the spending can result only in price rises. This problem would exist, however, whether the securities were payable on demand or were negotiable and payable at the close of a fixed term, and will be somewhat less troublesome for demand securities, because, as I have already pointed out, the liquidation of this type of security will never be precipitated by the fear of a fall in the price of the security itself.

The other problems which will be caused by holdings of Government debt by small investors in the post-war period are minor, relative to the major problem which I have just mentioned; and will be less serious with demand obligations than with negotiable obligations of fixed term.

When savings bonds are presented for redemption to the Treasury and it is necessary to refund them, the Treasury offers the type and maturity of new securities best suited to the market at the time, and offers these securities for distribution through the regular channels of the Government security market.

Marketable securities, by contrast, would be offered in small blocks, oftentimes through irregular channels where the original holders may not receive full value, and might dribble into the market in such a way as to keep it continually disturbed. They might not be fitted by coupon rate, maturity, or other characteristics for the predominant demand then existing in the market, but they would have been cast in whatever mold they were, once and for all, and the market would have to make the best of it.

To the extent that the refunding of demand obligations would have been accomplished by the sale of securities to banks, so also would the marketable securities find their ultimate lodgment in banks, but only after a roundabout journey, probably involving both loss to their original purchasers and a higher interest cost to the Treasury.

It seems clear, therefore, that the Treasury is in a much better position to refund the non-negotiable securities than the individual would be to refund negotiable securities through the market.

The third of the principles governing our borrowing policy has been the maintenance of the liquidity of the banking system. We have laid down the policy that no securities will be offered to commercial banks for the investment of their demand deposits with a maturity at time of issuance of over ten years. The great majority of the securities sold to commercial banks have had maturities far shorter than this. Indeed, more than half of the total increase in the portfolios of commercial banks since Pearl Harbor has been in the form of three-month Treasury bills and one-year certificates of indebtedness. This concentration of sales to commercial banks in short securities insures that our banking system will be in a strong and liquid position to meet the problems of the post-war period.

Finally, we have financed this war at an average rate of slightly less than 1-3/4 per cent. This compares with an average rate of about 4-1/4 per cent on the securities issued to finance the last World War.

Interest rates have remained stable during the wartime period and confidence in the continuation of this stability has been and is widespread and well justified, and has caused investors to subscribe to new issues of Government securities in successive war loans without any sign of holding back in anticipation of higher rates.

I think it can be fairly said of the United States, as the late Chancellor of the Exchequer, Sir Kingsley Wood, recently said of Great Britain, that ". . . we have revolutionized public opinion as to what are fair rates for Government war borrowing." I believe that this revolution in opinion has a sound basis in underlying economic realities, and is applicable to the coming times of peace also. I hope that the policies of the Government will be directed to this end.

Financing the Post-War Readjustment

I come now to the second major division of my topic, that is, the problems of the post-war readjustment period.

I approach this subject with some trepidation. No post-war plan will be of any value unless we win the war and are in a position to put it into effect. The war is not yet in the bag. Hitler's post-war plan is slavery, and there will not be room for both his plan and our own.

You all remember the recipe for rabbit stew which begins "First catch the rabbit." So it is with post-war planning. We must first win the war; and we must not let anything, even post-war planning, distract our minds from this for an instant.

Immediately following the close of the war, we will be confronted with the problem of reconversion. The period of reconversion will be a time fraught with exceptional hazard to our economic structure.

During normal times, most of our people are engaged in producing goods which they and their fellow workers can buy with their wages. During wartime, they are largely engaged in producing war goods which they cannot purchase with their incomes, but the excess purchasing power which is thereby created is held in check by direct controls, by personal taxation and by Government borrowing from individuals. The people are willing to accept and cooperate with these measures because of patriotism and the all-pervading spirit of sacrifice which exists during wartimes. During the reconversion period, however, while the tools of production for peace goods are being made ready, purchasing power may outrun the goods available for purchase, while wartime measures of control may be relaxed if the people do not recognize the need for continued restraint.

A price inflation is, consequently, one of the hazards of the reconversion period. Stalking hand-in-hand with it goes the hazard of unemployment. Normally, these two are never seen together, since unemployment usually rises from a lack of demand for goods and inflation from a shortage of goods. The unemployment of the reconversion period will be caused, however, not by a lack of demand for the finished products, but because the plants are not yet ready for mass reemployment, and so may go hand-in-hand with inflation.

Once the period of reconversion is over and the tremendous potentialities of the American economy which have been demonstrated during the war period are directed to the production of the goods of peace, the main hazard of inflation will be over.

The task of statesmanship in the period immediately following the war will be to hasten the reconversion process while mitigating its hardships and reducing its human costs. This task will, of course, be easier if a termination of the war on one front before the other should make it possible to complete part of the reconversion process under a wartime environment. But we must press for victory against Japan as well as Germany without regard for the economics of reconversion.

This evening I shall discuss only three aspects of fiscal planning for the reconversion period, and these briefly. They are, first, the cancelation of war contracts; second, the adequacy of corporate financial resources to carry on the work of reconversion; and, third, the control of individual spending during the reconversion period.

If the war should end today on all fronts, there would be outstanding more than 75 billion dollars of war contracts on which deliveries had not yet been made. Much of the material covered by these contracts would be of no use to the Government if it were delivered after the immediate emergency of this war had passed. This is because there are no goods with respect to which obsolescence runs faster than it does for the goods of war; so the best preparation for future wars consists in maintaining the skills and plant capacity necessary for the development, production, and use of new war goods rather than in hoarding vast quantities of old ones.

Part of the undelivered contracts would still exist merely in blue-prints in the hands of the contractors, while part would be represented by goods in process, some of which in turn could be converted into peacetime goods.

In my opinion, all war contracts should be canceled immediately upon the passing of the military need for the goods contracted for. This is desirable for two important reasons. First, it avoids the tremendous waste of human and material resources involved in making goods which we will never use; and, second, it gives the maximum stimulation to the men and management released from making such goods to seek employment in the production of goods for which there is a human need, and so hastens the process of reconversion.

The abrupt cancelation of war contracts will give rise to two problems. These are: First, provision for the labor thrown out of employment; and second, compensation for the contractors.

The first of these problems should be settled with liberality; the second, with the utmost of speed.

A generous treatment of the labor displaced by contract cancelation is required, not merely by considerations of common humanity and fair dealing, but also by considerations of economy; for without it, we are unlikely to secure abrupt cancelation at all, and there is no form of relief more expensive than the production of unneeded tools of war. We should be sure, however, that the treatment accorded labor displaced from war production is of such a character that it encourages, rather than slows down, its quest for peacetime employment.

Payments to contractors should be just in accordance with a fixed standard of equity; that is, they should be enough to make the contractors and their subcontractors whole for the losses they have sustained as the result of the contract cancelations.

It is important also, that payments to contractors should be prompt. This is not primarily for the benefit of the contractors themselves -- although I have no doubt that they will appreciate it -- but for the benefit of the country as a whole. A dollar paid out in the settlement of war contracts during the early reconversion period may -- in terms of national well being -- be worth several dollars paid out a year or so later. It is far more important, therefore, that the settlements be prompt than that they be accurate to the last dollar according to some accounting concept, which may itself be open to question.

The settlement of war contracts along the lines which I have just outlined will involve a heavy outflow of funds from the Treasury in the few months immediately following the end of the war. We are prepared for this outflow, and we feel that there will be few occasions when a disbursement of funds may be made with so little real cost to the Government and so much benefit to the economy.

My second point with respect to the reconversion period relates to the adequacy of corporate financial resources to carry on the work of reconversion. The adequacy of these resources is important, not merely or even principally from the point of view of the corporations involved, but from the point of view of the whole economic system.

We in the Treasury have given careful consideration to this matter, and believe that funds for the reconversion of war industry will be ample, provided that a prompt settlement is made of canceled war contracts. Our reasons for believing this are as follows:

First, the wartime period has been a profitable one for American corporations as a whole. Net corporate profits, after taxes, have averaged about twice as much per year during the wartime period as they did in the years 1935 through 1939 (the base period for the FRB index of industrial production); and, by and large, the greatest increases have gone to those firms whose problems of reconversion will be greatest. Corporate dividend policy, furthermore, has been so conservative that most of the increase in corporate earnings has been added to surplus.

Second, in addition to their savings from undistributed earnings, American corporations have piled up a large volume of liquid assets as a result of repayment of receivables, and in some cases reduction in inventories, and the general inability to expend depreciation and depletion reserves which has been brought about by wartime conditions. According to the estimates of the Federal Reserve Board, the demand deposits of nonfinancial businesses, including unincorporated enterprises, amounted to over 30 billion dollars at the end of last July; and, according to Treasury estimates, the holdings of Government securities -- payable for the most part on demand or at very short term -- by nonfinancial corporations alone, amount at the present time to

about 20 billion dollars. Each of these figures is far above any peacetime precedent; but, to make the picture brighter, American business, during the same time it has been acquiring them, has reduced the amount of both its bank loans and its bonded debt.

Third, generous carry-back and carry-forward provisions included in the corporation tax laws insure that corporations suffering losses during the reconversion period, or even earning incomes of less than their excess profits credit, will receive substantial refunds of the taxes paid in their prosperous years. These refunds -- for the expediting of which the Treasury has made recommendations to the Congressional committees -- will be available to carry on the work of reconversion. In addition, there is provided in the present law a post-war refund, irrespective of future tax status, of ten per cent of the excess profits tax paid in the war period.

For the reasons given, I do not believe that the adequacy of business funds for reconversion purposes will present a major problem. But I cannot speak with equal assurance with respect to the prospects for the control of individual spending during the reconversion period -- the third post-war problem to be discussed.

Immediately following the end of the actual fighting, we can probably expect a let-down in the willingness of people to submit from patriotic motives to a continued reduction in their consumption. There is likely to be a demand for an immediate end of the direct controls; and this demand may, to some extent, succeed. For some time, however, while industry is being reconverted and the war effort demobilized, there will be only a very gradual increase in the supply of consumers' goods. When it is considered that there will be available to be spent currently, in addition to the incomes being received for the production of consumers' goods, not merely the incomes from work in demobilizing the war effort and reconverting private industry, but also the large liquid resources piled up during wartime, it is easy to conjure up the specter of a post-war inflation.

Against this must be set the powerful force of human foresight and sobriety. The reconversion period is bound to be attended by considerable unemployment, and each individual will naturally ask himself how he is going to come out in the swirl of readjustments he sees around him. His natural tendency will be to "play it close to the chest" and handle his reserve funds as carefully as possible. This human tendency alone may maintain a high rate of saving during the reconversion period, and so forestall the possibility of a post-war inflation.

We hope that this will be so; but counting on it would be as improvident as counting on an internal smash-up in Germany to win the war. We must consequently lay our plans to prevent a post-war inflation from occurring, but stand ready to adjust any such plans on short notice to conditions as they actually develop during the reconversion period.

What should these plans be? It seems to me that the direct controls, such as price ceilings, priorities, and rationing, should be kept in effect as long as necessary; and high income taxes, as long as possible.

Let me explain the difference between "necessary" and "possible" in the statement which I have just made.

While I believe that we should keep the direct controls as long after the war as necessary, I do not believe that this will be very long. I feel certain that the last of them can be done away with as soon as the reconverted plants commence to pour their flood of consumers' goods on the market.

I have said, however, that the high rates of taxation should be kept as long as possible. I think that the case here is very different. High personal taxes serve the anti-inflationary purpose of absorbing surplus purchasing power; and this may be very useful and necessary in the reconversion period. But they also serve the purpose of helping to pay off the national debt; and this purpose is also useful and necessary.

It seems to me, therefore, that, while the criterion with respect to the removal of the controls should be "How soon can we remove them without risking inflation?"; the criterion with respect to wartime rates of taxation should be "How long can we keep them without risking unemployment?" Perhaps for a long time to come, if the post-war period lives up to our hopes and expectations.

But this would take me into new vistas beyond the scope of tonight's address for I have no intention of discussing the broader phases of fiscal policy beyond the reconversion period.

I would like to make, however, a few general observations. The war has opened the eyes of the American people to the tremendous productivity of industrial and agricultural America. The shortages of peacetime goods and services that exist now have not blinded us to the enormous potentialities for abundance inherent in our productive mechanism. It is precisely this unexampled capacity to produce upon which the future prosperity and welfare of our people ultimately depend.

To help society achieve more fully the promise of abundance implicit in our capacity to produce; to help maintain output and employment at a level more nearly corresponding to our true productive potential; and to secure this at a price that a peaceful democracy can pay; -- that will constitute the greatest task of economic statesmanship in the post-war world.

I do not believe that the glory of America belongs only to the past. I believe that the real promise of America belongs to the future. Between the goal of securing maximum utilization of our resources and the goal of achieving a more equitable distribution of wealth, there need be no conflict. Our history has been testimony to that fact, and our future will be the record of its fulfillment.

TREASURY DEPARTMENT

FISCAL SERVICE

WASHINGTON

BUREAU OF ACCOUNTS
OFFICE OF THE COMMISSIONER

December 7, 1943

39-96

Schaffer

TO MR. BELL:

During the month of November, 1943, the following market transactions took place in direct and guaranteed securities of the Government:

Sales	$5,000,000
Purchases	-
Net sales	$5,000,000

Gunnberg

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, December 15, 1943.

Press Service
No. 39-96

During the month of November, 1943, market transactions in direct and guaranteed securities of the Government for Treasury investment and other accounts resulted in net sales of $5,000,000, Secretary Morgenthau announced today.

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sources of bogus money that for several years plagued the district. Previously he had performed similar service in the Boston district. He came to Washington as Supervising Agent in 1942.

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At Newark and New York Mr. Maloney directed investigations which smashed major counterfeiting gangs operating in the area, and carried out many other ~~major~~ important assignments such as arranging for protection of the President and distinguished foreign visitors. He directed the protective detail that accompanied the King and Queen of England on their visit to the World's Fair in 1939. He had charge of arrangements for the visit of Madam Chiang Kai-shek early this year, an assignment involving as great a variety of difficult situations as any protective operation ever undertaken by the Service.

As ~~acting~~ District Coordinator in the states of New York and New Jersey of all Treasury Enforcement agencies from February, 1941, he played a prominent role in the organization of port protection and other wartime services of the Treasury and other cooperating Government and military authorities.

Mr. Maloney served in the first World War as a private in the Army Air Force, with the Ninety-third Aerial Squadron at San Antonio, Texas, and in France.

Mr. and Mrs. Maloney have taken residence at 2800 Ontario Road, N.W.

Mr. McGrath, who succeeds Mr. Maloney in New York, is returning to a familiar field. A veteran of 26 years with the Service, he headed, from 1938 to 1942, a special counterfeit detail working under Mr. Maloney in the New York area which smashed the major

Treas Dept
Wash

For Immediate Release,
Thursday December 16, 1943.

Press Service
No. 39-97

Secretary Morgenthau

~~The Treasury~~ today announced the appointment of James J. Maloney as Assistant Chief of the United States Secret Service, succeeding Joseph E. Murphy, who retired recently after 45 years in the organization.

Mr. Maloney comes to Washington from New York City where he has been Supervising Agent of this key district since 1938. Chief Frank J. Wilson announced also that John J. McGrath has been transferred from the Capital, where he was Supervising Agent of the Washington district, to the New York City post; and has in turn been succeeded by Harry D. Anheier, who formerly was Agent in Charge at New Orleans.

Mr. Maloney is 47 years old. He is a native of Binghamton, New York. The new Assistant Chief was a law enforcement officer in southern New York for 12 years before his appointment to the Secret Service in 1931 as an operative at Detroit.

In 1935 Mr. Maloney was transferred to Syracuse, New York, as Operative in Charge. In 1936 he was moved to Buffalo in the same capacity, and in December of that year became acting Supervising Agent of the Newark district. Mr. Maloney was designated Supervising Agent in 1938, and was transferred in the same year to the New York position.

The New York district is considered the most important in the Secret Service field organization because of the range of activities and the scope of work the Service is called upon to perform.

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS
Monday, December 27, 1943

Press Service
No. 39-98

Secretary of the Treasury Morgenthau today made public data from "Statistics of Income for 1941, Part 1," compiled from individual income tax returns and taxable fiduciary income tax returns filed during 1942. These data are prepared under the direction of Commissioner of Internal Revenue Robert E. Hannegan.

The total number of returns filed for the income year 1941 is 25,954,801 of which 15,617,209 are individual returns, Form 1040; 10,252,708 are the optional returns, Form 1040A, filed by individuals with certain gross income of $3,000 or less; and 84,884 are taxable fiduciary returns, Form 1041. As compared with the previous year, the total number of returns increased 76 percent. The increase is approximately 10 million taxable returns and 1 million nontaxable returns.

The total net income reported is $58,868,025,394, an increase of 61 percent. Included is $17,531,107,226 gross income reported on Form 1040A which does not provide for reporting the amount of net income.

There are 17,587,768 taxable returns of which 17,587,471 show net income of $45,902,883,995, and 297 show deficit of $7,573,471 owing to net long-term capital loss but disclose $2,326,475 alternative tax.

Of the 8,367,033 nontaxable returns, 8,267,502 show net income of $12,965,141,399 -- nontaxable because exemptions and credits exceed net income; and 99,531 show a deficit of $284,449,222 -- returns on which deductions equal or exceed total income.

The total tax liability amounts to $3,907,951,001 an increase of 161 percent over the previous year. For taxable returns with net income, the average tax is $222 compared with $199 for 1940 and the effective tax rate is 8.5 percent compared with 6.4 percent for 1940.

The amount and percent of increase or decrease in number of returns, net income, deficit, and taxes for 1941 over 1940 are as follows:

Individual returns and taxable fiduciary returns, 1941 and 1940: Number of returns, net income, deficit, and taxes

(Money figures in thousands of dollars)

	1941	1940	Increase or decrease(-) 1941 over 1940	
			Amount	Percent
Total individual and taxable fiduciary returns:				
Number of returns	25,954,801	14,778,159	11,176,642	76
Net income	1/ 58,868,025	36,588,546	22,279,480	61
Deficit	292,023	311,385	-19,362	-6
Total tax	2/ 3,907,951	1,496,403	2,411,548	161
Taxable individual and fiduciary returns:				
With net income:				
Number of returns	17,587,471	7,504,649	10,082,822	134
Net income	1/ 45,902,884	23,558,030	22,344,854	95
Tax	2/ 3,905,625	1,495,930	2,409,694	161
Normal tax	556,019	388,950	167,069	43
Surtax	1,927,715	435,331	1,492,385	343
Alternative tax 3/	1,092,261	543,299	548,962	101
Defense tax 4/	1,150	128,350	-127,200	-99
Optional tax	328,479	-	328,479	-
Individual returns with no net income:				
Number of returns	297	46	251	546
Deficit	7,573	2,551	5,023	197
Alternative tax	5/ 2,326	473	1,854	392
Nontaxable individual returns:				
With net income 6/:				
Number of returns	8,267,502	7,160,813	1,106,689	15
Net income	12,965,141	13,030,516	-65,374	-1
With no net income 7/:				
Number of returns	99,531	112,651	-13,120	-12
Deficit	284,449	308,834	24,385	8

For footnotes, see p. 14

The major changes in law affecting data on returns for the taxable year 1941, are: (1) Elimination of the defense tax; (2) imposition of surtax upon the entire surtax net income with an increase in the surtax rates; (3) provision for an optional tax on individuals with certain gross income of $3,000 or less, in lieu of the normal tax and surtax; (4) reduction in the minimum amount of gross income for which a return is required to be filed from $2,000 to $1,500 for a married person living with husband or wife for the entire taxable year, and from $800 to $750 for a single person, a married person not living with husband or wife, an estate, and a trust; (5) reduction of the personal exemption from $2,000 to $1,500 for a married person living with husband or wife for the entire taxable year or a person who is head of a family, and from $800 to $750 for a single person, a married person not living with husband or wife, or an estate; and (6) disallowance of credit for one dependent when taxpayer is head of a family only by reason of dependents for whom he would be entitled to credit.

The Public Debt Act of 1941 provides for the taxation of interest on obligations issued on and after March 1, 1941 by the United States or any agency or instrumentality thereof.

The returns included in this report are those for the calendar year ended December 31, 1941; a fiscal year other than a calendar year, ending within the period July 1941 through June 1942; and a part year with the greater part of the accounting period in 1941. Returns from which data are tabulated are Forms 1040, 1040A, 1040B, and 1041. Tentative returns and amended returns are excluded. Statistics are taken from the returns as filed by the taxpayer, prior to revisions that may be made as a result of audit by the Bureau of Internal Revenue.

Data for individual returns, Form 1040, with net income of $5,000 and over, and for taxable fiduciary returns regardless of the amount of net income, are completely tabulated from each return. This procedure is followed also with respect to a portion of the individual returns, Form 1040, with net income under $5,000 while data for the remainder of such returns and for individual returns, Form 1040A, are estimated from samples.

For the first time, data for individual returns, Form 1040A, are tabulated separately from data for returns, Form 1040. Return Form 1040A, is an optional return which may be used by individuals with gross income of $3,000 or less consisting wholly of salaries, wages, and compensation for personal services, and dividends, interest, rents, annuities, and royalties. Deductions and the amount of net income are not reported. Gross income is tabulated both as total income and net income and the optional tax, paid in lieu of normal tax and surtax, is tabulated as total tax. The amount of personal exemption shown in the tables is determined from the taxpayer's status as indicated on the return. Earned income credit is computed as 10 percent of the gross income.

Five tables are presented in this release. Composite data for individual and taxable fiduciary returns are shown in tables 1, 2, and 3 whereas data for individual returns, exclusively, are shown in tables 2-A and 3-A.

Data in table 1 are classified by States and Territories and those in the remaining 4 tables by net income classes. Since a classification of the returns, Form 1040A, cannot be made on the basis of net income, data from these returns are shown in aggregate in the tables which present data tabulated by net income classes.

Table 1. - Individual returns and taxable fiduciary returns, with net income, and individual returns with no net income, 1941, by States and Territories: Population, percent of population filing returns, total number of returns, and total tax; for returns with net income, number of returns, net income, and tax; for returns with no net income, number of returns and deficit; for returns, Form 1040A, number of returns, gross income, and tax

(Money figures in thousands of dollars)

STATES AND TERRITORIES	Population April 1, 1940 (Sixteenth Census) (in thousands)	Percent of population filing returns	Total number of individual and taxable fiduciary returns (col. 6 + 9 + 11)	Total tax 2/	Individual returns and taxable fiduciary returns 8/ with net income, not including returns, Form 1040A			Individual returns with no net income 7/		Individual returns, Form 1040A 9/		
					Number of returns	Net income 8/	Tax	Number of returns	Deficit	Number of returns	Gross income	Tax
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Alabama	2,833	7.41	210,043	28,323	102,470	296,998	26,418	699	1,523	106,874	175,170	1,905
Alaska	73	35.58	25,807	2,420	13,345	34,881	2,203	105	297	12,357	18,400	217
Arizona	499	15.39	76,815	8,947	40,313	104,403	7,696	714	1,616	35,788	64,058	1,244
Arkansas	1,949	5.12	99,736	16,480	69,699	192,871	16,068	472	1,233	29,565	47,119	411
California	6,907	29.97	2,069,810	296,094	1,160,181	3,126,641	265,271	13,124	36,374	896,505	1,475,559	30,792
Colorado	1,123	16.04	180,211	23,909	118,965	288,802	22,426	1,582	2,595	59,664	98,400	1,483
Connecticut	1,709	34.69	592,878	110,692	279,186	863,285	97,913	1,274	4,626	312,418	541,074	12,677
Delaware	267	24.19	64,470	37,808	36,278	149,883	36,860	140	1,899	28,052	46,301	794
District of Columbia	663	37.86	251,072	45,532	117,693	377,571	39,632	118	982	133,261	220,299	5,891
Florida	1,897	12.75	241,888	54,328	150,510	460,178	52,560	2,869	9,020	88,509	143,420	1,731
Georgia	3,124	8.27	258,371	41,708	137,807	415,369	39,443	1,504	4,970	119,060	189,619	2,257
Hawaii	423	23.49	99,460	13,356	29,186	106,175	11,093	34	171	70,240	116,488	2,263
Idaho	525	14.39	75,552	5,940	51,485	112,052	5,126	637	866	23,430	40,871	813
Illinois	7,897	26.45	2,089,198	345,188	1,184,019	3,325,464	311,575	7,350	17,599	897,829	1,545,760	33,507
Indiana	3,428	20.00	685,684	76,470	432,234	1,036,323	68,620	2,273	5,695	251,177	436,119	7,842
Iowa	2,538	17.15	435,374	30,208	350,207	672,947	28,622	3,119	3,943	82,048	130,585	1,587
Kansas	1,801	14.27	256,926	23,918	191,493	414,388	22,631	1,881	3,330	63,552	105,853	1,278
Kentucky	2,846	9.24	262,892	29,003	167,396	407,212	27,017	785	1,737	94,711	160,234	1,981
Louisiana	2,364	9.82	232,217	34,089	127,804	356,092	31,732	1,287	3,470	103,126	169,706	2,351
Maine	847	16.99	143,963	15,158	85,623	203,636	14,074	1,344	2,252	56,996	89,186	1,020
Maryland	1,821	27.95	508,954	81,455	277,106	833,821	74,915	275	3,173	231,573	377,307	6,500
Massachusetts	4,317	27.39	1,182,347	171,366	634,200	1,707,677	156,090	4,775	12,649	543,372	889,146	15,085
Michigan	5,256	26.10	1,372,039	220,699	782,708	2,245,774	192,668	761	7,347	588,570	1,123,970	27,948
Minnesota	2,792	18.36	512,550	51,947	365,536	795,449	46,957	1,918	2,948	145,096	249,107	4,990
Mississippi	2,184	4.24	92,689	14,693	58,676	165,695	13,735	427	807	33,586	58,744	959
Missouri	3,785	15.76	596,473	87,303	414,182	1,034,435	82,449	2,717	6,168	179,574	309,311	4,822
Montana	559	19.05	106,596	9,729	67,388	160,023	8,461	826	1,361	38,382	66,252	1,268
Nebraska	1,316	13.95	183,516	15,971	131,169	281,162	14,799	1,973	2,694	50,374	79,968	1,172
Nevada	110	35.37	38,991	6,469	17,109	50,976	5,695	80	238	21,802	37,018	773
New Hampshire	492	21.13	103,883	10,496	57,914	133,417	9,463	634	910	45,335	71,975	1,032
New Jersey	4,160	29.44	1,224,656	190,592	756,409	2,104,681	176,533	2,864	9,221	465,383	790,388	14,032
New Mexico	532	9.90	52,667	6,530	33,227	85,370	5,949	649	1,061	18,791	33,071	581
New York	13,479	25.87	3,486,610	686,108	2,331,967	6,372,005	651,215	16,606	75,634	1,138,037	1,909,371	33,934
North Carolina	3,572	7.79	278,245	39,186	164,138	417,619	36,839	248	708	113,859	187,105	2,347
North Dakota	642	13.84	88,855	3,704	76,763	132,633	3,511	636	721	11,456	18,047	193
Ohio	6,908	24.54	1,695,454	243,088	1,043,219	2,757,968	221,853	3,792	12,021	648,443	1,137,040	21,116
Oklahoma	2,336	9.17	214,163	28,172	154,467	376,410	26,937	1,653	3,793	58,043	99,965	1,235
Oregon	1,090	21.43	233,481	28,219	141,071	354,360	25,126	1,296	2,986	91,114	150,879	3,094
Pennsylvania	9,900	22.57	2,234,440	338,184	1,256,497	3,345,229	305,279	4,494	16,343	973,449	1,731,721	32,786
Rhode Island	713	28.52	203,430	32,245	116,548	305,562	28,769	83	933	86,799	150,148	3,396
South Carolina	1,900	7.28	138,219	13,584	74,478	184,009	12,813	603	1,033	63,140	96,746	771
South Dakota	643	12.47	80,147	3,938	63,597	113,772	3,693	868	843	15,682	24,803	245
Tennessee	2,916	9.01	262,747	43,140	145,537	420,128	40,075	591	2,107	116,619	197,570	3,066
Texas	6,415	12.46	798,974	126,052	528,218	1,378,671	119,046	6,027	14,975	264,729	458,117	7,000
Utah	550	14.14	77,812	7,593	47,936	116,947	7,006	7	12	29,869	53,770	587
Vermont	359	16.40	58,913	5,457	38,603	82,930	4,982	19	118	20,291	33,689	475
Virginia	2,678	13.79	369,340	56,053	197,518	566,408	49,916	679	1,435	171,143	300,106	6,107
Washington	1,736	26.93	467,601	53,089	232,019	592,278	44,062	1,910	4,087	233,672	402,618	9,012
West Virginia	1,902	13.98	265,842	25,183	116,496	306,749	20,986	533	1,001	148,913	270,883	4,198
Wisconsin	3,138	19.89	624,057	62,411	400,001	890,208	55,041	291	817	223,765	379,501	7,288
Wyoming	251	19.44	48,743	5,723	31,676	79,381	5,301	382	683	16,685	28,751	422
Total	132,165	19.64	25,954,801	3,907,951	15,602,265	41,336,918	3,577,146	99,828	292,023	10,252,708	17,551,107	328,479

For footnotes, see pp. 14 and 15.

Table 2. - Individual returns and taxable fiduciary returns, with net income, 1941, by taxable and nontaxable returns, by net income classes, and taxable returns by type of tax liability; also aggregates for taxable and nontaxable individual returns with no net income: Number of returns, net income, personal exemption, credit for dependents, earned income credit, total tax, normal tax, surtax, alternative tax, defense tax, average total tax, and effective tax rate

(Net income classes and money figures, except average total tax, in thousands of dollars)

Net income 8/ classes	Number of returns	Net income 1/	Personal exemption 10/	Credit for dependents (individual returns)	Earned income credit 11/ (individual returns)	Total tax 2/	Returns with normal tax and surtax 12/					
							Number of returns	Net income 8/	Tax			
									Total (col. 11 + 12 + 15)	Normal tax	Surtax	Defense tax 4/
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Taxable individual and fiduciary returns 9/:												
With net income:												
Form 1040A (est.) 9/	6,199,542	10,560,017	6,183,612	382,354	1,056,002	328,479	-	-	-	-	-	-
Forms 1040 and 1041:												
Under .75 (est.)	67,572	25,950	5,306	112	1,575	2,118	67,560	25,947	2,033	766	1,267	(13)
.75 under 1 (est.)	766,139	676,539	561,457	509	66,914	9,190	766,133	676,554	9,154	2,245	6,911	(13)
1 under 1.5 (est.)	1,292,021	1,588,172	953,529	24,554	157,532	54,471	1,292,010	1,588,160	54,442	17,995	36,446	1
1.5 under 2 (est.)	2,127,895	3,752,174	2,656,488	99,461	374,123	86,205	2,127,879	3,752,146	86,141	26,611	59,530	1
2 under 2.5 (est.)	2,321,717	5,204,885	3,212,804	410,122	519,515	138,501	2,321,706	5,204,861	138,450	45,453	94,996	1
2.5 under 3 (est.)	1,697,745	4,650,648	2,380,131	491,775	464,245	160,197	1,697,730	4,650,608	159,823	52,733	107,089	1
3 under 4 (est.)	1,648,213	5,598,869	2,255,750	567,668	541,946	262,196	1,648,085	5,598,409	261,912	89,203	172,706	3
4 under 5 (est.)	517,277	2,290,184	681,702	186,886	203,214	146,720	517,139	2,289,559	146,349	48,491	97,855	3
5 under 6	251,232	1,370,260	328,874	98,576	114,022	104,702	251,064	1,369,328	104,272	32,935	71,331	8
6 under 7	151,975	982,494	196,212	60,067	77,106	87,507	151,743	980,971	86,949	25,797	61,142	9
7 under 8	103,676	774,381	133,399	40,139	58,246	78,120	103,376	772,125	77,547	21,523	55,816	9
8 under 9	73,188	620,596	93,728	29,281	44,924	69,665	72,722	616,452	68,564	17,893	50,664	7
9 under 10	56,830	538,784	72,479	22,271	37,936	66,504	56,205	532,829	65,041	15,957	49,076	8
10 under 11	43,398	454,595	55,037	17,047	31,000	61,238	42,500	445,124	59,118	13,676	45,433	9
11 under 12	34,633	397,750	43,991	13,527	26,555	57,902	33,298	382,348	54,701	11,968	42,724	9
12 under 13	27,857	347,673	35,044	11,101	22,620	54,495	25,756	321,339	49,181	10,210	38,961	10
13 under 14	23,156	312,292	29,160	9,067	20,022	52,299	20,111	271,067	44,179	8,723	35,446	11
14 under 15	19,463	281,887	24,685	7,785	17,525	50,285	15,951	250,698	40,015	7,523	32,480	11
15 under 20	62,285	1,070,515	78,620	24,539	57,220	222,565	47,124	807,836	162,351	27,232	135,047	52
20 under 25	32,289	718,862	40,317	12,585	30,507	184,467	22,173	492,809	121,903	17,287	104,568	48
25 under 30	18,840	514,245	23,413	7,319	18,065	153,378	12,049	328,450	94,821	11,817	82,975	30
30 under 40	20,367	699,970	25,058	7,846	19,976	240,347	12,065	413,315	138,052	15,174	122,800	78
40 under 50	10,314	459,187	12,631	3,959	10,511	180,492	5,421	241,024	92,519	9,014	83,441	65
50 under 60	5,908	322,397	7,274	2,194	6,271	138,445	2,984	162,510	68,545	6,146	62,346	53
60 under 70	3,660	236,467	4,513	1,497	3,937	108,503	1,665	107,512	48,617	4,100	44,485	33
70 under 80	2,403	179,249	2,921	883	2,618	85,957	1,071	79,847	38,084	3,062	34,998	24
80 under 90	1,656	140,215	2,047	600	1,802	70,450	724	61,238	30,469	2,362	28,074	33
90 under 100	1,223	115,678	1,469	467	1,289	59,488	489	46,371	25,964	1,798	22,144	22
100 under 150	2,784	333,998	3,367	1,013	2,941	181,958	975	115,806	63,819	4,517	59,240	63
150 under 200	969	166,213	1,160	336	980	95,945	282	48,430	28,817	1,984	26,818	14
200 under 250	434	96,903	510	173	449	55,971	122	27,084	16,772	1,064	15,686	22
250 under 300	217	59,316	266	64	208	35,543	45	12,167	7,763	482	7,282	-
300 under 400	244	84,447	293	87	231	51,147	55	19,309	12,785	766	12,020	-
400 under 500	123	55,318	148	43	116	32,632	19	8,329	5,665	331	5,334	-
500 under 750	114	68,295	151	36	102	42,726	13	7,790	5,465	311	5,133	22
750 under 1,000	55	47,366	60	16	41	29,264	8	6,640	4,799	264	4,535	-
1,000 under 1,500	34	41,633	40	9	27	26,117	6	6,914	5,117	276	4,841	-
1,500 under 2,000	5	8,324	5	2	5	4,882	1	1,522	1,145	61	1,084	-
2,000 under 3,000	10	23,068	11	4	9	14,346	3	6,876	5,268	275	4,993	-
3,000 under 4,000	6	22,545	7	4	6	14,292	-	-	-	-	-	-
4,000 under 5,000	-	-	-	-	-	-	-	-	-	-	-	-
5,000 and over	2	10,519	1	-	1	6,119	-	-	-	-	-	-
Total, returns with net income	17,587,471	45,902,884	20,057,646	2,535,936	3,992,334	3,905,625	11,318,242	32,710,285	2,484,393	556,019	1,927,715	658
With no net income, Form 1040 5/	297	14/7,573	289	55	192	2,326	-	-	-	-	-	-
Total, taxable returns (44+45)	17,587,768	15/45,895,311	20,057,936	2,535,992	3,992,525	3,907,951	11,318,242	32,710,285	2,484,393	556,019	1,927,715	658
Nontaxable individual returns:												
With net income: 6/												
Form 1040A (est.) 9/	4,053,166	6,971,090	5,866,187	3,013,028	697,109	-	-	-	-	-	-	-
Form 1040:												
Under .75 (est.)	858,153	475,829	798,008	55,681	3,241	-	-	-	-	-	-	-
.75 under 1 (est.)	284,504	250,850	377,929	68,789	1,748	-	-	-	-	-	-	-
1 under 1.5 (est.)	1,309,494	1,722,470	1,913,678	242,609	12,911	-	-	-	-	-	-	-
1.5 under 2 (est.)	1,024,992	1,809,312	1,531,475	605,394	14,744	-	-	-	-	-	-	-
2 under 2.5 (est.)	553,386	1,223,291	829,455	536,762	9,935	-	-	-	-	-	-	-
2.5 under 3 (est.)	149,629	400,356	224,616	213,351	3,302	-	-	-	-	-	-	-
3 under 4	33,119	107,404	49,678	67,907	562	-	-	-	-	-	-	-
4 under 5	1,059	4,540	1,603	5,338	27	-	-	-	-	-	-	-
Total, returns with net income	8,267,502	12,965,141	11,592,629	4,806,858	743,578	-	-	-	-	-	-	-
With no net income, Form 1040 7/	99,531	14/284,449	(16)	(16)	(16)	-	-	-	-	-	-	-
Total, nontaxable returns (56+57)	8,367,033	15/12,680,692	(16)	(16)	(16)	-	-	-	-	-	-	-
Grand total (46+58 or 60 + 61)	25,954,801	15/58,576,003	(16)	(16)	(16)	3,907,951	11,318,242	32,710,285	2,484,393	556,019	1,927,715	658
Individual returns and taxable fiduciary returns with net income (44+56)	25,854,973	58,868,025	31,650,275	7,342,794	4,735,912	3,905,625	11,318,242	32,710,285	2,484,393	556,019	1,927,715	658
Individual returns with no net income (45+57)	99,828	14/292,023	(16)	(16)	(16)	2,326	-	-	-	-	-	-

For footnotes, see pp. 14 and 15.

Table 2. - Individual returns and taxable fiduciary returns, with net income, 1941, by taxable and nontaxable returns, by net income classes, and taxable returns by type of tax liability; also aggregates for taxable and nontaxable individual returns with no net income: Number of returns, net income, personal exemption, credit for dependents, earned income credit, total tax, normal tax, surtax, alternative tax, defense tax, average total tax, and effective tax rate - Continued

(Net income classes and money figures, except average total tax, in thousands of dollars)

	Net income 8/ classes	Returns with alternative tax 5/					Average total tax (col. 7 ÷ 2)	Effective tax rate, percent (returns with net income (col. 7 ÷ 3)	
		Number of returns	Net income 8/	Tax					
				Total (col. 17 + 18)	Alternative tax	Defense tax 4/			
	(1)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	
	Taxable individual and fiduciary returns 8/:								
	With net income:								
1	Form 1040A (est.) 9/	-	-	-	-	-	55	3.11	1
	Forms 1040 and 1041:								
2	Under .75 (est.)	12	3	84	84	-	31	8.16	2
3	.75 under 1 (est.)	6	5	36	36	-	12	1.36	3
4	1 under 1.5 (est.)	11	13	30	30	-	42	3.43	4
5	1.5 under 2 (est.)	16	28	64	64	-	41	2.30	5
6	2 under 2.5 (est.)	11	25	51	51	-	60	2.66	6
7	2.5 under 3 (est.)	15	41	374	374	-	94	3.44	7
8	3 under 4 (est.)	128	460	284	284	-	159	4.68	8
9	4 under 5 (est.)	138	625	371	371	-	284	6.41	9
10	5 under 6	168	932	430	430	-	417	7.64	10
11	6 under 7	232	1,525	558	558	-	576	8.91	11
12	7 under 8	300	2,256	775	775	-	754	10.09	12
13	8 under 9	466	4,144	1,101	1,101	-	952	11.25	13
14	9 under 10	625	5,955	1,463	1,463	-	1,170	12.34	14
15	10 under 11	898	9,471	2,119	2,119	-	1,411	13.47	15
16	11 under 12	1,335	15,402	3,201	3,201	-	1,672	14.56	16
17	12 under 13	2,101	26,334	5,314	5,314	-	1,956	15.67	17
18	13 under 14	3,045	41,225	8,120	8,120	-	2,259	16.75	18
19	14 under 15	3,532	51,189	10,269	10,269	-	2,583	17.84	19
20	15 under 20	15,161	262,679	60,234	60,233	1	3,573	20.79	20
21	20 under 25	10,116	226,053	62,564	62,562	2	5,713	25.66	21
22	25 under 30	6,791	185,795	58,556	58,546	11	8,141	29.83	22
23	30 under 40	8,302	286,655	102,295	102,272	23	11,801	34.34	23
24	40 under 50	4,893	218,163	87,973	87,953	20	17,500	39.31	24
25	50 under 60	2,924	159,887	69,899	69,883	16	23,433	42.94	25
26	60 under 70	1,995	128,955	59,885	59,870	16	29,646	45.88	26
27	70 under 80	1,332	99,402	47,872	47,839	33	35,770	47.95	27
28	80 under 90	932	78,977	39,981	39,969	12	42,542	50.24	28
29	90 under 100	734	69,307	35,524	35,517	7	48,641	51.43	29
30	100 under 150	1,809	218,191	118,138	118,120	19	65,358	54.48	30
31	150 under 200	687	117,783	67,128	67,097	30	99,014	57.72	31
32	200 under 250	312	69,819	39,200	39,147	52	128,966	57.76	32
33	250 under 300	172	47,149	27,580	27,580	-	162,873	59.58	33
34	300 under 400	189	65,138	38,361	38,322	39	209,617	60.57	34
35	400 under 500	104	46,989	26,968	26,919	49	265,305	58.99	35
36	500 under 750	101	60,505	37,261	37,261	-	374,794	62.56	36
37	750 under 1,000	47	40,726	24,466	24,434	32	532,080	61.78	37
38	1,000 under 1,500	28	34,719	21,000	20,959	42	768,155	62.73	38
39	1,500 under 2,000	4	6,802	3,737	3,737	-	976,328	58.64	39
40	2,000 under 3,000	7	16,193	9,078	9,078	-	1,434,592	62.19	40
41	3,000 under 4,000	6	22,545	14,292	14,203	90	2,382,079	63.39	41
42	4,000 under 5,000	-	-	-	-	-	-	-	42
43	5,000 and over	2	10,519	6,119	6,119	-	3,059,269	58.17	43
44	Total, returns with net income	69,687	2,632,581	1,092,753	1,092,261	492	222	8.51	44
45	With no net income, Form 1040: 5/	297	14/7,575	2,326	2,326	-	7,833	-	45
46	Total, taxable returns (44+45)	69,984	15/2,625,008	1,095,080	1,094,587	492	222	8.51	46
	Nontaxable individual returns:								
	With net income: 6/								
47	Form 1040A (est.) 9/	-	-	-	-	-	-	-	47
	Form 1040:								
48	Under .75 (est.)	-	-	-	-	-	-	-	48
49	.75 under 1 (est.)	-	-	-	-	-	-	-	49
50	1 under 1.5 (est.)	-	-	-	-	-	-	-	50
51	1.5 under 2 (est.)	-	-	-	-	-	-	-	51
52	2 under 2.5 (est.)	-	-	-	-	-	-	-	52
53	2.5 under 3 (est.)	-	-	-	-	-	-	-	53
54	3 under 4	-	-	-	-	-	-	-	54
55	4 under 5	-	-	-	-	-	-	-	55
56	Total, returns with net income	-	-	-	-	-	-	-	56
57	With no net income, Form 1040 7/	-	-	-	-	-	-	-	57
58	Total, nontaxable returns (56+57)	-	-	-	-	-	-	-	58
59	Grand total (46+58 or 60 + 61)	69,984	15/2,625,008	1,095,080	1,094,587	492	(17)	-	59
60	Individual returns and taxable fiduciary returns with net income (44+56)	69,687	2,632,581	1,092,753	1,092,261	492	151	6.65	60
61	Individual returns with no net income (45+57)	297	14/7,575	2,326	2,326	-	(17)	-	61

For footnotes, see pp. 14 and 15.

Table 2-A. - Individual returns with net income, 1941, by taxable and nontaxable returns, by net income classes, and taxable returns by type of tax liability; also aggregates for taxable and nontaxable individual returns with no net income: Number of returns, net income, personal exemption, credit for dependents, earned income credit, total tax, normal tax, surtax, alternative tax, defense tax, average total tax, and effective tax rate

(Net income classes and money figures, except average total tax, in thousands of dollars)

	Net income classes	Number of returns	Net income 1/	Personal exemption 10/	Credit for dependents	Earned income credit 11/	Total tax 2/	Returns with normal tax and surtax 12/					
								Number of returns	Net income	Tax			
										Total (col. 11+12+13)	Normal tax	Surtax	Defense tax 4/
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	Taxable individual returns:												
	With net income:												
1	Form 1040A (est.) 9/	6,199,542	10,560,017	6,133,612	382,354	1,056,002	328,479	-	-	-	-	-	-
	Form 1040:												
2	Under .75 (est.)	35,917	15,748	2,131	112	1,575	1,427	35,906	15,745	1,343	495	848	(13)
3	.75 under 1 (est.)	757,627	669,137	557,720	509	66,914	8,851	757,621	669,132	8,795	2,102	6,693	(13)
4	1 under 1.5 (est.)	1,281,524	1,575,321	948,977	24,534	157,532	53,656	1,281,514	1,575,310	53,627	17,674	35,952	(13)
5	1.5 under 2 (est.)	2,121,571	3,741,225	2,653,755	99,461	374,123	85,398	2,121,555	3,741,198	85,334	26,291	59,043	(13)
6	2 under 2.5 (est.)	2,317,362	5,195,153	3,210,983	410,122	519,515	137,714	2,317,354	5,195,135	137,664	43,146	94,518	(13)
7	2.5 under 3 (est.)	1,694,757	4,642,449	2,378,882	491,775	464,245	159,482	1,694,723	4,642,411	159,109	52,463	106,646	(13)
8	3 under 4 (est.)	1,643,774	5,583,497	2,253,981	567,668	541,946	260,722	1,643,648	5,583,044	260,439	88,674	171,763	2
9	4 under 5 (est.)	514,273	2,276,749	680,532	186,886	203,214	145,290	514,139	2,276,142	144,929	48,016	96,910	3
10	5 under 6	249,078	1,358,489	328,045	98,576	114,022	103,327	248,914	1,357,579	102,911	32,506	70,397	7
11	6 under 7	150,324	971,826	195,609	60,067	77,106	86,163	150,100	970,354	85,618	25,405	60,206	8
12	7 under 8	102,440	765,131	132,911	40,139	58,246	76,840	102,155	762,990	76,112	21,185	54,919	8
13	8 under 9	72,278	612,873	93,400	29,281	44,924	68,500	71,819	608,790	67,443	17,604	49,833	7
14	9 under 10	55,985	530,776	72,173	22,271	37,936	65,212	55,384	525,047	65,827	15,663	48,157	7
15	10 under 11	42,757	447,880	54,792	17,047	31,000	60,119	41,879	438,619	58,047	13,429	44,611	8
16	11 under 12	34,072	391,304	43,788	13,527	26,555	56,751	32,764	376,215	53,630	11,735	41,887	8
17	12 under 13	27,374	341,667	34,862	11,101	22,620	53,384	25,334	316,098	48,225	10,011	38,206	8
18	13 under 14	22,776	307,168	29,024	9,067	20,022	51,284	19,804	266,926	43,374	8,564	34,800	10
19	14 under 15	19,134	277,123	24,568	7,785	17,525	49,293	15,674	226,979	39,264	7,380	31,873	10
20	15 under 20	61,158	1,051,128	78,205	24,539	57,220	218,006	46,280	793,330	159,058	26,672	132,322	44
21	20 under 25	31,609	703,637	40,086	12,585	30,507	180,224	21,684	481,916	118,944	16,867	102,036	41
22	25 under 30	18,384	501,728	23,240	7,319	18,065	149,462	11,780	321,064	92,515	11,527	80,961	27
23	30 under 40	19,785	680,032	24,861	7,846	19,976	233,375	11,745	402,375	134,257	14,746	119,447	64
24	40 under 50	9,988	444,702	12,511	3,939	10,511	174,834	5,240	232,983	89,339	8,697	80,587	55
25	50 under 60	5,733	312,833	7,213	2,194	6,271	134,509	2,888	157,251	66,297	5,941	60,316	40
26	60 under 70	3,541	228,785	4,473	1,497	3,937	105,158	1,619	104,533	47,241	3,982	43,230	30
27	70 under 80	2,307	172,134	2,887	883	2,618	82,713	1,026	76,509	36,475	2,930	33,529	16
28	80 under 90	1,606	135,969	2,023	600	1,802	68,520	697	58,964	29,333	2,272	27,034	27
29	90 under 100	1,178	111,402	1,456	467	1,289	57,475	472	44,753	23,111	1,733	21,356	22
30	100 under 150	2,664	319,925	3,322	1,013	2,941	174,926	924	109,869	60,545	4,281	56,215	48
31	150 under 200	922	157,982	1,147	336	980	91,918	272	46,766	27,842	1,918	25,924	-
32	200 under 250	408	90,997	500	173	449	52,868	114	25,511	15,667	995	14,650	22
33	250 under 300	209	57,095	263	64	208	34,242	43	11,621	7,414	460	6,954	-
34	300 under 400	229	79,173	286	87	231	48,275	52	18,236	12,071	723	11,348	-
35	400 under 500	119	53,532	148	43	116	31,782	19	8,329	5,665	331	5,334	-
36	500 under 750	104	61,792	127	36	102	38,720	9	5,220	3,659	208	3,451	-
37	750 under 1,000	48	41,269	59	16	41	27,000	7	5,797	4,188	230	3,958	-
38	1,000 under 1,500	30	37,406	38	9	27	23,908	4	4,764	3,531	190	3,341	-
39	1,500 under 2,000	4	6,763	5	2	5	4,413	1	1,522	1,145	61	1,084	-
40	2,000 under 3,000	9	20,894	11	4	9	13,694	3	6,876	5,268	275	4,993	-
41	3,000 under 4,000	5	18,846	7	4	6	11,401	-	-	-	-	-	-
42	4,000 under 5,000	-	-	-	-	-	-	-	-	-	-	-	-
43	5,000 and over	2	10,519	1	-	1	6,119	-	-	-	-	-	-
44	Total, returns with net income	17,502,587	45,562,076	20,032,611	2,535,936	3,992,334	3,815,415	11,235,166	32,465,702	2,433,234	547,379	1,885,334	520
45	With no net income, Form 1040 5/	297	14/7,573	289	55	192	2,326	-	-	-	-	-	-
46	Total, taxable returns (44+45)	17,502,884	15/45,554,502	20,032,901	2,535,992	3,992,525	3,817,741	11,235,166	32,465,702	2,433,234	547,379	1,885,334	520
	Nontaxable individual returns:												
	With net income: 6/												
47	Form 1040A (est.) 9/	4,053,166	6,971,090	5,866,187	3,013,028	697,109	-	-	-	-	-	-	-
	Form 1040:												
48	Under .75 (est.)	858,153	475,829	798,008	55,681	3,241	-	-	-	-	-	-	-
49	.75 under 1 (est.)	284,504	250,850	377,929	68,789	1,748	-	-	-	-	-	-	-
50	1 under 1.5 (est.)	1,309,494	1,722,470	1,913,678	242,609	12,911	-	-	-	-	-	-	-
51	1.5 under 2 (est.)	1,024,992	1,809,312	1,531,475	605,594	14,744	-	-	-	-	-	-	-
52	2 under 2.5 (est.)	553,386	1,223,291	829,455	536,762	9,935	-	-	-	-	-	-	-
53	2.5 under 3 (est.)	149,629	400,356	224,616	213,351	3,302	-	-	-	-	-	-	-
54	3 under 4	33,119	107,404	49,678	67,907	562	-	-	-	-	-	-	-
55	4 under 5	1,059	4,540	1,603	3,338	27	-	-	-	-	-	-	-
56	Total, returns with net income	8,267,502	12,965,141	11,592,629	4,806,858	743,578	-	-	-	-	-	-	-
57	With no net income, Form 1040 7/	99,531	14/284,449	(16)	(16)	(16)	-	-	-	-	-	-	-
58	Total, nontaxable returns (56+57)	8,367,033	15/12,680,692	(16)	(16)	(16)	-	-	-	-	-	-	-
59	Grand total (46+58 or 60+61)	25,869,917	15/58,235,195	(16)	(16)	(16)	3,817,741	11,235,166	32,465,702	2,433,234	547,379	1,885,334	520
60	Individual returns with net income (44+56)	25,770,089	58,527,217	31,625,240	7,342,794	4,735,912	3,815,415	11,235,166	32,465,702	2,433,234	547,379	1,885,334	520
61	Individual returns with no net income (45+57)	99,828	14/292,023	(16)	(16)	(16)	2,326	-	-	-	-	-	-

For footnotes, see pp. 14 and 15.

Table 2-A. - Individual returns with net income, 1941, by taxable and nontaxable returns, by net income classes, and taxable returns by type of tax liability; also aggregates for taxable and nontaxable individual returns with no net income: Number of returns, net income, personal exemption, credit for dependents, earned income credit, total tax, normal tax, surtax alternative tax, defense tax, average total tax, and effective tax rate - Continued

(Net income classes and money figures, except average total tax, in thousands of dollars)

	Net income classes	Returns with alternative tax 3/					Average total tax (col. 7 ÷ 2)	Effective tax rate, percent (returns with net income) (col. 7 ÷ 3)	
		Number of returns	Net income	Tax					
				Total (col. 17 + 18)	Alternative tax	Defense tax 4/			
	(1)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	
	Taxable individual returns:								
	With net income:								
1	Form 1040A (est.) 9/	-	-	-	-	-	53	3.11	1
	Form 1040:								
2	Under .75 (est.)	11	3	83	83	-	40	9.06	2
3	.75 under 1 (est.)	6	5	36	36	-	12	1.32	3
4	1 under 1.5 (est.)	10	11	30	30	-	42	3.41	4
5	1.5 under 2 (est.)	16	28	64	64	-	40	2.28	5
6	2 under 2.5 (est.)	8	18	49	49	-	59	2.65	6
7	2.5 under 3 (est.)	14	38	373	373	-	94	3.44	7
8	3 under 4 (est.)	126	453	283	283	-	159	4.67	8
9	4 under 5 (est.)	134	606	362	362	-	283	6.38	9
10	5 under 6	164	910	416	416	-	415	7.61	10
11	6 under 7	224	1,472	545	545	-	573	8.87	11
12	7 under 8	285	2,142	729	729	-	750	10.04	12
13	8 under 9	459	4,083	1,057	1,057	-	948	11.18	13
14	9 under 10	601	5,729	1,385	1,385	-	1,165	12.29	14
15	10 under 11	878	9,261	2,071	2,071	-	1,406	13.42	15
16	11 under 12	1,308	15,090	3,122	3,122	-	1,666	14.50	16
17	12 under 13	2,040	25,569	5,159	5,159	-	1,950	15.62	17
18	13 under 14	2,972	40,242	7,910	7,910	-	2,252	16.70	18
19	14 under 15	3,460	50,144	10,029	10,029	-	2,576	17.79	19
20	15 under 20	14,878	257,798	58,968	58,967	1	3,565	20.74	20
21	20 under 25	9,925	221,720	61,280	61,279	2	5,702	25.61	21
22	25 under 30	6,604	180,664	56,947	56,940	7	8,130	29.79	22
23	30 under 40	8,040	277,656	99,119	99,100	18	11,796	34.32	23
24	40 under 50	4,748	211,719	85,496	85,478	18	17,504	39.31	24
25	50 under 60	2,845	155,583	68,212	68,199	13	23,462	43.00	25
26	60 under 70	1,922	124,253	57,916	57,904	12	29,697	45.96	26
27	70 under 80	1,281	95,625	46,238	46,213	25	35,853	48.05	27
28	80 under 90	909	77,004	39,187	39,175	12	42,665	50.39	28
29	90 under 100	706	66,648	34,364	34,361	4	48,791	51.59	29
30	100 under 150	1,740	210,056	114,382	114,368	14	65,663	54.68	30
31	150 under 200	650	111,217	64,076	64,059	17	99,694	58.18	31
32	200 under 250	294	65,686	37,201	37,160	41	129,577	58.10	32
33	250 under 300	166	45,473	26,828	26,828	-	163,859	59.97	33
34	300 under 400	177	60,937	36,203	36,165	39	210,806	60.97	34
35	400 under 500	100	45,204	26,118	26,069	49	267,079	59.37	35
36	500 under 750	95	56,572	35,061	35,061	-	372,310	62.66	36
37	750 under 1,000	41	35,471	22,812	22,780	32	562,490	65.42	37
38	1,000 under 1,500	26	32,642	20,377	20,336	42	796,945	63.92	38
39	1,500 under 2,000	3	5,241	3,269	3,269	-	1,103,319	65.26	39
40	2,000 under 3,000	6	14,018	8,426	8,426	-	1,521,553	65.54	40
41	3,000 under 4,000	5	18,846	11,401	11,401	-	2,280,276	60.50	41
42	4,000 under 5,000	-	-	-	-	-	-	-	42
43	5,000 and over	2	10,519	6,119	6,119	-	3,059,269	58.17	43
44	Total, returns with net income	67,879	2,536,357	1,053,703	1,053,359	344	218	8.37	44
45	With no net income, Form 1040 5/	297	14/7,573	2,326	2,326	-	7,833	-	45
46	Total, taxable returns (44+45)	68,176	15/2,528,785	1,056,029	1,055,685	344	218	8.38	46
	Nontaxable individual returns:								
	With net income: 6/								
47	Form 1040A (est.) 9/	-	-	-	-	-	-	-	47
	Form 1040:								
48	Under .75 (est.)	-	-	-	-	-	-	-	48
49	.75 under 1 (est.)	-	-	-	-	-	-	-	49
50	1 under 1.5 (est.)	-	-	-	-	-	-	-	50
51	1.5 under 2 (est.)	-	-	-	-	-	-	-	51
52	2 under 2.5 (est.)	-	-	-	-	-	-	-	52
53	2.5 under 3 (est.)	-	-	-	-	-	-	-	53
54	3 under 4	-	-	-	-	-	-	-	54
55	4 under 5	-	-	-	-	-	-	-	55
56	Total, returns with net income	-	-	-	-	-	-	-	56
57	With no net income, Form 1040 7/	-	-	-	-	-	-	-	57
58	Total, nontaxable returns (56+57)	-	-	-	-	-	-	-	58
59	Grand total (46+58 or 60+61)	68,176	15/2,528,785	1,056,029	1,055,685	344	(17)	-	59
60	Individual returns with net income (44+56)	67,879	2,536,357	1,053,703	1,053,359	344	148	6.52	60
61	Individual returns with no net income (45+57)	297	14/7,573	2,326	2,326	-	(17)	-	61

For footnotes, see pp. 14 and 15.

Table 3. - Individual returns and taxable fiduciary returns, with net income, 1941, by taxable and nontaxable returns, and by net income classes; also aggregates for taxable and nontaxable individual returns with no net income: Number of returns, sources of income and deductions, and net income

(Net income classes and money figures in thousands of dollars)

Net income 8/ classes	Number of returns	Sources of income															
		Salaries and other compensation (individual returns)	Dividends from domestic and foreign corporations 18/	Interest: Bank deposits, notes, mortgages, corporation bonds	Interest: Government obligations: Partially tax-exempt (subject to surtax only) 19/	Interest: Government obligations: Taxable (subject to normal tax and surtax) 20/	Dividends on share accounts in Federal savings and loan associations (subject to surtax only) 21/	Rents and royalties	Annuities (individual returns) 22/	Capital gain 23/: Short-term 23/: Net short-term capital gain (included in total income)	Capital gain 23/: Short-term 23/: Net short-term capital loss of preceding taxable year deducted 24/	Capital gain 23/: Short-term 23/: Current year net short-term capital gain 25/	Capital gain 23/: Net long-term capital gain 23/	Net gain from sales of property other than capital assets 26/	Business profit 27/	Partnership profit 28/	
Taxable individual and fiduciary returns 8/:																	
With net income:																	
1 Form 1040A (est.) 9/	6,199,542	10,297,452	(35)	(35)	(35)	(35)	(35)	(35)	(35)	-	-	-	-	-	-	-	1
Forms 1040 and 1041:																	
2 Under .75 (est.)	67,572	6,006	70,121	33,867	4,273	358	55	11,453	226	1,617	33	1,650	4,058	341	1,408	552	2
3 .75 under 1 (est.)	766,139	558,692	47,661	32,303	2,560	742	12	51,832	8,511	1,277	3	1,280	2,288	853	56,991	10,785	3
4 1 under 1.5 (est.)	1,292,021	1,408,797	95,927	57,845	5,022	1,114	28	77,851	15,630	2,791	13	2,804	4,772	1,800	99,498	22,074	4
5 1.5 under 2 (est.)	2,127,895	3,322,186	136,563	86,132	6,784	2,143	6	163,566	19,748	4,462	8	4,470	6,134	4,717	378,030	53,811	5
6 2 under 2.5 (est.)	2,321,717	4,810,081	139,742	79,951	6,148	2,240	22	162,153	15,367	4,514	6	4,520	7,286	4,583	445,516	63,966	6
7 2.5 under 3 (est.)	1,697,745	4,256,260	137,347	64,872	5,464	1,795	3	131,576	13,092	4,682	9	4,691	7,930	4,699	407,349	71,958	7
8 3 under 4 (est.)	1,648,213	4,622,241	260,672	110,843	10,067	2,076	206	181,493	16,757	11,890	88	11,979	15,685	8,898	717,549	170,691	8
9 4 under 5 (est.)	517,277	1,562,457	190,685	67,934	6,894	1,179	119	95,858	9,475	8,492	77	8,569	11,678	5,901	444,053	128,094	9
10 5 under 6	251,232	847,343	124,587	38,303	3,813	548	615	56,610	4,122	6,802	257	7,060	8,954	3,867	305,764	126,445	10
11 6 under 7	151,975	560,111	105,325	30,292	3,099	437	470	41,991	3,055	6,046	142	6,189	7,688	3,023	226,778	106,967	11
12 7 under 8	103,676	421,998	94,451	24,681	2,779	311	373	33,384	2,471	5,217	189	5,406	6,324	2,255	177,669	93,250	12
13 8 under 9	73,188	326,082	80,532	20,147	2,331	223	270	27,422	2,121	4,089	134	4,223	6,341	2,123	140,220	79,994	13
14 9 under 10	56,830	279,236	74,887	17,442	2,087	227	276	22,381	1,583	3,936	136	4,072	5,426	1,630	117,411	72,275	14
15 10 under 11	43,398	229,449	67,122	15,358	1,972	246	164	18,590	1,282	3,425	247	3,672	4,371	1,467	96,376	64,547	15
16 11 under 12	34,633	195,970	60,743	13,592	2,000	159	163	16,519	1,045	2,913	135	3,048	4,896	1,202	85,305	57,273	16
17 12 under 13	27,857	168,069	56,573	11,894	1,639	167	136	13,800	980	2,810	105	2,915	4,034	977	70,722	53,074	17
18 13 under 14	23,156	150,465	51,847	10,455	1,477	116	138	12,612	1,041	2,395	110	2,505	3,762	1,097	61,864	49,274	18
19 14 under 15	19,463	134,335	47,409	9,036	1,275	164	90	11,050	680	2,301	146	2,447	3,724	872	54,748	44,766	19
20 15 under 20	82,285	495,011	198,477	36,747	5,252	428	420	39,920	2,844	8,686	373	9,059	14,130	2,957	196,978	172,827	20
21 20 under 25	32,289	318,706	154,855	23,454	3,961	300	322	25,922	1,943	6,220	354	6,574	11,480	1,339	113,830	124,816	21
22 25 under 30	18,840	216,801	121,401	16,465	2,425	201	353	17,759	1,186	3,820	232	4,052	8,682	833	74,938	93,064	22
23 30 under 40	20,367	275,460	184,496	21,460	4,266	271	239	22,841	1,528	6,673	229	6,902	14,704	941	97,150	126,169	23
24 40 under 50	10,314	169,269	136,994	13,058	2,779	168	214	14,463	1,344	4,381	146	4,527	11,749	587	57,189	83,229	24
25 50 under 60	5,908	115,901	99,142	8,564	1,507	85	117	8,738	520	2,885	106	2,991	9,577	440	34,614	61,892	25
26 60 under 70	3,660	78,230	78,931	5,897	913	55	113	5,868	895	2,080	77	2,157	7,695	274	27,108	43,097	26
27 70 under 80	2,405	57,252	61,441	4,569	865	32	40	4,830	407	2,581	100	2,682	7,451	346	18,749	33,265	27
28 80 under 90	1,656	39,846	50,778	2,882	605	26	26	3,075	300	1,307	16	1,324	5,010	252	13,803	29,453	28
29 90 under 100	1,223	34,109	45,188	2,440	536	15	32	2,731	262	635	55	690	6,283	87	9,421	21,071	29
30 100 under 150	2,784	82,369	139,162	7,595	1,609	92	16	7,795	573	2,703	222	2,925	20,311	272	32,365	55,867	30
31 150 under 200	969	33,590	73,760	3,553	741	36	10	3,968	249	1,829	91	1,920	15,025	155	14,887	23,489	31
32 200 under 250	434	18,406	41,351	1,840	522	52	(13)	1,982	92	919	53	972	13,750	85	6,308	15,380	32
33 250 under 300	217	7,721	28,931	1,372	192	10	(13)	1,039	171	469	27	496	8,210	19	6,419	6,864	33
34 300 under 400	244	9,856	42,070	1,198	327	19	10	1,696	241	629	20	649	13,741	32	5,593	8,854	34
35 400 under 500	123	5,633	23,658	659	54	8	(13)	939	21	644	18	663	13,807	6	2,918	4,996	35
36 500 under 750	114	3,425	39,166	1,446	62	11	-	455	19	326	7	333	14,702	-	1,871	4,461	36
37 750 under 1,000	55	1,616	25,828	396	65	4	-	1,807	45	13	10	24	12,290	4	2,169	2,047	37
38 1,000 under 1,500	34	863	20,141	481	52	8	(13)	69	62	1,040	1	1,041	11,151	17	1,751	1,450	38
39 1,500 under 2,000	5	122	3,199	50	(13)	-	-	14	-	-	1	1	3,125	-	3	3	39
40 2,000 under 3,000	10	606	11,243	81	-	-	-	5	64	-	-	-	7,141	-	-	1	40
41 3,000 under 4,000	6	163	20,719	65	3	1	-	5	-	499	-	499	8,574	14	-	163	41
42 4,000 under 5,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	42
43 5,000 and over	2	8	8,434	32	1	-	-	-	-	40	5,245	-	-	-	-	-	43
44 Total, returns with net income	17,587,471	36,122,193	3,449,560	879,253	96,417	16,069	5,057	1,296,065	129,949	128,041	3,977	132,018	359,163	58,966	4,605,315	2,182,255	44
45 With no net income, Form 1040 5/	297	3,108	19,524	1,686	253	31	-	527	121	379	-	379	-	21	351	1,029	45
46 Total, taxable returns (44+45)	17,587,768	36,125,301	3,469,084	880,939	96,670	16,099	5,057	1,296,592	130,071	128,421	3,977	132,398	359,163	58,987	4,605,646	2,183,284	46
Nontaxable individual returns:																	
With net income 6/:																	
47 Form 1040A (est.) 9/	4,053,166	6,868,982	(35)	(35)	(35)	(35)	(35)	(35)	(35)	-	-	-	-	-	-	-	47
Form 1040:																	
48 Under .75 (est.)	858,153	231,524	61,742	42,820	4,398	-	-	139,534	11,415	2,092	-	2,092	3,345	1,730	179,740	12,486	48
49 .75 under 1 (est.)	284,504	113,076	12,692	8,709	958	-	-	34,335	2,810	663	-	663	925	610	129,592	5,032	49
50 1 under 1.5 (est.)	1,309,494	996,689	50,817	40,753	3,885	-	-	162,558	13,023	2,635	-	2,635	3,429	3,476	668,294	29,085	50
51 1.5 under 2 (est.)	1,024,992	1,366,496	17,096	10,059	1,191	-	-	61,021	3,066	1,445	-	1,445	1,423	1,775	485,170	35,187	51
52 2 under 2.5 (est.)	553,386	988,702	7,815	4,931	557	-	-	32,485	941	749	-	749	817	1,386	266,068	19,273	52
53 2.5 under 3 (est.)	149,629	312,427	2,361	1,037	191	-	-	10,301	540	369	-	369	203	267	93,048	6,591	53
54 3 under 4	33,119	80,078	619	237	40	-	-	2,487	100	84	-	84	88	122	26,517	2,244	54
55 4 under 5	1,059	2,236	51	14	4	-	-	112	4	3	-	3	1	7	2,211	108	55
56 Total, returns with net income	8,267,502	10,960,210	153,193	108,559	11,222	-	-	442,853	31,901	8,042	-	8,042	10,231	9,375	1,850,642	110,007	56
57 With no net income, Form 1040 7/	99,531	54,273	66,838	18,305	1,823	-	-	31,071	2,035	4,122	-	4,122	4,333	2,396	18,530	11,549	57
58 Total, nontaxable returns (56+57)	8,367,033	11,014,483	220,031	126,864	13,045	-	-	473,904	33,936	12,163	-	12,163	14,565	11,768	1,869,172	121,555	58
59 Grand total (46+58 or 60+61)	25,954,801	47,139,784	3,689,115	1,007,803	109,715	16,099	5,057	1,770,496	164,006	140,584	3,977	144,561	373,727	70,755	6,474,818	2,304,839	59
60 Individual returns and taxable fiduciary returns with net income (44+56)	25,854,973	47,082,403	3,602,753	987,812	107,639	16,069	5,057	1,738,897	161,850	136,083	3,977	140,060	369,394	68,339	6,455,957	2,292,262	60
61 Individual returns with no net income (45+57)	99,828	57,382	86,362	19,991	2,076	31	-	31,598	2,157	4,501	-	4,501	4,333	2,417	18,861	12,577	61

For footnotes, see pp. 14 and 15.

Table 3. - Individual returns and taxable fiduciary returns, with net income, 1941, by taxable and nontaxable returns, and by net income classes; also aggregates for taxable and nontaxable individual returns with no net income: Number of returns, sources of income and deductions, and net income - Continued

(Net income classes and money figures in thousands of dollars)

Net income 8/ classes	Sources of income - Cont'd			Deductions											Amount distributable to beneficiaries (fiduciary returns)	Net income 1/	
	Income from fiduciaries 29/	Other income 30/	Total income	Net long-term capital loss 23/	Net loss from sales of property other than capital assets 26/	Business loss 27/	Partnership loss 28/	Contributions 31/ (individual returns)	Interest paid 32/	Taxes paid 32/	Losses from fire, storm, etc. 32/ 33/ (individual returns)	Bad debts 32/ (individual returns)	Other deductions 34/	Total deductions			
Taxable individual and fiduciary returns 8/:																	
With net income:																	
1 Form 1040A (est.) 9/	-	262,565	10,560,017	-	-	-	-	-	-	-	-	-	-	-	-	10,560,017	1
Forms 1040 and 1041:																	
2 Under .75 (est.)	1,804	1,272	137,410	3,900	260	110	78	640	1,445	5,297	15	150	6,861	18,755	92,704	25,950	2
3 .75 under 1 (est.)	3,312	6,168	783,986	6,662	808	680	315	28,393	8,875	30,337	994	1,363	14,124	92,551	14,896	676,539	3
4 1 under 1.5 (est.)	8,649	11,233	1,813,030	15,573	1,368	1,631	256	65,403	22,825	64,495	2,874	2,511	26,204	203,139	21,719	1,588,172	4
5 1.5 under 2 (est.)	11,704	22,533	4,218,521	26,148	3,670	4,480	697	105,053	83,690	160,007	5,008	4,628	59,323	452,704	13,644	3,752,174	5
6 2 under 2.5 (est.)	14,670	25,777	5,782,017	24,516	3,146	3,893	1,537	125,216	125,344	202,124	5,799	5,835	68,595	566,003	11,129	5,204,885	6
7 2.5 under 3 (est.)	14,340	24,673	5,146,040	24,800	2,243	3,806	807	108,357	109,188	170,874	5,154	4,861	57,794	487,884	7,508	4,650,648	7
8 3 under 4 (est.)	34,461	41,397	6,204,926	55,309	6,354	8,554	2,807	113,865	114,649	188,818	6,695	14,611	78,837	590,499	15,558	5,598,869	8
9 4 under 5 (est.)	30,128	24,535	2,587,483	43,591	4,398	5,479	2,007	48,199	50,612	84,684	3,348	8,099	37,320	287,737	9,563	2,290,184	9
10 5 under 6	27,841	18,265	1,573,879	33,927	2,758	4,674	1,850	30,154	35,156	53,512	2,158	5,974	26,231	196,395	7,224	1,370,260	10
11 6 under 7	25,243	13,743	1,134,266	28,680	2,114	4,107	1,186	21,466	24,898	38,984	1,378	4,824	18,751	146,388	5,385	982,494	11
12 7 under 8	21,969	11,528	898,660	25,465	1,973	3,371	1,249	16,669	19,124	30,753	1,055	3,934	14,480	118,072	6,207	774,381	12
13 8 under 9	19,873	9,595	721,364	21,892	1,939	2,333	1,054	13,434	15,189	26,186	882	2,869	11,482	97,260	5,508	620,596	13
14 9 under 10	18,730	8,166	625,694	19,931	1,224	2,602	642	11,690	12,406	21,502	843	2,666	9,050	82,558	4,352	538,784	14
15 10 under 11	16,892	7,089	528,351	17,164	1,075	2,214	553	9,512	10,423	18,272	626	2,522	8,015	70,376	3,380	454,595	15
16 11 under 12	14,990	6,216	462,985	15,752	759	2,006	737	8,427	8,599	16,024	552	2,235	6,787	61,879	3,355	397,750	16
17 12 under 13	14,642	5,652	405,169	14,293	713	1,580	633	7,397	7,806	14,361	454	2,036	5,579	54,851	2,645	347,673	17
18 13 under 14	12,768	4,630	363,940	12,793	766	1,446	445	6,669	7,043	12,603	493	1,712	5,078	49,049	2,599	312,292	18
19 14 under 15	12,523	4,560	327,533	11,693	541	1,219	477	5,886	5,834	11,469	381	1,363	4,281	43,144	2,502	281,887	19
20 15 under 20	53,189	18,255	1,246,121	47,042	1,929	5,829	1,869	22,653	21,270	43,885	1,212	6,264	16,353	168,308	7,298	1,070,515	20
21 20 under 25	40,390	10,302	837,842	32,954	1,207	4,185	1,284	15,277	12,901	29,343	828	3,941	10,645	112,566	6,414	718,862	21
22 25 under 30	33,899	7,103	598,930	23,545	882	2,853	934	11,300	8,962	21,302	567	3,438	6,813	80,396	4,289	514,245	22
23 30 under 40	48,544	9,587	814,330	30,216	1,155	3,987	1,248	16,074	11,417	28,448	565	4,097	9,446	106,653	7,707	699,970	23
24 40 under 50	36,729	6,732	538,884	20,067	595	2,752	734	11,562	7,553	19,656	426	2,983	6,371	72,699	6,999	459,187	24
25 50 under 60	28,127	3,984	376,093	13,009	389	2,278	555	8,482	5,821	13,945	294	1,889	4,183	50,844	2,853	322,397	25
26 60 under 70	21,016	3,424	275,596	9,820	324	1,413	340	6,550	3,355	10,142	170	1,496	3,383	36,994	2,135	236,467	26
27 70 under 80	15,074	1,792	208,697	6,549	345	1,345	424	5,121	2,586	8,099	121	805	2,185	27,580	1,868	179,249	27
28 80 under 90	13,821	1,359	162,545	5,531	192	917	228	4,142	2,043	6,072	106	534	1,777	21,542	788	140,215	28
29 90 under 100	12,161	1,433	134,402	3,860	135	680	160	3,623	1,662	5,043	129	546	1,696	17,535	1,189	115,678	29
30 100 under 150	36,936	2,592	390,257	10,159	429	2,463	761	11,661	5,245	14,621	192	1,857	5,116	52,504	3,756	333,998	30
31 150 under 200	22,882	1,427	195,602	5,871	148	1,185	118	6,993	2,447	7,341	102	934	2,465	27,605	1,784	166,213	31
32 200 under 250	12,420	737	113,844	2,532	40	1,311	79	3,415	1,324	3,853	76	1,795	1,984	16,408	533	96,903	32
33 250 under 300	8,479	27	69,921	1,449	23	623	960	2,621	729	2,563	35	523	831	10,357	248	59,316	33
34 300 under 400	13,870	127	98,263	2,075	78	652	135	3,572	959	3,921	16	740	1,437	13,586	229	84,447	34
35 400 under 500	10,690	366	64,400	1,488	28	566	112	2,452	516	2,455	10	264	663	8,553	530	55,318	35
36 500 under 750	16,160	609	82,712	1,595	27	570	7	3,941	630	2,708	343	879	1,095	11,795	2,621	68,295	36
37 750 under 1,000	8,175	28	54,489	369	174	272	-	2,676	308	2,098	2	60	695	6,655	468	47,366	37
38 1,000 under 1,500	12,833	11	49,910	572	9	1,804	-	2,496	213	2,110	55	333	421	8,012	265	41,633	38
39 1,500 under 2,000	3,134	21	9,672	58	-	52	2	927	37	70	27	2	59	1,235	112	8,324	39
40 2,000 under 3,000	6,784	-	25,926	51	18	65	-	1,428	104	726	(13)	14	431	2,838	19	23,068	40
41 3,000 under 4,000	18	15	30,237	1,620	-	691	-	1,599	471	738	3	5	412	5,539	2,154	22,545	41
42 4,000 under 5,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	42
43 5,000 and over	46	-	13,806	1,015	15	-	-	934	132	500	14	3	674	3,287	-	10,519	43
44 Total, returns with net income	759,918	579,532	50,667,753	623,536	44,251	90,679	27,279	875,929	753,790	1,379,942	43,804	105,595	537,928	4,482,733	282,136	45,902,884	44
45 With no net income, Form 1040 5/	2,821	200	30,031	30,765	35	339	90	896	1,270	2,046	19	1,118	1,026	37,604	-	14/ 7,573	45
46 Total, taxable returns (44+45)	762,738	579,732	50,697,783	654,302	44,286	91,019	27,368	876,825	755,060	1,381,988	43,823	106,713	538,954	4,520,337	282,136	15/45,895,311	46
Nontaxable individual returns:																	
With net income 6/:																	
47 Form 1040A (est.) 9/	-	102,108	6,971,090	-	-	-	-	-	-	-	-	-	-	-	-	6,971,090	47
Form 1040:																	
48 Under .75 (est.)	4,024	11,593	706,443	41,726	8,094	14,255	1,910	19,831	26,520	59,394	3,526	6,037	49,323	230,615	-	475,829	48
49 .75 under 1 (est.)	743	4,947	315,091	7,925	1,664	3,646	578	6,175	9,166	15,629	1,306	1,760	16,393	64,242	-	250,850	49
50 1 under 1.5 (est.)	2,747	21,992	1,999,381	19,902	5,159	9,637	1,517	37,147	50,573	82,895	4,662	5,317	60,102	276,911	-	1,722,470	50
51 1.5 under 2 (est.)	1,211	14,498	1,999,639	6,111	1,837	3,614	623	30,946	49,555	57,663	2,833	2,839	34,905	190,327	-	1,809,312	51
52 2 under 2.5 (est.)	597	8,205	1,332,527	2,343	603	1,586	178	19,344	31,754	34,512	1,043	1,263	16,611	109,236	-	1,223,291	52
53 2.5 under 3 (est.)	548	3,450	431,334	562	162	313	63	6,171	8,629	9,552	272	330	4,923	30,978	-	400,356	53
54 3 under 4	84	1,046	113,748	147	59	117	33	1,226	1,533	1,740	87	132	1,271	6,344	-	107,404	54
55 4 under 5	12	67	4,829	5	2	4	1	58	59	68	2	38	51	290	-	4,540	55
56 Total, returns with net income	9,967	167,906	13,874,084	78,720	17,582	33,172	4,903	120,897	177,788	261,453	13,131	17,717	183,579	908,943	-	12,965,141	56
57 With no net income, Form 1040 7/	11,728	6,999	234,002	172,400	35,246	103,694	24,084	4,464	22,881	28,284	12,619	53,421	61,358	518,451	-	14/284,449	57
58 Total, nontaxable returns (56+57)	21,695	174,904	14,108,086	251,119	52,828	136,866	28,987	125,362	200,669	289,737	25,751	71,138	244,936	1,427,394	-	15/12,680,692	58
59 Grand total (46+58 or 60+61)	784,433	754,636	64,805,869	905,421	97,114	227,885	56,356	1,002,187	955,729	1,671,724	69,574	177,851	783,890	5,947,731	282,136	15/58,576,003	59
60 Individual returns and taxable fiduciary returns with net income (44+56)	769,885	747,437	64,541,837	702,256	61,833	123,851	32,182	996,826	931,578	1,641,395	56,935	123,312	721,507	5,391,676	282,136	58,868,025	60
61 Individual returns with no net income (45+57)	14,548	7,199	264,032	203,165	35,281	104,033	24,173	5,361	24,151	30,329	12,639	54,539	62,383	556,055	-	14/292,023	61

For footnotes, see pp. 14 and 15.

Table 3-A. - Individual returns with net income, 1941, by taxable and nontaxable returns, and by net income classes; also aggregates for taxable and nontaxable individual returns with no net income: Number of returns, sources of income and deductions, and net income

(Net income classes and money figures in thousands of dollars)

	Net income classes	Number of returns	Sources of income																
			Salaries and other compensation	Dividends from domestic and foreign corporations 18/	Interest: Bank deposits, notes, mortgages, corporation bonds	Interest: Government obligations: Partially tax-exempt (subject to surtax only) 19/	Interest: Government obligations: Taxable (subject to normal tax and surtax) 20/	Dividends on share accounts in Federal savings and loan associations (subject to surtax only) 21/	Rents and royalties	Annuities 22/	Capital gain 23/: Short-term 23/: Net short-term capital gain (included in total income)	Capital gain 23/: Short-term 23/: Net short-term capital loss of preceding taxable year deducted 24/	Capital gain 23/: Short-term 23/: Current year net short-term capital gain 25/	Capital gain 23/: Net long-term capital gain 23/	Net gain from sales of property other than capital assets 26/	Business profit 27/	Partnership profit 28/	
1	Taxable individual returns: With net income: Form 1040A (est.) 9/	6,199,542	10,297,452	(35)	(35)	(35)	(35)	(35)	(35)	(35)	-	-	-	-	-	-	-	1
2	Form 1040: Under .75 (est.)	35,917	6,006	7,866	3,014	165	74	-	2,575	226	156	-	156	199	78	1,013	299	2
3	.75 under 1 (est.)	757,627	558,692	35,646	26,335	1,664	672	-	48,413	8,511	797	(13)	797	1,078	705	56,020	10,609	3
4	1 under 1.5 (est.)	1,281,524	1,408,797	76,573	49,761	3,923	1,009	(13)	72,277	15,630	1,890	1	1,890	2,755	1,588	98,009	21,645	4
5	1.5 under 2 (est.)	2,121,571	3,322,186	123,654	80,600	5,737	2,077	-	159,664	19,748	3,719	1	3,719	4,620	4,521	376,745	53,250	5
6	2 under 2.5 (est.)	2,317,362	4,810,081	127,523	75,883	5,486	2,208	5	158,883	15,367	3,870	3	3,873	6,010	4,402	444,397	63,503	6
7	2.5 under 3 (est.)	1,694,737	4,256,260	128,695	61,866	5,013	1,770	2	129,016	13,092	4,205	-	4,205	6,716	4,555	406,528	71,663	7
8	3 under 4 (est.)	1,643,774	4,622,241	241,239	106,036	9,308	2,043	192	177,295	16,757	11,012	76	11,087	13,728	8,621	716,136	170,173	8
9	4 under 5 (est.)	514,273	1,562,457	176,028	64,718	6,259	1,152	116	92,904	9,475	7,755	73	7,828	10,140	5,702	442,812	127,569	9
10	5 under 6	249,078	847,343	112,501	35,821	3,439	518	611	54,138	4,122	6,216	244	6,460	7,703	3,706	304,733	125,974	10
11	6 under 7	150,324	560,111	95,711	28,060	2,668	411	464	40,056	3,055	5,553	140	5,693	6,556	2,895	225,833	106,416	11
12	7 under 8	102,440	421,998	83,493	23,046	2,427	294	366	31,853	2,471	4,739	172	4,911	5,462	2,149	176,962	92,842	12
13	8 under 9	72,278	326,082	73,113	18,942	2,172	211	268	26,058	2,121	3,811	133	3,944	5,450	2,030	139,730	79,617	13
14	9 under 10	55,985	279,236	66,224	16,211	1,862	208	275	21,200	1,583	3,586	135	3,721	4,616	1,543	116,816	71,960	14
15	10 under 11	42,757	229,449	60,513	14,102	1,826	227	163	17,554	1,282	3,138	247	3,385	3,779	1,407	95,919	64,055	15
16	11 under 12	34,072	195,970	54,202	12,553	1,580	149	161	15,815	1,045	2,715	101	2,815	4,110	1,163	84,945	56,994	16
17	12 under 13	27,374	168,069	50,747	10,990	1,505	157	127	13,193	980	2,355	101	2,456	3,276	936	70,506	52,561	17
18	13 under 14	22,776	150,465	46,828	9,710	1,351	108	137	11,487	1,041	2,187	109	2,296	3,203	1,023	61,649	48,739	18
19	14 under 15	19,134	134,335	42,067	8,489	1,128	150	90	10,478	680	2,065	120	2,185	3,315	847	54,475	44,559	19
20	15 under 20	61,158	495,011	180,923	34,169	4,820	404	418	37,634	2,844	7,902	353	8,254	12,018	2,671	195,505	171,243	20
21	20 under 25	31,609	318,706	140,141	21,932	3,562	290	321	23,908	1,943	5,461	354	5,814	9,810	1,305	113,055	123,503	21
22	25 under 30	18,384	216,801	109,573	15,118	2,259	188	353	16,493	1,186	3,555	219	3,774	7,112	805	74,340	92,128	22
23	30 under 40	19,785	275,460	164,986	19,771	3,984	232	238	21,276	1,528	5,529	227	5,756	12,106	860	95,941	124,802	23
24	40 under 50	9,988	169,269	121,789	12,154	2,580	160	214	12,868	1,344	3,687	145	3,832	9,963	572	56,616	81,631	24
25	50 under 60	5,733	115,901	91,080	8,015	1,384	82	117	8,279	520	2,438	94	2,533	7,897	385	33,992	60,780	25
26	60 under 70	3,541	78,230	71,816	5,519	849	54	112	5,593	895	1,595	76	1,672	6,423	273	26,869	42,675	26
27	70 under 80	2,307	57,252	56,387	4,210	792	51	39	3,951	407	2,109	100	2,209	6,466	274	18,261	32,210	27
28	80 under 90	1,606	39,846	47,627	2,761	565	26	26	2,711	300	967	16	984	4,133	238	13,730	29,196	28
29	90 under 100	1,178	34,109	39,512	2,301	551	14	18	2,551	262	563	54	617	5,293	85	9,014	20,648	29
30	100 under 150	2,664	82,369	127,782	6,943	1,506	84	16	7,250	573	2,369	220	2,590	17,096	245	31,554	54,281	30
31	150 under 200	922	33,590	67,507	3,284	710	33	10	3,535	249	1,669	89	1,758	11,998	145	14,260	23,471	31
32	200 under 250	408	18,406	37,142	1,643	474	47	(13)	1,942	92	911	53	965	12,117	83	6,021	15,378	32
33	250 under 300	209	7,721	27,574	1,368	190	7	(13)	1,039	171	236	27	263	7,276	19	6,419	6,864	33
34	300 under 400	229	9,856	38,292	1,050	326	19	10	1,476	241	454	20	474	12,079	28	5,595	8,854	34
35	400 under 500	119	5,633	22,011	647	49	8	(13)	939	21	635	18	653	12,903	6	2,918	4,996	35
36	500 under 750	104	3,425	32,094	1,395	39	7	-	433	19	323	5	328	12,803	-	1,794	4,461	36
37	750 under 1,000	48	1,616	24,294	377	65	4	-	1,807	45	13	9	21	6,972	4	2,169	2,047	37
38	1,000 under 1,500	30	863	18,732	472	51	7	(13)	69	62	22	1	23	9,054	17	1,751	1,450	38
39	1,500 under 2,000	4	122	3,086	50	(13)	-	-	14	-	-	1	1	1,564	-	3	3	39
40	2,000 under 3,000	9	606	11,224	80	-	-	-	5	64	-	-	-	4,968	-	-	1	40
41	3,000 under 4,000	5	165	14,704	65	3	1	-	5	-	499	-	499	8,574	14	-	163	41
42	4,000 under 5,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	42
43	5,000 and over	2	8	8,434	32	1	-	-	-	-	40	-	40	5,245	-	-	-	43
44	Total, returns with net income	17,502,587	36,122,193	3,059,332	789,496	82,250	15,135	4,867	1,236,636	129,949	110,745	3,736	114,481	296,584	55,902	4,583,033	2,163,212	44
45	With no net income, Form 1040 5/	297	3,108	19,524	1,686	253	31	-	527	121	379	-	379	-	21	331	1,029	45
46	Total, taxable returns (44+45)	17,502,884	36,125,301	3,078,856	791,182	82,503	15,166	4,867	1,237,164	130,071	111,124	3,736	114,860	296,584	55,923	4,583,364	2,164,241	46
	Nontaxable individual returns: With net income: 6/																	
47	Form 1040A (est.) 9/	4,055,166	6,868,982	(35)	(35)	(35)	(35)	(35)	(35)	(35)	-	-	-	-	-	-	-	47
48	Form 1040: Under .75 (est.)	858,153	231,524	61,742	42,820	4,398	-	-	139,534	11,415	2,092	-	2,092	3,345	1,730	179,740	12,486	48
49	.75 under 1 (est.)	284,504	113,076	12,692	8,709	958	-	-	34,335	2,810	663	-	663	925	610	129,592	5,032	49
50	1 under 1.5 (est.)	1,309,494	996,689	50,817	40,753	3,885	-	-	162,558	13,023	2,635	-	2,635	3,429	3,476	668,294	29,085	50
51	1.5 under 2 (est.)	1,024,992	1,366,496	17,096	10,059	1,191	-	-	61,021	3,066	1,445	-	1,445	1,423	1,775	485,170	35,187	51
52	2 under 2.5 (est.)	553,386	988,702	7,815	4,951	557	-	-	32,485	941	749	-	749	817	1,386	266,068	19,273	52
53	2.5 under 3 (est.)	149,629	312,427	2,361	1,037	191	-	-	10,301	540	369	-	369	203	267	93,048	6,591	53
54	3 under 4	33,119	80,078	619	237	40	-	-	2,487	100	84	-	84	88	122	26,517	2,244	54
55	4 under 5	1,059	2,236	51	14	4	-	-	112	4	3	-	3	1	7	2,211	108	55
56	Total, returns with net income	8,267,502	10,960,210	153,195	108,559	11,222	-	-	442,833	31,901	8,042	-	8,042	10,231	9,373	1,850,642	110,007	56
57	With no net income, Form 1040 7/	99,551	54,275	66,838	18,305	1,823	-	-	31,071	2,035	4,122	-	4,122	4,333	2,396	18,550	11,549	57
58	Total, nontaxable returns (56+57)	8,367,053	11,014,483	220,031	126,864	13,045	-	-	473,904	33,936	12,163	-	12,163	14,565	11,768	1,869,172	121,555	58
59	Grand total (46+58 or 60+61)	25,869,917	47,139,784	3,298,887	918,046	95,548	15,166	4,867	1,711,067	164,006	123,287	3,736	127,024	311,149	67,691	6,452,536	2,285,796	59
60	Individual returns with net income (44+56)	25,770,089	47,082,403	3,212,525	898,055	93,472	15,135	4,867	1,679,469	161,850	118,786	3,736	122,523	306,815	65,274	6,433,674	2,273,219	60
61	Individual returns with no net income (45+57)	99,828	57,382	86,362	19,991	2,076	31	-	31,598	2,157	4,501	-	4,501	4,333	2,417	18,861	12,577	61

For footnotes, see pp. 14 and 15.

Table 3-A. - Individual returns with net income, 1941, by taxable and nontaxable returns, and by net income classes; also aggregates for taxable and nontaxable individual returns with no net income: Number of returns, sources of income and deductions, and net income - Continued

(Net income classes and money figures in thousands of dollars)

Net income classes	Sources of income - Continued			Deductions												
	Income from fiduciaries 29/	Other income 30/	Total income	Net long-term capital loss 23/	Net loss from sales of property other than capital assets 26/	Business loss 27/	Partnership loss 28/	Contributions 31/	Interest paid 32/	Taxes paid 32/	Losses from fire, storm, etc. 32/ 33/	Bad debts 32/	Other deductions 34/	Total deductions	Net income 1/	
Taxable individual returns:																
With net income:																
Form 1040A (est.) 9/	-	262,565	10,560,017	-	-	-	-	-	-	-	-	-	-	-	10,560,017	1
Form 1040:																
Under .75 (est.)	585	333	22,589	3,028	174	89	63	640	638	1,687	15	150	407	6,840	15,748	2
.75 under 1 (est.)	3,028	5,754	757,924	6,319	780	664	308	28,393	8,502	29,045	994	1,363	12,418	88,787	669,137	3
1 under 1.5 (est.)	8,153	10,571	1,772,579	14,969	1,320	1,574	239	65,403	22,059	62,518	2,874	2,511	23,791	197,258	1,575,321	4
1.5 under 2 (est.)	11,358	22,101	4,189,981	25,670	3,645	4,451	685	105,053	83,224	158,592	5,008	4,628	57,798	448,755	3,741,225	5
2 under 2.5 (est.)	14,295	25,393	5,757,306	24,003	3,109	3,869	1,528	125,216	124,862	201,068	5,799	5,835	66,863	562,153	5,195,153	6
2.5 under 3 (est.)	14,048	24,346	5,127,776	24,374	2,206	3,769	792	108,357	108,866	170,023	5,154	4,861	56,925	485,327	4,642,449	7
3 under 4 (est.)	33,766	40,937	6,169,484	54,714	6,291	8,518	2,787	113,865	114,057	187,291	6,695	14,611	77,157	585,987	5,583,497	8
4 under 5 (est.)	29,616	24,465	2,561,167	42,945	4,364	5,448	1,971	48,199	50,170	83,674	3,348	8,099	36,201	284,418	2,276,749	9
5 under 6	27,322	17,856	1,551,983	33,467	2,716	4,620	1,846	30,154	34,801	52,776	2,158	5,974	24,982	193,495	1,358,489	10
6 under 7	24,762	13,417	1,115,968	28,256	2,083	4,083	1,184	21,466	24,673	38,312	1,378	4,824	17,884	144,142	971,826	11
7 under 8	21,506	11,261	880,869	24,984	1,963	3,332	1,241	16,669	18,889	30,157	1,055	3,934	13,515	115,738	765,131	12
8 under 9	19,656	9,336	708,595	21,614	1,925	2,328	1,026	13,434	14,914	25,750	882	2,869	10,981	95,723	612,873	13
9 under 10	18,386	8,024	611,727	19,469	1,182	2,577	624	11,690	12,245	21,088	843	2,666	8,565	80,951	530,776	14
10 under 11	16,554	6,957	516,924	16,992	1,069	2,205	546	9,512	10,237	17,908	626	2,522	7,426	69,043	447,880	15
11 under 12	14,673	6,043	452,118	15,460	744	1,986	733	8,427	8,470	15,766	552	2,235	6,441	60,814	391,304	16
12 under 13	14,421	5,543	395,365	14,126	692	1,577	631	7,397	7,626	14,001	454	2,036	5,158	53,698	341,667	17
13 under 14	12,656	4,511	355,095	12,648	748	1,446	438	6,669	6,794	12,300	493	1,712	4,679	47,927	307,168	18
14 under 15	12,216	4,460	319,353	11,510	526	1,197	475	5,886	5,692	11,220	381	1,363	3,979	42,230	277,123	19
15 under 20	52,535	17,978	1,216,075	46,358	1,900	5,719	1,816	22,653	20,683	43,038	1,212	6,264	15,305	164,947	1,051,128	20
20 under 25	39,836	9,917	813,689	32,468	1,173	4,144	1,270	15,277	12,561	28,679	828	3,941	9,709	110,052	703,637	21
25 under 30	33,292	6,973	580,177	23,114	852	2,838	930	11,300	8,480	20,752	367	3,438	6,378	78,449	501,728	22
30 under 40	47,754	9,103	783,570	29,411	1,118	3,962	1,245	16,074	10,937	27,699	565	4,097	8,431	103,538	680,032	23
40 under 50	35,740	6,403	514,988	19,518	586	2,699	733	11,562	7,068	19,149	426	2,983	5,562	70,286	444,702	24
50 under 60	27,745	3,703	362,318	12,660	389	2,254	555	8,482	5,535	13,626	294	1,889	3,801	49,484	312,833	25
60 under 70	20,834	3,347	265,086	9,690	320	1,403	337	6,550	3,232	9,932	170	1,496	3,171	36,301	228,785	26
70 under 80	14,881	1,692	198,961	6,509	331	1,343	423	5,121	2,410	7,858	121	805	1,906	26,827	172,134	27
80 under 90	13,739	1,324	157,189	5,508	192	909	228	4,142	1,988	5,327	106	534	1,687	21,221	135,969	28
90 under 100	12,158	1,403	128,462	3,847	135	623	160	3,623	1,578	4,921	129	546	1,496	17,060	111,402	29
100 under 150	36,215	2,326	370,610	9,850	428	2,403	760	11,661	4,885	14,099	192	1,857	4,551	50,686	319,925	30
150 under 200	22,854	1,278	184,593	5,744	148	1,185	117	6,993	2,279	7,029	102	934	2,079	26,611	157,982	31
200 under 250	12,001	737	106,996	2,505	39	1,311	79	3,415	1,286	3,678	76	1,795	1,815	15,999	90,997	32
250 under 300	8,479	27	67,389	1,430	23	623	960	2,621	724	2,547	35	523	808	10,294	57,095	33
300 under 400	13,869	113	92,258	2,056	78	652	135	3,572	858	3,651	16	740	1,327	13,086	79,173	34
400 under 500	10,690	366	61,822	1,488	28	566	112	2,452	398	2,413	10	264	559	8,289	53,532	35
500 under 750	15,788	609	73,189	1,591	27	570	7	3,941	613	2,449	343	879	975	11,396	61,792	36
750 under 1,000	8,175	28	47,617	369	174	272	-	2,676	299	1,815	2	60	681	6,348	41,269	37
1,000 under 1,500	12,833	11	45,395	572	9	1,804	-	2,496	206	2,108	55	333	407	7,990	37,406	38
1,500 under 2,000	3,134	21	7,997	58	-	52	2	927	37	70	27	2	59	1,235	6,763	39
2,000 under 3,000	6,784	-	23,732	51	18	65	-	1,428	104	726	(13)	14	431	2,837	20,894	40
3,000 under 4,000	18	15	24,223	1,581	-	691	-	1,599	470	724	3	6	303	5,376	18,846	41
4,000 under 5,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	42
5,000 and over	46	-	13,806	1,015	15	-	-	934	132	500	14	3	674	3,287	10,519	43
Total, returns with net income	746,402	571,226	49,966,963	611,943	43,519	89,823	26,986	875,929	743,484	1,656,518	43,804	105,595	507,286	4,404,887	45,562,076	44
With no net income, Form 1040 5/	2,821	200	30,031	30,765	35	339	90	896	1,270	2,046	19	1,118	1,026	37,604	14/ 7,573	45
Total, taxable returns (44+45)	749,223	571,426	49,996,993	642,708	43,555	90,162	27,076	876,825	744,753	1,358,564	43,823	106,713	508,312	4,442,491	15/ 45,554,502	46
Nontaxable individual returns:																
With net income: 6/																
Form 1040A (est.) 9/	-	102,108	6,971,090	-	-	-	-	-	-	-	-	-	-	-	6,971,090	47
Form 1040:																
Under .75 (est.)	4,024	11,593	706,443	41,726	8,094	14,255	1,910	19,831	26,520	59,394	3,526	6,037	49,323	230,615	475,829	48
.75 under 1 (est.)	743	4,947	315,091	7,925	1,664	3,646	578	6,175	9,166	15,629	1,306	1,760	16,393	64,242	250,850	49
1 under 1.5 (est.)	2,747	21,992	1,999,381	19,902	5,159	9,637	1,517	37,147	50,573	82,895	4,662	5,317	60,102	276,911	1,722,470	50
1.5 under 2 (est.)	1,211	14,498	1,999,639	6,111	1,837	3,614	623	30,946	49,555	57,663	2,233	2,839	34,905	190,327	1,809,312	51
2 under 2.5 (est.)	597	8,205	1,332,527	2,343	603	1,586	178	19,344	31,754	34,512	1,043	1,263	16,611	109,236	1,223,291	52
2.5 under 3 (est.)	548	3,450	431,334	562	162	313	63	6,171	8,629	9,552	272	330	4,923	30,978	400,356	53
3 under 4	84	1,046	113,748	147	59	117	33	1,226	1,533	1,740	87	132	1,271	6,344	107,404	54
4 under 5	12	67	4,829	5	2	4	1	58	59	68	2	38	51	290	4,540	55
Total, returns with net income	9,967	167,906	15,874,084	78,720	17,582	33,172	4,903	120,897	177,788	261,453	13,131	17,717	183,579	908,943	12,965,141	56
With no net income, Form 1040 7/	11,728	6,999	234,002	172,400	35,246	103,694	24,084	4,464	22,881	28,284	12,619	53,421	61,358	518,451	14/ 284,449	57
Total, nontaxable returns (46+57)	21,695	174,904	14,108,086	251,119	52,828	136,866	28,987	125,362	200,669	289,737	25,751	71,138	244,936	1,427,394	15/ 12,680,692	58
Grand total (46+58 or 60+61)	770,918	746,331	64,105,079	893,828	96,383	227,028	56,063	1,002,187	945,423	1,648,301	69,574	177,851	753,248	5,869,885	15/ 58,235,195	59
Individual returns with net income (44+56)	756,370	739,132	63,841,047	690,663	61,101	122,995	31,890	996,826	921,272	1,617,971	56,935	123,312	690,865	5,313,830	58,527,217	60
Individual returns with no net income (45+57)	14,548	7,199	264,032	203,165	35,281	104,033	24,173	5,361	24,151	30,329	12,639	54,539	62,383	556,055	14/ 292,023	61

For footnotes, see pp. 14 and 15.

Footnotes

1/ Net income is the sum of (1) net income on Form 1040, (2) gross income on Form 1040A, and (3) in tables including fiduciary returns, Form 1041, the net income taxable to the fiduciary.

2/ Aggregate of normal tax, surtax, alternative tax, defense tax, and the optional tax reported on Form 1040A. In table 1, the alternative tax on individual returns with no net income is not shown separately but is included in the total tax, column 5, and accounts for the excess of column 5 over the sum of columns 8 and 13.

3/ Returns with alternative tax are (1) returns with net long-term capital gain when such alternative tax computed on ordinary net income is less than the combined normal tax and surtax computed on net income including net long-term capital gain, and (2) returns with net long-term capital loss when such alternative tax computed on ordinary net income is greater than the combined normal tax and surtax computed on net income after deducting net long-term capital loss.

4/ Defense tax is 10 percent of the total income tax before deducting any credit, but not in excess of 10 percent of the amount by which the net income exceeds such income tax. Reported only on returns with taxable year beginning prior to January 1, 1941.

5/ Alternative tax is reported on 297 individual returns with no net income due to net long-term capital loss. On such returns the combined normal tax and surtax computed on ordinary net income exceeds 30 percent of the net long-term capital loss.

6/ Personal exemption, credit for dependents, and earned income credit exceed net income. A negligible number of nontaxable individual returns in net income classes of $5,000 and over are tabulated with taxable returns.

7/ Total deductions equal or exceed total income.

8/ For taxable fiduciary returns, the net income used for classification and tabulation is the net income taxable to the fiduciary, that is, after deducting the amount distributable to beneficiaries. Data for taxable fiduciary returns include those for estates and trusts incorrectly filed on Form 1040, but which have net income taxable to the fiduciary. In tabulating data from these incorrectly filed returns, Form 1040, an adjustment is made whereby the "Amount distributable to beneficiaries" (if any) is removed from deductions and tabulated as such in table 3.

9/ Unlike 1940, the 1941 individual return, Form 1040A (optional return), which may be filed if gross income is from certain sources only and is not more than $3,000, does not provide for reporting the amount of net income. In this release, the gross income is tabulated both as total income and as net income.

10/ For 1941, the personal exemption allowed the head of a family and a married person living with husband or wife for the entire year was reduced from $2,000 to $1,500, and that of a single person, a married person not living with husband or wife, and an estate was reduced from $800 to $750. A trust is allowed, in lieu of the personal exemption, a credit of $100 against net income. The personal exemption tabulated for individual returns, Form 1040A, is determined from the taxpayer's status indicated on the return.

11/ On Form 1040A, earned income credit is computed as 10 percent of the gross income.

12/ Returns with normal tax and surtax are (1) returns with neither net long-term capital gain or loss, and (2) returns with net long-term capital gain or loss, which are subject to normal tax and surtax instead of alternative tax.

13/ Less than $500.

14/ Deficit.

15/ Net income less deficit.

16/ Not available.

17/ Not computed.

18/ Excludes dividends received through partnerships and fiduciaries, and dividends on share accounts in Federal savings and loan associations.

19/ Partially tax-exempt interest on United States savings bonds and Treasury bonds owned in excess of $5,000, and on obligations of instrumentalities of the United States other than those issued under the Federal Farm Loan Act or that act as amended, all of which were issued prior to March 1, 1941; includes such interest received through partnerships and fiduciaries. For the nontaxable individual returns, Form 1040, there is included also the taxable interest on Government obligations and the dividends on share accounts in Federal savings and loan associations, both of which are subject to normal tax and surtax.

20/ Taxable interest on Treasury notes issued on or after December 1, 1940 and on obligations of the United States or any agency or instrumentality thereof, issued on or after March 1, 1941. These data are available for the taxable returns, Forms 1040 and 1041, only.

21/ Dividends on share accounts in Federal savings and loan associations include such dividends received through partnerships and fiduciaries. These data are available for the taxable returns, Forms 1040 and 1041, only. For 1940, such dividends were reported in "Other income."

22/ Tabulated separately for the first time. For prior years included in "Other income."

23/ Capital gain or loss is the net gain or loss from sales or exchanges of capital assets, i.e., property held by the taxpayer (whether or not connected with his trade or business), but not (1) stock in trade or other property which would properly be included in inventory if on hand at the close of the taxable year, (2) property held primarily for sale to customers in the ordinary course of trade or business, (3) property used in trade or business of a character which is subject to the allowance for depreciation, or (4) an obligation of the United States or any possession thereof, or of a State or Territory or any political subdivision thereof, or the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from date of issue.

"Short-term" applies to capital assets held 18 months or less.

"Long-term" applies to capital assets held over 18 months.

Losses from worthless stocks and bonds which are capital assets, are deducted in computing "Net long-term capital gain" and "Net long-term capital loss." The tabulated amounts include each participant's share of net capital gain or loss to be taken into account from partnerships and common trust funds.

24/ Net short-term capital loss of preceding taxable year deducted is the amount deducted under

(Continued on following page)

Footnotes - Continued

the net short-term loss carry-over provision of the Internal Revenue Code. The amount carried over cannot exceed the net income for the year in which the loss is sustained, and can be deducted only to the extent of the current year net short-term capital gain. The carry-over is restricted to one year.

25/ Current year net short-term capital gain before deducting net short-term capital loss of preceding taxable year. This amount would have been reported for computation of net income if the net short-term capital loss of preceding taxable year had not been deductible.

26/ Net gain or loss from the sales of (1) property used in trade or business of a character which is subject to the allowance for depreciation, and (2) obligations of the United States or any of its possessions, a State or Territory or any political subdivision thereof, or the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from date of issue.

27/ Current year business profit or loss. (Net operating loss deduction is reported in "Other deductions.")

28/ Partnership profit or loss, as reported on the income tax return of the partner, excludes (1) partially tax-exempt interest on Government obligations issued prior to March 1, 1941, and (2) net gain or loss from sales or exchanges of capital assets, each of which is reported in its respective source of income or deduction, and (3) dividends on share accounts in Federal savings and loan associations which are reported in the schedule for interest on Government obligations but are tabulated separately. Charitable contributions and net operating loss deduction, not being deductible in computing partnership profit or loss, are reported on the partner's income tax return in "Contributions" and "Other deductions" respectively.

29/ Income from fiduciaries, as reported on the return of the beneficiary, excludes (1) partially tax-exempt interest on Government obligations issued prior to March 1, 1941, and (2) net gain or loss from sales or exchanges of capital assets received from common trust funds, each of which is reported in its respective source of income or deduction, and (3) dividends on share accounts in Federal savings and loan associations which are reported in the schedule for interest on Government obligations but are tabulated separately. The net operating loss deduction, not being deductible in computing income from common trust funds, is reported on the beneficiary's return in "Other deductions," however, the net operating loss deduction is deducted from all other fiduciary income reported on the beneficiary's return.

30/ Includes dividends, interest, rents, annuities and royalties, reported on Form 1040A. Unlike 1940, excludes annuities and dividends on share accounts in Federal savings and loan associations reported on Form 1040, both of which are tabulated separately.

31/ Include each partner's share of charitable contributions of partnerships.

32/ Excludes amount reported in schedule for (1) income from rents and royalties, and (2) profit or loss from business.

33/ Losses from fire, storm, shipwreck, or other casualty, or from theft, not compensated for by insurance or otherwise.

34/ Include loss from rents and royalties, and net operating loss deduction. In table 3 "Other deductions" also include losses from fire, storm, etc., and bad debts reported on fiduciary returns.

35/ Included in "Other income."

for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on December 23, 1943 .

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, December 17, 1943 (1).

The Secretary of the Treasury, by this public notice, invites tenders for $ 1,000,000,000 (2), or thereabouts, of 91 (3)-day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated December 23, 1943 (4), and will mature March 23, 1944 (5), when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern War time, Monday, December 20, 1943 (6). Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, December 17, 1943.

The Secretary of the Treasury, by this public notice, invites tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated December 23, 1943, and will mature March 23, 1944, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern War time, Monday, December 20, 1943. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly

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reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on December 23, 1943.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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