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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, October 3, 1947

Press Service
No. S-483

The Secretary of the Treasury, by this public notice, invites tenders for $1,300,000,000, or thereabouts, of 91-day Treasury bills, for cash and in exchange for Treasury bills matuning October 9, 1947, to be issued on a discount basis under competitive and non-competitive bidding as hereinafter provided. The bills of this series will be dated October 9, 1947, and will mature January 8, 1948, 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 Standard time, Monday, October 6, 1947. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders 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 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, non-competitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids.

Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on October 9, 1947, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 9, 1947. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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 the Internal Revenue Code, or laws amendatory or supplementary thereto. 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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TREASURY DEPARTMENT

Washington

FOR RELEASE,
Wednesday, October 8, 1947

Press Service
No. S-484

Secretary of the Treasury Snyder today made public a series of tabulations which will appear in the report "Statistics of Income for 1944, Part 2," compiled from corporation income and declared value excess-profits tax returns, excess profits tax returns, and personal holding company returns. These data are prepared under the direction of Commissioner of Internal Revenue George J. Schoeneman.

SUMMARY DATA

The number of corporation income and declared value excess-profits tax returns for 1944 is 446,796, of which 288,904 show net income of $27,123,740,994, while 123,563 show deficit of $819,260,208, and 34,329 have no income data (inactive corporations).

The income tax liability reported on these returns is $4,353,619,888 and the declared value excess-profits tax is $98,668,048, while an excess profits tax liability of $10,431,762,393, after credits, is reported on 55,912 corporation excess profits tax returns for the same period. Thus the total amount of corporation income and excess profits taxes is $14,884,050,329, representing a decrease of 7 percent as compared with the total for 1943. The amounts of income tax and excess profits tax liability do not take into account any credit claimed for income and profits taxes paid to a foreign country or United States possession.

A comparison of the 1944 returns with the 1943 returns is provided in the following summary:

Corporation returns, 1/ 1944 and 1943: Summary data

(Money figures in thousands of dollars)

	1944	1943	Increase or decrease (-)	
			Number or amount	Percent
Income and declared value excess-profits tax returns				
Total number of income and declared value excess-profits tax returns, Form 1120	446,796	455,894	-9,098	-2
Returns with net income: 2/				
Number	288,904	283,735	5,169	2
Net income 2/	27,123,741	28,717,966	-1,594,225	-6
Tax liability:				
Income tax 3/	4,353,620	4,479,166	-125,546	-3
Declared value excess-profits tax	98,668	154,934	-56,265	-36
Excess profits tax 4/	10,431,762	11,291,483	-859,721	-8
Total	14,884,050	15,925,582	-1,041,532	-7
Returns with no net income: 2/				
Number	123,563	136,786	-13,223	-10
Deficit 2/	819,260	898,722	-79,461	-9
Number of returns of inactive corporations	34,329	35,373	-1,044	-3
Excess profits tax returns				
Taxable excess profits tax returns, Form 1121:				
Number	55,912	68,202	-12,290	-18
Excess profits net income 5/	20,471,652	22,306,883	-1,835,231	-8
Adjusted excess profits net income 6/	7/12,935,510	14,552,878	-1,617,368	-11
Excess profits tax		(See above)		

For footnotes, see pp. 29-30.

RETURNS INCLUDED

The data presented in these tabulations are from returns for the calendar year ending December 31, 1944, a fiscal year ending within the period July 1944 through June 1945, and a part year with the greater portion of the accounting period in 1944.

The data are from corporation income and declared value excess-profits tax returns, Form 1120; life insurance company income tax returns, Form 1120L; mutual insurance company income tax returns, Form 1120M; and corporation excess profits tax returns, Form 1121. Included for this purpose in addition to returns filed by domestic corporations are the returns filed by foreign corporations engaged in business within the United States. Amended returns and tentative returns are not included. The complete report, Statistics of Income for 1944, Part 2, will contain more detailed statistics from corporation income and declared value excess-profits tax returns and from corporation excess profits tax returns, together with data from personal holding company returns, Form 1120H.

The statistics are compiled from the returns as filed, prior to revisions that may be made as a result of audit by the Bureau of Internal Revenue and prior to changes which may result from carry-backs, relief granted under section 722 of the Internal Revenue Code, recomputation of amortization of emergency facilities, or from the renegotiation of war contracts, after the returns were filed. Changes resulting from the renegotiation of war contracts are recorded as settlements are reached, however, and the effect of renegotiation settlements reached to date with respect to the tax year 1944 will be shown in a special tabulation to be included in the complete report, Statistics of Income for 1944, Part 2.

CHANGES IN LAW AFFECTING CORPORATION RETURNS

The comparability of the figures tabulated from the 1944 returns with those from the 1943 returns is affected by the changes in law introduced by the Revenue Act of 1943. Returns for the calendar year 1944 and fiscal years ending in the period January through June 1945 are filed under the provisions of the Internal Revenue Code as amended by the Revenue Act of 1943. The amendments contained in this act apply also to the 1944 portion of the accounting period, in the case of returns for fiscal years beginning in 1943 and ending in 1944. The most significant changes are as follows:

Income and Declared Value Excess-Profits Tax Returns, Form 1120 -

(1) The amount of income subject to excess profits tax which is a credit against net income in arriving at normal-tax net income and surtax net income is decreased by $5,000. This is the result of a change in the excess profits tax law which provides an increase in the specific exemption from $5,000 to $10,000 for purposes of determining adjusted excess profits net income.

(2) Corporations filing returns for taxable years beginning in 1943 and ending in 1944 are required to compute two tentative taxes, one under the 1942 Act, the other under the 1943 Act, and prorate each on the basis of the number of days before January 1, 1944, and the number after December 31, 1943, respectively. The prorated portions of the two tentative taxes are then combined to determine the actual liability, which is the amount tabulated in this report. Amounts tabulated from these returns for all items other than the tax liability are the amounts used in computing the tentative tax for 1944 under provisions of the Revenue Act of 1943.

Excess Profits Tax Returns, Form 1121 -

(1) The excess profits tax rate is increased from 90 to 95 percent of adjusted excess profits net income.

(2) The specific exemption allowed a corporation, or an affiliated group of corporations filing a consolidated return, in determining adjusted excess profits net income is increased from $5,000 to $10,000. Exemption from filing an excess profits tax return is accordingly extended to cover corporations with excess profits net income up to $10,000, as against the $5,000 limitation previously in effect.

(3) The percentage of invested capital allowed as a credit under the invested capital method is reduced as follows:

Invested capital	Percentage allowed as a credit under the Revenue Act of —	
	1943	1942
First $5,000,000	8	8
Next $5,000,000	6	7
Next $190,000,000	5	6
Over $200,000,000	5	5

(4) The limitation on post-war credit is amended to give effect to the increase in excess profits tax rate from 90 to 95 percent, and special rules are provided for the computation of post-war refunds on fiscal year returns.

(5) Corporations with taxable years beginning in 1943 and ending in 1944 are required to compute two tentative taxes and prorate each in a manner similar to that described above for income tax. As in the case of the income tax returns, the liability tabulated in this release is the actual liability, i.e., the amount obtained by combining the prorated portions of the two tentative taxes. All items other than the tax liability are tabulated in the amounts determined under the provisions of the 1943 Act.

CLASSIFICATIONS PRESENTED

The first three tables of this release show data from corporation income and profits tax returns, classified by industrial groups. The industrial classification is based on the business activity reported on the return. When multiple businesses are reported on a return, the classification is determined by the business activity which accounts for the largest percentage of total receipts. Therefore, the industrial groups do not reflect pure industry classifications. There is no change in the industrial groups between 1943 and 1944.

Table 4 shows data from returns with balance sheets, classified according to size of total assets as of December 31, 1944, or close of fiscal year nearest thereto. The total assets classes are based on the net amount of total assets after reserves for depreciation, depletion, amortization, and bad debts.

The classification of the returns by net income and deficit classes, shown in table 5, and the classification by returns with net income and returns with no net income, shown in tables 1, 3, and 5, are based on the amount reported for declared value excess-profits tax computation, adjusted by excluding the net operating loss deduction and adding Government interest subject to surtax only and excess of net long-term capital gain over net short-term capital loss.

CREDIT ALLOWED LIFE INSURANCE COMPANIES

In analyzing the data compiled from returns classified under the major group "Insurance carriers, agents, etc.," it should be noted that life insurance companies are required to include only interest, dividends, and rents in gross income. Beginning 1942, life insurance companies are allowed a "reserve and other policy liability credit" equal to a flat proportion of investment income

less tax-exempt interest. This credit, which is deducted after arriving at net income, and is reported only on returns with net income, takes the place of the deductions for reserve earnings, deferred dividends, and interest paid, which formerly were allowed in computing net income.

For 1944 the credit ratio is .9261 and for normal tax purposes the aggregate amount of reserve and other policy liability credit is $991,535,426, of which $990,865,626 is reported on returns with balance sheets. As an offset to this credit, adjustment for certain non-life insurance reserves is reported in total amount of $6,046,357, of which $6,045,216 is reported on returns with balance sheets. The latter adjustment, which is made in order to include in the tax base the interest received on non-life insurance reserves, applies only to life insurance companies deriving a portion of their income from contracts other than life insurance, annuities, or noncancellable health and accident insurance.

DATA PREVIOUSLY RELEASED

Certain tabulations prepared from the 1944 returns were made public previously in a preliminary report issued as of April 14, 1947, and are omitted from this release. Table 1-A of the preliminary report shows by major industrial groups the number of consolidated income tax returns filed by affiliated corporations, with the corresponding amount of total compiled receipts, net income, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, and dividends paid. In table 3 of the preliminary report, there is shown by adjusted excess profits net income classes and by method of credit computation the number of taxable corporation excess profits tax returns for 1944, with the corresponding amount of excess profits net income, excess profits credit, adjusted excess profits net income or deficit, excess profits tax, credit for debt retirement, and post-war refund.

Table 1. - Corporation income and declared value excess-profits tax returns 1/ 1944, by major industrial

Table 1. - Corporation income and declared value excess-profits tax returns, 1/ 1944, by major industrial groups and minor industrial groups, for returns with net income and returns with no net income: Number of returns, total compiled receipts, net income or deficit, and dividends paid in cash and assets other than own stock; also, for returns with net income: Total tax, income tax, declared value excess-profits tax, excess profits tax, and adjusted excess profits net income

(Money figures in thousands of dollars)

	Major industrial groups and minor industrial groups 8/	Total number of returns 9/	Returns with net income 2/									Returns with no net income 2/				
			Number of returns	Total compiled receipts 10/	Net income 2/	Adjusted excess profits net income 11/	Taxes				Dividends paid in cash and assets other than own stock	Number of returns	Total compiled receipts 10/	Deficit 2/	Dividends paid in cash and assets other than own stock	
							Total tax	Income tax 3/	Declared value excess-profits tax	Excess profits tax 4/						
1	All industrial groups	446,796	288,904	252,962,944	27,123,741	12,841,663	14,884,050	4,353,620	98,668	10,431,762	5,968,526	123,563	9,237,587	819,260	88,517	1
2	Mining and quarrying	9,540	3,796	3,480,815	368,801	68,208	157,527	99,066	597	57,864	181,804	3,824	546,781	51,427	7,673	2
3	Metal mining	1,665	222	709,244	110,481	16,490	42,269	28,229	39	14,001	77,457	645	68,865	10,825	1,320	3
4	Iron	92	36	156,411	11,471	2,641	4,934	2,743	8	2,183	7,846	41	36,374	1,842	-	4
5	Copper	88	16	250,488	57,629	12,122	22,425	12,055	6	10,364	55,222	36	11,854	1,240	-	5
6	Lead and zinc	204	62	163,045	16,969	1,226	6,554	5,498	8	1,048	12,934	80	5,822	1,138	5	6
7	Gold and silver	761	40	19,899	3,616	28	1,146	1,116	5	24	2,740	289	5,683	2,720	830	7
8	Other metal mining	169	32	63,051	16,241	449	5,862	5,490	11	361	13,008	81	3,056	1,614	134	8
9	Metal mining not allocable	351	36	56,351	4,555	24	1,348	1,327	2	19	5,707	118	6,076	2,268	351	9
10	Anthracite mining	151	79	327,128	15,682	1,366	6,092	4,908	21	1,164	7,600	67	66,589	1,797	66	10
11	Bituminous coal, lignite, peat, etc.	1,755	932	1,425,746	101,000	24,027	48,926	28,368	126	20,431	24,948	652	177,377	8,263	680	11
12	Crude petroleum and natural gas production	3,802	1,894	695,385	97,974	12,692	37,906	26,904	321	10,680	52,218	1,629	178,257	22,608	5,272	12
13	Crude petroleum, natural gas, and natural gasoline production	3,279	1,612	489,580	70,805	7,779	25,834	19,305	46	6,483	49,851	1,463	165,261	21,623	5,219	13
14	Field service operations	523	282	205,806	27,169	4,913	12,072	7,599	276	4,197	2,387	166	14,976	986	53	14
15	Nonmetallic mining and quarrying	1,436	650	314,164	42,797	13,618	21,995	10,354	67	11,574	19,292	661	53,527	6,957	306	15
16	Stone, sand, and gravel	1,083	516	192,981	20,010	5,242	9,586	5,081	59	4,446	4,584	490	40,675	4,756	297	16
17	Other nonmetallic mining and quarrying	331	127	120,541	22,733	8,375	12,396	5,260	8	7,128	14,705	164	12,373	2,154	9	17
18	Nonmetallic mining and quarrying not allocable	22	7	642	54	-	13	13	1	-	4	7	479	47	-	18
19	Mining and quarrying not allocable	751	19	9,147	868	16	339	305	23	14	287	170	2,187	978	29	19
20	Manufacturing	79,345	61,044	151,218,292	15,007,518	8,851,188	9,391,328	2,199,838	70,492	7,120,999	2,829,070	15,575	2,997,101	156,579	19,189	20
21	Food and kindred products	9,100	6,958	19,487,146	1,124,592	528,199	661,806	218,949	3,812	439,545	254,267	1,816	452,889	13,398	4,215	21
22	Bakery products	1,496	1,101	1,577,872	127,738	64,664	77,224	23,509	332	53,383	28,285	350	59,088	1,331	65	22
23	Confectionery	537	475	865,163	129,674	81,656	84,774	18,036	276	66,462	23,654	47	1,817	288	-	23
24	Canning fruits, vegetables, and sea foods	1,267	956	1,711,053	154,151	73,770	90,933	29,165	914	60,854	25,927	243	52,908	2,812	46	24
25	Meat products	842	675	7,209,926	174,458	98,882	110,768	27,527	476	82,765	30,047	145	106,631	1,317	321	25
26	Grain mill products, except cereal preparations	873	713	2,435,566	84,276	34,258	47,712	18,666	367	28,678	17,194	159	42,987	1,261	534	26
27	Cereal preparations	58	24	379,934	30,442	12,744	17,922	6,984	105	10,832	10,155	10	595	12	-	27
28	Dairy products	1,788	1,280	2,440,498	152,877	84,318	97,025	25,372	344	71,308	26,186	431	75,191	978	49	28
29	Sugar	131	103	833,669	55,522	6,571	23,326	17,611	94	5,622	24,141	28	46,949	2,647	2,876	29
30	Other food, including ice and flavoring syrups	1,742	1,361	1,363,337	158,025	45,859	79,731	40,840	236	38,654	53,404	334	53,340	2,064	292	30
31	Food and kindred products not allocable	366	270	672,129	57,428	25,477	32,391	11,238	167	20,986	15,294	69	15,384	690	32	31
32	Beverages	2,771	2,188	3,725,064	386,946	199,354	233,805	69,864	522	163,418	69,391	410	75,787	3,604	535	32
33	Malt liquors and malt	489	427	1,804,494	184,931	89,840	111,920	36,411	237	75,273	36,292	32	14,258	513	-	33
34	Distilled, rectified, and blended liquors	295	157	1,271,320	94,936	60,591	61,397	12,997	68	48,331	10,020	38	36,374	1,071	520	34
35	Wine	156	116	111,646	21,019	17,138	14,449	1,123	96	13,230	822	33	3,209	242	1	35
36	Nonalcoholic beverages	1,794	1,465	500,567	82,538	29,513	43,766	18,868	112	24,786	21,986	302	21,780	1,760	14	36
37	Beverages not allocable	37	23	35,037	3,523	2,272	2,275	465	10	1,798	271	5	165	19	-	37
38	Tobacco manufactures	215	170	2,130,376	166,400	33,955	79,855	50,910	155	28,810	73,155	37	5,442	104	22	38
39	Cotton manufactures	816	744	2,755,759	277,725	178,308	183,781	37,759	515	145,507	46,908	65	31,862	1,352	111	39
40	Textile-mill products, except cotton	3,469	3,029	4,873,342	516,388	300,316	327,787	78,876	2,442	246,469	70,253	374	70,297	3,807	495	40
41	Woolen and worsted manufactures, including dyeing and finishing	529	474	1,385,382	155,433	105,430	105,521	18,969	938	85,614	16,060	48	13,096	748	88	41
42	Rayon and silk manufactures	405	360	740,122	79,118	43,173	48,850	13,028	295	35,527	14,166	35	2,931	184	17	42
43	Knit goods	1,119	1,021	1,051,782	108,599	59,846	67,751	17,364	520	49,867	12,917	77	6,496	221	106	43
44	Hats, except cloth and millinery	211	178	161,337	11,501	4,047	6,128	2,672	95	3,361	2,034	28	3,641	64	3	44
45	Carpets and other floor coverings	111	81	293,987	21,808	5,928	11,016	5,943	48	5,026	6,368	26	4,657	328	9	45
46	Dyeing and finishing textiles, except woolen and worsted	465	398	471,382	61,246	38,963	39,892	7,933	328	31,631	5,762	61	8,801	527	(15)	46
47	Other textile-mill products	375	304	382,589	39,126	18,609	23,147	7,498	171	15,478	7,880	63	23,013	1,290	207	47
48	Textile-mill products, except cotton, not allocable	254	213	386,762	39,557	24,320	25,482	5,470	46	19,967	5,068	36	7,662	444	64	48
49	Apparel and products made from fabrics	7,346	6,157	3,828,425	256,976	142,237	156,800	36,648	3,108	117,044	28,310	1,079	109,817	3,595	142	49
50	Men's clothing	1,472	1,310	1,337,566	99,991	54,707	62,643	15,667	1,871	45,104	12,748	151	21,428	648	31	50
51	Women's clothing	3,026	2,617	1,421,148	83,798	47,339	50,282	10,814	635	38,834	6,521	355	31,631	772	89	51
52	Fur garments and accessories	615	366	94,029	2,166	161	673	522	10	141	200	241	26,696	835	(15)	52
53	Millinery	358	295	66,667	2,801	675	1,171	548	30	593	193	61	3,818	71	1	53
54	Other apparel and products made from fabrics	1,459	1,232	728,496	55,166	31,958	34,084	7,376	425	26,283	7,387	204	20,800	947	18	54
55	Apparel and products made from fabrics not allocable	416	337	180,520	13,053	7,396	7,947	1,721	138	6,088	1,261	67	5,444	321	3	55
56	Leather and products	1,983	1,698	2,096,768	140,996	65,143	82,089	26,904	581	54,604	27,666	263	42,719	1,162	56	56
57	Leather, tanned, curried, and finished	318	284	543,413	44,234	21,861	26,943	8,433	192	18,318	7,516	30	1,997	129	21	57
58	Footwear, except rubber	923	801	1,254,458	74,782	32,190	42,388	15,144	238	27,006	18,202	114	29,846	626	29	58
59	Other leather products	706	587	277,620	20,099	10,459	11,784	2,895	144	8,745	1,608	110	9,771	351	6	59
60	Leather and products not allocable	36	26	21,277	1,882	633	974	432	7	535	340	9	1,104	55	-	60

For footnotes, see pp. 29-30.

Table 1. – Corporation income and declared value excess-profits tax returns, 1/ 1944, by major industrial groups and minor industrial groups, for returns with net income and returns with no net income: Number of returns, total compiled receipts, net income or deficit, and dividends paid in cash and assets other than own stock; also, for returns with net income: Total tax, income tax, declared value excess-profits tax, excess profits tax, and adjusted excess profits net income – Continued

(Money figures in thousands of dollars)

	Major industrial groups and minor industrial groups 8/ – Continued	Total number of returns 9/	Returns with net income 2/									Returns with no net income 2/				
			Number of returns	Total compiled receipts 10/	Net income 2/	Adjusted excess profits net income 11/	Taxes				Dividends paid in cash and assets other than own stock	Number of returns	Total compiled receipts 10/	Deficit 2/	Dividends paid in cash and assets other than own stock	
							Total tax	Income tax 3/	Declared value excess-profits tax	Excess profits tax 4/						
	Manufacturing – Continued															
61	Rubber products	452	372	3,346,732	330,265	249,549	233,120	30,788	1,519	200,813	37,700	63	9,875	859	761	61
62	Tires and inner tubes	39	33	2,772,524	265,551	204,954	189,716	25,425	1,118	165,173	31,424	2	32	21	–	62
63	Other rubber products, including rubberized fabrics and clothing	413	339	574,208	64,714	44,595	43,404	7,363	401	35,640	6,276	61	9,844	819	761	63
64	Lumber and timber basic products	2,468	1,645	1,526,322	164,459	60,990	84,863	33,278	370	51,214	36,698	731	132,699	9,465	1,196	64
65	Logging camps and sawmills	1,693	1,066	1,131,970	128,509	40,647	62,748	28,122	155	34,471	32,203	545	101,182	7,005	1,110	65
66	Planing mills	775	579	394,351	35,950	20,343	22,115	5,156	215	16,743	4,495	186	31,517	2,457	86	66
67	Furniture and finished lumber products	3,841	2,963	1,909,176	169,937	82,198	99,239	29,646	1,337	68,257	25,914	817	96,542	5,262	726	67
68	Furniture (wood and metal)	1,679	1,326	828,940	73,130	33,833	42,506	13,452	618	28,236	9,582	327	45,799	2,428	155	68
69	Partitions and fixtures	343	264	99,097	9,897	6,222	6,204	1,063	205	4,937	561	71	6,739	332	8	69
70	Wooden containers	508	414	296,014	25,948	13,857	15,497	3,818	161	11,519	3,377	90	15,094	488	531	70
71	Matches	16	14	77,003	9,313	4,242	5,573	1,959	9	3,605	2,503	2	27	2	–	71
72	Other finished lumber products, including cork products	1,157	857	529,220	44,848	20,375	25,509	8,305	512	16,893	9,570	280	27,394	1,735	51	72
73	Furniture and finished lumber products not allocable	158	108	78,902	6,801	3,669	4,150	1,049	33	3,068	520	47	3,490	278	–	73
74	Paper and allied products	2,096	1,860	3,432,114	416,711	228,725	259,816	69,494	1,080	189,242	75,049	202	60,885	3,266	137	74
75	Pulp, paper, and paperboard	436	378	1,890,561	225,705	107,813	134,968	44,711	184	90,075	47,074	47	31,210	1,397	10	75
76	Pulp goods and converted paper products	1,650	1,479	1,540,371	190,908	120,912	124,809	24,745	896	99,169	25,974	150	29,008	1,838	127	76
77	Paper and allied products not allocable	10	3	1,182	98	–	38	38	–	–	(15)	5	667	32	–	77
78	Printing and publishing industries	10,278	7,904	3,391,074	577,262	302,658	347,195	94,662	2,469	250,064	106,259	2,065	90,812	6,275	565	78
79	Newspapers	2,359	1,858	1,149,800	260,258	136,292	158,528	44,233	546	113,749	58,119	462	20,684	1,737	434	79
80	Periodicals	952	715	561,997	116,912	74,982	76,246	15,080	175	60,991	16,228	204	6,356	1,963	1	80
81	Books and music	773	533	339,195	51,871	26,373	30,362	8,658	350	21,354	8,909	201	9,708	591	65	81
82	Commercial printing	2,953	2,365	785,068	92,024	44,808	53,400	15,378	981	37,040	13,974	540	25,280	803	37	82
83	Other printing and publishing	1,351	1,137	259,150	27,458	10,494	14,261	5,291	174	8,795	5,259	197	7,679	308	12	83
84	Printing and publishing industries not allocable	1,890	1,296	295,865	28,739	9,709	14,400	6,022	243	8,134	3,771	461	21,104	872	16	84
85	Chemicals and allied products	6,297	4,408	9,795,876	1,302,047	598,251	745,069	239,640	3,036	502,394	379,071	1,636	156,741	10,864	398	85
86	Paints, varnishes, and colors	820	666	1,025,183	71,662	27,083	39,049	16,095	253	22,702	17,744	132	14,653	670	59	86
87	Soap and glycerin	179	126	746,428	71,595	12,814	34,733	23,901	89	10,744	21,528	47	1,393	83	7	87
88	Drugs, toilet preparations, etc.	2,328	1,470	1,331,339	240,765	119,678	144,799	43,732	408	100,659	59,971	734	27,999	2,160	48	88
89	Rayon (raw material) and allied products	9	6	183,507	34,752	18,737	22,324	6,302	1	16,021	9,515	3	22	38	–	89
90	Fertilizers	261	220	281,501	25,219	10,338	14,148	5,235	74	8,839	6,889	33	3,557	430	1	90
91	Oils, animal and vegetable, except lubricants and cooking oils	236	186	744,982	41,266	24,957	26,490	6,008	27	20,455	6,666	50	41,094	2,377	39	91
92	Plastic materials	106	67	165,797	21,168	13,585	13,894	2,768	205	10,922	3,128	34	5,914	404	–	92
93	Industrial chemicals	618	466	3,922,638	625,891	279,791	344,410	106,668	1,450	236,292	221,451	138	25,554	2,360	47	93
94	Other chemical products	1,037	707	496,791	46,199	23,092	27,682	8,237	214	19,231	9,583	287	26,616	1,233	190	94
95	Chemicals and allied products not allocable	703	494	897,710	125,533	68,155	77,539	20,695	316	56,528	22,616	178	11,960	1,109	27	95
96	Petroleum and coal products	481	352	9,835,765	652,071	79,164	254,870	187,635	117	67,118	385,256	114	196,350	2,948	3,576	96
97	Petroleum refining	330	233	9,340,651	621,873	68,560	238,373	180,208	75	58,090	378,128	75	175,557	2,110	3,561	97
98	Other petroleum and coal products	147	98	495,054	30,189	10,604	16,495	7,424	42	9,028	7,128	36	20,750	827	15	98
99	Petroleum and coal products not allocable	4	1	60	9	–	2	2	–	–	–	3	43	10	–	99
100	Stone, clay, and glass products	2,794	1,722	2,152,474	257,592	118,539	150,417	51,594	675	98,148	58,118	985	158,096	14,247	1,554	100
101	Cut-stone products	318	205	34,604	3,392	956	1,598	742	36	820	636	106	5,898	724	9	101
102	Structural clay products	646	275	167,026	12,790	1,655	5,299	3,902	38	1,359	3,718	347	51,925	4,218	233	102
103	Pottery and porcelain products	217	167	172,293	16,387	7,914	9,705	3,052	100	6,553	2,671	46	11,161	919	20	103
104	Glass and glass products	394	321	734,011	95,798	48,334	57,541	18,214	101	39,225	20,909	61	14,544	928	94	104
105	Cement	86	45	119,573	14,360	1,032	6,003	5,094	27	882	8,555	41	41,854	4,408	1,177	105
106	Concrete and gypsum products, wallboard	683	384	217,083	17,952	3,620	8,295	5,237	49	3,010	6,004	269	20,902	2,047	17	106
107	Abrasives and asbestos products	389	285	681,529	95,578	54,946	61,454	14,926	519	46,208	14,852	98	11,088	870	2	107
108	Stone, clay, and glass products not allocable	61	40	26,355	1,333	104	523	427	4	91	771	15	744	133	2	108
109	Iron, steel, and products	6,390	5,171	20,537,914	2,165,784	1,394,339	1,406,771	285,728	10,931	1,110,112	328,150	1,065	541,485	29,264	1,658	109
110	Blast furnaces and rolling mills	121	92	7,248,567	451,694	185,992	254,464	105,888	92	150,483	121,052	23	167,214	4,922	969	110
111	Structural steel, fabricated; ornamental metal work	751	612	606,163	82,904	60,097	56,291	7,733	1,028	47,551	6,284	125	14,372	639	13	111
112	Tin cans and other tinware	73	61	490,475	37,805	6,556	17,420	11,846	34	5,541	13,824	9	13,288	2,158	–	112
113	Hand tools, cutlery, and hardware	661	511	654,934	105,337	68,100	69,360	13,457	615	55,287	17,135	130	17,051	1,093	117	113
114	Heating apparatus, except electrical, and plumbers' supplies	1,007	768	1,477,726	199,752	137,379	133,076	22,242	1,089	109,746	25,958	194	50,659	2,939	52	114
115	Firearms, guns, howitzers, mortars, and related equipment	89	77	995,366	113,155	86,294	79,554	10,165	752	68,637	11,454	10	53,658	7,482	–	115
116	Ammunition	162	152	2,321,425	293,501	228,337	205,017	24,881	1,444	178,691	28,549	9	23,085	779	166	116
117	Tanks	14	9	637,979	80,148	68,468	58,150	4,394	549	53,187	7,206	5	2,481	406	–	117
118	Sighting and fire-control equipment, (except optical)	24	20	448,753	62,435	29,464	34,292	10,410	8	23,874	15,229	5	954	171	–	118
119	Ordnance and accessories, not elsewhere classified	70	58	93,997	11,780	8,553	8,167	1,155	116	6,896	1,045	11	69,415	1,056	–	119
120	Other iron, steel, and products (not classified below)	3,008	2,444	4,168,724	545,854	374,652	364,293	60,582	4,055	299,656	64,524	507	114,427	6,640	298	120
121	Iron, steel, and products not allocable	410	367	1,393,808	181,458	140,487	126,706	14,974	1,149	110,583	15,951	39	14,899	979	23	121

For footnotes, see pp. 29-30.

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Table 1. - Corporation income and declared value excess-profits tax returns, 1/ 1944, by major industrial groups and minor industrial groups, for returns with net income and returns with no net income: Number of returns, total compiled receipts, net income or deficit, and dividends paid in cash and assets other than own stock; also, for returns with net income: Total tax, income tax, declared value excess-profits tax, excess profits tax, and adjusted excess profits net income - Continued

(Money figures in thousands of dollars)

	Major industrial groups and minor industrial groups 8/ - Continued	Total number of returns 9/	Returns with net income 2/									Returns with no net income 2/				
			Number of returns	Total compiled receipts 10/	Net income 2/	Adjusted excess profits net income 11/	Taxes				Dividends paid in cash and assets other than own stock	Number of returns	Total compiled receipts 10/	Deficit 2/	Dividends paid in cash and assets other than own stock	
							Total tax	Income tax 3/	Declared value excess-profits tax	Excess profits tax 4/						
	Manufacturing - Continued															
122	Nonferrous metals and their products	2,267	1,779	4,350,328	476,784	275,145	295,653	69,860	2,527	223,267	106,522	424	77,470	3,789	386	122
123	Nonferrous metal basic products	285	202	1,583,757	153,775	78,161	88,793	25,545	463	62,785	48,246	64	24,504	1,043	321	123
124	Clocks and watches	58	43	176,724	23,304	13,089	15,115	3,824	240	11,052	4,624	11	226	17	-	124
125	Jewelry (except costume), silverware, plated ware	565	476	311,551	39,530	26,203	25,872	4,430	412	21,030	3,665	79	9,075	201	-	125
126	Other manufactures of nonferrous metals and their alloys	1,349	1,051	1,923,071	230,398	157,546	157,112	27,428	1,410	128,274	28,052	267	43,599	2,521	65	126
127	Nonferrous metals and products not allocable	10	7	355,225	29,777	147	8,760	8,634	1	125	21,936	3	66	7	-	127
128	Electrical machinery and equipment	1,784	1,392	8,051,196	986,711	715,701	672,326	93,435	5,184	573,707	131,714	323	74,919	4,029	467	128
129	Electrical equipment for public utility, manufacturing, mining, transportation (except automotive), and construction use	674	570	3,104,884	390,562	259,281	260,389	47,825	1,271	211,293	74,246	97	33,284	1,574	292	129
130	Automotive electrical equipment	83	56	275,996	49,180	37,937	35,098	4,279	53	30,766	6,048	21	8,367	551	-	130
131	Communication equipment and phonographs	443	356	2,998,743	358,617	266,991	231,286	20,791	3,225	207,270	25,624	65	12,451	1,019	155	131
132	Electrical appliances	133	89	86,751	11,172	6,887	7,240	1,562	73	5,605	1,406	37	12,726	139	8	132
133	Other electrical machinery and equipment	267	181	435,021	47,469	33,007	31,812	4,912	321	26,580	5,953	76	6,464	581	12	133
134	Electrical machinery and equipment not allocable	184	140	1,149,801	149,712	111,598	106,501	14,065	242	92,194	18,437	27	1,627	165	-	134
135	Machinery, except transportation equipment and electrical	6,062	4,721	11,111,627	1,630,889	1,170,711	1,106,643	168,108	11,357	927,178	200,293	1,147	213,115	15,275	598	135
136	Special industry machinery	983	759	844,348	117,797	64,965	72,052	18,797	780	52,475	22,210	191	40,519	3,803	114	136
137	General industry machinery	1,713	1,302	2,616,318	431,780	338,037	300,649	33,477	4,345	262,827	47,005	352	61,424	3,494	187	137
138	Metal-working machinery, including machine tools	1,625	1,273	1,994,330	333,561	244,971	229,735	32,025	2,132	195,578	32,674	324	56,068	4,298	72	138
139	Engines and turbines	85	75	1,092,371	144,568	125,563	103,854	6,809	1,188	95,857	7,495	7	2,792	358	-	139
140	Construction and mining machinery	348	281	1,127,661	165,940	119,455	114,462	17,543	819	96,100	19,799	57	7,475	302	24	140
141	Agricultural machinery	274	211	1,771,715	193,975	112,033	123,233	30,968	477	91,788	39,725	52	8,516	547	3	141
142	Office and store machines	179	127	348,645	65,444	36,544	42,190	11,000	135	31,055	14,410	41	9,655	369	3	142
143	Household and service-industry machines	292	213	272,975	31,313	17,277	19,196	5,211	214	13,770	4,578	53	5,674	412	118	143
144	Machinery, except transportation equipment and electrical, not allocable	563	480	1,043,263	146,511	111,867	101,272	12,277	1,267	87,728	12,399	70	20,993	1,691	78	144
145	Automobiles and equipment, except electrical	576	461	3,715,880	340,072	244,015	231,189	36,245	2,983	191,961	32,010	86	10,880	628	12	145
146	Automobiles and trucks (including bodies and industrial trailers)	271	223	2,820,852	212,445	142,777	141,195	26,902	1,173	113,120	22,727	33	2,952	127	-	146
147	Automobile accessories, parts (except electrical), and passenger trailers	296	235	894,461	127,604	101,238	89,987	9,338	1,809	78,840	9,275	48	7,387	477	12	147
148	Automobiles and equipment, except electrical, not allocable	9	3	567	24	-	6	5	1	-	9	5	540	23	-	148
149	Transportation equipment, except automobiles	1,201	860	24,533,777	2,110,031	1,536,165	1,421,996	216,553	12,180	1,193,264	287,161	284	244,050	10,558	701	149
150	Railroad and railway equipment	81	60	1,055,788	153,827	108,365	105,110	15,389	1,441	88,280	32,095	16	7,674	267	63	150
151	Aircraft and parts	514	391	18,102,603	1,606,929	1,132,594	1,075,438	182,088	8,289	885,060	234,732	101	147,802	4,943	345	151
152	Ship and boat building	560	378	5,334,259	343,957	292,225	238,031	18,200	2,394	217,437	19,561	155	82,683	4,544	220	152
153	Motorcycles and bicycles	19	12	34,703	4,776	2,813	3,149	752	55	2,343	611	7	5,486	780	73	153
154	Other transportation equipment, except automobiles	24	17	5,960	529	168	268	123	2	143	162	6	406	24	-	154
155	Transportation equipment, except automobiles, not allocable	3	2	464	13	-	(15)	(15)	-	-	-	1	-	(15)	-	155
156	Other manufacturing	3,628	2,683	2,729,020	339,344	217,238	220,091	42,875	1,981	175,235	43,660	828	76,026	6,575	132	156
157	Manufacturing not allocable	3,030	1,827	1,904,137	217,534	130,327	136,148	30,386	2,132	103,630	27,545	763	88,346	6,278	767	157
158	Public utilities	20,560	13,067	21,635,269	4,277,770	1,891,259	2,389,327	816,251	2,892	1,570,184	1,218,930	6,175	862,140	156,892	7,704	158
159	Transportation	13,608	8,693	14,113,400	2,571,867	1,418,194	1,591,819	422,830	2,492	1,166,497	367,530	4,042	705,799	115,549	1,269	159
160	Railroads, switching, terminal, and passenger car service companies	732	386	10,015,759	1,943,697	1,163,477	1,251,491	290,653	665	960,173	251,469	236	137,611	63,695	175	160
161	Railway express companies	4	1	255,756	11	-	4	1	3	-	-	3	1	5	-	161
162	Railways, street, suburban, and interurban, including bus lines operated in conjunction therewith	130	90	499,675	66,643	19,885	34,836	18,034	51	16,751	9,897	24	121,655	30,641	94	162
163	Taxicab companies	609	427	136,364	15,595	9,512	9,584	1,888	68	7,628	1,174	142	8,954	314	51	163
164	Other highway passenger transportation	1,817	1,365	691,384	186,429	127,383	120,271	19,107	149	101,014	25,870	398	25,394	1,932	85	164
165	Highway freight transportation, warehousing, and storage	7,011	4,519	926,603	74,448	19,058	33,184	16,888	313	15,983	12,841	2,195	283,451	11,290	385	165
166	Air transportation and allied services	352	79	259,423	40,627	5,147	18,393	13,737	395	4,261	6,066	179	9,026	846	-	166
167	Pipe line transportation	159	108	251,325	65,047	9,047	29,465	21,965	10	7,490	17,266	37	4,737	488	160	167
168	Water transportation	1,283	826	721,818	110,712	34,128	55,631	26,819	492	28,320	25,911	354	34,854	3,076	228	168
169	Services incidental to transportation	1,300	796	317,499	62,547	27,561	35,367	12,651	318	22,397	16,615	416	76,120	2,561	71	169
170	Transportation not allocable	211	96	37,795	6,112	2,998	3,594	1,086	28	2,480	422	58	4,016	703	21	170

For footnotes, see pp. 29-30.

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(Money figures in thousands of dollars)

	Major industrial groups and minor industrial groups 8/ - Continued	Total number of returns 9/	Returns with net income 2/									Returns with no net income 2/				
			Number of returns	Total compiled receipts 10/	Net income 2/	Adjusted excess profits net income 11/	Taxes				Dividends paid in cash and assets other than own stock	Number of returns	Total compiled receipts 10/	Deficit 2/	Dividends paid in cash and assets other than own stock	
							Total tax	Income tax 3/	Declared value excess-profits tax	Excess profits tax 4/						
	Public utilities - Continued															
171	Communication	3,776	2,299	2,695,741	731,259	247,965	345,251	131,754	276	211,222	366,121	1,261	30,973	2,099	23	171
172	Telephone (wire and radio)	3,032	1,719	2,183,510	648,945	206,173	293,255	117,009	162	176,084	350,230	1,177	12,081	1,794	23	172
173	Telegraph (wire and radio) and cable	26	13	220,169	15,114	3,009	7,151	4,596	(15)	2,555	3,832	9	80	9	-	173
174	Radio broadcasting and television	713	565	291,995	67,198	38,783	42,844	10,148	113	32,583	12,059	73	18,795	293	-	174
175	Other communication	5	2	67	3	-	1	1	-	-	-	2	17	3	-	175
176	Other public utilities	3,176	2,075	4,826,129	974,643	225,100	454,257	261,667	125	192,465	485,279	872	125,368	19,244	6,412	176
177	Electric light and power	800	596	3,784,573	768,453	186,497	361,279	201,743	81	159,456	370,444	141	90,009	13,530	5,725	177
178	Gas, distribution and manufacture	611	409	932,555	180,442	35,169	82,261	52,168	23	30,070	104,257	179	28,442	4,597	659	178
179	Water	1,511	953	90,314	23,582	3,158	9,835	7,112	19	2,703	9,782	452	4,051	769	25	179
180	Public utilities not elsewhere classified	176	88	13,209	1,375	275	604	368	1	235	587	75	2,423	307	1	180
181	Other public utilities not allocable	78	29	5,476	790	1	278	276	(15)	1	210	25	445	41	2	181
182	Trade	120,423	93,166	59,074,935	3,318,799	1,602,467	1,910,157	565,179	17,890	1,327,088	544,232	24,197	2,648,827	65,537	6,249	182
183	Wholesale	34,489	27,045	28,636,250	1,241,747	606,143	710,542	207,930	5,898	496,714	195,370	6,563	1,360,070	26,783	4,417	183
184	Commission merchants	5,341	3,715	1,487,997	93,712	36,869	47,462	16,260	415	30,787	18,084	1,420	123,556	2,905	1,714	184
185	Other wholesalers	29,148	23,330	27,148,253	1,148,035	569,274	663,080	191,670	5,483	465,927	177,286	5,143	1,236,514	23,878	2,703	185
186	Food, including market milk dealers	5,891	4,759	6,668,679	183,407	80,446	101,171	33,677	1,135	66,359	29,394	1,004	394,732	4,563	312	186
187	Alcoholic beverages	1,137	932	2,092,169	129,334	98,850	87,561	9,788	310	77,462	7,550	165	39,571	689	150	187
188	Apparel and dry goods	2,840	2,450	2,105,129	132,449	82,263	85,114	16,073	655	66,385	13,389	342	37,045	966	72	188
189	Chemicals, paints, and drugs	1,446	1,084	1,402,552	90,805	50,157	55,817	14,132	329	41,356	14,771	325	40,676	848	20	189
190	Hardware, electrical goods, plumbing and heating equipment	2,364	1,868	1,799,591	100,731	42,883	56,756	20,300	354	36,101	21,685	458	54,134	1,891	144	190
191	Lumber and millwork	982	768	633,647	21,624	7,399	10,681	4,442	82	6,156	3,943	191	31,367	791	602	191
192	Wholesalers, not elsewhere classified	12,559	9,939	10,683,252	416,569	176,675	227,862	79,025	2,291	146,547	71,179	2,340	587,082	15,018	1,361	192
193	Wholesalers, not allocable	1,929	1,530	1,763,215	73,116	30,641	40,118	14,232	327	25,559	15,375	318	51,910	1,113	41	193
194	Retail	70,622	54,965	25,725,219	1,815,432	911,998	1,070,764	300,773	10,197	759,795	310,993	14,181	986,318	28,331	1,329	194
195	General merchandise	5,424	4,682	9,081,878	931,564	584,822	618,934	128,282	4,659	486,013	161,920	657	35,848	1,269	200	195
196	Department, dry goods, other general merchandise	4,945	4,333	7,428,016	754,615	484,984	502,991	98,548	3,357	401,086	122,657	547	32,266	1,098	194	196
197	Limited-price variety stores	297	242	1,489,459	166,180	94,222	109,275	27,777	1,254	80,243	37,064	47	2,405	58	7	197
198	Mail-order houses	182	107	164,423	10,769	5,615	6,670	1,958	28	4,685	2,199	63	1,179	113	-	198
199	Food stores, including market milk dealers	5,462	3,876	5,548,165	148,007	55,679	80,688	33,186	588	46,914	34,639	1,453	178,196	2,540	24	199
200	Package liquor stores	1,709	1,416	168,306	6,915	853	2,352	1,486	95	771	279	275	15,561	344	16	200
201	Drug stores	4,294	3,375	884,133	55,186	24,101	29,464	8,946	306	20,213	8,694	822	41,520	794	7	201
202	Apparel and accessories	10,136	8,701	3,049,428	234,408	122,545	137,454	34,511	1,564	101,578	28,983	1,267	75,785	2,505	265	202
203	Furniture and house furnishings	4,434	3,532	795,975	86,341	23,084	41,067	21,057	428	19,581	18,072	804	45,963	2,132	98	203
204	Eating and drinking places	9,768	6,209	1,154,871	66,255	25,247	33,552	11,948	484	21,100	9,943	3,353	225,898	7,715	41	204
205	Automotive dealers	7,591	5,950	1,148,622	65,443	12,655	25,858	14,759	382	10,717	8,512	1,397	77,416	2,327	154	205
206	Automobiles and trucks	6,920	5,394	979,537	56,020	10,185	21,577	12,614	337	8,626	7,141	1,293	71,787	2,171	154	206
207	Accessories, parts, etc.	671	556	169,084	9,422	2,450	4,281	2,144	45	2,092	1,371	104	5,629	156	(15)	207
208	Filling stations	1,758	1,029	189,284	11,648	4,190	6,134	2,501	51	3,582	3,071	664	37,963	1,180	50	208
209	Hardware	2,112	1,811	189,441	14,164	2,529	5,426	3,056	191	2,179	1,855	269	8,348	319	22	209
210	Building materials, fuel, and ice	6,898	5,398	1,214,602	68,966	13,651	28,321	16,178	543	11,601	14,742	1,347	108,849	3,622	142	210
211	Other retail trade	6,757	5,424	1,309,857	88,161	33,664	44,456	15,899	564	27,994	12,434	1,230	71,707	2,295	168	211
212	Retail trade not allocable	4,279	3,562	992,659	40,375	9,019	17,078	9,163	363	7,551	7,849	643	65,263	1,289	142	212
213	Trade not allocable	15,312	11,156	4,713,486	261,620	84,325	128,851	56,476	1,796	70,579	37,870	3,455	302,439	10,422	502	213
214	Service	38,093	22,098	5,053,519	625,563	243,820	321,359	117,357	2,070	201,932	114,846	12,614	583,536	46,770	1,927	214
215	Hotels and other lodging places	4,305	2,900	924,574	103,983	30,682	48,765	22,761	249	25,755	11,074	1,243	94,999	10,192	334	215
216	Personal service	8,251	5,652	789,425	61,632	14,214	25,778	13,340	375	12,064	10,400	2,308	120,451	5,007	154	216
217	Laundries, cleaners, and dyers	4,310	3,035	584,086	39,177	8,256	16,143	8,854	193	7,096	7,355	1,088	91,969	3,543	129	217
218	Photographic studios	710	553	57,456	6,616	2,422	3,201	1,135	55	2,011	268	137	4,360	249	-	218
219	Other personal service	3,220	2,059	147,380	15,803	3,536	6,425	3,342	127	2,957	2,777	1,079	25,979	1,200	25	219
220	Personal service not allocable	11	5	503	36	-	9	9	(15)	-	-	4	143	14	-	220
221	Business service	6,900	3,960	940,552	79,979	23,910	38,402	18,104	365	19,933	19,089	2,453	95,985	7,146	301	221
222	Advertising	1,659	1,161	547,316	36,375	12,636	18,811	8,149	155	10,506	8,718	398	27,776	788	208	222
223	Other business service	5,226	2,790	391,146	43,343	11,187	19,450	9,893	205	9,353	10,306	2,051	68,151	6,356	93	223
224	Business service not allocable	15	9	2,090	260	87	141	62	4	74	64	4	59	2	-	224
225	Automotive repair services and garages	3,091	1,834	127,484	8,791	1,236	2,976	1,868	84	1,025	821	1,156	38,737	2,041	86	225
226	Miscellaneous repair services, hand trades	1,535	1,027	142,809	16,078	8,844	9,200	1,862	286	7,052	1,178	476	17,746	1,480	4	226
227	Motion pictures	4,020	3,039	1,493,404	269,044	119,661	146,978	46,816	278	99,884	62,049	829	79,509	4,903	170	227
228	Motion-picture production	631	306	670,860	116,549	43,749	58,780	22,280	98	36,402	27,703	248	41,939	3,652	78	228
229	Motion-picture theatres	3,389	2,733	822,544	152,495	75,912	88,198	24,537	179	63,482	34,347	581	37,570	1,250	92	229
230	Amusement, except motion pictures	4,456	1,722	263,026	51,194	29,240	30,642	7,001	200	23,441	6,495	1,959	61,043	8,924	269	230
231	Other service, including schools	5,378	1,901	360,850	33,850	15,768	18,166	5,389	229	12,548	3,642	2,133	70,756	6,935	575	231
232	Service not allocable	157	63	11,396	1,032	265	452	216	5	231	98	57	4,310	142	34	232

For footnotes, see pp. 29-30.

Table 1. - Corporation income and declared value excess-profits tax returns, 1/ 1944, by major industrial groups and minor industrial groups, for returns with net income and returns with no net income: Number of returns, total compiled receipts, net income or deficit, and dividends paid in cash and assets other than own stock; also, for returns with net income: Total tax, income tax, declared value excess-profits tax, excess protits tax, and adjusted excess profits net income - Continued

(Money figures in thousands of dollars)

	Major industrial groups and minor industrial groups 8/ - Continued	Total number of returns 9/	Returns with net income 2/									Returns with no net income 2/				
			Number of returns	Total compiled receipts 10/	Net income 2/	Adjusted excess profits net income 11/	Taxes				Dividends paid in cash and assets other than own stock	Number of returns	Total compiled receipts 10/	Deficit 2/	Dividends paid in cash and assets other than own stock	
							Total tax	Income tax 3/	Declared value excess-profits tax	Excess profits tax 4/						
233	Finance, insurance, real estate, and lessors of real property	142,067	82,837	8,834,643	3,200,226	67,755	553,966	493,368	2,806	57,793	1,022,182	51,042	992,161	304,810	40,638	233
234	Finance	34,736	24,616	3,507,698	1,358,673	12,949	295,637	281,286	1,329	11,022	752,407	8,339	128,012	89,774	20,095	234
235	Banks and trust companies	15,481	13,679	2,385,516	729,658	5,362	205,447	198,061	799	4,587	255,392	1,241	69,055	20,324	5,920	235
236	Long-term credit agencies, mortgage companies, except banks	3,235	1,497	24,874	6,330	142	1,829	1,692	14	122	2,174	1,609	6,050	6,025	436	236
237	Short-term credit agencies, except banks	3,550	2,280	197,093	54,995	3,569	21,177	18,260	45	2,872	22,234	998	10,384	2,157	362	237
238	Sales finance and industrial credit	1,513	929	62,892	19,267	2,112	7,530	5,715	23	1,792	5,752	454	5,463	955	223	238
239	Personal credit	1,444	1,020	125,278	33,538	1,075	12,905	11,963	18	924	15,653	370	4,033	687	107	239
240	Other short-term credit agencies	150	77	1,085	282	-	73	72	1	-	129	48	242	310	20	240
241	Short-term credit agencies, except banks, not allocable	443	254	7,838	1,908	183	668	509	5	156	700	126	646	205	12	241
242	Investment trusts and investment companies 12/	3,431	2,476	261,608	196,958	93	10,971	10,842	49	79	183,928	889	4,570	7,805	1,994	242
243	Management type	423	339	131,831	104,184	-	2,878	2,877	1	-	95,951	71	906	463	529	243
244	Fixed or semifixed type	76	63	17,007	15,568	-	1,124	1,122	2	-	11,893	12	45	676	10	244
245	Installment investment plans and guaranteed face-amount certificates	61	48	18,004	1,833	-	194	194	(15)	-	870	10	343	32	-	245
246	Mineral, oil, and gas royalty companies	148	83	4,969	1,327	77	502	434	2	66	1,277	54	748	350	135	246
247	Investment trusts and investment companies not allocable	2,723	1,943	89,798	74,046	16	6,273	6,216	44	13	73,938	742	2,528	6,284	1,321	247
248	Other investment companies, including holding companies	2,105	1,493	423,919	308,705	522	36,419	35,676	296	447	268,452	589	10,954	18,227	1,741	248
249	Holding companies 13/	955	670	247,320	214,024	-	20,551	20,271	280	-	188,586	247	4,658	12,508	341	249
250	Operating-holding companies 14/	1,150	823	176,599	94,680	522	15,868	15,405	16	447	79,865	322	6,296	5,719	1,400	250
251	Security and commodity-exchange brokers and dealers	1,305	889	126,350	29,912	851	7,999	7,214	54	731	6,216	340	11,830	1,849	119	251
252	Other finance companies	1,532	635	52,633	21,514	2,032	8,774	7,015	38	1,721	7,745	686	9,951	19,260	3,945	252
253	Finance not allocable	4,097	1,667	35,706	10,600	578	3,022	2,526	34	463	6,265	2,007	5,218	14,148	5,586	253
254	Insurance carriers, agents, etc.	7,779	5,331	3,478,155	1,396,996	20,623	110,137	92,461	125	17,551	118,997	2,178	296,220	24,621	6,016	254
255	Insurance carriers	1,968	1,582	3,273,765	1,365,349	15,675	98,215	84,836	24	13,355	105,976	527	262,277	22,635	5,934	255
256	Life insurance companies	668	589	1,372,996	1,157,272	-	34,462	34,462	-	-	28,329	59	1,476	158	50	256
257	Mutual insurance, except life or marine or fire insurance companies issuing perpetual policies	446	416	24,195	18,834	-	6,263	6,263	(15)	-	79	30	712	97	-	257
258	Other insurance carriers	854	577	1,876,576	189,242	15,675	57,489	44,110	24	13,355	76,968	258	260,088	22,380	5,885	258
259	Insurance agents, brokers, etc.	5,811	3,749	204,390	31,647	4,949	11,922	7,625	101	4,196	13,021	1,851	33,944	1,986	82	259
260	Real estate, including lessors of buildings	92,332	49,372	1,617,801	334,830	19,392	103,182	85,139	1,271	16,772	84,787	37,414	533,423	163,105	15,254	260
261	Owner operators and lessors of buildings	73,277	41,770	1,385,285	288,675	16,634	89,577	74,286	902	14,389	75,212	30,145	465,039	127,056	11,737	261
262	Lessee operators of buildings	2,470	1,385	55,286	7,404	852	2,551	1,767	43	741	1,714	1,030	28,057	2,833	25	262
263	Owners for improvement	4,135	1,592	34,406	9,507	255	2,400	2,096	84	220	2,435	1,913	10,564	9,711	331	263
264	Trading for own account	2,741	1,221	15,120	5,541	231	1,417	1,166	53	198	1,965	1,260	3,651	7,528	451	264
265	Real estate agents, brokers, etc.	5,094	1,797	73,790	10,185	447	3,009	2,519	101	388	1,662	1,076	12,949	1,181	115	265
266	Title abstract companies	1,281	785	30,362	6,849	684	2,434	1,809	40	585	2,343	400	4,260	223	35	266
267	Real estate, including lessors of buildings, not allocable	5,334	822	23,552	6,668	288	1,795	1,495	48	252	1,455	1,590	8,904	14,574	581	267
268	Lessors of real property, except buildings	7,220	3,518	230,988	109,728	14,791	47,011	34,483	81	12,448	65,991	3,111	34,505	27,310	1,273	268
269	Agricultural, forest, etc., properties	1,258	629	11,199	5,409	105	1,602	1,501	14	87	2,598	580	2,363	4,394	269	269
270	Mining, oil, etc., properties	2,764	1,660	84,173	38,896	6,517	16,640	11,124	44	5,472	26,320	1,010	7,674	8,500	515	270
271	Railroad properties	432	223	104,815	52,001	7,192	23,613	17,550	10	6,053	32,721	133	22,126	4,059	35	271
272	Public-utility properties	167	96	20,536	8,250	330	3,275	2,988	4	282	2,314	65	735	6,968	3	272
273	Other real property, except buildings	2,335	795	7,125	3,186	142	974	845	6	123	1,160	1,219	1,307	2,929	393	273
274	Lessors of real property, except buildings, not allocable	264	115	3,142	1,986	505	908	474	2	431	878	104	302	459	59	274
275	Construction	12,528	7,160	2,699,979	172,738	75,544	90,176	29,486	988	59,702	23,758	4,354	481,986	33,604	1,848	275
276	General contractors	5,607	2,944	1,786,905	111,141	45,299	57,542	20,134	463	36,945	18,542	2,117	344,406	24,318	1,182	276
277	Special trade contractors	6,548	4,164	905,716	61,129	28,164	32,451	9,245	519	22,687	5,163	2,105	132,479	8,946	548	277
278	Construction not allocable	373	52	7,359	468	82	183	107	6	70	52	132	5,101	341	119	278
279	Agriculture, forestry, and fishery	6,825	3,912	822,592	134,453	39,765	65,306	29,300	789	35,217	30,131	2,505	107,035	14,530	1,518	279
280	Agriculture and services	6,178	3,603	788,951	128,679	38,786	61,336	28,166	768	32,403	28,808	2,227	97,779	12,591	491	280
281	Forestry	374	178	16,309	3,333	11	766	747	8	10	1,067	164	3,783	1,464	1,024	281
282	Fishery	273	131	17,332	2,441	968	1,204	387	13	804	256	115	5,473	475	3	282
283	Nature of business not allocable	17,415	1,824	142,901	17,875	3,656	6,905	3,775	143	2,984	3,574	3,277	18,021	9,111	1,775	283

For footnotes, see pp. 29-30.

Table 2. - Corporation income and declared value excess-profits tax returns, 1/ 1944, by major industrial groups: Number of returns, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, compiled net profit less total tax, and dividends paid by type of dividend

(Money figures in thousands of dollars)

		All industrial groups	Major industrial groups 8/																	
			Mining and quarrying							Manufacturing										
			Total mining and quarrying	Metal mining	Anthracite mining	Bituminous coal, lignite, peat, etc.	Crude petroleum and natural gas production	Nonmetallic mining and quarrying	Mining and quarrying not allocable	Total manufacturing	Food and kindred products	Beverages	Tobacco manufactures	Cotton manufactures	Textile-mill products, except cotton	Apparel and products made from fabrics	Leather and products	Rubber products	Lumber and timber basic products	
1	Number of returns 16/	412,467	7,620	867	146	1,584	3,523	1,311	189	76,619	8,774	2,598	207	809	3,403	7,236	1,961	435	2,376	1
	Receipts:																			
2	Gross sales 17/	209,536,358	3,430,425	725,154	343,875	1,455,510	563,045	334,070	8,771	144,043,991	19,639,031	3,751,888	2,115,914	2,734,510	4,744,423	3,811,581	2,113,405	3,283,202	1,566,816	2
3	Gross receipts from operations 18/	42,696,261	445,065	17,347	33,272	112,465	255,553	24,079	2,349	8,340,869	112,133	13,537	4,505	25,276	153,767	101,197	10,636	40,672	27,170	3
	Interest on Government obligations (less amortizable bond premium):																			
4	Wholly taxable 19/	1,100,179	4,585	2,463	270	854	670	321	7	89,445	4,386	1,407	229	1,765	3,386	1,078	1,212	1,602	1,294	4
5	Subject to declared value excess-profits tax and surtax 20/	331,598	1,039	347	132	181	216	162	(15)	11,045	567	142	157	109	130	139	55	52	92	5
6	Subject to surtax only 21/	18,521	28	1	1	22	1	3	-	1,060	68	16	5	11	18	3	1	1	19	6
7	Wholly tax-exempt 22/	242,121	480	181	12	58	192	38	-	13,374	815	174	84	123	311	28	112	11	68	7
8	Other interest	2,187,240	6,431	1,097	246	1,867	2,891	323	6	116,563	11,852	2,544	2,964	1,503	3,211	1,178	846	1,775	1,829	8
9	Rents 23/	2,115,113	23,280	1,456	4,435	12,326	2,849	2,202	12	210,379	18,469	5,055	2,757	7,234	6,054	2,373	1,441	4,134	6,310	9
10	Royalties 24/	246,532	28,272	2,536	8,256	7,829	9,071	580	1	84,321	2,817	475	8	172	909	4,684	146	2,234	1,556	10
11	Excess of net short-term capital gain over net long-term capital loss 25/	25,096	1,077	90	32	59	832	51	14	3,699	195	234	(15)	131	91	67	26	4	189	11
12	Excess of net long-term capital gain over net short-term capital loss 25/	402,744	19,827	1,354	191	1,792	15,265	1,159	66	109,738	10,571	2,133	1,556	2,699	3,205	751	627	449	34,333	12
13	Net gain, sales other than capital assets 26/	139,678	2,923	131	30	366	2,053	322	21	6,234	957	331	20	51	444	138	77	54	960	13
14	Dividends, domestic corporations 27/	1,429,382	31,872	17,348	915	2,688	9,653	1,264	3	393,510	21,125	3,939	4,673	1,906	5,458	1,693	1,392	2,061	5,374	14
15	Dividends, foreign corporations 28/	145,229	612	426	(15)	138	47	1	-	91,988	8,667	22	937	37	786	44	6	5,993	37	15
16	Other receipts	1,584,499	31,680	8,177	2,052	6,967	11,285	3,115	84	699,178	88,385	16,955	2,009	12,094	21,446	15,289	9,505	14,364	14,973	16
17	Total compiled receipts 10/	262,200,531	4,027,595	778,108	393,717	1,603,123	873,623	367,691	11,333	154,215,395	19,920,035	3,798,851	2,135,818	2,787,621	4,943,639	3,938,242	2,139,486	3,356,608	1,659,020	17
	Deductions:																			
18	Cost of goods sold 29/	161,197,624	2,418,088	495,315	287,230	1,137,960	282,294	208,898	6,392	110,161,746	16,292,620	2,298,975	1,725,790	2,214,437	3,705,087	3,013,994	1,734,710	2,537,653	1,165,298	18
19	Cost of operations 29/	24,311,779	297,793	11,386	24,249	78,624	167,422	14,568	1,545	6,474,029	47,755	3,818	707	11,040	102,662	76,454	3,447	404	15,623	19
20	Compensation of officers	35/3,759,057	51,467	4,091	2,821	14,911	17,765	11,613	287	1,599,106	133,715	39,756	5,867	22,558	84,784	118,773	41,475	15,562	31,020	20
21	Rent paid on business property	2,487,369	23,174	3,206	2,204	5,940	9,350	2,424	50	588,476	45,962	7,964	1,591	2,241	14,886	28,439	10,145	8,976	4,186	21
22	Repairs 30/	2,575,242	61,553	5,416	8,934	30,361	5,306	11,482	54	2,077,306	172,881	30,000	2,558	31,809	51,237	8,276	14,176	44,603	16,929	22
23	Bad debts	335,562	5,011	91	1,781	1,379	1,333	427	1	87,264	6,753	2,150	135	746	1,896	1,619	689	2,238	2,549	23
24	Interest paid	2,288,209	31,115	4,024	5,868	6,052	12,382	2,635	154	445,155	42,303	11,151	10,714	5,254	11,601	6,727	3,265	9,727	6,203	24
25	Taxes paid 31/	5,964,725	115,872	28,182	11,391	38,901	27,040	10,162	196	3,084,163	220,483	580,003	99,575	43,078	76,426	49,611	26,831	67,253	30,129	25
26	Contributions or gifts 32/	234,194	3,394	1,195	119	981	792	306	2	142,065	11,222	5,090	666	4,174	7,632	5,593	2,467	1,484	1,301	26
27	Depreciation	3,950,124	146,038	24,212	7,776	40,426	58,100	15,262	261	1,825,043	153,224	43,593	6,741	38,759	59,025	14,132	10,785	34,174	32,905	27
28	Depletion	711,742	230,805	59,705	8,620	44,566	104,616	12,726	573	423,926	458	229	-	1	11	10	9	224	42,369	28
29	Amortization 33/	981,203	14,054	7,701	445	1,577	2,855	1,355	121	740,721	7,122	1,162	-	2,937	2,304	383	233	11,973	1,519	29
30	Net loss, sales other than capital assets 26/	504,228	13,974	2,611	748	4,567	4,498	1,266	283	112,728	15,004	3,590	172	2,945	5,677	859	518	4,811	3,713	30
31	Other deductions	26,352,868	297,382	31,133	17,637	104,084	104,313	38,689	1,526	11,589,353	1,658,526	387,854	114,922	131,147	307,517	359,964	150,788	288,087	150,210	31
32	Total compiled deductions	36/235,653,929	3,709,741	678,268	379,821	1,510,329	798,066	331,813	11,444	139,351,080	18,808,028	3,415,335	1,969,437	2,511,126	4,430,747	3,684,832	1,999,540	3,027,170	1,503,956	32
33	Compiled net profit or net loss (17 less 32)	26,546,602	317,854	99,839	13,896	92,794	75,557	35,878	37/111	14,864,313	1,112,007	383,516	166,380	276,495	512,893	253,410	139,946	329,437	155,065	33
34	Net income or deficit 2/ (33 less 7)	26,304,481	317,374	99,658	13,884	92,736	75,365	35,840	37/111	14,850,959	1,111,194	383,342	166,296	276,371	512,581	253,382	139,835	329,426	154,996	34
35	Net operating loss deduction 34/	148,760	6,696	552	1,193	1,570	2,919	440	22	47,874	3,148	1,779	28	190	1,828	1,243	778	127	949	35
36	Adjusted excess profits net income 11/	12,841,663	68,208	16,490	1,366	24,027	12,692	13,618	16	8,851,188	528,199	199,354	33,935	178,308	300,316	142,237	65,143	249,549	60,990	36
37	Income tax 3/	4,353,620	99,066	28,229	4,908	28,368	26,904	10,354	303	2,199,838	218,949	69,864	50,910	37,759	78,876	36,648	26,904	30,788	33,278	37
38	Declared value excess-profits tax	98,668	597	39	21	126	321	67	23	70,492	3,312	522	135	515	2,442	3,108	581	1,519	370	38
39	Excess profits tax 4/	10,431,762	57,864	14,001	1,164	20,431	10,680	11,574	14	7,120,999	439,545	163,418	28,810	145,507	246,469	117,044	54,604	200,813	51,214	39
40	Total tax	14,884,050	157,527	42,269	6,092	48,926	37,906	21,995	339	9,391,328	661,806	233,805	79,855	185,781	327,787	156,800	82,089	233,120	84,863	40
41	Compiled net profit less total tax (33 less 40)	11,662,552	160,327	57,571	7,803	43,868	37,651	13,883	38/450	5,472,985	450,200	149,711	86,526	92,713	185,106	96,610	57,858	96,317	70,202	41
	Dividends paid:																			
42	Cash and assets other than own stock	6,057,043	189,477	78,777	7,667	25,628	57,490	19,598	317	2,848,259	258,482	69,926	73,177	47,018	70,749	28,452	27,722	38,461	37,894	42
43	Corporation's own stock	247,196	1,502	89	50	370	868	125	-	134,934	23,360	2,595	-	7,583	9,500	5,371	2,591	285	2,000	43

For footnotes, see pp. 29 and 30.

For footnotes, see pp. 29 and 30.

Table 2. - Corporation income and declared value excess-profits tax returns, 1/ 1944, by major industrial groups: Number of returns, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, compiled net profit less total tax, and dividends paid by type of dividend - Continued

(Money figures in thousands of dollars)

		Major industrial groups 8/ - Continued																
		Manufacturing - Continued														Public utilities		
		Furniture and finished lumber products	Paper and allied products	Printing and publishing industries	Chemicals and allied products	Petroleum and coal products	Stone, clay, and glass products	Iron, steel, and products	Nonferrous metals and their products	Electrical machinery and equipment	Machinery, except transportation equipment and electrical	Automobiles and equipment, except electrical	Transportation equipment, except automobiles	Other manufacturing	Manufacturing not allocable	Total public utilities	Transportation	
1	Number of returns 16/	3,780	2,062	9,969	6,044	446	2,705	6,236	2,203	1,715	5,868	547	1,144	3,511	2,590	19,242	12,755	1
	Receipts:																	
2	Gross sales 17/	1,970,281	3,440,285	3,189,219	9,198,231	9,218,065	2,261,312	20,132,308	4,273,244	8,001,147	11,084,497	3,707,492	19,104,286	2,759,411	1,943,442	208,756	154,202	2
3	Gross receipts from operations 18/	14,189	7,275	217,429	555,372	509,475	12,890	725,458	100,880	36,442	138,997	862	5,489,236	17,511	25,960	21,418,952	14,162,150	3
	Interest on Government obligations (less amortizable bond premium):																	
4	Wholly taxable 19/	974	2,691	2,902	7,405	4,096	2,062	17,853	2,800	4,637	9,762	1,483	13,422	1,917	1,080	23,993	14,151	4
5	Subject to declared value excess-profits tax and surtax 20/	108	487	982	1,048	867	520	1,450	179	1,069	1,329	148	885	370	161	2,166	1,747	5
6	Subject to surtax only 21/	13	8	31	80	171	13	73	2	403	65	(15)	52	3	4	148	98	6
7	Wholly tax-exempt 22/	291	266	628	867	965	579	799	111	5,528	895	40	475	120	86	6,954	2,194	7
8	Other interest	916	3,411	3,134	8,433	24,934	1,662	16,138	1,510	6,926	5,441	1,522	12,371	1,559	904	107,395	60,898	8
9	Rents 23/	2,678	6,804	10,924	15,520	45,745	3,426	37,944	3,879	4,868	7,447	2,560	7,466	2,985	4,307	319,564	273,306	9
10	Royalties 24/	204	2,243	6,019	12,630	8,610	2,351	10,937	1,557	11,343	5,830	1,135	6,021	1,435	1,005	5,591	4,690	10
11	Excess of net short-term capital gain over net long-term capital loss 25/	43	53	105	122	181	151	333	37	670	253	6	329	204	274	856	692	11
12	Excess of net long-term capital gain over net short-term capital loss 25/	2,280	3,713	3,212	6,813	8,767	1,904	6,412	1,434	2,095	4,310	718	6,377	1,463	3,915	26,618	23,909	12
13	Net gain, sales other than capital assets 26/	162	93	334	471	147	253	497	126	104	425	21	223	155	191	2,866	2,692	13
14	Dividends, domestic corporations 27/	1,862	6,311	13,849	104,073	102,844	4,269	35,720	14,448	20,095	11,049	388	28,170	3,568	1,244	306,306	75,951	14
15	Dividends, foreign corporations 28/	284	1,739	932	11,288	26,386	6,152	3,168	2,144	7,317	4,748	2,955	5,324	2,852	191	6,141	1,014	15
16	Other receipts	11,434	17,620	32,186	30,265	80,862	13,024	90,305	25,446	23,472	49,695	7,429	103,190	11,513	9,717	61,101	41,503	16
17	Total compiled receipts 10/	2,005,718	3,492,999	3,481,886	9,952,617	10,032,115	2,310,569	21,079,396	4,427,798	8,126,116	11,324,742	3,726,760	24,777,828	2,805,046	1,992,483	22,497,409	14,819,199	17
	Deductions:																	
18	Cost of goods sold 29/	1,488,483	2,479,381	1,912,628	6,262,441	6,694,845	1,576,590	15,435,410	3,259,947	6,108,336	7,940,686	2,970,057	15,980,677	1,925,580	1,438,121	144,556	107,738	18
19	Cost of operations 29/	9,641	1,889	113,459	488,618	262,186	6,533	498,054	58,830	2,952	11,843	357	4,744,341	9,098	4,320	12,072,643	8,798,258	19
20	Compensation of officers	55,360	58,926	125,254	113,139	19,573	42,383	211,740	56,071	61,955	174,287	17,446	56,281	62,543	50,639	154,823	113,594	20
21	Rent paid on business property	10,479	14,262	34,034	33,991	80,627	8,034	90,610	38,605	27,259	39,477	7,874	54,455	15,374	9,005	681,967	607,127	21
22	Repairs 30/	22,846	74,712	15,458	131,730	163,069	49,751	526,874	63,158	91,900	187,699	86,641	244,390	25,585	21,020	32,126	27,996	22
23	Bad debts	1,744	1,777	8,765	6,022	11,514	2,039	11,221	5,293	1,899	6,013	6,178	3,448	1,441	1,135	28,851	6,922	23
24	Interest paid	4,328	13,778	11,946	23,832	70,734	6,211	83,044	11,256	25,089	24,366	5,672	43,650	7,895	6,406	977,451	550,522	24
25	Taxes paid 31/	34,795	62,655	69,941	154,532	274,143	43,144	367,023	80,653	135,342	192,925	47,482	330,798	65,641	31,698	1,377,810	779,406	25
26	Contributions or gifts 32/	2,080	4,416	7,438	8,262	11,592	2,427	20,073	4,678	5,967	13,952	5,307	10,781	3,535	1,927	18,213	7,049	26
27	Depreciation	20,713	72,876	44,819	169,784	332,608	51,480	312,274	66,054	66,200	108,259	32,765	109,154	26,566	18,153	1,124,294	420,804	27
28	Depletion	860	3,679	12	12,881	307,874	1,656	26,196	25,273	66	477	601	596	16	428	26,410	8,901	28
29	Amortization 33/	1,105	8,488	191	73,352	138,597	8,195	196,679	53,693	37,888	73,551	19,834	88,196	7,412	5,910	218,694	173,046	29
30	Net loss, sales other than capital assets 26/	1,213	4,431	4,756	5,293	10,515	2,660	23,517	1,665	924	6,266	1,935	7,091	1,813	3,361	90,690	54,032	30
31	Other deductions	187,104	278,019	561,569	1,176,690	1,004,149	265,542	1,139,362	229,515	572,130	928,433	185,127	1,004,023	319,656	189,019	1,401,050	705,290	31
32	Total compiled deductions	1,840,752	3,079,289	2,910,270	8,660,566	9,382,027	2,066,646	18,942,077	3,954,691	7,137,906	9,708,233	3,387,276	22,677,879	2,472,157	1,781,141	18,349,577	12,360,686	32
33	Compiled net profit or net loss (17 less 32)	164,966	413,710	571,616	1,292,051	650,088	243,923	2,137,319	473,107	988,210	1,616,510	339,484	2,099,949	332,889	211,342	4,147,831	2,458,513	33
34	Net income or deficit 2/ (33 less 7)	164,676	413,444	570,988	1,291,184	649,123	243,345	2,136,521	472,996	982,682	1,615,615	339,445	2,099,474	332,769	211,256	4,140,878	2,456,318	34
35	Net operating loss deduction 34/	1,568	756	5,376	2,101	446	1,182	4,628	794	11,466	2,830	232	2,672	2,081	1,673	14,821	13,689	35
36	Adjusted excess profits net income 11/	82,198	228,725	302,658	598,231	79,164	113,539	1,394,339	275,145	715,701	1,170,711	244,015	1,536,165	217,238	130,327	1,891,259	1,418,194	36
37	Income tax 3/	29,646	69,494	94,662	239,640	187,635	51,594	285,728	69,860	93,435	168,108	36,245	216,553	42,875	30,386	816,251	422,830	37
38	Declared value excess-profits tax	1,337	1,080	2,469	3,036	117	675	10,931	2,527	5,184	11,357	2,983	12,180	1,981	2,132	2,892	2,492	38
39	Excess profits tax 4/	68,257	189,242	250,064	502,394	67,118	98,148	1,110,112	223,267	573,707	927,178	191,961	1,193,264	175,235	103,630	1,570,184	1,166,497	39
40	Total tax	99,239	259,816	347,195	745,069	254,870	150,417	1,406,771	295,653	672,326	1,106,643	231,189	1,421,996	220,091	136,148	2,389,327	1,591,819	40
41	Compiled net profit less total tax (33 less 40)	65,727	153,895	224,421	546,981	395,218	93,506	730,548	177,454	315,884	509,867	108,296	677,952	112,799	75,193	1,758,504	866,693	41
	Dividends paid:																	
42	Cash and assets other than own stock	26,640	73,186	106,824	379,468	388,832	59,672	329,788	106,908	132,182	200,892	32,022	287,862	43,793	28,312	1,226,634	368,799	42
43	Corporation's own stock	3,525	6,862	2,621	16,917	10,663	1,987	7,884	1,101	4,361	8,623	1,558	3,326	4,969	7,252	22,197	3,387	43

For footnotes, see pp. 29 and 30.

Table 2. - Corporation income and declared value excess-profits tax returns, 1/ 1944, by major industrial groups: Number of returns, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, compiled net profit less total tax, and dividends paid by type of dividend - Continued

(Money figures in thousands of dollars)

	Major industrial groups 8/ - Continued																	
	Public utilities - Continued		Trade															
				Wholesale			Retail											
	Communication	Other public utilities	Total trade	Total wholesale	Commission merchants	Other wholesalers	Total retail	General merchandise	Food stores, including market milk dealers	Package liquor stores	Drug stores	Apparel and accessories	Furniture and house furnishings	Eating and drinking places	Automotive dealers	Filling stations	Hardware	Building materials, fuel, and ice
1 Number of returns 16/	3,560	2,947	117,363	33,608	5,135	28,473	69,146	5,339	5,329	1,691	4,197	9,968	4,336	9,562	7,347	1,693	2,080	6,745
Receipts:																		
2 Gross sales 17/	3,718	50,836	59,765,940	28,981,651	1,188,451	27,793,200	25,935,345	8,888,352	5,671,636	178,583	907,017	3,024,942	769,051	1,287,262	1,161,022	219,373	192,562	1,277,058
3 Gross receipts from operations 18/	2,511,713	4,745,089	1,129,414	741,110	389,184	351,927	298,334	27,439	35,971	4,851	7,391	22,123	9,516	78,492	45,235	4,164	1,856	22,979
Interest on Government obligations (less amortizable bond premium):																		
4 Wholly taxable 19/	3,449	6,393	22,558	7,307	628	6,679	13,761	9,214	440	7	126	1,133	830	261	444	49	81	491
5 Subject to declared value excess-profits tax and surtax 20/	44	375	1,319	478	26	452	756	310	134	(15)	7	33	36	29	47	40	2	25
6 Subject to surtax only 21/	3	47	313	63	7	56	222	135	30	(15)	(15)	6	4	4	4	18	(15)	12
7 Wholly tax-exempt 22/	61	4,699	1,417	546	77	469	762	321	102	6	5	22	19	37	35	7	2	148
8 Other interest	2,992	43,504	45,859	23,397	5,141	18,256	18,348	6,706	868	13	439	1,294	1,372	255	2,036	72	257	1,977
9 Rents 23/	23,425	22,833	132,103	25,025	2,077	22,948	92,808	46,634	4,173	88	1,695	16,608	3,130	5,029	3,746	1,825	465	4,265
10 Royalties 24/	634	267	6,870	3,417	192	3,225	2,711	1,205	454	-	257	292	32	83	180	8	4	125
11 Excess of net short-term capital gain over net long-term capital loss 25/	93	72	1,400	649	84	565	536	123	25	8	14	31	44	78	45	6	6	78
12 Excess of net long-term capital gain over net short-term capital loss 25/	485	2,224	25,104	10,732	841	9,891	10,535	2,875	758	76	335	542	355	1,596	1,089	145	78	1,430
13 Net gain, sales other than capital assets 26/	60	113	5,994	2,502	103	2,399	2,714	125	781	50	67	117	90	401	205	50	40	517
14 Dividends, domestic corporations 27/	172,536	57,819	46,994	26,260	7,531	18,729	17,600	8,712	1,195	5	1,038	2,680	650	400	524	115	83	1,059
15 Dividends, foreign corporations 28/	1,586	3,541	22,192	8,305	150	8,155	3,676	3,657	3	-	-	(15)	1	(15)	1	1	(15)	5
16 Other receipts	5,914	13,685	516,285	164,856	17,060	147,797	313,450	121,919	9,791	181	7,261	55,389	54,808	6,841	11,426	1,375	2,354	13,283
17 Total compiled receipts 10/	2,726,714	4,951,497	61,723,762	29,996,300	1,611,553	28,384,747	26,711,537	9,117,726	5,726,361	183,867	925,653	3,125,213	839,938	1,380,769	1,226,038	227,247	197,789	1,323,451
Deductions:																		
18 Cost of goods sold 29/	2,262	34,556	47,105,223	25,137,875	1,111,196	24,026,678	18,132,000	5,797,612	4,581,097	144,142	620,267	1,974,650	414,035	730,048	829,908	162,971	138,321	960,995
19 Cost of operations 29/	1,211,004	2,063,381	530,820	321,027	137,790	183,237	162,346	10,678	22,482	4,020	3,890	9,336	2,326	49,450	24,582	2,526	1,090	15,871
20 Compensation of officers	12,570	28,659	1,091,590	475,507	59,118	414,389	499,242	78,515	37,839	8,473	21,514	83,855	40,044	44,726	57,901	4,499	10,565	44,155
21 Rent paid on business property	49,090	25,750	771,027	99,210	9,390	89,820	626,542	198,424	64,096	3,172	33,527	150,372	27,142	64,429	22,554	3,449	3,429	7,179
22 Repairs 30/	2,455	1,674	174,038	42,218	1,298	40,919	114,096	39,065	19,041	281	4,054	10,231	3,040	15,735	5,810	1,513	406	8,163
23 Bad debts	5,854	16,075	64,388	19,224	1,846	17,378	37,010	9,120	2,137	35	277	6,881	4,660	697	2,724	222	475	4,515
24 Interest paid	63,154	363,775	105,666	45,880	5,677	40,203	50,825	22,640	5,296	315	1,059	4,149	2,116	2,836	4,108	505	394	3,309
25 Taxes paid 31/	170,882	427,523	578,806	175,753	12,830	162,923	352,930	143,925	43,204	3,073	11,464	35,458	14,470	33,153	14,849	3,650	2,541	16,536
26 Contributions or gifts 32/	4,509	6,655	44,900	15,322	1,672	13,650	26,450	14,357	2,261	87	528	3,834	1,070	691	801	66	171	917
27 Depreciation	242,804	460,686	283,473	69,367	3,190	66,177	184,592	65,561	34,019	572	6,429	16,344	4,950	18,941	8,349	3,820	966	11,439
28 Depletion	1	17,508	3,219	2,544	45	2,499	464	126	16	2	3	17	9	13	19	4	1	61
29 Amortization 33/	827	44,821	3,723	2,915	243	2,670	662	106	82	(15)	2	8	10	54	91	8	-	193
30 Net loss, sales other than capital assets 26/	2,557	34,101	31,549	9,152	904	8,249	19,727	5,293	2,064	12	332	3,878	769	3,983	592	181	84	1,321
31 Other deductions	229,524	466,236	7,680,862	2,366,799	175,471	2,191,328	4,716,787	1,801,688	767,157	13,104	169,911	594,314	241,068	357,434	190,602	33,358	25,499	183,306
32 Total compiled deductions	1,997,493	3,991,399	58,469,082	28,780,791	1,520,669	27,260,121	24,923,674	8,187,110	5,580,792	177,290	873,256	2,893,288	755,710	1,322,192	1,162,887	216,772	183,942	1,257,959
33 Compiled net profit or net loss (17 less 32)	729,221	960,098	3,254,679	1,215,509	90,883	1,124,626	1,787,863	930,617	145,568	6,576	52,397	231,925	84,228	58,577	63,150	10,475	13,847	65,492
34 Net income or deficit 2/ (33 less 7)	729,160	955,399	3,253,262	1,214,963	90,807	1,124,157	1,787,101	930,296	145,467	6,570	52,392	231,903	84,209	58,540	63,115	10,468	13,845	65,344
35 Net operating loss deduction 34/	634	498	18,115	6,322	1,249	5,073	9,293	361	1,264	127	284	1,062	456	1,548	937	147	75	911
36 Adjusted excess profits net income 11/	247,965	225,100	1,602,467	606,143	36,869	569,274	911,998	584,822	55,679	853	24,101	122,545	23,084	25,247	12,635	4,190	2,529	13,631
37 Income tax 3/	131,754	261,667	565,179	207,930	16,260	191,670	300,773	128,282	33,186	1,486	8,946	34,311	21,057	11,948	14,759	2,501	3,056	16,178
38 Declared value excess-profits tax	276	125	17,890	5,898	415	5,483	10,197	4,639	588	95	306	1,564	428	484	382	51	191	543
39 Excess profits tax 4/	211,222	192,465	1,327,088	496,714	30,787	465,927	759,795	486,013	46,914	771	20,213	101,578	19,581	21,100	10,717	3,582	2,179	11,601
40 Total tax	343,251	454,257	1,910,157	710,542	47,462	663,080	1,070,764	618,934	80,688	2,352	29,464	137,454	41,067	33,532	25,858	6,134	5,426	28,321
41 Compiled net profit less total tax (33 less 40)	385,970	505,841	1,344,522	504,967	43,421	461,546	717,099	311,682	64,880	4,224	22,933	94,471	43,161	25,045	37,292	4,341	8,421	37,171
Dividends paid:																		
42 Cash and assets other than own stock	366,144	491,691	550,481	199,787	19,798	179,989	312,322	162,120	34,663	295	8,701	29,246	18,171	9,984	8,667	3,121	1,876	14,884
43 Corporation's own stock	421	18,389	43,903	26,275	2,881	23,394	13,233	4,190	179	8	103	3,352	1,179	158	1,043	116	207	465

For footnotes, see pp. 29 and 30.

Table 2. - Corporation income and declared value excess-profits tax returns, 1/ 1944, by major industrial groups: Number of returns, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, compiled net profit less total tax, and dividends paid by type of dividend - Continued

(Money figures in thousands of dollars)

	Major industrial groups 8/ - Continued																	
	Trade - Continued			Service										Finance, insurance, real estate, and lessors of real property				
	Retail - Continued														Finance			
	Other retail trade	Retail trade not allocable	Trade not allocable	Total service	Hotels and other lodging places	Personal service	Business service	Automotive repair services and garages	Miscellaneous repair services, hand trades	Motion pictures	Amusement, except motion pictures	Other service, including schools	Service not allocable	Total finance, insurance, real estate, and lessors of real property	Total finance	Banks and trust companies	Long-term credit agencies, mortgage companies, except banks	Short-term credit agencies, except banks	
1 Number of returns 16/	6,654	4,205	14,609	34,712	4,143	7,960	6,413	2,990	1,503	3,868	3,681	4,034	120	133,879	32,955	14,920	3,106	3,278	1
Receipts:																			2
2 Gross sales 17/	1,332,616	1,025,871	4,848,945	762,601	338,435	159,876	67,532	72,833	47,805	20,209	28,851	25,527	1,533	63,376	26,728	-	-	-	3
3 Gross receipts from operations 18/	27,009	11,309	89,970	4,650,464	623,902	740,256	944,759	85,548	110,602	1,458,299	280,248	392,941	13,909	3,839,478	618,566	382,696	14,534	98,583	
Interest on Government obligations (less amortizable bond premium):																			
4 Wholly taxable 19/	421	265	1,489	2,980	1,272	184	372	36	42	660	179	230	5	953,920	658,057	638,473	142	1,129	4
5 Subject to declared value excess-profits tax and surtax 20/	36	38	105	232	21	32	113	2	1	25	12	28	-	315,071	241,389	236,191	9	33	5
6 Subject to surtax only 21/	7	2	28	24	1	5	6	(15)	(15)	2	1	8	-	16,932	14,042	13,227	3	13	6
7 Wholly tax-exempt 22/	30	28	109	138	7	23	41	2	1	26	5	32	-	219,238	153,577	147,592	41	84	7
8 Other interest	1,916	1,143	4,114	7,450	1,263	351	1,065	123	62	3,981	282	315	7	1,897,048	995,192	796,338	9,456	92,927	8
9 Rents 23/	2,679	2,472	14,270	83,862	38,198	2,202	6,681	5,083	227	24,410	5,278	1,716	67	1,318,868	109,758	88,433	1,589	1,208	9
10 Royalties 24/	43	27	742	3,525	426	112	1,619	36	5	812	181	310	25	114,241	41,475	1,245	108	19	10
11 Excess of net short-term capital gain over net long-term capital loss 25/	35	43	215	481	90	51	146	27	(15)	74	48	45	(15)	16,794	13,270	7,775	182	421	11
12 Excess of net long-term capital gain over net short-term capital loss 25/	863	394	3,837	12,810	5,671	963	1,840	525	358	1,986	590	836	42	187,812	142,551	74,117	1,661	1,179	12
13 Net gain, sales other than capital assets 26/	143	128	779	2,549	419	376	355	159	40	584	239	371	6	114,499	59,345	3,071	597	368	13
14 Dividends, domestic corporations 27/	638	502	3,134	31,909	1,940	558	2,754	39	29	25,780	454	296	60	605,316	467,564	17,725	160	2,174	14
15 Dividends, foreign corporations 28/	4	3	10,211	5,695	99	1	232	-	-	5,357	4	1	-	18,431	15,823	831	(15)	2	15
16 Other receipts	15,123	13,698	37,978	72,334	7,830	4,885	9,021	1,808	1,382	30,710	7,697	8,949	52	145,781	78,574	46,859	2,441	9,338	16
17 Total compiled receipts 10/	1,381,564	1,055,922	5,015,925	5,637,054	1,019,573	909,876	1,036,537	166,221	160,554	1,572,913	324,068	431,605	15,706	9,826,804	3,635,710	2,454,571	30,923	207,477	17
Deductions:																			18
18 Cost of goods sold 29/	946,075	831,878	3,835,348	433,498	178,125	85,823	47,054	46,704	30,644	12,863	15,884	15,418	983	40,478	19,909	-	-	-	19
19 Cost of operations 29/	10,376	5,719	47,447	2,513,885	232,852	435,195	564,071	46,172	75,899	767,757	140,615	245,341	5,983	98,805	22,406	392	897	9,287	20
20 Compensation of officers	47,258	19,918	118,840	226,087	18,983	53,985	65,268	10,784	10,694	26,009	14,106	25,237	1,021	35/466,845	293,347	222,688	5,133	16,553	21
21 Rent paid on business property	36,754	12,014	45,275	221,116	50,580	25,879	17,505	14,567	1,977	82,717	13,111	14,219	561	173,525	55,094	40,058	735	6,739	22
22 Repairs 30/	3,741	3,017	17,725	85,807	37,910	13,449	5,812	1,944	1,057	16,017	6,243	3,241	132	110,933	15,527	12,496	222	334	23
23 Bad debts	3,009	2,260	8,154	11,472	3,242	2,459	1,976	377	206	1,377	673	1,128	35	130,142	113,332	75,181	1,250	11,282	24
24 Interest paid	2,368	1,731	8,960	54,168	27,797	3,455	2,234	1,465	403	14,846	2,474	1,399	94	654,779	304,501	208,745	4,900	19,140	25
25 Taxes paid 31/	20,956	9,671	50,122	148,161	46,438	21,470	16,127	4,428	2,785	35,430	13,258	7,939	286	593,375	150,445	116,379	1,758	6,833	26
26 Contributions or gifts 32/	1,134	533	3,129	6,090	976	848	987	89	84	1,757	1,039	296	14	16,267	12,233	10,229	50	479	27
27 Depreciation	7,214	5,988	29,513	138,261	46,749	22,007	15,020	5,662	2,294	29,262	10,110	6,927	231	365,147	61,214	48,114	508	2,076	28
28 Depletion	10	184	211	380	7	293	10	4	8	10	25	24	-	25,101	4,063	189	17	3	29
29 Amortization 33/	102	5	147	1,189	364	103	155	8	226	54	11	260	8	1,414	137	-	(15)	1	30
30 Net loss, sales other than capital assets 26/	1,022	197	2,469	20,677	6,685	1,268	1,729	405	159	8,544	1,523	363	1	221,554	92,702	71,522	2,975	464	31
31 Other deductions	215,650	123,695	597,276	1,197,331	275,066	186,997	225,712	26,859	19,519	312,102	62,723	82,886	5,467	3,813,784	1,068,325	791,653	12,132	81,345	32
32 Total compiled deductions	1,295,668	1,016,808	4,764,618	5,058,124	925,774	853,228	963,662	159,469	145,955	1,308,746	281,794	404,678	14,816	36/6,712,150	2,213,235	1,597,645	30,577	154,535	33
33 Compiled net profit or net loss (17 less 32)	85,897	39,113	251,307	578,931	93,798	56,648	72,875	6,752	14,599	264,167	42,274	26,928	890	3,114,654	1,422,476	856,926	346	52,942	34
34 Net income or deficit 2/ (33 less 7)	85,866	39,085	251,198	578,793	93,791	56,625	72,833	6,750	14,598	264,141	42,270	26,895	890	2,895,416	1,268,899	709,334	305	52,858	35
35 Net operating loss deduction 34/	1,657	464	2,500	12,528	5,890	1,513	1,208	438	256	915	1,540	757	11	41,153	12,971	8,360	428	421	36
36 Adjusted excess profits net income 11/	33,664	9,019	84,325	243,820	30,682	14,214	23,910	1,236	8,844	119,661	29,240	15,768	265	67,755	12,949	5,362	142	3,369	37
37 Income tax 3/	15,899	9,163	56,476	117,357	22,761	13,340	18,104	1,868	1,862	46,816	7,001	5,389	216	493,368	281,286	198,061	1,692	18,260	38
38 Declared value excess-profits tax	564	363	1,796	2,070	249	375	365	84	286	278	200	229	5	2,806	1,329	799	14	45	39
39 Excess profits tax 4/	27,994	7,551	70,579	201,932	25,755	12,064	19,933	1,025	7,052	99,884	23,441	12,548	231	57,793	11,022	4,587	122	2,872	
40 Total tax	44,456	17,078	128,851	321,359	48,765	25,778	38,402	2,978	9,200	146,978	30,642	18,166	452	553,966	293,637	203,447	1,829	21,177	40
41 Compiled net profit less total tax (33 less 40)	41,440	22,036	122,456	257,571	45,033	30,870	34,473	3,776	5,399	117,189	11,633	8,761	438	2,560,688	1,128,839	653,480	38/1,483	31,765	41
Dividends paid:																			
42 Cash and assets other than own stock	12,603	7,991	38,372	116,772	11,408	10,554	19,390	907	1,181	62,219	6,764	4,217	132	1,062,820	772,502	261,312	2,610	22,596	42
43 Corporation's own stock	1,534	699	4,395	3,433	567	423	447	43	701	392	466	394	-	35,030	30,871	27,183	67	765	43

For footnotes, see pp. 29 and 30.

Table 2. - Corporation income and declared value excess-profits tax returns, 1/ 1944, by major industrial groups: Number of returns, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, compiled net profit less total tax, and dividends paid by type of dividend - Continued

(Money figures in thousands of dollars)

		Major industrial groups 8/ - Continued															
		Finance, insurance, real estate, and lessors of real property - Continued										Agriculture, forestry, and fishery					
		Finance - Continued					Insurance carriers, agents, etc.										
		Investment trusts and investment companies 12/	Other investment companies, including holding companies 13/14/	Security and commodity-exchange brokers and dealers	Other finance companies	Finance not allocable	Total insurance carriers, agents, etc.	Insurance carriers	Insurance agents, brokers, etc.	Real estate, including lessors of buildings	Lessors of real property, except buildings	Construction	Total agriculture, forestry, and fishery	Agriculture and services	Forestry	Fishery	Nature of business not allocable	
1	Number of returns 16/	3,365	2,062	1,229	1,321	3,674	7,509	1,909	5,600	86,786	6,629	11,514	6,417	5,830	341	246	5,101	1
	Receipts:																	
2	Gross sales 17/	-	17,736	-	8,992	-	-	-	-	30,367	6,281	416,249	763,088	738,604	10,108	14,376	81,910	2
3	Gross receipts from operations 18/	-	41,454	54,788	7,486	19,024	2,193,580	1,970,352	223,228	1,027,333	-	2,694,871	115,852	102,788	5,471	7,593	61,296	3
	Interest on Government obligations (less amortizable bond premium):																	
4	Wholly taxable 19/	5,570	3,062	7,882	117	1,682	290,811	290,554	257	4,416	636	1,653	914	863	30	21	131	4
5	Subject to declared value excess-profits tax and surtax 20/	890	500	3,601	52	112	72,595	72,569	27	944	143	167	521	517	4	(15)	38	5
6	Subject to surtax only 21/	28	35	715	4	17	2,779	2,774	5	106	6	7	4	4	-	-	5	6
7	Wholly tax-exempt 22/	1,344	782	2,902	94	736	64,608	64,582	26	933	120	314	182	169	13	(15)	24	7
8	Other interest	26,095	54,644	4,015	2,690	9,027	871,360	870,237	1,123	28,567	1,929	2,236	2,302	2,029	257	16	1,957	8
9	Rents 23/	701	8,782	1,414	6,467	1,165	136,458	135,151	1,308	912,303	160,349	11,776	10,938	10,532	315	91	4,343	9
10	Royalties 24/	5,965	1,399	62	52,054	621	199	114	85	2,359	70,207	294	2,622	2,471	151	(15)	797	10
11	Excess of net short-term capital gain over net long-term capital loss 25/	2,830	613	857	37	577	541	485	56	2,720	263	298	313	283	19	11	177	11
12	Excess of net long-term capital gain over net short-term capital loss 25/	46,333	11,090	3,930	425	3,816	8,262	7,649	613	31,719	5,280	10,559	8,468	6,186	2,244	37	1,809	12
13	Net gain, sales other than capital assets 26/	6,522	1,022	46,449	458	857	357	136	221	53,692	1,105	1,657	1,895	887	944	62	1,063	13
14	Dividends, domestic corporations 27/	162,844	274,446	7,651	1,240	1,124	119,406	115,897	3,509	16,827	1,719	5,029	7,325	7,195	54	76	1,122	14
15	Dividends, foreign corporations 28/	3,944	10,971	59	7	8	1,258	1,037	220	197	1,154	138	13	12	(15)	(15)	19	15
16	Other receipts	3,111	8,335	3,873	2,460	2,158	12,160	4,504	7,656	38,743	16,304	36,716	15,192	14,191	481	520	6,232	16
17	Total compiled receipts 10/	266,178	434,873	138,180	62,583	40,924	3,774,376	3,536,042	238,334	2,151,225	265,493	3,181,965	929,627	886,731	20,092	22,804	160,922	17
	Deductions:																	
18	Cost of goods sold 29/	-	12,324	-	7,586	-	-	-	-	15,808	4,760	314,010	513,505	493,862	8,619	11,024	66,521	18
19	Cost of operations 29/	-	2,103	7,206	1,708	813	28,719	608	28,111	47,680	-	2,255,172	46,078	39,376	2,504	4,198	22,555	19
20	Compensation of officers	6,804	10,090	24,577	3,366	4,137	35/59,453	35/11,311	48,142	108,898	5,147	128,912	25,587	24,009	706	871	14,620	20
21	Rent paid on business property	721	1,621	3,911	490	819	24,004	16,618	7,385	90,868	3,560	13,486	12,231	11,899	114	218	2,367	21
22	Repairs 30/	103	926	481	839	126	1,675	1,337	338	92,280	1,451	17,909	14,113	13,210	102	801	1,457	22
23	Bad debts	4,665	5,346	574	9,656	5,378	2,331	1,288	1,042	13,479	1,001	3,767	3,754	3,677	61	16	913	23
24	Interest paid	18,316	38,194	6,446	3,520	5,241	2,562	1,517	1,045	286,827	60,889	8,449	9,011	8,133	768	110	2,416	24
25	Taxes paid 31/	4,951	10,928	6,013	1,691	1,891	95,036	90,144	4,892	327,408	20,486	39,041	23,589	22,438	799	352	3,909	25
26	Contributions or gifts 32/	353	723	294	58	49	1,461	957	504	2,368	204	2,166	908	876	11	22	190	26
27	Depreciation	557	3,805	1,308	4,041	805	27,551	25,971	1,580	266,375	10,008	37,063	27,711	26,702	429	580	3,094	27
28	Depletion	2,751	983	5	104	13	17	10	7	630	20,392	204	1,511	569	941	-	187	28
29	Amortization 33/	-	136	-	-	-	6	-	6	772	500	1,296	80	35	45	-	32	29
30	Net loss, sales other than capital assets 26/	937	5,179	1,467	7,338	2,821	7,064	6,965	100	103,555	18,233	3,491	5,918	5,058	853	8	3,846	30
31	Other deductions	35,523	51,255	54,936	19,840	21,643	2,087,514	1,972,019	115,495	621,620	36,324	217,550	125,526	120,630	2,258	2,638	30,030	31
32	Total compiled deductions	75,680	143,613	107,215	60,235	45,734	35/2,337,393	35/2,128,746	208,647	1,978,567	182,955	3,042,517	809,523	770,474	18,210	20,859	152,135	32
33	Compiled net profit or net loss (17 less 32)	190,498	291,260	30,965	2,348	37/2,810	1,436,983	1,407,296	29,687	172,658	82,538	139,448	120,104	116,257	1,882	1,965	8,787	33
34	Net income or deficit 2/ (33 less 7)	189,154	290,478	28,063	2,254	37/3,546	1,372,375	1,342,714	29,661	171,724	82,418	139,133	119,922	116,088	1,869	1,965	8,763	34
35	Net operating loss deduction 34/	403	1,264	1,259	209	628	2,294	1,856	438	24,574	1,313	3,803	2,816	2,269	473	74	955	35
36	Adjusted excess profits net income 11/	93	522	851	2,032	578	20,623	15,675	4,949	19,392	14,791	73,544	39,765	38,786	11	968	3,656	36
37	Income tax 3/	10,842	55,676	7,214	7,015	2,526	92,461	84,836	7,625	85,139	34,483	29,486	29,300	28,166	747	387	3,775	37
38	Declared value excess-profits tax	49	296	54	38	34	125	24	101	1,271	81	988	789	768	8	13	143	38
39	Excess profits tax 4/	79	447	751	1,721	463	17,551	13,355	4,196	16,772	12,448	59,702	33,217	32,403	10	804	2,984	39
40	Total tax	10,971	36,419	7,999	8,774	3,022	110,137	98,215	11,922	103,182	47,011	90,176	63,306	61,336	766	1,204	6,903	40
41	Compiled net profit less total tax (33 less 40)	179,527	254,841	22,966	38/6,426	38/5,832	1,326,846	1,309,081	17,765	69,476	35,527	49,272	56,798	54,921	1,116	761	1,885	41
	Dividends paid:																	
42	Cash and assets other than own stock	185,922	270,193	6,326	11,691	11,852	125,013	111,910	13,103	98,041	67,263	25,606	31,649	29,299	2,090	259	5,346	42
43	Corporation's own stock	388	1,757	425	4	282	2,244	2,051	193	1,802	114	5,351	669	669	-	-	178	43

For footnotes, see pp. 29 and 30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, and dividends paid by type of dividend; also, for returns with net income: Net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, and compiled net profit less total tax

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Table 3. – Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, and dividends paid by type of dividend; also, for returns with net income: Net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, and compiled net profit less total tax

(Money figures in thousands of dollars)

		All industrial groups		Major industrial groups 8/														
				Total mining and quarrying		Metal mining		Mining and quarrying: Anthracite mining		Bituminous coal, lignite, peat, etc.		Crude petroleum and natural gas production		Nonmetallic mining and quarrying		Mining and quarrying not allocable		
		Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	
1	Number of returns with balance sheets 39/	266,615	96,441	3,497	3,084	207	501	77	63	882	489	1,694	1,343	622	579	15	109	1
	Assets:																	
2	Cash 40/	51,275,450	1,507,483	473,192	53,777	163,144	11,460	29,907	1,314	114,493	7,594	114,059	27,836	50,842	5,028	747	545	2
3	Notes and accounts receivable	46,623,681	1,942,823	404,094	84,781	92,435	15,531	27,809	2,299	133,871	12,485	112,908	45,153	36,211	8,369	859	943	3
4	Less: Reserve for bad debts	614,048	58,154	5,760	2,695	279	18	1,000	73	2,773	87	848	2,189	853	329	7	-	4
5	Inventories	25,714,910	761,426	237,792	35,600	99,844	10,467	10,091	827	47,110	4,808	42,286	14,759	37,936	4,653	525	86	5
6	Investments, Government obligations 41/	109,191,014	2,027,732	443,549	22,667	189,804	7,121	22,365	1,018	108,309	3,208	76,357	7,634	46,460	2,730	254	956	6
7	Other investments	71,230,670	5,161,550	557,766	82,016	161,764	18,668	23,872	693	142,028	13,193	204,314	42,883	25,403	5,732	385	847	7
8	Gross capital assets 42/ (except land)	127,005,742	10,014,605	4,612,057	1,256,086	1,044,759	400,658	384,562	20,680	1,220,561	180,954	1,612,152	530,187	348,531	109,317	1,492	14,290	8
9	Less: Reserves	47,077,612	3,145,700	2,469,148	594,600	623,490	191,535	182,733	12,211	575,252	72,830	906,741	263,107	180,005	52,736	927	2,382	9
10	Land	6,570,697	1,760,702	75,097	39,874	8,400	22,278	4,464	336	17,769	5,145	25,199	5,045	19,192	5,500	73	1,570	10
11	Other assets	9,753,363	677,753	135,049	39,192	49,901	13,550	9,629	960	25,201	4,948	31,709	14,845	18,484	4,038	125	851	11
12	Total assets 43/	399,673,868	18,650,219	4,463,687	1,016,698	1,186,283	308,380	328,965	15,844	1,231,518	159,420	1,311,595	423,047	402,202	92,302	3,524	17,706	12
	Liabilities:																	
13	Accounts payable	16,298,160	1,506,918	280,969	91,819	70,502	15,588	17,324	5,243	68,586	23,472	109,297	37,443	14,946	8,669	315	1,603	13
	Bonds, notes, mortgages payable:																	
14	Maturity less than 1 year	5,924,821	1,130,935	119,956	75,970	7,709	15,396	1,482	1,654	30,023	9,239	70,359	44,778	10,320	4,621	83	281	14
15	Maturity 1 year or more	36,841,780	5,612,142	383,078	177,489	25,454	26,973	104,531	2,800	81,460	36,558	145,115	92,571	26,577	16,454	141	2,153	15
16	Other liabilities	195,659,832	4,890,224	517,615	66,671	104,674	12,744	35,780	3,689	77,393	8,826	68,355	33,366	30,955	6,636	458	1,410	16
17	Capital stock, preferred	15,934,800	1,177,385	149,980	38,987	27,767	3,254	11,413	1,023	38,915	10,309	49,775	15,520	21,803	8,524	510	338	17
18	Capital stock, common	59,591,547	5,193,745	1,463,034	483,442	295,381	183,705	106,255	2,190	457,258	63,231	468,015	177,419	135,587	42,817	557	14,081	18
19	Surplus reserves	11,732,771	467,185	206,901	59,483	65,811	7,553	8,116	589	47,447	2,900	64,014	23,544	21,265	2,842	250	2,054	19
20	Surplus and undivided profits 44/	64,291,692	3,264,973	1,789,824	301,626	622,967	103,000	71,578	6,096	498,191	37,398	444,743	132,670	150,884	19,777	1,461	2,685	20
21	Less: Deficit 45/	4,601,534	4,593,285	247,671	258,768	33,983	59,654	27,314	7,459	67,953	32,515	108,257	134,264	10,114	18,038	50	6,880	21
22	Total liabilities 43/	399,673,868	18,650,219	4,463,687	1,016,698	1,186,283	308,380	328,965	15,844	1,231,518	159,420	1,311,595	423,047	402,202	92,302	3,524	17,706	22
	Receipts:																	
23	Gross sales 17/	201,301,209	5,707,026	2,970,948	424,899	662,338	61,129	287,648	54,582	1,306,655	135,390	418,930	131,224	290,568	41,002	4,810	1,573	23
24	Gross receipts from operations 18/	39,679,335	2,441,603	539,880	83,381	13,514	3,055	23,139	9,809	74,222	29,959	213,193	31,093	13,998	8,962	1,816	503	24
	Interest on Government obligations (less amortizable bond premium):																	
25	Wholly taxable 19/	1,072,295	19,994	4,318	254	2,368	94	257	13	806	44	588	74	294	27	5	2	25
26	Subject to declared value excess-profits tax and surtax 20/	325,145	4,991	1,011	19	345	1	130	2	168	13	208	2	160	1	(15)	-	26
27	Subject to surtax only 21/	17,882	546	25	3	1	-	1	-	19	3	1	(15)	3	-	-	-	27
28	Wholly tax-exempt 22/	252,216	8,839	450	29	177	4	9	3	51	6	177	14	36	1	-	-	28
29	Other interest	2,108,791	56,012	5,419	959	1,026	70	244	2	1,761	100	2,152	713	249	74	6	(15)	29
30	Rents 23/	1,733,773	283,344	20,319	2,800	869	572	4,363	72	10,971	1,260	2,232	589	1,884	305	1	2	30
31	Royalties 24/	224,451	16,033	23,828	4,247	2,094	441	7,950	305	6,409	1,590	7,004	1,901	371	209	-	1	31
32	Excess of net short-term capital gain over net long-term capital loss 25/	21,161	2,488	714	328	85	5	32	-	48	6	510	292	25	26	14	-	32
33	Excess of net long-term capital gain over net short-term capital loss 25/	371,275	13,853	16,582	2,550	1,257	88	180	11	1,629	131	12,764	1,979	707	340	45	2	33
34	Net gain, sales other than capital assets 26/	112,429	19,714	1,555	1,231	56	53	20	10	264	60	1,047	949	164	140	2	19	34
35	Dividends, domestic corporations 27/	1,386,189	20,822	30,985	732	17,215	133	910	5	2,583	102	9,039	462	1,235	30	3	(15)	35
36	Dividends, foreign corporations 28/	144,030	855	601	9	425	1	(15)	-	131	7	44	1	1	(15)	-	-	36
37	Other receipts	1,450,007	103,528	23,045	8,044	5,850	2,270	1,477	575	5,796	1,074	7,496	3,399	2,363	719	65	8	37
38	Total compiled receipts 10/	250,180,187	8,699,430	3,439,679	529,486	707,621	67,916	326,360	65,387	1,411,518	169,545	675,364	172,693	312,055	51,837	6,765	2,108	38
	Deductions:																	
39	Cost of goods sold 29/	154,504,880	4,687,705	2,070,974	325,073	446,254	47,875	235,946	49,866	1,010,314	117,591	200,121	76,426	175,085	31,884	3,254	1,432	39
40	Cost of operations 29/	22,605,995	1,580,113	225,173	58,612	8,894	2,025	15,896	8,063	49,513	24,516	141,232	18,329	8,618	5,574	1,220	306	40
41	Compensation of officers	35/3,351,907	35/315,027	38,830	11,124	3,296	687	1,974	816	12,417	2,002	12,397	4,654	8,548	2,876	198	87	41
42	Rent paid on business property	2,278,444	165,755	16,356	6,322	2,709	489	1,716	477	5,187	489	5,032	4,139	1,688	706	24	22	42
43	Repairs 30/	2,451,190	110,533	53,958	6,842	3,468	1,927	8,302	574	28,333	1,600	4,588	611	9,225	2,106	22	24	43
44	Bad debts	252,919	72,675	3,576	1,222	69	16	1,770	10	958	407	507	640	272	149	-	1	44
45	Interest paid	1,994,188	242,019	21,391	9,106	3,207	718	5,710	157	4,468	1,528	6,298	5,700	1,689	892	19	110	45
46	Taxes paid 31/	5,591,466	293,082	96,952	17,492	23,923	4,152	10,099	1,279	33,889	4,411	20,197	8,265	8,760	1,326	84	60	46
47	Contributions or gifts 32/	230,441	1,446	5,230	145	1,190	4	116	3	965	13	670	110	287	16	1	(15)	47
48	Depreciation	5,627,918	262,797	114,273	29,279	19,120	4,924	6,662	1,105	35,460	4,544	41,416	14,999	11,514	3,582	101	125	48
49	Depletion	648,396	49,187	190,945	36,889	54,592	4,844	8,198	420	41,772	2,365	73,764	28,758	12,329	355	291	148	49
50	Amortization 33/	951,693	22,414	11,544	2,384	6,568	1,127	445	-	1,528	49	1,894	961	1,108	247	-	-	50
51	Net loss, sales other than capital assets 26/	246,867	128,087	4,212	7,725	173	2,321	711	36	2,489	1,055	364	3,601	488	486	6	226	51
52	Other deductions	24,351,708	1,566,959	223,430	63,687	23,738	6,856	13,146	4,338	84,188	15,317	71,690	28,484	29,841	8,270	826	423	52
53	Total compiled deductions	36/223,068,012	36/9,357,758	3,074,823	575,901	597,201	77,962	310,692	67,145	1,311,262	175,886	580,170	193,677	269,452	58,268	6,045	2,963	53
54	Compiled net profit or net loss (38 less 53)	27,112,176	37/658,328	364,856	37/46,415	110,420	37/10,046	15,669	37/1,758	100,250	37/6,341	95,194	37/20,985	42,603	37/6,431	720	37/855	54
55	Net income or deficit 2/ (54 less 28)	26,879,959	37/667,168	364,406	37/46,444	110,243	37/10,050	15,660	37/1,760	100,199	37/6,347	95,017	37/20,999	42,567	37/6,432	720	37/855	55
56	Net operating loss deduction 34/	141,974	-	6,329	-	526	-	1,193	-	1,519	-	2,651	-	418	-	22	-	56
57	Adjusted excess profits net income 11/	12,753,684	-	67,497	-	16,458	-	1,359	-	23,735	-	12,327	-	15,602	-	16	-	57
58	Income tax 3/	4,312,460	-	98,005	-	28,166	-	4,904	-	28,207	-	26,179	-	10,302	-	247	-	58
59	Declared value excess-profits tax	97,001	-	580	-	39	-	20	-	124	-	308	-	67	-	23	-	59
60	Excess profits tax 4/	10,359,618	-	57,257	-	13,974	-	1,158	-	20,182	-	10,369	-	11,560	-	14	-	60
61	Total tax	14,769,079	-	155,841	-	42,178	-	6,082	-	48,513	-	36,856	-	21,929	-	284	-	61
62	Compiled net profit less total tax (54 less 61)	12,343,097	37/658,328	209,015	37/46,415	68,242	37/10,046	9,586	37/1,758	51,737	37/6,341	58,339	37/20,985	20,674	37/6,431	436	37/855	62
	Dividends paid:																	
63	Cash and assets other than own stock	5,882,664	74,387	180,381	7,091	77,457	1,269	7,600	66	24,556	658	51,274	4,766	19,206	306	287	25	63
64	Corporation's own stock	230,038	4,606	1,477	25	64	25	50	-	370	-	868	-	125	(15)	-	-	64

For footnotes, see pp.29-30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, and dividends paid by type of dividend; also, for returns with net income: Net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, and compiled net profit less total tax - Continued

(Money figures in thousands of dollars)

		Major industrial groups 8/ - Continued																	
		Manufacturing																	
		Total manufacturing		Food and kindred products		Beverages		Tobacco manufactures		Cotton manufactures		Textile-mill products, except cotton		Apparel and products made from fabrics		Leather and products		Rubber products	
		Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income
1	Number of returns with balance sheets 39/	58,729	13,441	6,581	1,491	2,091	346	161	29	724	58	2,960	354	5,860	915	1,652	253	368	57
	Assets:																		
2	Cash 40/	11,735,827	182,185	850,432	11,061	206,209	3,655	118,542	278	156,260	1,535	383,797	6,298	213,684	3,611	131,076	2,165	135,859	491
3	Notes and accounts receivable	14,553,467	315,708	954,050	26,789	244,892	7,655	287,725	305	178,346	2,170	578,393	5,919	271,533	7,970	162,085	3,761	356,148	420
4	Less: Reserve for bad debts	306,404	8,640	25,700	562	8,551	67	2,597	3	2,624	16	11,575	66	9,288	122	4,886	80	12,669	9
5	Inventories	18,025,566	396,114	1,695,817	33,006	482,581	15,730	914,888	1,646	433,425	5,097	706,719	9,201	426,407	11,353	297,772	5,818	355,036	916
6	Investments, Government obligations 41/	11,255,650	68,804	650,279	4,299	166,810	248	50,150	13	190,635	924	395,804	1,591	133,557	864	121,862	255	208,534	58
7	Other investments	10,394,368	117,330	681,172	8,025	144,426	5,453	89,114	34	81,469	1,665	191,181	2,935	68,180	755	55,205	756	164,266	163
8	Gross capital assets 42/ (except land)	48,772,457	1,471,300	3,715,617	141,091	888,939	23,016	241,000	1,704	1,095,664	12,524	1,483,472	28,045	253,774	7,144	266,752	9,946	825,367	2,624
9	Less: Reserves	25,402,550	699,804	1,854,454	66,330	568,730	8,876	101,286	379	650,317	5,742	821,267	13,525	122,744	2,776	153,733	2,986	409,005	991
10	Land	1,686,680	93,077	252,875	18,057	68,053	1,041	8,942	108	26,086	366	54,572	1,475	13,320	258	13,249	162	16,681	230
11	Other assets	3,235,180	114,670	218,592	7,978	84,269	2,706	22,336	174	50,265	478	98,186	2,221	50,905	1,198	27,394	907	51,961	557
12	Total assets 43/	93,950,060	2,048,743	7,120,659	183,412	1,910,697	48,555	1,608,812	3,876	1,557,207	18,999	2,859,284	44,093	1,299,329	30,255	916,776	20,703	1,690,178	4,457
	Liabilities:																		
13	Accounts payable	9,012,810	262,708	545,857	25,859	189,980	7,259	55,790	618	84,487	1,988	185,982	4,600	166,114	5,853	91,743	3,272	211,810	628
	Bonds, notes, mortgages payable:																		
14	Maturity less than 1 year	3,052,162	192,830	275,565	24,221	89,016	7,525	172,522	45	55,222	2,806	80,609	2,630	67,011	5,339	24,273	1,335	36,805	574
15	Maturity 1 year or more	6,053,752	278,073	561,610	21,167	177,944	4,241	297,908	1,118	41,353	2,779	140,224	5,906	44,112	3,665	29,473	950	173,407	327
16	Other liabilities	13,946,195	149,688	651,992	10,770	274,478	3,325	123,828	70	172,890	931	347,220	2,863	177,696	3,564	85,294	1,152	342,201	299
17	Capital stock, preferred	5,709,204	184,970	610,328	12,922	102,649	1,797	142,934	137	84,918	1,578	275,674	4,241	87,830	1,475	78,562	1,013	227,496	210
18	Capital stock, common	21,730,975	709,937	1,867,135	70,909	341,655	12,538	428,065	2,178	424,475	5,972	695,435	16,907	306,732	11,732	241,939	10,479	275,983	1,391
19	Surplus reserves	7,155,134	59,966	588,758	3,076	98,724	1,139	38,288	2	138,558	97	214,268	1,088	68,747	243	69,618	145	101,515	15
20	Surplus and undivided profits 44/	27,908,272	522,062	2,079,128	42,400	651,307	19,359	352,807	484	568,426	5,184	967,733	11,341	391,857	5,974	305,516	7,055	324,811	1,595
21	Less: Deficit 45/	598,444	311,491	57,694	27,911	15,055	8,626	1,330	776	13,102	2,335	47,861	5,484	10,769	5,591	9,644	4,696	1,652	582
22	Total liabilities 43/	93,950,060	2,048,743	7,120,659	183,412	1,910,697	48,555	1,608,812	3,876	1,557,207	18,999	2,859,284	44,093	1,299,329	30,255	916,776	20,703	1,690,178	4,457
	Receipts:																		
23	Gross sales 17/	159,874,698	2,713,075	18,933,339	386,595	3,652,698	69,588	2,103,706	5,025	2,666,257	29,511	4,658,914	64,516	3,671,094	91,317	2,059,244	39,776	3,272,995	9,642
24	Gross receipts from operations 18/	8,137,615	138,784	92,960	10,236	12,255	446	4,328	55	24,269	987	149,729	3,549	83,584	10,004	9,552	975	40,553	119
	Interest on Government obligations (less amortizable bond premium):																		
25	Wholly taxable 19/	87,755	928	4,299	47	1,384	5	229	-	1,745	5	3,322	36	1,067	6	1,206	2	1,601	2
26	Subject to declared value excess-profits tax and surtax 20/	10,769	185	511	53	142	-	157	-	107	-	122	5	139	(15)	55	(15)	50	1
27	Subject to surtax only 21/	1,050	6	67	(15)	16	-	5	-	11	-	18	(15)	3	(15)	1	-	1	-
28	Wholly tax-exempt 22/	13,258	108	808	4	174	-	84	-	125	-	305	6	27	1	111	(15)	11	(15)
29	Other interest	113,390	1,930	11,656	158	2,531	6	2,802	3	1,447	35	3,160	29	1,160	13	839	4	1,772	3
30	Rents 23/	198,695	9,082	17,042	1,041	4,937	85	2,734	18	6,993	100	5,829	155	2,286	61	1,427	14	4,125	9
31	Royalties 24/	82,248	1,341	2,662	154	437	25	8	-	169	1	908	1	4,681	3	144	1	2,234	-
32	Excess of net short-term capital gain over net long-term capital loss 25/	3,129	416	173	13	229	5	(15)	-	151	(15)	85	3	57	6	26	-	4	(15)
33	Excess of net long-term capital gain over net short-term capital loss 25/	103,163	3,097	9,734	287	2,053	25	1,556	-	2,693	4	2,964	29	660	13	615	(15)	444	5
34	Net gain, sales other than capital assets 26/	4,554	1,338	508	218	281	39	3	4	43	(15)	393	30	72	49	61	14	53	2
35	Dividends, domestic corporations 27/	389,484	974	20,765	162	3,933	1	4,405	-	1,857	30	5,407	59	1,690	1	1,387	4	2,059	2
36	Dividends, foreign corporations 28/	91,749	45	8,667	-	22	-	937	-	37	-	786	-	44	-	6	-	5,995	-
37	Other receipts	669,153	21,519	81,173	5,530	16,455	315	1,965	39	11,565	118	20,840	408	12,920	236	9,215	260	14,320	43
38	Total compiled receipts 10/	149,780,486	2,892,822	19,184,362	404,298	3,697,525	70,537	2,122,920	5,143	2,717,446	30,790	4,852,782	68,605	3,779,485	101,709	2,083,870	41,050	3,346,215	9,828
	Deductions:																		
39	Cost of goods sold 29/	106,766,724	2,258,835	15,677,528	338,852	2,223,053	57,851	1,715,184	4,416	2,157,974	25,995	3,618,804	53,898	2,899,114	76,256	1,687,938	34,840	2,529,653	7,581
40	Cost of operations 29/	6,330,410	106,015	53,685	8,056	3,130	259	686	22	10,093	947	99,714	2,639	65,291	7,167	2,667	718	595	8
41	Compensation of officers	1,486,417	91,521	124,264	7,412	37,245	1,634	5,647	160	21,755	581	81,363	2,740	110,667	5,651	39,374	1,638	15,099	434
42	Rent paid on business property	556,785	23,253	43,063	2,127	7,165	636	1,539	43	2,054	158	14,206	592	26,221	1,649	9,659	376	8,889	68
43	Repairs 30/	2,018,022	42,602	167,013	4,000	29,226	538	2,523	15	31,538	155	49,578	1,257	7,871	298	15,936	200	44,431	164
44	Bad debts	80,408	5,909	6,174	466	1,987	125	104	30	436	310	1,767	71	1,397	194	667	16	2,253	4
45	Interest paid	420,580	18,574	39,945	1,842	10,623	378	10,553	32	4,977	193	11,109	451	6,082	562	3,093	148	9,688	38
46	Taxes paid 31/	2,993,074	66,466	213,178	5,796	575,356	1,358	99,465	67	42,044	374	74,423	1,315	47,495	1,384	26,140	510	67,104	145
47	Contributions or gifts 32/	140,577	362	11,129	37	5,011	6	665	(15)	5,970	3	7,581	9	5,541	13	2,446	1	1,484	(15)
48	Depreciation	1,748,238	54,192	146,072	5,767	41,939	1,225	6,694	28	37,669	495	57,210	1,215	13,430	531	10,468	241	33,965	206
49	Depletion	407,105	7,064	440	14	229	-	-	-	1	(15)	4	-	10	-	9	-	224	-
50	Amortization 33/	717,473	17,040	6,725	230	1,154	8	-	-	2,911	-	2,225	70	378	5	232	1	11,973	-
51	Net loss, sales other than capital assets 26/	88,265	18,007	13,104	1,765	5,229	319	167	-	2,153	348	3,970	1,610	629	200	491	8	4,364	448
52	Other deductions	11,128,084	327,850	1,593,702	40,259	374,669	9,633	114,115	422	127,949	2,098	298,204	6,408	343,025	11,082	146,331	3,408	286,473	1,566
53	Total compiled deductions	134,881,960	3,037,691	18,076,022	416,580	3,314,016	73,930	1,957,342	5,235	2,445,524	31,657	4,320,157	72,257	3,525,152	104,995	1,943,451	42,107	3,015,975	10,663
54	Compiled net profit or net loss (38 less 53)	14,898,526	37/144,868	1,108,340	37/12,282	383,510	37/3,393	165,579	37/92	271,922	37/867	512,624	37/3,652	254,333	37/3,286	140,419	37/1,057	330,237	37/834
55	Net income or deficit 2/ (54 less 28)	14,885,268	37/144,976	1,107,532	37/12,285	383,356	37/3,393	165,494	37/92	271,799	37/867	512,320	37/3,659	254,306	37/3,287	140,307	37/1,057	330,227	37/835
56	Net operating loss deduction 34/	46,987	-	3,012	-	1,694	-	28	-	190	-	1,810	-	1,177	-	755	-	127	-
57	Adjusted excess profits net income 11/	8,784,071	-	519,740	-	197,037	-	33,804	-	173,616	-	298,617	-	141,258	-	64,924	-	249,541	-
58	Income tax 3/	2,182,328	-	215,872	-	69,578	-	50,702	-	37,159	-	78,059	-	36,253	-	26,763	-	30,780	-
59	Declared value excess-profits tax	69,860	-	3,252	-	511	-	129	-	498	-	2,458	-	3,044	-	579	-	1,519	-
60	Excess profits tax 4/	7,066,207	-	432,412	-	161,441	-	28,698	-	142,006	-	245,074	-	116,249	-	54,415	-	200,807	-
61	Total tax	9,318,395	-	651,536	-	231,530	-	79,529	-	179,662	-	325,552	-	155,546	-	81,757	-	233,105	-
62	Compiled net profit less total tax (54 less 61)	5,580,131	37/144,868	456,804	37/12,282	151,979	37/3,393	86,050	37/92	92,259	37/867	187,073	37/3,652	98,786	37/3,286	58,661	37/1,057	97,132	37/834
	Dividends paid:																		
63	Cash and assets other than own stock	2,810,289	17,348	250,237	3,713	69,302	554	72,491	12	46,739	111	69,586	429	26,030	67	26,963	56	37,696	756
64	Corporation's own stock	121,266	2,609	13,369	(15)	1,984	-	-	-	6,683	900	8,941	553	5,319	-	2,591	-	285	-

For footnotes, see pp. 29-30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, and dividends paid by type of dividend; also, for returns with net income: Net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, and compiled net profit less total tax - Continued

For footnotes, see pp. 29-30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, and dividends paid by type of dividend; also, for returns with net income: Net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, and compiled net profit less total tax - Continued

(Money figures in thousands of dollars)

		Major industrial groups 8/ - Continued																		
		Manufacturing - Continued																		
		Lumber and timber basic products		Furniture and finished lumber products		Paper and allied products		Printing and publishing industries		Chemicals and allied products		Petroleum and coal products		Stone, clay, and glass products		Iron, steel, and products		Nonferrous metals and their products		
		Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	
1	Number of returns with balance sheets 39/	1,560	608	2,860	719	1,820	184	7,480	1,647	4,245	1,399	317	105	1,679	902	5,047	977	1,718	378	1
	Assets:																			
2	Cash 40/	128,986	7,775	147,234	5,825	287,228	4,690	368,897	9,884	989,340	9,052	785,562	10,275	211,469	21,859	1,900,205	44,819	329,982	3,688	2
3	Notes and accounts receivable	138,697	14,435	168,968	11,389	302,514	4,875	442,850	15,923	909,335	13,208	1,360,858	15,297	220,530	17,896	1,836,757	58,570	326,571	7,333	3
4	Less: Reserve for bad debts	3,975	272	7,278	441	11,203	210	17,700	1,586	30,348	264	17,758	727	7,953	877	40,924	1,204	9,484	253	4
5	Inventories	165,174	16,363	251,398	15,895	364,846	5,528	249,507	8,175	1,327,116	29,458	1,060,305	21,136	272,871	36,528	2,607,003	68,401	518,379	8,784	5
6	Investments, Government obligations 41/	133,598	3,699	120,033	2,702	348,397	3,806	409,687	1,863	887,238	1,897	818,698	6,938	261,910	16,146	1,999,675	12,370	413,657	1,238	6
7	Other investments	110,076	6,762	85,350	5,472	366,298	2,626	502,842	3,120	1,764,167	4,683	2,125,270	19,886	139,033	13,225	1,579,205	22,726	333,288	1,490	7
8	Gross capital assets 42/ (except land)	896,971	96,263	463,581	37,082	1,963,553	43,090	1,491,929	50,301	3,862,841	79,712	11,083,051	129,032	1,193,190	332,655	8,815,260	244,439	2,292,690	33,431	8
9	Less: Reserves	388,382	37,407	244,848	19,660	1,049,239	22,534	640,416	25,721	1,986,448	29,850	5,671,359	60,505	629,561	193,991	4,582,740	107,351	1,338,055	13,783	9
10	Land	51,261	4,795	32,567	3,562	60,927	1,472	95,776	1,728	130,120	6,700	256,605	12,292	42,941	18,440	220,100	9,955	24,466	1,103	10
11	Other assets	53,442	6,098	37,220	3,272	90,248	2,298	108,318	4,833	221,837	5,935	153,356	19,679	59,799	8,301	561,782	19,070	108,397	2,374	11
12	Total assets 43/	1,283,847	118,509	1,054,227	65,097	2,723,568	45,641	3,011,690	68,520	8,075,198	120,531	11,954,578	173,304	1,764,228	270,184	14,896,322	371,795	2,999,892	45,406	12
	Liabilities:																			
13	Accounts payable	62,510	15,358	78,427	7,138	118,407	2,933	171,789	12,143	549,420	18,119	935,657	26,677	99,874	12,436	1,559,658	38,121	218,326	6,194	13
	Bonds, notes, mortgages payable:																			
14	Maturity less than 1 year	34,304	10,813	42,448	6,092	31,927	1,366	100,218	5,418	225,061	9,637	87,275	3,955	34,366	10,075	425,901	38,523	51,589	3,963	14
15	Maturity 1 year or more	66,205	18,643	36,224	5,489	256,498	7,479	195,267	11,220	407,511	19,287	1,612,350	35,762	64,600	30,260	847,956	44,514	208,268	6,313	15
16	Other liabilities	111,011	8,870	113,678	3,727	263,562	3,958	457,889	8,844	877,142	5,334	501,751	4,199	184,699	10,113	2,108,402	30,538	390,308	4,288	16
17	Capital stock, preferred	41,887	7,356	57,171	4,635	393,090	3,179	213,466	5,310	654,532	11,176	393,318	27,951	108,565	30,797	990,466	34,771	256,192	3,422	17
18	Capital stock, common	437,805	57,075	310,153	30,008	647,890	16,628	727,491	35,958	2,097,544	58,063	4,263,534	33,292	569,398	139,048	3,043,546	75,777	935,247	16,282	18
19	Surplus reserves	48,675	877	61,262	1,065	170,451	1,337	160,281	802	641,823	1,966	756,741	2,400	87,592	8,624	1,028,792	26,182	162,924	887	19
20	Surplus and undivided profits 44/	551,958	26,081	376,024	16,605	859,867	14,625	1,050,696	14,930	2,680,559	23,717	3,413,436	44,438	632,947	74,841	4,922,432	113,469	785,995	10,300	20
21	Less: Deficit 45/	70,508	26,564	21,160	9,661	18,123	5,864	65,398	26,106	58,394	26,768	9,483	5,371	17,814	46,010	30,852	29,900	8,957	6,242	21
22	Total liabilities 43/	1,283,847	118,509	1,054,227	65,097	2,723,568	45,641	3,011,690	68,520	8,075,198	120,531	11,954,578	173,304	1,764,228	270,184	14,896,322	371,795	2,999,892	45,406	22
	Receipts:																			
23	Gross sales 17/	1,427,721	118,231	1,866,040	90,262	3,356,731	58,256	3,097,362	69,617	8,975,349	149,997	8,716,840	188,295	2,105,107	148,317	19,553,563	515,871	4,120,097	73,637	23
24	Gross receipts from operations 18/	20,398	4,367	12,164	1,338	6,902	304	193,829	13,929	551,271	2,476	494,152	2,696	9,001	3,433	718,559	4,581	98,140	1,929	24
	Interest on Government obligations (less amortizable bond premium):																			
25	Wholly taxable 19/	1,211	46	941	28	2,636	28	2,878	19	7,380	13	3,973	103	1,847	210	17,620	223	2,726	18	25
26	Subject to declared value excess-profits tax and surtax 20/	90	2	103	5	477	10	978	2	1,037	10	866	1	445	33	1,401	50	178	2	26
27	Subject to surtax only 21/	19	(15)	11	(15)	8	(15)	30	(15)	79	(15)	171	-	11	1	72	1	2	(15)	27
28	Wholly tax-exempt 22/	62	7	290	1	261	5	626	2	860	5	960	2	570	9	766	33	111	1	28
29	Other interest	1,599	222	858	52	3,330	77	3,079	47	8,337	75	24,420	400	1,429	230	15,849	262	1,481	17	29
30	Rents 23/	5,795	430	2,267	387	6,589	152	10,207	665	15,171	282	43,488	1,021	2,447	921	36,294	1,603	3,699	175	30
31	Royalties 24/	1,398	145	193	11	2,216	11	5,790	196	12,561	54	8,323	29	2,309	35	10,342	235	1,493	64	31
32	Excess of net short-term capital gain over net long-term capital loss 25/	130	55	39	3	47	4	57	23	121	(15)	164	17	139	12	301	29	31	6	32
33	Excess of net long-term capital gain over net short-term capital loss 25/	31,747	587	2,129	37	3,693	12	3,146	13	6,528	247	8,356	367	1,600	304	5,617	582	1,420	14	33
34	Net gain, sales other than capital assets 26/	560	269	100	37	77	8	276	46	426	44	101	46	132	119	371	94	102	24	34
35	Dividends, domestic corporations 27/	3,242	73	1,750	97	6,228	16	13,821	25	103,409	13	101,684	11	4,108	157	35,152	157	14,432	16	35
36	Dividends, foreign corporations 28/	37	-	280	4	1,706	33	932	-	11,288	1	26,190	-	6,152	(15)	3,168	(15)	2,144	(15)	36
37	Other receipts	13,196	1,420	10,665	658	17,274	220	30,902	914	29,106	854	78,809	744	11,369	1,629	85,337	2,740	24,428	940	37
38	Total compiled receipts 10/	1,507,203	125,853	1,897,831	92,919	3,408,174	59,136	3,363,914	85,499	9,722,924	154,071	9,508,496	193,731	2,146,667	155,411	20,484,411	524,460	4,270,485	76,842	38
	Deductions:																			
39	Cost of goods sold 29/	1,046,262	102,937	1,402,663	74,927	2,414,145	45,809	1,852,164	47,303	6,089,605	125,669	6,315,059	141,116	1,454,384	117,148	14,946,872	437,260	3,134,874	61,837	39
40	Cost of operations 29/	10,851	3,138	8,225	965	1,677	192	100,126	8,159	486,818	1,366	253,432	1,445	4,029	2,256	494,993	2,671	56,816	1,463	40
41	Compensation of officers	26,637	3,756	49,752	4,797	56,885	1,607	116,711	6,224	105,934	5,874	17,753	1,075	35,609	6,448	198,172	11,601	51,913	3,310	41
42	Rent paid on business property	3,436	507	9,402	940	13,800	352	31,659	1,885	32,453	1,185	75,415	1,659	6,962	1,025	86,679	3,344	37,945	513	42
43	Repairs 30/	15,734	1,086	21,889	898	73,191	1,329	14,861	437	129,603	1,532	157,043	3,511	44,052	5,216	513,578	12,386	60,321	929	43
44	Bad debts	2,161	302	1,474	234	1,589	137	7,550	1,143	5,641	298	11,373	81	1,792	231	10,233	962	5,142	132	44
45	Interest paid	5,020	1,104	3,819	473	12,507	529	11,139	681	22,432	846	67,489	1,096	4,475	1,701	79,158	3,584	10,755	383	45
46	Taxes paid 31/	27,349	2,332	32,896	1,695	61,379	972	67,744	1,488	150,715	2,015	249,639	18,226	38,538	4,348	355,525	10,715	78,015	1,228	46
47	Contributions or gifts 32/	1,265	17	2,058	14	4,387	15	7,387	17	8,191	18	11,213	2	2,401	22	19,992	40	4,608	8	47
48	Depreciation	28,530	4,007	19,066	1,513	71,027	1,307	42,749	1,650	166,539	2,589	316,260	4,212	42,619	8,475	302,288	9,116	64,342	1,229	48
49	Depletion	39,435	2,447	843	17	3,509	170	8	4	12,870	10	297,900	740	1,453	181	23,063	3,132	25,002	271	49
50	Amortization 33/	1,404	116	1,037	67	8,415	73	185	5	72,282	942	135,779	2,230	8,115	74	188,053	8,385	52,081	839	50
51	Net loss, sales other than capital assets 26/	2,447	1,203	557	454	2,638	1,648	4,110	622	4,092	1,031	9,333	525	1,689	723	16,675	4,006	1,135	58	51
52	Other deductions	135,763	11,774	174,730	10,752	268,060	7,892	533,553	21,703	1,139,437	21,023	949,761	20,729	243,252	21,158	1,088,538	42,361	217,602	8,271	52
53	Total compiled deductions	1,346,293	134,724	1,728,412	97,744	2,993,209	62,033	2,789,947	91,321	8,426,614	164,398	8,867,448	196,646	1,889,371	169,004	18,323,819	549,565	3,800,552	80,471	53
54	Compiled net profit or net loss (38 less 53)	160,910	37/8,871	169,419	37/4,825	414,965	37/2,897	573,966	37/5,823	1,296,309	37/10,326	641,047	37/2,915	257,295	37/13,593	2,160,592	37/25,105	469,933	37/3,629	54
55	Net income or deficit 2/ (54 less 28)	160,848	37/8,877	169,129	37/4,825	414,704	37/2,902	573,340	37/5,824	1,295,450	37/10,331	640,087	37/2,917	256,726	37/13,602	2,159,826	37/25,137	469,823	37/3,630	55
56	Net operating loss deduction 34/	924	-	1,516	-	751	-	5,293	-	2,022	-	445	-	1,179	-	4,577	-	764	-	56
57	Adjusted excess profits net income 11/	60,339	-	82,017	-	228,167	-	300,808	-	595,865	-	76,565	-	118,489	-	1,390,731	-	270,010	-	57
58	Income tax 3/	32,475	-	29,491	-	68,976	-	94,070	-	238,237	-	184,291	-	51,299	-	285,099	-	69,176	-	58
59	Declared value excess-profits tax	364	-	1,330	-	1,069	-	2,442	-	3,022	-	104	-	673	-	10,896	-	2,522	-	59
60	Excess profits tax 4/	50,698	-	68,102	-	188,794	-	248,508	-	500,392	-	64,920	-	98,133	-	1,107,259	-	219,160	-	60
61	Total tax	83,536	-	98,923	-	258,838	-	345,020	-	741,651	-	249,315	-	150,105	-	1,403,254	-	290,858	-	61
62	Compiled net profit less total tax (54 less 61)	77,373	37/8,871	70,496	37/4,825	156,126	37/2,897	228,946	37/5,823	554,659	37/10,326	391,732	37/2,915	107,191	37/13,593	757,338	37/25,105	179,075	37/3,629	62
	Dividends paid:																			
63	Cash and assets other than own stock	35,542	831	24,629	278	72,741	137	105,926	545	377,170	386	383,459	3,544	58,105	1,550	326,870	1,632	105,290	386	63
64	Corporation's own stock	1,693	(15)	3,511	14	5,862	1,000	2,609	-	16,890	28	10,663	-	1,979	3	7,807	2	1,099	2	64

For footnotes, see pp. 29-30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, and dividends paid by type of dividend; also, for returns with net income: Net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, and compiled net profit less total tax - Continued

(Money figures in thousands of dollars)

	Major industrial groups 8/ - Continued																	
	Manufacturing - Continued												Public utilities					
	Electrical machinery and equipment		Machinery, except transportation equipment and electrical		Automobiles and equipment, except electrical		Transportation equipment, except automobiles		Other manufacturing		Manufacturing not allocable		Total public utilities		Transportation		Communication	
	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income
1 Number of returns with balance sheets 39/	1,363	288	4,607	1,033	450	79	857	254	2,593	741	1,756	664	11,742	4,441	8,015	3,275	1,820	500
Assets:																		
2 Cash 40/	608,638	3,983	1,051,641	11,272	541,819	640	1,804,231	9,256	240,785	4,470	165,952	5,605	2,606,348	96,240	1,614,566	65,298	160,831	2,737
3 Notes and accounts receivable	956,606	8,703	1,190,101	28,953	398,394	1,002	2,884,709	42,231	336,899	8,343	246,529	10,564	2,223,286	92,465	1,436,917	76,259	291,705	2,790
4 Less: Reserve for bad debts	16,519	307	36,892	535	3,343	22	13,805	405	8,524	159	4,810	454	38,659	1,913	4,960	860	4,458	70
5 Inventories	1,213,441	13,380	1,732,457	37,434	361,072	1,823	1,967,528	23,070	418,180	12,351	205,644	15,020	1,069,129	27,140	711,950	19,977	66,251	800
6 Investments, Government obligations 41/	706,395	546	1,242,594	3,027	134,507	44	1,538,350	1,764	230,879	1,713	110,412	2,799	1,242,630	32,086	694,866	17,226	56,645	172
7 Other investments	751,904	3,137	401,427	6,900	63,966	334	452,732	3,455	133,168	2,650	110,631	3,082	11,499,029	171,021	5,433,270	57,968	3,355,818	2,207
8 Gross capital assets 42/ (except land)	1,087,481	20,756	2,586,955	81,440	825,624	2,800	2,585,769	35,544	493,335	23,782	361,643	34,881	54,294,668	1,853,348	27,979,208	1,332,112	6,750,174	32,727
9 Less: Reserves	597,815	7,419	1,410,950	38,234	437,752	1,275	1,508,471	15,270	257,379	10,052	177,580	15,146	12,546,509	368,078	6,195,207	267,588	2,361,252	9,117
10 Land	40,437	791	103,272	4,524	44,597	105	84,785	2,686	19,704	1,953	25,346	1,274	375,377	26,336	181,141	21,291	18,177	149
11 Other assets	181,955	3,771	277,335	7,805	62,820	582	611,718	8,244	67,556	2,293	35,489	3,898	2,182,480	121,237	1,515,065	100,097	100,232	722
12 Total assets 43/	4,932,522	47,342	7,137,940	142,587	1,991,704	6,033	10,407,545	110,575	1,674,603	47,346	1,079,254	61,524	62,907,778	2,049,882	33,366,816	1,421,781	8,434,122	33,118
Liabilities:																		
13 Accounts payable	499,267	7,666	734,793	24,509	369,437	1,577	1,816,900	20,314	156,502	8,462	114,099	10,984	1,706,170	152,828	1,301,182	123,007	166,678	1,578
Bonds, notes, mortgages payable:																		
14 Maturity less than 1 year	310,679	8,798	260,016	20,352	94,283	1,376	401,750	13,585	84,540	5,958	46,779	8,443	282,882	78,971	117,470	46,388	8,607	1,736
15 Maturity 1 year or more	219,267	5,211	230,496	14,759	33,558	1,380	233,411	27,117	89,636	4,873	86,474	5,614	20,895,102	958,492	10,959,260	705,828	1,696,932	11,722
16 Other liabilities	1,286,193	5,408	1,370,492	17,065	300,055	801	3,269,348	13,937	353,567	3,680	182,500	6,156	6,681,689	430,877	4,801,481	385,754	588,601	1,607
17 Capital stock, preferred	79,671	4,814	430,247	10,706	41,055	489	300,793	2,798	74,241	3,341	64,118	10,854	4,251,686	222,004	1,438,585	93,369	145,084	1,096
18 Capital stock, common	958,086	10,190	1,414,131	47,711	115,510	1,997	1,079,780	14,231	350,765	21,238	200,675	20,332	18,809,515	520,418	8,125,697	420,001	4,855,109	17,759
19 Surplus reserves	520,877	674	802,055	3,264	104,427	31	1,080,632	5,250	137,133	550	73,212	250	1,356,612	62,870	636,100	23,486	54,510	221
20 Surplus and undivided profits 44/	1,064,185	12,842	1,934,882	28,647	937,461	1,359	2,289,785	22,845	445,489	9,533	320,982	16,458	10,257,182	190,448	7,025,658	126,214	929,010	3,576
21 Less: Deficit 45/	5,704	8,263	39,173	24,427	4,083	2,977	64,854	9,503	17,270	10,288	9,585	17,548	1,333,059	567,026	1,038,414	502,266	10,410	6,178
22 Total liabilities 43/	4,932,522	47,342	7,137,940	142,587	1,991,704	6,033	10,407,545	110,575	1,674,603	47,346	1,079,254	61,524	62,907,778	2,049,882	33,366,816	1,421,781	8,434,122	33,118
Receipts:																		
23 Gross sales 17/	7,906,936	71,657	10,824,580	202,447	3,661,650	9,860	18,760,009	168,367	2,677,959	70,247	1,826,508	84,241	187,057	16,961	136,329	13,704	3,063	339
24 Gross receipts from operations 18/	35,572	737	133,338	4,327	563	176	5,407,613	68,444	14,651	2,343	24,252	1,334	20,502,053	766,227	13,431,730	623,485	2,475,984	26,105
Interest on Government obligations (less amortizable bond premium):																		
25 Wholly taxable 19/	4,599	20	9,687	50	1,483	1	12,994	16	1,883	28	1,043	25	23,469	468	13,802	338	3,440	1
26 Subject to declared value excess-profits tax and surtax 20/	1,064	5	1,327	2	109	-	884	(15)	369	1	159	1	2,100	65	1,713	34	43	(15)
27 Subject to surtax only 21/	403	-	64	1	(15)	-	52	-	2	(15)	4	-	147	1	97	1	3	(15)
28 Wholly tax-exempt 22/	5,516	12	887	8	40	-	475	(15)	120	(15)	74	13	6,760	191	2,075	118	61	-
29 Other interest	6,906	14	5,239	148	1,456	(15)	11,632	92	1,533	22	875	23	100,343	940	54,295	513	2,960	28
30 Rents 23/	4,787	69	6,988	439	2,543	15	6,765	466	2,745	231	3,537	742	304,406	11,328	259,201	10,892	22,869	175
31 Royalties 24/	11,299	41	5,588	242	1,135	-	6,020	1	1,419	10	920	83	5,505	69	4,666	17	621	4
32 Excess of net short-term capital gain over net long-term capital loss 25/	654	17	204	41	5	1	297	32	204	-	31	149	614	142	466	141	79	-
33 Excess of net long-term capital gain over net short-term capital loss 25/	2,074	12	4,117	173	713	5	6,025	333	1,444	19	3,854	31	25,013	973	22,522	918	365	-
34 Net gain, sales other than capital assets 26/	75	27	234	185	20	1	209	12	112	32	145	42	1,784	969	1,651	940	60	(15)
35 Dividends, domestic corporations 27/	20,074	20	10,776	111	388	-	28,126	21	3,560	8	1,232	12	302,727	3,421	75,633	170	172,535	(15)
36 Dividends, foreign corporations 28/	7,317	-	4,744	4	2,955	-	5,324	(15)	2,831	(15)	190	-	6,135	6	1,013	1	1,586	-
37 Other receipts	22,919	489	47,706	1,526	7,325	72	101,498	1,652	10,981	475	9,165	456	51,804	6,536	35,026	5,776	5,279	314
38 Total compiled receipts 10/	8,030,195	73,120	11,055,477	209,703	3,680,384	10,130	24,347,922	239,417	2,719,814	73,416	1,871,987	87,152	21,519,915	808,298	14,040,218	657,046	2,688,748	26,967
Deductions:																		
39 Cost of goods sold 29/	6,035,574	57,055	7,731,698	166,139	2,937,599	8,029	15,687,986	151,132	1,862,998	54,741	1,345,594	68,083	131,004	10,427	95,801	9,113	2,099	22
40 Cost of operations 29/	2,520	352	8,537	2,605	132	146	4,678,021	59,131	7,263	1,547	3,310	803	11,450,571	535,999	8,281,423	451,390	1,187,980	18,727
41 Compensation of officers	58,669	2,740	161,929	10,993	16,695	537	52,215	3,067	57,048	4,680	45,081	4,558	132,682	17,331	95,924	15,675	11,618	457
42 Rent paid on business property	26,453	721	37,597	1,655	7,640	118	52,546	1,592	14,086	1,149	7,934	960	648,248	28,439	575,413	26,797	47,530	1,360
43 Repairs 30/	90,524	1,231	185,336	1,910	85,858	65	235,530	3,547	24,825	674	19,559	1,246	24,572	5,610	21,622	4,750	1,565	620
44 Bad debts	1,794	86	5,523	461	6,157	21	3,146	145	1,120	300	948	160	16,346	11,584	4,695	2,131	4,982	68
45 Interest paid	24,639	397	22,458	1,479	5,581	65	41,820	1,635	7,416	406	5,802	552	918,148	43,192	505,191	31,880	62,109	570
46 Taxes paid 31/	133,836	1,178	188,230	3,789	46,675	222	323,877	4,183	63,889	1,523	29,565	1,604	1,324,227	44,564	738,278	35,240	169,535	638
47 Contributions or gifts 32/	5,896	2	13,805	47	5,302	2	10,668	26	3,509	17	1,866	47	18,076	68	6,963	51	4,497	2
48 Depreciation	65,024	1,057	104,000	3,770	32,398	168	104,359	2,686	25,222	1,126	16,367	1,578	1,076,148	40,762	388,120	28,985	240,695	1,196
49 Depletion	5	61	477	(15)	601	-	593	2	15	1	414	15	25,415	600	8,883	11	1	(15)
50 Amortization 33/	36,906	944	71,674	1,302	19,506	14	83,506	1,457	7,230	143	5,705	137	215,635	2,589	171,799	795	812	-
51 Net loss, sales other than capital assets 26/	604	101	4,745	1,196	1,704	3	6,862	218	1,701	89	1,363	1,434	41,968	33,104	21,057	17,734	2,489	56
52 Other deductions	558,869	11,015	895,232	28,667	181,051	1,281	978,067	21,067	304,783	13,245	174,915	12,036	1,227,466	115,715	559,924	94,447	222,859	3,897
53 Total compiled deductions	7,041,514	76,942	9,431,239	224,012	3,346,900	10,669	22,259,198	249,888	2,381,083	79,639	1,658,921	93,212	17,250,506	889,582	11,473,092	718,994	1,958,772	27,612
54 Compiled net profit or net loss (38 less 53)	988,882	37/3,822	1,624,239	37/14,309	333,483	37/538	2,088,725	37/10,471	338,731	37/6,223	213,066	37/6,060	4,269,410	37/81,284	2,567,126	37/61,948	729,976	37/645
55 Net income or deficit 2/ (54 less 28)	983,366	37/3,854	1,623,352	37/14,317	333,444	37/538	2,088,250	37/10,471	338,611	37/6,225	212,993	37/6,072	4,262,650	37/81,476	2,565,051	37/62,066	729,916	37/645
56 Net operating loss deduction 34/	11,451	-	2,739	-	231	-	2,671	-	1,986	-	1,650	-	13,959	-	12,870	-	592	-
57 Adjusted excess profits net income 11/	712,954	-	1,165,753	-	238,679	-	1,521,395	-	217,005	-	126,777	-	1,885,187	-	1,415,421	-	247,487	-
58 Income tax 3/	93,281	-	167,440	-	35,854	-	214,629	-	42,762	-	30,104	-	813,760	-	421,951	-	131,516	-
59 Declared value excess-profits tax	5,156	-	11,316	-	2,876	-	12,092	-	1,978	-	2,049	-	2,853	-	2,450	-	260	-
60 Excess profits tax 4/	571,509	-	922,987	-	187,796	-	1,180,935	-	175,043	-	100,869	-	1,565,070	-	1,164,197	-	210,821	-
61 Total tax	669,945	-	1,101,744	-	226,526	-	1,407,657	-	219,782	-	133,022	-	2,381,663	-	1,588,597	-	342,597	-
62 Compiled net profit less total tax (54 less 61)	318,937	37/3,822	522,495	37/14,309	106,957	37/538	681,068	37/10,471	118,948	37/6,223	80,044	37/6,060	1,887,746	37/81,284	978,529	37/61,948	387,379	37/645
Dividends paid:																		
63 Cash and assets other than own stock	131,515	318	199,904	479	32,010	3	287,154	701	43,548	151	27,382	748	1,213,347	7,591	366,712	1,165	365,698	22
64 Corporation's own stock	4,361	-	8,572	51	1,558	(15)	5,281	45	4,960	8	7,249	5	22,078	92	5,343	17	421	-

For footnotes, see pp. 29-30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, and dividends paid by type of dividend; also, for returns with net income: Net operating loss

64	Corporation's own stock	4,361	-	8,572	51	1,558	(15)	3,281	45	4,960	8	7,249	5	22,078	92	5,543	17	421	-	64

For footnotes, see pp. 29-30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, and dividends paid by type of dividend; also, for returns with net income: Net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, and compiled net profit less total tax - Continued

(Money figures in thousands of dollars)

		Major industrial groups 8/ - Continued																			
		Public utilities-Con.		Trade																	
						Wholesale						Retail									
		Other public utilities		Total trade		Total wholesale		Commission merchants		Other wholesalers		Total retail		General merchandise		Food stores, including market milk dealers		Package liquor stores			
		Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income		
1	Number of returns with balance sheets 39/	1,909	666	86,837	19,356	25,979	5,752	3,457	1,184	22,522	4,568	50,372	10,844	4,335	465	3,424	1,052	1,264	195	1	
	Assets:																				
2	Cash 40/	830,951	28,204	3,355,438	149,806	1,274,087	71,729	148,784	12,404	1,125,303	59,324	1,801,011	45,812	733,168	1,606	230,268	3,893	6,351	468	2	
3	Notes and accounts receivable	494,664	13,416	4,629,112	234,067	2,414,702	135,018	288,895	21,776	2,125,806	111,242	1,817,583	67,870	876,570	4,137	83,935	5,492	1,819	240	3	
4	Less: Reserve for bad debts	29,240	983	177,124	8,363	80,349	2,936	7,992	272	72,357	2,664	78,045	3,570	35,254	209	3,458	374	6	(15)	4	
5	Inventories	290,927	6,363	5,731,286	209,265	2,439,248	90,056	43,053	3,274	2,396,195	86,782	2,793,565	88,938	1,116,916	4,854	364,277	6,680	26,964	1,956	5	
6	Investments, Government obligations 41/	491,120	14,689	2,282,138	38,150	806,980	20,418	89,803	1,986	717,177	18,432	1,315,242	12,896	768,163	306	74,821	338	740	12	6	
7	Other investments	2,709,941	110,847	1,903,737	65,170	883,095	32,176	175,783	3,617	707,312	28,559	728,498	22,724	408,499	639	49,050	1,276	601	52	7	
8	Gross capital assets 42/ (except land)	19,565,287	488,509	4,932,617	373,180	1,173,683	158,740	50,606	8,269	1,123,078	130,471	3,265,792	165,325	1,483,884	6,250	489,360	20,536	6,326	671	8	
9	Less: Reserves	3,990,050	91,374	2,456,330	163,314	546,814	55,468	21,715	2,169	525,099	53,298	1,643,853	76,364	701,075	2,414	254,956	9,632	2,465	217	9	
10	Land	176,058	4,896	804,439	52,142	164,544	14,962	7,143	657	157,401	14,305	546,746	27,962	291,702	708	41,217	2,064	317	20	10	
11	Other assets	567,183	20,418	679,235	39,482	268,238	19,316	21,716	2,316	246,522	17,000	356,735	14,913	159,962	712	37,620	1,370	1,807	132	11	
12	Total assets 43/	21,106,840	594,984	21,684,550	989,584	8,797,415	462,011	796,076	51,858	8,001,339	410,152	10,903,274	366,507	5,102,534	16,589	1,112,133	31,643	42,454	3,334	12	
	Liabilities:																				
13	Accounts payable	238,310	28,243	3,386,478	235,677	1,634,293	128,393	237,948	17,225	1,396,344	111,167	1,501,111	71,767	767,674	2,543	187,492	8,478	8,857	1,053	13	
	Bonds, notes, mortgages payable:																				
14	Maturity less than 1 year	156,806	30,846	961,386	89,528	643,201	48,077	32,353	6,929	610,848	41,148	234,945	30,338	29,092	1,113	29,912	2,394	4,083	581	14	
15	Maturity 1 year or more	8,238,910	240,943	1,165,185	140,039	470,058	64,036	40,608	9,671	429,450	54,366	611,114	61,138	281,138	3,154	70,702	4,670	4,758	365	15	
16	Other liabilities	1,291,607	43,516	2,297,557	80,102	882,105	30,534	55,880	3,936	826,225	26,597	1,246,944	31,544	636,119	1,261	78,673	2,650	3,904	319	16	
17	Capital stock, preferred	2,668,219	127,539	1,142,844	54,413	453,764	26,026	45,979	2,317	407,785	23,709	588,058	20,972	291,809	749	71,047	1,175	304	46	17	
18	Capital stock, common	5,828,709	82,658	5,426,119	375,231	2,062,322	152,826	152,199	17,415	1,910,123	135,411	2,813,747	159,612	1,220,003	8,474	241,052	13,958	8,890	1,029	18	
19	Surplus reserves	666,001	39,163	1,051,875	13,185	379,694	3,025	30,309	360	349,385	2,665	597,120	5,138	386,621	183	60,191	166	259	(15)	19	
20	Surplus and undivided profits 44/	2,302,514	60,658	6,618,747	216,873	2,393,092	118,431	215,822	5,757	2,177,270	112,674	3,505,054	67,957	1,515,278	3,385	417,056	4,494	11,885	283	20	
21	Less: Deficit 45/	284,235	58,582	365,640	215,465	121,113	109,337	15,022	11,752	106,091	97,586	194,819	81,758	25,200	4,272	43,992	6,341	486	342	21	
22	Total liabilities 43/	21,106,840	594,984	21,684,550	989,584	8,797,415	462,011	796,076	51,858	8,001,339	410,152	10,903,274	366,507	5,102,534	16,589	1,112,133	31,643	42,454	3,334	22	
	Receipts:																				
23	Gross sales 17/	47,665	2,918	56,531,611	2,269,998	27,296,192	1,183,840	1,095,214	63,698	26,200,978	1,120,142	24,755,350	819,076	8,820,327	29,982	5,465,646	149,422	155,998	11,283	23	
24	Gross receipts from operations 18/	4,594,340	116,638	888,182	153,980	615,348	103,962	328,483	47,251	286,866	56,711	201,822	39,300	26,258	443	20,702	7,221	1,810	809	24	
	Interest on Government obligations (less amortizable bond premium):																				
25	Wholly taxable 19/	6,227	130	21,726	519	6,733	336	593	22	6,140	314	13,555	142	9,195	6	433	5	7	(15)	25	
26	Subject to declared value excess-profits tax and surtax 20/	344	31	1,263	44	453	16	25	1	428	15	707	27	309	1	134	1	(15)	-	26	
27	Subject to surtax only 21/	47	(15)	292	19	47	15	7	-	40	15	218	3	135	-	30	-	(15)	-	27	
28	Wholly tax-exempt 22/	4,625	73	1,369	42	519	22	73	(15)	445	22	755	6	320	(15)	101	(15)	6	-	28	
29	Other interest	43,088	399	43,403	1,452	21,949	704	4,948	162	17,001	541	17,619	523	6,674	20	851	15	11	2	29	
30	Rents 23/	22,536	262	124,517	5,864	22,801	1,799	1,753	278	21,049	1,521	88,624	3,078	46,165	169	3,746	325	77	3	30	
31	Royalties 24/	218	49	6,417	254	3,099	135	171	20	2,928	115	2,651	66	1,183	21	446	7	-	-	31	
32	Excess of net short-term capital gain over net long-term capital loss 25/	69	1	928	286	467	135	53	14	413	122	343	107	116	7	15	8	5	-	32	
33	Excess of net long-term capital gain over net short-term capital loss 25/	2,126	56	23,381	708	10,156	310	798	33	9,358	278	9,662	223	2,858	7	714	22	68	2	33	
34	Net gain, sales other than capital assets 26/	73	29	4,586	923	2,066	371	70	25	1,996	346	1,986	383	107	15	695	38	27	7	34	
35	Dividends, domestic corporations 27/	54,558	3,250	46,047	780	25,756	383	7,485	38	18,272	344	17,322	237	8,706	5	1,180	13	1	-	35	
36	Dividends, foreign corporations 28/	3,536	5	22,170	10	8,284	9	150	-	8,134	9	3,675	(15)	3,657	-	3	-	-	-	36	
37	Other receipts	11,499	446	485,740	24,005	151,311	11,206	14,142	2,247	137,170	8,959	299,449	10,470	121,120	348	8,963	638	155	14	37	
38	Total compiled receipts 10/	4,790,949	124,286	58,201,610	2,458,883	28,165,182	1,303,243	1,453,963	113,788	26,711,218	1,189,455	25,393,717	673,642	9,047,130	31,023	5,503,658	157,715	158,165	12,120	38	
	Deductions:																				
39	Cost of goods sold 29/	33,104	1,293	44,423,727	1,882,679	23,616,807	1,066,022	1,024,042	59,319	22,592,765	1,006,703	17,256,219	598,146	5,745,684	23,751	4,410,646	123,688	125,392	9,425	39	
40	Cost of operations 29/	1,981,167	65,882	362,899	107,869	233,896	73,263	98,047	32,326	135,849	40,937	94,568	27,542	9,892	248	9,807	5,961	1,529	710	40	
41	Compensation of officers	27,140	1,201	980,558	79,562	432,753	33,019	50,988	6,111	381,765	26,907	442,474	36,223	76,145	1,154	32,685	3,299	7,222	673	41	
42	Rent paid on business property	25,305	282	718,819	37,514	90,102	7,579	7,895	1,216	82,206	6,362	587,951	26,487	197,014	620	60,741	2,387	2,761	209	42	
43	Repairs 30/	1,385	239	161,374	9,463	38,722	2,809	1,138	90	37,584	2,719	106,766	5,185	38,826	106	18,041	760	223	22	43	
44	Bad debts	6,669	9,385	56,608	6,515	16,189	2,677	1,482	320	14,707	2,357	33,614	2,732	8,774	278	1,846	233	22	4	44	
45	Interest paid	350,848	10,743	95,630	8,353	41,672	3,530	5,265	329	36,407	3,201	46,279	3,769	22,409	132	4,970	264	277	26	45	
46	Taxes paid 31/	416,414	8,486	541,927	24,991	164,235	8,229	11,956	620	152,279	7,609	331,880	13,466	142,969	448	41,616	1,103	2,543	266	46	
47	Contributions or gifts 32/	6,616	14	44,181	269	15,045	118	1,616	33	13,429	85	26,073	123	14,320	5	2,226	19	80	2	47	
48	Depreciation	447,333	10,582	258,796	19,915	61,754	6,381	2,710	373	59,044	6,008	171,761	9,861	65,102	274	32,265	1,372	477	54	48	
49	Depletion	16,531	588	1,447	1,734	840	1,690	39	5	801	1,686	416	39	125	(15)	15	1	2	-	49	
50	Amortization 33/	43,024	1,596	3,510	190	2,796	108	243	(15)	2,553	108	568	81	104	-	81	2	-	-	50	
51	Net loss, sales other than capital assets 26/	18,423	15,314	24,755	5,174	6,796	1,797	698	193	6,098	1,605	15,990	2,967	4,981	305	1,610	416	7	1	51	
52	Other deductions	444,683	17,571	7,241,453	332,787	2,214,466	120,611	155,722	15,486	2,058,744	105,125	4,480,825	171,205	1,791,073	4,796	740,230	20,322	11,108	990	52	
53	Total compiled deductions	3,618,642	142,977	54,915,684	2,517,013	26,936,072	1,327,833	1,361,841	116,420	25,574,232	1,211,412	23,595,384	897,825	8,117,420	32,116	5,356,777	159,824	151,644	12,381	53	
54	Compiled net profit or net loss (38 less 53)	972,308	37/18,691	3,285,926	37/58,130	1,229,109	37/24,589	92,123	37/2,632	1,136,987	37/21,957	1,798,333	37/24,183	929,710	37/1,092	146,880	37/2,109	6,521	37/261	54	
55	Net income or deficit 2/ (54 less 28)	967,683	37/18,764	3,284,557	37/58,172	1,228,591	37/24,611	92,050	37/2,632	1,136,541	37/21,979	1,797,578	37/24,189	929,389	37/1,093	146,779	37/2,109	6,515	37/261	55	
56	Net operating loss deduction 34/	498	-	16,948	-	5,828	-	1,149	-	4,679	-	8,745	-	350	-	1,217	-	96	-	56	
57	Adjusted excess profits net income 11/	222,279	-	1,593,272	-	601,622	-	36,527	-	565,094	-	908,179	-	584,053	-	55,452	-	845	-	57	
58	Income tax 3/	260,293	-	558,530	-	205,336	-	15,927	-	189,409	-	297,320	-	127,902	-	32,947	-	1,398	-	58	
59	Declared value excess-profits tax	124	-	17,334	-	5,774	-	397	-	5,377	-	9,808	-	4,599	-	560	-	81	-	59	
60	Excess profits tax 4/	190,053	-	1,319,570	-	493,090	-	30,492	-	462,598	-	756,607	-	485,360	-	46,721	-	764	-	60	
61	Total tax	450,470	-	1,895,434	-	704,201	-	46,816	-	657,385	-	1,063,735	-	617,861	-	80,228	-	2,244	-	61	
62	Compiled net profit less total tax (54 less 61)	521,858	37/18,691	1,390,493	37/58,130	524,909	37/24,589	45,307	37/2,632	479,602	37/21,957	734,598	37/24,183	311,848	37/1,092	66,652	37/2,109	4,277	37/261	62	
	Dividends paid:																				
63	Cash and assets other than own stock	480,956	6,405	537,756	5,123	192,584	3,616	17,683	1,701	174,901	1,914	308,092	1,135	161,788	162	34,575	20	271	6	63	
64	Corporation's own stock	18,314	75	43,067	406	26,006	160	2,866	-	23,139	160	12,744	176	4,190	-	157	2	8	-	64	

For footnotes, see pp. 29-30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, and dividends paid by type of dividend; also, for returns with net income: Net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, and compiled net profit less total tax - Continued

(Money figures in thousands of dollars)

		Major industrial groups 8/ - Continued																			
		Trade - Continued																			
		Retail - Continued																			
		Drug stores		Apparel and accessories		Furniture and house furnishings		Eating and drinking places		Automotive dealers		Filling stations		Hardware		Building materials, fuel, and ice		Other retail trade		Retail trade not allocable		
		Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	
1	Number of returns with balance sheets 39/	2,810	550	8,206	1,013	3,363	689	5,059	2,289	5,662	1,207	938	520	1,657	194	5,219	1,170	5,068	987	3,367	513	1
	Assets:																					
2	Cash 40/	50,816	694	224,551	4,528	80,647	5,825	66,221	6,018	106,084	6,455	16,716	2,246	18,456	538	103,266	6,704	103,561	3,913	60,907	2,925	2
3	Notes and accounts receivable	28,609	624	195,303	5,771	172,284	11,905	23,947	4,459	83,392	7,908	12,185	2,124	15,486	930	142,275	13,819	115,721	5,690	66,057	4,770	3
4	Less: Reserve for bad debts	472	5	8,151	236	8,526	979	287	39	3,455	374	387	68	638	23	6,616	716	7,653	204	3,142	343	4
5	Inventories	115,118	4,163	348,977	12,816	132,223	8,419	56,361	8,649	142,547	9,965	12,346	1,840	35,198	2,012	153,742	10,181	180,011	10,487	108,886	6,917	5
6	Investments, Government obligations 41/	17,751	48	142,966	958	83,414	2,737	27,925	1,767	52,688	1,691	8,728	280	8,507	106	53,218	1,688	47,210	1,364	29,113	1,601	6
7	Other investments	11,898	175	61,679	2,581	36,929	1,530	17,306	4,096	28,536	1,421	6,122	1,763	4,022	99	50,351	5,872	29,980	2,564	23,524	657	7
8	Gross capital assets 42/ (except land)	85,500	3,940	231,890	6,678	88,359	4,881	236,579	48,903	132,948	14,128	56,122	10,636	17,671	884	202,891	28,274	113,421	9,759	120,841	9,785	8
9	Less: Reserves	46,210	2,069	128,378	3,254	38,760	2,202	129,139	20,294	64,791	6,090	33,928	5,792	8,634	351	116,261	15,425	58,179	3,435	61,079	5,188	9
10	Land	3,649	113	29,935	418	17,938	1,561	27,468	7,896	29,575	2,571	21,805	2,022	3,775	142	54,036	7,843	11,633	1,259	13,697	1,347	10
11	Other assets	8,624	305	46,773	1,088	15,365	974	15,638	2,865	16,440	1,307	1,637	1,018	2,153	182	17,933	2,056	22,838	2,274	9,945	630	11
12	Total assets 43/	275,283	7,988	1,145,544	31,348	579,873	34,650	342,019	64,320	523,964	38,983	101,346	16,068	95,996	4,517	654,833	60,296	558,544	33,672	368,749	23,100	12
	Liabilities:																					
13	Accounts payable	36,465	2,581	164,545	8,328	37,209	4,818	43,843	14,456	52,826	5,400	11,360	3,238	8,193	822	55,476	8,473	88,380	8,009	38,793	3,568	13
	Bonds, notes, mortgages payable:																					
14	Maturity less than 1 year	6,404	554	31,406	2,337	15,595	2,644	12,574	6,249	43,476	3,587	3,486	720	3,023	499	26,467	4,896	17,259	2,275	12,168	2,489	14
15	Maturity 1 year or more	16,953	1,090	56,080	4,646	18,652	4,377	30,676	19,749	39,714	4,819	5,928	2,196	3,328	284	26,826	9,442	33,788	3,875	22,570	2,471	15
16	Other liabilities	33,239	788	171,220	2,529	76,787	3,534	45,610	8,111	41,923	2,208	12,121	1,119	5,833	157	33,626	2,927	72,427	3,115	35,461	2,627	16
17	Capital stock, preferred	16,681	320	75,329	3,716	39,189	2,492	16,305	5,067	12,656	1,156	1,378	425	1,875	109	23,463	3,215	23,258	1,625	14,763	877	17
18	Capital stock, common	72,635	4,175	246,451	12,427	169,867	15,406	86,642	15,920	159,884	19,556	42,594	7,145	40,830	3,281	264,557	30,029	148,936	18,393	111,408	9,820	18
19	Surplus reserves	14,321	71	49,403	324	19,955	179	7,801	3,210	6,919	126	2,136	41	1,003	1	16,362	434	22,219	228	9,931	175	19
20	Surplus and undivided profits 44/	83,620	599	369,807	5,930	217,012	7,147	109,380	6,537	190,576	10,488	23,996	3,505	34,830	824	226,738	14,399	176,105	5,597	128,772	4,770	20
21	Less: Deficit 45/	5,035	2,189	18,696	8,890	14,392	5,947	10,811	14,980	24,009	8,356	1,653	2,321	2,919	1,458	18,682	13,519	23,827	9,446	5,117	3,698	21
22	Total liabilities 43/	275,283	7,988	1,145,544	31,348	579,873	34,650	342,019	64,320	523,964	38,983	101,346	16,068	95,996	4,517	654,833	60,296	558,544	33,672	368,749	23,100	22
	Receipts:																					
23	Gross sales 17/	838,379	31,262	2,913,962	67,055	718,272	39,020	1,040,978	168,789	1,065,684	66,693	180,432	32,358	177,579	6,695	1,163,663	96,042	1,244,751	63,932	949,679	56,543	23
24	Gross receipts from operations 18/	4,888	266	18,799	1,998	7,103	991	32,434	15,333	39,656	3,520	2,172	991	1,076	48	16,481	4,642	22,153	1,943	8,290	1,097	24
	Interest on Government obligations (less amortizable bond premium):																					
25	Wholly taxable 19/	124	1	1,115	4	808	15	239	12	426	15	38	11	79	2	470	20	405	11	216	42	25
26	Subject to declared value excess-profits tax and surtax 20/	6	(15)	32	(15)	28	8	23	6	46	1	40	-	2	-	20	5	29	6	38	-	26
27	Subject to surtax only 21/	(15)	-	6	-	4	-	4	(15)	1	3	18	-	(15)	-	11	(15)	7	(15)	2	-	27
28	Wholly tax-exempt 22/	5	(15)	22	-	15	4	36	1	35	(15)	7	-	2	-	147	1	30	(15)	28	-	28
29	Other interest	418	9	1,264	26	1,284	72	218	32	1,907	88	59	12	246	3	1,851	116	1,737	104	1,100	23	29
30	Rents 23/	1,500	58	16,411	82	2,940	171	3,975	915	3,447	245	1,574	192	433	17	3,610	599	2,460	150	2,288	151	30
31	Royalties 24/	255	1	289	2	30	-	63	20	167	5	5	2	4	-	119	6	43	(15)	25	2	31
32	Excess of net short-term capital gain over net long-term capital loss 25/	11	(15)	25	-	16	28	34	9	33	10	3	1	1	-	43	21	22	5	19	18	32
33	Excess of net long-term capital gain over net short-term capital loss 25/	254	3	513	11	311	26	1,400	27	994	9	101	19	58	6	1,282	51	741	37	366	5	33
34	Net gain, sales other than capital assets 26/	45	8	85	13	68	17	208	68	145	50	37	11	23	(15)	367	95	81	51	104	10	34
35	Dividends, domestic corporations 27/	1,036	(15)	2,677	3	634	10	392	8	490	13	113	3	82	(15)	898	160	625	9	488	13	35
36	Dividends, foreign corporations 28/	-	-	(15)	(15)	1	-	(15)	-	1	-	1	(15)	(15)	-	5	(15)	4	-	3	-	36
37	Other receipts	6,883	234	53,733	946	51,094	3,395	5,005	1,370	10,393	645	1,080	248	2,242	48	11,962	1,107	13,795	915	13,023	563	37
38	Total compiled receipts 10/	853,805	31,843	3,008,934	70,138	782,609	43,758	1,085,005	186,588	1,123,425	71,298	185,680	33,847	181,828	6,818	1,200,927	102,864	1,286,882	67,163	975,669	58,466	38
	Deductions:																					
39	Cost of goods sold 29/	569,083	23,389	1,899,801	44,387	384,099	22,495	584,673	97,015	758,278	50,705	132,975	24,686	126,960	5,089	872,969	74,690	878,054	51,158	767,606	47,667	39
40	Cost of operations 29/	2,029	179	7,246	1,258	1,423	369	18,720	10,198	20,807	2,426	1,167	596	498	14	10,461	3,866	7,365	1,107	3,625	611	40
41	Compensation of officers	17,658	1,530	78,118	3,469	35,996	3,088	31,738	7,409	51,891	4,489	3,040	1,135	9,479	507	38,714	4,608	42,157	3,212	17,631	1,649	41
42	Rent paid on business property	31,001	1,353	143,606	4,698	24,673	1,915	51,577	8,638	20,127	1,912	2,218	1,019	3,009	208	6,037	991	34,300	1,676	10,888	862	42
43	Repairs 30/	3,837	83	9,911	216	2,837	150	12,593	2,112	5,350	343	1,310	174	377	13	7,275	798	3,466	186	2,720	223	43
44	Bad debts	226	32	6,588	221	4,015	566	547	114	2,395	233	142	63	424	33	3,830	604	2,737	212	2,067	140	44
45	Interest paid	906	94	3,831	237	1,561	530	1,857	853	3,587	398	341	141	356	23	2,667	599	2,026	274	1,491	202	45
46	Taxes paid 31/	10,481	383	33,849	1,043	13,601	673	24,452	5,266	13,548	918	2,861	657	2,343	91	14,856	1,441	19,859	640	8,901	538	46
47	Contributions or gifts 32/	503	5	3,787	5	1,046	6	614	34	754	15	62	3	165	1	887	17	1,111	8	519	3	47
48	Depreciation	5,930	289	15,645	501	4,549	326	14,590	3,244	7,460	677	3,077	659	883	45	9,857	1,413	6,555	507	5,371	498	48
49	Depletion	2	1	14	(15)	1	8	7	4	13	6	-	4	1	-	49	7	10	(15)	177	7	49
50	Amortization 33/	1	1	5	3	(15)	1	51	2	83	7	8	(15)	-	-	129	64	102	-	4	(15)	50
51	Net loss, sales other than capital assets 26/	303	18	3,321	544	168	580	3,490	205	363	122	76	55	30	51	786	419	734	225	121	27	51
52	Other deductions	160,069	5,035	571,259	15,779	223,302	15,034	277,878	57,701	175,087	11,112	26,865	5,653	23,580	974	164,230	16,724	201,529	9,967	114,616	7,119	52
53	Total compiled deductions	802,028	32,392	2,776,980	72,363	697,270	45,741	1,022,786	192,795	1,059,743	73,364	174,141	34,844	168,104	7,046	1,132,747	106,241	1,200,005	69,172	935,737	59,546	53
54	Compiled net profit or net loss (38 less 53)	51,777	37/549	231,953	37/2,225	85,339	37/1,984	62,219	37/6,207	63,682	37/2,066	11,539	37/997	13,723	37/228	68,180	37/3,377	86,877	37/2,008	39,932	37/1,080	54
55	Net income or deficit 2/ (54 less 28)	51,772	37/549	231,931	37/2,225	85,323	37/1,987	62,182	37/6,208	63,647	37/2,066	11,532	37/997	13,722	37/228	68,033	37/3,378	86,847	37/2,008	39,904	37/1,080	55
56	Net operating loss deduction 34/	249	-	1,033	-	435	-	1,355	-	902	-	123	-	69	-	861	-	1,614	-	443	-	56
57	Adjusted excess profits net income 11/	23,998	-	121,883	-	22,943	-	24,151	-	12,196	-	4,188	-	2,502	-	13,415	-	33,537	-	9,016	-	57
58	Income tax 3/	8,629	-	33,833	-	20,827	-	11,274	-	14,419	-	2,480	-	2,954	-	16,010	-	15,593	-	9,053	-	58
59	Declared value excess-profits tax	269	-	1,532	-	417	-	355	-	362	-	47	-	182	-	516	-	537	-	349	-	59
60	Excess profits tax 4/	20,125	-	101,015	-	19,458	-	20,216	-	10,352	-	3,580	-	2,156	-	11,427	-	27,886	-	7,548	-	60
61	Total tax	29,023	-	136,379	-	40,702	-	31,845	-	25,133	-	6,107	-	5,292	-	27,953	-	44,016	-	16,951	-	61
62	Compiled net profit less total tax (54 less 61)	22,753	37/549	95,574	37/2,225	44,636	37/1,984	30,374	37/6,207	38,550	37/2,066	5,432	37/997	8,432	37/228	40,226	37/3,377	42,862	37/2,008	22,981	37/1,080	62
	Dividends paid:																					
63	Cash and assets other than own stock	8,603	3	28,639	246	17,648	98	9,707	34	7,925	121	3,056	43	1,747	19	14,536	111	11,913	143	7,685	128	63
64	Corporation's own stock	103	-	3,296	-	1,014	165	155	(15)	807	5	116	-	204	-	465	-	1,534	-	695	3	64

For footnotes, see pp. 29-30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns,

63	Cash and assets other than own stock	8,603	3	28,639	246	17,648	98	9,707	34	7,925	121	3,056	43	1,747	19	14,536	111	11,913	143	7,685	128	63
64	Corporation's own stock	103	-	3,296	-	1,014	165	155	(15)	807	5	116	-	204	-	465	-	1,534	-	695	3	64

For footnotes, see pp. 29-30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, and dividends paid by type of dividend; also, for returns with net income: Net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, and compiled net profit less total tax - Continued

(Money figures in thousands of dollars)

		Major industrial groups 3/ - Continued																				
		Trade - Continued		Service																		
		Trade not allocable		Total service		Hotels and other lodging places		Personal service		Business service		Automotive repair services and garages		Miscellaneous repair services, hand trades		Motion pictures		Amusement, except motion pictures				
		Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income			
1	Number of returns with balance sheets 39/	10,486	2,760	19,906	9,483	2,624	912	5,094	1,789	3,637	1,908	1,670	943	932	386	2,865	706	1,427	1,321			1
	Assets:																					
2	Cash 40/	280,341	32,265	501,807	54,189	97,353	7,355	62,422	4,332	96,705	17,113	10,062	2,145	12,108	945	131,346	9,125	53,697	4,576			2
3	Notes and accounts receivable	396,827	33,180	433,063	69,759	52,569	4,414	55,878	8,055	142,513	23,460	12,100	3,398	15,568	1,940	97,518	10,516	15,230	3,449			3
4	Less: Reserve for bad debts	18,730	1,857	16,770	4,946	6,167	307	1,623	282	4,139	631	310	131	350	63	2,573	1,155	223	43			4
5	Inventories	498,473	30,271	358,708	32,510	42,847	3,291	31,858	3,448	15,060	2,856	6,388	1,599	6,933	1,306	244,268	14,771	3,378	1,043			5
6	Investments, Government obligations 41/	159,916	4,835	246,174	12,429	42,098	762	23,176	844	42,280	5,063	2,336	201	5,556	62	87,756	362	24,742	1,934			6
7	Other investments	292,144	10,271	591,779	50,690	59,663	4,630	30,684	2,117	81,430	14,079	3,742	1,252	1,790	191	384,865	9,208	14,272	3,489			7
8	Gross capital assets 42/ (except land)	493,142	69,115	2,567,064	427,568	1,086,915	142,476	370,370	65,314	189,664	47,153	55,225	27,848	26,413	4,653	584,920	40,507	151,048	59,148			8
9	Less: Reserves	265,663	31,483	1,193,611	172,025	463,482	51,860	197,674	37,353	82,980	15,416	27,260	11,987	12,975	1,927	290,907	15,403	73,399	22,155			9
10	Land	93,149	9,217	482,582	86,781	218,734	35,474	30,745	4,761	11,474	1,724	15,238	10,217	1,233	452	159,654	14,676	35,143	14,885			10
11	Other assets	54,262	5,255	175,910	34,945	32,281	4,553	20,759	3,330	29,547	6,010	3,018	1,688	2,211	357	65,806	6,675	9,191	3,838			11
12	Total assets 43/	1,983,861	161,067	4,146,705	591,898	1,162,812	150,786	426,595	54,567	521,555	101,410	80,538	36,230	58,487	7,917	1,462,653	89,282	233,080	70,164			12
	Liabilities:																					
13	Accounts payable	251,075	35,518	340,014	84,362	53,899	10,536	33,871	9,183	91,201	19,542	8,993	6,521	8,592	2,136	107,868	17,198	16,208	9,035			13
	Bonds, notes, mortgages payable:																					
14	Maturity less than 1 year	83,239	11,113	98,622	44,186	33,581	15,830	14,443	3,859	13,298	2,801	4,118	2,327	2,377	770	17,553	7,604	6,789	5,528			14
15	Maturity 1 year or more	84,013	14,865	930,313	217,155	494,546	94,660	40,844	10,501	33,441	30,897	19,691	17,634	4,617	1,693	283,102	29,196	55,462	24,387			15
16	Other liabilities	168,508	18,225	443,045	93,977	105,618	29,040	38,845	5,562	85,949	7,355	6,344	3,372	10,498	851	132,546	25,048	34,442	5,743			16
17	Capital stock, preferred	101,022	7,415	215,882	37,872	85,729	6,042	29,293	3,941	31,833	8,846	4,101	2,020	824	734	47,169	8,645	8,195	3,203			17
18	Capital stock, common	550,049	62,793	905,751	184,648	221,976	32,284	139,303	28,634	127,150	29,662	21,973	10,419	14,855	3,532	255,357	13,848	72,972	25,688			18
19	Surplus reserves	75,061	5,022	205,429	10,588	29,772	2,411	8,515	168	15,778	4,603	665	345	2,724	27	126,940	1,144	8,949	412			19
20	Surplus and undivided profits 44/	720,602	30,485	1,280,514	132,225	284,399	31,807	141,334	10,558	137,882	21,405	20,500	5,078	15,937	921	544,967	30,506	71,588	17,139			20
21	Less: Deficit 45/	49,708	24,369	272,864	213,115	146,707	71,823	19,851	17,840	14,978	23,702	5,847	11,485	1,936	2,748	52,847	43,905	21,526	20,971			21
22	Total liabilities 43/	1,983,861	161,067	4,146,705	591,898	1,162,812	150,786	426,595	54,567	521,555	101,410	80,538	36,230	58,487	7,917	1,462,653	89,282	233,080	70,164			22
	Receipts:																					
23	Gross sales 17/	4,500,069	267,081	629,312	103,188	304,200	25,570	122,405	29,410	58,871	7,072	53,601	15,400	35,313	9,937	16,980	2,211	17,640	8,236			23
24	Gross receipts from operations 18/	70,992	10,718	4,128,144	403,378	545,927	55,257	634,352	81,395	851,970	77,756	63,100	17,819	101,539	5,945	1,371,262	65,439	226,109	42,578			24
	Interest on Government obligations (less amortizable bond premium):																					
25	Wholly taxable 19/	1,438	40	2,751	136	1,221	8	173	8	331	33	19	15	40	(15)	647	5	145	30			25
26	Subject to declared value excess-profits tax and surtax 20/	103	1	166	58	15	2	30	2	63	49	2	(15)	1	-	23	(15)	10	1			26
27	Subject to surtax only 21/	27	(15)	19	3	1	(15)	4	1	5	(15)	(15)	-	(15)	-	2	(15)	(15)	1			27
28	Wholly tax-exempt 22/	95	15	128	8	7	(15)	23	1	38	2	2	(15)	1	-	26	-	4	1			28
29	Other interest	3,835	226	6,797	489	1,132	74	282	64	959	74	113	10	59	2	3,805	151	216	64			29
30	Rents 23/	13,091	987	69,569	11,230	31,470	4,848	1,871	262	4,788	1,601	3,358	1,515	169	57	22,821	1,328	3,994	1,164			30
31	Royalties 24/	687	53	1,915	1,568	408	10	110	(15)	238	1,377	2	33	4	2	774	13	145	32			31
32	Excess of net short-term capital gain over net long-term capital loss 25/	118	44	288	154	83	2	33	2	78	57	15	11	-	(15)	34	36	29	16			32
33	Excess of net long-term capital gain over net short-term capital loss 25/	3,563	174	10,492	574	4,550	24	837	47	1,673	97	425	18	65	7	1,894	87	459	39			33
34	Net gain, sales other than capital assets 26/	534	169	1,813	548	313	77	306	43	192	127	97	28	26	8	554	28	170	27			34
35	Dividends, domestic corporations 27/	2,969	161	31,618	210	1,911	5	554	4	2,690	44	37	2	29	-	25,737	15	384	69			35
36	Dividends, foreign corporations 28/	10,210	1	5,470	226	99	-	1	(15)	230	2	-	-	-	-	5,156	221	3	1			36
37	Other receipts	34,980	2,328	55,885	14,470	6,329	1,281	4,165	555	7,046	1,783	1,211	561	1,266	91	23,446	6,748	5,940	1,505			37
38	Total compiled receipts 10/	4,642,712	281,998	4,944,367	536,239	897,664	87,157	765,129	111,792	929,173	90,075	121,982	35,411	138,512	16,047	1,473,142	74,282	255,245	53,763			38
	Deductions:																					
39	Cost of goods sold 29/	3,550,702	218,511	354,262	62,120	158,325	14,688	63,991	17,620	41,573	4,663	34,817	9,381	22,290	6,829	10,890	1,417	9,991	4,313			39
40	Cost of operations 29/	34,435	7,065	2,220,958	229,268	198,708	25,485	371,073	51,396	504,429	51,337	34,299	9,410	69,136	4,661	719,952	33,292	109,066	25,128			40
41	Compensation of officers	105,331	10,320	181,909	34,081	15,915	2,133	43,765	7,389	55,684	7,656	7,761	2,273	8,595	1,585	22,080	5,012	10,249	3,027			41
42	Rent paid on business property	40,766	3,448	181,972	31,389	42,122	6,449	20,488	4,127	14,782	2,282	9,118	4,769	1,530	329	74,304	6,729	8,681	3,397			42
43	Repairs 30/	15,886	1,469	74,280	9,056	33,245	3,639	11,193	1,768	5,018	718	1,352	502	940	83	14,995	758	5,009	950			43
44	Bad debts	6,805	1,105	8,327	2,796	1,791	1,378	2,010	322	1,631	302	242	120	161	34	1,298	50	384	268			44
45	Interest paid	7,679	1,054	43,426	9,323	22,214	5,014	2,750	597	1,653	473	883	519	287	106	13,034	1,456	1,613	750			45
46	Taxes paid 31/	45,812	3,296	126,707	16,653	40,338	4,705	17,877	2,848	14,187	1,526	2,904	1,294	2,293	353	32,822	1,902	10,015	2,427			46
47	Contributions or gifts 32/	3,063	29	5,840	110	932	14	785	24	958	10	79	7	79	3	1,720	14	1,003	21			47
48	Depreciation	25,281	3,674	114,472	19,856	39,952	5,556	18,088	3,165	12,187	2,555	3,891	1,562	1,916	299	27,063	1,602	6,525	3,156			48
49	Depletion	191	6	341	33	6	(15)	289	4	1	4	1	4	1	7	7	3	23	1			49
50	Amortization 33/	146	1	1,088	93	331	32	99	1	137	14	7	-	226	(15)	52	3	9	(15)			50
51	Net loss, sales other than capital assets 26/	1,970	411	11,307	5,280	1,868	1,700	723	287	423	1,245	28	134	65	54	7,897	609	198	1,054			51
52	Other deductions	546,161	40,970	1,005,132	155,352	241,316	25,676	152,323	26,529	197,558	23,726	18,218	7,080	15,523	3,060	280,428	27,746	41,941	16,740			52
53	Total compiled deductions	4,384,228	291,356	4,330,022	575,410	797,064	94,470	705,454	116,078	850,222	96,512	113,601	37,054	123,043	17,404	1,206,542	78,573	204,707	61,233			53
54	Compiled net profit or net loss (38 less 53)	258,484	37/9,358	614,344	37/39,171	100,600	37/7,313	59,675	37/4,286	78,950	37/6,436	8,381	37/1,642	15,469	37/1,357	266,601	37/4,292	50,539	37/7,470			54
55	Net income or deficit 2/ (54 less 28)	258,389	37/9,372	614,216	37/39,179	100,593	37/7,313	59,652	37/4,287	78,912	37/6,438	8,379	37/1,642	15,468	37/1,357	266,575	37/4,292	50,535	37/7,470			55
56	Net operating loss deduction 34/	2,376	-	12,141	-	5,795	-	1,433	-	1,169	-	405	-	241	-	897	-	1,480	-			56
57	Adjusted excess profits net income 11/	83,472	-	241,259	-	30,058	-	13,976	-	23,666	-	1,208	-	8,740	-	118,606	-	29,149	-			57
58	Income tax 3/	55,874	-	115,054	-	21,983	-	12,907	-	17,889	-	1,780	-	1,738	-	46,413	-	6,874	-			58
59	Declared value excess-profits tax	1,752	-	1,951	-	238	-	337	-	356	-	79	-	284	-	251	-	186	-			59
60	Excess profits tax 4/	69,873	-	199,775	-	25,243	-	11,865	-	19,730	-	1,002	-	6,963	-	98,982	-	23,363	-			60
61	Total tax	127,498	-	316,779	-	47,465	-	25,109	-	37,975	-	2,860	-	8,984	-	145,646	-	30,423	-			61
62	Compiled net profit less total tax (54 less 61)	130,986	37/9,358	297,565	37/39,171	53,135	37/7,313	34,566	37/4,286	40,975	37/6,436	5,521	37/1,642	6,485	37/1,357	120,955	37/4,292	20,116	37/7,470			62
	Dividends paid:																					
63	Cash and assets other than own stock	37,080	372	112,868	1,459	10,731	307	9,946	118	18,892	299	745	62	1,122	4	61,356	112	6,360	267			63
64	Corporation's own stock	4,317	70	3,294	128	567	-	415	1	412	35	38	5	636	66	392	-	454	12			64

For footnotes, see pp. 29-30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, and dividends paid by type of dividend; also, for returns with net income: Net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, and compiled net profit less total tax - Continued

(Money figures in thousands of dollars)

	Major industrial groups 8/ - Continued																		
	Service--Continued				Finance, insurance, real estate, and lessors of real property														
	Other service, including schools		Service not allocable		Total finance, insurance, real estate, and lessors of real property		Finance												
							Total finance		Banks and trust companies		Long-term credit agencies, mortgage companies, except banks		Short-term credit agencies, except banks		Investment trusts and investment companies 12/		Other investment companies, including holding companies 13/ 14/		
	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	
1 Number of returns with balance sheets 39/	1,598	1,473	59	45	74,302	38,919	23,190	6,746	13,309	1,000	1,301	1,248	2,179	859	2,165	750	1,382	495	1
Assets:																			
2 Cash 40/	37,085	7,255	1,029	1,344	32,250,829	900,961	30,377,975	649,591	29,710,616	556,675	19,186	10,340	113,383	8,297	157,476	9,830	227,332	25,041	2
3 Notes and accounts receivable	40,363	13,983	1,323	542	23,727,464	988,508	23,012,824	688,764	21,440,181	359,197	58,002	22,187	750,372	42,175	138,944	45,711	342,149	80,636	3
4 Less: Reserve for bad debts	1,576	2,331	8	3	62,176	29,673	51,528	21,809	-	-	273	488	22,636	1,636	17,255	4,819	9,552	4,434	4
5 Inventories	6,788	4,140	1,188	56	23,401	11,988	6,092	1,581	-	-	-	-	1,935	564	-	-	2,274	186	5
6 Investments, Government obligations 41/	17,987	2,751	243	450	93,484,748	1,822,192	72,868,117	1,410,359	71,663,996	1,259,297	10,755	6,836	104,464	3,650	395,826	18,150	193,243	33,313	6
7 Other investments	14,909	15,691	423	34	45,990,048	2,572,967	20,847,827	1,723,893	11,364,177	357,861	85,887	42,980	90,360	9,131	3,108,294	306,559	5,426,322	743,617	7
8 Gross capital assets 42/ (except land)	99,542	39,855	2,967	616	10,777,652	4,326,615	1,457,003	255,943	1,044,990	50,774	9,133	9,100	23,446	2,192	72,574	26,495	192,343	67,347	8
9 Less: Reserves	43,474	15,566	1,461	359	2,501,195	1,025,787	267,397	92,433	137,689	8,943	2,046	1,517	10,676	741	22,493	5,200	49,870	34,908	9
10 Land	10,072	4,331	288	261	2,883,034	1,375,607	192,313	80,801	86,292	10,070	5,044	16,632	2,307	491	13,622	11,813	57,780	20,560	10
11 Other assets	12,229	8,352	870	141	3,232,243	293,329	1,076,219	91,417	900,390	39,015	8,689	4,612	13,694	1,653	24,218	15,488	64,523	10,616	11
12 Total assets 43/	194,124	78,460	6,861	3,083	209,806,046	11,236,707	149,519,447	4,788,107	136,072,952	2,623,946	194,376	110,682	1,066,650	65,776	3,871,205	424,027	6,446,544	941,975	12
Liabilities:																			
13 Accounts payable	18,579	9,557	804	654	1,262,512	548,843	717,200	188,984	-	-	14,503	10,610	72,810	5,268	60,646	33,174	93,028	34,927	13
Bonds, notes, mortgages payable:																			
14 Maturity less than 1 year	5,478	5,452	984	15	1,271,125	592,073	871,441	321,997	-	-	27,219	7,540	276,283	12,232	48,686	37,102	55,906	110,526	14
15 Maturity 1 year or more	17,991	7,256	618	930	7,239,538	3,697,505	1,692,723	609,865	-	-	51,381	47,760	150,596	11,210	564,953	117,533	577,990	275,093	15
16 Other liabilities	27,946	16,016	858	989	171,621,193	3,991,826	127,872,080	2,725,555	127,360,908	2,461,694	21,489	15,549	76,057	3,552	183,307	37,186	104,000	125,444	16
17 Capital stock, preferred	8,097	4,394	641	48	2,389,342	599,406	1,976,971	359,908	193,768	35,005	10,027	9,617	111,521	8,723	317,428	69,858	1,304,656	196,883	17
18 Capital stock, common	50,629	39,925	1,537	655	10,472,927	2,538,443	6,421,408	935,810	2,728,355	138,507	55,080	59,741	185,996	22,260	1,164,202	150,036	2,050,917	319,968	18
19 Surplus reserves	11,986	1,372	101	105	1,647,824	254,334	1,482,087	133,984	932,690	28,399	4,512	8,209	31,882	2,053	138,907	11,585	333,890	61,855	19
20 Surplus and undivided profits 44/	62,407	14,550	1,499	265	15,578,210	1,714,903	9,157,888	598,868	4,865,517	99,460	34,035	24,110	163,672	7,257	1,815,713	110,814	2,056,710	222,353	20
21 Less: Deficit 45/	8,989	20,061	182	578	1,676,626	2,700,425	672,351	1,084,866	8,087	139,119	21,870	72,454	2,167	6,780	422,638	143,061	130,554	405,074	21
22 Total liabilities 43/	194,124	78,460	6,861	3,083	209,806,046	11,236,707	149,519,447	4,788,107	136,072,952	2,623,946	194,376	110,682	1,066,650	65,776	3,871,205	424,027	6,446,544	941,975	22
Receipts:																			
23 Gross sales 17/	19,119	5,004	1,183	349	55,230	6,655	26,089	212	-	-	-	-	-	-	-	-	17,162	160	23
24 Gross receipts from operations 18/	323,949	55,402	9,956	3,791	3,257,882	525,129	585,576	26,371	366,291	12,765	11,964	1,969	92,501	4,963	-	-	41,047	348	24
Interest on Government obligations (less amortizable bond premium):																			
25 Wholly taxable 19/	171	33	2	3	929,973	17,328	637,640	14,442	619,914	12,894	102	24	1,069	50	5,388	96	2,571	386	25
26 Subject to declared value excess-profits tax and surtax 20/	24	4	-	-	309,172	4,592	238,234	1,987	233,151	1,910	8	1	31	1	865	15	448	34	26
27 Subject to surtax only 21/	6	(15)	-	-	16,355	512	13,833	131	13,038	117	3	(15)	12	(15)	25	3	30	5	27
28 Wholly tax-exempt 22/	28	4	-	-	209,808	8,585	145,978	6,817	141,508	5,346	17	23	80	1	1,048	286	751	24	28
29 Other interest	228	45	2	4	1,834,127	49,260	946,165	37,286	766,415	21,815	6,868	1,994	88,008	3,783	24,604	762	50,790	3,345	29
30 Rents 23/	1,041	446	57	10	995,147	238,285	99,337	9,433	83,014	4,986	860	636	1,043	152	559	24	7,894	707	30
31 Royalties 24/	210	100	25	-	101,597	7,884	36,558	3,241	1,049	148	87	3	14	5	4,817	596	1,132	233	31
32 Excess of net short-term capital gain over net long-term capital loss 25/	15	30	(15)	(15)	15,038	872	12,412	314	7,401	104	137	20	398	15	2,654	51	499	71	32
33 Excess of net long-term capital gain over net short-term capital loss 25/	547	255	40	1	175,286	3,839	137,026	1,465	71,507	847	1,262	86	1,102	14	45,031	163	10,711	218	33
34 Net gain, sales other than capital assets 26/	154	206	1	5	95,282	13,519	54,479	4,183	2,883	147	489	53	306	25	6,345	158	726	228	34
35 Dividends, domestic corporations 27/	217	71	59	(15)	572,572	14,107	443,172	6,448	16,097	864	148	10	2,122	40	153,968	1,948	261,827	2,686	35
36 Dividends, foreign corporations 28/	1	1	-	-	17,748	357	15,267	243	828	3	(15)	-	-	2	3,728	55	10,635	186	36
37 Other receipts	6,459	1,941	44	7	118,321	20,138	68,657	7,308	43,089	2,844	1,861	512	8,507	580	2,743	146	6,090	1,596	37
38 Total compiled receipts 10/	352,149	63,542	11,370	4,170	8,703,517	910,864	3,460,424	119,881	2,366,186	64,788	23,805	5,333	195,195	9,651	251,775	4,302	412,313	10,227	38
Deductions:																			
39 Cost of goods sold 29/	11,602	3,010	782	199	34,754	4,910	19,368	278	-	-	-	-	-	-	-	-	11,842	226	39
40 Cost of operations 29/	208,992	29,924	5,304	655	72,208	19,024	18,645	2,887	201	130	486	282	7,232	1,559	-	-	2,059	13	40
41 Compensation of officers	17,277	6,618	583	389	35/401,901	35/48,767	272,363	16,171	212,602	7,200	3,954	988	14,318	2,024	5,784	663	8,572	1,175	41
42 Rent paid on business property	10,684	3,020	263	287	133,888	34,074	51,308	2,972	38,250	1,242	562	137	6,245	441	620	63	1,468	131	42
43 Repairs 30/	2,408	647	121	11	72,786	30,707	13,888	1,502	11,827	593	131	79	308	23	73	20	796	112	43
44 Bad debts	796	301	15	21	81,072	43,067	75,829	33,062	61,596	12,707	187	501	9,685	1,338	1,704	2,676	1,753	3,087	44
45 Interest paid	900	404	90	4	482,227	147,506	261,711	37,613	194,044	11,937	2,866	1,654	17,876	1,119	14,108	3,167	25,232	12,767	45
46 Taxes paid 31/	6,075	1,509	196	88	453,929	113,513	138,886	7,867	111,778	3,551	855	720	6,432	323	4,051	376	8,070	1,312	46
47 Contributions or gifts 32/	271	14	12	2	15,618	414	12,069	95	10,124	54	46	3	473	3	346	1	688	28	47
48 Depreciation	4,657	1,923	191	38	264,258	84,744	54,996	5,545	45,618	2,130	320	165	1,949	100	404	120	3,191	539	48
49 Depletion	14	10	-	-	21,760	2,439	3,629	413	158	30	15	1	3	-	2,476	272	957	20	49
50 Amortization 33/	219	41	8	-	1,168	232	136	1	-	-	-	(15)	-	*1	-	-	136	-	50
51 Net loss, sales other than capital assets 26/	104	197	(15)	1	74,134	110,739	63,650	26,676	58,190	12,743	139	2,208	240	174	300	481	3,370	1,737	51
52 Other deductions	55,048	22,158	2,777	2,655	3,231,499	509,893	995,083	57,398	757,169	25,259	8,415	2,931	75,917	4,425	31,877	2,459	43,360	6,622	52
53 Total compiled deductions	319,046	69,776	10,344	4,311	36/5,341,202	36/1,150,029	1,981,561	192,480	1,501,555	77,575	17,976	9,669	140,679	11,531	61,743	10,298	111,492	27,767	53
54 Compiled net profit or net loss (38 less 53)	33,103	37/6,235	1,026	37/140	3,362,315	37/239,165	1,478,863	37/72,599	864,631	37/12,787	5,850	37/4,336	54,516	37/1,900	190,082	37/5,996	300,821	37/17,540	54
55 Net income or deficit 2/ (54 less 28)	33,075	37/6,239	1,026	37/140	3,152,507	37/247,550	1,332,885	37/79,416	723,123	37/18,133	5,813	37/4,360	54,436	37/1,901	188,984	37/6,282	300,071	37/17,564	55
56 Net operating loss deduction 34/	710	-	11	-	38,621	-	12,594	-	8,190	-	404	-	405	-	325	-	1,243	-	56
57 Adjusted excess profits net income 11/	15,591	-	265	-	67,250	-	12,860	-	5,310	-	142	-	3,365	-	93	-	522	-	57
58 Income tax 3/	5,255	-	215	-	484,058	-	277,265	-	196,390	-	1,558	-	18,086	-	9,957	-	34,957	-	58
59 Declared value excess-profits tax	215	-	5	-	2,616	-	1,282	-	781	-	14	-	45	-	37	-	293	-	59
60 Excess profits tax 4/	12,397	-	231	-	57,362	-	10,945	-	4,543	-	122	-	2,868	-	79	-	447	-	60
61 Total tax	17,866	-	450	-	544,037	-	289,492	-	201,713	-	1,695	-	20,999	-	10,074	-	35,697	-	61
62 Compiled net profit less total tax (54 less 61)	15,237	37/6,235	576	37/140	2,818,278	37/239,165	1,189,371	37/72,599	662,917	37/12,787	4,155	37/4,336	33,517	37/1,900	179,958	37/5,996	265,124	37/17,540	62
Dividends paid:																			
63 Cash and assets other than own stock	3,620	289	96	-	971,840	31,996	712,472	15,147	252,643	3,519	1,632	293	22,046	306	161,896	1,365	255,539	1,196	63
64 Corporation's own stock	381	9	-	-	32,885	1,158	29,561	459	26,766	364	11	20	731	6	125	8	1,310	54	64

For footnotes, see pp. 29-30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, Net operating loss

64	Corporation's own stock	381	9	-	-	32,885	1,188	29,301	465	29,706								

For footnotes, see pp. 29-30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, and dividends paid by type of dividend; also, for returns with net income: Net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, and compiled net profit less total tax - Continued

(Money figures in thousands of dollars)

		Major industrial groups 8/ - Continued																
		Finance, insurance, real estate, and lessors of real property - Continued																
		Finance - Continued						Insurance carriers, agents, etc.						Real estate, including lessors of buildings		Lessors of real property, except buildings		
		Security and commodity exchange brokers and dealers		Other finance companies		Finance not allocable		Total insurance carriers, agents, etc.		Insurance carriers		Insurance agents, brokers, etc.						
		Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	
1	Number of returns with balance sheets 39/	855	303	570	562	1,429	1,529	4,840	1,680	1,438	245	3,402	1,435	43,369	28,133	2,903	2,360	1
	Assets:																	
2	Cash 40/	76,790	9,850	15,355	9,846	57,838	19,710	1,430,878	74,597	1,353,445	67,314	77,432	7,283	382,422	158,722	59,554	18,051	2
3	Notes and accounts receivable	182,595	9,111	20,734	27,000	79,847	102,746	143,805	19,613	-	-	143,805	19,613	512,211	245,880	58,624	34,251	3
4	Less: Reserve for bad debts	610	101	190	275	1,011	10,056	1,378	317	-	-	1,376	317	8,640	7,236	632	311	4
5	Inventories	-	-	1,137	216	746	615	-	-	-	-	-	-	12,291	8,994	5,017	1,413	5
6	Investments, Government obligations 41/	443,915	65,208	9,887	3,091	46,033	20,813	20,324,814	272,919	20,304,990	272,034	19,824	884	246,538	134,701	45,278	4,213	6
7	Other investments	559,607	95,755	30,059	95,340	183,121	72,650	23,874,124	272,352	23,823,131	265,340	50,993	7,011	1,008,036	487,584	260,060	89,138	7
8	Gross capital assets 42/ (except land)	33,249	6,234	62,079	52,037	19,190	41,766	434,730	28,246	386,748	20,214	47,982	8,031	6,319,026	2,890,352	2,566,892	1,152,075	8
9	Less: Reserves	16,916	2,449	21,880	15,183	5,827	23,493	19,490	4,092	10,199	2,603	9,292	1,490	1,961,613	794,392	252,695	134,869	9
10	Land	14,820	411	482	1,893	11,965	18,930	15,481	2,514	10,528	2,164	4,953	350	2,496,232	1,175,651	179,008	116,641	10
11	Other assets	48,187	3,610	4,424	9,520	12,095	6,903	1,907,765	59,204	1,889,403	55,408	18,362	3,796	171,373	94,652	76,886	48,056	11
12	Total assets 43/	1,341,637	187,630	122,086	183,487	403,997	250,584	48,110,729	725,034	47,758,046	679,872	352,683	45,162	9,177,876	4,394,908	2,997,994	1,328,659	12
	Liabilities:																	
13	Accounts payable	340,297	11,590	7,750	37,180	128,166	56,235	162,928	24,081	-	-	162,928	24,081	340,682	282,136	41,702	53,642	13
	Bonds, notes, mortgages payable:																	
14	Maturity less than 1 year	415,632	133,841	5,310	8,244	42,406	12,512	7,576	1,763	-	-	7,576	1,763	375,322	246,829	16,786	21,484	14
15	Maturity 1 year or more	306,968	9,629	5,340	35,771	35,494	114,870	14,449	5,836	-	-	14,449	5,836	4,332,652	2,376,771	1,199,714	704,832	15
16	Other liabilities	72,327	5,194	13,308	44,606	40,684	32,332	43,191,624	660,846	43,164,417	656,088	27,207	4,757	416,881	468,389	140,608	137,037	16
17	Capital stock, preferred	22,257	4,947	3,498	11,646	13,816	23,228	24,097	1,673	8,344	699	15,754	974	287,226	183,722	101,048	54,102	17
18	Capital stock, common	66,725	24,660	51,926	53,018	120,206	165,620	718,637	81,290	655,393	68,733	63,243	12,557	2,233,301	1,107,359	1,099,582	415,984	18
19	Surplus reserves	10,921	2,600	15,666	9,857	13,618	9,627	10,595	281	-	-	10,595	281	132,129	106,565	23,014	13,503	19
20	Surplus and undivided profits 44/	116,888	18,947	33,189	59,953	72,363	55,975	4,015,115	185,609	3,958,436	180,137	56,679	5,472	1,806,678	680,400	598,529	250,026	20
21	Less: Deficit 45/	10,378	23,777	13,903	74,787	62,755	219,814	34,292	236,344	28,544	225,785	5,748	10,559	746,994	1,057,264	222,989	321,952	21
22	Total liabilities 43/	1,341,637	187,630	122,086	183,487	403,997	250,584	48,110,729	725,034	47,758,046	679,872	352,683	45,162	9,177,876	4,394,908	2,997,994	1,328,659	22
	Receipts:																	
23	Gross sales 17/	-	-	8,927	52	-	-	-	-	-	-	-	-	23,418	6,129	5,723	314	23
24	Gross receipts from operations 18/	49,498	4,400	6,444	963	17,851	964	1,913,176	262,006	1,726,630	233,324	186,546	28,682	759,130	236,753	-	-	24
	Interest on Government obligations (less amortizable bond premium):																	
25	Wholly taxable 19/	7,137	745	84	25	1,375	222	288,506	1,882	288,263	1,868	243	14	3,224	981	603	23	25
26	Subject to declared value excess-profits tax and surtax 20/	3,601	1	45	6	86	20	70,354	2,119	70,331	2,114	22	4	449	479	135	7	26
27	Subject to surtax only 21/	715	(15)	(15)	3	11	1	2,414	359	2,409	359	5	(15)	84	20	4	2	27
28	Wholly tax-exempt 22/	1,917	977	79	15	579	146	62,940	1,428	62,916	1,427	24	1	777	133	113	6	28
29	Other interest	2,817	1,126	540	2,044	6,121	2,416	866,723	5,889	865,665	3,832	1,058	57	19,634	7,830	1,605	255	29
30	Rents 23/	1,292	117	3,680	2,691	994	119	134,348	1,926	133,195	1,817	1,153	109	631,272	202,443	130,190	24,483	30
31	Royalties 24/	39	17	28,816	2,229	604	11	184	16	114	(15)	70	16	1,864	346	62,991	4,281	31
32	Excess of net short-term capital gain over net long-term capital loss 25/	792	19	33	4	497	29	342	196	295	189	47	8	2,080	330	204	33	32
33	Excess of net long-term capital gain over net short-term capital loss 25/	3,765	37	258	36	3,388	64	7,172	1,000	6,631	940	541	60	26,168	1,242	4,920	132	33
34	Net gain, sales other than capital assets 26/	42,726	3,416	386	20	618	136	301	53	86	49	214	4	39,910	8,902	592	382	34
35	Dividends, domestic corporations 27/	7,346	231	626	596	1,038	72	113,042	5,891	109,579	5,864	3,463	27	14,749	1,682	1,609	87	35
36	Dividends, foreign corporations 28/	59	-	7	(15)	8	-	1,145	103	926	102	219	1	182	11	1,153	(15)	36
37	Other receipts	3,512	311	1,273	908	1,582	410	8,609	3,041	3,248	1,191	5,361	1,850	26,829	9,259	14,226	530	37
38	Total compiled receipts 10/	125,218	11,397	51,200	9,592	34,732	4,610	3,469,255	283,907	3,270,289	253,075	198,966	30,832	1,549,770	476,540	224,069	30,535	38
	Deductions:																	
39	Cost of goods sold 29/	-	-	7,525	52	-	-	-	-	-	-	-	-	11,079	4,285	4,307	347	39
40	Cost of operations 29/	6,892	232	1,321	368	455	303	19,944	6,084	398	123	19,545	5,961	33,619	10,053	-	-	40
41	Compensation of officers	21,920	2,221	2,394	824	2,819	1,077	35/48,778	35/8,421	35/10,219	35/970	38,559	7,451	77,036	23,215	3,724	960	41
42	Rent paid on business property	3,329	537	327	145	507	276	20,696	2,955	14,943	1,800	5,752	1,354	59,542	27,021	2,342	1,127	42
43	Repairs 30/	253	227	435	400	64	47	1,189	465	951	378	238	86	56,675	28,407	1,034	334	43
44	Bad debts	182	303	384	8,606	338	3,844	1,543	720	836	444	707	276	3,562	8,692	139	593	44
45	Interest paid	5,513	902	300	3,048	1,772	3,018	1,872	647	1,126	379	746	268	180,161	89,590	38,482	19,655	45
46	Taxes paid 31/	5,440	501	1,078	551	1,182	535	85,678	9,066	81,445	8,521	4,233	544	214,455	91,765	14,910	4,814	46
47	Contributions or gifts 32/	291	2	58	(15)	44	3	1,414	33	932	21	482	11	1,946	275	189	11	47
48	Depreciation	1,037	248	2,145	1,818	333	426	26,626	826	25,305	609	1,321	218	175,543	75,879	7,094	2,494	48
49	Depletion	3	1	7	89	11	1	12	3	9	-	3	3	458	124	17,661	1,899	49
50	Amortization 33/	-	-	-	-	-	-	6	-	-	-	6	-	527	231	500	(15)	50
51	Net loss, sales other than capital assets 26/	1,265	157	75	6,661	72	2,515	1,327	5,625	1,260	5,593	67	33	8,131	65,514	1,027	12,923	51
52	Other deductions	47,512	6,728	14,335	4,675	16,498	4,298	1,802,357	271,287	1,706,188	254,824	96,169	16,463	407,036	175,225	27,024	5,985	52
53	Total compiled deductions	93,637	12,060	30,383	27,236	24,095	16,344	36/2,011,440	36/306,132	36/1,843,613	36/273,463	167,828	32,669	1,229,770	600,274	118,431	51,143	53
54	Compiled net profit or net loss (38 less 53)	31,581	37/662	20,816	37/17,644	10,637	37/11,733	1,457,815	37/22,225	1,426,676	37/20,388	31,139	37/1,837	320,000	37/123,733	105,638	37/20,608	54
55	Net income or deficit 2/ (54 less 28)	29,663	37/1,639	20,737	37/17,658	10,058	37/11,879	1,394,874	37/23,653	1,363,760	37/21,815	31,114	37/1,838	319,223	37/123,867	105,525	37/20,615	55
56	Net operating loss deduction 34/	1,235	-	188	-	603	-	2,013	-	1,593	-	420	-	22,801	-	1,214	-	56
57	Adjusted excess profits net income 11/	851	-	1,998	-	578	-	20,611	-	15,674	-	4,937	-	19,022	-	14,757	-	57
58	Income tax 3/	7,142	-	6,777	-	2,397	-	92,143	-	84,654	-	7,489	-	81,600	-	33,050	-	58
59	Declared value excess-profits tax	52	-	33	-	27	-	118	-	24	-	94	-	1,146	-	70	-	59
60	Excess profits tax 4/	731	-	1,692	-	463	-	17,540	-	15,355	-	4,185	-	16,456	-	12,421	-	60
61	Total tax	7,926	-	8,502	-	2,887	-	109,801	-	98,033	-	11,768	-	99,202	-	45,542	-	61
62	Compiled net profit less total tax (54 less 61)	23,655	37/662	12,315	37/17,644	7,750	37/11,733	1,348,014	37/22,225	1,328,645	37/20,388	19,370	37/1,837	220,797	37/123,733	60,097	37/20,608	62
	Dividends paid:																	
63	Cash and assets other than own stock	6,121	54	7,582	3,915	5,013	4,499	118,929	5,869	105,972	5,794	12,957	75	75,270	10,101	65,169	878	63
64	Corporation's own stock	425	-	4	-	191	7	1,777	467	1,586	465	191	2	1,514	186	34	47	64

For footnotes, see pp. 29-30.

Table 3. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by major industrial groups, for returns with net income and returns with no net income: 2/ Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, and dividends paid by type of dividend; also, for returns with net income: Net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, and compiled net profit less total tax - Continued

(Money figures in thousands of dollars)

		Major industrial groups 8/ - Continued											
		Construction		Agriculture, forestry, and fishery								Nature of business not allocable	
				Total agriculture, forestry, and fishery		Agriculture and services		Forestry		Fishery			
		Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income	Net income	No net income
1	Number of returns with balance sheets 39/	6,672	3,654	3,385	1,839	3,119	1,628	148	121	118	90	1,545	2,224
	Assets:												
2	Cash 40/	214,414	48,408	106,213	10,850	99,450	9,248	4,468	1,246	2,296	356	31,383	11,067
3	Notes and accounts receivable	455,364	105,301	154,672	21,148	145,701	16,458	7,464	2,884	1,507	1,805	43,159	33,087
4	Less: Reserve for bad debts	4,925	1,122	1,482	250	1,448	212	22	17	13	21	748	553
5	Inventories	122,896	23,844	137,843	21,945	132,955	20,901	3,295	257	1,594	787	8,489	3,020
6	Investments, Government obligations 41/	152,722	26,295	93,066	3,613	88,495	3,433	2,591	169	1,980	11	10,336	1,496
7	Other investments	123,545	25,209	124,100	41,240	117,830	38,984	4,558	826	1,712	1,430	46,299	35,907
8	Gross capital assets 42/ (except land)	363,901	124,810	632,752	109,894	575,760	90,562	46,929	15,252	10,044	4,080	52,595	71,804
9	Less: Reserves	195,187	67,724	293,258	35,440	280,319	30,249	9,528	3,711	3,411	1,481	19,844	18,928
10	Land	37,228	11,360	208,470	61,298	201,424	56,697	5,520	4,383	1,526	218	17,791	14,228
11	Other assets	64,591	17,818	31,666	7,402	29,436	6,953	1,692	311	538	138	17,009	9,677
12	Total assets 43/	1,314,548	314,200	1,194,023	241,700	1,109,284	212,776	66,966	21,601	17,773	7,322	206,470	160,806
	Liabilities:												
13	Accounts payable	158,998	59,448	119,587	34,951	114,008	28,835	3,362	3,407	2,216	2,709	30,621	36,282
	Bonds, notes, mortgages payable:												
14	Maturity less than 1 year	96,926	29,341	46,037	14,820	44,609	14,518	1,064	217	363	85	15,726	13,216
15	Maturity 1 year or more	66,890	33,850	91,574	49,754	81,725	44,224	8,758	4,807	1,091	722	16,347	59,985
16	Other liabilities	249,753	41,133	74,317	16,830	63,494	13,529	9,459	1,938	1,364	1,363	28,469	19,119
17	Capital stock, preferred	35,825	12,470	32,604	9,370	29,075	8,358	3,254	914	275	98	7,433	17,913
18	Capital stock, common	256,305	96,114	464,811	123,736	428,710	108,273	29,977	13,854	6,124	1,610	62,110	161,774
19	Surplus reserves	48,760	7,801	55,458	4,618	53,541	3,641	1,152	946	765	30	4,778	14,341
20	Surplus and undivided profits 44/	421,873	81,654	375,254	60,554	341,829	49,095	26,833	9,638	6,592	1,821	61,816	44,628
21	Less: Deficit 45/	20,782	47,612	65,619	72,932	47,707	57,698	16,893	14,120	1,019	1,115	20,830	206,451
22	Total liabilities 43/	1,314,548	314,200	1,194,023	241,700	1,109,284	212,776	66,966	21,601	17,773	7,322	206,470	160,806
	Receipts:												
23	Gross sales 17/	308,287	93,982	671,094	72,313	651,867	67,376	8,337	1,530	10,890	3,407	72,971	5,958
24	Gross receipts from operations 18/	2,287,901	346,923	86,971	17,441	78,493	14,054	3,252	1,776	5,226	1,610	50,727	6,358
	Interest on Government obligations (less amortizable bond premium):												
25	Wholly taxable 19/	1,329	305	872	36	823	35	28	1	21	(15)	105	21
26	Subject to declared value excess-profits tax and surtax 20/	142	26	517	3	513	3	4	-	(15)	-	6	1
27	Subject to surtax only 21/	6	1	4	(15)	4	(15)	-	-	-	-	5	(15)
28	Wholly tax-exempt 22/	248	67	173	7	160	7	13	-	(15)	-	21	2
29	Other interest	1,727	449	1,934	310	1,695	288	225	22	16	(15)	1,652	223
30	Rents 23/	9,014	2,326	8,440	1,932	8,131	1,844	221	86	89	2	3,667	497
31	Royalties 24/	244	38	2,000	549	1,882	527	118	22	(15)	-	696	83
32	Excess of net short-term capital gain over net long-term capital loss 25/	135	155	151	125	143	113	6	12	2	-	166	10
33	Excess of net long-term capital gain over net short-term capital loss 25/	8,661	1,789	7,628	275	5,534	263	2,059	9	34	4	1,069	28
34	Net gain, sales other than capital assets 26/	736	814	1,487	272	614	199	813	71	60	2	854	99
35	Dividends, domestic corporations 27/	4,828	180	6,982	281	6,853	280	53	1	76	(15)	946	137
36	Dividends, foreign corporations 28/	135	1	9	4	9	4	(15)	-	(15)	-	14	(15)
37	Other receipts	29,275	6,102	12,740	1,828	11,982	1,633	355	92	403	104	4,065	886
38	Total compiled receipts 10/	2,652,669	453,157	801,001	95,378	768,701	86,627	15,483	3,622	16,816	5,129	136,943	14,302
	Deductions:												
39	Cost of goods sold 29/	227,414	75,982	436,643	62,836	421,665	58,308	7,169	1,373	7,809	3,155	59,378	4,843
40	Cost of operations 29/	1,895,674	310,584	28,707	10,730	24,724	8,515	1,173	1,249	2,810	965	19,396	2,013
41	Compensation of officers	97,969	27,001	20,753	3,182	19,570	2,923	546	99	638	160	10,889	2,460
42	Rent paid on business property	10,053	2,966	10,666	1,303	10,416	1,235	73	37	176	31	1,657	475
43	Repairs 30/	13,291	4,262	11,813	1,731	11,133	1,537	68	17	613	177	1,115	260
44	Bad debts	2,672	1,008	3,419	296	3,370	277	43	14	5	5	492	279
45	Interest paid	5,935	2,165	5,798	2,701	5,177	2,489	544	186	77	26	1,052	1,100
46	Taxes paid 31/	31,506	6,522	20,191	2,421	19,360	2,171	563	178	268	71	2,953	661
47	Contributions or gifts 32/	2,071	62	882	11	852	10	10	-	20	1	167	5
48	Depreciation	26,489	9,611	23,189	3,523	22,480	3,278	312	86	396	159	2,053	914
49	Depletion	158	44	1,099	336	509	46	590	290	-	-	125	48
50	Amortization 33/	1,233	63	12	21	12	21	(15)	-	-	-	29	2
51	Net loss, sales other than capital assets 26/	518	2,937	1,363	2,992	1,356	2,194	3	798	4	-	346	2,128
52	Other deductions	167,734	41,438	105,448	14,970	102,517	13,643	1,299	550	1,631	777	21,463	5,248
53	Total compiled deductions	2,482,718	484,644	669,982	107,053	643,141	96,647	12,393	4,878	14,448	5,528	121,115	20,435
54	Compiled net profit or net loss (38 less 53)	169,951	37/31,487	131,019	37/11,675	125,560	37/10,020	3,090	37/1,256	2,368	37/399	15,828	37/6,133
55	Net income or deficit 2/ (54 less 28)	169,703	37/31,553	130,846	37/11,682	125,400	37/10,027	3,077	37/1,256	2,368	37/399	15,807	37/6,135
56	Net operating loss deduction 34/	3,600	-	2,510	-	2,000	-	442	-	68	-	878	-
57	Adjusted excess profits net income 11/	72,291	-	39,320	-	38,343	-	11	-	966	-	3,537	-
58	Income tax 3/	29,045	-	28,465	-	27,403	-	690	-	372	-	3,215	-
59	Declared value excess-profits tax	954	-	752	-	735	-	6	-	11	-	120	-
60	Excess profits tax 4/	58,653	-	32,837	-	32,024	-	10	-	802	-	2,887	-
61	Total tax	88,653	-	62,054	-	60,162	-	706	-	1,185	-	6,223	-
62	Compiled net profit less total tax (54 less 61)	81,299	37/31,487	68,965	37/11,675	65,398	37/10,020	2,384	37/1,256	1,183	37/399	9,605	37/6,133
	Dividends paid:												
63	Cash and assets other than own stock	23,489	1,742	29,503	1,259	28,300	261	947	996	256	3	3,191	777
64	Corporation's own stock	5,216	134	669	-	669	-	-	-	-	-	85	53

For footnotes, see pp. 29-30.

Table 4. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by total assets classes: Number of returns, assets and liabilities,

64	Corporation's own stock	5,216	134	669	-	669	-	-	-	-	-	85	53	64

For footnotes, see pp. 29-30.

Table 4. - Corporation income and declared value excess-profits tax returns 1/ with balance sheets, 1944, by total assets classes: Number of returns, assets and liabilities, compiled receipts, compiled deductions, compiled net profit or net loss, net income or deficit, net operating loss deduction, adjusted excess profits net income, income tax, declared value excess-profits tax, excess profits tax, total tax, compiled net profit less total tax, and dividends paid by type of dividend

(Total assets classes and money figures in thousands of dollars)

		Total assets classes 43/											
		Total	Under 50	50 under 100	100 under 250	250 under 500	500 under 1,000	1,000 under 5,000	5,000 under 10,000	10,000 under 50,000	50,000 under 100,000	100,000 and over	
1	Number of returns with balance sheets 39/	365,056	176,212	56,851	56,782	26,496	17,625	21,590	3,646	2,942	415	517	1
	Assets:												
2	Cash 40/	52,782,933	624,124	584,465	1,150,144	1,199,044	1,805,716	7,776,662	4,054,692	8,741,132	3,927,248	22,921,707	2
3	Notes and accounts receivable	48,566,504	676,491	728,571	1,552,588	1,562,365	2,012,178	6,651,599	3,228,925	7,085,195	2,985,163	22,108,055	3
4	Less: Reserve for bad debts	672,202	24,824	23,985	44,912	44,165	53,098	125,371	58,502	122,221	33,492	141,634	4
5	Inventories	26,476,336	558,306	588,805	1,220,181	1,262,575	1,508,198	4,252,455	2,065,824	4,664,160	2,111,649	8,244,384	5
6	Investments, Government obligations 41/	111,218,745	75,459	152,348	503,792	800,446	1,745,806	11,262,045	7,172,570	16,248,985	7,491,649	65,765,668	6
7	Other investments	74,392,221	153,957	211,541	580,996	845,168	1,228,189	5,414,599	3,184,218	9,719,991	4,248,306	48,805,258	7
8	Gross capital assets 42/ (except land)	157,020,347	1,890,250	2,120,514	4,647,098	4,401,645	5,140,707	15,807,358	7,548,537	19,155,546	10,474,828	68,056,065	8
9	Less: Reserves	50,225,511	873,007	888,801	1,908,706	1,874,778	2,279,811	6,097,721	3,105,510	8,034,868	3,524,676	21,635,435	9
10	Land	8,331,400	295,835	429,385	955,224	841,449	884,860	2,002,060	771,667	1,115,050	325,784	714,086	10
11	Other assets	10,451,116	151,666	147,884	327,961	328,684	400,165	1,163,600	623,009	1,715,465	950,561	4,624,123	11
12	Total assets 43/	418,324,088	3,528,237	4,050,325	8,964,164	9,322,230	12,390,911	46,107,085	25,285,428	60,260,431	28,953,021	219,462,255	12
	Liabilities:												
13	Accounts payable	17,805,078	694,327	524,965	981,245	879,291	953,034	2,439,261	1,050,408	2,655,836	1,071,779	6,554,932	13
	Bonds, notes, mortgages payable:												
14	Maturity less than 1 year	7,055,756	272,314	224,544	479,813	459,172	560,203	1,506,095	636,230	1,323,899	483,660	1,109,825	14
15	Maturity 1 year or more	42,455,922	613,759	746,484	1,773,783	1,627,356	1,627,117	5,964,608	1,891,069	4,826,916	3,625,387	21,759,445	15
16	Other liabilities	200,550,056	354,861	347,420	841,651	1,296,346	3,005,026	19,513,633	11,857,480	27,436,802	12,951,217	122,965,619	16
17	Capital stock, preferred	15,112,184	115,778	127,493	339,050	398,826	537,001	1,663,506	876,752	2,608,475	1,559,827	6,885,476	17
18	Capital stock, common	64,785,290	1,917,723	1,555,048	2,916,487	2,636,954	2,926,042	7,691,583	3,627,445	8,485,588	4,260,097	28,768,324	18
19	Surplus reserves	12,199,956	25,666	41,479	140,799	222,348	354,885	1,474,447	945,588	2,466,842	1,251,257	5,296,645	19
20	Surplus and undivided profits 44/	67,556,665	820,794	1,003,841	2,340,503	2,529,972	3,167,654	9,666,076	5,086,300	11,645,709	4,207,445	27,088,371	20
21	Less: Deficit 45/	9,194,819	1,286,985	520,948	849,166	728,035	740,052	1,812,124	685,844	1,189,637	415,647	966,382	21
22	Total liabilities 43/	418,324,088	3,528,237	4,050,325	8,964,164	9,322,230	12,390,911	46,107,085	25,285,428	60,260,431	28,953,021	219,462,255	22
	Receipts:												
23	Gross sales 17/	207,008,234	6,950,951	6,522,545	13,064,194	12,590,496	14,350,757	35,888,944	15,768,262	32,806,949	12,759,270	56,325,887	23
24	Gross receipts from operations 18/	42,120,957	1,742,885	1,126,725	1,962,260	1,833,280	1,781,032	4,361,127	2,519,116	6,506,952	3,992,678	16,494,885	24
	Interest on Government obligations (less amortizable bond premium):												
25	Wholly taxable 19/	1,092,289	1,152	1,645	4,886	7,510	16,644	104,825	67,612	155,389	68,922	663,707	25
26	Subject to declared value excess-profits tax and surtax 20/	330,156	87	93	458	941	2,411	18,801	14,742	45,722	21,669	227,212	26
27	Subject to surtax only 21/	18,428	35	43	125	150	276	1,850	980	2,925	1,277	10,788	27
28	Wholly tax-exempt 22/	241,056	180	269	457	1,511	3,291	26,501	15,871	35,879	16,478	142,818	28
29	Other interest	2,164,803	8,615	11,133	27,496	30,705	49,452	228,450	112,704	253,976	118,258	1,324,017	29
30	Rents 23/	2,017,118	173,050	157,957	319,208	122,494	117,701	219,420	96,494	187,286	116,600	506,929	30
31	Royalties 24/	240,485	8,846	6,595	14,605	17,395	17,759	49,956	30,931	42,150	12,806	39,483	31
32	Excess of net short-term capital gain over net long-term capital loss 25/	23,649	1,909	1,184	1,814	1,683	1,539	3,537	1,900	5,922	1,417	4,946	32
33	Excess of net long-term capital gain over net short-term capital loss 25/	385,108	13,032	10,847	22,196	23,516	33,904	77,281	37,872	78,165	19,256	69,040	33
34	Net gain, sales other than capital assets 26/	132,143	17,858	11,542	18,850	15,094	14,206	23,460	5,097	11,298	1,074	13,663	34
35	Dividends, domestic corporations 27/	1,407,011	4,127	5,627	13,652	18,445	29,617	150,186	79,833	241,980	112,946	752,599	35
36	Dividends, foreign corporations 28/	144,686	89	40	357	797	694	6,677	5,588	22,727	13,336	94,382	36
37	Other receipts	1,555,536	80,972	75,243	136,318	113,750	125,808	315,097	127,045	214,846	115,049	249,408	37
38	Total compiled receipts 10/	258,879,617	9,005,766	7,929,464	15,586,872	14,777,763	16,544,869	41,475,869	18,684,049	40,606,164	17,551,056	76,919,765	38
	Deductions:												
39	Cost of goods sold 29/	159,192,585	5,216,252	5,057,607	10,167,069	9,751,450	11,088,339	27,414,100	11,741,469	24,565,815	9,587,455	44,623,029	39
40	Cost of operations 29/	23,986,109	961,410	662,644	1,173,996	1,030,110	1,030,680	2,483,566	1,394,882	3,832,964	2,394,095	9,021,761	40
41	Compensation of officers	3,666,954	581,836	383,437	601,495	445,192	387,053	623,936	175,120	239,505	65,079	166,300	41
42	Rent paid on business property	2,444,179	244,340	125,917	180,072	144,083	129,983	289,371	126,496	255,258	114,926	835,754	42
43	Repairs 30/	2,541,723	59,844	47,974	93,027	90,748	105,248	337,501	195,263	491,680	211,966	908,472	43
44	Bad debts	325,594	16,905	17,257	24,087	21,427	19,754	59,213	22,778	36,295	22,395	85,483	44
45	Interest paid	2,256,207	37,802	42,192	95,588	85,464	94,305	245,844	121,956	278,458	174,249	1,060,569	45
46	Taxes paid 31/	5,884,547	155,305	150,981	263,277	258,592	306,242	897,581	412,001	947,659	384,228	2,130,682	46
47	Contributions or gifts 32/	251,887	3,780	4,563	11,258	13,282	16,950	46,662	21,469	40,406	14,742	58,775	47
48	Depreciation	5,890,715	105,279	97,157	192,791	177,403	195,119	482,247	227,938	547,769	272,750	1,592,264	48
49	Depletion	697,582	3,561	3,649	11,032	14,622	23,668	71,081	44,374	119,042	32,998	373,556	49
50	Amortization 33/	974,107	433	1,091	4,438	8,996	15,828	73,770	51,804	152,507	78,278	586,962	50
51	Net loss, sales other than capital assets 26/	434,954	33,539	11,252	20,324	20,679	29,227	59,999	48,672	71,532	24,605	115,124	51
52	Other deductions	25,918,647	1,328,588	1,015,165	1,900,791	1,722,867	1,798,620	4,372,466	2,026,811	4,262,919	1,987,597	5,505,243	52
53	Total compiled deductions	282,425,770	8,746,652	7,578,886	14,739,044	13,782,915	15,240,996	37,457,338	16,611,034	35,841,790	15,365,165	67,061,953	53
54	Compiled net profit or net loss (38 less 53)	26,453,847	257,114	350,578	847,828	994,848	1,303,873	4,018,531	2,073,015	4,764,374	1,985,874	9,857,811	54
55	Net income or deficit 2/ (54 less 28)	26,212,792	256,954	350,310	847,371	993,338	1,300,582	3,992,230	2,057,144	4,730,495	1,969,396	9,714,993	55
56	Net operating loss deduction 34/	141,974	23,620	11,946	17,812	12,960	12,986	21,429	9,705	12,654	2,570	16,293	56
57	Adjusted excess profits net income 11/	12,755,684	15,967	68,199	308,856	495,089	727,451	2,356,819	1,210,997	2,650,592	1,055,561	3,904,192	57
58	Income tax 3/	4,312,460	86,564	84,499	163,966	170,202	216,343	612,854	313,012	723,089	314,143	1,627,989	58
59	Declared value excess-profits tax	97,001	4,656	3,778	6,586	6,533	7,453	22,008	10,457	19,926	5,027	10,575	59
60	Excess profits tax 4/	10,359,618	14,688	59,459	262,124	411,056	592,773	1,875,810	968,731	2,112,209	849,828	5,212,940	60
61	Total tax	14,769,079	105,709	147,735	432,677	587,791	816,569	2,510,675	1,292,200	2,855,224	1,168,998	4,851,503	61
62	Compiled net profit less total tax (54 less 61)	11,684,768	151,405	202,843	415,152	407,058	487,304	1,507,858	780,815	1,909,150	816,876	5,006,308	62
	Dividends paid:												
63	Cash and assets other than own stock	5,957,051	65,716	63,549	145,333	161,155	214,885	684,311	387,880	1,040,855	506,458	2,686,907	63
64	Corporation's own stock	234,645	2,337	4,421	14,208	14,551	18,682	54,023	29,809	55,775	6,672	34,164	64

For footnotes, see pp. 29-30.

Table 5. - Corporation income and declared value excess-profits tax returns, 1/ 1944, by net income and deficit classes, for returns with net income and returns with no net income: Number of returns, and net income or deficit; also, for returns with net income: Total tax, income tax, declared value excess-profits tax, excess profits tax, and adjusted excess profits net income

(Net income and deficit classes and money figures in thousands of dollars)

Net income and deficit classes 2/	Returns with net income 2/							Returns with no net income 2/	
				Taxes					
	Number of returns	Net income 2/	Adjusted excess-profits net income 11/	Total tax	Income tax 3/	Declared value excess-profits tax	Excess profits tax 4/	Number of returns	Deficit 2/
Under 1	60,378	24,693	1	5,139	4,976	162	1	75,011	19,992
1 under 2	29,574	43,451	22	9,553	9,217	333	3	14,607	20,945
2 under 3	20,853	51,719	18	11,779	11,340	424	15	7,547	18,447
3 under 4	16,091	56,067	21	13,015	12,499	498	18	4,645	16,116
4 under 5	13,761	61,821	47	14,721	14,108	572	41	3,162	14,123
5 under 10	43,619	317,576	623	78,624	74,862	2,819	942	7,961	56,191
10 under 15	23,286	285,580	5,109	75,707	68,190	2,243	5,274	3,218	39,235
15 under 20	13,854	239,654	17,223	71,198	54,045	1,664	15,489	1,754	30,215
20 under 25	9,392	210,052	26,136	69,174	44,903	1,320	22,951	1,082	24,175
25 under 50	21,505	757,985	180,313	319,587	159,806	4,409	155,372	2,362	81,831
50 under 100	14,138	1,000,470	371,084	522,717	201,453	5,292	315,972	1,168	81,268
100 under 250	11,342	1,772,038	835,083	1,016,219	314,009	8,821	693,390	693	106,471
250 under 500	4,919	1,725,829	899,854	1,019,160	280,400	8,019	730,742	206	69,660
500 under 1,000	2,817	1,967,850	1,065,968	1,168,018	302,362	8,891	856,765	93	63,745
1,000 under 5,000	2,670	5,454,440	2,994,193	3,245,478	816,806	25,434	2,403,239	50	102,426
5,000 under 10,000	348	2,395,884	1,222,039	1,367,155	376,439	6,448	984,268	2	12,106
10,000 and over	357	10,758,631	5,223,928	5,876,703	1,608,101	21,320	4,247,282	2	62,315
Tax on returns with no net income 3/				104	104				
Total	288,904	27,123,741	12,841,663	14,884,050	4,353,620	98,668	10,431,762	123,563	819,260
No income data (inactive corporations)	---	---	---	---	---	---	---	34,329	---

For footnotes, see pp. 29-30.

Footnotes for tables in this release

1/ The information contained in this release is compiled from the returns as filed, prior to revisions that may be made as a result of audit by the Bureau of Internal Revenue. Data are likewise prior to any changes resulting from carry-backs, relief granted under section 722 of the Internal Revenue Code, recomputation of amortization of emergency facilities, or from the renegotiation of war contracts, after the returns were filed. The effect of renegotiation settlements reached after the returns were filed is to be shown in special tabulations which will appear in the complete reports, "Statistics of Income, Part 2," for each of the years 1942 through 1944.

2/ "Net income" or "Deficit" for 1944 is the amount reported for declared value excess-profits tax computation, adjusted by excluding net operating loss deduction and adding Government interest subject to surtax only and excess of net long-term capital gain over net short-term capital loss; for 1943 it is the amount reported for declared value excess-profits tax computation, adjusted by excluding net operating loss deduction. See note 34.

3/ "Income tax" consists of normal tax, surtax, and alternative tax reported in lieu of normal tax and surtax where the income includes an excess of net long-term capital gain over net short-term capital loss, if and only if such tax is less than the normal tax and surtax. Tabulated with the income tax for returns with net income is a small amount of tax reported on returns with no net income, under the special provisions applicable to certain mutual insurance companies, other than life or marine. Also, for 1943, tabulated with the income tax for returns with net income is a small amount of surtax reported on returns with no net income, where receipts for the taxable year include interest on obligations of certain instrumentalities of the United States.

4/ The excess profits tax shown is that imposed by section 710 of the Internal Revenue Code as amended and should not be confused with the declared value excess-profits tax. The amount shown is the excess profits tax liability reported on corporation excess profits tax returns, less the credit for debt retirement and the net post-war refund. Throughout this release, the tax is before the amount deferred under section 710(a)(5) (relating to abnormalities under section 722) and after any adjustments reported on the returns under other relief provisions.

5/ The excess profits net income is obtained from the normal-tax net income (computed without allowance of credit for income subject to excess profits tax and without allowance of dividends received credit) by making certain adjustments, consisting principally of the exclusion of long-term capital gains and losses, and dividends received from domestic corporations.

6/ The adjusted excess profits net income or deficit, as reported on Form 1121, is the excess profits net income less the sum of the specific exemption, excess profits credit, and unused excess-profits credit adjustment. For part year returns, the amounts of excess profits net income and adjusted excess profits net income have been placed on an annual basis.

7/ The total amount of adjusted excess profits net income does not include the amount of deficit on the taxable excess profits tax returns with no adjusted excess profits net income. The taxable excess profits tax returns with no adjusted excess profits net income consist of returns for fiscal or part years beginning in 1943 and ending in 1944. Returns for such periods are taxable if they show an adjusted excess profits net income under the provisions applicable to 1943, even though they may show no adjusted excess profits net income under the provisions applicable to 1944. See (5), page 5.

8/ The industrial classification is based on the business activity reported on the return. When multiple businesses are reported on a return, the classification is determined by the business activity which accounts for the largest percentage of total receipts. Therefore, the industrial groups do not reflect pure industry classifications. There is no change in the industrial groups between 1943 and 1944.

9/ Total number of returns includes returns of inactive corporations.

10/ "Total compiled receipts" consists of gross sales (less returns and allowances), gross receipts from operations (where inventories are not an income-determining factor), all interest received on Government obligations (less amortizable bond premium), other interest, rents, royalties, excess of net short-term capital gain over net long-term capital loss, excess of net long-term capital gain over net short-term capital loss, net gain from sale or exchange of property other than capital assets, dividends, and other receipts required to be included in gross income. "Total compiled receipts" excludes nontaxable income other than tax-exempt interest received on certain Government obligations.

11/ "Adjusted excess profits net income," allowed as a credit on Form 1120 in computing normal tax and surtax net income for taxable years beginning after December 31, 1941, is, in general, equal to the adjusted excess profits net income, as reported on Form 1121. However, in case the excess profits tax is determined as provided in section 721 of the Internal Revenue Code (relating to abnormalities in income in the taxable period), section 726 (relating to corporations completing contracts under the Merchant Marine Act of 1936), section 731 (relating to corporations engaged in mining strategic minerals), or section 736(b) (relating to corporations with income from long-term contracts), the credit reported on Form 1120 for adjusted excess profits net income is the amount of which the excess profits tax is 95 percent. For the purpose of computing such credit, the excess profits tax used is the tax computed without regard to the limitation provided in section 710(a)(1)(B) (the 80 percent limitation), without regard to the credit provided in section 729(c) and (d) for foreign taxes paid, and without regard to the adjustments provided in section 734 in case of position inconsistent with prior income tax liability.

12/ The industrial classification designated "Investment trusts and investment companies" consists of corporations which derived 90 percent or more of receipts from investments and which at no time during the taxable year had investments in corporations in which they owned 50 percent or more of the voting stock.

13/ The industrial classification designated "Holding companies" consists of corporations which derived 90 percent or more of receipts from investments and which at some time during the taxable year had investments in corporations in which they owned 50 percent or more of the voting stock.

14/ The industrial classification designated "Operating-holding companies" consists of corporations which derived less than 90 percent but more than 50 percent of receipts from investments.

15/ Less than $500.

16/ Number of returns excludes returns of inactive corporations.

17/ "Gross sales" consists of amounts received for goods, less returns and allowances, in transactions where inventories are an income-determining factor. For "Cost of goods sold," see "Deductions."

18/ "Gross receipts from operations" consists of amounts received from transactions in which inventories are not an income-determining factor. For "Cost of operations," see "Deductions."

Footnotes for tables in this release - Continued

19/ "Interest received on Government obligations, wholly taxable" consists of interest on Treasury notes issued on or after December 1, 1940, and obligations issued on or after March 1, 1941, by the United States or any agency or instrumentality thereof, reported as item 9(b), page 1, Form 1120.

20/ "Interest received on Government obligations, subject to declared value excess-profits tax and surtax" consists of interest on United States savings bonds and Treasury bonds owned in principal amount of over $5,000 issued prior to March 1, 1941, reported as item 9 (a), page 1, Form 1120.

21/ "Interest received on Government obligations, subject to surtax only" consists of interest on obligations of instrumentalities of the United States (other than obligations of Federal land banks, joint stock land banks, and Federal intermediate credit banks) issued prior to March 1, 1941, reported as item 32, page 1, Form 1120.

22/ "Interest received on Government obligations, wholly tax-exempt" consists of interest on obligations of States, Territories, or political subdivisions thereof, the District of Columbia, and United States possessions; obligations of the United States issued on or before September 1, 1917; all postal savings bonds; Treasury notes issued prior to December 1, 1940; Treasury bills issued prior to March 1, 1941; United States savings bonds and Treasury bonds owned in principal amount of $5,000 or less, issued prior to March 1, 1941; and obligations issued prior to March 1, 1941, by Federal land banks, joint stock land banks, and Federal intermediate credit banks. Interest from such sources is reported under item 15 (a) of schedule M, page 4, Form 1120.

23/ Amount shown as "Rents" consists of gross amounts received. The amounts of depreciation, repairs, interest, taxes, and other expenses, which are deductible from the gross amount received for rents, are included in the respective deduction items.

24/ Amount shown as "Royalties" consists of gross amounts received. The amount of depletion, which is deductible from the gross amount of royalties received, is included in the item of "Depletion" in deductions.

25/ "Capital gain or loss," is the amount of gain or loss arising from the sale or exchange of capital assets. The excess of the net long-term capital gain over the net short-term capital loss is excluded from net income for the purpose of computing declared value excess-profits tax. (A net loss from this source is not deductible for the current year, but may be carried over and applied against capital gains in the five succeeding taxable years to the extent not allowed as a deduction against any net capital gains of any taxable year intervening between the taxable years in which the net capital loss was sustained and the taxable year to which carried.) The term "Capital assets" means property held by the taxpayer (whether or not connected with trade or business), but excludes (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, (4) Government obligations 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 the date of issue, and (5) real property used in the trade or business of the taxpayer. Beginning 1942 gains and losses from (a) sale or exchange of depreciable property and real property, used in the trade or business and held for more than 6 months, and from (b) involuntary conversion of such property and of capital assets held for more than 6 months are treated as long-term capital gains and losses, if the gains exceed the losses. If the losses exceed the gains, the net loss is deductible as an ordinary loss. For taxable years beginning after December 31, 1941, "short-term" applies to gains or losses on the sale or exchange of capital assets held six months or less; "long-term" applies to gains or losses on capital assets held over six months.

26/ "Net gain or loss, sales other than capital assets" is the net amount of gain or loss arising from the sale or exchange of depreciable and real property used in trade or business and short-term noninterest-bearing Government obligations issued on or after March 1, 1941, on a discount basis. If the property used in trade or business has been held for more than 6 months, special treatment of the gain or loss is provided as described in note 25 above.

27/ "Dividends, domestic corporations" consists of dividends received from domestic corporations subject to income taxation under chapter 1 of the Internal Revenue Code. This item is reported in column 2, schedule E, page 3, Form 1120, and is the amount used for computation of the dividends received credit.

28/ "Dividends, foreign corporations" is the amount reported in column 3, schedule E, page 3, Form 1120, and is not used for the computation of dividends received credit.

29/ Where the amount reported as "Cost of goods sold" or "Cost of operations" includes items of deductions such as depreciation, taxes, etc., these items ordinarily are not transferred to their specific headings. However, an exception is made with respect to amortization of emergency facilities reported in costs, such amount being transferred to "Amortization."

30/ Amount shown as "Repairs" is the cost of incidental repairs, including labor and supplies, which do not add materially to the value of the property or appreciably prolong its life.

31/ The item "Taxes paid" excludes (1) Federal income tax and Federal excess profits taxes, (2) estate, inheritance, legacy, succession, and gift taxes, (3) income taxes paid to a foreign country or possession of the United States if any portion is claimed as a tax credit, (4) taxes assessed against local benefits, (5) Federal taxes paid on tax-free covenant bonds, and (6) taxes reported in "Cost of goods sold" and "Cost of operations."

32/ The deduction claimed for "Contributions or gifts" is limited to 5 percent of net income as computed without the benefit of this deduction.

33/ Amount shown as "Amortization" is the deduction provided by section 124 of the Internal Revenue Code as amended with respect to the amortization of the cost of emergency facilities necessary for national defense.

34/ The net operating loss deduction tabulated herein is the amount originally reported, consisting only of the net operating loss carry-over reduced by certain adjustments, and does not take into account whatever revisions may subsequently be made as the result of any carry-back of net operating loss from the two succeeding tax years. In general, the net operating loss carry-over is the sum of the net operating losses, if any, for the two preceding taxable years. If there is net income in the first preceding taxable year, the net operating loss for the second preceding taxable year is reduced to the extent such loss has been absorbed by such net income.

35/ Amount shown as "Compensation of officers" excludes compensation of officers of life insurance companies which file Form 1120L. Data not available.

36/ See note 35.

37/ Compiled net loss or deficit.

38/ Compiled net loss after total tax payment.

39/ "Number of returns with balance sheets" excludes returns of inactive corporations and returns of active corporations for which balance sheet data are lacking.

40/ Amount shown as "Cash" includes bank deposits.

41/ Amount shown as "Investments, Government obligations" consists of obligations of the United States or agency or instrumentality thereof as well as obligations of States, Territories, and political subdivisions thereof, the District of Columbia, and United States possessions.

42/ Amount shown as "Capital assets" consists of (1) depreciable tangible assets such as buildings, fixed mechanical equipment, manufacturing facilities, transportation facilities, and furniture and fixtures, (2) depletable tangible assets -- natural resources, and (3) intangible assets such as patents, franchises, formulas, copyrights, leaseholds, goodwill, and trade-marks. (Amounts in tables 3 and 4 of this release exclude land.)

43/ Assets and liabilities are tabulated as of December 31, 1941, or close of fiscal year nearest thereto. Total assets classes are based on the net amount of total assets after reserves for depreciation, depletion, amortization, and bad debts. Adjustments are made in tabulating the data as follows: (1) Reserves, when shown under liabilities, are used to reduce corresponding asset accounts, and "Total assets" and "Total liabilities" are decreased by the amount of such reserves, and (2) a deficit in surplus, shown under assets, is transferred to liabilities, and "Total assets" and "Total liabilities" are decreased by the amount of the deficit.

44/ Amount shown as "Surplus and undivided profits" consists of paid-in or capital surplus and earned surplus and undivided profits. See note 45.

45/ Amount shown as "Deficit" consists of negative amounts of earned surplus and undivided profits.

STATUTORY DEBT LIMITATION
AS OF SEPTEMBER 30, 1947

October 6, 1947

Section 21 of the Second Liberty Bond Act, as amended, provides that the face amount of obligations issued under authority of that Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), "shall not exceed in the aggregate $275,000,000,000 outstanding at any one time. For purposes of this section the current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder shall be considered as its face amount."

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			$275,000,000,000
Outstanding September 30, 1947			
Obligations issued under Second Liberty Bond Act, as amended			
Interest-bearing			
Treasury bills	$ 15,724,936,000		
Certificates of indebtedness	24,893,601,000		
Treasury notes	13,370,694,900	$ 53,989,231,900	
Bonds			
Treasury	119,322,874,450		
Savings (current redemp. value)	51,758,888,035		
Depositary	325,677,000		
Armed Forces Leave	1,024,910,725	172,432,350,210	
Special Funds			
Certificates of indebtedness	14,756,100,000		
Treasury notes	14,764,181,000	29,520,281,000	
Total interest-bearing		255,941,863,110	
Prepayments-Treas.Bond dtd.Oct.1,1947		111,708,000	
Matured, interest-ceased		247,816,771	
Bearing no interest			
War savings stamps	64,963,102		
Excess profits tax refund bonds	13,790,251		
Special notes of the United States:			
Internat'l Bank for Reconst. and Development series	315,785,000		
Internat'l Monetary Fund series	1,579,000,000	1,973,538,353	
Total		258,274,926,234	
Guaranteed obligations (not held by Treasury)			
Interest-bearing			
Debentures: F.H.A.	34,280,336		
Demand obligations: C.C.C.	35,826,888	70,107,224	
Matured, interest-ceased		5,852,400	
		75,959,624	
Grand total outstanding			258,350,885,858
Balance face amount of obligations issuable under above authority			16,649,114,142

Reconcilement with Statement of the Public Debt September 30, 1947
(Daily Statement of the United States Treasury, October 1, 1947)

Outstanding	
Total gross public debt	259,144,588,455
Guaranteed obligations not owned by the Treasury	75,959,624
Total gross public debt and guaranteed obligations	259,220,548,079
Deduct - other outstanding public debt obligations not subject to debt limitation	869,662,221
	$258,350,885,858

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 7, 1947.

PRESS SERVICE
No. S-486

The Secretary of the Treasury, by this public notice, invites tenders for $1,100,000,000, or thereabouts, of 91-day Treasury bills, for cash and in exchange for Treasury bills maturing October 16, 1947, to be issued on a discount basis under competitive and non-competitive bidding as hereinafter provided. The bills of this series will be dated October 16, 1947, and will mature January 15, 1948, 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 Standard time, Friday, October 10, 1947. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders 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 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, non-competitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on October 16, 1947,

in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 16, 1947. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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 the Internal Revenue Code, or laws amendatory or supplementary thereto. 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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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 7, 1947.

Press Service
No. S-487

The Secretary of the Treasury announced last evening that the tenders for $1,300,000,000, or thereabouts, of 91-day Treasury bills to be dated October 9, 1947, and to mature January 8, 1948, which were offered October 3, 1947, were opened at the Federal Reserve Banks on October 6.

The details of this issue are as follows:

Total applied for - $1,595,477,000
Total accepted - 1,303,753,000 (includes $28,672,000 entered on a non-competitive basis and accepted in full at the average price shown below)

Average price - 99.791 Equivalent rate of discount approx. 0.827% per annum

Range of accepted competitive bids:

High - 99.815 Equivalent rate of discount approx. 0.732% per annum
Low - 99.788 Equivalent rate of discount approx. 0.839% per annum

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

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 660,000	$ 660,000
New York	1,490,154,000	1,228,025,000
Philadelphia	13,670,000	8,103,000
Cleveland	4,285,000	4,158,000
Richmond	2,590,000	2,590,000
Atlanta	1,566,000	1,566,000
Chicago	46,801,000	23,982,000
St. Louis	1,720,000	1,720,000
Minneapolis	5,445,000	5,232,000
Kansas City	4,320,000	4,120,000
Dallas	5,480,000	5,351,000
San Francisco	18,786,000	18,246,000
TOTAL	$1,595,477,000	$1,303,753,000

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TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE
Wednesday, October 8, 1947.

Press Service
No. S-488

Secretary Snyder announced today the voluntary disclosure and payment of more than $1,000,000 in taxes by two taxpayers to avert prosecution for past evasion of income taxes.

Both cases resulted from the policy of foregoing criminal prosecution in the case of tax evaders who make voluntary disclosures of their frauds before investigation of their cases is initiated.

In one case, a large mid-western concern with an eastern office agreed to pay $593,000 after voluntarily admitting that it had been concealing its true profits by an intricate system of false invoices, and by switching of funds between offices in different parts of the country.

In the second case a large confectionery concern agreed to pay $517,000 after voluntarily confessing that taxes had not been paid on company income that had been secretly diverted to the personal use of its principal stockholders.

Other interesting cases developed recently in the drive against tax evaders and reported to the Secretary by George J. Schoeneman, Commissioner of Internal Revenue, included:

Investigation of a "flashy" habitue of the expensive night clubs in a large eastern city revealed that he was a "society bookmaker" and owed $142,000 in tax and penalties for failure to pay tax on income derived from handling gambling transactions for wealthy patrons of the night clubs. Information so far compiled shows that this individual spent $62,000 for expensive automobiles, clothing, night club checks, and other incidentals of maintaining his avowed position as a "society bookmaker".

In a far Western state, investigators were intrigued by the success of a sheep herder who reported little income on his tax returns but had managed to increase his herds enormously in recent years. The result was a tax and penalty assessment of $528,000.

An investigation of a western butcher shop developed this story: The butcher's wife was the purchasing agent for a restaurant located next door to the butcher shop. The wife ordered the restaurant's meat from her husband. The husband padded the prices of the meat and his wife collected his bills for him. Then the butcher turned over to the owner of the butcher shop the regular prices of the meat and pocketed the difference.

The fact that income tax evasion goes hand in hand with low ethical standards is illustrated by a recent mid-western case. A man who was in the fish and poultry business was found not only to have cheated the Government of $43,000 in taxes but also to have cheated his son of a partnership share in his profits while the son was in military service.

A large wholesale shoe jobber was found by other investigators to have defrauded the Government of $282,000 in taxes by the concealment of inventories. In this case it was found that the company had been misleading a reputable firm of accountants which had been preparing its tax returns. The accountants severed connections with the company upon learning of the deception.

A coal company has been assessed $322,000 for failure to pay tax on profits from the sale of equipment and other allied transactions, even though the head of the company told the agents at the beginning of their investigation that he was "in no mood" to discuss his business with tax investigators.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Wednesday, October 8, 1947

Press Service
No. S-489

The Bureau of Customs announced today that preliminary data on imports of cotton and cotton waste chargeable to the quotas established by the President's proclamation of September 5, 1939, as amended, for the period September 20, 1947, to September 27, 1947, are as follows:

COTTON (other than linters)
(In pounds)

Country of Origin	Under 1-1/8" other than rough or harsh under 3/4"		1-1/8" or more but less than 1-11/16" 4/	Less than 3/4" harsh or rough 5/
	Established Quota	Imports Sept. 20, 1947, to Sept.27,1947	Imports Sept. 20, 1947, to Sept.27,1947	Imports Sept. 20, 1947, to Sept. 27, 1947
Egypt and the Anglo-Egyptian Sudan	783,816	-	43,574,472	
Peru	247,952	186,962	1,903,999	
British India	2,003,483	-	-	
China	1,370,791	-	-	
Mexico	8,883,259	8,883,259	-	
Brazil	618,723	618,723	-	
Union of Soviet Socialist Republics	475,124	475,124	177,949	
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	10,164,068	45,656,420	

NONE

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Other than Gold Coast and Nigeria.
3/ Other than Algeria, Tunisia, and Madagascar.
4/ Established Quota - 45,656,420.
5/ Established Quota - 70,000,000

COTTON WASTES
(In pounds)

COTTON CARD STRIPS made from cotton having a staple of less than 1-3/16 inches in length, COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE: Provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes other than 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:

Country of Origin	Established TOTAL QUOTA	Total imports Sept.20,1947, to Sept.27,1947	Established: 33-1/3% of Total Quota:	Imports Sept.20, 1947 to Sept.27, 1947 1/
United Kingdom.....	4,323,457	-	1,441,152	-
Canada.....	239,690	-	-	-
France.....	227,420	-	75,807	-
British India.....	69,627	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	69,627	1,599,886	-

1/ Included in total imports, column 2.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Wednesday, October 8, 1947

Press Service
No. S-490

The Bureau of Customs announced today that preliminary data on imports of cotton and cotton waste chargeable to the quotas established by the President's proclamation of September 5, 1939, as amended, for the period September 20, 1946, to September 19, 1947, are as follows:

COTTON (other than linters)
(In pounds)

Country of Origin	Under 1-1/8" other than rough or harsh under 3/4"		1-1/8" or more but less than 1-11/16" 4/	Less than 3/4" harsh or rough 5/
	Established Quota	Imports Sept. 20, 1946, to Sept.19,1947	Imports Sept. 20,1946, to Sept.19, 1947	Imports Sept. 20, 1946, to Sept. 19, 1947
Egypt and the Anglo-Egyptian Sudan	783,816	11,630	36,415,174	-
Peru	247,952	247,952	9,209,346	-
British India	2,003,483	1,167,578	-	45,092,788
China	1,370,791	344	-	-
Mexico	8,883,259	8,883,259	-	-
Brazil	618,723	618,723	-	-
Union of Soviet Socialist Republics	475,124	475,124	31,900	-
Argentina	5,203	5,081	-	-
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	-	-	-	-
Kuwait	-	-	-	237,600
	14,516,882	11,409,691	45,656,420	45,330,388

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Other than Gold Coast and Nigeria.
3/ Other than Algeria, Tunisia, and Madagascar.
4/ Established Quota - 45,656,420.
5/ Established Quota - 70,000,000.
*See Footnote next page.

COTTON WASTES
(In pounds)

COTTON CARD STRIPS made from cotton having a staple of less than 1-3/16 inches in length, COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE: Provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes other than 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:

Country of Origin	Established TOTAL QUOTA	Total imports Sept. 20, 1946, to Sept. 19, 1947	Established 33-1/3% of Total Quota	Imports Sept. 20, 1946 to Sept. 19, 1947 1/
United Kingdom.....	4,323,457	-	1,441,152	-
Canada.....	239,690	96,778	-	-
France.....	227,420	-	75,807	-
British India.....	69,627	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	6,347	-	-
Cuba.....	6,544	-	-	-
Germany.....	76,329	-	25,443	-
Italy.....	21,263	-	7,088	-
Totals	5,482,509	172,752	1,599,886	-

1/ Included in total imports, column 2.

* The President's proclamation of June 9, 1947, prescribed a supplemental quota of 23,094,000 pounds of cotton having a staple of 1-3/8 inches or more but less than 1-11/16 inches in length for the period June 14 to September 20, 1947.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Wednesday, October 8, 1947

Press Service
No. S-491

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, 1947, as follows:

Country or Origin	Wheat		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Established Quota (Bushels)	Imports May 29, 1947, to Sept. 27, 1947 (Bushels)	Established Quota (Pounds)	Imports May 29, 1947 to Sept. 27, 1947 (Pounds)
Canada	795,000	59	3,815,000	764,746
China	-	-	24,000	7,600
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	-
Jugoslavia	-	-	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	59	4,000,000	772,346

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Wednesday, October 8, 1947

Press Service
No. S-492

The Bureau of Customs announced today preliminary figures showing the imports for consumption of commodities on which quotas were prescribed by the Philippine Trade Act of 1946, from January 1, 1947, to September 27, 1947, inclusive, as follows:

Products of Philippine Islands	Established Quota Quantity	Unit of Quantity	Imports as of Sept. 27, 1947
Buttons	850,000	Gross	70,458
Cigars	200,000,000	Number	3,141,734
Coconut Oil	448,000,000	Pound	15,952,851
Cordage	6,000,000	"	1,691,042
Rice	1,040,000	"	50
Sugars, refined) unrefined)	1,904,000,000	"	----
Tobacco	6,500,000	"	762,671

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Wednesday, October 8, 1947

Press Service
No. S-493

The Bureau of Customs announced today preliminary figures showing the imports for consumption of commodities within quota limitations provided for under trade agreements, from the beginning of the quota periods to September 27, 1947, inclusive, as follows:

Commodity	Established Quota			Imports as of Sept. 27, 1947
	Period and	Quantity	Unit of Quantity	
Whole Milk, fresh or sour	Calendar year	3,000,000	Gallon	5,202
Cream, fresh or sour	Calendar year	1,500,000	Gallon	1,334
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish	Calendar year	23,906,423	Pound	20,023,127
White or Irish potatoes:				
certified seed	12 months from	90,000,000	Pound	31,400
other	Sept. 15, 1947	60,000,000	Pound	137,308
Cuban filler tobacco unstemmed or stemmed (other than cigarette leaf tobacco) and scrap tobacco	Calendar year	22,000,000	Pound (unstemmed equivalent)	Quota Filled
Red cedar shingles	Calendar year	1,380,300	Square	Quota Filled
Molasses and sugar sirups containing soluble non-sugar solids equal to more than 6% of total soluble solids	Calendar year	1,500,000	Gallon	521,905

TREASURY DEPARTMENT

Washington

(The following address by Secretary Snyder, accepting the statue of Albert Gallatin, is scheduled to be delivered at 4:00 p.m., E.S.T., Wednesday, October 15, 1947, and is for release at that time.)

I am happy to accept on behalf of the Treasury Department, and in the name of the American people, this statue of Albert Gallatin, fourth Secretary of the United States Treasury.

One hundred and forty-six years ago Gallatin undertook the extremely difficult task of guiding the fiscal conduct of a young Nation. The account of his success is one of the important pages of our history.

His accomplishments, his courage, his wisdom and his vision are more and more recognized and appreciated by the generations which succeed him. Today, in dedicating this statue, we honor his devoted service to the country.

It is altogether appropriate that this monument to Gallatin stands here, on Treasury Square. It has been placed in distinguished company, for the figure of Alexander Hamilton, the First Secretary, stands at the opposite entrance to the Treasury Building.

These two great public servants, though bitter enemies in politics, held to one common purpose which they placed above all other issues -- the financial integrity of the United States of America.

That purpose is as vital today to the welfare and security of the Nation as it was in the early nineteenth century.

Mr. Sproul has ably discussed the life and works of Albert Gallatin. For my part, I should like to comment upon certain aspects of Gallatin's career which particularly qualify him for recognition as an outstanding statesman.

Statesmanship involves more than an able and sagacious performance of duties of the moment. Statesmanship calls for an understanding and clear vision in establishing policies that will endure -- policies that will contribute to the constructive development of a nation and to the welfare of a people in succeeding generations. Gallatin met this test.

Under his leadership an intelligent policy of disposition of the public lands was developed, a policy that contributed immeasurably to the growth of the Nation. He saw to it that the revenues resulting from the disposition of such lands inured to the benefit of all the people.

A strong and early advocate of a national program of public works improvements, he insisted on the application of a part of the land sale proceeds to building of roads. He fathered the policy of retaining a part of the Government lands for the use of schools.

He was one of the first and most prominent advocates of a merit system for public service, and a strong opponent of any political spoils system. His theories in this respect are found in the Civil Service as we know it today.

He established a meticulous accounting system in the Treasury, and his clear reports on the Government's finances are model documents even today. It was upon this foundation that the Treasury developed the reputation of integrity and efficiency that has won the confidence and respect of the American people.

He was the constant exponent of detailed, specific appropriations for the expenditures of Government, a theory that is the backbone of the present Federal budgetary system. Along with this, he pressed for economy in administration with perseverance and authority. He did this, consistently, at a time when a young Government was not yet grounded in the fundamentals of fiscal soundness.

These are but a few examples of the statesmanship displayed by Gallatin.

But the policies and accomplishments of Gallatin that hold most significance to us today lie within the field of public credit. The fourth Secretary considered this field to be the most important of all.

With the staunch support of President Jefferson, Gallatin was first to develop the theory that during times of national peace and prosperity, the Treasury must show ample surpluses to be applied toward an orderly reduction of the public debt. He realized that the Nation must in such times prepare itself to cope with any emergency that might arise. He realized that our permanent economic well-being rests upon fiscal solvency.

Gallatin recognized that such a goal could be obtained only through the maintenance of a surplus of revenues over expenditures.

Gallatin's policy of surpluses for debt retirement took courage, but he never wavered.

Increased revenue from import duties, reflecting a prosperous country and an expanding commerce, together with proceeds from the sale of public lands, helped the Secretary toward his objective.

Between 1801 and 1812, the public debt was reduced from $83,000,000 to $45,000,000. And in addition during this period, Louisiana was purchased for $15,000,000. When, in 1809, Jefferson wrote to his Secretary that "the discharge of the debt is vital to the destinies of our Government", Gallatin was proud to reply, that that had been his principal objective in office.

Gallatin was not to see realization of his goal of complete debt retirement. War clouds, gathering during the later years of his tenure, culminated in the War of 1812 with Great Britain. But with the return of peace, his successors in office proceeded with the liquidation of the again expanded debt in line with his sound theory.

To compare this Nation of today with the Republic of Gallatin's day would be difficult. Proportionately, its problems were no less or no greater than ours of today.

We of this generation face the problem of a huge national debt resulting from the extraordinary expenditures of war. We, too, are experiencing an unusual prosperity, which will permit us, if we have the stamina, to reduce that debt and thus strengthen our financial structure.

For, as in Gallatin's time, we are charting a course in an uneasy world, filled with conflicts and dissensions that threaten our national security. We do not know what emergencies will arise under our responsibility to an exhausted world.

If we are to help those people now in desperate trouble who deserve aid, and have proved they desire to help themselves if given the opportunity, we must keep our financial position sound. It therefore behooves us to keep our house in order.

Such has been the primary fiscal objective of President Truman. And, as Secretary of the Treasury, I have sought always to work toward that goal. When, some sixteen months ago, I took oath of office I stated:

"It is the responsibility of the Government to reduce its expenditures in every possible way, to maintain adequate tax rates during this transition period, and to achieve a balanced budget -- or better."

Today, as in Gallatin's time, we are facing problems as great or greater than war, and only sound financial philosophy and purpose will resolve these problems.

One thing to remember above all others:

There can be no compromise in our determination to pay that which we justly owe. We of this generation must make it a part of our creed, even as Albert Gallatin did, that as a people, we stand unalterably for financial integrity in Government.

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Saturday, October 11, 1947.

Press Service
No. S-495

The Secretary of the Treasury announced last evening that the tenders for $1,100,000,000, or thereabouts, of 91-day Treasury bills to be dated October 16, 1947, and to mature January 15, 1948, which were offered October 7, 1947, were opened at the Federal Reserve Banks on October 10.

The details of this issue are as follows:

Total applied for - $1,393,846,000
Total accepted - 1,104,761,000 (includes $24,700,000 entered on a non-competitive basis and accepted in full at the average price shown below)
Average price - 99.789 Equiv. rate of discount approx. 0.835% per annum

Range of accepted competitive bids:

High - 99.830 Equiv. rate of discount approx. 0.673% per annum
Low - 99.786 " " " " " 0.847% " "

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

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 11,750,000	$ 11,642,000
New York	1,297,751,000	1,037,664,000
Philadelphia	1,976,000	1,976,000
Cleveland	1,670,000	1,670,000
Richmond	2,960,000	2,960,000
Atlanta	1,870,000	1,870,000
Chicago	35,338,000	12,798,000
St. Louis	2,139,000	2,139,000
Minneapolis	4,560,000	3,245,000
Kansas City	15,451,000	11,451,000
Dallas	8,665,000	8,630,000
San Francisco	9,716,000	8,716,000
TOTAL	$1,393,846,000	$1,104,761,000

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, October 15, 1947.

Press Service
No. S-496

During the month of September, 1947, market transactions in direct and guaranteed securities of the Government for Treasury investment and other accounts resulted in net sales of $123,096,300, Secretary Snyder announced today.

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TREASURY DEPARTMENT

Washington

(The following address by Under Secretary A. Lee M. Wiggins at the presentation of the statue of Albert Gallatin, is scheduled to be delivered at 4:00 p.m., E.S.T., Wednesday, October 15, 1947, and is for release at that time.)

Today we stand before this great edifice of the Treasury of the United States to pay tribute to one of the outstanding statesmen in our history. We welcome the opportunity to share in the ceremony attending the unveiling of this statue to a great American and to review his contribution to the welding of our democracy as we rededicate ourselves to the principles of freedom for which he stood.

Washington might well be called "The City of Monuments". On every hand, stone and bronze replicas of the nation's revered heroes stand as reminders of those patriots who set the pattern of democracy in America. They also testify to the eternal truth of the ideals that have been translated into a system of Government in which not only the body of man is free but also the dignity of his individual life is recognized and respected and the spirits of men may freely seek communion with the God of the universe. These silent memorials stand as testimony to the age-old struggle for freedom, to the supremacy of the spirit over human relationships, to the personal sacrifice of individuals for the common good, and to the success of a philosophy of government under which free people are neither slave nor tyrant, but equal in birthright, equal before the law, and equal before their God. These statues proclaim to the world the success of democracy as the most satisfying, the most productive, and the most stimulating system of human relationships yet devised by man.

The writers of our history have largely concentrated upon the political and military forces manifest in the progress of the nation. The patriots of peace, the thinkers, the toilers, and the doers behind the colorful scene have long been neglected, but today with the unveiling of the monument which stands before us, we recognize such a patriot -- a man whose genius in the fields of finance and statecraft laid a solid foundation of financial strength and integrity of a nation whose fruitfulness is unsurpassed in all history.

The life of Albert Gallatin, fourth Secretary of the Treasury, constitutes one of America's oldest and most impressive "success stories". Lured to America from across the seas by the promise of freedom, he remained to lend his energies

as few men have to the complete fulfillment of that promise. And so it came to pass in the early years of our Republic, there was woven into the fabric of the nation the enduring strength of Gallatin's character, the abiding wisdom of his great mind, and the inspiring vision of his noble spirit.

Albert Gallatin, American by adoption, peerless financier, diplomat extraordinary, disciple of fiscal integrity, who developed the balance-sheet system of Government accounting. . . . it is this great man who is honored today as his bronze likeness here before us becomes the cherished possession of the America that he loved so much and served so well.

May this statue and others in this city be constant reminders of the spirit and character of the men they represent, of the America that they helped build, of the free democracy that was their vision, their hope, and their prayer -- of an America that today is the hope, the prayer, and the promise of the world of tomorrow.

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(In introducing the Sculptor of the Gallatin Statue, James E. Frazer, the Under Secretary said:)

Many of the finest passages from American history have been graven in enduring marble and molded in imperishable bronze by the nation's sculptors. Their genius, fortunately, has captured the qualities of character and integrity of the builders of our democracy for the inspiration and guidance of present and future generations.

There is perhaps no living artist who has achieved greater distinction as an exponent of American ideals as portrayed in stone and metal than the creator of the statue around which we are gathered. His significant works are well known to many of us . . . they include the dignified bronze figure of Alexander Hamilton, first Secretary of the Treasury, which stands before the Treasury's south portico; the massive marble figures before the Supreme Court and National Archives buildings; numerous imaginative sculptures, and a series of distinguished portrait busts.

The supreme artistry of the Gallatin statue is a glorious tribute to its famous sculptor, Mr. James E. Frazer, whom I am happy to present at this time.

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PROGRAM OF EXERCISES

ATTENDING THE UNVEILING OF

THE STATUE OF

ALBERT GALLATIN

NORTH PLAZA, TREASURY BUILDING

WASHINGTON, D. C.

OCTOBER 15, 1947

38



ALBERT GALLATIN

JANUARY 29, 1761 — AUGUST 12, 1849

Before the Thirteen Colonies became the United States, there was born in Geneva, Switzerland, a future American citizen who was to play a vital part in establishing the financial soundness of the new nation. Albert Gallatin came of an old and noble family; he graduated with honor from the Geneva Academy, but in 1780 he gave up fortune and social position because of "a love for independence in the freest country of the universe." Offered a commission as Lieutenant Colonel by the Landgrave of Hesse, whose hated "Hessians" were mercenaries with the British forces, he refused saying "he would never serve a tyrant", and escaped the resulting family indignation by secretly leaving home. With a friend he took passage for America. His first business venture was launched in Boston, and he later taught French at Harvard, but soon went southward. In October 1785 he took the Oath of Allegiance in Virginia. Settling finally in Pennsylvania, he was a member of the State Legislature before being sent to the United States Senate. His citizenship being in debate, he was rejected by that body, but not before calling upon the Secretary of the Treasury for a statement of the debt as of January 1, 1794, distinguishing the monies received under each branch of the revenue, and expended under each appropriation. When Gallatin was again returned, this time to the House, he immediately became a member of the new Standing Committee of Finance, the forerunner of the Ways and Means Committee.

In July, 1800, he prepared a report entitled, "Views of the Public Debt, Receipts and Expenditures of the United States". This report, analyzing the fiscal operations of the Government under the Constitution, is still regarded as a classic. In Congress, he struggled successfully to keep down appropriations, particularly those for warlike purposes. The opposition party attacked him personally, as well as politically, because of his foreign birth, and Jefferson believed the Sedition Bill was framed to drive Gallatin from office. However, as soon as Jefferson was elected President, early in 1801, he tendered Gallatin the post of Secretary of the Treasury.

Gallatin took his oath on a "platform" of debt reduction, the necessity for specific appropriations, and strict and immediate accountability for disbursements. Eight years after assuming office, his estimates on revenues and debt reduction had been proven uncannily accurate. He had succeeded in reducing the public debt by fourteen millions, and had built up a surplus. At the same time, fifteen millions had gone for the purchase of the Louisiana Territory, an acquisition which established the United States as a great Continental power.

A meticulous bookkeeper and originator of many accounting practices still in use in the Department, Gallatin also sponsored the establishment of Naval hospitals, the forerunner of our present Public Health Service; while in 1807 he submitted to Congress an extensive plan for internal improvements, particularly the construction of highways and canals. His greatest contribution, however, was that for the first time Congress received a detailed report of the country's fiscal situation. Earlier Secretaries had conscientiously reported disbursements, but Gallatin gave a breakdown of receipts, a concise statement of the public debt, and an estimate of expected revenues.

Gallatin served in the Treasury until 1813, and was offered the post again by President Madison in 1816, declining because he thought its responsibilities demanded "an active young man". He felt this even more strongly in 1843, when President Tyler offered him the post, but must have recognized this as a striking tribute to his past achievements.

His public service was by no means over when he left the Treasury. The Treaty of Ghent, ending the War of 1812, was considered largely Gallatin's personal triumph, for he was the most effective of the American Commissioners. Thereafter he negotiated a commercial convention with England, by which discriminating duties were abolished. He served as Minister both to France and to England, concluding his years in the field of diplomacy in 1827, when he returned to take up his residence in New York.

Here he became the President of the National Bank of the City of New York, later the Gallatin National Bank of the City of New York, and now the Central Hanover Bank and Trust Company. Here, too, he participated in the community's cultural activities. He was a founder of New York University, and of the American Ethnological Society, making valuable contributions on languages of the Indian tribes. When, as President of the New York Historical Society, he presided at an anniversary celebration in 1844, John Quincy Adams, long his political opponent, paid high tribute to Gallatin as a patriot and citizen.

Albert Gallatin died on Long Island at the age of eighty-eight.

Always an enthusiast for American ideals on liberty, he was a firm believer in the essential soundness of the Government and its finances. "If I have not wholly misunderstood America," he wrote, "I am not wrong in the belief that its public funds are more secure than those of all the European powers." For the greater part of his long life, he devoted himself to making this ideal an actuality, and carried out his vision with honor to himself and for the lasting benefit of his country and fellow citizens.

ORDER OF EXERCISES, OCTOBER 15, 1947, 4 P. M.

HON. A. L. M. WIGGINS,
UNDER SECRETARY OF THE TREASURY, PRESIDING

MUSIC—NATIONAL EMBLEM MARCH . . . . . U. S. NAVY BAND

INVOCATION . . . . . THE REV. PETER MARSHALL, D. D.

INTRODUCTORY REMARKS BY PRESIDING OFFICER . HON. A. L. M. WIGGINS

UNVEILING OF STATUE . . . . . MRS. CHARLES GAY
(LOUISE GALLATIN GAY)

PRESENTATION OF THE STATUE BY CHAIRMAN OF THE
ALBERT GALLATIN MEMORIAL COMMITTEE . MR. ALLAN SPROUL

INTRODUCTION, BY THE PRESIDING OFFICER,
OF THE SCULPTOR . . . . . MR. JAMES E. FRASER

ACCEPTANCE OF THE STATUE ON BEHALF OF THE UNITED STATES
BY THE SECRETARY OF THE TREASURY . HON. JOHN W. SNYDER

BENEDICTION . . . . . THE REV. PETER MARSHALL, D. D.

MUSIC—NATIONAL ANTHEM . . . . . U. S. NAVY BAND

MUSIC BY UNITED STATES NAVY BAND
UNDER THE DIRECTION OF
CHIEF WARRANT OFFICER RICHARD E. TOWNSEND

GUARD OF HONOR CONSISTING OF UNITED STATES MARINES UNDER COMMAND OF LIEUT. W. H. LANAGAN FROM THE MARINE BARRACKS, WASHINGTON, D. C. OFFICERS AND MEN OF THE UNITED STATES MARINE CORPS AND THE VETERANS OF FOREIGN WARS AND AMERICAN LEGION POSTS OF THE TREASURY DEPARTMENT ASSISTING IN THE UNVEILING AND SERVING AS USHERS.

CONSTRUCTION AND DECORATION OF STANDS UNDER DIRECTION OF THE SUPERINTENDENT OF TREASURY BUILDINGS, MR. D. A. RIGHT, WITH THE COOPERATION OF NATIONAL CAPITAL PARKS, UNDER THE DIRECTION OF MR. EDWARD S. KELLEY.

THE ALBERT GALLATIN MEMORIAL COMMITTEE

For the purpose of planning and erecting a suitable memorial to Albert Gallatin, a committee of citizens prominent in business and finance was brought together in 1928 under the chairmanship of Mr. Charles H. Sabin, of New York. The Governmental authorization for the project was conferred by a joint resolution of Congress, approved January 11, 1927, and funds also were appropriated for the preparation of the site and the erection of the pedestal. Mr. Sabin was succeeded as chairman of the committee by Mr. Louis Wiley, and later by Mr. James H. Perkins, both of New York. Mr. Allan Sproul, President of the Federal Reserve Bank of New York, has recently assumed this post.

The committee commissioned Mr. James E. Fraser, the eminent sculptor, to design the memorial statue. The design was completed in 1941, but war conditions delayed the casting and erection of the statue until 1947. The committee made itself responsible for raising the necessary funds through contributions from public-spirited donors throughout the country.

ALLAN SPROUL, CHAIRMAN

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*PERRY BELMONT
L. S. CATES
S. SLOAN COLT
*R. FULTON CUTTING
JOHN W. DAVIS
F. TRUBEE DAVISON
*WILLIAM T. DEWART
CLARENCE DILLON
FREDERICK H. ECKER
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*GATES W. MCGARRAH
*ANDREW W. MELLON
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*LOUIS WILEY
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H. URHLINGER
ELISHA WALKER
ESTATE OF PAUL M. WARBURG
ALLEN WARDWELL
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A. H. WIGGIN
*LOUIS WILEY
ARTHUR WILLIAMS
CLARK WILLIAMS
WILLIAM H. WILLIAMS
*W. H. WOODIN
WILLIAM WOODWARD
C. W. YOUNG

*DECEASED

JAMES E. FRASER

Deriving his inspiration from the American background, student of his art briefly abroad and for long years at home, vigorous interpreter of the events and personalities which make up American history, James E. Fraser has won a unique place in the field of portrait sculpture. As a boy, he knew the vanishing "old West," country of the Indian and the buffalo, the pioneer and backwoodsman. Little more than a boy, studying in Paris, he won a first prize for an outstanding work of American sculpture. Back in the United States, he grew steadily in artistic stature, and has consistently remained an exponent of American ideals, portrayed in bronze or marble.

It is not "The End of the Trail," most widely reproduced of his imaginative sculptures, which is his best-known work. Neither is it the series of distinguished portrait busts—Augustus Saint-Gaudens, Elihu Root, Theodore Roosevelt—or the heroic figures before the United States Supreme Court and the Archives Buildings, in Washington. Nor is it the great memorials—the John Ericsson Memorial, the equestrian Theodore Roosevelt, the Audubon, Lewis and Clark figures, or the impressive tribute to the Canadian dead of the first World War before the Bank of Montreal. But it is that masterpiece in smaller compass—the so-called "Buffalo nickel"—which has carried his art into every American home. He has excelled in this field of the coin and the medal as well as in the massive and heroic, and public taste has seconded the verdict of the numismatic expert that this is indeed one of the great coins of civilized history.

Before the south portico of the Treasury Building stands the bronze figure of Alexander Hamilton, in its dignity and reserve ably projecting physical repose and sheer intellectual power. The sculptor is James E. Fraser. It is fitting that on the north front of the building there henceforth will stand a tribute to another great financier and patriot, Albert Gallatin, whose old world aristocracy, native integrity and American idealism have been caught and interpreted in another portrait statue by this distinguished American sculptor.

Alexander Hamilton, the thinker and philosopher, faces the tree-shaded park and quiet river. Albert Gallatin, the practical man, faces the busy life of a great city Avenue. Behind both stands the building which is a symbol of their mutual devotion to their country—the United States Treasury.



UNITED STATES TREASURY BUILDING 1804

Before the Federal Government moved from Philadelphia to Washington, a scheme of buildings for the various branches of the public service was prepared. The site for the one to house the Treasury was chosen—the northeast corner of the ground occupied by the present structure, and plans were drawn up by George Hatfield, a prominent architect of the period. Work on the foundations commenced in the fall of 1798.

This first Treasury headquarters was, to the modern eye, unimpressive, yet in 1803 a contemporary historian described it as the largest house in the District of Columbia. It measured 147 feet in length, and just over 57 feet in depth. Although apparently the original plan had been for a wooden structure, Force's Annals of the United States for 1820 states that the building was mainly of brick, probably manufactured at the nearby White House kiln. "with a little stone added."

Two stories in height, it also boasted a partial basement, used as a stable and carriage room, and an attic with dormer windows facing Fifteenth Street at F, which was the repository for inactive Treasury files. The two main floors contained fifteen rooms each, more than adequate for the Department's staff. Of this, in 1812, there were 67 persons, and for a while the building also accommodated the State and Navy Departments with their combined staffs, which totalled 20.

This structure was completed late in 1799 and was occupied in 1800 when the City of Washington became the seat of the Federal Government. Also constructed were four small brick outbuildings, which during Secretary Gallatin's

years of office served as residences for Departmental employees assigned the dual duties of guards and messengers.

The modest building was hardly occupied and functioning when fire of unknown origin partially destroyed it. This was in the cold January of 1801, and the bucket brigade, said to have included the aging President John Adams, worked valiantly to save both building and records. They succeeded in confining the fire largely to the offices occupied by the Auditor, but flames, smoke and water did extensive damage. Records show that the first fire engine brought to the District of Columbia was stowed away in the Treasury's main floor corridor at the time, but apparently it did not go into action, and to the bucket brigade went all the honors of the occasion.

This occurred four months prior to the appointment of Albert Gallatin as Secretary of the Treasury, and repairs had been accomplished by April. Secretary Gallatin took the oath of office on May 14, 1801, and assumed his duties in the now fully restored building. Here he served for his entire term of office.

When the British marched into Washington in 1814, the Treasury, in common with other public buildings, was put to the torch. Some of the records and valuable papers had been hastily removed to Leesburg, Virginia, and so saved, but most of its official documents and files were burned.

The second and larger Treasury building was completed in 1820, and again in 1833 fire of questionable origin destroyed it. Some months later, construction of the central section of the present building was started, and after long delays and many revisions of the plans—during part of which time the Secretary of the Treasury and his Assistants carried on in a barnlike, partly finished structure—in 1842 the Treasury building was considered completed. Enlarged a few years later, with interruptions in time of war and progress during years of peace, it has stood since 1869 as we now see it.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Wednesday, October 15, 1947

Press Service
No. S-498

Secretary Snyder today sent the following congratulatory message to the Coast Guard Cutter Bibb upon completion of the heroic rescue of sixty-nine persons from a downed trans-Atlantic plane enroute from Eire to the United States:

> To the commanding officer, officers and crew of the Coast Guard Cutter Bibb, my heartiest congratulations on your magnificent rescue. Your performance of duty is in the finest tradition of the United States Coast Guard. The Treasury Department and the Nation acclaim your courage and seamanship. My best wishes to the passengers and crew of the Bermuda Sky Queen.
>
> /s/ John W. Snyder
> Secretary of the Treasury

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, October 15, 1947.

Press Service
No. S-499

The Secretary of the Treasury today announced the subscription and allotment figures with respect to the current offering of 2-1/2 percent Treasury Bonds, Investment Series A-1965, dated October 1, 1947.

Subscriptions allotted were divided among the several Federal Reserve Districts and the Treasury as follows:

Federal Reserve District	Total Subscriptions Allotted	Percent of Total
Boston	$ 56,315,000	5.8
New York	397,795,000	41.0
Philadelphia	37,055,000	3.8
Cleveland	48,250,000	5.0
Richmond	23,730,000	2.4
Atlanta	20,205,000	2.1
Chicago	132,280,000	13.8
St. Louis	22,205,000	2.3
Minneapolis	35,325,000	3.6
Kansas City	31,245,000	3.2
Dallas	15,435,000	1.6
San Francisco	50,130,000	5.1
Treasury	250,000	.0
Government Investment Accounts (FDIC)	100,000,000	10.3
TOTAL	$970,220,000	100.0

Subscriptions allotted were divided among the several investor classes as follows:

Classes of Investors	Total Subscriptions Allotted	Percent of Total
Insurance companies	$342,225,000	35.3
Savings banks	125,260,000	12.9
Savings & loan associations & building & loan associations, & cooperative banks	9,765,000	1.0
Pension & retirement funds	107,710,000	11.1
Fraternal benefit associations	6,935,000	.7
Endowment funds	17,390,000	1.8
Credit unions	440,000	.0
Commercial & industrial banks	257,210,000	26.5
Unclassified	3,285,000	.4
Government Investment Accounts (FDIC)	100,000,000	10.3
	$970,220,000	100.0

The only subscription entered for Government Investment accounts was for the Federal Deposit Insurance Corporation as partial replacement of a substantial amount of 2-1/2's sold on the market in recent months.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Friday, October 17, 1947

Press Service
No. S-500

The Secretary of the Treasury, by this public notice, invites tenders for $1,100,000,000, or thereabouts, of 91-day Treasury bills, for cash and in exchange for Treasury bills maturing October 23, 1947, to be issued on a discount basis under competitive and non-competitive bidding as hereinafter provided. The bills of this series will be dated October 23, 1947, and will mature January 22, 1948, 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 Standard time, Monday, October 20, 1947. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders 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 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, non-competitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on October 23, 1947, in cash or other immediately available funds or in a like face amount of Treasury

bills maturing October 23, 1947. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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 the Internal Revenue Code, or laws amendatory or supplementary thereto. 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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TREASURY DEPARTMENT

Washington

(The following broadcast by Secretary Snyder on the Veterans Administration program "The Veteran Wants to Know" over the Mutual Network is scheduled for delivery at 2:45 p.m., E.S.T., Sunday, October 19, 1947, and is for release at that time.)

The importance of the well-being of veterans to the united welfare of our country is strongly evidenced when comparing the size of this group to our total population. Today, veterans and their immediate families comprise approximately 32 percent of all our people.

In enacting into law the G.I. Bill and other important pieces of legislation, the Congress has helped to reopen for the veterans those fields of opportunity relinquished during their war service to our country.

The Nation's business has done a commendable job in affording veterans a reasonable chance to turn their talents and abilities toward maximum service for themselves and to their country.

We must continue to offer them every possible benefit towards this attainment. Their degree of success will be manifested in a comparable strengthening of our country's progress and prosperity.

Veterans are rightfully concerned with the need for receiving that proper encouragement justly due them. But as Americans, steeped in the self-reliant traditions of a free republic, they are equally concerned with the need for creating their own opportunities.

There is ample proof today that the vast majority of our citizen-veterans are continuing in peace their magnificent wartime achievements.

Some 12 million veterans are now at work for the greater advancement of themselves and their families, with the consequent advantage to their community, their State and their Nation. Well over a million veterans are enrolled in schools and colleges, preparing themselves for active and intelligent leadership in the councils of their fellow-citizens. And the roll of World War II Veterans who have actively assumed positions of leadership and responsibility has already reached great proportions.

That is why, if the question be asked: "What do present-day prospects hold for the continued progress of the veteran"--We are really asking: "What do present-day prospects hold for the continued progress and well-being of America?"

A forthright answer can be given to both of these questions. Present-day prospects are good. Pessimism is unwarranted. In spite of real and pressing difficulties, relating both to national affairs and events abroad, the core of America's greatness is sounder than ever before in our long history as a nation.

No generation has ever before been given so wide a scale of opportunity for self-advancement as has the present one. Never before has any generation displayed stronger proof of its ability and power to convert opportunity into lasting achievement.

It is indicated that the coming winter months will be characterized by continuing high production and high employment.

This is the time for prudent veterans to plan for future security, through systematic savings. There is cause for particular gratification in the fact that so many of our veterans have elected to keep as savings their terminal leave bonds, for there were considerably fewer bonds cashed on September 2 than many authorities had anticipated.

The hundreds of thousands of former service men who are holding on to their leave bonds, as well as those who are adding to and maintaining their holdings of United States Savings Bonds recognize the worthwhile interest rates these issues provide, as well as the fact that they are the safest securities in the world.

The well-advised veteran will retain, also, his National Service Life Insurance.

To those veterans who are eager to start a business of their own, I would say this: Before taking the step, be certain that you have sufficient experience and sufficient assurance of capital to give you a degree of certainty of success, and that you have properly appraised, with the advice of competent persons, the long-term possibilities of your particular business venture.

For men of forethought, intelligence and character, for men with resolute faith in themselves and their country, today's times are good. Our veterans have continually proved that they have these qualities. Through their efforts, they will constantly energize and strengthen the prosperity of a free America.

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S-501

United States Savings Bonds Issued and Redeemed Through September 30, 1947

(Dollar amounts in millions - rounded and will not necessarily add to totals)

	Amount Issued 1/	Amount Redeemed 1/	Amount Outstanding 2/	Percent Redeemed of Amount Issued
Series A-D:				
Series A-1935 (matured) ..	$ 255	$ 247	$ 9	96.86%
Series B-1936 (matured) ..	463	438	25	94.60
Series C-1937	588	420	3/ 168	71.43
Series C-1938	664	155	509	23.34
Series D-1939	1,027	213	815	20.74
Series D-1940	1,213	229	984	18.88
Series D-1941	523	88	435	16.83
Total Series A-D	4,734	1,790	2,945	37.81
Series E:				
Series E-1941	1,467	331	1,136	22.56
Series E-1942	6,646	2,319	4,327	34.89
Series E-1943	10,883	4,494	6,389	41.29
Series E-1944	12,707	5,347	7,360	42.08
Series E-1945	9,913	3,941	5,972	39.76
Series E-1946	4,351	1,136	3,215	26.11
Series E-1947 (9 months)..	2,838	258	2,580	9.09
Total Series E	48,805	17,826	30,979	36.52
Total Series A-E	53,539	19,615	33,923	36.64
Series F and G:				
Series F and G-1941	1,531	196	1,334	12.80
Series F and G-1942	3,187	471	2,716	14.78
Series F and G-1943	3,360	499	2,861	14.85
Series F and G-1944	3,691	412	3,278	11.16
Series F and G-1945	3,144	242	2,902	7.70
Series F and G-1946	2,993	114	2,879	3.81
Series F and G-1947 (9 mos)	1,974	8	1,966	.41
Total Series F and G ...	19,879	1,942	17,937	9.77
Unclassified sales and redemptions	113	180	-68	
Total All Series 4/	73,530	21,738	51,793	29.56

1/ Includes accrued discount.
2/ Current redemption values.
3/ Includes matured bonds which have not been presented for payment.
4/ Includes Series A and B (matured), and therefore does not agree with totals under interest-bearing debt on Public Debt Statement.

Office of Fiscal Assistant Secretary - Treasury Department.

TREASURY DEPARTMENT

Washington

(The following address by Secretary Snyder before the New York Herald-Tribune forum at the Waldorf-Astoria Hotel, New York City, is scheduled for delivery at 8:30 p.m., E.S.T., Monday, October 20, 1947, and is for release at that time.)

The world today needs a strong America. This is not boastful. It is a sobering estimate of the responsibilities confronting us.

Your forum this year is rightly concerned with the question of whether modern man is to be slave or sovereign. Critical as these times seem, this query is one that history keeps constantly asking down through the ages. For man is forever struggling -- successfully or unsuccessfully -- against forces that would enslave him. Today -- whether modern man is to be sovereign or slave -- depends to a grave extent on what we do here on this side of the Atlantic. Here in the United States can be found that reserve of strength -- moral and physical -- to balance the scales for free men. But such realization would require full exercise of those virtues of labor and thrift -- of sacrifice and cooperation -- which have made us powerful as a Nation and vital as a progressive influence among the peoples of the world for universal peace.

For, as President Truman has said: "We seek a peaceful world, a prosperous world, a free world, a world of good neighbors, living on terms of equality and mutual respect".

To attain this assured peace and stability, much depends upon the skill and wisdom with which we approach imminent problems. Mankind -- in far too many places -- is hungry. We can and must help. For hunger is no ally of freedom. The economic machinery of the world is stalled and damaged as a result of war. The machinery must be repaired and started again. We have tools and parts. We have what is just as important -- the "know how". Tools and parts are not sufficient in themselves. They may be wasted -- thrown away -- without the proper guidance. And we have not time to be either reckless or wasteful. We can supply that "know how" and that guidance to make effective the aid we provide. For this aid is in our tradition -- a tradition rooted in freedom and enlightened progress.

Freedom and opportunity -- these were the basic incentives from which a strong America grew. These same incentives will furnish us strength to uphold our significant position in world leadership. And to the extent to which we can maintain these incentives will lie the answer as to whether or not at least the modern American will be slave or sovereign.

S-502

For the American interpretation of freedom encompasses far more than mere escape from economic or political slavery. We demand a far more positive, a far more substantial recompense for our efforts.

We hold unfalteringly to the doctrine of man's right to seek his own goal -- his own quest for happiness and security. It is the American belief that individual opportunity lies in our system of free enterprise.

Of necessity, our pioneers formed the habit of thrift and savings. In the American tradition these qualities played a tremendous role in developing and insuring our vast structure of private enterprise. The doctrine of "save and invest" has patterned the growth of our industrial system.

It has made us a Nation of farm and home owners, of insurance policy holders, of savings account and security owners. It has enabled us to realize the full benefit from the great resources of this country. These accomplishments are the direct result of free enterprise -- promoted by individual and collective savings.

To the citizen of this Nation, savings must be the cornerstone of individual opportunity and individual security. The small businessmen of today, so many of whom become the large businessmen of tomorrow, have started with the expedient investment of their savings -- savings that have been built up as a result of thrifty use of income.

I have no fear that our social structure can be destroyed by forces from within, or from without, so long as the tenant can hope to become owner, the worker can aspire to management, and the average citizen can find it possible to attain success and security.

And, how fortunate we Americans are to be talking tonight of saving a part of our income, compared with the people of the war stricken countries -- so busy obtaining food for today that they can have no thoughts of saving for tomorrow.

In times like these, thrift and saving go beyond individual concern. They are a matter of National concern. Today, the collective thrift habits of a Nation will actively affect every member of a Nation's society.

Saving as a National policy should stimulate and encourage intelligent, financial thrift habits of individuals.

The Government's greatest effort to stimulate savings came with the advent of World War II, in the promotion and sale of Savings Bonds on a scale never before accomplished.

The magnitude of this achievement is well demonstrated by the fact that Savings Bonds have been bought by millions of persons.

Beyond its thrift and savings aspects, the bond program has substantially contributed to combatting inflationary forces and to assisting in the proper management of our public debt.

I strongly recommend to the American people the continued purchase of these Bonds.

As a National policy, and particularly during times of high income, thrift requires the orderly discharge of debts, whether it be by an individual or by a Nation. The policy of the Administration to reduce our debt and to maintain our fiscal affairs on a sound basis is the keystone to our security.

In closing, let me remind you that it required the thrift and savings of many a person, native and foreign, to provide the funds which built our great transportation system, our huge steel industry, our giant oil plant, our manificent farm, industrial mining, and business structure. It took thrift and savings, together with indomitable courage and energy to develop our vast natural resources. It took thrift and savings together with tremendous character and vision to make our Nation what it is today. And it will take thrift and savings together with constant ingenuity and stamina to conserve our remaining resources to enable us to continue to be a great Nation.

At no time in our history has it been more important for us, as a Nation and as individuals, to conserve our resources; for, both at home and abroad, we face large responsibilities which we cannot rightly evade.

I fervently hope that this Forum will reinspire the people of America to a continuation of their earnest efforts through thrift and savings to help themselves, their country and their fellowman.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Thursday, October 23, 1947

Press Service
No. S-503

Secretary Snyder announced today that two employees of the Bureau of Customs will receive a $375 cash award for a suggestion for simplification of baggage declaration procedures calculated to save the Department some $30,000 a year.

The award, to be shared equally by Nels H. Nelson, an entry clerk, and Wanda A. Popiel, a clerk, both stationed at Detroit, together with three other meritorious awards of $10, constitute the first payments made under the Employee Suggestion Program announced July 30, 1947. The Treasury instituted the program in line with an executive order of the President and legislation enacted by the Congress last year.

One of the $10 payments went to Miss Nellie F. Smith, United States Secret Service clerk at Kansas City, for a suggestion designed to effect substantial savings in mailing costs. Another $10 payment goes to Mrs. Dorenda M. Pennington, typist in the Savings Bonds Division, stationed in Washington, for a suggestion designed to expedite preparation of multiple correspondence.

Mrs. Helen B. Tanner, a printer's assistant in the Bureau of Engraving and Printing, also will receive $10 for her suggestion that the Bureau supply certain simple equipment useful in the printing operation.

The suggestions made by the employees represented in today's award list have been, or are being placed in operation.

James H. Hard, Treasury personnel director and chairman of the Committee on Employee Awards, said that numerous other suggestions from employees are under consideration, and that further announcements of cash payments will be made from time to time. Awards may range as high as $1,000.

Secretary Snyder, in announcing the four payments today, said:

"I congratulate these Treasury employees who have made worthwhile contributions toward greater efficiency and economy in the operations of the Department. Among the thousands of Treasury workers throughout the country there must be many with sound ideas for improving the quality of our operations. The Department solicits their suggestions, and I assure every employee that such contributions will receive most careful consideration.

"I urge all Treasury personnel to submit their ideas through the channels set up throughout our organization."

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, October 22, 1947.

Press Service
No. S-504

Secretary of the Treasury Snyder today announced the offering, through the Federal Reserve Banks, of 1 percent Treasury Certificates of Indebtedness of Series K-1948, open on an exchange basis, par for par, to holders of Treasury Certificates of Indebtedness of Series K-1947, in the amount of $1,774,578,000, which will mature on November 1, 1947. Cash subscriptions will not be received.

The certificates now offered will be dated November 1, 1947, and will bear interest from that date at the rate of one percent per annum, payable with the principal at maturity on October 1, 1948. They will be issued in bearer form only, 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, as amended, interest upon the certificates now offered shall not have any exemption, as such, under the Internal Revenue Code, or laws amendatory or supplementary thereto. 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.

The subscription books will close for the receipt of all subscriptions at the close of business Friday, October 24.

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

The text of the official circular follows:

UNITED STATES OF AMERICA

1 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES K-1948

Dated and bearing interest from November 1, 1947 Due October 1, 1948

1947
Department Circular No. 818

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, October 22, 1947.

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 1 percent Treasury Certificates of Indebtedness of Series K-1948, in exchange for Treasury Certificates of Indebtedness of Series K-1947, maturing November 1, 1947.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated November 1, 1947, and will bear interest from that date at the rate of 1 percent per annum, payable with the principal at maturity on October 1, 1948. They will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all taxes now or hereafter imposed under the Internal Revenue Code, or laws amendatory or supplementary thereto. 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 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.

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 November 1, 1947, or on later allotment, and may be made only in Treasury Certificates of Indebtedness of Series K-1947, maturing November 1, 1947, which will be accepted at par, and should accompany the subscription. The full year's interest on the certificates surrendered will be paid to the subscriber following acceptance of the certificates.

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.

JOHN W. SNYDER,
Secretary of the Treasury.

TREASURY DEPARTMENT
Washington

58

FOR RELEASE AFTERNOON NEWSPAPERS
Friday, October 24, 1947

Press Service
No. S-505

Alternative methods of revising Federal income tax law with respect to the treatment of business losses of both incorporated and unincorporated concerns are analyzed in a study entitled "Business Loss Offsets" made public through the Treasury Department today.

The study, prepared by a committee from the technical tax staffs of the Treasury and the House-Senate Joint Committee on Internal Revenue Taxation, presents factual data bearing on the adequacy of the existing two-year carrybacks and carryforwards of business losses. Consideration is given to various problems of equity, economics and administration growing out of the revision proposals.

The treatment of business losses for income tax purposes is an important issue of general postwar tax revision, due to the vital part it plays in the year-to-year determination of net income and the avoidance of taxation of capital as income, together with its basic role in the averaging of taxable income over a period of years. The information contained in the study released today was compiled with a view to its usefulness in the formulation of tax policy on the loss offsets question.

Averaging of taxable income through use of the carrybacks and carryforwards has been authorized at various times and in various ways since 1918. The revenue act of that year permitted 1919 losses to be carried back and deducted from the income of the prior year, and any balance to be carried forward and deducted from income of the subsequent year.

The carryback-carryforward devices were dropped from the revenue code effective with 1932, but a two-year carryforward was revived for losses of 1939 and subsequent years, and was supplemented by a one-year carryback for 1942 losses and a two-year carryback for losses of 1943 and subsequent years. Thus the present carryback-carryforward law provides a five-year adjustment period.

The report presents the following conclusions:

"1. While certain specific exceptions may be desirable, the carryforward of losses is generally more desirable than the carryback, both in its economic effects and in the equity of the adjustment.

"2. The length of carryforward should be limited primarily by administrative considerations. However, most of the desirable effects of a loss offset can be achieved within a period which is administratively feasible. No information is presently available as to exactly how long that period should be, but five years appears a satisfactory period with which to start, subject to later review and, perhaps, revision.

"3. The change from the present system to a five-year carry-forward should be made as promptly as feasible."

An important equity consideration attaches to the loss offsets, the study observes, because in the absence of such offsets, the business entity whose net income becomes negative in some periods is not permitted to deduct all the expenses of earning income, and to this extent the tax on net income becomes a tax on capital.

Removal of impediments to risk-taking is an economic function of the offsets, since their availability tends to encourage investments in risky assets and ventures.

It is pointed out that the carryforward is superior to the carryback in stimulating the entry of new business enterprises, and administratively is generally less difficult to handle.

Statistical information bearing on the operation of the business loss offsets, and the history of their statutory development, appear in appendices which accompany the study.

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Business Loss Offsets

An important feature of the income tax relates to the treatment of business losses of both incorporated and unincorporated concerns. It is the purpose of this study to bring together the available factual information bearing on the adequacy of the existing 2-year carryback and carry-forward of business losses, and to discuss the various equity, economic, and administrative considerations raised by alternative methods of revising the present system. The material is designed to provide a factual and analytic background which may be helpful in formulating tax policy with respect to this aspect of the postwar tax system.

The report was prepared by a committee composed of the technical tax staffs of the Treasury Department and the Joint Committee on Internal Revenue Taxation.

Business Loss Offsets

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Business Loss Offsets

I. Introduction

The basic tax in our fiscal structure has been, and doubtless will continue to be, based on net income. The definition of net income poses difficult problems, a major one of which is the treatment of losses from business, incorporated or unincorporated. Issues are raised whether business losses should be offset against income of another kind, whether losses from one business operation should be offset against income from another business operation, in what manner these losses should be offset, and the definition of the loss to be offset.

The income tax laws have generally provided for some offset of business losses against business or other income. For corporations, consolidated returns are now permitted and have been permitted for a major portion of the period of the income tax. For individuals, net operating losses from business operations have been deductible from current income from similar or different sources.

In addition to offsetting losses against current income, at various periods in the past the income tax law has permitted the deduction of business losses of other years from current income. This provision was first incorporated in the Revenue Act of 1918, which permitted 1919 losses to be carried back and deducted from income of the prior year, and any balance to be carried forward and deducted from income of the subsequent year. Beginning with 1921 losses, a two-year carryforward was permitted. For 1930 losses, the period was reduced to one year, and the entire provision was eliminated for losses of 1932 and subsequent years. The two-year carryforward was revived for losses of 1939 and subsequent years, and was supplemented by a one-year carryback for 1942 losses and a two-year carryback for losses of 1943 and subsequent years.

We enter the postwar period, therefore, with a two-year carryback and carryforward of business losses. Consideration is given in this report to the type of provision necessary for the permanent peacetime tax structure. Special wartime problems connected with loss offsets are not considered in this report.

II. Conclusions

1. While certain specific exceptions may be desirable, the carryforward of losses is generally more desirable than the carryback, both in its economic effects and in the equity of the adjustment.

2. The length of carryforward should be limited primarily by administrative considerations. However, most of the desirable effects of a loss offset can be achieved within a period which is administratively feasible. No information is presently available as to exactly how long that period should be, but 5 years appears as a satisfactory period with which to start, subject to later review and, perhaps, revision.

3. The change from the present system to a 5-year carryforward should be made as promptly as feasible. The present 2-year carryback should be repealed as of the end of the year in which legislation is enacted, and the carryforward should be extended to 5 years beginning with the losses of the year following enactment of the legislation.

4. Certain technical amendments should be made in the carryforward.

III. Purposes of business-loss offsets

A. Equity considerations

In the absence of the loss offsets, the business entity whose net income becomes negative in some periods is not permitted to deduct all the expenses of earning income. To this extent, the tax on net income becomes a tax on capital. The owners of such a firm are discriminated against, because higher taxes are levied on their net income than on the income of owners of businesses with stable income.

B. Economic considerations

1. To remove impediments to risk-taking

Without loss offsets, investments in assets with less risk of loss are favored over those in which the risk may be greater. Thus, the absence of loss offsets will reduce the relative investment in risky assets and ventures. Investment in such assets and ventures

may be particularly desirable in the economy. Ventures may be risky because they are new firms challenging established ones or introducing new products. If successful, they may bring reduced prices in the industry they enter, or may create employment in an entirely new industry. They may be faced with a period of hard sledding and losses in their early years. If losses in this period cannot be offset against income of future periods, the prospective return from the investment is reduced relative to the return connected with a safer haven for their funds.

2. To increase the countercyclical effect of taxes

Absence of loss offsets may also contribute to cyclical instability. In years of losses, expenditures will be held to a minimum. The making of these expenditures may be unprofitable when the firm bears their full cost but must pay a tax on the additional income they would bring in. Yet, they might profitably be made if the cost of the expenditure could reduce taxes through loss offsets.

C. Administrative considerations

Additional loss offsets would simplify some aspects of tax administration and complicate others. Some methods of loss offsets would be more difficult to handle than would others.

Loss offsets, by reducing the significance of the annual accounting period, tend to reduce the number of points in time in which controversies over valuations and accruals may arise. However, unless the system of loss offsets is perfect and complete, these points in time may actually be increased, particularly in periods of consecutive losses.

A perfect loss-offset system would also eliminate problems connected with tax-benefit rules (e.g., bad-debt deductions). But incomplete loss offsets may make the problem even more complicated, since the deduction would have to be chased through several years of income to see if a tax benefit from it had arisen.

Even a perfect loss-offset system increases the auditing problem. Either every year of every taxpayer must be audited (about double the present load), or the audit of the loss year is postponed until it serves as the basis of a deduction. In the latter event, the audit is made more difficult by the passage of time.

Another area in which administrative problems might increase under a perfect loss-offset system would be the depreciation deduction. When losses cannot be offset, taxpayers may be restrained

from extravagant demands for depreciation rates because they may lose a higher percentage of the depreciation deduction in years of loss than they would if rates were lower. If the depreciation deduction could never be wasted, as would be true under a loss-offset system, provided the firm expected on balance to earn income, this retarding influence would be lost, and controversy might be sharpened.

IV. The offset of business losses

The desirability of increased loss offsets is evident from consideration of equity and economic effects, with administrative considerations a negative item. These major questions still remain: (1) In what direction should losses be offset? (2) For how long a period should they be offset? and (3) How should they be determined?

A. The direction in which losses should be carried

The carryforward permits losses of one year to be carried forward as a deduction from net income of future years. The carryback permits losses of one year to be carried back as a deduction from net income of past years. The choice, based upon the purpose of loss offsets, must be made between these two devices.

1. Equity considerations

The equity problem in the case of corporate income is to define and tax net income as correctly as possible over time so that stockholders in different companies will receive equal treatment. The equity goal clearly is not permitting all losses to be deducted from all income over a corporation's life. Since stockholders change, it would mean that some costs incurred and losses sustained by one group of stockholders would be deducted from income received by another group of stockholders. Under no definition of income would this be correct.

It should be recognized, moreover, that most "losses" are forward looking. Most dollars spent by a business enterprise are for the purpose of bringing in future, not past, income, and should, therefore, be deducted from future, not past, income. If all revenue and all expenses were allocated with perfect foresight, losses would arise only when the firm was making "capital" outlays to increase future income. Most "losses" would then be carried forward. A similar conclusion would hold if all expenditures were deducted when made. Carrying losses forward would result in a more correct statement of income than carrying them backward. Income would not be taxed until all capital was recovered.

Under the present concept of taxable income there are three major exceptions to this simple rule. Costs obviously of a capital nature must be spread over the "useful" life of the asset. Changes in the useful life of the asset can then give rise to obsolescence losses which are properly deducted from past, not future, income. A further qualification arises in connection with inventories. Purchases of goods are expensed only to the extent they are not on hand at the end of the year. Most methods of valuing inventories result in an overstatement of income when prices rise and an understatement when prices fall. Resulting inventory losses are directly related to the inventory previously arising. Bad debts, arising from sales of an earlier period, are related to the sales of that earlier period.

It should be noted that, since devices are available to correct most of these aberrations from the simple doctrine, these costs are insufficient grounds for espousal of carrybacks. Increased depreciation, a different method of spreading capital costs, or the carryback of the unrecovered cost of depreciable assets, could adjust for obsolescence. Inventory reserves or last-in-first-out inventory valuations would substantially remove the possibility of inventory losses associated with past income. Accrual of potential bad-debt losses adjusts for this lagged expense.

It would appear, therefore, that the carryforward would be more equitable than the carryback, since it would generally result in a better determination of income. Its major weakness is found in connection with liquidation losses arising because assets may be of greater value to a going concern than when disposed of in a forced sale.

It is not believed that this problem is of sufficient importance to justify, by itself, a general carryback. In the first place, stockholders whose stock becomes worthless may, subject to certain restrictions, deduct this loss from income otherwise taxable. In the second place, the carryback necessary to secure even an approximate offsetting of losses for the liquidating firm would be extremely long. No one has yet suggested a carryback of such length. Such a drastic step as dissolution generally follows a period of protracted and sustained losses.

2. Economic considerations

a. Stimulating new business enterprises

The carryforward is obviously superior to the carryback in stimulating the entry of new business enterprises. Any initial losses the new enterprise sustains in order to enter an industry

are really capital costs of earning future income. Only by means of a carryforward can they be offset against that income.

Moreover, so long as a carryback is permitted, even if a carryforward can also be made, the new enterprise would be at a disadvantage. If the entry of such an enterprise were followed by sharp competitive warfare which results in losses in the industry, the established company would be able to recoup a portion of its losses from the Government by way of the carryback, but the new enterprise could not. The latter would have to wait for future profits to recover a portion of its losses. Yet the prospect of future profits is made more uncertain because the Government would partially underwrite its competitors.

For the purpose of stimulating the entry of new business units, the carryforward seems clearly preferable to the carryback.

b. Relative countercyclical effects

Both carryforwards and carrybacks would have some countercyclical effect. Both would stimulate business expenditures somewhat in periods of losses (depressions) because the opportunity of offsetting such expenditures against taxable income would reduce the cost of the outlays.

The effect of a carryback would be more certain than that of a carryforward. The firm could be sure at the time of making the outlay that the carryback would reduce taxes already paid in prior years. A carryforward would reduce taxes only if profits were realized in future years. Because of the greater certainty of the tax effect, carrybacks might stimulate business expenditures during a period of losses somewhat more than carryforwards. Presumably, however, business expenditures are nearly always made with the expectation that they will result in later profits, and the difference as to certainty of tax benefit is probably not very significant.

There would also be differences in the timing of tax reductions attributable to carryforwards and carrybacks. The timing of tax refunds attributable to carrybacks would depend on the speed of administrative action. Under normal administrative procedure, there may be a considerable delay in payment of refunds resulting from

carrybacks. However, tentative adjustments for carrybacks, similar to those initiated as an emergency reconversion measure by the Tax Adjustment Act of 1945, may be feasible as a means of speeding refunds and making them available shortly after the end of the loss year. Under carryforwards, tax reductions would occur when profits sufficient to offset losses were realized. A carryback system with speedy refunds would grant the largest tax reductions during periods of business decline or depression. A carryforward or carryback without speedy refunds would grant the largest tax reductions during periods of business recovery.

In any case, however, the difference in timing of tax reductions and the effects on cash resources are not likely to have great significance for the amount of investment outlays. The reduction in investment during a depression does not seem to be caused primarily by a shortage of funds, but by the lack of profit expectations. It appears that since 1922 periods of low economic activity have been accompanied by excessive rather than deficient business liquidity. 1/

It appears that carrybacks may stimulate business expenditures during a depression to a slightly greater extent than carryforwards. It seems unlikely, however, that the difference between carrybacks and carryforwards in this respect will be very great, or that either carrybacks or carryforwards will have an important countercyclical effect.

3. Administrative considerations

The carryback is generally more difficult to handle administratively than the carryforward. Under the former, the returns of past years must be kept open. Even if they were closed, to be reopened only for purposes of a carryback, a problem would be presented. Compromises are a give-and-take proposition in which a result satisfactory to the Government and the taxpayer is reached. The final result might differ if at the time of making the compromise it were known that a carryback would arise. In many cases, therefore, compromises would be postponed, or an agreement reached which would not have been reached if future events were then known.

The carryforward, on the other hand, requires audit of losses which were previously passed over. If the carryforward period is long, either the statute of limitations must be extended or the rule adopted that a net operating loss deduction represents an election by the Government to waive the statute for the years in question. The audit of losses sustained a considerable period in the past is, of course, difficult.

1/ F.A. Lutz, Corporate Cash Balances, 1914-43, (National Bureau of Economic Research, 1945).

B. The length of time over which a loss may offset income

In terms of the purposes of loss offsets, there appears to be no theoretical limit to the length of time losses should be carried forward. However, business plans are made, generally, for a relatively short period. The desirable stimulus of loss offsets can be achieved by a period considerably shorter than, say, 10 years. Furthermore, the absence of a theoretical limit to the length of carryforward can be qualified. Future income cannot be clearly foreseen, and unduly long carryforwards might in some cases result in tax reductions that would do no good from the point of view of incentives. This would be the case where the profits of a depressed industry suddenly increased and went untaxed because of the carryforward of losses of years long past. An example of such a situation is the wartime increase in the earnings of railroads after the difficult period of the 1930's. 1/ There are serious administrative objections, moreover, to lengthy carryforwards as has been indicated earlier. Some compromise must be made, along the lines of choosing a period which will offset the bulk of losses and yet be administratively feasible.

There are no data conclusively indicating the effectiveness of different periods for offsetting losses. Available information is briefly reviewed in Appendix A. It does appear that a 2-year period is inadequate. A study of 400 large corporations for the period 1929-1938 by the Machinery and Allied Products Institute indicates that 42 percent of the companies would have had complete loss offsets with a 2-year carryforward. However, only 19 percent of the capital goods companies included in this sample would have had complete loss offsets with such a carryforward. A study of a small sample of 60 Wisconsin corporations for the period 1930-1942 by Harold M. Groves indicates that 44 percent of these companies would have had complete loss offsets with a 2-year carryforward. A study of aggregate data for all corporations for the period 1921-1942 indicates that a 2-year carryforward would have offset only 3 percent to 26 percent of losses of a given year, depending on whether general depression or an upswing followed the year of loss. During the same period, this study indicates, a 2-year carryback would have offset only 2 percent to 11 percent of losses.

1/ The net operating loss deductions of transportation and public utility corporations in 1940-42 alone were $236 million as compared with $231 million for the entire period 1922-1932. For no other industry group was there an absolute increase in the size of net operating loss deductions between these two periods. With a longer carryforward, the increase in operating loss deductions of transportation and public utility corporations would have been greater.

A 5-year period would permit a substantially larger portion of losses to be offset. The Machinery and Allied Products Institute study indicates that 70 percent of the large companies studied would have had full loss offsets in the period 1929-1938 under a 5-year carryforward. A study of 3,284 large corporations for the period 1917-1942 by the Bureau of Internal Revenue indicates that 62 percent of the companies would have had full loss offsets under a 5-year carryforward. The study of all corporations for the period 1921-1943 indicates that a 5-year carryforward would have permitted offsets of 10 percent to 41 percent of the amount of losses, or an average of 19 percent. A 5-year carryback would have permitted offsets for 9 percent to 24 percent of the amount of losses.

Since the average business cycle does not appear to exceed about 8 years in length, 1/ a 5-year period would be long enough to allow all losses attributable to general depressions to be applied against income of generally prosperous years. However, a 5-year period might not be long enough to meet the requirements of new firms and of firms whose profits fluctuate over a cycle longer than the general business cycle.

The study of all corporations for the period 1921-1942 indicates that extending the carryforward from 2 years to 5 years would have increased the percentage reductions in the corporate tax base of each year from a range of 1 to 8 percent to a range of 5 to 19 percent. Extension of the carryback from 2 years to 5 years would have increased the reduction in the tax base from a range of 1 to 8 percent to a range of 5 to 15 percent.

It is believed that a 5-year carryforward would be a desirable start. This period might need later revision in the light of experience.

C. The kind of loss to be carried over

There are two sharply conflicting theories on the question of the kinds of losses and the kinds of income which should be used in calculating the loss offset. One approach is to determine them in the same way as taxable income is determined. This process excludes from the calculation such items as tax-exempt interest

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1/ Alvin H. Hansen, Fiscal Policy and Business Cycles (1941), pp. 18-19. Other students focus attention on a cycle of only 40 to 50 months' duration. See, for example, Arthur F. Burns and Wesley C. Mitchell, Measuring Business Cycles (National Bureau of Economic Research, 1946), pp. 78, 401, 412.

and 85 percent of intercorporate dividends which were not used in calculating taxable income or net loss for the purposes of the original tax. It is argued that because they were omitted in that connection they ought not be used in calculating the loss which is to be carried over, or net income against which the loss is to be offset.

The opposing view starts with the presumption that a loss offset should not come into operation until a "true" loss has been sustained, i.e., until total net income is negative. According to this view, an operating loss is not a "true" loss if in the year in which it is incurred there is, for instance, income from tax-exempt securities which can absorb the "loss" in whole or in part. It is only the excess of deductions over total income, including income which is ordinarily excluded from the calculation of taxable income, that should be counted as a loss for the purpose of off-setting income of another period. As a corollary, it follows that in the year in which this "true" loss is applied, it should be counted against total net income accrued, not merely taxable income. In practice, this means that the taxpayer will have to show a deficit in taxable income in excess of the income which is ordinarily excluded from the calculation of taxable income before any benefit will be received.

While the present law is not a perfect application of either theory, it is drawn primarily in terms of the "true" loss idea. 1/ The net operating loss which may be carried over is the excess of allowable deductions (the excess of percentage or discovery-value depletion over cost depletion having been eliminated) over statutory gross income plus net tax-exempt interest and, in the case of individuals, 50 percent of net long-term capital gains. In the case of corporations 100 percent of intercorporate dividends are included in the computation instead of 15 percent as in the ordinary computation of taxable income. In each of the years to which this loss is carried it is reduced by the amount of these same items of exempt income in such years. As a result the income taxed over the period of loss offset is a different kind of income from that which is taxed in a single year.

The existing law falls short of the total-income theory in that total income is understated by the omission of such exempt items as recoveries of certain bad debts, taxes, etc., certain forgiveness of indebtedness, receipts from life insurance policies, military pay and allowances, the surtax exemption for certain preferred-dividend payments of public utilities, and other similar exemptions. The total income used is overstated by the non-deduction of capital losses in excess of gains, and business expenses deemed extraordinary or unnecessary or otherwise not deductible.

1/ For a brief history of this provision, see Appendix B.

Advocates of the taxable-income approach place primary emphasis upon the inconsistency of granting a concession to such items as interest from exempt securities, long-term capital gains, intercorporate dividends, and percentage depletion, in calculating annual taxable income, and not permitting the same concession in determining income over a longer period of time when such income fluctuates. As they point out, this leads to inequities as between taxpayers with fluctuating and stable incomes. Thus, where two mining companies, perhaps direct competitors, have equivalent production and income over a period of time, one will be denied percentage depletion whereas the other will obtain it. Similarly, where two corporations each receive the same amount of dividends from domestic corporations, one must include 100 percent of such dividends as taxable income, while the other need include only 15 percent. Advocates of the taxable-income approach believe that such discrimination cannot be reconciled with the previsouly stated purpose of the loss carryover which is to define and tax net income as correctly as possible over time so that different taxpayers will receive equal treatment.

Advocates of the total-income approach point out that the basic purpose of the loss offset--to prevent the taxation of capital as income--is satisfied by this method; that the cancellation of the tax exemption under the total-income theory does not result in the taxation of income at rates higher than the statutory one. Moreover, they hold that whether or not undesirable discrimination results from the total-income approach depends on the standard of comparison. If the taxpayer with tax-exempt income whose income fluctuates is compared with a taxpayer with no tax-exempt income, the law would still favor the former.

Advocates of the total-income approach point out that a transition to the taxable-income approach would bring additional averaging benefits not available under existing law to taxpayers with tax-exempt income. In view of the advantages now accorded to taxpayers with tax-exempt income the question is raised whether a special case exists for the extension of averaging to these taxpayers so long as there is no general system of averaging under the income tax law. However, such an extension is viewed by the advocates of the taxable-income approach as necessary to prevent discrimination against taxpayers with tax-exempt income.

V. The offset of business losses against income from another business or against other types of income

If taxes are imposed on net income, the tax base should equal income received plus or minus changes in net worth for the period of assessment. These changes in net worth are brought into income when the change takes place in one department of a single enterprise, provided, if a decrease, the income of other departments can absorb it. If separate departments were conducted under separate corporations, the decreases in net worth in one department would not reduce current enterprise income (for the corporate tax) unless a consolidated return were filed by the parent; and if the enterprise were conducted through common ownership and not by a parent company, decreases in net worth in one department would not reduce current enterprise income. Unless loss offsets could be made on a departmental basis, their denial currently against other income of the enterprise would appear to be highly discriminatory. It is not recommended, therefore, that a change in present practice be made.

The individual owners of business enterprises must include the change in net worth in their income if partners or proprietors, but not if stockholders. It seems reasonable to permit partners and proprietors to deduct losses from other income as long as all profits, whether distributed or not, are included in income.

These losses when granted to the individual might be carried forward or carried back against the individual's income. This method would not create inequities similar to those arising under the corporation carryback, since it would not result in the refund of taxes originally borne by someone else. Generally, the carryforward is favored for the reasons previously given. 1/

VI. Transition to the suggested system

It is important to extend the carryforward period as soon as feasible. It is recommended that when legislation on loss offsets is enacted the 2-year carryback be repealed as of the end of the year in which the legislation is enacted and that the 5-year carryforward begin with losses of the next following year. Thus, if legislation were enacted during 1947, the carryback would terminate with the losses of 1947 and the 5-year carryforward would begin with the losses of 1948.

1/ However, there might be case for a carryback of losses in the event of death, though it must be recognized that a reduction in estate taxes may mitigate this inequity to some extent.

VII. Technical revisions in the law

There are several technical corrections in the law which require amendment. Among these corrections are:

1. The recent decision in the Moore case that income and deductions for the year in which the loss arises are to be computed under the law applicable to the year to which the loss is carried, rather than under the law applicable to the earlier year, is clearly incorrect.

2. The operation of the present statute disallows items of tax-exempt income twice, under certain circumstances. This result was unintended.

3. The present law is not a thoroughgoing application of the theory that total income should be brought into the picture in determining the loss offset. Moreover, there may be simpler methods of stating the deduction. In the event that the theory underlying the present law were to be continued, the provision might be generally reconsidered from these points of view.

APPENDIX A

Material Relating to the Length of the Carryforward

A few studies have been made on the length of the carryforward necessary to offset business losses. These are reviewed briefly below, with a summary of the statistical information on the historical operation of loss offsets.

I. Statistical data on carryforwards

In Table I is presented the net operating loss deduction taken by corporations in the period 1922-32 and 1940-42. As will be noted, in the first two years following its introduction in 1921, the deduction was larger than at any other time in its history, reaching almost $600 million in 1923. It remained relatively stable, reaching a new peak of nearly $400 million in 1929, and then dropping off, sharply, both because of a reduction in the length of the carryforward period and a reduction in income against which to offset losses. Following its reintroduction, the carryforward reached a peak of nearly $400 million in 1942, largely because of increases in income against which to offset losses.

Table II compares the total net operating loss deduction for the two periods, 1922-32, and 1940-42, with net income in the same period, with deficits which could form the basis for the deduction (1921-31 and 1939-41), and with the excess of each year's deficit over the lowest deficit in each of these periods. The idea underlying this latter adjustment is that a substantial volume of chronic loss is sustained by corporations which will never earn income and which will never, therefore, receive a net operating loss deduction. This part of total deficits may be termed inactive.

As will be noted, the net operating loss deduction as a percentage of net income decreased substantially between these two periods, primarily because of the increase in net income available to absorb the deduction. Attention is, however, directed to the transportation and public utilities industry. This group's net operating loss deduction as a percent of net income more than doubled. Moreover, the total deduction taken in the 3 years, 1940-42, was greater absolutely than the total deduction in the 11-year period, 1922-32.

Table I

Effective net operating loss deduction, all corporations
1922-32 and 1940-42

Year	Amount (in millions)	
1922	$ 502	
1923	578	
1924	220	
1925	243	
1926	236	
1927	244	
1928	301	
1929	392	
1930	158	
1931	136	
1932	88	
Total 1922-32		3,099
1940	123	
1941	330	
1942	378	
Total 1940-42		831

Table II

Effective net operating loss deduction, by major industrial divisions 1922-32 and 1940-42

Major industrial division	Amount		As a percent of: Net income		Deficits a/		Active deficits b/	
	1922-32	1940-42	1922-32	1940-42	1921-31	1939-41	1921-31	1939-41
	(In millions)							
Mining	$ 202	$ 36	6.5	2.9	6.9	11.9	21.7	41.3
Manufacturing	1,525	311	3.9	1.0	12.6	35.4	32.9	85.9
Food, beverages, and tobacco	205	37	3.5	1.1	13.7	25.2	33.5	81.3
Textiles	191	45	5.5	2.2	9.6	34.9	15.9	63.6
Leather	38	8	5.2	2.7	8.0	30.0	16.3	72.0
Rubber	72	8	14.1	2.1	17.5	116.2 c/	28.0	464.7 c/
Forest products	90	20	5.9	2.5	9.3	25.4	14.7	51.2
Paper	45	9	4.4	1.0	16.5	26.6	32.6	42.0
Printing	38	11	1.9	1.7	9.3	13.2	24.1	88.7
Chemicals	148	29	2.5	.7	11.9	32.1	23.9	79.7
Stone, clay and glass products	36	5	2.4	.6	10.5	16.6	19.5	79.4
Metal and products	564	126	3.9	.8	15.8	60.2	33.0	111.5
Construction	108	28	7.5	4.3	15.9	30.1	49.5	99.6
Transportation and public utilities	231	236	1.5	3.2	9.1	29.9	19.0	72.3
Trade	462	109	4.3	1.8	9.2	19.9	21.9	89.3
Service	99	31	4.4	3.5	8.1	11.3	13.7	72.2
Finance	402	68	3.0	1.0	4.7	2.2	8.8	11.9
Total	3,099	831	3.6	1.6	9.1	13.5	24.8	101.4

a/ Deficits eligible for the net operating loss computation: 1921-31 for the first period; 1939-41 for the second.

b/ Aggregate excess of each year's deficit over the smallest deficit for the historic period.

c/ This result is explained primarily by a war loss deduction taken subsequent to filing a return.

Although the importance of the loss deduction generally decreased relative to income, the percentage of the deficit offset between the two periods increased for every major industrial group except finance. For manufacturing, 35 percent of the total deficit was deducted in the period from 1940-42, whereas only 2 percent of the deficit was deducted by the finance group. Part of this latter result is a consequence of adjusting the deficit for partially and wholly tax-exempt items of income.

If the active deficit is compared with the net operating loss deduction, even higher percentages result. As between the two periods in which the carryforward was in operation, every one of the industrial groups shows an increase in the percentage of active deficits deducted. For the 1940-42 period, the offset of active deficits among the major groups was complete for construction, nearly 9/10 for trade, over 5/6 for manufacturing, and as low as slightly over 1/10 for finance.

In Table III this same analysis is made by asset classes for the period 1940-42. It shows that the net operating loss deduction, even on a limited two-year basis, is of much greater importance to small than to large corporations. The deduction as a percent of net income is 10 percent for the smallest group (under $50,000 of assets), decreasing in every size class to 1/2 of 1 percent in the next to the largest class ($50-100 million), and then rising to over 1 percent for the largest class. This effect is particularly significant when account is taken of the tendency of corporations to shift upward in the size scale in the period under consideration--1939-42. In a period of increasing economic activity, the resulting increase in assets moves corporations up into larger size classes. When a deficit is sustained, therefore, it may be reported in a smaller class, but the deduction may be reported in a larger class.

A further analysis of the reason for the increasing relative importance of the net operating loss deduction for the largest corporations reveals that it is almost wholly attributable to the transportation group, in general, and railroads in particular. When the transportation group is excluded, the net operating loss deduction for this group relative to net income decreases more than the decrease noticeable when the transportation group is included. The computation of the 1942 deduction as a percent of net income, including and excluding the railroads, indicates that all asset classes, except the top three, remain unchanged. These three classes show a marked decrease in the relative importance of the net operating loss deduction when railroads are excluded.

Table III

Effective net operating loss deduction, corporations with balance sheets classified by size of assets, 1940-42

Size of assets (In thousands)	Amount (In millions)	1940-42 as a percent of Net income: Including transportation	1940-42 as a percent of Net income: Excluding transportation	1940-42 as a percent of Deficit (1939-41): Including transportation	1940-42 as a percent of Deficit (1939-41): Excluding transportation	1942 as a percent of net income: Including railroads	1942 as a percent of net income: Excluding railroads
Under $50	$ 69	10.1	10.2	9.9	9.8	10.1	10.1
$ 50 to 100	44	5.6	5.7	14.5	14.4	5.3	5.3
100 to 250	75	3.9	3.9	17.7	17.6	3.5	3.5
250 to 500	58	2.7	2.7	17.6	17.5	2.3	2.3
500 to 1,000	60	2.2	2.2	15.5	15.7	1.7	1.7
1,000 to 5,000	128	1.5	1.5	14.5	13.9	1.4	1.4
5,000 to 10,000	52	1.2	1.2	14.1	13.9	1.1	1.1
10,000 to 50,000	74	.7	.7	10.1	9.8	.6	.5
50,000 to 100,000	24	.5	.4	6.3	5.8	.5	.3
100,000 and over	229	1.3	.5	23.4	11.8	1.7	.6
Total	812	1.5	1.3	14.8	12.7	1.6	1.2

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An important qualification should be made in these data when comparisons are made between the two historical periods. Net income and deficits in the early periods are computed without including in gross income dividends received from domestic corporations. Net income is understated and deficits are overstated as compared with the later period which includes this item in income. Also, these data fail to reflect all the reductions in the net operating loss for various items of tax-exempt income. Particularly for the financial group this adjustment is important. There seemed to be no basis for making a satisfactory correction for either of these factors.

II. Machinery and Allied Products study

The Machinery and Allied Products Institute issued a report on the subject of the loss carryforward, based on a study of 400 large companies for the period 1929 to 1938. 1/ They concluded that a loss carryforward of at least 6 years was necessary to offset the losses of the majority of companies producing capital goods. Their conclusions were based on the following results of their study:

Percent of companies fully offsetting losses under various carryforward periods a/

Carry-forward period	219 capital goods companies	181 consumption goods companies	Total
0	8%	48%	26%
1	13	59	35
2	19	69	42
3	31	75	51
4	43	82	61
5	57	85	70
6	66	86	75
7	80	91	85
8	94	94	94
9	100	100	100

a/ Including those requiring at least as long as the period indicated, i.e., those which still had an unabsorbed loss at the end of the period.

1/ Capital Goods Industries and Federal Income Taxation, July 1940.

Although this study is a large sample, it was not a random selection. Therefore, the results should be used with caution. Moreover, the companies studied are large companies for which published financial reports were available, hence, conclusions regarding small companies cannot be made. Finally, the study was limited to the number of companies receiving a loss offset under various carryforward periods. No indication is given regarding the amount of the loss offset by various carryforward periods, nor is it possible to judge from this report the relative importance of the loss not fully offset. Finally, it must be borne in mind that the period studied was the most drastic period of deflation in recent economic history.

III. Groves' study of Wisconsin corporations

A recent study has been made by Harold M. Groves of the consequences of loss carryforwards on 60 Wisconsin corporations in the period 1930-1942. 1/ This study follows closely the method and formulation of the preceding study with one important addition - the attempt to estimate the revenue consequences from lengthening the loss-offset period.

The data developed in the study are summarized in the table below:

Number of years of loss carryforward	Percent of companies with full loss offset	Percent of offsettable a/ loss deducted	Percent reduction in tax base
0	18%	0	0
2	44	30	4
4	62	55	7
6	70	80	11
8	74	96	13
10	84	99	13
12	89	100	14

a/ Here defined to mean the total losses which could be offset under a 12-year carryforward.

1/ Harold M. Groves, Postwar Taxation and Economic Progress.

These data indicate that for the period of the study, expansion of the length of the carryforward would have substantially increased the percentage of losses offset. An increase from 2 to 4 years would have nearly doubled the amount of loss offset; from 2 to 6 years, nearly tripled it; and from 2 to 8 years, something more than triple. From 8 years on, however, the increase in losses offset declines sharply.

The conclusions of these data are subject to similar qualifications as those for the preceding study. Although the sample was selected at random, it is extremely small (14,451 Wisconsin corporations filed Federal income tax returns in 1941, of which 7,753 had net income). Moreover, the effect on tax revenues from increasing the carryforward period may be substantially understated. Since the period was 13 years in length, a full 12-year carryforward was only possible for 1930 losses. Hence, Groves is comparing one observation of a 12-year carryforward with three observations of a 10-year carryforward, etc., with eleven observations of a 2-year carryforward. The tapering off of the increase in revenue loss does not necessarily follow from these data.

IV. Bureau of Internal Revenue study

An unpublished study by the Statistics Section of the Income Tax Unit, Bureau of Internal Revenue, was made of 3,284 large corporations for which data were available from 1917 to 1942. 1/ The results of this study are indicated below.

Percent of companies receiving full loss offset under various carryforward periods

Carryforward period	Total	Mining	Manufacturing	Public utilities	Trade	Service	Finance	Construction	Agriculture
0	16.4%	7.9%	15.1%	40.4%	16.1%	18.2%	12.8%	10.5%	11.1%
4	55.9	47.2	57.9	62.5	63.9	47.7	41.0	47.3	33.3
5	62.1	56.2	64.9	64.8	69.6	50.0	46.0	57.8	55.5
6	65.4	57.3	68.3	65.7	72.6	52.3	50.8	57.8	55.5
7 or more	97.4	94.4	98.1	97.7	99.0	95.5	93.8	100.0	88.9
Number of companies	3,284	89	1,737	213	609	44	564	19	9
Percent	100%	2.7%	52.9%	6.5%	18.5%	1.3%	17.2%	.6%	.3%

1/ Data were available for all years for 2,224 corporations and for 25 of the 26 years for the remaining 1,060. For this latter group, it was assumed that the missing year was a year of loss of such magnitude as to be absorbed by one year's income.

The difference between the totals and 100 percent represents the number of companies with unabsorbed losses at the end of the period under consideration. However, if these losses were sustained in a year 7 years or more before the end of the period, they were included in the carryforward period of 7 or more years.

The same qualifications must be made regarding this study as were made for the preceding ones, except that a substantially longer period is covered by it. As will be noted from the sample, jumping from no loss carryforward to a 4-year carryforward increases the percentage of companies that were taxed only on net income from 16 to 56 percent. These percentages can be compared with 18 and 62 percent for the Groves' study, and 26 and 61 percent for the Machinery and Allied Products Institute's study. These studies, respectively, indicate that the percentage of companies with full-loss offset within a 6-year period would be 65, 70 and 75 percent.

V. Treasury Department, Division of Tax Research, study

An unpublished study of aggregate data from corporation tax returns for the period 1921-1943, made by the Division of Tax Research of the Treasury Department, estimates the proportion of corporate losses that would have been offset and the reduction in the tax base by carryforwards and carrybacks of various lengths during that period. Tables IV and V show the estimated proportion of losses offset, and Tables VI and VII show the estimated percentage reductions in the tax base, for carryforwards and carrybacks of 1 to 6 years.

The findings of this study are subject to important reservations, arising out of the aggregate approach. The estimates of the proportion of losses offset and the percentage reductions in the tax base are both overstated by an unknown, but perhaps considerable, margin. The method used does not drop out of the losses carried forward those losses sustained by firms that go out of business, and it includes in losses carried back those losses sustained by new firms not in existence during the whole of the carryback period. Moreover, the method of estimation shows absorption of a part of the losses sustained by firms that stay in business but that never realize net income. In both cases, the aggregate approach includes in the estimated loss offsets some losses that could in actual practice never be offset. The findings of this study, like those of the other studies mentioned, are influenced by the particular economic conditions of the period covered. The particular pattern of economic fluctuations in the period 1921-1943 accounts for the differences between the effects of carryforwards and carrybacks.

Table IV

Proportion of corporate losses of each year, 1921-1942, offset by carryforwards of various lengths

Year of loss	Length of carryforward					
	1 year	2 years	3 years	4 years	5 years	6 years
1921	.037	.080	.118	.164	.207	.246
1922	.045	.084	.132	.177	.217	.262
1923	.041	.091	.138	.180	.227	.276
1924	.052	.101	.145	.194	.245	.271
1925	.052	.098	.149	.203	.231	.246
1926	.049	.103	.160	.189	.205	.215
1927	.057	.116	.147	.164	.174	.187
1928	.063	.096	.114	.125	.139	.159
1929	.035	.054	.065	.080	.101	.126
1930	.020	.032	.047	.069	.095	.141
1931	.012	.028	.050	.077	.124	.170
1932	.016	.039	.066	.114	.160	.189
1933	.023	.050	.098	.145	.175	.215
1934	.028	.078	.126	.157	.197	.245
1935	.051	.100	.132	.174	.224	.300
1936	.052	.085	.129	.181	.261	.357
1937	.035	.081	.136	.221	.322	.427
1938	.048	.105	.193	.298	.407	
1939	.060	.152	.262	.376		
1940	.098	.215	.337			
1941	.130	.265				
1942	.155					

Table V

Proportion of corporate losses of each year, 1922-1943, offset by carrybacks of various lengths

Year of loss	Length of carryback					
	1 year	2 years	3 years	4 years	5 years	6 years
1922	.023					
1923	.022	.059				
1924	.021	.056	.101			
1925	.020	.054	.097	.138		
1926	.019	.051	.092	.131	.183	
1927	.018	.048	.087	.124	.173	.225
1928	.029	.066	.101	.148	.197	.246
1929	.035	.068	.112	.159	.205	.262
1930	.031	.072	.116	.159	.212	.275
1931	.040	.082	.124	.176	.237	.272
1932	.041	.082	.133	.193	.227	.247
1933	.041	.091	.150	.184	.196	.208
1934	.049	.107	.140	.159	.171	.187
1935	.057	.090	.109	.121	.137	.160
1936	.032	.050	.061	.076	.098	.126
1937	.018	.029	.043	.064	.091	.142
1938	.010	.024	.044	.069	.117	.169
1939	.013	.032	.056	.103	.153	.188
1940	.018	.041	.085	.133	.166	.214
1941	.022	.064	.109	.140	.185	.245
1942	.038	.079	.107	.148	.202	.300
1943	.035	.060	.095	.142	.227	.357

Table VI

Percentage reductions in corporate tax base of each year, 1922-1943, attributable to carryforwards of various lengths

Year	Length of carryforward					
	1 year	2 years	3 years	4 years	5 years	6 years
1922	2.1%					
1923	1.2	3.2%				
1924	1.1	2.2	4.1%			
1925	1.2	2.3	3.3	5.2%		
1926	1.1	2.2	3.2	4.2	5.9%	
1927	1.2	2.2	3.3	4.2	5.2	7.0%
1928	1.3	2.4	3.4	4.4	5.3	6.2
1929	1.3	2.6	3.6	4.5	5.5	6.3
1930	1.6	2.8	4.0	5.0	5.8	6.8
1931	2.6	4.2	5.4	6.5	7.5	8.3
1932	3.9	6.5	8.1	9.3	10.4	11.4
1933	4.2	7.9	10.4	11.9	13.0	14.1
1934	3.0	7.1	10.8	13.3	14.7	15.8
1935	2.3	5.2	9.3	12.8	15.3	16.7
1936	2.5	5.5	9.3	14.7	19.4	22.6
1937	1.6	4.0	6.8	10.4	15.5	19.9
1938	1.6	3.1	5.3	7.9	11.3	16.0
1939	1.9	3.4	4.8	6.8	9.2	12.3
1940	1.3	3.1	4.4	5.6	7.5	9.6
1941	1.4	2.6	4.2	5.4	6.4	8.1
1942	1.0	2.2	3.2	4.5	5.5	6.4
1943	.6	1.4	2.5	3.3	4.5	5.3
Average	1.4	2.9	4.3	6.0	7.7	9.4

Table VII

Percentage reductions in corporate tax base of each year, 1921-1942, attributable to carrybacks of various lengths

Year	Length of carryback					
	1 year	2 years	3 years	4 years	5 years	6 years
1921	1.2%	2.2%	3.3%	4.2%	5.1%	6.1%
1922	1.1	2.2	3.1	4.1	5.2	6.2
1923	1.2	2.2	3.3	4.4	5.5	6.7
1924	1.1	2.2	3.4	4.5	5.8	7.7
1925	1.2	2.4	3.6	5.0	7.0	9.9
1926	1.3	2.5	3.9	6.1	9.0	12.3
1927	1.3	2.8	5.1	8.3	11.8	14.2
1928	1.6	4.0	7.3	11.0	13.6	15.5
1929	2.6	6.3	10.2	13.0	15.1	16.8
1930	3.8	7.9	10.8	13.0	14.7	15.8
1931	4.2	7.2	9.5	11.4	12.5	13.6
1932	3.1	5.4	7.3	8.5	9.7	11.0
1933	2.2	4.1	5.3	6.4	7.7	8.7
1934	1.9	3.0	4.1	5.4	6.4	7.3
1935	1.2	2.4	3.8	4.8	5.9	6.7
1936	1.7	3.6	5.0	6.5	7.5	8.0
1937	2.1	3.6	5.1	6.2	6.8	7.2
1938	1.5	3.0	4.2	4.7	5.2	
1939	1.6	2.7	3.3	3.7		
1940	1.1	1.7	2.2			
1941	.6	1.1				
1942	.5					

APPENDIX B

The Statutory Development of Net Loss Carryovers and Carrybacks

I. Revenue Act of 1918

Net losses sustained in one year were first recognized as a deduction in the computation of the income tax for another year in the Revenue Act of 1918. It provided that any taxpayer (individual or corporation) who had sustained a net loss for any year beginning after October 31, 1918 and ending prior to January 1, 1920, could apply the amount of such loss against the net income of the prior taxable year. If the net loss was greater than the net income of the prior year, the taxpayer was allowed to apply the excess against the net income of the succeeding year.

For the purposes of this one year carryover and carryback, the term "net loss" was restricted to net loss resulting either from the operation of any business regularly carried on by the taxpayer or from the sale by the taxpayer of certain war facilities. So limited, the net loss was the excess of the deductions allowed by law over the sum of the gross income plus any tax-exempt interest. In addition, the deduction allowed to corporations for dividends received from other corporations was excluded from those deductions which were taken into account in determining the amount of the net loss to be carried over or back. In 1918 there were no special provisions for capital gains and losses; accordingly, there was no adjustment with respect to such gains and losses. It should be noted that under this first provision no adjustment for tax-exempt income was to be made with respect to the net income for the years in which the net loss deduction was to be taken.

II. Revenue Act of 1921

The 1918 Act provided only for net losses of taxable years falling within the 14-month period, October 31, 1918 and January 1, 1920. There was no provision for any net losses which arose in 1920. The Revenue Act of 1921, however, did provide a two-year carryover of net losses arising after 1920. The provision contained in the 1918 Act with respect to losses resulting from the sale of war facilities was not continued in the 1921 Act. The other limitations that were in the 1918 Act were continued with certain additions.

Net losses resulting from the operation of a trade or business were specifically stated to include losses from the sale or other disposition of capital assets used in the conduct of such trade or business. The Bureau of Internal Revenue had construed the provisions of the 1918 Act to exclude such losses from the computation of the carryover and carryback. The 1921 Act also refined the tax-exempt interest limitation somewhat by providing that the net loss should be reduced only by the excess of such tax-free interest over the interest paid on indebtedness incurred or continued to purchase the tax-exempt obligations.

Two additional limitations were incorporated by the 1921 Act: First, the net loss was to be reduced by the excess of the losses not sustained in the trade or business over gains or profits not derived from such trade or business; and, secondly, the net loss was to be further reduced by the excess of the discovery-value depletion deduction over cost depletion. In 1921 there was no special adjustment for capital gains or losses. At that time, capital net gains were for the first time taxed at a reduced rate. Capital losses were required to offset gains to the extent thereof, and, if they exceeded gains, they were deductible in full.

III. The Revenue Act of 1924

The Revenue Act of 1924 is the first act containing a somewhat mature system for carrying over net losses. The provisions of this Act follow the general outlines of the prior acts, but spell out the limitations more accurately. Thereunder, a net loss is defined as the excess of the deductions over the gross income, subject to the following adjustments:

(1) Deductions not attributable to a trade or business are allowed only to the extent of the gross income net derived from such trade of business;

(2) In the case of individuals, capital losses are allowed only to the extent of capital gains;

(3) The excess of discovery-value depletion over cost depletion is not allowable;

(4) In the case of corporations, the deduction for dividends received is not allowable; and

(5) Tax-free interest (decreased by the interest paid or accrued to carry the tax-exempt securities) is included in gross income.

The provisions of the 1924 Act form the basis for the provisions of the next two revenue acts. The only new limitation appears in the Revenue Act of 1928, to the effect that in computing the net loss for any year a net loss for prior years shall not be allowed as a deduction. Since this limitation had been applied by the Bureau of Internal Revenue ever since the introduction of the net loss carryover in 1918, it meant no change in policy.

IV. The Revenue Act of 1932

The Revenue Act of 1932 continued the prior provisions for a net loss carryover with the same limitations, but the loss was permitted to be carried over for only one year. This Act also cut down the net losses arising in 1930 and 1931 to a one-year carryover. The carryover of losses arising in 1932 and subsequent years was eliminated by the National Industrial Recovery Act of 1933.

V. The Revenue Act of 1939

The net loss carryover did not again appear in the law until the Revenue Act of 1939. This Act added to the Internal Revenue Code a new section to provide for a two-year carryover of net operating losses, which has remained in the law basically unchanged by any later acts. The definition of net operating loss under section 122 is substantially the same as the "net loss" in the 1932 Act, with the same items offset against the loss.

For the first time, the carryover provisions, as added to the Code by the 1939 Act, required that the adjustments (except the adjustment relating to deductions not attributable to a trade or business) be made in the computation of the income of the year to which the loss is carried as well as of the year in which the loss occurred. The loss was not permitted to offset taxable income until after it had offset the items of tax-exempt income eliminated in the year of loss (with the exception of partially tax exempt income of individuals).

VI. The Revenue Act of 1942

The last changes made in the net operating loss provisions were enacted as a part of the Revenue Act of 1942, which permitted a two-year carryback of the net operating loss, in addition to the two-year carryover. The other changes were of a technical nature, amending the limitation with respect to capital gains and losses in order to conform to the more lenient treatment of capital gains and losses under the 1942 amendments to the Code.

Generally speaking, the net loss offset under the statute has followed the total-income theory, that is, it has brought in items of tax-exempt income in determining whether or not a loss has been sustained, and in determining the amount of deduction in any year. Certain additional adjustments might also be made if the above policy were to be followed strictly. For example, an adjustment might be made in the case of the Western Hemisphere Trade Corporations to take into account the income excluded from the surtax; and a similar adjustment might be applied in the case of public utilities with a surtax credit for preferred dividends. These and other adjustments which might be made would probably be inadvisable, for they would achieve little more than complexity.

October 1947

TREASURY DEPARTMENT
Washington

(The following address by Edward H. Foley, Jr., Assistant Secretary of the Treasury, at a testimonial dinner honoring officers and crew of the Coast Guard Cutter BIBB in the main ball room, Copley Plaza Hotel, Boston, Massachusetts, is scheduled for delivery at 7:00 p.m., E.S.T., Wednesday, October 29, 1947, and is for release at that time.)

The Secretary of the Treasury, the Honorable John W. Snyder, could not be here tonight but he has asked me to represent him and give you this message:

"I want to express to the people of Boston, as represented by the Maritime Association of the Boston Chamber of Commerce and the other organizations sponsoring this dinner, my very deep appreciation of the spirit in which this honor is being paid to the personnel of the United States Coast Guard Cutter BIBB, who are with you tonight. And while you are honoring individually these men of the BIBB, I feel that you are also honoring through them the entire Coast Guard. I sincerely regret that a previous engagement prevents my being at your dinner and telling you of my appreciation in person.

"This occasion is a testimonial in which every American can join. I will long remember that morning some two weeks ago when I received an operations report from Coast Guard Headquarters that an air-liner with 69 persons aboard had been forced down in the vicinity of the Cutter BIBB. For an entire day and night we all awaited the outcome of the careful plans laid by Captain Cronk and his crew to ensure the safe transfer of everyone aboard the aircraft. Winds of gale force, an extremely rough sea, and the fatigue and sickness of many of those on the plane rendered the rescue problem most difficult and hazardous. The fact that all sixty-nine persons were saved without loss or injury is stirring proof of the valor, seamanship and stamina of the men on the BIBB. I should like to add that Captain Cronk has recommended a number of his officers and men for decorations in recognition of their heroism and outstanding service, and I look forward to the pleasure of presenting these docorations and congratulating their recipients personally. To all hands I say again — well done!

"My best wishes for a very pleasant evening."

The Coast Guard enjoys a long and heroic record in the saving of human lives, of which the BIBB's rescue and the assistance rendered even more recently by Coast Guard vessels to the residents of Bar Harbor are current chapters.

The people of Boston -- the men of the fishing fleet especially -- have witnessed many other examples of the Coast Guard's readiness in all emergencies. The tribute you are paying to these Coast Guardsmen tonight may well be regarded as honoring also your seafaring tradition, since one-third of the BIBB's personnel are from New England. And, incidentally, most of the New Englanders on the BIBB are from the Commonwealth of Massachusetts. This occasion gives further evidence of the close connection that has always existed between New England and the Coast Guard since the founding of the service in 1790. It is of interest, I think, to note that the first commissioned officer in the Coast Guard was a New Englander -- Captain Hopley Yeaton of Durham, New Hampshire. He was only the first of a long list of outstanding officers and men from this area who have served their country bravely and honorably through the Coast Guard. And I can assure you that the Coast Guard has always relied on the cooperation which they have unfailingly received from the people of New England.

Today the Coast Guard has heavier responsibilities than it has borne at any time in the past, and it is operating under more difficult conditions. For more than 150 years, the Coast Guard has given many types of assistance to mariners as well as having served with the Navy in every war in which our country has been engaged. Until 1939, however, there were few changes in its organization. In that year the former Lighthouse Service was made a part of the Coast Guard. Shortly thereafter began the greatest expansion the Coast Guard has ever experienced as the Nation prepared to defend itself against aggression.

From a prewar strength of approximately 12,000 the Coast Guard expanded to some 170,000 during World War II. In 1942, the Coast Guard, by Presidential Order, took over most of the functions and personnel of the Bureau of Marine Inspection and Navigation, and this move placed under one organization for the first time both the regulatory authority to promote maritime safety and the rescue facilities to cope with disasters.

During the war, the Coast Guard continued practically all of its peacetime tasks on a greatly expanded scale. In addition it took over such strictly wartime functions as escort and convoy duty, the manning of troop and cargo transports, and the operation of landing craft on invasion beaches.

With the end of the war the Coast Guard faced major problems. In the first place, there was a very rapid demobilization. In the course of a single year the personnel of the Coast Guard was reduced by over 7/8ths to its present strength of approximately 20,000 officers and men. The Coast Guard, in common with the rest of the Executive branch of the Government, was determined to reduce its expenditures to the lowest possible point consistent with service. Many of its wartime functions should have been, and were, quickly eliminated. But the Coast Guard had greatly enlarged peacetime responsibilities. Many of these duties were the result of wartime technological developments. Some of the most important of these are the ocean weather station program and the

maintenance of Loran stations -- the war-born electronics system of long range position-finding at sea.

In addition to the enlargement of its traditional functions because of war time developments the Coast Guard has had entrusted to it important new statutory duties including the inspection of merchant ships and the licensing and documentation of merchant marine personnel, formerly performed by another Government Department. It is evident that the Coast Guard of today cannot be compared with the 1939 model.

I have previously mentioned the ocean weather station program as one of the wartime developments which has enlarged the peacetime responsibilities of the Coast Guard. It was this program that made possible the rescue of the passengers and crew of the Bermuda Sky Queen. The BIBB was not in mid-Atlantic by chance when the Sky Queen landed beside her, some 800 miles East-Northeast of Newfoundland. She was posted there as weather station "Charlie", a link in a carefully thought out chain of ocean station vessels which someday we hope will extend across the Atlantic in positions such that no aircraft would ever be more than one and a half hours flying time away from a source of rescue.

The weather ship operation began in the winter of 1940 -- one of the most vicious seasons ever recorded in the North Atlantic. The Coast Guard cutters assigned to this duty clung to their stations through long sieges of dirty weather and their reports made it possible to furnish accurate aerological reports to the bombers and transports flying to the British Isles. After V-E Day it required twenty-two ocean stations, thirteen of which were operated by the United States, to assure the safe redeployment of planes and personnel across the North and South Atlantic for the war against Japan. A similar operation was maintained in the Pacific. These stations were a major factor in enabling us to make thousands of transoceanic flights with only negligible losses. By May 1946, the demobilization program forced the Coast Guard to discontinue all but one of its ocean stations. In September of the same year, the Provisional International Civil Aviation Organization, known as PICAO, took steps to provide a permanent network of ocean weather stations in the Atlantic. The present program is sponsored by the ten nations most interested in the trans-Atlantic route -- the United States, the United Kingdom, Canada, Ireland, France, Belgium, the Netherlands, Norway, Sweden, and Portugal. The Chicago Convention on International Civil Aviation, drafted in December 1944 and later ratified by the United States Senate, provided that Governments interested in maintaining radio aids to aerial navigation and other facilities on the high seas might enter into joint support arrangements to provide these facilities. The International Agreement on North Atlantic Ocean Weather Stations is such an arrangement, and this Agreement was accepted for the United States by President Truman in September of this year. The United States is thus committed to maintain seven stations entirely with our own resources and one station jointly with Canada, out of a total of thirteen. So far, Congress has appropriated funds to maintain only two stations out of our total commitment of seven and one-half in the Atlantic. The two American stations are now operating. The BIBB was on one of these stations. We intend to submit to the next

regular session of the Congress an urgent request for the additional funds necessary to operate the other five and one-half stations.

The other nations involved are also taking steps to provide their portions of the program. The United Kingdom is operating one of its two stations, France is expected to place her station in commission next month, and the station operated jointly by Belgium and the Netherlands is now functioning.

I know that the officers and men of the BIBB would want me to say something of the daily work of all the ships of the Weather Patrol. This work has on many occasions been the means of averting the necessity for such dangerous missions as the BIBB has recently carried out. Timely weather reports or welcome beacon signals from weather station vessels have often meant the difference between a successful crossing and possible disaster.

Three ships are required to man each weather station and each ship usually remains at sea about a month. These vessels have a crew of approximately 125 officers and men, including the medical staff, plus four United States Weather Bureau observers and meteorologists. All vessels have a complete array of scientific meteorological equipment, comparable in scope to that found at a first-class airport. They also carry air and surface radar, a radio beacon, and all the equipment needed to perform rescues at sea. In the course of future operations, it is the Coast Guard's intention to rotate all its major cutters on weather station duty -- basing them in Boston, New York and Norfolk.

For those of you who haven't done it, life aboard these Coast Guard weather ships, maintaining a position within an area of 10 miles square, is lonely and trying, both physically and mentally. Rarely in the North Atlantic do stretches of good weather appear -- for the most part the days are overcast and stormy, with high seas running, and the constant pitching and rolling of the cutter makes even sleep difficult. In spite of the fact that the food is as good as we can make it and all possible recreation is provided, the duty is dreary, monotonous and routine. However, the men on these vessels realize that theirs is one of the most important, as well as one of the most difficult, of all Coast Guard assignments.

It is the responsibility of the Weather Bureau personnel on ocean weather station duty, assisted by Coast Guardsmen, to obtain and transmit twice daily, reports through Coast Guard Radio Washington to the Weather Bureau for distribution through its normal channels. This weather information is also sent by short wave to Europe. Part of this work entails surface observations every three hours, and observations for the purpose of recording the temperature, humidity and pressure of the upper air at various altitudes, obtained by means of radio transmitters suspended from large balloons. The aviation companies engaged in ocean traffic make wide use of the information so received, basing their flights largely upon these weather reports. Ultimately, when all thirteen ocean weather stations are completely manned, the pay load of commercial airliners should show a marked increase over that now carried. It will no longer

be necessary for airliners to carry such large quantities of extra fuel simply because of unknown weather conditions along many parts of their route.

Surface vessels, too, benefit from the various services offered by the ocean station vessel, receiving the latest weather information and using the radio beacons to check on their position and speed. The proposed network of ocean station vessels will provide the best distress listening watch across the Atlantic ever offered to merchant ships.

All of these services are, if I may borrow a term from medicine, "preventive" measures -- that is, measures designed to prevent accidents by providing the most modern scientific aids to safe navigation.

Although we are making every effort to prevent accidents, we must always be prepared to bring our rescue measures into play. Such was the BIBB's mission.

The Bermuda Sky Queen had left Foynes, Ireland, for Gander, Newfoundland, at 3:40 P.M. on October 13th. The plane was picked up on the BIBB's radar as she passed over. Some 100 miles to the west, and beyond the point of no return, Captain Martin of the Sky Queen found that violent headwinds had eaten so deeply into his fuel supply that he concluded he could not risk going on to Gander. He then made the decision to double back to the BIBB. At about 7 A.M., the BIBB received a report that the Sky Queen was returning to Weather Station "Charlie" for a landing. A short time later the aircraft was sighted and radio communication was established for landing. After a perfect landing on a sea where the waves were running as high as thirty-five feet, the drama of the rescue began.

The forecast indicated moderating weather. This would have materially reduced the hazard of rescue both to those on the Sky Queen and to those on the BIBB. Because of this forecast, and since it was evident that the plane was in no immediate danger of sinking, the officers and crews of both the BIBB and the Sky Queen commenced to lay plans to begin the rescue as soon as the weather moderated. By three o'clock in the afternoon, however, the weather had shown no signs of moderating as forecast and the plane was beginning to leak. As a consequence, the signal was given to begin the transfer immediately despite the high seas which were still running. Three merchant seamen who were aboard the Sky Queen volunteered to make the first trip in a small rubber life raft, and they were picked up successfully by the cutter. After that, the race against time and wind and water was on. A bigger raft was brought into use and completed three trips safely. On the fourth trip, with 16 persons aboard, the raft broke adrift. A motor surfboat was sent to the raft's aid and both were swamped. As the surfboat began to break up, the BIBB moved in with seamen over the side on landing nets. The lifeboat by this time was completely awash and several persons were overboard. By miracles of courage and effort all these on the surfboat and in the

water were rescued. Several of the BIBB's crew particularly distinguished themselves in this phase of the rescue and all accounts speak highly of the calmness and cooperation displayed by those from the aircraft. By this time darkness had fallen and operations were suspended with 22 persons still on the plane. Early the next morning the BIBB radioed "all passengers and crew safely aboard" and four days later she steamed proudly into Boston Harbor with a broom lashed to her masthead.

We all join in congratulating Captain Cronk for the cool calculation, daring and skill with which he conducted the operation; the entire ship's company for their courage and steadfast devotion to duty; and all hands who in the life boats, on the landing nets, and in the water willingly risked their lives that others might live.

The Treasury Department once more has occasion to be proud that the Coast Guard is one of its components. I join Secretary John W. Snyder in saying to you men of the BIBB that your performance in the rescue of all the persons aboard the Bermuda Sky Queen was in the Coast Guard's finest tradition.

It is equally in the finest tradition of this great seaport that it should have been alive to the significance of this rescue and arranged this splendid dinner in honor of Captain Cronk and his gallant crew.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS
Tuesday, October 21, 1947.

Press Service
No. S-507

The Secretary of the Treasury announced last evening that the tenders for $1,100,000,000, or thereabouts, of 91-day Treasury bills to be dated October 23, 1947, and to mature January 22, 1948, which were offered October 17, 1947, were opened at the Federal Reserve Banks on October 20.

The details of this issue are as follows:

Total applied for - $1,513,865,000
Total accepted - 1,103,005,000 (includes $31,192,000 entered on a non-competitive basis and accepted in full at the average price shown below)

Average price - 99.784 Equiv. rate of discount approx. 0.855% per annum

Range of accepted competitive bids: (Excepting one tender of $50,000)

High - 99.813 Equiv. rate of discount approx. 0.740% per annum
Low - 99.781 " " " " " 0.866% " "

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

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 5,555,000	$ 5,555,000
New York	1,390,522,000	996,912,000
Philadelphia	11,285,000	11,285,000
Cleveland	2,480,000	2,480,000
Richmond	5,360,000	5,360,000
Atlanta	3,591,000	3,041,000
Chicago	33,075,000	18,045,000
St. Louis	2,455,000	2,355,000
Minneapolis	10,250,000	9,350,000
Kansas City	16,937,000	16,277,000
Dallas	7,445,000	7,435,000
San Francisco	24,910,000	24,910,000
TOTAL	$1,513,865,000	$1,103,005,000

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, October 24, 1947.

Press Service
No. S-508

The Secretary of the Treasury, by this public notice, invites tenders for $1,100,000,000, or thereabouts, of 91-day Treasury bills, for cash and in exchange for Treasury bills maturing October 30, 1947, to be issued on a discount basis under competitive and non-competitive bidding as hereinafter provided. The bills of this series will be dated October 30, 1947, and will mature January 29, 1948, 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 Standard time, Monday, October 27, 1947. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders 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 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, non-competitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve

Bank on October 30, 1947, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 30, 1947. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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 the Internal Revenue Code, or laws amendatory or supplementary thereto. 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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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS
Saturday, October 25, 1947.

Press Service
No. S-509

Secretary Snyder today announced the adoption of amendments to the Gold Regulations issued under the Gold Reserve Act of 1934. These amendments are in furtherance of the request of the International Monetary Fund that its members take measures to prevent international transactions in gold at premium prices. The amendments supplement the statement made by Secretary Snyder and the Board of Governors of the Federal Reserve System asking American individuals, banks and business enterprises to refrain from encouraging and facilitating this premium price traffic in gold. The amended Regulations come into effect on November 24, 1947.

Fine gold in bar form, which the Treasury has licensed for export for industrial, professional or artistic use, has been sold in some instances at premium prices for hoarding. Accordingly, the present amendments permit only semi-processed gold to be exported for industrial use except in cases in which the gold will be refined or processed and returned to the United States.

The amended Regulations permit the export of gold refined from imported gold-bearing material only when the refiners in the United States do not participate in the sale of the refined gold. In addition, such gold may be exported only when the exportation of gold-bearing material from the country of origin and the importation of the refined gold into the country of destination do not violate the laws of those countries.

In effect, the amendments implement the request of the Monetary Fund by preventing persons and organizations within the United States from participating in the export of gold for sale at premium prices. It is expected that other countries will take measures of a similar nature to control activities of persons and organizations within their jurisdiction and thereby reduce the traffic in gold at premium prices to a minimum. The Treasury is also continuing its study of gold transactions in which persons within the United States may be participating.

The present amendments also make several changes of an administrative nature in the Gold Regulations. One effect of these amendments is to dispense with the requirement that applications and reports under the Gold Regulations be sworn to before an official authorized to administer oaths.

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AMENDMENTS TO THE GOLD REGULATIONS

The Provisional Regulations issued under the Gold Reserve Act of 1934 are amended, effective November 24, 1947, as follows:

1. The title of the regulations is changed to read, "Regulations issued under the Gold Reserve Act of 1934."

2. The following amendments are made to section 4:

(a) The definition of "fabricated gold" is amended to read as follows:

> "Fabricated gold" means gold which has, in good faith and not for the purpose of evading, or enabling others to evade, the provisions of the Act or of these regulations, been processed or manufactured for some one or more specific and customary industrial, professional, or artistic uses, provided that not more than 80 per cent of the total domestic value of the processed or manufactured gold is attributable to the gold content thereof; but the term "fabricated gold" does not include gold coin or scrap gold.

(b) Insert the following new paragraph between the definitions of "fabricated gold" and "scrap gold":

> "Semi-processed gold" means gold which has, in good faith and not for the purpose of evading, or enabling others to evade, the provisions of the Act or of these regulations, been processed or manufactured for some one or more specific and customary industrial, professional, or artistic uses, provided that more than 80 per cent of the total domestic value of the processed or manufactured gold is attributable to its gold content; but the term "semi-processed gold" does not include gold coin or scrap gold.

(c) The definition of "scrap gold" is amended to read as follows:

> "Scrap gold" means gold sweepings and any semi-processed gold or fabricated gold, the value of which depends primarily upon its gold content

and not upon its form, which is no longer held for the use for which it was processed or manufactured.

(d) The penultimate paragraph is amended to read as follows:

Wherever reference is made in these regulations to equivalents as between dollars or currency of the United States and gold, $1 or $1 face amount of any currency of the United States equals fifteen and five twenty-firsts (15-5/21) grains of gold, nine-tenths fine.

3. Section 5 is amended to read as follows:

General provisions affecting applications, statements, and reports.--Every application, statement, and report required to be made hereunder shall be made upon the appropriate form prescribed by the Secretary of the Treasury. Action upon any application or statement may be withheld pending the furnishing of any or all of the information required in such forms or of such additional information as may be deemed necessary by the Secretary of the Treasury, or the agency authorized or directed to act hereunder. There shall be attached to the applications, statements, or reports such instruments as may be required by the terms thereof and such further instruments as may be required by the Secretary of the Treasury, or by such agency.

4. Section 7 is amended to read as follows:

General provisions affecting export licenses.--At the time any license to export gold is issued, the Federal Reserve bank or mint issuing the same shall transmit a copy thereof to the Collector of Customs at the port of export designated in the license. No Collector of Customs shall permit the export or transportation from the continental United States of gold in any form except upon surrender of a license to export, a copy of which has been received by him from the Federal Reserve bank or the mint issuing such license: Provided, however, That the export, or transportation from the continental United States of fabricated gold may be permitted pursuant to section 16: And provided further, That gold held by the Federal Reserve banks under article IV may be exported for the purposes of

such article without a license. The Collector of Customs to whom a license to export is surrendered shall cancel such license and return it to the Federal Reserve bank or mint which issued the same. In the event that the shipment is to be made by mail, a copy of the export license shall be sent to the Postmaster or the post office designated in the application, who will act under the instructions of the Postmaster General in regard thereto.

5. Section 9 is amended to read as follows:

Forms available.--Any form, the use of which is prescribed in these regulations, may be obtained at, or on written request to, any United States mint or assay office, Federal Reserve bank, or the Bureau of the Mint, Treasury Department, Washington 25, D. C.

6. Section 15 is amended to read as follows:

Gold situated in the possessions of the United States.--Gold in any form (other than United States gold coin) situated in places subject to the jurisdiction of the United States beyond the limits of the continental United States may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for the account of persons other than residents of the continental United States, by persons not domiciled in the continental United States: Provided, however, That gold may be transported from the continental United States to the possessions of the United States only under license for export issued pursuant to sections 25(3), 32, 33, or 34, or, if fabricated gold, pursuant to section 16.

7. Section 16 is amended to read as follows:

Fabricated gold.--Fabricated gold may be acquired, transported within the United States, imported, exported, or held in custody for foreign or domestic account without the necessity of holding a license therefor.

8. The last sentence of the second paragraph of section 19 is amended to read as follows:

Such retort sponge may be acquired from such persons by the United States or by persons holding licenses on form TGL-12 modified to deal in retort sponge, TGL-13 or TGL-14, but by no other person.

9. Section 25(3) is amended to read as follows:

(3) No license on form TGL-12, TGL-13 or TGL-14 shall authorize the licensee to export or transport gold in any form from the continental United States, without a supplementary license on form TGL-15 issued by the mint which issued the license on form TGL-12, TGL-13 or TGL-14 except that fabricated gold may be exported or transported from the continental United States pursuant to section 16. Export licenses on form TGL-15 shall be issued only with the approval of the Director of the Mint and upon application made on form TG-15 showing to the satisfaction of the mint and the Director that the gold to be exported is semi-processed gold and that the export or transport from the continental United States is for a specific and customary industrial, professional, or artistic use and not for the purpose of using or holding or disposing of such semi-processed gold beyond the limits of the continental United States as, or in lieu of, money, or for the value of its gold content: Provided, however, That export licenses may be issued authorizing the exportation of gold in any form for refining or processing subject to the condition that the refined or processed gold (or the equivalent in refined or processed gold) be returned to the United States, or subject to such other conditions as the Director may prescribe.

10. Section 32 is amended to read as follows:

Gold imported in gold-bearing materials for reexport.-- The United States assay office at New York or the United States mint at San Francisco, with the approval of the Director of the Mint, shall issue licenses on form TGL-16 authorizing the exportation of gold refined (or the equivalent to gold refined) from gold-bearing materials imported into the United States for refining and reexport to the foreign exporter, or pursuant to his order, provided the Director and such assay office or mint are satisfied that:

(a) the imported gold-bearing material either (i) was imported into the United States from a foreign resident or a foreign organization, or (ii) was mined by a branch or other office of a United States organization and imported into the United States from such branch or office;

(b) the importer has no right, title, or interest in the gold refined from the imported gold-bearing

material other than through its branch or office which is the foreign exporter as provided in subparagraph (a)(ii) above, and the importer will not participate in the sale of such refined gold or receive any commission in connection with the sale of such refined gold;

(c) the refined gold is to be reexported to the foreign exporter or, pursuant to his order, to a foreign resident or foreign organization; and

(d) the exportation of the gold-bearing material from the country of origin and the importation of the refined gold into the country or countries of importation are authorized under the applicable laws and regulations of such countries;

provided, further, that such gold is imported, acquired, and held, transported, melted and treated as permitted in article II or in accordance with a license issued under section 23 hereof and subject to the following provisions:

(1) Notation upon entry.--Upon the formal entry into the United States of any gold-bearing materials, the importer shall declare to the Collector of Customs at the port where the material is formally entered that the importation is made with the intention of exporting the gold refined therefrom to the foreign exporter, or pursuant to his order. The Collector shall make on the entry a notation to this effect and forward a copy of the entry to the United States assay office at New York or to the United States mint at San Francisco, whichever is designated by the importer.

(2) Sampling and assaying.--Promptly upon the receipt of each importation of gold-bearing material at the plant where it is first to be treated, it shall be weighed, sampled, and assayed for the gold content. A reserve commercial sample shall be retained by such plant for at least 1 year from the date of importation, unless the assay is sooner verified by the Bureau of the Mint.

(3) Plant records.--The importer shall cause an exact record, covering each importation, to be kept at the plant of first treatment. The records shall show the gross wet

weight of the importation, the weight of containers, if any, the net wet weight, the percentage and weight of moisture, the net dry weight, and the gold content shown by the settlement assay. An attested copy of such record shall be filed promptly with the assay office at New York or the mint at San Francisco, whichever has been designated to receive a copy of the entry. The plant records herein required to be kept shall be available for examination by a representative of the Treasury Department for at least 1 year after the date of the disposition of such gold.

(4) Application for export license.--Not later than 3 months from the date of entry the importer shall file with the New York assay office or the mint at San Francisco, whichever has been designated to receive a copy of the entry, an application on form TG-16 for a permit to export refined gold not in excess of the amount shown by the settlement sheet covering the importation. The application shall be accompanied by two duly attested copies of the settlement sheet.

(5) Issuance of serial numbered certificates.--If the assay office or mint is satisfied as to the accuracy of the data shown on such application, it shall issue to the importer a dated serial numbered certificate, which shall show the amount of gold specified by the application and the amount specified by the settlement sheet. The Director of the Mint shall prescribe the form of such certificate.

(6) Issuance of export licenses.--Upon delivery of the serial numbered certificate to the assay office at New York or to the mint at San Francisco, whichever issued the certificate, within 120 days from the date the certificate was issued, and upon satisfactory compliance with the provisions of this section, the mint or assay office, with the approval of the Director, shall issue to the importer an export license or licenses on form TGL-16 to export refined gold in a total amount not exceeding the amount specified in the settlement sheet as shown on such certificate.

(7) Exportation prior to receipt of settlement sheet.--Upon a showing in the application that an exportation with respect to any gold-bearing materials imported into the United States for refining is necessary prior to the time the settlement sheet can be procured, the assay office at

New York or the mint at San Francisco, whichever was designated by the importer, may receive the application with duplicate certified copies of the report of the applicant's actual test assay. If prior reports of such applicant have been approximately substantiated by the settlement sheets, a license or licenses may be granted to export up to 90 per cent of the amount of gold which such report estimates will be realized from such gold-bearing materials.

(8) Number of licenses to be issued.--No more than three licenses will be issued in connection with each importation of gold-bearing material.

11. Section 38 is amended to read as follows:

Gold recovered from natural deposits in the United States or any place subject to the jurisdiction thereof.--(1) The mints shall not purchase any gold under clause (a) of section 35 unless the deposit of such gold is accompanied by a properly executed statement as follows:

A statement on form TG-19 shall be filed with each delivery of gold by persons who have recovered such gold by mining or panning in the United States or any place subject to the jurisdiction thereof.

A statement on form TG-20 shall be filed with each delivery of gold by persons who have recovered such gold from gold-bearing materials in the regular course of their business of operating a custom mill, smelter, or refinery.

A statement on form TG-21 together with a statement giving (a) the names of the persons from whom gold was purchased; (b) the amount and description of each lot of gold purchased; (c) the location of the mine or placer deposit from which each lot was taken; and (d) the period within which such gold was taken from the mine or placer deposit, shall be filed with each such delivery of gold by persons who have purchased such gold directly from the persons who have mined or panned such gold.

In addition, such persons shall show that the gold was acquired, held, melted and treated, and transported by them in accordance with a license issued pursuant to section 23

hereof, or that such acquisition, holding, melting and treating, and transportation is permitted under article II without necessity of holding a license.

12. Section 39 is amended to read as follows:

Unmelted scrap gold.--No deposit of unmelted scrap gold shall be accepted unless accompanied by a properly executed statement on form TG-22. In addition, the depositors of such gold shall establish to the satisfaction of the mint that the gold was acwuired, held, and transported by them in accordance with these regulations or a license issued pursuant thereto.

13. Section 40 is amended to read as follows:

Imported gold.--The mints are authorized to purchase only such gold imported into the United States as has been in customs custody throughout the period in which it shall have been situated within the customs limits of the continental United States, and then only subject to the following provisions:

(1) Notation upon entry.--Upon formal entry into the United States of any gold intended for sale to a mint under this article, the importer shall declare to the Collector of Customs at the port of entry where the gold is formally entered that the gold is entered for such sale. The Collector shall make a notation of this declaration upon the entry and forward a copy to the mint designated by the importer.

(2) Statement by importer.--Upon the deposit of the gold with the mint designated by the importer, the importer shall file a statement executed in duplicate on form TG-23.

14. Section 43 is amended to read as follows:

Authorization to sell gold.--Each mint is authorized to sell gold to persons holding licenses on form TGL-13 or TGL-14, or to persons authorized under section 21 of these regulations to acquire such gold for use in industry, profession, or art: Provided, however, That no mint may sell gold to any person in an amount which, in the opinion of such mint, exceeds the amount actually required by such person for a period of 3 months. Prior to the sale of any gold under this article, the mint shall require the purchaser to execute and file in duplicate a statement on form

TG-24, or, if such purchaser is in the business of furnishing gold for use in industries, professions, and arts, on form TG-25. The mints are authorized to refuse to sell gold in amounts less than 25 ounces, and shall not sell gold under the provisions of this article to any person who has failed to comply with these regulations or the terms of his license.

The regulations issued under the Gold Reserve Act of 1934 as above amended are hereby confirmed.

These amended regulations shall become effective 30 days after their publication in the Federal Register except as to any importation of gold-bearing material which has been entered in accordance with the provisions of paragraph 1 of section 32 of the regulations prior to such effective date and except as to any application for the exportation of gold pursuant to section 25(3) of the regulations filed prior to such effective date.

/S/ John W. Snyder

Secretary of the Treasury

Approved:

/S/ Harry S. Truman

The White House

Published in the Federal Register on October 25, 1947.
(12 F.R. 6949)

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 28, 1947.

Press Service
No. S-510

The Secretary of the Treasury announced last evening that the tenders for $1,100,000,000, or thereabouts, of 91-day Treasury bills to be dated October 30, 1947, and to mature January 29, 1948, which were offered October 24, 1947, were opened at the Federal Reserve Banks on October 27.

The details of this issue are as follows:

Total applied for - $1,441,104,000
Total accepted - 1,101,584,000 (includes $31,440,000 entered on a non-competitive basis and accepted in full at the average price shown below)

Average price - 99.779/ Equivalent rate of discount approx. 0.873% per annum

Range of accepted competitive bids:

High - 99.815 Equiv. rate of discount approx. 0.732% per annum
Low - 99.777 Equiv. rate of discount approx. 0.882% per annum

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

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 1,270,000	$ 1,270,000
New York	1,302,202,000	1,001,742,000
Philadelphia	17,794,000	2,794,000
Cleveland	7,820,000	7,820,000
Richmond	5,668,000	5,668,000
Atlanta	1,639,000	1,639,000
Chicago	32,240,000	11,320,000
St. Louis	3,189,000	3,089,000
Minneapolis	5,605,000	5,605,000
Kansas City	14,835,000	14,835,000
Dallas	12,625,000	12,515,000
San Francisco	36,217,000	33,287,000
TOTAL	$1,441,104,000	$1,101,584,000

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Wednesday, October 29, 1947.

Press Service
No. S-511

Secretary Snyder announced today that income tax agents are investigating a number of automobile dealers alleged to have evaded income tax on unusual profits from the resale of used cars taken at nominal trade-in values from persons seeking new cars.

Reports to the Secretary from George J. Schoeneman, Commissioner of Internal Revenue, indicate that, in at least one large Eastern city, evidence has been uncovered of several automobile dealers who were victimizing their customers by undervaluing trade-in cars, reselling these cars at high prices, and then attempting to evade income taxes by omitting the profits of these transactions from their income tax returns.

Other interesting developments in the Treasury's campaign against tax evaders follow:

One of the largest cases developed in the South concerned a building supply company whose owner was confronted with evidence that he had evaded taxes on hundreds of thousands of dollars profits in recent years by omitting numerous sales from the books of his company. Upon being shown evidence of his fraud, this individual agreed to open a secret safety deposit box from which he withdrew and exhibited to income tax investigators a stack of 517 one thousand dollar bills and $345,000 in bonds. He agreed to post all of the currency as a bond for payment of his taxes, interest and penalties, which are expected to amount to approximately the same amount.

In another large eastern case, investigators found that a shoe manufacturer was being "mulcted" by associates of a portion of his illicit gains long before Government investigators brought him to justice. This manufacturer had arranged with related businesses to send him false invoices for materials that were never delivered. He would then write checks to these companies in full payment for the phantom shipments, with the understanding that the recipients would cash the checks and return the money to him. However, these companies soon began keeping between 5 and 10 per cent of the money for themselves as "commissions". The final blow was when income tax investigators discovered that the manufacturer had been reducing his apparent taxable profits by charging the amounts of these false invoices on his books, and assessed him $500,000 in tax, interest and penalties.

Investigation of a large Western concern resulted in the assessment of $687,000 in taxes, interest and penalties after income tax agents discovered that the principal officer of the company had been padding the firm's expenses by claiming 2 per cent of all sales as reimbursement for alleged travel, promotion, and entertainment expenses. The agents found that most of these "expense accounts" have been used by this officer to buy jewelry, furs, farms, and other property for his personal account. Expenses also had been padded by entering on the books commission payments

to the son of the officer. The officer had also failed to report these expense payments on his personal income tax return and had further attempted to minimize his income tax by claiming huge contributions to various worthy causes which never received the money.

A $310,000 assessment has been made against one individual who, during the war, obtained 3,900,000 pounds of rationed sugar by creating an imaginary candy manufacturing company. Because of the scarcity of the commodity, this individual was able to sell the sugar at a huge profit to bona fide confectioners. He faces criminal prosecution for failure to pay income tax on his illicit profits.

In one of the dry states, a retail druggist has been assessed $14,000 for failure to pay tax on suspicious sales of prescription alcohol. Investigators found that the alcohol was not only illicit, but heavily watered.

One of the smaller but more unusual cases developed in a southwestern state concerned an unethical divorce lawyer who was associated with a ring of girls who preyed upon young soldiers at a nearby army camp. The girls made a practice of luring soldiers into quick marriages and, sometimes, quicker divorces for the purpose of getting allotment checks, etc. Income tax agents found that the lawyer who handled the divorces often succeeded in getting three divorces per year for several of the girls. Although the lawyer received only small fees -- including a number of discarded wedding rings -- he nevertheless was found to owe over $4,800 in income tax.

An unsuspecting pastor was used by one recent income tax suspect in an effort to quash an investigation. The suspect deluded his pastor into preaching a strong sermon against "tax collectors" while the investigation was in an initial stage. Later when the agents discovered conclusive evidence of the man's fraud, he paid over $8,200 without further protest.

Reports also were received of a $1,650,000 case against three midwest liquor black marketeers; a $119,000 case against a southern jeweler who was conducting his business in the same office building where the income tax agents are regularly stationed; a $182,000 case against a large southern farmer; and a $100,000 case against a western rooming house operator.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Wednesday, October 29, 1947.

Press Service
No. S-512

Secretary Snyder today commended as "an example to the nation" the decision of the American Federation of Labor to promote nation-wide a Security Thrift Program of its own, urging its 7,000,000 members to participate in the payroll savings plan for the purchase of United States Savings Bonds.

Mr. Snyder referred to a resolution adopted by unanimous vote at the recent AFofL convention at San Francisco "endorsing United States Savings Bonds for the Security Thrift Program, urging all members of the American Federation of Labor to participate and urge employers to establish payroll savings plans where they do not now exist"; which "empowered and instructed the Executive Council to prepare and distribute literature which is, in their judgment, necessary for the promotion of this nation-wide plan"; and to ask all members to hold their bonds, thus helping to check "the inflationary trends that are so apparent in the demostic market."

The executive council's report states that the convention endorsed "permanent continuation of the payroll savings plan by the Treasury Department for the purchase of U. S. Savings Bonds through labor-management cooperation on a strictly voluntary basis. This policy is based upon abundant evidence of the degree to which wage earners have learned to appreciate the virtues of systematic thrift through experience gained during the war."

The AFofL Security Thrift Program, Mr. Snyder recalled, was initiated last March by the Los Angeles Central Labor Union Council, when it appointed a seven-man committee to work with the Treasury's Savings Bonds Division to stimulate payroll savings, instructed local unions to appoint a bond officer and printed and distributed a folder on the program to 500,000 AFofL members in its area. The West Virginia Federation adopted the program state-wide and distributed 150,000 leaflets on it. The California, New Jersey, Minnesota, Pennsylvania and Massachusetts state federations had also adopted it and central union bodies in many of their cities had launched their own campaigns in cooperation with the Treasury when the action at San Francisco made the program national.

"The AFofL Security Thrift Program is most timely in view of the present price situation and the low purchasing power of the consumer's dollar," Secretary Snyder commented. "A dollar saved today is better than a dollar earned, for the saved dollar does not help push prices higher and as prices inevitably come down it will buy more in goods and services. Invested in E bonds through the payroll savings plan, the spare dollar grows.

"The leaders and delegates of the AFofL who are responsible for this far-sighted program to urge their fellow members to save all they can through the payroll savings plan are setting an example for all Americans. The union member will profit by regular saving and the whole economy will profit by every dollar that is saved for the future."

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, October 29, 1947.

Press Service
No. S-513

The Secretary of the Treasury today announced the subscription and allotment figures with respect to the current offering of 1 percent Treasury Certificates of Indebtedness of Series K-1948, to be dated November 1, 1947.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

Federal Reserve District	Total Subscriptions Received & Allotted
Boston	$ 38,623,000
New York	712,781,000
Philadelphia	34,454,000
Cleveland	31,188,000
Richmond	48,842,000
Atlanta	47,518,000
Chicago	203,973,000
St. Louis	48,659,000
Minneapolis	46,751,000
Kansas City	77,449,000
Dallas	47,110,000
San Francisco	123,307,000
Treasury	5,995,000
TOTAL	$1,466,650,000

By arrangements made between the Treasury and the Federal Reserve System, the System's holdings of maturing certificates amounting to $203,261,000 will be presented for cash redemption on November 1.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, October 31, 1947.

Press Service
No. S-514

The Secretary of the Treasury, by this public notice, invites tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills, for cash and in exchange for Treasury bills maturing November 6, 1947, to be issued on a discount basis under competitive and non-competitive bidding as hereinafter provided. The bills of this series will be dated November 6, 1947, and will mature February 5, 1948, 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 Standard time, Monday, November 3, 1947. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders 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 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, non-competitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on November 6, 1947, in cash or other immediately available funds or in a like face amount of Treasury bills maturing November 6, 1947. Cash and exchange tenders will receive equal treatment. Cash

adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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 the Internal Revenue Code, or laws amendatory or supplementary thereto. 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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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, October 29, 1947.

Press Service
No. S-515

A study entitled "Taxation of Small Business" was made public by the Treasury Department today. The study is one of a series prepared by the Treasury's Division of Tax Research, examining major postwar tax revision matters. It makes no policy recommendations.

Widely shared conceptions of the social and economic importance of small business have stimulated a variety of ideas for special tax benefits, the study notes. It analyzes several types of special benefit proposals, weighs their probable effectiveness in reaching declared or implied objectives, and considers whether their adoption would raise new questions or accentuate old ones of equity, economic effects and administration.

Suggestions to which the study gives attention include refinement or revision of the income tax base and rates, equalization of taxes on small incorporated and unincorporated businesses, and tax exemptions for new or small businesses or for investors in them.

There are varying definitions of "small business." One gives this classification to a retail store or service concern with annual net sales or receipts of less than $50,000, a wholesale business with annual net sales of less than $200,000, or a manufacturing establishment with fewer than 100 employees. Under this definition, more than nine tenths of American businesses were "small" in 1939. They employed about 40 percent of all workers and active proprietors, and had about one-third of all sales.

The number of American business firms declined sharply during the years 1941-43 but has since increased rapidly and by mid-1946 exceeded the pre-war peak.

The Treasury report cites two viewpoints from which preferential tax proposals spring. One view is that the tax system should be deliberately biased in favor of small business; the other is that special measures are required to assure small business substantially equal tax treatment with larger business.

* * *

Dealing with specific suggestions, the study first discusses proposals for modification of the base or rates of tax on the income of small businesses. These proposals include: (1) Possible changes in the present graduation of corporation income tax rates; (2) exemption of a limited amount of net income from the present special surtax on unreasonable accumulations of corporate surpluses; (3) liberalized loss offsets through extension of the carrybacks and carryforwards; (4) acceleration of depreciation allowances.

The study describes inherent difficulties in all systems of graduating corporation income tax rates. It points out that establishment of an exemption from surtax on unreasonable corporate surpluses would give rise to important equity and administrative problems, that improvement and liberalization of loss offsets as a general tax measure would be especially beneficial to small businesses because their incomes fluctuate more widely than incomes of large firms, and that accelerated depreciation would be helpful to growing firms in industries requiring substantial capital investments.

* * *

Two proposals intended to equalize taxes on small unincorporated and incorporated businesses are discussed. They are: (1) Partnership tax treatment on an optional basis for certain corporations; (2) corporate tax treatment for the reinvested earnings of unincorporated businesses.

Under the partnership tax treatment plan there would be no corporation income tax for firms exercising the option, but stockholders would be taxed on their proportional part of both distributed and undistributed profits. It would eliminate double taxation of distributed profits of the corporations affected, but for such of these corporations as were owned by high-income stockholders it would increase current taxes on undistributed profits. The partnership method would raise some difficult administrative problems, but these would be lessened if the plan were restricted to corporations with few stockholders and simple capital structures.

Support for the idea of allowing corporate tax treatment for the reinvested earnings of unincorporated businesses rests on the claim that it is now harder for unincorporated concerns to grow from retained profits than for corporations to do so. The study finds, however, that the extent and importance of any present discrimination against unincorporated firms on this score are limited. In only a small percentage of cases are the earnings of unincorporated businesses taxed at rates higher than the corporate rates, this happening when the businesses are owned by persons with relatively large incomes.

* * *

Under the heading of proposals for tax exemption for small or new businesses or for investors in them, the study analyzes suggestions of: (1) Tax exemption for retained earnings of small businesses; (2) tax exemption for equity investors in small businesses; (3) tax exemption for new small businesses for a limited period of years.

Applying to all these proposals is the generalization that any tax exemption raises fundamental problems of equity, and involves the danger of uneconomic distortion of the business structure and of investment patterns. Only a convincing demonstration of the social and ecoromic desirability of an exemption would justify any departure from uniform taxation.

Exemption of retained earnings of small businesses is sometimes argued for as a way of meeting the difficulty that small firms have in raising outside capital. In some cases an exemption might contribute significantly to the establishment of a successful, vigorous enterprise, but it might also result in a less efficient pattern of investment. Determining that retained earnings were used for legitimate business purposes, and not merely as a means of tax avoidance, would be a grave administrative task.

Similar economic, equity and administrative considerations apply to the proposal to provide an exemption for equity investors in small businesses.

Tax exemption of a new small business for a limited period would have little stimulating effect in the rather typical case of a firm which looked forward to losses for the first few years. Insofar as it offered an incentive to the establishment of new firms and the abandonment of old ones, the exemption might contribute to instability in the small business field. It would discriminate against established businesses. Identifying genuinely new businesses would be difficult.

* * *

The study concludes with the observation that a basic policy question is involved in the choice between special tax measures for the particular benefit of small business and general tax revisions. The most important condition to prosperity of both small and large business is a high and stable level of national economic activity. Therefore, although it may be desirable to give consideration to measures designed especially for small business, the most important contribution the tax system can make to the healthy growth of small business as well as large business is through general tax revisions that improve the equity of the system and minimize any adverse effects on investment and consumer demand. Reliance on general tax measures is likely to involve fewer economic, equity and administrative problems than would the use of special measures.

Appendices published with the study present a variety of definitions of "small business", selected statistics on the relative importance of small business, selected data on the financing of small business, and a history of the graduation of the corporation income tax. In addition to the appendices there are nine tables of statistics.

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TAXATION OF SMALL BUSINESS

Division of Tax Research, Treasury Department
October 1947

Taxation of Small Business

A widely shared belief in the social and economic importance of small business and concern about its financial problems have stimulated many tax proposals for the special benefit of small business. This report analyzes several types of proposals that have been advanced. These include proposals intended to refine or revise the income tax base and rates, proposals intended to equalize taxes on small incorporated and unincorporated businesses, and proposals to provide tax exemption for new or small businesses or for investors in them.

No policy recommendations are made in this study, but the probable effectiveness of the various types of proposals is appraised and problems that would be raised by their adoption are discussed.

The study was prepared in the Business Tax Section of the Division of Tax Research. In its preparation valuable assistance and suggestions were received from other members of the Treasury tax staff, including consultation with members of the Office of Tax Legislative Counsel on legal matters and of the Bureau of Internal Revenue on administrative matters.

Division of Tax Research
U. S. Treasury Department

October 1947

Taxation of Small Business

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Taxation of Small Business

SUMMARY

I. Introduction

A widely shared belief in the social and economic importance of small business has stimulated interest in its problems and tax proposals for its benefit. The present report analyzes a number of the tax proposals that have been advanced for the special benefit of small business.

A variety of definitions of small business have been used, and there is no one generally accepted measure. On the basis of any of the definitions commonly used, however, it appears that small businesses account for a large majority of the number of firms and a sizable part of production and employment.

The Department of Commerce has defined a small business as a retail store or service establishment with annual net sales or receipts of less than $50,000, a wholesale establishment with annual net sales of less than $200,000, or a manufacturing establishment with fewer than 100 employees. On the basis of this composite definition, more than nine-tenths of all business establishments were "small" in 1939, and in that year they employed about 40 percent of all workers and active proprietors and handled about one-third of sales.

A small business has often been defined as one with less than $250,000 of total assets. In 1942, four-fifths of all corporations filing balance sheets with the Bureau of Internal Revenue fell in this category, but these corporations made only 15 percent of gross sales and realized only 5 percent of net income of all corporations filing balance sheets. In 1942, almost nine-tenths of all corporations with net income reported less than $50,000 of net income, but the aggregate net income of these corporations was only 7 percent of the total reported by all corporations. Doubtless, an even greater percentage of unincorporated businesses fell in the smaller asset and net income groups.

Available information indicates that there was a sharp decline in the number of firms in business during the years 1941-1943. Since then, however, the number of firms in business has increased rapidly, and by mid-1946 the number of firms exceeded the pre-war peak. Recent increases in the number of firms have been almost entirely among small businesses.

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II. Analysis of tax proposals for the special benefit of small business

Tax proposals for the benefit of small business stem from two different points of view. One view is that the tax system should be deliberately biased in favor of small business in order to offset some of its non-tax disadvantages. The other view is that the tax system should not discriminate against small business but that special measures are necessary to assure substantially equal treatment.

This section discusses a number of different proposals that have been advanced for the special benefit of small business. It appraises their probable effectiveness in reaching declared or implied objectives and considers whether their adoption would raise new problems or accentuate old problems of equity, economic effects, and administration. Most of the proposals raise the problem of the proper definition of small business and how eligibility for the special treatment can be equitably and effectively determined. Moreover, the proposals would all result in some immediate loss of revenue and must, therefore, be appraised in the light of alternative tax reduction possibilities and the budgetary and economic situation.

A. Proposals for modification of the base or rates of taxes on income of small businesses

1. Graduation of corporation income tax rates

At the present time, the rates of the corporation income tax are graduated for net incomes up to $50,000. The brackets are as follows: on the first $5,000 of net income, 21 percent; on net income between $5,000 and $20,000, 23 percent; between $20,000 and $25,000, 25 percent; between $25,000 and $50,000, 53 percent. If the corporation's net income is more than $50,000, the rate is 38 percent on the whole net income. The 53-percent rate on net income between $25,000 and $50,000, which is the so-called "notch" rate, is used to make the transition from reduced rates on net incomes below $25,000 to the standard rate on net incomes above $50,000.

The relatively high notch rate on incomes between $25,000 and $50,000 has been widely criticized and its elimination often suggested. Although the total tax always amounts to less than 38 percent of an income below $50,000, the rate on the last part of income of a corporation in the notch area is higher than that paid by a larger corporation. A notch rate higher than the standard rate is necessary under any schedule that restricts graduation to small corporations. In the absence of the notch rate, at some point an increase in a

corporation's net income before tax would decrease its income after tax. The notch rate could be eliminated only by adopting a system of full graduation which would apply reduced rates to the first part of income of all corporations. A full graduation system would eliminate the problems raised by the notch rate but would reduce the difference between the effective rates of tax on small and large corporations.

In addition to the present bracket method of graduation, it would be possible to achieve graduation by means of graduated effective rates or by an exemption of a specific amount of net income. Under the method of graduated effective rates, the rate applied to the whole income would increase with size of income over a certain range. With an exemption, the effective tax rate would begin at zero and rise as the exemption became a smaller fraction of the taxpayer's income. Graduated bracket rates are simpler than graduated effective rates, but the latter may be less likely to deter expansion of income since they do not call attention to the tax rate imposed on an addition to income. Graduation by means of an exemption is relatively inflexible, and the starting rate must be zero. Moreover, any schedule providing a lower starting rate for corporations than for individuals would raise a problem of possible unfair discrimination against unincorporated enterprises and would offer stockholders additional opportunities for tax postponement or avoidance.

2. Modification of section 102 of the Internal Revenue Code

Section 102 of the Internal Revenue Code imposes a special surtax on corporations improperly accumulating surplus for the purpose of permitting stockholders to avoid individual income tax on their part of profits. The rates of this special surtax are 27.5 percent of the first $100,000 of undistributed net income and 38.5 percent of any amount in excess of $100,000. It has been contended that fear of application of this special surtax has prevented small corporations from retaining enough earnings to provide adequate working capital and to finance expansion. For this reason it has been suggested that a limited amount of net income be exempt from section 102 surtax.

Section 102 is not intended to prevent retention of profits for reasonable business purposes, or the individual tax avoidance or postponement incidental thereto, but rather to protect the individual income tax from unreasonable accumulations of corporate surpluses for the purpose of avoiding surtax on stockholders. It appears that the law and regulations allow adequate accumulations for all reasonable business purposes including both expansion and working capital. In

the administration of section 102, careful consideration is given to the circumstances of each corporation and its need for retained earnings. Therefore, an exemption under section 102 seems unnecessary. Moreover, such an exemption would seem to be an invitation to tax avoidance, and avoidance possibilities might well be multiplied by split-ups of existing or new corporations. The remedy for any existing deterrents to legitimate accumulations appears to be further dissemination of information as to the purposes and administration of section 102.

3. Loss offsets and the taxation of small business

Under present law a business net operating loss sustained in any one year may be carried back against the income of the two preceding years and any unabsorbed balance may be carried forward against the income of the two succeeding years. An extension of the loss-offset period has often been recommended as a tax revision that would especially benefit small business. Moreover, it has been contended that loss carry-forwards are more desirable than loss carrybacks.

Loss offsets have the equity advantage of improving the definition of taxable income and the economic advantage of reducing tax deterrents to risky investment. There is some evidence that the income of small businesses fluctuates more widely than that of large firms and hence that liberal loss offsets are especially advantageous for small businesses. In 1940-42, the then existing two-year carryforward of net operating losses resulted in a significantly larger deduction for small corporations than for large corporations. An improvement and liberalization of present loss offset provisions would be a general tax measure that could be expected to be especially beneficial to small business.

4. Accelerated depreciation for small business

In lieu of normal depreciation, it has been proposed that small businesses be allowed to take accelerated depreciation for tax purposes by writing off assets in a period shorter than their normal useful lives. Accelerated depreciation has been suggested as a means of easing the capital problems of small firms and of reducing the risks of investment by them. As a small business measure, accelerated depreciation would be limited to a stated amount of assets and might be restricted as to type of assets covered.

Accelerated depreciation would permit a firm to recover its invested capital more rapidly than does normal depreciation. Income taxes would be postponed, and during the period when accelerated depreciation was being taken the investing firm would have the use

of funds that would otherwise be paid to the Government in taxes. Since accelerated depreciation would permit more rapid recovery of capital, it would decrease the risk of loss attributable to the disappearance of an asset's earning power during the later years of its normal life.

Unless combined with liberal loss offsets, accelerated depreciation would be of limited usefulness in many periods because small businesses would not have enough income to absorb the additional depreciation deductions. The existence of a long carryover of business losses, however, decreases the importance of accelerated depreciation because it lessens the danger that normal depreciation deductions will run to waste. Accelerated depreciation would be especially helpful to growing firms in industries requiring substantial capital investments, but it would be less significant for mature firms and for industries requiring relatively small investments in depreciable assets.

Accelerated depreciation would present some administrative problems and might give rise to some abuses, such as swapping of assets among taxpayers to take advantage of the additional depreciation allowances.

B. Proposals intended to equalize taxes on small incorporated and unincorporated businesses

5. Partnership tax treatment for certain corporations

The partnership method on an optional basis has been proposed as a method of eliminating differences in taxation of profits of small incorporated and unincorporated businesses. Under this method there would be no corporate income tax, but stockholders would be taxed on their proportional part of both distributed and undistributed profits. It has sometimes been suggested that the partnership method be restricted to corporations with no more than a stated amount of net income or assets. However, a stronger case can be made for extending the option to corporations that resemble partnerships in ownership and operation, with only secondary attention to size. The option might be restricted to corporations with no more than 10 to 15 stockholders and only one class of stock. In practice, this would make it primarily a small corporation measure.

The partnership method would eliminate the so-called double taxation of distributed corporate profits. Hence it would result in an immediate reduction of taxes on the income of any corporation currently distributing all or a large proportion of its profits. It would also reduce current taxes on the retained earnings of corporations owned by low-income stockholders, since the individual tax rates would be lower than the corporate rates. But in the case of corporations owned by high-income stockholders, the partnership method would increase current taxes on undistributed profits.

The partnership method might increase somewhat the flow of new equity capital into small corporations, but it would not be especially well adapted to short-run solution of the capital problems of small business. The equity problems with respect to the partnership method would be less serious than with respect to most other special measures, inasmuch as stockholders would be taxed at the regular individual rates on their full share of corporate profits. The partnership method would raise some difficult administrative problems, but, if restricted to corporations with few stockholders and simple capital structures, it would probably be feasible.

6. Corporate tax treatment for the reinvested earnings of unincorporated businesses

It has been suggested that reinvested earnings of unincorporated businesses of a commercial or industrial type be taxed at the corporate income tax rates. This proposal has been supported on the grounds that the higher individual income tax rates applicable to proprietors and partners with large incomes discriminate against unincorporated businesses and make it harder for them to grow from retained profits than it is for corporations.

The extent and importance of any discrimination against unincorporated firms, however, appear to be limited. Earnings of unincorporated businesses are taxed at rates higher than the corporate rates only in the case of businesses owned by persons with relatively large incomes and in which a large proportion of profits is reinvested.

The top individual tax rate exceeds the standard 38-percent corporate tax rate only in the case of individuals with more than $12,000 of taxable income. In 1942, it appears that about three-fourths of all proprietorship and partnership profit reported on individual tax returns went to persons with less than $12,000 of taxable income. Moreover, in the latest year for which data are available less than 2 percent of sole proprietors filing tax returns reported net income in excess of $12,000. These figures include proprietors and partners who withdrew all or substantially all of their profits from their businesses as well as those who reinvested a significant portion of their profits. Finally, most businesses can be easily incorporated if their owners prefer the corporate tax treatment.

Corporate tax treatment for the retained earnings of unincorporated businesses, with present tax treatment for distributed earnings, would appear to give proprietors and partners an unfair advantage over stockholders. Owners of unincorporated businesses would escape so-called double taxation of profits withdrawn from the business and, at the same time, avoid individual surtaxes on reinvested profits. Administration of the plan would raise problems relating to the definition of an unincorporated business and to the distinction between the income and assets of the business and of its owners.

C. Proposals for tax exemption for small or new businesses or for investors in them.

There have also been a variety of proposals for partial or complete tax exemption for new or small businesses or for investors in them. These proposals are intended to stimulate investment in such enterprises and to improve their capital position. All proposals for tax exemption raise fundamental problems of tax equity because of the strong presumption in favor of uniform taxation of persons with the same incomes and in similar personal circumstances. This presumption can be overcome only by a convincing demonstration of the social and economic desirability of the exemption. A tax exemption has the same immediate effect on the budget as an additional expenditure, and it must be compared with public expenditures intended to achieve the same or similar purposes. Moreover, a tax exemption results in a shift of the relative tax load, and any undesirable effects of such a shift must be compared with any desirable effects of the exemption.

7. Tax exemption for retained earnings of small businesses

Proposals for tax exemption for retained earnings of small businesses are prompted by the difficulty that small firms have in raising outside capital. The argument that has been advanced in support of such proposals is that at a certain stage in the establishment of a firm a rapid increase in capital becomes necessary. If the additional capital can be obtained the firm may enter a period of healthy growth but without the additional capital it may slip backward into bankruptcy. It has been contended that at this critical stage a tax exemption for retained earnings may supply the key amount of capital and that in the long run the increase in the tax base will make up for any immediate loss of revenue attributable to the exemption.

A tax exemption for retained earnings of small firms would increase the funds at their disposal and in some cases might contribute significantly to the establishment of a successful and vigorous enterprise. But a part of the additional internally financed investment in firms enjoying the exemption would probably merely take the place of investments that would otherwise have been made by other firms. The resulting pattern of investment might be less efficient than that which would otherwise exist. The tax exemption would discriminate in favor of one kind of savings as compared with others and might be subject to abuses which would accentuate the equity problems. A grave administrative problem, which would be especially difficult in the case of unincorporated enterprises, would be to make sure that retained earnings were used for legitimate business purposes and not merely as a means of tax avoidance.

8. Tax exemption for equity investors in small businesses

Exemption from the individual income tax for equity investors in small businesses might apply either to the principal amount invested or to the return on the investment. These proposals are intended to overcome tax deterrents to risky investments in small businesses and to make such investments more attractive as compared with securities of large corporations and governments. The economic, equity, and administrative considerations with respect to these exemption proposals are similar to those with respect to the proposals for exemption of retained earnings of small businesses. One special administrative problem would be the proper definition of equity capital.

9. Tax exemption for new small businesses for a limited period of years

Exemption from income tax for the first few years of the life of new businesses has been proposed as a means of stimulating investment in new firms and of permitting them to establish themselves by accumulating capital out of earnings. A temporary tax exemption would have its greatest appeal in fields that promise large profits at the outset but which have an uncertain future. In such fields, however, prospective returns are likely to be so high that the income tax will not be a serious deterrent to investment. The most plausible case for temporary tax exemption is to permit investors to recover their capital more quickly than would be possible with normal depreciation deductions under an income tax. This objective, however, could probably be more efficiently attained by accelerated depreciation.

In the rather typical case in which a new firm must look forward to losses for the first few years, a temporary income tax exemption would have little stimulating effect. The temporary tax exemption would offer an incentive to the establishment of new firms and the abandonment of old ones and thus might contribute to instability in the small business field. Tax exemption for new small businesses would discriminate against established businesses. It would be extremely hard to identify genuinely new businesses.

III. Choice among types of tax measures for the benefit of small business

The assumption underlying the tax proposals discussed in this report is that tax revisions are needed to promote the sound development of small business. Even on this assumption, however, a basic policy question is involved in the choice between special tax measures for the particular benefit of small business and general tax revisions. The most important condition to prosperity of both small and large businesses is a high and stable level of national economic activity. Therefore, the most important contribution the tax system can make to the healthy growth of small business, as well as of large business, is through general tax revisions that improve the equity of the system and minimize any adverse effects on investment and consumer demand. Reliance on general tax measures is likely to involve fewer economic, equity, and administrative problems than does use of special small business measures.

It may, nevertheless, be desirable to give consideration to certain measures designed especially for small business. In choosing the appropriate measures, the soundest approach would appear to be to begin with consideration of revisions of tax base and rates and then to proceed to measures intended to equalize taxes on incorporated and unincorporated businesses. Finally, attention could be given to the various tax exemption proposals. These exemption plans, however, raise grave problems of equity and involve the danger of uneconomic distortion of the business structure and of investment patterns.

Taxation of Small Business

I. Introduction

A. Importance of small businesses

In January, 1946, in his message on the state of the union and the budget, President Truman expressed the national interest in small business, as follows:

> "A rising birth rate for small business, and a favorable environment for its growth, are not only economic necessities but also important practical demonstrations of opportunity in a democratic free society . . . .
>
> "It is obvious national policy to foster the sound development of small business. It helps to maintain high levels of employment and national income and consumption of the goods and services that the Nation can produce. It encourages the competition that keeps our free enterprise economy vigorous and expanding. Small business, because of its flexibility, assists in the rapid exploitation of scientific and technological discoveries. Investment in small business can absorb a large volume of savings that might otherwise not be tapped.
>
> "The Government should encourage and is encouraging small business initiative and originality to stimulate progress through competition." 1/

The President's statement exemplifies the widely shared belief that the importance of small business lies not only in its economic contribution to full production in a balanced economy. Small business is valued also for its contribution to the development of opportunity and individual initiative -- to freedom in the broadest sense.

1/ "Message of the President on the State of the Union and Transmitting the Budget," Budget of the United States for the Fiscal Year ending June 30, 1947, p. XXXII.

B. Problem of defining small business

Despite widespread interest in small business and its role in the economy, there is no settled definition of small business. Many different definitions have been used. 1/

Perhaps the most common definition is based on total assets, with $250,000 of assets the most usual dividing line between large and small business. Net worth or equity capital is a related but less often used basis of definition. Other definitions run in terms of annual volume of sales or receipts from operations and number of employees. The Federal income tax statutes contain an implicit definition of a small corporation in connection with the graduation of rates for corporate incomes of less than $50,000.

One important source of difficulty with all general definitions is that smallness is necessarily a relative term. There is great diversity in the scale of operations typical in different industries. For example, manufacturing is likely to be carried on in larger units than retail trade. Moreover, measures such as volume of sales have different meanings, depending on whether goods brought from suppliers are sold quickly in their original form or only after extensive processing or the performance of a large number of services for customers. Considerations such as these have led the Department of Commerce to adopt different definitions of smallness in certain broad industry groups. It defines a small retail store or service establishment as one with annual net sales or receipts from operations of less than $50,000, a small wholesale establishment as one with annual net sales of less than $200,000, and a small manufacturing establishment as one with fewer than 100 employees. Even within broad industrial groups such as manufacturing, however, any one definition of smallness will not be equally appropriate for all subgroups. For example, the number of employees in a small steel mill may be much greater than in a large cheese factory. Moreover, the measure of smallness in a retail store, for example, is to some extent dependent on the size of the community.

1/ For a fuller discussion, see Appendix A, "Definitions of Small Business."

C. Relative position of small business

However small business is defined, it seems clear that it occupies an important place in the economic system. On the basis of any of the definitions commonly used, small businesses account for a large majority of the number of firms and a sizable part of production and employment. 1/

On the basis of the composite definition of the Department of Commerce, more than nine-tenths of all business establishments in 1939 were "small". These establishments employed about 40 percent of workers and active proprietors and accounted for about a third of the value of output or sales. 2/ In 1942, four-fifths of corporations filing balance sheets with the Bureau of Internal Revenue had total assets of $250,000 or less. These smaller firms, however, made only 15 percent of total gross sales and realized only 5 percent of aggregate net income. 3/ In 1942, almost nine-tenths of all corporations with net income reported less than $50,000 of net income. The aggregate net income of all these corporations amounted to only 7 percent of the total reported by all corporations. 4/

Evidence on trends in the development of small business and its relative position is not entirely satisfactory. The following generalizations, however, are based on the work of careful investigators: (1) From 1918 to 1929, the number of business firms increased faster than the population, but the proportion of business in the hands of very large firms increased rapidly. (2) During the period 1929 to 1941, the number of firms decreased sharply up to 1933, but by 1941 the ratio between the number of businesses and the population had risen past that of 1929. Probably small business somewhat increased its share of total business. (3) From 1941 through 1943, the number of firms decreased sharply. The proportion of business done by small firms, but not the absolute amount, declined. 5/ (4) Since 1943, the number of firms in business has increased sharply. By mid-1946, all of the wartime

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1/ This Section is based on statistics given in greater detail in Appendix B, "Selected Statistics on the Relative Importance of Small Business."

2/ Based on census data. See Appendix B, Table 3.

3/ Based on Statistics of Income for 1942, Part 2. See Appendix B, Table 4.

4/ Ibid, Table 5.

5/ Howard R. Bowen, "Trends in the Business Population," Survey of Current Business, March, 1944. See Appendix B for more detail.

decrease in the number of firms had been wiped out, and the number of firms in operation exceeded the prewar peak. The increase in the number of firms in the period 1944-1946 was almost entirely among small businesses. 1/

D. Interest in the problems of small business

During recent years there has been widespread interest in the economic problems of small business and in all kinds of proposals for its assistance. There has been much discussion of the financial problems of small business and means of solving them, and of technological and managerial problems and ways of helping small business in these areas. There has also been a great deal of discussion of the tax problems of small business, expecially as taxation relates to small-business finance. Businessmen, legislators, and tax administrators are agreed on the importance of the subject. Nevertheless, no generally accepted conclusions have been reached as to the effect of the present tax system on small business, the proper objectives in taxation of small business, or the most desirable ways of reaching objectives once agreed upon.

E. Purpose and scope of the present report

The present report analyzes a number of tax proposals that have been advanced for the special benefit of small business. The purpose of the report is not to make recommendations but to present an objective appraisal of the effectiveness of the various proposals in reaching their avowed or implicit objectives. The report also considers whether the proposals would raise new and difficult problems of equity, economics, or administration.

II. Analysis of tax proposals for the special benefit of small business

Tax proposals that have been advanced for the special benefit of small business stem from one of two points of view. One point of view is that small business is so essential to a prosperous and democratic free-enterprise economy that the tax system should be deliberately biased in favor of small business in order to offset some of its non-tax disadvantages, such as difficulty in securing capital. The other

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1/ Donald W. Paden and Alice Nielsen, "Recent Trends in the Business Population," Survey of Current Business, May, 1946, pp. 16-24; Melville J. Ulmer, "The Postwar Business Population," Survey of Current Business, January, 1947, pp. 9-18. See Appendix B.

point of view is merely that the tax system should not discriminate against small business, but that to assure this certain special measures are necessary. Since, however, the objective of any one proposal is subject to different interpretations, no attempt is made in this report to classify proposals on the basis of the point of view that they represent.

This section discusses some of the principal types of tax proposals that have been made for the special benefit of small business. These proposals may be divided into three groups--A, proposals intended to make refinements or changes in the base or rates of taxes on net income; B, proposals intended to equalize taxes on incorporated and unincorporated businesses; C, proposals intended to offer exemptions to new or small businesses or to investors in such enterprises, for the purpose of stimulating investment in them.

Of course, no sharp lines can be drawn between the various types of proposals, and the following classification is to some extent arbitrary. The "A" group of proposals, as here classified, includes two proposals with respect to corporations only -- (1) graduation of corporation income tax rates and (2) modification of section 102 surtax on corporations improperly accumulating surplus -- and two proposals with respect to both incorporated and unincorporated business--(3) loss offsets and (4) accelerated depreciation. The "B" group includes two opposite approaches to the problem of equalizing taxes on incorporated and unincorporated business--(5) partnership treatment for certain corporations and (6) corporate tax treatment for the reinvested earnings of unincorporated businesses. The "C" group includes: (7) tax exemption for retained earnings of small businesses; (8) tax exemption for equity investors in small businesses; and (9) tax exemption for new small businesses for a limited period of years. Proposals for reduction of the general level of individual and corporation income tax rates are not considered in this study.

No attempt is made to mention every variation of the different major proposals nor to list every person who had publicly advanced a particular proposal. The discussion is confined to broad matters of tax policy and tax structure, with particular rates, size limitations, and the like mentioned primarily for illustration.

Most of the proposals are intended to be restricted to small businesses and hence raise in more or less acute form the problem of the proper definition of small business. As has already been indicated, there are a great variety of definitions of small business, none of them wholly satisfactory.

Moreover, all of the proposals would involve some immediate loss of revenue. Hence they must be considered in the light of the general budgetary and economic situation and must be compared with alternative tax reductions.

A. Proposals for modification of the base or rates of taxes on income of small businesses

1. Graduation of corporation income tax rates

a. Nature of proposals and scope of present discussion

A number of proposals for the benefit of small incorporated business call for changes in the present method and extent of graduation of corporation income tax rates. There have been proposals for further reductions in rates on small corporate incomes in order to widen the difference between rates on small and large incomes. Several proposals call for reduced rates on the first $100,000 of income, rather than on the first $50,000, as under present law. The present notch-rate system for making the transition from reduced rates on small incomes to the general rate on incomes in excess of $50,000 has been a target for criticism, and its elimination has frequently been suggested. 1/

1/ On the graduation of corporation income tax rates, see, among others, the suggestions made in: Smaller War Plants Corporation, Taxation (Economic Report, 1945); "Digest of Suggestions for Relief of Small Business in Matters of Taxation," memorandum from Mr. Dan Eastwood to Representative Wright Patman, Select Committee on Small Business of the House of Representatives, February 17, 1945; J. Keith Butters and John Lintner, Effects of Federal Taxes on Growing Enterprises (Boston, 1945); Hearings of the House Small Business Committee; letter from Mr. A. W. Kimball, Director of the Washington office of the National Small Businessmen's Association, to Representative Charles R. Robertson, May 20, 1947 (Congressional Record, 80th Cong., 1st Session, vol. 93, p. A2515).

The following discussion of graduated corporate income tax rates concerns mainly the general structural question of how rate graduation can be achieved and briefly considers advantages and disadvantages of various methods of graduation. Specific schedules referred to are intended merely for illustration. No attempt is made to settle on a method of graduation or a recommended rate schedule.

b. Present rate schedule

At the present time, rate graduation in the corporate tax is restricted to corporations with net income of less than $50,000. For corporations with net income in excess of $50,000, the tax rate is 38 percent of the entire net income. 1/ For corporations with net income of less than $25,000, the following three bracket rates are provided: On the first $5,000 of net income, 21 percent; on the next $15,000, 23 percent; on the next $5,000, 25 percent. 1/ On net income in the so-called notch area, between $25,000 and $50,000, the rate is 53 percent. 1/

c. Justification of graduation of corporate income tax rates

During most of the life of the corporate income tax, its effective rates have been graduated to some extent, by means either of an exemption or a schedule of graduated bracket rates. 2/ Yet there is no general agreement as to the justification of graduation or its purposes.

The usual justification of graduated income tax rates for individuals, based on the doctrine of ability to pay, measured in terms of personal sacrifice, is clearly not applicable to corporations as such. Nor can graduation of corporate tax rates be readily defended as a means of achieving greater graduation of taxes on stockholders. It is true that stock in small corporations is more likely to be owned by persons with small incomes than by persons with large incomes, but low-income stockholders as a group probably receive a greater proportion of their dividends from large corporations than from small corporations. 3/

1/ Combined normal tax and surtax rates.

2/ For a brief history of graduation of the corporate income tax since 1909, see Appendix D.

3/ Data for 1936 on dividends reported on individual tax returns, classified by size of assets of the corporations paying the dividends, appear to offer some support for this generalization. In that year, a significantly greater proportion of reported dividends came from small corporations in the case of individuals with net incomes of less than $5,000 than in the case of individuals with higher incomes. Nevertheless, a much greater proportion of total dividends reported by individuals with net incomes below $5,000 came from the largest corporations than from small corporations. Treasury Bulletin, January, 1943, pp. 3-6.

It is, nevertheless, often contended that big corporations have greater ability to pay taxes than small corporations. Presumably, this argument means that big corporations can pay with less harm to their business operations. Graduation of corporate income tax rates seems to have the same fundamental purposes as other tax measures for small business--either to favor small business or to offset its comparative disadvantages. The benefits of graduation, it should be noted, are available to all corporations with small incomes in any year, whatever their invested capital, sales, or relative position in their industry. Strictly speaking, graduation is a small corporation measure only if smallness is defined annually in terms of net income.

Graduation of corporate tax rates offers a tax advantage to small corporations as compared with large corporations, but it raises certain economic problems. In some instances, a sharply graduated tax may be a greater deterrent to efforts to expand the corporation's net income than a flat-rate tax would be. Moreover, under graduated rates, a risky business with widely fluctuating income will be taxed more heavily than a stable business realizing the same total income over a period of years. A loss carryback or carryforward will help prevent this, but loss offsets will be less effective in maintaining the incentive to invest under a graduated tax than under a flat-rate tax. Under a flat-rate tax, if losses on an unsuccessful investment can be offset against taxable income from other sources, the Government shares equally in gains from successful investments and losses from unsuccessful investments. Under a graduated tax, however, the income against which a loss is offset is likely to be subject to a lower tax rate than would have applied to the last part of income if the investment had been successful. Hence, under a graduated tax, even with loss offsets, the Government's share in losses will be smaller than its share in gains.

d. Limited versus full graduation

There are two basic approaches to graduation of corporate tax rates. The limited graduation approach, which is followed in present law, applies a reduced rate only to corporations with small incomes; above a certain amount of income, the effective tax rate is the same on the whole income, regardless of its size. The full-graduation approach would apply reduced rates to the first income earned by all corporations, regardless of the size of the total income; as income increases the effective tax rate would approach but never quite reach the rate applied to the last part of income. The full-graduation system would be somewhat similar to the method of graduation used in the individual income tax, but most proponents of full graduation would favor use of a much smaller number of brackets in the corporation tax than in the individual tax.

Limited graduation permits the tax benefits to be confined strictly to businesses which it is desired to relieve. Thus, limited graduation offers a relatively greater advantage to small corporations than does full graduation. Limited graduation also involves a slightly smaller revenue loss.

Limited graduation plans, however, are somewhat more complicated than full graduation and are less readily understood by taxpayers. More important is the fact that limited graduation requires a higher rate of tax on the last part of incomes of intermediate size than on the largest incomes. An arrangement of this nature is necessary to provide a smooth graduation of effective tax rates and to avoid the anomaly of an increase in income before taxes resulting in a decrease in income after taxes at some point.

The necessity of a special rule for incomes of intermediate size under a limited-graduation system may be illustrated by examination of the present notch rates on incomes between $25,000 and $50,000. The present rate schedule results in a tax of $5,750 on a net income of $25,000, or an effective rate of 23 percent. Under the general rule, the tax on a net income of $50,000 is 38 percent, or $19,000. In order to bring the tax up from $5,750 on a net income of $25,000 to $19,000 on a net income of $50,000, it is necessary to assess the $13,250 difference in taxes against the income between $25,000 and $50,000. This requires a rate of 53 percent on this second $25,000 of income. Or to put the matter another way, since the effective rate of tax of 23 percent at an income of $25,000 is 15 percentage points less than the general effective rate of 38 percent, it is necessary to impose a rate 15 percentage points higher than the general rate on income between $25,000 and $50,000 to bring the tax to an effective rate of 38 percent at $50,000. If no notch rate were provided, a corporation would find that an increase in its net income from $50,000 to slightly more than $50,000 would actually decrease its profits after taxes. 1/ Although the tax rate is higher on the last part of income of corporations in the notch area than on larger incomes, the effective tax rate is always lower on net incomes below $50,000 than on net incomes above $50,000.

1/ This anomaly may be illustrated by assuming the present notch rate to be eliminated and the 25-percent bracket rate extended to cover income between $25,000 and $50,000. Then the tax on an income of $50,000 would be $12,000, leaving the corporation $38,000, after tax. But on an income of $51,000 the tax at a 38-percent rate on the whole income, would be $19,380, leaving the corporation only $31,620 after tax.

Although any limited graduation system necessarily requires a notch rate higher than the standard rate, flexibility in the notch rate can be obtained by varying the width of the notch area. The wider the notch area, the less the notch rate needs to exceed the standard rate. For example, if the notch area were extended to cover net income between $25,000 and $75,000 instead of the present $25,000 to $50,000 and rates were otherwise unchanged, the present notch rate could be reduced to 45.5 percent; if the notch area were extended to $100,000, the notch rate could be reduced to 43 percent.

A limited graduation system, however, must always impose a higher top rate on incomes of intermediate size than on larger incomes. This feature has been criticized as inequitable and as a deterrent to expansion. The necessity of its use is a disadvantage of limited graduation.

e. Methods of graduation

Three methods of obtaining graduation, under either the limited or full-graduation approach, are possible. These are: (a) graduated bracket rates; (b) graduated effective rates; and (c) an exemption. The different methods may be combined in a single schedule.

The method of graduated bracket rates divides net income into brackets and imposes higher rates on the upper brackets of income than on the lower brackets. This method is now used for both the corporate and individual income taxes. If the low rates on the first brackets of income are restricted to taxpayers with net incomes below a certain size, as in the present corporate tax, the bracket method results in limited graduation. If, however, the low rates on the first brackets are available to all taxpayers, as in the present individual income tax, the result is full graduation. The bracket-rate method has the advantage of flexibility, since any desired number of brackets and rates can be used. It is reasonably simple, especially if the full graduation approach is followed. The bracket system, however, has the disadvantage of forcefully calling the taxpayer's attention to the fact that an expansion of income may raise the corporation into a higher tax bracket, and hence it may have bad effects on business incentives.

The method of graduated effective rates is more complicated, and is not used in the present tax system. Under this method, the effective rate of tax on the whole income of a corporation would increase in direct proportion to income over some range. For example, the corporate tax rate might be stated as a rate equal

to that proportion of 38 percent which the corporation's net income bears to $50,000, but in no case more than 38 percent. Thus, if the corporation's net income were $25,000, which is one-half of $50,000, its tax rate would be 19 percent, which is one-half of 38 percent. If, however, the corporation's net income were in excess of $50,000, its tax rate would be 38 percent. This schedule would be an example of limited graduation obtained by graduation of effective tax rates. One advantage of the method of graduated effective rates is that it provides smooth graduation without any sharp upward jumps in top rates such as occur under a bracket system. Another advantage is that it does not specifically call the taxpayer's attention to the proportion of any additional income taken by taxation and hence is less likely to have an adverse effect on the incentive to expand income than is the bracket system. The chief disadvantage of the method of graduated effective rates is that it is complicated, each taxpayer being required to compute his own rate.

An exemption is a third method of achieving graduation. With a constant nominal tax rate, an exemption of any given amount of income will reduce the effective rate of tax to zero in the case of the smallest net incomes. As the income increases in size, the exemption will be a smaller proportion of the total income, and the effective rate of tax will gradually increase until it approaches the nominal rate. Any exemption that is available to all corporations will result in full graduation, although the significance of a small exemption may be negligible for the largest corporations. If it is desired to limit the graduation to corporations with net incomes below a certain size, the exemption can be made to decrease as income rises and finally to disappear entirely. This is ordinarily called a vanishing exemption. 1/ A constant exemption is simple, but a

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1/ A vanishing exemption plan may be illustrated as follows: An exemption of $5,000 for all corporations with net incomes of less than $25,000; no exemption for corporations with incomes of $50,000 or more; for corporations with incomes between $25,000 and $50,000, an exemption of $5,000 less that proportion of $5,000 that the excess of income over $25,000 bears to $25,000. Under this particular schedule, a corporation with a net income of $5,000 would pay no tax; a corporation with any income between $5,000 and $25,000 would deduct a $5,000 exemption from its taxable income; and a corporation with an income of $50,000 or more would be taxed on its whole income. A corporation with net income of $30,000, for example, would have an exemption of $4,000; with a net income of $40,000, an exemption of $2,000.

vanishing exemption is likely to be rather complicated. If the exemption is small, this method of graduation is not likely to offer any important deterrent to expansion of corporate income. The exemption method, however, has the disadvantage of being relatively inflexible. The starting rate of tax is always zero, and the speed of graduation is rigidly fixed by the size of the exemption. If greater flexibility is desired, an exemption must be combined with one of the other methods of graduation.

Moreover, the exemption method would raise a problem of unfair discrimination against small unincorporated businesses as compared with small corporations. Under the exemption method, part or all of profits retained in small corporations would be wholly free of current taxation, while profits reinvested in small proprietorships or partnerships would be currently taxed, if in excess of the owners' personal exemptions and credits for dependents. It would be very hard to work out a feasible method of offsetting the corporate exemption against the personal exemptions of stockholders.

f. Relation between the starting rate on corporations and the first-bracket rate on individuals

Although the present discussion is concerned mostly with the method of graduation rather than with specific rate structures, the relation between the starting rate on corporations and the first-bracket rate on individuals requires mention. The starting rate on corporations has usually been equal to, or greater than, the first bracket rate on individuals. Most proposals for rate changes appear to be intended to preserve this relationship. Some proposals, however, call for a starting rate on corporations lower than the first-bracket rate of the individual income tax. This is always true of the exemption plans.

The relation between the two rates raises the problem of discrimination between incorporated and unincorporated businesses. Under the present system, owners of small unincorporated businesses have the benefit of personal exemptions, which give them a zero starting rate, whereas the starting rate on corporations is now 21 percent. However, with present low personal exemptions, the extent of discrimination on this account is not great. Moreover, stockholders in small corporations usually have income other than dividends--even if it is only salary from the corporation--against which their personal exemptions may be applied. A starting rate

on corporations lower than the first-bracket rate on individuals would widen the area in which retained corporate profits are taxed more lightly than income reinvested in an unincorporated business and would offer stockholders additional opportunity for tax postponement or avoidance. These considerations suggest the advisability of keeping the starting rates on corporations at least as high as the first-bracket rate on individuals.

g. The problem of split-ups

All methods of graduation of the corporate tax raise the problem of split-ups of existing or new enterprises, motivated by the owners' desire to take multiple advantage of the low rates. Different departments or branches of many enterprises can easily be incorporated separately in order to reduce taxes. This problem would be likely to be most serious under a system providing a sizable exemption.

h. Conclusions

Graduation of corporation income tax rates is well-established in practice, although its basic justification is open to question. Graduation can offer a tax advantage to small corporation, but it raises certain economic and equity questions, especially with respect to taxation of fluctuating incomes.

Graduation may be limited to small corporations, or may be extended to all corporations under a full-graduation system. Limited graduation restricts benefits to small corporations and involves somewhat less revenue loss than full graduation. Limited graduation, however, is more complicated and requires imposition of a relatively high rate on the last part of incomes of intermediate size, which may discourage corporate expansion.

Limited or full graduation may be achieved by means of graduated bracket rates, graduated effective rates, or an exemption. Graduated bracket rates are simpler than graduated effective rates, but the latter have the advantage of not calling attention to high rates imposed on an addition to income. Graduation by means of an exemption is relatively inflexible, and the starting rate must be zero. Moreover, an exemption under the corporate tax raises an equity problem of possible unfair discrimination against unincorporated enterprises.

2. Modification of Section 102 of the Internal Revenue Code

It has been complained that the surtax imposed under Section 102 of the Internal Revenue Code on corporations improperly accumulating surplus is a deterrent to the growth of small corporations, which have more to fear from it than large widely held corporations. It is argued that fear of application of the surtax keeps many small corporations from retaining an adequate portion of their earnings to finance expansion and for contingencies. 1/ For this reason, it has been suggested that some limited amount of net income be exempt from Section 102 surtax.

a. Nature and purpose of Section 102

Section 102 of the Internal Revenue Code imposes a special surtax on the undistributed net income of a corporation "formed or availed of for the purpose of preventing the imposition of a surtax on its shareholders, or the shareholders of any other corporation, through the medium of permitting earnings or profits to accumulate instead of being divided or distributed. . . ." The surtax is 27.5 percent of the first $100,000 of undistributed net income and 38.5 percent of any amount in excess of $100,000. In computing the undistributed net income, deductions are allowed for Federal income taxes, dividends paid, the net operating loss carryover, and certain items not allowed as deductions for purposes of the corporation income tax. The fact that the earnings or profits of a corporation are permitted to accumulate "beyond the reasonable needs of the business" is held to be determinative of the purpose to avoid surtax on the shareholders, unless the corporation can prove the contrary by a clear preponderance of the evidence.

The necessity of a provision in the tax law to prevent the use of corporations for purposes of individual income tax avoidance on the part of stockholders has been recognized ever since the present income tax was first enacted in 1913. Prior to 1921, the statutes required, in cases of improper accumulations, that there be included in the stockholder's income the share of profits to which he would have been entitled if there had been a distribution. Since 1921, a penalty tax has been imposed on the corporation that improperly accumulates surplus. 2/.

1/ Edwin B. George and Robert J. Landry, "The Shadow of '102' on Dividend Policies," Dun's Review, Supplement, 1947.

2/ For a brief legislative history, see Jacob Mertens, The Law of Federal Income Taxation (Chicago, 1943), Vol. 7, pp. 328-336.

Section 102 is intended merely to strengthen the individual income tax by preventing accumulation of profits in a corporation for the purpose of avoiding individual income tax. The section, however, does not attempt to prevent tax avoidance or postponement incident to the retention and reinvestment of corporate profits for ordinary business purposes. A sharp line is drawn between accumulation of profits for reasonable business purposes and improper accumulation for purposes of tax avoidance. In this respect, Section 102 differs fundamentally from an undistributed profits tax of the type that was in effect in 1936 and 1937, which, with minor exceptions, did not distinguish among uses of retained profits.

b. Application of Section 102

In applying Section 102, both the Bureau of Internal Revenue and the courts have liberally construed "the reasonable needs of the business." Undistributed income is held to be properly accumulated if retained for working capital needed by the business, or if invested in additions to plant reasonably required by the business, or if put into a sinking fund for retirement of bonds in accordance with a contractual obligation of the corporation. 1/ In 1934, the Treasury's policy was authoritatively stated to be such that, "No operating corporation accumulating surpluses and using the same in the business in which it is engaged should be apprehensive." 2/

Collectors of internal revenue and other officers and employees of the Bureau of Internal Revenue have been instructed to give close attention to the returns of the following types of corporations in determining whether Section 102 is applicable:

(1) Corporations which have not distributed at least 70 percent of their earnings;
(2) Corporations which have invested earnings in securities or other property unrelated to their normal business activities;
(3) Corporations which have made loans to officers or shareholders out of funds from which taxable dividends might have been declared;
(4) Corporations, a majority of whose stock is held by a family group or other small group of individuals or by a trust for the benefit of such groups;

1/ Regulations 111 relating to the income tax, sec. 29.102-3.
2/ Treasury press release, December 17, 1934.

(5) Corporations whose distributions exceed 70 percent of their earnings but which, nevertheless, appear to be inadequate in the light of the nature of the business and its financial condition. 1/

It has been contended that the 70-percent distribution and closely held stock criteria discriminate against small corporations, which need to retain a larger portion of their earnings than do big corporations and which are usually owned by a small number of stockholders. These and other tests, however, are not applied in a mechanical way but are intended merely to direct the attention of collectors to cases that may need careful consideration.

In actual practice, the Section 102 surtax has been imposed in only a relatively small number of cases, and in only a small portion of these cases have the corporations involved been ordinary mercantile or industrial businesses. In a large percentage of the cases in which the surtax has been applied, there has been evidence of flagrant avoidance schemes, such as loans to officers or stockholders, large accumulations of cash, or investments in securities unrelated to the business.

During recent years, the great uncertainties of the war and transition periods gave at least the semblance of reasonableness to most accumulations of earnings by ordinary business firms. With the end of the war and the immediate transition, however, many of the grounds on which large accumulations of earnings had been justified during the war became no longer valid. The Bureau of Internal Revenue has not changed its long-established policies with respect to Section 102, but an effort is being made to revert to normal peacetime standards.

Despite the lack of a substantial foundation for such an attitude, it may be true that officers and directors of some small corporations are so apprehensive about Section 102 that they are failing to retain earnings for legitimate business purposes. But it is hard to see how this situation, if it actually does exist, can be remedied by legislative action, without encountering problems of the type mentioned below.

1/ T. D. 4914, July 26, 1939, Cumulative Bulletin, 1939-2, pp. 108-110; August 12, 1944, Cumulative Bulletin, 1944, p. 194.

c. Problems raised by proposals for an exemption under Section 102

In order to prevent possible discouragement to legitimate retentions of profits, it has been proposed that a limited amount of net income, say $25,000, be exempt from the surtax imposed by Section 102. Such an exemption, however, would raise grave problems of tax avoidance and unfair discrimination. At present high individual tax rates, a flat exemption under Section 102, without regard to the use made of the retained funds, would be an open invitation to tax avoidance. The amount of tax avoidance or postponement possible under such an exemption would vary directly with the size of the stockholder's income, being much greater for those with high incomes than for those with lower incomes. There would be no legal obstacle to prevent wealthy persons from separately incorporating a number of enterprises, or different parts of the same enterprise, and retaining the exempt amount of income in each corporation. This would be an especially attractive possibility in view of the general expectation that tax rates will decline in future years. But even if tax rates did not decline, there would be possibilities for realization of the retained earnings in the form of capital gains through sale of stock, subject only to the 25-percent maximum rate on long-term capital gains, and for withdrawing dividends in years in which the stockholders' taxable incomes were low.

The only advantage that could be offset against such inequities and tax avoidance possibilities would be the elimination of fear of the application of Section 102, which is alleged to deter desirable accumulations of profits. Yet, neither Section 102 itself nor the record of its past application gives any substantial basis for such a fear.

d. Conclusions

A provision with the same general purposes as Section 102 has been recognized by the Congress as a necessary feature of the tax structure ever since 1913. Section 102 and Treasury policy with respect to it allow ample leeway for retention of corporate earnings for all reasonable business purposes. An exemption under Section 102 would open the way for flagrant tax postponement and avoidance. It would appear that any deterrent to legitimate retention of earnings for business purposes can best be removed by further diffusion of information about the purposes of Section 102 and its administration.

3. Loss offsets and the taxation of small business

An extension of the period during which operating losses may be offset against taxable income has often been recommended as a tax revision that would especially benefit small business. 1/ Present law allows a two-year carryback and a two-year carryforward of net operating loss. 2/ Proposed changes call both for extending the period during which loss offsets may be made and for shifting the emphasis toward carryforwards and away from carrybacks.

These proposed changes, unlike others discussed in this report, would not be restricted to small businesses. They would be general tax revisions, which, however, are regarded as especially beneficial to small business.

This report does not attempt a complete analysis of loss offsets. It first discusses briefly the purpose of loss offsets. Then it examines the proposition that loss offsets are especially important for small businesses.

a. Purposes of loss offsets

The primary equity advantage of loss offsets is an improved definition of taxable income. If loss offsets are not allowed, firms that sustain losses will not have the opportunity to deduct all costs but may nevertheless pay a tax supposedly based on net income. In consequence, the tax will fall partly on capital rather than exclusively on net income. There will be a discrimination against businesses with fluctuating incomes as compared with businesses with stable incomes.

1/ Letter of Representative Patman to Representative Doughton, op. cit.; digest of 350 letters on taxation received by the House Small Business Committee, op. cit.; Smaller War Plants Corporation, Taxation, op. cit.; Research Committee of the Committee on Economic Development, Postwar Federal Tax Plan for High Employment; Report of the Small Business Advisory Committee to the Secretary of Commerce, May 28, 1945, p. 8. This recommendation has also been made by many witnesses at congressional hearings and by many writers on taxation.

2/ Internal Revenue Code, sec. 122.

The chief economic purpose of loss offsets is to reduce tax impediments to the incentive for taking business risks. If loss offsets are not allowed, the tax system will reduce possible returns from successful risky investments but will not reduce losses from unsuccessful investments. This loading of the scales may often tip the balance against investment. At best, failure to allow adequate loss offsets will result in a change in the quality of investment in the direction of conservative investments and away from venturesome undertakings. Still worse is the probability that the aggregate amount of investment will be reduced. If, on the other hand, all losses may be offset against taxable income, a proportional income tax will not reduce the possible percentage return on the net amount at risk. Complete loss offsets, therefore, would eliminate a principal tax deterrent to investment. 1/ It must be recognized, however, that loss offsets are possible only if the investor has enough taxable income to absorb the loss during the allowable period. In cases of single ventures by corporations or individuals with little taxable income from other sources, statutory provisions allowing loss carrybacks or carryforwards have little or no effect on the anticipated risk of investing.

Loss offsets or their absence may affect not only the aggregate amount and overall quality of investment but also its distribution among types of firms. The basis for urging loss offsets as a measure especially beneficial to small business is the belief that failure to allow adequate loss offsets discriminates against small firms and promotes concentration of investment, thereby adding to rigidities in the economic system.

1/ See A. P. Lerner, "Functional Finance and the Federal Debt," Social Research, Vol. 10 (1943), pp. 45-46; Evsey D. Domar and Richard A. Musgrave, "Proportional Income Taxation and Risk Taking," Quarterly Journal of Economics, Vol. LVIII (1944), pp. 388-422. Losses from one venture may sometimes be deducted from income from other ventures, in the same year, even though carryforwards and carrybacks are not allowed. This is the case when the different ventures are carried on by the same taxpayer or when consolidated corporate returns are allowed.

b. Administrative problems of loss offsets

The primary limitation on the period during which losses sustained in one year may be offset against income of other years arises out of the administrative difficulties of a long offset period. The longer the period, the greater the problems of keeping open or reopening returns and of auditing transactions of years long past. In general, such administrative problems would be greater for carrybacks than for carryforwards, and this consideration argues in favor of carryforwards in preference to carrybacks. In the final analysis, however, the length of period required and whether the emphasis should be on carryforwards or carrybacks must be decided in the light of economic and equity consequences as well as administrative considerations.

c. Special advantages of loss offsets for small business

It is generally assumed that loss offsets are more important for small firms than for large. One reason for this belief is the fact that large firms are more likely to be diversified as to activities and as to markets. This suggests that the income of large firms is less likely to be subject to fluctuations arising out of conditions peculiar to one line of activity or to one locality. Losses sustained from one activity or in one locality can often be offset in the year of occurrence against income from other sources. Moreover, large firms may be in a better position to stabilize their incomes by use of trademarks, advertising, and established distribution arrangements. There is some statistical evidence indicating that the profits of small corporations have in fact fluctuated more widely over a period of years than the profits of large corporations. 1/ The interpretation of such statistical data, however, is open to question because of the difficulty of making a proper allowance for the earnings of active stockholder-managers of small corporations.

An analysis of loss offsets taken in 1940-1942 under the two-year carryforward allowed for those years indicates that the net operating loss deduction was much more important for small corporations than for large. Table 1 shows that in 1940-42 the deduction was 10 percent of net income in the smallest asset group (under $50,000) and that it decreased in every larger asset class until it reached ½ of 1 percent in next to the largest class and then rose to more than

1/ William L. Crum, Corporate Size and Earning Power (Cambridge, 1939) p. 249.

1 percent in the largest class. 1/ Further analysis shows that the increasing importance of the loss deduction in the largest asset class was attributable almost entirely to the transportation industry, expecially the railroads. Table 1 shows the figure, both including and excluding the transportation industry.

This statistical evidence is not conclusive, but it does support the reasonable deductive argument that small firms would be more likely than big firms to benefit from liberalized loss offsets.

The relative advantages of carrybacks as opposed to carryforwards of net operating losses are not discussed in detail in this report. It should be noted, however, that new firms could benefit only from carryforwards. Carrybacks would not only be of no value to new firms but might be positively disadvantageous, in that they would give established firms a competitive advantage. On the other hand, carrybacks may be especially helpful to established small firms because the resulting tax refund may come in a period of losses when the firm's cash position is likely to be weakest.

d. Conclusions

Liberal opportunities to offset operating losses against taxable income are a desirable feature of any income tax. Loss offsets make the income tax more equitable and lessen its possible restraint on investment. Loss offsets over a period of years are especially important for small, undiversified firms; large firms producing a varied output can often offset losses against other income in the same year.

Improvement of present provisions for loss offsets would be a highly desirable kind of tax relief for small business. The change would probably benefit small business more than big business, but it also merits support on other grounds.

1/ This finding is more striking when it is remembered that in the period under consideration (1939-1942) many corporations were shifting upward in the asset scale because of a general expansion of business activity. Therefore, the operating losses were often reported as deducted in a larger asset class than that in which the deficits to which they related were reported.

Table 1

Net Operating Loss Deduction Related to Net Income and Deficit, Corporations with Balance Sheets Classified by Size of Assets, 1940-1942

Size of assets	Amount (in millions)	Net operating loss deduction, 1940-42, as a percent of: Net income, 1940-42		Deficit, 1939-41	
		Including transportation	Excluding transportation	Including transportation	Excluding transportation
(in thousands)					
Under $ 50	$ 69	10.1	10.2	9.9	9.8
50 to 100	44	5.6	5.7	14.5	14.4
100 to 250	75	3.9	3.9	17.7	17.6
250 to 500	58	2.7	2.7	17.6	17.5
500 to 1,000	60	2.2	2.2	15.5	15.7
1,000 to 5,000	128	1.5	1.5	14.5	13.9
5,000 to 10,000	52	1.2	1.2	14.1	13.9
10,000 to 50,000	74	.7	.7	10.1	9.8
50,000 to 100,000	24	.5	.4	6.3	5.8
100,000 and over	229	1.3	.5	23.4	11.8
Total	812	1.5	1.3	14.8	12.7

Source: Derived from Statistics of Income.

4. Accelerated depreciation for small business

a. Nature and purposes

For purposes of the income tax, depreciable property used in a trade or business may be depreciated over its useful life. 1/ It has been proposed, however, that both incorporated and unincorporated businesses be allowed to take accelerated depreciation, that is, to write off assets for tax purposes over a shorter period than their anticipated useful lives. 2/ Accelerated depreciation has been proposed as a means of easing the capital problems of small business and of reducing the risks of investment by small firms.

b. Coverage

This report treats accelerated depreciation as a special measure restricted primarily to small business. It does not consider the broad revenue and economic problems that would be associated with general accelerated depreciation. The discussion relates to the probable effectiveness of limited accelerated depreciation plans in meeting the economic problems of small business and the equity and administrative issues connected with such plans.

Accelerated depreciation plans of the type considered here would be limited in two respects: First, as to the amount of assets eligible for accelerated depreciation; and, second, as to the type of assets eligible.

1/ Depreciation must be spread over the whole useful life according to a reasonably consistent plan, but not necessarily at a uniform rate each year. Regulations 111, section 29.23(l)-1. The usual procedure, however, is the straight-line method.

2/ For examples of accelerated depreciation proposals, see the testimony of the following persons in the Hearings of the House Small Business Committee on the financial problems of small business: Charles W. Neumann, Argus Engineering Company, Hartford, Connecticut, pp. 878-884; S. Abbot Smith, Thomas Strachan Company, Boston, Massachusetts, p. 909; Frederick S. Blackall, Jr., Taft-Pierce Manufacturing Company, pp. 961-963; M.M. Fineberg, Standard Valve Manufacturing Company, Boston, Massachusetts, p. 864. See also: Smaller War Plants Corporation, Taxation, op. cit., p. 37. Plans for formal acceleration of depreciation, such as are discussed in this section, may be distinguished from proposals to allow taxpayers great or unlimited freedom in selecting their depreciation rates, which, on the average, would probably also result in depreciation over a shorter period than the normal useful lives of assets.

As to the amount of assets eligible, the limitation would be set no higher than necessary to meet the needs of most small businesses of the type to be assisted. This figure would have to be originally decided largely on the basis of opinion, and then tested by experience. To make the following discussion more concrete, it is assumed that the maximum amount of assets subject to accelerated depreciation at any one time would be limited to a total of about $50,000 worth of assets acquired after the inauguration of the plan. However, there is no intention of implying that $50,000 would actually prove to be an appropriate limit if some accelerated-depreciation plan were adopted.

As to type of assets covered, two questions would arise in the formulation of a limited accelerated-depreciation plan. The first question would be whether the plan should extend to all types of depreciable assets or whether it should be restricted to machinery and equipment, with buildings and patents and other intangibles excluded. In favor of excluding buildings, it may be argued that their long lives and the lumpy character of investment in them would give rise to special problems if they were eligible for accelerated depreciation. As is pointed out in the next section, any accelerated-depreciation formula which permitted all types of assets to be written off in the same fixed period would favor long-lived assets and might give windfalls to investors in assets such as buildings. Moreover, buildings probably present a less serious financial problem for small business than other assets because of the possibility of renting and because of relatively well-developed mortgage lending facilities for credit purchases of land and buildings. On the other hand, buildings are an important part of total investment and their useful lives are no longer than those of many types of machinery. Patents and other intangibles are probably on the whole relatively unimportant for small businesses. The second question would be whether accelerated depreciation should be extended to both new and secondhand assets or only to newly produced assets. Since a significant part of investment by small firms takes the form of purchase of secondhand assets, it would probably be advisable to include both new and secondhand assets in any limited accelerated depreciation plan for the special benefit of small business. As is pointed out in the discussion of administrative considerations in a later section, however, inclusion of second-hand assets would give rise to troublesome administrative problems.

c. Economic effects

In the early years of life of eligible assets, accelerated depreciation would reduce taxable income below net income as determined for other purposes. Hence, it would reduce taxes in these years. In a sense, it would be equivalent to an advance from the Government, to be repaid in the form of higher tax liabilities in later years when depreciation of the capital asset had been completed. If, however, a business purchased assets at a constant or continuously increasing rate each year, it could indefinitely defer repayment of this advance. Such advances could be very helpful to small business because of its traditional difficulty in obtaining capital and its consequent reliance on expansion from earnings. Borrowed money, when available, is likely to be loaned on terms shorter than the lives of necessary machinery and equipment, and accelerated depreciation would assist in permitting amortization during the terms of the loans.

Since accelerated depreciation allows more rapid recovery of the original cost of a depreciable asset, it reduces the risk of the investment. So long as an investment has not been fully recovered through depreciation, there is always the possibility that an asset may lose its earning power with the result that any remaining depreciation deductions will be wasted because of lack of taxable income against which to apply them. Shortening the depreciation period for tax purposes would be especially advantageous to certain types of small businesses, where prospects for immediate profits are good, but the long-run future of the businesses are uncertain.

Accelerated depreciation would also improve somewhat the yields on investments in depreciable assets. If the depreciation allowed on an asset shifts taxes from the present to the future, interest can be earned on the funds not used to pay taxes, increasing the yield on the investment by that amount. This is not so important for small business, however, as the problem of availability of funds, and this increase in yields might not alone be sufficient to attract an appreciably greater amount of capital into small business.

The increase in availability of capital, decrease in risk, and interest gain from postponement of taxes would be greater the shorter the depreciation period in relation to the useful lives of assets. If the accelerated-depreciation plan provided the same abritrary period for all kinds of assets regardless of their normal

lives—for example, one year or five years—it would stimulate investment in long-lived assets more than in short-lived assets. Since there are marked differences in the average useful lives of assets in different industries and among firms of different sizes, such a plan would affect the direction of flow of investment funds. If, however, accelerated depreciation took the form of a stepping-up of normal depreciation rates—for example, double depreciation—such an effect would be less pronounced.

One limitation on the usefulness of accelerated depreciation arises out of the fact that the additional depreciation is of no benefit to a taxpayer unless it offsets income that would otherwise be taxable. For example, a small manufacturer starting in business would have to make profits of 20 percent on his investment in depreciable assets in each of the first 5 years in order to take currently full advantage of 5-year accelerated depreciation. The magnitude of this problem is lessened as the depreciation period is lengthened, as the ratio of depreciable assets to total assets declines, and as the ratio of newly acquired depreciable assets to all capital assets declines.

Accelerated depreciation would need to be combined with liberal loss offsets, because investments by small business tend to be lumpy. Unlike a large business, a small business does not ordinarily make a steady stream of capital asset purchases. The capital asset unit is large in relation to the total assets of the business, and capital investment for a period of years is likely to be concentrated in a single purchase. Therefore, income would often not be large enough to absorb the additional depreciation, unless a carryover were allowed. It should be noted, however, that the existence of a long carryover of business losses lessens the danger that normal depreciation deductions will run to waste and hence decreases the importance of accelerated depreciation. Furthermore, to the extent that a long carryover of "losses" is necessary to absorb the additional depreciation allowances under an accelerated depreciation plan, the difference between accelerated and normal depreciation is materially reduced.

d. Equity considerations

Limitation of the amount of assets eligible for accelerated depreciation would raise a problem of discrimination against larger firms, but this is a problem common to all special measures for the tax benefit of small business. Among small businesses as a group, however, accelerated depreciation would offer unequal advantages to

different firms and industries. Accelerated depreciation would be distinctly less advantageous to firms in industries requiring relatively small investments in capital assets than for firms in other industries. Wide differences among industries are shown in the following figures on capital assets less reserves and less land as a percentage of total assets for corporations with assets of less than $50,000 in 1943. 1/

Industry	Capital assets as percentage of total assets
All industrial groups	30.3 percent
Mining and quarrying	55.4
Manufacturing	29.4
Public utilities	47.4
Wholesale trade	12.4
Retail trade	18.3
Service	40.3
Finance, insurance, etc.	42.3
Agriculture, forestry, and fishing	39.3

These figures indicate an important limitation on the effectiveness of accelerated depreciation as an aid to small business. Of an estimated total of 2,758,000 small business establishments 2/ in the fields of manufacturing, wholesale and retail trade, service, hotels, construction, and amusement in 1939, 1,686,000 or over 60 percent, were engaged in wholesale and retail trade 3/ in which accelerated depreciation of machinery and equipment would be of limited value.

While the effects of accelerated depreciation would be unequal, businesses helped most would be the ones that are most likely to be handicapped by the present tax system. First, accelerated depreciation would favor businesses with a high proportion of their capital

1/ Returns with balance sheets, Bureau of Internal Revenue, Source Book, 1943.

2/ Small according to the composite definition of the Department of Commerce: manufacturing, less than 100 employees; wholesale trade, annual net sales of less than $200,000; other industry groups, annual net sales or receipts from operations of less than $50,000.

3/ Appendix B, Table 3.

in depreciable assets. This can be defended on the grounds that it is more difficult for small business to get long-term capital for investment in capital assets than to borrow short-term working capital. Second, accelerated depreciation would favor new and expanding businesses, since they are in greater need of capital and since a higher share of their capital assets would be eligible for the accelerated rates. In defense of this it can be argued that existing taxes make it hard for new and small businesses to expand through earnings to a position equivalent to that of their better established competitors. Third, accelerated depreciation would favor the more risky enterprises, since it gives investors an opportunity to clear the cost of their investments more rapidly than would otherwise be possible. This would counteract a tendency present taxation of high yields from speculative investments has to discourage development of the more risky types of enterprises.

e. Administrative considerations

Accelerated depreciation would not simplify the determination of proper depreciation allowances, so long as the deductions were related to the useful life of depreciable assets in any formal way. Use of a single, arbitrary depreciation period would eliminate the problem of determining useful life for eligible assets, but it would be weighted heavily in favor of businesses acquiring long-lived assets.

Since the value of assets eligible for accelerated depreciation would be limited for each business, there is danger that corporations would form subsidiaries in order to take accelerated depreciation on a greater share of their facilities. Another danger is that accelerated depreciation allowances might be used to convert ordinary income into capital gains, since a businessman might sell a fully depreciated asset that still had a substantial value, paying a tax on the capital gain and avoiding the taxes on its income that were deferred during the period of accelerated depreciation. This type of avoidance could be overcome by requiring that if the taxpayer elects to use accelerated depreciation, gain to the extent of the excess of accelerated over normal depreciation must be treated as ordinary income.

If all newly acquired capital assets, including used facilities, were made eligible for accelerated depreciation there is a possibility that businesses would swap old facilities in order to make them eligible. Prevention of this abuse would be difficult since no clear line would be drawn between legitimate business trade, and trades for the purpose of increasing depreciation deductions.

Businesses might use accelerated depreciation to avoid taxes by timing their investments so that the highest depreciation allowances would be taken in years in which income falls in the higher tax brackets. And, even without careful timing of the investments, many individuals would be able to deduct from other incomes accelerated depreciation in excess of the profits of the unincorporated businesses in which the investments were made.

f. Conclusions

Accelerated depreciation would help solve some, but not all, of the tax problems of small businesses. Accelerated depreciation for a limited amount of assets would help small business finance capital outlays in manufacturing and other industries in which relatively large amounts of depreciable assets are required. Risky and growing enterprises would be especially benefited. Accelerated depreciation would be less helpful to mature and stable businesses and to all firms engaged in wholesale and retail trade and other industries requiring relatively small investments in depreciable assets. As a means of improving the accessibility of capital and of removing tax deterrents to risky investment, accelerated depreciation would be more effective than a reduction in tax rates costing the same amount of revenue. To prevent the additional depreciation allowances from being wasted, accelerated depreciation would need to be combined with a liberal carryover of net operating losses, but the existence of such a carryover lessens the importance of accelerated depreciation. Even in combination with a liberal carryover, the usefulness of accelerated depreciation would be limited in many cases by the fact that profits of small businesses would be insufficient to absorb substantially more than normal depreciation.

B. Proposals intended to equalize taxes on small incorporated and unincorporated businesses

Under the present tax system, earnings of incorporated businesses are subject to the corporation income tax, and dividend income of stockholders is subject to the regular individual income tax. Earnings retained in the corporation for reasonable business purposes are subject only to the corporation income tax. In the case of unincorporated enterprises, all earnings, whether reinvested in the business or withdrawn, are included in the income of the proprietor or partners and are subject to the regular individual income tax.

The existing differences in taxation of profits of incorporated and unincorporated businesses have been criticized as inequitable and as a handicap to investment and expansion. While these criticisms have not been confined to the taxation of small businesses, they have most often been addressed to this aspect of the problem. This section considers two proposals intended to equalize taxes on incorporated and unincorporated enterprises, which are mainly, but not exclusively, small business measures. One proposal would approach the problem of taxing certain types of corporations like partnerships. The other proposal would take the opposite approach and tax the retained earnings of incorporated enterprises at the corporate tax rates. The present report does not consider several other approaches to the objective of reducing or eliminating existing differences in taxation of earnings from incorporated and unincorporated businesses, since these other approaches are not primarily concerned with the tax problems of small business. 1/

5. Partnership tax treatment for certain corporations

a. Nature and purposes

The partnership method has often been proposed as a means of eliminating differences in taxation of profits of small incorporated and unincorporated businesses. 2/ Under the partnership method, no tax would be imposed on the corporation as such, but stockholders would be taxed on their proportionate part of both distributed and undistributed corporate profits. Under the pure partnership method, stockholders would also take account of their proportionate part of corporate losses. Dividends paid from profits previously taxed to stockholders would not be subject to individual income tax. In determining the amount of capital gains or losses for tax purposes, the basis of stock would be increased by the amount of undistributed profits taxed to stockholders and decreased by the amount of operating losses and dividends paid from profits previously taxed to stockholders.

1/ For a discussion of several approaches to the general problem, see The Postwar Corporation Tax Structure, Treasury Department, Division of Tax Research study (1946).

2/ See, for example: National Tax Association, Committee on Federal Taxation of Corporations,"Final Report," Proceedings of the National Tax Association, 1939; Richard W. Lindholm, The Corporate Franchise as a Basis of Taxation (Austin, Texas, 1944), p. 246; testimony of Clifford McAvoy, representing the CIO and 15 other national organizations, Senate Finance Committee Hearings on the Revenue Act of 1945, pp. 101, 272; Randolph E. Paul, Taxation for Prosperity (Indianapolis, 1947), p. 374.

Although there have been proposals both for mandatory and for optional partnership treatment of certain types of corporations, the present discussion approaches the matter from the standpoint of a tax-relief measure and concentrates attention on the optional partnership treatment. The objective of an option for certain corporations to be taxed like partnerships would be to give such corporations and their stockholders the opportunity of paying no more tax than owners of unincorporated enterprises on both distributed and undistributed profits. This objective involves: (1) elimination of so-called double taxation of distributed profits; and (2) taxation of undistributed profits at the individual rates of stockholders instead of the corporate rates, in cases where this would be advantageous. In contrast to the optional or tax-relief approach, the mandatory partnership method could also prevent tax avoidance or postponement with respect to earnings retained in corporations owned by stockholders subject to individual income tax rates higher than the corporate rates.

b. Eligibility for partnership treatment

Some have suggested that partnership treatment be made available only to corporations with no more than some stated amount of net income or assets. 1/ Others have suggested more general application of the partnership treatment, but have differed as to the basis for determining eligibility. One view is that the partnership method is the ideal method of taxing all corporations and their stockholders, although administrative difficulties may prevent its application to corporations with many stockholders and complicated capital structures. 2/ The other view is that

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1/ For example, McAvoy, loc. cit., suggests that the partnership option be restricted to corporations with no more than $100,000 of net income.

2/ The National Tax Association Committee on Federal Taxation of Corporations recommended that the partnership method be "extended to the limits of its legal and administrative possibilities," Proceedings, 1939, p. 555.

the partnership method is appropriate only for corporations with the characteristics usually associated with partnerships, such as ownership by a small number of persons who are in a position to take an active part in control of the enterprise. 1/

For both conceptual and practical reasons, there would seem to be a stronger case for determining eligibility for the partnership treatment on the basis of characteristics such as distribution of ownership and capital structure than on size as measured by net income or assets. Net income, in particular, would be an unsatisfactory basis, because of its year-to-year fluctuations and the objections to moving in and out of the partnership option.

The exact standards of eligibility under any partnership option would necessarily be to some extent arbitrary, but two types of criteria seem reasonable. First, the partnership option might be restricted to corporations with no more than, say, 10 to 15 stockholders in which all or a large majority of the stockholders consented to partnership treatment. Second, the option might be restricted to corporations with only one class of stock outstanding, none of which is owned by another corporation. These criteria would help confine the option to

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1/ Randolph Paul recommends the partnership method for corporations that do not derive sufficient advantage from economic separateness of stockholders and the corporation to justify separate taxation. He states as "a guiding principle . . . a selection between corporations which are economically, not merely legally, separate from their stockholders and those which are not. There are," he says, "several possible tests for this selection. Do the stockholders have a real voice in the formulation of important corporate policies, such as wage, price and dividend policies? Does the fact of incorporation bestow substantial economic advantage, such as accessibility to national, and perhaps world, capital markets? Are corporate characteristics--such as limited liability of stockholders, easy transfer of ownership and perpetual life--essential to the very manner of doing business? These attributes suggest the economic separateness of the corporation and justification for a corporation tax. If they are missing to a marked degree, the imposition of a corporation tax is much more questionable." "Taxing for Better Living," address before the Tax Executives Institute, New York, May 15, 1946 (mimeographed), reprinted in Commercial and Financial Chronicle, May 16, 1946.

corporations similar in many essential respects to genuine partnerships and would greatly simplify administration. 1/

Thus restricted, the partnership option would not be purely a small business measure, but its application would be mainly to small corporations. Certain large enterprises would be eligible for partnership treatment, but it is doubtful that many of them would elect it, since the individual income tax on retained earnings would be likely to be considerably higher than the corporate rate.

c. Types of corporations that would benefit from partnership tax treatment

Two types of corporations would benefit from partnership tax treatment. These are: (1) all corporations currently distributing a large proportion of their profits; and (2) corporations retaining a large proportion of their profits, provided the marginal income tax rates of their stockholders were lower than the corporate tax rates.

The partnership method would reduce the total tax on the distributed part of profits of any corporation. Distributed profits would be subject only to the individual income tax rather than to both the corporation income tax and the individual income tax. The amount of reduction would, of course, depend on the alternative corporate tax rate in comparison with the tax rate on stockholders. The partnership method would reduce the total tax on a dollar of profits distributed to a low-income stockholder subject to a low marginal tax rate more than on a dollar of profits distributed to a high-income stockholder subject to a high marginal tax rate. 2/

1/ The reason for the requirement as to capital structure is largely administrative. It would be almost impossible to allocate corporate income satisfactorily among owners of various classes of stock. In many cases the claims of owners of different classes of stock to earnings do not become definitive until long after profits are earned. For example, common stockholders, as residual owners, would presumably be allocated any profits retained in any year after satisfaction of prior claims of preferred stockholders. In later years, however, these earnings might be distributed as preferred dividends.

2/ This is due to the fact that stockholders subject to high marginal tax rates would pay in personal taxes a large part of added profits made available by elimination of the corporate tax. Stockholders subject to low marginal tax rates would pay in personal taxes only a small part of their share of the corporate profits previously taken by the corporate tax. Hence, low-income stockholders would enjoy a greater percentage increase in net yield from stock.

But the partnership treatment would always be advantageous to all stockholders of any corporation that currently distributed all or a large proportion of its profits.

Whether the partnership treatment would reduce current taxes on undistributed corporate profits would depend on the relationship between corporate tax rates and marginal tax rates of stockholders. Generally speaking, the partnership method would reduce taxes on undistributed profits of corporations owned by low-income stockholders but would increase taxes on undistributed profits of corporations owned by high-income stockholders. Under the present system, high-income stockholders derive at least a temporary tax advantage from retention of earnings in corporations. But graduation of the corporate income tax considerably narrows the area of tax advantage of the partnership method for stockholders in small corporations that retain a large proportion of their profits. In contrast with the partnership method, graduation of the corporate income tax may offer a tax advantage with respect to retained earnings in small corporations owned by high-income stockholders. Under the present system, it is true that if retained earnings are finally paid out in dividends they are taxed under the individual income tax. But this does not wholly cancel the tax advantage enjoyed by high-income stockholders. Stockholders have had the advantage of tax postponement and perhaps of an informal averaging of taxable income. The corporation has had the use of the retained earnings. Moreover, retained earnings may be made a permanent part of a corporation's capital and never paid out in dividends. Although earnings are permanently retained in the corporation, the individual stockholder can realize on them by selling his stock. If he has held the stock longer than six months, he is subject only to the low-rate tax on long-term capital gains.

d. Economic considerations

The partnership method probably would offer its greatest economic incentives to investors looking for regular dividend income from small corporations. As already indicated, partnership treatment would be advantageous in any case in which the corporation regularly distributed the major part of its profits. But, in the past, small corporations as a group have retained a significantly larger percentage of their profits than have large corporations. It is not possible to say what proportion of stockholders in small corporations are subject to marginal individual tax rates lower than the graduated corporate rates. Usually, however, more concern is shown for the effects of taxes on incentives of high-income investors than of low-income investors.

Partnership treatment of corporations retaining a large proportion of their profits probably would be advantageous only for low-income stockholders. Mandatory partnership treatment might even discourage investment in small corporations by high-income investors. Many high-income investors may now be attracted by the possibilities of realizing their returns in the form of capital gains, based on retained profits, rather than as dividends paid from current profits. The opportunity of deducting corporate operating losses from other income under the partnership method, however, might appeal to high-income individuals contemplating speculative investments in new enterprises.

The partnership option might somewhat increase the flow of new equity capital into small corporations. However, it would not be especially well adapted to short-run solution of the capital problem of small business.

e. Equity considerations

The equity problem of reasonable classification arises in connection with every proposal for tax relief of small business. It seems, however, that this equity problem would be somewhat less serious in connection with the partnership method than in connection with most other proposals. The partnership method, like other proposals discussed in this report would be a valuable tax concession to many stockholders. But, unlike most of the other proposals, the partnership method has strong claims to being regarded as an equitable tax method in its own right. In this respect it is superior to proposals based solely on expediency. The partnership method would come closer to equal treatment for all stockholders of small corporations, who have equal incomes. It would not create new kinds of inequity. There would be less chance for abuse of the partnership method by splitting up large corporations owned by wealthy investors than there would be under other tax-relief proposals. Therefore, the equity problem raised by the partnership method would be almost entirely a classification problem--a problem of where to draw the line between those to whom the treatment would be extended and those to whom it would be denied.

f. Administrative considerations

An important technical problem under the partnership method would be that of allocating corporate profits and losses among stockholders. Strictly construed, the partnership method would require that every person who was a stockholder at any time during the taxable year be allocated his exact proportionate part of profits or losses. Moreover, the strict partnership method would require separate allocation to individual shareholders of peculiar kinds of income and deductions, such as wholly or partially tax-exempt interest, capital gains and losses, excess of percentage depletion over cost depletion, charitable contributions, and foreign tax credits. But such a refined allocation would be extremely burdensome.

If the partnership method is viewed primarily as a means of tax relief for small business, it might be acceptable to overlook many refinements appropriate to the method as a general means of equalizing taxation of stockholders and other income recipients. The less exacting requirements of tax relief for small business might well be met by a procedure that allocated profits and losses only to shareholders at the close of the taxable year. No attempt would be made to allocate a share of profits or losses to stockholders who had sold their shares before the end of the tax year. Nor would special items of income and deductions be traced through the corporation to stockholders.

g. Conclusions

By reducing taxes on distributed profits, the partnership method might make it somewhat easier for small corporations to get outside equity capital. The partnership method might also reduce taxes on retained earnings of corporations owned by low-income stockholders. It seems unlikely, however, that the partnership method would greatly ease the financial problems of most growing small corporations, which ordinarily retain a large portion of their profits. On the whole, it seems that the method would be most likely to be attractive to mature small corporations able and willing to pay out most of their profits as earned.

The partnership method would appear to be more in harmony with usual standards of equity than most other proposals for tax relief of small business. It would not open the way for tax postponement or avoidance. The partnership method would minimize the problems arising out of splitting up of large businesses in order to take advantage of tax relief intended for genuinely small businesses.

Any refined partnership method would give rise to very difficult technical and administrative problems. Viewed, however, as a tax relief device, the partnership method might be simplified enough to make it workable. At best, administration of the method would be difficult.

6. Corporate tax treatment for the reinvested earnings of unincorporated businesses

a. Nature and purpose of proposal

It has been suggested that the reinvested earnings of unincorporated businesses be taxed at the corporation income tax rates in order to prevent an unfair discrimination against unincorporated businesses. 1/ In support of this proposal, it is pointed out that all earnings reinvested in an unincorporated business are subject to the top individual income tax rates applicable to the income of the proprietor or partners, which may reach a maximum of 85.5 percent, whereas the retained earnings of corporations are subject to a maximum rate of 38 percent. For this reason, it is argued that the tax system makes growth from reinvested earnings harder for proprietorships and partnerships owned by persons with high incomes than for corporations.

The remedy that has been proposed is to segregate the business income of persons engaged in capital-using businesses of a commercial or industrial nature from their other income and to allow them the option of being taxed at the corporate rates on the portion of their business income reinvested in the enterprise. Earnings currently withdrawn from the business would presumably be taxed only at the regular individual rates, but it is not clear how withdrawals of profits accumulated in prior years would be treated. Active proprietors and partners would be required to include in their taxable personal incomes an amount equivalent to reasonable compensation for services.

1/ F. N. Bard, "Federal Taxation of Proprietor and Partnership Venture Capital on a Corporation Basis," Hearings of the Senate Finance Committee on the Revenue Act of 1945, pp. 267-270.

The suggestion to tax reinvested earnings of unincorporated businesses at the corporate rates is the opposite of the more usual proposal that small corporations be taxed as partnerships. Partnership treatment for small corporations has been suggested on the grounds that it is unfair to impose a heavier tax on profits merely because the business is carried on in the corporate form. Other proposed revisions of the corporation tax structure are based on a similar view, at least with respect to distributed profits. On the other hand, the proposal under discussion in this section is based on the view that it is unfair to deny owners of unincorporated enterprises a tax opportunity with respect to retained profits, which is now open to stockholders in corporations.

b. Extent of possible tax discrimination against retained earnings of unincorporated firms under present law

Any possible tax discrimination against the retained earnings of unincorporated firms under present law appears to be limited in extent. Income taxes are significantly higher on the profits of unincorporated firms than on corporations only in the case of firms which are owned by persons with relatively large incomes and in which a large proportion of the profits is reinvested in the business.

There is no possibility of discrimination against an unincorporated business unless the income of the owners is subject to a marginal tax rate higher than the corporate rate applicable to a corporation with the same amount of income as the proprietorship or partnership. Individuals with surtax net incomes of less than $4,000 pay a lower marginal rate than corporations with net incomes of less than $20,000; individuals with surtax net incomes of less than $6,000 pay a lower marginal rate than corporations with net incomes of less than $25,000; individuals with surtax net incomes of less than $12,000 pay a lower marginal rate than corporations with net incomes of more than $50,000; and individuals with surtax net incomes of less than $20,000 pay a lower marginal rate than corporations with net incomes between $25,000 and $50,000.

In 1942, it appears that more than one-half of all proprietorship and partnership profit reported on individual tax returns went to individuals who probably had less than $4,000 of surtax net income, a little less than two-thirds of the total to individuals with less than $6,000 of surtax net income, and about three-fourths to individuals

with less than $12,000 of surtax net income. 1/ Moreover, in 1941 (the latest year for which such data are available), more than 90 percent of the number of persons reporting business profits had total net incomes of less than $5,000, and more than 98 percent had net incomes of less than $12,000. 2/ These figures, however, may give an exaggerated impression of the possible area of appeal of option for unincorporated commercial and industrial enterprises to be taxed at the corporate rates on reinvested profits, inasmuch as a considerable portion of the partnership profit reported in higher income brackets is doubtless from professional and other personal service activities and would not come within the scope of the option. 3/

Furthermore, even in cases where owners of unincorporated businesses pay tax rates on reinvested profits that are higher than the corporate rates, they may suffer no net tax disadvantage with respect to their whole business incomes. The individual tax is the only tax imposed on the portion of profits withdrawn from an unincorporated business, whereas distributed corporate profits are subject to both the corporation income tax and the individual income tax. This freedom from so-called double taxation of profits withdrawn from the business will in many cases counterbalance the effect of a higher tax rate on reinvested earnings even in the case of proprietorships and partnerships owned by individuals with large income.

Finally, most businesses can be incorporated rather easily and at no great expense if their proprietors wish to take advantage of the tax treatment of the corporate form. There are some incidental inconveniences related to doing business as a corporation, but in most

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1/ Statistics of Income for 1942, Part 1. The statements in the text assume that persons who reported profits from unincorporated business had an average of $1,000 of personal exemptions and credit for dependents. This figure is close to the average for all taxable returns but is low for the classes near the breaking points mentioned in the text.

2/ Statistics of Income for 1941, Part 1, p. 23.

3/ In 1939, 22 percent of partnership returns with ordinary net income in excess of $5,000 fell in the "service" classification. Computed from Supplement to Statistics of Income, 1939, Part 1, p. 9.

cases, they do not seem serious. 1/ In some few fields, as for example, stock brokerage, incorporation may be barred by law or custom, but the plan under discussion is apparently not intended to cover such businesses.

c. Economic considerations

It seems that the limited area likely to be covered by a plan granting optional corporate tax treatment for the reinvested earnings of unincorporated enterprises would mean that such a plan would not have major economic significance. It might stimulate some firms to disincorporate, and in some instances it might improve the incentive to invest and also increase investment funds. Unless, however, the plan were very liberally drawn, it seems unlikely that its effect on investment or saving would be important.

d. Equity considerations

Despite its probably limited applicability, an option to owners of unincorporated businesses to be taxed on reinvested earnings at the corporate rates would raise some questions of equity. Even if a case can be made for allowing an option for unincorporated businesses, equity would seem to demand that the choice be between the present treatment and the full corporate treatment. Under the plan that has been suggested, proprietors and partners would have the best of two worlds. They could continue to escape so-called double taxation on profits withdrawn from the business and, at the same time, avoid individual surtaxes on profits reinvested in the business.

The option that has been proposed would discriminate against corporations. The plan would also discriminate in favor of the savings of individuals already in business as compared with the savings of others who are accumulating capital to go into business. It would offer individuals with large incomes a privilege not available to persons with small incomes. It would decrease the over-all progressivity of the individual income tax.

1/ Bard, loc. cit., asserts, "Operating as a proprietor or partner has certain advantages and conveniences which, while not contributing materially to the profit of the operation, may contribute materially to the ease of operation." Among these advantages and conveniences, he mentions freedom from interference by minority stockholders, flexibility of management, freedom from certain regulations and record-keeping requirements, and taxes. He also contends, "It is un-American to force anyone to carry on their business in a prescribed way by a threat of heavy taxation."

e. Administrative considerations

Any plan for special tax treatment of the reinvested earnings of unincorporated businesses would raise some very serious administrative problems. The major problems would be related to (a) the definition of an unincorporated business enterprise, and (b) the distinction between the income and assets of the business and of its proprietor or partners.

There is no clear-cut distinction between business activity and personal activity. This problem would be most difficult in the case of personal service businesses, and would be less serious if the tax plan were restricted to commercial and industrial enterprises, as its sponsors apparently contemplate. Nevertheless, many close questions would doubtless arise.

The absence of difference in legal title to business and personal income and assets in the case of proprietorships and partnerships would complicate the necessary segregation. Certainly, rather full and elaborate records would be essential. In particular, the concept of distribution of earnings is ambiguous in the case of an unincorporated business. Legally, all of the assets of the business are at the personal disposal of a sole proprietor. Business debts and personal debts may be recovered from any assets to which the proprietor has title. Problems would arise in determining the amounts of capital gains or losses and ordinary gains or losses at the time of termination or transfer of an unincorporated business.

The spirit of the present income tax system would require that only earnings required for the reasonable business needs of an unincorporated enterprise could be retained and taxed at the corporate rates. 1/ But such a proviso would give rise to all the difficult determinations now necessary under Section 102 of the Internal Revenue Code, which imposes a surtax on corporations improperly accumulating surplus.

f. Conclusions

The proposal to offer an option to unincorporated businesses to be taxed at the corporate rates on reinvested earnings seems to be addressed to a problem of relatively small importance. Unincorporated businesses suffer a net tax disadvantage, as compared with corporations,

1/ Bard does suggest this, loc. cit.

only if they are owned by persons with relatively high incomes and if a large proportion of the profits are reinvested in the business. Moreover, most businesses can be incorporated with little difficulty or expense. The option would probably have limited economic significance. On the basis of equity, it is hard to justify allowing owners of unincorporated businesses to continue to escape so-called double taxation on earnings withdrawn from the business, and, at the same time, to avoid individual surtax on reinvested earnings. The plan would be hard to administer because of the difficulty of defining an unincorporated business enterprise and of distinguishing between the income and assets of the business and of the proprietor or partners. It would also be hard to determine whether amounts reinvested were reasonable in the light of the needs of the business.

C. Proposals for tax exemptions for small or new businesses or for investors in them

The proposals discussed in this section go beyond those considered in the preceding sections. They call for partial or complete tax exemptions for new or small businesses or for investors in them. These proposals are intended to stimulate investment in such enterprises and to improve their capital position. One group of proposals calls for exemption or reduced-rate taxation of the retained earnings of small businesses. Another group of proposals suggests partial or complete tax exemption of equity investors in small businesses. The exemption might be in the form of either a deduction from taxable income of the principal amounts invested or an exemption of part or all of the return on investments in small enterprises. A third group of proposals calls for tax exemption for new small businesses for a limited period of years. Presumably, all three groups of proposals might apply to both incorporated and unincorporated businesses.

All such proposals for tax exemption for certain kinds of income raise fundamental problems of equity. There is a strong presumption in favor of uniform taxation of all persons with the same amount of income and in similar personal circumstances. This presumption can be overcome only if it is determined that the end sought by tax exemption has great social importance and that tax exemption is an effective means of promoting the social objective.

This report does not attempt to evaluate the social importance of small or new businesses. It is appropriate to note, however, that recently there has been a rapid growth in the number of new small

businesses, without the benefit of any tax exemption. 1/ Moreover, there is some statistical evidence that small firms grew relatively more during the war years than did large firms. 2/

Some specific comments on the probable effectiveness of the exemption schemes will be made in the discussion of the particular types of proposals. At this point, two types of general considerations, applicable to all of the exemption plans, should be mentioned. First, the direct effect of a tax exemption is a decrease in revenue. Unless this decrease is made up by increasing some taxes, the tax exemption has the same immediate effect on the budget as an increase in Government expenditures. Hence, the effectiveness of tax exemption may be compared with alternatives such as increased Government expenditures for direct and guaranteed loans, services to business, and similar purposes. Second, a tax exemption results in a shift in the tax load away from the exempt businesses to non-exempt businesses. If tax rates are increased to maintain revenues, the possible deterrents to taxable enterprises and investors must be offset against any additional incentives to those enjoying the exemption. Even if taxes are not increased to maintain revenues, taxable enterprises may suffer a competitive disadvantage, which will cause them to curtail their investment programs. In either case, additional investment in tax-exempt businesses will not all be a net gain to the economy.

7. Tax exemption for retained earnings of small businesses

a. Nature and purpose of proposals

Several proposals have been made to attack the capital problems of small businesses by exemption or low-rate taxation of their retained earnings. These proposals differ somewhat from the proposal to tax the reinvested earnings of unincorporated businesses at the corporate rates 3/ in that they are not presented as methods of equalizing taxes on different forms of businesses but rather as proposals for especially favorable tax rates for small businesses.

1/ See Appendix B.

2/ F. C. Dirks, "Wartime Earnings of Small Business," Federal Reserve Bulletin, January, 1945, pp. 16-26, and "Wartime Financing of Manufacturing and Trade Concerns," Federal Reserve Bulletin, April, 1945, pp. 313-330; Roy A. Foulke, "Expansion from Retained Earnings," Dun's Review, November, and December, 1945.

3/ See Section II, B, 6.

Some of the exemption proposals are intended to apply to both incorporated and unincorporated businesses and others to only one or the other type of firm.

Some proposals merely call for a tax credit with respect to retained earnings of small business without specifying any limitation so long as a business is eligible. 1/ Other proposals would limit the amount of retained earnings on which credit would be allowed 2/ or would extend the plan only to new corporations for a limited period of years. 3/

b. Economic considerations

Small businesses are especially dependent on retained earnings for additional capital. Furthermore, it is obviously true that they would be able to retain more earnings and grow more rapidly if they did not have to pay income tax on their business savings. This type of interference with private plans is the universal and inevitable feature of any tax system. As has been pointed out in the general discussion of the exemption proposals, a more compelling kind of argument is necessary to support removal of taxes in one particular area.

1/ American Small Business, Additional Report of the Special Committee to Study and Survey Problems of American Small Business, Senate Report No. 12, 78th Congress, 1st Session, January 18, 1943, p. 11; and statement of Charles C. Fichtner, Department of Commerce, in Hearings before the Special Senate Committee to Study and Survey Problems of Small Business Enterprises, United States Senate, 77th Congress, 2nd Session, p. 789.

2/ Marriner S. Eccles, Chairman, Board of Governors, Federal Reserve System, suggested in his testimony before House Small Business Committee, (Hearings, op. cit., p. 1206) that all corporations be given a tax credit for dividends paid and that the first $50,000 of retained income be given the same treatment as dividends to protect small corporations in need of funds for capital expansion. Harold M. Groves in Production, Jobs and Taxes suggested that small enterprises be allowed to reinvest all or a part of their earnings free of the withholding tax he proposed for other corporations. (p.34)

3/ In 1945, Representative Patman, in a letter to Representative Doughton, op. cit., outlined a plan for issuance of certificates to small businesses that would permit them to retain earnings free of tax for three years and at reduced rates for the next two years, with the regular tax rate applicable thereafter.

The argument that has been advanced in favor of a tax exemption for retained earnings of small businesses is that at a certain stage in the establishment of a firm a rapid increase in both fixed capital and working capital is likely to become necessary. If the firm can obtain the required capital, it may be able to enter a period of healthy growth and to establish itself firmly. If, however, the key amount of additional capital cannot be obtained, the firm may not only be unable to grow but may slip backward into bankruptcy. It has been argued that a tax exemption for reinvested earnings at this critical stage may help supply the additional capital and thus mean the difference between successful growth and failure. It has been contended that in the long run the enlargement of the tax base that occurs when the small firm is successful will more than compensate the Government for the revenue cost of the exemption.

In the type of case just described as well as in other less spectacular instances, the increase in funds at the disposal of small firms, which would result from tax exemption for their retained earnings, could be expected to increase investment by such firms. Doubtless, however, a part of the additional internally-financed investment in small firms would merely take the place of investment in larger firms or in small firms financed from outside sources. The tax exemption might stimulate a pattern of investment different from that which would otherwise obtain. It would favor investment in established and profitable small businesses as compared with new or less profitable small enterprises. It is often argued that internally-financed investment, especially when it depends on tax advantages, is likely to be poorly allocated and relatively inefficient.

c. Equity considerations

The general equity problems with respect to tax exemptions have already been mentioned. One specific aspect of the equity considerations, however, merits further mention. The proposals for tax exemption for retained earnings of small businesses would discriminate in favor of one kind of savings as compared with all other types of savings. The plan would discriminate in favor of owners of small businesses as compared with persons who choose to provide for their future through other forms of savings, such as investment in Government securities. This would be true even if it were possible to administer the exemption so that all retained earnings were used for legitimate business purposes and not merely as a means of tax avoidance or postponement. The inequity would be more glaring, however, if in actual practice the exemption plan were abused or used as a cloak for retention of earnings not used for ordinary business purposes.

d. Administrative considerations

Although not all proposals are explicit on this point, the economic rationale for the exemption plans would require that retained earnings be exempt only if used for reasonable business purposes. However, supervision of the exemption to prevent retention of earnings for purposes of tax avoidance would give rise to the same difficult problems now encountered in the administration of section 102 surtax on corporations improperly accumulating surplus. As was pointed out in the discussion of the plan to tax reinvested earnings of proprietorships and partnerships at the corporate rates, the administrative problems would be especially difficult in the case of unincorporated businesses, where there is no legal distinction between the business and its owners. It would be optimistic indeed to suppose that an exemption for retained earnings could be confined to cases of genuine need with tolerable efficiency and uniformity.

e. Conclusions

Compelling evidence of need and social desirability is necessary to justify a tax exemption for the retained earnings of small businesses. In some instances, an exemption might help small firms obtain an indispensable increase in capital with which to finance a healthy growth but without which a decline and ultimate failure would result. A part of the investment stimulated by the tax exemption would, however, merely replace investment in other firms. Moreover, it is possible that the internally financed investment so stimulated would be less efficiently allocated than other investment.

Exemption of retained earnings would discriminate in favor of one kind of savings as compared with other kinds. Equitable and efficient administration would be difficult, especially in the case of unincorporated enterprises.

8. Tax exemption for equity investors in small businesses

a. Nature and purpose of proposals

Proposals for tax exemption for equity investors in small businesses, like plans for exemption of retained earnings, have the aim of helping solve the capital problems of such enterprises. Proponents of such plans contend that a tax concession is desirable to overcome deterrents to investment in small businesses, such as

risk and high taxes, and to make such investment more attractive as compared with securities of large corporations and governments. The proposals that have been advanced have been intended to apply mainly or exclusively to small corporations, but much the same arguments pro and con might be used with respect to small unincorporated businesses.

There are two types of exemption proposals intended to give a tax incentive to equity investors in small business. The first type of proposal would exempt from the individual income tax amounts invested in small business through the purchase of certain types of securities. The second type of proposal would exempt from tax part or all of the income received on equity investments in small business. The second type would allow the taxpayer to be taxed at one-half the effective rate applicable to his total income on the amount of dividends received on new equity issues. 1/ A less specific proposal of this type calls for exemption of some unspecified percentage of the return on equity investments in small business. 2/ Another proposal would provide for issuance of 5-year tax exemption certificates to investors in common stock of corporations with equity capital not in excess of $20,000. 3/ It is not clear whether the certificates issued under this proposal would provide tax exemption only for the amount invested or for earnings on the investment, or both. Another proposal would partly or wholly exempt dividends received from investment companies investing in the securities of small business. This suggestion was made in conjunction with a proposal to exempt the investment companies themselves from the corporate income tax. 4/

1/ Louis H. Kimmel, Postwar Tax Policy and Business Expenditure, Pamphlet No. 53, Brookings Institution (Washington, 1943), p. 33.

2/ Statement of Charles C. Fichtner, Hearings before the Senate Special Committee to Study and Survey Problems of Small Business Enterprises, op. cit., p. 789, also referred to in American Small Business, Senate Report No. 12, 78th Congress, 1st Session, op. cit., p. 11.

3/ Letter of Representative Patman to Representative Doughton, op. cit.

4/ Elisha M. Friedman in testimony before the House Small Business Committee suggested that stockholders of such investment companies be exempt from normal tax on dividends received, Hearings, op.cit., p. 172.

b. Economic considerations

It is usually argued that the primary need of small business is more equity capital rather than more borrowed capital or credit. Certainly excessive fixed commitments arising out of borrowing endanger any business. However, some questions have been raised about the appropriateness of equity issues for small corporations and the willingness of the small businessman to accept new equity capital. Revised bankruptcy and reorganization laws have facilitated readjustment in cases where credit obligations cannot be met. Many owners of small business are reluctant to cede control over their firms to acquire equity capital and prefer long-term loans. 1/ If loss of control to absentee owners is the price of new equity capital, small business may lose many of its unique advantages.

Considerations with respect to the effect of tax exemption for investors on the volume of investment in small businesses and in the whole economy are much the same as those with respect to tax exemption for retained earnings of small businesses. The plans would probably somewhat stimulate investment in the particular firms benefited, but it is less certain that they would materially increase total investment. The exemption plans would introduce a new factor into the allocation of investment among different types of enterprises, and it is not clear that the resulting allocation would be more efficient than the present one. There is danger that wasteful expansion of some businesses would be encouraged at the expense of others.

c. Equity considerations

The equity questions raised by proposals to exempt certain kinds of investments or their proceeds from individual income tax are similar to those with respect to proposals for special tax treatment for retained earnings of small businesses, discussed in an earlier section. These include discrimination among types of savings and savers and among different types of businesses.

d. Administrative considerations

One administrative problem in connection with a plan to provide tax exemptions for equity investors would relate to the definition of equity capital. Equity capital is not a clear and unambiguous

1/ Walter C. Louchheim, "The Problem of Long-Term and Equity Capital," Law and Contemporary Problems, Vol. XI (Summer-Autumn, 1945); Butters and Lintner, Effect of Federal Taxes on Growing Enterprises.

term. Corporate securities cover a whole range of types of claims on earnings and assets, and it is often hard to draw a fixed line between equity and borrowed capital. Probably the most feasible distinction would turn on the question whether the return on the securities was deductible for tax purposes by the corporation paying it. However, the present difference in tax treatment of interest and dividends paid has often been attacked as based on legalistic rather than real economic differences in security issues.

To prevent wholesale tax avoidance it would be necessary to try to make sure that funds obtained from equity investors were used for legitimate business purposes. Otherwise, some small corporations might merely invest funds in securities or extraneous activities on behalf of individuals in order to allow them to take advantage of the tax exemption. Supervision to prevent such malpractices would be complicated and would require the Commissioner to use a high degree of judgment. As in the case of the other exemption plans, an especially difficult problem would arise if the exemption were extended to investors in proprietorships and partnerships as well as corporations.

e. Conclusions

The considerations with respect to tax exemption for equity investors in small businesses are much the same as with respect to exemption of retained earnings of small business. The exemptions might somewhat increase investment in eligible firms, but a part of this increase would undoubtedly merely replace other investment. The tax exemption would introduce a new factor into the allocation of investment, a factor not related to technological efficiency or market demand. The exemption would raise the equity problem of discrimination in favor of one kind of savings and investment as compared with others. There would be administrative problems in defining equity capital and in preventing abuse of the exemption for the purpose of tax avoidance.

9. Tax exemption for new small businesses for a limited period of years

a. Nature of proposals

There have been a number of proposals for tax exemption for new small businesses for a limited period of years. 1/ Most of these proposals are little more than endorsements of the idea of partial or complete tax exemption for new firms for the first few years of their life. Details of possible plans are usually not provided, nor do their sponsors usually present any extensive analysis of the purposes and probable results of their proposals. 2/ The present discussion relates only to exemption from net income taxes.

1/ See, for examples: Kimmel, Postwar Tax Policy and Business Expansion, op. cit., p. 17; Harold M. Groves, Production, Jobs and Taxes (New York, 1944), pp. 44-45; and Postwar Taxation and Economic Progress (New York, 1946), pp. 102-105; Frank D. Graham, Social Goals and Economic Institutions, quoted by Rudolph L. Weissman, Small Business and Venture Capital (New York, 1945), p. 158; testimony of Jules Eschner, Treasurer, Smaller Business of America, Inc., Cleveland, Ohio, Hearings of the House Small Business Committee, p. 750; testimony of S. Abbot Smith, ibid., p. 911; H. R. 365, 79th Congress, 1st Session, 1945 (Mr. Buffett).

2/ Two of the proposals that have been spelled out in more-than-average detail are those of Representative Buffett (H. R. 365, 79th Congress, 1st Session, 1945) and Lewis H. Kimmel (op. cit.). Representative Buffett's bill, which was addressed only to the period of immediate postwar adjustment, covered income and excess-profits taxes, and payroll, capital stock, and declared-value excess-profits taxes. The exemption was for only the first 3½ years of life of new independent corporations with invested capital (including borrowed capital) not in excess of $100,000. Dividends of exempt corporations would have been limited to 6 percent per year; salaries would have been required to be reasonable; and payments on leases or other contracts could not have been contingent upon income of the corporation. Mr. Kimmel recommended that new manufacturing corporations be exempt from corporate surtax for the first three years of their life and be subject to only one-half the regular rate for the next two years. (The corporate surtax proposed by Kimmel would be only 5 to 10 percent; op. cit., p. 14.) He mentioned certain criteria intended to identify genuinely new manufacturing corporations.

b. Economic considerations

The economic effectiveness of the exemption of new small businesses would depend mainly on the amount of investment that is stimulated. Tax exemption may stimulate investment through its effects either on incentives or on available investment funds. Moreover, any stimulation may be reflected mainly in an increase in the number of new firms that are begun or in an increase in the amount of investment in firms that would have been in existence in the absence of the tax exemption.

Exemption from income tax would leave new firms that were profitable during the first years of their lives a larger net return than would be possible if they were subject to regular taxes. This might improve the incentive to invest in new business enterprises and change the relative attractiveness of investing in new and old businesses. It is clear, however, that exemption from income tax would not change an unprofitable venture into a profitable one. The temporary tax exemption would have its greatest appeal in fields that promise large profits at the outset and in which the future is highly uncertain. These in many cases would be short-run ventures intended to exploit some temporary market. In such cases, however, it seems likely that the exact size of the net return would be so speculative that a temporary exemption from income tax would not greatly influence decisions to invest, unless the tax from which the exemption was made were very high. Entrepreneurs and investors in such new undertakings are likely to be people of optimism and enthusiasm, who will visualize the new business in such glowing terms that profit prospects will not be greatly dimmed by an ordinary income tax, provided all costs can be deducted from taxable income.

In other, probably more typical, cases, investors in new businesses must look forward to a number of years of developmental work before sizable profits can be expected. In such cases a temporary exemption from income tax would have little significance. Unfortunately, there appears to be no adequate statistical information on the profits records of new businesses. Even if such information were available, there would be no way of knowing how many investors go into new businesses with the expectation of realizing no profits for the first few years. Obviously, the significance of tax exemption would depend to some extent on the number of years of exemption allowed.

It appears that a temporary income tax exemption would be of relatively little importance in cases where several years of losses or very low profits were expected.

It has been contended that tax considerations are seldom of dominant importance in the foundation of new firms and original investment in them. This may be true despite the fact that the expectation of ultimate profits is an indispensable element in the inducement to invest in new businesses. 1/

A temporary tax exemption might encourage investment in new enterprises by permitting recovery of capital more rapidly than is possible with normal depreciation methods. This objective, however, could probably be better achieved by an accelerated depreciation plan of the type that has been discussed in an earlier section. 2/

1/ Butters and Lintner summarize their conclusions from a study of a number of new and growing business enterprises as follows:
"1. Tax considerations seldom dominate decisions to organize small, independent enterprises.
"2. In particular, taxes typically are given little conscious consideration by the individuals actually responsible for the organization of new enterprises.
"3. Moreover, taxes generally appear to have relatively little effect on the decisions of outsiders to invest in new companies during the very early stages of their development. There is some evidence to indicate that outsiders usually are not interested in a new undertaking until a substantial amount of development work has been successfully completed.
"4. At a later stage of development, however, the high individual surtax rates in combination with the very favorable treatment accorded to capital gains by the present tax law frequently act as a positive stimulant to investments in new enterprises which offer prospects of large capital gains.
"5. In one respect, personal income taxes frequently have an important, though indirect, bearing on the formation and early progress of new enterprises. Income taxes restrict the amount of personal funds available to the prospective organizers of new businesses; they may thereby delay or prevent the organization of new enterprises." Effect of Federal Taxes on Growing Enterprises, p. 13.

2/ See Section II, A. 4.

Retained earnings are an especially important source of capital for new small firms. A temporary tax exemption would increase the amount of funds at the disposal of profitable new firms. One argument that has been made in favor of such a tax exemption is that new firms should be given the same opportunity of growing from internal funds as was open to their competitors, which were established at an earlier date when income tax rates were low. If the primary purpose of tax exemption were to increase funds available to small, new businesses, it would be reasonable to restrict the exemption to retained profits. The exemption would, of course, benefit only those firms that realized profits.

A tax exemption for new small businesses might introduce an additional element of instability into the business situation. The exemption would offer a special incentive to the establishment of new firms and to the abandonment of existing businesses. It would offer opportunities to promoters to establish new enterprises with a view to early sale rather than long-range opportunities.

c. Equity considerations

In common with the other exemption schemes already discussed, tax exemption for new small businesses raises fundamental equity problems of discrimination against those not eligible for the exemption. The exemption has been defended on the grounds that new small businesses are of vital social importance and that tax exemption is desirable to compensate for disadvantages under which new firms operate. The validity of these arguments is largely a matter of individual judgment. It should be recalled, however, there has been a rapid increase in the small business population within the last two years, despite the lack of any special tax concessions.

d. Administrative considerations

The only difficult administrative problem under a program for exempting small, new businesses from income taxes would be to identify such firms. This problem, however, would be a very difficult one. Obviously, a new incorporation or formation of a new partnership would not be satisfactory proof of the establishment of a genuinely new business enterprise. The firm, although legally new, might be economically a continuation of an old business. On the other hand, some economically new business enterprises are undertaken by old firms without any change of legal identity. A type of interpretative problem that would often arise would relate to the establishment of

new units or new departments in an old business. When a retailer opens a second store at a new location in a different section of the city, has he established a new business? If the answer to this question is yes, would he form a new business if he merely added a new department at his old location?

The difficulties of defining a new business unit would be especially great in fields such as retailing and agriculture. These difficulties have led some to recommend restricting any tax exemption to new corporations in the manufacturing field. 1/ Such a limitation would somewhat simplify the problem, but difficulties would be met even in the manufacturing field. Moreover, restriction of the exemption to manufacturing corporations would seem to be unwarranted favoritism. Tests that would deny the exemption to all old businesses that had merely changed their form would be likely to rule out some genuinely new businesses. 2/

The difficulties of identifying genuinely new, small businesses would be so great that administration of the statute would require a great deal of discretion and might well lead both to arbitrary findings and to disputes.

In administering the exemption for new small businesses, it would appear to be necessary to require owners of the exempt enterprises to pay themselves reasonable salaries for their services. The exemption would presumably be intended to cover only the business income and not to permit individuals to escape personal taxes on their earnings. The determination of reasonable compensation is always a difficult problem,

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1/ Kimmel, op. cit.; Groves, Production, Jobs and Taxes. Groves, however, has reconsidered his earlier proposal and now suggests that the exemption be extended to retained earnings of new businesses in all industries. Postwar Taxation and Economic Progress, p. 103.

2/ Kimmel, who does try to lay down some tests, seems to be too strict. He says: "This exemption should be limited to strictly new enterprises. The fact that a new manufacturing corporation had been established could not be accepted as evidence of eligibility, since such a company might represent a consolidation of two or more going concerns. To be eligible, a new company would have to be able to meet one of three tests; (1) operation of a newly constructed plant or plants; (2) operation of a plant which had not previously been used for manufacturing; or (3) operation of an abandoned or dormant plant which had not been used for manufacturing for a period of something like three years." Op. cit., p. 17.

but it would be accentuated under an exemption plan inasmuch as the increase in profits resulting from payment of inadequate compensation would be free of tax. Similar difficulties would arise with respect to depreciation and other deductions.

e. Conclusions

A temporary tax exemption for small new businesses would probably somewhat stimulate investment in such firms because it would increase the possible rate of return and the amount of capital available from reinvested earnings. Exemption from income tax, however, is likely to be a factor of secondary importance in the case of businesses intended to exploit some temporary market which holds promise of extraordinary profits even after tax or where an initial period of very low profits or losses is anticipated. Temporary tax exemption would permit quicker recovery of capital out of earnings, but this objective could be achieved more efficiently by accelerated depreciation. The tax exemption would be a factor making for instability in the small business field and might well stimulate an uneconomic turnover of small establishments.

The tax exemption would raise the equity problem of discrimination against established firms and other taxpayers. There would also be an administrative problem relating to the proper definition of a new business. It would be hard to deny exemptions in the case of mere split-ups and reorganizations without at the same time excluding some genuinely new undertakings.

III. Choice among types of tax measures for the benefit of small business

This report has dealt mainly with certain special tax measures that have been proposed for the special benefit of small business. With the exception of liberalization of opportunities for offsetting operating losses against taxable income, all of the measures discussed would apply primarily or exclusively to small businesses. The assumption underlying all of the proposals is that some tax revisions are desirable to assure the healthy growth of small business. This assumption is, of course, subject to debate. There is, however, ample evidence that small business suffers from certain handicaps and competitive disadvantages. It is therefore appropriate to examine the tax system to determine to what extent it may accentuate the difficulties of small business and to what extent tax revisions may properly be used to further the national policy with respect to small business.

If it is decided that some tax revisions are desirable in the interests of small business, there remains a basic policy issue of choice between general and special measures for the benefit of small business. Choice between general and special measures depends both on the detailed objective sought and the effectiveness of different kinds of measures. Presumably, those who wish merely to make sure that the tax system does not discriminate against small business would favor reforms of general application in preference to special measures, provided the general reforms were considered effective. On the other hand, those who wish to use the tax system to compensate for non-tax handicaps of small business would probably expect to do so by special, rather than general, measures. Conceivably, of course, some measures might be formally general but in actual application restricted to small business.

The most important condition to the prosperity of all businesses, small and large, is an economic system operating at high and rising levels of production. For this reason, the most important contribution that the tax system can make to the healthy growth of small as well as large business is through general measures that improve the equity of the present system and minimize any adverse effects on investment and consumer demand. 1/

General tax revisions are likely to raise fewer problems of equity and administration than are many special measures for small business. Well-conceived general tax revisions would also avoid the undesirable collateral economic effects that might be associated with many of the special measures that have been advanced for the benefit of small business.

1/ Howard R. Bowen has stated this view as follows: "The gain to be realized by small business from a tax system which promotes high-level production far surpasses any advantage to be derived from special tax adjustments designed specifically in the interests of small business." "The Taxation of Small Business," Proceedings of the National Tax Association, 1946, p. 394. Harold M. Groves expressed the same point of view as follows: "Many of the improvements in the tax system recommended primarily for other reasons may also be supported as aids to small business . . . . It seems highly probable that a sensible and well-balanced tax system is the best promotion government can give to business, both big and small." Postwar Taxation and Economic Progress, pp. 101-102.

Despite the pre-eminent importance of general tax revisions, it may be desirable to give consideration to certain measures designed especially for small business. Since nearly all such measures would result in some loss of revenue, they must be evaluated in the light of alternative tax reductions and expenditure policies.

In choosing among various special measures, the soundest approach would appear to be to begin with a careful consideration of measures intended to refine or improve the tax base and rate structure. Especially deserving of consideration in this category are changes in the method and extent of graduation of the corporate income tax, improvements in loss offsets, and limited accelerated depreciation. Then attention might be given to measures intended to reduce inequalities in taxes on incorporated and unincorporated small businesses. Of the two measures of this type discussed in this report, the partnership method for certain types of corporations is the more firmly grounded on recognized principles of tax equity. The various tax exemption proposals for the benefit of small business are open to grave question on grounds of equity. They raise most emphatically the issue of discrimination among taxpayers and are likely to be subject to abuses. In connection with the exemption proposals, special attention must be given to the possibility of uneconomic distortion of the business structure and allocation of investment.

APPENDIX A

Definitions of Small Business

A. Variety of definitions of small business

Many definitions of small business have been used. These definitions differ greatly both as to measures adopted and as to interpretation of particular measures.

Differences in usage extend beyond the matter of size classification to the question of what a business unit is. Most often, the business unit considered is an individual firm, although for many purposes firms that are legally separate but under the same or substantially the same ownership and/or management are considered a single business unit. However, investigators dealing with problems of technological efficiency have often concentrated on individual plants or establishments as the unit of size, without regard to the number of units under the control of a single top management or under common ownership. 1/ Census data likewise are for plants or establishments rather than firms.

1. Quantitative measures of size

a. Assets

One of the more common measures of size is the total assets of a business. When total assets are used as the measure, $250,000 appears to be the upper limit most frequently mentioned for a small business. 2/ Some classifications of small business, however, run up to total assets as large as $1 million. 3/

1/ See T.N.E.C. Monograph No. 27, The Structure of Industry (76th Congress, 3rd Session, Senate Committee Print, 1941), p. 1; Theodore N. Beckman, "Large versus Small Business After the War," American Economic Review, Vol. XXXIV (March, 1944, supplement), p.95.

2/ See T.N.E.C. Monograph No. 17, Problems of Small Business (76th Congress, 3rd Session, Senate Committee Print, 1941), p. 283; Beckman, op. cit., p. 95; Rudolph L. Weissman, Small Business and Venture Capital (New York, 1945), p. 9; Charles L. Merwin, Financing Small Corporations (New York, 1942), p. 8.

3/ Smaller War Plants Corporation, 19th Bimonthly Report to Congress (covering June and July, 1945), p. 30. Howard R. Bowen has defined a small business as "one which has capital of less than about a million dollars." "Taxation of Small Business," Proceedings of the National Tax Association, 1946, p. 394.

b. Net worth or equity capital

A related measure, which is much less commonly used than total assets, is net worth or equity capital. One student has suggested $100,000 net worth as a possible upper limit in the definition of a small business. 1/ A bill to aid in financing small business, which was introduced in the 78th Congress, would have provided assistance to companies with equity capital not in excess of $1,000,000. 2/

c. Annual volume of business

Another measure of size is the annual volume of business, as indicated by sales, receipts from operations, or value of product. There is, however, a wide range of differences in definitions based on this standard. Without specifying the industry, one definition identifies a small business as one with an annual product valued at less than $250,000. 3/ Another definition of small business suggests an annual business volume of $1,000,000 as an upper limit. 4/

The Department of Commerce definitions, which are widely used, set different standards for retailing and wholesaling. According to the Commerce definitions, a retail store or service establishment is small if its annual net sales or receipts from operations are less than $50,000. A small wholesaler is one with annual net sales of less than $200,000. 5/ Another set of definitions using the same approach has identified a small retail, amusement, service, or construction company as one with annual net sales or receipts from operation of less than $250,000, and a small wholesaler as one with annual net sales of less than $1,000,000. 6/

1/ Beckman, op. cit., p. 95.
2/ S. 1777, 78th Congress, 2nd Session (March 14, 1944), Mr. Taft.
3/ T.N.E.C. Monograph No. 17, op. cit., p. 285.
4/ Beckman, op. cit., p. 95.
5/ Jesse H. Jones, "The Nation's Need for Small Business" (reprinted from New York Times, March 28, 1943), Department of Commerce, Bureau of Foreign and Domestic Commerce, Small Business--a National Asset, Economic Series, No. 24 (July, 1943), p. 2.
6/ These definitions were included in two bills introduced in the 78th Congress providing for the transformation of the Smaller War Plants Corporation into a Small Business Corporation to provide loans and other assistance to small business. H.R. 4801, 78th Congress, 2nd Session (May 12, 1944), Mr. Robinson; S. 1913, 78th Congress, 2nd Session (May 12, 1944), Mr. Murray.

d. Net income

Net income is a fourth financial measure of size. This standard has seldom been suggested as the ideal basis of definition by investigators and others concerned with small business. With minor exceptions, however, it is the basis for special income-tax treatment for small corporations under Federal statutes. 1/ Income from unincorporated business has always been subject to the regular graduated individual rates, after allowance of personal exemptions, credit for dependents, and deductions. Moreover, the revenue acts providing for exemption or reduced rates for corporate net incomes below a certain size contain an implicit definition of a small corporation. In recent years, corporate net incomes of less than $50,000 have been taxed at reduced rates.

e. Number of employees

One of the most widely used measures of business size is the number of employees. General definitions of small business based on this measure range all the way from a firm with less than 20 workers 2/ to a firm with less than 500 employees. 3/ Definitions lying between the extremes are less than 50 employees, 4/ less than 100, 5/ and less than 250 employees. 6/ The Department of Commerce uses 100 employees or less as the identifying mark of a small manufacturing establishment, whereas it bases its definition of small retail, service, and wholesale establishments on sales. 7/ An official of Dun & Bradstreet has suggested that a small retail store is one that employs less than three people, including the proprietor and members of his family. 8/

1/ An exception is the treatment of mutual insurance companies other than life or marine. Those with gross receipts of $75,000 or less are exempt (Internal Revenue Code, Section 101(11)) and those with gross receipts of between $75,000 and $125,000 are subject to a special notch rate (Internal Revenue Code, Section 207(a)(4)).

2/ T.N.E.C. Monograph No. 17, op. cit., pp. 284-285.

3/ Smaller War Plants Corporation, 18th Bimonthly Report to Congress (April and May, 1945) p. 3; H.R. 3509, 78th Congress, 1st Session (October 21, 1943), Mr. Patman; and the companion bill, S. 1470, 78th Congress, 1st Session (October 21, 1943), Mr. Murray; S. J. Res. 46, 78th Congress, 1st Session (March 30, 1942), Mr. Stewart. Two other bills introduced in the 78th Congress, 2nd Session, defined a small manufacturing company as one with less than 500 employees but used other definitions for other industries -- H.R. 4801 and S. 1913, previously mentioned.

4/ Donald W. Paden, "Industrial Concentration of Employment," Survey of Current Business, April, 1945, p. 10.

5/ Weissman, op. cit., p. 9.

6/ Beckman, op. cit., p. 95.

7/ Commerce, Economic Series, No. 24, op. cit., p. 2.

8/ Hearings before the Special Committee to Study and Survey Problems of Small Business Enterprises, U. S. Senate, 77th Congress, 2nd Session, Part 15 (February 23, 1943), p. 2125.

2. Relative measures of size

Some investigators make no effort to formulate a general definition of small business, but hold that a definition must be relative to the context of discussion and must vary from industry to industry. This view is given a degree of recognition by those who use different definitions for small business in the fields of manufacturing, wholesaling, and retailing. The Federal Trade Commission, however, has extended the principle and set up different definitions of small companies in the fields of cement manufacturing, steel, petroleum, sugar, etc. In the study of the relative efficiency of large, medium, and small business, which it carried out for the T.N.E.C., the Commission arrayed plants and companies in order of size as measured by quantity of production or size of investment and then drew the line between size groups where a considerable break in the series was noted. An attempt was made to have the largest corporation in the small group considerably smaller than the smallest medium-sized corporation. 1/

One historical study defined small business as the smallest 75 percent of firms or establishments, as measured by assets, net income, or employment. 2/

3. Qualitative definitions of small business

Small business is often identified by the qualities it is assumed to possess rather than by any absolute or relative qualitative measure of size. Thus, T.N.E.C. Monograph No. 17 states:

> "The qualities implicit in small business are those of the self-determined or independent owner-management. The typical small business unit is both owned and directly operated by its active proprietor or proprietors, with no overhead affiliations or control . . . The qualities of small business are seen most clearly in the simple one-man proprietorships, but they characterize the small and medium-sized business partnerships and the smaller 'closely held' business corporations as well." 3/

1/ T.N.E.C. Monograph No. 13, Relative Efficiency of Large, Medium-sized and Small Business (76th Congress, 2nd Session, Senate Committee Print, 1941), p. 16. J. Keith Butters and John Lintner in Effect of Federal Taxes on Growing Enterprises (Boston, 1945), pp. 8-9, stress the competitive aspect of size: "The terms small and large of necessity have different meanings in different contexts. A $25 million company may be small in competition with a billion dollar company; a company with a capital of $500,000 may be large in comparison with smaller competitors."

2/ Howard R. Bowen, "Trends in the Business Population," Survey of Current Business, March, 1944, pp. 8-13.

3/ T.N.E.C. Monograph No. 17, op. cit., p. 247.

In this same vein, but apparently with a more elastic definition in mind, Senator Murray, Chairman of a Senate Special Committee to Study and Survey the Problems of Small Business Enterprises, declared, "I have always considered a concern small if it is free and independent and doesn't spread over a number of States, with branches throughout the country." 1/

Another definition, based on the premise that small business is as small business does, proposes to identify small business by one of the problems it faces. "A working definition of small business which would also cover new business" would, according to one writer, include for purposes of discussion "any business established or projected which either cannot obtain capital funds at all or can obtain them only at exorbitant rates in the capital markets." Further, "A similar definitory formula could be based on differential rates for commercial loans as between large, and small or new business." 2/

B. Selection of a definition of small business for tax purposes

1. Relation of definition to purposes

A definition of small business suitable either for use in a tax law or for research on the tax problems of small business should meet fairly rigid requirements. The character of the definition that is appropriate for tax purposes is conditioned by the objectives of any special tax legislation considered for small business. If the purpose is to compensate for certain disadvantages and disabilities of small business, the appropriate definition of smallness will be a measure that includes the area where these problems are typically acute enough to be considered to need correction and as little additional area as possible. If the purpose is to offer special stimulation to the development of small businesses because they are believed to offer important social and economic advantages, the appropriate definition of smallness must try to delimit the area of these peculiar advantages.

1/ "Problems of American Small Business," Hearings before the Committee, 77th Congress, 2nd Session, Part 2 (March 5, 1942), p. 438.

2/ Walter C. Louchheim, "The Problem of Long Term and Equity Capital," Law and Contemporary Problems, Vol. XI (Summer-Autumn, 1945), p. 263.

2. Criteria of a satisfactory tax definition

a. Objectivity

Any definition of smallness for purposes of tax legislation or for study showing the need for, and soundness of, possible legislation should be based on an objective measure of size. This requires a quantitative rather than a qualitative standard. The identification of smallness may have to be based on an essentially arbitrary definition, but it should not be a matter of individual judgement.

b. Simplicity

Simple and easily available measures are, of course, preferable. This argues for the superiority of a definition based on gross or net income, in preference to such measures as invested capital, assets, and number of employees.

c. Independent applicability

An acceptable definition for tax purposes should be one that can be applied to a single firm without the necessity of comparison with other firms. The definition will, of course, be formulated by examination of a large group of firms, but its application thereafter should not have to depend on data for other firms. This criterion bars purely relative standards of smallness and bigness.

d. Relation to tax base

There is an advantage in a definition of smallness measured either by the tax base or by some factor closely related to the base. If small business is to be taxed differently under an income tax than large business, there seems to be a presumption that smallness should be defined in terms of income.

Conceivably, the relation between the primary measure of size and net income might be dependable enough to warrant translation of one into the other. The indications are, however, that neither total assets nor gross sales (two of the most common measures of size) bear a uniform enough relation to net income to justify such a translation. As can be seen from Table 2, data for net-income corporations with total assets of less than $250,000 show for 1942 wide divergencies among industry groups in the relation between net income and total assets and gross

sales, and between gross sales and total assets. For example, in this asset class, in the manufacturing field, manufacturers of machinery except transportation equipment realized net income of 23 cents per $1 of total assets, or 11 cents per $1 of gross sales. Manufacturers of tobacco realized net income of 9 cents per $1 of total assets, or 4 cents per $1 of gross sales. Among net-income corporations with assets of less than $250,000, trade corporations as a group had gross sales (and receipts from operations) of $3.40 per $1 of total assets; manufacturing corporations, $2.73; service corporations, $1.85; and public utility corporations, $1.61.

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Table 2

Net Income Related to Total Assets and Gross Sales;
Gross Sales Related to Total Assets
Net Income Corporations with Total Assets of Less than $250,000, 1942

Industry group	Net income 1/ per $1 of total assets 2/	Net income 1/ per $1 of gross sales 3/ and gross receipts 4/	Gross sales 3/ per $1 of total assets 2/
All industrial groups	$ .12	$ .05	$ 2.17
Total mining and quarrying	.13	.08	1.53
Total manufacturing	.16	.06	2.73
Food and kindred products	.14	.04	3.65
Beverages	.21	.10	2.11
Tobacco	.09	.04	2.33
Cotton manufactures	.21	.07	3.19
Textile-mill products	.16	.05	3.03
Apparel and other fabrics	.13	.03	4.10
Leather and products	.13	.03	3.69
Rubber products	.21	.08	2.61
Lumber and timber	.16	.06	2.48
Furniture and finished lumber	.13	.05	2.54
Paper and allied products	.14	.06	2.40
Printing and publications industries	.11	.06	1.79
Chemical and allied products	.15	.07	2.20
Petroleum and coal	.17	.06	3.07
Stone, clay and glass products	.14	.08	1.80
Iron, steel and products	.23	.10	2.31
Non-ferrous metals and products	.20	.07	2.71
Electrical machinery	.21	.09	2.43
Machinery except transportation equipment	.23	.11	2.01
Automobiles and equipment	.18	.07	2.56
Transportation equipment except automobiles	.22	.10	2.25
Other machinery	.19	.07	2.53
Manufacturing not allocable	.19	.08	2.40
Total public utilities	.15	.10	1.61
Transportation	.18	.09	2.00
Communication	.13	.16	.81
Other public utilities	.06	.15	.43
Total trade	.12	.04	3.40
Total wholesale	.13	.03	4.50
Total retail	.12	.04	2.72
Total service	.15	.08	1.85
Total finance, insurance, etc.	.04	.56	.08
Construction	.17	.06	2.89
Total agriculture, forestry, etc.	.10	.11	.99

Footnotes on next page.

Table 2 -- Continued

Net Income Related to Total Assets and Gross Sales;
Gross Sales Related to Total Assets
Net Income Corporations with Total Assets of Less than $250,000, 1942

Source: Computed from Statistics of Income for 1942, Part 2, Table 6.

1/ The amount reported for declared-value excess-profits tax computation adjusted by excluding net operating loss deduction (items 31 and 27, respectively, p. 1, Form 1120).

2/ As of December 31, 1942. Adjustments are made in tabulating the data as follows: Reserves, when shown under liabilities, are used to reduce corresponding asset accounts, and "Total assets" and "Total liabilities" are decreased by the amount of such reserves and (2) a deficit in surplus, shown under assets, is transferred to liabilities, and "Total assets" and "Total liabilities" are decreased by the amount of the deficit.

3/ "Gross sales" consist of amounts received from goods, less returns and allowances, in transactions where inventories are an income-determining factor. For "Cost of goods sold," see "Deductions."

4/ "Gross receipts from operations" consist of amounts received from transactions in which inventories are not an income-determining factor. For "Cost of operations," see "Deductions."

APPENDIX B

Selected Statistics on the Relative Importance of Small Business

It appears that, on the basis of almost any of the definitions commonly used, small businesses account for a large majority of the number of firms and a sizable portion of production and employment.

1. Census data on small establishments, 1939

Table 3 indicates the relative importance in 1939 of establishments which are small business according to the composite definition of the Department of Commerce. 1/ These are manufacturing establishments with fewer than 100 employees, wholesale establishments with annual sales of less than $200,000, and retail and other establishments with annual sales or receipts of less than $50,000. In 1939, approximately nine-tenths or more of the establishments in each of the industry groups shown in Table 3 except wholesale trade were "small." In all seven industry groups, small business employed more than 40 percent of workers and active proprietors and accounted for more than one-third of the value of output or sales. Small businesses were most important in retail trade and service, but their employment and output were a substantial portion of the total in all of the industry groups shown.

2. Corporate income tax returns classified by size of assets, 1941

Table 4 classifies corporations submitting income tax returns with balance sheets for 1941 by size of total assets. The most usual general definition of smallness in terms of assets is a firm with less than $250,000 total assets. By this standard, a large majority of all corporations were small in 1941 in every major industry group. However, the preponderant amount of gross sales or receipts and of net income was realized by corporations with more than $250,000 of assets. Small corporations, as measured by assets, were relatively most important in service and in the unclassified group.

3. Corporate income tax returns with net income classified by size of net income, 1941

In Table 5 corporation income tax returns with net income for 1941 are classified by size of net income. In that year 90 percent of all corporate returns with net income showed less than $50,000 of net income, which is the present upper limit for the reduced income tax rates allowed small corporations. Yet these corporations realized less than 10 percent of the total net income reported by corporations with net income.

1/ Some ambiguity arises because it is not clear whether a small business should be thought of as a small establishment or a small firm.

Table 3

Importance of Small Establishments in Selected Industry Groups, 1939

Department of Commerce definitions 1/

(Money figures in thousands)

Industry group	Number of establishments			Number of personnel 2/			Value of output or sales		
	U.S. total	Small business	Percent small business	U.S. total	Small business	Percent small business	U.S. total	Small business	Percent small business
Manufacturing	184,230	168,814	91.6%	7,886,567	2,358,968	29.9%	$ 56,843,025	$17,366,698	30.6%
Wholesale trade	92,794	71,681	77.2	912,795	355,731	39.0	19,418,547	4,100,404	21.1
Retail trade	1,770,355	1,614,310	91.2	6,213,890	3,487,984	56.1	42,041,790	17,836,171	42.4
Service	646,028	637,585	98.7	1,754,538	1,294,724	73.8	3,420,417	2,241,709	65.5
Hotels	27,987	25,224	90.1	362,047	111,183	30.7	863,155	229,163	26.6
Construction	215,050	200,299	93.1	1,300,439	3/	30.2 3/	4,519,794	1,546,275	34.2
Amusement	44,917	40,351	89.8	257,200	145,641	56.6	998,079	332,837	33.4
Total	2,981,361	2,758,264	92.5	18,687,476	7,754,231	41.5	$128,104,807	$43,653,257	34.1

Treasury Department, Division of Tax Research

Source: Department of Commerce, Bureau of Census, Sixteenth Census of the United States, Census of Business, 1939.

1/ Small establishment is defined as follows: manufacturing, less than 100 employees; wholesale trade, annual net sales of less than $200,000; other industry groups, annual net sales or receipts from operations of less than $50,000.

2/ Including self-employed except in manufacturing. Number of employees plus number of active proprietors.

3/ Number of personnel not available. Percentage figure based on payroll breakdown.

Table 4

Corporation Returns in Selected Industry Groups
Classified by Size of Total Assets
1942

Industry group and total asset class	Number of returns 1/		Gross sales and receipts from operations		Net income or deficit 2/	
	Number	Percent of total	Amount (thousands)	Percent of total	Amount (thousands)	Percent of total
All industrial groups:						
0 -$ 50,000	196,642	51.3%	$ 9,139,039	4.4%	$ 131,600	.6%
50,000 - 100,000	58,338	15.2	7,494,350	3.6	270,020	1.2
100,000 - 250,000	57,365	14.9	14,251,622	7.0	728,137	3.2
250,000 and over	71,189	18.6	174,096,164	85.0	21,816,054	95.0
All classes	383,534	100.0	204,981,175	100.0	22,945,811	100.0
Mining and quarrying:						
0 -$ 50,000	3,127	41.0	95,248	2.5	-3,061	- .8
50,000 - 100,000	1,185	15.6	102,796	2.7	1,045	.3
100,000 - 250,000	1,347	17.7	233,822	6.1	8,654	2.2
250,000 and over	1,960	25.7	3,378,583	88.7	384,626	98.3
All classes	7,619	100.0	3,810,449	100.0	391,264	100.0
Manufacturing:						
0 -$ 50,000	32,063	42.0	2,009,824	1.7	29,072	.2
50,000 - 100,000	11,585	15.2	2,173,409	1.9	84,839	.6
100,000 - 250,000	13,104	17.2	4,984,895	4.3	296,031	2.2
250,000 and over	19,582	25.6	107,261,157	92.1	13,134,202	97.0
All classes	76,334	100.0	116,429,285	100.0	13,544,145	100.0
Public utilities:						
0 -$ 50,000	9,387	55.6	325,352	1.9	10,792	.4
50,000 - 100,000	2,239	13.3	253,792	1.4	16,180	.4
100,000 - 250,000	2,115	12.5	420,540	2.4	38,270	1.0
250,000 and over	3,132	18.6	16,596,273	94.3	3,556,761	98.2
All classes	16,873	100.0	17,595,957	100.0	3,622,003	100.0

Continued on next page

Table 4 (continued)
Corporation Returns in Selected Industry Groups
Classified by Size of Total Assets
1942

Industry group and total asset class	Number of returns 1/		Gross sales and receipts from operations		Net income or deficit 2/	
	Number	Percent of total	Amount (thousands)	Percent of total	Amount (thousands)	Percent of total
Wholesale trade:						
0 -$ 50,000	16,161	48.2 %	$ 1,757,537	6.8 %	$23,052	2.3 %
50,000 - 100,000	5,778	17.2	1,824,193	7.0	40,606	4.0
100,000 - 250,000	6,225	18.5	3,932,252	15.1	115,370	11.3
250,000 and over	5,413	16.1	18,520,631	71.1	840,587	82.4
All classes	33,577	100.0	26,034,613	100.0	1,019,615	100.0
Retail trade and trade not allocated:						
0 -$ 50,000	53,395	66.2	3,489,164	12.6	62,963	4.1
50,000 - 100,000	12,513	15.5	2,296,309	8.3	79,565	5.2
100,000 - 250,000	9,148	11.4	3,239,674	11.7	148,330	9.7
250,000 and over	5,532	6.9	18,741,091	67.4	1,235,537	81.0
All classes	80,588	100.0	27,766,238	100.0	1,526,396	100.0
Service:						
0 -$ 50,000	22,265	70.3	829,447	19.5	17,872	5.0
50,000 - 100,000	3,882	12.2	419,617	9.9	23,286	6.5
100,000 - 250,000	3,142	9.9	586,660	13.8	42,396	11.9
250,000 and over	2,403	7.6	2,421,187	56.8	273,162	76.6
All classes	31,692	100.0	4,256,911	100.0	356,716	100.0
Finance, etc.:						
0 -$ 50,000	47,152	41.1	129,471	3.6	-15,043	-.7
50,000 - 100,000	18,172	15.8	69,560	1.9	9,438	.5
100,000 - 250,000	19,290	16.8	117,549	3.3	32,156	1.5
250,000 and over	30,252	26.3	3,296,871	91.2	2,039,570	98.7
All classes	114,864	100.0	3,613,451	100.0	2,066,121	100.0

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Table 4 (concluded)

Corporation Returns in Selected Industry Groups
Classified by Size of Total Assets
1942

Industry group and total asset class	Number of returns 1/		Gross sales and receipts from operations		Net income or deficit 2/	
	Number	Percent of total	Amount (thousands)	Percent of total	Amount (thousands)	Percent of total
Construction:						
0 - $ 50,000	7,289	62.2%	$396,687	8.7%	$ 5,939	1.8%
50,000 - 100,000	1,487	12.7	282,059	6.2	11,213	3.3
100,000 - 250,000	1,552	13.2	594,757	13.1	34,385	10.2
250,000 and over	1,401	11.9	3,282,052	72.0	284,906	84.7
All classes	11,729	100.0	4,555,555	100.0	336,443	100.0
Agriculture, Forestry and Fisheries:						
0 -$ 50,000	2,846	48.3	84,139	11.4	531	.7
50,000 - 100,000	1,029	17.5	59,187	8.0	3,523	4.4
100,000 - 250,000	1,069	18.1	112,738	15.3	10,519	13.0
250,000 and over	949	16.1	480,747	65.3	66,168	81.9
All classes	5,893	100.0	736,811	100.0	80,741	100.0
Nature of business not allocable:						
0 - $ 50,000	2,957	67.8	22,169	12.2	- 518	- 21.9
50,000 - 100,000	468	10.7	13,427	7.4	327	13.8
100,000 - 250,000	373	8.5	28,735	15.8	2,023	85.5
250,000 and over	565	13.0	117,569	64.6	534	22.6
All classes	4,363	100.0	181,900	100.0	2,366	100.0

Treasury Department, Division of Tax Research

Source: Statistics of Income for 1942, Part 2, Table 6.

1/ With balance sheets.
2/ "Net income" or "deficit" is the amount reported for declared-value excess-profits tax computation adjusted by excluding net operating loss deduction.

Table 5

Corporation Returns with Net Income
Classified by Size of Net Income
1942

Net income class (thousands)	Number of returns 1/		Net income 2/	
	Number	Percent of total	Amount (thousands)	Percent of total
0 - $ 5	150,095	55.6%	$ 238,585	1.0%
$ 5 - 10	35,424	13.1	253,671	1.1
10 - 15	17,163	6.3	210,610	.9
15 - 20	10,523	3.9	182,621	.8
20 - 25	7,455	2.8	167,082	.7
25 - 50	17,465	6.5	615,433	2.5
50 and over	31,817	11.8	22,384,357	93.0
All classes	269,942	100.0	24,052,359	100.0

Treasury Department, Division of Tax Research

Source: Statistics of Income for 1942, Part 2, Table 7

1/ With net income.
2/ Net income is the amount reported for declared-value excess-profits tax computation adjusted by excluding net operating loss deduction.

4. Trends in the business population and relative position of small business, 1900-1946

In a study of available statistical data on trends in the business population and the relative importance of small business, which was published in March 1944, Howard R. Bowen summarized his conclusions as follows:

"Statistical evidence presented suggests the existence of four clearly defined periods in the history of the business population:

"(1) From 1900 to 1918, the number of business firms apparently increased more rapidly than the human population. No comprehensive data on the size structure are available for this period.

"(2) From 1918-29, the relative increase in number of business firms continued, but the proportion of the economy in the hands of very large firms increased rapidly.

"(3) During the period 1929-41, the number of firms declined abruptly up to 1933 and then increased very rapidly until, in 1941, the ratio between business firms and human population was greater than in 1929. The relative portion of the economy in the hands of small and large firms fluctuated during this period, with a probably slight gain for small business.

"(4) Since 1941, the number of firms has declined sharply. This decline ceased in the middle of 1943, however, and since then the number has remained about stationary. During the war period the growth of large business has been such that the proportion of the economy accounted for by small firms has apparently declined. These conclusions are subject to two important qualifications.

"First, it must be noted that the changes in the distribution of American business firms by size classes have not been violent. Throughout the entire period under study, the general pattern of size distribution has remained remarkably constant.

"Indeed, when the firms or establishments of the United States are classified by size on the basis of assets, net income, sales, or employment, the percentage of firms within each class remains approximately the same even over long periods of time. . . .

"Second, from the fact that the relative position in the economy of small business apparently declined during the periods before 1929 and since 1939, it must not be concluded that the absolute importance of small business also declined. In fact, during both periods, small business at least maintained its absolute level of activity.

"Third, the conclusions presented ignore possible increases in the economic power of large firms through various informal controls over smaller firms, e.g., financial control, price leadership, and control of dealer franchises. 1/"

Bowen used as his primary definition of small business the smallest 75 percent of firms or establishments as measured by assets, income, or employment.

Bowen noted that the apparent decline of small business during the war is partly attributable to the great expansion of heavy manufacturing which is normally characterized by large-scale production. Increased concentration of production appears to be a usual accompaniment of high-level economic activity because of the relatively greater importance of durable goods industries in such periods.

On the basis of his study, Bowen found "abundant evidence that small business is an institution of great vitality . . . ."
He thought it highly probable that a postwar resurgence of small business could be expected.

Data for the years 1944-1946 indicate that there has been a rapid increase in the number of firms in business. By mid-1946 the business population had surpassed the prewar peak. The number of firms in operation at selected dates has been estimated as follows: 2/

September 30, 1939	3,317	thousand
September 30, 1940	3,298	"
September 30, 1941	3,398	"
September 30, 1942	3,156	"
September 30, 1943	2,861	"
September 30, 1944	2,924	"
September 30, 1945	3,134	"
June 30, 1946	3,504	" (preliminary)

1/ Howard R. Bowen, "Trends in the Business Population," Survey of Current Business, March 1944, p. 13.
2/ Melville J. Ulmer, "The Postwar Business Population," Survey of Current Business, January 1947, p. 18.

As might be expected, the increase in the number of firms has been primarily among small businesses. More than 90 percent of the net increase in number of firms (excess of new businesses over discontinuance) during the years, 1944 and 1945, was in firms with three or fewer employees. During that period, the number of firms with 50 or more employees that discontinued business slightly exceeded the number of new businesses in this size group. 1/

1/ Donald W. Paden and Alice Nielson, "Recent Trends in the Business Population," Survey of Current Business, May 1946, p. 20.

Table 6

Cost of Flotation of Securities 1/
by Size of Issuer,
1938-1941

Assets of issuer (millions of dollars)	Cost 2/ as a percent of proceeds			
	1938	1939	1940	1941
A. Bonds				
Under 1	5.9	8.5	4.8	1.7
1 - 5	4.6	4.4	5.5	4.3
5 - 10	7.2	3.0	4.4	2.9
10 - 50	3.4	2.8	2.9	2.2
50 - 100	2.7	2.6	2.5	2.0
100 - 200	2.7	2.8	2.2	2.1
200 and over	2.1	2.1	2.1	1.2
B. Preferred stock				
Under 1	16.3	11.8	16.3	10.2
1 - 5	10.5	12.0	11.7	10.2
5 - 10	5.2	9.5	7.9	4.4
10 - 50	3.5	3.7	4.6	3.4
50 - 100	3.4	3.4	3.5	5.2
100 - 200	-	4.7	3.4	3.3
200 and over	2.3	2.6	-	2.3
C. Common stock				
Under 1	15.6	20.6	13.3	17.4
1 - 5	17.1	12.2	13.8	15.3
5 - 10	10.0	11.2	5.6	5.8
10 - 50	1.7	5.1	7.0	4.5
50 - 100	1.0	3.0	1.6	2.7
100 - 200	-	2.3	5.3	-
200 and over	-	-	-	0.7

Treasury Department, Division of Tax Research

Source: Securities and Exchange Commission, Research and Statistics Section of the Trading and Exchange Division, Cost of Flotation for Registered Securities, 1938-1939 (Washington, 1941); SEC Statistical Series Releases No. 572 (June 6, 1941) and No. 715 (June 18, 1942).

1/ Securities effectively registered under the Securities Act of 1933, proposed for sale by issuers, including securities proposed for sale through investment banking facilities and through other channels. Does not include securities "proposed for sale for account of others."

2/ Including both compensation to distributors and expenses.

Table 6 combines securities sold through investment bankers and those disposed of directly by the issuer or through other channels. In general, cost of flotation was higher for securities marketed through investment banking facilities than for securities of issuers of the same size marketed through other channels. A part of the variation among size classes and years is attributable to differences in the proportion of securities issued through investment bankers.

The SEC studies show that, even when small corporations can sell securities, the cost of flotation may be heavy enough to be a serious burden on outside financing.

B. Bank credit

1. Availability

There is considerable difference of opinion as to the availability of bank credit for small firms. Many small businessmen complain that they cannot get needed loans from banks at reasonable rates. But many bankers deny this contention. In 1939, the president of the First National Bank of Chicago testified, "My observation is that virtually no small business or medium-sized business which is entitled to credit either for a short time or a long time, and which can give reasonable assurances of repayment, fails to get it." 1/

Several surveys have indicated the existence of genuine unsatisfied credit and capital needs on the part of apparently sound small businesses. 2/ The widely quoted finding of one of these surveys, made during the depression, was: "That there exists a genuine unsatisfied demand for credit on the part of solvent borrowers, many of whom could make economically sound use of working capital." 3/ This report added,

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1/ Statement of Edward E. Brown, quoted by William L. Stoddard, "Small Business Wants Capital," Harvard Business Review, Vol. XVIII (Spring, 1940), p. 266. Mr. Brown, however, added that he believed that it has always been hard for small business to get risk capital and that it has probably become even harder in recent years, p. 269.

2/ Charles O. Hardy and Jacob Viner, Report on the Availability of Bank Credit in the Seventh Federal Reserve District (Report submitted to the Secretary of the Treasury, 1935); Department of Commerce, Survey of Reports of Credit and Capital Difficulties Submitted by Small Manufacturers (1935); Lewis H. Kimmel, The Availability of Bank Credit, 1933-1938 (National Industrial Conference Board, 1939).

3/ Hardy and Viner, op. cit., p. VI.

however, that this unsatisfied demand was considerably smaller than popularly believed, that the situation of many would-be borrowers was too precarious to justify ordinary loans, and that there was a larger unsatisfied demand for long-term working-capital credit than for one-turnover loans. 1/

Differences of opinion as to the adequacy of bank credit may be partly explained by the fact that different people have been discussing different kinds of credit and capital needs. Small businessmen often want either fixed capital or permanent working capital. Commercial banks, on the other hand, have been traditionally geared to making one-turnover or seasonal working-capital loans. Bankers were severely criticized for supplying capital for expansion during the 1920's by recurrent renewals. 2/

Beginning in the 1930's banks have begun to extend a significant amount of term loans. These loans have a maturity period that averages 5 years but that sometimes runs to 10 or 15 years. They are usually designed to be repaid from earnings. As such, they seem to be a type of loan that is much more attractive to small business than the traditional commercial loan. In the past, term loans by both banks and insurance companies appear to have been made mainly to large or medium-sized companies, usually to companies with assets over $1 million. 3/ However, term lending to smaller businesses appears to have become more widespread in recent years, as smaller banks have entered the field to a greater extent. As of November 20, 1946, 90 percent of the number of outstanding term loans of member banks of the Federal Reserve System were to businesses with total assets of less than $250,000. Term loans to businesses with assets of less than $250,000 accounted for about one-sixth of the total volume, whereas loans to borrowers with assets in excess of $5,000,000 were two-thirds of the total volume. A larger percentage of total bank credit was in the form of term loans in the case of very large businesses than in the case of small businesses. In the case of small borrowers, most term loans were secured, whereas in the case of large borrowers, the majority of term loans were unsecured. 4/

2. Interest rates

Small borrowers pay substantially higher interest rates for bank loans than large firms, which commonly borrow large amounts. Small

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1/ Ibid.

2/ Marshall D. Ketchum, "The Financial Problems of Small Business," Journal of Business, Vol. XVII (April, 1944), p. 84; Stoddard, op. cit.

3/ Donald Wilhelm, Jr., Credit Sources for Small Business (Department of Commerce, Economic Series No. 46, 1945), pp. 10-11.

4/ Duncan McC. Holthausen, "Term Lending to Business by Commercial Banks in 1946," Federal Reserve Bulletin, May, 1947, pp. 498-512.

firms on the average pay interest rates as much as three times the average paid by large firms. A Federal Reserve Survey of loans at member banks, as of November 20, 1946, found average interest rates on short- and long-term business loans as shown in Table 7.

The higher interest rates paid by small firms appear to be attributable in part to the fact that small firms typically borrow smaller amounts than large firms and that the costs of handling loans are a greater percentage of the principal for small loans than for large loans. This factor, however, is not the sole explanation of the higher interest rates paid by small firms. As Table 8 shows, small firms pay higher interest rates on loans of any given size than do large firms. This situation may be attributable to a belief on the part of banks that loans to small firms are more risky than loans to large firms.

C. Investment by private individuals

Although there is no statistical information on the subject, it is often assumed that a large part of the equity capital of small business in the past came from wealthy members of the local community. The role of such investors has been described as follows:

> "One of the principal sources of capital for the small enterprise has traditionally been some wealthy individual, often a retired businessman or professional man, who, because of close contact with the situation and with the promoter, is in a position to make a thorough analysis of the profit possibilities of the enterprise. He invests as much on the basis of the known character and capacity of the enterpriser as on the basis of the amount of the assets and the earnings record. He recognizes what he is doing as a speculation but is willing to take the risk in return for the possibility of large profits. It is generally agreed that the earlier activities of local wealthy individuals in supplying capital to local enterprises have continued but at a greatly diminished rate." 2/

The decrease in investments in small business by wealthy individuals has been attributed to the availability of alternative investments in securities of large corporations and of the Government, caution inspired by depression losses, and high tax rate. 3/

1/ "Survey of Commercial Loans at Member Banks," Federal Reserve Bulletin, August, 1942, p. 772, and "Interest Rates of Member Banks," Federal Reserve Bulletin, November, 1942, p. 1097.

2/ Ketchum, op.cit., p.90.

3/ Smaller War Plants Corporation, Taxation, (Economic Report, September, 1945), p.66; Ketchum, op.cit., p.90; Stoddard, op.cit., pp. 268-269; TNEC Monograph No. 17, Problems of Small Business, p. 262.

Table 7

Average Interest Rates on Short- and Long-term
Business Loans at Member Banks,
by Size of Borrower
November 20, 1946

Assets of borrower	Short-term 1/	Long-term 2/
(thousands of dollars)	(percent per annum)	
Under 50	5.1	5.4
50 - 250	4.2	4.4
250 - 750	3.4	4.0
750 - 5,000	2.7	3.2
5,000 and over	1.7	2.1
All borrowers 3/	3.0	2.8

Treasury Department, Division of Tax Research

Source: Federal Reserve Bulletin, July, 1947, p. 816.

1/ Maturity of one year or less.
2/ Maturity of more than one year.
3/ Includes rates paid on a small amount of loans unclassified by size of borrower.

Table 8

Average Interest Rates on Business Loans at Member Banks
by Size of Loan and Size of Borrower
November 20, 1946

Size of loan (thousands)	All borrowers	Assets of borrower (thousands of dollars)				
		Under 50	50-250	250-750	750-5,000	5,000 & over
		Interest rate (Percent per annum)				
Under $.5	7.3	7.4	6.0	5.5	5.0	
$.5 - 1	6.7	6.8	5.6	5.0	4.6	2.6
1 - 5	5.6	5.7	5.2	4.5	4.1	2.6
5 - 10	4.9	5.0	4.7	4.3	4.0	2.6
10 - 25	4.4	4.7	4.4	4.0	3.6	2.6
25 - 50	4.0	4.4	4.1	3.8	3.3	2.5
50 - 100	3.6	-	4.0	3.6	3.0	2.1
100 - 500	2.7	-	3.8	3.4	2.7	1.9
500 - 1,000	2.2	-	-	3.2	2.7	1.9
1,000 and over	2.0	-	-	-	2.8	1.9
All loans	2.9	5.2	4.2	3.5	2.8	1.9

Treasury Department, Division of Tax Research

Source: Federal Reserve Bulletin, July 1947, p. 807.

D. Other outside sources of funds

Other ourside sources of financing of some significance for small business are trade credit, accounts-receivable factors, private industrial development groups, and Government lending agencies. 1/ Among these, trade credit extended by suppliers of merchandise, raw materials, and equipment is especially important. 2/ In many cases, such credit represents in effect indirect use of bank credit and other sources of funds by small business. It appears, however, that trade credit is often relatively expensive, inflexible, and otherwise disadvantageous. Reliance on trade credit often restricts the choices of sources of supply open to small businesses and forces them to accept unattractive goods. Since small manufacturers, jobbers, and wholesalers themselves often lack adequate bank accommodations, the practice of trade-credit-financing of retailers may place such distributors at a competitive disadvantage. 3/

Government credit has been made available to small business in the form of direct loans from the Federal Reserve banks and direct and guaranteed loans by the Reconstruction Finance Corporation. During the war, the Smaller War Plants Corporation made loans to small manufacturers producing for war or essential civilian purposes. 4/ It appears that in the past the bulk of the funds lent by both the Federal Reserve banks and the R.F.C. have gone to large rather than small businesses. 5/

The Servicemen's Readjustment Act of 1944, as amended, known as the G.I. Bill of Rights, provides for Government guarantee of loans to veterans for purchase or construction of homes or for purchase of farm or business property. The guaranty for any one veteran is limited

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1/ Donald Wilhelm, Jr., "How Small Business Competes for Funds," Law and Contemporary Problems, Vol. XI, (Summer-Autumn, 1945), pp. 220-247; and the same author's, "Credit Sources for Small Business, op.cit.

2/ In 1939, 60.6 percent of all sales by service and limited function wholesalers were on credit of more than 10 days; and 65.4 percent of wholesale sales by manufacturers' branches were on similar terms. Bureau of the Census, Census of Business, Vol. II, Wholesale Trade, 1939, Table 6A, pp. 112 ff.

3/ Wilhelm, "How Small Business Competes for Funds," op. cit.

4/ Executive Order 9665, December 27, 1945, transferred the lending functions of the Smaller War Plants Corporation to the R.F.C.

5/ Wilhelm, "How Small Business Competes for Funds," op.cit. pp. 239-241.

to (1) $4,000 for real estate purposes, (2) $2,000 for non-real estate purposes, or (3) a prorated portion of either of these amounts for loans of both types or a combination thereof. No more than 50 percent of any loan may be guaranteed, and no more than $4,000 or guaranty may be made for one veteran. 1/

The Federal Housing Administration guarantees loans for the modernization and repair of commercial properties and for the construction of new small commercial buildings. Repair and modernization loans are limited to a maximum amount of $2,500 and loans for new commercial construction to a maximum of $3,000; the maximum term for both types of loans on commercial property is three years. 2/

E. Retained earnings

Earnings retained from operations are typically the most important source of funds for going businesses, especially for smaller businesses. Such internal sources of funds include both retained net earnings and accruals to such accounts as depreciation and depletion.

Table 9 indicates that small corporations as a group have ordinarily retained a considerably larger percentage of their net income after taxes than have larger corporations.

1/ See Veterans Administration, Guaranty or Insurance of Loans to Veterans, (1946); 38 U.S.C.A., sec.694(a).
2/ Wilhelm, Credit Sources for Small Business, p.28.

Table 9

Retained Net Earnings as a Percentage of Net Income After Taxes,
Corporations with Net Income, 1934-1943

Year	Asset classes (in thousands)									
	Under $50	$50-$100	$100-$250	$250-$500	$500-$1,000	$1,000-$5,000	$5,000-$10,000	$10,000-$50,000	$50,000 and over	All classes
1934	8.1 a/	57.1	52.6	45.5	34.9	25.8	28.5	3.5	13.9	19.7
1935	56.4	52.0	48.5	44.5	34.7	28.2	20.5	8.0	19.8	23.0
1936	35.8	28.4	23.8	22.7	25.8	25.9	22.3	15.6	4.9	15.1
1937	30.4	29.4	24.1	22.8	23.2	22.2	20.7	16.0	8.3	15.1
1938	50.6	54.8	48.3	39.3	37.8	29.5	23.7	16.8	7.3	19.2
1939	62.0	63.1	55.6	46.1	44.6	37.8	33.9	24.2	18.3	28.8
1940	62.2	59.2	56.4	51.2	50.1	44.3	39.0	30.1	22.3	33.2
1941	71.4	72.8	67.9	62.9	59.5	52.2	45.2	35.8	29.1	41.4
1942	78.7	76.4	71.5	66.3	62.8	58.9	56.6	51.4	49.5	54.6
1943	45.4	64.3	60.7	58.3	57.0	56.7	55.1	48.5	53.5	53.8

Treasury Department, Division of Tax Research

Source: Computed from Statistics of Income, annual volumes, 1932-1942. Press release No. S-122 for 1943.

a/ The low percentage for this year is attributable mainly to heavy dividend payments by small financial corporations. The estimated retained net earnings for nonfinancial corporations in this class are approximately 45 percent of net income after taxes.

APPENDIX D

History of Graduation of the Corporation Income Tax

Graduation in the corporate income tax was originally obtained by means of a specific exemption. Graduated rates were not introduced until 1935. The corporation excise tax of 1909 applied only to incomes of over $5,000. The exemption was eliminated in the 1913 act, apparently with little or no discussion of the reason for so doing at that time. An exemption of $2,000 was restored by the Act of 1918, presumably on the theory that corporations should have the same exemption as married individuals. In 1921, the exemption was restricted to corporations with incomes under $25,000, with a notch provision for incomes of slightly more than this amount. This provision remained unchanged until 1928.

In 1928, consideration was given to the possibility of allowing the partnership option for small corporations. As an alternative it was proposed to increase the exemption for incomes under $25,000 to $3,000, on the theory that it was desirable to give relief to corporations with small incomes rather than to small corporations as such. Consideration was also given at that time to a plan introduced by Representative Garner to graduate the corporate tax rates taxing incomes up to $7,000 at 5 percent, $7,000 to $12,000 at 7 percent, $12,000 to $15,000 at 9 percent, and all over $15,000 at 11½ percent. This graduation scheme was opposed by Chairman Green of the Ways and Means Committee, on the ground that graduation for corporations was "not logical." However, the bill as it passed the House included graduated rates. The graduated rates were eliminated (by a margin of one vote) in the Senate. The bill as finally enacted included the $3,000 vanishing exemption. This exemption was continued until 1932, when it was eliminated on the ground of revenue needs.

In June 1935, President Roosevelt in a message to Congress recommended graduation of the corporate tax rate from 10-3/4 percent to 16-3/4 percent, in place of the 13-3/4-percent rate then in effect. This graduation was desirable, he said, because the advantages and protection conferred by the Government upon corporations increased with their size, and because large corporations were better able to pay than small. 1/ Robert Jackson, then Assistant General Counsel

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1/ Message of the President to the Congress, June 19, 1935, Hearings before the Committee on Ways and Means, House of Representatives, 74th Congress, 1st Session, 1935, pp. 2-4.

of the Treasury, offered as additional arguments for graduation the contention that it would tend to stabilize the revenue, since the income of large corporations fluctuated less than that of small corporations, and the contention that large corporations were better able to anticipate and provide for the tax. 1/ The bill reported to the House adopted graduation "in principle" -- with a rate of 13-1/4 percent on incomes under $15,000, and 14-1/4 percent on the remainder. Graduation was thus limited because it was believed that the revenue loss from more extensive graduation would be too great. The Senate bill, however, provided graduation from 12-1/2 to 15-1/2 percent. As finally enacted, the rates were 12-1/2 percent on the first $2,000, 13 percent on the next $13,000, 14 percent on the next $25,000, and 15 percent on incomes over $40,000. These rates never became effective, being superseded by those of the Act of 1936, but the principle of graduation, and the brackets, were continued in the next two revenue acts.

The Revenue Act of 1938 introduced the notch into the graduation system. The Ways and Means Committee report recommended graduation of from 12-1/2 to 16 percent on incomes under $25,000, a notch rate of 32 percent and a general rate for incomes above the notch of 20 percent less 4 percent of dividends paid. The Senate report recommended a vanishing exemption instead: a flat rate of 18 percent with an exemption equal to 10 percent of the amount by which $25,000 exceeded income. As finally enacted, the House provisions for incomes under $25,000 were adopted, with a notch of 32 percent, and a general rule of 19 percent less (for 1938 and 1939) 2-1/2 percent of dividends paid.

Since 1938, the rates have been changed, but the method of graduation has not. Since the Revenue Act of 1942 the notch area has been net income of $25,000 to $50,000. Above $50,000 the full rates have applied to the whole net income.

1/ Hearings before the Senate Finance Committee on the Revenue Act of 1935, 74th Congress, 1st Session, 1935, pp. 209-213.

TREASURY DEPARTMENT
Washington

(The following address by Secretary Snyder before the Conference of Bank Correspondents of the First National Bank in St. Louis, at the Hotel Jefferson, St. Louis, Missouri, is scheduled for delivery at 6:45 p.m., C.S.T., Tuesday, November 4, 1947, and is for release at that time.)

The Treasury's responsibility in the management of our national finances is very great. This responsibility could not be effectively discharged without the support of every element of our American business life.

The entire banking fraternity has been especially cooperative in assisting the Government.

For that reason, I am happy that Walter Smith has asked me to talk to you here tonight. It gives me the occasion to express to you representatives of banking my personal appreciation, as well as that of the Treasury Department, for all of the effective help you have given us.

Banks and bankers played a notable part in our successful war financing, especially in the Savings Bonds program. What is most important, banks and bankers have continued that cooperation both in the encouragement of further sales of Bonds, and through acting as agents of the Treasury in handling bond redemptions.

In recent weeks, you have rendered an important service in connection with the redemption of Terminal Leave Bonds. Because of your wise counsel to ex-service men, such bond redemptions were considerably less than anticipated. You have shown the ex-service man the value of preserving terminal leave bonds as savings.

A further important assistance you render the Treasury is perhaps not so widely known. I refer to regulations for the reporting of large and unusual currency transactions through the Federal Reserve Banks. To many bankers this requirement, instituted as a part of our drive against tax evasion, may seem at times an unnecessary burden, since the results are not always immediately apparent. However, let me assure you that this specific help played a most important role in the $2,000,000,000 tax recovery this year, resulting from enforcement activities.

As bankers, you enjoy a high degree of leadership and influence among your customers and associates.

Your counsel is needed and appreciated by everybody. Our Treasury people especially have found it invaluable to consult regularly with representatives of banking, and your advice and assistance in meeting the problems that arise are of tremendous importance and help to us.

We shall continue to seek and welcome your cooperation.

I went to London recently to attend the annual meetings of the International Monetary Fund and the World Bank, at which representatives of 45 nations were present. I later visited the European continent. The contrast between our thriving economy here and the chaotic economic and financial conditions prevalent in so many lands was strikingly apparent and soberingly impressive to me.

I returned to this country with a firm conviction that the world today is in dire need of a strong America. For it remains for us to furnish the constructive leadership and the steady and wise guidance needed for world stability and world peace.

We must have a Nation strong financially and economically, strong in preparedness for essential and effective defense — strong in the discharge of our present-day responsibilities.

Tonight, I would like to review with you some elements of our strength, and some of the important issues before us.

Unfortunately, we do have many problems. We have our share of difficulties, for wars are destructive and leave a path of perplexities behind. But we know that, with vigor and with vision, and with that fortitude with which we have met vital problems in the past, we can find the necessary and proper solutions.

Today, there is no more important course of action in confronting the problems which face us, and the world, than to continue increasing production. During the war and succeeding years, American production forces did a phenomenal job, not only in supplying our own domestic and military needs, but in making an important contribution to our allies. Without this vast productive output we should now have problems far more serious than those actually confronting us.

We demonstrated in no uncertain manner, to ourselves and to the world, an astonishing capacity for production, a capacity which we must now utilize to the fullest extent.

I believe that we the people of the United States are fully determined to devote our leadership, our skills, our financial, physical, and natural resources towards a permanent peace and an economically stable world.

We have as a result of our forceful energy and determination attained a high level of prosperity in the two years since the war.

Briefly, some of the favorable factors in today's economic picture are these:

Our national income is averaging around 200 billion dollars.

Both farm and industrial production are near record peacetime levels. The Federal Reserve Board's latest adjusted index of industrial production showed 85% above the 1935-39 average.

Civilian employment is at the highest level in our history with over 60,000,000 workers on record.

Electric power output continues to reflect record consumption.

Steel production in the latter part of October rose to the highest level of the postwar period, slightly above 97 percent of capacity. On a tonnage basis, this is the highest peacetime output in the history of the industry.

Construction activity in recent months has displayed encouraging gains after lagging behind expectations earlier in the year.

One of our leading industrialists just made a thirty-two state survey of prospects for future business. He told me that the economists who accompanied him on the trip estimated that there was enough construction planning in sight to assure a prosperous period for at least five years.

It is not difficult to accept this estimate when we realize that in the past 5 years our population has been increased by an average of 600,000 families per annum, with over a million new families added in the past year, while our housing construction was drastically curtailed during the war years and has been at a low level since the building boom of the twenties. Our industrial replacement and expansion, our road building and our municipal construction can be added to the housing to form a tremendous backlog of business activity for the immediate future years. And when we think of the corollary demands to this construction program created in furnishings, equipment and accessories, we have a right to be encouraged.

There are many other fields in which peak high production is being recorded, but enough have been cited to establish definitely that we are living in a prosperous period.

In such an era of expansion toward a greater and more widening prosperity, we must be alert to strengthening our fiscal position both through the maintenance of a balanced budget and a debt reduction program.

Two urgent matters facing us at this time have caused the President to call a Special Session of the Congress.

These are, first; the steady and dangerous upward trend in living costs; and second, the question of foreign aid.

The continued upswing in the cost of living since mid-summer of 1946 is a most serious matter. If not checked this trend will certainly lead to grave consequences.

President Truman is preparing a message to the Congress offering suggestions for Congressional action. No matter what action the Congress takes, it is certain that we can go a long way toward meeting these problems if we constantly press for increased production of those goods which are still acutely short. It is also imperative that we exercise restraint and wisdom in our purchase of items in scarce supply.

Significantly, the necessity for foreign aid has been created by the slow economic recovery accentuated by the retarded productive machinery of many nations following the war. Certain countries have been unable to reach a level of production for exports to provide sufficient dollars for necessary purchases of sorely needed imports.

The basic objective of the program which the President will present to the Congress is to bring about the economic recovery of those European countries which are willing to cooperate on the basis outlined in Secretary Marshall's Harvard speech.

This economic recovery is to be achieved by the cooperative effort of all European participating countries and by the United States making available to such countries those necessary commodities and services which they cannot provide for themselves at this time.

Foreign aid is not to be given unconditionally as the United States will want to assure itself that the European participating countries are: first, making the most of their self help; and second, making the most effective use of U. S. aid.

In addition to the foregoing, however, there is the immediate and extremely acute need in many countries for food and fuel. Both the interim and long range aid programs dealing with foreign deficiencies and requirements will be taken up by the Congress shortly.

I would like to point out, with emphasis, the importance of an expanding international trade to this Nation's economy. The Government's policy has been one of consistent support of international efforts to accomplish this goal.

Particular attention is being directed at this time to increasing production abroad which will tend, through providing greater exports, to lessen the present scarcity of dollars.

I believe that over the long pull, operations of such organizations as the World Bank and Monetary Fund, and the International

Trade Organization will result in a wholesome and essential expansion of exchange of goods and services between nations.

However, so far as our domestic economy is concerned for the immediate shorter term, the demand for goods at home will generally serve to counterbalance any decline in the demand for goods for export.

Let me close by saying this: I would like to emphasize that a realistic appraisal of all elements in our economy, favorable as well as unfavorable, more than justifies optimism for the future -- for us as individuals and as a nation.

But, the continued efficient functioning of our free enterprise system in the face of present day problems calls for a high degree of statesmanship on the part of all leaders, in business, labor and Government.

This necessitates vigorous and intelligent preparation and execution. It puts emphasis as well upon high moral principles and calls for a spirit of unselfishness, of restraint, of fairness in our dealings with each other.

We must leave no doubt in the minds of any of the peoples of the world that we Americans intend to keep the United States progressively strong -- because we are resolute in our determination to achieve the goal of world peace and stability.

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TREASURY DEPARTMENT
Washington

Statement of Under Secretary Wiggins before the
Ways and Means Committee of the
House of Representatives

November 4, 1947

I am glad to have the opportunity to appear before this Committee to discuss a subject in taxation which has received considerable attention in recent years: the taxation of farmers' cooperative associations.

From the letter which I received from the Chairman I am aware that your Committee desires to hear testimony on the much broader subject of the treatment of all tax-exempt organizations. We have in process a study extending over the wide range of subjects encompassed by Section 101 of the Code. To date, however, because of our limited and reduced staff, the Treasury Department has been able to complete only one segment of this study - that relating to farmers' marketing and purchasing cooperatives. We released this part of the study on October 31, 1947, and have made it available to each member of this Committee, and with your permission I would like to offer this for the record.

I propose to confine my statement today to the one aspect of the general problem of tax exemption organizations which we have been able to investigate up to this time. However, some of the remarks which I shall make on farm cooperatives are also applicable in principle to other types of cooperatives such as urban purchasing cooperatives, mutual insurance companies, mutual irrigation cooperatives, cooperative telephone companies, credit unions, and the like.

I should also state at the outset that I am not prepared to make specific suggestion for the revision of the tax treatment of farm marketing and purchasing cooperatives pending completion of our study of other tax-exempt organizations. But more important, I do not feel that it is wise to reach firm conclusions with respect to this part of the postwar tax structure before we have had an opportunity to review the entire tax system. As this Committee knows, the Treasury Department is currently engaged in a comprehensive review of the Federal tax system. When this study and review is completed we hope to have the opportunity to submit our full recommendations to this Committee.

It is important that the tax treatment of the business income of tax-exempt organizations be articulated with the general treatment of the business income of both incorporated and unincorporated businesses. Since we have not yet formulated our views respecting business income which is now taxable, it would be premature to recommend a tax treatment for business income which is now exempt under the various subsections of Section 101 relating to tax-exempt organizations.

The importance of Farmers' Cooperative Associations

There are at the present time about 10,150 farmers' cooperative marketing and purchasing associations in active operation in the United States. They are for the most part local associations confining their operations to a relatively small area and are controlled by the farmers whom they serve. They are spread widely throughout the United States but their operations are of most importance in such States as Minnesota, Wisconsin, Iowa, Illinois, and California. These cooperatives have a long history, running back a hundred years or more. They grew out of economic necessity. Handicapped by their isolation, inadequate knowledge of market conditions, lack of capital and weak bargaining position, farmers sought through cooperative group action, aided by financial and other assistance from the Federal Government, to improve their economic position. Today, one out of every three farmers is said to be a member of at least one cooperative.

Although about 94 percent of the farmers' marketing and purchasing cooperatives are small local organizations, there are a number of large-scale regional cooperatives, operating over a larger area than can be served by a local association. There are, in addition, a number of federated cooperative associations which serve principally their constituent cooperative organizations.

In the 1944-45 marketing season, the 10,000-odd farm cooperatives did an aggregate business of over $5.6 billion, the bulk of which represented the marketing of farm products. Only about 19 percent of their business involved the purchase of farm supplies. At some stage in the marketing process these cooperatives handled 60 percent of the citrus fruits and cranberries, 50 percent of fluid and dried skim milk, 40 percent of the creamery butter and 20 percent of the livestock moving through commercial markets. These were their most important fields of operation, but they also handled vegetables, cotton, tobacco, and other products. I have appended to my statement a table (Table 1) giving detailed information on the amount of business done by the marketing cooperatives in various agricultural commodities. The purchasing activities of farm cooperatives are of greatest significance in connection with feed, fertilizer, and automotive fuels and lubricants.

A large proportion of the marketing is done by the large regional and federated cooperatives. In 1942-43, over 40 percent of the cooperative marketing was handled by 48 associations, each with a business volume of more than $10 million. There was a similar concentration in purchasing activities. Ten cooperatives, each with an annual business volume of over $10 million, accounted for 35 percent of the cooperative purchasing volume in 1942-43.

These facts tend to be substantiated by the Treasury Department's tabulation of information returns filed by tax-exempt farmers' cooperative marketing and purchasing associations for the calendar year 1943 and for fiscal years beginning in 1943. To complete the factual information at your disposal, I have appended to this statement tables (Tables 2 and 3) showing the distribution of these returns by size of gross income and receipts and by size of total assets. Subject to the reservations noted in the technical description of these tables, they indicate that although the great majority of tax-exempt farm cooperatives are comparatively small organizations, a large portion of the business done by tax-exempt cooperatives and of the assets held by such organizations is in the hands of a relatively few large organizations. A similar situation exists in the case of ordinary corporations.

The large-scale cooperatives frequently carry their marketing activities beyond the initial stages, sometimes establishing direct contact with the utlimate consumer. To process the agricultural commodities produced by their members, they operate creameries, cotton gins, canning plants, flour mills, wineries, and other types of processing establishments. Purchasing cooperatives on the other hand sometimes extend their operations to the point of manufacturing the products required by their members, and operate feed and fertilizer plants, sawmills, oil refineries and paint factories. In 1943, marketing cooperatives operated nearly 2,800 plants, about two-thirds of which were engaged in processing milk and milk products. Cotton gins and canning factories are the other principal types of plants owned by the marketing cooperatives. (Table 4) Despite the wartime growth in cooperative canning operations, their economic significance is still small. In the canning of such important products as peas, tomatoes and corn, they account for 1 percent to 3 percent of the total pack. Only in citrus fruit juices, cherries, pears and berries, do they handle as much as 10 percent of the total pack.

The purchasing cooperatives operated about 1,700 plants in 1943. The three largest groups of plants, aggregating nearly 1,500, were grain elevators grinding feed, oil wells, and machine repair shops. The remaining plants were devoted to a variety of purposes, as listed in Table 5, attached to this statement.

Much of the criticism of the tax treatment of cooperatives apparently stems from a belief that the operations of cooperative associations have grown at a rapid rate in recent years relative to those of other types of organizations. And the conclusion frequently reached is that during these years, when income tax rates have been high, the tax exemption of cooperatives has given them an important advantage over taxable enterprises and is responsible for the difference in growth. I consider this aspect of the problem in later portions of my statement, but in passing I want to caution against any sweeping conclusions.

In some of the industries where plants operated by cooperatives are of substantial importance, the greatest growth took place before tax rates reached current levels. In the processing of milk into butter and cheese, the productive capacity of cooperatives is of long standing. Only dry skim milk facilities are of recent origin. Most of the expansion in cotton ginning took place during the depression years 1930 to 1940. The greatest relative advance in fertilizer production was made in 1938-39 and 1940-41. Most of the present feed facilities were constructed or acquired before the high-tax period. Expansion into petroleum refining, on the other hand, is a new development. I have had prepared a table which compares over the years the changes in the volume of marketing operations conducted by cooperatives with the change in total farm marketing (Table 6). These data show that the value of cooperative farm marketing has indeed grown since the prewar years, but it has grown no faster than the total value of all farm marketing. In other words, farmers marketing cooperatives have just about held their own compared with the other types of enterprise marketing agricultural commodities. If the entire period since 1930 is taken into account, it appears that marketing cooperatives have been losing some ground to other organizations. I am also submitting a similar table covering the operations of cooperative purchasing organizations (Table 7). In this area, the share of business done by cooperatives, though small in the aggregate, appears to have increased more or less steadily since 1930, but the greatest relative growth took place during the early part of the period.

How Farm Cooperatives Operate

Farm cooperatives exist for the primary purpose of enlarging their members' profits by increasing receipts from the sale of farm products and by lowering the cost of producing farm products. They function in diverse ways. They lower the cost of farm supplies by purchasing in bulk and taking advantage of trade discounts. They protect members against inferior merchandise, and assist in the selection of those supplies which are best suited to the needs of particular farms. They time their purchases to take advantage of favorable markets, and exercise a wider choice in the selection of sources of supply.

Marketing cooperatives may increase receipts from the sale of farm products by providing members with more efficient and economical sales services. Products may be stored, graded and further processed to increase their salability. Competition among farmers in a particular area may be reduced and their bargaining position in the principal markets for their products improved; trademarks or trade names may be established and advertised and the quality of products may be improved.

The individual member is ordinarily both an investor in, and a patron of, the cooperative association. As an investor in the association, he is promised a limited return on his equity in the association. As a patron, he is promised his proportionate share in the savings made possible by his contribution to the pooling of purchases or sales and

in any income which the association may derive from its activities. However, his share, as patron, in the success of the cooperative association may or may not be reflected in the size of his patronage dividend at the close of the year. The size of the patronage dividend is determined not only by the association's efficiency in buying and selling, but by its pricing methods as well.

There appear to be three distinct types of pricing policies. One is the so-called Rochdale type of pricing policy, under which the cooperative sells to the farmer at going market prices. Patronage dividend payments in this case may be said to represent the difference between such prices and the necessary expenses of the association. A second type covers situations where due perhaps to a lack of competition there may be no clearly established market price, and the prices paid by a marketing association may be more or less arbitrary. Final payments to patrons in such cases are an adjustment which does not accurately measure the gain from cooperative buying and selling. A third policy is reflected in those cases where a purchasing association sells at cost-plus-estimated expenses or where a marketing association pays a price based on sales value minus estimated cost of operation. Under this policy patronage dividends will be paid infrequently if at all. Whatever benefits the patron derives from the association will be reflected currently in the higher prices he receives for his product or the lower prices he pays for his supplies.

In practice, it appears that a large proportion of cooperatives return the benefits of cooperation to their members without the use of patronage dividends. The prevailing-price-patronage-dividend technique originated among the purchasing cooperatives and has not been universally adopted by marketing associations.

The typical marketing cooperative operates under a marketing contract in which the association undertakes to pay the farmer the entire proceeds from the sale of his product, less certain deductions for handling expenses and for capital contributions. In some cases, the farmer receives the full going price upon delivery to the cooperative, but more often he gets only a down payment, the balance to be paid in successive installments as the crop is sold. The size of the down payment is determined by custom or by the financial condition of the association and does not represent what the farmer could have received had he sold his product outright to private buyers. The sum of the installments represents the net or adjusted price of the product after all or most of the cooperative's expenses have been deducted.

The most recent information we have on the extent to which the different price policies are utilized by farm cooperatives is from a study in 1936. About 32 percent of the marketing associations and 54 percent of the purchasing associations in that year reported patronage dividends. These figures which are not weighted to the volume of business are not conclusive however because they do not give sufficient weight to the large associations.

Present Tax Treatment

The present tax treatment of farm cooperatives has been in effect since the early years of the Federal income tax. Express statutory exemption from income tax was granted, under certain conditions, to marketing associations in 1916 and to purchasing associations in 1921. In the Revenue Act of 1926 Congress incorporated various administrative rulings which had previously been promulgated, into statutory law and at the same time established clearcut tests of eligibility for the exemption. These statutory provisions have remained virtually intact to the present day.

Although there is no express statutory provision for the exclusion of patronage dividends from the income of the cooperatives, the Treasury and the courts have interpreted the law as permitting cooperatives to exclude (or deduct) from their taxable income patronage dividends or refunds paid in accordance with a contractual or other definite obligation.

I would like now to turn to a more detailed consideration of the two aspects of the present tax treatment accorded farm cooperatives: exemption of income and exclusion of patronage dividends.

Tax Exemption

The eligibility of farmers' cooperative associations for income tax exemption is conditioned on their being organized and operated on a cooperative basis. It is further restricted to those which either (a) market the products of members or other producers and return to them the proceeds of sales less necessary marketing expense on the basis of the quantity or value of the products furnished, or (b) purchase supplies and equipment for their members or others at cost plus necessary expenses.

The statutes and regulations require, in the case of both marketing and purchasing associations, that there shall be no discrimination between members and non-members in the refund of net proceeds. In other words, the members of exempt cooperatives are not allowed to make a profit out of the business done with non-members. Moreover, the statute specifically provides that the exemption shall be lost if less than half of the association's marketing or purchasing is for the account of its members. Purchasing associations lose their exemption if more than 15 percent of their purchases are for persons who are neither members nor producers.

The methods of financing open to exempt cooperatives are also prescribed. If capital is raised by the sale of stock, substantially all the stock must be held by farmers. Moreover, dividend rates must be limited to no more than 8 percent or the legal rate of interest in the State of incorporation, whichever is greater. In other words, in order to enjoy tax exemption, cooperative associations must be controlled by their farmer patrons and must do most of their business with them.

If the exemption were repealed exempt cooperatives would lose certain benefits. They would become subject to tax on income used to pay dividends on capital stock, on income retained in certain reserves, and on their non-operating income.

The best information that we have indicates that most cooperatives were organized with capital stock but there appears to be a tendency toward the non-stock type of association. Although the exemption statute permits cooperatives to pay a higher rate of interest the rate actually paid on the average today is probably between 3 and 5 percent. In the absence of the exemption, that portion of the net earnings which cooperatives distribute to their stockholders as dividends on stock would be taxable as income of the association.

Cooperatives accumulate reserves in two ways; (1) by retaining part or all of their net cash proceeds and issuing, in fulfillment of their obligations, non-cash patronage dividends, and (2) by retaining a part of their annual net proceeds as reserves before computing the amounts which must be returned as patronage dividends. Under a recent court decision, exempt cooperatives are required to allocate on their books to current-year patrons pro rata shares in such reserves, so that member-patrons will not gain at the expense of non-member patrons upon dissolution of the association. However, the mere fact of allocation does not make such reserves equivalent to non-cash patronage dividends, and the Bureau of Internal Revenue has continued to distinguish between allocated reserves and non-cash patronage dividends.

Non-cash patronage dividends are not taxable to either exempt or non-exempt cooperatives. However, the patronage dividends, whether in cash or not, do enter into the taxable incomes of patrons. Under the exemption, eligible cooperatives pay no tax on income retained as allocated reserves, and in the absence of the exemption, such income would be taxable to the cooperative. With or without the exemption, income retained as reserves would not be taxable to patrons.

Reserves are set up for a variety of purposes. Section 101 (12) expressly permits exempt cooperatives to accumulate the general contingency reserves which cooperatives are required to build up by provisions of most State laws. Additions to such reserves are sometimes limited by the State statutes to a percentage of the net margin for the year, and usually the total reserve which must be accumulated is limited to a percentage of total capitalization.

In addition to the mandatory general reserves, cooperatives are also allowed to accumulate reserves for specific purposes. In practice, reasonable and necessary non-mandatory reserves appear to be of two distinct types.

First, there are specific contingency reserves, i.e., reserves for foreseeable losses or expenses which are properly chargeable in whole or in part to the current accounting period.

Second, there are "reasonable and necessary" reserves for expansion purposes. The Regulations provide that "the accumulation and maintenance of a reserve . . . to provide for the erection of buildings and facilities required in the business or for the purchase and installment of machinery and equipment or to retire indebtedness incurred for such purposes, will not destroy the exemption." Consequently, it is possible under existing law for an exempt cooperative association to reinvest a substantial portion of its earnings in plant and equipment without either the association or the patron being taxable thereon.

The exemption statute contains other advantages for cooperatives in addition to allowing tax-free reserve accumulations and payments on capital stock. Their non-operating income, such as interest on bank deposits or on investments, dividends, and capital gains, escapes taxation. However, the amounts of such income are small. Certain additional advantages grow out of special treatment accorded income derived from buying or selling commodities on behalf of the United States Government and from the handling of non-farm products marketed in small quantities where such items are essential to the efficient operation of the exempt cooperative or the handling of products purchased for the purpose of fulfilling delivery contracts or for other emergency purposes.

I have indicated the advantages which tax exemption bestows on farm cooperatives. It should be noted, however, that the exemption involves certain disadvantages for cooperatives. This may explain why only about half of the farm cooperatives attempt to meet the statutory requirements. One of the most important disadvantages is the requirement that exempt associations must not discriminate against non-members in paying patronage dividends. Another disadvantage in the case of marketing cooperatives is the prohibition against dealing with non-producers. Similarly, the restriction of non-farmer purchasing to 15 percent of total purchasing has been said to act as a limitation on the growth and expansion of some of the most successful cooperative units.

Patronage-dividend Exclusion

Under present law farm cooperative associations are authorized to exclude patronage dividends from gross income. This, however, is not the exclusive privilege of cooperative associations. The privilege is available to any corporation which makes payments to its customers under the conditions prescribed by the Commissioner of Internal Revenue and the courts. It should be noted, however, that in the case of cooperatives, unlike the case of the typical ordinary corporation, patrons receiving rebates are also the owners of the business.

The conditions under which cooperative associations are permitted to exclude from their gross income refunds made to their patrons can be briefly summarized. First, there must have existed at the time of the transaction with the patrons a contractual or other definite obligation on the part of the cooperative to return any net proceeds to him in proportion to patronage without further corporate action. Second, if only members of the association are eligible to receive patronage dividends, exclusion is not allowed on that portion of such distribution which represents profits from transactions with non-members. It is immaterial

whether refunds are distributed in the form of cash, stock, certificates of indebtedness, or credit notices. All such forms of payment are regarded as the equivalent of cash distributions in the hands of patrons, the theory being that they are cash payments automatically reinvested under provisions of the charter, by-laws, or other contracts previously agreed to by the patrons.

The benefits that farm cooperatives derive from the exclusion of patronage dividends from their taxable incomes depend on the nature of these payments. To the extent that patronage dividends represent the owner- patron's share in the association's net operating margin, the exclusion gives cooperatives the advantages of the partnership treatment. It frees them of the so-called double taxation imposed on the distributed income of ordinary corporations. To the extent, however, that patronage dividends represent non-income elements - items analogous to selling expenses of ordinary businesses or evidences of capital contributions of patrons - their exclusion from the taxable income of the cooperatives confers no special tax advantage. In view of the problems involved in separating patronage dividends into their components, it is difficult to appraise in quantitative terms the benefit of this exclusion.

Analysis of present treatment

The present tax treatment of farm cooperatives has been criticized, particularly as it affects the competitive position of the cooperatives. The main import of the criticism is that the complete or virtual exemption of farm cooperatives from income tax has given these associations an unfair competitive advantage over their corporate competitors. It is contended that as a result of their more favorable tax treatment, cooperatives have been able to pay larger refunds and so attract more patronage than they could otherwise command; also, that by retaining a larger percentage of their earnings, they have been able to expand more rapidly than would be possible if their income were fully taxable.

The cooperatives deny that their favorable tax status has had any material effect upon their volume of business. They contend that any advantages they enjoy over ordinary business firms, either as buyers of farm products or as sellers of farm supplies, flow from the cooperative nature of their enterprise.

The role of tax exemption in the competitive position of cooperatives is difficult to appraise. Cooperatives do not appear to have used their tax immunity as an instrument of price warfare. It would be difficult for them to do so, since the more they cut prices, the smaller is their economic income and, consequently, the worth of their tax advantage. Where both cooperatives and their corporate competitors sell at cost, the tax advantage entirely disappears. Moreover, there are indications that in many markets where cooperative associations compete most directly with ordinary corporations, they make no attempt to outbid their competitors; as a general rule they charge the same prices. On the other hand, it is undoubtedly true that the prospect of patronage

dividends has been a significant factor in building up the membership of farm cooperatives. To the extent that the special tax status of cooperative associations has permitted payment of larger patronage dividends, it may have been a factor in the growth of their membership. In this connection, however, the cooperatives argue that patronage dividends are used mainly as a matter of convenience and that the same results could be closely approximated by other methods of sharing benefits which do not depend on the exemption or exclusion.

The charge that as a result of their favored tax status farm cooperatives have been able to expand more rapidly out of earnings than their corporate competitors, and that they have been able to plough back earnings to finance acquisition of plant and equipment, has been strongly pressed in recent years.

The cooperatives contend that non-cash patronage dividends are not analogous to the retained earnings of ordinary corporations; that they represent the patrons' capital contribution to the enterprise. They also contend that any tax advantage which they may enjoy as the result of the exclusion of their retained net proceeds from gross income merely serves to offset their great disadvantages in obtaining equity capital. Since dividends on their stock are limited, cooperative associations cannot issue any securities which compare with the common stock of an ordinary corporation. Moreover, the market for the type of securities they can issue is small, composed largely of farmers who, at least prior to the war, had always been a poor source of equity capital.

In the current discussion of the tax advantage enjoyed by cooperatives, much emphasis is placed on the alleged rapid growth of these associations in recent years. Data contained in the Treasury's study, which I summarized in the early part of my statement, indicate that while the dollar volume of business done by farm cooperatives increased more than two and one-half times since 1939, the cooperatives as a whole do not appear to have expanded their relative share of the market at the farm level. From 1936 to 1941 the trend was downward. In 1941, 1942 and 1943, the share of cooperative marketing was actually less than in the period 1935-1939, and did not reach the 1935-1939 level until 1944.

Farmers' cooperatives in Canada and Great Britain

By way of comparison with our treatment, the Committee might be interested in the tax procedure adopted by Canada and Great Britain.

Farmers' cooperatives in Canada are similar to those of the United States in many significant respects, including their relative economic status. The bulk of their business is in the marketing sphere, farmer participation is roughly comparable, and the cooperatives' over-all share in the market is about the same in the two markets. With the exception of large western grain and seed associations (Western Wheat Pools), these cooperatives conform in size and activity to those in the United States. The marketing cooperatives are estimated to have handled about one-fourth of the principal farm products entering into commercial trade channels.

Until last year, the Canadian tax treatment of farm cooperatives was more or less the same as ours. As in the United States, considerable public discussion developed as to the most desirable tax treatment of such cooperatives. A Royal Commission was appointed late in 1944 to look into the problem and to make recommendations. About a year later, a report was rendered, and in 1946 the Canadian parliament revised the tax treatment of cooperatives.

The principal recommendations of the Commission were:

(1) To allow all business enterprises a deduction from income for patronage dividends, paid in cash or its equivalent within a limited period after the close of the year, provided patronage payments are made to members and non-members alike; and

(2) To grant tax-exemption to newly-organized cooperatives for the first three years.

The Canadian Government accepted these recommendations of the Commission, but felt that no company or association should be permitted through the payment of patronage dividends to reduce its taxable income to an amount below a reasonable return on the capital invested in the business. Accordingly, the legislation provided that patronage dividends may not reduce taxable income below an amount equivalent to 3 percent of the total capital invested in the enterprise including borrowed capital, less the interest paid on borrowed capital. That, in essence, is the treatment accorded all associations, including farmers' cooperatives under Canadian law today.

The British cooperative movement has developed principally in urban centers in the form of purchasing associations. Farmers' cooperatives developed much later, and consistent with the relatively minor importance of agriculture in the British economy, represented a small segment of the cooperative movement. It has been estimated that prior to the war farmers' cooperatives in Great Britain served one farm in every four. The activity of British farm cooperatives is more or less evenly divided between purchasing and marketing, both as to number and the volume of business

The British treatment of cooperatives is in form similar to our tax treatment of non-exempt cooperatives. That is to say, they are subject to tax in the same manner as ordinary corporations. In computing taxable income, they are permitted to deduct any discounts, rebates or dividends paid to members or other persons, provided such payments are based upon their transactions with the cooperative and not by reference to their share or interest in the capital of the company. In other words, patronage refunds are exempt from tax, while ordinary dividends on capital are taxed. However, it should be noted that the tax on corporations in Great Britain is in the nature of a withholding tax, so that the cooperative as such bears a tax burden only with respect to undistributed earnings.

Suggestions which have been made for tax revision

In the course of the discussion of farm cooperatives, several possibilities for revising the present tax treatment have been advanced. However, among those who believe that farm cooperatives might be more heavily taxed, there is no agreement on how this should be accomplished.

Some would merely repeal the exemption. Others would require the inclusion of all patronage dividends in the gross income of the association; others would continue the exclusion of patronage dividends but would require the inclusion of non-cash patronage dividends. Still others would subject these organizations to a special tax in lieu of the income tax. I shall now describe some of these alternatives and indicate how they might operate.

Repeal present exemption

It has been suggested that there is no basis for the present exemption of farm cooperatives and that it should be terminated. Those holding this view say that cooperatives perform the same economic function as ordinary companies, that they are organized as corporations with the same powers and obligations as ordinary corporations, and that they are organized and operated for the purpose of making profit.

These anti-exemption views have to be balanced against the contention that cooperative associations operate in the public interest, that they are not profit-making institutions, and that they are more nearly analogous to partnerships than to ordinary corporations.

Advocates of continued exemption maintain that the special tax treatment accorded farm cooperatives is a return for services rendered to the public; that in improving the economic conditions of farmers and in raising the grade and quality of products for public consumption, farm cooperatives have made substantial contributions to the general welfare.

They contend further that farm cooperatives should be differentiated from ordinary corporations because it is both their intent and practice to do business at cost.

They add that, despite the fact that cooperative associations are in legal form corporations, they more nearly resemble partnerships than ordinary corporations. The application of the corporation income tax to cooperatives would result in an undesirable extension of the area of so-called double taxation of business income, at a time when many believe that the existing double taxation of distributed profits of ordinary corporations should be reduced or eliminated.

Continued exemption of cooperatives has also been defended by the contention that the amount of revenue involved is not large enough to justify the trouble and expense of its collection. So long as no attempt is made to tax patronage dividends, the Government would gain little from repeal of the exemption. This is countered by pointing out that most tax-exempt organizations, including cooperatives, are now required to file annual information returns (Form 990), and that the recent tabulation of these returns by the Bureau of Internal Revenue shows that, while the revenue involved may be small in relation to total Federal revenue, it is not negligible. In this connection, I might add that our rough estimates indicate that for 1943, the 5,600 exempt cooperatives, in the absence of the exemption, would have paid between $10 million and $20 million in taxes on earnings devoted to dividends on stock and reserves.

In my view, the issue involved in the proposal to repeal the exemption hinges on the question whether farm cooperative associations perform services of such great value to the public that they should be relieved of the tax burdens imposed on other corporate entities. This is not an easy issue to resolve. While farm cooperatives are operated primarily in the interest of their farmer-patrons, they have undoubtedly contributed to the general welfare. However, there are few businesses which could not make some claim to having served public as well as private interests.

I believe that the presumption is always against any tax exemption and in favor of uniform taxation. An exemption can be justified only by a clear preponderance of evidence in favor of the social desirability of the objective and the effectiveness of the exemption in promoting desirable ends without undesirable collateral effects. In addition, in deciding whether the exemption should be repealed or retained, considerations of revenue and equity must be weighed against the advantages which it affords to the economy as a whole.

Short of full repeal, it has been suggested that the exemption should be confined to small local cooperatives. This, however, would raise a difficult problem of fairly determining eligibility for the exemption. The definition of a "small" cooperative is a matter of judgment, and any statutory or administrative definition would have to be essentially arbitrary. Moreover, particular cooperatives might move in and out of the exempt area because of year-to-year fluctuations in business or membership. Large cooperatives might split into several small units to qualify for the exemption. These are some of the considerations which argue against classification on the basis of size.

Another possible way of revising the present tax treatment of farmers' cooperatives would confine the exemption to local cooperatives dealing directly with individual farmers. The exemption would be eliminated for federated or centralized regional cooperatives that have members other than individual farmers. Such farmers' cooperatives would be granted no special exemption.

Terminate the exclusion of all patronage dividends

It has also been suggested that the exclusion of patronage dividends from the gross income be discontinued. This proposal has been criticized on several grounds: First, that patronage dividends are price rebates and as such do not constitute income to the cooperative association within the meaning of the Sixteenth Amendment; second, that cooperatives are acting merely as agents of patrons and have no interest in the net proceeds of their operations; and third, that even if patronage dividends could be constitutionally taxed to the cooperatives, they should not be so taxed because it is impossible to determine to what extent they represent distributions of income.

I will not comment on the argument of constitutionality beyond noting that it has been used by both sides and is not likely to be finally decided unless Congress specifically presents it to the courts by discontinuing the exclusion.

A successfully operated farm cooperative will ordinarily produce some economic income over a period of years, especially if it uses any significant amount of capital and assumes any significant degree of risk. It does not necessarily follow that this economic income should be taxed to the cooperative, as distinguished from its patrons and members.

For sundry reasons, it would be difficult to employ patronage dividends as the base for the assessment of income tax on cooperatives. Patronage dividends do not measure the economic income produced by cooperatives. Many cooperatives so conduct their business that no patronage dividends are needed to return benefits to patrons. In other cases, patronage dividends overstate the income earned by cooperatives because they merely take the place of special services, such as free delivery and credit, which would give rise to allowable cost-deductions in the case of ordinary businesses. In still other cases, marketing cooperatives deliberately set prices below those paid on the market, or purchasing cooperatives set prices charged above the market, in order to accumulate capital. In these cases, patronage dividends are paid in non-cash form as evidence of patrons' capital contributions and do not represent solely the economic income produced by the cooperative.

Moreover, the success of the cooperative association is not measured in terms of its own income, or of the size of its patronage dividends. Therefore, the inclusion of patronage dividends in the gross income of the cooperatives might merely induce more of the associations to set their prices so as to minimize their patronage dividends. These considerations make it impracticable to estimate the revenue effect of terminating the exclusion of patronage dividends from gross income.

Tax non-cash patronage dividends

Some recommend that the exclusion of cash patronage dividends be continued but that cooperative associations be required to include in their gross income patronage dividends paid in scrip or other non-cash forms. Those who favor this approach argue that most patrons have little real choice as to the form in which they receive their patronage dividends, and that non-cash patronage dividends cannot be readily converted into cash. They conclude that these payments therefore cannot be regarded as true rebates but should be considered a part of the income of the cooperative. Dissenters from this conclusion emphasize that membership in a cooperative is voluntary and that members actively participate in decisions with respect to payment of patronage dividends.

If non-cash patronage dividends were included in the taxable income of cooperatives, while cash patronage dividends were excluded, most of the associations might still be able to build up substantial amounts of capital out of earnings not taxed to the association. This could be done by such devices as giving patrons the option to receive cash or stock, which would probably be held by the courts to be equivalent to a cash distribution and hence excludible. It would also be possible for many cooperatives to make wider use of direct assessments on patrons in proportion to cash patronage dividends received.

Treat farm cooperatives like partnerships

Some have recommended that the present exemption for farmers' cooperatives be eliminated and that the income of the cooperatives be made taxable to the individual patrons in the same way that the income of partnerships, whether or not distributed, is now taxable to the partners. This would involve the allocation and taxation of the income retained as reserves to the patrons. It would eliminate the favorable treatment which is now accorded farmers' cooperatives by comparison with partnerships by taxing as income to the patrons not merely the patrons' dividends but also the income retained by the cooperative. It has also been suggested that to make this treatment effective it would be necessary to require the cooperatives to file information returns indicating the amounts of income allocated to each of the patrons.

Imposition of special taxes in lieu of income tax

The difficulties that would be encountered in attempting to include patronage dividends of farm cooperatives in the corporation income tax base has led to the suggestion that it might be well to abandon the thought of taxing them under the income tax and to subject them to another type of tax instead.

One such alternative would be a tax based on gross receipts or sales. The burden imposed by a gross receipts tax would bear no necessary relationship to income. The amount of net income earned on a dollar of gross sales varies widely among manufacturers, wholesalers, and retailers in different lines and among firms in the same line.

Another alternative would be to assess the tax on the basis of invested capital. As in the case of a gross receipts tax, the selection of a rate that would approximate a tax on net income would be difficult, if not impossible. Moreover, a tax on invested capital would bear more heavily on weak cooperatives than on strong and successful associations. Also, as experience under the excess-profits tax has shown, the valuation of invested capital is always a complex problem difficult to solve under the best circumstances.

This brief summary of some possible alternative ways of taxing farm cooperatives indicates, I think, that the choice is not an easy one to make. The basic questions at issue are: (1) whether the income of cooperatives should be taxed in a manner more nearly comparable with the taxation of the income of ordinary corporations, or whether the income should be taxed mainly or exclusively at the individual level, as in the case of partnership income; and (2) whether as a matter of public policy farmers' cooperatives perform functions which should be encouraged by special tax treatment.

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Table 1

Farmers' Marketing and Purchasing Cooperative Associations 1/
in the United States, 1944-45 Marketing Season 2/

Type of association	Number of associations		Estimated membership 3/		Estimated business 4/	
	Number	Percent	Number (In thousands)	Percent	Value (In millions of dollars)	Percent
Marketing						
Cotton and products	530	5.2	266	5.9	$ 178	3.2
Dairy products	2,214	21.8	726	16.1	1,294	22.9
Fruits and vegetables	916	9.0	162	3.6	784	13.9
Grain, dry beans, rice	2,285	22.5	484	10.8	1,286	22.8
Livestock	661	6.5	695	15.4	730	12.9
Nuts	46	.5	47	1.0	200	3.5
Poultry and eggs	160	1.6	131	2.9	225	4.0
Tobacco	12	.1	122	2.7	27	.5
Wool and mohair	130	1.3	123	2.7	35	.6
Miscellaneous	446	4.4	140	3.1	76	1.3
Total marketing	7,400	72.9	2,896	64.2	$ 4,835 5/	85.6
Purchasing	2,750	27.1	1,610	35.8	810 5/	14.4
Total marketing and purchasing	10,150	100.0	4,506	100.0	$ 5,645	100.0

Treasury Department, Division of Tax Research

Source: U.S. Department of Agriculture, Farm Credit Administration, Cooperative Research and Service Division, mimeograph.

Footnotes on next page.

Table 1

Farmers' Marketing and Purchasing Cooperative Associations 1/
in the United States, 1944-45 Marketing Season 2/

Footnotes

1/ Includes independent local associations, federations, large-scale centralized associations, sales agencies, independent service-rendering associations, and subsidiaries whose businesses are distinct from those of the parent organizations.

2/ A marketing season includes the period during which the farm products of a specified year are moved into channels of trade. Marketing seasons overlap.

3/ Includes members, contract members and shareholders, but does not include patrons not in these categories.

4/ Includes the value of commodities for which associations render essential services either in marketing or purchasing and the value of commodities sold by associations whether on a commission or a brokerage basis, and also some intra-association transactions.

5/ After making adjustment for the purchasing business of marketing associations and the marketing business of purchasing associations, it is estimated that the total purchasing business was approximately $1,095 million and the total marketing, $4,550 million.

Tables 2 and 3: Distribution of Returns of Tax-Exempt Farmers' Cooperative Marketing and Purchasing Associations by Size of Gross Income and Receipts, and by Size of Total Assets, 1943

These tables show available information on the size distribution of tax-exempt farmers' cooperative marketing and purchasing associations. They are based on tabulations of information from 4,397 returns of such organizations filed on Form 990 for the calendar year 1943 or for fiscal years beginning in 1943. These 4,397 returns include all returns received in the Bureau of Internal Revenue through December 31, 1944. They do not include the 1,198 returns of tax-exempt farmers' cooperative marketing and purchasing associations received in the Bureau of Internal Revenue between December 31, 1944 and September 1, 1945. Among these latter returns only those of organizations with total gross income and receipts in excess of $50,000 were tabulated by size groups, and they are not included in the tables. Information drawn from the returns of tax-exempt farmers' cooperatives and other tax-exempt organizations was published by the Treasury Department, November 1, 1945, as a Supplement to Statistics of Income for 1943, Part 2.

In using the data presented in Tables 2 and 3, it should be remembered that it is impossible to say how complete their coverage is. Although it is believed that most organizations required to file an information return did so, it is not possible at this time to determine how many cooperatives may have failed to file a return for 1943. Furthermore, it is not certain how the distributions shown in Tables 2 and 3 would have been affected if it had been possible to include returns not received in the Bureau of Internal Revenue until after December 31, 1944. Finally, it is not known whether the size distribution of taxable farmers' cooperatives differs significantly from that of the tax-exempt organizations. It has not been possible to separate the tax returns of taxable farm cooperatives from those of ordinary corporations.

Table 2

Distribution of Returns of Tax-Exempt Farmers' Cooperative Marketing and Purchasing Associations by Size of Gross Income and Receipts, 1943

(Returns received in the Bureau of Internal Revenue through December 31, 1944)

Gross income and receipts classes	Number of returns			Gross income and receipts		
	Number	Percentage	Percentage cumulated	Amount	Percentage	Percentage cumulated
				(thousands)		
Under $500	209	4.8	4.8	$ 43	*	*
$500 - 1,000	90	2.0	6.8	65	*	*
1,000 - 2,500	89	2.0	8.8	146	*	*
2,500 - 5,000	88	2.0	10.8	317	*	*
5,000 - 10,000	119	2.7	13.5	851	*	.1
10,000 - 15,000	90	2.0	15.5	1,094	*	.1
15,000 - 25,000	132	3.0	18.5	2,661	.1	.2
25,000 - 50,000	408	9.3	27.8	15,208	.7	.9
50,000 - 100,000	648	14.7	42.5	48,194	2.2	3.1
100,000 - 250,000	1,058	24.1	66.6	174,233	7.8	10.9
250,000 - 500,000	724	16.5	83.1	256,009	11.5	22.3
500,000 - 1,000,000	420	9.6	92.7	288,514	12.9	35.2
1,000,000 - 5,000,000	269	6.1	98.8	539,395	24.2	59.4
5,000,000 and over	53	1.2	100.0	907,173	40.6	100.0
Total	4,397	100.0		$2,233,904	100.0	

Treasury Department, Division of Tax Research

Source: Supplement to Statistics of Income for 1943, Part 2.

* Less than .05 percent.

Table 3

Distribution of Returns of Tax-Exempt Farmers' Cooperative Marketing and Purchasing Associations Filing Balance Sheets, by Asset Classes, 1943

(Returns received in the Bureau of Internal Revenue through December 31, 1944)

Total assets classes	Number of returns			Total assets		
	Number	Percentage	Percentage cumulated	Amount	Percentage	Percentage cumulated
				(thousands)		
Under $1,000	67	2.3	2.3	$ 25	*	*
$1,000 - 5,000	126	4.3	6.6	348	.1	.1
5,000 - 10,000	122	4.2	10.8	933	.2	.3
10,000 - 15,000	166	5.7	16.5	2,104	.4	.7
15,000 - 25,000	401	13.8	30.3	8,021	1.6	2.3
25,000 - 50,000	811	27.9	58.2	29,509	6.0	8.4
50,000 - 100,000	601	20.7	78.9	41,834	8.6	16.9
100,000 - 250,000	381	13.1	92.0	58,294	11.9	28.8
250,000 - 500,000	103	3.5	95.5	34,328	7.0	35.9
500,000 - 1,000,000	64	2.2	97.7	45,688	9.3	45.2
1,000,000 - 5,000,000	51	1.8	99.5	104,871	21.4	66.7
5,000,000 - 10,000,000	9	0.3	99.8	66,002	13.5	80.1
10,000,000 - 50,000,000	7	0.2	100.0	97,087	19.9	100.0
Total	2,909	100.0		$ 489,044	100.0	

Treasury Department, Division of Tax Research

Source: Supplement to Statistics of Income for 1943, Part 2.

* Less than .05 percent.

Table 4

Cooperative Plants for Processing Farm Products
December 31, 1943

Type of plant	Number of plants	Percent of total cooperative product processing plants
1. Creameries	1,353	49%
2. Cheese factories	531	19
3. Cotton gins	407	15
4. Canneries, dehydrating plants (fruits and vegetables)	190	7
5. Dehydrating plants (milk)	172	6
6. Flour and cereal mills	18	1
7. Wineries	16	1
8. Sugar mills and honey plants	15	1
9. Nut processing and packaging plants	14	1
10. All other	44	2
Total	2,761	100%

Treasury Department, Division of Tax Research

Source: "Trends in Farmer Cooperation," News for Farmer Cooperatives (U.S. Department of Agriculture, Farm Credit Administration), February 1944.

Table 5

Cooperative Plants for Farm Supply Requirements,
December 1, 1943

	Type of plant	Number of plants	Percent of total cooperative farm supply plants
1.	Farmers' elevators grinding feed	1,000	60%
2.	Oil wells	350	21
3.	Machine repair shops	100	6
4.	Feed mills	57	3
5.	Fertilizer plants	40	2
6.	Seed cleaning plants	40	2
7.	Chick hatcheries	32	2
8.	Lubricating oil and grease compounding plants	11	1
9.	Refineries	9	1
10.	Sawmills	8	1
11.	Farm machinery plants	7	*
12.	Insecticide plants	6	*
13.	Paint factories	5	*
14.	Serum laboratories	4	*
	Total	1,670	100%

Treasury Department, Division of Tax Research

Source: "Trends in Farmer Cooperation," News for Farmer Cooperatives (U. S. Department of Agriculture, Farm Credit Administration), February 1944, p. 4.

* Less than 0.5 percent.

Tables 6 and 7: Relative Growth of Cooperative Marketing and Purchasing Associations, 1935-1943.

Sources of data and their limitations

The value of products marketed by cooperatives (valued at the farm level) is closely approximated by the series on the dollar volume of business of cooperatives computed by the Farm Credit Administration. This, however, is not altogether true in the case of processed products, which include the value of the raw product to the producer, together with handling and processing expenses. Limited amounts of service charges at terminal markets are included in some instances. The Farm Credit Administration estimates are based on financial statements and other reports from associations. Duplications resulting from interorganization turnover are eliminated in so far as possible. Inclusion of such handling and processing expenses, however, impairs the usefulness of the index only to the extent that there has been a significant change in the relative importance of these expenses. Total farm sale proceeds may be represented by the series on cash receipts from farm marketings, compiled by the Bureau of Agricultural Economics.

There are, however, certain limitations of these data when used for the purposes of measuring relative growth of cooperatives. In the first place, the results apply to cooperatives as a whole whereas ideally it would also be advisable to have data on the basis of individual commodities (and even on various regions so that any specific area of rapid growth or decline could be distinguished). In the second place, the two primary series are not strictly comparable. The cash marketing series reflects the influence of a number of commodities, notably hay, not handled to any extent by cooperatives. Moreover, the bulk of cooperative marketing is concentrated in a relatively few commodities, some of which are less heavily weighted proportionately in the cash receipts index. Nevertheless, for a study such as this one, where the interest is primarily in broad trends, it is believed that sufficiently reliable results can be obtained.

Another difficulty arises from the fact that the data compiled by the Farm Credit Administration are presented in terms of marketing seasons which spread over portions of two years, whereas the cash receipts totals are on a calendar year basis. For purposes of these tables, the first year of a given marketing season has been taken as the link to the other series (i.e., marketing season 1943-44 corresponds to calendar year 1943). 1/

Measurement of the relative growth in cooperative purchasing at the farm level also involves certain difficulties. There is no series on the total volume of farm purchases. It is known, however, that the principal products handled by cooperatives are feed, fertilizer, and gasoline, oil and other automotive supplies. 2/ Annual totals of farm expenditures on these items are published by the Department of Agriculture.

While an index based on these totals is perhaps the best available, it obviously suffers from a very serious limitation, arising out of its implicit overweighting of feed and underweighting of gasoline, oil, etc., as compared with the index of cooperative purchasing. 3/ Since changes in the value of feed expenditures by farmers were substantial, the effect may be to understate any uptrend in the adjusted index. 4/

1/ There is less error in this procedure than in the opposite approach since about 90 percent of the returns submitted to the F.C.A. are on a calendar rather than fiscal year basis.

2/ In 1936, these products accounted for about 60 percent of total purchasing by all cooperatives (Statistical Handbook of Farmers' Cooperatives, p. 94). A study of 16 large regional cooperatives in 1944 showed that the proportion for these organizations was nearly 85 percent, but recent figures reflect wartime shortages of many other items customarily handled by cooperatives.

3/ Moreover, the data on expenditures for the operation of motor vehicles are not strictly comparable with cooperative purchase of motor vehicle supplies. The former includes such things as cost of registration, insurance expenses and labor for repairs. In addition, only 40 percent of the cost of operating automobiles is included.

4/ On the other hand, construction of an aggregate index for feed, gas and oil, and fertilizer with weights of 5, 3, and 1, respectively, and 4, 2, and 1, did not produce noticeably different results.

Table 6

Relative Growth of Cooperative Marketing, 1930-1944

(Base all indexes, 1935-39)

Year	(1) Index of cooperative farm marketing	(2) Index of total cash receipts from farm marketing	(3) Index of relative growth of cooperative marketing (Col. 1 ÷ Col. 2)
1930	126	113	112
1931	100	80	125
1932	69	59	117
1933	70	67	104
1934	77	79	97
1935	88	89	99
1936	108	105	103
1937	113	111	102
1938	97	96	101
1939	94	99	95
1940	105	105	100
1941	129	140	92
1942	174	192	91
1943	239	243	98
1944	262	248	106

Treasury Department, Division of Tax Research

Source: U. S. Department of Agriculture: Farm Credit Administration and Bureau of Agricultural Economics.

Table 7

Relative Growth of Cooperative Purchasing, 1930-1944

(Base all indexes, 1935-39)

Year	(1) Index of cooperative farm purchasing	(2) Index of farm expenditures on feed, fertilizer, and operation of motor vehicles 1/	(3) Index of relative growth of cooperative purchasing (Col. 1 ÷ Col. 2)
1930	56	114	49
1931	47	77	61
1932	37	62	60
1933	39	67	58
1934	48	80	60
1935	82	82	100
1936	81	102	79
1937	114	113	101
1938	108	94	115
1939	116	109	106
1940	117	119	98
1941	155	145	107
1942	194	187	104
1943	262	241	109
1944	284	244	116

Treasury Department, Division of Tax Research

Source: U. S. Department of Agriculture: Farm Credit Administration and Bureau of Agricultural Economics.

1/ Operation of motor vehicles includes expenditures for gasoline, oil, tires, and labor for repairing tractors, and gasoline, oil, tires, and replacement parts, labor for repairs, registration fees and insurances for automobiles and trucks. Only 40 percent of the total operating costs of automobiles is included as a production expense.

The Status of the Treasury Department's Tax Studies
as of
November 4, 1947

You will recall that on the occasion of his appearance before the Committee on Ways and Means and the Senate Finance Committee earlier this year, the Secretary of the Treasury listed the major tax matters under study by the technical staff of the Treasury Department in connection with its comprehensive review of the tax system. The Committee indicated its interest in these studies and the Secretary stated that he would submit them to the Committee as they become available. I would like to take this occasion to report on the progress of these studies.

To date, the technical staff has completed the following nine studies:

1. Family incomes

   This study deals with various methods of taxing family incomes, such as compulsory joint returns, elimination of community-property privileges, and splitting of incomes equally between husbands and wives. (Hearings pp. 844 to 874)

2. The corporate postwar tax structure

   This study analyzes various proposals that have been made for the elimination or reduction of the present so-called double taxation of dividend income. (Hearings pp. 1136 to 1181)

3. Excise taxes on communications

   This study examines the excise taxes on long distance communications services, on local telephone services, and on wire and equipment services. (Hearings pp. 637 to 656)

4. Federal retail excise taxes

   This study deals with the Federal excise taxes on furs, jewelry, luggage and toilet preparations.

5. Small business

   This study examines the impact of the present tax laws on small incorporated and unincorporated businesses and analyzes a variety of proposals that have been made for the special benefit of small business.

6. Business loss offsets

   This study deals with the adequacy of the present two-year carry-back and two-year carry-forward of net operating losses.

7. Farm cooperatives

This study analyzes (a) the present tax treatment of income from farmers' cooperative associations in comparison with that of other forms of business organizations and (b) proposed changes in the present treatment.

8. Estate and gift tax integration

This study deals with the integration of the estate and the gift tax and the correlation of these taxes with the income tax.

9. Federal-State coordination

This study describes Federal and State overlapping in the several categories of taxation and considers a near-term program for coordination.

The first three of these studies as noted have been included in the record of your Committee's hearings on the Proposed Revisions of the Internal Revenue Code held during the First Session of the 80th Congress. With the permission of the Committee I should now like to offer the other six studies for insertion in the record at the end of my testimony today.

The Treasury has in process eighteen additional studies. These are in various stages of completion. I now wish to indicate approximately when they can be made available.

Six studies are in final stages of revision and are expected to be ready for release soon.

1. Level and structure of individual income tax exemptions

This study examines the adequacy of the present $500 per capita exemption and the alignment of the allowances for single persons and for married couples with different numbers of dependents.

2. Pensions and annuities

This study examines the basis of the exclusion of certain pensions under present law and analyzes the present and alternative methods of taxing annuities.

3. Intercorporate problems

This study considers the 2-percent additional tax on consolidated returns and the 85-percent credit for intercorporate dividends received.

4. Earned income credit

This study analyzes the bases for an earned income credit from both the equity and incentive viewpoints, and presents two methods of giving earned income credits. It gives the history of an earned income credit in this country and reviews the experience of certain foreign countries.

5. Excise taxes on transportation of property and persons

This study deals with the taxes on passenger and freight transportation.

6. Extension of social security coverage

This study explores the feasibility of extending old-age and survivors' insurance to groups now excluded, with particular regard to agricultural and domestic employees and self-employed individuals.

Eight studies are in various stages of revision and are expected to be completed at different times within the next three months:

1. Capital gains and losses

A report is being prepared on the treatment of capital gains covering the legislative history and analyzing each of the principal issues involved. Some work has been done on the legislative history, the holding period, and the loss offset provisions.

2. Depreciation

This study examines the present depreciation practices. It considers the economic, equity, administrative, and revenue consequences of alternative proposals for flexible depreciation allowances and for accelerated depreciation.

3. Excise taxes on tobacco

This study deals with the taxes on cigarettes, cigars, manufactured tobacco, and cigarette papers.

4. Liquor taxes

This study covers the taxes on distilled spirits, beer and wine, and the rectification taxes.

5. Excise taxes on household appliances

This study relates to excise taxes on refigerators and other electric, gas and oil appliances.

6. Excise taxes on amusements

This study deals with excises on general admissions, cabarets, club dues, billiard and bowling, coin-operated amusement and gambling devices.

7. Excise taxes on radios, phonographs, phonograph records, and musical instruments

8. Allowance for life insurance premiums and other forms of savings

This study examines the desirability for allowing deductions for life insurance premiums and certain other forms of savings from earned income. It considers also the question of current deductibility of employee payments under industrial pension plans, Railroad Retirement and Social Security pensions.

Eight additional studies are in less advanced stages of development and are expected to be completed during the second half of this fiscal year.

1. Exempt corporations, other than farm cooperative associations

This study examines the effects of the present treatment of the various exempt organizations under Section 101 of the Code, including such matters as tax avoidance possibilities and competition with taxable business concerns.

2. Averaging

This study analyzes certain proposals to average incomes for the purpose of equalizing taxes on fluctuating and stable incomes over a period of years. It examines the proposal for the carry-forward and carry-back of unused exemptions under the individual income tax and various suggestions to extend existing provisions of law which provide averaging in some special situations.

3-6 Excise taxes

These studies deal with the legislative history, and supply and demand conditions within the industry, and present data bearing upon any changes that might be necessary in the base or tax rates on passenger cars, trucks, parts and accessories, tires and tubes, gasoline, lubricating oil, transportation of oil by pipeline. Separate studies are in process covering:

(a) Automotive taxes
(b) Electrical energy
(c) Documentary stamps
(d) Miscellaneous taxes on electric light bulbs, photographic apparatus and film, business and store machines, sporting goods, matches, playing cards, safe deposit boxes, fire-arms and shells, pistols and revolvers.

7. Excise tax discrimination between imported and domestic goods

In connection with its consideration of H.R. 6742 (79th Congress), some preliminary study has been given to the matter of discrimination that may exist with respect to excise tax on imported and domestic goods.

8. American corporations doing business abroad

This study concerns tax treatment of income from sources abroad, including such special matters as the income of Western Hemisphere corporations, and income earned in United States possessions.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 4, 1947

Press Service
No. S-518

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 6, 1947, and to mature February 5, 1948, which were offered October 31, 1947, were opened at the Federal Reserve Banks on November 3.

The details of this issue are as follows:

Total applied for - $1,404,303,000
Total accepted - 1,001,883,000 (includes $31,998,000 entered on a non-competitive basis and accepted in full at the average price shown below)

Average price - 99.774 Equiv. rate of discount approx. 0.895% per annum

Range of accepted competitive bids:

High - 99.782 Equiv. rate of discount approx. 0.862% per annum
Low - 99.772 " " " " " 0.902% " "

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

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 1,995,000	$ 1,995,000
New York	1,300,015,000	916,615,000
Philadelphia	15,769,000	15,769,000
Cleveland	1,965,000	1,965,000
Richmond	3,555,000	3,555,000
Atlanta	2,520,000	2,360,000
Chicago	48,863,000	30,463,000
St. Louis	5,855,000	5,405,000
Minneapolis	3,250,000	3,250,000
Kansas City	5,725,000	5,725,000
Dallas	8,115,000	8,105,000
San Francisco	6,676,000	6,676,000
TOTAL	$1,404,303,000	$1,001,883,000

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, November 7, 1947.

Press Service
No. S-519

The Secretary of the Treasury, by this public notice, invites tenders for $1,100,000,000, or thereabouts, of 92-day Treasury bills, for cash and in exchange for Treasury bills maturing November 13, 1947, to be issued on a discount basis under competitive and non-competitive bidding as hereinafter provided. The bills of this series will be dated November 13, 1947, and will mature February 13, 1948, 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 Standard time, Monday, November 10, 1947. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders 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 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, non-competitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on November 13, 1947, in cash or other

immediately available funds or in a like face amount of Treasury bills maturing November 13, 1947. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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 the Internal Revenue Code, or laws amendatory or supplementary thereto. 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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TREASURY DEPARTMENT
Washington

FOR RELEASE, AFTERNOON NEWSPAPERS,
Friday, October 31, 1947.

Press Service
No. S-520

The Treasury Department today made public a study entitled "The Taxation of Farmers' Cooperative Associations", prepared by its Division of Tax Research as one of a series in connection with the Treasury's work on postwar tax revision. The study analyzes the present tax treatment of farm cooperatives and the chief suggestions that have been made for changes in this treatment. It makes no policy recommendations.

While farm cooperatives are only one of numerous cooperative groups, the study observes that they are the most important group and that the issues and problems relating to their taxation are fundamentally the same as for the others.

Through statutory exemption more than half of the farm cooperatives are completely exempt from the income tax, and the exclusion of "patronage dividends" from taxable income results in the remaining farm cooperatives being taxed on only a small part of the net proceeds of their operations. These facts have given rise to charges that the farm cooperative associations enjoy unjustifiable tax advantages over their competitors.

Most of the earnings of the farm cooperatives, however, including cooperatives which are tax exempt by statute, are taxable to patrons and members as individuals. Recipients of limited dividends on the capital stock of cooperatives must account for the dividends as individual income. Patronage dividends paid or credited to patrons constitute an increase in farm receipts or a decrease in farm costs, and thus figure in the taxable income of individual farmers.

Out of this situation arises the basic question whether cooperatives as such should be taxed in a manner more nearly comparable with the taxation of ordinary corporations, or whether economic income earned by the cooperatives should be taxed mainly or exclusively at the individual level, as in the case of unincorporated businesses.

A principal difference between the farm cooperative and the ordinary business corporation lies in the fact that net proceeds of the cooperative, after provision for limited dividends on stock and for necessary reserves, are returnable, not to stockholders in proportion to stock owned, but to members of the cooperative in proportion to the use made of the cooperative's services by each. The amounts so returned to patrons are called patronage dividends.

Full statutory exemption of more than half the farm cooperatives dates back to laws of 1916 and 1921. Eligibility for full exemption is limited to cooperatives which are under obligation to return all net proceeds to patrons without discrimination between members and non members. There are certain other requirements.

There is no express statutory provision for excluding the amounts of patronage dividends from the taxable income of cooperatives, but this exclusion has long been allowed under Treasury rulings and court decisions.

If the exemption statutes were repealed, cooperatives now exempt from all income taxes would become subject to tax on income used to pay dividends on capital stock, on amounts retained in certain reserves, and on their non-operating income. Amounts thus subjected to tax would be relatively small, however, so long as patronage dividends remained excludable. Moreover, exemption repeal would mean that the cooperatives would no longer be subject to present limitations on their dealings with non-farmers and so would be free to extend their activities in urban areas.

Benefits to the cooperatives from exclusion of patronage dividends from taxable income depend on the nature of these payments. Determining the nature of the payments is difficult or impossible, and hence appraising the benefits of exclusion is hard. Insofar as the dividends represent the owner-patron's share in the cooperative's economic income, the cooperative escapes the so-called double taxation imposed on the distributed income of ordinary corporations. But when the payments represent a return of capital, or price adjustments, no special tax advantage accrues.

In connection with the charge that tax privileges of farm cooperatives have given them an advantage over competitors, the Treasury study states that the dollar volume of business done by the cooperatives has increased more than two and a half times since 1939. However, it appears that the business of the cooperatives has not increased faster than that of other types of firms doing business with farmers. There has been an increase in manufacturing by the cooperatives, but such manufacturing is of little significance, in the aggregate.

As changes which have been suggested in the tax treatment of farm cooperatives, the study lists: (1) Repeal of the exemption; (2) inclusion of all patronage dividend amounts in the taxable income; (3) inclusion of patronage dividends paid in non-cash form, while continuing the exclusion of cash dividends; (4) imposition of a gross receipts tax or a tax on invested capital, in lieu of income tax.

The study discusses all of these suggestions and presents data bearing on them.

So long as patronage dividends continue to be excluded from the taxable income of cooperatives, loss of full exemption would impose relatively little tax on cooperatives now exempt.

For a variety of reasons the economic income produced by cooperatives cannot be accurately measured by the amount of patronage dividends distributed, and the appropriateness of using these dividends as a base for assessment of income tax on the cooperatives has been questioned.

The success of a cooperative is not measured in terms of its own income, or of the size of its patronage dividends. Inclusion of these dividends in the taxable income of the cooperatives might merely induce more of them to set their prices so as to minimize the amount of patronage dividends.

If non-cash patronage dividends were included in the taxable income of cooperatives, while cash patronage dividends continued to be excluded, it appears that most cooperatives would still be able to build up substantial amounts of capital out of earnings not taxed to them, by levying assessments against members and by similar devices.

The idea of a tax on gross receipts or sales of farm cooperatives, or on invested capital, as an alternative to the income tax method meets the obstacle that it would be very difficult if not impossible to devise rates which would be equivalent to the income taxation of ordinary corporations.

One of the statistical tables in the study places the number of farmers' marketing and purchasing cooperative associations in the United States at 10,150 as of the 1944-45 marketing season. They had an estimated membership of 4,506,000 and an estimated business of $5,645,000,000.

About 94 percent of these cooperatives are local associations operating in a relatively small area. A substantial proportion of the total volume of marketing and purchasing done by farm cooperatives is, however, accounted for by large-scale centralized or federalized associations doing business over larger areas.

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THE TAXATION OF FARMERS' COOPERATIVE ASSOCIATIONS

Division of Tax Research, Treasury Department
October 1947

The Taxation of Farmers' Cooperative Associations

The controversial question of the taxation of farmers' cooperative associations is only one aspect of the broader problem of taxation of various forms of business enterprise. The basic issue is whether the cooperative associations as such should pay such taxes as would make their treatment more nearly comparable with that of ordinary corporations or whether economic income earned by the cooperatives should be taxed mainly or exclusively at the individual level, as is the case with unincorporated businesses.

Farmers' marketing and purchasing associations are only one of a number of groups of cooperative associations that share their benefits primarily among patrons on the basis of use made of the organization rather than among investors on the basis of capital supplied. The farm cooperatives, however, are the most important of these groups, and the issues and problems relating to their taxation are fundamentally the same as for the other cooperatives.

This report analyzes the present tax treatment of farm cooperatives and the chief suggestions that have been made for revision. The report makes no policy recommendations, but it presents considerations relevant to an appraisal of the various methods of taxation.

The study was prepared in the Business Tax Section of the Division of Tax Research. In its preparation valuable assistance and suggestions were received from other members of the Treasury tax staff, including consultation with members of the Office of Tax Legislative Counsel on legal matters and of the Bureau of Internal Revenue on administrative matters.

In the preparation of this study, extensive use was made of basic data and technical information made available by the Cooperative Research and Service Division of the Farm Credit Administration, Department of Agriculture. The report, however, is not to be construed as necessarily reflecting in any way the views of the Farm Credit Administration.

This subject has been under consideration by a committee composed of the technical tax staffs of the Treasury Department and the Joint Committee on Internal Revenue Taxation. An earlier draft of this study was made available to the committee, and the study has benefited at various points by the committee's discussions. The material contained herein, however, is not to be considered as necessarily representing in any way the views of the staff of the Joint Committee on Internal Revenue Taxation.

Division of Tax Research
U.S. Treasury Department

October 1947

The Taxation of Farmers' Cooperative Associations

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The Taxation of Farmers' Cooperative Associations

SUMMARY

I. Introduction

Farmers' cooperative associations, it has been charged, are now enjoying unjustifiable tax advantages over their competitors. The relatively small amount of income tax paid by these cooperatives, which is the basis of this complaint, is attributable to (1) the statutory exemption from income tax of certain of the associations and (2) the exclusion from their taxable income, under Treasury rulings and court decisions, of patronage dividends paid by other cooperatives. As a result of the exemption, more than one-half of farm cooperatives are completely exempt from the income tax. As a result of the exclusion of patronage dividends, the remaining farm cooperatives are subject to tax on only a small part of the net proceeds of their operations.

Although farm cooperative associations themselves pay relatively little income tax, most of the income earned, even by tax-exempt cooperatives, should affect the tax liabilities of patrons and members. The limited dividends on capital stock of cooperatives are taxable income to recipients. Patronage dividends paid or credited to patrons constitute an increase in farm receipts or a decrease in farm costs and thus should enter into the taxable income of individual farmers. The tax treatment of exempt farm cooperatives is therefore in principle similar to the treatment of partnerships and proprietorships, which pay no tax as such but whose participants are taxed on the income they derive from the business. The exception to this analogy is the treatment of certain reserves set up out of earnings by exempt cooperatives, which are subject to tax to neither the association nor its members. In the case of taxable cooperatives, income used to pay dividends on capital stock and as reserves is taxed to the association under the corporation income tax.

In the present controversy over the taxation of farm cooperatives, the basic questions at issue are whether the income earned by the cooperatives should be taxed more heavily to the associations as distinguished from their members and, if so, how this can best be accomplished.

The purpose of this report is to discuss the considerations relevant to an appraisal of the present and alternative methods of taxing farm cooperatives.

II. Purpose, structure, and importance of farmers' cooperative associations

Cooperative associations today engage in a wide variety of business activities, the primary purpose of which is to increase the income which their farmer members derive from farming. The principal difference between the farm cooperative and the ordinary business corporation lies in the fact that all net proceeds remaining after provision for limited dividends on stock and for necessary reserves are returnable, not to stockholders in proportion to stock owned, but to the members of the cooperative in proportion to the use made of the association by each. The amounts so returned to patrons are usually called "patronage dividends" or "patronage refunds".

At the present time, there are about 10,150 farmers' marketing and purchasing associations active in the United States. For the marketing season 1944-45, they reported an aggregate volume of business of $5,645 million. About 94 percent of these cooperatives are local associations whose operations are confined to a relatively small area. A substantial proportion of the total volume of marketing and purchasing done by farm cooperatives is, however, accounted for by large-scale centralized or federated cooperative associations which operate over larger areas. Some of these large-scale cooperatives also engage in the processing of farm products and in the manufacturing of farm supplies, but the non-trading activities of farm cooperatives are economically significant only in a very few lines.

The individual farmer shares in the benefits of the cooperative mainly as a patron, but, as a supplier of capital, he receives a limited return on his equity in the association. As a patron, the farmer's share in the success of the cooperative takes the form of patronage dividends or higher prices for the products he sells or lower prices for the products he buys.

The extent of use of patronage dividends as distinguished from direct price adjustments varies widely among cooperatives. Some associations attempt to pay patronage dividends reflecting their actual trading margins, but others do not use patronage dividends at all or pay amounts that may either overstate or understate their trading margins. From a statistical study made in 1936, it appears that out of the 10,752 farm marketing and purchasing associations active at that time, only 32 percent of the former and 54 percent of the latter reported payment of patronage dividends.

Farm cooperatives do not distribute all of their patronage dividends in cash form. They often retain a part of their net proceeds for use as working or fixed capital and distribute patronage dividends in the form of stock, certificates of equity, certificates of indebtedness, or book credits. Furthermore, to a limited extent, cooperatives

may secure capital funds by setting up certain reserves out of earnings before computing the amount to be returned to patrons. Finally, capital may be secured by direct assessments on members levied in proportion to the use made of the association.

III. Present tax treatment of farm cooperatives under the Federal income tax

A. Background of the present treatment

The present tax treatment of farm cooperatives has been in effect since the early years of the Federal income tax. Express statutory exemption from income tax was granted, under certain conditions, to marketing associations in 1916 and to purchasing associations in 1921. Although there is no express statutory provision for the exclusion of patronage dividends from the income of the cooperatives, the Treasury and the courts have interpreted the law as permitting cooperatives to exclude (or deduct) from their taxable income patronage dividends or refunds paid in accordance with a contractual or other definite obligation.

B. Tax exemption

Eligibility for income-tax exemption has always been limited to associations under obligation to return all net proceeds to patrons without discrimination between members and non-members. In the case of exempt marketing cooperatives, all of the business must arise from producers, and in the case of exempt purchasing associations, not more than 15 percent of total business may be done for those who are neither producers nor members. Exempt cooperatives must also limit their dividends on capital stock. They are not prevented from engaging in manufacturing or processing where such activities are necessary to the efficient discharge of their basic functions.

Although the tax advantages attributable to the exemption as such are relatively small, exempt cooperatives would lose certain benefits if the exemption were repealed but the exclusion of patronage dividends continued. Associationsnow exempt from all income taxes would become subject to tax on income used to pay dividends on capital stock, on amounts retained in certain reserves, and on their non-operating income. On the other hand, these cooperatives would no longer be subject to the present limitations on their dealings with non-farmers and so would be free to extend their activities in urban areas.

C. Patronage-dividend exclusion

Exclusion of patronage dividends or refunds from taxable income is not limited to cooperatives. In the case of both cooperatives and ordinary corporations, patronage dividends or price rebates are excludable if paid in accordance with a contractual obligation in effect at the time of the transaction. There is, of course, this basic difference: member-patrons receiving refunds from cooperatives, unlike patrons of ordinary businesses, are also the owners of the enterprise. If, however, members of the cooperative alone are eligible to receive patronage dividends, dividends representing profits from transactions with non-members are not excludable. For purposes of the exclusion, non-cash forms of payment are regarded as the equivalent of cash distributions.

The benefits that farm cooperatives derive from the exclusion of patronage dividends from their taxable incomes depend on the nature of these payments. To the extent that patronage dividends represent the owner-patron's share in the association's net operating margin, the exclusion gives cooperatives the advantages of the partnership treatment by freeing them of the so-called double taxation imposed on the distributed income of ordinary corporations. To the extent, however, that patronage dividends represent non-income elements--items analogous to selling expenses of ordinary businesses or evidences of capital contributions of patrons--their exclusion from taxable income of the cooperatives confers no special tax advantage. Since it is difficult or impossible to separate patronage dividends into their components, it is extremely hard to appraise the benefits of the exclusion.

D. Effect of present tax treatment on competitive position of farm cooperatives

It has been charged that the complete or virtual tax immunity of farm cooperatives from income tax has given these associations an advantage over their competitors. It is true that the dollar volume of business done by farm cooperatives has increased more than two and one-half times since 1939, but the increases in cooperative marketing and purchasing are no greater in the aggregate than the increases in total cash receipts from farm marketing and purchasing. There is no evidence that the associations as a whole have enlarged their relative share of the total market in recent years. There has been an increase in manufacturing by cooperatives, but in the aggregate this type of activity is of little significance.

IV. Considerations relating to proposed changes in the present tax treatment of farm cooperatives

A. Changes proposed in the present treatment

Among the suggestions that have been made for revising the present tax treatment of farm cooperatives are: (1) repeal of the exemption; (2) inclusion of all patronage dividends in the taxable income of farm

cooperatives; (3) inclusion of patronage dividends paid in non-cash form in the taxable income of farm cooperatives, while continuing the exclusion of cash patronage dividends; and (4) imposition of a gross-receipts tax or a tax on invested capital, in lieu of income tax on farm cooperatives.

B. Repeal of the exemption

The exemption of eligible farm cooperatives from income tax has been defended on the grounds that these associations (1) operate in the public interest, (2) are not themselves profit-making institutions, and (3) are more nearly analogous to partnerships than to ordinary corporations. Those who urge repeal of the exemption argue that the cooperatives closely resemble ordinary corporations in economic functions, organization, and operations, and hence should be taxed like ordinary corporations.

In appraising the arguments for and against the exemption, it may be recognized that there is always a presumption against any tax exemption. This presumption can be overcome only by a convincing demonstration that the exemption is in the public interest.

So long as patronage dividends continue to be excluded from the gross income of cooperatives, loss of the exemption would impose relatively little tax on cooperatives now exempt.

Short of full repeal, it has been suggested that the exemption should be confined to small local cooperatives. This, however, would raise a difficult problem of fairly determining eligibility for the exemption. It has been suggested that, if the exemption is retained, certain ambiguities in the present law, such as those relating to the treatment of income from manufacturing operations or from by-products, should be cleared up.

C. Require the inclusion of all patronage dividends in the income of cooperatives

The exclusion of patronage dividends from the gross income of cooperatives has been defended on the grounds that (1) patronage dividends are price rebates and as such are not income of the association within the meaning of the Sixteenth Amendment, (2) the cooperatives are acting merely as agents of patrons and have no interest in the net proceeds of their operations, and (3) even if patronage dividends could be constitutionally taxed to the cooperatives, they should not be so taxed because it is impossible to determine to what extent they represent distributions of income and to what extent they do not. Those who favor the inclusion of patronage dividends in the gross income of cooperatives deny each of these contentions.

Court decisions have been cited by those who take positions on either side of the constitutional issue as to whether patronage dividends can be regarded as a part of the income of the cooperatives. The issue, however, is not likely to be finally decided unless Congress specifically presents it to the courts by discontinuing the exclusion.

A successfully operated farm cooperative will ordinarily produce some economic income over a period of years, especially if it uses any significant amount of capital and assumes any significant degree of risk. It does not, of course, necessarily follow that this economic income should be taxed to the cooperative, as distinguished from its patrons and members. There are numerous instances where the incomes of certain types of business organizations are not taxed to the business entity as such.

The economic income produced by cooperatives, moreover, cannot be accurately measured by the amount of patronage dividends distributed. Many cooperatives so conduct their business that no patronage dividends are needed to return benefits to patrons. In other cases, patronage dividends overstate the income earned by cooperatives because they merely take the place of special services, such as free delivery and credit, which would give rise to allowable cost-deductions in the case of ordinary businesses. In still other cases, marketing cooperatives deliberately set prices paid below the market, or purchasing cooperatives set prices charged above the market, in order to accumulate capital. In these cases, patronage dividends are paid in non-cash form as evidence of patrons' capital contributions and do not represent solely the economic income produced by the cooperative. For these and other reasons, the appropriateness of patronage dividends as a base for assessment of income tax on cooperatives has been questioned.

Moreover, the success of the cooperative association is not measured in terms of its own income, or of the size of its patronage dividends. Therefore, the inclusion of patronage dividends in the gross income of the cooperatives might merely induce more of the associations to set their prices so as to minimize their patronage dividends. Methods of preventing this have been suggested, but it does not appear likely that they could produce satisfactory results.

D. Continue the exclusion of cash patronage dividends but require the inclusion of non-cash patronage dividends in the income of cooperatives

A special case has been advanced for the inclusion of non-cash patronage dividends in the income of cooperatives, while continuing the exclusion of cash patronage dividends. Those who favor this approach argue that most patrons have little real choice as to the form in which they receive their patronage dividends, and that non-cash patronage dividends cannot be readily converted into cash. They conclude that these payments therefore cannot be regarded as true

rebates but should be considered a part of the income of the cooperative. Dissenters from this conclusion emphasize that membership in a cooperative is voluntary and that members actively participate in decisions with respect to payment of patronage dividends.

If non-cash patronage dividends were included in the taxable income of cooperatives, while cash patronage dividends were excluded, it appears that most of the associations would still be able to build up substantial amounts of capital out of earnings not taxed to the association. This could be done by such devices as giving patrons the option to receive cash or stock, which would probably be held by the courts to be equivalent to a cash distribution and hence excludable. It would also be possible for many cooperatives to make wider use of direct assessments on patrons in proportion to cash patronage dividends received.

E. Alternatives to the income tax a method of taxing farm cooperatives

The difficulties that would be encountered in attempting to include patronage dividends in the taxable income of farm cooperatives have persuaded some critics of the present treatment that an alternative tax should be imposed on cooperatives in lieu of the income tax.

1. Gross receipts tax

One such alternative would be a tax based on gross receipts or sales. It would, however, be impossible to select any one rate of tax on gross sales which would be approximately equivalent to a corporate income tax on the economic income earned by cooperatives. The amount of net income earned on a dollar of gross sales varies widely among manufacturers, wholesalers, and retailers in different lines and among firms in the same line. Attempts to select different rates for different types of cooperatives would result in great difficulties and would still leave the equity problem unsolved in borderline cases. Moreover, it is generally agreed that a gross receipts tax is more likely to be passed on to consumers than is a net income tax, and, at least in the case of large marketing associations, the tax might therefore fail to achieve its objective.

2. Tax on invested capital

Another alternative tax that has been suggested is one based on invested capital. As in the case of a gross receipts tax, the selection of a rate that would approximate a tax on net income would be difficult, if not impossible. Moreover, a tax on invested capital would bear more heavily on weak cooperatives than on strong and successful associations. Such a tax would give rise to serious administrative and legal problems in connection with the definition and valuation of invested capital.

The Taxation of Farmers' Cooperative Associations

I. Introduction

The taxation of farmers' cooperative associations is a highly controversial issue of postwar taxation. Existing law exempts more than one-half of farmers' cooperative associations from the income tax altogether. Under rulings of the Bureau of Internal Revenue and court decisions the remaining associations are allowed to exclude so-called patronage refunds or dividends from their taxable income. Since cooperatives are required by their charters or by-laws to distribute to their members on the basis of patronage all of their net proceeds after provision for limited dividends on capital stock and for necessary reserves, the amount of taxable income reported by non-exempt associations is ordinarily very small. Patronage dividends, whether paid in cash or non-cash form, are includible, however, in the taxable income of the individual farmer-patron.

Farmers' cooperative marketing and purchasing associations are only one group of a wide variety of voluntary business associations whose benefits are shared among participants in proportion to each individual's use of the organization rather than in proportion to equity capital supplied. The tax treatment of all of these associations raises controversial issues. This report, however, is primarily concerned with the problems and considerations raised by the farmers' cooperatives. Farmers' cooperatives are of much greater economic importance than the other groups, and the tax controversy has centered almost entirely on them. Moreover, most of the essential economic, legal, and administrative issues raised apply equally to all cooperative associations. 1/

Although farmers' cooperative associations have long been favorably regarded because of their contributions to the economic well-being of the American farmer, the disparity between their Federal income tax payments and those of ordinary business corporations has occasioned much criticism. In the prewar years of relatively low corporate tax rates, few questioned the treatment accorded farm cooperatives under the income tax law and regulations. With the wartime increases in corporate tax rates, however, complaints became more widespread. At a time when ordinary trading corporations with gross sales of $59 billion were paying Federal income taxes of nearly $2 billion, 2/ farm cooperatives with $5 billion of sales are estimated to have been paying no more than $10-$20 million of Federal income taxes. This sharp difference in tax

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1/ The economic importance and the present tax treatment of the types of cooperatives not specifically discussed in the body of this report are outlined in Appendix A.

2/ Preliminary statistics for corporation income and declared-value excess-profits tax returns for 1944, Treasury Press Service, No. S-275.

liabilities, it has been charged, violates the principle that persons and firms in substantially similar circumstances should pay substantially the same taxes and also gives the cooperative associations an unjustifiable competitive advantage over ordinary corporations. Moreover, the virtual freedom of farm cooperatives from Federal income taxes is said to deprive the Government of much-needed revenue.

Although the exemption of certain farm cooperatives from the income tax and the exclusion of patronage dividends from the taxable income of non-exempt farm cooperatives are said to give these organizations a substantial tax advantage over ordinary corporations, the tax treatment accorded them is essentially similar to that applied to partnerships and sole proprietorships. Under the present Federal tax law, unincorporated businesses are not taxed as such. Instead, all of the income arising from such businesses is taxed in the hands of the individual proprietor or partners. Proprietorship and partnership profits are not, therefore, tax free although they are not subject to the so-called double taxation imposed on distributed corporate profits. Similarly, cooperative profits, even when earned by exempt associations, are not tax free except to the extent they are retained in certain reserves. When earned by non-exempt associations, cooperative earnings are in no case tax free. Patronage dividends of marketing associations should enter directly into the income of patrons as receipts from sale of farm produce, and patronage dividends of purchasing associations should enter indirectly into the income of patrons as a reduction in the cost of production of farm products sold by the patrons. 1/

Thus profits of cooperatives, although lightly taxed or completely exempt in the hands of the associations, are, in the main, taxed like other income in the hands of the stockholders and patrons. The question at issue is, therefore, not whether the profits of cooperatives should be taxed or not taxed, but whether the income earned by these organizations should be more heavily taxed before it is distributed to the individual owners of the business.

Those who hold that cooperative associations as such should pay heavier taxes suggest various revisions. Some would be content merely to repeal the exemption; others would not be satisfied unless in addition patronage dividends were included in the gross income of the cooperative associations. Still others, impressed with the difficulties of taxing cooperative associations fairly under the corporation income tax, would instead subject them to a special tax based on some other measure of their ability to pay.

Another approach to equalizing taxes on cooperatives and ordinary corporations would be to give all corporations a deduction for dividends paid. Although this proposal has been advanced as a solution to the

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1/ Opinions differ concerning the extent to which farmer patrons underreport patronage dividends in their income tax returns. There is undoubtedly some under-reporting although both the Treasury and the cooperative associations themselves have undertaken to instruct farmers in the matter.

cooperative tax problem, it raises issues of general tax policy which are outside the scope of this report and hence will not be given detailed consideration here. 1/

This report examines the character and background of the present tax treatment of farm cooperatives, considers the extent to which these associations currently enjoy tax advantages over other corporate enterprises, and analyzes some of the proposals which have been advanced for increasing taxes on cooperatives. Section II describes the structure, purpose, and importance of farm cooperatives, the ways in which they conduct their business operations, and how they serve their farmer-members. Section III develops the background of the present tax treatment, outlines the scope of the exemption and the patronage-dividend exclusion, and discusses the benefits derived from each. Section IV considers various proposed changes in the present tax treatment, including the repeal of the exemption, the inclusion of patronage dividends in the gross income of the association, and the subjection of cooperative associations to either a gross receipts tax or a tax based on invested capital in lieu of the corporation income tax. The report contains no policy recommendations, but considerations relevant to the formulation of tax policy are discussed.

No attempt is made in this report to appraise either the economic or the social contribution of the farm cooperative movement to the Nation as a whole, or to determine the extent to which these organizations either deserve or need assistance from the Federal Government.

II. Purpose, structure, and importance of farmers' cooperative associations

A. Purpose and structure

The agricultural cooperative movement in the United States is more than a century old. Cooperative marketing and purchasing organizations grew out of the economic necessity of individual farmers' finding an efficient method of marketing their crops and of purchasing their supplies. Handicapped by their isolation, by their lack of knowledge of the markets in which they had to deal, by their weak bargaining position in those markets, and by their lack of capital, farmers sought to improve their economic situation through group action.

1/ For a discussion of issues relating to the taxation of corporate profits, see The Postwar Corporation Tax Structure (Treasury Department, Division of Tax Research, 1946). The proposal to allow corporations a deduction or credit for dividends paid is discussed in that report at pp. 37-46.

Over the years, farmers' cooperative associations have grown in strength and numbers and have expanded the scope of their activities. They have received a variety of financial and other assistance from the Federal Government. 1/

The incorporated cooperative association, like any other corporation, is an artificial entity created by law with a life independent of the people who own, manage, and do business with it. Moreover, like other incorporated enterprises organized to carry on some form of business activity, the farm cooperative has a business purpose. It exists to serve its farmer members and to increase the profits they derive from farming. In this respect, the cooperatives differ from charitable and educational corporations whose primary functions are not directed to the economic advantage of their owners and organizers.

Although farm cooperatives are in many ways similar to ordinary business corporations, there is one significant difference. The owners of the cooperatives are also their principal patrons. While most cooperatives issue capital stock, as do ordinary corporations, the dividends paid on such shares (and on preferred shares, if these are issued) are strictly limited. Moreover, there are many non-stock associations which issue membership certificates as evidences of "residual equities" in their assets. Whether the association is organized with or without stock, however, all amounts remaining after provision for limited dividends on equity capital and for necessary reserves are returnable to the patrons of the association in proportion to the use made of the association by each. 2/ Amounts so returned to patrons are usually called patronage refunds or patronage dividends. 3/

1/ For a history of the development of farm cooperatives in the United States, see R. H. Ellsworth, The Story of Farmers' Cooperatives (Farm Credit Administration, Circular E-23).

2/ In order for an organization to be considered a cooperative, it is not necessary for all classes of patrons to have equal ownership rights. Some cooperatives provide different participations for member patrons (i.e., those who are also capital contributors) and non-member patrons. This practice, however, is more common among British cooperatives than those in the United States.

3/ There is, however, no uniformity among cooperatives in the terminology applied to these distributions. In fact, there is a growing tendency among cooperative accountants to abandon the term "patronage dividend" in favor of what they consider to be more expressive terms. The term "patronage dividend" is used in this report solely because of its acceptance in ordinary usage and not to imply any analogy to ordinary corporation dividends.

B. Economic importance of farm cooperatives 1/

At the present time, about 10,150 farmers' marketing and purchasing associations are active in the United States. One out of every three farmers is believed to be a member of at least one cooperative. About 73 percent of the associations (7,400 organizations) are engaged primarily in the marketing of farm products and the remaining 27 percent (2,750 organizations) primarily in purchasing farm supplies. These cooperatives are spread widely throughout the country, although there is a natural concentration in such major agricultural States as California, Minnesota, Illinois, Iowa, and Wisconsin.

In the 1944-45 marketing season, the 10,150 farm cooperatives had an aggregate volume of business (valued at the farm level) of $5,645 million, of which 81 percent ($4,550 million) represented farm products marketed and 19 percent ($1,095 million) farm supplies purchased. These cooperatives handled at some stage in the marketing process during that season about 60 percent of citrus fruits and cranberries, 50 percent of dried skim milk and fluid milk, 40 percent of creamery butter, and 20 percent of livestock marketed through public commercial market channels. In their purchasing operations, farm cooperatives accounted also for substantial proportions of the feed, fertilizer, and automotive fuels and lubricants used by farmers. The number of farmers' cooperative marketing and purchasing associations, the number of their members, and their dollar volume of business for 1944-45 by type of product are shown in Appendix B.

C. Variations in organizations and operations

Ninety-four percent of the 10,150 farm cooperatives are local associations, whose operations are confined to the relatively small area in which farmers can be conveniently served from a single outlet. Some of these are more or less informal associations formed for buying and selling in carload lots, but many provide warehouse and storage facilities, basic marketing services (such as grading, packing, or elementary processing), or formal retailing and service stores. Some are purely bargaining associations, leaving each farmer to make his own sale; others act solely as brokers between the farmer and purchaser of his products (or the seller of his supplies); still others take title to the goods handled. Control over such associations is usually vested in a board of directors elected directly by the members. In the election of directors each member usually has but one vote irrespective of the number of shares owned, and voting by proxy is generally not allowed.

1/ All data on farm cooperatives obtained from the U. S. Department of Agriculture, Farm Credit Administration, Cooperative Research and Service Division.

Although the vast bulk of the associations are small and local in character, many of them are either members of, or affiliated with, large-scale centralized and federated cooperative associations. The centralized associations are regional associations operating over a larger area than can be served by a local association. As in the case of the latter, however, the members of the centralized associations are individual producers who directly select the board of directors of the association. 1/ The federated associations are also regional or large-scale organizations, but their members are wholly or predominantly cooperative associations and in some cases are cooperative associations that are themselves federations. Federations are controlled by boards of directors chosen by duly elected representatives of the members in the local organizations.

In 1942-43 (the latest year for which data of this sort are available) about 43 percent of the total volume of marketing done by farm cooperatives was accounted for by 48 federated or centralized regional cooperatives, each with a business volume of more than $10 million. In addition, there were 10 federated or centralized regional purchasing cooperatives with an annual volume of more than $10 million each, which accounted for about 35 percent of the total purchasing volume of all farm cooperatives. These large-scale regional cooperatives, and the inter-regional associations formed in turn by them, frequently carry cooperation further along the chain of distribution, sometimes to the ultimate consumer (in the case of marketing associations) or to the basic manufacturing stages (in the case of purchasing associations). Among the purchasing cooperatives these operations are associated mainly with the production of feed and fertilizer, although a number of paint factories, sawmills, and oil refineries are operated by cooperative associations. Among the marketing cooperatives, advanced processing is carried on mainly in creameries and cheese factories, cotton gins, canneries, and dehydrating plants, although a few associations operate flour and cereal mills, wineries, sugar mills, and nut processing and packaging plants. Despite the wide variety of activities in which farm cooperatives are currently engaged, it appears that the number of true manufacturing plants owned and operated by them is still very small, and that cooperative manufacturing is economically significant only in a very few lines. 2/

D. How cooperatives serve the farmer

Farmers' marketing and purchasing associations are organized for the purpose of increasing receipts from the sale of farm products and lowering the costs of farm supplies. The ultimate purpose of these associations is, therefore, to increase farm profits.

1/ In very large organizations, the members sometimes elect a delegate from each local area, and these delegates in turn elect board members at the annual meeting.

2/ See Appendix D.

There are various ways in which farm cooperatives can increase farm income. They may lower the cost of farm supplies by purchasing in bulk and by taking advantage of trade discounts. Purchasing associations with experienced, full-time managers can protect their members against adulterated and inferior merchandise, and can assist them in the selection of those supplies which are best suited to the needs of particular farms. They can time their purchases to take advantage of favorable market situations and exercise a wider choice in the selection of sources of supply. They may extend the scope of their operations from merely trading to manufacturing and extraction. Marketing cooperatives may increase receipts from the sale of farm products by providing their members with more efficient and economical sales services. Products may be stored, graded and further processed to increase their salability. Competition between farmers in a particular area may be reduced and their bargaining position in the principal markets for their products improved; trademarks or trade names may be established, and the quality of products may be improved.

In addition, the capital contributions of farmers to cooperatives enable them to share in the normal profits derived from the handling of farm products and farm supplies. Among the marketing associations, these investments have taken such forms as grain elevators, cotton gins and cottonseed oil mills, creameries and cheese factories, and in the case of the purchasing associations, investments have been made in warehouses, retail outlets, fertilizer factories, and oil refineries.

Not all of the income derived by the members of a cooperative from the association is directly attributable to their patronage. Some cooperatives do substantial amounts of business with non-members who are not permitted to share in patronage dividends. Others have bought or sold agricultural products for the Federal Government under terms which have permitted the net proceeds from these sales to be distributed to the ordinary patron along with their own patronage refunds. 1/

Although there are few services which the cooperative associations provide to farmers that ordinary corporations could not provide, the patronage dividend which they hold out to their patrons is a powerful competitive force. Once a cooperative association has established itself, farmers frequently find that they can do business with private firms on terms which are equally favorable to those on which they deal with the cooperative. The very presence of the cooperative as a competitor in a given market often enables all the farmers in that

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1/ In practice, this appears to have been true mainly in the case of service cooperatives. Marketing contracts with the Federal Government usually provide for refunds to the Government.

market to sell and buy on better terms than they could in its absence. The benefits of cooperation are, therefore, not necessarily limited to those farmers who patronize cooperative associations.

Although the ordinary corporation usually can and frequently does perform the same services for farmers as those performed by the cooperative association, it must be recognized that the primary objective of the ordinary corporation is that of making a profit for its owners. There is, therefore, an inevitable conflict of interest between the ordinary corporation as buyer or seller and the farmers with whom it does business. The cooperative, on the other hand, is usually so organized that the interest of each member as an owner is at least roughly proportional to his interest as a customer. This means that there is no conflict between the objectives of the cooperative and of its member-patrons.

E. How farmers share in the benefits of cooperation

The individual farmer is ordinarily both an investor in, and a patron of, the cooperative association of which he is a member. His contribution to the success of the venture is, therefore, a twofold one, involving both his capital and his patronage. As an investor in the association, he is promised a limited return on his equity in the association. As a patron, he is promised his proportionate share in the savings made possible by his contribution to the pooling of purchases or sales and in any income which the association may derive from its activities.

The individual farmer's share—as patron—in the success of the cooperative association of which he is a member may or may not be reflected in the size of his patronage dividend. The patronage dividend payments received by the farmer at the close of the year may not fully reflect his proportionate share in the gains from cooperative buying or selling. The size of the patronage dividend is determined by the particular pricing methods of the association, as well as by its efficiency in buying and selling.

In this connection, three distinct types of pricing policies may be noted. In the first category is found the so-called Rochdale type of pricing policy, the distinguishing feature of which is the fact that the prices at which the cooperative buys from and sells to the farmer are the going market prices for the commodities handled. Patronage dividend payments in this case may therefore be said to represent the difference between such prices and the necessary expenses of the association. The second category covers those situations where it is not feasible to follow a market price policy, yet where the cooperative is under the legal obligation to return all net proceeds to its patrons, and may therefore pay patronage dividends.

In some cases, for example, there may be no clearly established market price because of lack of competition; and the prices paid by a marketing association may be more or less arbitrary. Final payments to patrons in such cases are an adjustment which does not accurately measure the gain from cooperative buying or selling. The third category includes those cases where a purchasing association follows the practice of selling at cost-plus-estimated expenses or where a marketing association pays a price based on sales value minus estimated cost of operation. In such cases, patronage dividends will be paid infrequently if at all. Whatever benefits the patron may derive from his dealings with the association will be currently reflected in the higher prices he receives for his product or the lower prices he pays for his supplies.

In practice, it appears that a large proportion of cooperatives return the benefits of cooperation to their members without the use of patronage dividends. The prevailing-price-patronage-dividend technique originated among the purchasing cooperatives and has not been universally adopted by marketing associations, although charters and by-laws permit its use. Even among purchasing cooperatives, a few of the associations sell directly at cost-plus-estimated expenses, or at a price below the market, but high enough to yield small patronage dividends. 1/

The typical marketing cooperative operates under a marketing contract in which the association undertakes to pay the farmer the entire proceeds from the sale of his product, less certain deductions for handling expenses and for capital contributions. 2/ In some cases, the farmer receives the full going local price upon delivery to the cooperative, but more often he gets only a down payment, the balance to be paid in successive installments as the crop is sold. The size of the down payment is determined by custom or by the financial condition of the association and does not represent what the farmer could have received had he sold his product outright to private buyers. The sum of the installments represents the net or adjusted price of the product after all or most of the cooperative's expenses have been deducted. Usually, no attempt is made to segregate amounts representing the local market price of the product from the net distributed proceeds of the cooperative.

1/ The practice of pricing on a cost-plus-expenses basis was common 20 years ago, but has been largely abandoned because of the resentment of competitors.

2/ Since these capital payments are deducted from gross sales proceeds, they are not non-cash patronage dividends, but direct capital contributions or assessments on a patronage basis.

No current data are available showing how many cooperatives follow the prevailing-price-patronage-dividend method, but some information is available from a statistical study of cooperatives made in 1936. 1/ In that year, there were 10,752 farmers' marketing and purchasing associations. Of the 7,428 associations engaged primarily in marketing, only 2,339, or 32 percent, reported payment of patronage dividends. Of the 3,324 purchasing associations, 54 percent reported patronage dividends. The combined ratio for all associations was about 35 percent. These figures are, of course, not conclusive, since some cooperatives which ordinarily pay patronage dividends may have failed to do so in 1936. Moreover, the aggregate figures do not give sufficient weight to the large associations and to those in the more important marketing fields where patronage dividends are the rule. Nevertheless, these 1936 data indicate that a significant proportion of cooperatives do not distribute any of the benefits of cooperation in the form of patronage dividends.

One advantage of operating on the prevailing-price method is that it enables the associations to use their net margins as a source of capital. Patronage dividends are not always paid out in cash. Under the by-laws of many associations, the patrons are either required or given the option to leave amounts due them with the association. In lieu of cash, the patron may receive an interest-bearing or non-interest-bearing certificate of indebtedness, a certificate of equity, or additional shares of capital stock. This enables the association to build up its working capital and, over a period of time, gives the patron an investment in the association proportional to the amounts of business he does with it. 2/

Some of the benefits derived by the patrons from their dealings with cooperative associations accrue only indirectly. Cooperatives are permitted to obtain capital funds by setting up reserves without making a corresponding non-cash distribution to their patrons. Most of the State laws under which farm cooperatives operate require certain amounts to be set aside for general contingencies. In addition to these mandatory reserves, however, cooperatives frequently accumulate reserves for specific contingencies and other purposes.

1/ Statistical Handbook of Farmers' Cooperatives, Farm Credit Administration, Cooperative Division, Washington, 1938. Bulletin 26.

2/ A substantial number of associations issue capital stock, certificates or other evidences of equity interest or simple book credits in connection with the revolving-fund method of financing. Where the revolving-fund method is used, the oldest outstanding capital is retired after a sufficient amount of capital has been built up. Thereafter, as additional capital becomes available, a similar amount of older capital is retired.

III. Present tax treatment of farm cooperatives under the Federal income tax

A. Background of the present treatment

The Act of 1913, which imposed the first income tax under the Sixteenth Amendment, made no specific reference to farmers' cooperative associations, but it did expressly exempt from tax "agricultural and horticultural organizations." The Treasury Department construed this exemption to include all farmer and fruit grower associations without capital stock represented by shares, if their purpose was to promote the mutual benefit of their members in growing, harvesting, and marketing their products and if their income was derived wholly from membership fees, dues, and assessments to meet necessary expenses. 1/

The 1913 Act also exempted mutual savings banks not having any capital stock represented by shares. However, it prescribed a rather different treatment for mutual fire insurance companies whose members made premium deposits to provide for losses and expenses. These insurance companies were not required to include in taxable income any portion of the premiums returned to their policyholders as so-called policy dividends. Income from other sources and premium payments retained by these companies for purposes other than the payment of losses and expenses and reinsurance reserves were, however, taxable. The Treasury by analogy adopted in 1914 a similar rule for farm cooperative associations which were not eligible for exemption under the 1913 Act and permitted them to exclude patronage dividends from gross income. 2/

In 1916, Congress specifically extended the exemption to "farmers', fruit growers', or like associations, organized and operated as the sales agent for the purpose of marketing the products of its members and turning back to them the proceeds of sales less necessary selling expenses, on the basis of the quantity of produce furnished by them." 3/ Express statutory exemption was granted on the same terms to agricultural purchasing cooperatives in 1921. 4/ In order to qualify for the exemption under the 1916 Act, a cooperative had to satisfy the Commissioner of Internal Revenue that its business was that of marketing products for its members and that the entire proceeds of such marketing had to be turned back or paid to such members on the basis of the quantity of produce turned in by them. 5/ The Regulations under the 1916 Act, like those under the 1913 Act, provided that any cooperative

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1/ T.D. 1742.
2/ See T.D. 1996.
3/ Section 11(a) Eleventh, Revenue Act of 1916.
4/ Section 231(11), Revenue Act of 1921.
5/ Regulations 33, Art. 75.

association which could not qualify for the exemption, because it did not act strictly as agent but purchased produce from members with a view toward selling it for gain, might nevertheless exclude from gross income all amounts paid to members on the basis of quantity of goods handled for them. Thus one kind of tax treatment was prescribed for the so-called agency-type cooperative which was deemed not to have income, and a different treatment for the association taking title to the commodities handled but under contract to return to its patrons on the basis of patronage the bulk of its net proceeds.

In the decade between 1916 and 1926, there were substantial changes in the tax statutes and Treasury Regulations with respect to farm cooperatives. In the belief that Congress desired the exemption to be construed broadly, the Treasury ruled that an otherwise exempt cooperative would not be denied exemption because it had outstanding capital stock on which it paid a fixed dividend amounting to the legal rate of interest, provided that all such capital stock was owned by farmers. 1/ Somewhat later it was held that an otherwise exempt cooperative could accumulate and maintain a reserve required by State laws as well as a fixed fund or surplus for the erection of buildings and facilities required in its business, without losing its exempt status. 2/ Still later the Treasury ruled in effect that an exempt marketing cooperative need not be operated strictly as an agent of its members but could take title to commodities without losing its exempt status, provided that it turned back to producers the proceeds of the sales of their products, less necessary operating expenses, on the basis of produce furnished by them. 3/

In the Revenue Act of 1926, Congress incorporated these administrative rulings into statutory law and at the same time established clear-cut tests of eligibility for the exemption. These statutory provisions have remained virtually intact to the present day. Although there has been no legislation bearing directly on the exclusion of patronage dividends, the non-exempt associations have continued to enjoy the right of excluding such payments from their taxable income.

With this brief historical introduction, it is now possible to proceed to the discussion of the exemption and exclusion in their present-day application.

1/ Regulations 45, Art. 522.
2/ Regulations 62 (1922 ed), Art. 522.
3/ Regulations 65, Art. 522.

B. Tax exemption

1. Eligibility for the exemption

Eligibility of farmers' cooperative associations for income tax exemption is strictly limited by statutory provisions and administrative interpretations. 1/ The precise number of exempt and non-exempt associations is not known, but one may infer from the number of Form 990 returns filed by farm cooperative associations for 1943, that between 5,000 and 6,000, or a little more than one-half of the active associations, are today exempt. 2/

The exemption applies only to farmers' associations organized and operated on a cooperative basis which (a) market the products of members or other producers and return to them the proceeds of sales less necessary marketing expense on the basis of the quantity or value of the products furnished, or (b) purchase supplies and equipment for their members or others at cost plus necessary expenses.

With respect to both marketing and purchasing associations, the statutes and regulations require that there shall be no discrimination between members and non-members in returning the net proceeds to the patrons in proportion to the produce marketed or supplies purchased. 3/ In other words, the members of exempt cooperatives are not allowed to make a profit out of the business done with non-members. Moreover, the statute specifically provides that the exemption shall be lost if the association markets or purchases more products for non-members than it does for members. 4/ Purchasing associations lose their exemption if more than 15 percent of their purchases are for persons who are neither members nor producers.

1/ See Internal Revenue Code, sec. 101(12) and Regulations 111, sec. 29.101(12).

2/ Form 990 returns are required to be filed by all organizations exempt from tax under section 101 of the Internal Revenue Code except certain religious, charitable, and educational organizations. (Internal Revenue Code, sec. 54(f).) A total of 5,595 Form 990 returns were filed by tax-exempt farmers' cooperatives for income years beginning in 1943, which is the latest year for which the returns have been tabulated. Although it is believed that most associations required to file did so, it is impossible to say how complete the coverage of these information returns actually was. Appendix E shows a distribution of returns of exempt farmers' cooperatives for 1943 (returns received through December 31, 1944) by size of gross income and receipts and of total assets. It has not been possible to segregate the tax returns of taxable cooperatives from those of ordinary corporations, but a question has been added to the 1946 corporation income tax return (Form 1120), which will permit such a segregation for 1946 and later years.

3/ Under the Regulations, the necessary condition of equal treatment of member and non-member patrons is not violated if the association credits the patronage dividends of non-members toward the purchase price of a share of stock.

4/ A member is defined in the Regulations as anyone who shares in the profits of the association and is entitled to participate in the management of the association. In a stock cooperative, therefore, the members are the owners of the voting common stock, and in a non-stock cooperative they are those with membership certificates and the right to vote.

The statute limits the method of financing open to exempt cooperatives. If capital is raised by the sale of stock, substantially all the stock (except non-voting, non-participating preferred stock) must be held by farmers, and dividend rates must be limited to no more than 8 percent or the legal rate of interest in the State of incorporation, whichever is greater.

Thus, in order to enjoy tax exemption, cooperative associations must be controlled by their farmer patrons and must do most of their business with them. Business with the Federal Government, or its agencies, is, however, disregarded in determining the right to exemption.

The Treasury has held that exemption is not confined to farmers' cooperatives whose members are actually farmers, but extends to federated farmers' cooperatives and subsidiaries of exempt cooperatives which meet the statutory tests. 1/ Exemption has been granted to marketing and purchasing associations whose activities include manufacturing or processing where these activities are necessary to the efficient discharge of the basic functions of the organization. Supplies and equipment purchased have been defined as including "groceries and all other goods and merchandise used by farmers in the operation or maintenance of a farm or farmer's household." 2/

2. Benefits derived from the exemption

The benefits derived from outright tax exemption substantially overlap those attributable to the patronage-dividend exclusion. Nevertheless, there are certain advantages which would be lost to exempt cooperatives if the exemption were repealed and the exclusion continued. Some of the more important of these advantages will be discussed below.

a. Exemption of income paid out as dividends on capital stock

In 1936, the latest year for which complete data are available, about 80 percent of all farm cooperative associations were organized with capital stock. 3/ However, it is reported that there is a growing tendency to prefer the non-stock type of associations. Although the

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1/ Under Internal Revenue Code, sec.101(13), an exempt farmers' cooperative may also organize and operate a corporation for the purpose of financing ordinary crop operations, provided the requirements concerning control, dividend rate, and reserves described in the previous paragraphs are met.

2/ Regulations 111, sec.29.101(12)-1(b).

3/ A Statistical Handbook of Farmers' Cooperatives, Farm Credit Administration, Cooperative Division, Washington, D.C. Bulletin No. 26, November 1938, p.8.

statute permits cooperatives to pay the higher of 8 percent or the legal rate of interest in the State of incorporation on the value received for the stock, the rate actually paid on the average today is probably between 3 and 5 percent. In the absence of the exemption, that portion of the net earnings which cooperatives distribute to their stockholders as dividends on stock would be taxable as income of the corporation. For 1943, exempt cooperative associations reported dividends on capital stock amounting to $11.7 million. 1/ At present rates, this would mean a maximum tax saving of about $4.4 million attributable to the exemption of dividends. 2/

In countering the argument that they derive a substantial advantage from their ability to distribute tax-free dividends to stockholders, the cooperatives advance an offsetting consideration. They argue that their dividend payments are of a completely different economic character from those paid by ordinary corporations in that they represent essentially only a fair "wage" for the use of capital. In a corporation the stockholders may receive (subject to declaration by the directors) all of the net profits of the business after payment of expenses and satisfaction of creditors. In a cooperative, however, net proceeds above limited dividends are distributed on the basis of patronage rather than stock ownership. Accordingly, it has been argued that the incidents of ownership are vested in the members as customers rather than as stockholders and that the limited dividends which must be paid on capital contributed to the enterprise are an expense or charge against earnings and so are akin to an interest payment. In rebuttal to this argument, however, it may be pointed out that, except in the case of certain public utility corporations, 3/ ordinary corporations are not allowed a deduction for the limited dividends paid on preferred stock.

b. Exemption of income retained as reserves

Cooperatives may accumulate capital funds out of operating margins in two ways. First, they may retain all or part of the cash proceeds from operations, while still fulfilling their contractual obligation to return net operating margins to patrons. In lieu of cash payments, the by-laws of cooperatives usually permit them to distribute patronage dividends in the form of some evidence of the patrons' equity in the retained funds or to make book credits to patrons' accounts.

1/ Supplement to Statistics of Income for 1943, Part 2, Treasury Department, November 1945.

2/ The estimate of $4.4 million of tax saving is 38 percent of the $11.7 million of dividends. This is a maximum figure, since corporations with incomes of less than $50,000 pay rates below 38 percent and since income representing intercorporate dividends received, which is included in the total from which dividends were declared, is taken into the taxable income of ordinary corporations at only 15 percent of full amount.

3/ Internal Revenue Code, sec. 26(h) allows public utility corporations a credit for dividends paid on certain preferred stock issued prior to October 1, 1942.

Second, cooperatives may also retain a part of their annual net proceeds as reserves before computing the amounts which must be returned as patronage dividends. Under a recent court decision, exempt cooperatives are required to allocate on their books to current-year patrons pro rata shares in such reserves, so that member-patrons will not gain at the expense of non-member-patrons upon dissolution of the association. 1/ However, the mere fact of allocation does not make such reserves equivalent to non-cash patronage dividends, and the Bureau of Internal Revenue has continued to distinguish between allocated reserves and non-cash patronage dividends.

Under the patronage-dividend exclusion, non-cash patronage dividends are not taxable to either exempt or non-exempt cooperatives. Non-cash patronage dividends as well as cash patronage dividends do, however, enter into the taxable incomes of patrons. Under the exemption, eligible cooperatives pay no tax on income retained as allocated reserves, but in the absence of the exemption, such income would be taxable to the cooperative. With or without the exemption, however, income retained as reserves would not be taxable to patrons.

Reserves are set up for a variety of purposes. Section 101(12) expressly permits exempt cooperatives to accumulate the general contingency reserves which cooperatives are required to build up by provisions of most State laws. Additions to such reserves are sometimes limited by the State statutes to a percentage of the net margin for the year, and usually the total reserve which must be accumulated is limited to a percentage of total capitalization. 2/ Cooperative accounting technically does not admit a surplus account, but the mandatory reserve serves essentially the same purpose under a different name. 3/

1/ Fertile Cooperative Dairy Association v. Collector, 33 F. Supp. 712, Aff. 119 F. (2d) 274.

2/ In New York, for example, cooperatives (organized under one cooperative statute) are required to set aside 10 percent of earnings until the reserve reaches 30 percent of paid-in capital. Although maintenance of the reserves is mandatory, the funds are not required to be permanently and physcially segregated. Accumulations are available for use in the business.

3/ The argument is sometimes made that the mandatory character of the reserves makes the transfers to them expenses of doing business, which would not properly be subject to taxation, even in the absence of the exemption. It has been pointed out, however, that other types of businesses have compulsory reserve requirements (e.g., banks) and that many corporations have entered into binding contractual obligations to reserve portions of their earnings for various purposes such as, for example, debt retirement. In none of these instances is the expense analogy followed.

In addition to the mandatory general reserves, cooperatives are also allowed to accumulate certain other reserves for specific purposes. The statute provides that exemption shall not be denied if a cooperative maintains "a reserve required by State law or a reasonable reserve for any necessary purpose." In administering this provision, the Commissioner has not emphasized the word "or" but has allowed cooperatives with mandatory State law reserves to accumulate "reasonable and necessary" reserves as well. The terms "necessary purpose" and "reasonable reserve" are construed in the light of the purpose to be accomplished, and in case of dispute over specific reserves the burden of proving necessity and reasonableness is on the association.

In practice, reasonable and necessary non-mandatory reserves appear to be of two distinct types. First, there are specific contingency reserves, i.e., reserves for foreseeable losses or expenses which are properly chargeable in whole or in part to the current accounting period. To the extent a cooperative sets up reserves representing bona fide anticipations of losses, such reserves are essentially only averaging devices which have their counterpart in the carryforwards and carrybacks now allowed ordinary business and non-exempt cooperatives. 1/

Second, there are "reasonable and necessary" reserves for expansion purposes. The Regulations provide that "the accumulation and maintenance of a reserve . . . to provide for the erection of buildings and facilities required in the business or for the purchase and installment of machinery and equipment or to retire indebtedness incurred for such purposes, will not destroy the exemption." 2/ Consequently, it is possible under existing law for an exempt cooperative association to reinvest a substantial portion of its earnings in plant and equipment without either the association or the patron being taxable thereon.

c. Other advantages

Relief of exempt cooperatives from tax on dividends on capital stock and on reserves constitutes the principal advantage attributable to the exemption. There are, however, certain lesser advantages which may be touched on briefly.

1/ Many cooperatives assert that if the contingency does not arise, their standard procedure is to return the reserve to the patrons who contributed to it as soon as this fact is realized.

2/ Regulations 111, sec. 29.101(12)-1.

(1) Business with the Federal Government

The statute provides that buying or selling commodities on behalf of the "United States or any of its agencies shall be disregarded in determining the right to exemption." Whereas, non-exempt cooperatives would be taxable on that portion of its net proceeds representing profits on Government business (unless actually returned to the Government), the exempt cooperative is not so taxable. It should be noted, however, that some exempt cooperatives actually have made a practice of returning the net proceeds to the Government as if it were an ordinary patron or of providing service to the Government on a direct cost-plus-expenses basis. Little information is available as to the general practice in this respect.

(2) Emergency purchases

As a general rule, an exempt marketing cooperative must restrict its activities to the actual marketing of agricultural products and must act only on behalf of farmers. The courts and the Bureau of Internal Revenue, however, have enunciated the principle that the exemption provisions should not be construed in such a way as to prevent the organization from carrying on its functions successfully. Consequently, the Bureau has made an exception to the general rule in cases where the amount of non-farm products marketed is small and where the handling of such items is essential to the efficient operation of the business. Exception is also usually made where products are purchased from dealers for a limited time only in order to fulfill delivery contracts or other emergency purposes. 1/ Patronage dividends are not usually paid to such non-member suppliers or suppliers of non-agricultural products. Limited amounts of ordinary commercial profits thus may escape taxation.

(3) Non-operating income

Non-operating income such as interest on bank deposits or on investments, dividends, and capital gains would probably be taxable to the cooperative in the absence of the exemption. However, the amount of income which exempt cooperatives derive from these sources is extremely small. 2/

1/ Particular cases must be passed on by the Bureau of Internal Revenue. Moreover, in the nature of the case such transactions often involve losses.

2/ The problem of treatment of income derived from investments or from sources extraneous to the principal activity of the organization arises in the case of virtually all organizations exempt under sec. 101 of the Internal Revenue Code. Since this is a general problem, which is most important in the case of organizations other than farm cooperatives, it is not considered in detail in this report.

3. Disadvantages of the exemption

The exemption also involves certain disadvantages for cooperatives. This is suggested by the fact that only about half of the farm cooperatives attempt to meet the statutory requirements. One of the most important disadvantages is the requirement that exempt associations must not discriminate against non-members in paying patronage dividends. Another disadvantage in the case of marketing cooperatives is the prohibition of dealings with non-producers. Similarly, the restriction of non-farmer purchasing to 15 percent of total purchasing has been said to act as a limitation on the growth and expansion of some of the most successful units of the cooperative movement.

C. Patronage-dividend exclusion

1. Scope of the exclusion

The exclusion of patronage dividends from corporate gross income is not the exclusive privilege of cooperation associations. Any corporation making payments to its customers under the conditions prescribed by the Commissioner of Internal Revenue and the courts is granted the same treatment. It should be noted, however, that in the case of cooperatives, unlike the case of the typical ordinary corporation, patrons receiving rebates are also the owners of the business.

The conditions which the cooperative associations must meet if refunds made to their patrons are to be excluded from the gross income of the association may be briefly stated. First, there must have existed at the time of the transaction with the patrons a contractual or other definite obligation on the part of the cooperative to return any net proceeds to him in proportion to patronage without further corporate action. Second, if only members of the association are eligible to receive patronage dividends, exclusion is not allowed on that portion of such distribution which represents profits from transactions with non-members. On the other hand, it is held to be immaterial whether refunds are distributed in the form of cash, stock, certificates of indebtedness, or credit notices. All such forms of payment are regarded as the equivalent of cash distributions in the hands of patrons, the theory being that they are cash payments automatically re-invested under provisions of the charter, by-laws, or other contracts previously agreed to by the patrons.

2. Benefits derived from the exclusion

The tax benefits which the cooperative associations derive from the exclusion of patronage dividends from gross income depend, of course, on the extent to which these payments are in fact analogous to a distribution of earnings and profits by an ordinary corporation.

To the extent that patronage dividends represent the patrons' share in the association's economic income, their exclusion from the income of the cooperative can be said to give farm cooperatives tax benefits comparable to those enjoyed by unincorporated firms in their freedom from taxation on business profits as such. As regards cash distribution, the exclusion enables the patrons to receive their respective shares of the association's net proceeds undiminished by the corporation income tax. As regards non-cash distributions, the exclusion may place at the disposal of the association the full amount of its undistributed net proceeds. In both cases, the patrons themselves will be taxed on the amounts received by them in cash or non-cash distributions. But unless the patrons are, on the average, subject to higher marginal rates of income tax than those applicable to the association, the total tax liabilities on the association's undistributed net proceeds will always be less than if the exclusion of non-cash patronage dividends were disallowed and patrons were taxed only on cash distributions.

To the extent, however, that patronage dividends are composed of elements other than the patrons' share in the association's economic income, their exclusion from the income of the cooperative confers no advantage on cooperatives as compared with ordinary corporations. As the discussion in a later section will indicate in detail, patronage dividends often include elements analogous to items included in cost of goods sold in the case of ordinary corporations. Moreover, non-cash patronage dividends may serve merely as evidence of the capital contributions of members of cooperatives. The amount of excluded patronage dividends is not an acceptable measure of the amount of true net income escaping taxation at the cooperative level by reason of the exclusion.

D. Effect of present tax treatment on competitive position of farm cooperatives

It has been charged that the complete or virtual exemption of farm cooperatives from income tax has given these associations an unfair competitive advantage over their corporate competitors. Specifically, it is contended that, because of their more favorable tax treatment, cooperatives have been able (1) to pay larger refunds and so attract more patronage than they could otherwise command, and (2) to retain a larger percentage of their earnings and so expand more rapidly than would be possible if their income were fully taxable.

In reply to the first of these charges, the cooperatives themselves deny that their favorable tax status has had any material effect upon their volume of business. They contend that any advantages they enjoy over ordinary business firms, either as buyers of farm products or as sellers of farm supplies, stem primarily from the cooperative idea itself rather than from any pecuniary advantages to be gained from dealing with a tax-free or virtually tax-free organization.

The issue raised by this argument cannot be easily resolved. On the one hand, there appear to be few instances where cooperatives have used their tax immunity as an instrument of price warfare. Indeed, it would be difficult for them to do so, since the more they cut prices, the smaller will be their economic income and, consequently, their tax advantage. In a situation where both cooperatives and their corporate competitors were selling at cost, the tax advantage would, of course, entirely disappear. Moreover, it appears that, in many markets where cooperative associations compete most directly with ordinary corporations, they do not outbid their competitors but make it a practice to charge the same prices. On the other hand, it is undoubtedly true that the prospect of patronage dividends has been a significant factor in building up the membership of farm cooperatives. To the extent that the special tax status of cooperative associations has permitted payment of larger patronage dividends, it may therefore have been a factor in the growth of membership of cooperatives. In this connection, however, the cooperatives argue that patronage dividends are used mainly as a matter of convenience and that the same results could be closely approximated by other methods of sharing benefits which do not depend on the exemption or exclusion.

The charge that farm cooperatives, because of their favored tax status, have been able to expand more rapidly out of earnings than their corporate competitors has been strongly pressed during recent years of high tax rates. During recent years, ordinary corporations were subject to high-rate income and excess-profits taxes which limited their ability to plough earnings back into the business. Farm cooperatives have been under no such restrictions on their use of funds, and many of them have taken advantage of the opportunities to finance acquisitions of plant and equipment out of retained net proceeds.

The cooperatives contend that non-cash patronage dividends are not analogous to the retained earnings of ordinary corporations, and argue that they represent capital contribution to the enterprise by the patrons. They also contend that any tax advantage which they may enjoy as the result of the exclusion of their retained net proceeds from gross income merely serves to offset their great disadvantages in obtaining equity capital. The associations point out that dividends on their stock are limited and that they cannot issue any security which corresponds with the common stock of ordinary corporations. Moreover, the market for such securities as they can issue is small and is composed largely of farmers who, at least prior to the war, had always been a poor source of equity capital.

Since the cooperative associations themselves must be presumed to earn something on their capital, the argument cannot be accepted that all retained net proceeds should be regarded as capital contributions. Concerning the disadvantages of the cooperative associations in seeking capital, it is probably true that these associations do not have easy access to the organized capital market as do the larger corporations. On the other hand, medium-size and small corporations also find it difficult to secure long-term capital funds.

In current discussions of the tax advantages enjoyed by cooperatives, much emphasis has been placed on the alleged rapid growth of these associations in recent years. While it is true that the dollar volume of business done by farm cooperatives has increased more than two and one-half times since 1939, it does not appear that the cooperatives as a whole have expanded their relative share of the market at the farm level. 1/

There has also been some discussion of the expansion of cooperatives into the field of manufacturing, and the charge is sometimes heard that the tax advantages enjoyed by these organizations are responsible for this development. It is not possible on the basis of existing information to determine exactly what relative gains cooperative manufacturing has made in recent years. The fragmentary data on dollar volume of production indicate a substantial increase in the value of production of cooperatives. 2/ But even if this dollar series were complete it would be of little significance unless compared with the dollar volume of competitors of cooperatives. In any event, the amount of manufacturing by cooperatives is small. 3/

1/ A statistical analysis of the relative growth of farm cooperatives between 1935 and 1943 is presented in Appendix C.

2/ See "Operation of Consumers' Cooperatives in 1944", U.S. Department of Labor, Bureau of Labor Statistics, Bulletin No. 843, p. 16. The value of production by all purchasing cooperatives (both farm and non-farm) increased from $31 million in 1943 to $65 million in 1944.

3/ An estimate of the number and types of productive plants operated by farm cooperatives in 1943 has been prepared by the Farm Credit Administration. These estimates are reproduced in Appendix D. Although additional cooperative facilities have, of course, been built or acquired in 1944 and 1945 (and some abandoned during this period), it is unlikely that the over-all pattern has changed materially.

IV. Considerations relating to proposed changes in the present tax treatment of farm cooperatives

A. Changes proposed in the present treatment

There is little agreement among those who believe that farm cooperatives should be more heavily taxed as to the precise measures which should be adopted. Some would merely repeal the exemption. Others would require the inclusion of all patronage dividends in the gross income of the association; others would continue the exclusion of cash patronage dividends but would require the inclusion of non-cash patronage dividends. Still others would impose a special tax in lieu of income tax on these organizations. This special tax would be based either on some measure of invested capital or on gross receipts. These suggestions appear to be the major alternatives to a continuation of the present treatment. In this section, the arguments for and against each of these proposals are presented and the principal controversial issues which they raise are discussed.

B. Repeal of the exemption

1. Arguments for and against the exemption

The exemption of eligible farm cooperatives from income tax has been defended on the grounds that these associations (1) operate in the public interest, (2) are not themselves profit-making institutions, and (3) are more nearly analogous to partnerships than to ordinary corporations.

With respect to the first point, it has been argued that farm cooperatives, in improving the economic conditions of farmers and in raising the grade and quality of products for public consumption, have made substantial contributions to the general welfare. The special tax treatment accorded them has been defended as a return for services rendered to the public.

With respect to the second point, it has been contended that farm cooperatives should be differentiated from ordinary corporations because it is both their intent and practice to do business at cost. The farm cooperative has been likened to a piece of farm equipment owned jointly by a number of farmers. It has been argued that, at most, the cooperative should be regarded as an agent for its patrons, having no claim upon the income arising from its operations. In terms of this argument, the exemption has been defended on the grounds that there is really nothing to tax.

With respect to the third point, it has been contended that, despite the fact that cooperative association are in legal form corporations, they more nearly resemble partnerships than ordinary corporations. This contention has been supported by the assertion that members usually participate actively in the control of the association and that the activities of the association are closely integrated with their members' primary business of farm production. It has been pointed out that partnerships as such are not taxed on their incomes and argued that cooperatives should receive the same treatment. It is contended that application of the corporation income tax to cooperatives would result in an undesirable extension of the area of so-called double taxation of business income, at a time when many believe that the existing double taxation of distributed profits of ordinary corporations should be eliminated.

The exemption has also been defended, even by those who concede that dividends on capital stock and reserves are property taxable as income of the association, by the contention that the amount of revenue involved is not large enough to justify the trouble and expense of its collection. It has been argued that so long as no attempt is made to tax patronage dividends, the Government would gain little if anything from repeal of the exemption. 1/

On the other hand, the principal argument that has been advanced against the exemption is that cooperatives perform the same economic function as ordinary companies, that they are organized as corporations with the same powers and obligations as ordinary corporations, and that they are organized and operated for the purpose of making profit. It has been argued that it therefore follows that cooperatives should pay taxes on the same basis as other corporations.

In reply to the assertion that farm cooperatives both need the encouragement and deserve the assistance now granted them in the form of tax exemption, it has been pointed out that, since the exemption was originally granted, these organizations have developed greatly in financial strength and economic importance. Moreover, reference has been made to the fact that the Farm Credit Administration through its

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1/ The only legislative reference to the reasons for exemption of cooperatives (in the Ways and Means Committee Report on the Revenue Act of 1916) states that specific exemption of cooperatives and certain other associations was deemed advisable because the experience of the Treasury prior to that time had been "that the securing of returns from them has been a source of expense and annoyance and has resulted in the collection either of no tax or in an amount which is practically negligible."

Banks for Cooperatives and its research facilities is already giving cooperatives important assistance. Finally, it has been argued that, if any further assistance is needed, it should be given in some form other than tax exemption, the benefits of which accrue largely to the successful and well-established organizations and not to those which need assistance most. Weak organizations in financial difficulty and new organizations having difficulty in gaining a foothold derive little advantage from tax exemption.

Exception has also been taken to the argument that repeal of the exemption would not result in sufficient additional revenue to justify the expense and trouble of its collection. It has been pointed out that most tax-exempt organizations, including cooperatives, are now required to file annual information returns (Form 990), and that the recent tabulation of these returns by the Bureau of Internal Revenue shows that, while the revenue involved may be small in relation to total Federal revenue, it is not negligible. It is roughly estimated that for 1943, the 5,600 exempt cooperatives, in the absence of the exemption, would have paid between $10 million and $20 million in taxes on earnings devoted to dividends on stock and reserves. 1/ It is said to be unlikely that the processing of an additional 5,600 returns by the Bureau would have absorbed any significant part of this additional revenue.

1/ The total dividends on stock reported by the 5,223 farm cooperatives for which items of receipts and disbursements were tabulated were about $11.7 million. This total is a maximum, however, since it overstates the tax base to an undetermined extent because of intercooperative dividends and because some dividends could be converted to interest by cooperatives. A fair minimum estimate would probably be about $7 million. There was no item on the Form 990 for reserves, but most additions to reserves appear either under "other disbursements or charges," or in the difference between total receipts and total disbursements. The combined total of these items was about $35 million, but unquestionably many other non-reserve items are included, possibly even to the extent of 50 percent. Moreover, if the exemption were removed, it is probable that many cooperatives would accumulate the greater portion of their funds by use of non-cash patronage dividends instead of reserves. The maximum potential base is, therefore, about $47 million and the minimum about $25 million.

2. Controversial issues raised by the proposal to repeal the exemption

An important controversial issue raised by the proposal to repeal the exemption is whether farm cooperative associations perform services of such great value to the public that they should be relieved of the tax burdens imposed on other corporate entities. This is not an easy issue to resolve. Farm cooperatives, even though they are operated primarily in the interest of their farmer-patrons, undoubtedly have contributed to the general welfare. On the other hand, there are few businesses which could not make some claim to having served public as well as private interests. As has been pointed out elsewhere, cooperatives and ordinary corporations each provide a means whereby individuals, in earning their living, may satisfy their own particular hopes and aspirations, and experience alone can determine the fields in which each can most usefully make its own peculiar contribution to the economy. 1/

It must be recognized that there is always a presumption against any tax exemption and in favor of uniform taxation. An exemption can be justified only by a clear preponderance of evidence in favor of the social desirability of the objective and the effectiveness of the exemption in promoting desirable ends without undesirable collateral effects. In deciding whether the exemption should be repealed or retained considerations of revenue and equity must be weighed against the advantages to the economy as a whole which result from this particular form of encouragement to the flow of capital and effort into cooperative associations.

So long as patronage dividends continue to be excluded from the income of cooperatives, it does not appear that the cooperatives themselves would be greatly harmed by the loss of their tax-exempt status. In fact, there are many within the cooperative movement who think that it creates an anamaly to have agricultural cooperatives tax-exempt and other cooperatives not so favored. They are inclined to question whether the exemption is in the best interest of the movement, since the restrictions on business done with non-farmers limit expansion of cooperation in urban areas. On the other hand, repeal of the exemption alone would in no sense satisfy those who believe that farm cooperatives should be taxed like ordinary businesses. They seek repeal of the exemption as a matter of course, but their major objective is the termination of the patronage-dividend exclusion.

1/ Report of the Royal Commission on Cooperatives, Ottawa, 1945, p. 31

3. Alternative proposals short of full repeal

The suggestion has been made that if the exemption is not repealed, it should at least be confined to the "grass-roots" cooperatives whose problems led to the original enactment by Congress. This suggestion raises difficult problems in connection with determination of eligibility for exemption. The definition of a "small" cooperative is a matter of judgment, and any statutory or administrative definition would have to be essentially arbitrary. Moreover, particular cooperatives might move in and out of the exempt area because of year-to-year fluctuations in business or membership. Large associations might be split up to take advantage of the exemption. Other associations would be able to maintain their exempt status (if the exemption were limited in terms of size of gross receipts) by changing to a commission basis and not taking title to patrons' product.

The suggestion has also been made that if the exemption is retained ambiguities in the present statute should be cleared up. For example, the statute is silent about manufacturing operations by exempt cooperatives. It offers no solution to the question of income from by-products. It provides no real clue as to what are "reasonable and necessary reserves." It has been pointed out that the Bureau of Internal Revenue has been forced to make interpretations of the intent of Congress with respect to these and other matters without specific guidance from the statute. As a result, there has been a considerable amount of litigation with respect to qualification for the exemption.

C. Require the inclusion of all patronage dividends in the income of cooperatives

1. Summary of arguments for and against the present exclusion of patronage dividends from the income of cooperatives

The exclusion of patronage dividends from the gross income of cooperatives has been defended on three main grounds. First, it has been argued that these payments are in the nature of price rebates and as such are not income within the meaning of the Sixteenth Amendment. Second, it has been argued that a farm cooperative is essentially a partnership of farmers with the association acting in the role of agent and having no interest in the net proceeds of the business. Finally, it has been contended that, even if patronage dividends were held to be legally taxable to the cooperative association, they should not be so taxed because it is virtually impossible to determine to what extent these payments represent distributions of profits and to what extent they do not.

The principal argument against the exclusion is the contention that there is no difference between the patronage dividends of cooperative associations and the ordinary dividends of commercial corporations. It is argued that the fact that these dividends are paid to patrons, who are also stockholders, rather than to stockholders as such does not affect their character as a distribution of profits. Patronage dividends not contractually fixed as to amount at the time of sale, it is said, are not true rebates. Neither, it is said, can an association which pays dividends on capital stock and accumulates reserves be regarded merely as the legal agent for its members. Patronage dividends, it has been argued, are the property of the association acting as a principal and as such should be taxed in the same manner as ordinary dividends. While it is usually admitted that not all so-called patronage dividends are analogous to ordinary dividends, it is argued that patronage dividends can be administratively separated into their constituent elements.

2. Controversial issues raised by the proposal to include patronage dividends in the gross income of farm cooperatives

Since the exclusion of patronage dividends from the gross income of farm cooperative associations virtually exempts most of these associations from income tax, the proposal to include these payments in the tax base raises the same general policy issue as is raised by the proposal to repeal the exemption: namely, should farm cooperatives as a matter of public policy be granted more favorable tax treatment than ordinary corporations. But in addition, the proposal to discontinue the exclusion of patronage dividends raises a number of issues, which would still have to be resolved if it were decided that all of the income earned by cooperatives should be taxed to the associations as such. These issues relate, first, to the power of Congress to tax patronage dividends and, second, to the propriety of using patronage dividends as a base for assessment of income tax. The first question is primarily one of the constitutionality of a tax on payments made to patrons in accordance with a pre-existing contract. The second concerns the concept and measurement of net income.

a. Are patronage dividends taxable income to the cooperative?

Because of the Treasury's practice of permitting patronage dividends to be excluded from gross income by cooperatives (and other businesses) the issue of whether such dividends may constitutionally be included in gross income has not been squarely presented to the courts. In the cases in which the courts have been called upon to determine whether the exclusion should be denied, the position of the Treasury has been that the dividends paid were not true patronage dividends, generally on the ground that they were paid only to members or stockholders.

Several arguments have been advanced in justification of the present practice of permitting the exclusion from gross income of all amounts paid as patronage dividends. One argument is that such dividends constitute discounts or rebates. The rebate or discount increases the cost of goods purchased by the association or decreases the price of goods sold by the association. By the same token, it increases the price received by the patron for goods sold by him to or through the association, or reduces the cost to the patron of goods purchased by him or through the association. Thus in Uniform Printing and Supply Company v. Commissioner, 1/ the taxpayer, a corporation all of whose stock was owned by a group of insurance companies who were its sole customers, was required by its by-laws to return to its customers, in proportion to business furnished by them, the surplus earnings not in the opinion of the board of directors required in the conduct or expansion of the business. The determination of the Commissioner that amounts so returned were dividends to stockholding customers was upheld by the Tax Court. In reversing this decision, the Circuit Court held that the payments were customer rebates similar to discounts. Similarly, in Midland Cooperative Wholesale, 2/ the Tax Court stated that the justification for allowing the exclusion rested on the fact that patronage dividends are in reality rebates upon the business transacted by the association with its members rather than true income to the cooperative.

Another line of argument is that patronage dividends cannot be considered income to the association, since they are at all times the property of the patrons. The association, it has been argued, is merely the agent of the patrons and holds any excess remaining after payment of expenses as bailee for the patrons and is legally obligated to return such excess to them. It has also been urged that an association which agrees to distribute all its earnings to the patrons cannot be considered an entity apart from the patrons. The association is in fact the patrons acting in concert. Like a partnership, it is merely the alter ego of the patrons. Accordingly, it has been argued that the association as such cannot have any profits and that any income which is obtained is income of the patrons.

Others contend that patronage dividends are not essentially different from dividends paid on capital stock. They maintain that although patronage dividends may be described as rebates, such rebates are paid to patrons whose interests the association is seeking to further, rather than to persons with whom the association deals at arm's length. The payment of such rebates, it has been argued, constitutes a distribution of profits to the real owners of the association just as the payment of dividends on capital stock represents a distribution of income to the real owners of a corporation.

1/ 88 F. (2d) 75 (C.C.A. 7th, 1934).
2/ 44 BTA 824 (1941).

Those who argue for the inclusion of patronage dividends also deny that the funds from which such dividends are paid are at all times held by the association merely as agent. 1/ They point out that despite the obligation of the association to return to its patrons all net proceeds, the association has the power to divert some of its receipts to the payment of dividends on capital stock and to the establishment of reserves. They cite these powers as evidence that the association, rather than the patrons, is the owner of the funds from which patronage dividends are paid. 2/ It has also been pointed out that an ordinary corporation does not eliminate its taxable income by entering into a binding contract governing the disposition of its net income.

Enough has been said to indicate the nature of the court decisions relied upon by those who take positions on either side of the constitutional issue. The discussion now turns to the major policy issue of whether Congress should attempt to include patronage dividends in the gross income of the association and thereby specifically present the constitutional issue to the courts.

b. Do patronage dividends provide an appropriate base for the assessment of income tax?

The question discussed in this section is whether patronage dividends provide an appropriate base for the assessment of income tax on the cooperative association as such. The approach is to consider to what extent the amounts which farm cooperative associations report as patronage dividends are analogous to the earnings and profits of ordinary corporations.

From the previous discussion of the way cooperatives operate, it seems clear that these associations give rise to economic income over a period of years, at least to the extent that they use any substantial amount of capital and assume any significant degree of risk. The economic income earned by cooperatives, however, cannot be satisfactorily measured by the amount of patronage dividends distributed. Some cooperatives so conduct their business that no patronage dividends are needed to return their benefits to patrons. In other cases, patronage dividends either understate or overstate the amount of economic income earned by the association. In still other cases, so-called patronage dividends are paid by associations that are not engaged in operating a business in the ordinary sense.

1/ In this connection they cite the case of Farmers' Union Cooperative Company of Guide Rock v. Commissioner, 90 F. (2d) 488 (C.C.A. 8th, 1937).

2/ Other decisions which have been cited as indicating that the courts are not always responsive to the agency and rebate arguements in their application to cooperatives include Juneau Dairies, Inc., 44 B.T.A. 79 (1941) and Maryland and Virginia Milk Producers' Association v. District of Columbia, 119 F. (2d) 787. Discussion of these and other cases would not, however, throw much additional light on the constitutional question at issue.

One type of case in which cooperative associations do not pay patronage dividends is that in which their business is operated on a cost-plus-expenses basis, with benefits returned to patrons currently in the form of higher (or lower) prices for goods marketed (or purchased). At the present time, a much more important type of case is that in which marketing associations make only a token payment to the farmer at the time they accept delivery of his product and pay him the balance of the proceeds of sale at the close of the marketing season. These associations do not ordinarily keep their accounts so as to make possible a separation of those elements which an ordinary corporation would consider its cost of goods sold from those elements which it would consider its profits. 1/

Among those cooperatives which regularly pay patronage dividends, the amounts paid may either overstate or understate the economic income earned by the association. For example, purchasing associations sometimes make a practice of charging the farmer somewhat more than the market price in order to accumulate capital. The extra amounts are returned to patrons in the form of non-cash patronage dividends, but they are actually a form of capital contribution of members rather than income earned by the association. Understatement of the economic income of the association may result where the cooperative sells at a price below the market but high enough to result in a small patronage dividend at the end of the year.

Even among cooperatives of the Rochdale type whose avowed objective is to pay (or charge) prevailing prices, patronage dividends do not necessarily consist solely of income earned by the association. If other competing businesses give special concessions which do not enter into list prices, such as quantity or seasonal discounts, free delivery, or the extension of credit, the cooperative may choose to match these, not by offering the same services, but by holding out the prospect of a patronage dividend at the end of the year. To the extent that the patronage dividend does substitute for "quality" or non-price competition, it will, of course, exceed the amount which would be analogous to the profits of an ordinary corporation.

1/ These cooperatives occasionally refer to the entire final payments as "patronage dividends", but the payments are clearly not analogous to patronage dividends in the ordinary sense.

Finally, some associations that distribute so-called patronage dividends are not engaged in business activities in the ordinary sense and hence can hardly be said to earn business income, although they may benefit farmers. In such cases, the patronage-dividend device is merely a method of adjusting preliminary assessments for expenses to actual expenses. For example, some marketing associations are essentially bargaining associations, which negotiate prices with buyers and leave the actual sales to farmer-members. These associations often levy a tentative assessment on each unit of produce to cover exepnses of the association. If actual expenses prove to be less than the assessment, the excess is returned to members in the form of a "patronage dividend" in proportion to products sold by each individual member.

It appears, therefore, that there are substantial grounds for questioning the appropriateness of patronage dividends as a base for taxing the income earned by cooperatives. In many situations, a statute requiring the inclusion of patronage dividends in the gross income of cooperative associations would operate most inequitably. It would result in overtaxation of cooperatives in cases where patronage dividends overstate the economic income earned by the cooperatives. It would result in unfair discrimination among different types of cooperatives in cases where patronage dividends understate the economic income earned by the cooperatives, or where patronage dividends are not used at all. It would not be an effective means of equalizing taxes on cooperatives and other forms of business organizations.

Moreover, if patronage dividends were included in the gross income of cooperatives, the result might merely be to induce those associations which now report substantial patronage dividends to change their methods of doing business so as to have little or no net proceeds to distribute at the close of the year. In the case of an ordinary corporation it is always in the interest of the firm to maximize its net income, regardless of the fact that the income is subject to the corporation income tax. But the situation with respect to the cooperative association is quite different. The primary objective of a farm cooperative is not to maximize the income shown on its own accounting statements but to maximize the income of its farmer-members. Success in achieving this objective is not dependent on the size of patronage dividends. In the case of a marketing association, a low initial price and a large patronage dividend are equivalent, from the standpoint of the farmer, to a higher initial price and a smaller patronage dividend. In the case of a purchasing association, a high initial price and a large patronage dividend are equivalent to a lower initial price and a smaller patronage dividend. Although those cooperatives now using the patronage-dividend device undoubtedly find it convenient, inclusion of patronage dividends in the gross income of cooperatives would greatly lessen the attractiveness of this device. The tax could be, and in many cases probably would be, avoided by direct price adjustments and other devices now used by many cooperatives which return benefits to patrons without the use of patronage dividends.

The possibility that patronage dividends might understate the income earned by cooperatives, or might not be used at all, has not been overlooked by those who favor the inclusion of these payments in the gross income of cooperatives for tax purposes. To meet this problem, they would require the Bureau of Internal Revenue to reconstruct the income of cooperatives and to determine what patronage dividends would have been paid had the association paid (or charged) prevailing prices minus (or plus) reasonable operating expenses. They assert that income of cooperatives could be reconstructed by reference to prevailing market prices, where available or by comparison with comparable firms. On this approach, income tax would be assessed on the basis of the reconstructed income, including reconstructed patronage dividends.

Such a plan would, it is clear, raise a host of administrative problems. 1/ The Treasury would have to determine prevailing prices for a large number of commodities in every local market for every day in the year. It would be extremely difficult to determine to what extent commodities handled and services rendered by cooperatives and ordinary firms were actually comparable. The assessment of tax would require an elaborate and time-consuming process, and would doubtless give rise to much litigation. It should be noted that, if such a plan were adopted for farm cooperatives, consistency would require its extension to non-farm cooperatives, including the many cooperative procurement associations used by retailers and other businessmen. The administrative problems would, therefore, be even greater than may appear at first glance.

Even if administrative problems connected with the reconstruction of income of cooperatives could be satisfactorily met, the plan would raise a fundamental issue of tax equity. In the case of cooperatives, price policies, which may have been chosen for non-tax reasons, would, in effect, be disregarded in the determination of tax liability. This raises the question whether it would be fair to tax cooperatives on the basis of some concept of "normal" income--a concept which would inevitably be subject to many different interpretations--without doing the same in the case of other businesses.

1/ These administrative problems would be essentially similar to those encountered in auditing claims for refunds of processing taxes after these taxes were declared unconstitutional and in administering section 722 of the Internal Revenue Code, which involves reconstruction of base-period income of taxpayers in connection with claims for relief under the excess-profits tax. These problems required an enormous investment of time by revenue agents and the creation of special divisions within the Bureau of Internal Revenue to expedite settlements. It should be noted that in the case of the processing taxes and the excess-profits tax the problems were non-recurrent and that large amounts of revenue were involved.

D. Continue the exclusion of cash patronage dividends but require the inclusion of non-cash patronage dividends in the income of cooperatives

Some recommend that the exclusion of cash patronage dividends be continued but that cooperative associations be required to include in their gross income patronage dividends paid in scrip or other non-cash forms. As was pointed out earlier in this report, non-cash patronage dividends by farm cooperatives have been regarded as the equivalent of cash distributions on the grounds that they are in effect cash payments automatically reinvested under the provisions of the charter, by-laws, or other contracts previously agreed to by the patrons. Accordingly, it has been held that they are taxable to the individual patron rather than to the association. Many of the problems and issues relating to the proposal to include all patronage dividends in the income of cooperatives, which are discussed in the preceding section, are pertinent to the proposal to include non-cash patronage dividends in the income of the associations. This section, however, deals only with the special problems and issues raised by the proposal to include non-cash patronage dividends in the income of the cooperatives, while continuing the exclusion of cash patronage dividends.

1. Summary of arguments for and against the present treatment of non-cash patronage dividends

The present treatment of non-cash patronage dividends is similar to the treatment of earnings reinvested in a partnership. This partnership approach has been criticized as being unrealistic with respect to the great majority of farm cooperatives. With the integration and consolidation of these associations into inter-regional organizations the individual farmer has been said to be too far removed from the activities and control of the overhead organization to be treated as a partner. It has also been argued that many patrons of farm cooperatives do not have any real choice regarding the form in which they will receive their patronage dividends. Both non-member patrons and dissenting minority members are, it is pointed out, bound by the vote of the majority members, which is said to vitiate the contention that non-cash patronage dividends are voluntary contributions of capital. It has been contended that in many cases the farmer either receives only a book credit or a non-transferable certificate and so has nothing that can be regarded as a true rebate. Furthermore, it has been argued that the farmer does not regard his scrip dividend as the equivalent of cash and, therefore, does not report it in his income tax return and that, in actual practice, the partnership approach is not always followed.

On the other hand, those who favor the exclusion of non-cash as well as cash patronage dividends argue that the members of cooperatives typically play an active part in determining the policies of their associations. It has, therefore, been contended that it is appropriate to make members accountable for individual income taxes on earnings, which the members have voted to reinvest in the association. As regards the fairness of taxing such dividends in the hands of non-member patrons and dissenting minority members, it has been argued that no farmer is obliged to trade with, or become a member of, a cooperative association. Consequently, it is said, if he decides to deal with or to join a cooperative in order to share in its benefits, he should expect to assume any obligations which the members as a whole decide to impose on themselves. To permit every patron to exercise his own individual choice in the matter would, it is said, invite "free riding" and possibly undermine the economic foundations of the organizations themselves. As to whether a non-cash patronage dividend can be regarded as a true rebate, it has been argued that the question of its transferability or liquidity is essentially irrelevant. The farmer receiving an interest-bearing or dividend-paying security has a claim on future income which it is said any reasonable man would include in his personal balance sheet, irrespective of its liquidity. Finally, as regards the matter of reporting such receipts, it has been held that the problem could be easily handled, first, by making the farmer more aware of the tax status of these payments and, second, by requiring the associations themselves to provide information at the source.

2. Other considerations raised by the proposal to include non-cash patronage dividends in the income of cooperatives

The proposal to require the inclusion of non-cash patronage dividends in the income of cooperatives raises the problem of the definition of cash and non-cash distributions, in the light of the doctrine of constructive receipt of cash. This is a highly technical matter, which would ultimately have to be passed on by the courts. In the few decisions on the matter, the lower courts have been disposed to consider as equivalent to cash both (a) options to receive cash in lieu of stock and (b) patronage dividends applied to the purchase of stock by members in accordance with the by-laws of the association. 1/

1/ Midland Cooperative Wholesale, 46 BTA, 824 (1921); United Cooperative, Incorporated, 4 T.C. 93.(1944).

Even if Congress were willing to adopt a more restrictive definition of a "cash" distribution than the courts have thus far been disposed to follow, it seems highly likely that the courts would continue to hold that an option to receive cash is equivalent to actual receipt of cash. Many cooperatives already make a practice of giving patrons an option to receive patronage dividends in the form of stock or cash. Their success with this practice makes it probable that its use would increase among cooperatives whose distributions might not otherwise qualify for the exclusion as cash patronage dividends.

Congress could presumably provide by statute that distributions of stock or book credits shall not be considered the equivalent of a cash patronage dividend unless the stock or book credit is transferable. At the present time, the majority of cooperatives using revolving funds and paying non-cash patronage dividends do not issue any actual certificates, and, among those associations issuing certificates, many use non-transferable stock. 1/ If, however, non-transferable distributions were made taxable, there would appear to be no important legal or economic reasons for any cooperative to continue to issue non-transferable paper (except possibly in the case of non-stock association members' certificates). The principal function of non-transferability has been to prevent speculation in the paper of new organizations--a factor which would be of only minor significance relative to the tax.

In the light of the foregoing considerations, it appears that a requirement that non-cash distributions of patronage dividends be included in the income of cooperative associations, while cash distributions were excluded, would not prevent cooperatives from building up substantial amounts of capital out of earnings not taxed to the association. By use of the option to receive cash and perhaps also by the distribution of transferable stock, cooperatives could retain income which would be regarded as constructively received by members and hence excludable from the taxable income of the association. Moreover, it would be possible for cooperatives to levy assessments against patrons to distribute cash patronage dividends and at the same time to levy an equivalent assessment against patrons. This would enable the association to qualify for the exclusion, while still, in effect, accumulating capital out of earnings.

1/ Among the organizations which do issue certificates, an informed estimate is that about one-fourth of the certificates are in the form of preferred stock (all transferable) and most of the remainder is in the form of revolving-fund or other certificates (about one-half of which are transferable). Patronage dividends in the form of common stock (particularly important in the case of non-member patrons) are generally legally transferable, although in most cases the stock must be offered at least at first to other members or to the association itself.

E. Alternatives to the income tax as a method of taxing farm cooperatives

The difficulties that would be encountered in attempting to include patronage dividends of farm cooperatives in the corporation income tax base have persuaded some critics of the present treatment that some other approach must be used to tax these associations to the same extent as ordinary business corporations. The present disparity in the tax burdens of cooperatives and ordinary corporations should, in their opinion, not be permitted to continue. If tax equality cannot be achieved under the income tax, it is their view that it should be approached from some other direction. Two alternative taxes have been suggested, each of which will be given brief consideration.

1. Gross receipts tax

An alternative to a net income tax on farm cooperatives that has been suggested is a tax based on gross sales or receipts. In the view of its sponsors, such a tax would have the advantage of reducing the effect of variations in accounting methods on cooperative tax liability. Although the association doing business on the prevailing-price method would still be somewhat more heavily taxed than one operating on a cost-plus-estimated-expenses basis, the difference would be much less than it would be under a net income tax with patronage dividends included in gross income.

It would, however, be impossible to select any one rate of tax on gross sales or receipts which would be approximately equivalent to the corporate income tax if imposed on the economic income of cooperatives. The amount of profits earned on a dollar of gross sales or receipts varies widely from industry to industry, and to a lesser extent from firm to firm in the same industry. It depends on such factors as the amount of capital employed and its rate of turnover and whether the particular firm is a producer of basic commodities, a processor, a wholesaler, or a retailer. Even though farm cooperatives, taken as a whole, are predominately trading associations, it appears that a tax on gross sales or receipts would probably yield rather capricious results. Among ordinary corporations, a uniform tax on gross sales or receipts would be equivalent to widely different rates on net income as between manufacturers, wholesale trade, and retail trade, and as between retailers in different lines. 1/

1/ For example, in 1942, a 1-percent tax on gross sales and receipts from operations would have been equivalent to the following percentages of compiled net profits of corporations filing income tax returns (including those with and those without net income): total manufacturing, 8.6 percent; wholesale commission merchants, 15.6 percent; other wholesalers, 26.3 percent; retail trade, general merchandise, 11.2 percent; retail food stores, including market milk dealers, 50.0 percent; filling stations, 29.4 percent; retail hardware stores, 16.7 percent; retail building material, fuel, and ice stores, 25.6 percent. Computed from Statistics of Income for 1942, Part 2, Table 3.

There is every reason to believe that the same would be true of a uniform gross-receipts tax on cooperative associations of different types. A further complication arises from the fact that the income tax on ordinary corporations is not imposed at a uniform rate but is graduated on net incomes of less than $50,000.

Under a gross-receipts tax, additional differences in taxes on essentially similar cooperative associations would arise out of purely legal differences in the form of organization and method of doing business. For example a federated cooperative (composed of a number of legally independent units) would presumably be subject to tax each time products moved between successive stages, whereas only one tax would be imposed in the case of a centralized association. Moreover, marketing and purchasing associations which operate on a commission basis, without taking title to the goods handled, would presumably be subject to tax only on their gross receipts from commissions, whereas otherwise similar associations, which, however, take title to the goods handled, would be taxed on a much larger base. Imposition of the gross-receipts tax would doubtless stimulate changes in legal organization and method of doing business intended to minimize the tax.

Any attempt to meet these problems by establishing different rates of tax for different types of associations would encounter formidable difficulties and would still leave the equity problem unsolved in borderline cases.

Finally, it is generally agreed that a gross-receipts tax is much more likely to be passed on to consumers than is a tax on net income. To the extent that the tax was passed on in the form of higher prices for farm products, it would, of course, fail to accomplish its primary objective of imposing a tax on the economic income of the cooperative associations. The possibility of shifting of a gross-receipts tax would be greatest in cases where cooperative marketing associations supply a large share of the market for a particular commodity.

2. Tax on invested capital

A second alternative, or supplement, to a net income tax that has been proposed is a tax based on invested capital. A tax of this type would be based on the presumption that the capital invested in a cooperative association may be expected to earn at least a normal rate of return for its owners.

The imposition of such a tax would raise the problem of defining invested capital, particularly that of determining whether it should include only equity capital or both equity and borrowed capital. In favor of confining the tax to equity capital, it has been pointed out that ordinary corporations are allowed a deduction for interest paid on borrowed capital and hence argued that, if the objective is to impose a tax equivalent to the income tax on ordinary corporations, cooperatives

should be allowed to exclude borrowed capital. Furthermore, it has been contended that the inclusion of borrowed capital would give an advantage to strong cooperatives that can borrow at interest rates lower than the average return on total invested capital. On the other hand, the inclusion of borrowed capital has been supported by the contention that in the case of cooperatives the distinction between equity and debt is not particularly significant, inasmuch as dividends on stock are strictly limited. Moreover, cooperatives pay non-cash patronage dividends in both debt and equity forms, and exclusion of debt would permit the associations to avoid the tax by distributing future non-cash patronage dividends in the form of debt obligations.

A further problem in connection with a tax on invested capital would be the selection of an appropriate rate. As in the case of gross receipts, there are important variations in the relation between invested capital and net income at any given time. Experience under the excess-profits tax has demonstrated that these variations are very large in the case of ordinary corporations, and it is reasonable to assume that the same lack of uniformity exists in the case of cooperatives. It may be presumed that all cooperatives that stay in business earn at least a normal rate of return over the long run, but year-to-year fluctuations above and below normal earnings are probably so wide that a tax assessed on an annual basis would often result in serious hardships or inequities. The tax on invested capital would bear relatively heavily on weak and declining associations but relatively lightly on strong and growing associations.

Finally, it may be pointed out that a tax on invested capital would give rise to serious legal and administrative problems. As experience under the excess-profits tax has shown, the valuation of invested capital is always a complex problem which is impossible to solve in an entirely satisfactory manner.

APPENDIX A

Economic Importance and Present Tax Treatment of Cooperatives Other Than Farmers' Marketing and Purchasing Associations

I. Urban purchasing cooperatives

Closest to the farmers' marketing and purchasing associations in terms of economic functions are the urban purchasing associations. These organizations differ from farm purchasing cooperatives only in the character of their membership and to some extent in the type of commodities handled. Many of these local urban associations are affiliated with the farmers' cooperatives in the regional and inter-regional federations (particularly, the petroleum associations).

As of 1945, the Bureau of Labor Statistics estimates that about 2,650 non-farm local purchasing associations 1/ were in existence with about 812,000 members. 2/ Retail grocery and other retail stores accounted for the bulk of the associations (1,850) and members (600,000), followed by petroleum associations (775 associations with 200,000 members). Total volume of business was estimated at nearly $330 million or about 6 percent of the total farm marketing and purchasing volume and about 33 percent of farm purchasing volume alone. Retail store sales were $171 million and petroleum sales nearly $140 million. No data are available as to the amount of patronage dividends paid by these associations, but the total was certainly less than $5 million and probably less than $2 million.

The tax status of these urban associations is the same as that of non-exempt farm associations. The associations are subject to the corporation income tax, but may exclude from gross income bona fide patronage dividends paid in cash as well as in non-cash form. Taxable income consists, therefore, of dividends paid on capital stock plus amounts retained and added to reserves.

Patrons of urban associations are not taxable on patronage dividends received. It will be remembered that patronage dividends to farmers from purchasing associations enter into income only indirectly (i.e., by reducing farm costs) since patronage dividends are held to be legally price reductions. A price reduction or "bargain purchase" as such is not considered taxable income and since consumers' expenditures for food, clothing, and the like are also not allowable deductions (i.e., costs of earning income) under present concepts of taxable

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1/ Defined as associations the majority of whose members were not farmers.

2/ Not adjusted for multiple memberships.

income, urban consumers pay no tax on patronage dividends. The treatment of urban purchasing cooperatives, therefore, differs from the treatment of farm purchasing cooperatives in that the income arising in such cooperatives is not ordinarily reached by the tax system at one level or the other.

II. Other cooperatives

Other types of organizations commonly considered as cooperatives in the broad sense include certain mutual insurance companies, mutual irrigation companies, cooperative telephone companies, credit unions, and the like. Here again, the essential tax principles previously discussed are fully applicable despite surface differences in actual methods of operation and organization. Unlike the urban purchasing group, most of these miscellaneous organizations are specifically exempt under some subsection of section 101 of the Internal Revenue Code. Where the organization makes a payment to members or patrons analogous to the patronage dividends of marketing or purchasing associations, the tax treatment is approximately the same. That is, refunds to business units enter into taxable income directly or indirectly, but refunds to non-business units are not taxable. The following table shows the number, membership, business volume (where available) and tax status of the miscellaneous organizations considered as cooperatives in official statistical sources. The table does not include the many organizations formed on cooperative principles by business firms for the purpose of procurement, wholesaling, and the like, which are not included in the ordinary usage of the term "cooperative".

Table 1

Number, Membership, Volume of Business, and Tax Status of Miscellaneous Cooperative Associations

Type of association	Total number of associations (est.)	Number of members or participants (est.)	Volume of business (est.) ($000)	Tax Status 1/
Production and other farmers' cooperatives: 2/				
Mutual irrigation companies (1940)	4,356	148,294	$6,437 3/	Exempt under IRC, section 101(10).
Farmers' Home Administration--Financed service cooperatives (August 1945)	243	117,000	4/	Variously exempt and non-exempt depending on particular activities.
Dairy herd improvement associations (January 1946)	1,124	23,331	5/	Exempt under IRC, section 101(1) provided net income does not inure to the benefit of any member.
Dairy bull associations (January 1946)	165	2,154	5/	Same as above.
Cooperative dairy cattle artificial-breeding associations (January 1946)	336	73,293	5/	Same as above.
Grazing associations (1946)	32	1,504	4/	Exempt under IRC, section 101(10).
Farmers' Home Administration--Financed marketing and purchasing associations (August 1945)	791	128,000	4/	Same as ordinary farmers' marketing and purchasing associations.

(Continued)

Table 1

Number, Membership, Volume of Business, and Tax Status of Miscellaneous Cooperative Associations (Continued)

Type of association	Total number of associations (est.)	Number of members or participants (est.)	Volume of business (est.) ($000)	Tax Status 1/
Farm financing cooperatives: 2/				
National farm loan associations (June 30, 1946)	1,601	362,000	4/	Exempt under IRC, section 101(15).
Production credit associations (June 30, 1946)	505	390,748	$15,143 6/	Same as above.
Banks for cooperatives (June 30, 1946)	13	2,064,454	4,741 7/	Same as above.
Service associations: 8/				
Burial (1945)	42	37,000	306	Exempt under IRC, section 101(10), (3) or (11) depending upon method of operation.
Medical (1945)	75	151,000	4,000	Exempt under IRC, sections 101(6) and (16).
Other service (1945) 9/	485	181,000	7,050	Variously exempt and non-exempt depending on particular activities.

(Continued)

Table 1

Table 1

Number, Membership, Volume of Business, and Tax Status of Miscellaneous Cooperative Associations (Continued)

Type of association	Total number of associations (est.)	Number of members or participants (est.)	Volume of business (est.) ($000)	Tax Status 1/
Other: 8/				
Electricity (1944)	850	1,149,700	$60,960	Exempt under IRC, section 101(10).
Telephone (1936)	5,000	330,000	5,485	Same as above.
Credit unions (1945)	8,882	2,838,034	15,000 10/	Exempt under IRC, sections 101(4) and (15).
Insurance (1945) 11/	2,000	10,550,000	4/ 12/	Taxable on entire investment income except for certain small farm mutuals exempt under IRC, section 101(11).

Treasury Department, Division of Tax Research

1/ Associations designated as tax-exempt must meet various requirements to qualify for the exemption, and some of the organizations included in the statistics may not have qualified for exemptions.
2/ Report of Farm Credit Association, 1945-1946, p. 120.
3/ Supplement to Statistics of Income for 1943, Part 2. Data are for 769 organizations filing Form 990 returns for 1943.
4/ Not available.
5/ All organizations exempt under section 101(1) as agricultural or horticultural (including county fairs, cattle improvement associations, etc.) reported total gross receipts of about $17 million for 1943. Supplement to Statistics of Income for 1943, Part 2.
6/ Gross earnings January 1 through December 31, 1945.
7/ Gross earnings July 1, 1945 through June 30, 1946.
8/ U.S. Department of Labor, Bureau of Labor Statistics, Bulletin 890.
9/ Includes housing, medical, food lockers, etc.

(Footnotes continued)

Table 1

Number, Membership, Volume of Business, and Tax Status of Miscellaneous Cooperative Associations

Footnotes (Concluded)

10/ Gross receipts for 1943 as reported in Supplement to Statistics of Income for 1943, Part 2.
11/ Includes mutual life, casualty, and automobile associations, which are classified by the Bureau of Labor Statistics as being: (1) operated in conjunction with a cooperative association, or (2) small, local organizations subject to effective local-membership control.
12/ Total premiums estimated as about $200 million.

Appendix B

Table 2

Farmers' Marketing and Purchasing Cooperative Associations 1/
in the United States, 1944-45 Marketing Season 2/

Type of association	Number of associations: Number	Number of associations: Percent	Estimated membership 3/: Number (In thousands)	Estimated membership 3/: Percent	Estimated business 4/: Value (In millions of dollars)	Estimated business 4/: Percent
Marketing						
Cotton and products	530	5.2	266	5.9	$ 178	3.2
Dairy products	2,214	21.8	726	16.1	1,294	22.9
Fruits and vegetables	916	9.0	162	3.6	784	13.9
Grain, dry beans, rice	2,285	22.5	484	10.8	1,286	22.8
Livestock	661	6.5	695	15.4	730	12.9
Nuts	46	.5	47	1.0	200	3.5
Poultry and eggs	160	1.6	131	2.9	225	4.0
Tobacco	12	.1	122	2.7	27	.5
Wool and mohair	130	1.3	123	2.7	35	.6
Miscellaneous	446	4.4	140	3.1	76	1.3
Total marketing	7,400	72.9	2,896	64.2	$ 4,835 5/	85.6
Purchasing	2,750	27.1	1,610	35.8	810 5/	14.4
Total marketing and purchasing	10,150	100.0	4,506	100.0	$ 5,645	100.0

Treasury Department, Division of Tax Research

Source: U.S. Department of Agriculture, Farm Credit Administration, Cooperative Research and Service Division, mimeograph.

Footnotes on next page.

Appendix B

Table 2

Farmers' Marketing and Purchasing Cooperative Associations 1/
in the United States, 1944-45 Marketing Season 2/

Footnotes

1/ Includes independent local associations, federations, large-scale centralized associations, sales agencies, independent service-rendering associations, and subsidiaries whose businesses are distinct from those of the parent organizations.

2/ A marketing season includes the period during which the farm products of a specified year are moved into channels of trade. Marketing seasons overlap.

3/ Includes members, contract members and shareholders, but does not include patrons not in these categories.

4/ Includes the value of commodities for which associations render essential services either in marketing or purchasing and the value of commodities sold by associations whether on a commission or a brokerage basis, and also some intra-association transactions.

5/ After making adjustment for the purchasing business of marketing associations and the marketing business of purchasing associations, it is estimated that the total purchasing business was approximately $1,095 million and the total marketing, $4,550 million.

APPENDIX C

Relative Growth of Cooperative Marketing and Purchasing Associations, 1935-1943

I. Relative growth in cooperative marketing

In the case of marketing, the relative growth on the part of cooperatives can be shown by comparing changes in an index of the volume of cooperative marketing with changes in an index of total farm cash receipts from marketing. Table 3 shows indexes of cooperative and of total marketing with the years 1935 to 1939 as a base. An index of relative growth of cooperative marketing, obtained by dividing the cooperative index by the corresponding total index, is shown in column (3). 1/ If cooperatives had maintained exactly the same share of the market in each year, this series would always have a value of 100. In years when the index of relative growth is greater than 100, cooperatives handled a larger share of the market than in 1935-39. In years when the index of relative growth is less than 100, cooperatives handled a smaller share of the market than in 1935-39.

On the basis of index of relative growth it appears that there has been no marked tendency in recent years for cooperative marketing associations to take over a larger share of the total marketing business at the farm level. 2/ From 1936 to 1941 the trend was slightly downward. In 1941, 1942, and 1943, moreover, cooperative marketing was actually less than in the base period and did not reach base period levels until 1944.

1/ The relative growth of cooperative marketing may also be measured by adjusting (deflating) the index of cooperative marketing by (1) changes in the prices of farm products and (2) changes in the physical volume of farm products marketed. Computations of this sort were made based on the published index of prices received by farmers and the index of agricultural production. Although the data have certain rather serious limitations for this use, it is significant that the results obtained were substantially similar to those obtained from adjusting by cash receipts.

2/ It is interesting to note that the Canadian Royal Commission investigating cooperatives came to the same conclusion with respect to the recent growth of Canadian marketing associations, see Report of the Royal Commission on Cooperatives, Ottawa, 1945, Appendix A. The Commission also studied the growth in terms of individual commodities and found some areas of increase and decrease. It was not possible to make a similar commodity-by-commodity analysis of American cooperative activity for this memorandum, however, because of insufficient data.

Table 3

Relative Growth of Cooperative Marketing, 1930-1944

(Base all indexes, 1935-39)

Year	(1) Index of cooperative farm marketing	(2) Index of total cash receipts from farm marketing	(3) Index of relative growth of cooperative marketing (Col. 1 ÷ Col. 2)
1930	126	113	112
1931	100	80	125
1932	69	59	117
1933	70	67	104
1934	77	79	97
1935	88	89	99
1936	108	105	103
1937	113	111	102
1938	97	96	101
1939	94	99	95
1940	105	105	100
1941	129	140	92
1942	174	192	91
1943	239	243	98
1944	262	248	106

Treasury Department, Division of Tax Research

Source: U.S. Department of Agriculture: Farm Credit Administration and Bureau of Agricultural Economics.

II. Relative growth of cooperative purchasing

Table 4 shows indexes of cooperative purchasing and of total farm expenditures on feed, fertilizer, and the operation of motor vehicles. Column (3) shows an index of relative growth of cooperative purchasing, obtained by dividing the cooperative index by the total index.

It is evident that there has been a substantial growth in the relative importance of cooperative farm purchasing since 1930. The most rapid relative growth occurred, however, during the period 1930-38, when tax rates were considerably lower than in later years. Since 1938, there has been no clear trend.

III. Sources of data and their limitations

The value of products marketed by cooperatives (valued at the farm level) is closely approximated by the series on the dollar volume of business of cooperatives computed by the Farm Credit Administration. This, however, is not altogether true in the case of processed products, which include the value of the raw product to the producer, together with handling and processing expenses. Limited amounts of service charges at terminal markets are included in some instances. The Farm Credit Administration estimates are based on financial statements and other reports from associations. Duplications resulting from interorganization turnover are eliminated in so far as possible. Inclusion of such handling and processing expenses, however, impairs the usefulness of the index only to the extent that there has been a significant change in the relative importance of these expenses. Total farm sale proceeds may be represented by the series on cash receipts from farm marketings, compiled by the Bureau of Agricultural Economics.

There are, however, certain limitations of these data when used for the purposes of measuring relative growth of cooperatives. In the first place, the results apply to cooperatives as a whole whereas ideally it would also be advisable to have data on the basis of individual commodities (and even on various regions so that any specific area of rapid growth or decline could be distinguished). In the second place, the two primary series are not strictly comparable. The cash marketing series reflects the influence of a number of commodities, notably hay, not handled to any extent by cooperatives. Moreover, the bulk of cooperative marketing is concentrated in a relatively few commodities, some of which are less heavily weighted proportionately in the cash receipts index. Nevertheless, for a study such as this one, where the interest is primarily in broad trends, it is believed that sufficiently reliable results can be obtained.

Table 4

Relative Growth of Cooperative Purchasing, 1930-1944

(Base all indexes, 1935-39)

Year	(1) Index of cooperative farm purchasing	(2) Index of farm expenditures on feed, fertilizer, and operation of motor vehicles 1/	(3) Index of relative growth of cooperative purchasing (Col. 1 ÷ Col. 2)
1930	56	114	49
1931	47	77	61
1932	37	62	60
1933	39	67	58
1934	48	80	60
1935	82	82	100
1936	81	102	79
1937	114	113	101
1938	108	94	115
1939	116	109	106
1940	117	119	98
1941	155	145	107
1942	194	187	104
1943	262	241	109
1944	284	244	116

Treasury Department, Division of Tax Research

Source: U.S. Department of Agriculture: Farm Credit Administration and Bureau of Agricultural Economics

1/ Operation of motor vehicles includes expenditures for gasoline, oil, tires, and labor for repairing tractors, and gasoline, oil, tires, and replacement parts, labor for repairs, registration fees and insurances for automobiles and trucks. Only 40 percent of the total operating costs of automobiles is included as a production expense.

Another difficulty arises from the fact that the data compiled by the Farm Credit Administration are presented in terms of marketing seasons which spread over portions of two years, whereas the cash receipts totals are on a calendar year basis. For purposes of this appendix, the first year of a given marketing season has been taken as the link to the other series (i.e., marketing season 1943-44 corresponds to calendar year 1943). 1/

Measurement of the relative growth in cooperative purchasing at the farm level also involves certain difficulties. There is no series on the total volume of farm purchases. It is known, however, that the principal products handled by cooperatives are feed, fertilizer, and gasoline, oil and other automotive supplies. 2/ Annual totals of farm expenditures on these items are published by the Department of Agriculture.

While an index based on these totals is perhaps the best available, it obviously suffers from a very serious limitation, arising out of its implicit overweighting of feed and underweighting of gasoline, oil, etc., as compared with the index of cooperative purchasing. 3/ Since changes in the value of feed expenditures by farmers were substantial, the effect may be to understate any uptrend in the adjusted index. 4/

1/ There is less error in this procedure than in the opposite approach since about 90 percent of the returns submitted to the F.C.A. are on a calendar rather than fiscal year basis.

2/ In 1936, these products accounted for about 60 percent of total purchasing by all cooperatives (Statistical Handbook of Farmers' Cooperatives, p. 94). A study of 16 large regional cooperatives in 1944 showed that the proportion for these organizations was nearly 85 percent, but recent figures reflect wartime shortages of many other items customarily handled by cooperatives.

3/ Moreover, the data on expenditures for the operation of motor vehicles are not strictly comparable with cooperative purchase of motor vehicle supplies. The former includes such things as cost of registration, insurance expenses and labor for repairs. In addition, only 40 percent of the cost of operating automobiles is included.

4/ On the other hand, construction of an aggregate index for feed, gas and oil, and fertilizer with weights of 5, 3, and 1, respectively, and 4, 2, and 1, did not produce noticeably different results.

APPENDIX D

Recent Expansion of Cooperative Manufacturing

Estimates of the number and types of productive plants operated by farm cooperatives are shown in Tables 5 and 6 of this appendix.

It can be seen from Table 5 that marketing cooperatives operated about 2,800 plants in 1943, of which nearly three-fourths were engaged in processing milk into butter, cheese, and dry skim milk. With the exception of dry skim milk, this productive capacity is of long standing, and the proportion of butter and cheese manufactured cooperatively has not increased in recent years. In fact, it is of interest that during the war some of the large commercial cheese companies bought out many local cooperative cheese factories. It is also significant that studies have disclosed a trend in the dairy industry to larger scale units, a trend in which cooperatives have been lagging behind the rest of the industry. 1/

The only other areas where there are substantial number of cooperative plants processing farm products are in cotton ginning and canned fruits and vegetables. With respect to the former, it is to be noted that most of this expansion took place during the period 1930 to 1940. There was considerable expansion in cooperative canning during the war as a result of the tremendous demand for food and the efforts of the Government to increase the production of canned foods. Cooperatives appear to have handled increasing proportions in most products, but the proportion of the total pack handled by cooperatives is still very small. Only in canned berries, cherries, pears, and citrus fruit juices do cooperatives handle as much as 10 percent of the pack. In some of the most important canning products, such as peas, tomatoes, and corn, they account for only 1 to 3 percent of total production.

Table 6 shows the number of plants operated by farmers' purchasing cooperatives in 1943. The three numerically largest group of plants, grinding mills, oil wells, and repair shops, are, of course, not manufacturing operations in the strict sense of the term. Exclusive of these groups, the principal areas of cooperative manufacturing are fertilizer, feed, and petroleum refining and blending. This is to be expected, of course, since these items represent the principal operating expenses of farmers and since cash expenditures for these items by farmers have been increasing steadily in importance.

1/ D. E. Hirsch, Farmers' Cooperatives and the Trend Toward Large-Scale Dairy Plants, Department of Agriculture, Farm Credit Administration, Cooperative Research and Service Division, Miscellaneous Report No. 80.

Table 5

Cooperative Plants for Processing Farm Products
December 31, 1943

Type of plant	Number of plants	Percent of total cooperative product processing plants
1. Creameries	1,353	49%
2. Cheese factories	531	19
3. Cotton gins	407	15
4. Canneries, dehydrating plants (fruits and vegetables)	190	7
5. Dehydrating plants (milk)	172	6
6. Flour and cereal mills	18	1
7. Wineries	16	1
8. Sugar mills and honey plants	15	1
9. Nut processing and packaging plants	14	1
10. All other	44	2
Total	2,761	100%

Treasury Department, Division of Tax Research

Source: "Trends in Farmer Cooperation," News for Farmer Cooperatives (U.S. Department of Agriculture, Farm Credit Administration), February 1944.

Table 6

Cooperative Plants for Farm Supply Requirements,
December 1, 1943

Type of plant	Number of plants	Percent of total cooperative farm supply plants
1. Farmers' elevators grinding feed	1,000	60%
2. Oil wells	350	21
3. Machine repair shops	100	6
4. Feed mills	57	3
5. Fertilizer plants	40	2
6. Seed cleaning plants	40	2
7. Chick hatcheries	32	2
8. Lubricating oil and grease compounding plants	11	1
9. Refineries	9	1
10. Sawmills	8	1
11. Farm machinery plants	7	*
12. Insecticide plants	6	*
13. Paint factories	5	*
14. Serum laboratories	4	*
Total	1,670	100%

Treasury Department, Division of Tax Research

Source: "Trends in Farmer Cooperation," News for Farmer Cooperatives (U.S. Department of Agriculture, Farm Credit Administration), February 1944, p. 4.

* Less than 0.5 percent

A study by the Farm Credit Administration of cooperative fertilizer production shows that cooperatives made important relative gains in the period 1938-1939 to 1942-1943. 1/ However, this study disclosed that the greatest relative advance was made between 1938-1939 and 1940-1941. The imposition of fertilizer controls in 1942-1943 drastically slowed the prewar expansion trend of cooperatives. Moreover, despite their substantial gains, cooperatives still accounted for only about 10 percent of total production. 2/

No comprehensive official studies have been made of cooperative activity in feed and petroleum refining. It is known, however, that the bulk of present feed capacity is of long standing, with most of present facilities constructed or acquired before the high-tax period. On the other hand, expansion of cooperatives into basic petroleum production refining is a recent development on the part of some regional cooperatives. Despite a very substantial growth, however, the value of refined petroleum products produced by cooperatives was still only about $20 million in 1944. 3/

On the basis of this brief summary of the extent of cooperative manufacturing, it is possible to draw certain conclusions with respect to the significance of these activities for tax policy toward cooperatives.

(1) The number of true manufacturing plants owned by cooperatives is still very small.

(2) Cooperative manufacturing is economically significant only in a very few areas; even in these fields (with the exception of dairy products) the production of cooperatives is small as compared to the total production and probably even with the total amount of production handled by cooperatives.

(3) A very substantial percentage of existing cooperative plants were built or acquired before the high tax period. All recent growth, therefore, must be considered as representing to some extent merely a continuation of normal trends. Moreover, some ground recently gained by cooperatives is attributable to purely wartime influences and may well be lost in the postwar period.

1/ Joseph G. Knapp, The Place of Cooperatives in the Fertilizer Industry (Preliminary Report), Department of Agriculture, Farm Credit Administration, Cooperative Research and Service Division, Miscellaneous Report No. 85.

2/ It is believed that further expansion in fertilizer may be anticipated because such a large proportion of all fertilizer used is consumed in the South, and this region historically has lagged behind the rest of the country in cooperative development.

3/ See "Operation of Consumers' Cooperatives in 1944," U.S. Department of Labor, Bureau of Labor Statistics, Bulletin No. 843, p. 16.

APPENDIX E

Distribution of Returns of Tax-Exempt Farmers' Cooperative Marketing and Purchasing Associations by Size of Gross Income and Receipts and by Size of Total Assets, 1943

This appendix shows available information on the size distribution of tax-exempt farmers' cooperative marketing and purchasing associations. It is based on tabulations of information from 4,397 returns of such organizations filed on Form 990 for the calendar year 1943 or for fiscal years beginning in 1943. These 4,397 returns include all returns received in the Bureau of Internal Revenue through December 31, 1944. They do not include the 1,198 returns of tax-exempt farmers' cooperative marketing and purchasing associations received in the Bureau of Internal Revenue between December 31, 1944 and September 1, 1945. Among these latter returns only those of organizations with total gross income and receipts in excess of $50,000 were tabulated by size groups, and they are not included in the tables in this appendix. Information drawn from the returns of tax-exempt farmers' cooperatives and other tax-exempt organizations was published by the Treasury Department, November 1, 1945, as a Supplement to Statistics of Income for 1943, Part 2.

Table 7 shows a distribution of 4,397 returns of tax-exempt farmers' cooperative marketing and purchasing associations by size of gross income and receipts for 1943.

Table 8 shows a distribution of the returns of 2,909 tax-exempt farmers' cooperative marketing and purchasing associations, which filed balance sheets, by size of total assets for 1943.

Tables 7 and 8 indicate that, although the great majority of tax-exempt farmers' cooperatives are comparatively small organizations, a large portion of the business done by tax-exempt cooperatives and of the assets held by such organizations is in the hands of the relatively few large organizations. A similar situation exists in the case of ordinary corporations.

In using the data presented in Tables 7 and 8, it should be remembered that it is impossible to say how complete their coverage is. Although it is believed that most organizations required to file an information return did so, it is not possible at this time to determine exactly how many cooperatives may have failed to file

a return for 1943. Furthermore, it is not certain how the distributions shown in Tables 7 and 8 would have been affected if it had been possible to include returns not received in the Bureau of Internal Revenue until after December 31, 1944. Finally, it is not known whether the size distribution of taxable farmers' cooperatives differs significantly from that of the tax-exempt organizations. It has not been possible to separate the tax returns of taxable farm cooperatives from those of ordinary corporations.

Table 7

Distribution of Returns of Tax-Exempt Farmers' Cooperative Marketing and Purchasing Associations by Size of Gross Income and Receipts, 1943

(Returns received in the Bureau of Internal Revenue through December 31, 1944)

Gross income and receipts classes	Number of returns			Gross income and receipts		
	Number	Percentage	Percentage cumulated	Amount (thousands)	Percentage	Percentage cumulated
Under $500	209	4.8	4.8	$ 43	*	*
$500 - 1,000	90	2.0	6.8	65	*	*
1,000 - 2,500	89	2.0	8.8	146	*	*
2,500 - 5,000	88	2.0	10.8	317	*	*
5,000 - 10,000	119	2.7	13.5	851	*	.1
10,000 - 15,000	90	2.0	15.5	1,094	*	.1
15,000 - 25,000	132	3.0	18.5	2,661	.1	.2
25,000 - 50,000	408	9.3	27.8	15,208	.7	.9
50,000 - 100,000	648	14.7	42.5	48,194	2.2	3.1
100,000 - 250,000	1,058	24.1	66.6	174,233	7.8	10.9
250,000 - 500,000	724	16.5	83.1	256,009	11.5	22.3
500,000 - 1,000,000	420	9.6	92.7	288,514	12.9	35.2
1,000,000 - 5,000,000	269	6.1	98.8	539,395	24.2	59.4
5,000,000 and over	53	1.2	100.0	907,173	40.6	100.0
Total	4,397	100.0		$2,233,904	100.0	

Treasury Department, Division of Tax Research

Source: Supplement to Statistics of Income for 1943, Part 2.

* Less than .05 percent.

Table 8

Distribution of Returns of Tax-Exempt Farmers' Cooperative Marketing and Purchasing Associations Filing Balance Sheets, by Asset Classes, 1943

(Returns received in the Bureau of Internal Revenue through December 31, 1944

Total assets classes	Number of returns			Total assets		
	Number	Percentage	Percentage cumulated	Amount (Thousands)	Percentage	Percentage cumulated
Under $1,000	67	2.3	2.3	$ 25	*	*
$1,000 - 5,000	126	4.3	6.6	348	.1	.1
5,000 - 10,000	122	4.2	10.8	933	.2	.3
10,000 - 15,000	166	5.7	16.5	2,104	.4	.7
15,000 - 25,000	401	13.8	30.3	8,021	1.6	2.3
25,000 - 50,000	811	27.9	58.2	29,509	6.0	8.4
50,000 - 100,000	601	20.7	78.9	41,834	8.6	16.9
100,000 - 250,000	381	13.1	92.0	58,294	11.9	28.8
250,000 - 500,000	103	3.5	95.5	34,328	7.0	35.9
500,000 - 1,000,000	64	2.2	97.7	45,688	9.3	45.2
1,000,000 - 5,000,000	51	1.8	99.5	104,871	21.4	66.7
5,000,000 - 10,000,000	9	0.3	99.8	66,002	13.5	80.1
10,000,000 - 50,000,000	7	0.2	100.0	97,087	19.9	100.0
Total	2,909	100.0		$ 489,044	100.0	

Treasury Department, Division of Tax Research

Source: Supplement to Statistics of Income for 1943, Part 2.

* Less than .05 percent.

STATUTORY DEBT LIMITATION
AS OF OCTOBER 31, 1947

November 7, 1947

Section 21 of the Second Liberty Bond Act, as amended, provides that the face amount of obligations issued under authority of that Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), "shall not exceed in the aggregate $275,000,000,000 outstanding at any one time. For purposes of this section the current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder shall be considered as its face amount."

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			$275,000,000,000
Outstanding October 31, 1947			
Obligations issued under Second Liberty Bond Act, as amended			
Interest-bearing			
Treasury bills	$ 15,731,905,000		
Certificates of indebtedness	24,806,004,000		
Treasury notes	13,457,252,000	$ 53,997,161,000	
Bonds			
Treasury	118,563,919,650		
Savings (current redemp. value)	51,896,582,565		
Depositary	321,229,000		
Armed Forces Leave	908,539,825		
Investment series	969,985,000	172,660,256,040	
Special Funds			
Certificates of indebtedness	14,741,100,000		
Treasury notes	14,706,321,000	29,447,421,000	
Total interest-bearing		256,104,838,040	
Matured, interest-ceased		279,529,904	
Bearing no interest			
War savings stamps	64,159,925		
Excess profits tax refund bonds	13,180,491		
Special notes of the United States:			
Internat'l Bank for Reconst. and Development series	315,785,000		
Internat'l Monetary Fund series	1,431,000,000	1,824,125,416	
Total		258,208,493,360	
Guaranteed obligations (not held by Treasury)			
Interest-bearing			
Debentures: F.H.A.	32,951,386		
Demand obligations: C.C.C.	44,793,755	77,745,141	
Matured, interest-ceased		5,738,775	
		83,483,916	
Grand total outstanding			258,291,977,276
Balance face amount of obligations issuable under above authority			16,708,022,724

Reconcilement with Statement of the Public Debt - October 31, 1947
(Daily Statement of the United States Treasury, November 3, 1947)

Outstanding -	
Total gross public debt	259,071,042,154
Guaranteed obligations not owned by the Treasury	83,483,916
Total gross public debt and guaranteed obligations	259,154,526,070
Deduct - other outstanding public debt obligations not subject to debt limitation	862,548,794
	258,291,977,276

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 11, 1947.

Press Service
No. S-522

The Secretary of the Treasury announced last evening that the tenders for $1,100,000,000, or thereabouts, of 92-day Treasury bills to be dated November 13, 1947, and to mature February 13, 1948, which were offered November 7, 1947, were opened at the Federal Reserve Banks on November 10.

The details of this issue are as follows:

Total applied for - $1,555,254,000
Total accepted - 1,103,300,000 (includes $37,377,000 entered on a non-competitive basis and accepted in full at the average price shown below)

Average price - 99.767 Equiv. rate of discount approx. 0.912% per annum

Range of accepted competitive bids: (Excepting one tender of $1,500,000)

High - 99.782 Equiv. rate of discount approx. 0.853% per annum
Low - 99.765 Equiv. rate of discount approx. 0.920% per annum

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

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 5,735,000	$ 5,735,000
New York	1,401,917,000	979,307,000
Philadelphia	17,227,000	10,127,000
Cleveland	4,410,000	2,360,000
Richmond	2,795,000	2,795,000
Atlanta	5,215,000	5,051,000
Chicago	68,010,000	52,190,000
St. Louis	5,920,000	5,820,000
Minneapolis	4,270,000	4,270,000
Kansas City	7,630,000	7,630,000
Dallas	8,695,000	8,685,000
Ssn Francisco	23,430,000	19,330,000
TOTAL	$1,555,254,000	$1,103,300,000

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United States Savings Bonds Issued and Redeemed Through October 31, 1947

(Dollar amounts in millions - rounded and will not necessarily add to totals)

	Amount Issued 1/	Amount Redeemed 1/	Amount Outstanding 2/	Percent Redeemed of Amount Issued
Series A-D:				
Series A-1935 (matured)	$255	$247	$8	96.86%
Series B-1936 (matured)	463	440	23	95.03
Series C-1937	588	444	3/ 144	75.51
Series C-1938	666	156	509	23.42
Series D-1939	1,029	215	815	20.89
Series D-1940	1,215	231	984	19.01
Series D-1941	524	89	434	16.98
Total Series A-D	4,741	1,823	2,918	38.45
Series E:				
Series E-1941	1,468	337	1,132	22.96
Series E-1942	6,654	2,349	4,305	35.30
Series E-1943	10,900	4,550	6,349	41.74
Series E-1944	12,715	5,418	7,296	42.61
Series E-1945	9,918	4,004	5,914	40.37
Series E-1946	4,354	1,179	3,176	27.08
Series E-1947 (10 months)	3,145	319	2,826	10.14
Total Series E	49,153	18,155	30,997	36.94
Total Series A-E	53,894	19,978	33,916	37.07
Series F and G:				
Series F and G-1941	1,531	199	1,332	13.00
Series F and G-1942	3,188	479	2,709	15.03
Series F and G-1943	3,362	510	2,853	15.17
Series F and G-1944	3,691	422	3,269	11.43
Series F and G-1945	3,144	251	2,893	7.98
Series F and G-1946	2,993	124	2,869	4.14
Series F and G-1947 (10 months).	2,155	12	2,143	.56
Total Series F and G	20,065	1,998	18,068	9.96
Unclassified sales and redemptions	112	167	-55	
Total All Series 4/	74,071	22,142	51,928	29.89

1/ Includes accrued discount.
2/ Current redemption values.
3/ Includes matured bonds which have not been presented for payment.
4/ Includes Series A and B (matured), and therefore does not agree with totals under interest-bearing debt on Public Debt Statement.

Office of Fiscal Assistant Secretary - Treasury Department.

TREASURY DEPARTMENT
Washington

(The following address by Secretary Snyder before the National Convention of the Young Democratic Clubs of America at the Music Hall Auditorium, at Cleveland, Ohio, is scheduled for delivery at 8:00 p.m., E.S.T., Friday, November 14, 1947, and is for release at that time.)

Our National decisions today will determine the future course of America as we seek to insure prosperity at home and peace and security for all peoples.

The Democratic Party in the past has made tremendous contributions of lasting value to the Nation, and today a united Democratic Party has before it one of its greatest opportunities for service.

So, I feel privileged to join with you in your rededication of our party principles, and in a solemn pledge to the President of the United States that he has our full support and backing in his determined efforts towards a peaceful world, a prosperous world, and a free world.

The Young Democratic Clubs of America are a strong and valuable force in our Party councils. Your organization, since its founding in 1932, has been dedicated to the highest ideals of citizenship, active participation in the affairs of Government, and the advancement of Democratic philosophies.

Those of you who actively participated in the war have emerged with an even greater appreciation of the benefits of citizenship in this country. And, because of that experience you will devote an even greater effort toward the preservation and further improvement of our social standards.

We are fortunate to have in the White House a man whose similar experience played an important part in preparing him for the leadership and sound vision he is evidencing today.

When President Truman took office in 1945, he assumed burdens, both domestic and international, as great in their implications as any ever undertaken by a national leader.

America was still at war. And even while tremendous effort was being directed towards complete victory, a workable program had to be devised to insure an orderly transition to a peacetime economy.

In the accomplishment of this transition, Mr. Truman's able administration has contributed greatly to our unprecedented material prosperity. Further, his policies in the international field have won the overwhelming support of the American public.

You in this convention have a special opportunity to demonstrate your support and backing of the President as he carries on the heavy responsibilities of his office. Through the influence of this organization, working with hundreds of thousands of young citizens, you can help develop the essential understanding of the problems that now confront us.

Out of such an understanding there will come united action.

This first post-war National convention of Young Democrats comes at a most significant time. In a few days the Congress of the United States will reassemble in Washington at the call of the President, to consider legislation to curb the mounting inflation that threatens our economy at home; and to determine our role in world recovery.

There is imperative need that we assist those countries where the spirit of freedom still lives and fights for survival.

The objective of the European Recovery Program which the President will present to the Congress is to bring about the economic rehabilitation of those European countries willing to cooperate on the basis outlined in Secretary Marshall's Harvard speech.

The urgent necessity for foreign aid has been created by the slow economic recovery of many nations following the war. Certain countries have been unable to reach a level of production for exports to provide sufficient dollars for necessary purchases of sorely needed imports. Increased production abroad will tend, through providing greater exports, to lessen the present so-called scarcity of dollars.

The economic recovery program is based on the cooperative effort of all European participating countries and on the United States making available to such countries necessary commodities and services which they cannot provide for themselves at this time.

Foreign aid is not to be given unconditionally, however, The United States will want to assure itself that the European participating countries are first, making the most of their own resources -- and second, making the most effective use of aid from the United States.

Both the interim aid program, which provides for urgently needed food and fuel during this coming winter, and the long range aid program, which provides for tangible recovery, are conceived with a full realization of the fact that our <u>own</u> resources are not inexhaustible.

I would like to emphasize here the importance of an expanding international trade to this Nation's economy. The government's policy has been one of consistent support of international efforts to accomplish this goal.

I believe that over the long pull, operations of such organizations as the World Bank, the Monetary Fund, and the International Trade Organization will result in a wholesome and essential expansion of exchange of goods and services between Nations.

Concurrently with the European Recovery Program, the Congress upon reconvening must consider a program to most effectively check and control the mounting price structure and the soaring cost of living.

For, the greatest danger on the domestic front today is the reality of inflation. Since mid-summer of 1946, inflationary factors have gained momentum until they are now at disturbing proportions.

President Truman and his Administration have never for a moment lost sight of the inflationary danger, nor wavered in efforts to control these forces.

The President relinquished as rapidly as possible those wartime controls no longer necessary. He sought earnestly to retain temporarily only those controls he knew were essential to the National welfare.

On the financial side, the Government has so ordered its fiscal operations as to make them a substantial force in resisting inflation.

Government expenses have been sharply reduced, and Mr. Truman has stated that "The same prudent policy of planning for a surplus for further debt retirement will be followed in preparing the budget for fiscal 1949. The strictest economy consistent with the government's obligation is imperative."

The thoroughness and sincerity of the Administration's economy program was clearly demonstrated when during the last session, the Congress was unable to reduce the budget substantially below that presented by the President in January.

As a part of his economy program, the President has firmly resisted the political expedient of reducing taxes when such action now would fan the flames of inflation.

Your administration stands firmly committed to the prudent policy of seeking, in these times of high National income, to reduce our public debt. Our program of adequate tax revenues is part and parcel of this policy.

This policy resulted in a surplus in the last fiscal year, and, we are confident, will result in a larger one during the current year.

A financially sound government is necessary to permanent welfare and is the keystone to the security of its people. Adherence to this truth is one of our primary obligations -- an obligation too often overlooked by those who would follow the line of least resistance and place tax reduction before fiscal solvency.

As Secretary of the Treasury, I would not be properly fulfilling the duties of my office if I did not consistently and forcibly advocate providing sufficient revenues to meet our running expenditures and to permit the steady liquidation of the public debt.

This does not mean I am opposed to tax reduction. Nor does it mean that I do not believe tax reduction feasible and proper after we have met certain necessary prerequisites.

I do firmly contend, however, that before reaching conclusions on tax reduction, the Congress should first consider foreign aid within a balanced budget; second, debt reduction; third, equitable tax revision; and then, equitable tax reduction. These steps must be taken progressively. They undoubtedly can not all be taken at once.

We must keep our own house in order economically if we are properly to meet our responsibilities both here at home, and abroad.

That we remain today a strong nation, both financially and economically, that we are enjoying the greatest period of prosperity in our history, is a tribute to the American system of free enterprise. But it is also the result of effective policy and prudent management on the part of your Democratic Administration.

In November of last year, before the Economic Club of New York, I inventoried briefly the great assets and opportunities of this country and predicted a continuing prosperity, even though at that time there was general talk of a threatened depression. The evidence of this past year has more than justified the position I took then.

Strong testimony to the degree of our progression is in our wide employment, our level of wages, our unprecedented demand for goods and services, our accumulation of personal savings, and our vast output of industrial and agricultural products.

Personal incomes are running at the rate of over 200 billion dollars a year.

Civilian employment is at a record level with approximately 60,000,000 people at work.

Steel production in the latter part of October rose to the highest level of the postwar period, slightly above 97 percent of capacity. On a tonnage basis, this is the highest peacetime output in the history of the industry.

Electric power output continues to reflect record consumption.

Both farm and industrial production are near record peacetime levels. The Federal Reserve Board's latest adjusted index of industrial production showed 85% above the 1935-39 average.

Residential construction activity has displayed encouraging gains and is at the highest levels since the Twenties.

These indices and the many other fields in which peak high production is being recorded manifest the great extent of our present prosperity -- a prosperity accomplished under Democratic Administration.

We will soon be in the midst of a national election. Therefore, it is important that we carefully re-examine the Administration policies and that we thoroughly understand the cause and purpose behind these policies, as we approach the coming national election.

We must consider the Democratic accomplishments of the past for a fuller understanding of our own challenge and opportunity of today.

We have been faithful to our promises of human betterment and to our philosophy of furthering the cause of freedom for men and women everywhere.

Permanent social and economic gains developed under Democratic leadership, stand today as a great defense for our entire economy.

Social security and unemployment insurance; insurance of bank deposits; the "truth in securities" law; aid to agriculture; national recognition of the rights of workers to bargain collectively with their employers -- these are some of the lasting attainments of Democratic administration.

The Administration's far-sighted steps to provide for military preparedness -- steps taken against stubborn opposition -- proved the salvation of our Nation. Today the Democratic party and the Democratic administration continue to stand unalterably for security forces adequate to protect us in this uneasy world.

We are not content, however, to rest upon any past accomplishments. What we do today, what we propose for the future -- these are important. The record we are writing now under the leadership of President Truman, deserves, and is receiving, the confidence of the American public.

And, from the wealth of these accomplishments, we will draw strength and purpose for even greater achievement.

Under the continued leadership of President Truman, we will live as a great nation -- a powerful nation -- a secure nation for individual freedom.

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS
Thursday, November 13, 1947.

Press Service
No. S-524

Secretary Snyder announced today that the United States Secret Service, in its stepped-up drive against counterfeiters, made four arrests over the week-end and seized more than thirty thousand dollars of phony currency, along with plates, paper and photographic materials used in counterfeiting.

At Los Angeles, California, Secret Service agents, aided by local police officers, arrested Arlando Molina, 21, of San Bernardino, on a charge of passing a counterfeit $20 Federal Reserve note. It was the second attempt to circulate this new-type counterfeit, drawn on the San Francisco Reserve Bank, which led to Molina's arrest.

Later in the day Joe D. Rivas, 34, a companion of Molina, who had eluded officers at the time of the latter's arrest, was apprehended by Secret Service agents at San Bernardino. He is being held on a charge of passing counterfeit money.

Information obtained from Molina and Rivas led to the arrest of Norman G. Riedel, 27, of nearby Fontana. A search of Riedel's home resulted in the seizure of the front and back plates for the twenty-dollar note, an unfinished set of plates for the same note, photographic negatives, a printing press and other counterfeiting equipment.

In addition, agents seized plates used in the counterfeiting of State of California unemployment checks, and gained an admission from Riedel that he and Rivas had passed more than a hundred of these checks in San Diego during the month of September. Riedel also confessed the manufacture of fifty twenty-dollar Federal Reserve notes, which he claimed were turned over to Molina and Rivas. Only the two notes passed in Los Angeles were recovered, agents presuming that the others were destroyed by Rivas after he observed the arrest of Molina.

Secret Service agents seized $30,000 worth of counterfeit twenty-dollar bills last Saturday night, and arrested Perry Bunero, 33, of Cliffside, N. J., on a charge of passing worthless money. The seized counterfeits were the "purchase" of Agent Stanley Phillips of the Secret Service, who had arranged for delivery of the bills to a Fort Lee, N. J., tourist house. A later search of the Bunero home resulted in the seizure of two other counterfeit twenty-dollar Federal Reserve notes, some unfinished currency, and materials believed to have been used in the counterfeiting of OPA stamps.

Bunero at first stated that he found the phony bills in a rock quarry near Cliffside, but later admitted having sold another $20,000 worth of bills early in October. The plates from which these bills were printed have not been found.

Secretary Snyder, in making public the two captures, indicated that the Secret Service is "cracking down" on counterfeiters, who have been unusually active in recent months. Several weeks ago agents of the Secret Service, working with the French police, seized more than two million dollars worth of United States counterfeit bills in Marseilles, and made eleven arrests in the largest capture of recent years.

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TREASURY DEPARTMENT
Washington

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FOR IMMEDIATE RELEASE
Thursday, November 13, 1947

Press Service
No. S-525

The Bureau of Customs announced today that preliminary data on imports of cotton and cotton waste chargeable to the quotas established by the President's proclamation of September 5, 1939, as amended, for the period September 20, 1947, to November 1, 1947, inclusive, are as follows:

COTTON (other than linters)
(In pounds)

Country of Origin	Under 1-1/8" other than rough or harsh under 3/4"		1-1/8" or more but less than 1-11/16" 4/	Less than 3/4" harsh or rough 5/
	Established Quota	Imports Sept. 20, 1947, to Nov. 1, 1947	Imports Sept. 20, 1947, to Nov. 1, 1947	Imports Sept. 20, 1947, to Nov. 1, 1947
Egypt and the Anglo-Egyptian Sudan	783,816	-	43,574,472	-
Peru	247,952	186,962	1,903,999	-
British India	2,003,483	-	-	3,782,459
China	1,370,791	-	-	-
Mexico	8,883,259	8,883,259	-	-
Brazil	618,723	618,723	-	-
Union of Soviet Socialist Republics	475,124	475,124	177,949	-
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	10,164,068	45,656,420	3,782,459

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Other than Gold Coast and Nigeria.
3/ Other than Algeria, Tunisia, and Madagascar.
4/ Established Quota - 45,656,420.
5/ Established Quota - 70,000,000.

COTTON WASTES
(In pounds)

COTTON CARD STRIPS made from cotton having a staple of less than 1-3/16 inches in length, COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE: Provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes other than 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:

Country of Origin	Established TOTAL QUOTA	Total imports Sept. 20, 1947, to Nov. 1,1947	Established 33-1/3% of Total Quota	Imports Sept. 20, 1947 to Nov. 1, 1947 1/
United Kingdom.....	4,323,457	-	1,441,152	-
Canada.....	239,690	30,308	-	-
France.....	227,420	-	75,807	-
British India.....	69,627	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	99,935	1,599,886	-

1/ Included in total imports, column 2.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Thursday, November 13, 1947

Press Service
No. S-526

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, 1947, as follows:

Country of Origin	Wheat		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Established Quota (Bushels)	Imports May 29, 1947, to Nov. 1, 1947 (Bushels)	Established Quota (Pounds)	Imports May 29, 1947, to Nov. 1, 1947 (Pounds)
Canada	795,000	108	3,815,000	982,353
China	-	-	24,000	7,600
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	400
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	108	4,000,000	990,354

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Thursday, November 13, 1947

Press Service
No. S-527

The Bureau of Customs announced today preliminary figures showing the imports for consumption of commodities on which quotas were prescribed by the Philippine Trade Act of 1946, from January 1, 1947, to November 1, 1947, inclusive, as follows:

Products of Philippine Islands	Established Quota Quantity	Unit of Quantity	Imports as of November 1, 1947
Buttons	850,000	Gross	75,422
Cigars	200,000,000	Number	3,147,609
Coconut Oil	448,000,000	Pound	15,952,851
Cordage	6,000,000	"	1,837,549
Rice	1,040,000	"	50
Sugars, refined) unrefined)	1,904,000,000	"	----
Tobacco	6,500,000	"	800,671

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Thursday, November 13, 1947

Press Service
No. S-528

The Bureau of Customs announced today preliminary figures showing the imports for consumption of commodities within quota limitations provided for under trade agreements, from the beginning of the quota periods to November 1, 1947, inclusive, as follows:

Commodity	Established Quota		Unit of Quantity	Imports as of Nov. 1, 1947
	Period and	Quantity		
Whole Milk, fresh or sour	Calendar year	3,000,000	Gallon	6,220
Cream, fresh or sour	Calendar year	1,500,000	Gallon	1,561
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish	Calendar year	23,906,423	Pound	Quota Filled
White or Irish potatoes:				
Certified seed	12 months from	90,000,000	Pound	2,245,265
Other	Sept. 15, 1947	60,000,000	Pound	9,199,825
Cuban filler tobacco unstemmed or stemmed (other than cigarette leaf tobacco) and scrap tobacco	Calendar year	22,000,000	Pound (unstemmed equivalent)	Quota Filled
Red cedar shingles	Calendar year	1,380,300	Square	Quota Filled
Molasses and sugar sirups containing soluble non-sugar solids equal to more than 6% of total soluble solids	Calendar year	1,500,000	Gallon	550,409

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, November 14, 1947.

Press Service
No. S-529

The Secretary of the Treasury announced today that the bonds of two outstanding issues which may be redeemed at the option of the United States on March 15, 1948, are called for redemption on that date. These issues are the 2 percent Treasury Bonds of 1948-50, dated March 15, 1941, and the 2-3/4 percent Treasury Bonds of 1948-51, dated March 16, 1936. There are now outstanding $1,115,367,900 of the 2 percent bonds and $1,223,495,850 of the 2-3/4 percent bonds.

The texts of the formal notices of call are as follows:

* * * *

TWO PERCENT TREASURY BONDS OF 1948-50
(DATED March 15, 1941)

NOTICE OF CALL FOR REDEMPTION

To Holders of 2 percent Treasury Bonds of 1948-50 (dated March 15, 1941), and Others Concerned:

1. Public notice is hereby given that all outstanding 2 percent Treasury Bonds of 1948-50, dated March 15, 1941, are hereby called for redemption on March 15, 1948, 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.

John W. Snyder
Secretary of the Treasury.

TREASURY DEPARTMENT,
Washington, November 14, 1947.

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TWO AND THREE-QUARTERS PERCENT TREASURY BONDS OF 1948-51
(DATED MARCH 16, 1936)

NOTICE OF CALL FOR REDEMPTION

To Holders of 2-3/4 percent Treasury Bonds of 1948-51 (dated March 16, 1936), and Others Concerned:

1. Public notice is hereby given that all outstanding 2-3/4 percent Treasury Bonds of 1948-51, dated March 16, 1936, are hereby called for redemption on March 15, 1948, 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.

John W. Snyder
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TREASURY DEPARTMENT,
Washington, November 14, 1947.

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