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REVENUE ACT OF 1940

JUNE 15 (legislative day, May 28), 1940.—Ordered to be printed

Mr. HARRISON, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 10039]

The Committee on Finance, to whom was referred the bill (H. R. 10039) to provide for the expenses of national preparedness by raising revenue and issuing bonds, to provide a method for paying for such bonds, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

Your committee concurs in the provisions of the House bill with the following changes:

(1) All increases on tobacco and tobacco products under the House bill have been eliminated. Your committee is of the opinion that the tax on tobacco and tobacco products is already very high and that any increase in this tax would have a tendency to injure the tobacco farmer and decrease the consumption of tobacco products. Under the committee amendment the rates of existing law now applicable to snuff, snuff flour, manufactured tobacco, cigars, cigarettes, and cigarette papers are continued.

(2) Under existing law packages and books containing 25 papers or less are exempt from the tax on cigarette papers. Your committee believes that this exemption should be continued for the reason that its elimination would result in considerably curtailing the consumption of smoking tobacco. The committee amendment, therefore, restores this exemption, which had been eliminated in the House bill.

(3) The provisions of the House bill affecting distilled spirits, wines, and fermented malt liquors were agreed to with the following exceptions:

(*a*) The House bill did not increase the tax on rectified spirits. Your committee believes that some increase should be made in this tax. Accordingly, the rate has been increased from 30 cents on each proof gallon to 40 cents on each proof gallon. A corresponding floor-stocks tax of 10 cents is imposed on account of the increased rate.

(*b*) Under the House bill an exemption of 100 wine gallons is allowed retail dealers in the case of floor-stocks taxes imposed upon distilled spirits. Your committee is of the opinion that no exemption should be allowed. The allowance of an exemption would give an opportunity for the retail trade to stock up with tax-paid liquor prior to the time the increased rates were effective.

(4) Your committee has changed the tax with respect to admissions. Under existing law admissions of 40 cents or less are exempt from tax. Admissions of over 40 cents are subject to a tax at the rate of 1 cent on each 10 cents or fraction thereof. While the House bill did not change the rate of tax under existing law, it exempted only admissions of less than 31 cents. Your committee has provided the following rates for taxing admissions, which will considerably increase the revenue derived from this source over that produced by the House bill.

Admissions up to and including 9 cents	No tax
Admissions of more than 9 cents and less than 20 cents	1 cent.
Admissions of 20 cents or more	1 cent on each 10 cents or fraction thereof.

The 1-cent tax will apply to admissions from 10 to 19 cents, both inclusive. An admission of 20 cents will be taxed at 2 cents. Admissions from 21 to 30 cents will be taxed at 3 cents; admissions from 31 to 40 cents will be taxed at 4 cents; and admissions from 41 to 50 cents will be taxed at 5 cents. Admissions over that amount will be taxed at 1 cent for each 10 cents or fraction thereof.

(5) A few minor changes were made in the income-tax provisions.

(*a*) The rate of tax on foreign corporations not engaged in trade or business in the United States and not having an office or place of business therein, which in the case of dividends is 10 percent under existing law, was changed to 15 percent instead of 11 percent as provided in the House bill and the rate of tax on other fixed or determinable income, which under the existing law is 15 percent and under the House bill was changed to 16 percent, is left at 15 percent. These changes were deemed necessary so that the same rate of tax will apply to foreign corporations not engaged in trade or business within the United States and not having an office or place of business therein as applicable to nonresident alien individuals of like character. The temporary defense tax increases this 15-percent rate for the five-year period to 16½ percent.

Since these taxes are withheld at the source, it is impossible for the withholding agent to determine in many cases whether the actual recipient of the income is a corporation or an individual. Any differential between the corporate rate and the individual rate can be easily avoided and will cause substantial administrative difficulty. For these reasons the House bill was changed in this respect. Corresponding changes are made with respect to the rate of withholding.

(*b*) Under the House bill a trust was required to file an income-tax return if the gross income for the taxable year was $100 or over. Your committee believes that this puts an undue burden upon the fiduciary and will result in the filing of unnecessary returns. Accordingly the bill is changed so that a trust is only required to file a return where its net income for the taxable year is $100 or over or its gross income is $800 or over. An individual is not required to file a return unless his gross income is $800 or over.

(7) The temporary taxes, imposed for the 5-year period, are referred to in the House bill as "supertaxes." Your committee has amended the bill so that these taxes will be designated as "defense taxes" instead of "supertaxes."

REVENUE ESTIMATES

The following table prepared by the Treasury Department shows the additional revenue under the committee bill:

Estimated additional revenue [1] attributable to the proposed Revenue Act of 1940

SOURCE OF REVENUE	
Title I:	
Income tax:	
Corporation income tax	\$70, 000, 000
Individual income tax	252, 000, 000
Total increase, title I	322, 000, 000
Title II (defense taxes):	
Corporation income tax	135, 000, 000
Individual income tax	123, 000, 000
Capital stock and excess-profits taxes	12, 000, 000
Estate tax	29, 000, 000
Gift tax	3, 000, 000
Alcoholic beverage taxes:	
Distilled spirits	76, 000, 000
Fermented malt liquors	46, 000, 000
Other	7, 000, 000
Total increase, alcoholic beverage taxes	129, 000, 000
Stamp taxes	7, 000, 000
Manufacturers' excise taxes:	
Gasoline	112, 000, 000
Other	30, 000, 000
Total increase, manufacturers' excise taxes	142, 000, 000
Miscellaneous taxes	105, 000, 000
Total increase, title II	685, 000, 000
Total increase, titles I and II	1, 007, 000, 000

[1] Excluding (*a*) the nonrecurring collections of floor taxes on alcoholic beverages, estimated for fiscal year 1941 at \$27,000,000 and (*b*) revenues resulting from the extension of certain excise taxes as provided in title II, "sec. 209. Continuation of Excise Taxes," but including the defense tax on such excise taxes
[2] As reported by the Senate Finance Committee June 17, 1940.

Treasury Department, Division of Research and Statistics, June 17, 1940.

It will be noted that despite the elimination of the tax on tobacco and tobacco products, your committee bill raises about \$3,000,000 more than the House bill. This is due to the change in the admissions tax, and the increased tax on rectified spirits.

(8) Your committee has amended the House bill to provide that the President is hereby authorized and directed to reduce appropriations for the executive branch of the Government for the fiscal year ending June 30, 1941 (except appropriations for national defense, fixed charges, and trust funds), in such manner that the total amount of such reductions shall not be less than 10 percent of the total amount of the appropriations affected. Such reductions in appropriations shall be impounded and returned to the Treasury.

(9) Your committee added an amendment terminating on the date of the enactment of the Revenue Act of 1940 the power and authority of the President and the Secretary of the Treasury under the Silver Purchase Act of 1934, with respect to the acquisition of foreign silver, and also repealing the internal-revenue tax on transfers of any interest in silver bullion contained in section 1805 of the Internal Revenue Code.

(6) Your committee has added to the House bill a provision to the effect that articles subject to the manufacturers' excise taxes which prior to July 1, 1940, were delivered under leases, contracts of sale, or conditional sales, shall be subject to tax with respect to payments made after June 30, 1940, on the basis of the rates in effect prior to July 1, 1940, and not at the increased rates.

Title I—Permanent Changes

These changes apply to income taxes for taxable years beginning after December 31, 1939. They are, therefore, applicable to 1940 incomes.

(1) The personal exemptions allowed individuals for income tax purposes under the existing law have been reduced from $2,500 to $2,000 in the case of married persons and heads of families and from $1,000 to $800 in the case of single persons. The bill does not affect the $400 credit for dependents allowed under existing law. This credit is allowed if the dependent receives his chief support from the taxpayer and is under 18 years of age or incapable of self-support because mentally or physically defective.

(2) The surtaxes are increased on surtax net incomes in excess of $6,000 and the increases continue up to surtax net incomes not in excess of $100,000, and from that point the rates of existing law are retained. Under the present law, the rate on surtax net incomes in excess of $100,000 and not in excess of $150,000 is 58 percent. While the rates applicable to surtax net incomes in excess of $100,000 are not increased, the surtaxes payable by taxpayers in these upper brackets are increased by reason of the higher rates in the lower brackets.

(3) The requirement as to filing income-tax returns in the case of individuals has been changed. Under the existing law, an individual is required to file a return if his net income amounts to $1,000 or more in the case of a single person, or $2,500 or more in the case of a married person, and in either case if his gross income is $5,000 or more. The bill requires a return from a single person if his gross income is $800 or more and from married persons if either their aggregate or separate gross income is $2,000 or more.

(4) Nonresident aliens: Under existing law, a nonresident alien individual not engaged in business within the United States or not having an office or place of business therein, is taxed only upon dividends, interest, or other fixed or determinable annual or periodical income at the rate of 10 percent. This rate may be reduced to 5 percent in the case of a resident of a contiguous country if so provided by treaty. Subject to treaty provisions with foreign countries, the 10 percent rate has been increased to 15 percent, which corresponds to the proportionate increase in burden imposed upon American citizens and residents by the increases in income and excise taxes under the bill. Under existing law, if such a nonresident alien individual has a gross

income of more than $21,600, which is the level at which the average effective rate equals 10 percent, he is subject to the full normal and surtax on his fixed or determinable annual or periodical income. The bill raises this level to $24,000 which, under the increased rates, is the point which equals an effective rate of approximately 15 percent. Nonresident aliens engaged in business in the United States or having an office or place of business therein are subject to the same rates as apply to American citizens with respect to income from United States sources. They will, therefore, be subject to the increase in tax applicable to American citizens.

CORPORATIONS

(1) *Domestic corporations.*—Your committee increased the rate of tax on corporations by 1 percent. In view of the increase in the tax burden imposed upon individuals under the bill, it was believed that corporations should bear some part of the increased burden.

The rates under the proposed bill and under the existing law are as follows:

Normal tax net incomes	Existing law	Bill
	Percent	*Percent*
Not in excess of $5,000	12½	13½
In excess of $5,000 and not in excess of $20,000	14	15
In excess of $20,000 and not in excess of $25,000	16	17
In excess of $25,000	18	19

(2) *Foreign corporations.*—Since the tax on domestic corporations is increased, your committee also deemed it advisable to make the same proportionate increase in the tax on foreign corporations deriving income from American sources. Under existing law, foreign corporations having an office or place of business in the United States are subject to a flat rate of 18 percent. This has been increased under the bill to 19 percent. Foreign corporations not engaged in trade or business within the United States or not having an office or place of business therein are taxable only upon their dividends, interest, or other fixed or determinable periodical or annual income, and they are subject to a tax of 15 percent on such income. In the case of dividends, the rate is 10 percent unless received by a corporation organized under the laws of a contiguous country, in which case the rate may by treaty be reduced to not less than 5 percent. The rate of 10 percent is increased to 15 percent and under the defense tax, to 16½ percent. No increase in taxes will apply where its application will be contrary to any treaty of the United States.

TITLE II.—TEMPORARY CHANGES

The bill makes certain temporary increases in the internal-revenue laws for a period of 5 years. These changes are briefly as follows:

(1) INCOME TAX

For taxable years beginning after December 31, 1939, and before January 1, 1945, the tax computed in accordance with the changes made in title I of the bill is increased by 10 percent thereof. To prevent the rate in the higher brackets from being confiscatory, a cushion is inserted which prevents such increase from being greater than 10 percent of the net income in excess of the tax computed under existing law, as amended by title I. This cushion begins to operate where the tax so computed is in excess of 50 percent of the net income, which in the case of a married person is around $200,000. The following examples will show the result of the operation of the tax and the cushion:

Net income	Tax under existing law as amended by title I	Super-tax	Net income	Tax under existing law as amended by title I	Super-tax
$3,000	$28	$2.80	$100,000	$39,524	$3,952.40
$5,000	100	10.00	$300,000	169,364	13,063.60
$10,000	180	48.00	$1,000,000	686,204	31,379.60

It will be seen from the above examples that in the case of a married man without dependents with $5,000 net income, the defense tax is determined by increasing the ordinary tax of $100 by 10 percent, or $10, making a total tax of $110. The cushion will not operate in this case because the ordinary tax is not in excess of 50 percent of the net income. In the case of a married man with $300,000 net income the 10 percent defense tax if applied without the cushion, would amount to $16,936.40, but since the ordinary tax is in excess of 50 percent of the net income the cushion applies. Accordingly, the defense tax in this last example is computed by applying the 10 percent against $130,636 (the amount of the net income less ordinary tax) instead of against the tax of $169,364. This makes the defense tax $13,063.60 instead of $16,936.40.

(2) EXCESS-PROFITS TAX

The amount of the excess-profits tax payable for any taxable year ending after June 30, 1940, and before July 1, 1945, is increased by 10 percent. Thus, a corporation with an excess-profits-tax year ending July 31, 1940, will be subject to the 10-percent increase. If the excess-profits tax payable is $1,000, the defense tax will be $100, and the corporation will pay a total excess-profits tax of $1,100.

(3) CAPITAL-STOCK TAX

The capital-stock tax is increased for the year ending June 30, 1940, and for the 4 succeeding years ending June 30, from $1 per thousand of adjusted declared value to $1.10 per thousand of adjusted declared value.

(4) ESTATE TAX

In the case of a decedent dying after the enactment of this bill and before the expiration of 5 years after such date, the estate tax payable (after application of the credits provided for State death taxes and Federal gift taxes), is increased by 10 percent.

(5) GIFT TAX

The gift tax is also increased by 10 percent, effective for the calendar year 1940 and subsequent calendar years up to and including the calendar year 1945.

For the calendar year 1940, the increase is in effect applied only to gifts made after the date of the enactment of this bill. This is accomplished by determining the gift tax for the entire year at the existing rates and adding thereto an amount which bears the same ratio to 10 percent of the tax so computed as the amount of gifts made after the enactment of the bill bears to the total amount of gifts made during the year.

(6) TRANSFERS TO AVOID INCOME TAX

Under the existing law, an excise is imposed upon the transfer of stock or securities by a citizen or resident of the United States, or by a domestic corporation or partnership, or by a trust which is not a foreign trust, to a foreign corporation as paid-in surplus or as a contribution to capital. The rate under existing law is 25 percent and this has been increased to 27½ percent in the case of any transfer made during the period after the date of the enactment of this bill and before July 1, 1945.

(7) DISTILLED SPIRITS

Your committee increased the taxes on distilled spirits at the following rates:

Distilled spirits	Old rates	New rates	Percentage of increase
Distilled spirits generally	$2.25	$3.00	.33⅓
Brandy	2.00	2.75	37½
Imported perfumes	2.25	3.00	33⅓
Rectified spirits	30	.40	33⅓

Floor-stocks taxes are imposed upon distilled spirits which on July 1, 1940, are held by any person and intended for sale or for use in the manufacture and production of any article intended for sale. The rate is 75 cents, which is the increased rate imposed upon liquor. Your committee also increased the tax on rectified spirits from 30 cents per gallon under existing law to 40 cents. In addition a floor-stocks tax of 10 cents per gallon is provided.

(8) BEER

Your committee increased the tax on fermented liquors from $5 a barrel to $6 a barrel, effective July 1, 1940. This amounts to a 20-percent increase in the rate of tax. In addition, a floor-stocks tax is imposed upon stocks held by manufacturers or wholesalers at the rate of $1 per barrel.

(9) WINES

The taxes on wines were increased at the following rates:

	Old rate	New rate	Percentage of increase
	Cents	*Cents*	*Percent*
Still wines	5	6	20
Do	15	18	20
Do	25	30	20
Sparkling wines	2½	3	20
Do	1¼	1½	20

The reasons for the change in the rates on still wines in section 214 and for the striking out of any reference to the fortification tax, is that it is anticipated that H. R. 9117 will become law before this bill. The changes here made in the rates will incorporate the basic rates provided in H. R. 9117, which rates are increased by the bill for the 5-year period.

(10) ADMISSIONS TAXES

Under existing law, an admissions tax of 10 percent is imposed except where the amount paid for admission is less than 41 cents. Instead of raising the rate of tax, your committee deemed it much simpler and more feasible from an administrative point of view to decrease the exemption from 40 to 9 cents. Upon admissions of from 10 to 19 cents, inclusive, your committee placed a tax of 1 cent. Upon admissions of 20 cents or more the rate is 1 cent for each 10 cents, or fraction thereof.

(11) OTHER MISCELLANEOUS TAXES

The following table shows the increases in other miscellaneous taxes:

Description of tax	Old rate	New rate	Percentage of increase
Box seats	10 percent	11 percent	10
Sales outside of box office	do	do	10
Cabarets, roof gardens, etc	1½ cents	2 cents	33⅓
Club dues	10 percent	11 percent	10
Corporate securities	10 cents	11 cents	10
Capital stock	do	do	10
Do	2 cents	3 cents	50
Do	4 cents	5 cents	25
Do	5 cents	6 cents	20
Insurance policies	3 cents	4 cents	33⅓
Passage tickets	$1	$1.10	10
Do	$3	$3.30	10
Do	$5	$5.50	10
Safe-deposit boxes	10 percent	11 percent	10
Pistols and revolvers	do	do	10
Wholesalers in liquor	$100	$110	10
Retailers in liquor	$25	$27.50	10
Brewers (more than 500 barrels)	$100	$110	10
Brewers (less than 500 barrels)	$50	$55	10
Wholesalers in malt liquors	do	do	10
Retailers in malt liquors	$20	$22	10
Special cases	$2	$2.20	10
Rectifiers	$200	$220	10
Do	$100	$110	10
Stills	$50	$55	10
Do	$20	$22	10
Tires	2¼ cents	2½ cents	11
Tubes	4 cents	4½ cents	12½
Toilet preparations	10 percent	11 percent	10
Automobiles	2 percent	2½ percent	25
Other automobiles	3 percent	3½ percent	16⅔
Auto parts	2 percent	2½ percent	25
Radios	5 percent	5½ percent	10
Mechanical refrigerators	do	do	10
Firearms	10 percent	11 percent	10
Matches	5 cents	5½ cents	10
Electrical energy	3 percent	3⅓ percent	11⅑
Gasoline	1 cent	1½ cents	50
Lubricating oils	4 cents	4½ cents	12½
Transportation of oil by pipe line	4 percent	4½ percent	12½
Transfers of bonds	4 cents	5 cents	25
Conveyances	50 cents	55 cents	10
Playing cards	10 cents	11 cents	10

(12) CONTINUATION OF TEMPORARY EXCISE TAXES

The bill also provides for the continuation of the temporary import and excise taxes which either expire or have their rates reduced in 1941 Under the bill these taxes will not expire or have their rates reduced until 1945. These are as follows:

Stamp taxes:
- Issues of securities, bond transfers, and deeds of conveyance.
- Stock transfers.

Manufacturers' excise taxes:
- Lubricating oils.
- Gasoline.
- Electrical energy.
- Tires and inner tubes.
- Toilet preparations.
- Automobile trucks.
- Passenger automobiles and motorcycles.
- Parts and accessories for automobiles.
- Radio sets.
- Mechanical refrigerators.
- Matches.

Miscellaneous taxes:
- Telegraph, telephone, radio, and cable facilities, leased wires, etc.
- Transportation of oil by pipe line.
- Admissions to theaters, concerts, cabarets, etc.
- Import taxes on petroleum, coal, lumber, and copper.

The admissions tax is discussed in another part of this report.

(13) TAXES NOT INCREASED

(1) No increase is provided in the case of certain taxes of a regulatory nature, such as the taxes on white phosphorous matches, mixed flour, filled cheese, narcotics, sugar, bituminous coal, and certain types of firearms. Likewise, the bill does not increase certain excise taxes on imports such as those levied with respect to coal, lumber, copper, petroleum products, and certain vegetable oils. The revenue from these taxes is small, and since they are designed for a particular function which an increase in their rates might impair, your committee feel they should not be increased and some of them are affected by reciprocal trade agreements.

(2) The bill makes no changes in the taxes levied under the social security program. These taxes are directed to a special purpose and it is not felt that they should be increased for the defense program.

(3) In the case of the taxes on communication facilities (telephone, telegraph, radio and cable), severe administrative difficulties convince your committee of the inadvisability of increase in rates.

(4) No increases are provided in the case of the taxes on tobacco and tobacco products.

Discussion of Principal Income Tax Changes

(*a*) *Lowering of personal exemptions.*—Title I of the bill lowers the personal exemption from $1,000 to $800 in the case of single persons and from $2,500 to $2,000 in the case of married persons or heads of families. This will make approximately 2,190,000 new taxpayers.

Of the additional revenue to be derived from this source approximately $14,000,000 will be derived from new taxpayers. This is a permanent change and first goes into effect with respect to taxable years beginning after December 31, 1939.

(*b*) Title I of the bill also increases permanently the surtax rates with respect to taxable years beginning after December 31, 1939. The normal tax rate, which is 4 percent under existing law, is not changed in the bill. The following table shows the surtax rates under the existing law and under the bill:

TABLE I.—*Comparison of surtax rates, existing law, and proposed bill*

Amount of surtax net income		Existing law rate	Proposed bill rate	Amount of rate increase
Exceeding	Not exceeding			
		Percent	*Percent*	*Percent*
$4,000	$6,000	4	4	0
6,000	8,000	5	6	1
8,000	10,000	6	8	2
10,000	12,000	7	10	3
12,000	14,000	8	12	4
14,000	16,000	9	15	6
16,000	18,000	11	18	7
18,000	20,000	13	21	8
20,000	22,000	15	24	9
22,000	26,000	17	27	10
26,000	32,000	19	30	11
32,000	38,000	21	33	12
38,000	44,000	24	36	12
44,000	50,000	27	40	13
50,000	56,000	31	44	13
56,000	60,000	35	44	9
60,000	62,000	35	47	12
62,000	68,000	39	47	8
68,000	70,000	43	47	4
70,000	74,000	43	50	7
74,000	80,000	47	50	3
80,000	90,000	51	53	2
90,000	100,000	55	56	1
100,000	150,000	58	58	0
150,000	200,000	60	60	0
200,000	250,000	62	62	0
250,000	300,000	64	64	0
300,000	400,000	66	66	0
400,000	500,000	68	68	0
500,000	750,000	70	70	0
750,000	1,000,000	72	72	0
1,000,000	2,000,000	73	73	0
2,000,000	5,000,000	74	74	0
5,000,000 and up	....	75	75	0

(*c*) *Total income-tax burden.*—(1) Permanent increases: In order to secure a complete picture of the total income-tax burden, the following tables are included with respect to a married man with no dependents. Table II shows the increased normal and surtax rates on a married man with no dependents under existing law and under the bill. While there is no change in the normal tax rate over that of existing law, the normal tax itself is increased by reason of the lowering of the exemptions to $800 for single persons and to $2,000 for married persons.

TABLE II.—*Comparison of normal and surtax, existing law and proposed bill, married person, no dependents, all income earned*

Net income	Normal tax		Surtax		Surtax increase
	Present law	Proposed bill	Present law	Proposed bill	
$2,000	0	0	0	0	0
$2,500	0	$10	0	0	0
$3,000	$8	28	0	0	0
$4,000	44	64	0	0	0
$5,000	80	100	0	0	0
$6,000	116	136	0	0	0
$7,000	152	172	$20	$40	$20
$8,000	188	208	60	80	20
$9,000	224	244	105	140	35
$10,000	260	280	155	200	45
$11,000	296	316	210	280	70
$12,000	332	352	270	360	90
$13,000	368	388	335	460	125
$14,000	404	424	405	560	155
$15,000	444	464	480	680	200
$20,000	644	664	945	1,460	515
$25,000	844	864	1,645	2,630	985
$30,000	1,044	1,064	2,525	4,040	1,515
$40,000	1,444	1,464	4,535	7,220	2,685
$50,000	1,844	1,864	7,025	10,980	3,955
$60,000	2,244	2,264	10,085	15,300	5,215
$70,000	2,644	2,664	13,805	19,940	6,135
$80,000	3,044	3,064	18,225	24,880	6,655
$90,000	3,444	3,464	23,225	30,120	6,895
$100,000	3,844	3,864	28,625	35,660	7,035
$150,000	5,844	5,864	57,550	64,620	7,070
$200,000	7,844	7,864	87,500	94,580	7,080
$250,000	9,844	9,864	118,450	125,540	7,090
$300,000	11,844	11,864	150,400	157,500	7,100
$400,000	15,844	15,864	216,350	223,460	7,110
$500,000	19,844	19,864	284,300	291,420	7,120
$750,000	29,844	29,864	459,250	466,380	7,130
$1,000,000	39,844	39,864	639,200	646,340	7,140
$2,000,000	79,844	79,864	1,369,175	1,376,320	7,145
$5,000,000	199,844	199,864	3,589,150	3,596,300	7,150

It will be noted that a married person with a net income of $2,500 pays no tax under existing law. However, under the bill he will pay a normal tax of $10 for each taxable year beginning after December 31, 1939. The same person with a net income of $3,000 will pay for each such taxable year a normal tax of $28. No surtax is imposed either under the bill or under the existing law until the net income of a married man exceeds $6,500 under the present law and $6,000 under the bill. In the case of a single person, no surtax is imposed until the net income exceeds $5,000 under the present law and $4,800 under the bill. The largest increase in the surtax rate over existing law is with respect to married persons with net incomes between $46,000 and $58,000, where the rate is increased 13 percent. In the case of a single person, the largest increase is with respect to net incomes from $45,000 to $57,000, where the rate is also increased 13 percent.

(2) Temporary increase: In addition to the permanent increases caused by the change in the exemptions and the surtax rates, title II of the bill imposes a 10 percent defense tax with respect to taxable

years beginning after December 31, 1939, and before January 1, 1945. This is shown in the following table:

TABLE III.—*Comparison of total tax burden, existing law and proposed bill, married persons, no dependents, all income earned*

Net income	Present law	Proposed bill excluding defense tax	Defense tax	Proposed bill including defense tax	Effective rate in percent		
					Present law	Proposed bill	
						Without defense tax	With defense tax
$2,000	----------	----------	----------	----------	----------	----------	----------
$2,500	----------	$10	$1.00	$11.00	----------	0.40	0.44
$3,000	$8	28	2.80	30.80	0.27	.93	1.03
$4,000	44	64	6.40	70.40	1.10	1.60	1.76
$5,000	80	100	10.00	110.00	1.60	2.00	2.20
$6,000	116	136	13.60	149.60	1.93	2.27	2.49
$7,000	172	212	21.20	233.20	2.46	3.03	3.33
$8,000	248	288	28.80	316.80	3.10	3.60	3.96
$9,000	329	384	38.40	422.40	3.66	4.27	4.69
$10,000	415	480	48.00	528.00	4.15	4.80	5.28
$11,000	506	596	59.60	655.60	4.60	5.42	5.96
$12,000	602	712	71.20	783.20	5.02	5.93	6.53
$13,000	703	848	84.80	932.80	5.41	6.52	7.18
$14,000	809	984	98.40	1,082.40	5.78	7.03	7.73
$15,000	924	1,144	114.40	1,258.40	6.16	7.63	8.39
$20,000	1,589	2,124	212.40	2,336.40	7.95	10.62	11.68
$25,000	2,489	3,494	349.40	3,843.40	9.96	13.98	15.37
$30,000	3,569	5,104	510.40	5,614.40	11.90	17.01	18.71
$40,000	5,979	8,684	868.40	9,552.40	14.95	21.71	23.88
$50,000	8,869	12,844	1,284.40	14,128.40	17.74	25.69	28.26
$60,000	12,329	17,564	1,756.40	19,320.40	20.55	29.27	32.20
$70,000	16,449	22,604	2,260.40	24,864.40	23.50	32.29	35.52
$80,000	21,269	27,944	2,794.40	30,738.40	26.59	34.93	38.42
$90,000	26,669	33,584	3,358.40	36,942.40	29.63	37.32	41.05
$100,000	32,469	39,524	3,952.40	43,476.40	32.47	39.52	43.48
$150,000	63,394	70,484	7,048.40	77,532.40	42.26	46.99	51.69
$200,000	95,344	102,444	9,755.60	112,199.60	47.67	51.22	56.10
$250,000	128,294	135,404	11,459.60	146,863.60	51.32	54.16	58.75
$300,000	162,244	169,364	13,063.60	182,427.60	54.08	56.45	60.81
$400,000	232,194	239,324	16,067.60	255,391.60	58.05	59.83	63.85
$500,000	304,144	311,284	18,871.60	330,155.60	60.83	62.26	66.03
$750,000	489,094	496,244	25,375.60	521,619.60	65.21	66.17	69.55
$1,000,000	679,044	686,204	31,379.60	717,583.60	67.90	68.62	71.76
$2,000,000	1,449,019	1,456,184	54,381.60	1,510,565.60	72.45	72.81	75.53
$5,000,000	3,788,994	3,796,164	120,383.60	3,916,547.60	75.78	75.92	78.33

From the above table it will be noted a married man, without dependents, having a net income of $20,000 will pay in permanent taxes $2,124, an increase of $535 over existing law, and in addition he will pay a defense tax, under title II of the bill, of $212.40 for 5 years, making a total annual tax for such 5-year period of $2,336.40, or 11.68 percent of his net income as against 7.95 percent under existing law. One with $50,000 net income will pay $12,844 in permanent tax, and $1,284.40 defense tax, making a total of $14,128.40 as against $8,869 under existing law, or 28.26 percent of his net income as against 17.74 percent under existing law.

(*d*) *Requirement for filing individual income-tax returns.*—Under existing law, an individual, if single, is not required to file an income-tax return unless his gross income is $5,000 or more or his net income is $1,000 or more. In the case of a married individual, no return is required under existing law, unless his gross income is $5,000 or more, or the net income is $2,500 or more. A return is also required if such individual and his spouse each has a gross income, and the aggregate gross income is $5,000 or more. The bill requires a return from a single individual if his gross income is $800 or more and from a married individual if (1) such individual has a gross income of $2,000 or more and the other spouse has no gross income or (2) if such individual and his spouse each has for the taxable year a gross income and the aggregate gross income is $2,000 or over. Many persons have failed to file returns upon the assumption that their income was insufficient, when, in fact, they were liable for the filing of a return and the payment of a tax. This change will require approximately, 8,000,000 additional returns, and it is believed will result in the collection of substantial additional taxes. It is estimated that under existing law approximately 7,500,000 individual returns are filed.

SECTION 301. SPECIAL FUND

This section provides that the Secretary of the Treasury shall as soon as practicable after the end of each quarter determine the additional amount of taxes collected attributable to the increases in taxes made, and to the floor-stocks taxes imposed, by the amendments to the Internal Revenue Code in title II of the bill, and the amounts so determined shall be set aside as a special fund which shall be available only for the retirement of any of the national defense series obligations authorized by section 302 of the bill. In the amount to be set aside in the special fund there is not to be included the amount of taxes attributable solely to the extension of excise taxes and rates of excise taxes contained in section 209 of the bill, nor any amount collected under admissions taxes attributable to a basic admission charge of more than 40 cents. If at any time the amounts in the fund are not sufficient for the retirement of the obligations of the national defense series, the Secretary of the Treasury is authorized and directed to transfer to the fund moneys out of the general fund of the Treasury. Any amounts in the special fund not necessary for the retirement of the obligations shall be deposited in the general fund of the Treasury.

The revenues attributable to title II of the bill will be collected and paid into the Treasury in accordance with established procedures. Shortly after each quarter the Secretary of the Treasury, acting upon information obtained by the Bureau of Internal Revenue from the offices of collectors of internal revenue, will determine the amounts collected during the preceding quarter which under this section are required to be set aside in the special fund, and on the basis of such determination he will transfer the amount thereof to the special fund for the retirement of the national defense obligations outstanding. It will be obligatory upon the Treasury, beginning July 1, 1940, to retire the national defense obligations and charge the amount so retired to the special fund. The Secretary of the Treasury has stated before this committee that it is his intention to arrange the maturities of any national defense obligations issued under the authority contained in this bill, so as to insure as nearly as possible the application of the increased revenue from the enactment of title II to the retirement of national defense obligations during the year in which such revenue is received.

SECTION 302. NATIONAL-DEFENSE OBLIGATIONS

This section amends section 21 of the Second Liberty Bond Act, as amended. That section now provides that the face amount of bonds, certificates of indebtedness, Treasury bills and notes issued under the Second Liberty Bond Act, as amended, shall not exceed $45,000,000,000 outstanding at any one time. On June 30, 1940, there will be a margin under this limitation of only $1,700,000,000 which can be availed of by the Treasury to issue additional public-debt obligations for the purpose of obtaining funds in addition to $700,000,000 to be recovered from governmental corporations, to meet the increased deficit in the fiscal year 1941 if the President's defense recommendations are adopted by the Congress. More than $1,600,000,000 of this deficit will be due to additional emergency national-defense expenditures. On the basis of present recommendations, total national-defense expenditures will amount to about $3,250,000,000, the highest amount spent for this purpose in any year in our history, except for the 2 fiscal years when this country participated in the World War.

In order to finance national-defense expenditures after June 30, 1940, it is proposed to permit the Treasury to issue within the framework of current statutes relating to the public debt, $4,000,000,000 of short-term public-debt obligations with maturities not exceeding 5 years, to be designated "national defense series." These obligations will be in addition to the $45,000,000,000 face amount of public-debt obligations permitted to be outstanding under the Second Liberty Bond Act, as amended. This additional $4,000,000,000 authorization for national-defense obligations permits only a temporary increase in the limitation on outstanding public-debt obligations because, to the extent that such national-defense obligations are retired under the provisions of section 301, the authorization will be reduced.

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