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CURRENT TAX PAYMENTS ACT OF 1943

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

SEVENTY-EIGHTH CONGRESS

FIRST SESSION

ON

H. R. 2570

AN ACT TO PROVIDE FOR THE CURRENT PAYMENT OF THE INDIVIDUAL INCOME TAX, AND FOR OTHER PURPOSES

REVISED

MAY 6 AND 7, 1943

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CURRENT TAX PAYMENTS ACT OF 1943

THURSDAY, MAY 6, 1943

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to call, at 10:30 a. m., in room 312 Senate Office Building, Senator Walter E. George (chairman) presiding.

The CHAIRMAN. The committee will please come to order. The Secretary of the Treasury is not coming before the committee today, or at anytime, on this particular bill unless the committee should desire his presence. Since the bill relates primarily to methods of collecting taxes and is not a general tax bill I think it was the view of the Treasurer that those who are on the staff and who are primarily concerned with the methods of collection and are prepared to give the Treasury's views should come down and he himself will not be here.

Mr. Paul, you may make such general statement in reference to this bill before us as will enable us to begin to understand precisely what we have before us and what our work is.

STATEMENT OF RANDOLPH E. PAUL, GENERAL COUNSEL, TREASURY DEPARTMENT

Mr. PAUL. I have a prepared statement, Mr. Chairman, which relates to the House bill and discusses also the other bills which were before the House in the recent controversy there. I have also a supplementary statement which deals with some details by way of improvement of the collection-at-the-source mechanism in the House bill. That supplementary statement is made up separately. The main statement relates entirely to the House bill as it was passed, and the other bills that were under consideration in the House. If it meets with the pleasure of the chairman I will proceed with that statement first.

The CHAIRMAN. Yes; that is quite all right.

You mean your general statement?

Mr. PAUL. The general statement, which, I want to repeat, does not attempt to go into any improvements which we think can be made in the collection at the source technique and mechanism as it is contained in the House bill. These are improvements which were suggested to us by representatives of various employers. Some of them were very good, and we thought we should bring them to the attention of the committee because they do simplify the job of the employers under the bill.

The House of Representatives on May 4, 1943, passed a bill providing for current payment of the individual income tax. While some features of the bill were the subject of extensive controversy, large areas of agreement prevailed throughout the deliberations in the Ways and Means Committee and in the House. The provisions of the three leading bills—the Ways and Means Committee bill, the Ruml-Carlson bills, and the bill adopted by the House—reflect essential agreement on the major issue of current payment. All three bills provide for collection at source from wages and salaries starting July 1 at a rate of 20 percent above exemptions. All three bills adopted the same techniques for collection of other liabilities payable currently, but not collected at source. Only with respect to the transition to the new system was there controversy and this was principally with respect to the amount and distribution of tax cancelation for 1942.

Before this committee I need not dwell on the importance of placing taxpayers on a pay-as-you-go basis and eliminating for the great mass of taxpayers the 1-year lag which now exists in our present system of individual income-tax payment. With rates at wartime levels, taxpayers, especially those in the lower income groups, find it difficult to accumulate in advance the funds needed for quarterly lump-sum payments. They may suffer actual hardship in the case of a drop or failure in income because of the lag in income-tax payments. It is now universally recognized, I believe, that tax payment will be made easier, and that hardship will be avoided, if tax liabilities are discharged currently out of pay envelopes instead of waiting until the year following the receipt of income. At the same time, current collection will more adequately protect Treasury revenue, and will guarantee a more prompt and more certain flow of revenue to the Government, than does the existing method of collection. By promptly withdrawing purchasing power from the income stream before it can exert an upward pressure upon prices, a pay-as-you-go system will strengthen the Government in its critical fight against inflation.

The advantages stated accrue both to taxpayers and Government. With overhanging income-tax debt eliminated for the great majority of taxpayers, and with taxes budgeted more certainly and smoothly, taxpayers are better prepared to meet the demands that may be made on them by the necessities of war finance. An income-tax-payment system putting the great majority of taxpayers on a current basis will better prepare the income tax for its rôle in the enormous job of financing this total war. These points, I believe you will agree, settle beyond dispute the importance of the pending legislation.

2. COLLECTION AT THE SOURCE

The withholding provisions of the three major bills considered by the House are identical. Withholding from wages and salaries at a rate sufficient to cover the Victory tax, the normal tax, and 13 percent of surtax net income is to begin on July 1, 1943. In general, the withholding system now in effect for the Victory tax, modified to take account of personal exemptions, is utilized. The withholding rate is 17 percent on the amount of wages over the income-tax withholding exemption and 3 percent on the wages over the Victory-tax withholding exemption. Thus, withholding is required not on a gross basis but only on the excess of the total wages over exemptions and an allowance for normal deductions.

The reduction of the Victory tax withholding rate from 5 to 3 percent is made to avoid overcollection of the Victory tax liability which, after taking account of credits, more nearly approximates 3 than 5 percent. The 17-percent rate for the income tax is designed to collect approximately the normal tax of 6 percent, plus the minimum surtax rate of 13 percent. The withholding rate is slightly lower than the sum of the normal tax and the first bracket surtax, in order to make partial allowance for deductions. The rates are thus designed to minimize as far as possible overwithholding and the consequent necessity for making refunds.

The amount of each wage or salary payment subject to withholding is determined by subtracting from the gross payment the withholding exemptions allowable. The withholding exemption for the Victory tax is $624. The withholding exemptions for the income tax are the regular personal exemptions of $500 for a single person, $1,200 for a married person, and an additional $350 for each dependent, each increased by 10 percent to allow for average deductions. These exemptions are prorated according to the length of the pay period; that is, weekly, semimonthly, monthly, or other pay periods. For example, the weekly Victory tax allowance is $12 while the weekly income-tax allowance is $11 for a single person, $26 for a married couple, and $8 for each dependent.

To enable the employer to determine the proper amount of tax to be withheld, the employee is required to furnish a signed withholding exemption certificate showing whether he is single or married and the number of his dependents. If his marital and dependency status changes, the employee is required to file an amended certificate to take effect for future pay periods. The employer is entitled to rely on the exemption certificate furnished him by the employee in computing the amount to be withheld from the employee's wages, and if the employee fails to furnish the required certificate, no personal exemption, or dependency credit is to be allowed. Thus, the employer is not placed under a duty to ascertain the status of an employee, and the responsibility in this regard falls upon the employee.

The House bill gives employers the option of either directly computing the amounts of tax to be withheld, or using wage bracket tables. If the employer chooses the computation method, he subtracts the Victory tax withholding exemption from the wage payment and applies a rate of 3 percent to the balance, and subtracts the income tax withholding exemption from the wage payment and applies a rate of 17 percent to the balance; the sum of the two resulting amounts is the amount to be withheld. If the employer uses the tables which the House bill provides for the standard pay-roll periods, he determines the amount to be withheld by reading it from the tables. Knowing the person's marital status and number of dependents, the employer needs only to locate the bracket in which the given wage falls and to read off the corresponding amount to be withheld.

Under the House bill the employer is required to make quarterly returns and pay over the tax withheld from his employees in each quarter on or before the last day of the month following the close of the quarter. He is also required to furnish each employee a written receipt showing the wages paid during the year and the amount withheld. If the employee's services are terminated before the close of the calendar year, the receipt must be furnished on the day on which the last payment of wages is made, except that an extension of 30 days may be granted by the Commissioner. In lieu of the present information return with respect to wages, the employer is required to attach to the last quarterly return for the calendar year copies of the receipts which he gives to his employees so that they may be checked against the returns filed by the individual wage earners.

After the close of the year, wage earners are required to file returns showing their actual income and final liabilities for the year. The tax withheld at source is allowed as a credit against such final liability and adjustments to such liability are made by additional payments or refunds. For the vast majority of wage earners these adjustments will be minor in amount.

Collection at source applies only to compensation for personal services. However, certain types of employment are excluded from withholding under the bill. The principal types excluded are domestic servants, members of the armed forces, and farm labor.

The House bill will discharge by collection at source substantially the full tax liability for persons whose income consists of wages not exceeding $2,700 if single and $3,500 if married, and correspondingly higher amounts if the employee has dependents. Seventy percent of all taxpayers will have their entire tax liability withheld at source and an additional 10 percent will have part of their liability withheld at source.

Since the provisions of the House bill with respect to withholding were drafted, conferences with representatives of employers have produced several suggestions, tending to simplify the burden on employers which is involved in the mechanics of applying the system of collection at the source. Suggested changes of this nature will be described in a separate statement.

3. CURRENT PAYMENT OF TAX LIABILITIES NOT COLLECTED AT SOURCE

Collection at source will discharge the tax liabilities for most taxpayers. There are two types of cases where collection at source does not discharge the total tax liability. One is the case where incomes are not from wages and salaries. The other case is where incomes extend into brackets with rates higher than those covered by collection at source.

With respect to incomes not subject to collection at source the basic technique is the same for all three bills. This technique involves a declaration by the taxpayer of his estimated tax liability for the current year by March 15. This estimated tax is to be paid at quarterly intervals thereafter, or earlier if the taxpayer chooses. The taxpayer may revise the declaration of the estimated tax each quarter and ratably increase or decrease remaining installments.

In the case of the Ruml-Carlson bill and the Ways and Means Committee bill this technique was also to be applied to the balance of the tax liability on incomes subject to source collection but falling in the higher surtax brackets, and to higher surtaxes on incomes not subject to collection at source. It would thus achieve current collection of the total tax liabilities of all taxpayers, except for necessary year-end adjustments. The House bill, however, provides for current collection only of an estimated basic tax of 20 percent. Any balance of tax liability over this amount is payable in the year following the receipt of income in the same manner as under present law.

Declarations of estimated basic tax are required only of those individuals who have more than $100 of income not subject to withholding and whose total gross income would require them to file income tax returns at the end of the taxable year. Thus, persons whose entire income consists of wages subject to withholding and only a nominal amount of other income are not required to file declarations.

A special rule, common to all three bills, applies to farmers who fulfill the requirements with respect to gross income. Farmers are defined as individuals whose estimated gross income from farming amounts to at least 80 percent of the total estimated gross income from all sources. In their case, the declaration of the estimated tax may be made at any time on or before the 15th of December. Farmers are not required to pay in installments but they may voluntarily elect to do so.

Under the House bill, to prevent substantial underestimates of the estimated basic tax, a penalty is added to the tax. The penalty is 6 percent of any amount by which 16 percent of the actual net income less wages subject to withholding or the personal exemption, whichever is the greater, exceeds the estimated basic tax paid during the year. In other words, this penalty applies only if the individual underestimates by more than 20 percent the net income on which the estimated basic tax is computed. A special rule applicable to farmers who elect the end of the year filing date provides a tolerance limit of 33⅓ percent of actual net income over wages or personal exemption, whichever is the greater.

Additional penalties are provided to safeguard the current payment system. In the case of a failure to file a declaration of estimated tax within the time prescribed, the penalty is $10 or 10 percent of the tax, whichever is greater. In the case of a failure to pay an installment of the estimated tax within the time prescribed, the penalty is $2.50 or 2½ percent of the tax, whichever is greater, for each installment with respect to which such failure occurs.

This system of current payment of tax not collected at source is to come into operation in the third quarter of 1943 to parallel the new collection-at-source system which begins July 1, 1943. The March and June installments of 1942 tax payable in 1943, insofar as an amount equal to the forgiven basic liability is concerned, will be treated as current payments of estimated basic tax for 1943. When the taxpayer files his return in March 1944, adjustments will be made for overpayment or underpayment of the 1943 liability.

4. EXTENT TO WHICH TAXPAYERS ARE ON A CURRENT BASIS UNDER THE THREE MAJOR BILLS

The current payment features of the House bill place 90 percent of taxpayers on a fully current basis except for minor-year-end adjustments. The great majority of the remaining 10 percent of taxpayers are made substantially current. Less than 1 percent of all taxpayers would not be at least 75 percent current, and only about 700,000 taxpayers out of nearly 44,000,000 will have a liability exceeding $90 carried over beyond the close of the current year. The

House bill achieves current collection for the taxpayers in the lower brackets to whom it is most essential and falls short of fully current collection for only the 4,000,000 taxpayers who have surtax net incomes in excess of $2,000, that is, in excess of the first surtax bracket. In the case of higher-bracket taxpayers, a very substantial part of the tax is discharged currently because the bill applies current collection to the basic tax on the entire income regardless of the surtax bracket into which it falls.

Under the Ruml-Carlson bill all taxpayers would be fully current almost immediately. Under the Ways and Means Committee bill, all taxpayers would be on a current basis with respect to their taxes on current income before the end of 1943. The 7,000,000 taxpayers who had no liability on 1942 income at 1941 rates and exemptions would be current as to all liabilities, while the remaining taxpayers would be required to pay their reduced 1942 tax concurrently with their taxes on current income during 1944, 1945, and 1946.

5. TREATMENT OF 1942 TAX

Although all three bills before the House provided the same methods of collection at source and current payment, the amount of forgiveness of 1942 taxes and the distribution of the forgiveness were a major subject of controversy. The House bill cancels the 6 percent normal tax and 13 percent of surtax net income on 1942 individual incomes. No problem arises on account of the unforgiven 1942 tax. Since only the basic liability for any year is payable currently and since this corresponds to the amount of 1942 tax forgiven, there can be no doubling-up of payment.

The Ruml-Carlson bill cancels the entire tax on 1942 income except for certain offsets intended to prevent windfall gains to some taxpayers. One of those antiwindfall provisions applies when 1943 income is less than 1942 income while the other applies when both 1942 and 1943 incomes are greater than 1940 income, the year 1940 having been substituted for the year 1941 by floor amendment. Under the Ruml-Carlson bill there would in general be no doubling up since, while the whole tax is payable currently each year, the entire 1942 tax is correspondingly forgiven. An exemption is presented in those cases where the second of the above antiwindfall provisions is applicable, since the amount of tax not forgiven under the antiwindfall provisions is payable in 1943, unless an extension of time is granted by the commissioner in cases of hardship.

The bill reported by the House Ways and Means Committee recomputes the tax on 1942 income at 1941 rates and exemptions and the difference is canceled. Under this bill, the unforgiven 1942 tax liabilities require special treatment. Provision is made for collecting them in three annual installments beginning March 15, 1944. To encourage advance payment of the later installments, provision is made for a discount of 6 percent of the reduced 1942 tax if full payment is made by March 15, 1944, and a discount of 2 percent of such tax if the 1944 installment is paid and the balance is paid by March 15, 1945. The Commissioner is authorized to grant an extension of time up to 3 years in those cases where payment of any installment would result in undue hardship.

6. PROVISIONS RELATING TO MEMBERS OF THE ARMED FORCES

The House bill contains two provisions relating to members of the armed forces. One provision exempts from income tax the service pay of most members of the armed forces. The second provision abates outstanding income-tax liability for members of the armed forces who die while on active service. The provisions in the House bill are identical with those contained in the Ruml-Carlson bill and in the Ways and Means Committee bill.

Under present law, there is provided an exclusion from gross income in the case of personnel below the grade of commissioned officer in the military and naval forces of the United States. The amount excluded under this provision is not to exceed $250 in the case of a single person and $300 in the case of a married person or head of a family and applies only to salary or compensation received for active service in the armed forces during the present war. These exclusions are in addition to the personal exemptions.

The House bill proposes to amend this provision by increasing the exclusion from gross income in the case of military and naval personnel, without distinction as to rank, with respect to the compensation received during any taxable year for active service during the present war. The amount so excluded is not to exceed the excess of $3,500 over the personal exemption claimed by the member of the military or naval forces. If such member of the armed forces is married and living with his spouse on the last day of the taxable year and his spouse is not a member of the military or naval forces, the amount of the exclusion is not to exceed the excess of $3,500 over the personal exemption claimed by both the spouse and the member of the military or naval forces. Thus, under this provision, the amount of service pay which may be excluded from gross income in the case of a married person is the same regardless of whether joint or separate returns are filed and regardless of the property law of any State. The amendment would apply with respect to all compensation received after December 31, 1941, by a member of the armed forces of the United States for active service in such forces, and is thus retroactive to the year 1942.

Under another provision of the House bill, members of the armed forces who die in active service are relieved from income taxes for the taxable year in which falls the date of death. In addition, there is abated all income taxes (including interest and additions to tax) which are unpaid as of the date of death. If the amount of any such liability which was unpaid as of the date of death is collected subsequent to such date, provision is made that the amount so collected shall be credited or refunded as an overpayment. This amendment becomes effective with respect to members of the armed forces dying in active service on or after December 7, 1941.

7. REVENUE EFFECTS UNDER THE THREE MAJOR BILLS

The 1942 tax liabilities under present law are estimated at $9,815,000,000 before giving effect to the special provisions relating to the armed forces and at $9,451,000,000 after giving effect to these special provisions. The House bill would cancel $7,238,000,000. The Ruml-Carlson bill would cancel the entire $9,451,000,000 but would recoup through windfall provisions $1,133,000,000, resulting in a net cancelation of $8,319,000,000 after giving effect to these special provisions. The Ways and Means Committee bill would cancel $4,672,000,000. Thus, of the 1942 liabilities there would remain only $2,214,000,000 under the House bill, $1,133,000,000 under the Ruml-Carlson bill (this entire amount being due to the special windfall provisions), and $4,780,000,000 under the Ways and Means Committee bill.

Under the House bill the tentative estimates of income tax liabilities due in the fiscal year 1944 would not be appreciably different from the income-tax liabilities due under the present law. The liabilities due in each case would amount to approximately $13,000,000,000. The increase of over a half billion dollars in liabilities due in the fiscal year 1944 under the House bill as a result of subjecting the higher levels of income in 1943 and 1944 to current tax payment insofar as the basic liability is concerned is offset for the most part by the decrease in liabilities resulting from the relief for the armed forces.

Under the Ruml-Carlson bill the liabilities due in the fiscal year 1944 would amount to $15,263,000,000 and under the Ways and Means Committee bill to $15,724,000,000 if no discounts are taken, and $18,623,000,000 if the maximum discounts are taken. The larger collections under the Ways and Means Committee bill and the Ruml-Carlson bill in that particular year are due in part to a doubling up of certain liabilities with respect to 1942 taxes and in part to a more complete dependence of the liabilities due in the fiscal year 1944 upon the higher level of current income than under the House bill, since under the House bill the liabilities with respect to the upper surtax brackets are based upon the preceding year's income.

In the fiscal years 1945 and 1946 the Ways and Means Committee bill will continue to produce larger amounts of revenue than the other two bills to the extent that the 1942 tax is not fully paid in 1944. The revenue under the Ruml-Carlson bill and the House bill will be equal in fiscal year 1945 if 1944 and 1945 incomes are at the same level as 1943 incomes. If the trend of income continues upward the yield under the Ruml-Carlson bill will be somewhat higher than under the House bill since current collection applies to the whole tax instead of to the basic tax, which accounts for about three-fourths of the total. On the other hand, if income trends should turn downward the yield under the Ruml-Carlson bill would, for the same reason, be less than the yield under the House bill.

The estimated income-tax liabilities due during 1943 and the amount of 1942 taxes canceled under the Ruml-Carlson bill are given in exhibit 5. Corresponding estimates under the House bill and the Ways and Means Committee bill are given in exhibits 6 and 7.

8. DISTRIBUTION OF FORGIVENESS

The three plans differ not only with respect to the aggregate amount of tax forgiven but also with respect to the distribution of forgiveness among the various income brackets. Superficially each of the three bills distributes its forgiveness on a uniform pattern. The Ruml-Carlson bill forgives the whole tax from the lowest income to the highest income. The House bill forgives the normal tax and 13 percent of surtax net income uniformly from top to bottom. The Ways and Means Committee bill shifts the rates and exemptions from the 1942 levels to the 1941 levels for all taxpayers. Thus on its face each bill appears to apply its forgiveness on a uniform basis for all taxpayers.

This apparent uniformity, however, does not mean that in actual operation each of the three bills distributes the benefits of forgiveness in an equitable manner. The relative distribution of forgiveness among different income brackets differs widely under the three bills. The assumption, which many people make, that uniform treatment is afforded when the same percentage of tax is forgiven to all taxpayers, fails to take account of several very important considerations.

A usual method of comparing the fairness of tax provisions is to measure the distribution of tax burdens imposed among the various income levels. On this basis of comparison, both the House bill and the Ways and Means Committee bill distribute the remaining 1942 tax burden in the form of progressive tax rate schedule although they differ as to exemptions and the pattern of the rate schedule. The Ruml-Carlson bill, however, leaves no burden at all on 1942 income, except as to the antiwindfall provisions. This pattern of burden is obviously not equitable in a year of wartime income.

A second method of measuring the fairness of the distribution of tax forgiveness is based on the amount of income which a taxpayer has at his disposal to spend or to save—not income before taxes, but income after payment of taxes. The Federal income tax has been in operation for 30 years. During every year of that time the receipt by an individual of a dollar of net income above exemptions has concurrently created a tax liability which must be subtracted to reflect the actual income. It is this actual income after tax and not the income before tax which is the proper standard for measuring the effects of tax forgiveness on persons in different income levels. Forgiveness adds wealth to the taxpayer, or reduces his liabilities, which is in effect the same thing. How do the amounts of the forgiveness under the three bills compare with respect to income remaining after the taxes which are prescribed for 1942 by existing law?

The answer to this question may be seen in the following table showing for the three bills the relation of the amount of the forgiveness to the income after tax.

That table is now set forth, and you will notice that it is in two parts, one dealing with amounts and the other dealing with percentages, so that, as an instance, a $2,000 income receives $140 of forgiveness under the Ruml-Carlson bill, $140 of forgiveness under the House bill, and only $100 under the Ways and Means Committee bill. On the other hand, a $100,000 income receives $64,060 of forgiveness or cancelation under the Ruml-Carlson bill, $18,690 under the House bill, and $11,357 under the Ways and Means Committee bill.

Expressed in terms of percentage this means that a person receiving an income of $2,000, before personal exemption has forgiven 7½ percent of his income after tax under the Ruml-Carlson bill, whereas that percentage in the case of the $100,000 income is 178.2 percent. That rise in percentage is not so extreme under the House bill, and is even less extreme under the Ways and Means Committee bill.

Senator TAFT. Mr. Paul, would you mind an interruption?

Mr. PAUL. No, indeed.

Senator TAFT. Take a person who has a $10,000 income, $5,000 from wages and $5,000 from property; under the bill that was passed by the House, how would that be treated?

Mr. PAUL. Well, he has his $5,000 from salary that is subjected to withholding.

Senator TAFT. Beginning in 1944, what does he do?

Mr. PAUL. He has to file an estimate because his $5,000 income from sources other than salary is greater than $100.

Senator TAFT. Yes.

Mr. PAUL. So, therefore, he has a substantial income outside of a salary, and he files an estimate.

Senator TAFT. At the end of 1944 he files a return for the year 1944?

Mr. PAUL. He files a return on March 15 which attempts to estimate his income for the year. He does that on March 15. Now, if his estimate turns out to be, in his opinion, too high he revises it on the next date, June, or September, or December, he revises it downward, or he may revise it upward. The objective is to get him to make an estimate which is within 80 percent accurate, and if he goes wrong by, say, 10 or 12 percent, no penalty attaches to him.

Senator TAFT. The 20 percent of it, or whatever it is, is deducted from the $5,000 salary during the year 1944, and is applied to what? Is applied to his 1944 return?

Mr. PAUL. I am not sure that I understand the question.

Senator TAFT. I do not understand how the other $5,000 works.

Mr. PAUL. He pays the basic tax on that.

Senator TAFT. For the previous year?

Mr. PAUL. No; he is paying it for the current year. That is why he is estimating in March of the current year what his whole income will be for the entire year. That is why we have to put in provisions for correction of that estimate which may be wrong when made as early as March. He pays in quarterly installments the tax on an estimated income.

Senator TAFT. Is he on a current basis, or isn't he? That is what I want to know.

Mr. PAUL. He is on a current basis.

Senator TAFT. How does he get on a current basis? By paying 2 years' taxes in 1 year?

Mr. PAUL. No; not under the House bill. He only pays the basic liability of 20 percent. He is on a current basis if his income for the year does not exceed the first surtax bracket. That is true of most taxpayers.

Senator TAFT. I am taking the taxpayer above $10,000.

Mr. PAUL. He would not be on a current basis with respect to his liability above the basic-surtax liability.

Senator TAFT. I understand the other two bills clearly enough, but I do not understand the House bill.

Senator BARKLEY. In the case mentioned by the Senator from Ohio, a man with net income of $10,000, $5,000 salary and $5,000 other income, he makes his return and, of course, he estimates, we will say, that that is his income for 1944. As far as the $5,000 salary is concerned, he does not have to fool around about that because that is going to be collected anyhow at the source.

Mr. PAUL. That is right.

Senator BARKLEY. As far as the other $5,000 is concerned, he estimates his income will be that and he pays currently on that estimate, subject to any readjustment, I presume, during the balance of the year if it turns out that he has overestimated or underestimated as far as that $5,000 is concerned; is that correct?

Mr. PAUL. Yes. Let me go right through that situation on that particular case and we will perhaps get that perfectly clear. This man has a $5,000 salary that is subject to collection at the source at 20 percent. He estimates in March that he will have a $5,000 income from sources other than salary, he makes that estimate in March and quarterly through the year he pays 20 percent on that.

Senator TAFT. What happens to his previous year's tax? Is it forgiven?

Mr. PAUL. The previous year's tax is not forgiven. It is paid right along as under the present law. For instance, his tax for 1943, if it is above the basic liability, will be paid in 1944, but his 1944 taxes above the basic liability will not be paid until 1945.

Senator TAFT. Then, in 1944, on his estimated earnings, he does not pay on the $5,000 that he estimates?

Mr. PAUL. He does not pay the full tax; he pays the basic tax on that income, and the following year he pays the additional over the 20 percent. In other words, the taxpayer is 1 year behind, as under the present law, with respect to all his tax above his basic tax.

Senator VANDENBERG. You are speaking about the House bill?

Mr. PAUL. Yes.

Senator TAFT. So, in 1944, in the first place he pays the amount withheld; in the second place he pays 20 percent of his 1944 income over and above the $5,000 in salaries; and in the third place he pays the previous year's tax on the excess over the basic surtax income.

Mr. PAUL. That is right. If he had a higher income beyond the range of the basic surtax for the year before he would be paying in 1944 his tax on that excess 1943 income.

Senator TAFT. He is paying on three different calculations. The first is paid for him through withholding, the second he is paying part of his 1944 tax, and the third he is paying part of his 1943 taxes; is that right?

Mr. PAUL. That is right.

Senator BARKLEY. He does not pay it all in that year, though It is spread over 3 years.

Mr. PAUL. Not under the House bill. Under the House bill, as Senator Taft says, he pays the three blocks of taxes. Assuming he had tax liability in 1943 over the basic liability, he has a balance of tax for that year to pay, and he pays that in 1944. He has 20 percent collected at the source on his $5,000 salary, and he pays 20 percent on his $5,000 other income, but he does not pay in 1944 any tax for that year above the basic tax liability.

Senator VANDENBERG. Now, what happens to him under the Ruml-Carlson bill?

Mr. PAUL. Under the Ruml-Carlson bill the principal difference is that he would be paying the full amount of his current tax in the current year. The Ruml-Carlson bill, subject to this windfall limitation, would be forgiving entirely his 1942 tax liability, and then in 1943 and in subsequent years he would be paying the tax collected at the source and he would be paying on the full $10,000, his current liability. He does not carry over, under the Ruml-Carlson bill, his excess liability over the basic surtax for the following year.

Senator VANDENBERG. It is a considerably simpler computation.

Mr. PAUL. I would not rush to that conclusion.

Senator VANDENBERG. I don't want you to rush.

Mr. PAUL. I have been rushing lately quite a good deal.

This requirement of taking taxpayers over to the next year with respect to the amount of tax above the basic liability, applies, you realize, only to a limited number of taxpayers. I gave the percentage. It is 4,000,000 out of the 44,000,000 taxpayers estimated for 1943.

Senator LODGE. They are both the same, so far as overestimates, underestimates are concerned; both provisions are the same amount?

Mr. PAUL. That is right. The principal difference between the Ruml-Carlson bill and the House bill is in this matter of cancelation for 1942 and the item I just mentioned, which is whether there is any carry-over of tax payment to the following year with respect to the amount above the basic surtax rate.

Senator TAFT. In the House bill, in figuring your current tax, do you have to figure according to a table of exemptions again as to what you pay on the excess income, or do you just pay 20 percent only on the $5,000?

Mr. PAUL. That is right. The House bill collects currently only the basic tax of 20 percent, leaving all excess tax over that to be paid as under the present law the following year.

(The table referred to by Mr. Paul (Tr. p. 21), is as follows:)

Net income before personal exemption	Income tax, present law (married person, no dependents)	Income after tax	Amount forgiven under—		
			Ruml-Carlson bill	House bill	Ways and Means Committee bill
$2,000	$140	$1,860	$140	$140	$100
$3,000	324	2,676	324	324	192
$5,000	746	4,254	746	691	388
$10,000	2,152	7,848	2,152	1,614	860
$25,000	9,220	15,780	9,220	4,437	2,396
$100,000	64,060	35,940	64,060	18,690	11,357
$1,000,000	854,000	146,000	854,000	189,750	121,126

Net income before personal exemption	Income after tax	Amount forgiven as percent of income after tax under—		
		Ruml-Carlson bill	House bill	Ways and Means Committee bill
		Percent	*Percent*	*Percent*
$2,000	$1,860	7.5	7.5	5.4
$3,000	2,676	12.1	12.1	7.2
$5,000	4,[illegible]54	17.5	16.2	9.1
$10,000	7,848	27.4	20.6	11.0
$25,000	15,780	58.4	28.1	15.2
$100,000	35,940	178.2	52.0	31.6
$1,000,000	146,000	584.9	130.0	83.0

Mr. PAUL. From the above table, it is clear that while all three bills are more generous to the higher income groups than to lower income groups, the Ruml-Carlson plan is much more extreme in this effect. This may be perhaps clearer from the following illustrations:

A person with an income before taxes of $2,000 whose actual income after taxes is $1,860, under the Ruml-Carlson bill, would have $140 added to his $1,860, or slightly less than 4 weeks' actual income.

A person with $5,000 income before taxes whose actual income after taxes is $4,254 would have $746 added by the Ruml-Carlson bill, or slightly less than 9 weeks' actual income.

The person with $10,000 income before taxes whose actual income after taxes is $7,848 would have $2,152 added, or nearly 14 weeks' actual income.

The person with $50,000 income before taxes whose actual income after taxes is $24,672 would have $25,328 added, or a little more than one year's actual income.

The person with $100,000 income before taxes whose actual income after taxes is $35,940 would have $64,060 added, or about 20 months' actual income.

The person with $1,000,000 before taxes whose actual income after taxes is $146,000 would have $854,000 added, or about 6 years' actual income.

Thus, the Ruml-Carlson plan would add actual income ranging from 4 weeks for the $2,000 man to 6 years for the million-dollar man.

Senator LODGE. Added to what, Mr. Paul?

Mr. PAUL. Added to his wealth; added to his assets.

Senator LODGE. Given from whom to whom?

Mr. PAUL. I said a little while ago, Senator, under any plan of tax forgiveness or cancelation, whichever one it is, when a tax is forgiven or canceled the person has that much added to his wealth, and I say that in these terms he does not owe that money, he does not owe the money he formerly owed. Remission of a debt is just as much addition to wealth as any other type of addition to wealth.

Senator LODGE. How do you figure the debt is remitted?

Mr. PAUL. It is under all these plans. A certain amount is remitted or canceled. I am now addressing myself only to the question of how much is remitted and the relationship that bears to the income after taxes in the year of remission.

Senator LODGE. It is a question of philosophy. After the First World War there was a program for reducing taxes, a legislative program. Would that have constituted remission in your judgment?

Mr. PAUL. As I remember, that was in 1924.

Senator LODGE. Yes.

Mr. PAUL. It related to the year previous to the year of enactment. I suppose that would be a remission comparable to what we have now.

Senator LODGE. Any legislative change in tax legislation, unless it is an upward change, is a remission of debt; is that it?

Mr. PAUL. If you are applying it to a year where the income has been earned and the tax liability has therefore accrued.

Senator LODGE. That does not explain the construction on the thing.

Mr. PAUL. It would not be remission if you reduced the taxes next year, because nothing has accrued yet.

Senator BARKLEY. Is not the theory of all these bills that the remission goes out entirely, that is, after you get over the hump for 1942 taxes, you get on a current basis and there isn't any further remission.

Mr. PAUL. That is right. The remission is related to 1 year, 1942.

Senator BARKLEY. When you get rid of that then there is not any further remission through the years that are to come.

Mr. PAUL. That is right.

Senator CLARK. It all depends on what is the remission period.

Mr. PAUL. That is right. The whole controversy related to remission for 1 year. The rest stayed the same, for all purposes of discussion here. The rest which stayed the same would apply to the income of the current year instead of being collected on the basis of a previous year's income. We are not talking about anything more than 1 year's cancelation of all or a part of the liability for that year. It is all a matter of remission, as you see.

Senator VANDENBERG. When you speak of these remissions adding to wealth, you are talking about bookkeeping wealth, you are not talking about expendable wealth?

Mr. PAUL. I am talking about very real expendable wealth, Senator Vandenberg.

Senator VANDENBERG. I do not see how.

Senator CONNALLY. What you mean is the tax has already accrued as an asset to the Government, and if you forgive it it transfers the asset over to the taxpayer.

Mr. PAUL. That is taking it in the real sense of the term, Senator. You can call it an asset or not call it an asset in the bookkeeping sense. In the bookkeeping sense, it is not on the Government's books until March 15, but I agree with you in every real sense it has completely accrued. When you remit all or a portion of that asset, or cancel that asset, it is not a bookkeeping transaction, it is a very real transaction, and the person who receives the remission has that much money added to his wealth.

Senator CONNALLY. If a man owes me $100 and I tell him he need not pay it, that adds to his wealth, and it is comparable with the situation we have here?

Mr. PAUL. Yes.

Senator VANDENBERG. I do not think that is comparable. I am paying so much in taxes this year, and this year I have not done anything, so what good is that wealth that you have added?

Mr. PAUL. It is true on a receipts basis or cash basis you are going to pay your next year's taxes and you will take just as much money out of your pocket and pay it to the Government, I agree with you completely there; but if you talk about how much money you have, how much wealth you have, you are better off, Senator Vandenberg, to the extent that you have been relieved of a tax liability which otherwise you would have to pay.

I want to make this point clear in addition: This is a very real point. If you reserve the taxes, as a great many people do, and unfortunately not all people do, then you can take that money that you have in the bank with which to pay the taxes and you can spend it, you can do anything you please with it.

Senator TAFT. You need it next year just the same as you need it now, even if you put it on a current basis. I never save for next year's taxes anyway, but any man who did save for next year's taxes would still have to save for the current year's taxes.

Mr. PAUL. He would have the money, as he went along, with which to pay the current year's taxes.

Senator TAFT. Not one bit more than he does today.

Senator VANDENBERG. It looks to me like the only satisfaction I am going to get in surveying the increased wealth you will give me is to read your speech, because I don't find it any place else.

Senator TAFT. If you did not pay and you died, would your estate be liable for it?

Mr. PAUL. There is not any question about that. You do not pay that money in the form of estate taxes, that is, all of it. The estate tax does not recoup all of it.

Senator BARKLEY. None of us want to die in order to increase our wealth.

Senator TAFT. Why don't you pay it in the estate tax?

Mr. PAUL. Because the estate tax is very much lower.

Senator TAFT. Yes, but you pay a substantial part in increased estate taxes.

Mr. PAUL. I think the word "increased" there is a pretty substantial word, Senator Taft. Your estate tax rates, when you get to very high estates, may recoup a substantial part, but by no means all of it.

A great many people's taxes would never be recouped at all; they would have a $60,000 exemption, and, in addition, a great many people will not have that money at the time they die.

Senator TAFT. The very people that are held up here as examples are paying the higher estate taxes.

Mr. PAUL. Those rates are not anywhere near adequate.

Senator TAFT. It is not all, but it is a substantial part of it.

Mr. PAUL. Of course, they have the opportunity between now and their death to make gifts and remove that property from their estate.

Senator VANDENBERG. Are you going to indicate before you get through, Mr. Paul, which one of these three plans the Treasury Department recommends?

Mr. PAUL. Yes; I think so, at the very end.

Senator VANDENBERG. All right; I don't want to rush you.

Mr. PAUL. That is very kind of you, after working the way I have lately.

A third measure of the fairness of tax forgiveness is the comparison of the amounts of forgiveness with the amounts of tax increases which have been imposed to finance the defense and war efforts. These increases were contained in the Revenue Acts of 1940, 1941, and 1942. They were intended to impose fair and equitable wartime tax increases according to the judgment of Congress. What portion of these increases would be wiped out by tax forgiveness under the three bills at various levels of income? The answer to this question is seen in the following table for a few income levels:

Net income before personal exemption	Tax increases under acts of 1940, 1941, and 1942 for married person, no dependents	Amount forgiven as percent of tax increases under—		
		Ruml plan	House bill	Ways and Means Committee bill
$2,000	$182	76.9	76.9	55.0
$3,000	460	69.1	69.1	40.9
$5,000	991	75.3	69.7	39.2
$10,000	2,740	78.5	58.9	31.4
$25,000	12,460	74.0	35.6	19.2
$100,000	62,833	102.0	29.7	18.1
$1,000,000	267,006	319.8	71.1	45.4

From the above table, it is seen that in terms of taxes imposed for the war effort, the Ruml-Carlson bill would wipe out the whole increase as of January 1, 1943, for taxpayers with incomes of over $100,000, and at the $1,000,000 level would confer additional benefits amounting to nearly $600,000. The other two bills avoid canceling a greater amount than the wartime tax increases, with respect to all taxpayers.

A fourth measure of the fairness of distributing forgiveness relates to the problem of increased taxes to finance the war. In the January 1943 Budget message, the President asked for "not less than $16,000,000,000 of additional funds by taxation, savings, or both." In whatever form additional taxes are imposed, it is inevitable that by and large the increases will fall proportionately most heavily on the lower and middle incomes since it is not feasible to raise the rates on the higher incomes proportionally. The increased taxes will apply to periods subsequent to 1942. If 1942 taxes are to be forgiven for the purpose of getting the great mass of our taxpayers on a pay-as-you-go basis, it would seem obvious justice that insofar as possible those who benefit by the forgiveness should be subject at least to an equal amount of additional burdens. It would be grossly inequitable to forgive taxes to income groups on whom future tax increases cannot be imposed and then to impose heavy tax increases on other income groups.

With respect to the possibility of reimposing the canceled taxes on the same income levels, the following table shows the effective rates of tax increase which would have to be applied to selected net incomes under each plan to recoup over a 3-year period the tax forgiven on those amounts of income:

Net income before personal exemption	Effective rates of income and net Victory tax liability present law for married person, no dependents	Effective tax rate increase necessary to recoup canceled taxes at same income levels over a 3-year period		
		Ruml-Carlson bill	House bill	Ways and Means Committee bill
	Percent	*Percent*	*Percent*	*Percent*
$2,000	9.4	2.3	2.3	1.7
$3,000	13.5	3.6	3.6	2.1
$5,000	17.9	5.0	4.6	2.6
$10,000	24.7	7.2	5.4	2.9
$100,000	68.6	21.4	6.2	3.5
$1,000,000	89.9	28.5	6.3	4.0

From the above table, it is apparent that the effective rates necessary under the Ruml-Carlson bill necessary to offset the forgiven taxes by rate increases applied over 3 years would exceed 100 percent for the higher income brackets. The bracket rates of tax would have to be even higher.

Senator TAFT. The Ways and Means Committee bill, that is recommended by the Treasury, did that too. There is no difference.

Mr. PAUL. That is an entirely different point that you have in mind. It is true that under the Ways and Means Committee bill, subject to a relief measure that was considered by the committee, the payments in any one year would arise above 100 percent of that particular year's income, but this is an entirely different point, Senator Taft. This goes to the point of whether you can impose an increase in taxes on the same people whose taxes are forgiven. This discussion does not refer to payment in any particular year.

In the light of these facts, whatever other objections may be brought against the House bill and the Ways and Means Committee bill, these bills cannot properly be criticized as distributing 1942 tax forgiveness less uniformly and less fairly among taxpayers than the Ruml-Carlson bill. On the contrary they are much more equitable in their distribution of forgiveness than the Ruml-Carlson bill, which would result in a substantial redistribution of income in the direction of the higher income levels.

9. SUMMARY

With respect to the collection at the source and the current tax-payment provisions, the Treasury believes there is little room for choice between the three major bills. All three provide for the fundamental change in tax-payment methods which is necessary in our tax law. While the House bill does not place the higher surtax bracket incomes on a fully current basis, it must be recognized that the taxpayers in these brackets are best able to provide in advance for taxes.

Any choice between the three bills must, therefore, be based primarily upon the treatment provided with respect to the 1942 tax liability. Insofar as the distribution of forgiveness is concerned, the Treasury Department believes that both the Ways and Means Committee bill and the House bill distribute the cancelation of the 1942 tax on a reasonably equitable and fair basis. However, the smaller amount of cancelation under the Ways and Means Committee bill results in a substantial increase in the revenue collections in the next few years at a time when such an increase is vitally necessary. The Treasury therefore believes that the Ways and Means Committee bill possesses a definite advantage over the House bill. With respect to the Ruml-Carlson bill, as has already been indicated, the distribution of forgiveness is thoroughly inequitable and unfair. While this bill would produce some additional revenue in the fiscal year 1944, this aspect is more than offset by the factor of inequitable treatment of the 1942 tax. The Treasury therefore believes that the Ruml-Carlson bill is definitely inferior to both the Ways and Means Committee bill and the House bill.

Finally, I should like to emphasize an aspect of which your committee is fully aware, as indicated by the promptness with which these hearings have been commenced. This is the importance of prompt action in order to permit current collection to start by July 1 of this year. The Bureau of Internal Revenue has already taken preliminary steps to prepare for speedy inauguration of the current collection system should the Congress complete its action by May 15. I think it is vitally important both from the standpoint of the taxpayer and the standpoint of the Government to have collection at source under way by July 1. I therefore hope that the committee will take action on this bill in time to permit accomplishment of this objective.

(The exhibits submitted by Mr. Paul are as follows:)

EXHIBIT 1.—*Amounts of individual net income tax and effective rates of tax for 1942 under (1) present law, (2) Ruml-Carlson bill, (3) House bill, and (4) Ways and Means Committee bill, at selected levels of net income*

MARRIED PERSON—NO DEPENDENTS

Net income before personal exemption [1]	Tax on 1942 income				Effective rates			
	Present law	Ruml-Carlson bill	House bill	Ways and Means Committee bill	Present law	Ruml-Carlson bill	House bill	Ways and Means Committee bill
					Percent	*Percent*	*Percent*	*Percent*
$1,200								
$1,500	$48				3.2			
$1,800	103			$22	5.7			1.2
$2,000	140			40	7.0			2.0
$2,500	232			86	9.3			3.4
$3,000	324			132	10.8			4.4
$4,000	532		$25	236	13.3		0.6	5.9
$5,000	746		55	358	14.9		1.1	7.2
$6,000	992		117	505	16.5		2.0	8.4
$8,000	1,532		289	861	19.2		3.6	10.8
$10,000	2,152		538	1,292	21.5		5.4	12.9
$15,000	4,052		1,513	2,705	27.0		10.1	18.0
$20,000	6,452		2,963	4,581	32.3		14.8	22.9
$25,000	9,220		4,783	6,824	36.9		19.1	27.3
$50,000	25,328		16,143	20,393	50.7		32.3	40.8
$100,000	64,060		45,370	52,703	64.1		45.4	52.7
$500,000	414,000		319,260	345,394	82.8		63.9	69.1
$1,000,000	854,000		664,250	732,874	85.4		66.4	73.3
$5,000,000	4,374,000		3,423,930	3,922,844	87.5		68.5	78.5

[1] Maximum earned net income assumed.

Treasury Department, Division of Tax Research.

EXHIBIT 2.—*Amounts and percents of 1942 tax canceled under Ruml-Carlson bill, House bill, and Ways and Means Committee bill at selected levels of net income*

MARRIED PERSON—NO DEPENDENTS

Net income before personal exemption [1]	1942 income tax	Amount of 1942 tax canceled			Percent of 1942 tax canceled		
		Ruml-Carlson bill	House bill	Ways and Means Committee bill	Ruml-Carlson bill	House bill	Ways and Means Committee bill
					Percent	*Percent*	*Percent*
$1,200							
$1,500	$48	$48	$48	$48	100.0	100.0	100.0
$1,800	103	103	103	81	100.0	100.0	78.6
$2,000	140	140	140	100	100.0	100.0	71.4
$2,500	232	232	232	146	100 0	100.0	62.9
$3,000	324	324	324	192	100.0	100.0	59.3
$4,000	532	532	507	296	100.0	95.3	55.6
$5,000	746	746	691	388	100.0	92.6	52.0
$6,000	992	992	875	487	100.0	88.2	49.1
$8,000	1,532	1,532	1,243	671	100.0	81.1	43.8
$10,000	2,152	2,152	1,614	860	100.0	75.0	40.0
$15,000	4,052	4,052	2,539	1,347	100.0	62.7	33.2
$20,000	6,452	6,452	3,489	1,871	100.0	54.1	29.0
$25,000	9,220	9,220	4,437	2,396	100.0	48.1	26.0
$50,000	25,328	25,328	9,185	4,935	100.0	36.3	19.5
$100,000	64,060	64,060	18,690	11,357	100.0	29.2	17.7
$500,000	414,000	414,000	94,710	68,606	100.0	22.9	16.6
$1,000,000	854,000	854,000	189,750	121,126	100.0	22.2	14.2
$5,000,000	4,374,000	4,374,000	950,070	451,156	100.0	21.7	10.3

[1] Maximum earned net income assumed.

Treasury Department, Division of Tax Research.

EXHIBIT 3.—*Income and net Victory tax payments due in calendar year 1944, and effective rates under the Ruml-Carlson bill, House bill, and Ways and Means Committee bill at selected levels of net income* [1]

MARRIED PERSON—NO DEPENDENTS

TAX PAYMENTS DUE

Net income before personal exemption [2]	Under both the Ruml-Carlson bill and the House bill	Under the Ways and Means Committee bill	
		If no discount is taken	If 6-percent discount is taken [3]
$1,200	$21	$21	$21
$1,500	79	79	79
$1,800	144	151	165
$2,000	188	201	226
$2,500	297	326	378
$3,000	405	449	529
$4,000	647	726	869
$5,000	894	1,013	1,231
$6,000	1,173	1,341	1,648
$8.000	1,780	2,067	2,589
$10,000	2,467	2,898	3,681
$15,000	4,533	5,435	7,076
$20,000	7,100	8,627	11,406
$25,000	10,035	12,310	16,450
$50,000	27,075	33,873	46,244
$100,000	68,584	86,152	118,125
$500,000	440,747	555,878	765,417
$1,000,000	[4] 899,000	1,143,291	1,587,902
$5,000,000	[4] 4,499,000	5,806,615	8,186,473

[1] Net income for 1942, 1943, and 1944 assumed to be same. For Victory tax purposes, gross income assumed to be ten-ninths of net income. Net Victory tax is used on assumption that taxpayer receives current benefit of post-war credit.

[2] Maximum earned net income assumed.

[3] Under the Ways and Means Committee bill a discount of 6 percent is allowed if the entire amount of the reduced tax for 1942 is paid on or before March 15, 1944.

[4] Taking into account maximum effective rate limitation of 90 percent on combined net income and Victory tax.

EXHIBIT 3.—*Income and net Victory tax payments due in calendar year 1944, and effective rates under the Ruml-Carlson bill, House bill, and Ways and Means Committee bill at selected levels of net income*—Continued

EFFECTIVE RATES

Net income before personal exemption	Under both the Ruml-Carlson bill and the House bill	Under the Ways and Means Committee bill	
		If no discount is taken	If 6-percent discount is taken
	Percent	*Percent*	*Percent*
$1,200	1.8	1.8	1.8
$1,500	5.3	5.3	5.3
$1,800	8.0	8.4	9.2
$2,000	9.4	10.1	11.3
$2,500	11.9	13.0	15.1
$3,000	13.5	15.0	17.6
$4,000	16.2	18.2	21.7
$5,000	17.9	20.3	24.6
$6,000	19.6	22.4	27.5
$8,000	22.3	25.8	32.4
$10,000	24.7	29.0	36.8
$15,000	30.2	36.2	47.2
$20,000	35.5	43.1	57.0
$25,000	40.1	49.2	65.8
$50,000	54.2	67.7	92.5
$100,000	68.6	86.2	118.1
$500,000	88.1	111.2	163.1
$1,000,000	[4] 89.9	114.3	168.8
$5,000,000	[4] 90.0	116.1	163.7

Treasury Department, Division of Tax Research. May 5, 1943.

[4] Taking into account maximum effective rate limitation of 90 percent on combined net income and Victory tax.

EXHIBIT 4.—*Approximate distribution of income recipients by percentage of total liabilities discharged currently under the House bill*

[Calendar year 1943]

Percentage of total liability discharged currently	Number of taxable income recipients (millions)	Percentage of all taxable income recipients	Cumulative percentage of all taxable income recipients	Maximum amount of tax not discharged currently
100	38.7	88.8	88.8	0
90 to 100	4.2	9.6	98.4	90
75 to 90	.3	.7	99.1	550
50 to 75	.3	.7	99.8	4,200
25 to 50	.1	.2	100.0	115,000
Less than 25	.002	.004	100.0	
Total	43.6	100.0		

EXHIBIT 5

Estimated income-tax liabilities due under the Carlson amendment, as amended, to H. R. 2570 as voted on in the House of Representatives May 4, 1943, which would—

(1) Remit to all taxpayers the net income-tax liabilities on calendar year 1942 income as modified in provision (2).

(2) Allow any member of the armed forces in active service an exclusion from base pay received after December 31, 1941, equal to the excess of $3,500 over the personal exemption claimed by such member (and by his spouse if such member is married and living with his spouse on the last day of the taxable year, and such spouse is not entitled to the benefit of this allowance).

(3) By June 15, 1943, require payment of at least one-half of proposed net income-tax liabilities on income of the calendar year 1942, to be treated as payments toward income-tax liabilities on calendar year 1943 income.

(4) Withhold after June 30, 1943, from salaries and wages in excess of the withholding allowance (110 percent of the personal exemption and dependent credit) at a rate of 17 percent; and in addition, withhold from salaries and wages in excess of an annual rate of $624 at a rate of 3 percent, in lieu of the 5-percent Victory tax now withheld on salaries and wages.

(5) For those taxpayers whose calendar year 1942 and calendar year 1943 surtax net incomes exceed calendar year 1940 surtax net income by more than $5,000, compute an additional calendar year 1943 tax liability as follows: From the smaller of the surtax net income of the calendar years 1942 and 1943, deduct the sum of $5,000 plus the calendar year 1940 surtax net income. The additional tax is the sum of 6 percent of such difference plus the surtax computed on such difference at present law rates, and is due by December 15, 1943.

(6) For those taxpayers whose present-law calendar year 1942 net income-tax liability is both greater than $1,050 and greater than the calendar year 1943 tax liability, add to present-law calendar year 1943 net income-tax liabilities the smaller of the excesses of present-law calendar year 1942 net income-tax liabilities over (*a*) $1,050 or (*b*) present-law calendar year 1943 net income-tax liabilities. This additional tax is due by December 15, 1943.

(7) Require that total proposed tax liabilities (comprising the proposed net Victory tax and the proposed net income tax but excluding the two additional taxes described in provisions (5) and (6)) on incomes of the calendar years 1943 and subsequent years be paid currently. Quarterly payments are required on September 15 and December 15, 1943, to discharge such part of the proposed tax liabilities on income of the calendar year 1943 required to be paid currently as is not withheld during the calendar year 1943 or discharged by payments prior to June 15, 1943. Quarterly payments are required in subsequent years in such amounts that, together with the amounts withheld, tax liabilities will be paid currently.

	Million dollars
Estimated income tax liabilities due:[1]	
Last 6 months of fiscal year 1943	5, 277. 7
First 6 months of fiscal year 1944	8, 383. 3
Last 6 months of fiscal year 1944	6, 879. 8
Total, 18 months, Jan. 1, 1943, to June 30, 1944	20, 540. 8
Calendar year 1943	13, 661. 0
Fiscal year 1944	15, 263. 1
Reconciliation of total proposed income tax liabilities, 18 months, Jan. 1, 1943, to June 30, 1944, with total tax liabilities under present law on incomes of the calendar years 1942, 1943, and 1944:	
Total income tax liabilities, 18-month period, Jan. 1, 1943, to June 30, 1944	20, 540. 8
Amount withheld but not received until after June 30, 1944 (3 months' withholding)	1, 462. 6
Proposed net income tax and Victory tax liabilities through Dec. 31, 1944, not withheld or paid through June 30, 1944	6, 957. 0
Reduction proposed in tax liabilities of the armed forces on incomes of the calendar years 1942, 1943, and 1944[2]	1, 967. 7
Proposed net income tax liabilities remitted in addition to the special exclusion allowed to the armed forces	9, 451. 3
Elimination of additions to 1943 net income-tax liabilities—	
"Windfall provision"	−455. 9
"Excess-profits tax"	−676. 9
Total tax liabilities under present law on income of the calendar years 1942, 1943, and 1944	39, 246. 6
Total tax liabilities under Carlson proposal on income of the calendar years 1942, 1943, and 1944	28, 960. 4

[1] Total taxable income for a calendar year is assumed to be distributed equally among the 4 quarters of the year. Calendar year 1944 income has not been forecast, but has been assumed to be the same as forecast for calendar year 1943.

[2] The loss with respect to tax liabilities on income of the calendar year 1944 should be somewhat greater, but has been assumed to be the same as on income of the calendar year 1943. Calendar year 1942 and calendar year 1943 net income tax liabilities are reduced by $363.9 millions and $670.1 millions, respectively. Calendar 1943 net Victory tax liabilities are reduced by $131.8 millions.

NOTE.—Figures are rounded and will not necessarily add to totals.

Source: Treasury Department, Division of Research and Statistics, May 5, 1943.

EXHIBIT 6

Estimated income-tax liabilities [1] due under H. R. 2570 as passed by the House of Representatives on May 4, 1943: The estimates assume that H. R. 2570 would:

(1) Remit the basic tax liabilities on income of the calendar year 1942 (normal tax plus 13 percent of entire surtax net income).[2]

(2) Allow any member of the armed forces in active service an exclusion from base pay received after December 31, 1941, equal to the excess of $3,500 over the personal exemption claimed by such member (and by his spouse if such member is married and living with his spouse on the last day of the taxable year, and such spouse is not entitled to the benefit of this allowance).

(3) By June 15, 1943, require payment of at least one-half of proposed net income tax liabilities (prior to remission of basic tax liabilities) on income of the calendar year 1942.

(4) Withhold after June 30, 1943, from salaries and wages in excess of the withholding allowance (110 percent of the personal exemption and dependent credit) at a rate of 17 percent; and in addition withhold from salaries and wages in excess of an annual rate of $624 at a rate of 3 percent, in lieu of the 5 percent Victory tax now withheld on salaries and wages.

(5) In case gross income from sources other than salaries and wages can reasonably be expected to exceed $100 for the current calendar year, require certain current payments to be applied toward basic tax liabilities and net Victory tax liabilities not withheld at source.[2] Such current payments are equal to 20 percent of the excess of estimated net income over the larger of (*a*) estimated salaries and wages or (*b*) personal exemption plus dependent credit.

(6) Require that any basic tax liabilities or net Victory tax liabilities not paid currently be paid by March 15 of the following year.[2]

(7) Require payments of "balance tax liabilities" (the excess of total net income tax liabilities over liabilities for basic tax [2] equal to normal tax plus 13 percent of entire surtax net income) to be collected as under present law; namely, in the year following the calendar year in which the taxable income is received.

Estimated income-tax liabilities due:	*Million dollars*
Last 6 months of fiscal year 1943	5, 277. 7
First 6 months of fiscal year 1944	5, 102. 5
Last 6 months of fiscal year 1944	7, 920. 3
Total, 18 months, Jan. 1, 1943, to June 30, 1944	18, 300. 5
Calendar year 1943	10, 380. 2
Fiscal year 1944	13, 022. 8

[1] Total taxable income for a calendar year is assumed to be distributed equally among the four quarters of the year. Calendar year 1944 income has not been forecast, but has been assumed to be the same as forecast for calendar year 1943.

[2] The bill includes the net Victory tax liability of the calendar year 1943 and subsequent years as a part of basic tax liability. For convenience in estimating, net Victory tax liabilities are treated separately.

Reconciliation of total income-tax liabilities, 18 months, Jan. 1, 1943, to June 30, 1944, with total income-tax liabilities under present law on incomes of the calendar years 1942, 1943, and 1944:

		Million dollars
Total tax liabilities, 18 months period, Jan. 1, 1943, to June 30, 1944		18, 300. 5
Amount withheld but not received until after June 30, 1944 (3 months' withholding)		1, 462. 6
Proposed tax liabilities through Dec. 31, 1944, not withheld or paid through June 30, 1944:		
Calendar year 1943 liabilities	1, 375. 6	
Calendar year 1944 liabilities	8, 902. 3	
Total		10, 277. 9
Reduction proposed in tax liabilities of the armed forces on incomes of the calendar years 1942, 1943, and 1944 [3]		1, 967. 7
Proposed calendar year 1942 basic tax liabilities remitted in addition to the special exclusion allowed to the armed forces		7, 237. 9
Total tax liabilities under present law on income of the 36-month period, Jan. 1, 1942, to Dec. 31, 1944		39, 246. 6
Total tax liabilities under H. R. 2577 on income of the 36-month period, Jan. 1, 1942, to Dec, 31, 1944		30, 041. 0

[3] The loss with respect to tax liabilities on income of the calendar year 1944 should be somewhat greater, but has been assumed to be the same as on income of the calendar year 1943. Calendar year 1942 and calendar year 1943 net income tax liabilities are reduced by 363.9 millions dollars and 670.1 million dollars, respectively. Calendar year 1943 net Victory tax liabilities are reduced by 131.8 million dollars.

NOTE.—Figures are rounded and will not necessarily add to totals.
Source: Treasury Department, Division of Research and Statistics, May 5, 1943.

EXHIBIT 7

Estimated income tax liabilities [1] due under H. R. 2570 as reported by the Committee on Ways and Means, April 24, 1943, which would:

(1) Remit to all taxpayers the difference between the net income tax liabilities on calendar year 1942 incomes as modified in provision (2) and such liabilities computed under a rate schedule applied to calendar year 1942 tax liabilities which approximates the yield derived by using the lower tax rates and the larger personal exemptions and dependent credit of the Revenue Act of 1941.

(2) Allow any member of the armed forces in active service an exclusion from base pay received after December 31, 1941, equal to the excess of $3,500 over the personal exemption claimed by such member (and by his spouse if such member is married and living with his spouse on the last day of the taxable year and such spouse is not entitled to the benefit of this allowance).

(3) By June 15, 1943, require payment of at least one-half of proposed net income-tax liabilities on income of the calendar year 1942.

(4) Withhold after June 30, 1943, from salaries and wages in excess of the withholding allowance (110 percent of the personal exemption and dependent credit) at a rate of 17 percent; and in addition withhold from salaries and wages in excess of an annual rate of $624 at a rate of 3 percent, in lieu of the 5 percent Victory tax now withheld on salaries and wages.

(5) Require the unremitted 1942 tax liabilities to be paid over a period of 3 years, one-third being due by March 15 of each of the years 1944, 1945, and 1946.

(6) Allow a discount of 6 percent of the unremitted tax if paid in full by March 15, 1944, and a discount of 2 percent if paid in full by March 15, 1945.

(7) Require that total proposed tax liabilities (including the net Victory tax) on incomes of the calendar years 1943 and subsequent years be paid currently. Quarterly payments are required on September 15 and December 15, 1943, to discharge such part of the proposed tax liabilities on income of the calendar year 1943 as is not withheld during calendar year 1943 or discharged by payments prior to June 15, 1943. Quarterly payments are required in subsequent years in such amounts that, together with the amounts withheld, tax liabilities will be paid currently.

[1] Total taxable income for a calendar year is assumed to be distributed equally among the four quarters of the year. Calendar year 1944 income has not been forecast, but has been assumed to be the same as forecast for calendar year 1943.

	Maximum discounts taken	No discounts taken
Estimated income-tax liabilities:		
Last 6 months of fiscal year 1943	$5,277,700,000	$5,277,700,000
First 6 months of fiscal year 1944	7,250,500,000	7,250,500,000
Last 6 months of fiscal year 1944	11,372,800,000	8,473,100,000
Total, 18 months, Jan. 1, 1943, to June 30, 1944	23,901,000,000	21,001,300,000
Calendar year 1943	12,528,200,000	12,528,200,000
Fiscal year 1944	18,623,300,000	15,723,600,000
Reconciliation of total tax liabilities, 18 months, Jan. 1, 1943, to June 30, 1944, with total-tax liabilities under present law on incomes of the calendar years 1942, 1943, and 1944—		
Total tax liabilities, 18 months period, Jan. 1, 1943, to June 30, 1944	23,901,000,000	21,001,300,000
Amount withheld but not received until after June 30, 1944 (3 months withholding)	1,462,600,000	1,462,600,000
Proposed tax liabilities through Dec. 31, 1944, not withheld or paid through June 30, 1944	6,957,000,000	10,143,500,000
Reduction proposed in tax liabilities of the armed forces on incomes of the calendar years 1942, 1943, and 1944 [2]	1,967,700,000	1,967,700,000
Proposed calendar year 1942 net income-tax liabilities remitted in addition to the special exclusion allowed to the armed forces	4,671,600,000	4,671,600,000
Discount allowed for prepayment of unremitted tax liabilities on calendar year 1942 income	286,800,000	----------------
Total tax liabilities under present law on income of the calendar years 1942, 1943, and 1944	39,246,700,000	39,246,700,000
Total tax liabilities under H. R. 2570 on income of the calendar years 1942, 1943, and 1944	32,320,600,000	32,607,400,000

[2] The loss with respect to tax liabilities on income of the calendar year 1944 should be somewhat greater, but has been assumed to be the same as on income of the calendar year 1943.

NOTE.—Figures are rounded and will not necessarily add to totals.
Source: Treasury Department, Division of Research and Statistics.

EXHIBIT 8.—*Estimated income tax liabilities due under present law* [1]

[In millions of dollars]

		Last 6 months of fiscal 1943	First 6 months of fiscal 1944	Last 6 months of fiscal 1944	Total 18 months Jan. 1, 1943, to June 30, 1944
Net income tax liability, calendar year 1942, in quarterly payments		4,907.6	4,907.6	------------	9,815.2
Net income tax liability, calendar year 1943, in quarterly payments		------------	------------	5,994.6	5,994.6
Present law withholding		552.0	1,104.0	1,104.0	2,760.0
March 1944 adjustment:					
Net Victory tax liability, calendar year 1943	2,726.5				
Total withholdings	2,208.0				
Withholdings in excess of net Victory tax liability	740.0				
Withholdings offset against net Victory tax liability	−1,468.0				
Net Victory tax liability of calendar year 1943 not paid in calendar year 1943	1,258.5				
Payment in first 6 months of calendar year 1944 of ½ of net Victory tax liability of calendar year 1943 not paid in calendar year 1943		------------	------------	629.3	629.3
Refund to those having excess of Victory tax withholdings over sum of net income tax plus net Victory tax liability		------------	------------	−175.0	−175.0
Excess of withholdings over net Victory tax liability which is offset against net income tax liability on income of calendar year 1943		------------	------------	−565.0	−565.0
Total receipts		5,459.6	6,011.6	6,987.9	18,459.1

[1] Total taxable income for a calendar year is assumed to be distributed equally among the four quarters of the year. Calendar year 1944 income has not been forecast, but has been assumed to be the same as forecast for calendar year 1943.

EXHIBIT 8.—*Estimated income tax liabilities due under present law*—Continued

	Last 6 months of fiscal 1943	First 6 months of fiscal 1944	Last 6 months of fiscal 1944	Total 18 months Jan. 1, 1943, to June 30, 1944
Reconciliation of total receipts, 18 months, Jan. 1, 1943, to June 30, 1944, with total tax liabilities under present law on income of the calendar years 1942, 1943, and 1944:				
Victory tax withheld but not received in the first 6 months of calendar year 1944				552.0
Victory tax which will be withheld in last 6 months of calendar year 1944				1,104.0
Victory tax withholdings in excess of net Victory tax liability for calendar year 1944				−740.0
Calendar year 1943 Victory tax liability not received before July 1, 1944				629.3
Calendar year 1944 Victory tax liability not due until 1945				1,258.5
Net income tax liability on calendar year 1943 income not received before July 1, 1944				5,094.6
Net income tax liability on calendar year 1944 income not due until 1945				11,080.2
Total tax liabilities under present law on income of the calendar years 1942, 1943, and 1944				39,240.7

Source: Treasury Department, Division of Research and Statistics.

Senator VANDENBERG. What is the dead line for legislation mechanically? Around the 15th of May?

Mr. PAUL. It is around the 15th. I would hate to say if you pass the bill on the 16th we could not do it; there is a little flexibility, but the 15th is going to make it a pretty hard job.

The CHAIRMAN. Are there any questions, gentlemen, that the members of the committee wish to ask?

Senator BARKLEY. I would like to ask one question: Taking the three bills over the period of 3 years, we will say, from now, which one of them would result in the largest amount of revenue being brought into the Treasury?

Mr. PAUL. The Ways and Means Committee bill by a considerable amount. The Ways and Means Committee bill would leave unforgiven $4,780,000,000. That is shown in exhibits 5, 6, and 7, Senator Barkley. The total tax liability under the Carlson proposal on income of the calendar years 1942, 1943, and 1944, shown in exhibit 5, is $28,960,400,000, or virtually $29,000,000,000. Exhibit 6 shows the corresponding figure for H. R. 2570 as passed by the House. The figure is $30,041,000,000.

Senator BARKLEY. You have answered the question.

Mr. PAUL. The first figure under the Ruml-Carlson bill over that period would be practically $29,000,000,000; under the House bill a little over $30,000,000,000, and under the committee bill, $32,607,400,000. So there is a difference of about $3,600,000,000 over the Ruml-Carlson bill.

Senator BARKLEY. In percentages of forgiveness, roughly speaking, the Ways and Means Committee bill forgave approximately 50 percent of the 1942 taxes; the House bill as it passed, about 75 percent, and the Ruml plan 100 percent. Is that right, roughly?

Mr. PAUL. Those are rough figures, and those are percentages of aggregate tax liabilities of all taxpayers. It does not affect the question of distribution.

Senator BARKLEY. Yes; I understand.

Senator LA FOLLETTE. I was just going to say, Mr. Paul, that your statement, without criticizing it, seems to me to be somewhat in a vacuum. I mean, you have made this whole statement without making any reference to the possibility and the probability of an increase in taxes. Does not that alter the situation, and is not that a factor which must be taken into consideration? As a matter of fact, have not we about reached the saturation point on the upper brackets? Isn't it pretty clear that the impact of increased taxes is bound to fall on the people in the middle and lower brackets?

Mr. PAUL. Well, I made that point, Senator La Follette. You may have stepped out. It is on page 12 of my statement. I made that point as hard as I could. I do not know whether you were in the room at that time.

Senator LA FOLLETTE. Perhaps I was not.

Mr. PAUL. I quite agree with you. That is one of the principal tests of what should be forgiven and how the forgiveness should be distributed, because it certainly is perfectly clear you cannot raise the upper bracket, raise it appreciably over what it is now. You can raise rates appreciably only in the middle and lower income brackets.

Senator LA FOLLETTE. Whether you raise it by increased income taxes or whether you raise it by consumption taxes?

Mr. PAUL. That is immaterial.

Senator LA FOLLETTE. However you do it, it is pretty clear is it not, that increased tax burdens are going to fall not only on the people that we have come to think of as in the lower brackets, but it is going to fall on the people in the middle brackets as well?

Mr. PAUL. It is very true that the middle brackets will suffer by the adoption of the Ruml-Carlson plan, not only the lower but the middle brackets, for the reason that no substantial additional taxes can be imposed in the higher brackets, but substantial additional taxes can be imposed in the middle brackets.

Senator LA FOLLETTE. If they are not raised by income taxes they will be taken out in the form of consumption or other taxes?

Mr. PAUL. Yes. For the purpose of this discussion, it is perfectly immaterial whether you impose sales taxes to get additional revenue or an income-tax increase. The impact will be on the individual, and it will be principally in those brackets.

Senator LA FOLLETTE. The Treasury has been talking about $16,000,000,000 of additional revenue, has it not?

Mr. PAUL. Well, the President's words were 16 billions. I will quote the President exactly:

> Not less than $16,000,000,000 of additional funds by taxation, savings, or both, during the fiscal year 1944.

Senator LA FOLLETTE. $16,000,000,000 more to be taken out of the income stream in some way or another.

Mr. PAUL. You are right.

Senator LA FOLLETTE. That is one thing that seemed to me to be a factor that has not apparently gone over to the taxpayers. Here we are faced with at least an Executive request for $16,000,000,000 more to be fried out of the taxpayers, and we are quarreling over how much we are going to give away of the 1942 liability. If we go in any direction towards reaching that goal in a substantial way, are not we going to knock these so-called current taxpayers back in their baskets again? Are not they going to be made uncurrent?

Mr. PAUL. They are going to have to pay substantial additional funds into the Treasury.

What you say leads me to recall a statement I made in my statement before the Ways and Means Committee on February 2. If you assume that most of the $16,000,000,000 requested by the President will have to come from individuals—and I think that is a fair assumption—and you contrast that figure with $13,000,000,000 of revenue for the fiscal year 1944 under existing income taxes from individuals, you immediately see that the collection of $16,000,000,000 additional means more than the doubling of taxes.

Senator LA FOLLETTE. Well, if that happens, are the taxpayers going to be current?

Mr. PAUL. If you once adopt a current collection system, then all the increases would go along with the other taxes and the taxpayers would be current, but the number of dollars taken out of their pockets would be greater.

Senator TAFT. Unless they had to borrow money to pay the taxes, then they would not be current.

Mr. PAUL. They are current as far as the Government is concerned.

The CHAIRMAN. If you are to get $16,000,000,000 more money out of the taxpayers, take it out of the stream of earnings or of income, you have got to get the most of the taxpayers current or they cannot stand it.

Mr. PAUL. I agree with you.

Senator JOHNSON. May I ask a question, Mr. Chairman?

The CHAIRMAN. Certainly.

Senator JOHNSON. On page 13 in paragraph 9 I note you say:

> All three provide for the fundamental change in tax payment methods which is necessary in our tax law.

Do I understand from that, Mr. Paul, that some change must be made in your opinion?

Mr. PAUL. In my opinion, the wartime rates of tax require the institution of current tax collection as distinguished from our present system. I am really saying over again what I said in response to the chairman's question. In my opinion, we have got to have a current-tax-collection system if we are going to run along even with our present tax structure, not to mention increasing our taxes substantially.

Senator JOHNSON. Then, do I understand that your order of preference would be something like this: Your first preference would be the Ways and Means Committee bill; your second preference, the House bill; your third preference would be the Ruml plan, and your fourth preference would be no change whatsoever in the current tax system?

Mr. PAUL. Yes; that is substantially right, but I do not now want to make a statement on whether I prefer the Ruml plan to no plan at all.

Senator JOHNSON. That is the order?

Mr. PAUL. That is my order, with the exception indicated.

Senator JOHNSON. In other words, you would prefer the Ruml plan to no change at all?

Senator BARKLEY. You mean the Ruml plan in the raw, or as it has been modified?

Mr. PAUL. The Ruml plan in the raw is certainly less desirable than the modifications which were instituted by a succession of amendments in the House.

Senator LODGE. Mr. Chairman, I would like to ask Mr. Paul a question.

The CHAIRMAN. Yes; Senator Lodge.

Senator LODGE. Mr. Paul, if I may have your attention, I think it is very desirable to use words that accurately express our thought in this whole subject.

Mr. PAUL. So do I.

Senator LODGE. I am interested in this word "forgive" that is being used all the time. I would like to be enlightened on it, because the dictionary defines "forgive" as follows:

to give claim to requital from offender; to pardon, as one's enemies; to give up resentment or claim to requital on account of an offense; to forgive a wrong.

Surely the American people, through the Government, can change the taxes every year if they want. They cannot forgive themselves or penalize themselves. It is a change they can make every year. I knew this was expressed, that they are making a change favorable to the taxpayer, they are not forgiving anything, they are making a change favorable to the taxpayer. Why isn't it better to call it that?

Mr. PAUL. I agree with you, Senator Lodge. We ought to try to get across our thought. I am not so much interested in the words. The word "forgiveness," whatever may be said in the dictionary about it, is constantly used with respect to the cancelation of indebtedness. It is used by the Supreme Court in that connection, and various other courts. You notice I did not always use the word "forgive," sometimes I used the word "cancel," and sometimes I think I used the word "remit." I was not so much interested in the words as the idea that a certain tax liability is wiped out or eliminated by this process. You can call it by any word you want.

Senator TAFT. If you cancel the last year's taxes and you impose new taxes that you pay in 1943, that you never had to pay before, it is a cancelation of that forgiveness.

Mr. PAUL. You cannot do it on the same basis, that is my point. If you could do that, if you could redistribute the tax load in exactly the same way you had forgiven it, I would not care about the forgiveness for one moment.

Senator TAFT. Senator Lodge raised a question that I would like to touch on, if I may. You say the Ways and Means bill would bring in two and one half to three billion dollars more revenue; is that right?

Mr. PAUL. Yes.

Senator TAFT. Now, I suggest that that is not really more revenue, that is a capital levy, under your own interpretation that this is an increase in the estate, and so forth. What you are doing is making those people pay out of capital this past tax. They will pay it out of capital, and therefore you have thrown on the market two or three billion dollars of securities or property, which will reduce the amount to be put into bonds. In other words, this additional revenue, so-called, under the Ways and Means Committee bill is not additional income revenue, it is a capital levy, in effect, and that will be its effect, and it reduces the amount of money available for financing the war from bond issues.

Mr. PAUL. Your question really has two parts. In the first place, it would be problematical how many bonds would be thrown on the market, and that sort of thing. That is the latter part of the question.

On the question whether the Ways and Means Committee bill is a capital levy, it seems very clear to me it is not, or it is not contemplated to be a capital levy because the amount paid would be paid with respect to the 2 years' income, not 1 year's income.

Senator TAFT. That may be, but the fact is that anybody with an income over $200,000 under the Ways and Means Committee bill has to pay more than 100 percent of his income for 3 years in succession, and it seems to me obvious whether he had to pay all of it or not, the rate is already so high that any duplication of a back year's tax is going to be paid out of capital. You pointed out the effect of this is to increase the estate, so he can afford to pay it out of capital. It seems to me the additional revenue is not additional income, it is really a capital levy and decreases the amount of capital available to finance the war.

Mr. PAUL. I differ with you. It seems to me the source of tax payment, whether it is out of income or capital, is irrelevant. A man who has only to pay 10 percent of his income in taxes, at the time he comes to pay the tax may have nothing but capital left. He may have to sell some securities, but that does not make it a capital levy.

Senator TAFT. I think it is inherent in your whole theory of presentation. You say it increases his property $800,000 and therefore he can afford to take that money and pay it to the Government but he can only pay it out of capital.

Mr. PAUL. You are thinking always, it seems to me, in your questions there, in terms of the source of his payment, whereas the question seems to me to be whether he has to pay more than 100 percent tax on a year's income, which would make it a capital levy.

Senator TAFT. Not only that, he is necessarily assuming an obligation. Incomes are already cut to a point where everybody in every walk of life is squeezed down, he can just live on what is left. Now, then, if he is going to have to pay 2 years' taxes in 1, he is going to pay it out of capital. I do not think in that case you can claim that this is an increased income tax that we are collecting under the Ways and Means Committee bill.

Mr. PAUL. It is not a tax on capital. It may be a tax that particular taxpayers have to pay out of capital funds, but that is an entirely different matter.

Senator TAFT. I am satisfied with your definition of it. That is what I was trying to show.

Mr. PAUL. I also think a great many of these taxpayers will not be so hard hit in that respect, because the habit of most big taxpayers, as I have discovered it in a good many years of practice, is to accrue a reserve for taxes.

Senator TAFT. They will have to use the reserve to pay the current year's taxes.

Mr. PAUL. They have their present income out of which to pay the present year's taxes.

The CHAIRMAN. What Senator Taft means to say is that you cannot, out of current earnings, live right up to the Ways and Means Committee bill and pay your current taxes.

Senator TAFT. I am disputing the fact that, in substance, there is any real increase derived from the Ways and Means Committee bill.

The CHAIRMAN. As I get Mr. Paul's argument on that point, the whole difference is that some people make more money than others, and of course they get, therefore, greater savings.

Mr. PAUL. I would like to clear up that point, Senator George, if there is any misunderstanding about it.

The CHAIRMAN. Your whole statement seems to me to come down to that when you show the benefits to be derived. The inequality of the savings to the taxpayers depends entirely on what taxpayer you are talking about, and it depends entirely, therefore, on whether he has made more or is capable of making more.

Mr. PAUL. Certainly, the more income a man has made the more tax he has and the greater benefit he has.

The CHAIRMAN. That is the only trouble with it. If they all made the same income, of course you would not have any inequality under either one of these bills.

Mr. PAUL. That is right.

The CHAIRMAN. You would treat them all alike. The inequality comes because you have got an inequality in earning capacity, and we always have had it and probably always will, until we are reduced to one level.

I think we might come back, Mr. Paul, at 3 o'clock.

Is it convenient for you to come back at 3 o'clock this afternoon?

Mr. PAUL. Entirely.

The CHAIRMAN. I would like very much for you to go into this supplementary statement.

Mr. PAUL. I want to do it, because I think a great many people in the country would be glad to know that some improvements have been worked out.

The CHAIRMAN. Based upon objections already brought in, and the suggestions and recommendations made, we may relieve the committee of quite some work, because some of them may not wish to be heard.

Mr. PAUL. I hope so, and I am quite confident that these additional suggestions we have will very considerably improve the withholding provisions of the bill.

I would like to call your attention finally, just before you adjourn, to the fact I have not discussed in my statement a previous Ways and Means Committee bill, the first bill which was reported out and referred back to the committee. If I were making any comparisons as to what we would do with and without forgiveness, and so on, I would want to include that bill. I do not think those points are very material in what we have before us. We have before us the House bill. I think it is very clear that we ought to change from the present tax system. I do not like to make comparisons that are more or less academic.

Senator VANDENBERG. If you are going to expand the number of bills you better lengthen that May 15 date.

Mr. PAUL. I was explaining that I had not brought in that bill.

The CHAIRMAN. I think we have before us the real question of whether we are going to make any change in the present method, and if so, how much we are going to pay for it, all or part, and what part.

Mr. PAUL. That is right.

The CHAIRMAN. That is the exact issue.

Senator VANDENBERG. I do not think I got clearly the answer to Senator Johnson's question.

Mr. PAUL. Senator Johnson was ranking the various bills.

Senator VANDENBERG. He was asking you whether you would rather leave the law as it is or take the Ruml-Carlson plan.

Mr. PAUL. I would prefer not to answer that question without giving some further thought to it, because I haven't ever had that issue presented to me. One would have to go into the whole equation if you want to get into those refinements, the former committee bill as well as all the other alternatives.

The CHAIRMAN. The committee will recess until 3.

(Whereupon, at 12 m., the committee recessed to 3 p. m. of the same day.)

AFTERNOON SESSION

(The committee reconvened at 3 o'clock, pursuant to recess).

The CHAIRMAN. The committee will come to order, please.

Mr. Paul, suppose you give us this supplementary statement or make such explanation regarding it as you may wish.

STATEMENT OF RANDOLPH E. PAUL (RESUMED) ACCOMPANIED BY MESSRS. SURREY AND O'DONNELL OF THE TREASURY DEPARTMENT

Mr. PAUL. Well, the first point in the supplementary statement has to do with a formula for remitting 1942 tax liabilities under the House bill, a deficiency in the bill from the standpoint of administration as the bill was passed by the House.

The rest of the memorandum has to do with the withholding and collection at the source technical provisions.

Going to the first point, the effect of section 5 (b) of the House bill is to require an exact computation of the amount of 1942 tax which is to be canceled. In order to facilitate the determination of this amount, it is recommended that it be computed in accordance with a schedule designed to achieve a close approximation at all tax levels of the result which would be reached under the precise computation method. This schedule is contained in exhibit A.

Senator VANDENBERG. You don't need that if we take the Ruml-Carlson plan?

Mr. PAUL. Yes; but I had to prepare this on the assumption that I didn't know how the committee would act.

Senator VANDENBERG. Well, I am just letting you in on a secret. [Laughter.]

Mr. PAUL. However, we will continue——

The CHAIRMAN. Proceed on the theory that you——

Senator BARKLEY (interposing). Still don't know. [Laughter.]

Mr. PAUL. I usually proceed on that theory, Senator Barkley.

This schedule is in exhibit A and you will notice that it provides a ready way of determining, from the amount of the 1942 tax, what amount the tax under the House bill will be. That obviates the necessity of looking at every return and getting out the actual returns and making a recomputation. It is the application of the formula method to the amount of tax shown on the collector's records.

For instance, if the 1942 tax is more than zero but not more than $350, there will be no tax. From $350 to $800 it will be 14 percent of the amount of the tax over $350, and so on up that schedule. It is just a matter of administrative convenience.

The CHAIRMAN. If you were to take a flat percentage of the tax, of everybody's tax, reduce everybody's tax by a percentage, this formula wouldn't be necessary then, would it?

Mr. PAUL. That is right.

The CHAIRMAN. That is what we did in 1924; that is my recollection.

Mr. PAUL. We were talking about that this morning. I wasn't sure whether it was 1924 or 1925.

The CHAIRMAN. I think it was 1924. The first year I came on this committee I think we reduced all individual income taxes by a flat 25 percent and made it retroactive to 1923; I think we applied it to the year 1923.

Mr. PAUL. I think you are right, that refreshes my recollection. I know it was a flat 25 percent but I am not sure of the year and I think it was done in 1924 with respect to 1923 income.

Senator VANDENBERG. That is really what I was seriously trying to get at when I asked my other question. Do we disregard this particular point you are making except as we take the House bill?

Mr. PAUL. That is right. It is only half a page more, Senator. It is really only for the collectors, not for the tax payers, it is a matter of enabling them to determine how much the reduced tax is.

Senator VANDENBERG. And applies only to the House bill?

Mr. PAUL. That is right. It would apply to the Ways and Means bill but I think that was a different formula and I think it is in the bill.

The CHAIRMAN. Yes; I guess that is correct.

Mr. PAUL. By using this schedule, collectors of internal revenue will be able to compute the forgiven amounts directly from the tax liability entered on the 1942 assessment lists. It will not be necessary for them to reexamine the income tax return of each 1942 taxpayer. This will not only greatly ease the burden on the collectors, but will permit the taxpayers to be notified of the amounts to be abated. In the event that this or some similar method of computing the canceled tax is not adopted, it will be physically impossible to complete in time a recomputation based on each taxpayer's 1942 return.

Now we come to the part of this statement referring to the new techniques of collection at the source.

Senator VANDENBERG. This applies under any plan?

Mr. PAUL. Yes; because all the plans were similar in that regard.

I may as well say right here that it may be that if you go into executive session we would have one or two further simplifications to suggest. For instance we are having a conference tomorrow morning early with some people, and it may be—a telegram has been sent to us and if we understand it correctly it may be that there is something in that point. So I don't want the committee to think that this is an all-inclusive list, necessarily.

The CHAIRMAN. We understand that it is not exhaustive of your recommendations, but these are certain conclusions that you have reached?

Mr. PAUL. Yes; we have reached these conclusions since the House bill was drafted.

As I say here, we have been continuously analyzing the provisions and requirements which would be common to any system of current collection of individual income tax. Because of the need for further study, certain matters which we have been analyzing could not be presented to the House for its consideration. I believe that some of these are of sufficient importance to justify their presentation to you at the present time. These suggestions would be applicable to the provisions of all of the three major bills considered by the House.

First. In order to simplify the work of employers in computing the amounts to be withheld and to adapt the method of computation more closely to their accounting and pay-roll systems, it is recommended that the method for computing the tax to be withheld be modified in two respects.

The first suggestion is that the present withholding exemption of $552 for single persons be changed to $624; the present withholding exemption of $1,320 for married persons be changed to $1,248; and the present withholding exemption for dependents be changed from $408 to $312. Withholding would then be applied at the single rate of 20 percent on all amounts paid in excess of these exemptions, but in no case would the tax to be withheld be less than 3 percent of the amount paid in excess of $624. It should be noted that these changes in the amounts of the exemptions would be applicable only for withholding purposes, and not for the purpose of computing the final tax liability of the individual taxpayer.

The second suggestion, which is contingent upon the first, is that 5 comprehensive withholding tables be substituted for the 25 tables now contained in the bill.

The first of these two suggested changes is embodied in exhibit B. Exhibit B shows the effect of the new exemptions, the proposed revised withholding exemptions, in terms of weekly, biweekly, and monthly amounts of pay. They are not very different from the previous exemptions but they make it, mathematically, very much easier to work out a single rather than a double withholding arrangement.

The CHAIRMAN. I think that that is a very fine conclusion, a good conclusion, you have reached there, because you really are applying the same principle that we did in the Victory tax and we thought of graduating that at one time.

Mr. PAUL. That is true. You will notice each amount there—it is $624, which is half of $1,248——

The CHAIRMAN (interposing). And twice the $312.

Mr. PAUL. That is right.

If the first recommendation is adopted, the amounts withheld in all cases will be almost the same as under the House bill and will of course be credited against tax liability in the same manner. By replacing the dual exemptions and rates of the House bill with a single rate and exemption for each employee, the proposal would greatly simplify the computations made by employers not using the wage bracket tables and would permit the reduction in the number of those tables from 25 to 5. For employers computing taxes with the aid of machines, the proposed schedule of withholding exemptions and rates is particularly advantageous since it reduces the number of variables which must be taken into account.

The advantages of this change may be illustrated in this manner: Under the House bill an employer who does not find it advantageous to use the table method must first subtract from the amount of the wage the exemption applicable to the Victory tax and compute 3 percent on the remainder. He must then subtract from the wage the exemption applicable to the income tax and compute 17 percent on that remainder. These two amounts must then be added in order to arrive at the amount of tax to be withheld. Under the suggested change the employer would subtract one amount of withholding exemption from the wage and compute 20 percent on the remainder. This single amount would represent the tax to be withheld. Thus, only one subtraction and the application of a single flat percentage rate would be required rather than two subtractions, the application of two separate percentage rates, and the subsequent addition of the amounts thus obtained, all of which is required under the House bill.

The provision that the tax to be withheld shall in no event be less than 3 percent of the amount in excess of the $624 Victory-tax exemption, is necessary in order to insure withholding for Victory-tax purposes in the case of married persons with incomes between $624 and the applicable exemption under the 20-percent withholding, which ranges upward from $1,248 depending upon the number of dependents. The specific wage levels at which only the 3-percent rate is applicable are readily ascertainable, and the regulations can furnish a list of those levels so that employers will not need to make computations in order to determine whether the 3-percent or full 20-percent rate is appliable. For example, a married person with one dependent who claims all of the personal exemption for withholding and who receives less than $33.18 a week, will be subject only to a withholding tax of 3 percent on the amount received in excess of the $624 Victory-tax exemption. For all such persons receiving a weekly wage of $33.18 or over, the rate of withholding will be 20 percent on the amount in excess of the appliable exemption.

The second suggested change would consolidate into one withholding table the five wage bracket tables which the House bill provides for each payroll period. An illustrative table appears in exhibit C. By alining the exemptions in accordance with the first recommendation, the proper amount of tax to be withheld in each wage bracket for each employee could be shown on one table regardless of his marital and dependency status. Redesigning the tables as suggested will substantially simplify the employer's task and the amounts withheld will very closely approximate the amounts which would be withheld under the more numerous tables of the House bill.

Second. The bill is so drawn that estates, trusts, and certain nonresident alien individuals are not included within the system of current payment of the estimated basic tax. Upon analysis of certain technical problems which we felt should be explored in connection with the application of that system to these groups of taxpayers, we have concluded that the current payment system could readily be made applicable to them.

Third. An appreciable number of refunds will result from the requirements of withholding and of payment of estimated basic tax It is essential that these refunds be made as expeditiously as possible.

Our study has shown that the adoption of two provisions would considerably assist the Commissioner in making prompt refunds. The first is a provision which would allow interest on refunds resulting from overwithholding or from overestimating the basic tax, even though the taxpayer had no tax liability for the taxable year. Under the present state of the law the allowance of interest in such case is involved in some uncertainty, and refunds would be expedited if such a definite rule were adopted. The second provision would allow the Commissioner, under regulations approved by the Secretary, to delegate to the collectors authority to make refunds up to a designated amount, say $500. This would eliminate certain steps in the refund process, such as the transmittal of the necessary refund documents from the collectors' offices to Washington, and then back to the collectors' offices.

Fourth. Withholding at source involves a very considerable amount of tax moneys. Under the present procedure, employers would remit these moneys to the collectors on a quarterly basis. Many employers have requested that a method be devised by which they could pay over these moneys more often that quarterly. The employers point out that the moneys are not their own funds and that they should be relieved of the responsibility of holding them for a period of 4 months. In addition, it would obviously be to the advantage of the Government to secure these funds more currently than quarterly. A study is now being made of the methods by which a more current remittance of these moneys could be accomplished. The development of any plan accomplishing this objective will necessitate consideration of the accounting problems involved in the Bureau of Internal Revenue and other parts of the Treasury, together with the practical problems involved in arranging for the current deposit of these funds with designated depositories. As the details will probably not be fully worked out in time, it would be desirable to insert in this bill a provision, similar to that contained in the social security tax, requiring payment of the withheld taxes in such manner as the Commissioner, with the approval of the Secretary, may prescribe. The exact method could then be prescribed by regulations after thorough discussion with the employers and all others concerned, so that a mutually satisfactory arrangement may be arrived at without any difficulty.

Fifth. Changes in several of the minor details of the withholding procedure appear desirable to facilitate the work of the employers. In brief these changes are as follows: The Commissioner should be authorized in meritorious cases to extend the time for the filing of withholding returns by the employer. A like authority should be given to the Commissioner to extend the time by which the employer must furnish year-end receipts showing the amount of wages paid and the amount of tax withheld on those wages. Also, a limitation should be placed upon the number of times during each year that the employer would have to give effect to a change in the status of any one employee for the purpose of determining his withholding exemption. It is believed that this could be accomplished by requiring that a change in status during any one quarter need be given effect only at the commencement of the next quarter (beginning 30 days after the notification of the change) rather than at the expiration of a 30-day period as under the present bill.

The CHAIRMAN. On the face of it I would like to say, Mr. Paul, that every one of those recommendations seems to me to be greatly in the interests of simplicity, and since you are withholding approximately the amount that would be held under a nice and definite calculation, there can be no real hardship on the taxpayer, and then it isn't an absolute tax, it is only a method of collecting, and you can make your final adjustment anyway.

Mr. PAUL. I think that is true, Senator George. Mr. Surrey, would you like to say just a word about that one change which we discussed this noon.

The CHAIRMAN (interposing). I would like to ask you this question. You are sure that estates and trusts and certain nonresident alien individuals and so forth can be subjected to the basic withholding tax?

Mr. PAUL. Yes. Do you want to elaborate on that, Mr. Surrey?

Mr. SURREY. That is with respect to the current payment system, not the withholding system. Estates, trusts, and nonresident aliens are of course all subject to the individual income tax, and we felt, if the individual income tax is placed on a current basis——

Senator DANAHER (interposing). Will I disrupt your thoughts, sir, if I interrupt you?

Mr. PAUL. Not at all.

Senator DANAHER. On page 2 you make a statement which I wish you would clarify for me. In the middle of the page appears this sentence:

> It should be noted that these changes in the amounts of the exemptions would be applicable only for withholding purposes, and not for the purpose of computing the final tax liability of the individual taxpayer.

Mr. PAUL. Under the withholding systems embodied in all three bills considered by the House, there is a final adjustment of tax liability on the March following the current year. For purposes of that final adjustment we contemplated here no change in the personal exemption and credit for dependents now established by the law, $500 for a single person, $1,200 for a married couple without dependents, and $350 for each dependent.

But in working out the withholding procedure and determining how much would be withheld each week or each month or each payroll period from the pay of the particular employee, these other figures, for purposes of exemption, are more convenient mathematically, and so by that sentence I mean to say that we are not suggesting any change in tax liability when we make a suggested change of those tentative exemptions for withholding purposes, but merely a change in the tentative withholding collection, which is all adjusted at the end of the year.

Senator DANAHER. So that really it is a change in the basis of computation only?

Mr. PAUL. The computation of the amount withheld.

Senator DANAHER. Yes.

Mr. PAUL. But not the computation of the final tax for the year.

Senator DANAHER. Thank you.

The CHAIRMAN. Does Mr. Surrey wish to make any statement?

Mr. PAUL. Suppose you give that, Mr. Surrey?

Mr. SURREY. (tax legislative counsel, Treasury Department). We are considering a suggestion that has been made by some of the employers that would permit them to withhold amounts under a schedule which they would work out, which would not in any instance produce a result that would vary more than 10 percent from the amount that would be obtained if the percentage method in the bill were used.

There are two methods in the bill. One is the percentage method where you apply 20 percent to the employee's wage above the particular deduction. The other method is to use a table. Now the table varies from the precise method in some cases by slightly over 10 percent, and it may be that the employers could devise other tables which would suit their machine equipment or their business a little better than the tables in the bill and yet wouldn't produce variations any greater than the tables in the bill.

So we are considering whether it would be feasible to recommend to you that employers be permitted to use any system of tables provided that their tables did not depart more than 10 percent from the amount that would be obtained under precise percentage calculation.

We feel that we may be able to give you a definite statement on that tomorrow after we confer with some employers of very large numbers of employees who are interested in such a system, and after we are able to go over it with them more thoroughly. I believe we can make a recommendation to you tomorrow that would further simplify the withholding procedure for a number of employers.

The CHAIRMAN. The tables to be used by the employers would, of course, be subject to the approval of the Commissioner?

Mr. SURREY. That would be correct, sir. You can't authorize an employer to use any table he cares to, and we would have to work out some particular standard, and we would like a little more time on that.

The CHAIRMAN. Thank you very much. Are there any questions?

Senator BARKLEY. Mr. Chairman, I would like to ask Mr. Paul a question regarding a phase of this whole pay-as-you-go plan that has bothered me from the start.

I have always been able to understand how you could make it apply to a salaried man or to a wage earner because his pay is based and comes at regular intervals; but with reference to the professional man, the lawyer, the doctor, the dentist or the corner groceryman, or any other individual businessman who doesn't draw his pay by the month, who receives his gross income as his clients or his customers pay him, I don't understand that so well.

Now all these bills, as I understand, undertake to reach that situation by requiring an advance estimate of the income of each individual who is not on a salary?

Mr. PAUL. That is right.

Senator BARKLEY. Suppose none of his income is salary, it is all more or less indefinite by reason of the character of his business.

Mr. PAUL. Yes.

Senator BARKLEY. You require all of those people in advance, or by the 15th of March, to make up an estimate of their income?

Mr. PAUL. That is right.

Senator BARKLEY. They can base it upon whatever they see fit, I suppose, preliminarily, or base it upon last year's income?

Mr. PAUL. That is true.

Senator BARKLEY. So long as that estimate is unchanged, he continues them during that year to pay taxes on that estimate?

Mr. PAUL. He pays taxes on that estimate. Under the House bill he pays the basic tax on that estimate.

Senator BARKLEY. But anyway that is the method by which you reach the professional, nonsalaried businessman or other man who has an income?

Mr. PAUL. That is right. One point of that method is that it avoids discrimination between the salaried man and the man not receiving a salary.

Senator BARKLEY. Yes; that is the thing that was quite annoying to me when this pay-as-you-go plan was first suggested here.

Now if he sees fit, by reason of change up or down of his income, he can revise his estimate in June or in September or even as late as December?

Mr. PAUL. That is right. He has perfect freedom within the limits of the penalty provisions which are aimed at approximations more than 20 percent incorrect, in the case of others than farmers.

Senator BARKLEY. Now do these methods provide that notwithstanding any changes that may be made in that estimate in December or September or June, that at the end of the year there can still be an adjustment so as to arrive at the man's actual income for the year, upon which he would pay the tax?

Mr. PAUL. Well, his last estimate for the year would be December 15.

Senator BARKLEY. Yes.

Mr. PAUL. And if by that time he has been unable to estimate correctly, he only has 2 weeks left of work.

Senator BARKLEY. In other words, practically speaking that last estimate in December would be binding upon him so far as the amount of tax for the year was concerned?

Mr. PAUL. With respect to the penalty provisions it would be binding, yes, but if his estimate was too high, for instance, it would be corrected the following March.

Senator BARKLEY. That is what I was going to say; that notwithstanding that he makes his final estimate in the middle of December, which is practically the end of the year, if it turns out before the 15th of March that his estimate is too high, or even too low, there still can be an adjustment whichever way it goes.

Mr. PAUL. Oh yes; if the estimate is too high, then he has paid too much tax and the final adjustment will be by way of a refund in March. On the other hand, if he is too low, and not more than 20 percent too low, he will just pay up the balance the following March. If he should be more than 20 percent too low, the penalty provisions apply.

Senator BARKLEY. He would be penalized for getting it more than 20 percent wrong?

Mr. PAUL. That is right.

The CHAIRMAN. Unless he is a farmer, and then he gets a 33⅓ percent allowance for error.

Mr. PAUL. Yes; and we put that in because of the great difficulty of estimating farm income.

Senator BARKLEY. That seems to me to be a very ingenious way of reaching a large number of people who couldn't be reached as salaried people or wage earners, and yet it seemed to me to be a discrimination that required a man whose salary is known month by month to pay his taxes currently, and leave millions of people who are in the professions and in business without any way to apply it to them?

Mr. PAUL. There are 10,000,000 people in that category and there would be an element of discrimination there. Not only that, but also I think our collection system, from the Government standpoint, is definitely improved by having it applicable to all these people that don't receive salaries or wages.

Senator BARKLEY. It seems to me that that is the only way to reach it, although it may be imperfect.

Mr. PAUL. It has a good many similarities particularly as to farmers, to the Canadian system.

Senator RADCLIFFE. Suppose between December 31 and January 31 he makes a very substantial addition to his income knowledge of which he might not reasonably be expected to have?

Mr. PAUL. Do you mean between December 15 and December 31?

Senator RADCLIFFE. Yes.

Mr. PAUL. Well, if he had an oil well come in on December 16 on a farm, that might be a case where he would be pretty far wrong and these penalty provisions would have to be administered in such a way that there would be no unreasonable penalties where a man actually had no way of knowing what was going to happen in those last 2 weeks of the year.

Senator RADCLIFFE. There would be considerable discretionary power, then, is that right?

Mr. PAUL. I don't think appreciably more than now. Penalties are constantly being remitted now in meritorious cases. Those cases would be rather rare cases.

Senator BARKLEY. It would involve almost completely, wouldn't it, wholly unexpected increases in income?

Mr. PAUL. That is right.

Senator BARKLEY. That might take place within the last couple of weeks, that couldn't be anticipated?

Mr. PAUL. That is right.

The CHAIRMAN. Are there any additional questions, gentlemen? Mr. Paul, is there any further statement you wish to make this afternoon?

Senator BUTLER. This may be all written out here in perfectly plain English, but I haven't seen it. Take one whose business is seasonal and all of whose income for the year may perhaps come at a certain period of the year, say at the end of the calendar year, is there any provision made for that individual paying his tax at that time, rather than quarterly?

Mr. PAUL. Well, the man who has a seasonal income would be able to protect himself under the quarterly system arrangement, because, for instance, if his season for getting income were in the middle of the summer, he would scale his payments to that, and if he was too high in the early part he could cut it down later, or he could cut down in December. He might report nothing in June. It is entirely flexible in that he would get his income in, say in the summer, and adjust his return in the September estimate.

Senator BUTLER. Take a farmer who was in the feeding game and he might merchandise his products in December for the whole year. Would he estimate and pay portion of it in the preceding quarters, or all of it in the final quarters?

Mr. PAUL. Would he be a farmer? I am not able to tell you technically whether your description would be of a farmer, but I think it would. In that event he would go through, estimating probably nothing until December, and then he would bring in on December 15 an estimate based on his actual experience previous to that date, plus his contemplated profits for the rest of the month of December.

Senator BUTLER. Then it doesn't need to be paid in quarterly installments throughout the year?

Mr. PAUL. No; if you estimate in March you continue to pay one-fourth except as you may revise your estimates.

Senator LA FOLLETTE. A farmer can also be in error up to 33⅓ percent of his estimate, without penalty?

Mr. PAUL. That is right.

Senator Taft: Do you think the 20 percent deduction will kill the pay-roll bond plan?

Mr. PAUL. I certainly hope not, and I don't think it will. In that connection you have to remember that the 20 percent is on net, after exemptions and deductions. It is not comparable to the 10 percent of pay roll which is 10 percent on gross before exemptions.

Senator TAFT. Well, by the time you get up to $2,500 it amounts to 13 or 14 percent, doesn't it?

Mr. PAUL. I don't think so, but I will get that figure for you. Offhand I hadn't realized that there was as high a percentage at that figure, but you may be right, I will have to check it.

Senator TAFT. I have understood that there was quite a substantial interference with the pay-roll plan, even with the 5 percent deduction for Victory tax.

Mr. PAUL. I don't want to try to testify in detail about the pay-roll plan, but I do know that the pay-roll plan has been going up in sales constantly and is very much higher now in its monthly take than it was before the 5 percent tax went into effect.

Senator TAFT. Of course, the total amount of wages has been increasing steadily.

Mr. PAUL. I don't think that would account for it, I think the pay-roll plan has increased very substantially; I could get you those figures.

Senator TAFT. If you take this 20 percent out, how much more is taken out by Social Security?

Mr. PAUL. Well, it is 1 percent, from the employee.

The CHAIRMAN. Mr. Paul, would you mind explaining to the committee at this time, if you are prepared to do so, the provisions for preferential treatment or the special treatment given to the soldiers and men in the armed forces? It is a matter which, on its face, looks as if we would have to give some consideration to it.

Mr. PAUL. Mr. Surrey has been working particularly on that and I think I will ask him to give the committee an explanation of that if there is no objection.

The CHAIRMAN. The more we can get behind us, the easier it will be.

Mr. SURREY (Tax Legislative Counsel, Treasury Department). The present law contains a special provision regarding members of the armed forces, providing an exclusion from gross income with respect to $250, of their compensation as members of the armed forces, if single, and $300, if married. That provision was inserted in the law last year and was intended to, in effect, prevent the reduction of the personal exemptions from applying to members of the armed forces.

The $250 and the $300 brought the total exclusions that a person had, counting exemptions and this special exclusion, to the old personal exemptions.

The House bill contains an increased exclusion for members of the armed forces under which the total amount of nontaxable compensation would be the excess of $3,500 over the amount of the personal exemption. In other words, a single person, with a personal exemption of $500, has an exclusion from gross income of $3,000, so that $3,500 of his compensation would in effect be exempt from taxes—$500 through the personal exemption and $3,000 through this exclusion.

A married person would have a personal exemption of $1,200 and an exclusion of $2,300, so as to produce a total of $3,500 exempt from income tax, made up of $2,300 base compensation for services in the armed forces plus $1,200 of income from any source.

The result is that no soldier receiving up to $3,500 of base pay would be subject to income tax, and that reaches to about the rank of major, I think, on base pay. Allowances for quarters are not subject to tax.

You can see that the way the provision is in the House bill there is in a sense a discrimination against married people in that the exclusion from gross income is higher in the case of single people than it is in the case of married people. The effect of this provision is to give an exclusion of $3,000 for a single person and $2,300 for a married person; or, stated another way, a married officer with $4,000 of income would pay the same tax as a single officer with $4,000 of income.

The application of the exclusion as between married and single people has a different slant than under present law, and the amount is considerably higher than under present law.

The second provision in the bill, which is new, deals with the abatement of income tax in the case of members of the armed forces who die after December 7, 1941, while in active service.

Senator LA FOLLETTE. Before you leave that, Mr. Surrey, what is the principle, or what is the objective, if any, for this apparent discrimination against persons who are married?

The CHAIRMAN. The net effect of it is to give each member of the armed forces a total exemption up to $3,500 of his income from the Government.

Mr. PAUL. Service pay.

The CHAIRMAN. Yes; whether he is married or single.

Mr. SURREY. That is correct.

The CHAIRMAN. That is the net effect.

Mr. SURREY. Yes, using up his personal exemption and whatever additional exclusion you need to bring the person up to $3,500.

Senator BARKLEY. Is that supposed to be in the bill based upon the service of the man in the armed services as such or based upon his comparative need for the exclusion?

Mr. SURREY. No, it is based upon his service as such. Anybody who gets $3,500 compensation is exempt.

Senator BARKLEY. Then upon the basis that it is being given for the man's service, it really doesn't matter whether he is married or single?

Mr. SURREY. No.

The CHAIRMAN. That must have been the theory. Was there any consideration given, Mr. Surrey, to limiting that to services, or making a differential for services rendered outside of continental United States and inside the country?

Mr. SURREY. Not in the committee. On the floor of the House Congressman Vinson proposed that the $3,500 total exclusion would apply only in those cases where the person was outside the country, and because he was outside of the country he was entitled to higher rates of compensation arranged under the Army compensation scales. These scales differ as to whether persons are inside or outside the country. Congressman Vinson's proposal was that the $3,500 would apply only to those people who were getting higher compensation due to the fact that they were outside of the country.

Senator CLARK. The whole theory of giving a single man the same exemption you give to a married man with children is contrary to the whole theory of exemption. A single man drawing a major's or lieutenant colonel's assignment is in very comfortable circumstances, whereas if he has two or three children at home he may be in very straitened circumstances, and there doesn't seem to me to be any sense to that.

Senator TAFT. Why couldn't you just forgive the normal and first surtax bracket, as you do in this other forgiveness, that is, add a $2,000 bracket to the exemption and forgive it up to that?

Mr. PAUL. The question that Senator Clark introduced was as to the differentiation between a married and a single man in the armed forces——

Senator TAFT (interposing). Why not just forgive the first $2,000 bracket?

Mr. SURREY. That would be in between this system and what is now in the law. The provision in the law gives an additional exclusion for married people, $50 more than single persons.

Senator TAFT. Well, cut that out and put in the provision that you just exempt $2,000 over the exemption. That will give married people $3,200 or more.

Mr. SURREY. And single people $2,500.

Senator WALSH. Was the Vinson amendment adopted?

Mr. SURREY. It was defeated on a standing vote in the House.

Senator BARKLEY. That was an amendment offered a month or so ago when they had the first heat on this bill; it wasn't brought in at all on this last heat.

Mr. SURREY. No amendment of that kind was considered this last time.

Senator WALSH. If you adopted such a system, would there be any differentiation between the person just outside of the country for a week or so, and one who was gone for years?

Mr. SURREY. I think if such a system were adopted perhaps we would have to say that it applied if he was outside the country at any time as a practical matter, to facilitate administration. I would like to consider that further.

The CHAIRMAN. I think they have gone to that in Canada.

Mr. SURREY. I believe the Canadian system is based upon such a distinction of service inside and outside Canada.

The second provision in the House bill, which is a completely new provision in the income tax, relieves, as I said, members of the armed forces who die in active service from income-tax liability due at the date of their death. The income-tax liability abated is the entire income-tax liability—income-tax liability of the current year, with respect to compensation above the amount of exemptions and exclusions, and income-tax liability with respect to the past year, and in effect income-tax liability with respect to deficiencies for any years in the past. It also applies to income-tax liability on income not derived from the compensation received as a member of the armed forces and is thus a broad provision in its coverage.

Just to give you the background history of this, Congressman Vinson—I don't believe he offered it—was considering offering a provision which would restrict the abatement of tax to earned income and not permit the abatement with respect to unearned income or investment income.

Senator WALSH. But the bill makes no distinction.

Mr. SURREY. The bill makes no distinction between earned and unearned income.

Senator DANAHER. Suppose, Mr. Surrey, as will be the case with thousands of men in the armed services, a soldier has in fact paid his taxes for prior years, prior to his entry into the service, will he be entitled to a refund?

Mr. SURREY. No, he would not be, Senator.

Senator DANAHER. Don't you put a premium then on the fellow not paying any tax liability that he may incur?

Mr. SURREY. I think that is one of the difficulties of the provision. In that respect please understand that these provisions in all their aspects were not recommended by the Treasury, but were inserted by the Ways and Means Committee.

I think the point you mention is a discrimination. It would be possible to work out a provision which would in effect abate any tax liability that would fall due after the date of the man's entry into the service, and base that upon any tax liability that would fall due if the man were to pay in installments. If a man decided to pay up his tax completely in advance he would get the same abatement as would a man who had decided to pay in installments. If the latter went into the service after he had paid his first installment, the last three installments would be forgiven if he died; and likewise the man who paid up in full would get a refund equal to the last three installments.

Senator CLARK. The fellow who didn't pay at all and happened to get "bumped off" would get a break.

Mr. SURREY. Under the provision in the bill.

Senator CLARK. He would be better off than the man who paid his taxes and went into the Army and got "knocked off."

Mr. SURREY. That is right.

Senator CLARK. As far as his family is concerned he would have a distinct advantage over the man who suffered the same fate and had already paid his taxes. I don't see any sense to such a provision. It puts a premium on a man not paying his taxes at all.

Senator VANDENBERG. It puts a premium on a man getting "bumped off."

Senator BARKLEY. Suppose a man who was not in the armed services, in 1942 made $5,000 in his business or his profession or whatever it was; then he goes in on January 1 and makes out his estimated income for the current year, which is $50 a month, he goes in as a private—I understand that there are still some going in as privates—he estimates his income at $600. What effect will the fact that he made $5,000 last year while he was not in the Army, have upon this exclusion for the year 1943 or any other year in which he is in the service but still has an income for the previous year when he was not, much greater than his compensation in the Army?

Mr. SURREY. It would work out differently with respect to the year you chose. On the present income-tax system, that is forgetting pay-as-you-go, people could go in the Army who had a high income for the year previous to which they went in the Army, and would, of course, have a liability with respect to that high income to pay. That liability can be deferred in cases of hardship.

Senator CLARK. But when it is deferred a fellow gets out of the Army and has to go looking for a job, and he is less able to pay it than anybody in the world. A man just discharged from the Army, who has a tax liability of 2 or 3 years old hanging over him, is in worse shape to pay it than any class that I can imagine in the United States.

Mr. SURREY. I was going on to say that under the provision I had recommended, or stated to Senator Danaher, that would be taken care of since that would be in effect an installment falling due after he went into the Army, and if he died that installment would be abated.

Senator CLARK. Suppose he doesn't die?

Mr. SURREY. That is a separate problem, separate and distinct from what we are dealing with. That applies not only to income taxes but to any debts, State taxes or any private debt, you have the same difficulty.

On your case, Senator Barkely, on a current basis of course he would have, under the House bill, only the higher surtax remaining as a carry-over from the previous year, and most of the people would be current and wouldn't have that problem, who went into the service after this bill was adopted.

Senator DANAHER. It looks to me like a House concession to the principle of forgiveness.

The CHAIRMAN. Are there any further questions of Mr. Surrey or Mr. Paul. Do you have anything further to add?

Mr. PAUL. Except for one point that I suggest Mr. Surrey make in response to a line of questions by Senator Barkley.

The CHAIRMAN. Very well.

Mr. SURREY. In your case, Senator Barkley, if the person were to die and had this $5,000 liability not paid up, that would be abated.

Senator BARKLEY. I am not contemplating his death, I am talking about a man who is still alive, in the Army, and he goes along and serves at the compensation of a private, and then gets out alive.

Mr. SURREY. That, I say, is dealt with under the Soldiers and Sailors relief provisions which were adopted by the Congress. The Commissioner has adopted rather liberal rules in applying those relief provisions and as I say the Commissioner will defer the tax in cases of hardship and cases of hardship have generally been defined to include cases where there is no current income available to pay the existing liability. That is, the Commissioner does not require a person to go out and sell whatever assets he has to realize the money to pay his back tax. So the deferment provisions are fairly liberal.

Senator BARKLEY. Take the case which I cited where a man went into the Army before the 15th of the month when he is supposed to r y his first installment. Suppose he had then a tax liability of five or six hundred dollars—it would depend on his exemptions and all that—but suppose he went into the Army between January 1 and March 15 with a tax liability of five or six hundred dollars hanging over him. He goes in and of course he makes out his estimate for that year. He hasn't got enough money coming to him out of his year's income at $50 a month to pay the accumulated tax on last year's income.

Mr. SURREY. That is correct and I think in that case, if a person applied to the collector for relief, that tax would be deferred.

Senator BARKLEY. The bill itself does not provide for automatic relief in that case, he has got to make an application to the collector?

Mr. SURREY. That is under existing law passed, I think in 1940 or 1941, and has been, as I understand it, satisfactorily administered since it was instituted.

Senator CLARK. You say they don't require them to sell their assets. They make them list their assets and put in their old second-hand automobile and any little old assets they may have, which has the effect of scaring the life out of the fellow and making him dispose of anything he may happen to have that he can realize a little cash on. That is the actual practice, isn't it?

Mr. SURREY. They may require him to list his assets.

Senator CLARK. And that has the effect of scaring him to death, he doesn't want a restraint warrant on his poor little assets and he sells them for whatever he can get.

Mr. SURREY. From what the Commissioner tells me the contrary is true.

Senator MILLIKIN. Does the accrued liability carry interest?

Mr. SURREY. It does not carry interest.

The CHAIRMAN. No interest until 6 months after his discharge—that is my recollection of the provision. I think we wrote it in in 1941.

Senator THOMAS. How difficult would it be to make this plain in the law so there wouldn't be any option with the collector as to whether he would insist on its collection or not? How difficult would it be to correct that?

Mr. SURREY. It is a difficult problem for this reason, Senator. Some people are going into the Army with large amounts of unearned income or investment income. They have rents, royalties, dividends, or interest which are readily available to pay their tax on the preceding year's income. In those cases the Congress felt that no relief should be granted. This is not a provision in this bill, it is a provision that has been in the law since soon after selective service was adopted, and the provision is somewhat the same as the treatment given for private debts, mortgage debts, insurance debts, and so forth.

In the case of private debts, discretion is generally left up to a court. In case of tax debts it has been left to the collectors of internal revenue, and in some cases to the courts.

Senator THOMAS. Don't you think it would be more satisfactory if the law was explicit as to what the officials should do?

Mr. SURREY. The law is explicit in the sense—

Senator THOMAS (interposing). Yes, in the sense that you are dependent upon the mercy of the other fellow.

Mr. SURREY. No; it gives a reasonable discretion to the collector, and it says that if a soldier's ability to pay the tax has been materially impaired by reason of his military service, the tax shall be deferred.

Senator THOMAS. That is exactly the point I am making.

Mr. SURREY. Either you must defer no payments or every payment, if you want an absolute rule, and the Congress apparently felt that either rule was unsatisfactory. To defer every payment would simply mean, in the case of some people, to grant them completely unnecessary deferment.

Now the collectors have felt that the provision should be administered liberally, and as I said have only refused deferment when there was available current income from rents, royalties, dividends or interest which could be used to pay the tax. Now, if that current income was in effect needed for other purposes, such as the maintenance of a business which required more funds, I believe the collector would grant the deferment of tax.

Senator LA FOLLETTE. And again there should be some consideration, Mr. Surrey, for men who go overseas. It would seem to me that the difficulty of men having access to their books and records and papers——

The CHAIRMAN (interposing). There is a special provision for the overseas service men, they are not required to make returns or pay taxes until they return to this country.

Senator LA FOLLETTE. They are concerned about it, to my certain knowledge.

The CHAIRMAN. They may be concerned.

Senator LA FOLLETTE. And I know some at least who, because they feel that their liability is accruing, feel that they must make out their records and make out their returns, and if possible make their payments, and I have had this matter brought to my attention that some of them have had great difficulty in doing it because they are not in position to have access to all of their material and data and information.

Mr. PAUL. It is hard enough to make out a return when you are here. I shouldn't think that it would be possible in the case of a man overseas.

Senator LA FOLLETTE. Some of them have been doing it to my certain knowledge, with great difficulty, because they are apprehensive that this liability will simply be piling up on them and staring them in the face 90 days, I think it is, after their discharge from the service.

Mr. PAUL. I have no doubt some of these provisions can be improved. We have just been trying to describe the provisions of the House bill to the committee.

Senator LA FOLLETTE. I understand and I am not criticizing you.

Mr. SURREY. There is just one further point I would like to make. That is, that the $3,500 exclusion given to soldiers and sailors was made retroactive in the House bill to the year 1942. The Commissioner has indicated to us that that would involve a refund of taxes already paid, and would involve some administrative difficulties, and wanted that presented to you for your consideration.

Senator BYRD. That only applies to payments received from the Government?

Mr. SURREY. Yes; earned income from the Government.

Senator WALSH. Are the same standards applicable on earned income as on unearned income, with respect to a person in the armed forces?

Mr. SURREY. The Treasury didn't make any recommendation with respect to that provision.

Senator WALSH. Don't you think that that is pretty important? To my knowledge there are a large number of wealthy persons in the armed forces here in Washington that would be exempt.

Mr. SURREY. It is probably an unnecessary provision if you view it from the aspect of hardship, in that the money is available to pay the taxes.

Senator DANAHER. Just one other question, please. Do the mechanics of withholding, as these sections outline the mechanics, substantially follow supplement U of the 1942 House bill?

Mr. PAUL. You mean the mechanics in this supplemental memorandum?

Senator DANAHER. In this version here of the bill, the provisions dealing with withholding—do they substantially follow supplement U of the 1942 House bill?

Mr. PAUL. They do except for these new suggestions that I have made in this supplemental memorandum; yes.

Senator WALSH. Do I understand that the Treasury is to make a recommendation for a change in the House bill in this respect?

Mr. PAUL. If the committee wishes—we haven't made any so far.

The CHAIRMAN. I made the inquiry so we might be advised as to what it did provide.

Senator BARKLEY. In view of the fact that it seems obvious that some change must be made in the House bill, wouldn't it be advisable to have the Treasury make suggestions concerning that?

Mr. PAUL. It might be possible to make a joint suggestion from the staff——

Senator TAFT (interposing). May I ask a question?

The CHAIRMAN. And maybe you would be prepared to make such suggestions tomorrow.

Senator TAFT. Could you explain the Ruml-Carlson bill provisions a little more in detail than in your statement? What is this provision about the $5,000?

Mr. PAUL. Well, that provision just came in a couple of days ago.

Senator TAFT. What is it about this windfall; how does the windfall provision work?

Mr. PAUL. I would rather have Mr. Morgan explain that. I will say this, as a basis for it, there is a certain discussion in the earlier debate of the situation with respect to people making very large incomes in the forgiven year, and also there was a good deal of discussion with respect to war-contract brokers and various types of unusually large income of that sort. As a result the Carlson-Ruml bill which was recently voted on in the House, had a good deal stricter windfall provisions than did the earlier versions on the first debate, and those provisions just came in the last day or so. Mr. Morgan drew them, so I think he would be in a better position to explain them than I would.

Senator TAFT. It is all right with me.

Mr. MORGAN. I might say that I explained them in the minority report and my explanation caused great glee on the floor of the House when the Chairman had the Clerk read them.

Senator VANDENBERG. Is that the kind of explanation you are about to give?

Mr. MORGAN. I hope not.

There are two so-called antiwindfall provisions in the Carlson bill. The first one deals with a situation where the 1942 tax is $1,050 or over. That represents a tax on a surtax net income of about $5,000. That first windfall provision provides that if the 1942 tax was $1,050 or more, and also more than the 1943 tax, then, although you forgive the 1942 tax you add to the 1943 tax the difference between the two taxes. The effect of that is to make the taxpayer pay in 1943 a tax equal to the tax of the higher of the 2 years. That is the first antiwindfall provision.

Senator VANDENBERG. Speaking generally, that applies to $5,000 and above, and not below?

Mr. MORGAN. That is right, it doesn't apply below at all.

The second antiwindfall provision has a base period concept in it. It is a kind of excess-profits-tax idea. It provides that if both the 1942 and 1943 surtax net income—that is the net income after the personal exemptions and credit for dependents—exceeds by more than $5,000 the surtax net income for 1940, then in addition to the increased tax for 1943 which the taxpayer might have under the first windfall provision, you tax that excessive portion—that is the amount by which the 1942 or 1943 surtax net income, whichever is the lesser, exceeds $5,000 plus the 1940 surtax net income—you tax that excess at the regular normal and surtax rates for 1942 as if that portion itself constituted all of the surtax net income, and also all of the net income after exemptions and credits.

Just to give you an example, if a taxpayer had a surtax net income for 1940 of $100,000, and he had one for 1942 of $1,200,000, and one for 1943 of $1,000,000, the second antiwindfall provision operates because both his 1942 and 1943 income are substantially in excess of his 1940 income.

So what the Carlson bill does is to take the lesser of those 2 years, 1942 or 1943, and see how much that exceeds the 1940 income plus $5,000. In that case the 1943 surtax net income is less. So you take the excess of that over the 1940 surtax net income plus $5,000. The $5,000 is designed to take care of ordinary fluctuations in income.

In this case you would have the excess of $1,000,000 over $105,000, or $895,000 as the excessive portion. Now that $895,000 is taxed at the regular normal and surtax rates and the tax on that added to the 1943 tax.

Senator TAFT. Could it be put in the reverse, roughly speaking, without being accurate, that if the 1940 income is less than the 1942 or 1943 income, then you are only forgiven the 1940 income and not the 1943 and 1942 income? Is that about what it comes to except as it is affected by changes in rates? That is the general purpose of it, isn't it? If 1942 and 1943 both represent a tremendous increase over 1940, presumably they are both windfalls and so you are only forgiven the 1940 tax? Isn't that the underlying theory?

Mr. MORGAN. I have not heard the underlying theory expressed that way. I have always heard it as being this—you don't want to have the abatement of a year's tax result in the abatement of taxes which should be paid on war profits.

Senator TAFT. That is what I mean, that is what I am trying to say.

Senator WALSH. It is an attempt to apply the excess profits principle to the increased income by reason of the war?

Mr. MORGAN. That is correct.

Senator WALSH. How would it work out in figures? Could you give us an illustration of the taxes in that case?

Senator BYRD. Carry out the illustration you just gave about the $1,000,000 and the $100,000—what would be the total tax you would have to pay in 1 year under that?

Mr. MORGAN. Well, before going into that example, Senator Byrd, the amount that is added to the 1943 tax by that second antiwindfall provision which I have just described, can be paid over a period of 3 years. The Carlson bill provided that.

Senator BYRD. Wouldn't the aggregate of it be more than your income in 1 year?

Mr. MORGAN. Now this example—if he had $1,200,000 income in 1942——

Senator BYRD (interposing). What page is that on?

Mr. MORGAN. I am just looking at pages 8 and 9 of the minority report in the House. Let's take a case where he had a million-dollar income in both 1942 and 1943—I think that will be a little bit easier to figure.

He would be forgiven the tax on 1942. That would be about $859,000. That is under the general provisions of the Carlson bill. Now you come to this second antiwindfall provision and you see how much the 1942 income exceeds the 1940 income, plus $5,000. In this case the excess is $895,000. Well, now, the normal and surtax rates on that $895,000 will be approximately $762,740. So, not counting the Victory tax, in 1943 he will have to pay $859,000 on his $1,000,000 income in 1943, plus $762,740, which you might, just for purposes of convenience, call his windfall tax, or a total of $1,621,740. Now that does not, as I say, include the Victory tax.

Senator BYRD. Then his income for that current year is $1,000,000?

Mr. MORGAN. Yes.

Senator BYRD. So his taxes will be $621,740 more than his gross income for that year?

Mr. MORGAN. That is correct.

Senator WALSH. But he has 3 years to pay it in.

Mr. MORGAN. The $762,740 which is added by the second windfall provision he has 3 years to pay, but of course even with the extension it would push him over 100 percent of his income because one-third of that would be over $250,000.

Senator WALSH. How much would he save if we didn't change the law at all and he had to pay 2 years' taxes?

Mr. MORGAN. Well, out of his 1942 and 1943 income he would have to pay $1,719,000, plus the Victory tax, in 1943, and under this provision he would only have to pay $1,621,740.

Senator BYRD. That is in the nature, really, of an excess-profits tax?

Mr. MORGAN. Yes.

Mr. PAUL. Senator Byrd, in order to get it clear, just so we don't develop any misunderstanding on account of the use of the term "individual excess-profits tax," last year we discussed another type of individual excess-profits tax which was a tax on increases in income. This is more properly an offset to a cancelation of tax, measured by the increase in income, and as I understand it, is designed to prevent undue cancelation in the case of a man who had an unusually high war income.

Senator BYRD. In other words, you take 1940 as a normal year?

Mr. PAUL. As Mr. Stam just said, that is a sort of base year, considered as more or less normal.

Senator BYRD. How much is your recovery by reason of this antiwindfall provision?

Mr. O'DONNELL [Assistant Director of Research and Statistics, Treasury Department]. We estimate that we will receive 676.9 million from the so-called excess profits tax provision, and 455.9 million from the windfall provision.

Senator BYRD. Then when the taxpayer receives his bill it will be quite a shock to those who believe they are going to be forgiven something if he has to pay $621,000 more in 1 year than his total gross income actually is?

Mr. PAUL. That is true. Mr. O'Donnell's figures referred to the aggregate effect of the antiwindfall provisions.

The CHAIRMAN. What were those?

Mr. O'DONNELL. They total 1 billion 132.8 million, and they are made up by 676.9 million from excess profits tax provision and 455.9 million from the windfall provisions.

Senator WALSH. Both windfall provisions or the second windfall provision?

Mr. O'DONNELL. The one that Mr. Morgan has just been discussing that deals with the increase in income over that of the base year, the calendar year 1940 is called the excess profits tax provision and is estimated to yield 676.9 million.

Senator WALSH. That is more than the other windfall provision yields?

Mr. O'DONNELL. That is correct.

Mr. PAUL. Those two provisions yield 1 billion 132.8 million.

Mr. O'DONNELL. This yield is an offset to a gross difference of 9 billion 451 million that is being remitted under the Carlson plan after you have given the special exclusion to the members of the armed forces.

Mr. PAUL. That is what leaves the figure I gave in my statement of 8 billion 300 million of total forgiveness under the Ruml bill, with these antiwindfall provisions in it.

Senator BYRD. When it comes down to individual cases there will be many individuals under this that will pay more taxes in one year than their actual receipts are in that one year?

Mr. PAUL. That is right; it is possible to have such a case and it may happen very frequently.

The CHAIRMAN. Is it the pleasure of the committee for Mr. Morgan to explain any other feature of the bill?

Senator BYRD. Are there only two antiwindfall provisions, Mr. Morgan?

Mr. MORGAN. Yes, sir.

Senator BYRD. Explain the other one a little further.

Mr. MORGAN. There is one further provision that you might call an antiwindfall provision but what it really amounts to is a rounding out of the policy on the first one. As I described the first antiwindfall provision, it provided that if your 1942 tax was $1,050 or more, and also more than your 1943 tax, you added to your 1943 tax the difference.

In the absence of a rule to meet the situation, if a millionaire died in 1942 he would get $859,000 of forgiveness; whereas if he died on

January 1, 1943, he might get a very small amount of foregiveness. Hence there is another provision in the Carlson bill—I don't believe it was considered as part of the antiwindfall provision—that if the man died in 1942 his forgiveness was $1,050 and no more.

Senator BARKLEY. What difference does it make as to whether he died before or after the 1st of January?

Mr. MORGAN. Well, let's have him dying on the 1st of January and assume his 1942 tax is $859,000; further assume that his 1943 tax, if he made enough money on the day he died—is a dollar. Although you forgive the 1942 tax you add to the 1943 tax the excess of $859,000 over $1, in other words you add $858,999 to his 1943 tax.

The CHAIRMAN. In effect that provision was intended to take the higher of the 2 years?

Mr. MORGAN. That is right.

The CHAIRMAN. So if there had been a discrepancy between his income tax liability in 1942 as against his income tax liability in 1943, you would take the higher of the 2 years and make him subject to that tax?

Mr. MORGAN. That is right.

The CHAIRMAN. That is what that was designed for; that was the underlying reason?

Mr. MORGAN. Yes.

Senator WALSH. His estate would have to pay that tax anyway, wouldn't they, under the present law?

Mr. MORGAN. The $859,000?

Senator WALSH. Yes.

Mr. MORGAN. Oh, surely.

Senator WALSH. They would have to pay it anyway under the present law.

Mr. PAUL. At the estate tax rates.

Senator WALSH. They would pay the income tax, too?

Mr. PAUL. Oh, yes.

Senator WALSH. So you simply make him pay the income tax that he or his estate would pay anyway under the existing law?

Mr. MORGAN. If he died in 1942 you forgive him to the extent of $1,050 and no more——

Senator BYRD (interposing). Suppose there was a loss in 1940, would you take that then——

Mr. MORGAN (interposing). In 1940?

Senator BYRD. Yes. Suppose the taxpayer had an actual loss in 1940?

Mr. MORGAN. His income would be zero and it would be the excess of $1,000,000 over zero.

Senator BYRD. You took that as a base, and I thought perhaps you would take the loss into account. To carry that down to smaller figures, suppose a man in 1940 had no income, and in 1942 and 1943, for 1 year he earned $10,000 and for the other year he earned $15,000. How much total tax would he have to pay?

Senator BARKLEY. Why do you take 1940, 1942, and 1943? Why do you skip 1941?

Senator BYRD. That is what the Carlson bill does.

Senator BARKLEY. But not the one they passed?

Senator BYRD. No. It seems to me that under this bill there would be a number of people, even with smaller incomes, that would have to pay a large part of their current earnings in taxes. Before you answer that, isn't this a new provision of the Carlson bill; was that in the original bill, this antiwindfall provision?

Mr. MORGAN. Well, it was in the bill that was offered as an amendment when the House first considered the matter, only the figures were different. The 1942 and 1943 incomes had to exceed the 1941 income by more than $50,000, and the tax was 25 percent on the first $500,000 of excess and an additional 25 percent on the excess over $500,000.

Senator WALSH. But there were no windfall provisions in the original Ruml plan?

Mr. PAUL. The original Ruml plan didn't have any but the plan voted on in the first debate in the House did have some windfall provisions, including the one Mr. Morgan just described. Those windfall provisions did not have very much effect by way of reducing the cancelation, I don't think more than $60,000,000.

Then in the second debate a totally different and more strenuous antiwindfall provision was inserted of the type that Mr. Morgan first described.

Senator CLARK. It is a fact that while the plan outlined by Mr. Ruml here originally didn't contain any windfall provisions, Mr. Ruml in his testimony before the subcommittee of this committee last summer did advocate windfall provisions, didn't he?

Mr. PAUL. He advocated not applying the cancelation to capital gains.

Senator CLARK. He said it was very easy to draw up windfall provisions and advocated them; so it is hardly fair to say that the Ruml plan didn't advocate any windfall provisions. I recall very well his testimony before the subcommittee, and I am sure Senators Danaher and Gerry will recall it equally well, and if not I have the record down in my office.

Mr. PAUL. I remember that he did recommend not having the forgiveness apply to capital gains, that is true, but that is only one type.

Mr. MORGAN. Answering your question, Senator Byrd, if he had an income of zero in 1940, and in 1942 he had an income of $10,000—this is after exemptions—and in 1943 an income of $15,000, he would have to pay in 1943 a tax on $15,000, which is $4,052 without the Victory tax, and he would have to pay, in addition to that, the excess of the 1942 income over the 1940 income plus $5,000. So his total 1943 burden would be $4,052, which is his regular burden, plus $1,050 which you might call his windfall burden, or a total of $5,102 without the Victory tax.

Senator BYRD. There would be many such instances where that particular antiwindfall tax would increase the taxes, because there has been quite a variation in earnings between 1940 and 1942 and 1943; isn't that the case? I mean you estimate $900,000,000 recovery, don't you?

Mr. PAUL. A little more than that, I think it is one-billion-one hundred-million-dollars odd.

The CHAIRMAN. If there are no further questions of Mr. Morgan the committee will go into executive session as there are some matters that we wish to determine. Tomorrow morning, Mr. Stam and the representatives of the Treasury Department, we will ask you to be back with us.

(Whereupon, at 4:30 p. m., the committee went into executive session).

CURRENT TAX PAYMENTS ACT OF 1943

FRIDAY, MAY 7, 1943

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to adjournment, at 10:30 a. m., in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

The CHAIRMAN. The committee will come to order, please. Has the Treasury any further suggestions this morning?

Mr. PAUL. No, Mr. Chairman.

The CHAIRMAN. All right, Mr. Stam, we will hear from you.

STATEMENT OF COLIN F. STAM, CHIEF OF STAFF, JOINT COMMITTEE ON INTERNAL-REVENUE TAXATION

Senator CONNALLY. Mr. Stam, if you would hold up a minute, I would like to ask Mr. Paul one question.

Mr. STAM. Yes, sir.

Senator CONNALLY. As I understand your testimony yesterday, you prefer the Ways and Means Committee bill.

Mr. PAUL. That is right.

Senator CONNALLY. Is that in such shape that if the committee here should decide to do it we can just adopt it in lieu of the House bill and send it to Congress?

Mr. PAUL. It is all prepared. It is drafted.

Senator CONNALLY. It is all completed?

Mr. PAUL. Yes.

Senator CONNALLY. Thank you.

The CHAIRMAN. All right, Mr. Stam, we will be glad to have your views regarding this bill before us.

Mr. STAM. Mr. Chairman and gentlemen of the committee, we have made quite a study of the House bill. This plan was presented in the Ways and Means Committee and discussed somewhat at length at that time and later, of course, it was incorporated in the bill and presented on the floor.

The CHAIRMAN. You refer to the bill that was adopted?

Mr. STAM. I refer to the bill that was adopted. We do not feel that this bill accomplishes the purpose which is sought.

Senator DAVIS. That is the House bill?

Mr. STAM. That is the House bill.

Senator CONNALLY. You talk about not accomplishing the purpose which is sought. It depends on who is seeking the purpose. If a fellow wants the Ruml plan and does not want to pay any tax in 1942 at all, of course it does not meet with his purpose, and it does not meet the purpose, on the other hand, of trying to get some money into the Treasury.

Mr. STAM. It does not meet the purpose of getting the people on a pay-as-you-go basis.

Senator CONNALLY. The Ruml plan is pay-as-you-go but it is all "go" and no "pay." Is that about it?

Mr. STAM. The Ways and Means Committee bill and the Ruml bill place all taxpayers on a current basis. This bill does not do that. This bill only places taxpayers on a current basis if they are in the first surtax bracket. The other taxpayers that are not in the first surtax bracket, or I mean that have incomes above the first surtax bracket rate, are not made current under this bill. They have to go ahead each year and make two computations.

The House bill will cost almost as much as a complete forgiveness of 1942 liabilities. Complete forgiveness of 1942 liabilities will result in a cancelation of 9.5 billion. This House bill will result in a cancelation of a liability of 7.2 billion, or 76 percent of the total 1942 liability. Thus, there is a difference of only 2.3 billion or 24 percent between this plan and complete forgiveness of 1942 liability.

It is argued that the amount of this forgiveness can be recaptured by an increase in rates in 1943. To do so, will be the equivalent of taking from the taxpayers in the fall that which was given to them in the spring. In addition, in the case of new taxpayers, there will be a recapture from them, although they received no forgiveness.

Under the House bill all but 4,000,000 taxpayers have 100 percent of their 1942 liability canceled. Taxpayers above the first bracket will not be fully current. This group above the first bracket constitutes approximately 4,000,000 of the estimated taxpayers. Only taxpayers up to the following net incomes will be fully current:

SINGLE PERSON	
No dependents	$2,500
1 dependent	2,850
2 dependents	3,200
MARRIED PERSON	
No dependents	3,200
1 dependent	3,550
2 dependents	3,900
3 dependents	4,250
4 dependents	4,600

The remainder of the taxpayers will have to carry over a part of their liability for the prior year in addition to paying their basic liability for the current year. Thus, the taxpayer who is above first surtax bracket will be required to go through several complicated computations in determining his tax liability. First, he will be required to file his return for the preceding year, making adjustments therein for his basic liability for that year. Second, he will be required to estimate his income for the current year in order to pay the basic rate for the current year. The Bureau of Internal Revenue indicates that it will require three separate accounts for each taxpayer. These taxpayers will resent being required to make computations for 2 separate years, when the making of such computations does not put them on a current basis. When it is considered that the taxpayers who must make these double computations year after year contribute about 60 to 65 percent of the total individual income tax, it is believed that there will be some justification for such resentment.

These figures are supported by the following data, taken from estimates furnished by the Treasury Department from the record of the public hearings, which show that persons having surtax net incomes above $2,000—that is, net income above $3,200 in the case of a married person with no dependents, or above $2,500 in the case of a single person—will account for approximately 60 to 65 percent of the total tax liability for the calendar year 1943.

TABLE 1.—*Estimated tax liability under present law, at income levels estimated for the calendar year 1943, distributed by net income classes*

Net income class	Simple distribution		Cumulative distribution from—			
			Lowest-income class		Highest-income class	
	Amount	Percent	Amount	Percent	Amount	Percent
Under $1,000	$359	2.99	$359	2.99	$11,989	100.00
$1,000 to $2,000	2,534	21.14	2,893	24.13	11,630	97.01
$2,000 to $3,000	1,395	11.64	4,288	35.77	9,096	75.87
$3,000 to $4,000	1,243	10.37	5,531	46.14	7,701	64.23
$4,000 to $5,000	874	7.29	6,405	53.43	6,458	53.86
$5,000 to $10,000	1,233	10.28	7,638	63.71	5,584	46.57
$10,000 to $25,000	1,385	11.55	9,023	75.26	4,351	36.29
$25,000 to $100,000	1,710	14.26	10,733	89.52	2,966	24.74
$100,000 to $200,000	570	4.75	11,303	94.27	1,256	10.48
$200,000 to $500,000	395	3.30	11,698	97.57	686	5.73
$500,000 to $1,000,000	180	1.50	11,878	99.07	291	2.43
$1,000,000 and over	111	.93	11,989	100.00	111	.93
Total	11,989	100.00				

NOTE.—Figures are rounded and will not necessarily add to totals.

Source: Treasury Department, Division of Research and Statistics.

On the other hand, if such taxpayers—that is, these 4,000,000 taxpayers that are not made current, and must carry over this old liability—desire to become current, they will have to pay an additional amount, which under the plan consists of their upper-bracket liability for the current year. In other words, they are required under the bill to pay their back-year liability, and if they want to get current they would have to, in addition to that, pay the upper-bracket liability for the current year. In several instances the additional amount will be such that it will greatly exceed the taxpayer's net income. The total payment required of a person with $50,000 net income who desired to become current would be $44,215; in the case of a person with $100,000 of net income, the total payment would have to be $114,956.

Now, I want to make it clear at that point that this House bill does not require the taxpayers to pay this additional amount, because they can still stay under the old system and pay the upper part of their liability for the prior year, but if they want to get current and be placed on the same basis as other taxpayers, then they will have to pay this additional amount.

That the House bill discriminates against the taxpayers who contribute most of the tax liability is shown by the following table:

TABLE II.—*Single person, no dependents—amount and percent of 1942 tax forgiven under House bill (Robertson-Forand plan)*

Net income before personal exemption	1942 tax under existing law	1942 tax under House bill	1942 tax forgiven under House bill	Percent of 1942 tax forgiven under House bill
$500				
$600	$15.40		$15.40	100.00
$750	43.00		43.00	100.00
$800	52.20		52.20	100.00
$1,000	89.00		89.00	100.00
$1,200	125.80		125.80	100.00
$1,500	181.00		181.00	100.00
$1,800	236.20		236.20	100.00
$2,000	273.00		273.00	100.00
$2,500	365.00		365.00	100.00
$3,000	472.00	$15	457.00	96.82
$5,000	920.00	95	825.00	89.67
$10,000	2,390.00	645	1,745.00	73.01
$15,000	4,366.00	1,695	2,671.00	61.18
$20,000	6,816.00	3,195	3,621.00	53.13
$25,000	9,626.00	5,055	4,571.00	47.49
$50,000	25,811.00	16,490	9,321.00	36.11
$100,000	64,641.00	45,820	18,821.00	29.12
$250,000	194,616.00	147,295	47,321.00	24.32
$500,000	414,616.00	319,795	94,821.00	22.87
$1,000,000	854,616.00	664,795	189,821.00	22.21
$2,000,000	1,734,616.00	1,354,795	379,821.00	21.90
$5,000,000	4,374,616.00	3,424,795	949,821.00	21.71

TABLE III.—*Married person, no dependents—Amount and percent of 1942 tax forgiven under House bill (Robertson-Forand plan)*

Net income before personal exemption	1942 tax under existing law	1942 tax under House bill	1942 tax forgiven under House bill	Percent of 1942 tax forgiven under House bill
$1,200				
$1,500	$48.00		$48.00	100.00
$1,800	103.20		103.20	100.00
$2,000	140.00		140.00	100.00
$2,500	232.00		232.00	100.00
$3,200	360.80		360.80	100.00
$3,300	382.20	$3	379.20	99.22
$5,000	746.00	54	692.00	92.76
$10,000	2,152.00	540	1,612.00	74.91
$15,000	4,052.00	1,514	2,538.00	62.64
$20,000	6,452.00	2,964	3,488.00	54.06
$25,000	9,220.00	4,782	4,438.00	48.13
$50,000	25,328.00	16,140	9,188.00	36.28
$100,000	64,060.00	45,372	18,688.00	29.17
$250,000	194,000.00	146,812	47,188.00	24.32
$500,000	414,000.00	319,312	94,688.00	22.87
$1,000,000	854 000.00	664,312	189,688.00	22.21
$2,000,000	1,734,000.00	1,354,312	379,688.00	21.90
$5,000,000	4,374,000.00	3,424,312	949,688.00	21.71

If you will look at this table, you will see the amount and the percent of the 1942 tax forgiven under the House bill. You will notice there that in the case of a $500 net income before personal exemption there is no tax. In the case of a $600 income, 100 percent of the tax is forgiven, and the 100 percent runs all the way up to net incomes of $2,500.

You will notice as the income increases the percentage of forgiveness decreases, so that when you get down to the $5,000,000 man he has only 21.71 percent of his 1942 tax canceled.

Now, in the case of a married man with no dependents, table III shows the same picture. You will notice that up to $3,200 of net income 100 percent of the 1942 liability is canceled, and that decreases according to the size of the income, so that up at the top there is 21.71 percent forgiven of the 1942 liability.

Senator DANAHER. Question, Mr. Chairman.

The CHAIRMAN. Yes, Senator Danaher.

Senator DANAHER. On page 2, at the bottom of the page, you have a reference to "See par. 6."

Mr. STAM. That should be page 6.

Senator DANAHER. Thank you very much.

Mr. STAM. The difficulty of carrying on the books an assessment for 2 separate years will add undue complications to our tax laws. If there is anything about the tax law which should be simple, it should be the computation of the tax. Not only will these computations unduly burden the taxpayer but they will severely increase the administrative difficulties in the collectors' offices and the Bureau of Internal Revenue. The collector will be required to double his posting work. Instead of four payments to post—which he has now—he will have eight payments covering 2 years, part for the basic liability and part for the back liability. The chances of error are increased because of payments made simultaneously by a taxpayer for two separate and distinct tax-year liabilities. That is, he is paying his tax partly for the back year and partly for the current year. It will be necessary to list the first-bracket liability separately from the upper-bracket liability for the entire year, instead of the entire tax as one amount.

Many taxpayers will send in one check in payment of their liability. It will be necessary for the collector's office to determine what part of the amount belongs to the current liability and what part belongs to the back liability.

Refunds and credits will be further complicated by the splitting up of the year. For example, a taxpayer filing his return on March 15, 1944, might show a normal tax and first surtax bracket liability of $100. The upper-bracket liability will amount to $50. The question would have to be determined as to whether the interest will run on the first-bracket part which was paid currently in 1943 from the date of payment in 1943 and as to the upper brackets from the date of payments in 1944. In the case of refunds, if interest should run from the date of payment in 1944, it would appear that the taxpayer whose income is above the first bracket will lose a year's interest on the amount paid in 1943, that is, unless they have to separate these amounts.

The following taxpayers will have to pay the following additional amounts in order to become current:

TABLE IV.—*Single person; no dependents*

Net income before personal exemption	Penalty	Net income before personal exemption	Penalty
$3,000	$15	$20,000	$3,195
$4,000	45	$25,000	5,055
$5,000	95	$50,000	16,490
$6,000	165	$100,000	45,820
$8,000	365	$500,000	319,795
$10,000	645	$1,000,000	664,795
$15,000	1,695	$5,000,000	3,424,795

In the case of a single person with a net income before personal exemption of $3,000, if he wanted to become current he would have to pay an additional amount of $15, whereas people below that income bracket would pay nothing. In the case of the $15,000 man, in order to become current he would have to pay $1,695 as compared with the $15 paid by the $3,000 man, and in the case of the $100,000 man, he would have to pay $45,820 to become current, as compared with the $5,055 of the $25,000 man. Other tables which I now insert, further illustrate this point.

TABLE V.—*Married person; no dependents*

Net income before personal exemption	Penalty	Net income before personal exemption	Penalty
$4,000	$24	$25,000	$4,782
$5,000	54	$50,000	16,140
$6,000	116	$100,000	45,372
$8,000	288	$500,000	319,312
$10,000	540	$1,000,000	664,312
$15,000	1,514	$5,000,000	3,424,312
$20,000	2,964		

TABLE VI.—*Married person; 2 dependents*

Net income before personal exemption	Penalty	Net income before personal exemption	Penalty
$4,000	$3	$25,000	$4,509
$5,000	33	$50,000	15,790
$6,000	67	$100,000	44,924
$8,000	211	$500,000	318,829
$10,000	435	$1,000,000	663,829
$15,000	1,353	$5,000,000	3,423,829
$20,000	2,733		

TABLE VII.—*Total burden to become current in 1943 under Robertson plan—single person, no dependents*

Net income	Income tax plus gross Victory tax	Penalty	Total	Net income	Income tax plus gross Victory tax	Penalty	Total
$3,000	$607	$15	$622	$20,000	$7,896	$3,195	$11,091
$4,000	877	45	922	$25,000	10,984	5,055	16,039
$5,000	1,167	95	1,262	$50,000	28,558	16,490	45,048
$6,000	1,476	165	1,641	$100,000	70,165	45,820	115,985
$8,000	2,155	365	2,520	$500,000	442,363	319,795	762,158
$10,000	2,914	645	3,559	$1,000,000	900,000	664,795	1,564,795
$15,000	5,168	1,695	6,863	$5,000,000	4,500,000	3,424,795	7,924,795

TABLE VIII.—*Married person—no dependents*

Net income	Income tax plus gross Victory tax	Penalty	Total	Net income	Income tax plus gross Victory tax	Penalty	Total
$4,000	$723	$24	$747	$25,000	$10,578	$4,782	$15,360
$5,000	993	54	1,047	$50,000	28,075	16,140	44,215
$6,000	1,291	116	1,410	$100,000	69,584	45,372	114,956
$8,000	1,945	288	2,233	$500,000	441,747	319,312	761,059
$10,000	2,676	540	3,216	$1,000,000	900,000	664,312	1,564,312
$15,000	4,854	1,514	6,368	$5,000,000	4,500,000	3,424,312	7,924,312
$20,000	7,532	2,964	10,496				

TABLE IX.—*Married person—2 dependents*

Net income	Income tax plus gross Victory tax	Penalty	Total	Net income	Income tax plus gross Victory tax	Penalty	Total
$4,000	$569	$3	$572	$25,000	10,172	4,509	14,681
$5,000	839	33	872	$50,000	27,592	15,790	43,382
$6,000	1,112	67	1,179	$100,000	69,003	44,924	113,927
$8,000	1,735	211	1,946	$500,000	441,131	318,829	759,960
$10,000	2,438	435	2,873	$1,000,000	900,000	663,829	1,563,829
$15,000	4,560	1,353	5,913	$5,000,000	4,500,000	3,423,829	7,923,829
$20,000	7,168	2,733	9,901				

Table V, married person, no dependents, indicates how much those taxpayers would have to pay in order to become current.

The main objection, as I say, to this plan, it seems to me, is that it does not adopt a pay-as-you-go plan for all taxpayers. It is not treating all taxpayers alike to put some taxpayers on a current basis and others on a partially current and partially back-tax system, particularly when the taxpayers that have to be on that partially current and partially back-tax system, pay from 60 to 65 percent of the total tax liability. It is for those reasons that we did not feel that the House bill was a proper solution of this problem.

In approaching the problem, it seems to me that we should consider it in direct relation to the burden we are imposing on the taxpayer, and also in relation to our present need for revenue. It does not seem logical to cancel a large part of an outstanding tax, which may have to be imposed later in the form of additional taxes. To collect at least a part of that which is outstanding at the present time and definitely fix the tax liability of the taxpayer for this year would, in my opinion, be much fairer than raising the rates later on. The additional amount to be raised should depend upon a study of the burden tables, so that we can find out how much burden we want to impose upon taxpayers.

In our study of this subject we have prepared numerous burden tables to cover all the various plans, and we have approached this subject entirely from the standpoint of the need for revenue and the burden to be imposed upon the taxpayer.

(The tables referred to are as follows:)

1. Ways and Means Committee Bill

Applying 1941 rates and exemptions to 1942 income instead of 1942 rates and exemptions. Loss in revenue, $4.7 billion.

Table 1.—*Total burden tables*

SINGLE PERSON, NO DEPENDENTS—TOTAL CURRENT BURDEN

Net income before personal exemption	Current tax including gross Victory tax [1]	Current tax plus unforgiven 1942 tax		
		If unforgiven 1942 tax is paid in full on or before Mar. 15, 1944	If unpaid balance of unforgiven 1942 tax is paid on or before Mar. 15, 1945 [2]	If one-third of unforgiven 1942 tax is paid on each installment date
$500				
$600	$17.53	$17.53	$17.53	$17.53
$750	53.47	53.47	53.47	53.47
$800	65.44	65.44	65.44	65.44
$1,000	113.36	126.99	120.47	118.19
$1,200	161.27	192.20	177.39	172.24
$1,500	233.13	290.00	262.78	253.30
$1,800	305.00	387.81	348.17	334.37
$2,000	352.91	453.02	405.10	388.41
$2,500	472.69	616.04	547.42	523.52
$3,000	607.47	801.11	708.41	676.14
$5,000	1,166.58	1,600.86	1,392.96	1,320.58
$10,000	2,914.36	4,287.61	3,630.20	3,401.33
$15,000	5,168.13	7,940.04	6,613.38	6,151.29
$20,000	7,895.91	12,472.43	10,281.55	9,518.79
$25,000	10,983.69	17,711.57	14,490.78	13,369.46
$50,000	28,557.58	48,112.73	38,751.22	35,492.03
$100,000	70,165.36	120,148.18	96,220.24	87,889.76
$250,000	208,473.69	357,462.86	286,138.26	261,306.73
$500,000	442,362.58	767,536.70	611,868.24	557,672.55
$1,000,000	900,000.00	1,589,416.91	1,259,376.90	1,144,474.08
$2,000,000	1,800,000.00	3,232,013.30	2,546,475.02	2,307,806.13
$5,000,000	4,500,000.00	8,188,006.08	6,422,471.26	5,807,803.57

[1] Computed on a gross income reduced by 10 percent in arriving at specified net income.

[2] Assuming equal payments made in 1944 and 1945.

The following table shows the total current burden in the case of a married person with no dependents if current liability is paid and unforgiven 1942 tax is paid in 1, 2, or 3 installments.

MARRIED PERSON, NO DEPENDENTS—TOTAL CURRENT BURDEN

Net income before personal exemption	Current tax including gross Victory tax [1]	Current tax plus unforgiven 1942 tax		
		If unforgiven 1942 tax is paid in full on or before Mar. 15, 1944	If unpaid balance of unforgiven 1942 tax is paid on or before Mar. 15, 1945 [2]	If one-third of unforgiven 1942 tax is paid on each installment date
$1,200	$35.47	$35.47	$35.47	$35.47
$1,500	100.13	100.13	100.13	100.13
$1,300	172.00	192.30	182.59	179.20
$2,000	219.91	257.51	230.51	233.24
$2,500	339.69	420.53	391.83	368.36
$3,200	507.38	648.76	581.08	557.51
$3,300	534.33	685.76	613.27	588.03
$5,000	992.58	1,328.72	1,167.81	1,111.78
$10,000	2,676.36	3,890.76	3,309.40	3,107.00
$15,000	4,854.13	7,396.42	6,179.37	5,755.65
$20,000	7,531.91	11,838.13	9,776.64	9,058.93
$25,000	10,577.69	16,992.03	13,921.65	12,852.49
$50,000	28,074.58	47,243.81	38,067.05	34,872.18
$100,000	69,584.36	119,124.80	95,408.64	87,151.89
$250,000	207,857.69	356,372.05	285,274.75	260,522.36
$500,000	441,746.58	766,416.94	610,989.64	556,877.91
$1,000,000	900,000.00	1,588,901.56	1,259,108.26	1,144,291.33
$2,000,000	1,800,000.00	3,231,492.16	2,546,203.36	2,307,621.33
$5,000,000	4,500,000.00	8,187,473.36	6,422,193.56	5,807,614.67

[1] Computed on a gross income reduced by 10 percent in arriving at specified net income.
[2] Assuming equal payments made in 1944 and 1945.

TABLE 2.—*Married person, no dependents—amount of forgiveness of 1942 tax under various percentages forgiven*

Net income before personal exemption	1942 tax under existing law	If 10 percent is forgiven	If 20 percent is forgiven	If 25 percent is forgiven	If 30 percent is forgiven	If 40 percent is forgiven	If 50 percent is forgiven	If 60 percent is forgiven	If 70 percent is forgiven	If 75 percent is forgiven	If 80 percent is forgiven	If 90 percent is forgiven
$1,200	------	------	------	------	------	------	------	------	------	------	------	------
$1,500	$48.00	$4.80	$9.60	$12.00	$14.40	$19.20	$24.00	$28.80	$33.60	$36.00	$38.40	$43.20
$1,800	103.20	10.32	20.64	25.80	30.96	41.28	51.60	61.92	72.24	77.40	82.56	92.88
$2,000	140.00	14.00	28.00	35.00	42.00	56.00	70.00	84.00	98.00	105.00	112.00	126.00
$2,500	232.00	23.20	46.40	58.00	69.60	92.80	116.00	139.20	162.40	174.00	185.60	208.80
$3,200	360.80	36.08	72.16	90.20	108.24	144.32	180.40	216.48	252.56	270.60	288.64	324.72
$3,300	382.20	38.22	76.44	95.55	114.66	152.88	191.10	229.32	267.54	286.65	305.76	343.98
$5,000	746.00	74.60	149.20	186.50	223.80	298.40	373.00	447.60	522.20	559.50	596.80	671.40
$10,000	2,152.00	215.20	430.40	538.00	645.60	860.80	1,076.00	1,291.20	1,506.40	1,614.00	1,721.60	1,936.80
$15,000	4,052.00	405.20	810.40	1,013.00	1,215.60	1,620.80	2,026.00	2,431.20	2,836.40	3,039.00	3,241.60	3,646.80
$20,000	6,452.00	645.20	1,290.40	1,613.00	1,935.60	2,580.80	3,226.00	3,871.20	4,516.40	4,839.00	5,161.60	5,806.80
$25,000	9,220.00	922.00	1,844.00	2,305.00	2,766.00	3,688.00	4,610.00	5,532.00	6,454.00	6,915.00	7,376.00	8,298.00
$50,000	25,328.00	2,532.80	5,065.60	6,332.00	7,598.40	10,131.20	12,664.00	15,196.80	17,729.60	18,996.00	20,262.40	22,795.20
$100,000	64,060.00	6,406.00	12,812.00	16,015.00	19,218.00	25,624.00	32,030.00	38,436.00	44,842.00	48,045.00	51,248.00	57,654.00
$250,000	194,000.00	19,400.00	38,800.00	48,500.00	58,200.00	77,600.00	97,000.00	116,400.00	135,800.00	145,500.00	155,200.00	174,600.00
$500,000	414,000.00	41,400.00	82,800.00	103,500.00	124,200.00	165,600.00	207,000.00	248,400.00	289,800.00	310,500.00	331,200.00	372,600.00
$1,000,000	854,000.00	85,400.00	170,800.00	213,500.00	256,200.00	341,600.00	427,000.00	512,400.00	597,800.00	640,500.00	683,200.00	768,600.00
$2,000,000	1,734,000.00	173,400.00	346,800.00	433,500.00	520,200.00	693,600.00	867,000.00	1,040,400.00	1,213,800.00	1,300,500.00	1,387,200.00	1,560,600.00
$5,000,000	4,374,000.00	437,400.00	874,800.00	1,093,500.00	1,312,200.00	1,749,600.00	2,187,000.00	2,624,400.00	3,061,800.00	3,280,500.00	3,499,200.00	3,936,600.00

TABLE 3.—*Married person, no dependents—amount of unforgiven 1942 tax under various percentages forgiven*

Net income before personal exemption	1942 tax under existing law	Unforgiven 1942 tax										
		If 10 percent is forgiven	If 20 percent is forgiven	If 25 percent is forgiven	If 30 percent is forgiven	If 40 percent is forgiven	If 50 percent is forgiven	If 60 percent is forgiven	If 70 percent is forgiven	If 75 percent is forgiven	If 80 percent is forgiven	If 90 percent is forgiven
$1,200												
$1,500	$48.00	$43.20	$38.40	$36.00	$33.60	$28.80	$24.00	$19.20	$14.40	$12.00	$9.60	$4.80
$1,800	103.20	92.88	82.56	77.40	72.24	61.92	51.60	41.28	30.96	25.80	20.64	10.32
$2,000	140.00	126.00	112.00	105.00	98.00	84.00	70.00	56.00	42.00	35.00	28.00	14.00
$2,500	232.00	208.80	185.60	174.00	162.40	139.20	116.00	92.80	69.60	58.00	46.40	23.20
$3,200	360.80	324.72	288.64	270.60	252.56	216.48	180.40	144.32	108.24	90.20	72.16	36.08
$3,300	382.20	343.98	305.76	286.65	267.54	229.32	191.10	152.88	114.66	95.55	76.44	38.22
$5,000	746.00	671.40	596.80	559.50	522.20	447.60	373.00	298.40	223.80	186.50	149.20	74.60
$10,000	2,152.00	1,936.80	1,721.60	1,614.00	1,506.40	1,291.20	1,076.00	860.80	645.60	538.00	430.40	215.20
$15,000	4,052.00	3,646.80	3,241.60	3,039.00	2,836.40	2,431.20	2,026.00	1,620.80	1,215.60	1,013.00	810.40	405.20
$20,000	6,452.00	5,806.80	5,161.60	4,839.00	4,516.40	3,871.20	3,226.00	2,580.80	1,935.60	1,613.00	1,290.40	645.20
$25,000	9,220.00	8,298.00	7,376.00	6,915.00	6,454.00	5,532.00	4,610.00	3,688.00	2,766.00	2,305.00	1,844.00	922.00
$50,000	25,328.00	22,795.20	20,262.40	18,996.00	17,729.60	15,196.80	12,664.00	10,131.20	7,598.40	6,332.00	5,065.60	2,532.80
$100,000	64,060.00	57,654.00	51,248.00	48,045.00	44,842.00	38,436.00	32,030.00	25,624.00	19,218.00	16,015.00	12,812.00	6,406.00
$250,000	194,000.00	174,600.00	155,200.00	145,500.00	135,800.00	116,400.00	97,000.00	77,600.00	58,200.00	48,500.00	38,800.00	19,400.00
$500,000	414,000.00	372,600.00	331,200.00	310,500.00	289,800.00	248,400.00	207,000.00	165,600.00	124,200.00	103,500.00	82,800.00	41,400.00
$1,000,000	854,000.00	768,600.00	683,200.00	640,500.00	597,800.00	512,400.00	427,000.00	341,600.00	256,200.00	213,500.00	170,800.00	85,400.00
$2,000,000	1,734,000.00	1,560,600.00	1,387,200.00	1,300,500.00	1,213,800.00	1,040,400.00	867,000.00	693,600.00	520,200.00	433,500.00	346,800.00	173,400.00
$5,000,000	4,374,000.00	3,936,600.00	3,499,200.00	3,280,500.00	3,061,800.00	2,624,400.00	2,187,000.00	1,749,600.00	1,312,200.00	1,093,500.00	874,800.00	437,400.00

TABLE 4.—*Married person, no dependents—Amount of each installment if unforgiven 1942 tax is paid in 2 years*

Net income before personal exemption	If no forgiveness	If 10 percent is forgiven	If 20 percent is forgiven	If 25 percent is forgiven	If 30 percent is forgiven	If 40 percent is forgiven	If 50 percent is forgiven	If 60 percent is forgiven	If 70 percent is forgiven	If 75 percent is forgiven	If 80 percent is forgiven	If 90 percent is forgiven
$1,200												
$1,500	$24.00	$21.60	$19.20	$18.00	$16.80	$14.40	$12.00	$9.60	$7.20	$6.00	$4.80	$2.40
$1,800	51.60	46.44	41.28	38.70	36.12	30.96	25.80	20.64	15.48	12.90	10.32	5.16
$2,000	70.00	63.00	56.00	52.50	49.00	42.00	35.00	28.00	21.00	17.50	14.00	7.00
$2,500	116.00	104.40	92.80	87.00	81.20	69.60	58.00	46.40	34.80	29.00	23.20	11.60
$3,200	180.40	162.36	144.32	135.30	126.28	108.24	90.20	72.16	54.12	45.10	36.08	18.04
$3,300	191.10	171.99	152.88	143.33	133.77	114.66	95.55	76.44	57.33	47.78	38.22	19.11
$5,000	373.00	335.70	298.40	279.75	261.10	223.80	186.50	149.20	111.90	93.25	74.60	37.30
$10,000	1,076.00	968.40	860.80	807.00	753.20	645.60	538.00	430.40	322.80	269.00	215.20	107.60
$15,000	2,026.00	1,823.40	1,620.80	1,519.50	1,418.20	1,215.60	1,013.00	810.40	607.80	506.50	405.20	202.60
$20,000	3,226.00	2,903.40	2,580.80	2,419.50	2,258.20	1,935.60	1,613.00	1,290.40	967.80	806.50	645.20	322.60
$25,000	4,610.00	4,149.00	3,688.00	3,457.50	3,227.00	2,766.00	2,305.00	1,844.00	1,383.00	1,152.50	922.00	461.00
$50,000	12,664.00	11,397.60	10,131.20	9,498.00	8,864.80	7,598.40	6,332.00	5,065.60	3,799.20	3,166.00	2,532.80	1,266.40
$100,000	32,030.00	28,827.00	25,624.00	24,022.50	22,421.00	19,218.00	16,015.00	12,812.00	9,609.00	8,007.50	6,406.00	3,203.00
$250,000	97,000.00	87,300.00	77,600.00	72,750.00	67,900.00	58,200.00	48,500.00	38,800.00	29,100.00	24,250.00	19,400.00	9,700.00
$500,000	207,000.00	186,300.00	165,600.00	155,250.00	144,900.00	124,200.00	103,500.00	82,800.00	62,100.00	51,750.00	41,400.00	20,700.00
$1,000,000	427,000.00	384,300.00	341,600.00	320,250.00	298,900.00	256,200.00	213,500.00	170,800.00	128,100.00	106,750.00	85,400.00	42,700.00
$2,000,000	867,000.00	780,300.00	693,600.00	650,250.00	606,900.00	520,200.00	433,500.00	346,800.00	260,100.00	216,750.00	173,400.00	86,700.00
$5,000,000	2,187,000.00	1,968,300.00	1,749,600.00	1,640,250.00	1,530,900.00	1,312,200.00	1,093,500.00	874,800.00	656,100.00	546,750.00	437,400.00	218,700.00

TABLE 5.—*Married person, no dependents—Amount of each installment if unforgiven 1942 tax is paid in 3 years*

Net income before personal exemption	If no forgiveness	If 10 percent is forgiven	If 20 percent is forgiven	If 25 percent is forgiven	If 30 percent is forgiven	If 40 percent is forgiven	If 50 percent is forgiven	If 60 percent is forgiven	If 70 percent is forgiven	If 75 percent is forgiven	If 80 percent is forgiven	If 90 percent is forgiven
$1,200												
$1,500	$16.00	$14.40	$12.80	$12.00	$11.20	$9.60	$8.00	$6.40	$4.80	$4.00	$3.20	$1.60
$1,800	34.40	30.96	27.52	25.80	24.08	20.64	17.20	13.76	10.32	8.60	6.88	3.44
$2,000	46.67	42.00	37.33	35.00	32.67	28.00	23.33	18.67	14.00	11.67	9.33	4.67
$2.500	77.33	69.60	61.87	58.00	54.13	46.40	38.67	30.93	23.20	19.33	15.47	7.73
$3,200	120.27	108.24	96.21	90.20	84.19	72.16	60.13	48.11	36.08	30.07	24.05	12.03
$3,300	127.40	114.66	101.92	95.55	89.18	76.44	63.70	50.96	38.22	31.85	25.48	12.74
$5,000	248.67	223.80	198.93	186.50	174.07	149.20	124.33	99.47	74.60	62.17	49.73	24.87
$10,000	717.33	645.60	573.87	538.00	502.13	430.40	358.67	286.93	215.20	179.33	143.47	71.73
$15,000	1,350.67	1,215.60	1,080.53	1,013.00	945.47	810.40	675.33	540.27	405.20	337.67	270.13	135.07
$20,000	2,150.67	1,935.60	1,720.53	1,613.00	1,505.47	1,290.40	1,075.33	860.27	645.20	537.67	430.13	215.07
$25,000	3,073.33	2,766.00	2,458.67	2,305.00	2,151 33	1,844.00	1.536.67	1,229.33	922.00	768.33	614.67	307.33
$50,000	8,442.67	7,598 40	6,754.13	6,332.00	5,909.87	5.065.60	4.221.33	3,377.07	2,532.80	2,110.67	1,688.53	844.27
$100,000	21,353.33	19,218.00	17,082.67	16,015.00	14,947.33	12,812.00	10,676.67	8.541.33	6,406.00	5,338.33	4.270.67	2,135.33
$250,000	64,666.67	58.200.00	51,733.33	48,500.00	45.236.67	38.800.00	32.333.33	25,866.67	19,400.00	16,166.67	12.933.33	6.466 67
$500,000	138,000.00	124,200.00	110,400.00	103,500.00	96,600.00	82,800.00	69,000.00	55,200.00	41,400.00	34,500.00	27,600.00	13,800.00
$1,000.000	284,666.67	256,200.00	227,733.33	213,500.00	199,266.67	170,800.00	142,333.33	113,866 67	85,400.00	71,166.67	56,933.33	28,466.67
$2,000,000	578,000.00	520,200.00	462,400.00	433,500.00	404,600.00	346,800.00	289,000.00	231,200.00	173,400.00	144,500.00	115,600.00	57,800.00
$5,000,000	1,458,000.00	1,312,200.00	1,166,400.00	1,093,500.00	1.020,600.00	874,800.00	729,000.00	583,200.00	437,400.00	364,500.00	291,600.00	145,800.00

Table 6.—*Married person, no dependents—Amount of each installment if unforgiven 1942 tax is paid in 4 years*

Net income before personal exemption	If no forgiveness	If 10 percent is forgiven	If 20 percent is forgiven	If 25 percent is forgiven	If 30 percent is forgiven	If 40 percent is forgiven	If 50 percent is forgiven	If 60 percent is forgiven	If 70 percent is forgiven	If 75 percent is forgiven	If 80 percent is forgiven	If 90 percent is forgiven
$1,200												
$1,500	$12.00	$10.80	$9.60	$9.00	$8.40	$7.20	$6.00	$4.80	$3.60	$3.00	$2.40	$1.20
$1,800	25.80	23.22	20.64	19.35	18.06	15.48	12.90	10.32	7.74	6.45	5.16	2.58
$2,000	35.00	31.50	28.00	26.25	24.50	21.00	17.50	14.00	10.50	8.75	7.00	3.50
$2,500	58.00	52.20	46.40	43.50	40.60	34.80	29.00	23.20	17.40	14.50	11.60	5.80
$3,200	90.20	81.18	72.16	67.65	63.14	54.12	45.10	36.08	27.06	22.55	18.04	9.02
$3,300	95.55	86.00	76.44	71.66	66.89	57.33	47.78	38.22	28.67	23.89	19.11	9.56
$5,000	186.50	167.85	149.20	139.88	130.55	111.90	93.25	74.60	55.95	46.63	37.30	18.65
$10,000	538.00	484.20	430.40	403.50	376.60	322.80	269.00	215.20	161.40	134.50	107.60	53.80
$15,000	1,013.00	911.70	810.40	759.75	709.10	607.80	506.50	405.20	303.90	253.25	202.60	101.30
$20,000	1,613.00	1,451.70	1,290.40	1,209.75	1,129.10	967.80	806.50	645.20	483.90	403.25	322.60	161.30
$25,000	2,305.00	2,074.50	1,844.00	1,728.75	1,613.50	1,383.00	1,152.50	922.00	691.50	576.25	461.00	230.50
$50,000	6,332.00	5,698.80	5,065.60	4,749.00	4,432.40	3,799.20	3,166.00	2,532.80	1,899.60	1,583.00	1,266.40	633.20
$100,000	16,015.00	14,413.50	12,812.00	12,011.25	11,210.50	9,609.00	8,007.50	6,406.00	4,804.50	4,003.75	3,203.00	1,601.50
$250,000	48,500.00	43,650.00	38,800.00	36,375.00	33,950.00	29,100.00	24,250.00	19,400.00	14,550.00	12,125.00	9,700.00	4,850.00
$500,000	103,500.00	93,150.00	82,800.00	77,625.00	72,450.00	62,100.00	51,750.00	41,400.00	31,050.00	25,875.00	20,700.00	10,350.00
$1,000,000	213,500.00	192,150.00	170,800.00	160,125.00	149,450.00	128,100.00	106,750.00	85,400.00	64,050.00	53,375.00	42,700.00	21,350.00
$2,000,000	433,500.00	390,150.00	346,800.00	325,125.00	303,450.00	260,100.00	216,750.00	173,400.00	130,050.00	108,375.00	86,700.00	43,350.00
$5,000,000	1,093,500.00	984,150.00	874,800 00	820,125.00	765,450.00	656,100.00	546,750.00	437,400.00	328,050.00	273,375.00	218,700.00	109,350.00

Table 7.—*Married person, no dependents—Amount of each installment if unforgiven 1942 tax is paid in 5 years*

Net income before personal exemption	If no forgiveness	If 10 percent is forgiven	If 20 percent is forgiven	If 25 percent is forgiven	If 30 percent is forgiven	If 40 percent is forgiven	If 50 percent is forgiven	If 60 percent is forgiven	If 70 percent is forgiven	If 75 percent is forgiven	If 80 percent is forgiven	If 90 percent is forgiven
$1,200												
$1,500	$9.60	$8.64	$7.68	$7.20	$6.72	$5.76	$4.80	$3.84	$2.88	$2.40	$1.92	$0.96
$1,800	20.64	18.58	16.51	15.48	14.45	12.38	10.32	8.26	6.19	5.16	4.13	2.06
$2,000	28.00	25.20	22.40	21.00	19.60	16.80	14.00	11.20	8.40	7.00	5.60	2.80
$2,500	46.40	41.76	37.12	34.80	32.48	27.84	23.20	18.56	13.92	11.60	9.28	4.64
$3,[illegible]0	72.16	64.94	57.73	54.12	50.51	43.30	36.08	28.86	21.65	18.04	14.43	7.22
$3,300	76.44	68.80	61.15	57.33	53.51	45.86	38.22	30.58	22.93	19.11	15.29	7.64
$5,000	149.20	134.28	119.36	111.90	104.44	89.52	74.60	59.68	44.76	37.30	29.84	14.92
$10,000	430.40	387.36	344.32	322.80	301.28	258.24	215.20	172.16	129.12	107.60	86.08	43.04
$15,000	810.40	729.36	648.32	607.80	567.28	486.24	405.20	324.16	243.12	202.60	162.08	81.04
$20,000	1,290.40	1,161.36	1,032.32	967.80	903.28	774.24	645.20	516.16	387.12	322.60	258.08	129.04
$25,000	1,844.00	1,659.60	1,475.20	1,383.00	1,290.80	1,106 40	922.00	737.60	553.20	461.00	368.80	184.40
$50,000	5,065.60	4,559.04	4.052.48	3,799.20	3,545.92	3,039.36	2,532.80	2,026.24	1,519 68	1,266.40	1,013.12	506.56
$100,000	12,812.00	11,530.80	10.249.60	9,609.00	8,968.40	7,687.20	6,406.00	5,124.80	3,843.60	3.203.00	2,562.40	1,281.20
$250,000	38,800.00	34,920.00	31,040.00	29,100.00	27,160.00	23,280.00	19,400.00	15,520.00	11,640.00	9,700.00	7,760.00	3,880.00
$500,000	82,800.00	74,520.00	66,240.00	62,100.00	57,960.00	49,680.00	41,400.00	33,120.00	24.840.00	20,700.00	16,560.00	8,280.00
$1,000,000	170,800.00	153,720.00	136,640.00	128,100.00	119,560.00	102,480.00	85,400.00	68,320.00	51,240.00	42,700.00	34,160.00	17,080.00
$2,000,000	346,800.00	312,120.00	277.440.00	260,100.00	242,760.00	208,080.00	173,400.00	138,720.00	104.040.00	86,700.00	69,360.00	34,680.00
$5,000,000	874,800.00	787,320.00	699,840.00	656,100.00	612,360.00	524,880.00	437,400.00	349,920.00	262,440.00	218,700.00	174,960.00	87,480.00

TABLE 8.—*Married person, no dependents—Total current burden if unforgiven 1942 tax is paid in 2 years*

Net income before personal exemption	Current tax including gross Victory tax [1]	Current tax plus unforgiven 1942 tax under various percentages forgiven											
		If no forgiveness	If 10% is forgiven	If 20% is forgiven	If 25% is forgiven	If 30% is forgiven	If 40% is forgiven	If 50% is forgiven	If 60% is forgiven	If 70% is forgiven	If 75% is forgiven	If 80% is forgiven	If 90% is forgiven
$1,200	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47
$1,500	100.13	124.13	121.73	119.33	118.13	116.93	114.53	112.13	109.73	107.33	106.13	104.93	102.53
$1,800	172.00	223.60	218.44	213.28	210.70	208.12	202.96	197.80	192.64	187.48	184.90	182.32	177.16
$2,000	219.91	289.91	282.91	275.91	272.41	268.91	261.91	254.91	247.91	240.91	237.41	233.91	226.91
$2,500	339.69	455.69	444.09	432.49	426.69	420.89	409.29	397.69	386.09	374.49	368.69	362.89	351.29
$3,200	507.38	687.78	669.74	651.70	642.68	633.66	615.62	597.58	579.54	561.50	552.48	543.46	525.42
$3,300	534.33	725.43	706.32	687.21	677.66	668.10	648.99	629.88	610.77	591.66	582.11	572.55	553.44
$5,000	992.58	1,365.58	1,328.28	1,290.98	1,272.33	1,253.68	1,216.38	1,179.08	1,141.78	1,104.48	1,085.83	1,067.18	1,029.88
$10,000	2,676.36	3,752.36	3,644.76	3,537.16	3,483.36	3,429.56	3,321.96	3,214.36	3,106.76	2,999.16	2,945.36	2,891.56	2,783.96
$15,000	4,854.13	6,880.13	6,677.53	6,474.93	6,373.63	6,272.33	6,069.73	5,867.13	5,664.53	5,461.93	5,360.63	5,259.33	5,056.73
$20,000	7,531.91	10,757.91	10,435.31	10,112.71	9,951.41	9,790.11	9,467.51	9,144.91	8,822.31	8,499.71	8,338.41	8,177.11	7,854.51
$25,000	10,577.69	15,187.69	14,726.69	14,265.69	14,035.19	13,804.69	13,343.69	12,882.69	12,421.69	11,960.69	11,730.19	11,499.69	11,038.69
$50,000	28,074.58	40,738.58	39,472.18	38,205.78	37,572.58	36,939.38	35,672.98	34,406.58	33,140.18	31,873.78	31,240.58	30,607.38	29,340.98
$100,000	69,584.36	101,614.36	98,411.36	95,208.36	93,606.86	92,005.36	88,802.36	85,599.36	82,396.36	79,193.36	77,591.86	75,990.36	72,787.36
$250,000	207,857.69	304,857.69	295,157.69	285,457.69	280,607.69	275,757.69	266,057.69	256,357.69	246,657.69	236,957.69	232,107.69	227,257.69	217,557.69
$500,000	441,746.58	648,746.58	628,046.58	607,346.58	596,996.58	586,646.58	565,946.58	545,246.58	524,546.58	503,846.58	493,496.58	483,146.58	462,446.58
$1,000,000	900,000.00	1,327,000.00	1,284,300.00	1,241,600.00	1,220,250.00	1,198,900.00	1,156,200.00	1,135,000.00	1,070,800.00	1,028,100.00	1,006,750.00	985,400.00	942,700.00
$2,000,000	1,800,000.00	2,667,000.00	2,580,300.00	2,493,600.00	2,450,250.00	2,406,900.00	2,320,200.00	2,233,500.00	2,146,800.00	2,060,100.00	2,016,750.00	1,973,400.00	1,886,700.00
$5,000,000	4,500,000.00	6,687,000.00	6,468,300.00	6,249,600.00	6,140,250.00	6,030,900.00	5,812,200.00	5,593,500.00	5,374,800.00	5,156,100.00	5,046,750.00	4,937,400.00	4,718,700.00

[1] Computed on a gross income reduced by 10 percent in arriving at specified net income.

TABLE 9.—*Married person, no dependents—total current burden if unforgiven 1942 tax is paid in 3 years*

Net income before personal exemption	Current tax including gross Victory tax [1]	Current burden plus unforgiven 1942 tax under various percentages forgiven											
		If no forgiveness	If 10% is forgiven	If 20% is forgiven	If 25% is forgiven	If 30% is forgiven	If 40% is forgiven	If 50% is forgiven	If 60% is forgiven	If 70% is forgiven	If 75% is forgiven	If 80% is forgiven	If 90% is forgiven
$1,200	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47
$1,500	100.13	116.13	114.53	112.93	112.13	111.33	109.73	108.13	106.53	104.93	104.13	103.33	101.73
$1,800	172.00	206.40	202.96	199.52	197.80	196.08	192.64	189.20	185.76	182.32	180.60	178.88	175.44
$2,000	219.91	266.58	261.91	257.24	254.91	252.58	247.91	243.24	238.58	233.91	231.58	229.24	224.58
$2,500	339.69	417.02	409.29	401.56	397.69	393.82	386.09	378.36	370.62	362.89	359.02	355.16	347.42
$3,200	507.38	627.65	615.62	603.59	597.58	591.57	579.54	567.51	555.49	543.46	537.45	531.43	519.41
$3,300	534.33	661.73	648.99	636.25	629.88	623.51	610.77	598.03	585.29	572.55	566.18	559.81	547.07
$5,000	992.58	1,241.25	1,216.38	1,191.51	1,179.08	1,166.65	1,141.78	1,116.91	1,092.05	1,067.18	1,054.75	1,042.31	1,017.45
$10,000	2,676.36	3,393.69	3,321.96	3,250.23	3,214.36	3,178.49	3,106.76	3,035.03	2,963.29	2,891.56	2,855.69	2,819.83	2,748 09
$15,000	4,854.13	6,204.80	6,069.73	5,934.66	5,867.13	5,799.60	5,664.53	5,529.46	5,394.40	5,259.33	5,191.80	5,124.26	4,989.20
$20,000	7,531.91	9,682.58	9,467.51	9,252.44	9,144.91	9,037.38	8,822.31	8,607.24	8,392.18	8,177.11	8,069.58	7,962.04	7,746.98
$25,000	10,577.69	13,651.02	13,343.69	13,036.36	12,882.69	12,729.02	12,421.69	12,114.36	11,807.02	11,499.69	11,346.02	11,192.36	10,885.02
$50,000	28,074.58	36,517.25	35,672.98	34,828.71	34,406.58	33,984.45	33,140.18	32,295.91	31,451.65	30,607.38	30,185.25	29,763.11	28,918.85
$100,000	69,584.36	90,937.69	88,802.36	86,667.03	85,599.36	84,531.69	82,396.36	80,261.03	78,125.69	75,990.36	74,922.69	73,855.03	71,719.69
$250,000	207,857.69	272,524.36	266,057.69	259,591.02	256,357.69	253,124.36	246,657.69	240,191.02	233,724.36	227,257.69	224,024.36	220,791.02	214,324.36
$500,000	441,746.58	579,746.58	565,946.58	552,146.58	545,246.58	538,346.58	524,546.58	510,746.58	496,946.58	483,146 58	476,246.58	469,346.58	455,546.58
$1,000,000	900,000.00	1,184,666.67	1,156,200.00	1,127,733.33	1,113,500.00	1,099,266.67	1,070,800.00	1,042,333.33	1,013,866.67	985,400.00	971,166.67	956,933.33	928,466.67
$2,000,000	1,800,000.00	2,378,000.00	2,320,200.00	2,262,400.00	2,233,500.00	2,204,600.00	2,146,800.00	2,089,000.00	2,031,200.00	1,973,400.00	1,944,500.00	1,915,600.00	1,857,800.00
$5,000,000	4,500,000.00	5,958,000.00	5,812,200.00	5,666,400.00	5,593,500.00	5,520,600.00	5,374,800.00	5,229,000.00	5,083,200.00	4,937,400.00	4,864,500.00	4,791,600.00	4,645,800.00

[1] Computed on a gross income reduced by 10 percent in arriving at specified net income.

TABLE 10.—*Married person, no dependents—Total current burden if unforgiven 1942 tax is paid in 4 years*

Net income before personal exemption	Current tax including gross Victory tax [1]	Current tax plus unforgiven 1942 tax under various percentages forgiven											
		If no forgiveness	If 10% is forgiven	If 20% is forgiven	If 25% is forgiven	If 30% is forgiven	If 40% is forgiven	If 50% is forgiven	If 60% is forgiven	If 70% is forgiven	If 75% is forgiven	If 80% is forgiven	If 90% is forgiven
$1,200	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47
$1,500	100.13	112.13	110.93	109.73	109.13	108.53	107.33	106.13	104.93	103.73	103.13	102.53	101.33
$1,800	172.00	197.80	195.22	192.64	191.35	190.06	187.48	184.90	182.32	179.74	178.45	177.16	174.58
$2,000	219.91	254.91	251.41	247.91	246.16	244.41	240.91	237.41	233.91	230.41	228.66	226.91	223.41
$2,500	339.69	397.69	391.89	386.09	383.19	380.29	374.49	368.69	362.89	357.09	354.19	351.29	345.49
$3,200	507.38	597.58	588.56	579.54	575.03	570.52	561.50	552.48	543.46	534.44	529.93	525.42	516.40
$3,300	534.33	629.88	620.33	610.77	605.99	601.22	591.66	582.11	572.55	563.00	558.22	553.44	543.89
$5,000	992.58	1,179.08	1,160.43	1,141.78	1,132.46	1,123.13	1,104.48	1,085.83	1.067.18	1,048.53	1,039.21	1.029.88	1,011.23
$10,000	2 676.36	3,214.36	3,160.56	3,106.76	3,079.86	3,052.96	2,999.16	2.945.36	2.891.56	2,837.76	2,810.86	2,783.96	2,730.16
$15,000	4,854.13	5,867.13	5,765.83	5.664.53	5,613.88	5,563.23	5,461.93	5.360.63	5,259.33	5.158.03	5,107.38	5,056.73	4,955.43
$20,000	7,531.91	9,144.91	8.983.61	8,822.31	8,741.66	8,661.01	8.499.71	8.338.41	8,177.11	8.015.81	7,935.16	7,854.51	7,693.21
$25,000	10,577.69	12,882.69	12.652.19	12,421.69	12,306.44	12,191.19	11.960.69	11,730.19	11.499.69	11,269.19	11,153.94	11,038.69	10,808.19
$50,000	28,074.58	34,406.58	33.773.38	33,140.18	32.823.58	32,506.98	31,873.78	31.240.58	30,607.38	29,974.18	29.657.58	29,340.98	28,707.78
$100,000	69,534.36	85,599.36	83,997.86	82,396.36	81,595.61	80,794.86	79.193.36	77,591.86	75,990.36	74.388.86	73,588.11	72.787.36	71.185.86
$250,000	207,857.69	256,357.69	251,507.69	246,657.69	244.232.69	241,807.69	236,957.69	232,107.69	227,257.69	222.407.69	219,982.69	217,557.69	212,707.69
$500,000	441,746.58	545.246.58	534,896.58	524,546.58	519,371.58	514.196.58	503,846.58	493.496.58	483,146.58	472,796.58	467,621.58	462,446.58	452,096.58
$1,000,000	900,000.00	1.113,500.00	1,092,150.00	1,070,800.00	1,060,125.00	1,049,450.00	1,028,100.00	1.006.750.00	985,400.00	964,050.00	953.375.00	942.700.00	921,350.00
$2,000,000	1,800,000.00	2.233,500.00	2,190,150.00	2,146 800.00	2,125,125.00	2,103,450.00	2,060.100.00	2,016.750.00	1.973.400.00	1.930,050.00	1,908,375.00	1,886,700.00	1,843,350.00
$5,000,000	4,500,000.00	5,593,500.00	5.484,150.00	5,374,800.00	5,320,125.00	5,265,450.00	5,156,100.00	5.046.750.00	4,937,400.00	4.828.050.00	4,773,375.00	4,718,700.00	4,609,350.00

[1] Computed on a gross income reduced by 10 percent in arriving at specified net income.

TABLE 11.—*Married perosn, no dependents—Total current burdens if unforgiven 1942 tax is paid in 5 years*

Net income before personal exemption	Current tax including gross Victory tax	If no forgiveness	If 10 percent is forgiven	If 20 percent is forgiven	If 25 percent is forgiven	If 30 percent is forgiven	If 40 percent is forgiven	If 50 percent is forgiven	If 60 percent is forgiven	If 70 percent is forgiven	If 75 percent is forgiven	If 80 percent is forgiven	If 90 percent is forgiven
$1,200	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47	$35.47
$1,500	100.13	109.73	108.77	107.81	107.33	106.85	105.89	104.93	103.97	103.01	102.53	102.05	101.09
$1,800	172.00	192.64	190.58	188.51	187.48	186.45	184.33	182.32	180.26	178.19	177.16	176.13	174.06
$2,000	219.91	247.91	245.11	212.31	240.91	239.51	236.71	233.91	231.11	228.31	226.91	225.51	222.71
$2,500	339.69	386.09	381.45	376.81	374.49	372.17	367.53	362.89	358.25	353.61	351.29	348.97	344.33
$3,200	507.38	579.54	572.32	565.11	561.50	557.89	550.63	543.46	536.24	529.03	525.42	521.81	514.60
$3,300	534.33	610.77	603.13	595.48	591.66	587.84	580.19	572.55	564.91	557.26	553.44	549.62	541.97
$5,000	992.58	1,141.78	1,126.86	1,111.94	1,104.48	1,097.02	1,082.10	1,067.18	1,052.26	1,037.34	1,029.88	1,022.42	1,007.50
$10,000	2,676.36	3,106.76	3,063.72	3,020.68	2,999.16	2,977.64	2,934.60	2,891.56	2,348.52	2,805.48	2,783.96	2,762.44	2,719.40
$15,000	4,854.13	5,654.53	5,583.49	5,502.45	5,461.93	5,421.41	5,340.37	5,259.33	5,178.29	5,097.25	5,056.73	5,016.21	4,935.17
$20,000	7,531.91	8,822.31	8,693.27	8,564.23	8,499.71	8,435.19	8,306.15	8,177.11	8,048.07	7,919.03	7,854.51	7,789.99	7,660.95
$25-000	10,577.69	12,421.69	12,237.29	12,052.89	11,960.69	11,868.49	11,684.09	11,499.69	11,315.29	11,130.89	11,038.69	10,946.49	10,762.09
$50,000	28,074.58	33,140.18	32,633.62	32,127.06	31,873.78	31,620.50	31,113.94	30,607.38	30,100.82	29,594.26	29,340.98	29,087.70	28,581.14
$100,000	69,584.36	82,396.36	81,115.16	79,833.96	79,193.36	78,552.76	77,271.56	75,990.36	74,709.16	73,427.96	72,787.36	72,146.76	70,865.56
$250,000	207,857.69	246,657.69	242,777.69	238,897.69	236,957.69	235,017.69	231,137.69	227,257.69	223,377.69	219,497.69	217,557.69	215,617.69	211,737.69
$500,000	441,746.58	524,546.58	516,266.58	507,986.58	503,846.58	499,706.58	491,426.58	483,146.58	474,866.58	466,586.58	462,446.58	458,306.58	450,026.58
$1,000,000	900,000.00	1,070,800.00	1,053,720.00	1,036,640.00	1,028,100.00	1,019,530.00	1,002,480.00	985,400.00	968,320.00	951,240.00	942,700.00	934,160.00	917,080.00
$2,000,000	1,890,000.00	2,146,800.00	2,112,120.00	2,077,440.00	2,060,100.00	1,042,760.00	2,008,080.00	1,973,400.00	1,938,720.00	1,904,040.00	1,886,700.00	1,839,360.00	1,834,680.00
$5,000,000	4,500,000.00	5,374,800.00	5,287,320.00	5,199,840.00	5,156,100.00	5,112,360.00	5,024,880.00	4,937,400.00	4,849,920.00	4,762,440.00	4,718,700.00	4,674,960.00	4,587,480.00

TABLE 12.—*Estimated amounts of 1942 liability canceled under various alternatives, and amount of liability remaining*

Percentage of liability canceled	Amount of liability canceled (millions of dollars)	Amount of liability remaining (millions of dollars)
(a) Equal percentage of tax reduction for all taxpayers:		
0	0	9, 451
10	945	8, 506
20	1, 890	7, 561
25	2, 363	7, 088
30	2, 835	6, 616
40	3, 780	5, 671
50	4, 726	4, 726
60	5, 671	3, 780
70	6, 616	2, 835
75	7, 088	2, 363
80	7, 561	1, 890
90	8, 506	945
100	9, 451	0
(b) House bill:		
77	7, 237	2, 214
(c) Ruml-Carlson bill:		
88	8, 318	1, 133
(d) Ways and Means Committee bill:		
49	4, 671	4, 780

TABLE 13.—*Married person, no dependents—Comparison of tax payable on 1942 income under Ruml-Carlson plan, and House bill with tax payable on like incomes in prior years*

Net income before personal exemption	Tax payable under—		Tax payable in prior years							
	Ruml-Carlson plan	House bill	In 1941	In 1940	In 1936 1937, 1938, and 1939	In 1934 and 1935	In 1932 and 1933	In 1921	In 1919 and 1920	In 1918
$1,200	---	---	---	---	---	---	---	---	---	---
$1,500	---	---	---	---	---	---	---	---	---	---
$1,800	---	---	$22.80	---	---	---	---	---	---	---
$2,000	---	---	42.00	---	---	---	---	---	---	---
$2,500	---	---	90.00	$11.00	---	---	---	---	$20.00	$30.00
$3,200	---	---	157.20	38.72	$15.20	$15.20	$28.00	$28.00	48.00	72.00
$3,300	---	$3.00	166.80	42.68	18.80	18.80	32.00	32.00	52.00	78.00
$5,000	---	54.00	375.00	110.00	80.00	80.00	100.00	100.00	120.00	180.00
$10,000	---	540.00	1,305.00	528.00	415.00	415.00	480.00	590.00	590.00	830.00
$15,000	---	1,514.00	2,739.00	1,258.40	924.00	924.00	1,020.00	1,230.00	1,230.00	1,670.00
$20,000	---	2,964.00	4,614.00	2,336.40	1,589.00	1,589.00	1,680.00	1,990.00	1,990.00	2,630.00
$25,000	---	4,782.00	6,864.00	3,843.40	2,489.00	2,489.00	2,520.00	2,880.00	2,880.00	3,720.00
$50,000	---	16,140.00	20,439.00	14,128.40	8,869.00	8,869.00	8,600.00	9,190.00	9,190.00	11,030.00
$100,000	---	45,372.00	52,704.00	43,476.40	32,469.00	30,594.00	30,100.00	31,190.00	31,190.00	35,030.00
$250,000	---	146,812.00	157,659.00	146,863.60	128,294.00	115,944.00	115,600.00	127,190.00	127,190.00	137,030.00
$500,000	---	319,312.00	345,084.00	330,155.60	304,144.00	263,944.00	263,600.00	303,190.00	303,190.00	323,030.00
$1,000,000	---	664,312.00	732,554.00	717,583.60	679,044.00	571,394.00	571,190.00	663,190.00	663,190.00	703,030.00
$2,000,000	---	1,354,312.00	1,522,539.00	1,510,565.60	1,449,019.00	1,201,369.00	1,201,100.00	1,393,190.00	1,393,190.00	1,473,030.00
$5,000,000	---	3,424,312.00	3,922,524.00	3,916,547.60	3,738,994.00	3,091,369.00	3,091,100.00	3,583,190.00	3,583,190.00	3,783,030.00

TABLE 14.—*Single person, no dependents—Comparison of tax payable on 1942 income under Ruml-Carlson plan and House bill with tax payable on like incomes in prior years*

Net income before personal exemption	Tax payable under—		Tax payable in prior years									
	Ruml-Carlson plan	House bill	In 1941	In 1940	In 1936, 1937, 1938, and 1939	In 1934 and 1935	In 1932 and 1933	In 1919, 1920, and 1921	In 1918	In 1917	In 1916	In 1913, 1914, and 1915
$500												
$600												
$750												
$800			$3.00									
$1,000			21.00	$4.40								
$1,200			40.20	12.32	$3.20	$3.20	$8.00	$8.00	$12.00	$4.00		
$1,500			69.00	24.20	14.00	14.00	20.00	20.00	30.00	10.00		
$1,800			97.80	36.08	24.80	24.80	32.00	32.00	48.00	16.00		
$2,000			117.00	44.00	32.00	32.00	40.00	40.00	60.00	20.00		
$2,500			165.00	63.80	50.00	50.00	60.00	60.00	90.00	30.00		
$3,000		$15.00	220.50	83.60	68.00	68.00	80.00	80.00	120.00	40.00		
$5,000		95.00	482.50	171.60	140.00	140.00	160.00	160.00	240.00	120.00	$40.00	$20.00
$10,000		645.00	1,492.50	686.40	560.00	560.00	600.00	670.00	950.00	395.00	140.00	70.00
$15,000		1,695.00	2,994.00	1,476.20	1,104.00	1,104.00	1,140.00	1,310.00	1,790.00	770.00	240.00	120.00
$20,000		3,195.00	4,929.00	2,666.40	1,834.00	1,834.00	1,800.00	2,070.00	2,750.00	1,220.00	340.00	170.00
$25,000		5,055.00	7,224.00	4,252.60	2,804.00	2,804.00	2,640.00	2,960.00	3,840.00	1,820.00	490.00	270.00
$50,000		16,490.00	20,881.50	14,709.20	9,334.00	9,334.00	8,720.00	9,270.00	11,150.00	5,220.00	1,340.00	770.00
$100,000		45,820.00	53,214.00	44,268.40	33,354.00	31,404.00	30,220.00	31,270.00	35,150.00	16,220.00	3,940.00	2,520.00
$250,000		147,295.00	158,191.50	147,576.40	129,284.00	116,864.00	115,720.00	127,270.00	137,150.00	69,720.00	15,940.00	10,020.00
$500,000		319,795.00	345,654.00	330,933.20	305,224.00	264,844.00	263,720.00	303,270.00	323,150.00	192,720.00	42,940.00	25,020.00
$1,000,000		664,795.00	733,139.00	718,404.40	680,184.00	572,324.00	571,220.00	663,270.00	703,150.00	475,220.00	102,940.00	60,020.00
$2,000,000		1,354,795.00	1,523,131.50	1,511,397.20	1,450,174.00	1,202,314.00	1,201,220.00	1,393,270.00	1,473,150.00	1,130,220.00	237,940.00	130,020.00
$5,000,000		3,424,795.00	3,923,124.00	3,917,390.00	3,790,164.00	3,092,314.00	3,091,220.00	3,583,270.00	3,783,150.00	3,140,220.00	687,940.00	340,020.00

TABLE 15.—*Individual net income tax: Estimated number of taxpayers for the income years 1942 and 1943, by size of surtax net income and type of income*

ESTIMATED NUMBER OF TAXABLE INCOME RECIPIENTS [1]

[In millions]

Type of income	1942			1943		
	Total	Surtax net income		Total	Surtax net income	
		Not over $2,000	Over $2,000		Not over $2,000	Over $2,000
Wages and salaries with not more than a nominal amount of other income	28	26.5	1.5	32	30	2
All other [2]	11	9.0	2.0	12	10	2
Total	39	35.5	3.5	44	40	4

ESTIMATED NUMBER OF TAXABLE RETURNS [3]

Type of income	1942 Total	1942 Not over $2,000	1942 Over $2,000	1943 Total	1943 Not over $2,000	1943 Over $2,000
Wages and salaries with not more than a nominal amount of other income	25	23.5	1.5	29	27	2
All other [2]	10	8.0	2.0	11	9	2
Total	35	31.5	3.5	40	36	4

[1] Number of individuals receiving net income in excess of exemption.

[2] Including sources other than wages and salaries, and also wages and salaries combined with more than a nominal amount of other income.

[3] Number of returns that will be filed on which a tax will be due. This is less than the number of taxable income recipients because of the filing of joint returns including the income of more than 1 taxable income recipient, particularly in the smaller income classes.

Source: U. S. Treasury Department; Hearings before the Ways and Means Committee, February 2, 1943

TABLE 16.—*Estimated number of taxpayers, net income and taxes (excluding Victory tax) under present law, at income levels estimated for calendar years 1942 and 1943, distributed by net income*

[Money amounts in millions of dollars; number of taxpayers in thousands]

TAX

Net income class (thousand dollars)	Simple distribution				Cumulative distribution from lowest income class				Cumulative distribution from highest income class			
	Amount		Percent		Amount		Percent		Amount		Percent	
	1943	1942	1943	1942	1943	1942	1943	1942	1943	1942	1943	1942
Under 1	359	318	2.99	3.24	359	318	2.99	3.24	11,989	9,815	100.00	100.00
1 to 2	2,534	2,170	21.14	22.11	2,893	2,488	24.13	25.35	11,630	9,497	97.01	96.76
2 to 3	1,395	1,176	11.64	11.99	4,288	3,664	35.77	37.34	9,096	7,327	75.87	74.65
3 to 4	1,243	927	10.37	9.44	5,531	4,591	46.14	46.78	7,701	6,151	64.23	62.66
4 to 5	874	645	7.29	6.57	6,405	5,236	53.43	53.35	6,458	5,224	53.86	53.22
5 to 10	1,233	1,024	10.28	10.43	7,638	6,260	63.71	63.78	5,584	4,579	46.57	46.65
10 to 25	1,385	1,193	11.55	12.15	9,023	7,453	75.26	75.93	4,351	3,555	36.29	36.22
25 to 100	1,710	1,470	14.26	14.98	10,733	8,923	89.52	90.91	2,966	2,362	24.74	24.07
100 to 200	570	397	4.75	4.05	11,303	9,320	94.27	94.96	1,256	892	10.48	9.09
200 to 500	395	275	3.30	2.80	11,698	9,595	97.57	97.76	686	495	5.73	5.04
500 to 1,000	180	126	1.50	1.28	11,878	9,721	99.07	99.04	291	220	2.43	2.24
1,000 and over	111	94	.93	.96	11,989	9,815	100.00	100.00	111	94	.93	.96
Total	11,989	9,815	100.00	100.00								

NOTE.—Figures are rounded and will not necessarily add to totals.
Source: U. S. Treasury Department; hearings before the Ways and Means Committee, Feb. 2, 1943.

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TABLE 17.—*Estimated number of taxpayers, net income and taxes (excluding Victory tax) under present law, at income levels estimated for calendar years 1942 and 1943, distributed by net income classes*

[Money amounts in millions of dollars; number of taxpayers in thousands]

NUMBER OF TAXPAYERS

Net income class (thousand dollars)	Simple distribution				Cumulative distribution from lowest income class				Cumulative distribution from highest income class			
	Amount		Percent		Amount		Percent		Amount		Percent	
	1943	1942	1943	1942	1943	1942	1943	1942	1943	1942	1943	1942
Under 1	10,280	9.385	23.33	24.17	10,280	9,385	23.33	24.17	44.064.5	38,831.5	100.00	100.00
1 to 2	19,042	17,363	43.21	44.71	29,322	26,748	66.54	68.88	33,784.5	29.446.5	76.67	75.83
2 to 3	7,931	6,887	18.00	17.74	37,253	33,635	84.54	86.62	14,742.5	12,083.5	33.46	31.12
3 to 4	3,616	2,697	8.21	6.95	40,868	36,332	92.75	93.75	6,811.5	5,196.5	15.46	13.38
4 to 5	1,605	1,176	3.64	3.03	42,474	37,509	96.39	96.60	3,196.5	2,499.5	7.25	6.43
5 to 10	1,145	943	2.60	2.43	43,619	38,452	98.99	99.03	1,590.5	1,322.5	3.61	3.40
10 to 25	350	299	.79	.77	43,969	38,751	99.78	99.80	445.5	379.5	1.01	.97
25 to 100	87	75	.20	.19	44,056	38,826	99.98	99.99	95.5	80.5	.22	.20
100 to 200	6.2	4.3	.02	.01	44,062.4	38,830.0	100.00	100.00	8.3	5.8	.02	.01
200 to 500	1.7	1.2	[1]	[1]	44,064.1	38,831.2	100.00	100.00	2.1	1.5	[1]	[1]
500 to 1,000	.3	.2	[1]	[1]	44,064.4	38,831.4	100.00	100.00	.4	.3	[1]	[1]
1,000 and over	.07	.06	[1]	[1]	44,064.5	38,831.5	100.00	100.00	.07	.06	[1]	[1]
Total	44,064.5	38,831.5	100.00	100.00								

NET INCOME

Net income class (thousand dollars)	Simple distribution				Cumulative distribution from lowest income class				Cumulative distribution from highest income class			
	Amount		Percent		Amount		Percent		Amount		Percent	
	1943	1942	1943	1942	1943	1942	1943	1942	1943	1942	1943	1942
Under 1	$7,767	$7,335	8.41	9.34	$7,767	$7,335	8.41	9.34	$92,395	$78,520	100.00	100.00
1 to 2	28,319	25,278	30.65	32.20	36,086	32,613	39.06	41.54	84,628	71,185	91.59	90.66
2 to 3	18,924	16,521	20.48	21.04	55,010	49,134	59.54	62.58	56,309	45,907	60,94	58.46
3 to 4	12,467	9,329	13.49	11.88	67,477	58,463	73.03	74.46	37,385	29,386	40.46	37.42
4 to 5	7,120	5,239	7.71	6.67	74,597	63,702	80.74	81.13	24,918	20,057	26.97	25.54
5 to 10	7,470	6,178	8.08	7.87	82,067	69,880	88.82	89.00	17,798	14,818	19.26	18.87
10 to 25	5,083	4,373	5.50	5.57	87,150	74,253	94.32	94.57	10,328	8,640	11.18	11.00
25 to 100	3,571	3,072	3.87	3.91	90,721	77,325	98.19	98.48	5,245	4,267	5.68	5.43
100 to 200	823	575	.89	.73	91,544	77,900	99.08	99.21	1,674	1,195	1.81	1.52
200 to 500	501	352	.54	.45	92,045	78,252	99.62	99.66	851	620	.92	.79
500 to 1,000	215	151	.23	.19	92,260	78,403	99.85	99.85	350	268	.38	.34
1,000 and over	135	117	.15	.15	92,395	78,520	100.00	100.00	135	117	.15	.15
Total	92,395	78,520	100.00	100.00								

[1] Less than 0.005 percent.

Source: U. S. Treasury Department; Hearings before the Ways and Means Committee, Feb. 2, 1943.

Mr. STAM. Canada has recently adopted a pay-as-you-go system, and as far as earned income was concerned 50 percent of the 1942 liability was canceled. But even in Canada, as their tables show, there was a certain doubling up required by virtue of going over to that system. In other words, they did use this method to collect in 1943 some additional revenue in respect of the 1942 liability.

Senator CLARK. Mr. Stam, would you explain to the committee something about that Canadian system? I understand that the Canadians, in trying to go to a pay-as-you-go system, made a distinction not as to the amount of income, they treated all classes of income alike, but they did make a distinction as to a carry-over between earned income and income from capital investment. Is not that correct?

Mr. STAM. That is right.

Senator CLARK. So as to classes of income, that is to say, sources of income, they treated everybody alike, but they did make a distinction and permitted a carry-over of income from capital investments, or income other than earned income, to be collected, as I understand it, at the death of the taxpayer.

Mr. STAM. It could be collected any time up to the death of the taxpayer. What the Canadians did was they forgave or canceled 50 percent of the 1942 liability in the case of earned income. Investment income up to $3,000 was treated as earned income. In the case of investment income 50 percent of the 1942 liability was deferred, and liability which was deferred could be paid by the taxpayer at any time prior to death.

Senator CLARK. But if it was not paid prior to death it was then an income tax to be paid by the estate and not an estate tax.

Mr. STAM. Not an estate tax.

Senator BYRD. Mr. Stam, at that point, about the 50 percent of investment income that was deferred, did they have to pay it in full or did they have the advantage of the insurance tables, for example?

Mr. STAM. They had the advantage of the insurance tables. They could pay it on the basis of the mortality table if they paid it on or before a certain date. I think I have a reference to that.

As to this deferred portion, it was provided that the taxpayer might liquidate this liability by a system of discounts, at 2 percent, according to mortality tables to be approved by the Minister of Finance, if he wanted to.

Senator BYRD. That is, he could immediately discharge this deferred claim against him under the actuarial tables of the insurance companies?

Mr. STAM. That is right.

Senator GERRY. Under the Canadian estate-tax law, can they deduct the income tax before reaching the amount of the estate tax?

Mr. STAM. I will be glad to look that up for you. I really don't know, Senator Gerry.

Senator GERRY. Well, it is not important.

Mr. STAM. The Minister of Finance, when he explained this plan to the Parliament in Canada, said:

> There is good reason to distinguish between earned income and investment income in making this adjustment to the pay-as-we-earn plan. The reason for making the change arises almost entirely from the side of earned income. We wish to overcome the tax difficulties of those whose earnings cease or are reduced

because they retire or die, or because they enter the armed forces, or lose their jobs. In these circumstances there are much lower earnings, or no earnings, out of which to pay the tax due on past earnings.

In the case of investment income there is almost always capital out of which such remaining taxes can be paid following the death of the taxpayer, or in other circumstances.

Moreover, most investment incomes are not so likely to decline rapidly, nor to cease as are earned incomes. There is not such great need, therefore, to tax investment income on a current basis. Indeed the question of a change would never have arisen, I feel sure, if only investment income were concerned. It is not practical, however, to put one type of income on a current basis and not the other. Therefore we must make the shift in the collection of taxes on investment income even though it is not required on its own merits. In doing so, however, we do not need to relieve the taxpayer of a tax which he or the estate is quite able to meet out of capital if not out of income. The course of action proposed is well in accord with the principles of taxing on the basis of ability to pay.

I merely brought it up to show you that in Canada they do make a distinction between earned income and investment income.

We would have some difficulty, I think, under our tax law, from the administrative standpoint, in making any distinction between earned and investment income with respect to the 1942 liability, because the tax for 1942 has already been assessed. If you can look at the assessed tax without having to reexamine the return, it will make the administrative burden much easier.

Senator BYRD. Under the Canadian plan, Mr. Stam, what happens to the 50 percent of the earned income that is not canceled? When does he pay that?

Mr. STAM. The 50 percent of the earned income that is not canceled has to be paid in the current year.

Senator BYRD. That is doubled up?

Mr. STAM. That is doubled up. Of course they have paid quite a lot of that already, because they were almost on a current system in 1942 so the doubling up would not be anything like as severe as in this country if we are required to hold 50 percent of the tax to be paid in the current year in addition to the current liability.

Senator WALSH. Mr. Stam?

Mr. STAM. Yes; Senator Walsh.

Senator WALSH. If a taxpayer with a limited income died in November or December of 1942, his estate or his executor would have to pay an estate tax and pay an income tax for that year?

Mr. STAM. That is right.

Senator WALSH. What do you say to a plan of putting everybody on a current basis and having a provision that at the time of death the taxes that have been forgiven for the year 1942, if that is the year, should be paid as income taxes in addition to the estate tax? Nobody is forgiven, everybody has to pay. Isn't it a reasonable solution of the whole problem?

Mr. STAM. Well, the only difficulty with a proposition of that sort is, the long time it will take before the tax is paid. In other words, the liability may be outstanding for a long period of time.

One thought, it seems to me, that is important in connection with this problem is that at the present time we are in years of rising incomes, and I do not know how long we are going to be in these years of rising incomes. It may be better, even at the risk of some cancelation, to try to collect as much tax as we can in the next few years.

Senator WALSH. I cannot see that objection, Mr. Stam, but on the program before us we ought to provide for some cancelation and for wiping off some part of the debt of most of the taxpayers.

Mr. STAM. That is right.

Senator WALSH. This plan would wipe out no debt, it will simply postpone the payment of it.

Mr. STAM. That is right.

Senator WALSH. Put everybody on the current basis. In time of death, if they had a little estate the tax would be light, and if they had a heavy estate they would pay the full tax. I want you to think of it.

Mr. STAM. I will be glad to.

Senator BYRD. The same provisions as apply in Canada would apply in this country if they pay in full in accordance with the mortality tables.

Mr. STAM. That is right.

Senator BYRD. That would probably bring in extra money.

Mr. STAM. That is right.

Senator BYRD. This 1942 cancelation, that only becomes effective in the revenue upon death, when a taxpayer ceases to earn. Isn't that correct?

Mr. STAM. That is right. I would like to point out from the Canadian tables how much certain individuals are required to double up in order to get up on this current basis. This is on page 88, if you have the Canadian report. These tables are as follows:

CANADIAN TABLES

Table showing effect of proposed adjustment of 1942 tax liability on wages and salaries (earned income)

1. SINGLE PERSONS WITHOUT DEPENDENTS

1942 income [1]	Tax liability on 1942 income (before adjustment)		Amount deducted from wages or salary in 1942						Amount remaining to be paid, i. e., 50 percent of unadjusted tax liability less total deducted from wages or salary in 1942	
			Person with no savings credits			Person with full savings credits				
	Person with no savings credits	Person with full savings credits	National defense tax, January to August	Income tax, September to December	Total (national defense tax plus income tax)	National defense tax, January to August	Income tax, September to December	Total (national defense tax plus income tax)	Person with no savings credits	Person with full savings credits
$700	$40	$20	$24	$2	$26	$24	....	$24	−$6	−$14
$850	116	58	29	23	52	29	$7	36	6	−7
$1,000	172	92	34	38	72	34	15	49	14	−3
$1,250	267	167	59	61	120	59	31	90	14	−6
$1,500	367	247	71	83	154	71	48	119	30	4
$1,750	471	331	82	111	193	82	70	152	43	13
$2,000	601	441	94	143	237	94	97	191	63	29
$2,250	713	533	105	175	280	105	122	227	76	40
$2,500	826	626	117	209	326	117	149	266	87	47
$3,000	1,064	824	140	273	413	140	201	341	119	71
$4,000	1,594	1,274	187	416	603	187	320	507	194	130
$5,000	2,128	1,728	233	561	794	233	441	674	270	190
$7,500	3,570	2,970	350	954	1,304	350	774	1,124	481	361
$10,000	5,112	4,312	467	1,378	1,845	467	1,138	1,605	711	551
$20,000	11,829	11,029	933	3,238	4,171	933	2,998	3,931	1,744	1,584
$30,000	19,196	18,396	1,400	5,202	6,602	1,400	5,052	6,452	2,906	2,746
$50,000	34,963	34,163	2,333	9,711	12,044	2,333	9,471	11,804	5,437	5,277

Minus (−) amounts will be allowed as credits or refunds.

[1] It is assumed that incomes of less than $2,000 per year are paid weekly, and higher incomes monthly for ... time deductions.

Table showing effect of proposed adjustment of 1942 tax liability on wages and salaries (earned income)—Continued

2. MARRIED PERSONS WITHOUT OTHER DEPENDENTS

1942 income	Tax liability on 1942 income (before adjustment)		Amount deducted from wages or salary in 1942						Amount remaining to be paid, i. e., 50 percent of unadjusted tax liability less total deducted from wages or salary in 1942	
			Person with no savings credits			Person with full savings credits				
	Person with no savings credits	Person with full savings credits	National defense tax, January to August	Income tax, September to December	Total (national defense tax plus income tax)	National defense tax, January to August	Income tax, September to December	Total (national defense tax plus income tax)	Person with no savings credits	Person with full savings credits
$1,250	$50	$25	$42	$4	$46	$42	....	$42	−$21	−$30
$1,300	100	50	44	15	59	44	....	44	−9	−19
$1,500	217	109	50	46	96	50	$15	65	13	−11
$1,750	321	161	59	74	133	59	27	86	27	−6
$2,000	431	231	67	102	169	67	44	111	46	4
$2,250	541	316	75	134	209	75	67	142	62	16
$2,500	651	401	83	168	251	83	93	176	75	25
$3,000	884	584	100	232	332	100	142	242	110	50
$4,000	1,364	904	133	365	498	133	245	378	184	104
$5,000	1,878	1,378	167	508	675	167	358	525	264	164
$7,500	3,270	2,520	250	898	1,148	250	673	923	487	337
$10,000	4,762	3,762	333	1,318	1,651	333	1,018	1,351	730	580
$20,000	11,279	10,279	667	3,161	3,828	667	2,861	3,528	1,811	1,611
$30,000	18,446	17,446	1,000	5,200	6,200	1,000	4,900	5,900	3,023	2,823
$50,000	33,813	32,813	1,667	9,588	11,255	1,667	9,288	10,955	5,651	5,451

Minus (—) amounts will be allowed as credits or refunds.

3. MARRIED PERSONS WITH TWO DEPENDENTS

$1,250	$32	$16	$15	$5	$20	$15	....	$15	−$4	−$7
$1,300	35	18	17	5	22	17	....	17	−4	−8
$1,400	42	21	20	6	26	20	....	20	−5	−10
$1,600	49	25	24	7	31	24	....	24	−6	−11
$1,750	105	53	32	20	52	32	$5	37	1	−10
$2,000	215	107	41	47	88	41	17	58	20	−4
$2,250	325	163	48	78	126	48	31	79	36	2
$2,500	435	217	57	111	168	57	46	103	49	5
$3,000	663	334	73	176	249	73	76	149	85	18
$4,000	1,148	668	107	308	415	107	164	271	159	63
$5,000	1,602	1,062	140	452	592	140	272	412	239	119
$7,500	3,054	2,154	223	842	1,065	223	572	795	402	282
$10,000	4,546	3,346	307	1,261	1,568	307	901	1,208	705	465
$20,000	11,063	9,863	640	3,106	3,746	640	2,746	3,386	1,786	1,546
$30,000	18,230	17,030	973	5,145	6,118	973	4,785	5,758	2,997	2,757
$50,000	33,597	32,397	1,640	9,532	11,172	1,640	9,172	10,812	5,626	5,386

Minus (—) amounts will be allowed as credits or refunds.

Table showing effects of proposed adjustment of 1942 tax liability on investment incomes

SINGLE PERSONS WITHOUT DEPENDENTS

1942 income	Tax liability on 1942 income (before adjustment)		Adjusted liability on 1942 income; payable during 1942 and 1943 [1]		Deferred liability due at death of taxpayer	
	Persons with no savings credits	Persons with full savings credits	Persons with no savings credits	Persons with full savings credits	Persons with no savings credits	Persons with full savings credits
$700	$40	$20	$20	$10		
$850	116	58	58	29		
$1,000	172	92	86	46		
$1,250	267	167	134	84		
$1,500	367	217	184	123		
$1,750	481	341	240	170		
$2,000	621	461	310	230		
$2,250	743	563	372	282		
$2,500	866	666	433	333		
$3,000	1,124	884	562	442		
$4,000	1,694	1,374	847	687	$212	$172
$5,000	2,268	1,868	1,134	934	454	374
$7,500	3,810	3,210	1,905	1,605	1,143	963
$10,000	5,452	4,652	2,726	2,326	1,908	1,628
$20,000	12,569	11,769	6,284	5,884	5,342	5,002
$30,000	20,336	19,536	10,168	9,768	9,151	8,791
$50,000	36,903	36,103	18,451	18,051	17,344	16,968
$100,000	82,337	81,537	41,168	40,768	39,933	39,545
$500,000	474,304	473,504	237,152	236,752	235,729	235,331

MARRIED PERSONS WITH NO OTHER DEPENDENTS

1942 income	Tax liability, no savings credits	Tax liability, full savings credits	Adjusted, no savings credits	Adjusted, full savings credits	Deferred, no savings credits	Deferred, full savings credits
$1,250	$50	$25	$25	$12		
$1,300	100	50	50	25		
$1,500	217	109	109	54		
$1,750	331	165	165	83		
$2,000	451	251	225	125		
$2,250	571	346	285	173		
$2,500	691	441	345	220		
$3,000	944	644	472	322		
$4,000	1,464	1,064	732	532	$183	$133
$5,000	2,018	1,518	1,009	759	404	304
$7,500	3,510	2,760	1,755	1,380	1,053	828
$10,000	5,102	4,102	2,551	2,051	1,786	1,436
$20,000	12,019	11,019	6,009	5,509	5,108	4,683
$30,000	19,586	18,586	9,793	9,293	8,814	8,364
$50,000	35,753	34,753	17,876	17,376	16,804	16,334
$100,000	80,187	79,187	40,093	39,593	38,891	38,406
$500,000	464,154	463,154	232,077	231,577	230,685	230,188

MARRIED PERSONS WITH TWO DEPENDENTS

1942 income	Tax liability, no savings credits	Tax liability, full savings credits	Adjusted, no savings credits	Adjusted, full savings credits	Deferred, no savings credits	Deferred, full savings credits
$1,250	$32	$16	$16	$8		
$1,300	35	18	18	9		
$1,400	42	21	21	10		
$1,500	49	24	24	12		
$1,750	115	57	57	29		
$2,000	235	117	117	59		
$2,250	355	177	177	89		
$2,500	475	237	237	119		
$3,000	728	364	364	182		
$4,000	1,248	768	624	384	$156	$96
$5,000	1,802	1,202	901	601	360	240
$7,500	3,294	2,394	1,647	1,197	988	718
$10,000	4,886	3,686	2,443	1,843	1,710	1,290
$20,000	11,803	10,603	5,901	5,301	5,016	4,506
$30,000	19,370	18,170	9,685	9,085	8,716	8,176
$50,000	35,537	34,337	17,768	17,168	16,702	16,138
$100,000	79,971	78,771	39,985	39,385	38,786	38,204
$500,000	463,938	462,738	231,969	231,369	230,577	229,981

[1] This amount is one-half the unadjusted total liability. The quarterly installments paid in respect of this income in October 1942 and January 1943, together with deductions at the source, will presumably already have covered most of this liability. The residual, if any, must be paid during 1943.

The $10,000 man who has no savings credit—in Canada when they speak about savings credits they refer to current credits like we have in the case of the Victory tax, that is, the credits for insurance premiums, debts, and so forth—a single person that does not have those credits with an income of $10,000 will have to pay an additional amount of $711; and if he does have the full savings credit, he will pay an additional amount of $551. In the very low brackets, 50 percent of the 1942 tax liability has been paid so there will be no doubling up.

In the higher brackets, there is a doubling up, which increases as you go along. The $50,000 income taxpayer, if he had no savings credit, would pay $5,437 additional, and with savings credit, $5,277 additional.

We have prepared for the committee a pamphlet showing the burden upon the taxpayer under various plans, and if the committee wants to discuss these burdens I will be glad to do it, or if they want to wait until we get into executive session and then go over these burden tables, I will be glad to do that. I will do either, at the pleasure of the committee.

The CHAIRMAN. There are no questions now. You might omit that until we do go into executive session.

Mr. STAM. We have approached this problem from the standpoint that the Government needs revenue, and also from the standpoint of how much additional burden the taxpayer could bear at this time. It seems to us it might be better to definitely fix the liability for the year now instead of having to increase the burden later in the year.

I think most of the members of the Ways and Means Committee believe that quite a mistake was made in the Revenue Act of 1942, in passing that act so late in 1942 and making it retroactive for the entire 1942 year. I hope we will not be forced to impose a retroactive individual income tax in subsequent acts, because I do think it is a mistake. If you could determine the amount to be collected from the taxpayers at this time, it might help a lot toward making the taxpayer's tax liability definite and certain in the early part of the year.

The CHAIRMAN. Mr. Stam, was a proposal considered by the Ways and Means Committee to forgive some fixed percentage of the taxes all the way through?

Mr. STAM. Yes.

The CHAIRMAN. And spread out the balance?

Mr. STAM. There was one proposal considered by the Ways and Means Committee to cancel 50 percent of the taxpayer's tax liability and spread the other 50 percent over a period of 5 years. The way that proposal worked out, the total tax liability paid in the taxable year did not exceed the taxpayer's net income.

The CHAIRMAN. In some it did, did it not, in some instances?

Mr. STAM. In the case of the $1,000,000 income it did not. In the case of the $2,000,000 income it did not, and in the case of the $5,000,000 income it did not. Now we have this table on page 18, table No. 11, which relates to the very question you have in mind. I thought you might be interested in that.

Senator DAVIS. Which book is that?

Mr. STAM. That is part 2. This is table 11, married persons, no dependents, and this gives the total current burdens if the unforgiven 1942 tax is paid in 5 years. You will notice that the current tax liability is in the second column. That is the amount that the taxpayer is required to pay anyway. If there is no forgiveness at all, if we do not cancel, then, for example, the $2,500 man pays, under existing law, $339.69. If there is no forgiveness then his total tax is going to be $386.09. If 10 percent is forgiven it is $381.45. That is the amount he pays each year of those 5 years as it runs along.

The CHAIRMAN. Each year?

Mr. STAM. Each year of those 5 years. Take the $10,000 man, for example, if 10 percent is forgiven he would pay in each year of that 5-year period $3,163.72. You go along over there and you will see if 50 percent is forgiven he would pay $2,991.56, compared with $2,776.36 under existing law. That is a slight increase in burden.

The CHAIRMAN. For 5 years?

Mr. STAM. He does that for each year of the 5-year period. The $100,000 man pays under existing law a tax of $69,584.36. If 50 percent is forgiven he would pay $75,990.36. In other words, his tax would be increased each year by about $6,000 in order to get on a current basis.

Senator BYRD. For 5 years?

Mr. STAM. Each year for 5 years. Any increase of that sort would, of course, have to be taken into consideration when you are imposing taxes in the future.

Now, on page 19 of this pamphlet——

Senator VANDENBERG (interposing). Before you leave 18, what does that staggered line at the bottom mean?

Mr. PRICE. All below that line would exceed the net income for the year.

Senator VANDENBERG. They would owe more than they would get?

Mr. PRICE. Yes, sir.

Mr. STAM. You will notice if you forgive 50 percent they do not exceed the line.

Senator WALSH. In the case of heavy taxpayers that is possible under the present law, where the taxes would exceed the income for the following year.

Mr. STAM. It might be. That is the tax for the past year.

Senator WALSH. Yes.

Mr. STAM. On page 19 you will notice the estimated amounts of the 1942 liability canceled under various alternatives, and amount of liability remaining. I would like to have Mr. Burgess explain that table.

Mr. BURGESS. The first section of this table, marked (a), shows the amount of the total 1942 income tax liability canceled, and the amount remaining to be paid, under a scheme which would cancel an equal percentage of the tax for all taxpayers. Senator George just asked whether such a plan had been discussed in the Ways and Means Committee.

Estimated amounts of 1942 liability canceled under various alternatives, and amount of liability remaining

Percentage of liability canceled	Amount of liability canceled	Amount of liability remaining
(a) Equal percentage of tax reduction for all taxpayers:		
0	0	$9,451,000,000
10	$945,000,000	8,506,000,000
20	1,890,000,000	7,561,000,000
25	2,363,000,000	7,088,000,000
30	2,835,000,000	6,616,000,000
40	3,780,000,000	5,671,000,000
50	4,726,000,000	4,726,000,000
60	5,671,000,000	3,780,000,000
70	6,616,000,000	2,835,000,000
75	7,088,000,000	2,363,000,000
80	7,561,000,000	1,890,000,000
90	8,506,000,000	945,000,000
100	9,451,000,000	0
(b) House bill:		
77	7,237,000,000	2,214,000,000
(c) Ruml-Carlson bill:		
88	8,318,000,000	1,133,000,000
(d) Ways and Means Committee bill:		
49	4,671,000,000	4,780,000,000

In this table you see that if there is no forgiveness, no liability canceled, the amount of liability remaining is, of course, $9,451,000,000. If 10 percent of the liability were canceled for all taxpayers, or $945,000,000 in total, there would remain to be paid $8,506,000,000 of the 1942 liability. Running down the line to 50 percent, we see that if this amount of the tax were canceled for all taxpayers, the cancelation would amount to $4,726,000,000 and there would remain an equal amount of the 1942 liability, or $4,726,000,000.

At 75 percent cancelation, the amount canceled would be $7,088,000,000, and the amount remaining of the 1942 liability would be $2,363,000,000.

Now these percentages compare, in over-all cancelation, with the House bill, the Ruml-Carlson bill, and the Ways and Means Committee bill as shown under the last three sections (b), (c), and (d). The House bill, in effect, cancels 77 percent of the total 1942 liability. Of course the House bill does not cancel an equal percentage of tax for all persons, but considered as a whole, 77 percent of the liability, or $7,237,000,000 is canceled, and there remains to be paid $2,214,000,000.

The Ruml-Carlson bill, as you know, cancels 100 percent of the 1942 liability, but recoups, through the windfall provisions, an amount equivalent to 12 percent of the liability; so the amount canceled is 88 percent or $8,318,000,000, and there would remain to be paid $1,133,000,000.

The Ways and Means Committee bill, considering all taxpayers as a whole, cancels 49 percent of the total 1942 liability. Again, the cancelation is distributed differently among the income tax brackets. Of course, it is not the same percentage for all. The cancelation amounts to $4,671,000,000, and there would remain $4,780,000,000 under the Ways and Means Committee bill.

Mr. STAM. You will notice that under the 50 percent cancelation, for example, the amount remaining is $4,726,000,000 as compared with $2,214,000,000 under the House bill.

Senator LUCAS. Would the amount of liability remaining under the House bill be collected over the period of 5 years?

Mr. STAM. Under the House bill the amount of liability remaining would be collected over a period of 3 years, with certain discounts allowed for payment in the first 2 years, and permission was given for an extension of time up to 3 additional years for the payment of any installment in the case of undue hardship. That is the Ways and Means Committee bill. Did you speak about the House bill?

Senator LUCAS. I was speaking about the House bill.

Mr. STAM. The only doubling up in the Ruml-Carlson bill was due to the windfall provisions. The Commissioner was authorized to grant an extension of time of 3 years in the case of the windfall provision.

Senator VANDENBERG. That is the Ruml-Carlson bill.

Mr. STAM. I am sorry. I will repeat again. The House bill does not have any doubling up, so there would be no extension of time.

Senator LUCAS. Yes.

Mr. STAM. In other words, under the House bill the taxpayer is not fully current. He is paying on the basis of the current year for his lower level and the back year for the upper level, so he is not really current. But there is no doubling up, unless he wants to go on the current basis.

Senator CLARK. Mr. Stam, the House bill puts part of the taxpayers on the current basis and the other part it does not put on a current basis, is that true?

Mr. STAM. That is true.

Senator CLARK. As to the normal tax and the first surtax bracket it gets everybody current?

Mr. STAM. Yes.

Senator CLARK. As to the rest of them, as to everything above the normal tax and the first surtax bracket, if a man wants to pursue the present system for next year he can still do that, under the House bill, is that correct?

Mr. STAM. He cannot continue under the present system under the House bill, because he must estimate his basic liability, that is, the current liability for the taxable year. He pays that currently, but the upper part of his liability, that amount above the first bracket, he does not pay until the next year.

Senator CLARK. That is what I say. Everything above the normal tax and the first surtax bracket he can pay next year if he wants to. So you have part of it current and the other not current.

Mr. STAM. That is right.

Senator BYRD. When does he have to make the estimate?

Mr. STAM. He is supposed to make the estimate after the plan is in full operation on March 15 of each year.

Senator BYRD. You mean March of that year?

Mr. STAM. March 15 of that year. He can revise this estimate in June, September, or December. For the first year, which is 1943, he will be required to make an estimate on September 15 as to his liability for 1943 but the estimating tax paid will be at the basic rate.

Senator BYRD. Then next March he makes it for the entire year 1944?

Mr. STAM. Next March he files a return for 1943 and he pays on the upper part of the liability for 1943, because he did not pay that in 1943. At the same time he makes an estimate of his income for 1944 and pays the lower-bracket tax, on the lower liability, that is, that which is subject to the basic rate.

Senator BYRD. Then if he makes an error in estimating, is not he penalized?

Mr. STAM. If he makes an error in estimating the basic rate, which is the only thing he has to estimate under the House bill, it is corrected in the following year when he files his final return.

Senator BYRD. Somebody stated here yesterday that there is a penalty.

Mr. STAM. There is a 6 percent penalty if it is below 80 percent of his true tax liability.

Senator JOHNSON. Mr. Stam, I notice your total, considering all three plans, is $9,451,000,000, and the total tax, as I understand it, is something about $23,000,000,000, so this only applies to a superficial extent.

Mr. STAM. This is the individual income-tax liability for the year 1942.

Senator JOHNSON. And you do nothing about the corporations' liability?

Mr. STAM. That is right.

Senator RADCLIFFE. Mr. Stam, that 6-percent penalty you referred to, is that fixed and rigid? Is there any discretion left with anyone to consider special circumstances?

Mr. STAM. That is done to force the taxpayer to declare a somewhat nearly correct estimate. He has a chance to revise his estimate through the year. He can start out and make an estimate in March, and then if he thinks that is too high he can revise it in June, then he can make another revision in September, and another revision in December, and if his estimate is less than 80 percent of his correct tax liability at this basic rate, then he is subject to the 6-percent additional amount on that difference.

Senator RADCLIFFE. Those provisions would take care of all except the unusual cases which might develop late in the year.

Senator WALSH. Mr. Stam, what is the advantage, if any, in relation to any plan that Congress adopts, if it were operated on July 1 or January 1, next?

Mr. STAM. The only advantage of starting July 1—it would be much better to start January 1, except it will be better to start withholding as soon as possible in order to collect currently from the taxpayers. July 1 was supposed to be the earliest date that the Commissioner could get it under way, if this bill was passed somewhere near the middle of May.

Senator LODGE. Mr. Chairman, may I ask a question?

The CHAIRMAN. Senator Lodge.

Senator LODGE. Mr. Stam, we are considering four plans here this morning, the one of the joint committee, the House bill, the Ruml-Carlson bill, and the Ways and Means Committee bill. Which of those four would yield the largest revenue?

Mr. STAM. Three plans, the House bill, the Ways and Means Committee bill, and the Ruml-Carlson bill. The Ways and Means Committee bill would yield the largest revenue.

Senator LODGE. Which of the four would make the largest number of taxpayers current?

Mr. STAM. Well, it depends on what you mean by the word "current." The Ways and Means Committee bill and the Ruml-Carlson bill make the taxpayers current as to their current liability, but under the Ways and Means Committee bill they have some hang-over, because they have to pay part of their 1942 liability over a 3-year period.

Senator LODGE. Which would make the largest number of taxpayers current?

Mr. STAM. Of course if you regard the liability that they are paying for 1942 as preventing them from being current, then under the Ways and Means Committee bill they would not be fully current until the 3-year period had expired, unless they paid it up before that time. Under the Ruml-Carlson bill, if you forgive 100 percent, the taxpayers would be fully current the first year, except as to the windfall provisions.

Senator LODGE. Can you state in round numbers the approximate revenue to be derived from all four plans?

Mr. STAM. We have the amount. Can you give that, Mr. Burgess?

Mr. BURGESS. Under the four plans the liability remaining after cancelation is as follows: under the House bill, $2,214,000,000.

Senator LODGE. You say the liability remaining. What do you mean?

Mr. BURGESS. After cancelation.

Senator LODGE. I am talking about the revenue that will come into the Treasury from these four proposed tax bills.

Mr. BURGESS. That would be the figure.

Senator LODGE. That is the revenue?

Mr. BURGESS. Yes.

Mr. STAM. Additional revenue.

Senator LODGE. All right.

The CHAIRMAN. You mean that is the liability under the 1942 tax?

Mr. BURGESS. That is right, that is the remainder.

Senator LODGE. I want to know how much money it will yield to the Treasury.

Mr. BURGESS. The tax on 1943 incomes would yield the same amount it would under existing law. The bills do not change the liability for 1943 calendar year incomes, they do change the liability for 1942 calendar year incomes. Now there would remain, after partial cancelation of the 1942 liability, a tax liability under the House bill of $2,214,000,000; under the Ruml-Carlson bill, $1,133,000,000; and under the Ways and Means Committee bill, $4,780,000,000.

Senator LODGE. How does that compare with what is received under present law?

Mr. BURGESS. Under present law, $9,451,000,000 would be received.

Senator LODGE. You are not reducing the rate but you are reducing the revenue $7,000,000,000.

Mr. BURGESS. One has to consider the period over which that revenue is to be received. This is the liability which would be collected, but at different times under the different bills.

Senator LODGE. I am not asking that. That is not the question I am asking. I am more elementary than that. I am trying to find out what revenue will be received into the Treasury within any given period of time that you want to give me under any one of these four plans. That is all I want.

Mr. BURGESS. If you are speaking of the period from now until doomsday, that is one estimate.

Senator LODGE. No.

Mr. BURGESS. If you are referring to the coming fiscal year, or the coming calendar year, that is another thing.

Senator LODGE. Give it both ways.

Mr. BURGESS. I think we are in substantial agreement with the Treasury's estimates of the revenue effects as given in Mr. Paul's statement before the committee yesterday.

Senator LODGE. There were quite a few statements yesterday that I did not understand, that is why I am asking these rather simple questions this morning, so as to get it in a categorical, definite form that is clear.

Mr. BURGESS. Let us look at it this way: A scheme of current collection, completely current collection such as is envisioned under the Ways and Means Committee bill and under the Ruml-Carlson bill, would collect more revenue in any given period than would the House bill, so long as incomes continue to rise. The amount of that additional revenue to be received would represent the increase in the total upper-bracket liability from the first full year to the next.

Senator LODGE. Well, generally speaking, with rising incomes, the more current the taxpayers are kept, the more money the Treasury makes?

Mr. BURGESS. Yes; but that is merely an anticipation of revenue. When incomes turn downward the House bill would yield more revenue, because for part of the liability there is a lag in receipt in the Treasury.

Senator LODGE. They tax them on the way when they are well off and they have to pay it at a time when they are poor.

Mr. BURGESS. That is it.

Senator LODGE. Let us assume that there isn't any change in the trend of the revenue you get under these four different proposals.

Mr. BURGESS. Senator Lodge, at the moment we do not have these estimates on a collections basis, we have them only on a liability basis. I gave you the estimates of total liability under each of the four plans and will furnish for the record the estimates of the liability due in the fiscal year 1944.

(The information requested is as follows:)

Estimated income-tax liabilities due in the fiscal year 1944 under various alternatives

	Amount
House bill	$13, 000, 000, 000
Ruml-Carlson bill	15, 263, 000, 000
Ways and Means Committee bill:	
(a) No discounts taken	15, 724, 000, 000
(b) Maximum discounts taken	18, 623, 000, 000
Present law	13, 000, 000, 000

Senator LODGE. I think it is very, very pertinent to know. You have got four tax schemes before you and it is pertinent to know which would yield the most revenue.

Mr. STAM. I think you are looking at it from the standpoint of, say, the next 2 or 3 years only.

Senator LODGE. Yes.

Mr. STAM. How much additional revenue we might get by going over to a current system in the next 2 or 3 years.

Senator LODGE. I would like to get it on three different assumptions: One assumption that the national income is going to go down; another assumption that it is going up; and another assumption that it is going to remain stable.

Senator JOHNSON. Mr. Chairman, I think I can give him the figures from the facts given us this morning. If we can assume 1943 to be exactly what 1942 was——

Senator LODGE. Let us assume that.

Senator JOHNSON. Under the House bill, under that assumption, the total collection would be $11,665,000,000; under the Carlson plan the total would be $10,574,000,000; and under the Ways and Means Committee bill the total would be $14,231,000,000. That is, of course, assuming that the 1943 tax will be identical with the 1942 tax.

Senator BYRD. How does that compare with the collections under the present law?

Senator JOHNSON. The present law is $9,451,000,000.

Senator LODGE. No matter what you do, we get more money as we become current.

Senator JOHNSON. Yes; we get more money as we become current under either one of the plans.

Senator LODGE. Under all conditions if the national income remains the same, and under all conditions if the national income goes up, under those two major assumptions?

Senator JOHNSON. Yes.

Senator DANAHER. Mr. Chairman, that is not strictly accurate, because what you are doing is confusing the amount of money that remains to be collected with the amount you actually will collect. If you define it as the amount of total liability, it would be different.

Senator JOHNSON. Yes.

Senator WALSH. The liability is reached, is it not, by adding the income from the taxes under the present law remaining for 1942 and 1943, then you take each of these plans and see what they yield and deduct that from these 2 tax years.

Mr. STAM. Everybody must admit under any plan which puts you on a current system, while the revenue goes up you will collect more revenue. We can get you the figures over a certain time, say 2 or 3 years, on a collection basis.

Senator LODGE. I would like to get what the yield under the different plans will be.

Senator BYRD. You say you are doirg it, but you are reducing your tax liability.

Mr. STAM. When you collect currently on rising income you naturally bring income sooner on a collection basis.

Senator BYRD. At the same time you are reducing your tax.

Senator VANDENBERG. Have you any comments to make on the windfall section of the Ruml-Carlson plan, as to whether it is fair, whether it ought to be changed or not?

Mr. STAM. There are two windfall provisions.

Senator VANDENBERG. Yes.

Mr. STAM. The first windfall provision certainly seems to me to be very fair, because it makes the taxpayer pay on the larger year. In other words, if he had a big income in 1942 and a small income in 1943, he would have to pay on his 1942 income.

Senator VANDENBERG. That is easy. Now how about the other windfall?

Mr. STAM. The second windfall provision is somewhat in the nature of an individual excess-profits tax, like we have all been talking about for several years. In other words, the person whose income in 1940 was less than the income in 1942 or 1943 does not get quite as much of 1 year's liability forgiven. That is the effect of it, because he is regarded as having made an abnormal income, in excess of the 1940 income. By having an arbitrary rule like 1940 it might work some hardship in certain cases, I can see that. It is designed to regard 1940 as a normal period and the income after that period as abnormal if it is in excess of the income for that period.

Senator VANDENBERG. Is it fair to assess a retroactive excess-profits tax against some portions of the tax laws?

Mr. STAM. It is not really a retroactive excess-profits tax. The effect of it is it just cuts down the amount of forgiveness. I mean that is the effect.

Senator VANDENBERG. By the same token you have to pay that much more?

Mr. STAM. That is right.

Senator DAVIS. I have just asked the expert here to give me the item of this windfall that makes up the 12 percent. He gives me these figures: The taxpayers pay the taxes on the high 2 years, 1942 and 1943, in the amount of $456,000,000, and on the second item here, the additional tax on an unusual increased income over 1940 would be $677,000,000. That makes up this 12-percent windfall.

Mr. STAM. That is right.

The CHAIRMAN. Mr. Stam, have you any comment to make on the suggested amendments to the withholding provisions of the bill submitted yesterday by the Treasury?

Mr. STAM. On the whole, I think they are very good amendments. There are some amendments to the withholding provisions that are not covered by those proposals, that we would like to bring to you a little later.

The CHAIRMAN. In executive session?

Mr. STAM. That is right.

The CHAIRMAN. All right.

Senator WALSH. The second windfall provision is based on the assumption that there were a considerable number of taxpayers in 1942 who have benefited by the war.

Mr. STAM. That is right.

Senator WALSH. And that their income in 1942, and a higher income in 1943, is in part contributed by the increased business due to war production, and therefore it is an attempt to levy a tax upon that increase that might not, and probably would not, have developed had we had normal conditions.

Mr. STAM. That is right. There were tables presented in the House by Chairman Vinson of the Naval Affairs Committee, which showed the large amount of fees received by brokers in connection with war contracts, and there were quite a large number of those fees received in 1941 by certain persons, and also in 1942.

Senator WALSH. And in some instances it could be shown there has been a substantial increase in the dividends paid by corporations that have done large Government work during these years.

Mr. STAM. That is right.

The CHAIRMAN. Mr. Stam, have you any comment to make now on the provision here with respect to the soldiers, the members of the armed forces, or do you wish to withhold that?

Mr. STAM. It discriminates against a married person. Only their base pay is subject to the income tax.

The CHAIRMAN. It is only the base pay?

Mr. STAM. It is only the base pay that goes into income. Now, in the other countries they do figure those amounts in computing income tax. You might want to consider that phase of it when you are taking up the whole question.

Senator BARKLEY. May I ask you a question about a situation to which a Member of the Senate called my attention a day or two ago, which he said existed in his State to his personal knowledge? I do not know how many such cases there might be, but it is a situation where last year one man made $5,000,000 out of war contracts. Well, of course, the question arose of whether or not he had enough money or whether he should continue in business for the year 1943. He might decide he did not need any more money, he was not going to make any more, he would just quit, and so he put his $5,000,000 in a locked box, put it into a bank, so he would not have any income at all, so he would not have any estimated income under the plan of this bill for 1943. While it has been contended here that nobody gets any actual money back, in a case like that he would get his 100-percent forgiveness back, or 75 percent or 50 percent, whatever it might be, if he had no income for 1943 to which credit could be given for the payment of taxes on 1942 income.

Mr. STAM. He would not under the windfall provision that we have just been talking about, because he has to pay on the higher year.

Senator BARKLEY. He would not pay all of it. Take the $5,000,000 case, would he pay the same tax on this $5,000,000 which he would have paid if we did not consider this bill at all?

Mr. STAM. He would under the Carlson plan, because they had a windfall provision in there which would require him to pay the tax on the higher year, and therefore he would pay on that $5,000,000. He would pay about $4,374,000.

Senator BARKLEY. He would have left then about $600,000.

Mr. STAM. That is right.

Senator BARKLEY. If he pursued that course and even decided that the reduced amount was all the money he needed, he did not desire to make any more but just cashed out, would he have to pay any tax in 1943?

Mr. STAM. He would not pay any tax on 1943 because he did not have any income, but he would pay on his 1942 liability.

Senator BARKLEY. That would be the same in any case anyhow. As long as he chose to impound his money, whatever the amount might be, and not invest it or get any income upon it, he would still pay no taxes on it.

Senator CLARK. That would be true under the existing law.

Senator JOHNSON. How does the withholding plan, or any of these other plans, affect the Victory tax, if any?

Mr. STAM. How does it affect the Victory tax?

Senator JOHNSON. Yes.

Mr. STAM. It does not affect the Victory tax as such. The Victory tax is 5 percent in excess of $624, but we only withhold 3 percent for the Victory tax. That is what we call the net Victory tax. In order to avoid refunds when the taxpayer files his final return at the end of the year it was thought better to withhold on a net basis instead of on a gross basis, so we withhold 3 percent instead of 5 percent. When the taxpayer files his final return in March of the next year, he computes his Victory tax at 5 percent and takes credit on that for the current credit of debt, insurance, and Government bonds. Now, if he does not have those, there will be some deficiency due to the Government, but it is thought, from the administrative standpoint, it will be much easier to collect on a net basis rather than on a gross basis and have the taxpayer make up the additional amount at the end of the year.

Senator BYRD. The taxpayer still has to make a return under both bases?

Mr. STAM. The taxpayer has to make a return under both bases. He gets credit off for debt, or bond purchases that he may make.

Senator BYRD. Why could not the Victory tax be absorbed in the regular income tax?

Mr. STAM. Well, the Victory tax is on one basis and the income tax is on another basis.

Senator BYRD. That is my objection to it.

Mr. STAM. The only way you could absorb it would be to lower the exemptions and increase the rates of the income tax. There are 12,000,000 taxpayers in this group, between $624 and $1,200, that are now paying a considerable amount to the Government (over $350,000,000). A lot of those taxpayers would be relieved of tax, because I do not believe you would be able to reduce the exemptions down to anything like the limit of the Victory tax.

Senator BYRD. Don't you think this withholding of 3 percent of the Victory tax, that has to be then credited to the 5 percent in the return that they later make up is going to be very confusing and will not be possible of enforcement?

Mr. STAM. I do not believe so. We have not had any experience under that yet, because the first returns have not been filed on the Victory tax. They are not due before March 15, 1944.

Senator BYRD. I understand that. I am speaking about the withholding tax that the taxpayer has arbitrarily taken from him.

Mr. STAM. The employer knows from the tables the exact amount to be withheld.

Senator BYRD. The employer does, but next year he has got to make a return, he is supposed to take 3 percent off and pay on another tax 2 percent.

Mr. STAM. He computes his 5 percent on his Victory tax net income. Against his Victory tax net income, he gets a credit for debts, bonds, insurance, and so forth, and then for the balance he gets credit for the amount of tax withheld at the source, and then if there is any excess it is applied against his regular income tax.

Senator BYRD. It changes from one to another with different rates.

Senator BARKLEY. Let me ask one more question about the case which I cited. Under the House bill and under the committee bill there is no windfall provision, I believe?

Mr. STAM. That is right.

Senator BARKLEY. In that case, if that man had no income in 1943, he would get an actual forgiveness in money.

Mr. STAM. He would get some reduction.

Senator BARKLEY. If he had paid his tax by March 15 of this year he would get an actual refund in dollars and cents?

Mr. STAM. Yes, he would, if he had nothing else to credit it against.

Senator BARKLEY. If he had no income at all for this year he would not have anything to credit it against, and therefore the Treasury would have to return the excess money that he had paid.

Mr. STAM. Under the Ways and Means Committee bill he would get about 10 percent reduction of that tax. That is what it amounts to.

Senator BARKLEY. What would he get under the House bill?

Mr. STAM. Under the House bill he would get about 19 percent.

Senator MILLIKIN. Mr. Stam, are there any windfall cases or windfall circumstances that we ought to be thinking about other than those that have been mentioned here?

Mr. STAM. I do not recall any. Of course, there is a question whether or not 1940 is a proper year, or 1941, or some other year.

Senator MILLIKIN. Are there any circumstances that have not been covered by discussion that might represent an inequitable windfall that we have not thought about?

Mr. STAM. No; except some people, of course, feel that the cancelation of the 1942 liability is a windfall.

Senator MILLIKIN. We will pass that. That goes to the basic theory of the whole thing.

Senator LODGE. Have you concluded, Senator?

Senator MILLIKIN. Yes.

Senator LODGE. Mr. Stam, is "cancelation" a correct word? Is "forgiveness" a correct word? Isn't it better to say "postponement"?

Mr. STAM. I think "cancelation," from a purely technical standpoint, is a correct word, because you have got to do something about this assessment that is on the books, you have got to remove it. It is outstanding and you have to eliminate or cancel it.

Senator LODGE. If you just limit your vision to one year, but not if you took a total view.

Mr. STAM. That liability is outstanding. It has been assessed for the year 1942.

Senator LODGE. If you take the bookkeeping approach on a yearly basis, but if you go at it from the standpoint that you live by, that you feed your children on, those things, there is no cancelation at all, is there?

Mr. STAM. If the person hasn't saved any money to pay his taxes, he hasn't anything to gain.

Senator LODGE. "Postpone" rather than "forgive." I looked the word "forgive" up in the dictionary. It means to pardon a wrong. I cannot see where the Government is in a position to pardon the wrongs of the American people; I think it is rather the reverse, as a matter of fact, to my mind. I am coming to the conclusion it is a smear term. I cannot see it. Why isn't it better to say "postponing" instead of "forgiving"?

Mr. STAM. You do not postpone a gift.

Senator LODGE. What gift? We are postponing the payment of the tax.

Mr. STAM. I think certainly some benefit does accrue to the taxpayer when he dies. Everybody admits that. He has some advantage when his income declines or when he has saved an amount to pay his taxes.

Senator LODGE. When he is dead he has an advantage?

Mr. STAM. I mean as far as his estate is concerned, there is an advantage.

Senator BARKLEY. "Forego" might be better than "forgive."

Senator LA FOLLETTE. If it has accumulated as a 1942 liability he has something tangible under his control that he can use as he pleases.

Senator LUCAS. Mr. Chairman, may I ask Mr. Stam one question?

The CHAIRMAN. Yes, Senator.

Senator LUCAS. Take the House bill, Mr. Stam, where you say the amount of liability canceled is $7,237,000,000, the table on page 19, as I understand, that $7,237,000,000 is going to be lost to the Government over a long period of time. Am I correct in that?

Mr. STAM. I think that is certainly true; but suppose we had a recession, the loss would be felt much sooner.

Senator LUCAS. I do not know as I follow you, but it seems to me—and I want to be corrected if I am wrong—you say you have got to cancel, if you got the House bill, $7,237,000,000. That is correct; is it?

Mr. STAM. That is right.

Senator LUCAS. Now you add to the current tax bill $2,214,000,000? You will add that much to it?

Mr. STAM. That is right.

Senator LUCAS. Everybody will continue to pay taxes as long as they live.

Mr. STAM. That is right.

Senator LUCAS. Your $7,237,000,000 will be canceled over a long period of time, depending on when the taxpayer dies.

Mr. STAM. It may be when his income declines, I mean when his income goes down, and then of course the Government does not get as much out of him as if it were collecting his liability for the prior years.

Senator LUCAS. If the taxpayer should die in 15 years from now, and the income was less than it was this year, then the Government would get less?

Mr. STAM. That is right; then the loss would be felt.

Senator CLARK. Mr. Stam, coming back to this Canadian theory that you mentioned here a minute ago, making a distinction between earned income and income from other sources such as capital, and applying that to our own situation, it is a fact, is it not, that in the highest brackets, that is to say, incomes above $100,000, the amount of income derived from sources other than earned income is very much larger than the amount derived from earned income?

Mr. STAM. I do not think there is any question about that?

Senator CLARK. I have some figures for 1941. I would be glad to have you check them and tell me whether they are correct or not. I haven't the figures available for 1942. These figures indicate for the 44 taxpayers in 1941 who paid on incomes of over $1,000,000 only $4,500,000 was earned income and $97,000,000 was from sources other than earned income.

As to incomes over $100,000 and less than $150,000 the earned income was $160,400,000 and the unearned income was $195,000,000.

In the case of $150,000 and under $300,000, the earned income was $125,000,000 as against $220,000,000 of unearned income.

On $300,000 and under $500,000 the earned income was only $36,000,000 while the unearned income was $114,000,000.

On $500,000 and under $1,000,000 the earned income was only $14,400,000, while the unearned income was $101,900,000, more than 7 times as much.

On incomes of $1,000,000 and over, as I say, the earned income was $4,500,000 and the unearned income, so to speak, was $96,900,000. So there is some logical basis for the distinction that is made in Canada.

Mr. STAM. Yes.

Senator CLARK. You treat all the taxpayers alike, but you simply make a difference as to the source of the income.

Senator WALSH. What figures do you begin with?

Senator CLARK. I begin with $100,000.

Senator WALSH. You do not have the figures under $100,000?

Senator CLARK. No.

Mr. STAM. When you get up into the very high incomes there really is not so much basis for distinguishing between earned and investment income. If you recall, we have in the revenue law at the present time a limitation on earned income. I know there was a proposal over in the House, that was talked about but that really did not reach a definite form, of making a distinction between earned income and unearned income. In other words, in the case of earned income they were going to abate 75 percent of the tax. In defining the earned income everything up to $20,000 that was actually earned was regarded as earned income, and the amounts above that were regarded as unearned income, and with respect to unearned income they wanted to abate only 50 percent of the tax.

Senator CLARK. I am not advocating the adoption of the Canadian theory, but it seems to me it is a much more logical theory if any distinction is to be made. They have an arbitrary way of saying, "We will cancel and postpone all incomes below a certain amount and soak everybody above a certain amount." In other words, the distinction as to source, it seems to me, is a much more logical distinction than purely the distinction as to amount.

Senator CONNALLY. Mr. Stam, let me ask you a general question. The whole motive behind all this current tax liability is supposedly to get revenue out of a lot of taxpayers that have not been paying taxes very largely heretofore. The theory does not carry water that they will not be able to pay. They will pay and spend their money on taxes rather than on other things; isn't that true?

Mr. STAM. That is true.

Senator CONNALLY. In order to get taxes out of that group these plans propose to relinquish about three or four times as much money in the higher brackets, in the higher incomes, than they can possibly get out of that whole group. Isn't that true?

Mr. STAM. I do not think so.

Senator CONNALLY. You give away $7,000,000.

Mr. STAM. We are looking at this thing somewhat from a long-range point of view.

Senator CONNALLY. Yes; I know you are looking at it from a long-range point of view. In most cases people in ordinary circumstances have the money to pay. I do not see where it makes a particle of difference. We might think it does, but I know it does not make a particle of difference to me whether I pay under the present system or whether I pay currently; I know I am going to have to pay it. These taxpayers we have in mind are going to make changes in their old methods and they are going to make a provision for holding out something with which to pay, like everybody else pays it. We would have no difficulty at all. Isn't it a pretty good way to teach people to pay their obligations, to pay their taxes, to make them do it by starting on this thing? We are assuming these folks are so helpless, so ignorant, so indifferent that in order to make it possible for them to do it we have to give them something, that we will come along and do it for them. If you could devise some method by leaving the taxes as they are and provide a system whereby the taxes can be paid by the month it would help a lot in this whole tax situation.

Senator JOHNSON. The withholding of taxes, doesn't that put it on a current basis?

Senator CONNALLY. No, no. With the exception of the modification, the withholding taxes are credited on their final return. It would meet the situation much better than just handing out $7,000,000,000 or $8,000,000,000 in order to make some fellow think that he is paying the taxes currently. That is just psychology, $7,000,000,000 worth of psychology.

Mr. STAM. A plan along those lines was originally presented to the House, which merely had the withholding method on salaries and wages and required the amount withheld to be applied against the taxpayer's current liability. For example, if we started this withholding provision on July 1, 1942, and we started collecting taxes in July, under that system the taxpayer would be allowed to credit the amount withheld at the source against the installments of his 1942 taxes, which are due in September and December of this year, and any excess would be applied against their 1943 taxes.

Senator CONNALLY. If you had that kind of system you would avoid all this business about estimating ahead. Nobody knows what his income actually is going to be. If he makes a mistake he is penalized, and all that sort of business. I hope somebody can work out a plan along that line.

Senator BARKLEY. Let me ask you this: Do you agree with the statement made yesterday, I think by Mr. Paul, that to the extent to which the Treasury loses money under any of these plans, if we make it up at all we have got to make it up out of the middle- and lower-income brackets. Do you agree that so far as the high-income brackets are concerned we have gone pretty well as far as we can go, and not only that but we have to make up a deficit of three or four or seven billions, whatever it is, because of any of these plans, and in addition to that try to raise $16,000,000,000 more, or any part of it, and that we have got to largely try to raise it from people who belong to the ordinary walks of life and in the middle and lower brackets?

Mr. STAM. I think that is true. Of course, we have got a ceiling now on incomes of 90 percent. The tax in no case can exceed 90 percent of the income. Those in the upper brackets, unless we were to raise the ceiling, we could not get any more out of.

Senator BARKLEY. That is a pretty effective ceiling, 90 percent.

Mr. STAM. Yes.

Senator LODGE. Mr. Chairman, I am advised that during the fiscal year 1944 the yield from these various alternatives would be as follows: the House bill $13,000,000,000; the present law $13,000,000,000; the Ruml-Carlson bill $15,263,000,000. Those figures would lead the average man to the conclusion that the Ruml-Carlson bill will get us the largest amount of revenue for the Government and put the largest number of taxpayers current in the shortest space of time. Is not that correct, Mr. Stam?

Mr. STAM. For that particular year. Of course you have not the figures for the Ways and Means Committee bill. That bill would yield more than that.

Senator LODGE. The Ways and Means Committee bill, with no discount, $15,000,000,000, and with a maximum discount, $18,000,000,000.

Mr. STAM. You see under the House bill, as we pointed out, as far as the upper level is concerned, you do not get the benefit of the increased income in the current year, because you are not collecting that currently, you are collecting that with respect to the back year's income.

Senator LODGE. This is taking it for the fiscal year 1944, and the Ruml-Carlson bill would yield the greatest amount of revenue and would get the largest number of taxpayers current in the quickest space of time.

Of the three plans the House bill would yield less revenue than either the Ruml-Carlson bill or the Ways and Means Committee bill?

Mr. STAM. That is right.

Senator LUCAS. How do you square that with your table on page 19, where you show the House bill would leave a tax liability remaining of $2,214,000,000 and $1,133,000,000 under the Ruml-Carlson bill?

Mr. STAM. He is talking about the collection basis, how much you are going to collect in this fiscal year. These figures you are quoting are on a liability basis, that is the amount of tax imposed for that year. You do not always collect in a certain fiscal year the amount of tax imposed.

The CHAIRMAN. Are there any further questions, gentlemen? If not, I would like to offer for the record a lengthy telegram from the Boeing Aircraft Co., Consolidated Vultee Aircraft Corporation, Douglas Aircraft Co., Lockheed Aircraft Corporation, North American Aviation, Inc., Northrop Aircraft, Inc., Ryan Aeronautical Co., and the Vega Aircraft Corporation, with reference to the provisions of the bill that relate to collecting at the source or withholding. They are in line with the recommendations made yesterday, or the suggestions made yesterday by the Treasury.

(The telegram referred to is as follows:)

Senator WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR GEORGE: Reference is made to pending pay-as-you-go legislation, and particularly to the technical provisions for withholding of tax by employers. The following aircraft manufacturing companies: Boeing, Consolidated Vultee, Douglas, Lockheed, North American, Northrop, Ryan, Vega, have studied these provisions with considerable care and have certain suggestions which, if adopted, would simplify the procedure provided:

These companies together employ a total of approximately 450,000 employees. They represent 60 percent of the airplane production of the United States. Due to our rapid growth and present large number of employees, we have serious problems with respect to the mechanics of preparing our pay rolls. Our work is done entirely through the use of automatic business machine equipment. At the present time we are experiencing serious difficulties both with respect to obtaining prompt delivery of adequate equipment and in maintaining an adequate staff of competent operators.

We recognize the necessity for establishing a system for withholding of tax by employers and are prepared to carry our share of the burden. Certain changes which may be made in the bill as passed by the House would expedite war production through simplification of the mechanics of withholding. Your consideration of these suggestions will be greatly appreciated.

(1) Discretion in Commissioner of Internal Revenue to permit reasonable methods of computing withheld tax. The bill, in its present form, provides two optional methods of computing the tax to be withheld. A. An exact mathematically accurate computation of the percentages, or B, the use of tables setting forth wage bands and amounts of tax to be withheld.

We find that, in view of our shortage of equipment and operators, we must perform these operations with the maximum efficiency. Neither of the specified optional methods permits all of us to perform the operations with maximum efficiency. This is because we can save large amounts of time by combining the operations which will be required by the bill with other operations we must already perform. These other operations are required in order to make other deductions from wages, including those for Social Security and unemployment tax purposes. We cannot describe a specific alternative method which would permit the maximum simplicity, because the problems of the various companies here represented vary, depending upon their respective accounting methods and business machine procedures.

We believe that it would be entirely reasonable and satisfactory if the Commissioner in Internal Revenue were given authority to grant approval of a specific tax withholding technique or method proposed by any employer. To give the Commissioner reasonable guidance in administering such discretion, it might be provided that such methods should not vary by more than a reasonable percentage (perhaps 10 percent), from an exact mathematical computation in the case of any employee. (The tables now set forth in the bill, of course, provide a substantial variation from mathematical computation.) We believe that the Commissioner would administer such a discretion reasonably, and that the flexibility which would thus be provided would permit us to administer the withholdings of tax with maximum efficiency.

(2) A single rate of withholdings is desirable. The House bill provides for two effective rates of withholding tax. A new 17 percent rate is applied upon wages in excess of personal exemptions and credit for dependents, as specified. In addition, the Victory tax is continued to the extent of 3 percent upon all wages exceeding $624 per year. We believe that this combination of dual rates is unnecessary and substantially complicates the task of employers. In some instances it may require two complete operations, instead of one, and in any event a more simple system for withholding tax can be applied if a single rate of withholding tax is provided, allowing combinations with Social Security and other computations already required. We recommend, therefore, that the policy be changed in this respect in the interests of simplicity, and that a single rate or tax be applied to a single base. Presumably in excess of personal exemption and credit for dependents. Not only would this simplify our task, but it would be easier for employer and the public to understand.

(3) Revision of personal exemption and credit for dependents to exact multiple units. The proposed bill continues, for determining the portion of wages subject to withholding of tax, the present personal exemptions and credit for dependents. These are $1,200 in the case of married persons or heads of families, $500 in the case of single persons, and $350 for each dependent. For all large employers who use automatic business machine equipment for pay rolls, the task of computing amounts of tax to be withheld would be substantially simplified if these amounts could be changed to amounts which are exact multiples. Furthermore, elimination of the optional $600 exemption withholding deduction for married persons would be very helpful. A schedule, such as the following, would accomplish this result. Single persons $624, married persons $1,248, credit for dependents $312.

The effect of such a change is substantially to reduce the number of groups of employees with respect to which the same withholding deduction applies. Most business machine operations are carried on through sorting of cards into groups. By reducing the number of groups, the time required for operation is likewise reduced, with a cumulative saving during the year to large employers of vast amounts of time of equipment and personnel. We heartily recommend that your committee consider such a change.

(4) Longer period for furnishing annual receipts. The bill requires that receipts be furnished to each employee in respect of his employment during the calendar year on or before January 31 of the succeeding year and that copies shall be furnished to the Commissioner. It will be impossible in many instances to complete preparation of these receipts within 31 days after the end of the year and, even though they are completed in that time, they will be highly inaccurate. It must be realized that some of our companies have many thousands of employees in other parts of the United States, and the physical job of obtaining year-end data and transmitting it to our home offices is an extensive one.

Furthermore, during this same period it is necessary for us to prepare State unemployment tax reports and Social Security reports. In addition, the year-end closing of the book consumes a large amount of the time of tabulating equipment since a large proportion of our records are kept by that means.

For the foregoing reasons it would appear most desirable to change the due date on receipts from January 31 to February 15, the date now prescribed for filing Form 1099's, which are more simple to prepare than the form provided in the section referred to. Furthermore, we recommend that the Commissioner be given authority to extend this time for an additional 15 days upon a proper showing.

(5) Thirty days required to place system in effect. The House bill provides for the withholding system to be placed in effect July 1. Due to the delays which have occurred this date is now not far away. The procedure which will be required of employers to place the system in effect is very expensive and will require a large amount of work in gathering data from employees, preparing suitable records, and rearranging the use of equipment. It is absolutely essential that employers be allowed a minimum of 30 days after actual passage of the bill within which to place the system in effect. If your committee determines, therefore, that the bill cannot become law prior to June 1, we respectfully request that the commencement date for withholding be postponed to a date later than July 1, otherwise a chaotic and unfortunate situation will arise at the crucial time when the system is being placed in effect.

In conclusion, we wish to reemphasize that, due to shortages of equipment and personnel, we are faced with very serious problems in performing the operations necessary to prepare our pay rolls and pay our employees. It is obvious that war production will be seriously impeded if pay rolls are not promptly and efficiently met by employers. The imposition of an unnecessarily burdensome system for withholding tax may actually interfere with our meeting pay rolls as expected by our employees. While the matters of procedure discussed herein appear perhaps not to be of great importance, actually they may have a very important effect upon our ability to meet our pay rolls promptly, and we respectfully request that they be given careful attention by the Finance Committee.

Very truly yours,

Boeing Aircraft Co., Consolidated Vultee Aircraft Corporation, Douglas Aircraft Co., Lockheed Aircraft Corporation, North American Aviation, Inc., Northrop Aircraft, Inc., Ryan Aeronautical Co., Vega Aircraft Corporation.

(Tax plan submitted by Royal C. Stephens, Philadelphia, Pa.:)

PHILADELPHIA, PA., *May 6, 1943*

Senator WALTER F. GEORGE,
Chairman Committee on Finance,
Washington, D. C.

HONORABLE SIR: As a humble American citizen I desire to submit a tax plan for your consideration that will save the members of your committee and the members of both Houses of Congress both time and a lot of headaches, make the tax law understandable to all taxpayers, likewise make it easy for the Treasury Department to collect all of 1942 and 1943 taxes and at the same time create more confidence in the minds of American citizens in the soundness of the financial structue of the United States Government.

In the Revenue Act, write the following provisions:

"A taxpayer on 1942 taxes must before March 1943 file his income statement and at the time of filing his income statement, arrange to pay his quarterly installment, or make a token payment of five or ten dollars on his quarterly installment on his 1942 taxes by deduction from his pay, one to five or more dollar payments, as he may elect to choose of the three following ways:

1. Pay the balance of his 1942 taxes in full and receive a 10 percent discount; or

2. Pay the balance of his 1942 taxes in quarterly installment and receive a 10 percent discount; or

3. Make a five- or ten-dollar token payment when he files his income statement and then at the same time arrange to pay the balance of his 1942 taxes in small installments of one to five or more dollars to be deducted from his pay checks, choosing one to five years to complete paying the balance of his 1942 taxes, with no interest charges against his 1942 taxes. Allow this small taxpayer a 10-percent discount on his 1942 taxes if he completes his final payment of his 1942 taxes within 1 year of his token payment. In the event the taxpayer later earns less money, finds his payments are too heavy for him to make, the taxpayer can rearrange with the Treasury Department to pay the remainder of his 1942 taxes in smaller payments without interest charges.

4. Provide in the Revenue Act that the 20 percent withholding tax on wages and salaries for 1943 in addition to the 1942 taxes, be deducted at the source in the same way as the Victory tax is now being collected for 1943.

Mr. Ruml deserves credit for his efforts to create public opinion towards the pay-as-you-go idea for paying taxes for 1943, but neither the Federal Government, nor the 48 State Governments, nor the political subdivisions of any state, nor the Macy Department Store of New York, nor any of the various labor and business organizations and newspapers that have urged your committee to forgive the 1942 taxes can afford to, or would agree to forgive any obligation due them for 1942.

The Ruml idea of forgiving the 1942 taxes is dangerous to our entire Government and private financial system in the following way:

A. It would raise an army of taxpayers who would be demanding that the entire national debt be repudiated on the ground it was too big a burden to bear, and the same demands be made by taxpayers in arrears in payments of taxes to both States and political subdivisions of a State.

B. It would throw a wet blanket over all American citizens in their desire to buy Government bonds.

C. It would create a black financial plague in our private financial system by creating in the minds of our citizens a desire to request that their private loans or obligations made in 1942 be forgiven, saying Ruml's tax plan gave them the idea to make the request.

D. Foreign citizens and foreign governments would give the Ruml tax plan as a reason for requesting their financial debts to both American citizens and the United States Government be forgiven.

E. It would prevent the new taxpayers from forming the habit of saving their money for a rainy day.

F. It would encourage the war workers to spend their earnings now and thus increase the fear of inflation; also work against the drive of the Government against inflation.

G. It would allow war production plants working on a cost-plus or agreement where pay rolls have been padded, and costly and scarce materials wasted to cash in on their illegal and un-American profits.

H. It would create in the minds of public employees and private citizens who have received their positions or some favor from the influence of Democratic or Republican official, or party leader to say, all our past political obligations, both financial and otherwise are now forgiven and we will start now on a pay-as-you-go basis for any political favors we shall ask for or receive from Democrats or Republicans.

I. It would allow citizens from foreign countries who have large investments in American war plants and other American business who made big profits in 1942 in the United States to force American citizens to assume the added burden of paying the taxes of foreign investors in United States.

J. It might create a desire in the minds of American people and the public officials to forget all agreements or commitments made in 1942 by the President and the State Department, also other Federal, State, county, and local government leaders and start a new beginning on January 1, 1943.

Mr. Chairman, I urge your committee to see that all Victory taxpayers under the 1942 Revenue Act are treated alike as provided under the Constitution, by offering an amendment to the Current Tax Payment Act of 1943 by amending the Revenue Act of 1942 in the following way:

"All Victory tax money deducted for wages earned before January 1, 1943, under the Treasury's ruling on section 476g be returned to the taxpayer with as little delay as possible.

"The effect of this amendment to the Revenue Act of 1942 will make all those Victory taxpayers drop their bitter feeling against a tax law that made them pay a Victory tax on their wages earned before January 1, 1943, just because they did not receive pay for those December wages until after January 1, 1943, will place them in the same position as all other taxpayers who were paid in full for December wages before January 1, 1943, who in keeping with Section 450 of the Victory tax provision which says the Victory tax shall be levied, collected, and paid on wages earned after December 31, 1942, did not have the Victory tax deducted from their December wages."

NOTE.—The Treasury Department would lose money on the bookkeeping on the Victory tax collected on the December wages and would also create ill will among taxpayers about to have a heavy tax placed upon them.

Mr. Chairman write a provision in the 1943 Revenue Act to require the Federal Government to furnish all their employees a statement as to the amount and what the tax is for in each pay check the same as a private employer is required to do.

Yours for treating all taxpayers in the same way.

ROYAL C. STEPHENS.

(Letter and statement submitted by National Lawyers Guild:)

NATIONAL LAWYERS GUILD,
NEW YORK CITY, *May 6, 1943.*

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

DEAR MR. CHAIRMAN: In view of the limited hearings planned by your committee on pay-as-you-go tax legislation, we are submitting the enclosed statement setting forth the views of the National Lawyers Guild with respect to this important subject.

We respectfully request that said statement be inserted in the record of the committee hearings.

We shall appreciate receiving a copy of the unrevised committee print of the transcript of the record as these become available.

Respectfully,

MARTIN POPPER,
National Executive Secretary.

STATEMENT OF THE NATIONAL COMMITTEE ON TAXATION OF THE NATIONAL LAWYERS GUILD ON PAY-AS-YOU-GO LEGISLATION

After careful study of the various bills introduced in Congress to place personal income-tax payments on a current, pay-as-you-earn basis, the National Lawyers Guild is convinced that there is only one equitable means of immediately achieving this highly desirable tax reform, namely, by adopting the Doughton plan. The Doughton plan, designed as a compromise measure, avoids the unwarranted windfalls which characterize the Ruml-Carlson plan and, to a lesser extent, the Robertson-Forand plan, adopted by the House.

In this critical time in our Nation's struggle for existence, at a time when every effort must be made to raise all the revenue the economy can properly bear, it is nothing less than a travesty to bestow undeserved windfalls in the form of tax cancelation. It is incredible, yet tragically true, that there are forces in Congress which clamor for forgiveness of nearly 10 billion in taxes in the face of the President's request that Congress raise an additional 16 billion. Those forces behind the Ruml-Carlson bill which are now proposing to cancel nearly 10 billion in taxes are the same forces which voted for the recent nullification of President Roosevelt's order limiting gross salaries to $67,200, and are the same forces which clamor for wage-freezing and heavy sales taxes—in reckless disregard of the detrimental effect on the war effort.

The argument now being raised that a plan is inequitable unless it cancels the same percentage of 1942 tax for each income level involves the grossest distortion of the equitable principle of ability to pay, a principle which requires that the tax burden increase progressively as the income level increases and that conversely, tax cancelation should decrease as the income level increases because of the diminishing need for relief from doubling up.

To solve the difficult problem of transition from the current year-behind collection system, the National Lawyers Guild has at all times urged that cancelation to afford relief from double payment should be based on actual need and must avoid unwarranted windfalls. The guild still believes its proposal to cancel the tax on the first $2,000 of 1942 after exemptions is the soundest solution to the problem of transition. This would wipe out entirely the 1942 taxes of single persons with incomes under $2,750, of married persons with two dependents with incomes under $4,500. The essence of the guild plan was only very recently adopted by the New York Times (editorials of April 19, 23) which suggested as a compromise that Congress forgive "the tax on, say, the first $5,000 of income of every taxpayer for 1942." The guild plan would, in fact, put 90 percent of the taxpayers on a current basis since only 10 percent of the 44,000,000 taxpayers will have incomes which exceed the first surtax bracket of $2,000.

Of all the tax bills which have been considered by Congress, the Doughton bill alone approaches the tests of sound pay-as-you-go legislation and therefore deserves the support of the American people—in the absence of a bill limiting cancelation to the lower incomes.

In essence, the Doughton plan provides that the tax on 1942 incomes shall be recomputed by applying the 1941 rates and 1941 exemptions of $750 and $1,500 instead of the higher 1942 rates and the 1942 exemptions of $500 and $1,200—and canceling the difference. The Doughton plan would thus cancel the entire 1942 tax for 7,000,000 new taxpayers at the bottom of the income scale and substantially reduce the 1942 tax for the great bulk of the remaining taxpayers. For a married person with no dependents, the tax reduction on a $2,500 net income is 63 percent of the 1942 tax; at $5,000, it is 52 percent; at $10,000, it is 40 percent; at $25,000, it is 26 percent; at $100,000, it is 18 percent; and at $1,000,000, it is 14 percent. Relief would thereby be given in proportion to need, since the taxpayers in the lower brackets are in need of the greatest relief. The Doughton plan is thus in striking contrast to the Ruml-Carlson plan which would cancel 100 percent of 1 year's tax liability, even though the taxpayers had a very large income and had no need for cancelation-relief.

The Doughton bill would cancel $4,671,600,000 of the aggregate 1942 tax liability of $9,451,300,000 which remain after taking into account the reduction due to special exemptive provisions for the armed forces. The remaining $4,779,700,000 would be collected over the period from 1944 to 1946, thus providing $1,593,200,000 a year in added revenues from ability-to-pay sources—while the Ruml-Carlson and Robertson-Forand plans make no such additions. In view of the provisions for discounts for earlier payments, income tax collections in 1944 and 1945 would be even greater because of accelerated payment. The partial doubling up provided in the Doughton bill would impose no real hardship on anyone since the reduced 1942 tax would be payable in installments over a 3-year period (1944–46) and an additional 36 months' extension could be obtained in cases of undue hardship in meeting these installments. The Doughton bill has been assailed on the ground that taxpayers with incomes beginning around $250,000 would be called upon to make payments in excess of their incomes. This argument conveniently overlooks the balance of the 1942 income which the large income recipient has after his living expenses. This balance, which is the bulk of the large income taxpayer's 1942 income, is in the form of savings, purchases of tax-anticipation certificates, or investments—earmarked for the payment of 1942 tax obligations. These reserves, quite obviously, are more than enough to take care of the reduced 1942 tax which leaves the 1944 income, for example, to take care of the tax liability on 1944 income without any hardship. Thus, a taxpayer with an annual net income of $500,000 in each of the 5 years, 1942, 1943, 1944, 1945, 1946, would pay, under the Doughton bill, $440,747 in 1943 and $555,878 (which includes the one-third installment of $115,131 on the 1942 tax) during each of the years 1944, 1945, 1946. Thus, a total tax of $2,108,381 would be payable on the 5-year income of $2,500,000—or only 84 percent of the aggregate income. The large income recipient, it must be remembered, retains the savings on his 1942 income which are available for tax payments, in addition to his income received in subsequent years.

The attached table showing the amount of tax canceled at specified levels of net income under the Doughton, Forand, and Carlson bills respectively, indicates clearly the excessive windfalls granted under the Carlson bill and, to a lesser extent, the Forand bill, which cancels 19 percent of all taxable income, whether that income was $2,000 or $1,000,000. This table shows that under the Doughton, Forand, and Carlson bills, respectively, for a married person with no dependents the tax reduction on a $5,000 net income is $389, $692, and $746; at the $25,000 level it is $2,396, $4,438, and $9,220; at the $100,000 level it is $11,472, $18,688, and $64,660; and at the $1,000,000 level it is $121,126, $189,688 and $854,000.

Cancelation beyond the levels set by the Doughton bill is intolerable, and would grossly violate the basic principle of ability to pay. Relief from doubling up is needed by the taxpayer in the lower bracket and not by the upper-bracket taxpayer who has made provision to meet the tax liability on 1942 income either by the accumulation of savings or by the purchase of tax-anticipation certificates.

The Ruml-Carlson bill, which would distribute benefits in inverse ratio to need, is particularly objectionable because it would constitute the grossest violation of the principle of ability to pay. It is extremely inequitable because it would shift the tax burden from the few at the upper end of the income scale to the many at the middle and lower end. Since war contractors have been realizing unprecedented profits since 1942, the Ruml-Carlson bill would in effect be exempting war profits from their just share of taxation. Not content with nullifying the President's order limiting gross salaries to $67,200, the same forces would nullify the tax increases imposed in the last 3 years to finance the war, wiping out 102 percent of these tax increases at the $100,000 level, and 320 percent at the $1,000,000 level.

In view of the nation's revenue needs and in view of the inequitable windfalls permitted under the Ruml-Carlson plan and to a lesser extent under the Robertson-Forand bill, the Congress should reject these plans and adopt the Doughton plan as the most equitable plan for achieving a current pay-as-you-earn income-tax-collection system. To prevent undue hardships, the "Victory tax" should be repealed and the 1941 personal exemptions of $750 and $1,500 should be restored. These revisions would place the Federal income tax on a more equitable basis, enhance morale and speed the day of the unconditional surrender of the enemies of all humanity.

(Letter submitted by the Military Order of the Liberty Bell:)

THE MILITARY ORDER OF THE LIBERTY BELL,
Cowart, Va., May 8, 1943.

Hon. WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

MY DEAR SENATOR: This is to request permission to be heard in the hearings on the tax bill or in lieu thereof that this letter be made a part of the record of proceedings.

The bill, as coming from the House, provides exemption of the pay of the men of the services. With that we are in accord but we desire to urge similar exemption be extended to the retired pay of men on the retired rolls.

It is pointed out that at this time exemption is provided for pensions and compensation. Retirement, though handled in a different manner, is fundamentally the same as pension. Both are grounded in the proposition that government has consumed the usefulness of the man.

As compared with men on active duty the pay of the retired men is much lower. Generally that pay is their only income. Unlike civilians in war work there is no advancement for them in economic standards in terms of increased pay. Instead their retired pay is rapidly being lessened in value as necessities rise in price.

We most sincerely urge extension of the exemption to retired men so that the bill will not leave them as all alone in paying taxes on their meager incomes after substantial service in our armed forces.

Assuring you of my highest regards, I am,

Sincerely yours,

WALTER JOHNSON,
Commander in Chief,
Military Order of the Liberty Bell.

The CHAIRMAN. If there i, nothing else at this time the committee will recess until 2:30 and meet in executive session at that time.

(Whereupon, at 12 noon, the committee recessed until 2:30 p. m., to meet in executive session.)

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