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THE REVENUE BILL OF 1945

OCTOBER 23 (legislative day, OCTOBER 22), 1945.—Ordered to be printed

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

REPORT

[To accompany H. R. 4309]

The Committee on Finance, to whom was referred the bill (H. R. 4309) to reduce taxation, and for other purposes, having had the same under consideration, report favorably thereon, with certain amendments, and, as amended, recommend that the bill do pass.

GENERAL STATEMENT

This bill has been designed to aid both individuals and businesses in the difficult period of transition from war to peace. Your committee concurs with the Ways and Means Committee of the House in believing that to accomplish this objective it is necessary to reduce the high wartime tax rates in order to provide incentives for business to expand and to increase consumer purchasing power. Certain expenditures necessary after the end of a war, however, will keep Federal revenue requirements at a high level during 1946 if a large deficit is to be avoided. Federal expenditures for the fiscal year 1946 have been estimated by the Bureau of the Budget at 66.4 billion dollars and the deficit for fiscal year 1946 at 30.4 billion dollars. Although Federal expenditures for the calendar year 1946 are expected to be much lower, it is anticipated that the deficit will still be sizable. In view of the probable extent of the deficit in 1946 it is necessary to limit the over-all reduction in taxes. Your committee believes that with only a limited tax reduction possible in 1946, attention should be directed toward removing or reducing those taxes which especially hamper the process of reconverting our economy from a war to a peacetime basis.

SUMMARY OF CHANGES IN EXISTING LAW

H. R. 4309, with the amendments proposed by your committee, makes the following changes in existing law:

Individual income taxes

1. Your committee concurs with the House in making present surtax exemptions applicable to the normal tax. Accordingly the

normal tax exemption of $500 for each income recipient is replaced by exemptions of $500 each for the taxpayer, his spouse, and each of his dependents. This change will be effective on and after January 1, 1946.

2. The rate applicable to each surtax bracket is reduced by three percentage points effective on and after January 1, 1946.

3. The combined normal tax and surtax as computed under the proposed exemptions and rates is reduced further by 5 percent of the tax. Thus the combined normal tax and surtax rates begin, in effect, with a starting rate of 19 percent and reach a top rate of 86.45 percent. However, the present combined limit on normal tax and surtax of 90 percent of net income is reduced to 85.5 percent.

Application of individual income taxes to members of the armed forces

1. All compensation received during any taxable year, beginning after December 31, 1940, and before the termination of the war, for service in the military or naval forces of the United States by an individual below the grade of a commissioned officer is excluded from income. All enlisted personnel would have no income-tax liability with respect to service pay, and would be relieved of filing returns, with respect to such pay.

2. The bill extends the time for paying taxes attributable to service pay of commissioned officers; the tax if so deferred, to be paid in 12 equal quarterly installments, without interest.

3. Similar extension of time for payment is provided in the case of taxes attributable to preservice earned income for 1940 or 1941, which became due after the taxpayer's entry into the service.

Corporate taxes

1. The excess-profits tax is repealed, effective January 1, 1946.

2. The 2-year carry-back of the unused excess-profits credit is extended for 1 year beyond the date of the repeal of the excess-profits tax. Thus an unused excess-profits credit arising in 1946 may be carried back to reduce the excess-profits taxes of 1944 or 1945.

3. A new schedule of corporate normal tax and surtax rates and brackets is provided for small corporations with incomes under $60,000, effective on and after January 1, 1946. The rates and brackets are as follows:

Income	Normal tax rate on income in bracket	Surtax rate on income in bracket	Combined normal tax and surtax rate on income in bracket
	Percent	*Percent*	*Percent*
Not over $10,000	15	5	20
Over $10,000 but not over $20,000	18	9	27
Over $20,000 but not over $25,000	19	10	29
Over $25,000 but not over $60,000	29	22	51

4. Your committee concurs with the House in repealing the capital stock tax beginning with the tax payable on July 31, 1946, and the declared-value excess-profits tax beginning with the related taxable year.

Excise taxes

1. With respect to the excise "war tax rates" your committee leaves untouched the provisions of existing law which provide that such

rates will be reduced to the 1942 levels approximately 6 months after the termination of hostilities as proclaimed by the President or as specified in a concurrent resolution of Congress. However, when these excises are thus reduced, tax refunds to the extent of the excise tax rate reductions are to be made on floor stocks of distilled spirits, wines, fermented malt liquors, and electric-light bulbs.

2. Your committee concurs with the House in repealing the tax on the use of motor vehicles and boats, effective July 1, 1946.

Employment taxes

1. Your committee concurs with the House in continuing the employment taxes for the old-age and survivors insurance program through 1946 at the present rate of 1 percent on wages paid by employers and 1 percent on wages received by employees, instead of increasing the rates in 1946, as provided by present law, to 2½ percent for each of these groups.

Summary of Estimated Revenue Effect of Tax Reductions

Estimated tax liabilities for 1946 and 1947 under the present law, the House bill and your committee's bill are shown in table 1. The tax-liability reductions in 1946 and 1947 from present law arising from the House bill and from your committee's bill are shown in table 2. Total tax liabilities under your committee's bill for 1946 are estimated at $26,857,000,000—$5,633,000,000 less than under existing law, and $283,000,000 less than under the House bill.

If general economic conditions remain the same in 1947 as estimated for 1946, there would be no further tax reductions arising from your committee's bill. However, the tax liabilities under the House bill would be further decreased by $1,902,000,000. Thus, if the total reductions in tax liabilities in 1946 and 1947 are considered, the reduction under the House bill for the 2 years exceeds that under your committee's bill by $1,336,000,000. This does not take into consideration the possible automatic reduction in excise taxes under existing law in 1946 or 1947.

Of the $5,633,000,000 tax reduction arising from your committee's bill in 1946, $2,644,000,000 is attributable to reductions in the individual income taxes; $2,555,000,000, to the repeal of the excess-profits tax; $294,000,000 to the reduction of other corporate taxes; and $140,000,000 to the repeal of the use tax on motor vehicles and boats.

The additional loss in 1946 under your committee's bill over that of the House bill can be largely accounted for by the fact that your committee's bill repeals the excess-profits tax in 1946 whereas the House bill merely reduces the rate. If this were the only difference in the two bills, the loss under your committee's bill in 1946 would exceed that of the House bill by $1,255,000,000. However, nearly $1,000,000,000 of this amount is offset under your committee's bill by smaller reductions in other corporate taxes and by not reducing wartime excise tax rates. Tax liability losses in 1946 attributable to the individual income tax are approximately the same under your committee's bill and the House bill.

The reduction in tax liabilities in the House bill in 1947 exceeds that of the bill of your committee by $1,619,000,000. This can be accounted for largely by the repeal of the excess-profits tax in 1947 under the House bill and by the full-year effect of the reduction in wartime excise tax rates.

TABLE 1.—*Estimated tax liabilities under present law, under the House bill, and under the Finance Committee bill, calendar years 1946 and 1947* [1]

[In millions of dollars]

Source	Estimated yields					
	1946			1947 [1]		
	Present law	House bill	Finance Committee bill	Present law	House bill	Finance Committee bill
1. Internal revenue:						
(1) Income, excess-profits and capital-stock taxes:						
(a) Corporation taxes [2]	9,054	7,166	6,205	9,054	5,610	6,205
(b) Individual income taxes	13,340	10,713	10,696	13,340	10,713	10,696
Total income, excess-profits and capital-stock taxes	22,394	17,879	16,901	22,394	16,323	16,901
(2) Miscellaneous internal revenue, excluding capital-stock tax:						
(a) Excises subject to war-tax rates:						
Liquor taxes:						
Distilled spirits	1,473	1,224	1,473	1,473	1,001	1,473
Fermented malt liquors	545	513	545	545	482	545
Wines	47	36	47	47	29	47
Total liquor taxes	2,065	1,773	2,065	2,065	1,512	2,065
Retailers' excise taxes:						
Jewelry, etc	201	153	201	201	102	201
Furs	90	65	90	90	46	90
Toilet preparations	79	61	79	79	40	79
Luggage, etc	62	47	62	62	32	62
Total retailers' excise taxes	432	326	432	432	220	432
Telephone, telegraph, radio, and cable facilities, etc	126	111	126	126	97	126
Local telephone service	128	107	128	128	87	128
Transportation of persons	188	160	188	188	128	188
Admissions	268	203	268	268	139	268
Electric light bulbs and tubes	14	10	14	14	4	14
Club dues and initiation fees	11	9	11	11	6	11
Bowling alleys, billiard and pool tables	4	2	4	4	2	4
Total excises subject to "war tax rates" [3]	3,236	2,701	3,236	3,236	2,195	3,236
(b) Use tax on motor vehicles and boats	140			140		
(c) All other	2,978	2,978	2,978	2,978	2,978	2,978
Total miscellaneous internal revenue excluding capital stock tax	6,354	5,679	6,214	6,354	5,173	6,214
2. Employment taxes (net)	392	392	392	392	392	392
3. Customs	450	450	450	450	450	450
4. Miscellaneous receipts	2,900	2,900	2,900	2,900	2,900	2,900
Net receipts, general and special accounts	32,490	27,300	26,857	32,490	25,238	26,857
Refunds on floor stocks [4]		160				
Net receipts less refunds on floor stocks	32,490	27,140	26,857	32,490	25,238	26,857

[1] Assumes, for comparative purposes, the same general conditions in 1947 as in 1946.
[2] Under present law, the House bill, and your committee's bill it is estimated that the unused excess-profits credit carry-back in 1946 will offset Federal Government revenue to the extent of $235,000,000.
[3] It is assumed that the excise "war-tax rates" are not reduced to the 1942 rates, by operation of existing law, in 1946 or 1947. Thus no reduction is shown under present law or your committee's bill.
[4] Tax refunds are classified by the Federal Government as expenditures.

TABLE 2.—*Estimated net reductions in tax liabilities under the House bill and under the Finance Committee bill as compared with tax liability under present law, calendar years 1946 and 1947* [1]

[In millions of dollars]

Source	Reduction in tax liabilities from present law			
	1946		1947 [1]	
	House bill	Finance Committee bill	House bill	Finance Committee bill
Internal revenue:				
(1) Income, excess profits and capital stock taxes:				
(a) Corporation taxes: [2]				
Excess profits tax	1,300	2,555	2,555	2,555
Normal tax and surtax	405	63	646	63
Repeal of capital stock and declared-value excess-profits taxes	183	231	243	231
Total corporation taxes	1,888	2,849	3,444	2,849
(b) Individual income taxes: [3]				
Allow same exemption for normal tax as for surtax	782	782	782	782
Reduce surtax rates by 4 percentage points under House bill and by 3 percentage points under Finance Committee amended bill	1,738	1,303	1,738	1,303
Provision for reduction of tax by at least 10 percent under House bill	107		107	
Reduction of 5 percent in normal tax and surtax under Finance Committee amended bill	–	559		559
Total individual income taxes	2,627	2,644	2,627	2,644
Total: income, excess-profits and capital stock taxes	4,515	5,493	6,071	5,493
(2) Miscellaneous internal revenue, excluding capital stock tax:				
(a) Excises subject to war-tax rates:				
Liquor taxes:				
Distilled spirits	249		472	
Fermented malt liquors	32		63	
Wines	11		18	
Total liquor taxes	292		553	
Retailers' excise taxes:				
Jewelry, etc	48		99	
Furs	25		44	
Toilet preparations	18		39	
Luggage, etc	15		30	
Total retailers' excise taxes	106		212	
Telephone, telegraph, radio, and cable facilities, etc	15		29	
Local telephone service	21		41	
Transportation of persons	28		60	
Admissions	65		129	
Electric-light bulbs and tubes	4		10	
Club dues and initiation fees	2		5	
Bowling alleys, billiard and pool tables	2		2	
Total excises subject to war-tax rates	535		1,041	
(b) Use tax on motor vehicles and boats	140	140	140	140
(c) All other				
Total miscellaneous internal revenue excluding capital stock tax	675	140	1,181	140

[1] Assumes, for comparative purposes, the same general conditions in 1947 as estimated for 1946.
[2] Takes into account the following sequence in tax reduction or repeal: First, action on the excess-profits tax; second, action on the corporation normal tax and surtax rates; and third, action on the capital stock and declared-value excess-profits taxes.
[3] Takes into account the following sequence in tax reduction: First, action on normal tax exemption; second, action reducing surtax rates by 3 or 4 percentage points; and third, action reducing tax by at least 10 percent from present law under the House bill, and by 5 percent (for all normal taxes and surtaxes) under the Finance Committee bill.

TABLE 2.—*Estimated net reductions in tax liabilities under the House bill and under the Finance Committee bill as compared with tax liability under present law, calendar years 1946 and 1947* [1]—Continued

[In millions of dollars]

Source	Reduction in tax liabilities from present law			
	1946		1947 [1]	
	House bill	Finance Committee bill	House bill	Finance Committee bill
2. Employment taxes (net)				
3. Customs				
4. Miscellaneous receipts				
Net receipts, general and special accounts	5,190	5,633	7,252	5,633
Refunds on floor stocks [4]	160			
Net receipts less refunds on floor stocks	5,350	5,633	7,252	5,633

[1] Assumes for comparative purposes, the same general conditions in 1947 as estimated for 1946.
[4] Tax refunds are classified by the Federal Government as expenditures.

GENERAL DISCUSSION OF RECOMMENDED INDIVIDUAL INCOME-TAX REDUCTIONS

1. *Providing the same exemptions for normal tax as for surtax*

Your committee concurs with the House in making the present surtax exemptions applicable to the normal tax, effective on and after January 1, 1946. Thus the normal tax exemption of $500 for each income recipient [1] is replaced by exemptions of $500 each for the taxpayer, his spouse, and each of his dependents.

This provision would relieve from tax approximately 12,000,000 of the 48,000,000 persons receiving income now subject to tax. The revenue loss from this provision is estimated at $782,000,000. Of this amount, $310,000,000 represents the loss from removing the 12,000,000 persons from the tax rolls who now are subject to the normal tax but not the surtax. In all cases these would be married taxpayers or taxpayers with dependents. Examples of persons in this class at the present time are taxpayers with one dependent [2] and with a net income before exemptions ranging from $500 to $1,000; taxpayers with two dependents and with a net income ranging from $500 to $1,500; and taxpayers with three dependents and a net income ranging from $500 to $2,000. The proposal would also reduce the tax of all married persons whose spouses have incomes of less than $500 and all taxpayers with dependents, since for normal tax purposes an additional exemption of $500 would be granted to a taxpayer for his spouse and each of his dependents. This would in effect grant tax relief of up to $15 per spouse or dependent.

It is believed desirable to apply the surtax exemption to the normal tax for several reasons. One of the most important of these is the

[1] The present normal tax exemption for the spouse of a taxpayer is allowed only to the extent of the income of the spouse if the income is less than $500.
[2] Or with spouse having no income.

fact that taxpayers subject only to the present normal tax were first brought into the tax base in the Revenue Act of 1942 when the Victory tax was enacted only for the period of the war. With the war ended this reason for retaining these taxpayers in the tax base is removed. Moreover, it is not believed that an income tax should be continued in the postwar period in which exemptions do not recognize family status. This provision is also desirable as an aid to income tax simplification.

2. Reducing surtax rates by three percentage points

The Finance Committee bill reduces the rate applicable to each surtax bracket by three percentage points, effective on and after January 1, 1946. This would reduce the starting rate for the combined normal tax and surtax from the present 23 to 20 percent. The estimated revenue reduction in 1946 resulting from this proposal would be approximately $1,303,000,000.

The House bill reduces the rate applicable to each surtax bracket by four percentage points giving a starting rate of 19 percent. After adjustment has been made for a further 5-percent cut in tax allowed under your committee's bill, the starting rates used under the two bills are generally the same. This 5-percent reduction is discussed in the following section.

Although your committee does not believe that it is desirable to embody a comprehensive revision of the individual income surtax rates in this bill, it does believe that some relief should be provided to everyone who has been paying high wartime taxes. The provision reducing surtax rates three percentage points grants substantial tax relief to all individuals subject to the income tax at the time when many of them must shift from wartime to peacetime employment. This reduction, together with the change in normal tax exemptions, is in effect the equivalent of removing the present normal tax which was first enacted as the Victory tax in the Revenue Act of 1942 and which was enacted only as an emergency wartime measure. Thus with the end of the war your committee considered it especially appropriate to reduce the tax on individuals by three percentage points.

3. Reducing the combined normal tax and surtax by 5 percent

In addition to the reduction of three percentage points in each surtax bracket, this bill provides that the combined normal tax and surtax, before computing the alternative tax for capital gains, be further reduced by 5 percent of the tax. The estimated revenue loss from this provision is $559,000,000.

The House bill did not provide for the 5-percent tax reduction but rather removed one percentage point more in all of the surtax brackets than does your committee's bill, and readjusted the surtax rates in the brackets above $20,000 to assure taxpayers of at least an over-all tax reduction of 10 percent. A comparison of the effect of combined normal tax and surtax rates of the House bill and Finance Committee bill with present law is shown in table 3. Table 4 compares surtax rates under the two bills with present law.

In comparing the bracket rates under the House and Finance Committee bills in table 3, it will be noted that in the first bracket ($0 to $2,000) of income after exemptions, the Finance Committee's three percentage points reduction plus the 5-percent reduction in tax is exactly the equivalent of the House bill's four percentage points reduction where the normal tax and surtax bases are the same. In the brackets between $2,000 and $20,000 the Finance Committee's 5-percent reduction provides greater tax relief than the House bill's additional percentage point; above the $20,000 bracket, however, the House bill provision, adjusting surtax rates so that all taxpayers will be assured of a 10-percent reduction, provides the greater reduction.

TABLE 3.—*The combined normal tax and surtax bracket rates of the individual income tax; House bill and Senate Finance Committee bill compared with present law*

[Tax rates expressed as percentages]

Income after exemptions, by brackets		Tax rate on income in bracket			
				Finance Committee bill	
Exceeding—	Not exceeding—	Present law [1]	House bill	Tentative tax rate	Tax rate after 5-percent reduction
		Percent	*Percent*	*Percent*	*Percent*
$0	$2,000	23	19.0	20	19.00
$2,000	4,000	25	21.0	22	20.90
$4,000	6,000	29	25.0	26	24.70
$6,000	8,000	33	29.0	30	28.50
$8,000	10,000	37	33.0	34	32.30
$10,000	12,000	41	37.0	38	36.10
$12,000	14,000	46	42.0	43	40.85
$14,000	16,000	50	46.0	47	44.65
$16,000	18,000	53	49.0	50	47.50
$18,000	20,000	56	52.0	53	50.35
$20,000	22,000	59	53.0	56	53.20
$22,000	26,000	62	56.0	59	56.05
$26,000	32,000	65	58.0	62	58.90
$32,000	38,000	68	61.0	65	61.75
$38,000	44,000	72	65.0	69	65.55
$44,000	50,000	75	68.0	72	68.40
$50,000	60,000	78	70.0	75	71.25
$60,000	70,000	81	73.0	78	74.10
$70,000	80,000	84	75.0	81	76.95
$80,000	90,000	87	79.0	84	79.80
$90,000	100,000	90	81.0	87	82.65
$100,000	150,000	92	82.5	89	84.55
$150,000	200,000	93	84.0	90	85.50
$200,000		[2] 94	[3] 84.5	91	[4] 86.45

[1] Taxpayers under present law who are subject only to the normal tax, pay a 3-percent rate.
[2] Subject to an over-all 90-percent limitation.
[3] Subject to an over-all 81-percent limitation.
[4] Subject to an over-all 85½-percent limitation.

TABLE 4.—*Comparison of individual surtax rates and cumulative surtax under present law, House bill, and under Finance Committee bill*

Surtax net income		Surtax rates [1]			Cumulative surtax at top of bracket				Reduction in surtax	
							Finance Committee bill		Cumulative surtax	
Exceeding—	Not exceeding—	Present law	House bill [2]	Finance Committee bill [3]	Present law	House bill	Tentative tax	Tax after 5-percent reduction	House bill	Finance Committee bill
		Percent	*Percent*	*Percent*						
$0	$2,000	20	16.0	17	$400	$320	$340	$323	$80	$77
$2,000	4,000	22	18.0	19	840	680	720	684	160	156
$4,000	6,000	26	22.0	23	1,360	1,120	1,180	1,121	240	239
$6,000	8,000	30	26.0	27	1,960	1,640	1,720	1,634	320	326
$8,000	10,000	34	30.0	31	2,640	2,240	2,340	2,223	400	417
$10,000	12,000	38	34.0	35	3,400	2,920	3,040	2,888	480	512
$12,000	14,000	43	39.0	40	4,260	3,700	3,840	3,648	560	612
$14,000	16,000	47	43.0	44	5,200	4,560	4,720	4,484	640	716
$16,000	18,000	50	46.0	47	6,200	5,480	5,660	5,377	720	823
$18,000	20,000	53	49.0	50	7,260	6,460	6,660	6,327	800	933
$20,000	22,000	56	50.0	53	8,380	7,460	7,720	7,334	920	1,046
$22,000	26,000	59	53.0	56	10,740	9,580	9,960	9,462	1,160	1,278
$26,000	32,000	62	55.0	59	14,460	12,880	13,500	12,825	1,580	1,635
$32,000	38,000	65	58.0	62	18,360	16,360	17,220	16,359	2,000	2,001
$38,000	44,000	69	62.0	66	22,500	20,080	21,180	20,121	2,420	2,379
$44,000	50,000	72	65.0	69	26,820	23,980	25,320	24,054	2,840	2,766
$50,000	60,000	75	67.0	72	34,320	30,680	32,520	30,894	3,640	3,426
$60,000	70,000	78	70.0	75	42,120	37,680	40,020	38,019	4,440	4,101
$70,000	80,000	81	72.0	78	50,220	44,880	47,820	45,429	5,340	4,791
$80,000	90,000	84	76.0	81	58,620	52,480	55,920	53,124	6,140	5,496
$90,000	100,000	87	78.0	84	67,320	60,280	64,320	61,104	7,040	6,216
$100,000	150,000	89	79.5	86	111,320	100,030	107,320	101,954	11,790	9,866
$150,000	200,000	90	81.0	87	156,820	140,530	150,820	143,279	16,290	13,541
$200,000		91	81.5	88						

[1] Does not include the 3-percent normal tax rate.
[2] Gives effect to the 10-percent minimum reduction.
[3] Does not give effect to the 5 percent reduction in total tax.

In terms of effective rates on income before exemptions—or in terms of total tax paid—your committee's bill provides the same relief in the lowest-income brackets as the House bill, but in the middle brackets up to $50,000 it provides more relief than the House bill. Thus, it is only in the higher-income brackets above $50,000 that the tax actually paid is smaller under the House bill. These effective rates and tax burdens are shown in tables 8, 9, and 10 in the following section.

4. A comparison of tax burdens under the House bill and Finance Committee bill.

The following tables compare the individual income-tax burden, and effective tax rates on specified net incomes, before exemptions, under the present law, the House bill, and the Finance Committee bill. The tables also show the amount and percent of tax reduction and the amount by which the tax reduction under the Finance Committee bill is greater or less than under the House bill.

Tables 5, 6, and 7 are based on the supplement T tax table which is used by most taxpayers having adjusted gross income of less than $5,000. In general, adjusted gross income is gross income less business deductions and for most wage earners represents gross income.

Tables 8, 9, and 10 are based on net income. In general, net income is gross income less all deductions, both business and nonbusiness.

Table 5.—*Tax burden under supplement T of present law compared with that under the House bill and under the Finance Committee bill*

SINGLE PERSON—NO DEPENDENTS

Adjusted gross income of individuals using the standard deduction	Income-tax burden			Effective tax rate			Reduction in tax			
	Present law [1]	House bill	Finance Committee bill	Present law	House bill	Finance Committee bill	House bill	Finance Committee bill	House bill	Finance Committee bill
							Amount	*Amount*	*Percent*	*Percent*
$500	$0	$0	$0	0.	0	0	$0	$0	0	0
$600	12	10	10	2.0	1.7	1.7	2	2	16.67	16.67
$700	32	27	27	4.6	3.9	3.9	5	5	15.63	15.63
$800	53	44	44	6.6	5.5	5.5	9	9	16.97	16.97
$900	74	61	61	8.2	6.8	6.8	13	13	17.57	17.57
$1,000	95	78	78	9.5	7.8	7.8	17	17	17.89	17.89
$1,100	115	95	95	10.5	8.6	8.6	20	20	17.39	17.39
$1,200	136	112	112	11.3	9.3	9.3	24	24	17.65	17.65
$1,300	157	129	129	12.1	9.9	9.9	28	28	17.83	17.83
$1,400	177	147	147	12.6	10.5	10.5	30	30	16.95	16.95
$1,500	198	164	164	13.2	10.9	10.9	34	34	17.17	17.17
$1,750	250	206	206	14.3	11.8	11.8	44	44	17.60	17.60
$2,000	302	249	249	15.1	12.5	12.5	53	53	17.55	17.55
$2,250	353	292	292	15.7	13.0	13.0	61	61	17.28	17.28
$2,500	405	335	335	16.2	13.4	13.4	70	70	17.33	17.33
$2,750	457	377	377	16.6	13.7	13.7	80	80	17.51	17.51
$3,000	516	427	427	17.2	14.2	14.2	89	89	17.25	17.25
$3,250	572	474	474	17.6	14.6	14.6	98	98	17.13	17.13
$3,500	628	521	521	17.9	14.9	14.9	107	107	17.04	17.04
$3,750	684	568	568	18.2	15.1	15.1	116	116	16.96	16.96
$4,000	741	616	615	18.5	15.4	15.4	125	126	16.87	17.00
$4,250	797	663	662	18.8	15.6	15.6	134	135	16.81	16.94
$4,500	853	710	709	19.0	15.8	15.8	143	144	16.76	16.88
$4,750	909	757	756	19.1	15.9	15.9	152	153	16.72	16.83
$4,900	943	786	784	19.2	16.0	16.0	157	159	16.65	16.86

Table 6.—*Tax burden under supplement T of present law compared with that under the House bill and under the Finance Committee bill*

MARRIED PERSON—NO DEPENDENTS

Adjusted gross income of individuals using the standard deduction	Income-tax burden			Effective tax rate			Reduction in tax			
	Present law [1]	House bill	Finance Committee bill	Present law	House bill	Finance Committee bill	House bill	Finance Committee bill	House bill	Finance Committee bill
				Percent	*Percent*	*Percent*	*Amount*	*Amount*	*Percent*	*Percent*
$500	$0	$0	$0	0	0	0	$0	$0	0	0
$600	2	0	0	.3	0	0	2	2	100.00	100.00
$700	4	0	0	.6	0	0	4	4	100.00	100.00
$800	7	0	0	.9	0	0	7	7	100.00	100.00
$900	10	0	0	1.1	0	0	10	10	100.00	100.00
$1,000	12	0	0	1.2	0	0	12	12	100.00	100.00
$1,100	15	0	0	1.4	0	0	15	15	100.00	100.00
$1,200	36	17	17	3.0	1.4	1.4	19	19	52.78	52.78
$1,300	57	34	34	4.4	2.6	2.6	23	23	40.35	40.35
$1,400	77	52	52	5.5	3.7	3.7	25	25	32.47	32.47
$1,500	98	69	69	6.5	4.6	4.6	29	29	29.59	29.59
$1,750	150	111	111	8.6	6.3	6.3	39	39	26.00	26.00
$2,000	202	154	154	10.1	7.7	7.7	48	48	23.76	23.76
$2,250	253	197	197	11.2	8.8	8.8	56	56	22.13	22.13
$2,500	305	240	240	12.2	9.6	9.6	65	65	21.31	21.31
$2,750	357	282	282	13.0	10.3	10.3	75	75	21.01	21.01
$3,000	411	327	327	13.7	10.9	10.9	84	84	20.44	20.44
$3,250	463	370	370	14.2	11.4	11.4	93	93	20.09	20.09
$3,500	518	416	416	14.8	11.9	11.9	102	102	19.69	19.69
$3,750	574	463	463	15.3	12.3	12.3	111	111	19.34	19.34
$4,000	631	511	510	15.8	12.8	12.8	120	121	19.02	19.18
$4,250	687	558	557	16.2	13.1	13.1	129	130	18.78	18.92
$4,500	743	605	604	16.5	13.4	13.4	138	139	18.57	18.71
$4,750	799	652	651	16.8	13.7	13.7	147	148	18.40	18.52
$4,900	833	681	679	17.0	13.9	13.9	152	154	18.25	18.49

[1] Assumes only 1 spouse has income.

TABLE 7.—*Tax burden under supplement T of present law compared with that under the House bill and under the Finance Committee bill*

MARRIED PERSON—2 DEPENDENTS

Adjusted gross income of individuals using the standard deduction	Income-tax burden			Effective tax rate			Reduction in tax			
	Present law [1]	House bill	Finance Committee bill	Present law	House bill	Finance Committee bill	House bill	Finance Committee bill	House bill	Finance Committee bill
							Amount	*Amount*	*Percent*	*Percent*
$500	$0	$0	$0	0	0	0	$0	$0	0	0
$600	2	0	0	.3	0	0	2	2	100.00	100.00
$700	4	0	0	.6	0	0	4	4	100.00	100.00
$800	7	0	0	.9	0	0	7	7	100.00	100.00
$900	10	0	0	1.1	0	0	10	10	100.00	100.00
$1,000	12	0	0	1.2	0	0	12	12	100.00	100.00
$1,100	15	0	0	1.4	0	0	15	15	100.00	100.00
$1,200	18	0	0	1.5	0	0	18	18	100.00	100.00
$1,300	20	0	0	1.5	0	0	20	20	100.00	100.00
$1,400	23	0	0	1.6	0	0	23	23	100.00	100.00
$1,500	26	0	0	1.7	0	0	26	26	100.00	100.00
$1,750	33	0	0	1.9	0	0	33	33	100.00	100.00
$2,000	39	0	0	2.0	0	0	39	39	100.00	100.00
$2,250	53	7	7	2.4	.3	.3	46	46	86.79	86.79
$2,500	105	50	50	4.2	2.0	2.0	55	55	52.38	52.38
$2,750	157	92	92	5.7	3.3	3.3	65	65	41.40	41.40
$3,000	211	137	137	7.0	4.6	4.6	74	74	35.07	35.07
$3,250	263	180	180	8.1	5.5	5.5	83	83	31.56	31.56
$3,500	315	223	223	9.0	6.4	6.4	92	92	29.21	29.21
$3,750	366	266	266	9.8	7.1	7.1	100	100	27.32	27.32
$4,000	418	308	308	10.5	7.7	7.7	110	110	26.32	26.32
$4,250	470	351	351	11.1	8.3	8.3	119	119	25.32	25.32
$4,500	523	395	395	11.6	8.8	8.8	128	128	24.47	24.47
$4,750	579	442	442	12.2	9.3	9.3	137	137	23.66	23.66
$4,900	613	471	470	12.5	9.6	9.6	142	143	23.16	23.33

[1] Assumes only 1 spouse has income.

TABLE 8.—*Comparison of individual income-tax burden on specified net incomes under present law, House bill, and under Finance Committee bill*

SINGLE PERSON—NO DEPENDENTS

Net income before personal exemption	Income-tax burden			Effective tax rate			Reduction in tax burden				
							Amount		Percent		Increase (+) or decrease (−). Finance Committee bill over House bill
	Present law	House bill	Finance Committee bill	Present law	House bill	Finance Committee bill	House bill	Finance Committee bill	House bill	Finance Committee bill	
				Percent	*Percent*	*Percent*					
$500											
$600	$23.00	$19.00	$19.00	3.83	3.17	3.17	$4.00	$4.00	17.39	17.39	
$700	46.00	38.00	38.00	6.57	5.43	5.43	8.00	8.00	17.39	17.39	
$750	57.50	47.50	47.50	7.67	6.33	6.33	10.00	10.00	17.39	17.39	
$800	69.00	57.00	57.00	8.62	7.12	7.12	12.00	12.00	17.39	17.39	
$900	92.00	76.00	76.00	10.22	8.44	8.44	16.00	16.00	17.39	17.39	
$1,000	115.00	95.00	95.00	11.50	9.50	9.50	20.00	20.00	17.39	17.39	
$1,200	161.00	133.00	133.00	13.42	11.08	11.08	28.00	28.00	17.39	17.39	
$1,500	230.00	190.00	190.00	15.33	12.67	12.67	40.00	40.00	17.39	17.39	
$1,800	299.00	247.00	247.00	16.61	13.72	13.72	52.00	52.00	17.39	17.39	
$2,000	345.00	285.00	285.00	17.25	14.25	14.25	60.00	60.00	17.39	17.39	
$2,500	460.00	380.00	380.00	18.40	15.20	15.20	80.00	80.00	17.39	17.39	
$3,000	585.00	485.00	484.50	19.50	16.17	16.15	100.00	100.50	17.09	17.18	+$0.50
$4,000	835.00	695.00	693.50	20.87	17.37	17.34	140.00	141.50	16.77	16.95	+1.50
$5,000	1,105.00	925.00	921.50	22.10	18.50	18.43	180.00	183.50	16.29	16.61	+3.50
$6,000	1,395.00	1,175.00	1,168.50	23.25	19.58	19.47	220.00	226.50	15.77	16.24	+6.50
$7,000	1,705.00	1,445.00	1,434.50	24.36	20.64	20.49	260.00	270.50	15.25	15.87	+10.50
$8,000	2,035.00	1,735.00	1,719.50	25.44	21.69	21.49	300.00	315.50	14.74	15.50	+15.50
$9,000	2,385.00	2,045.00	2,023.50	26.50	22.72	22.48	340.00	361.50	14.26	15.16	+21.50
$10,000	2,755.00	2,375.00	2,346.50	27.55	23.75	23.47	380.00	408.50	13.79	14.83	+28.50
$11,000	3,145.00	2,725.00	2,688.50	28.59	24.77	24.44	420.00	456.50	13.35	14.52	+36.50
$12,000	3,555.00	3,095.00	3,049.40	29.62	25.79	25.41	460.00	505.50	12.94	14.22	+45.50
$13,000	3,990.00	3,490.00	3,434.25	30.69	26.85	26.42	500.00	555.75	12.53	13.93	+55.75
$14,000	4,450.00	3,910.00	3,842.75	31.79	27.93	27.45	540.00	607.25	12.13	13.65	+67.25
$15,000	4,930.00	4,350.00	4,270.25	32.87	29.00	28.47	580.00	659.75	11.76	13.38	+79.75
$20,000	7,580.00	6,800.00	6,645.25	37.90	34.00	33.23	780.00	934.75	10.29	12.33	+154.75
$25,000	10,590.00	9,520.00	9,362.25	42.36	38.08	37.45	1,070.00	1,227.75	10.10	11.59	+157.75
$30,000	13,795.00	12,390.00	12,264.50	45.98	41.30	40.88	1,405.00	1,530.50	10.18	11.09	+125.50
$40,000	20,580.00	18,475.00	18,425.25	51.45	46.19	46.06	2,105.00	2,154.75	10.23	10.47	+49.75
$50,000	27,945.00	25,140.00	25,137.00	55.89	50.28	50.27	2,805.00	2,808.00	10.04	10.05	+3.00
$60,000	35,730.00	32,130.00	32,247.75	59.55	53.55	53.75	3,600.00	3,482.25	10.08	9.75	−117.75
$70,000	43,815.00	39,415.00	39,643.50	62.59	56.31	56.63	4,400.00	4,171.50	10.04	9.52	−228.50
$80,000	52,200.00	46,905.00	47,324.25	65.25	58.63	59.16	5,295.00	4,875.75	10.14	9.34	−419.25

$90,000	60,885.00	54,785.00	55,290.00	67.65	60.87	61.43	6,100.00	5,595.00	10.02	9.19	−505.00
$100,000	69,870.00	62,875.00	63,540.75	69.87	62.87	63.54	6,995.00	6,329.25	10.01	9.06	−665.75
$150,000	115,860.00	104,117.50	105,806.25	77.24	69.41	70.54	11,742.50	10,053.75	10.14	8.68	−1,688.75
$200,000	162,355.00	146,110.00	148,551.50	81.18	73.05	74.28	16,245.00	13,803.50	10.01	8.50	−2,441.50
$250,000	209,350.00	188,357.50	191,771.75	83.74	75.34	76.71	20,992.50	17,578.25	10.03	8.40	−3,414.25
$300,000	256,350.00	230,607.50	234,996.75	85.45	76.87	78.33	25,742.50	21,353.25	10.04	8.33	−4,389.25
$400,000	350,350.00	315,107.50	321,446.75	87.59	78.78	80.36	35,242.50	28,903.25	10.06	8.25	−6,339.25
$500,000	444,350.00	399,607.50	407,896.75	88.87	79.92	81.58	44,742.50	36,453.25	10.07	8.20	−8,289.25
$750,000	675,000.00	607,500.00	624,021.75	90.00	81.00	83.20	67,500.00	50,978.25	10.00	7.55	−16,521.75
$1,000,000	900,000.00	810,000.00	840,146.75	90.00	81.00	84.01	90,000.00	59,853.25	10.00	6.65	−30,146.75
$2,000,000	1,800,000.00	1,620,000.00	1,704,646.75	90.00	81.00	85.23	180,000.00	95,353.25	10.00	5.30	−84,646.75
$5,000,000	4,500,000.00	4,050,000.00	4,275,000.00	90.00	81.00	85.50	450,000.00	225,000.00	10.00	5.00	−225,000.00

TABLE 9.—*Comparison of individual income-tax burden on specified net incomes under present law, House bill, and under the Finance Committee bill*

MARRIED PERSON—NO DEPENDENTS

Net income before personal exemption	Income-tax burden			Effective tax rate			Reduction in tax burden				
							Amount		Percent		Increase (+) or decrease (−), Finance Committee bill over House bill
	Present law [1]	House bill	Finance Committee bill	Present law	House bill	Finance Committee bill	House bill	Finance Committee bill	House bill	Finance Committee bill	
				Percent	*Percent*	*Percent*					
$600	$3.00	----	----	0.50	----	----	$3.00	$3.00	100.00	100.00	----
$700	6.00	----	----	.86	----	----	6.00	6.00	100.00	100.00	----
$750	7.50	----	----	1.00	----	----	7.50	7.50	100.00	100.00	----
$800	9.00	----	----	1.12	----	----	9.00	9.00	100.00	100.00	----
$900	12.00	----	----	1.33	----	----	12.00	12.00	100.00	100.00	----
$1,000	15.00	----	----	1.50	----	----	15.00	15.00	100.00	100.00	----
$1,200	61.00	$38.00	$38.00	5.08	3.17	3.17	23.00	23.00	37.70	37.70	----
$1,500	130.00	95.00	95.00	8.67	6.33	6.33	35.00	35.00	26.92	26.92	----
$1,800	199.00	152.00	152.00	11.06	8.44	8.44	47.00	47.00	23.62	23.62	----
$2,000	245.00	190.00	190.00	12.25	9.50	9.50	55.00	55.00	22.45	22.45	----
$2,500	360.00	285.00	285.00	14.40	11.40	11.40	75.00	75.00	20.83	20.83	----
$3,000	475.00	380.00	380.00	15.83	12.67	12.67	95.00	95.00	20.00	20.00	----
$4,000	725.00	590.00	589.00	18.12	14.75	14.72	135.00	136.00	18.62	18.76	+$1.00
$5,000	975.00	800.00	798.00	19.50	16.00	15.96	175.00	177.00	17.95	18.15	+2.00
$6,000	1,265.00	1,050.00	1,045.00	21.08	17.50	17.42	215.00	220.00	17.00	17.39	+5.00
$7,000	1,555.00	1,300.00	1,292.00	22.21	18.57	18.46	255.00	263.00	16.40	16.91	+8.00
$8,000	1,885.00	1,590.00	1,577.00	23.56	19.87	19.71	295.00	308.00	15.65	16.34	+13.00
$9,000	2,215.00	1,880.00	1,862.00	24.61	20.89	20.69	335.00	353.00	15.12	15.94	+18.00
$10,000	2,585.00	2,210.00	2,185.00	25.85	22.10	21.85	375.00	400.00	14.51	15.47	+25.00
$11,000	2,955.00	2,540.00	2,508.00	26.86	23.09	22.80	415.00	447.00	14.04	15.13	+32.00
$12,000	3,365.00	2,910.00	2,869.00	28.04	24.25	23.91	455.00	496.00	13.52	14.74	+41.00
$13,000	3,775.00	3,280.00	3,230.00	29.04	25.23	24.85	495.00	545.00	13.11	14.44	+50.00
$14,000	4,235.00	3,700.00	3,638.50	30.25	26.43	25.99	535.00	596.50	12.63	14.08	+61.50
$15,000	4,695.00	4,120.00	4,047.00	31.30	27.47	26.98	575.00	648.00	12.25	13.80	+73.00
$20,000	7,315.00	6,540.00	6,393.50	36.57	32.70	31.97	775.00	921.50	10.59	12.60	+146.50
$25,000	10,295.00	9,240.00	9,082.00	41.18	36.96	36.33	1,055.00	1,213.00	10.25	11.78	+158.00
$30,000	13,485.00	12,100.00	11,970.00	44.95	40.33	39.90	1,385.00	1,515.00	10.27	11.23	+130.00
$40,000	20,235.00	18,150.00	18,097.50	50.59	45.37	45.24	2,085.00	2,137.50	10.30	10.56	+52.50
$50,000	27,585.00	24,800.00	24,795.00	55.17	49.60	49.59	2,785.00	2,790.00	10.10	10.11	+5.00
$60,000	35,355.00	31,780.00	31,891.50	58.92	52.97	53.15	3,575.00	3,463.50	10.11	9.80	−111.50
$70,000	43,425.00	39,050.00	39,273.00	62.04	55.79	56.10	4,375.00	4,152.00	10.07	9.56	−223.00
$80,000	51,795.00	46,530.00	46,939.50	64.74	58.16	58.67	5,265.00	4,855.50	10.16	9.37	−409.50
$90,000	60,465.00	54,390.00	54,891.00	67.18	60.43	60.99	6,075.00	5,574.00	10.05	9.22	−501.00

$100,000	69,435.00	62,470.00	63,127.50	69.43	62.47	63.13	6,965.00	6,307.50	10.03	9.08	−657.50
$150,000	115,415.00	103,705.00	105,383.50	76.94	69.14	70.26	11,710.00	10,031.50	10.15	8.69	−1,678.50
$200,000	161,905.00	145,690.00	148,124.00	80.95	72.84	74.06	16,215.00	13,781.00	10.02	8.51	−2,434.00
$250,000	208,895.00	187,935.00	191,339.50	83.56	75.17	76.54	20,960.00	17,555.50	10.03	8.40	−3,404.50
$300,000	255,895.00	230,185.00	234,564.50	85.30	76.73	78.19	25,710.00	21,330.50	10.05	8.34	−4,379.50
$400,000	349,895.00	314,685.00	321,014.50	87.47	78.67	80.25	35,210.00	28,880.50	10.06	8.25	−6,329.50
$500,000	443,895.00	399,185.00	407,464.50	88.78	79.84	81.49	44,710.00	36,430.50	10.07	8.21	−8,279.50
$750,000	675,000.00	607,500.00	623,589.50	90.00	81.00	83.15	67,500.00	51,410.50	10.00	7.62	−16,089.50
$1,000,000	900,000.00	810,000.00	839,714.50	90.00	81.00	83.97	90,000.00	60,285.50	10.00	6.70	−29,714.50
$2,000,000	1,800,000.00	1,620,000.00	1,704,214.50	90.00	81.00	85.21	180,000.00	95,785.50	10.00	5.32	−84,214.50
$5,000,000	4,500,000.00	4,050,000.00	4,275,000.00	90.00	81.00	85.50	450,000.00	225,000.00	10.00	5.00	−225,000.00

[1] Assumes only 1 spouse has income.

TABLE 10.—*Comparison of individual income-tax burden on specified net incomes under present law, House bill, and under Finance Committee bill*

MARRIED PERSON—2 DEPENDENTS

Net income before personal exemption	Income-tax burden			Effective tax rate			Reduction in tax burden				
							Amount		Percent		Increase (+) or decrease (−), Finance Committee bill over House bill
	Present law [1]	House bill	Finance Committee bill	Present law	House bill	Finance Committee bill	House bill	Finance Committee bill	House bill	Finance Committee bill	
				Percent	*Percent*	*Percent*					
$600	$3.00			0.50			$3.00	$3.00	100.00	100.00	
$700	6.00			.86			6.00	6.00	100.00	100.00	
$750	7.50			1.00			7.50	7.50	100.00	100.00	
$800	9.00			1.12			9.00	9.00	100.00	100.00	
$900	12.00			1.33			12.00	12.00	100.00	100.00	
$1,000	15.00			1.50			15.00	15.00	100.00	100.00	
$1,200	21.00			1.75			21.00	21.00	100.00	100.00	
$1,500	30.00			2.00			30.00	30.00	100.00	100.00	
$1,800	39.00			2.17			39.00	39.00	100.00	100.00	
$2,000	45.00			2.25			45.00	45.00	100.00	100.00	
$2,500	160.00	$95.00	$95.00	6.40	3.80	3.80	65.00	65.00	40.62	40.62	
$3,000	275.00	190.00	190.00	9.17	6.33	6.33	85.00	85.00	30.91	30.91	
$4,000	505.00	380.00	380.00	12.62	9.50	9.50	125.00	125.00	24.75	24.75	
$5,000	755.00	590.00	589.00	15.10	11.80	11.78	165.00	166.00	21.85	21.99	+$1.00
$6,000	1,005.00	800.00	798.00	16.75	13.33	13.30	205.00	207.00	20.40	20.60	+2.00
$7,000	1,295.00	1,050.00	1,045.00	18.50	15.00	14.93	245.00	250.00	18.92	19.30	+5.00
$8,000	1,585.00	1,300.00	1,292.00	19.81	16.25	16.15	285.00	293.00	17.98	18.49	+8.00
$9,000	1,915.00	1,590.00	1,577.00	21.28	17.67	17.52	325.00	338.00	16.97	17.65	+13.00
$10,000	2,245.00	1,880.00	1,862.00	22.45	18.80	18.62	365.00	383.00	16.26	17.06	+18.00
$11,000	2,615.00	2,210.00	2,185.00	23.77	20.09	19.86	405.00	430.00	15.49	16.44	+25.00
$12,000	2,985.00	2,540.00	2,508.00	24.87	21.17	20.90	445.00	477.00	14.91	15.98	+32.00
$13,000	3,395.00	2,910.00	2,869.00	26.12	22.38	22.07	485.00	526.00	14.29	15.49	+41.00
$14,000	3,805.00	3,280.00	3,230.00	27.18	23.43	23.07	525.00	575.00	13.80	15.11	+50.00
$15,000	4,265.00	3,700.00	3,638.00	28.43	24.67	24.26	565.00	626.50	13.25	14.69	+61.50
$20,000	6,785.00	6,020.00	5,890.00	33.92	30.10	29.45	765.00	895.00	11.27	13.19	+130.00
$25,000	9,705.00	8,680.00	8,521.50	38.82	34.72	34.09	1,025.00	1,183.50	10.56	12.19	+158.50
$30,000	12,865.00	11,520.00	11,381.00	42.88	38.40	37.94	1,345.00	1,484.00	10.45	11.54	+139.00
$40,000	19,545.00	17,500.00	17,442.00	48.86	43.75	43.60	2,045.00	2,103.00	10.46	10.76	+58.00
$50,000	26,865.00	24,120.00	24,111.00	53.73	48.24	48.22	2,745.00	2,754.00	10.22	10.25	+9.00
$60,000	34,605.00	31,080.00	31,179.00	57.67	51.80	51.96	3,525.00	3,426.00	10.19	9.90	−99.00
$70,000	42,645.00	38,320.00	38,532.00	60.92	54.74	55.05	4,325.00	4,113.00	10.14	9.64	−212.00
$80,000	50,985.00	45,780.00	46,170.00	63.73	57.22	57.71	5,205.00	4,815.00	10.21	9.44	−390.00
$90,000	59,625.00	53,600.00	54,093.00	66.25	59.56	60.10	6,025.00	5,532.00	10.10	9.28	−493.00

$100,000	68,565.00	61,660.00	62,301.00	68.56	61.66	62.30	6,905.00	6,264.00	10.07	9.14	−641.00
$150,000	114,525.00	102,880.00	104,538.00	76.35	68.59	69.69	11,645.00	9,987.00	10.17	8.72	−1,658.00
$200,000	161,005.00	144,850.00	147,269.00	80.50	72.42	73.63	16,155.00	13,736.00	10.03	8.53	−2,419.00
$250,000	207,985.00	187,090.00	190,475.00	83.19	74.84	76.19	20,895.00	17,510.00	10.05	8.42	−3,385.00
$300,000	254,985.00	229,340.00	233,700.00	84.99	76.45	77.90	25,645.00	21,285.00	10.06	8.35	−4,360.00
$400,000	348,985.00	313,840.00	320,150.00	87.25	78.46	80.04	35,145.00	28,835.00	10.07	8.26	−6,310.00
$500,000	442,985.00	398,340.00	406,600.00	88.60	79.67	81.32	44,645.00	36,385.00	10.08	8.21	−8,260.00
$750,000	675,000.00	607,500.00	622,725.00	90.00	81.00	83.03	67,500.00	52,275.00	10.00	7.74	−15,225.00
$1,000,000	900,000.00	810,000.00	838,850.00	90.00	81.00	83.88	90,000.00	61,150.00	10.00	6.79	−28,850.00
$2,000,000	1,800,000.00	1,620,000.00	1,768,350.00	90.00	81.00	85.17	180,000.00	96,650.00	10.00	5.37	−83,350.00
$5,000,000	4,500,000.00	4,050,000.00	4,275,000.00	90.00	81.00	85.50	450,000.00	225,000.00	10.00	5.00	−225,000.00

[1] Assumes only 1 spouse has income.

General Discussion of Veterans' and Servicemen's Provisions

Your committee had under consideration the tax provisions of existing law relating to members of the armed forces. While in general it was believed that these provisions have operated equitably, and that in certain respects proposals pending in the Congress and elsewhere require further study, it was believed that in other respects certain provisions should be enacted at this time.

1. Providing tax forgiveness for enlisted men

The committee bill excludes from gross income all active-service pay received during the war years by members of the armed forces below the grade of commissioned officer (or commissioned warrant officer). Under this provision enlisted men will have no tax liability as to active-service pay for taxable years beginning after December 31, 1940, and before the termination of the war, and will not have to file income-tax returns for these years as to such pay. Any tax which has been paid for such years will be refunded.

2. Providing tax deferment for commissioned service

Under your committee bill, the exclusion provisions are continued for commissioned personnel, and liability deferred under existing law for the war years may be extended, insofar as it relates to service pay, for 36 months, payable in 12 quarterly installments, without interest.

Under existing law, commissioned personnel, like other service personnel, if on sea or overseas duty, or if ability to pay tax was impaired by reason of military service, could defer payment until 6 months after return to the United States in the former case, or 6 months from date of discharge in the latter. In addition, under section 700 of the Soldiers' and Sailors' Civil Relief Act, by application to the courts an extension period can be obtained on a showing of hardship for a period equal to the length of service, with interest at 6 percent during such extension period.

Without taking away any right under existing law, the bill provides the extension period referred to as a matter of right.

3. Providing tax deferment on preservice earned income

The bill also provides for similar extension in the case of preservice earned income for the taxable years 1940 and 1941, and earned before the serviceman entered upon active service, if such tax became due and payable after entry into service. For this purpose, earned income is defined as in the Internal Revenue Code, and has a maximum limit of $14,000, and a minimum limit of $3,000.

Taxpayers entering the service in 1941 or 1942 were not on a current payment basis and were paying tax in the year following the year in which income was earned. Therefore, many of them owed tax on the civilian income of the year prior to entry into the service, when the service pay was much less than the prior year civilian income.

Nothing in the veterans' and servicemen's provisions in your committee bill will operate to reduce or take away any right to which service personnel are entitled under existing law.

General Discussion of Recommended Corporate Reductions

1. Repealing the excess-profits tax

Your committee's bill repeals the excess-profits tax, effective January 1, 1946. It is estimated that this will result in a reduction in tax liabilities of $2,555,000,000 in 1946.

The 2-year carry-back of unused excess-profits credits is retained for 1 year beyond the repeal of the excess-profits tax. Thus it will be possible to carry back unused excess-profits credits arising in 1946 to 1944 and 1945 and reduce the excess-profits tax paid in these years. It is believed necessary to continue the carry-back for one more year, to be sure that business has the opportunity to apply reconversion expenditures to reduce wartime taxes. However, it is recognized that this carry-back is subject to abuse and inequity. Therefore your committee is studying ways of removing the abuses of this provision and expects to propose retroactive legislation on this subject in the near future.

The primary reason for advocating the repeal of the excess-profits tax as of the first of 1946 is the belief that this tax is a major obstacle in the way of reconversion and expansion of business which are essential for the attainment of a high level of employment and income. The tax takes such a large portion of corporate profits that most businesses are not willing to take the risk of expanding their business while this tax is in operation. Other reasons for proposing the repeal of this tax at the end of 1946 are:

(1) One of the major purposes of this tax was to prevent war profiteering. With the end of the war, this reason for continuing the tax is removed.

(2) The longer the excess-profits tax is retained the less the income of 1936–1939 base period is a proper measure of "excessive" profits. This base period will be a particularly poor measure of earnings in the postwar period when many corporations will be entering new fields of enterprise or expanding their businesses.

(3) The tax tends to favor old, and well-established businesses since many of them have invested capital which has long ago ceased to contribute toward earnings, although it is included in the credit used to determine the excess-profits tax. New businesses without such credits based on inflated capital bases are thus penalized by the tax.

2. Providing tax reductions for small businesses

A new schedule of normal and surtax rates and brackets is provided for corporations with income under $60,000, effective on and after January 1, 1946. The schedule provides a lower corporate income tax for all corporations with income of $60,000 or less. The rates and brackets are as follows:

Net income	Normal tax rate	Surtax rate	Combined tax rate
	Percent	*Percent*	*Percent*
Not over $10,000	15	5	20
Over $10,000 but not over $20,000	18	9	27
Over $20,000 but not over $25,000	19	10	29
Over $25,000 but not over $60,000	29	22	51

The estimated tax liability loss in 1946 from this new schedule is $63,000,000.

Under the House bill the corporate tax rate is reduced 4 percentage points for all corporations. A comparison with present law of the effect of the House bill and Finance Committee bill on small businesses is shown in table 11. It will be noted that the tax burden of a corporation with $15,000 of net income is the same under the House and Finance Committee proposals. The Finance Committee bill, however, gives a larger tax reduction to corporations with income under $15,000, and the House bill, to corporations with incomes over $15,000.

Over 200,000 of the total of about 260,000 corporations estimated to have taxable income in 1946 are expected to have incomes under $15,000. Thus your committee's bill will give more relief to nearly 80 percent of the corporations with taxable income than does the House bill. About the same aggregate tax reduction will be given under the two proposals for corporations with taxable incomes of less than $60,000. Since the relief under the House bill is given to all corporations, and not merely those with incomes of under $60,000, the revenue loss is much greater than your committee's proposal. In addition to the $59,000,000 tax reduction given to corporations with incomes under $60,000, the House bill gives tax reductions of $586,000,000 to the larger corporations making a total tax liability loss of about $646,000,000 in 1946.[3] This can be compared to the reduction of tax liabilities in 1946 under the Finance Committee bill of $63,000,000.

TABLE 11.—*Effect of House bill and Finance Committee bill on corporate income taxes of small corporations, comparison of bracket rates, tax burdens, and effective rates with present law*

Net income		Bracket rates			Cumulative tax burden at top of income class			Effective rate at top of income class		
Exceeding—	Not exceeding—	Present law	House bill	Finance Committee bill	Present law	House bill	Finance Committee bill	Present law	House bill	Finance Committee bill
		Percent	*Percent*	*Percent*				*Percent*	*Percent*	*Percent*
$0	$5,000	25	21	20	$1,250	$1,050	$1,000	25.0	21.0	20.0
$5,000	$10,000				2,600	2,200	2,000	26.0	22.0	20.0
$10,000	$15,000	27	23	27	3,950	3,350	3,350	26.3	22.3	22.3
$15,000	$20,000				5,300	4,500	4,700	26.5	22.5	23.5
$20,000	$25,000	29	25	29	6,750	5,750	6,150	27.0	23.0	24.6
$25,000	$30,000				9,400	8,200	8,700	31.3	27.3	29.0
$30,000	$35,000				12,050	10,650	11,250	34.4	30.4	82.1
$35,000	$40,000	53	49		14,700	13,100	13,800	36.8	82.8	34.5
$40,000	$45,000			51	17,350	13,550	16,350	38.6	34.6	36.1
$45,000	$50,000				20,000	18,000	18,900	40.0	36.0	37.8
$50,000	$55,000	40% rate on all income	36% rate on all income		22,000	19,800	21,450	40.0	36.0	39.0
$55,000	$60,000				24,000	21,600	24,000	40.0	36.0	40.0

[3] This assumes the repeal of the excess-profits tax in 1946. If this tax were not repealed until 1947, the loss in 1946 would be $405,000,000. However, there would be an additional loss of $241,000,000 in 1947 when the excess-profits tax is repealed.

Your committee believes it is especially desirable to stimulate the starting and expansion of small businesses, both because the postwar economy must depend on them to supply a substantial portion of the employment and because strong, vigorous small businesses are necessary for the maintenance of competition.

3. Repealing the capital-stock and declared-value excess-profits taxes

Your committee concurs with the House in repealing the capital-stock tax, beginning with the tax payable on July 31, 1946, and the declared-value excess-profits tax, beginning with respect to the tax payable for the related years. The capital-stock tax is payable in July of each year and is imposed on the value declared by the corporation. It is presumably determined in accordance with estimates of income to be earned in the current taxable year, since the declared-value excess-profits tax is levied on the amount of income in excess of specified ratios of the declared value of the capital stock. The estimated loss in 1946 from the repeal of these two taxes will be $228,000,000.

Your committee believes that these taxes should be repealed for the following reasons:

(1) The taxes penalize corporations which cannot successfully guess the size of their income 1 to 12 months ahead. This especially works a hardship on smaller firms, since they generally have less stable incomes than larger corporations.

(2) Repeal of these taxes would simplify the corporate tax structure, since one return would be eliminated and the present income-tax return somewhat condensed.

Your committee believes that 1946 would be an especially appropriate time to repeal these taxes because the transition period will be a more than usually difficult time in which to predict corporate income and thus the operation of these taxes will result in unusual hardships in 1946.

An additional amendment, dealing with these taxes, has been made by your committee. Corporations which have recovered, in 1945, foreign properties seized by the enemy are permitted by this bill to pay a declared-value excess-profits tax, equivalent to the capital-stock tax, of 1.25 percent of the amount recovered. Under present law most such corporations would have to pay the full declared-value excess-profits tax on such recoveries, since in most cases they would have been unable to determine the value of the recoveries in sufficient time to allow for them in their capital-stock declarations. Under your committee's bill these corporations are placed in the same position as they would have been had they known the amount of the income recovered at the time they made their capital-stock declarations.

A comparison of the changes in the present corporate tax structure made by your committee's bill and the House bill are shown in table 12.

Table 12.—*A comparison of the present corporate tax structure with changes made by the House bill and the Finance Committee bill*

A. INCOME TAX

Description of tax	Present law	House bill	Finance Committee bill
I. Normal tax:			
(a) Corporations with normal-tax net incomes of not more than $50,000 under present law and House bill or $60,000 under the Finance Committee bill:			
On first $5,000	15 percent	15 percent	15 percent.
On amount over $5,000 but not over $10,000	17 percent	17 percent	(15 percent.)
On amount over $10,000 but not over $20,000	17 percent	17 percent	18 percent.
On amount over $20,000 but not over $25,000	19 percent	19 percent	19 percent.
On amount over $25,000 but not over $50,000	31 percent	31 percent	29 percent.
On amount over $50,000 but not over $60,000	Subject to 24 percent tax on all income.	Subject to 24 percent tax on all income.	(29 percent.)
(b) Corporations with normal-tax net incomes over $50,000 under present law and House bill or $60,000 under the Finance Committee bill.	24 percent	24 percent	24 percent.
II. Surtax:			
(a) Corporations with surtax net incomes of not more than $50,000 under present law and House bill or $60,000 under the Finance Committee bill:			
On first $10,000	10 percent	6 percent	5 percent.
On amount over $10,000 but not over $20,000	(10 percent)	(6 percent)	9 percent.
On amount over $20,000 but not over $25,000	(10 percent)	(6 percent)	10 percent.
On amount over $25,000 but not over $50,000	22 percent	18 percent	22 percent.
On amount over $50,000 but not over $60,000	Subject to 16% rate on all income	Subject to 12% rate on all income	(22 percent.)
(b) Corporations with surtax net incomes of over $50,000 under present law and House bill or $60,000 under the Finance Committee bill	16 percent	12 percent	16 percent.
(c) Consolidated returns: consolidated surtax incomes, additional	2 percent	2 percent	2 percent.

B. EXCESS-PROFITS TAX

Description of tax	Present law	House bill		Finance Committee bill
(a) Net rate payable	85½ percent.	60 percent.	Repealed Jan. 1, 1947.	Repealed Jan. 1, 1946.
(b) Over-all income and excess-profits tax limited to	80 percent of surtax net income.	No limitation.		

C. CAPITAL-STOCK AND DECLARED-VALUE EXCESS-PROFITS TAXES

Description of tax	Present law	House bill	Finance Committee bill
(a) Capital-stock tax	$1.25 for each $1,000.	Repealed	Repealed.
(b) Declared-value excess-profits tax:			
Portion of net income from 10 to 15 percent of declared value.	6.6 percent	Repealed	Repealed.
Portion of net income in excess of 15 percent of declared value.	13.2 percent.		

General Discussion of Recommended Excise Tax Reductions

1. *Effect of the Finance Committee bill on wartime excise taxes*

The temporary excise "war tax rates" imposed by title III of the Revenue Act of 1943 provided that the additional wartime increases would be removed approximately 6 months after the termination of hostilities as proclaimed by the President or specified in a concurrent resolution of Congress. The House bill removes this termination date for the wartime excises and substitutes the specific date, June 30, 1946.

Your committee did not change present law with respect to the termination date of these excise war tax rates because it believes that other tax reductions are more desirable for the economy, at this time, and it is not believed that revenues should be lowered to the extent that would permit the reduction in excise tax rates. Furthermore, there are many other excise taxes which were imposed or increased during the war by the Revenue Acts of 1941 and 1942. Some of these were imposed, or increased, specifically to limit the purchase by the public of goods which the Government needed for defense or war purposes. It is believed that consideration should also be given to these taxes when excise rates are reduced. There is not sufficient time to revise these excises in the present bill, however, and thus it is recommended that general excise tax reductions await a future bill.

Your committee concurs with the House, however, in providing that when the war tax rate reductions are made, refunds of the additional wartime excise taxes be made on all floor stocks of distilled spirits, wines, fermented malt liquors, and electric-light bulbs held for sale or use in production at the effective date of the repeal, on which the wartime rates have been paid.

The Revenue Act of 1943 subjected floor stocks of alcoholic beverages held for sale or use in production on the effective date of the wartime excise tax rate increases to special taxes which were the equivalent of the additional war rates. This bill now reverses the process and provides refunds on floor stocks held at the time when the wartime rates are repealed. In view of the substantial tax reduction, particularly in the case of distilled spirits, your committee believes that this is necessary to avoid subjecting retailers and manufacturers involved to an unfair tax burden. Not to do so might result in substantial inequity, since those holding such floor stocks on which the wartime rates had been paid might be forced to reduce their prices on such stocks and thus absorb the war tax, if in competition with others obtaining alcoholic beverages on which the additional wartime excise tax rate had not been paid. Therefore, refunds are to be granted in those cases where such price reductions actually are made.

Although no tax was imposed on floor stocks when the tax on electric-light bulbs was increased, your committee believes that refunds on floor stocks of electric-light bulbs are justified by reason of the differences in the trade practices of competitors.

2. Repealing the tax on the use of motor vehicles and boats

Your committee concurs with the House in repealing the tax on the use of motor vehicles and boats, effective July 1, 1946. The next use tax is due at that time. The tax is an annual stamp tax of $5 on the use of automobiles and a stamp tax of from $5 to $200 on the use of certain boats, the tax in the latter case varying with the size of the boat. The estimated revenue loss in 1946 from the repeal of this tax is $140,000,000.

The use tax was enacted by the Revenue Act of 1941 and was intended primarily as a source of revenue during the emergency and war period. With the war ended this reason for retaining the tax no longer exists. Therefore your committee believes that the tax should be discontinued.

General Discussion of Recommended Employment Tax Legislation

Your committee concurs with the House in continuing employment taxes for the old-age and survivors insurance program through 1946 at the present rates of 1 percent on wages paid by employers and 1 percent on wages received by employees, instead of increasing the rates in 1946, as provided by present law, to 2½ percent for each of these groups.

It is believed that it is desirable to study further the financing of the old-age and survivors insurance program before making any changes in employment tax rates.

General Discussion of Other Proposed Changes

1. *Determining effect of proposed tax reductions on individuals and corporations using fiscal years*

All of the proposed tax reductions in the individual income tax as well as the repeal of the excess-profits tax and the reductions in the corporate income tax require special legislation for individuals or corporations on a fiscal-year rather than a calendar-year basis. This bill provides that fiscal-year taxpayers be allowed a pro rata portion of any tax reduction, determined by the portion of their taxable year falling in the calendar year in which the tax reductions become effective. A similar pro rata basis would be used to determine any unused excess-profits credit carry-back available to a fiscal-year taxpayer with respect to any fiscal year beginning in calendar year 1946 and ending in calendar year 1947.

2. *Extension of exclusion from gross income of income from discharge of indebtedness*

Your committee's bill extends the application of section 22 (b) (9) and (10) to include taxable years beginning in 1946. These provisions provide for the exclusion from gross income of income realized by a corporation by the purchase of its own bonds, debentures, or other evidence of indebtedness and also in the case of railroads, the exclusion from gross income of any gains realized from the cancellation of indebtedness in bankruptcy proceedings. The application of the provisions under existing law is limited to taxable years beginning before January 1, 1946. This bill continues the application of these provisions for another year, during which time the whole problem of the tax treatment of income from the cancellation of indebtedness will be studied.

3. *Extending Federal Government exemptions from certain Federal excise taxes*

Your committee concurs with the House in providing for the continuation of the authority granted by the Revenue Act of 1943 to the Secretary of the Treasury to exempt from certain Federal excise taxes any articles or services to be purchased for the exclusive use of the United States, if the Secretary determines that the imposition of the tax with respect to such articles or services will cause substantial burden and expense which can be avoided by tax exemption. The Secretary's power, under present law, to make such exemptions expires 6 months after the cessation of hostilities.

DETAILED DISCUSSION OF THE TECHNICAL PROVISIONS OF THE BILL

TITLE I—INCOME AND EXCESS-PROFITS TAX

PART I—INDIVIDUAL INCOME TAXES

SECTION 101. REDUCTION IN NORMAL TAX AND SURTAX ON INDIVIDUALS

Section 101 of the bill with the amendments proposed by your committee provides reductions in the normal tax and surtax on individuals. Subsection (a), for which there is no corresponding provision in the House bill, amends section 11 of the code to provide for an over-all reduction of 5 percent in the amount of the normal tax computed at the 3-percent rate. The amendment, in effect, reduces the normal tax rate from 3 to 2.85 percent. The reduction in the normal tax reduces the tax effect of credits allowed for the normal tax, such as the credits for partially tax-exempt obligations under section 25 (a) (1) and (2).

Under existing law the surtax rates on individuals range from 20 percent to 91 percent. The law also provides that the combined normal tax and surtax shall not, in the aggregate, exceed 90 percent of the net income of the taxpayer for the taxable year. Section 101 (a) of the House bill amended section 12 (b) of the code to provide a new schedule of surtax rates, ranging from 16 to 81½ percent.

Under section 101 (b) of the bill as proposed by your committee the surtax rates provided in section 12 (b) of existing law have been reduced by 3 percentage points in each bracket to provide a new schedule of rates for a tentative surtax ranging from 17 to 88 percent. In addition to these changes section 12 (b) of the code has been amended to provide for a reduction of 5 percent in the amount of the tentative surtax computed under the revised rates. Thus the surtax is 5 percent less than the amount computed under the table.

The amendment made by section 101 (b) of the House bill to section 12 (g) of the code, reducing the limitation on the aggregate normal tax and surtax from 90 to 81 percent has been eliminated by your committee. In lieu thereof, section 101 (c) of your committee bill reduces the 90-percent limitation to 85½ percent.

Section 101 (d) of your committee bill is identical with section 101 (c) of the House bill and provides that the amendments made by section 101 shall be applicable to taxable years beginning after December 31, 1945. Special provision for fiscal years beginning in 1945 and ending in 1946 is made in section 131 (a) of the bill.

SECTION 102. ALLOWANCE OF SAME EXEMPTIONS FOR NORMAL TAX AS FOR SURTAX

Section 102 of the bill as reported by your committee is substantially the same as section 102 of the House bill.

Under existing law, section 25 (a) (3) provides a single exemption of $500 for normal tax purposes, except that in the case of a joint return of a husband and wife, each having adjusted gross income of $500 or more, the normal tax exemption is $1,000. If a joint return is filed by husband and wife, one of whom has an adjusted gross income of less than $500, the normal tax exemption is $500 plus the adjusted gross income of such spouse. For surtax purposes, the taxpayer is entitled to exemptions in the amount of $500 for himself, $500 for his spouse if a joint return is filed or if a separate return is filed and the spouse has no gross income and is not the dependent of another, and $500 for each dependent whose gross income is less than $500.

Subsection (a) of this section of the bill would revise section 25 (b) of the code to make the present exemptions now allowable in computing the surtax also available as credits against net income for the purpose of the normal tax. Subsection (b) contains 10 technical amendments necessitated by the change in the exemptions for normal tax purposes. It is proposed to eliminate the first amendment contained in subsection (b) of the House bill since the appropriate correction of section 11, relating to the normal tax on individuals, is made in section 101 (a) of your committee bill. The 10 technical amendments in your committee bill are the same as the remaining amendments in the House bill.

The amendments made by this section shall be applicable to taxable years beginning after December 31, 1945. Special provision is made in section 131 (a) of the bill for taxable years beginning in 1945 and ending in 1946.

SECTION 103. INDIVIDUALS WITH ADJUSTED GROSS INCOMES OF LESS THAN $5,000

This section, like the corresponding section of the House bill, amends the tax table contained in section 400 of the code, relating to the optional tax on individuals with adjusted gross incomes of less than $5,000. The tax table proposed in your committee bill gives effect to the changes made in the normal tax and surtax under sections 101 and 102. The table has been computed by allowing the exemptions against both normal tax and surtax and by taking into account the reduced normal tax and surtax rates. Thus, the 5-percent reduction, in addition to the other changes, has been taken into account in preparing the table.

The new table of taxes would become effective for taxable years beginning after December 31, 1945. Special provision is made in section 131 (a) of the bill for taxable years beginning in 1945 and ending in 1946.

SECTION 104. REDUCTION IN WITHHOLDING OF TAX AT SOURCE ON WAGES

This section is the same as section 104 of the House bill except for the substitution of new tables for the tables in subsection (b) and the addition of a new subsection (d).

Section 1622 (a) of existing law requires the use of three different percentage rates in computing the amount of tax to be withheld at the source, if the employer elects to use the percentage method in lieu of the wage-bracket tables provided in section 1622 (c). The several rates are necessary in order to compute the appropriate amount of tax to be withheld in respect of the normal tax and the first and second brackets of the surtax. The rates provided under existing law for such purpose are 2.7, 18, and 19.8 percent, respectively. The separate rate for computing the amount of tax to be withheld in respect of the normal tax is occasioned by the difference in the exemptions provided in section 25 for normal tax and for surtax purposes. As a result of the amendment contained in section 102 of the bill which makes the present surtax exemptions available for normal tax purposes, it is possible to eliminate the 2.7-percent rate entirely and to combine the normal tax with the surtax rates. The two rates now corresponding to the first and second surtax bracket rates are revised to reflect the amendments contained in section 101 of the bill reducing the normal tax and surtax rates. Accordingly, subsection (a) of this section amends section 1622 (a) by eliminating the 2.7-percent rate and by reducing the 18- and 19.8-percent rates to 17 percent and 19 percent, respectively. These rates take into consideration the standard deduction of approximately 10 percent. A technical amendment is also made to conform the percentage method withholding table to the new rate applicable to the first surtax bracket.

Subsection (b) of the House bill substitutes for the present withholding tax tables under section 1622 (c) (1) new tax tables which reflect the changes made with respect to the surtax rates in section 101 of such bill and with respect to the normal-tax exemptions in section 102 of such bill. Subsection (b) of your committee's bill likewise provides for new withholding tables which reflect the reduction made with respect to the normal tax and the surtax.

Subsection (c) is a technical amendment to section 1622 (h) (1) (C) to conform the reference to exemptions in the case of dependents to the changes made by section 102 of the bill.

Subsection (d), for which there is no corresponding provision in the House bill, would amend sections 1625 (a) and 1626 (a) and (b) of the code. Under section 1625 (a) of existing law every employer required to deduct and withhold a tax in respect of the wages of an employee is required to furnish to each such employee in respect of his employment during the calendar year, a written statement showing the wages paid by the employer to such employee during such calendar year and the amount of the tax deducted and withheld under subchapter D of chapter 9 of the code in respect of such wages. The amendment to section 1625 (a) would require an employer to furnish such a statement to an employee, even though no tax is required to be deducted and withheld with respect to such employee's wages, if the wages paid to such employee exceed the amount of one withholding exemption. For example, if an employee is paid $15 per week, there may be no tax required to be deducted and withheld inasmuch as the employee may claim two or more withholding exemptions; nevertheless, since the wages exceed the amount of one withholding exemption for a weekly pay-roll period, a statement would be required to be furnished to such employee under the proposed amendment. Such statement (known as Form W-2) is used as a simple tax-return form by millions of taxpayers. Under the amendment such simple return form would be made available to an employee who is required to make a return but who has no tax deducted or withheld from his wages. The amendments of section 1626 (a) and (b) consist of the omission of the expression "in respect of tax withheld pursuant to this subchapter" and the substitution of "statement" for "receipt" wherever appearing therein. As a result of such amendments, the penalties for furnishing a fraudulent receipt or failure to furnish a receipt would apply in cases where no tax is required to be withheld but a statement is required under section 1625 (a) as amended.

The amendments made by this section of the bill are made applicable to wages paid on or after January 1, 1946.

PART II—CORPORATION TAXES

SECTION 121. REDUCTION IN NORMAL TAX AND SURTAX OF SPECIAL CLASSES OF CORPORATIONS

This section replaces section 121 of the House bill which was eliminated by your committee. The House bill reduced the surtax of corporations by 4 percent points, making related changes in the surtax on corporations with surtax net incomes of less than $50,000 and on certain particular classes of corporations. In lieu thereof section 121 of your committee bill reduces the aggregate normal tax and surtax of smaller corporations (i. e., those with net incomes of less than $60,000). The tax reductions are effected by adjustments in the normal tax and surtax rates and also in the brackets which effect the transition to the regularly applicable rates to obviate the "notch" which would otherwise exist. The general effect of the amendments is to provide relatively more relief in the lower brackets of income and proportionately less in the higher brackets until the tax reduction entirely disappears in the case of net incomes of $60,000. Certain classes of corporations which are subject to special tax provisions under existing law are not affected.

Subsection (b) of section 121 amends section 14 (b) of the code relating to the normal tax on corporations with net incomes of not more than $25,000. Under the amendment the normal tax rate upon normal tax net incomes not in excess of $10,000 is fixed at 15 percent, upon normal tax net incomes in excess of $10,000 and not in excess of $20,000 at 18 percent, and upon normal tax net incomes in excess of $20,000 and not in excess of $25,000 at 19 percent.

Subsection (a) of section 121 amends subsection (b) (2) of section 13 of the code which at present provides for an alternative normal-tax on corporations with normal tax net incomes over $25,000 and not over $50,000. The amendment changes the rate from 31 to 29 percent, and also extends the bracket from the present $50,000 up to $60,000. This provides a transition from the rates under the amendments made by subsection (b) and (c) of the section to the generally applicable 24-percent normal tax rate imposed by section 13 (b) (1) of the code, which remains unchanged.

Subsection (c) of section 121 amends section 15 (b) of the code relating to the corporation surtax. The amendment breaks the existing first bracket of surtax net incomes not over $25,000 into three brackets and imposes rates running from 5 percent on the first $10,000 of surtax net income, to 9 percent on the portion of surtax net income over $10,000 and not over $20,000 and to 10 percent upon the portion of surtax net income over $20,000 and not over $25,000. As in the case of the normal tax, the amendment also extends the existing bracket provision, which runs from $25,000 to $50,000, up to $60,000.

The rate in this bracket remains at 22 percent as under existing law. This adjustment provides a more satisfactory and equitable transition to the generally applicable 16-percent surtax rate, which remains unchanged.

Subsection (d) of section 121 amends section 207 (a) (1) (B) of the code relating to mutual insurance companies other than life or marine. Under existing law the alternative surtax rate under section 207 (a) (1) (B) is 20 percent and applies on surtax net incomes over $3,000 and not over $6,000. In order to maintain the point at which this alternative surtax ceases to apply at $6,000, as under existing law, the 20-percent rate is reduced to 10 percent. This change is correlated with the reduction of the surtax rate on surtax net incomes not over $10,000 to 5 percent, under the amendment made by subsection (b).

Subsection (e) of section 121 makes the amendments made by the section applicable with respect to taxable years beginning after December 31, 1945. Under section 131 of the bill special treatment is prescribed in the case of taxable years beginning in 1945 and ending in 1946. This latter provision, however, has no application to the mutual insurance companies to which the amendment made by subsection (d) applies.

SECTION 122. REPEAL OF EXCESS-PROFITS TAX IN 1946

Section 122 of the House bill continued the excess-profits tax through 1946, but provided that the rate of tax should be 60 percent for taxable years beginning after December 31, 1945. Section 123 (a) of the House bill repealed the excess-profits tax with respect to taxable years beginning after December 31, 1946. Your committee has eliminated section 122 of the House bill and has renumbered section 123 as section 122 and amended it to provide, in subsection (a), that the excess-profits tax shall not be applicable with respect to any taxable year beginning after December 31, 1945. Provision has been made by your committee under section 131 (b) of the bill for taxable years beginning in 1945 and ending in 1946.

Your committee, however, has provided in section 122 (b) of the bill that the provisions of subchapter E of chapter 2, which relate to the excess-profits tax, shall remain in force for purposes of the determination of excess-profits taxes for taxable years beginning prior to January 1, 1946. The determination of such taxes is to be made with the application of the amendments made by sections 122 (c) and 131 of the bill. Section 131 relates to fiscal-year taxpayers. Subsection (c) of section 122 amends section 710 (c) (2) of the code to provide that there shall be no unused excess-profits-tax credit for any taxable year beginning after December 31, 1946. There is, however, to be an unused excess-profits credit for a taxable year beginning in 1946. In the case of a taxable year which begins in 1946 and ends in 1947, the unused excess-profits credit will be an amount which is such part of the unused excess-profits credit otherwise determined as the number of days in such taxable year prior to January 1, 1947, is of the total number of days in such taxable year. Thus, even though no excess-profits tax will be imposed for a taxable year beginning in 1946, there may be an unused excess-profits credit for such taxable year, and such unused excess-profits credit may be carried back and may affect the excess-profits tax otherwise imposed for taxable years beginning in 1944 or 1945. All provisions of law necessary to compute the excess-profits credit, the excess-profits net income, and the unused excess-profits credit for a taxable year beginning in 1946, and the unused excess-profits credit carry-back from such taxable year, shall be taken into account in determining the unused excess-profits credit and the resulting carry-back in the same manner as if an excess-profits tax were imposed for such taxable year. In determining the unused excess-profits credit adjustment for taxable years beginning prior to January 1, 1946, the unused excess-profits credit for a taxable year beginning in 1946 may be computed by taking into account a constructive average base period net income determined under section 722 of the code. A taxable year beginning in 1946 for purposes of the excess-profits tax shall be the same taxable year as that for purposes of the tax imposed by chapter 1 of the code.

There is danger that the operation of the unused excess-profits credit carry-back provision, particularly in 1946, may make possible certain abuses. These potential abuses might arise through various devices or transactions entered into wholly or in large part for the purpose of obtaining refunds of wartime excess-profits taxes through unused credit carry-backs, or through transactions having the apparent effect of creating carry-back refunds in situations unrelated to the purpose and intent of the provisions allowing carry-backs. While various tax-avoidance schemes are already dealt with either by express provision in the internal-revenue laws or through court decisions, your committee will give further consideration to the necessity or desirability of retroactive legislation in this connection.

Subsection (d) of section 122 applies with respect to an affiliated group of corporations making consolidated returns. Unused excess-profits credit carry-backs from taxable years subsequent to 1945 may become a factor in the case of such corporations. The consolidated return involved may be a consolidated income-tax return made for a taxable year beginning in 1946; or it may be a consolidated income- or excess-profits-tax return made for the taxable year 1944 or 1945; or consolidated returns may be made for the several taxable years involved. Section 122 (d) provides that, in all such cases, the carry-backs from a subsequent taxable year, whether or not a consolidated return is made for such year, shall be given effect in such manner as the Commissioner, with the approval of the Secretary, shall have prescribed by regulations prior to the last day prescribed by law for the making of the return for such year, which date includes the last day of any extension of time granted by the Commissioner.

Subsection (e) of section 122 of the bill, for which there is no corresponding provision in the House bill, amends section 322 (b) (6) of the code which provides a special period of limitation in the case of credits or refunds of overpayments which are attributable to net operating loss carry-backs or to unused excess-profits credit carry-backs. In general, section 322 (b) (6), added by section 5 (b) of the Tax Adjustment Act of 1945, provides that if an overpayment of tax is attributable to a net operating loss carry-back or to an unused excess profits credit carry-back, the period within which a claim for credit or refund of such overpayment may be filed, or credit or refund allowed or made, shall be coextensive with the period within which claim for credit or refund may be filed, or credit or refund allowed or made, with respect to the taxable year of the net operating loss or the unused excess-profits credit which resulted in the carry-back. Inasmuch as the period within which claim for credit or refund may be filed, or credit or refund allowed or made, with respect to the taxable year of the net operating loss or the unused excess-profits credit depends, under section 322 (b) (1) of the code, on the date on which the return for such taxable year is filed and inasmuch as no excess profits tax return will be filed for a taxable year beginning in 1946, it is necessary to amend section 322 (b) (6) to provide a satisfactory period of limitation. Section 322 (b) (6) is accordingly amended by subsection (e) of section 122 of the bill to provide that in the case of an overpayment attributable to a net operating loss carry-back or to an unused excess-profits credit carry-back the 3-year period specified in section 322 (b) (1) of the code within which a claim for credit or refund may be filed, or credit or refund allowed or made, shall be (1) that period which ends with the expiration of the 15th day of the thirty-ninth month following the end of the taxable year of the net operating loss or the unused excess-profits credit which resulted in the carry-back, or (2) the period specified in section 322 (b) (3), relating to waivers, whichever expires later. The amendment is to be applicable with respect to all taxable years beginning after December 31, 1940, i. e., to all taxable years which may be affected by a carry-back and to which the original provisions of section 322 (b) (6) were made applicable.

Subsection (f) of section 122 of the bill, to which there is no corresponding provision in the House bill, amends section 276 (d) of the code, relating to deficiencies attributable to net operating loss carry-backs and to unused excess-profits credit carry-backs. Section 276 (d) of the code, which was added by section 5 (e) of the Tax Adjustment Act of 1945 and which is correlative of section 322 (b) (6) of the code, provides in general that a deficiency attributable to a net operating loss carry-back or to an unused excess-profits credit carry-back may be assessed at any time prior to the expiration of the period within which a deficiency may be assessed with respect to the taxable year of the net operating loss or the unused excess-profits credit which resulted in the carry-back. Inasmuch as no excess-profits tax return will be filed for a taxable year beginning in 1946, it is necessary to provide a proper period of limitation for assessing a deficiency where such deficiency is attributable to an unused excess-profits credit carry-back from a taxable year beginning in 1946. Moreover, there is likewise some doubt under the present provisions of section 276 (d) as to the proper period of limitation in certain types of cases for assessing a deficiency attributable to a carry-back. For example, it is not clear whether a deficiency attributable to an unused excess-profits credit carry-back which itself was produced by a net operating loss carry-back may be assessed at any time prior to the expiration of the period within which a deficiency may be assessed with respect to the tax imposed under chapter 1 of the code for the taxable year of the net operating loss or at any time prior to the expiration of the period within which a deficiency may be assessed with respect to the excess-profits tax for the taxable year of the net operating loss. Subsection (f) of section 122 of the bill accordingly amends section 276 (d) of the code to provide a rule to take care of the special situation arising out of deficiencies attributable to unused excess-profits credit carry-backs from taxable years beginning in 1946, and to remove any ambiguity in the existing provisions of law. The amendment made by subsection (f) of section 122 of the bill is to be applicable to all taxable years beginning after December 31, 1940, i. e., to all taxable years which may be affected by a carry-back and to which the original provisions of section 276 (d) were made applicable.

The period within which a deficiency attributable to a carry-back may be assessed, under section 276 (d) of the code as amended by section 122 (f) of the bill, will depend on whether an excess-profits tax return was required for the taxable year of the net operating loss or the unused excess-profits credit which resulted in the carry-back. If an excess-profits tax return was required to be filed for such taxable year, a deficiency in any tax attributable to such carry-back may be assessed at any time prior to the expiration of the period within which (under the provisions of section 275 or 276 (a) or (b) of the code) a deficiency may be assessed with respect to the same or any other tax imposed by chapter 1 or by subchapter B or E of chapter 2 for such taxable year. It is immaterial whether an excess-profits tax return in fact was filed for the taxable year of the net operating loss or the unused excess-profits credit, whether the deficiency is attributable to a net operating loss carry-back or to an unused excess-profits credit carry-back, or whether the deficiency is in respect of the excess-profits tax or some other tax. If the period within which a deficiency may be assessed under any other applicable provision of law is longer than the period provided in section 276 (d), a deficiency attributable to a carry-back may be assessed at any time prior to the expiration of such longer period.

If no excess-profits-tax return was required to be filed for the taxable year of the net operating loss or the unused excess-profits credit, a deficiency in any tax attributable to a carry-back which resulted from such loss or unused credit may be assessed at any time prior to the expiration of the period within which (under the provisions of section 275 or 276 (a) or (b) of the code) a deficiency may be assessed with respect to the same or any other tax imposed by chapter 1 or by subchapter A or B of chapter 2 for such taxable year. If a longer period of time is provided under some other applicable provision of law than that specified in section 276 (d) of the code, a deficiency attributable to a carry-back may be assessed, as in the case where an excess-profits-tax return is required, at any time prior to the expiration of the longer period.

Subsection (g) of section 122 of the bill, which corresponds to subsection (b) of section 123 of the House bill, makes certain technical amendments with respect to taxable years beginning after December 31, 1945, to conform the provisions of the code to the amendment made by section 122 (a).

Subsection (h) of section 122 of the bill, which corresponds to subsection (c) of section 123 of the House bill and which relates to taxable years beginning in 1945 and ending in 1946, is a cross reference to section 131 of the bill which relates to fiscal year taxpayers.

PART III—FISCAL YEAR TAXPAYERS

SECTION 131. FISCAL YEAR TAXPAYERS

Section 108 of the code contains special rules for the computation of the tax in the case of taxpayers making returns on a fiscal-year basis. Section 131 (a) of the House bill amended section 108 of the code by adding two new subsections to provide for the computation of the tax imposed by sections 11, 12, 13, 14, 15, and 400 in the case of taxable years beginning in 1945 and ending in 1946, and for the computation of the tax imposed by sections 13, 14, and 15 for taxable years beginning in 1946 and ending in 1947. The computations provided by these amendments are similar to the computation provided under existing law with respect to fiscal years beginning in 1943 and ending in 1944. Under the House bill the rule prescribed for the computation of the tax imposed by sections 13, 14, and 15 for taxable years beginning in 1946 and ending in 1947 was necessitated by the fact that the excess-profits tax was continued at a lower rate for 1946 and was repealed for 1947 by sections 122 and 123 of the House bill. These provisions were inserted as subsections (c) and (d) of section 108 of the code, and subsection (c) was redesignated subsection (e).

The bill, as reported by your committee, retains the provision of the House bill respecting the computation of the tax for fiscal years beginning in 1945 and ending in 1946 but strikes out the provision of section 108 (d) relative to the computation of the tax imposed by sections 13, 14, and 15 for taxable years beginning in 1946 and ending in 1947, since under your committee bill there is no difference in the law applicable to 1946 and 1947 with respect to such tax.

Section 131 (b) of the House bill added new paragraphs (7) and (8) to section 710 (a) of the code to provide for the computation of the excess-profits tax for taxable years beginning in 1945 and ending in 1946 and for taxable years beginning in 1946 and ending in 1947, respectively. The rule provided for taxable years beginning in 1945 and ending in 1946 is similar to that provided in section 710 (a) (6) of the code for taxable years beginning in 1943 and ending in 1944. Since the House bill provided for repeal of the excess-profits tax with respect to taxable years beginning after December 31, 1946, paragraph (8) added to section 710 (a) by the House bill provided that the excess-profits tax for fiscal years beginning in 1946 and ending in 1947 should be an amount equal to that portion of a tentative tax, computed as if the law applicable to taxable years beginning on January 1, 1946, were applicable to such taxable year, which the number of days in such taxable year prior to January 1, 1947, bears to the total number of days in such taxable year.

Under the bill reported by your committee the excess-profits tax is made inapplicable with respect to taxable years beginning after December 31, 1945. Hence, paragraph (7), added to section 710 (a) of the code by the House bill, to provide for the computation of the tax for fiscal years beginning in 1945 and ending in 1946, is eliminated and in lieu thereof there is inserted a new paragraph (7) to prescribe for the computation of the tax for such fiscal years a rule similar to that provided under the House bill for fiscal years beginning in 1946 and ending in 1947.

The Tax Adjustment Act of 1945 increased the excess-profits tax specific exemption from $10,000 to $25,000 for taxable years beginning after December 31, 1945, and provided a special rule for computing the exemption for taxable years beginning in 1945 and ending in 1946. Because of the amendment made by section 131 (b) of the House bill to provide for the computation of the tax for such fiscal years, the House bill contained technical amendments eliminating the special rule for computation of the exemption for such fiscal years. Subsection (b) of this section of the House bill also amended section 710 (c) (2) of the code to provide a special rule for the computation of the unused excess-profits credit for a taxable year beginning in 1946 and ending in 1947. Under your committee bill the excess-profits tax is not applicable to taxable years beginning after December 31, 1945. Hence, section 131 (b) of the bill restores section 710 (b) (1) of the code to read as it did immediately prior to its amendment by the Tax Adjustment Act of 1945.

This subsection of your committee bill also strikes out the amendment made by section 131 (b) (3) of the House bill to section 710 (c) (2) of the code to provide for the computation of the unused excess-profits credit for a taxable year beginning in 1946 and ending in 1947. Appropriate provisions for the computation of the unused excess-profits credit for taxable years beginning after December 31, 1945, are contained in section 122 (c) of the bill as reported by your committee, and a discussion of these provisions appears elsewhere in the report.

PART IV—VETERANS' AND SERVICEMEN'S PROVISIONS

SECTION 141. ADDITIONAL ALLOWANCE FOR MILITARY AND NAVAL PERSONNEL

This section, for which there is no corresponding provision in the House bill, would amend section 22 (b) (13) of the code, relating to the exclusion from gross income for military and naval personnel, and would provide for certain credits and refunds.

Under section 22 (b) (13) of existing law, a $1,500 exclusion from gross income is provided in the case of military and naval personnel with respect to the compensation received during any taxable year and before the termination of the present war as proclaimed by the President for active service in the armed forces of the United States (or of any of the other United Nations, if the taxpayer is a citizen or resident of the United States) during such war. This provision applies only with respect to taxable years beginning after December 31, 1942.

Subsection (a) of this section of the bill would amend section 22 (b) (13) so as to provide for the exclusion from gross income of the entire amount of the compensation received during any taxable year and before the termination of the present war as proclaimed by the President, for active service as a member below the grade of commissioned officer or commissioned warrant officer in the military or naval forces of the United States, during such war. The $1,500 exclusion would, under the amendment, be continued with respect to the compensation received during any taxable year and before the termination of the present war as proclaimed by the President, for active service as a commissioned officer (or a commissioned warrant officer) in the military or naval forces of the United States during such war, or, in the case of a citizen or resident of the United States, as a member of the military or naval forces of any of the other United Nations during such war. The parenthetical expression relating to a commissioned warrant officer is intended to be declaratory of the law with respect to "personnel below the grade of commissioned officer" for the purposes of section 22 (b) (13) prior to its amendment by section 7 of the Current Tax Payment Act of 1943. Under the amendment, if the compensation pertains to active service rendered during the present war and if it is received before the termination of the present war as proclaimed by the President, the exclusion applies regardless of whether such compensation is received in one lump sum or in periodic amounts and regardless of whether received before or after discharge or release from such service. With respect to the $1,500 exclusion for commissioned officers, only one such exclusion shall be allowable in respect of the compensation of each such officer during any taxable year.

Subsection (b) of this section provides that the exclusion with respect to compensation for active service as a commissioned officer shall be applicable with respect to taxable years beginning after December 31, 1942, and that the exclusion with respect to compensation for active service as a member below the grade of commissioned officer shall be applicable with respect to taxable years beginning after December 31, 1940.

Subsection (c) of this section provides that a credit or refund of any overpayment of the tax for any taxable year beginning after December 31, 1940, and before January 1, 1943, to the extent that the overpayment is attributable to the enactment of this section may be allowed or made if a claim therefor is filed before January 1, 1947, even though at any time prior to such date the allowance of a credit or refund of the overpayment for any such taxable year is otherwise prevented by the operation of any law or rule of law other than section 3761 of the code, relating to compromises.

SECTION 142. DEFERMENT OF CERTAIN TAXES OF VETERANS AND SERVICEMEN

This section, for which there is no corresponding provision in the House bill, adds a new section 3808 to chapter 38 of the code to prescribe, in the case of certain members of the military or naval forces of the United States, the time for payment of the tax attributable to service pay and the tax attributable to pre-service-earned income for the war years. The time for payment is prescribed in subsection (b) of section 3808. Definitions of the terms used in subsection (b) are contained in section 3808 (a).

Section 3808 (b) provides, in general, that the tax attributable to service pay for any war year and the tax attributable to preservice earned income for any war year shall, in lieu of the time otherwise prescribed by law, be paid in 12 equal installments spread over a period of 3 years beginning with the "first installment date" as defined in section 3808 (a) (4). The benefits of section 3808 (b) are allowable only upon application made, under regulations prescribed by the Commissioner with the approval of the Secretary, prior to the first installment date. In the case of taxpayers who have been released from active duty in the military duty or naval forces prior to December 1, 1945, the term "first installment date" means May 15, 1946. In other cases the term "first installment date" means June 15, 1947, or the fifteenth day of the sixth month which begins after the date of the taxpayer's release from active duty in such forces, whichever is the earlier. It is provided, however, that if the first installment date with respect to any war year would otherwise occur before the fifteenth day of the third month following the close of such year, or before the end of the period of time disregarded under section 3804 with respect to the tax for such year, the first installment date with respect to such year shall be the fifteenth day of such third month or the day following the end of the period disregarded under section 3804, as the case may be. Thus, in the case of a taxpayer who is discharged in December 1945, the "first installment date" with respect to that portion of the tax attributable to service pay for a war year would be June 15, 1946, which is the fifteenth day of the sixth month beginning after the month of the taxpayer's release from active duty. If, however, the taxpayer is released from active duty in the armed forces in the month of June 1946, the fifteenth day of the sixth month which begins after the taxpayer's release would be the fifteenth day of December 1946. Since such date falls before the fifteenth day of the third month following the close of such year the fifteenth day of such third month, or March 15, 1947, would be the first installment date for the payment of the tax attributable to that portion of the service pay received in 1946. If appropriate application is made and payment of the tax is deferred in accordance with the provisions of section 3808 (b), one-twelfth of the tax in respect of which the deferment is authorized is payable on the first installment date, one-twelfth thereof on the fifteenth day of the third month following the first installment date and one-twelfth on the fifteenth day of each succeeding third month after the preceding installment until the full amount of tax is paid.

Inasmuch as the effect of section 3808 (b) is to prescribe the time for payment of the tax in lieu of the time otherwise prescribed by law, no interest shall be charged or paid if the tax is paid at the time prescribed in such section. Interest at the rate of 6 percent per annum shall be charged on installments not paid at the time prescribed in such section from the date the installment became due until the installment is paid. If the taxpayer fails to pay an installment of the tax at the time prescribed in section 3808 (b), such failure shall not accelerate the due date of the remaining installments.

The extension of time provided in section 3808 (b) relates to "tax attributable to service pay" and "tax attributable to preservice earned income" for war years. The term "war year" as defined in section 3808 (a) (2) means, in the case of the tax attributable to service pay, any taxable year beginning after December 31, 1939, and before January 1, 1947. In the case of the tax attributable to preservice earned income, the term means taxable year beginning after December 31, 1939, but before January 1, 1942, and before the taxpayer entered upon active service as a member of the armed forces of the United States, but does not include any year unless part of the tax imposed by chapter 1 for such year became due and payable after the taxpayer entered upon such active service.

If the taxpayer had no gross income for "a war year" other than compensation for active service as a member of the military or naval forces of the United States, the term "tax attributable to service pay" means the tax imposed under chapter 1 for such year. If the taxpayer had gross income for "a war year" in addition to the compensation for active service as a member of the military or naval forces of the United States, the term "tax attributable to service pay" means the excess of the tax imposed under chapter 1 for such year over the tax which would have been imposed if the compensation for such service had been excluded from gross income. Under the terms of the definition an exception is provided with respect to the service pay of commissioned officers of the regular component of the Army, Navy, Marine Corps, or Coast Guard. Thus, in the case of a regular officer of these services the term does not apply to the service compensation for a war year unless such officer by reason of service on sea duty or outside the continental United States is entitled to the benefits of section 3804 of the Internal Revenue Code with respect to the tax under chapter 1 for such year.

If the taxable year constitutes a war year within the scope of the definition, the "tax attributable to preservice earned income" in respect of such taxable year is the excess of the tax imposed under chapter 1 for such year over the tax that would have been imposed if there had been excluded from the net income the amount of the "earned net income" for such taxable year. As used in this section the term "earned net income" means the earned net income as defined in section 25 (a) (4) of the Internal Revenue Code applicable in respect of such taxable year, except that in computing the earned net income under the definition contained in section 25 (a) (4) compensation for active service in the armed forces shall not be taken into account. For the purposes of computations under section 3808 the term "tax imposed under chapter 1" means a tax computed without regard to the credit provided in section 31 of the code relating to taxes of foreign countries and possessions of the United States, and the credit provided in section 32 relating to the tax withheld at the source.

Section 3808 (c) provides for the suspension of the period of limitations under section 276 (c) of the code on the collection of the tax in respect of any tax the time for the payment of which is prescribed under section 3808 (b). The period of suspension so provided is the period beginning with the date of the filing of the application under section 3808 (b) and ending 6 months after the date prescribed in such section for the payment of the last installment of such tax.

Subsection (b) of section 142 provides for the refund of interest paid on that portion of the tax for any taxable year in respect of which a new payment date is authorized by section 3808, as added by section 142 (a) and (b) of the bill. The subsection provides that any such interest paid prior to the date of the enactment of the Revenue Act of 1945 shall be credited or refunded to the taxpayer if claim therefor is filed with the Commissioner prior to January 1, 1947.

PART V—MISCELLANEOUS

SECTION 151. REPORTS OF REFUNDS AND CREDITS TO JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

With the end of the emergency period specified in section 124, a large volume of applications for tentative adjustments under section 124 (j) of the code will be filed. Under section 124 (k) the Commissioner is required to make the appropriate credits and refunds within a 90-day period. Section 3777 (c) provides that carry-back refunds and credits, similarly made within a 90-day period, under section 3780 (b), do not require prior report to the Joint Committee on Internal Revenue Taxation. In order that the refunds arising through amortization adjustments may not be delayed, this section, for which there is no corresponding provision in the House bill, provides that the same exception to the requirement of a report required by section 3777 (a) as was provided by the Tax Adjustment Act with respect to carry-backs should be made with respect to refunds or credits under section 124 (k).

SECTION 152. EXTENSION OF TREATMENT OF INCOME RESULTING FROM DISCHARGE OF INDEBTEDNESS

Section 22 (b) (9) of the code provides, in the case of corporations, for the exclusion from gross income of the amount of income attributable to the discharge of indebtedness during the taxable year, provided that the taxpayer consents to the provisions of the regulations prescribed under section 113 (b) (3), relating to the adjustment of basis of property of the corporation by the amount excluded from gross income. By its terms section 22 (b) (9) has no application to taxable years beginning after December 31, 1945. Section 22 (b) (10) of the code provides for the exclusion from gross income of the amount of income attributable to the discharge of indebtedness of a railroad corporation, as defined in section 77m of the National Bankruptcy Act, pursuant to an order of a court in a receivership proceeding or in a proceeding under section 77 of the Bankruptcy Act, as amended. Section 22 (b) (10) has no application to taxable years beginning after December 31, 1945. Section 152 of your committee bill would amend section 22 (b) (9) and (10) to extend the application of such sections to taxable years beginning before January 1, 1947. There is no corresponding provision in the House bill.

SECTION 153. LOST POSTWAR CREDIT BONDS

This section, for which there is no corresponding provision in the House bill, amends section 8 (c) of the Government Losses in Shipment Act to confer authority for the issuance of new certificates to replace lost, stolen, or destroyed excess-profits-tax refund bonds. Under the present provisions of the Government Losses in Shipment Act, such bonds cannot be replaced since section 8 of that act applies only to interest-bearing obligations or those issued on a discount basis. This amendment would make section 8 of that act applicable to bonds issued under section 780 of the Internal Revenue Code and would obviate the necessity for obtaining special legislation in cases where such bonds have been lost, stolen, or destroyed.

TITLE II.—REPEAL OF CAPITAL-STOCK TAX AND DECLARED VALUE EXCESS-PROFITS TAX

SECTION 201. REPEAL OF CAPITAL STOCK TAX

This section, which is the same as section 201 of the House bill, repeals chapter 6 of the code, which imposes the capital stock tax. This tax is applicable with respect to years ending June 30, and the repeal is effective with respect to years ending after June 30, 1945; in other words, the repeal is effective with respect to the year ending June 30, 1946, and succeeding years.

SECTION 202. REPEAL OF DECLARED VALUE EXCESS PROFITS TAX

This section, which is identical with section 202 of the House bill, repeals subchapter B of chapter 2 of the Internal Revenue Code, which imposes the declared value excess-profits tax. The repeal is technical, since the tax applies only to corporations subject to capital stock tax, which tax is repealed by section 201. The declared value excess-profits tax is due with respect to the income tax taxable years ending after the close of the capital stock tax taxable year. The repeal of subchapter B is accordingly made effective with respect to income tax taxable years ending after June 30, 1946, the first year with respect to which the repeal of the capital stock tax is effective.

SECTION 203. ALTERNATIVE TAX WHERE WAR LOSS RECOVERIES INCLUDED IN NET INCOME

Section 203, which has been added to the bill as passed by the House, amends section 600 of the code by adding thereto a new subsection (b) to impose an alternative declared value excess-profits tax. This tax is applicable only in cases where the taxpayer's net income includes any amount on account of war loss recoveries under section 127 (c) of the code. It is limited to taxable years ending after June 30, 1945, and of course to years ending before July 1, 1946, since the tax is repealed with respect to years ending after June 30, 1946.

Section 600 (b) provides that where the net income of the taxpayer for purposes of the declared value excess-profits tax includes any amount on account of war loss recoveries under section 127 (c), then, in lieu of the tax computed under section 600 (a) (the regular tax) the tax shall be the amount computed under section 600 (a), after exclusion from net income of the amount of the war loss recoveries, plus the lesser of the following amounts: 1¼ percent of the amount of the war loss recoveries included in the net income or 1¼ percent of such portion of the net income which would be subject to tax under section 600 (a) in the absence of this amendment.

Title III—Excise Taxes

SECTION 301. REPEAL OF USE TAX ON MOTOR VEHICLES AND BOATS

This section, which, except for numbering, is the same as section 302 of the House bill, repeals chapter 33A, added to the Internal Revenue Code by section 557 of the Revenue Act of 1941, taxing the use of motor vehicles and boats. The repeal is effective with respect to the period after June 30, 1946, so that the tax will be inapplicable with respect to the use of motor vehicles and boats on and after July 1, 1946. Section 301 of the House bill terminating war tax rates after June 30, 1946, was eliminated.

SECTION 302. FLOOR STOCKS REFUND AND TECHNICAL PROVISIONS RELATING TO REDUCTION OF COMMUNICATIONS TAX

This section corresponds to section 304 of the House bill, which added to chapter 9A of the code two new sections numbered 1656 and

1657. Section 302 of your committee bill further adds sections 1658 and 1659.

Section 1656, as added by section 304 of the House bill, covers alcoholic liquors, including distilled spirits, imported perfumes containing distilled spirits, wines, including liqueurs and cordials, and fermented malt liquors. It provides for refund or credit (without interest) of the excess of the taxes (including floor stocks taxes) paid with respect to such liquors on account of the war tax rates over the taxes that would have been payable in the absence of the war tax rates. To be entitled to credit or refund, the liquor must, on July 1, 1946, be held for sale or use in the manufacture or production of an article intended for sale; the person so holding it must, prior to August 1, 1946, file claim for credit or refund; and he must also make, keep, and file records as required, and must establish to the satisfaction of the Commissioner, with respect to each kind of article for which credit or refund is claimed by him under this section, that after June 30, 1946, and before October 1, 1946, the price at which articles of such kind were sold (until a number equal at least to the number on hand on July 1, 1946, were sold) reflected, in such manner as the Commissioner may by regulations prescribe with the approval of the Secretary, the amount of the tax reduction. The Commissioner will be authorized, under regulations, to establish a system for making credit or refund where the benefit of the tax reduction is passed on to the consumer. The regulations may prescribe the method of arriving at the price at which the article was sold before the tax reduction. The regulations may also prescribe the method of ascertaining the reduced price reflecting the tax reduction, if a credit or refund is to be allowed. Credit or refund is not to be allowed under this section with respect to any article unless, with respect to all the articles of all the kinds as to which credit refund is claimed, the requirements of the section and the regulations are satisfied. The word "article," as thus used, may under regulations, mean a general class, such as distilled spirits, wine, etc., or a subclass such as whisky, rum, etc., or rye whisky, bourbon whisky, etc., or liquor sold under a special brand of a particular manufacturer.

Under the amendment of code section 1656 made by your committee the liquor must be intended for sale or use in the manufacture or production of an article held for sale on the rate-reduction date, the claim for credit or refund must be filed "30 days after the rate-reduction date;" records must be made, kept, and filed as required both before and after the rate-reduction date (but not extending beyond 1 year thereafter); and tax reduction must be passed on, on and after the rate-reduction date and before the expiration of 3 months thereafter (until a number equal at least to the number on hand on the tax reduction rate has been sold). The term "rate-reduction date" is defined in section 1659.

Under the House bill section 1657 provides for credit or refund of tax with respect to electric light bulbs held in floor stocks on July 1, 1946, and with respect to which the manufacturers' tax under section 3406 (a) (10) was paid at the war tax rate. The amount of the credit or refund is determined by the difference between the war tax rate and the tax that would have been payable in the absence of the war tax rate; in other words, the new tax rate. The credit or refund is to be allowed only to the extent that the manufacturer has reimbursed the person holding the article in floor stocks for the amount of war tax passed on to such person. The provision for credit or refund applies both to electric light bulbs held for sale on the effective date of the change in rate and bulbs held for use in the manufacture or production of an article intended for sale. No interest is allowable on such credit or refund, and claims are required to be filed prior to October 1, 1946. The Commissioner is authorized to prescribe necessary regulations, and no manufacturer or producer will be entitled to credit or refund unless he has in his possession such evidence respecting inventories of articles as to which he has made reimbursement of tax as the regulations prescribe.

Under the amendment made by your committee, section 1657 is applicable to electric light bulbs held on the rate-reduction date, and claim must be filed prior to the expiration of 3 months after such date.

Section 302 of the bill, as amended by your committee, also adds code section 1658, which corresponds to section 301 (c) (2) of the House bill, establishing effective dates for the reductions in rates of the tax imposed by section 3465 (a) (1), (2), and (3) with respect to telegraph, telephone, radio, and cable facilities. Under section 301 (c) (2) of the House bill the reduction in the tax imposed by section 3465 (a) (1) with respect to telephone toll calls, and telegraph, cable, or radio dispatches or messages is applicable as of one date, July 1, 1946, with a different date applicable with respect to services taxable under subsections (2) and (3). The reduction in the taxes imposed by section 3465 (a) (2) and (3) with respect to leased wires, wire-equipment service, and local telephone service for which no previous bill was rendered was to be applicable with respect to amounts paid pursuant to bills rendered on or after August 1, 1946.

As added by section 302 of your committee bill, section 1658 provides that with respect to section 3465 (a) (1), (2), and (3) the war rates shall apply in the case of amounts paid pursuant to bills rendered prior to the rate reduction date, and in the case of amounts paid pursuant to bills rendered on or after the rate reduction date for services for which no previous bill was rendered, the decreased rates shall apply except with respect to such services as were rendered more than 2 months before such date. In the case of services rendered more than 2 months before the rate reduction date, the provisions of sections 1650 and 3465 in effect at the time the services were rendered are to be applicable to the amounts paid for such services.

Section 302 of your committee bill also adds to the code section 1659. This section defines the term "rate reduction date," used in other sections of chapter 9A as amended by your committee, to mean the first day of the first month which begins 6 months or more after the date of the termination of hostilities in the present war.

SECTION 303. CONTINUATION OF POWER OF SECRETARY OF THE TREASURY TO AUTHORIZE GOVERNMENT EXEMPTION FROM CERTAIN EXCISE TAXES

This section is the same as section 305 of the House bill. The section deals with the authority conferred by section 307 (c) of the Revenue Act of 1943 upon the Secretary of the Treasury to authorize exemption from the taxes imposed by chapter 19 of the Internal

Revenue Code relating to retailers' excise taxes, chapter 29 relating to manufacturers' excise and import taxes, and chapter 30 relating to transportation and communications taxes, notwithstanding amendments of the Internal Revenue Code made by section 307 of such act rendering certain exemptions for benefit of the United States, States, etc., inapplicable with respect to the United States. To make permanent the authority thus conferred upon the Secretary, section 305 of the bill strikes out the last sentence of section 307 (c) which now makes the Secretary's authority inapplicable to any contract entered into on or after the first day of the first month which begins 6 months or more after the date of termination of hostilities in the present war. It was believed that administrative processes would be simplified if the person selling articles or rendering service to the United States paid over to the collector of internal revenue the taxes on such sales. The Secretary has authorized exemption in several exceptional situations where exemption was found to be administratively more efficient. It is administratively desirable that the authority granted to the Secretary be continued. The authority, as continued, would also enable continued exemption to be granted, should it appear desirable, in the case of other governmental excise tax exemptions which will terminate at some period after the termination of hostilities, for example, the exemption from the tax imposed by section 3404.

TITLE IV—SOCIAL SECURITY TAXES

SECTION 401. AUTOMATIC INCREASE IN 1946 RATE NOT TO APPLY

This section, which is the same as section 401 of the House bill, postpones the increase in the rates of the taxes imposed by the Federal Insurance Contributions Act (subchapter A of chapter 9 of the code). Under existing law, the rate of the income tax on employees imposed by section 1400 increases from 1 to 2½ percent on January 1, 1946, and the rate of the excise tax on employers of one or more employees imposed by section 1410 also increases from 1 to 2½ percent on such date. In the case of each such tax the amendment provides that the 1-percent rate shall remain in force through the calendar year 1946, and that the 2½-percent rate shall be applicable to wages paid and received during the calendar years 1947 and 1948.

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