CORPORATE AND EXCISE TAX RATES EXTENSION

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

EIGHTY-SIXTH CONGRESS

FIRST SESSION

ON

H.R. 7523

AN ACT TO PROVIDE A 1-YEAR EXTENSION OF THE EXISTING CORPORATE NORMAL TAX RATE AND OF CERTAIN EXCISE TAX RATES

JUNE 23, 1959

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CONTENTS

CORPORATE AND EXCISE TAX RATES EXTENSION

TUESDAY, JUNE 23, 1959

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to call, at 10:20 a.m., in room 2221, New Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Frear, Long, Smathers, Anderson, Douglas, Gore, Talmadge, McCarthy, Hartke, Williams, Carlson, Bennett, Butler, Cotton, and Curtis.

Also present: Elizabeth B. Springer, chief clerk, and Colin F. Stam, chief of staff, Joint Committee on Internal Revenue Taxation.

The CHAIRMAN. The committee will come to order.

The bill before the committee is H.R. 7523, providing a 1-year extension of the existing corporate normal-tax rate and of certain excise-tax rates.

(The bill referred to, H.R. 7523, is as follows:)

[H.R. 7523, 86th Cong., 1st sess.]

AN ACT To provide a 1-year extension of the existing corporate normal-tax rate and of certain excise-tax rates

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Tax Rate Extension Act of 1959".

SEC. 2. ONE-YEAR EXTENSION OF CORPORATE NORMAL-TAX RATE.

Section 11(b) (relating to corporate normal tax), section 821(a)(1)(A) (relating to mutual insurance companies other than interinsurers), and section 821(b)(1) (relating to interinsurers) of the Internal Revenue Code of 1954 are amended as follows:

(1) by striking out "JULY 1, 1959" each place it appears and inserting in lieu thereof "JULY 1, 1960";

(2) by striking out "July 1, 1959" each place it appears and inserting in lieu thereof "July 1, 1960";

(3) by striking out "JUNE 30, 1959" each place it appears and inserting in lieu thereof "JUNE 30, 1960";

(4) by striking out "June 30, 1959" each place it appears and inserting in lieu thereof "June 30, 1960".

SEC. 3. ONE-YEAR EXTENSION OF CERTAIN EXCISE TAX RATES

(a) EXTENSION OF RATES.—The following provisions of the Internal Revenue Code of 1954 are amended by striking out "July 1, 1959" each place it appears and inserting in lieu thereof "July 1, 1960"—

(1) section 4061 (relating to motor vehicles);

(2) section 5001(a)(1) (relating to distilled spirits);

(3) section 5001(a)(3) (relating to imported perfumes containing distilled spirits);

(4) section 5022 (relating to cordials and liqueurs containing wine);

(5) section 5041(b) (relating to wines);

(6) section 5051(a) (relating to beer); and

(7) section 5701(c)(1) (relating to cigarettes).

(b) TECHNICAL AMENDMENTS.—The following provisions of the Internal Revenue Code of 1954 are amended as follows:

(1) Section 5063 (relating to floor stocks refunds on distilled spirits, wines, cordials, and beer) is amended by striking out "July 1, 1959" each place it appears and inserting in lieu thereof "July 1, 1960", and by striking out "October 1, 1959" and inserting in lieu thereof "October 1, 1960".

(2) Subsections (a) and (b) of section 5707 (relating to floor stocks refunds on cigarettes) are amended by striking out "July 1, 1959" each place it appears and inserting in lieu thereof "July 1, 1960", and by striking out "October 1, 1959" and inserting in lieu thereof "October 1, 1960".

(3) Section 6412(a)(1) (relating to floor stocks refunds on automobiles) is amended by striking out "July 1, 1959" each place it appears and inserting in lieu thereof "July 1, 1960", by striking out "October 1, 1959" and inserting in lieu thereof "October 1, 1960", and by striking out "November 10, 1959" each place it appears and inserting in lieu thereof "November 10, 1960".

Section 497 of the Revenue Act of 1951 (relating to refunds on articles from foreign trade zones), as amended, is amended by striking out "July 1, 1959" each place it appears and inserting in lieu thereof "July 1, 1960".

(c) APPLICATION.—For purposes of this section, references to provisions in chapter 51 of the Internal Revenue Code of 1954 are references to such provisions as contained in such chapter as amended by section 201 of the Excise Tax Technical Changes Act of 1958.

Passed the House of Representatives June 8, 1959.

Attest:

RALPH R. ROBERTS, *Clerk.*

The CHAIRMAN. The first witnesses will be Mr. Maurice H. Stans, Director, Bureau of the Budget, and Mr. David A. Lindsay, assistant to Secretary of the Treasury.

I will ask both of these gentlemen to come to the witness table.

You gentlemen can decide who will make the first presentation.

Mr. STANS. Suppose Mr. Lindsay makes the first presentation, and I hoped I could then present mine, and we could both be questioned then at the same time.

The CHAIRMAN. Yes, sir.

STATEMENT OF DAVID A. LINDSAY, ASSISTANT TO THE SECRETARY OF THE TREASURY

Mr. LINDSAY. Mr. Chairman, and members of the Committee on Finance, I appreciate this opportunity to appear before you in support of H.R. 7523 which was passed by the House of Representatives on June 8, 1959. This legislation would extend for 1 year the present tax rates on corporation incomes and the excise rates on liquor, cigarettes, automobiles, and automobile parts and accessories.

As you know, the President in his budget message to the Congress this year stated that the budget outlook for 1960 makes it essential to extend these existing tax rates another year beyond their present expiration date of June 30, 1959.

If this legislation were not adopted there would be a revenue loss in a full year of operation of about $3.1 billion; $2.2 billion of this would be in corporation income taxes and $0.9 billion in the following excise taxes: $241 million of various alcohol taxes, $205 million of the tax on cigarettes, and $435 million of the taxes on automobiles and automobile parts and accessories.

Of the total of approximately $3.1 billion, $2.0 billion would come in the fiscal year 1960 and $1.1 billion in fiscal year 1961.

The rates now in effect were established by the Revenue Act of 1951, under which the increases were scheduled to terminate on March

31, 1954. The higher rates have been continued by successive rate extension acts, on a 1-year basis in 1954, 1955, 1956, and 1958, and for 15 months in 1957. If H.R. 7523 were not enacted, the present corporate income tax rate of 52 percent would revert on July 1, 1959, to 47 percent through a reduction of the normal rate from 30 percent to 25 percent. Further details as to the particular taxes, the respective rates, and the revenue effects for both fiscal years are presented in the accompanying table which is attached to the prepared statement.

(The table referred to is as follows:)

Increase in revenue [1] resulting from extension of present corporation income and excise tax rates for 1 year beyond June 30, 1959

[In millions of dollars]

	Scheduled rate reduction	Increase in receipts			Decrease in refunds (1960 only)
		Fiscal year		Full year	
		1960	1961		
Corporation income tax	52 percent to 47 percent	1,000	[2] 1,200	2,200	
Excise taxes:					
Alcohol:					
Distilled spirits	$10.50 to $9 per gallon	157	3	160	130
Beer	$9 to $8 per barrel	72	1	73	8
Wines	Various [3]	8		8	5
Total alcohol		237	4	241	143
Tobacco: Cigarettes (small)	$4 to $3.50 per thousand	201	4	205	20
Manufacturers' excise taxes:					
Passenger automobiles	10 percent to 7 percent of manufacturers' gross price.	315	60	375	45
Parts and accessories for automobiles	8 percent to 5 percent of manufacturers' gross price.	50	10	60	
Total manufacturers' excise taxes		365	70	435	45
Total excise taxes		803	78	881	208
Total increase in receipts		1,803	1,278	3,081	208

[1] At levels of income estimated for the calendar year 1959 and fiscal year 1960.
[2] Includes small receipts in succeeding years.
[3] Sparkling wines (champagne), $3.40 to $3 per gallon. Artificially carbonated wines, $2.40 to $2 per gallon. Still wines: Not more than 14 percent alcohol, 17 cents to 15 cents per gallon; more than 14 percent, not over 21 percent alcohol, 67 cents to 60 cents per gallon; more than 21 percent, not over 24 percent alcohol, $2.25 to $2 per gallon. Wine liqueurs or cordials produced domestically containing over 2 and one-half percent wine, which wine contains over 14 percent alcohol (in lieu of rectification tax), $1.92 to $1.60 per gallon.

Office of the Secretary of the Treasury, Tax Analysis Staff.

Mr. LINDSAY. The reductions in tax rates that would take place without the adoption of H.R. 7523 would go to only a few of the tax sources of the Federal Government. When budgetary conditions make it possible to consider tax reductions, we believe that consideration should be given to the tax system as a whole. The Treasury is of the opinion that a reduction of corporate rates is not justified when reduction in the rates of individuals cannot properly be made. We also believe that when a suitable opportunity is available for the reduction of excise tax rates, we should reexamine the overall pattern of rates to determine which should then enjoy priority in reduction.

At the present time we must keep striving to close the gap between revenues and expenditures and to achieve a surplus. To do otherwise would add to the burden of an already heavy debt which en-

cumbers our economy, not only by the cost of interest but by substantial interference in the financial markets of private business, States, municipalities, and other political subdivisions competing for national savings.

We are indeed appreciative of the thoughtful and cooperative consideration which has consistently been given to these problems by your committee.

Thank you.

The CHAIRMAN. Yes, sir. It is the desire of the committee to hear Mr. Stans, and then question the two witnesses together.

Mr. Stans, will you make your presentation?

STATEMENT OF MAURICE H. STANS, DIRECTOR, BUREAU OF THE BUDGET

Mr. STANS. Mr. Chairman and members of the committee, in order to assist your consideration of the President's recommendation for extending the present excise and corporation income tax rates, I would like to review briefly the budgetary outlook.

For the fiscal year 1959, which ends in a week, last January's budget estimated expenditures of $80.9 billion and a deficit of nearly $13 billion. Although there is a possibility that the budget deficit may turn out to be a few hundred million dollars less, the actual result will not differ substantially from the January estimate.

For fiscal year 1960, a balanced budget was proposed in January. Expenditures were estimated at $77 billion and revenue at $77.1 billion, with a small budgetary surplus of $70 million. The only change in the January estimate of budget expenditures which seems definite as of now is for interest on the public debt. Because of currently higher interest rates, expenditures for interest may be about one-half billion dollars more than estimated last January. However, as the President pointed out in his June 8 message to the Congress, the strength of economic recovery and growth beyond our earlier estimates is now expected to increase revenues by enough to offset the increased interest costs on the public debt.

In addition to the expected increase in interest expenditures, there are other factors—still not definite—which might affect the total of 1960 expenditures.

Here are some that seem important enough to warrant special attention.

Most of the regular appropriation bills for fiscal year 1960 are still pending before the Congress. The same is true of some major substantive legislative measures. While congressional action to date on appropriation bills alone indicates the possibility of some expenditure reductions, taken altogether, action on all bills thus far would result in more increases than decreases in the budget if they were enacted in substantially their present forms.

Other factors which are important to an appraisal of the 1960 budget outlook include the recommendations of the President to raise postal rates and to increase taxes on motor and aviation fuels. If these increases are not enacted the estimate of budget expenditures for 1960 would increase by more than $900 million and the estimated surplus would be affected accordingly.

It is my hope that the Congress will see fit to hold the line on budget expenditures so that the balanced budget proposed by the President will be attainable. Holding the line on spending wherever we can is particularly important in view of the uncertainties which always exist in estimating for a period a year or more ahead. For example, the quantity of surplus farm commodities which must be acquired under existing laws might turn out to be more than we now estimate. In addition, there are always uncertainties as to the course of international events.

As this committee knows, the estimate of budget receipts for 1960 includes about $2 billion of revenues that are contingent on the extension of the existing rates for corporation income taxes and for excises. The extension of these rates is therefore one of the essential steps in achieving a balanced budget and a sound fiscal situation in 1960. In a period of growing prosperity, such as the present, the Government's income ought to cover its outgo. I accordingly urge the enactment of the rate extensions now under consideration.

For 1961 and later years, as the President pointed out in the budget message, the fiscal outlook will be influenced by general economic trends and by actions taken by the Congress on the 1960 budget. The validity of this conclusion is becoming increasingly evident.

With a growing national economy we can expect rising revenues under current tax rates. The magnitudes of the revenues for a period as distant as 1961, however, cannot be estimated with any certainty.

The same is true with respect to expenditures. Outlays in 1961 will depend to a significant extent on action taken by the Congress now. However, there are a number of expenditures with built-in increases because of commitments required by existing laws. Without any new action by the Congress authorizing additional programs or projects, spending for some major activities will almost certainly rise after 1960. Urban renewal and water resource projects are some examples outer space and defense education programs are others.

With these facts in mind, the President recommended in the 1960 budget message a number of changes in existing laws which would adapt programs to changed circumstances and make possible long-run economies. Adoption of these proposals could save taxpayers billions of dollars in the years ahead. He also recommended that new programs and proposals be examined critically in terms of their impact on the Nation, both today and in the future.

Although it is not possible to predict at present precisely what the budget totals will be for fiscal 1960 and 1961, it is clear that to keep our financial house in order we have to extend the tax rates which would otherwise expire or be reduced on June 30.

The CHAIRMAN. Mr. Stans, does your statement mean taking the appropriation bills so far enacted as a total the result would be more increases than decreases in the budget?

Mr. STANS. Senator, I did not mean to imply that. What I meant was that the congressional action on appropriation bills, as well as on substantive legislation, taken as a whole, would produce more increases than decreases.

The CHAIRMAN. What would be the amount?

Mr. STANS. Well, one factor is the housing bill which is now before the House; another is the increase in—well there are quite a number, Senator, and I can give you a table. I don't have an estimate of the amount, but at the moment——

The CHAIRMAN. The housing bill is before the President, is it not?

Mr. STANS. I think the House still has not passed the conference report.

[NOTE.—The conference report was approved by the House of Representatives later this same day.]

The CHAIRMAN. It is practically before the President.

Now how much increase is involved in the housing bill on an expenditure basis?

Mr. STANS. Well, there is not a great deal of increase on an expenditure basis in the housing bill for 1960. We estimate it would increase $70 million——

Senator DOUGLAS. I didn't hear the reply of the Director of the Budget. What is the increase for 1960?

Mr. STANS. I am just coming to it, Senator. The increase in expenditures in fiscal 1960 in the Congress bill over the administration bill is about $70 million.

Senator DOUGLAS. How much?

Mr. STANS. $70 million.

Senator DOUGLAS. Seventeen?

Mr. STANS. No, 70.

Senator DOUGLAS. Seventy. Is that expenditures?

Mr. STANS. That is expenditures.

The CHAIRMAN. What would be the total increase——

Senator DOUGLAS. Do you regard this as a serious thing, as throwing the budget out of balance seriously?

Mr. STANS. Well, I consider it serious, not wholly because of the effect upon 1960, but because of the effect on other years as well. And of course, we have a budget in 1960 which is balanced by only $70 million.

The CHAIRMAN. What would be the total increase through the years if the bill should be signed by the President?

Mr. STANS. Through all the years, Senator? The total new authorization provided for all the years covered is about $600 million above the administration bill, and of course the administration bill extends the urban renewal program over 6 years, whereas this bill provides only for 2 years' funding of it.

The CHAIRMAN. Well, there is a $600 million increase. Does that cover the full period in all the items in the housing bill?

Mr. STANS. Yes, Senator; but that is a minimum, because as I say that only provides for 2 years of urban renewal, and if the program were to continue beyond those 2 years, this bill would lead ultimately to expenditures considerably greater than the administration program.

The CHAIRMAN. How many years would the $600 million cover?

Mr. STANS. Well, the $600 million covers the life of the bill. Actual expenditures over the next 4 years under the conference bill would be about $400 million more than under the administration bill for a 4-year period.

The CHAIRMAN. How long does the bill last?

Mr. STANS. Well, the various items in the bill have different durations, Senator, so that I can't specifically give the entire bill a terminal date.

But the urban renewal portion of the conference bill provides authority for 2 years.

The CHAIRMAN. It creates an obligation to spend $600 million more than would otherwise be spent had the bill not been enacted?

Mr. STANS. That is correct; $600 million more than the bill recommended by the President, as we see it.

The CHAIRMAN. You mention that $900 million has been recommended by the President for the increase in postal rates and the tax upon motor and aviation fuels. Should that not be enacted, what effect would that have on the balanced budget for the next fiscal year?

Mr. STANS. It would mean, Senator, that our budget would be unbalanced, and we would charge that $900 million against the small surplus that we had hoped to have, leaving a deficit.

The CHAIRMAN. Assuming that the Congress does not increase the recommendation of the President, and does not enact the increased taxes, in your opinion what would be the deficit next year?

Mr. STANS. If the Congress does not enact the Housing bill above the administration level or any other substantive legislation providing for expenditures above the administration level, and also fails to enact the postal rate increase and the gasoline tax rate increase, then my estimate would be that the budget would be out of balance by about $1 billion to $1.5 billion. That is my best estimate as of now.

The CHAIRMAN. In other words, if the taxes were increased and the expenses are not increased, you would anticipate the budget for next fiscal year would be practically balanced?

Mr. STANS. We could be in approximate balance if we got the gasoline tax and the postal rate increase, and the authorization bills did not exceed the President's request.

The CHAIRMAN. Senator Kerr.

Senator KERR. No questions.

The CHAIRMAN. Senator Williams.

Senator WILLIAMS. No questions.

The CHAIRMAN. Any questions?

Senator FREAR. Yes.

Mr. Stans, I didn't quite understand this statement you just gave to the chairman on the $600 million in the urban renewal on the Housing bill.

Maybe I am in error, but as I understood in statements made on the floor of the Senate yesterday, that even though the Senate version of the conferees as passed yesterday was an extension of 2 years, rather than a 6-year extension offered by the administration.

I believe the administration's figures were $1.550 billion over a 6-year period on urban renewal.

Mr. STANS. The administration figure for the 6-year period was $1.450 billion, as I have it.

Senator FREAR. Well, I am sorry; I made a hundred million error.

But the House, or the version yesterday as passed by the Senate, was $900 million for 2 years.

Mr. STANS. That is correct.

Senator FREAR. But included in that $900 million, as I understood it, was including two recommendations by the administration, one in the amount of $100 million, which was sort of a kitty for the administration to use in emergencies, and another one in the amount of $100 million, or $150 million, the purpose of which I have forgotten

at the moment, but if we took those into consideration the additional expenditures in 1960, if this is enacted into law, in urban renewal will be $150 million additional.

Mr. STANS. You are now speaking of the 2 years alone?

Senator FREAR. I think that must be 1961.

Mr. STANS. Well, for 1961 the administration program was $250 million, and this bill of the conference committee provides for $400 million.

Senator FREAR. That is $150 million in 1961?

Mr. STANS. That is correct, and in the 1960 budget, the administration had proposed $250 million plus $100 million for the remainder of 1959, or a total of $350 million, and the conference bill provides for $500 million.

Senator FREAR. Well, that is the same, it is $150 million in 1960, and $150 million in 1961, or over that period there is $300 million.

Mr. STANS. That is correct.

Senator FREAR. If that is not extended, and that is the end of the urban renewal appropriations, as I understood it yesterday. However, they were only authorizations and not appropriations, Mr. Stans; is that true?

Mr. STANS. I am not sure about that. My recollection is that it came out of the conference committee as a contract authority and that no further appropriation is required for obligations to be incurred.

Senator FREAR. I don't want to differ with you, but I would like to be cleared on it, however.

Mr. STANS. I would have to check to get the answer for certain. But my recollection is that the House bill required appropriation action, the Senate bill did not, and it came out of conference without requiring appropriation action, but I admit I am giving that from recollection, and I am not certain of it.

Senator FREAR. If I remember the statements made on the floor of the Senate yesterday, it was authorizations. However, when the chairman of the subcommittee was questioned it was acknowledged, I believe, that it was a moral obligation to make appropriations for this authorization to the extent of $900 million over the period of 2 years.

Mr. STANS. Of course, I am not any more certain of it than I have indicated, and I would have to check to be sure.

(Mr. Stans later provided the following information for the record:)

The statements made from my recollection are essentially correct. The conference bill provides contract authority which permits obligations to be incurred without the necessity of an appropriation. Later on an appropriation will be required to pay off these obligations. At that time the Government has a contractual commitment—not merely a moral one—to provide the necessary cash.

Senator FREAR. Now, it is also a fact that if the administration disagrees with this bill as presented, the President can veto it.

Mr. STANS. Yes, it is a fact.

Senator FREAR. Do you want to offer any opinion as to his action?

Mr. STANS. Well, the President makes it quite clear that he never discusses the possibility of his action in advance of the bill reaching his desk. I can only say that I think, as Director of the Bureau of the Budget, I would recommend that he veto it.

Senator FREAR. That he veto it.

May I ask this question, Mr. Stans: Would your recommendation be to the urban renewal part of the bill or the bill in general?

Mr. STANS. It is on a great many elements in the bill including the urban renewal portion, including the public housing, including a considerable number of other provisions in the bill.

I don't have all the details before me, but there are quite a number of features that we think are undesirable.

Senator FREAR. Has the President or the administration taken a stand on college housing and facility loans?

Mr. STANS. Yes. The budget message recommends that the college housing program be changed to basically a guarantee program, and that it not be extended to help finance, in particular, State-owned educational institutions.

Senator FREAR. You say the budget message recommends that the college housing program not be extended to help finance?

Mr. STANS. That is correct.

Senator FREAR. Well, what do you mean by State-owned? Are they State-supported institutions?

Mr. STANS. Yes; what we mean is the budget, as proposed, that the college housing program not be used to finance the construction of housing for institutions supported by State or other bodies that have tax-exempt privileges.

Senator FREAR. Would that be in any percentage degree? Most State-supported institutions have income other than fees from students and the moneys from the State treasuries, do they not?

Mr. STANS. Yes, I am sure they do.

Senator FREAR. Then would that prohibit those institutions from obtaining loans from the Government under this bill?

Mr. STANS. If they have the power of tax exemption to finance this type of construction, it would be prohibited under the administration proposals.

Senator FREAR. You don't know whether that is true under the conference bill?

Mr. STANS. It is my understanding that it is not true; that that type of financing is permitted under the conference bill.

Senator FREAR. Yes.

Thank you, Mr. Chairman.

The CHAIRMAN. Any further questions?

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

The CHAIRMAN. Senator Smathers.

Senator SMATHERS. Mr. Stans, I am interested in this sentence, where you say:

> While congressional action to date on appropriation bills alone indicates the possibility of some expenditure reductions, taken altogether, action on all bills thus far would result in more increases than decreases in the budget, if they were enacted in substantially their present form.

I thought, sir, and you might clear me up on this, that thus far with respect to the appropriation bills, which have passed the House, there has been a reduction of some $856 million below that which the President had requested.

Mr. STANS. The Senator is entirely right on that. I would like to make it clear that the reference to all bills in this sentence is intended to include not only appropriation bills, but also substantive legislation such as the housing bill and others.

Senator SMATHERS. Well, you will appreciate that it is the appropriation bills that really determine whether the budget is actually out of balance or in balance; is that not true?

Mr. STANS. Only in part, Senator, because if substantive legislation is enacted which authorizes expenditures from debt receipts or from revenues, that, of course, increases expenditures as well, and there are some bills of that type pending.

Senator SMATHERS. Can you tell us what bill it is thus far, except for the housing bill, that has passed the Congress which exceeds the President's request?

Mr. STANS. Well, I don't think any have passed the Congress. I am referring here to action taken so far on bills. In other words, Senator, this is in a state of flux. It is very difficult to appraise what will happen expenditurewise as a result of congressional action, and all I am saying here is that I can't tell now what the final results for the year will be, but——

Senator SMATHERS. Therefore, would it not be only fair to state that it could be that after this flux you are talking about, the Congress would end up appropriating less money than it actually has requested?

Mr. STANS. As I said later, Senator, that is my hope that the Congress will do that,and that it will also restrain the enactment of substantive legislation providing for expenditures beyond that which the administration has requested.

Senator FREAR. So therefore it is only fair to imply in your statement that thus far in actual point of fact Congress has been proceeding with respect to appropriations below the figure which the President had originally asked for in all the bills except the housing bill, and there only $70 million above the recommended figure. Looking at what has happened thus far, you, as a reasonable man, could conclude that the Congress would appropriate less money than the President originally asked for.

Mr. STANS. If the Senator will permit me, I would like to point out there is one appropriation bill in which the Congress so far has added several hundred million dollars to the appropriations suggested by the President, and that is the appropriations for the Department of Health, Education, and Welfare.

Outside of that, the action on appropriation bills has been downward.

Senator FREAR. $856 million.

Mr. STANS. I think that is the correct figure, Senator, approximately, including action on 1959 supplementals as well as 1960 appropriations.

Senator FREAR. And we still have the foreign aid bill to go, do we not?

Mr. STANS. Yes.

Senator FREAR. There have been indications that that would be substantially reduced.

Mr. STANS. I understand so.

Senator SMATHERS. So there is actually the indication that would lead reasonable people to believe that the Congress, contrary to spending money above that requested by the President, above that amount requested by the administration thus far, it would be only fair to conclude the Congress is going to appropriate less money than the President has asked for.

Mr. STANS. On appropriations, I think that is a very reasonable conclusi n, and I hope the Senator is entirely right.

Senator SMATHERS. All right, sir. We certainly share that hope.

One other sentence you have in here that intrigues me very much. You say:

> Because of currently higher interest rates, expenditures for interest may be about one-half billion dollars more than estimated last January.

What do you mean by that? How did these interest rates go up what was the reason for that?

Mr. STANS. Well, you are now in an area, Senator, in which perhaps the Treasury can testify better than I can. But the fact of the matter is that we had estimated in the budget that interest costs on our national debt would run about $8 billion in fiscal 1960. The trend of the market has been upward, and the recent Treasury financings have been at higher rates, and a recalculation of that estimated cost for 1960 now indicates that it will be about $8.5 billion.

Senator SMATHERS. Would it be your opinion—and I presume in the job which you hold any statement you made would be considered that of an expert certainly in fiscal matters—would it be your opinion that if the Congress accedes to the request of the Treasury to permit the interest payments on Government bonds to exceed that limit now authorized by law, that that eventually would result in a greater cost to the Government financing its debt?

Mr. STANS. Well, as to the year 1960, the effect of that legislation is included within the $500 million estimate that I have given. Obviously, the trend of future rates will determine what the cost will be in subsequent years.

Senator SMATHERS. If interest rates continue to go up, of course, that increases, does it not, the Government debt?

Mr. STANS. Yes, but——

Senator SMATHERS. I mean the expense of taking care of the Government debt?

Mr. STANS. It certainly does.

Senator SMATHERS. And thereby, it calls for greater expense to the Government.

Mr. STANS. Yes. I was only hesitating in my answer because I wanted to make it clear that the mere fact of raising the interest limit wouldn't necessarily cost the Government more money unless the market price of interest also continued to increase.

Senator SMATHERS. Do you have any doubt if you raise the limit which the Government could pay on Government bonds that undoubtedly the market price would go up?

In other words, the maximum would tend to become the limit set by law.

Mr. STANS. Senator, you are in an area now in which I would much prefer to defer to the views of the Treasury, who have that responsibility.

Senator SMATHERS. I know. I understand. I was just interested, however, in your views because you have always been very frank and straightforward in your manner of testifying before us, just as the Treasury has, but there is some divergence of opinion in this and I was interested in what your views would be.

Actually, do you not think that this would result in obviously a greater expense to the Government and a greater cost to the Govern-

ment in meeting its obligations, if we permitted this law to be changed?

Mr. STANS. Senator, there are many factors that bear on the answer, and my conclusion would be that one would have to evaluate all those factors in order to have an opinion.

For example, this limit of 4.25 percent now applies only on bonds over 5 years. If it isn't raised, the Treasury will presumably have to do its financing in the short-term market, and I am just not in a position to estimate what the consequences of that would be.

Senator SMATHERS. All right, sir. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Any further questions?

Senator CARLSON. Just one question: Mr. Stans, we have extended these tax rates in 1954, 1955, 1956, 1957, and 1958, and now we are requested to extend them in 1959.

I am sure that the membership of this committee and the Congress would be very happy to place termination dates on some of these taxes, and not only that, but to eliminate some of them, but then I come to your statement, and I read this:

> However, there are a number of expenditures with "built-in" increases because of commitments required by existing laws.

Could you mention some of them that are going to haunt us, if I may use that term, in 1961, 1962, 1963, 1964, and 1965? If you don't have them, I would like to have you put them in the record.

Mr. STANS. I have a list of them here, Senator.

This, Senator, is one of the most difficult parts of preparing the annual budget, because there are so many programs underway and so many laws underway that automatically carry with them provisions that will increase the level of expenditures from one year to the next.

For example, the conservation reserve program of the Department of Agriculture is on an increasing basis of authorization, and expenditures will follow on an increasing basis.

The Development Loan Fund in the mutual security appropriation is relatively new. As its commitments continue, its expenditures will lag a year or so behind, but will gradually continue to increase.

The veterans' pension program is one which, by its own provisions, is going to increase, regardless of the change in the law which the Congress is now considering.

Construction on public works projects that have already been started will require increasing amounts of money as the construction progresses.

The space program of the National Aeronautics and Space Administration began just a year or so ago, and is on a basis of increasing authorization which is going to be followed by increasing levels of expenditures.

The Defense Education Act enacted by Congress a year or so ago is under the same circumstances, and will increase in expenditures over a period of time.

The program of the Federal Aviation Agency to improve the safety features of the airways system is going to be increasingly expensive as construction progresses and as maintenance and operation costs go up as the added facilities are placed in use.

The housing programs have a number of built-in features, the principal one of which is in the urban renewal program. There is a case in which authorizations and commitments made one year don't

result in expenditures in some cases for 3 or 4 years or more later. But now the expenditures are beginning to rise. There are a number of other programs like that in which commitments made one year cause budget expenditures to increase in successive years, and my estimate is that we have a couple of billion dollars of built-in increases that we have to face up to in the 1961 budget above the 1960 level for programs of this type.

Senator CARLSON. If I understand your statement correctly, you don't give us much encouragement for reducing or not extending this excise tax in 1960 to take action in 1959.

Mr. STANS. I can't honestly give you much encouragement, Senator. We are in a situation in which expenditures are continuing to increase.

Senator CARLSON. Those are, of course, commitments that Congress itself has authorized or made.

Mr. STANS. That is correct.

Senator CARLSON. That is all, Mr. Chairman.

The CHAIRMAN. Are there any further questions?

Senator DOUGLAS. Mr. Chairman, Mr. Stans, when you mention these authorizations ultimately will result in appropriations, and urge that we be aware of them, did you include in this the authorizations which we are making at the request of the administration for the World Bank or the International Monetary Fund?

Mr. STANS. Well, the World Bank authorization is not one that involves any present or foreseeable expenditures.

Senator DOUGLAS. I mean, but it could be a due note, could it not?

Mr. STANS. It could be; at the moment it is a guarantee.

Senator DOUGLAS. And the administration requested this, isn't that true?

Mr. STANS. That is correct.

Senator DOUGLAS. How much did that authorization amount to?

Mr. STANS. Well, that is an authorization which, as I say, is equivalent to a guarantee of $3.175 or $3.2 billion.

Senator DOUGLAS. $3.175 billion. That is quite a large sum, I think.

What about the International Monetary Fund, how much did that amount to?

Mr. STANS. That amounted to $1.375 billion.

Senator DOUGLAS. And that will not be called on until fiscal year 1960, will it, but it is charged against the 1959 budget, isn't that true?

Mr. STANS. It will be paid in fiscal 1959, and charged to 1959.

Senator DOUGLAS. Just at the end of the year, is that not true, just getting under the wire so it won't be charged against the 1960 budget, isn't that true?

Mr. STANS. Senator, the law has just been passed and the payment is being made promptly.

Senator DOUGLAS. Yes. It is now the 23d of June, and the year would expire in 7 days. You are going to be pretty certain to have it paid over in the next 7 days so that it won't overlap into fiscal 1960, isn't that true?

Mr. STANS. Senator, all I can say is that the request was made by the administration many months ago, and it will be paid now that the law has been enacted.

Senator DOUGLAS. Yes. This is an authorization, and you will see that the persons who run it do so promptly.

I want to congratulate you on your earnestness in this matter.

May I ask about your housing figures. You stated that the housing bill for fiscal 1960 calls for added expenditure of $70 million. I would like to point out two things:

First, that we should not confuse authorization with expenditure. For instance, we have authorized under urban renewal since 1949, in those 10 years, $1.350 billion. But there have actually only been expended $181 million, indicating that the expenditures thus far have been only a fraction of the authorizations.

Now, it is true that we are authorizing $500 million the first year, and $400 million the second year; but in order to reach these sums there would have to be a long preliminary period of submission of plans, approving of plans, and so forth, so that probably only a very small fraction will be chargeable against the—of the entire bill, will be chargeable against the 1960 budget.

Senator Sparkman, who is a very careful man, has estimated that the outlays under the administration bill for fiscal 1960 would have been $4.5 million, and that the outlay under the bill as passed will only be $27 million.

I think your figure of $70 million must be in error, and I hope that the press will not get the impression that the housing bill is going to throw the budget out of balance, and I think that on this basis, that if you advise a veto it would not be in the public interest.

Mr. STANS. May I comment on that, Senator?

I hope the Senator is clear that the $70 million that I referred to is an increase in expenditure in 1960 over the administration budget as a result of the entire housing bill and not just in urban renewal.

Senator DOUGLAS. That is what I was referring to.

Mr. STANS. That is correct.

Senator DOUGLAS. The entire bill.

Mr. STANS. If the Senator wishes, I would be happy to put a table in the record indicating how we compute the $70 million.

Senator DOUGLAS. I think it would be helpful, and then we could get comparison with the figures of Senator Sparkman.

Mr. Stans. I will.

As shown in the following table, expenditures in fiscal 1960 are estimated at $75 million under the conference bill compared with $5 million under the administration bill. The difference is the $70 million referred to.

(The table submitted by Mr. Stans, and the table and statement submitted by Senator Douglas follow:)

(Table submitted by Mr. Stans:)

Housing legislation—Comparison of authorizations and expenditures proposed by Administration with Conference Housing Bill (S. 57)

[In millions]

Purpose	New obligational authority		Estimated budget expenditures					
			Fiscal year 1960		Fiscal year 1961		Total 1960-63	
	Administration	Conference	Administration	Conference	Administration	Conference	Administration	Conference
Urban renewal:								
1959	$100							
1960	250	$500.0						
1961	250	400.0						
1962-65	(850)							
Total	[1] 600	900.0	$3	$11	$23	$41	$135	$270
College housing loans	200	300.0			125	130	200	300
College classroom loans		62.5		3		35		62
FNMA purchase of cooperative mortgages		37.5		12				13
	Other authorizations							
Public housing		[2] 874.5		19				32
Loans for housing for the elderly		[3] 50.0		25		25		50
Other	[3] 10	[3] 25.4	2	5	4	9	10	25
Total	[1] 810	2,249.9	5	75	152	240	345	752

[1] Amounts proposed by administration for urban renewal for 1962-6 not included in totals since conference bill did not provide advance authorization for these years. Program continuation at conference committee level for 1961 would require additional authorization of $1.6 billion for 1962-65.

[2] Conference bill provides authority, without appropriation action, to enter into annual contributions contracts for 45,000 public housing units, with a 40-year cost of about $874.5 million and, at the discretion of the President, approximately 145,000 additional units with a 40-year cost of $2,825 million. Appropriations would be required to meet subsequent annual contractual payments.

[3] Authorization for appropriation. New obligational authority when actually appropriated.

Statement Submitted by Senator Douglas Based on Senate Housing Committee Tables

During debate on the conference report on S. 57, the Housing Act of 1959, a table, prepared by the Housing and Home Finance Agency, was inserted in the record, which table purports to show that S. 57 will increase the Federal budget for fiscal year 1960 by $75.34 million. Mr. Stans testified the figure would be $70 million. There was also inserted in the record a table, prepared by the staff of the Subcommittee on Housing, which table purports to show that the impact of S. 57 on the budget for fiscal 1960 will be only $28.5 million.

In my opinion, the estimate submitted by the Housing and Home Finance Agency is exaggerated and unreliable. This is particularly true for their estimates concerning the program of direct loans to build housing for elderly persons and the effect which the bill would have upon planning and construction loans for public housing.

A comparison of the figures prepared by the subcommittee staff with those prepared by the administration is given below.

Farm housing

Expenditures for fiscal year 1960:	
Administration table	$400,000
Subcommittee staff table	None

An expenditure for fiscal year 1960 would have to be appropriated, and in view of the fact that the administration has refused to ask for this money, it is unlikely that any of it will be spent in the coming fiscal year.

College classroom loans

Expenditures for fiscal year 1960:	*Million*
Administration table	$3.5
Subcommittee staff table	2.5

Past experience would indicate that a new program such as this would be very slow in getting underway. By the time regulations have been prepared and agreed to by both the Community Facilities Administration and the Health, Education, and Welfare Department, many months will have passed before any commitments are made under this new authority. It is most unlikely that the amount actually disbursed in the coming fiscal year will exceed $2.5 million.

Relocation payments

Expenditures for fiscal year 1960:	*Million*
Administration table	$3.0
Subcommittee staff table	None

S. 57 would authorize an increase in maximum payments for families from $100 to $200, and for businesses from $2,500 to $3,000. Under present law, the average moving cost for families is $60 on a national basis and, in New York City, where costs are high, it is only $70. The moving costs for businesses is averaging $800. The new increases are expected to be paid only in a few unusual cases and to increase the overall average by only a small amount. The effect of this increase on projects in execution in fiscal 1960 will be negligible.

Urban planning grants

Expenditures for fiscal year 1960:	*Million*
Administration table	$1.7
Subcommittee staff table	1.1

The staff believes that the authorization of $10 million, which was recommended by the administration, will have no significant impact on the 1960 budget, but is willing to concede that the provisions in S. 57 might cause an expenditure of approximately $1.1 million. The President's 1960 budget estimates an expenditure for 1960 of $3.5 million. All of this, however, is from amounts already authorized by previous legislation; none from this year's legislation. The budget includes a figure of $2.3 million out of the new proposed authorization, which will be committed but not spent in 1960. The provision in this year's bill to expand the coverage of the program may increase the commitment of funds for 1960, but should affect the expenditures by not more than $1.1 million.

Elderly housing direct loans

Expenditures for fiscal year 1960:	*Million*
Administration table	$25.0
Subcommittee staff table	2.5

It is extremely unlikely that the administration will complete the preparation of new regulations, ask for supplemental appropriations, and process loans and disburse funds for more than a token amount during fiscal year 1960. Our estimate is approximately $2.5 million.

Public housing advances

Expenditures for fiscal year 1960:	Million
Administration table	$19
Subcommittee staff table	5

The administration figures assume that preliminary loans will be approved for all 45,000 units in fiscal year 1960. Based on past experience, this is extremely unlikely. During the year following the passage of the Housing Act of 1956, only 10,000 units were approved for preliminary loans. Approvals and disbursements of $5 million is a realistic estimate for fiscal year 1960.

FNMA special assistance for cooperative housing

Expenditures for fiscal year 1960:	Million
Administration table	$12.5
Subcommittee staff table	6.3

The bill provides new authorization of $37.5 million: $25 million to be used for consumer-cooperatives, and $12.5 million for builder-sponsor cooperatives. Because there is already a balance of $30 million in FNMA for consumer-cooperatives, it is unlikely that any of the new funds will be committed and disbursed in 1960. It takes 18 to 24 months to get a project to completion from the date of commitment. It is possible, however, that approximately one-half of the $12.5 million becoming available for commitments to builder-sponsor cooperatives will be disbursed in 1960.

Allowing for reasonable differences of opinion about the impact of S. 57, I believe that the $28.5 million figure is far more accurate than the $75.34 million figure submitted by the administration.

(Table submitted by Senator Douglas:)

PROPOSED HOUSING LEGISLATION

Comparative summary of new obligational authority and estimated expenditures for fiscal year 1960

[In millions]

	New obligational authority				Estimated expenditure, fiscal year 1960			
	Administration (S. 65 and 612)	Senate (S. 57)	House (S. 57)	Conference (S. 57)	Administration (S. 65 and 612)	Senate (S. 57)	House (S. 57)	Conference (S. 57)
Grants:								
Urban renewal	[1] $1,550.0	[1] $2,100.0	[2] $1,500.0	[3] $900.0				
Urban planning (701)	10.0	10.0	10.0	10.0	$1.0	$1.1	$1.1	$1.1
Scholarship		1.5		.3		.5		.1
Defense hospital		15.0	15.0	15.0		2.5	2.5	2.5
Farm Housing research		.2	.1	.1				
Loans:								
Elderly housing direct loans			100.0	50.0				
Urban renewal advances					3.6	8.0	5.0	2.5
Public housing advances						5.0	8.5	8.5
College housing loans	200.0	300.0	400.0	300.0			5.0	5.0
College classroom loans		125.0		62.5		5.0		2.5
Mortgage purchases: FNMA special assistance for cooperative housing			75.0	37.5			12.5	6.3
Total	1,760.0	2,551.7	2,100.1	1,375.4	4.6	22.1	34.6	28.5

[1] Authorizations for a 6-year period.
[2] Appropriations in 2 fiscal years.
[3] Authorizations for a 2-year period.

Table prepared by staff of Senate Housing Subcommittee.

The CHAIRMAN. Any further questions?

Senator CURTIS. Mr. Chairman.

The CHAIRMAN. Senator Curtis.

Senator CURTIS. Mr. Stans, what kind of a budget are you referring to here in your statement? Is that an expenditure budget?

Mr. STANS. Yes.

Senator CURTIS. Does it include expenditures for which no appropriations are made?

Mr. STANS. Yes, if the expenditures are authorized other than by appropriations.

Senator CURTIS. Does it include trust fund?

Mr. STANS. No; it does not.

Senator CURTIS. It does not include social security?

Mr. STANS. No, it does not.

Senator CURTIS. But it does include any automatic expenditures that are made without Congress appropriating——

Senator KERR. Without what?

Senator CURTIS. Without Congress appropriating it.

Senator KERR. What would they be?

Senator BENNETT. Interest on the debt.

Senator CURTIS. Interest on the debt, and I can think of one of the largest expenditures ever made by this Congress was the original British loan. There never was any money appropriated for it. The bill originated in the Senate. It called for it, authorized the loan and said it shall be treated as a public debt transaction. It passed the House later, even though the Constitution says that money bills shall originate in the House. And I think the record will bear me out, no appropriation was ever made for it; that the Congress directed the Treasury to make the expenditure and treat it as a public debt transaction.

Would you supply the answer to that for the record?

Mr. STANS. I will supply the answer to that.

(The information referred to is as follows:)

U.S. CREDIT TO THE UNITED KINGDOM

The joint resolution to implement further the purposes of the Bretton Woods Agreements Act by authorizing the Secretary of the Treasury to carry out an agreement with the United Kingdom, and for other purposes (Public Law 509, 79th Cong., S.J. Res. 138) stated:

"Resolved by the Senate and House of Representatives of the United States of America in Congress assembled * * *

"SEC. 2. For the purpose of carrying out the agreement dated December 6, 1945, between the United States and the United Kingdom, the Secretary of the Treasury is authorized to use as a public-debt transaction not to exceed $3,750,000,000 of the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purpose. Payments to the United Kingdom under this joint resolution and pursuant to the agreement and repayments thereof shall be treated as public-debt transactions of the United States. Payments of interest to the United States under the agreement shall be covered into the Treasury as miscellaneous receipts."

Expenditures from debt receipts authorized by this joint resolution were made in fiscal years 1947 and 1948 in the amounts of $2,050 million and $1,700 million, respectively. These amounts were included in total budget expenditures for those years and are shown on page 852 of the "1949 Budget Document" for fiscal year 1947 and on page 929 of the "1950 Budget Document" for fiscal year 1948. No appropriation was enacted.

Senator CURTIS. Now, it occurs to me that perhaps there are some hidden increases in some of these bills which have been passed. Is it true that the Housing bill, for instance, eliminates the limit on income of potential occupants of public housing?

Mr. STANS. Senator, I am sorry, but I don't have information on all the details of the Housing bill.

Senator CURTIS. Can you supply that, Mr. Bennett?

Senator BENNETT. The Housing bill removes the requirement that ceilings on income for occupants of public housing be under the control of the Housing Administrator and puts them under the control of the local Housing Authority, so that so far as the Federal Government is concerned its control over the limits on income of people who occupy public housing will be removed if the bill becomes law.

Senator CURTIS. I would like to ask Mr. Stans this:

If at the present time no one can demand public housing unless their income falls below a certain figure and the Federal Government relinquishes that power to determine the ceiling and gives it to every ambitious mayor in the country, is that going to increase or decrease expenditures?

Mr. STANS. Well, I should think in the long run a provision of that type would tend to increase expenditures.

Senator, there are many other provisions changing the administration of the Housing program in a great many respects that we think are also highly undesirable.

Senator CURTIS. I just cite this as one.

Mr. STANS. Yes.

Senator CURTIS. Could you list those?

Mr. STANS. Yes, I will be very happy to put a list in the record.

Senator CURTIS. You would prefer to do that rather than providing them now.

Mr. STANS. Unfortunately, I don't have any papers with me in any details on the provisions of the Housing bill, and I would rather not trust my recollection on many of them.

(The information referred to is as follows:)

MAJOR DEFECTS OF CONFERENCE HOUSING BILL (S. 57)

1. *Budget effect.*—The bill provides authorizations of $2,250 million (excluding $2,825 million available for public housing at the President's discretion) against the comparable recommendation of the President for $810 million. The budgetary effects of the additional authority would be felt not only in 1960 but for many subsequent years. (See table previously inserted in response to Senator Douglas' inquiry.)

2. *Direct loans.*—The present college housing program would be continued at 50 percent above the recommended amount without either adjusting interest rates (currently 2¾ percent) to cover the cost of money to the Treasury or excluding public institutions which can borrow privately about as cheaply as the Treasury. In addition, the bill would authorize, at the same interest rates, two new direct loan programs for college classrooms ($62.5 million) and housing for the elderly ($50 million). The latter authorization would be used almost exclusively for projects ready to go forward under the existing FHA mortgage insurance program.

3. *Mortgage purchases.*—The bill would reinstate the requirement that the Federal National Mortgage Association purchase mortgages at not less than par, reduce fees charged, and increase the maximum mortgage eligible for purchase. This would result in substantial unnecessary purchases well above market prices with corresponding subsidies to sellers. The chief beneficiaries would be the builders of high rent apartments on urban renewal sites. The bill also includes

unneeded authority to purchase co-op mortgages ($37.5 million) and authorizes a new program for direct "warehousing" loans backed by FHA and VA mortgages.

4. *Urban renewal.*—The bill not only omits most of the President's proposals, but also makes major undesirable changes which will utlimately require even greater amounts than the substantial authorizations included in the bill. It would prohibit any limit on the size of any project or on the amount of grants for any one city—thus making sound management and equitable allocation of funds almost impossible. It would sharply reduce the buying power of the Federal urban renewal dollar by permitting localities to claim two-thirds Federal reimbursement for facilities constructed as long as 5 years before project approval and for unrelated expenditures by universities for land acquisition and clearance in or near urban renewal areas; by increases in 100 percent Federal payments to displaced families and businesses and extension of eligibility for such payments to displacees of other programs; and by eliminating the local share on urban renewal sites used for public housing. It would permit the diversion of 20 percent of grants for projects with no effect upon housing and living conditions.

5. *Federal Housing Administration.*—The bill provides insufficient flexibility with respect to both interest rates (particularly on Capehart armed services housing) and additional mortgage insurance authority. It includes numerous undesirable liberalizations of terms and authorizes an unnecessary new program for rental housing in defense areas.

6. *Public housing.*—The bill would continue public housing for up to 190,000 units at a cost of $3.7 billion. This approach to housing low income families is no longer desirable or effective, and available housing is adequate for most urgent needs.

Senator CURTIS. Now, in the Bureau of the Budget, do you use any terms such as controllable expenditure and uncontrollable expenditure, anything of that sort?

Mr. STANS. We use it, yes; in a general sort of way.

Senator CURTIS. Now, for instance, if the Congress passed a wage increase for Government employees, that would be characterized as an uncontrollable expenditure, then, would it?

Mr. STANS. Yes, it would.

Senator CURTIS. Programs would have to be eliminated and employees discharged, or else it would be necessary for the Congress and the executive to provide more money to run it, is that correct?

Mr. STANS. That is correct.

Senator CURTIS. That is true also in many other fields, is it not?

Mr. STANS. Yes, it is true in a great many.

Senator CURTIS. Can you think of some more?

Mr. STANS. Well, I can think of a number where the provisions of the law fix the formula for the making of the payments. One is in the case of many of the veterans' benefits, particularly veterans' pensions and compensation.

Another, at the time a budget is prepared, is the farm price support programs because they are announced for the crop year ahead of the time that we prepare the budget.

Another item in which——

Senator CURTIS. Just a minute on that agricultural thing. The Congress directs that a given commodity shall be supported at a certain level, isn't that true?

Mr. STANS. That is correct.

Senator CURTIS. But the laws of nature determine how many units of that you will have to support, is that right?

Mr. STANS. Unfortunately, that is correct.

Senator CURTIS. If you reduce the acres, why, the fertilizer people sell more fertilizer, and the thing still goes on.

Certain action Congress takes on retirement bills is in this category too, is it not?

Mr. STANS. Yes, retirement of Government employees.

Another item in this same category is the public assistance program——

Senator CURTIS. Yes.

Mr. STANS (continuing). Which amounts to several billion dollars a year.

Senator CURTIS. The Congress passes a law, and fixes the amount of Federal expenditure according to a formula for each possible recipient; is that correct?

Mr. STANS. That is correct.

Senator CURTIS. And then we leave to the States the determination of who is eligible to receive it; isn't that correct?

Mr. STANS. That is correct.

Senator CURTIS. For instance, in the old-age assistance we have some States where out of every hundred people over 65 there are perhaps 14 or 15 drawing old-age assistance, the major part of which funds come from the Federal Treasury.

On the other hand, we have some States that are, or at least one State where more than 60 percent of every 100 people over 65 are drawing a payment, is that correct?

Mr. STANS. I am not sure of the ratios of the number of people.

Senator CURTIS. But it is a wide variation.

Mr. STANS. It is wide, and the Federal Government pays 80 percent of the first $30 to each beneficiary, per month.

Senator CURTIS. I think it is very commendable when the people over the country rise up and insist that appropriations must be held down in a given year. But out of the total budget of $77 billion, only a small portion of that is really controllable in that year, isn't that correct?

Mr. STANS. Senator, if you were to assume that the defense program is almost uncontrollable under present world conditions, then the portion of the budget with which there remains any margin of flexibility is extremely small.

Senator CURTIS. In other words, if you accept the premise that the defense program is dependent upon the world situation, and keeping abreast with scientific development, if you take that out, then you take out the interest on the national debt, either at high or low interest, and then you take out commitments for social benefits, and matching money with the States, commitments for wage increases, commitments for agricultural supports, commitments on retirement programs, do you have an estimate of what portion of the budget is controllable in a given year?

Mr. STANS. Well, our estimates are that there are about $10 billion of the budget on which we can exercise any measure of flexibility at the time we put the budget together, for the reasons that the Senator has described.

Senator CURTIS. Out of $77 billion, about $10 billion has some flexibility?

Mr. STANS. Right.

Senator CURTIS. That is assuming you remove the defense expenditures from flexibility?

Mr. STANS. That is correct, and as to that $10 billion, as I pointed out earlier, we are handicapped by built-in increases as a result of existing legislation, that tends to force them up rather than downward.

Senator CURTIS. Then does it follow, Mr. Stans, that, and of course all of that $10 billion can't be eliminated, can it?

Mr. STANS. Of course not.

Senator CURTIS. It involves some of the essential services of Government, does it not?

Mr. STANS. Oh, yes.

Senator CURTIS. Running the courts, and——

Mr. STANS. The collection of taxes, the operation of the Department of Justice, the Department of Labor, many of the operations of the Department of State, the Post Office Department deficit, part of the operations of the Department of Health, Education, and Welfare, are all included in that $10 billion.

Senator CURTIS. In other words, it follows, then, that the only hope of balanced budgets and ultimate hope of reduction of taxes and payment of debts depend upon a trend downward in the programs undertaken by the Federal Government, isn't that correct?

Mr. STANS. That is exactly correct, Senator, and it is the only solution I see, particularly in view of the fact that there is the time lag between authorization and expenditure, it will take several years to get the budget on a declining basis.

Senator CURTIS. Well, of course, Congress is going to meet in the meantime and give you more.

Mr. STANS. I hope not.

Senator CURTIS. Well, I am afraid we will have to meet, but I agree with you, I am pessimistic about it. But I want to ask you this:

To what extent can the Executive decline to spend money appropriated by Congress?

Mr. STANS. Well, where programs are not fixed in such mandatory terms as the veterans program and others that we have discussed, the executive branch can construe appropriations as being authorization to spend, but not a mandate to spend.

However, the Senator is quite aware of the fact that any withholding by the administration of authorized expenditures is generally followed by a tremendous amount of criticism from the public.

Senator CURTIS. There is a limitation also on how far you can go by the practicalities of the situation.

Mr. STANS. Yes, by the practicalities of the situation; yes, in the sense the programs have to be continued.

Senator CURTIS. For instance, if it is a public works program, you can in order to balance the budget in one particular year, cause a slowdown, just not go quite so fast, and maybe save 5 or 10 percent in actual expenditures from the Treasury in a given year. Maybe my percentage is not correct, but you could do that, could you not?

Mr. STANS. Yes.

Senator CURTIS. But if you made your slowdown too soon, then the committed project would increase in overhead expenditures, because the date of completion would be so far removed, isn't that correct?

Mr. STANS. That could very well be the case.

Senator CURTIS. Yes.

Now a question about interest rates. Maybe the Treasury wants to answer this.

If Government interest rates do not go up and voluntary purchases of bonds are not sufficient to meet the needs, manage the debt, pay the bonds that are due, and make the expenditures that Congress says must be made, what steps can the Treasury take to meet our obligations?

I want all the steps mentioned, whether they are good or bad, in your opinion.

Mr. LINDSAY. Right.

First, let me reiterate what Mr. Stans stated before in that there is no fixed ceiling on the interest rate on the short-term bond, under 5 years.

We have been moving into more short-term financing all along, which has the effect of more frequent refundings and going into the market more frequently during each year.

So that it merely means there will be more short-term financings at higher interest rates with more refundings.

Now it is true also that we could probably—

Senator CURTIS. Give me a term for those short-range financings.

Mr. LINDSAY. I am afraid the short term is more interesting to the commercial banks rather than to the long-term savers, which creates deposits and tends to be inflationary.

Senator CURTIS. I don't want to invite a discussion of the Congress and the country, but is that inflationary or not?

Mr. LINDSAY. It is the belief of the experts in the Treasury and many others I know that selling bonds to the commercial banks creates deposits which in turn increases the money supply, but I am not competent personally in that area.

I might say, if I may, that today the Secretary of the Treasury and the Under Secretary for Monetary Affairs are before the House Ways and Means Committee in executive session and have been in session since the public hearings on these very questions as to what can be done and what is the effect of removing the 4.25 percent limit on the long-term securities.

It is a very lengthy and complete presentation, and we are very hopeful that appropriate legislation will be passed so that that can be carefully reviewed by this committee, by the Secretary and the Under Secretary for Monetary Affairs.

Senator CURTIS. What does the Treasury do in case there are not takers either for long-term or short-term bonds?

Mr. LINDSAY. There is—we either must borrow or raise taxes. There is no other appropriate course where receipts do not meet our expenditures.

Senator CURTIS. Does the Government, as a whole, have any means, good or bad, to directly or indirectly force the purchase of bonds?

Mr. LINDSAY. I don't know of any appropriate means, and it is a——

Senator CURTIS. I want to know what the answer is.

Mr. LINDSAY. This gets into the question of whether or not the Federal Reserve bank would be required to take up the Government bonds, and it is a question really that I would prefer not to answer ecause I don't know enough about it.

Senator CURTIS. But is it true or not that the Federal Reserve or any other agency could by their actions get somebody to take these bonds?

Mr. LINDSAY. It may be true.

Senator CURTIS. How would they do it?

Mr. LINDSAY. Well, I would rather not get into the mechanics of that question, Senator Curtis.

Senator CURTIS. I am not arguing your position, but I realize that there is a lot of confusion over the country. They look upon the sovereign power of the Federal Government and seem to think that we could, by legislative action, decide, for instance, that with this tremendous debt so burdensome on the people, that Congress might say, "Well, 3 percent is enough."

Mr. LINDSAY. In 3 percent you are referring to the interest rate?

Senator CURTIS. Yes.

Mr. LINDSAY. I think the best chance we have of managing the debt is to get into longer term securities, and to do that we ought to be able to meet market conditions competitively with all the other forces that create the market, the private corporations, the municipalities, and other borrowers.

Senator CURTIS. Now what other actions of Government tend—not related to the management of the national debt—tend to make our competitors willing to pay more interest and get the money?

First, who are our competitors?

Mr. LINDSAY. Our competitors are all borrowers, which include private corporations and municipalities.

There are housing mortgages that are guaranteed by the Federal Government that, I suppose, are competitors in a sense of the Government bonds.

All debt securities that are sold every year are competing in the market, and the Federal Government is competing with them in the sale of its Government bonds.

Senator CURTIS. In other words, when we pass a Federal program that calls for States and localities to raise more money to match Federal programs, we are adding to our burdens of raising our own money by borrowings, if the States and localities borrow?

Mr. LINDSAY. Yes, we are.

I suggest that since this whole subject is being now covered by the Secretary before the Ways and Means Committee, and he anticipates coming before this committee on the very same subject, that, perhaps, we could go into it at that time.

Senator CURTIS. My latter question really is not in your department, isn't that true?

Mr. LINDSAY. Yes.

Senator CURTIS. That is all.

The CHAIRMAN. Are there any further questions?

Senator COTTON. One question.

Mr. Stans, when you replied to Senator Curtis' question and indicated that of the $77 billion budget only about $10 was controllable or flexible, whatever term you wish to apply, I noted that either you or the Senator indicated that that did not include any of the money that goes to the Defense Department.

When you set up the budget, is it true that none of the defense expenditures are subjected to at least an effort, in setting up the budget, to control them?

Mr. STANS. No, I would not want to convey that impression at all.

What I was implying by that answer was that the level of defense expenditures which, as you know, is running about $40 billion a year, is not likely to decrease substantially so long as we have the kind of cold war situation that we have today.

Now, within any budget submission by Defense, of course, there are many questions that can be raised, and are raised, just as within any of the budgets submitted by the other departments of the Government there is always the question of whether or not they cannot operate more efficiently or with less money.

But I am trying to point out that in terms of a $77 billion budget level, there is very, very little that the President or the Director of the Budget can do in the way of varying the level of that budget, in the absence of changes in substantive legislation by the Congress.

Senator COTTON. Well, in order to arrive at a final general estimate, and I understand that these are very general, that they are relative, but what small controls you might have or seek to exert over certain aspects of defense spending, would that add a little to your estimate of $10 billion that is actually the limit of what you have control over? In other words, is that $10 billion final, because I understood that it excluded any consideration of defense spending, and it seems to me that, perhaps, your present attitude indicates there is some comparatively minor control over defense spending.

Mr. STANS. Again I would like to repeat, Senator, that I do not mean to imply that there are not many items in the Defense budget that are subject to question and some change in amount.

On the other hand, a very large part of the expenditures of Defense in any 1 year are the result of authorizations in the preceding year or preceding years, and across the whole budget a very large part of the expenditures in any 1 year are the result of previous authorizations.

I have made the point a number of times that the budgets for 1962 and 1963 are actually being made by actions in this session of the Congress, and that is very largely the fact.

That is why I say that at the time we prepare a budget there is very little flexibility within which to work.

Senator COTTON. I understand, and the only thing that troubled me was the definite leaving out of defense, so that you would still indicate that as near as you can arrive at an approximation, that only $10 billion of the $77 billion budget is flexible?

Mr. STANS. Yes, except, as I say——

Senator COTTON. Including defense.

Mr. STANS. That is correct; except, as I said, to the extent that we can build greater efficiency or otherwise improve the activities of the agencies under existing programs.

Senator COTTON. That is all.

The CHAIRMAN. Mr. Stans, I have one question in regard to the line of questions of Senator Curtis which I would like to ask. Is it not true, and I would like to have a memorandum for the committee, that since 1954 practically all of increase in expenditures has been in what we call the domestic civilian category? It is not in defense, it is not in atomic energy, it is not in foreign aid.

Senator KERR. Would it be appropriate for the witness to put into the record a statement of the expenditures when they were $64 billion, and when they were $81 billion, and the proposal for $77 billion, and identifying each one in that classification which belongs, so that the record will disclose the purpose both for which the expenditure was made and the comparison between the expenditure for the separate years?

Mr. STANS. I will be very happy to do that, Senator.

The CHAIRMAN. I thought Mr. Stans would answer that question because it is well defined, the classifications are well defined, of these expenditures.

Mr. STANS. I can answer it, Senator.

The increase of $13 billion in expenditures between 1955 and 1960 divide roughly into $5 billion for the military and $8 billion for civilian programs.

Senator KERR. You see, in order for the committee to have the full information it would be very helpful to have that $8 billion for the civilian expenditures identified.

The CHAIRMAN. We are going to ask Mr. Stans to do that.

Senator ANDERSON. Would not $2 billion of that be in interest alone, that you call civilian?

Mr. STANS. About $1.6 billion of it is in interest.

Senator KERR. Does that $1.6 billion include the additional $500 million which you just told us would result from increasing the interest rates from January to July?

Mr. STANS. The Senator's point is well taken; it does not.

Senator ANDERSON. That is right, $2 billion.

Mr. STANS. $2.1 billion.

Senator ANDERSON. You call that civilian, do you?

Mr. STANS. Yes, in the category——

Senator ANDERSON. What civilian gets that? What civilian activity, interest paying civilian activity? Interest on past debts, past wars?

Mr. STANS. Senator, I was just answering a question of the chairman as to how much——

Senator ANDERSON. I know. But you call that civilian. Don't you think you ought to break civilian down into what is and what is not civilian?

Mr. STANS. I think it is very clear, Senator. I will supply a table which will break it down into all those categories.

The CHAIRMAN. Mr. Stans, we have got certain categories classified as, identified as, expenses for national defense.

Mr. STANS. That is correct.

The CHAIRMAN. And atomic energy.

Mr. STANS. Correct.

The CHAIRMAN. Is that usually included in national defense?

Mr. STANS. That is included in our general description of what we call national security.

The CHAIRMAN. Foreign aid, is that included, the military part of it, in national defense?

Mr. STANS. The military part of it is included in national security.

The CHAIRMAN. It is not?

Mr. STANS. It is.

The CHAIRMAN. It is included.

Where is the economic foreign aid included?

Mr. STANS. That is included in our category of international affairs.

The CHAIRMAN. Then the next category is domestic civilian; is that correct?

Mr. STANS. Well, there are a number of other categories into which we classify the budget for understanding, by function, and the next category is called commerce and housing, and we follow that with a category on agricultural, one on natural resources, one on labor and welfare, one on veterans' services and benefits, one on interest, and one on general government.

The CHAIRMAN. In accordance with Senator Kerr's suggestion, you will furnish for the record a statement of the increase. I think $64 billion is the lowest expenditures we have had since when?

Mr. STANS. $64 billion in fiscal 1955.

The CHAIRMAN. 1955, was it?

Mr. STANS. Yes.

The CHAIRMAN. That is the lowest for how many years?

Mr. STANS. That is the lowest going back to 1951, which had not yet reflected the full impact of the Korean war.

The CHAIRMAN. I am inserting a table which I have prepared showing expenditures, by categories, since 1954. Budget documents are the source of the figures. If you will furnish a statement of the increases from that date to the present, with such suggestions as you would care to make as to the necessity of these increases that have been made, the committee would appreciate it.

(The table referred to follows:)

FEDERAL EXPENDITURES—FISCAL YEARS 1954-60

Broken categorically to show national security, foreign aid, etc., and domestic-civilian

[In millions]

	Actual					Estimated	
	1954	1955	1956	1957	1958	1959	1960
National security:							
Military functions	$40,336	$35,532	$35,791	$38,439	$39,062	$40,800	$40,945
Stockpile and defense production	1,045	944	588	490	025	378	265
Atomic energy	1,895	1,857	1,651	1,990	2,268	2,630	2,745
Subtotal, national security	43,275	38,334	38,030	40,918	41,955	43,808	43,955
Foreign aid:							
Military assistance	3,629	2,292	2,611	2,352	2,187	2,312	1,859
Economic and other	1,511	1,960	1,616	1,686	1,909	3,321	1,768
Subtotal, foreign aid	5,140	4,252	4,227	4,038	4,096	5,633	3,618
International affairs	221	221	231	290	325	387	360
Total, other than domestic-civilian	48,636	42,807	42,487	45,246	46,376	49,828	47,934
Domestic-civilian:							
Veterans' services and benefits	4,256	4,457	4,756	4,793	5,026	5,198	5,088
Labor and welfare	2,485	2,575	2,821	3,022	3,447	4,380	4,129
Agriculture and agricultural resources	2,557	4,389	4,868	4,526	4,389	6,775	5,996
Natural resources	1,315	1,202	1,104	1,296	1,543	1,708	1,710
Commerce and housing [1]	817	1,420	2,142	3,392	3,816	6,421	5,864
General government	1,235	1,199	1,627	1,787	1,353	1,673	1,735
Interest	6,470	6,438	6,846	7,308	7,689	7,601	8,096
Allowance for contingencies						200	100
Total, domestic-civilian [1]	19,136	21,679	24,165	26,124	27,267	33,955	32,717
Grand total [1]	67,772	64,486	66,652	71,370	73,643	83,873	80,651

[1] Since 1954 expenditures for Federal National Mortgage Association and highways have been dropped from the general fund budget and converted into so-called trust funds—FNMA in 1955 and highways in 1957. Commerce and housing figures and affected totals above are adjusted to include these figures throughout for complete and accurate comparison over the period. For this reason the President's budget shows total expenditures estimated at $77 billion for fiscal year 1960 and the attached table shows $80.7 billion. The $3.7 billion difference is entirely in FNMA and highway expenditures—$485 million for FNMA and $3.1 billion for highways.

Senator KERR. You mean aside from the fact that Congress has appropriated?

The CHAIRMAN. A statement as to whether or not the Director of the Budget thought that was necessary, they were necessary expenditures. He is entitled to his opinion, like the rest of us.

Mr. STANS. Senator, I will supply that information and I will supply a list of the 18 recommendations that are in the 1960 budget, as to how, over the long range, some of these categories could be reduced.

(The following was subsequently received for the record:)

Budget expenditures, 1951-60

[Fiscal years. In millions of dollars]

Function	Actual								Estimate	
	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Major national security	22,441	43,976	50,363	46,904	40,626	40,641	43,270	44,142	46,120	45,805
International affairs and finance	3,736	2,826	2,216	1,732	2,181	1,846	1,976	2,234	3,708	2,129
Commerce and housing	2,217	2,624	2,504	817	1,504	2,030	1,455	2,109	3,509	2,243
Agriculture and agricultural resources	650	1,045	2,936	2,557	4,389	4,868	4,526	4,389	6,775	5,996
Natural resources	1,267	1,366	1,476	1,315	1,202	1,104	1,296	1,543	1,708	1,710
Labor and welfare	2,065	2,168	2,426	2,485	2,575	2,821	3,022	3,447	4,380	4,129
Veterans' services and benefits	5,342	4,863	4,298	4,256	4,457	4,756	4,793	5,026	5,198	5,088
Interest	5,714	5,934	6,583	6,470	6,438	6,846	7,308	7,689	7,601	8,596
General government	1,327	1,463	1,472	1,235	1,199	1,627	1,787	1,356	1,673	1,735
Allowance for contingencies									200	100
Adjustment to daily Treasury statement basis	−705	−857								
Total	44,058	65,408	74,274	67,772	64,570	66,540	69,433	71,936	80,871	77,530

NOTE.—1960 estimate includes latest increase in estimate for interest.

Increases in budget expenditures from 1955 to 1960

[In millions]

Function	1955	1960	Increase (+) or decrease (−)
Major national security	$40,626	$45,805	+$5,179
International affairs and finance	2,181	2,129	−52
Commerce and housing	1,504	2,243	+739
Agriculture and agricultural resources	4,389	5,996	+1,607
Natural resources	1,202	1,710	+508
Labor and welfare	2,575	4,129	+1,554
Veterans' services and benefits	4,457	5,088	+631
Interest	6,438	8,596	+2,158
General government	1,199	1,735	+536
Allowance for contingencies		100	+100
Total	64,570	77,530	+12,960

NECESSITY OF EXPENDITURE INCREASES

The increase of approximately $13 billion in budget expenditures between 1955 and 1960 contains elements of different degrees of necessity. For example, $5.2 billion, or 40 percent of the increase, occurs in major national security programs and reflects civilian and military pay increases that were enacted in 1955 and 1958 as well as the higher cost of more complex weapons, stepped-up research and development and so on.

Of the remaining $7.8 billion of estimated expenditure increase between 1955 and 1960, interest costs account for $2.2 billion, or 28 percent. This results from higher interest rates and from the public debt added to finance the net budget deficit of over $16 billion incurred between the beginning of fiscal 1955 and the end of fiscal 1959 (estimated).

Another $1 billion, approximately, is the impact of the pay increases enacted in 1955 and 1958 on the expenditures of the civilian agencies of the Government.

The remaining $4.6 billion, or 59 percent, is the net increase resulting from all other factors including increased workloads (as in the postal service), new legislation enacted, and approved expansions in going programs. This net figure also takes account of reductions in cost, such as that resulting from the enacted and proposed postal rate increases.

Since such additions seem to occur with some regularity, it is extremely important to reduce the burden arising from carrying on activities which no longer serve the purposes for which they were enacted or which have become much more expensive than initially visualized. For this reason, in the 1960 budget the President recommended revisions in the agriculture price support program and also listed 18 other legislative proposals to adapt programs to changed circumstances. These proposals could not save much money immediately, but after several years, if enacted, they could lead to an annual budget reduction of several billions of dollars. The proposals are summarized in the following list:

LEGISLATIVE PROPOSALS TO ADAPT PROGRAMS TO CHANGED CIRCUMSTANCES

Encourage more private financing for credit programs through flexible interest rates and other changes:

1. Veterans housing loans.
2. Rental, military, and cooperative housing mortgages.
3. Rural electrification and telephone loans.
4. College housing loans.
5. Maritime mortgages.

Authorize sale of property:

6. Surplus military and other real property.
7. Alaska communications system and related facilities.

Review and revise operating and benefit standards:

8. Foreign bidding on certain military contracts.
9. Agricultural conservation program.
10. Military service credits for railroad retirement.
11. Veterans pension and other programs.

Expand non-Federal participation:

12. Urban renewal.
13. Flood control.
14. School aid in federally affected areas.
15. Waste treatment construction grants.
16. Vocational education grants.
17. Public assistance.
18. Feed and seed assistance in disaster areas.

The CHAIRMAN. You testified before the House committee that the loss in the next general fund by not increasing the gasoline tax would be $241 million, and $350 million for a 5-cent postage; that adds up to about $700 million instead of $900 million.

Mr. STANS. Senator, since that last testimony there has been a new estimate by the Administrator of the highway program, and his estimate now is that the expenditure in fiscal 1960 will exceed the resources of the highway trust fund by about $500 million.

The CHAIRMAN. This is your testimony dated June 3, 1959.

Mr. STANS. Yes, sir. The new estimate that has come in within the last couple of weeks.

The CHAIRMAN. Would you furnish a memorandum to explain that, Mr. Stans?

Mr. STANS. Yes; I would.

(The information referred to is as follows:)

There are two main reasons why the estimated 1960 deficit in the highway trust fund has been increased from the $241 million, which appeared in the 1960 budget, to over $500 million: First, highway construction work on the Interstate System is being completed more rapidly than was originally anticipated; and second, the States are billing the Bureau of Public Roads more promptly than past experience indicated they would. For these reasons, highway trust fund expenditures are

expected to exceed the earlier estimate, and the estimated deficit in the highway trust fund will be affected accordingly.

The CHAIRMAN. Are there any further questions?

Senator GORE. Mr. Stans, it is perfectly human and perfectly normal for all of us to be proud of our President's accomplishments.

Senator KERR. Would the Senator speak louder?

Senator GORE. The juggling of figures, the bookkeeping legerdemain, the meeting of obligations in the current fiscal year which would normally fall in the next, has left me a bit puzzled.

I wonder if you would be willing to reveal to the committee in which the President has invested the greatest amount of pride, the possibility of a balanced budget for next year, or the largest peacetime deficit in history this year? [Laughter.]

Mr. STANS. Senator, I must say that I respectfully differ with you about the fact that there has been any legerdemain or——

Senator GORE. Well, let us forget the buildup. Just answer the question.

Mr. STANS. I do not think anything is more distressing to the President than the fact that the fiscal year is going to end up with a $13 billion deficit.

It is the result of a combination of circumstances, including a recession which I am sure none of us welcomed, that caused our revenues to go down considerably, as you know, and caused the generation of a number of expenditure programs that had not been contemplated when the budget was originally prepared.

I think we all believe that the time has come when budgets should be balanced and all of our efforts, to the extent we can properly do so be devoted toward maintaining a balanced budget for 1960 and developing a balanced budget for 1961.

Senator GORE. That is all, Mr. Chairman.

The CHAIRMAN. Are there any further questions?

Senator LONG. I would like to ask a question.

The CHAIRMAN. Senator Long.

Senator LONG. In your position, Mr. Stans, you do have responsibility in connection with almost every item of expenditure, do you not, to advise how much to budget and what decisions might be made with regard to possible reductions in expenditures?

Mr. STANS. Yes, we have a responsibility in that area.

Senator LONG. You do have to advise the President, for example, with regard to policies involving this $2½ billion, that is, the $2.1 billion increase in interest costs, do you not?

Mr. STANS. Yes, although I think it is fair to say on that that the Bureau of the Budget defers to the Secretary of the Treasury as the one who manages the debt, and who has that basic responsibility.

Senator LONG. Well, you are consulted about that and you have to advise at least in some connection, I take it?

Mr. STANS. Yes.

Senator LONG. With the possible exception of the controversy that resulted in the so-called Treasury-Federal Reserve Board accord in 1951, do you know of any instance in history where the Federal Reserve Board does not necessarily go along with the fiscal and monetary policies of the President?

Mr. STANS. You are asking me about a matter of which I really have no direct knowledge, Senator.

Senator LONG. I have discussed it occasionally and perhaps the Treasury might know about it. If someone knows of any other instance where the administration of a President adopted an attitude toward monetary and fiscal policy that was not acceded to by the Federal Reserve Board, with that possible exception—and, I might say, it is doubtful whether that was an exception—or if there is anyone here representing the administration who knows of any instance where the Federal Reserve Board did not go along with the monetary and fiscal policies of the President, I would like to know that.

Mr. LINDSAY. Senator Long, I do not have any direct knowledge on the subject either.

Senator KERR. I can help out on that a little. [Laughter.]

In Mr. Herbert Hoover's memoirs he very carefully detailed and documented a report of the controversy and disagreement that he had with the Federal Reserve Board, in remarks which I put into the record in our hearings here, and referred to in our hearings here 2 years ago, in which he outlined not only the degree of controversy that existed between him and the Federal Reserve Board, but their application of the situation then existing in 1927.

It is very interesting reading, and illuminating, and I certainly would not presume for any member of the committee, but I sure would suggest it for the man who occupies the White House.

Senator GORE. Will the Senator yield?

Senator LONG. Yes.

Senator GORE. If I recall correctly, the memoirs of Mr. Hoover, did he not, Senator Kerr, go further and indicate that the rigid application of the tight money policy was a dramatically effective incident that brought on the collapse?

Senator KERR. It was certainly identified as a very strong contributing factor, and actually it was identified by Mr. Hoover as being the philosophy of the then Secretary of the Treasury, and it quoted Mr. Mellon along the line of bringing about a condition of liquidation which he seemed to recognize and even espouse, that the only cure to the economic situation then in existence, that being a situation which was very healthy to produce periodically.

Senator LONG. I just want to say this. From what little I have been able to learn in serving on this committee, and sitting through these hearings, this interest on the national debt appears to be the easiest item to raise and the easiest item to reduce, just based on administration policy. Maybe I am wrong about that. But just saying, the administration coming in here and defending these decisions to raise this item by $2 billion, defending it step by step, and then trying to disclaim responsibility on the other hand, to me does not make much sense.

What is more, I know, and you people know, that everybody who goes on that Board has to have the approval of the Secretary of the Treasury and be looked over down there at the White House, and everybody who is reappointed.

If the administration were to come in here and ask for these billions for increases in interest rates, and then disclaiming responsibility on the other, that just does not make any sense to me.

It seems to me as though you either are for this tight money, high interest policy, you are either for a program that alleges it is

going to do something about inflation, and attempt to do it, or you are not for it.

It seems to me—and frankly, it seems to me this, plus some of the expenditures in foreign aid, are some of the things that are inexcusable——

Mr. LINDSAY. Senator Long, might I point out that the rise in interest costs is, in part, due to additional debt that has to be financed, and, in part, due to not trying to increase rates as such, but to meet competitive conditions in the short-term market.

This is a question, as I indicated, that will be thoroughly gone over with this committee by the Secretary, I hope, within a matter of days or weeks.

Senator ANDERSON. Mr. Chairman, maybe we can get a little preliminary information on it.

Do you think the $\$\frac{1}{2}$ billion figure—I had not intended to get into it—is nearly enough?

For instance, the Bank of Canada last week raised its rate to 5.47, which is the highest rate in history, and a year ago it was 1.12 percent. That is a tremendous jump.

Now, if we take off these limits, can we anticipate some tremendous jumps that might change everything?

For instance, we have got 5.2 billion of these 1⅞ certificates coming up August 1 that you are going to have to refinance in July. At what rate do you think they are going to be refinanced?

Mr. LINDSAY. I certainly would not be able to answer that question, Senator Anderson. But if we cannot refinance in long terms, we have to do it in short terms, and there is no limit on short-term interest.

Senator ANDERSON. Well, these Canadians, incidentally, offered some 9-month bonds which were priced to yield 5.50 percent; and 17½ months were priced to yield 5.68 percent.

Yesterday, you could buy 2⅝ of February 15, 1965, to yield 4.47. That is a 6-year bond. If you can get 4.7 on them, and anybody who worries about capital gains as against current yield, why in the world would you buy E-bonds?

Mr. LINDSAY. You raise an interesting point on the pricing to get the yield.

Senator ANDERSON. I am just trying to go through the E-bond yield. There is not a single E-bond yield, even with the advantages, that will cover a 1-year 2½—well, it is 1961, 2½, that would yield you 4.45; a 1963 2½ yields you a 4.42, and, as I say, I have acquired some 1965's yesterday for the company because we are looking for very easy investments, and that is 4.47.

Is there any reason to believe that when a man can get 4.47 in just the open market that he is going to buy a 1⅞ that expires here August 1?

The public holds $2 billion worth of these. These are not just all bank holdings. You figure the $500 million is nearly enough?

Mr. LINDSAY. As I indicated to Senator Curtis, this is not my department, and will be thoroughly considered with this committee by the Secretary.

Senator ANDERSON. I only mention it because Mr. Stans, here, in one of his early paragraphs, says that because of currently higher interest rates expenditure for interest may be about one-half billion dollars more than estimated last January.

That figure could be considerably higher than that with the present situation in the money market, could it not?

Wouldn't you think so, Mr. Stans?

Mr. STANS. Senator, the estimate of $500 million assumes the necessity of refinancings during the year at the present higher rates, including the 1¼ that you have mentioned.

Senator ANDERSON. You must have figured out what they are likely to yield. Did you think they will yield less than 3½?

Mr. STANS. Probably not, but I say this is a computation made by the Treasury Department and reflects the present trend of the market. Now, it is entirely possible that it could be a bit too high or a bit too low.

Senator ANDERSON. You have $7 billion coming in the last quarter—between $6 billion and $7 billion. You know those are going to be up. You know this $5 billion that comes August 1 has to be higher. I mean, people are not completely idiotic; if they can go into the market and buy something that yields them 4.47, why would they take a 5-year bond that yielded them 2?

You just would have to assume they are going to be smart enough to do something else; are they not?

Mr. STANS. I certainly think so.

Senator ANDERSON. I would think so. I do not think your $500 million is nearly high enough.

Mr. STANS. Well, I suggest that could be gone into again when the Secretary of the Treasury is here on the interest rate bill.

Senator LONG. Let me just ask one further question.

Suppose we do one of these days have us a President and a Secretary of the Treasury and some people appointed on that Board, who are willing to use their influence to bring the interest rates down rather than to bring them up.

Suppose we get us a President who does not wish a policy which is fattening the rich by skinning the poor. Why shouldn't we keep this on a short-term basis so that you cannot saddle this country with high interest rates for the next 2 years?

This administration only has a year and a half to go. Why not hold it to short term at high rates, and when we have long terms in there we will have somebody in the White House who believes in low interest rates.

Wouldn't that be a good idea—and we would have somebody in the Government exercising his responsibilities?

Mr. LINDSAY. It is a question of whether or not you can sell securities in a controlled market or whether you can do it in a free market, and the Treasury attempts to meet free market conditions in selling its securities.

Senator LONG. I have one more amendment that I have in mind offering to one of these bills when the opportunity comes. The Government is insuring all these housing mortgages, and with this high interest rate policy, it is getting down to where the interest costs lots more than the house does. The thought occurs to me that we ought to put in there that these Government-insured mortgages would require a stipulation that those can be refinaned within a couple of years when you might have a lower interest rate policy, and that people might have the benefit of a major reduction in their rates.

Would the administration have any particular objection to veterans and people who buy houses under FHA mortgages having the opportunity to refinance those mortgages with, perhaps, a 1-percent penalty, to get out from under this high interest rate policy?

Mr. LINDSAY. Again, I think this overall question that is being raised here on interest rates and monetary policy might very well be discussed when that subject comes before the committee and the proper officials from the Treasury are competent to speak on that subject.

Senator LONG. Is there no one here who cares to comment on that then as to what the views of the administration would be on giving people the opportunity to refinance under an administration that might believe in lower interest rates—that will use its influence along that line?

Mr. STANS. I would rather not comment, Senator, although I would be happy to review it if we had a specific proposal before us and could study it in relation to all of our programs.

Senator LONG. I will work one of them up for you.

Those are all the questions I have in mind, Mr. Chairman.

Senator WILLIAMS. Mr. Chairman, I have a question.

Mr. Lindsay, who is the Chairman of the Federal Reserve Board at the present time?

Mr. LINDSAY. William McChesney Martin.

Senator WILLIAMS. Who first appointed him to that position?

Mr. LINDSAY. I think President Truman.

Senator WILLIAMS. Thank you.

Mr. LINDSAY. I think President Truman appointed him to that position.

Senator MCCARTHY. Mr. Chairman, do I understand that the Secretary of the Treasury will not testify on this bill?

The CHAIRMAN. On this bill, Mr. Lindsay, Senator, is representing the Secretary of the Treasury, and the Secretary of the Treasury will be here on Thursday when we take up the debt limit.

Mr. LINDSAY. The Secretary of the Treasury is before the Ways and Means Committee this morning.

The CHAIRMAN. Then, of course, the question of interest rates will be coming up in later legislation, and the Secretary of the Treasury, I assume, will be here.

Senator MCCARTHY. Mr. Chairman, I would like to ask one or two questions about general tax policies.

As I understand it, the administration is recommending, in addito this extension of taxes on corporate profits and excise taxes, also an increase in postal rates and also an increase in gasoline taxes.

Mr. STANS. That is correct, Senator.

Senator MCCARTHY. The increase in gasoline taxes, according to your estimate, would amount to revenue in the amount of—would bring in revenue of approximately what—$650 million to $700 million, $689 million?

Mr. STANS. I think it is a little higher than that, Senator. I do not have the exact amount, but it is a little higher than that.

Senator MCCARTHY. And this was originally proposed when you anticipated a deficit in the highway fund of $240 million?

Mr. LINDSAY. $241 million.

Mr. STANS. We expected a deficit in the highway fund of $241 million in 1960.

Senator MCCARTHY. You raise that now to——

Mr. STANS. Now it apparently will be a half billion because the States are spending money for the progress of the program faster than had been expected and are making their claims against the Federal Government for reimbursement at a faster rate.

Now, beyond 1960, Senator, we had calculated a deficiency in the highway fund of another $800 million in 1961, and another $1 billion in 1962.

Senator MCCARTHY. The extension of the excise taxes on automobiles is estimated to bring in about $345 million—the 3 percent?

Mr. STANS. Under this bill; that is correct.

Senator MCCARTHY. There has been some agitation that revenue derived from that excise tax be earmarked for the highway fund.

Mr. STANS. I understand there has been. The administration does not agree with that procedure.

Senator MCCARTHY. If the Congress should decide to do that, and not to increase the excise taxes on gasoline which the administration is recommending, does the administration have any proposals to bring in additional revenue to meet the general expense of the Government?

Mr. STANS. Not at this time, Senator. The administration is of the opinion that the solution to this problem is to raise the gasoline tax.

Senator MCCARTHY. I know. But the administration has learned within the last few weeks it might be good to have an extra arrow in their quiver, have they not?

Mr. STANS. Well, I suppose that is always good policy, Senator.

Senator MCCARTHY. Would you say they do not have one, or they are just keeping it hidden?

Mr. STANS. No. This, Senator, as far as we can see, is the right solution, and the transfer on——

Senator MCCARTHY. I know every position you take is the right one. But assuming you do not get us to agree with you, do you have an alternative proposal?

Let us assume we do not increase the excise taxes on gasoline, and we do earmark this $435 million for the highway fund. This would leave you with an additional shortage of about $435 million in revenue for fiscal 1960.

We assume Congress might be willing to increase some taxes. Would the administration recommend or support any such increases?

Have you given any thought to any alternative tax?

Mr. LINDSAY. We have studied alternative taxes and methods of increasing revenues, but have not come to agreement and made any recommendations to the Congress.

We wish and hope that the Congress would give favorable consideration to increased gas taxes. Allocating the automobile excise tax receipts into the highway fund is just a method of taking funds from our general receipts, for our general expenditures, and allocating it to the highway trust fund, and departing from the whole premise of the highway trust fund which was originally to be financed out of fuel tax revenues, plus a very small margin of the receipts from trucks.

Senator MCCARTHY. Of course, once you begin to earmark funds, the origin of the money itself will become a secondary consideration and there is just as much of an argument to be made, I think, for ear-

marking the revenue derived from excise taxes on automobiles as there is to earmark the revenue from an excise tax on trucks or on gasoline.

As you know, a number of us have introduced legislation providing for tax increases. One bill, in particular, which I authored, would repeal the dividend exclusion and dividend deduction that was written into the 1954 act.

The estimate we have is that this would involve about $350 million in revenue. As you recall, in 1954 when this was included in the tax code, the administration argued that the effect would be to encourage investments in corporate stocks. They said this would be a stimulant.

Is it your opinion that it has worked as a stimulant?

Mr. LINDSAY. There has been a relatively short time to tell how much of a stimulant this credit on the dividend received has been.

However, one of the major purposes of the credit was a recognition of the fact that a stockholder in a corporation is paying double taxes; one is a corporate tax, and two, the additional tax on the dividend received by the stockholder.

Now, the benefits of that provision accrue to many, many taxpayers throughout the country, and tax credit for dividends is claimed in 2 million tax returns in 1 year.

Mr. Mills, with the Treasury's cooperation, is undertaking to reexamine the question of double taxation on corporate shareholders and corporations to determine whether or not there ought to be a further credit or an elimination of the credit, and as to what alternatives there might be in the treatment of corporate dividends.

Senator MCCARTHY. Of course, if you are going to raise the question of the number of taxpayers, stockholders, who would benefit, certainly a reduction in the excise tax on gasoline or the refusal of Congress to increase that excise tax, would benefit more potential taxpayers than would, and does, the provision regarding dividend exclusion and dividend deduction.

Mr. LINDSAY. The tax on motor fuels is a user tax, and depends somewhat on the use by the taxpayer of the highways.

Senator MCCARTHY. Of course, the dividend exclusion depends upon the amount of investment one has in stocks. I might point out at the time this double taxation issue was raised, the Congress was also considering the extension of the corporate profits tax, and if the administration had been simply concerned about double taxation, let me raise this question: Why did they not simply propose that we reduce the corporate profits tax rate instead of being in the new concept of dividend exclusion?

Mr. LINDSAY. The reduction of the corporate tax rate does not answer the fundamental question of double taxation on corporate profits.

Senator MCCARTHY. That was the argument that was made.

Mr. LINDSAY. In that year the excess profits tax was eliminated on the corporations.

Senator MCCARTHY. They had the 52-percent rate before Congress.

Mr. LINDSAY. We had the 52-percent rate continued then and before us today.

Senator MCCARTHY. My question is, Why would it not have been just as reasonable to reduce the corporate profit rate, say, from 52 to 51 percent, and not have bothered with dividend exclusion or deduction, if we are concerned about double taxation?

Mr. LINDSAY. Well, the question really is a matter of degree as to whether or not we were attempting to approach the question of double taxation in the tax law, or just reduce rates to soften the impact of the overall tax burden.

Senator MCCARTHY. But the argument against double taxation was made that these were taxed on corporate profits and taxed again on individual income.

Mr. LINDSAY. I cited that, Senator McCarthy, as one of the reasons for the dividends received credit, and $50 dividend exclusion that was put in the 1954 code.

Senator MCCARTHY. Is it not true that the effect of that failure was to reduce surtax rates on individual incomes?

Mr. LINDSAY. To the extent that dividends are paid. If you reduce the corporate tax, that would also give equal reduction to accumulations of funds within corporations where they are not paid out as dividends to the stockholders.

Senator MCCARTHY. Is it not generally agreed that the corporate profits tax is a regressive tax, and that the principal burden of it is borne by the purchaser and consumer of the product?

Mr. LINDSAY. I think that in the long run any tax rate in excess of 50 percent on corporations may affect pricing policies and other decisions of the corporation.

But whether or not you could say that a reduction from 52 to 50 percent or 47 percent would make any substantial difference in that regard is difficult to say.

Senator MCCARTHY. Let me ask one other question.

What would be the effect, in terms of procedure, if we were to extend the excise taxes which are now before us, but take some time with regard to corporate profits?

Mr. LINDSAY. Automatically, on June 30 the corporate rate would revert to 47 percent, that is to say, the normal tax——

Senator MCCARTHY. Would it be possible to pass it retroactively since corporate profits are paid generally on a quarterly basis?

Mr. LINDSAY. They pay on a quarterly basis.

Senator MCCARTHY. We could catch up with that.

Mr. LINDSAY. I do not——

Senator MCCARTHY. In the case of excise taxes, we could not.

Mr. LINDSAY. In the case of excise taxes you could not.

Senator MCCARTHY. There would be less danger in delaying on the corporate profits if Congress should decide to do that?

Mr. LINDSAY. If Congress should later decide to reduce the corporate rates, they could do that—having extended the rate, they could do that, perhaps, more easily than reimposing the tax after letting it expire.

Senator MCCARTHY. That is so far as the Congress is concerned, when we take into account the administration as part of the equation, then the situation changes some, does it not?

Mr. LINDSAY. I would say it does.

Senator MCCARTHY. It would have to be considered.

I would suggest to the Senator from Louisiana, with regard to this question as to the size of the deficit in 1959, that the administration seems to be celebrating a kind of Mardi gras. They are going to commit all their sins in 1959, and are going to be pure and decent from that time on.

Mr. Chairman, I have no other questions.

Senator KERR. I want to ask a question, if I may.

The CHAIRMAN. Senator Kerr.

Senator KERR. The Senator from Delaware asked who had appointed Mr. Martin to the Federal Reserve Board, and I believe the answer was "President Truman."

Can you tell us the date of that?

Mr. LINDSAY. Not offhand, Senator Kerr.

Senator KERR. The information I have is that it was April 2, 1951, and at that time what was Mr. Martin's position, prior to that?

Mr. LINDSAY. At one time he had been the head of the stock exchange, I believe; I do not know whether it was before that——

Senator KERR. I think he was Assistant Secretary of the Treasury, was he not, Senator Williams?

Senator WILLIAMS. I think that is correct, and I think he was reappointed since that time by President Eisenhower.

Senator KERR. Yes. That is very true.

Senator WILLIAMS. Confirmed unanimously both times by the U.S. Senate.

Senator KERR. As I recall, apparently the days of unanimous affirmation of appointees may no longer be upon us, I do not know. [Laughter.]

Senator KERR. But if I may be permitted to ask him some questions:

The Treasury, while he was Assistant Secretary, had pursued a policy that had either contributed to or resulted in, by the operation of the Federal Reserve Board, of the fiscal and monetary control policies in such a way that the interest on the public debt for fiscal 1952 was about $2.6 billion less than it is now estimated it will be in fiscal 1960.

I am making that as a statement. If you care to comment on it, I would be glad to have you do so. It is preparatory to this question: Is it not a fact that President Eisenhower redesignated Mr. Martin "Chairman" in March 1955 and renamed him to the Board in February of 1956, where he continues to sit as Chairman?

Mr. LINDSAY. I assume that is correct.

Senator KERR. Well, that assumption is well founded, and I must say that as an observation I believe the record of the Federal Reserve Board since Mr. Eisenhower became President, with Mr. Martin as the Chairman, has been vastly different than at the time he was appointed to the Board and designated "Chairman" by President Truman.

Would that be an assumption equally well founded, in your judgment, Mr. Lindsay?

Mr. LINDSAY. I am not familiar enough with the Federal Reserve Board to comment on that, Senator.

Senator KERR. Well, you are familiar with the outward manifestations in the form of interest rates? [Laughter.]

Senator KERR. And to the extent that the Federal Reserve Board's policies contribute to them, there would at least be a basis for a reasonable man to assume that there was some difference in the policies, would there not?

Mr. LINDSAY. I am not in a position to evaluate what effect the Federal Reserve Board action has on the interest rates.

Senator KERR. But to the extent that the Federal Reserve Board's policies do affect interest rates, there is evidence that would lead either a reasonable man, or one who did not know some fact to the contrary, to believe that there was some difference in the Federal Reserve Board policies now and in 1951?

Mr. LINDSAY. Yes; if there is such evidence, Senator Kerr, I suppose the evidence would speak for itself.

Senator KERR. You have addressed yourself to some of the evidence, which was that the interest rates are now much higher than they were then. That is correct, is it not?

Mr. LINDSAY. That is correct, Senator Kerr.

Senator KERR. And if the Federal Reserve Board policy determines interest rates?

Mr. LINDSAY. If they determine interest rates, then I must agree.

Senator KERR. Then there is evidence to indicate that there is a difference in the policies now and then. Would that be a reasonable assumption, if the Federal Reserve Board's policies determine interest rates?

Mr. LINDSAY. Yes. If the——

Senator KERR. Because there is a great difference in interest rates, is there not?

Mr. LINDSAY. And it may be the Federal Reserve Board would seek to determine interest rates, but would be unable to have as much influence as one might imagine.

Senator KERR. I am not going to go into that, nor do I want to trap a very fine witness, and a man who is not here, who fixes policies, but who is Counsel to the Treasury, and I am not asking you in your professional capacity but just in your capacity as an observer, a reasonable citizen, if the Federal Reserve Board either determined, their policies either determined interest rates or substantially contributed to them, there is a good deal of evidence there would be a different policy today than they had in 1951, is there not?

Mr. LINDSAY. On your assumption, Senator Kerr——

Senator KERR. On the assumption that I have voiced.

Mr. LINDSAY. This is an area in which I am not in position to comment on at all.

Senator KERR. Well, there could be a difference between being in position to comment and having the ability to do so, and since you have put it on the former, I will not press the question.

Mr. LINDSAY. That is very kind of you, Senator.

Senator BENNETT. Mr. Chairman, may I make just one observation?

On April 2, 1951, we were engaged in the Korean conflict, with all the attendant problems that go with preparation for what at that time we had no way of knowing might not have been a continuing and extended conflict. We were engaged in the problems of financing or facing the potential of financing a very serious war. So I would agree with Senator Kerr that the interest policy in 1951 was different from what it is now. The Federal Reserve's policy was different, and the conditions they faced were different certainly to that extent.

Senator KERR. Well, we have nearly as large a public debt now as then, do we not?

Senator BENNETT. But in time of war, with the prospect of having to finance the problems and operations of war, it has always been our policy to operate on an easy money basis.

Senator KERR. Are we not now in a cold war?

Senator BENNETT. We are not now in a shooting war.

Senator KERR. I did not ask you that.

Senator BENNETT. But there is a difference.

Senator KERR. Are we not now in a cold war?

Senator BENNETT. That is a phrase that is used to describe the situation, but there is a difference between a war——

Senator KERR. And has it not produced a greater deficit during this current fiscal year than was the situation during any year of the Korean conflict?

Senator BENNETT. But it is not the existence of the cold war, in my opinion, that produced the present deficit.

Senator KERR. In other words, a statement of the Director of the Budget awhile ago with reference to the difference between the 1955 expenditures and the proposed, the proposed expenditures for 1960, showing that of the $13 billion in 1955 budget was directly attributable to national defense requirements, and about $2.1 billion difference on the——

Senator BENNETT. No, $8 billion.

Senator KERR. No, about $2.1 billion difference in the item of interest on the public debt would make at least $7 billion of that $13 billion attributable directly or indirectly to national defense.

Senator BENNETT. I am not talking about national defense. I am talking about——

Senator KERR. We were talking about the expenditure for the cold war, and I presume that the expenditures for national defense would have some relation to the cold war.

Would that be an unjustified assumption?

Senator BENNETT. No.

Senator KERR. I did not think so.

Senator BENNETT. But I still come back to the assumption that there is a difference between a cold war and a shooting war in terms of basic monetary policies.

Senator Kerr. But the expenditures that create deficits made necessary to meet the obligation of cold wars, should not be treated in a manner vastly different by the Federal Reserve Board than those which are upon us in a hot war, should they come, in your judgment?

Senator BENNETT. I think the Federal Reserve should answer that question.

Senator KERR. You are answering for them. Do you want to stop?

Senator BENNETT. I was just trying to bring out the historical fact that in April of 1951 we were engaged in a shooting war.

Senator KERR. I was just bringing out the corollary to that, that in June of 1959 we were engaged in a cold war, and in the midst of the greatest peacetime deficit in history, brought on in large part by the requirements of that cold war, and that, in the judgment of the humble Senator from Oklahoma, the Federal Reserve Board should be just as aware of the necessity for the availability of money and the cost of interest on the public debt in the midst of a cold war and a deficit, as the Senator indicates, they should have been in the midst of a hot war when there was no deficit.

Senator BENNETT. It is obvious that the two Senators have a different approach to this particular problem. But I think——

Senator KERR. I will admit that.

(Laughter.)

Senator BENNETT. The point has been made.

Senator SMATHERS. Mr. Chairman, I would suggest we proceed with the questioning of the witnesses in the interest of time.

The CHAIRMAN. The position of the Senator from Florida is well taken.

Are there any further questions?

Thank you very much, Mr. Stans.

Thank you very much, Mr. Lindsay.

The Chair recognizes the Senator from Oklahoma for a statement.

STATEMENT OF HON. ROBERT S. KERR, U.S. SENATOR FROM THE STATE OF OKLAHOMA

Senator KERR. Mr. Chairman and members of the committee, several weeks ago I introduced S. 2090 to provide a termination date of June 30, 1960, for the Federal excise tax on communication services.

I am authorized to say that Senator Frear joins me in sponsoring this amendment and in this statement of support of it.

(The bill referred to follows:)

[S. 2090, 86th Cong., 1st sess.]

A BILL To repeal the excise tax on communications provided by subchapter B of chapter 33 of the Internal Revenue Code of 1954

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) subchapter B of chapter 33 of the Internal Revenue Code of 1954 (relating to tax on communications) is repealed.

(b) The table of subchapters for chapter 33 of such Code is amended by striking out

"SUBCHAPTER B. Communications."

(c) Section 4292 of such Code (relating to State and local governmental exemption) is amended by striking out "4251 or".

(d) Section 4293 of such Code (relating to exemption for United States and possessions) is amended by striking out "subchapters B and C" and inserting "subchapter C".

(e) Section 4294 of such Code (relating to exemption for nonprofit educational organizations) is amended by striking out "4251 or".

(f) Section 6103(a)(2) of such Code (relating to publicity of returns and lists of taxpayers) is amended by striking out "B, C," and inserting "C".

(g) Section 6415 of such Code (relating to credits or refunds to persons who collected certain taxes) is amended by striking out "4251," each place it appears therein.

(h) The amendments made by this section shall apply with respect to amounts paid after June 30, 1960, for communication services rendered after such day.

Senator KERR. Now that we have before us the 1959 Tax Rate Extension Act passed by the House, we strongly urge that the committee accept our bill as an amendment when the House bill is reported to the Senate.

Mr. Chairman, I will not read this statement in its entirety. I will ask that it be included in the record in full.

I would state only this: In providing this amendment that the same termination date be fixed with reference to the excise taxes on communications that are put into this bill as a termination date with reference to those increased rates, which under the bill would be extended to June 30, 1960.

And I further call the attention of the committee to this situation. The budget given us this year indicates a balance for fiscal 1960 under current revenues, and this will not affect current revenues.

Both that budget and the statement of the Director of the Budget this morning indicate to us that in the opinion of the administration current tax rates and continuing improvement in the economy will bring a surplus in fiscal 1961.

It is the purpose of this amendment to give the same termination date to the excise taxes on communications provided under this bill, and I would say this in that connection: If a demand for Federal revenue outweighs all other considerations next June, the Congress at that time could, of course, extend the tax, if it had to, just as it will have before it probably the proposal of the administration to extend the other taxes which are the subject of this act or bill before us.

(The joint statement of Senators Kerr and Frear follows:)

STATEMENT OF SENATORS KERR AND FREAR IN SUPPORT OF S. 2090 AS AN AMENDMENT TO H.R. 7523

Several weeks ago, I introduced S. 2090 to provide a termination date of June 30, 1960, for the Federal excise tax on communication services. I am authorized to say that Senator Frear joins me in sponsoring this amendment and in this statement in support of it. Now that we have before us the 1959 Tax Rate Extension Act passed by the House, we strongly urge that the committee accept our bill as an amendment when the House bill is reported to the Senate.

Excise taxes on telegraph and long distance telephone service were first levied to raise revenue and curtail the use of an essential service during World War I. These taxes were repealed by the Revenue Act of 1924. The tax was reapplied in a limited way to telegrams and long distance telephone service in the depression emergency of 1932. These taxes in 1939 provided revenues in the total sum of only $24 million.

All the rest of the communication taxes were enacted for wartime purposes by the Revenue Acts of 1941, 1942, and 1944. The legislative history, reflected by committee reports, shows that these World War II communications taxes were enacted to discourage the use of communications facilities except for wartime purposes and only incidentally to raise additional revenues. The Federal excise tax was applied for the first time to local telephone service in 1941.

Only two home utility services have ever been the subject of a Federal excise tax—telephones and electricity. The tax on electricity was imposed in 1941 when a Federal tax was imposed for the first time on home telephone service. In 1951, despite the tremendous demand for Federal revenue created by the war in Korea, the tax on electricity was repealed as excessively burdensome, leaving the telephone tax as the only one remaining on the Federal taxbooks applying to the four essential household utilities—water, gas, electricity, and telephone. In my judgment, a tax on a necessary public utility service is altogether different than a tax on commodities, many of which are not necessities.

Communication services are a necessity, not a luxury, and yet as a matter of Federal tax policy they have been treated in the same luxury category as furs, jewelry, tobacco, liquor, admission to horse races, and cabaret bills.

Today we are again being told that Federal taxes cannot be reduced, or eliminated, because of the Government's requirements for revenue. We are, however, advised by the President and the Treasury that for fiscal 1960, the Treasury should be in balance, and that, thereafter, we can hope for some downward adjustments in Federal taxes.

We remind the committee that our bill would not result in the losing of any revenue in fiscal 1960, since its effective date is June 30, 1960, and would, therefore, apply only beginning in fiscal 1961.

Leaders in both parties in both Houses of the Congress have consistently recognized that the communications excise taxes are wartime emergency period taxes, temporary in nature, and to be removed at the earliest feasible time. We believe it is time we declare our intention to bring this tax to an end. Only last year, in debate on the conference report on the Tax Rate Extension Act of 1958, Chairman Mills, of the House Ways and Means Committee, pointed to the fact that a tax

is paid on local telephone service by millions of people if they do nothing more than call their next-door neighbor. He said:

"Now to me that is the most discriminatory tax that we have left in the field of excises * * *" (Congressional Record, June 27, 1958, p. 11333).

Today telephone service is supplied to approximately 39 million American homes and to more than 6 million business establishments. Each of these subscribers is, therefore, reminded at least 12 times each year that they are still paying wartime emergency taxes levied against what they regard as one of the necessities of life.

Repeal of these taxes would guarantee that the full amount of the savings would be passed along to the taxpayers. The rates set for these services are established by Federal and State regulatory commissions. The excise tax is added as a surcharge to these rates on the customers' bills, so, as a result, 100 percent of the tax savings would automatically go into the pocket of the American consumers upon whom the tax is thus imposed directly. At least nine State legislatures have adopted resolutions since the first of this year calling on Congress to abolish the tax on communications services.

Many of the State regulatory commissions have passed similar resolutions and many of you gentlemen have received copies of the same. Likewise, we also call your attention to a report recently received from the Rural Electrification Administration meeting of November 24–25, 1958, embodying a report of their Telephone Advisory Committee, a portion of which reads as follows:

"It was the consensus of the entire committee that the excise tax is a discriminatory burden on the telephone user and that it is continuing to have a detrimental effect on the rural telephone program."

We have likewise had communication from the Independent Telephone Association supporting our proposed amendment. We must remember that telephone service is supplied in this country by both large and small companies. There are, or example, approximately 4,000 independent telephone companies—most of them serving in small cities and towns, and serving extensively in rural areas.

We sincerely hope that the committee will accept our proposed amendment to the Tax Rate Extension Act of 1959, and that the communications tax will be allowed to expire June 30, 1960. If the demand for Federal revenue outweighs all other considerations next June, the Congress at that time could, of course, extend the tax if it had to. We feel, however, that there is a moral obligation on the part of the Congress to at least make a start toward carrying out its often repeated promise to remove this onerous tax. The very least that we can do is provide a termination date 1 year hence.

Senator CARLSON. Mr. Chairman, I am supporting the amendment that would terminate the Federal excise tax on communications on June 30, 1960.

This tax was never intended to be a permanent one, but was designed to raise revenue and curtail the use of an essential service in wartime.

The CHAIRMAN. Thank you, Senator Carlson.

Senator BENNETT. Mr. Chairman, before we hear from Senator Smathers, may I ask Senator Kerr a question?

Senator KERR. Despite the suggestion of Senator Smathers? [Laughter.]

Senator BENNETT. He called for the regular order and said we had to question witnesses rather than discuss with each other.

Senator SMATHERS. I think the Senator from Oklahoma is in the posture of a witness.

Senator KERR. I am a witness now, and I am glad to make myself available to the Senator or any other Senator.

Senator BENNETT. Is the tax on communications the only excise tax that has no termination date?

Senator KERR. It is not. However, it is, as I call attention in this statement, the only excise tax remaining on either of the four essential household utilities—water, gas, electricity, or telephone.

Senator BENNETT. I think for the record it would be interesting if the staff could supply us with a list of other existing excise taxes that now have no termination date.

(The following was subsequently received for the record:)

FEDERAL EXCISE-TAX DATA

Excise taxes in effect Jan. 1, 1959

Internal Revenue Code Section No.	Item	Rates
	Liquor taxes:	
5021	Rectified spirits and wines, additional tax	30 cents per proof gallon.
	Special occupational taxes:	
5111	Wholesale dealers in liquor	$255 per year,[1]
5121	Retail dealers in liquor	$54 per year.[1]
5081	Rectifiers:	
	Less than 20,000 gallons a year	$110 per year.
	20,000 gallons or more a year	$220 per year.
5101	Manufacturers of stills	$55 per year.
5101	Stills or condenser, each	$22.
5131	Nonbeverage manufacturers, per annual withdrawals:	
	Not more than 25 proof gallons	$25 per year.
	Not more than 50 proof gallons	$50 per year.
	More than 50 proof gallons	$100 per year.
5091	Brewers:	
	Less than 500 barrels a year per brewery	$55 per year.
	500 barrels or more a year per brewery	$110 per year.
5111	Wholesale dealers in beer	$123 per year.[1]
5121	Retail dealers in beer	$24 per year.[1]
5121	Limited dealers in beer and wines	$2.20 per month.
5701	Tobacco taxes:	
	Cigarettes: Large, weighing more than 3 pounds per 1,000.[2]	$8.40 per 1,000.
	Cigars:	
	Small, weighing not more than 3 pounds per 1,000	75 cents per 1,000.
	Large, weighing more than 3 pounds per 1,000 if intended to retail at—	
	Not over 2½ cents	$2.50 per 1,000.
	Over 2½ to 4 cents	$3 per 1,000.
	Over 4 to 6 cents	$4 per 1,000.
	Over 6 to 8 cents	$7 per 1,000.
	Over 8 to 15 cents	$10 per 1,000.
	Over 15 to 20 cents	$15 per 1,000.
	Over 20 cents	$20 per 1,000.
	Tobacco, chewing and smoking	10 cents per pound.
	Snuff	Do.
	Cigarette paper and tubes:	
	Paper, each set or book containing over 25 papers	½ cent per 50 or fraction.
	Cigarette tubes	1 cent per 50 or fraction.
	Stamp taxes, documentary, etc.:	
4311	Bond issues	11 cents per $100 face value or fraction.
4331	Bond transfers	5 cents per $100 face value or fraction.
4301	Stock issues	10 cents per $100 or major fraction of actual value.
4321	Stock transfers	4 cents per $100 or major fraction of actual value not to exceed 8 cents per share.
4361	Conveyances (deeds, instruments or writing conveying realty).	55 cents on amount over $100 and not over $500; 55 cents on each additional $500 or fraction.
4371	Foreign insurance policies:	
	Life, sickness, accident, annuity contracts, and contracts of reinsurance.	1 cent per dollar or fraction of premium.
	Other	4 cents per dollar or fraction of premium.
4451	Playing cards	13 cents per pack of not more than 54.
4891	Silver bullion sales or transfers of amount by which selling price exceeds cost plus allowed expenses.	50 percent.
	Manufacturers' excise taxes (based generally on manufacturers' sales price):	
4111	Air conditioners, self-contained units	10 percent.
4061	Automobiles, etc.:	
4071	Tires, other [3]	5 cents per pound.
4071	Inner tubes	9 cents per pound.
4191	Business machines [4]	10 percent.
4171	Cameras, lenses and film (except commercial and industrial types).	Do.
4201	Cigarette, cigar, and pipe mechanical lighters [5]	Do.

See footnotes at end of table, p. 47.

Excise taxes in effect Jan. 1, 1959—Continued

Internal Revenue Code Section No.	Item	Rates
	Manufacturers' excise taxes—Continued	
4121	Electric, gas, and oil appliances [6]	5 percent.
4131	Electric-light bulbs and tubes	10 percent.
4181	Firearms shells, and cartridges	11 percent.
4201	Fountain pens, mechanical pencils, ball-point pens [6]	10 percent.
	Matches:	
4211	Ordinary	2 cents per 1,000.[7]
4211	Fancy wood	5½ cents per 1,000.
4801	White phosphorus	2 cents per 100.
4151	Musical instruments	10 percent.
4091	Oils:	
	Lubricating	6 cents per gallon.
	Cutting	3 cents per gallon.[7]
4141	Phonographs [6] and phonograph records	10 percent.
4181	Pistols and revolvers	Do.
4141	Radio receiving sets, components, etc.[6]	Do.
4111	Refrigerators, refrigerating apparatus, and quick-freeze units.	5 percent.
4161	Sporting goods and equipment	10 percent.
4141	Television sets, components, etc.[6]	Do.
	Retailers' excise taxes (based on retailers' sales price):	
4011	Furs and fur articles	Do.
4001	Jewelry, etc.[6]	Do.
4031	Luggage, handbags, etc.	Do.
4021	Toilet preparations [10]	Do.
	Miscellaneous excise taxes:	
4231	Admissions:	
	General: [11]	
	Single admissions, on amount in excess of $1	1 cent for each 10 cents or major fraction.
	Season tickets, on amount in excess of $1 multiplied by number of admissions provided by ticket.	Do.
	Horse and dog races	1 cent for each 5 cents or major fraction.
	Leases of boxes or seats	10 percent of amount charged for similar accommodations.[12]
	Ticket broker sales in excess of regular price	10 percent of excess charge.[13]
	Excess charge by proprietor	50 percent of excess charge.
	Cabarets, roof gardens, etc.[13]	20 percent of taxable amount.
4471	Bowling alleys, billard and pool tables	$20 per alley or table per year.
4241	Club dues and initiation fees	20 percent of amount paid.[14]
4511	Coconut and palm oil processed, first domestic processing.	3 cents per pound.[15]
4461	Coin-operated amusement or gaming devices:	
	Amusement or music machines	$10 per machine per year.
	Gaming devices	$250 per machine per year.
4251	Communications:	
	General telephone service	10 percent of amount paid.
	Toll telephone service [16]	Do.
	Telegraph service	Do.
	Teletypewriter exchange service	Do.
	Wire mileage service	Do.
	Wire and equipment service	8 percent of amount paid.
4286	Leases of safe-deposit boxes	10 percent of amount collected.
	Oleomargarine, adulterated butter, filled cheese:	
4591	Oleomargarine, imported only, in addition to import duties.	15 cents per pound.
	Adulterated or process butter:	
	Adulterated butter:	
4811	Adulterated butter	10 cents per pound.
4821	Manufacturers	$600 per year.
4821	Wholesale dealers	$480 per year.
4821	Retail dealers	$48 per year.
	Process butter:	
4811	Process butter	¼ cent per pound.
4821	Manufacturers	$50 per year.
	Filled cheese:	
4831	Domestic	1 cent per pound.
4831	Imported, in addition to import duties	8 cents per pound.
4811	Manufacturers, per factory	$400 per year.
4811	Wholesale dealers	$250 per year.
4841	Retail dealers	$12 per year.
4261	Transportation of persons:	
	Commutation or season tickets for single trips of less than 30 miles or commutation tickets for 1 month or less.	None.
	Amounts paid, 60 cents or less	Do.
	Amounts paid, over 60 cents, generally [17]	10 percent of amount paid.
	Seats and berths [17]	Do.

See footnotes at end of table, p. 47.

Excise taxes in effect Jan. 1, 1959—Continued

Internal Revenue Code Section No.	Item	Rates
	Miscellaneous excise taxes—Continued	
	Wagering:	
4401	Wagers (except parimutuel)	10 percent of amount of wager.
4411	Occupation of accepting taxable wagers	$50 per year.
	Other miscellaneous excise taxes:	
4881	Bank circulation, etc., taxes:	
	Circulation other than of national banks:	
	On average circulation outstanding:	
	Entire circulation, each month	½₂ of 1 percent.
	Circulation exceeding 90 percent of capital each month (additional tax).	⅙ of 1 percent.
	Circulation paid out	10 percent.
4851	Cotton futures (subject to many conditions)	2 cents per pound.
	Firearms (National Firearms Act):	
	Certain short 2-barrel guns:	
5811	Sale or transfer	$1 per firearm.
5801	Manufacturers	$25 per year.
5801	Dealers	$1 per year.
	Machineguns, silencers, etc.:	
5811	Sale or transfer	$200 per firearm.
5801	Importers or manufacturers	$500 per year.
5801	Dealers	$200 per year.
5801	Pawnbrokers	$500 per year.
	Import taxes. (See table V.)	
	Marihuana:	
4741	Transfers to registered persons	$1 per ounce.
4741	Transfers to unregistered persons	$100 per ounce.
4751	Importers, manufacturers, and compounders	$24 per year.
4751	Producers	$1 per year.
4751	Practitioners	Do.
4751	Persons engaged in laboratory research	Do.
4751	Millers	Do.
4751	Persons other than practitioners who deal in dispense or give away.	$3 per year.
	Opium:	
4701	Opium and coca leaves, etc	1 cent per ounce or fraction.
4711	Opium for smoking	$300 per pound.
4721	Importers, manufacturers, producers, and compounders.	$24 per year.
4721	Wholesale dealers	$12 per year.
4721	Retail dealers	$3 per year.
4721	Practitioners	$1 per year.
4721	Persons engaged in laboratory research	Do.
4721	Persons not otherwise taxed, dispensing preparation of limited narcotic content.	Do.

[1] Rates changed by Excise Tax Technical Changes Act of 1958 to conform with new definitions, effective July 1, 1959.

[2] Large cigarettes measuring over 6½ inches long, counting each 2¾ inches as 1 cigarette, taxed as small cigarettes.

[3] Tires not more than 20 inches in diameter, and not more than 1¾ inches in cross section if such tires are of all-rubber construction without fabric or metal reinforcement, or tires of extruded tiring with internal wire fastening agent, exempt.

[4] Cash registers of the type used in registering over-the-counter retail sales and stencil cutting machines of the type used in marking freight shipments, exempt.

[5] Those subject to the retail jewelry tax not to be taxed at the manufacturers' level also.

[6] Household-type appliances only.

[7] Tax cannot exceed 10 percent of price for which so sold.

[8] Tax does not apply to communication, detection, or navigation equipment of the type used in commercial, military or marine installations.

[9] Exemptions include silver-plated flatware, watches designed for the blind, articles used for religious purposes, surgical instruments, frames for eyeglasses, and buttons, insignia, etc., used on uniforms of the Armed Forces.

[10] Baby powders, oils, and lotions, barber and beauty shop supplies to be used on premises, and miniature samples of toilet preparations sold to house-to-house salesmen for demonstration purposes, exempt.

[11] Admissions accruing to specified educational, religious, and charitable institutions, and nonprofit organizations, and all free admissions exempt. In the case of reduced-rate admissions, tax applies to actual amount paid.

[12] If admission is to horse or dog race track, rate is 20 percent.

[13] Admissions to ballrooms and dance halls where serving of food, etc., is incidental to furnishing music and dancing privileges, exempt.

[14] Dues or membership fees of $10 or less exempt. Initiation fees of $10 or less exempt unless dues or membership fees exceed $10. Nonprofit swimming and skating facilities exempt under certain specified conditions.

[15] Additional tax of 2 cents per pound if coconut oil is not from the Philippines, Trust Territories, or any possession of the United States. Public Law 85-235 suspended the tax on coconut oil from Oct. 1, 1957, to June 30, 1960. Public Law 86-37 suspended tax on palm oil to June 30, 1960.

[16] Calls from combat zones initiated by members of the Armed Forces exempt.

[17] Foreign travel in general exempt, except those trips which begin and end in the United States or the 225-mile "buffer zone" in Canada and in Mexico.

Senator KERR. I have no objection.
The CHAIRMAN. Without objection.
The Chair recognizes Senator Smathers.

STATEMENT OF HON. GEORGE SMATHERS, A U.S. SENATOR FROM THE STATE OF FLORIDA

Senator SMATHERS. First, I have a statement here with respect to the repeal of the transportation tax on passengers, which I shall not read at this moment, but would like to have it made a part of the record in full.

The CHAIRMAN. Without objection.

(The prepared statement of Senator Smathers follows:)

STATEMENT OF SENATOR GEORGE SMATHERS, DEMOCRAT, OF FLORIDA, BEFORE THE SENATE COMMITTEE ON FINANCE IN SUPPORT OF AN AMENDMENT TO THE CORPORATE AND CERTAIN OTHER EXCISE TAX EXTENSION BILL, H.R. 7523, WHICH WOULD REPEAL THE 10 PERCENT TAX ON THE TRANSPORTATION OF PERSONS

Mr. Chairman, my proposed amendment to the pending bill, if adopted, would repeal the 10 percent excise tax on the transportation of persons. It is, in my opinion, a tax the repeal of which is long overdue.

Many of us are familiar with the circumstances which brought about the imposition of this tax more than 17 years ago. Primarily it was imposed to discourage the civilian use of the facilities of common carriers so that they could be utilized to a maximum degree for the benefit of the war effort. Another motivating factor was the revenue which would be produced to finance the defense effort. Both of these objectives have long since been achieved and the necessity for which these taxes were imposed no longer prevails.

Today, unfortunately, the tax constitutes an economic obstacle to travel and contradicts all other public and private efforts being made to encourage travel, including the President's own proclamation designating 1960 as "Visit U.S.A. Year." I might point out that the tax on foreign travel of persons has long since been repealed. The existing excise tax applies only to domestic travel.

Last year, a tremendous amount of attention was devoted by the Congress to problems confronting the transportation industry with the net result being the enactment of the Transportation Act of 1958. At the same time, the Commerce Committee, which held lengthy hearings on this legislation, also recommended the repeal of the excise taxes on freight and transportation of persons as a further incentive to cure the ills of a transportation system plagued with many problems. Similar recommendations were made by the Interstate Commerce Commission and the Civil Aeronautics Board, both of which were—and are—actively studying conditions in the transportation industry.

The Senate, acting in part on these recommendations, voted to repeal the 3 percent excise tax on freight and the 10 percent excise tax on the transportation of persons. Unfortunately, in conference, the Senate found it necessary to recede from its position on the 10 percent excise tax.

Since that time, there has been a recovery in the general economy from the low point of last year which, on the surface, seems to indicate that transportation companies no longer are in dire circumstances as they were then. However, this, unfortunately, is not the case. Many of the transportation problems have, as a matter of fact, become more aggravated and pose a threat to the strength of our national transportation system.

In spite of generally increased business activity, and the steps taken by the Congress last year to help the railroad industry, passenger train deficit continues to plague that industry.

Last month, after extensive study, the Interstate Commerce Commission released its decision in docket No. 31954, the Railroad Passenger Train Deficit case.

It found that the situation is serious, threatening to damage the transportation system, and one, therefore, in which there was a vital and direct public interest.

The Commission recommended a number of actions to be taken by Federal, State, local government bodies, and railroad management. It is significant to note

that their very first recommendation was that the 10 percent excise tax on passenger fares be repealed. In doing so, the Commission stated:

"Without repeating all of the reasons advanced for the repeal of the transportation tax, we wish to emphasize that it is having a serious effect upon the passenger-train service of the railroads. Since the tax on passenger travel tends to discourage the public from using common carriers, it thereby aggravates the ever-mounting passenger deficit. While we recognize that the repeal would not provide a cure-all for the passenger deficit problem, such action would remove a serious deterrent to a greater use by the traveling public. *In strongly urging that the Congress take action to repeal the tax outright, we are not unaware of the efforts which various Members of the Congress have made and are presently making in this regard. We are also not unmindful of the revenue needs of the Government. We are, however, convinced that any possible loss of revenue would be more than offset by the public interest in strengthening and preserving a transportation system capable of meeting adequately the country's need for service both in peacetime and during emergencies in conformity with the national transportation policy as declared by the Congress*" (p. 70, ICC decision, docket No. 31954). [Italics supplied.]

The intercity bus industry has likewise continued to suffer weakening erosions. In New York State since 1951, there has been a net loss of 103 regular route carriers serving 73 cities, according to the report dated March 12, 1959, by a special consultant on transportation to the Governor, on problems of the railroads and buslines. These abandonments have resulted in elimination of all bus service to many important cities.

In Indiana, another 18 bus companies have gone out of business in the last 3 years, according to the head of the Motor Vehicles Division of the Indiana Public Service Commission.

When we look to see what is happening on the national scene, the figures are indeed alarming. According to the Bureau of the Census, Department of Commerce (Statistical Abstract of the United States, 1958, p. 571), the number of intercity busline operating companies declined from 2,858 in 1950, to 1,700 in 1957; revenue passengers on these lines declined from 815 million to 516 million; and the number of persons employed by these companies declined from 66,570 to 52,900.

Certainly it is not in the public interest to have these smaller companies disappear from the scene at the rate they have been going. We all, I am sure, feel strongly that adequate competition in any form of transportation is vital to assure the best possible service to the public. We cannot get it by driving smaller companies out of business.

The third principal carrier of passengers, the airlines, also have their problems. A year ago, we were told that the financing of modern new equipment, soon to be delivered, would present tremendous economic problems. That warning has been proven correct. The jet equipment has begun to arrive, and I am informed the problems also have arrived.

Recently, a Civil Aeronautics Board hearing examiner, in his report in the general passenger fare investigation, docket No. 8008, found that: "The air carrier industry is in an advanced stage of a program started several years ago of equipping with jet and turbo aircraft as the backbone of its fleet." He went on to say that: "The importance to the traveling public and the public interest of the success of the carriers in proceeding with this program of acquisition and efficient use of these aircraft is so obvious as to render discussion superfluous. * * * It is found that the representative air carriers exercised honest, economical, and efficient management in contracting for aircraft pursuant to their jet aircraft acquisition programs." After observing that "industry average profits for 1957 skidded to less than 5 percent and were lower than any time since 1948," he concluded that "declining earnings had at that time gone below a reasonable point in that they were no longer 'sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.'"

Last year, in a letter to the chairman of this committee, James R. Durfee, Chairman of the Civil Aeronautics Board, recommended repeal of this tax. Again this year, in recent testimony before the Senate Appropriations Committee, Chairman Durfee said: "If the 10 percent excise tax was abolished for local service carriers, and all carriers, I think it would produce a substantial increase in traffic." He also said: "I think it would have that inevitable effect, to some degree, to reduce subsidies to local service carriers, and increase revenue to trunklines."

We find that today both regulatory agencies established by Congress to exercise jurisdiction over transportation matters, the ICC and CAB, believe repeal of the tax would strengthen the national transportation system.

In addition, we find the President taking note of the fact that all is not well in the transportation field, by directing the Department of Commerce to undertake a comprehensive study of the national transportation system.

Furthermore, the Congress itself, this session made available to the Senate Interstate and Foreign Commerce Committee, $290,000 with which to study this problem. That committee has already repeated its recommendation of last year, in the form of a resolution, urging repeal of this tax.

In its resolution, approved May 13, 1959, the committee resolved as follows: "that it is the sense of the Committee on Interstate and Foreign Commerce that the objectives of the excise tax on the travel of persons have since been achieved; that the tax now operates as a discriminatory and regressive tax; that it operates as a drag on the economy; this reduction should be passed on to the fullest possible extent to the users of this transportation and for other reasons heretofore stated in this resolution, should be repealed at the earliest date; and that to this end the committee pledges its support and cooperation and urges the Committee on Finance and the Congress to give prompt and favorable consideration to the Smathers' bill, S. 5, which seeks to achieve this worthy objective."

The only purpose the tax now serves is as a questionable revenue-producing measure. It produces approximately $225 million annually to the Treasury Department, and there is reason to believe that it is self-defeating in that it leaks out of the Treasury from the bottom as much or more than it pours in at the top.

Since the tax can be deducted from the business income as an expense, taxable business profits are lowered. In addition, it costs money for the common carriers to collect and report this tax. These expenses are also deductible and further reduce the taxable income of the carrier.

While this tax adversely affects all common carriers, there is one area where the domestic airlines are particularly handicapped. The tax diverts traffic from U.S. carriers to foreign flag airlines. Let me cite a couple of examples.

A passenger traveling from Los Angeles to Paris might choose one of two routings for the same fare. By U.S.-flag airline to New York and then across the Atlantic. Or, by United States or foreign flag airline over the so-called polar route from Los Angeles to Winnipeg and to Iceland and down to Europe on the other side.

While the fares are the same, the excise tax on the Los Angeles-to-New York portion by U.S. airlines amounts to about $30 on the round trip. Many travelers consider this $30 worth saving, so our own domestic airlines lose business they might otherwise have.

A similar situation exists for travelers going from the east coast to the Orient. If a person wants to go from New York to Tokyo, he has a choice of American-flag airlines or foreign-flag airlines. He may fly on an American-flag line from New York by way of Seattle, Anchorage, and then to Tokyo. If he does, he has to pay tax from New York to Anchorage. The tax on the round trip is about $32.

Now, if a person wants to go for the same fare between the same two points, he can fly on a foreign-flag line from New York to Vancouver to Tokyo and pay no tax at all. The fare is the same, the services are competitive, but again, the savings on the tax diverts traffic away from our own airlines to those of other nations.

Removal of the tax would act as stimulus to the Nation's economy. The thousands of people who travel on business or vacation, might very well be able to afford an extra day if they had no transportation tax to pay. This would, of course, bolster the whole economy of an area as these extra-day dollars flow to hotels, sightseeing attractions, restaurants and department stores. This is particularly important to areas whose economy is geared to the travel and vacation industry.

It is paradoxical that we should continue a tax designed to discourage travel when we are seeking means of strengthening our economy and encouraging the development of our national transportation system.

The committee need not be concerned that if the tax is repealed the carriers will raise their fares to offset this repeal. In the first place, railroad, airline and bus fares are established by Federal regulatory agencies—the ICC or the CAB. Whether or not a fare increase would be granted would depend not upon the fact that the tax has been repealed, but upon the need of the carrier involved for the fare increase. In this connection, as the committee knows, the carriers are merely collection agents of the transportation tax; it never was considered a part of their

revenues. Secondly, I have been assured by the heads of the rail-airline, and bus associations that they would not use repeal of the travel tax as the basis for a fare increase.

We cannot solve the whole problem by repealing the 10 percent travel tax, to be sure. But we can help solve it by doing so. It is a step recommended to us by responsible sources, including the regulatory agencies established by Congress, as well as the Senate committee having jurisdiction over transportation matters. It is a step of relatively low cost to the Government. It will remove an outdated and self-defeating tax which continues to deter travel and have an adverse effect on our national transportation system.

It is a step which we should take now. In doing so, I would like to make it abundantly clear that while the proposed amendment has some features of a tax relief measure, its primary purpose is to provide another economic incentive to further strengthen and develop our overall national transportation system.

Senator SMATHERS. This is a proposal passed by the Senate last year by a vote of 50 to 35, in which the Senate expressed its desire to unencumber, so to speak, the transportation industry of America to the extent that it was encumbered by this excise tax—a wartime tax put on some 17 years ago.

At that time it was put on for the express purpose not only of raising some revenue, but primarily of keeping people from using the transportation facilities.

The reasons for which the tax was put on have now, of course, completely disappeared. Since that time it has been evident that the transportation system of the Nation is in serious difficulty. Last year the Congress passed what came to be known as the Transportation Act of 1958 in which it recognized the serious situation in which the transportation industry was involved, and endeavored through legislative methods to relieve the conditions which then existed.

The Congress last year repealed the 3 percent excise tax on freight. The Senate went so far as to also remove the 10 percent travel tax but in conference found it necessary to recede.

Now there are many reasons why I believe once again the Senate should take the same position that it took last year. Not only is this tax inequitable in that it encourages people who travel to use foreign carriers wherever it is possible for them to do so, thus to the discrimination of our own domestic transportation service, but more particularly it is the type of tax which is restrictive completely in nature.

Most of the $225 million of questionable revenue which has been brought into the Treasury by reason of this tax, you might say, in effect, is self-defeating, because much of it is charged off by many people as a business expense, certainly that part which goes on the airlines.

It is a costly tax to collect on the part of the transportation industry, and I believe, if repealed, we would find that the increased profits of transportation companies would result in increased revenue to the Treasury to the extent that would more than make up for the amount now received by the tax.

I want to make specific reference to the aviation industry. We have had the Civil Aeronautics Board studying the conditions of the aviation industry at the present time. They have concluded that it is moving into a very serious situation, such as the railroads were moving into, that they have today in the neighborhood of some two and a half billion dollars of indebtedness already; that there is great question as they move into the turboprop and into the jet age, as to whether or not the projected business, increase in business, will be sufficient to meet their obligations. They need more business.

With respect to the bus companies, everybody would agree that that is the poor man's medium of travel.

The number of bus companies in the country has been reduced almost 50 percent in the last 5 years because they are losing business. Even though the tickets are sold, nonetheless the people who travel from Philadelphia to Washington or from Arkansas to Oklahoma, they, too, have to pay the 10 percent travel tax with the result that transportation in this particular phase of our transportation industry is suffering greatly.

Mr. Chairman, I shall not go further into detail on all the arguments which I have set out in the formal statement, but I will do so in—I will trespass on the time of executive session.

The CHAIRMAN. The Chair recognizes Senator Douglas.

STATEMENT OF HON. PAUL H. DOUGLAS, A U.S. SENATOR FROM THE STATE OF ILLINOIS

Senator DOUGLAS. Mr. Chairman and my colleagues, in behalf of a number of Senators we are offering a series of amendments to the bill on four subjects. We are offering them as a first step toward the reform of our Federal tax system.

(The bills referred to follow:)

[S. 2036, 86th Cong., 1st sess.]

A BILL To amend the Internal Revenue Code of 1954 to repeal provisions allowing credit against tax and exclusion from gross income for dividends received by individuals

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That certain provisions of the Internal Revenue Code of 1954 allowing credit against tax and exclusion from gross income for dividends received by individuals be repealed.

(a) REPEAL OF SECTION 34 AND SECTION 116.—Effective with respect to taxable years beginning after December 31, 1959, section 34 (relating to credit for dividends received by individuals) and section 116 (relating to partial exclusion from gross income of dividends received by individuals) are repealed.

(b) TECHNICAL AMENDMENTS.—

(1) The table of sections for part IV of subchapter A of chapter 1 is amended by striking out

"Sec. 34. Dividends received by individuals."

(2) Section 35(b)(1) is amended by striking out "the sum of the credits allowable under sections 33 and 34" and inserting in lieu thereof "the credit allowable under section 33".

(3) Section 37(a) is amended by striking out "section 34 (relating to credit for dividends received by individuals),".

(4) The table of sections for part III of subchapter B of chapter 1 is amended by striking out

"Sec. 116. Partial exclusion of dividends received by individuals."

(5) Section 301(f) is amended by striking out paragraph (4).

(6) Section 584(c)(2) is amended—

(A) by striking out the heading and inserting in lieu thereof "Partially tax-exempt interest.—";

(B) by striking out "in the amount of dividends to which section 34 of section 116 applies, and"; and

(C) by inserting a comma after "interest" in the first sentence.

(7) Section 642(a) is amended by striking out paragraph (3).

(8) Section 643(a) is amended by striking out paragraph (7).

(9) Section 702(a)(5) is amended by striking out "a credit under section 34, an exclusion under section 116, or".

(10) Section 854(a) is amended by striking out "section 34(a) (relating to credit for dividends received by individuals), section 116 (relating to an exclusion for dividends received by individuals), and".

(11) Section 854(b) is amended by striking out "the credit under section 34(a), the exclusion under section 116, and" in paragraph (1) and by striking out "the credit under section 34, the exclusion under section 116, and" in paragraph (2).

(12) Section 854(b)(3) is amended by striking out subparagraph (B) and inserting in lieu thereof the following:

"(B) The term 'aggregate dividends received' includes only dividends received from domestic corporations other than any dividend from—

"(i) an insurance company subject to a tax imposed by part I or part II of subchapter L (sec. 801 and following);

"(ii) a corporation organized under the China Trade Act, 1922 (see sec. 941); or

"(iii) a corporation which, for the taxable year of the corporation in which the distribution is made, or for the next preceding taxable year of the corporation, either is a corporation exempt from tax under section 501 (relating to certain charitable, etc., organizations) or section 521 (relating to farmers' cooperative associations) or is a corporation to which section 931 (relating to income from sources within the possessions of the United States) applies.

"(C) In determining the aggregate dividends received, any amount allowed as a deduction under section 591 (relating to deduction for dividends paid by mutual savings banks, etc.) shall not be treated as a dividend.

"(D) In determining the aggregate dividends received, a dividend received from a regulated investment company shall be subject to the limitations prescribed in subsection (a) and paragraph (2) of this subsection."

(13) Section 6014(a) is amended by striking out "34 or".

(c) EFFECTIVE DATE.—The amendments made by subsection (b) shall apply only with respect to taxable years beginning after December 31, 1959.

[S. 2037, 86th Cong., 1st sess.]

A BILL To amend the Internal Revenue Code of 1954 to provide graduated rates of percentage depletion for oil and gas wells

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 613 of the Internal Revenue Code of 1954 (relating to percentage depletion) is amended—

(1) by striking out, in subsection (a), "specified in subsection (b)" and inserting in lieu thereof "specified in subsection (b) and (d)";

(2) by striking out paragraph (1) of subsection (b) and inserting in lieu thereof the following:

"(1) Oil and gas wells.—The percentage applicable under subsection (d)(1)."; and

(3) by redesignating subsection (d) as (e), and by inserting after subsection (c) the following new subsection: "(d) OIL AND GAS WELLS.—

"(1) PERCENTAGE DEPLETION RATES.—In the case of oil and gas wells, the percentage referred to in subsection (a) is as follows:

"(A) 27½ PERCENT—if, for the taxable year, the taxpayer's gross income from the oil and gas well, when added to (i) the taxpayer's gross income from all other oil and gas wells, and (ii) the gross income from oil and gas wells of any taxpayer which controls the taxpayer and of all taxpayers controlled by or under common control with the taxpayer, does not exceed $1,000,000.

"(B) 21 PERCENT—if, for the taxable year, the taxpayer's gross income from the oil and gas well, when added to (i) the taxpayer's gross income from all other oil and gas wells, and (ii) the gross income from oil and gas wells of any taxpayer which controls the taxpayer and of all taxpayers controlled by or under common control with the taxpayer, exceeds $1,000,000 but does not exceed $5,000,000.

"(C) 15 PERCENT.—if, for the taxable year, the taxpayer's gross income from the oil and gas well, when added to (i) the taxpayer's gross income from all other oil and gas wells, and (ii) the gross income from oil and gas wells of any taxpayer which controls the taxpayer and of all taxpayers controlled by or under common control with the taxpayer, exceeds $5,000,000.

"(2) CONTROL DEFINED.—For purposes of paragraph (1), the term 'control' means—

"(A) with respect to any corporation, the ownership, directly or indirectly, of stock possessing more than 50 percent of the total combined voting power of all classes of stock entitled to vote, or the power (from whatever source derived and by whatever means exercised) to elect a majority of the board of directors, and

"(B) with respect to any taxpayer, the power (from whatever source derived and by whatever means exercised) to select the management or determine the business policies of the taxpayer.

"(3) CONSTRUCTIVE OWNERSHIP OF STOCK.—The provisions of section 318(a) (relating to constructive ownership of stock) shall apply in determining the ownership of stock for purposes of paragraph (2).

"(4) APPLICATION UNDER REGULATIONS.—This subsection shall be applied under regulations prescribed by the Secretary or his delegate."

(b) The amendments made by subsection (a) shall apply only with respect to taxable years beginning after the date of the enactment of this Act.

[S. 2038, 86th Cong., 1st sess.]

A BILL To amend the Internal Revenue Code of 1954 to provide for withholding of tax at source on interest and dividends

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,
That—

(a)(1) IN GENERAL.—Subtitle F of the Internal Revenue Code of 1954 (relating to procedure and administration) is amended by adding at the end thereof the following new chapter:

"CHAPTER 81—COLLECTION OF INCOME TAX AT SOURCE ON INTEREST AND DIVIDENDS

"SEC. 7901. INCOME TAX COLLECTED AT SOURCE ON INTEREST

"(a) REQUIREMENT OF WITHHOLDING.—Every corporation, making payment after December 31, 1959, of interest on obligations of such corporation, shall deduct and withhold on such interest a tax equal to 20 percent of the amount thereof. If the withholding agent is unable to determine the person to whom the interest is payable, such tax shall be deducted and withheld at the time payment thereof would be made if such person were known.

"(b) INTEREST DEFINED.—For purposes of this chapter, the term 'interest' means interest on all bonds, debentures, notes, certificates, or other evidences of indebtedness, issued by any corporation with interest coupons or in registered form.

"(c) INDEMNIFICATION OF WITHHOLDING AGENT.—A withholding agent shall not be liable, except as provided in section 7904, to any person for the amount of any tax required to be deducted and withheld under this chapter.

"(d) CREDIT FOR TAX WITHHELD.—

"For credit, against the income tax of the recipient of the income, of amounts required to be deducted and withheld under this section, see section 39.

"SEC. 7902. INCOME TAX COLLECTED AT SOURCE ON DIVIDENDS

"(a) REQUIREMENT OF WITHHOLDING.—Every person making payment after December 31, 1959, of a dividend shall deduct and withhold on such dividend a tax equal to 20 percent of the amount thereof. If the withholding agent is unable to determine the person to whom the dividend is payable, such tax shall be deducted and withheld at the time payment thereof would be made if such person were known.

"(b) DIVIDENDS DEFINED.—For purposes of this chapter, the term 'dividend' means—

"(1) any distribution by a corporation which is a dividend (as defined in section 316); and

"(2) a payment made by a stockbroker to any person as a substitute for a dividend (as defined in section 316) on which a tax is required to be deducted and withheld under this chapter.

"(c) WITHHOLDING WHERE AMOUNT OF DIVIDEND IS UNKNOWN.—If the withholding agent is unable to determine the portion of a distribution which is a dividend, the tax required to be deducted and withheld under this chapter shall be computed on the entire amount of the distribution.

"(d) INDEMNIFICATION OF WITHHOLDING AGENT.—A withholding agent shall not be liable, except as provided in section 7904, to any person for the amount of any tax required to be deduced and withheld under this chapter.

"(e) CREDIT FOR TAX WITHHELD.—

"For credit, against the income tax of the recipient of the income, of amounts required to be deducted and withheld under this section, see section 39.

"SEC. 7903. EXEMPTIONS FROM WITHHOLDING

"(a) INTEREST.—The provisions of section 7901 shall not apply to:

"(1) Interest paid by a corporation to one or more—

"(A) governments,

"(B) political subdivisions thereof,

"(C) international organizations, or

"(D) wholly owned instrumentalities or agencies of the foregoing, if the evidence of indebtedness in respect of which such interest is paid is owned by one or more of such governments, subdivisions, organizations instrumentalities, or agencies.

"(2) Interest paid for a foreign corporation.

"(3) Any payment of interest to—

"(A) a foreign corporation not engaged in trade or business within the United States,

"(B) a nonresident alien individual,

"(C) any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or

"(D) any foreign government or international organization.

"(b) DIVIDENDS.—The provisions of section 7902 shall not apply to:

"(1) A dividend paid in the stock or rights to acquire the stock of the distributing corporation whether or not the recipient of such stock or rights had an option to be paid in money, or other property, in lieu of such stock or rights.

"(2) Distributions (other than capital gain dividends described in section 852(b)(3)(C)) to shareholders which are treated under chapter 1 as amounst received on the sale or exchange of property, or distributions with respect to which gain or loss is not recognized under chapter 1 to the shareholders.

"(3) Any amount which is includible in gross income as a taxable divident under the provisions of section 302 or 303 (relating to redemptions of stock), section 354(b) (relating to receipt of property on transfer to corporation controlled by the transferor), section 356 (relating to receipt of additional consideration in connection with certain reorganizations), or section 1081(e)(2) (relating to certain distributions pursuant to order of the Securities and Exchange Commission).

"(4) A dividend paid by a Federal reserve bank, Federal land bank, Federal home loan bank, Central Bank for Cooperatives, or Bank for Cooperatives.

"(5) Dividends paid by a corporation to another corporation if both corporations are members of the same affiliated group which filed a consolidated return under chapter 6 for the preceding taxable year of the payor corporation.

"(6) Dividends paid by a corporation to one or more—

"(A) governments,

"(B) political subdivisions thereof,

"(C) international organizations, or

"(D) wholly owned instrumentalities or agencies of the foregoing, if the entire class of stock in respect of which such dividend is paid is owned by one or more of such governments, subdivisions, organizations, instrumentalities, or agencies.

"(7) Dividends paid by a foreign corporation.

"(8) Any payment of a dividend to—

"(A) a foreign corporation not engaged in trade or business within the United States,

"(B) a nonresident alien individual,

"(C) any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or

"(D) any foreign government or international organization.

"(9) Dividends paid pursuant to the terms of a lease of property entered into before January 1, 1959, if under such lease the shareholders of the lessor corporation are entitled to such dividends without deduction for and tax which any law of the United States might require to be deducted and withheld on the payment of dividends.

"(10) Amounts (whether or not designated as dividends) paid by a mutual savings bank, savings and loan association, building and loan association, cooperative bank, homestead association, credit union, or any similar organization, in respect of withdrawable or repurchasable shares, investment certificates, or deposits.

"SEC. 7904. RETURNS AND PAYMENT

"(a) GENERAL RULE.—Every person required under this chapter to deduct and withhold any tax shall make a return of such tax and shall pay such tax, at such time, for such period, and in such manner as the Secretary or his delegate may by regulations prescribe, by making a return of the total amount of interest and dividends with respect to which tax is required to be deducted and withheld by such person under this chapter for such period and paying a tax, for which such person shall be liable, in an amount equal to 20 percent of such total.

"(b) ADJUSTMENT OF TAX.—If more or less than the correct amount of tax due for any period under subsection (a) is paid with respect to such period, proper adjustments with respect to the tax shall be made, without interest, in such manner and at such times as may be prescribed by regulations made under this chapter.

"SEC. 7905. NONDEDUCTIBILITY OF TAX IN COMPUTING TAXABLE INCOME

"Any tax deducted and withheld under this chapter shall not be allowed as a deduction in computing taxable income for the purpose of any tax on income imposed by Act of Congress.

"SEC. 7906. REFUND OR CREDIT OF TAX TO TAX-EXEMPT ORGANIZATIONS

"In the case of a person which is exempt from the tax imposed by chapter 1, if the amount required to be deducted and withheld as tax under this chapter with respect to interest and dividends received by it during any calendar quarter exceeds the credit claimed by and allowed to such person under section 3505 (relating to credit against employment taxes) for such quarter, the excess shall be immediately refunded or credited to such person as an overpayment of the tax imposed by this chapter, but only if claim therefor is filed (or, if no claim is filed, if credit or refund is made) after the close of such calendar quarter and on or before March 15 of the fourth calendar year beginning after the close of such calendar quarter. No interest shall be allowed or paid with respect to any such refund or credit for any period before the date on which claim for such refund or credit is filed or before March 16 of the calendar year succeeding the close of the calendar quarter in respect of which such refund or credit is claimed, whichever date is the later.

"SEC. 7907. CREDIT FOR REGULATED INVESTMENT COMPANIES AND PERSONAL HOLDING COMPANIES

"In the case of any withholding agent which is a regulated investment company (as defined in section 851) or a personal holding company (as defined in section 542), the amount required to be deducted and withheld as tax under this chapter with respect to interest and dividends received by it during a taxable year shall be allowed, under regulations prescribed by the Secretary or his delegate, as a credit against (but not in excess of) the tax for which such withholding agent is liable under section 7904(a) in respect of dividends paid by it during such year. For purposes of this section, a dividend shall be considered as having been paid within a taxable year—

"(1) in the case of a regulated investment company, if treated as paid during such taxable year under section 855(a), or

"(2) in the case of a personal holding company, to the extent elected under section 563(b), in determining the dividends paid deduction for purposes of the personal holding company tax, in the return for such year.

"SEC. 7908. FAILURE TO FILE RETURNS

"In case of a failure to make and file any return required under this chapter within the time prescribed by law or prescribed by the Secretary or his delegate in pursuance of law, unless it is shown that such failure is due to reasonable cause and not to willful neglect, the addition to the tax or taxes required to be shown on such return shall not be less than $5.

"SEC. 7909. DEFINITIONS

"For purposes of this chapter—

"(1) TAXABLE YEAR.—The term 'taxable year' has the same meaning as when used in chapter 1.

"(2) PERSON.—The term 'person' includes any government or political subdivision, or agency or instrumentality thereof.

"(3) NONRESIDENT ALIEN.—The term 'nonresident alien individual' includes an alien resident of Puerto Rico."

(2) The table of chapters for subtitle F is amended by adding at the end thereof

"CHAPTER 81. Collection of income tax at source on interest and dividends."

(b)(1) CREDITS AGAINST INCOME TAX.—Part IV of subsection A of chapter 1 of the Internal Revenue Code of 1954 (relating to credits against tax) is amended by adding at the end thereof the following new section:

"SEC. 39. CREDIT FOR TAX WITHHELD ON INTEREST AND DIVIDENDS

"(a) GENERAL RULE.—The amount required to be deducted and withheld under section 7901 as tax on interest or under section 7902 as tax on dividends shall be allowed to the recipient of the income as a credit against the tax imposed by this subtitle for the taxable year in which the interest or dividend is received.

"(b) PARTNERSHIPS, TRUSTS, AND ESTATES.—If the recipient of the interest or dividend is a partnership or a common trust fund, then the credit provided by subsection (a) shall not be allowed to such recipient, but the members of the partnership, or the participants in the common trust fund, as the case may be, shall be allowed their proportionate share of such credit. If the recipient is an estate or trust, and if any legatee, heir, or beneficiary subject to the tax imposed by this chapter is required to include a portion of such interest or dividend in computing his taxable income, such legatee, heir, or beneficiary shall be allowed such portion of the credit as is probably allocable to him on the basis of the income allocable to him under subchapter J (sec. 641 and following, relating to estates, trusts, beneficiaries, and decedents) for the taxable year of the estate or trust, and such portion of the credit shall not be allowed to the estate or trust.

"(c) REGULATED INVESTMENT COMPANIES AND PERSONAL HOLDING COMPANIES.—In the case of a regulated investment company or a personal holding company, the credit provided by subsection (a) shall be reduced by the amount of credit allowed such company under section 7907.

"(d) TAX-EXEMPT ORGANIZATIONS.—

"(1) IN GENERAL.—The credit provided by subsection (a) shall not be allowed to any recipient which is exempt from income tax.

"(2) CROSS REFERENCE.—

"For refund under chapter 81 in the case of a recipient which is exempt from tax, see section 7906."

(2) AMENDMENTS TO TABLE OF SECTIONS.—The table of sections for such part IV is amended by adding at the end thereof the following:

"Sec. 39. Credit for tax withheld on dividends."

(c) (1) SPECIAL CREDIT FOR TAX-EXEMPT ORGANIZATION.—Chapter 25 of such Code (relating to general provisions relating to employment taxes) is amended by adding at the end thereof the following new section:

"SEC. 3505. SPECIAL CREDIT IN CASE OF ORGANIZATIONS EXEMPT FROM INCOME TAX

"(a) GENERAL RULE.—In the case of any person (including any government or political subdivision, agency, or instrumentality thereof) which is exempt from the tax imposed by chapter 1, the amount required to be deducted and withheld as tax under chapter 81 with respect to interest and dividends received by it during any calendar quarter shall be allowed, under regulations prescribed by the Secretary or his delegate, as a credit against (but not in excess of) the amount shown on the return of such person as its liability (after the adjustments, if any, provided for in sections 6205(a) and 6413(a)) for such quarter in respect of the taxes imposed by chapter 21 (Federal Insurance Contributions Act) and by

chapter 24 (collection of income tax at source on wages). Such credit shall be allowed only if claim therefor is made, in accordance with such regulations, at the time of the filing of the return with respect to the taxes under chapter 21 and chapter 24 for such quarter.

"(b) CROSS REFERENCE.—

"For refund under chapter 81, see section 7906."

(2) AMENDMENT TO TABLE OF SECTIONS.—The table of sections for chapter 25 is amended by adding at the end thereof the following:

"Sec. 3505. Special credit in case of organizations exempt from tax."

(d) TECHNICAL AMENDMENTS.—

(1) TAX COMPUTED BY SECRETARY OR HIS DELEGATE.—Section 6014 of such Code (relating to income tax not computed by taxpayer) is amended—

(A) by striking out in subsection (a) the phrase "and whose gross income other than wages, as defined in section 3401(a), does not exceed $100," and by inserting in lieu thereof "and whose gross income (other than wages, as defined in section 3401(a), and other than interest and dividends on which tax is required to be deducted and withheld under chapter 81) does not exceed $100,"; and

(B) by inserting after "other than wages on which the tax has been withheld at the source" the following: "and other than interest and dividends on which tax is required to be deducted and withheld under chapter 81".

(2) DECLARATION OF ESTIMATED INCOME TAX BY INDIVIDUALS.—Section 6015(a) of such code (relating to declaration of estimated income tax by individuals) is amended—

(A) by amending so much of paragraph (1) thereof as precedes subparagraph (A) to read as follows:

"(1) the gross income for the taxable year can reasonably be expected to consist of wages (as defined in section 3401(a)), or interest (as defined in section 7901(b) or dividends (as defined in section 7902(b)) on which tax is required to be deducted and withheld under chapter 81, or both, and of not more than $100 from sources other than such wages, interest, and dividends, and can reasonably be expected to exceed—"; and

(B) by amending so much of paragraph (2) thereof as precedes subparagraph (A) to read as follows:

"(2) the gross income can reasonably be expected to include more than $100 from sources other than wages (as defined in section 3401(a)) and other than interest (as defined in section 7901(b)) and dividends (as defined in section 7902(b)) on which a tax is required to be deducted and withheld under chapter 81, and can reasonably be expected to exceed the sum of—".

(3) WITHHOLDING OF TAX ON NONRESIDENT ALIEN INDIVIDUALS.—Section 1441(c) of such Code (relating to exceptions to the withholding of tax on nonresident alien individuals) is amended by adding at the end thereof the following new paragraph:

"(6) INTEREST AND DIVIDENDS ON WHICH TAX IS WITHHELD UNDER CHAPTER 81.—Where any person is required to deduct and withhold a tax under subsection (a) on an amount on which a tax was required to be deducted and withheld under chapter 81, such person shall deduct and withhold under subsection (a) only the excess of—

"(A) the amount which would be required to be deducted and withheld under subsection (a) but for the application of chapter 81, over

"(B) the amount required to be deducted and withheld under chapter 81."

(4) WITHHOLDING OF TAX ON FOREIGN CORPORATIONS.—Section 1442 of such Code (relating to withholding of tax on foreign corporations) is amended by striking out the period at the end thereof and inserting in lieu thereof a comma and the following: "and except that where any person is required under this section to deduct and withhold a tax on an amount on which a tax is required to be deducted and withheld under chapter 81, such person shall deduct and withhold only the excess of—

"(1) the amount which would be required to be deducted and withheld under this section but for the application of chapter 81, over

"(2) the amount required to be deducted and withheld under chapter 81."

(5) INFORMATION BY CORPORATIONS.—Paragraph (1) of section 6042 of such Code (relating to returns regarding corporate dividends, etc.) is amended by adding at the end thereof the following: "except that if the amount of

dividends paid to any shareholder during a calendar year is less than $300 and tax is required to be deducted and withheld under chapter 81 on the entire amount of such dividends, no such return shall be required with respect to such shareholder for such calendar year;".

(6) EXCESSIVE WITHHOLDING.—Subsection (b) of section 6401 of such Code (relating to amounts treated as overpayments) is amended to read as follows:

"(b) TREATMENT OF CREDITS.—The amount of the credit provided in section 31 (relating to credit for tax withheld on wages under chapter 24), and the amount of the credit provided in section 39 (relating to credit for tax withheld on interest and dividends under chapter 81), against the tax imposed by subtitle A for any taxable year shall, to the extent thereof, be considered as payment of the tax for such year, whether or not the withholding agent has paid to the Secretary or his delegate the amount of the tax deducted and withheld at the source under chapter 24 or the amount of tax required to be deducted and withheld at the source under chapter 81."

(7) SPECIAL PERIOD OF LIMITATIONS FOR SMALL REFUNDS ON TAX WITHHELD AT SOURCE.—Section 6511(d) of such Code (relating to special rules for limitations on allowance of credits and refunds) is amended by adding at the end thereof the following new paragraph:

"(4) SPECIAL RULES RELATING TO TAX ON INTEREST AND DIVIDENDS WITHHELD AT SOURCE.—In the case of an individual filing a claim for credit or refund of an overpayment for a taxable year for which he was not required to make a return under section 6012(a) to make a return, if the overpayment is attributable to the credit allowed under section 39 for tax required to be deducted and withheld under chapter 81 (relating to tax withheld at source on interest and dividends), in lieu of the 3-year period of limitation prescribed in subsection (a), the period shall be 7 years from the date prescribed by law for filing a return for the taxable year with respect to which the claim is made. In the case of such a claim, the amount of credit or refund may exceed the portion of the tax paid within the period provided in subsection (b)(2), to the extent of the amount of the overpayment attributable to such credit allowed under section 39, or to the extent of $2, whichever is the lesser."

(8) PRESUMPTIONS AS TO DATE OF PAYMENT.—Section 6513(b) of such Code (relating to time tax considered to be paid) is amended by adding at the end thereof the following new sentence: "For purposes of section 6511 or 6512, any tax required to be deducted and withheld at source during any taxable year of the recipient under chapter 81 shall, in respect of the recipient of the income, be deemed to have been paid by him on the last day prescribed for filing the return under section 6012 for such taxable year (determined without regard to any extension of time for filing such return)."

(9) DEFINITION OF WITHHOLDING AGENT.—Section 7701(a)(16) of such Code (defining the term "withholding agent") is amended by striking out "or 1461" and inserting in lieu thereof "1461, or 7901".

(10) EFFECTIVE DATE.—The amendments made by paragraphs (1) and (2) shall apply to taxable years beginning after December 31, 1959.

[S. 2039, 86th Cong., 1st sess.]

A BILL To amend the Internal Revenue Code of 1954 to provide for additional information on certain returns

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 6041 of the Internal Revenue Code of 1954 (relating to additional information at source) is hereby amended by striking out subsection (d) and inserting in lieu thereof the following new subsections:

"(d) ADDITIONAL INFORMATION.—Any person (1) making any payment of any thing of value to or on behalf of any officer, employee, partner, or shareholder of such person or (2) making any service, property, or facility available to any person described in clause (1), regardless of whether such payment, service, property, or facility constitutes gross income under this title, shall render a true and accurate return to the Secretary or his delegate, under such regulations and in such form and manner and to such extent as may be prescribed by him, setting forth such information with respect to such payment, service, property, or facility as may be required by such regulations. This subsection shall not apply with respect to any payment made to, or any service, property, or facility—

"(1) made available to any individual by any person during any taxable year of such person if the aggregate value of all payments made to, and all services, property, and facilities made available to, such individual by such person during such taxable year is less than $200; or

"(2) made equally available by an employer to all his employees or to any class of employees, provided that the persons to whom such payment, service, property or facility is made available shall not primarily consist of officers, shareholders, or highly compensated employees.

"(c) RECIPIENT TO FURNISH NAME AND ADDRESS.—When necessary to make effective the provisions of this section the name and address of the recipient shall be furnished upon demand of the person making the payment or making the service, property, or facility available."

[S. 2040, 86th Cong., 1st sess.]

A BILL To amend the Internal Revenue Code of 1954 to prohibit the deduction of certain expenditures as trade or business expenses

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 162 of the Internal Revenue Code of 1954 (relating to trade or business expenses) is amended by redesignating subsection (d) as (e), and by inserting after subsection (c) the following new subsection:

"(d) DEDUCTIONS DENIED IN CASE OF CERTAIN EXPENSES.—No deduction shall be allowed under subsection (a) for any expenses paid or incurred for—

"(1) entertainment at night clubs, theaters, sporting events, or other places of public amusement (unless the conduct of the place of amusement is the trade or business of the taxpayer);

"(2) maintenance or operation of yachts or of seasonal or vacation lodges or houses (unless the maintenance or operation of the yacht, lodge or house is the trade or business of the taxpayer);

"(3) gifts;

"(4) dues or initiation fees in social organizations; and

"(5) traveling expenses to conventions outside the United States."

(b) The amendment made by subsection (a) shall apply to taxable years beginning after the date of the enactment of this Act.

Senator DOUGLAS. They are based squarely on the principle that persons with equal incomes should pay equal taxes. They will, therefore, make major improvements in the fairness of the income tax without increasing the taxes of the citizens who are already paying their full share. They will improve compliance by taxpayers. They will add $2.3 billion to the annual revenues of the Federal Government and therefore help balance the budget. They will make possible some debt reduction and therefore avoid increasing interest rates. They will permit the Government more fully to meet the pressing obligations it faces.

Tax reform of this character is long overdue. The continuing chipping away at the income tax base by granting special favors to one group of taxpayers after another has resulted in a highly differentiated tax which is unfair as between taxpayers of equal taxpaying ability. It has produced an income tax so complex as to impose very substantial burdens of compliance on taxpayers generally. Moreover, because of all its discriminatory features, the income tax is rapidly falling into disrepute and threatening the willing compliance upon which a self-assessed income tax depends. Preferential provisions in the law also serve to substitute tax considerations for sound business judgments in the taxpayer's determination of how to use the resources at his disposal, resulting in uneconomical use of these resources. Erosion of the income tax base has reached the point at which the additional contribution which income taxation can make to responsible financing of the Federal Government may be seriously limited.

An old and universally accepted maxim of income taxation is that people with equal incomes should pay equal taxes, without regard to the source of the income or the circumstances under which it is received. The present income tax law makes numerous exceptions to this maxim. As a result, literally tens of billions of dollars of personal income avoid income tax or are subject to tax at preferential rates. I would like to offer for the record at this point a table, prepared by the Treasury Department and printed in "The Federal Revenue System, Facts and Problems, 1959," Joint Economic Committee, which shows the difference between personal income and the amount of income to which Federal individual income tax rates actually apply.

(The table referred to follows:)

Reconciliation of personal income with adjusted gross income, and derivation of the individual income tax base and tax, calendar years 1957 and 1959 (estimated)

[In billions of dollars]

	1957	1959 (estimated)
Personal income	347.9	374.0
Deduct:		
Transfer payments	21.5	25.5
Other labor income	8.9	9.8
Imputed interest	8.5	9.1
Imputed rent	6.8	7.1
Nontaxable military pay	4.8	4.7
Income in kind [1]	3.7	3.7
All other deductions [2]	3.8	3.3
Total deductions	57.9	63.2
Add:		
Employee contributions for social insurance	6.6	7.5
Net capital gains	3.8	7.0
All other additions [3]	3.3	3.6
Total additions	13.7	18.1
Personal income adjusted	303.7	328.9
Income not reported on tax returns [4]	23.7	24.7
Adjusted gross income reported on tax returns [5]	280.0	304.2
Adjusted gross income, nontaxable returns	20.2	22.2
Adjusted gross income of taxable returns	259.8	282.0
Deduct:		
Standard deductions [6]	13.0	14.8
Itemized deductions [6]	22.0	25.0
Personal exemptions	76.5	79.0
Taxable income of individuals	148.3	163.2
Taxable income of fiduciaries [6]	.9	.9
Total taxable income	149.2	164.1
Effective tax rate (percent) [7]	22.9	23.1
Tax liability of individuals, "Statistics of Income" basis	33.9	37.7
Tax liability of fiduciaries [6]	.3	.3
Adjustment to collections basis [8]	1.2	1.3
Tax liability, collections basis	35.4	39.3

[1] Including food and fuel consumed on farms.
[2] Tax-exempt interest and savings bonds accruals, inventory items, excludible sick pay and dividends, undistributed fiduciary income.
[3] Income from Alaska and Hawaii, miscellaneous reported income, annuities, and pensions.
[4] Includes income of persons not required to file, income disclosed by audit, income of tax evaders, estimating errors in personal income, sampling errors in "Statistics of Income," etc.
[5] Returns with positive adjusted gross income.
[6] Estimated.
[7] Effective rate on taxable income after tax credits.
[8] Includes tax adjustments, interest, and penalties arising from income of earlier years. Reflects approximately $5,500,000,000 of taxable income.

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

Source: Office of the Secretary of the Treasury, Tax Analysis Staff.

Senator DOUGLAS. For 1957 the difference was no less than $198 billion.

In 1959, it is estimated, the difference will be $210 billion. In other words, $210 billion of the income received by the people of the United States in 1959 will not be subjected to Federal income tax because of provisions of the law which exclude various types of income from tax and because of evasion of tax liabilities.

Not all of this income, of course, could or should be taxed. For example, no one seriously suggests eliminating the personal exemption, which accounted for $100.5 billion of the difference between personal and taxable income in 1957 and about $103 billion in 1959. After deducting these amounts, there still remains $98.2 billion and $106.9 billion of personal income in 1957 and 1959, respectively, which is not subject to tax. Nor could all of this income be taxed. Practical difficulties in some cases would involve compliance and enforcement costs so great as to make the effort not worthwhile. Other exceptions reflect judgments by the people that the public interest as a whole will be well served by certain broadly applicable exceptions to the general rule of equal income, equal tax. But even making the most generous allowances for these cases, substantial amounts of income remain outside the tax base as special accommodations to small groups of taxpayers. These exceptions do not serve the public interest. On the contrary, these tax favors require a greater tax burden on all the rest of the people who are not so favorably situated.

The amendments we are offering today cover only a few of these situations. They will not impose additional tax burdens on most taxpayers. On the contrary, they will permit the reduction of the tax burdens which most of us have to bear by requiring some of the favored few to assume more of their fair share of the burden.

These amendments are not concerned with the question of progression in the distribution of tax burdens.

We will not go into the question of whether our tax system thereby is progressive, proportional, or regressive.

These amendments are aimed at assuring fairer treatment among taxpayers of equal income.

At the present time, the Government is facing serious difficulties in management of the public debt. The Treasury has asked the Congress to eliminate the ceiling on the rate of interest which may be paid on its obligations with maturities of more than 5 years—a ceiling with which the Treasury has been able to live ever since World War I. In large part, this difficulty is the direct result of the failure of the administration to manage the Nation's fiscal affairs in such a way as to maintain an adequate balance (or surplus) of receipts and expenditures. The Secretary of the Treasury only 2 weeks ago, before the House, admitted that the only sure way to improve this situation is to achieve a budget surplus which would permit the repayment of a portion of the bank-held debt, and I read from the statement of Secretary Anderson before the House Ways and Means Committee on June 10, page 38 of his prepared statement:

> In particular, we must have a clear demonstration of our willingness to maintain fiscal and monetary discipline. A period of high and rising business activity such as the present, requires a surplus in Federal fiscal operations for debts retirement and freedom for Federal Reserve authorities to conduct flexible credit policies.

Now, notice these words:

A budget surplus in the coming fiscal year can convert the Federal Government from a net borrower in credit markets to a net supplier of bonds through debt retirement.

If this could be done, monetary restraints could be eased which would result in reduced pressure on interest rates. Other measures may provide some temporary help, but in the last analysis, during a period of a high level of economic activity such as that into which, we are told, we are now moving, monetary and credit ease and economical management of the Federal debt call for budget surpluses adequate to permit some reduction in the bank-held public debt.

It is regrettable that the administration has not proposed measures specifically designed to produce such a surplus in fiscal 1960. Surely if they are sincere in their desire to achieve this desirable result, they should lend their active support to the measures proposed here today to make the tax law both fairer and more productive. And I must admit I was shocked by the statement of the Director of the Budget, Mr. Stans, that they were not contemplating revision of the tax system, and the statement of Mr. Lindsay, for whom I have a good deal of respect, that the Treasury had reached no decision.

These amendments will increase Federal tax receipts by $2.350 billion. The proposed revision of percentage depletion rates for oil and gas will produce $400 million, of which $90 million will come from oil production abroad.

The plan for withholding on dividends and interest, which Senator Proxmire will present, will add $750 million annually to tax revenues through improved compliance, without adding a penny to anyone's tax liability.

As we all know, there is a 20 percent withholding tax on wages and salary, but no withholding tax on dividends and interest, and the amount of dividends and interest reported by individual taxpayers is very much less than the amounts distributed.

In the case of dividends, it is approximately $1.5 billion less; in the case of interest, $3.5 billion less, a total of $5 billion; and while there will be necessarily some difficulty in reaching all of these sources, we do believe it is most conservative to say that a withholding of 20 percent will add at least $750 million a year annually to the tax revenue and, indeed, more, because once it is declared, once the tax is withheld at the source, individuals will have to, in many cases, pay supertax at graduated rates, above the 20 percent, which they owe.

The amendment to repeal the dividends-received exclusion and credit, proposed by Senator McCarthy, will add $400 million to the Government's revenues.

This fiscal monstrosity was introduced into the 1954 revenue bill by Mr. George Humphrey, then Secretary of the Treasury, and it is the cause of many of our troubles.

It has helped to send up the price of stocks which, in turn, is used as an argument why we should increase the interest rate on bonds.

It has given windfall profits to certain favored groups within our society; it has reduced governmental revenues which otherwise we would have had; and it has made our fiscal position more difficult.

Senator Clark's proposal to eliminate the Government's 52 percent subsidy of business executives' entertainment expenses, which is one

of our greatest scandals in our tax situation, will give us another $800 million.

With this additional revenue in 1960, we can make desirable reductions in certain wartime excises and reduce to a maximum of 75 percent the unrealistic rates now applicable to the middle and upper brackets of individual taxable income.

I do not believe in a 91 percent tax rate. I think that maximum certainly under present conditions should not exceed 75 percent, and that there should be a scaling down and a progression even prior to that point.

We could, in addition, retire $800 million of bank-held public debt, and in so doing, ease the strain upon our fiscal situation, if there is any.

We could, furthermore, provide an additional $550 million for shoring up our defenses and for discharging other essential public responsibilities which are threatened by budgetary stringency, although I think the added combat efficiency needed in the defense budget could be met by cutting down on the wastes in the contractual process, and in the supplies and the disposal of supplies, and for discharging other essential public responsibilities which are threatened by budgetary stringency.

I must confess, Mr. Chairman, to being impatient with the administration and with others who say that we do not have enough money to begin to clear our slums, to help to house the people who are displaced, that we do not have enough money to protect the public health; we do not have enough money to help better to educate our children or aid depressed areas.

We do have enough money for this if we will only pare down waste, and if we will introduce the principle that equal income should pay equal taxes.

In short, the adoption of the amendments will make the income tax fairer, will reduce the public debt and ease the pressure on interest rates which must be paid by the Government, and will provide additional revenues for reducing taxes and for maintaining and expanding essential Government functions.

Mr. Chairman, now let me turn to the details of the depletion allowance amendment, which is S. 2037, introduced by myself, and Senators Proxmire, Clark, Humphrey, Hennings, Morse, McNamara, Lausche, Carroll, and Young of Ohio.

It would reduce the existing 27½ percent depletion allowance for oil and gas to 15 percent for those who receive income from oil and gas properties in excess of $5 million a year; from 27½ to 21 percent for those who receive income from oil and gas properties between—gross income—$1 million and $5 million a year; but would keep the existing rate of 27½ percent for those with income from oil and gas properties below $1 million a year.

This is gross income, of course.

Under the present law, a host of costs and special allowances are deductible from gross income even before the depletion allowance applies. These are:

(1) Operating costs, which are quite proper, of course.

(2) Intangible drilling and development costs. These can be written off in the year in which they occur and are not spread over a period of years, as is the case in other industries. It has been estimated that between 75 and 90 percent of all costs can be written off in 1 year in

this manner. We have, therefore, already accorded to this industry virtually the ultimate in accelerated depreciation and fast tax write-offs.

(3) Insuccessful or dry holes, of course, can be written off against the income from successful drillings.

(4) The 14-point reduction in the tax itself—or a reduction from 52 to 38 percent on taxable income—for income derived from operations abroad in the Western Hemisphere, that is, Venezuela, Canada, Mexico, and so forth.

(5) Royalty payments abroad, particularly in the Near East, may be disguised as income tax payments for which the foreign tax credit is then available.

I think this committee has gone into this question in executive session, and well knows the truth of what I speak.

A company, therefore, escapes liability for U.S. tax by being allowed to take a tax credit for a payment which a domestic taxpayer would be permitted only to deduct from gross income, rather than to take as a credit against tax.

In other words, it is a deduction from tax, not a deduction from gross income.

In addition to all these provisions which would seem to be quite generous, a further allowance is permitted called the percentage depletion allowance. In the case of gas and oil, this amounts to an additional 27½ percent of gross income up to one-half of net income. This allowance is, moreover, permitted in perpetuity as long as there is any flow of oil or gas from the well. It is not limited to recapturing the cost of the well in question, most of which cost—as we have seen—is recovered for tax purposes in the year the outlay is made through the intangible drilling and development cost deduction.

This allowance continues through time without relationship to the taxpayer's investment in the venture and whether or not that investment has been recovered for tax purposes.

From its inception, the percentage depletion allowance has been 27½ percent. As corporation income taxes have risen from 14 percent to the present 52 percent, the value of this allowance has, however, greatly grown. It has brought in its train a host of similar deductions on virtually everything else that is extracted from the earth and sea, including oystershells, clamshells, and sand and gravel. There would seem to be no danger of dry holes here, in the case of sand and gravel.

It is almost a perfect example of a case where, instead of closing a loophole in the law, an attempt has been made to make the loophole universal.

Now let me turn to some of the facts about depletion allowances in general and the oil and gas depletion allowance in particular.

Mr. Chairman, I have here three tables showing the amount of all depletion which corporations took as income tax deductions in the period 1946 to 1956; these same deductions by total asset classes; and a further table showing corporate depletion deductions and net income by total asset classes for the years 1952 to 1956. I ask that these tables be printed in the record of the hearing.

The CHAIRMAN. Without objection.

(The tables referred to follow:)

TABLE 1.—*Selected corporate business deductions, all corporations, 1946-56*

[Dollar amounts in millions]

Deduction	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956
Compensation of officers	$5,143.1	$6,026.4	$6,733.3	$6,743.0	$7,606.8	$8,122.0	$8,430.0	$8,776.7	$9,113.2	$10,480.7	$11,045.1
Interest paid	2,251.0	2,501.4	2,758.7	3,045.1	3,211.9	3,700.5	5,013.2	5,680.9	6,270.6	7,058.4	8,281.0
Taxes paid	5,830.5	6,892.9	7,481.7	8,361.3	9,015.2	11,030.8	11,696.8	12,194.9	12,476.9	14,202.6	15,038.5
Contributions or gifts	213.9	241.2	239.3	222.6	252.4	343.0	398.6	494.5	313.8	414.8	418.0
Depletion	708.9	1,210.3	1,711.3	1,476.2	1,709.3	2,085.1	2,126.5	2,301.8	2,358.6	2,805.5	3,084.3
Depreciation	4,201.7	5,220.1	6,298.6	7,190.5	7,858.1	8,829.0	9,604.4	10,410.6	13,691.5	13,418.8	14,952.9
Amortization	64.5	58.9	38.9	30.6	43.3	291.9	831.3	1,515.3		2,590.3	2,625.9
Advertising	2,408.3	3,032.2	3,466.0	3,772.7	4,097.0	4,552.9	5,026.8	5,480.9	5,770.2	6,601.8	7,061.6
Amounts contributed under pension plans, etc.[1]	834.6	1,038.3	1,153.5	1,216.1	1,660.9	2,326.9	2,551.8	2,936.3	2,840.3	3,296.2	3,645.5
Other[2]	5,892.1	7,338.4	8,062.8	7,963.7	8,371.3	9,709.7	[3] 860.9 10,493.6	[3] 860.9 11,520.5	[3] 910.6 11,445.5	[3] 1,146.9 12,959.1	[3] 1,302.9 14,325.4
Total selected deductions	27,638.6	33,560.1	37,944.1	40,056.8	43,824.2	50,991.8	56,803.4	62,273.3	65,191.2	74,975.1	81,781.1

[1] Deductions claimed under sec. 23(p) of the Internal Revenue Code for amount contributed by employers under pension, annuity, stock-bonus, or profit-sharing plans, or other deferred compensation plans.

[2] Contributions under employee welfare plans.

[3] Includes bad debts, repairs, and rent paid on business property.

Source: Internal Revenue Service, Statistics of Income, Corporation Income Tax Returns.

TABLE 2.—*Corporate depletion deductions by total assets classes, 1946–55* [1]

[Millions of dollars]

Assets classes	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956
Under $50,000	$3.3	$3.9	$4.9	$3.7	$4.0	$3.5	$3.1	$4.7	$4.2	$5.7	$8.6
$50,000 and under $100,000	3.7	4.6	5.5	4.0	4.4	3.7	5.2	3.7	4.3	5.2	6.9
$100,000 and under $250,000	10.8	14.7	16.1	11.9	12.6	12.1	13.5	13.5	15.7	27.2	21.1
$250,000 and under $500,000	12.8	18.9	21.4	16.1	17.1	21.4	21.2	21.4	22.6	26.0	27.5
$500,000 and under $1,000,000	23.2	31.8	40.8	21.4	31.5	41.4	35.1	38.6	32.2	45.1	43.1
$1,000,000 and under $5,000,000	71.3	108.3	126.1	101.0	120.8	160.8	150.3	154.0	147.4	191.5	181.6
$5,000,000 and under $10,000,000	38.3	54.3	72.5	57.5	68.5	83.8	85.7	83.3	73.7	80.0	96.7
$10,000,000 and under $50,000,000	130.7	165.5	245.2	213.1	278.9	318.9	297.7	306.1	290.3	351.2	339.9
$50,000,000 and under $100,000,000	38.6	85.7	89.7	92.8	115.2	120.8	131.2	119.8	134.0	178.1	249.0
$100,000,000 or more	445.0	713.8	1,076.5	895.1	1,038.8	1,299.3	1,370.0	1,539.3	1,517.9	1,869.0	2,082.5
Total	777.7	1,201.4	1,698.9	1,426.5	1,691.8	2,055.8	2,112.9	2,284.3	2,242.4	2,779.0	3,056.7
	Percentage distribution										
Under $50,000	0.4	0.3	0.3	0.3	0.2	0.2	0.1	0.2	0.2	0.2	0.3
$50,000 and under $100,000	.5	.4	.3	.3	.3	.2	.2	.2	.2	.2	.2
$100,000 and under $250,000	1.4	1.2	.9	.8	.7	.6	.6	.6	.7	1.0	.7
$250,000 and under $500,000	1.7	1.6	1.3	1.1	1.0	1.0	1.0	.9	1.0	.9	.9
$500,000 and under $1,000,000	3.0	2.6	2.4	2.2	1.9	2.0	1.7	1.7	1.4	1.6	1.4
$1,000,000 and under $5,000,000	9.2	9.0	7.4	7.1	7.1	7.8	7.1	6.7	6.6	6.9	5.9
$5,000,000 and under $10,000,000	4.9	4.5	4.3	4.0	4.1	4.1	4.1	3.6	3.3	2.9	3.2
$10,000,000 and under $50,000,000	16.8	13.8	14.4	14.9	16.5	15.4	14.1	31.4	12.9	12.6	11.1
$50,000,000 and under $100,000,000	5.0	7.1	5.3	6.5	6.8	5.8	6.2	5.2	6.0	6.4	8.1
$100,000,000 or more	57.2	59.4	63.4	62.7	61.4	62.9	64.8	67.4	67.7	67.3	68.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] All returns with balance sheets.

Source: Internal Revenue Service, Statistics of Income, pt. 2.

NOTE.—Detail may not add to totals because of rounding.

TABLE 3.—*Corporate depletion deductions and net income by total assets classes, 1952 [1]–55*

[Dollar amounts in millions]

Assets classes	1952			1953			1954			1955			1956		
	Net income [2]	Depletion deductions	Depletion deductions as percent of net income	Net income	Depletion deductions	Depletion deductions as percent of net income	Net income	Depletion deductions	Depletion deductions as percent of net income	Net income	Depletion deductions	Depletion deductions as percent of net income	Net income	Depletion deductions	Depletion deductions as percent of net income
Under $50,000	$382.5	$2.6	0.7	$370.6	$3.2	0.9	$354.9	$3.3	0.9	$422.6	$4.7	1.1	$486.0	$3.6	0.7
$50,000 and under $100,000	577.0	4.7	.8	539.3	3.1	.6	518.1	2.9	.6	631.3	4.1	.6	722.7	4.6	.6
$100,000 and under $250,000	1,364.9	11.2	.8	1,251.1	11.2	.9	1,281.3	13.3	1.0	1,571.8	20.8	1.3	1,756.1	17.2	1.0
$250,000 and under $500,000	1,336.0	17.5	1.3	1,228.0	18.0	1.5	1,252.2	17.5	1.4	1,589.6	22.0	1.4	1,690.4	22.8	1.3
$500,000 and under $1,000,000	1,644.7	27.4	1.7	1,473.2	28.8	2.0	1,459.3	23.9	1.6	1,871.0	37.0	2.0	1,861.9	32.5	1.7
$1,000,000 and under $5,000,000	4,716.4	129.2	2.7	4,331.5	120.1	2.8	4,172.5	120.8	2.9	5,293.6	155.2	2.9	5,197.7	142.3	2.7
$5,000,000 and under $10,000,000	2,319.1	64.6	2.8	2,188.6	70.2	3.2	2,025.7	59.5	2.9	2,410.3	65.5	2.7	2,512.0	73.6	2.9
$10,000,000 and under $50,000,000	6,105.7	250.9	4.1	6,123.9	263.6	4.3	5,555.0	245.0	4.4	6,736.3	305.1	4.5	6,993.4	278.1	4.0
$50,000,000 and under $100,000,000	2,806.5	122.4	4.4	2,854.4	106.5	3.7	2,812.8	113.4	4.0	3,174.9	157.6	5.0	3,488.0	211.1	6.1
$100,000,000 or more	19,105.5	1,350.5	7.1	21,384.2	1,515.6	7.1	20,085.6	1,489.9	7.4	26,568.5	1,835.9	6.9	25,596.2	2,056.8	8.0
Total	40,358.3	1,980.9	4.9	41,750.9	2,140.3	5.1	39,518.4	2,089.3	5.3	50,270.9	2,608.1	5.2	50,304.6	2,842.6	5.7

[1] Returns with balance sheets and net income.
[2] Compiled receipts less compiled deductions as shown in Statistics of Income.

Source: Internal Revenue Service, Statistics of Income, pt. 2.

Senator DOUGLAS. The first table shows that in 1956, the total amount of deductions for depletion by all corporations with balance sheets was in the amount of $3,056,700,000. It is truly an enormous figure.

We estimate that the deduction for depletion in the case of oil and gas was something over $2 billion of this figure of slightly over $3 billion.

The second table shows that some $2,082.5 million of the corporate depletion deduction in 1956, or some 68.1 percent of them, were taken by corporations with net assets of over $100 million. Thus, the really big corporations took the giant's share, or two-thirds, of the depletion allowances.

Mr. Chairman, back in 1950, Secretary of the Treasury Snyder came before the House Ways and Means Committee and urged that it reduce the depletion allowances. He made a very cogent argument for his position and he further placed in the Record a great many facts and figures which were informative and persuasive. His figures showed that one individual operator, having a net income in the years 1943–47 of $14.3 million, paid income taxes of only $80,000 in this period, or only about two-thirds of 1 percent.

I ask that one of the exhibits introduced then, which appears in the hearings of the Ways and Means Committee on the revenue revision of 1950 be placed in the record at this point.

The CHAIRMAN. Without objection.

(The material referred to follow:)

Income, deductions, and tax liabilities of 10 selected individual oil and gas operators, for the 5-year period 1943–47

[Money figures in million]

Individual operator	Net income			Special deductions		Taxable net income	Income tax liability	
	From oil and gas [1]	From other sources	Total	Percentage depletion [2]	Development costs [3]		Amount	Percent of total net income
A	$10.5	$3.8	$14.3	2.2	$13.0	[4] −$0.9	$0.08	0.6
B	5.0	.8	5.8	3.1	2.1	.6	.5	8.6
C	3.9	.5	4.4	3.2	4.4	[4] −3.2	.15	3.4
D [5]	9.3	.3	9.6	2.7	.0	6.9	6.1	63.5
E	2.7	.8	3.5	1.0	.3	2.2	1.4	40.0
F	1.7	1.4	3.1	.8	1.5	.8	.6	19.4
G	7.7	−1.3	6.4	3.5	2.1	.8	.5	7.8
H	2.1	3.6	5.7	1.0	.6	4.1	2.2	38.6
I	1.7	.1	1.8	.5	1.0	.3	.2	11.1
J	8.0	−.7	7.3	2.9	1.7	2.7	2.2	30.1
Total	52.6	9.3	61.9	20.9	26.7	14.3	13.93	22.5

[1] Income after deductions for operating expenses, depreciation, adjusted-basis depletion, exploration costs and losses on abandonment.

[2] Excess of percentage depletion over adjusted-basis depletion.

[3] Development costs are expenditures for the preparation of mineral properties for production, which are deducted as expenses in the year incurred. Consequently, these expenditures are not included in the tax basis of the property and future cost or adjusted-basis depletion is correspondingly reduced. The treatment of development costs as a current expense, however, does not diminish percentage depletion in subsequent years, since the latter is determined on the basis of income in those years.

[4] While special deductions more than offset the total net income for the 5 years, some income tax was paid because there were deficits only in some years. A deficit caused by excess percentage depletion cannot be carried over against net taxable income of other years.

[5] Includes only 4 years, 1943–46.

Source: Bureau of Internal Revenue, special tabulation.

Senator DOUGLAS. Mr. Chairman, in 1955, the Joint Economic Committee asked a number of tax experts to participate in its study of Federal tax policy for economic growth and stability. One of the finest papers which was presented to the Committee was that by William F. Hellmuth, Jr., of Oberlin College, who wrote on the subject of the "Erosion of the Federal Corporation Income Tax Base." This paper appears on pages 888 to 917. I ask unanimous consent that a section of that paper, which appears on pages 897 to 903 and which deals with the percentage depletion question, be printed at this point in the record of the hearings.

The CHAIRMAN. Without objection.

(The material referred to follows:)

PAPER SUBMITTED BY WILLIAM F. HELLMUTH, FROM FEDERAL TAX POLICY FOR ECONOMIC GROWTH AND STABILITY, JOINT ECONOMIC COMMITTEE, 1955

DEPLETION

Present depletion deductions are probably the most glaring and most widely condemned source of erosion in the corporate income-tax base. These deductions may also be the ones which have been most liberalized and extended over the past 15 years.

Corporations have been permitted a tax deduction for the exhaustion of oil and mineral resources since 1913. In economics and in our tax law, the principle is well established that the gradual exhaustion in use of a well or mineral deposit represents a cost of production for which deductions should be allowed in computing net income. Controversy exists as to timing and total amount of depletion deductions allowable.

On the basis of tax neutrality between different industries and economic activities, deductions from income over the life of a property would be limited to original cost, with annual tax-free recovery reflecting the portion of the total deposit which is extracted during the year. Using the business-income yardstick, there would be depletion deductions based on actual cost or in some cases no deductions at all for depletion.[1] Full recovery of actual cost under cost depletion would correspond to tax treatment of depreciation or amortization for other capital assets.

Existing legislation allows taxpayers owning an economic interest in mineral deposits the choice of a depletion deduction based on cost or percentage depletion. Percentage depletion gives an annual deduction equal to the smaller of a statutory percentage of gross income from mineral property or 50 percent of net income from the property before any allowance for depletion. Total tax-free deductions under percentage depletion are not limited or even necessarily related to capital cost. Annual percentage depletion deductions are related to production, prices, net income, and statutory percentages. There is no ceiling on the total amount of these deductions and over the life of a property they may total many times a taxpayer's actual investment costs. Thus, percentage depletion deductions diverge from allowable deductions which conform either to tax neutrality or to business-income concepts and are an important element of erosion.

[1] Smith and Butters, op. cit., pp. 80-84. Some businesses make no deduction for depletion due to the difficulty of estimating the future life of a deposit accurately.

The dollar estimate of the excess of percentage over cost depletion is based on Treasury studies of those corporations which accounted for 75 to 80 percent of all depletion allowances claimed by corporations during 1946–49.

Year	Number of corporations	Allowable depletion	Adjusted basis depletion	Excess of allowable over basis		
				Amount	Percent of allowable	Percent of net income
1946	352	$555	$75	$480	86.5	38.4
1947	344	839	79	760	90.6	35.0
1948	260	1,291	77	1,214	94.0	36.3
1949	260	1,120	61	1,059	94.6	40.1
Total		3,805	292	3,513		
Weighted average					92.3	

NOTE.—See also an interpretation of the 1946-47 data by D. H. Eldridge, "Tax Incentives for Mineral Enterprise." Journal of Political Economy, June 1950, pp. 222-240.

Sources: 1946 and 1957 data from Revenues Revision of 1950, hearings before the Committee on Ways and Means, House, 81st Cong., 2d sess., vol. I, pp. 194, 197; 1948 and 1949 data from E. E. Oakes, "Incentives for Mineral Industries," the President's Materials Policy Commission, Resources for Freedom, vol. 5, pp. 14-15. Admittedly adjusted-basis depletion is not identical to cost depletion but is based on cost less allowable depletion (larger of percentage or cost depletion) in prior years.

This table indicates that total allowable depletion deductions were at least 10 times depletion deductions based on cost. As legislation in 1951 and 1954 further liberalized percentage depletion and extended the opportunity to expense (currently or deferred) exploration and development costs so they never are charged to a depletion basis, allowable depletion may now be nearer 20 times cost depletion. These figures conceal a wide variation between individual products. Percentage depletion deduction as a multiple of cost depletion during 1946–49 varied from a high of over 200 for sulfur, to 19 for oil and gas, down to about 3½ for copper and coal. Note that oil and gas accounted for more than 80 percent of all depletion deductions:

Allowable depletion compared with adjusted-basis depletion for certain products, 1946–49 combined

[In millions]

	Allowable depletion	Adjusted-basis depletion	Allowable as multiple of adjusted basis	Product percent of total allowable
All products	$3,805	$292	3.7	100.0
Oil and gas	3,143	167	18.9	82.8
Sulfur	60	(1)	(1)	1.6
Coal	136	38	3.5	3.6
Copper	182	49	3.7	4.8

[1] Allowable depletion for sulfur was less than $300,000 for all 4 years combined. Individual years' totals were too small to be reported in tables. Thus allowable depletion for sulfur was at least 200 times the amount of adjusted-basis depletion and possibly much more.

Source: Computed from Treasury depletion studies of several hundred large companies for 1946-49, op. cit.

The most recent Statistics of Income indicate corporate depletion deductions of $2,126 million for 1952. Corporate depletion in 1955 might amount to $2,500 million, assuming increased dollar volume and another $100 million for the liberalization of depletion by the 1954 code. Ninety percent of this total gives $2,250 million as the conservatively estimated amount of corporate income excluded from taxable income due to overgenerous percentage depletion.[2]

Erosion of the tax base due to depletion has been rapid in recent years and perhaps has now come to a position of equilibrium, at a position of great liberality,

[2] Since corporations account roughly for 80 percent of all depletion, an additional $500 to $600 million of depletion erosion would be estimated for the 1955 individual income-tax base. Revenue Revision of 1950, hearings before the Committee on Ways and Means, House, 81st Cong., 2d sess., vol. I, p. 180.

with percentage depletion now available to every metallic and nonmetallic mineral from anorthosite to zinc, including even oystershells and peat. Under section 613(b) of the 1954 Code, only soil, sod, dirt, turf, water, and mosses, or minerals from seawater, the air, or similar inexhaustible sources are not eligible for percentage depletion.

But this hope—that there will be no further erosion from depletion—is probably too optimistic. Industries entitled to a low rate of percentage depletion are continually pressing for higher rates; pass-through of depletion deduction opportunities to corporate stockholders in extractive industries has been requested. A Federal circuit court recently held that the value of finished brick could be used in the income measure for percentage depletion.[3] If this view prevails for brick, other industries will push for equal treatment, possibly even to the value of gasoline for a vertically integrated oil company.

The statutory history of depletion is a superb example of at least three types of tax changes which erode the corporate tax base.

The initial break from cost depletion came in 1918 when Congress allowed, to the discoverer only, tax-free deductions based on value of property at the time of the discovery or within 30 days thereafter. This was probably the first instance under the Federal income tax where increment of value after 1913 was not taxed. Usually, of course, discovery of oil or minerals increases the value of a property substantially over cost. This higher value was justified as an incentive to exploration and discovery to meet the World War I emergency. A comparable situation arose during World War II when percentage depletion, restricted until then to oil and gas (1926), and sulfur, metal mines, and coal (1932), was extended in 1942 to 3 nonmetals and in 1943 to 10 additional nonmetallic minerals. This expansion of percentage depletion was limited to the period of the war emergency to encourage production of minerals believed to be scarce for meeting the wartime demands. After both wars, these incentive features first introduced to meet temporary emergencies were not rescinded nor allowed to expire, but instead remained permanently in the tax structure. The first generalization is that temporary tax incentives are difficult or impossible to terminate.

A second observation from experience with depletion is that simplification of tax administration is often advanced at the expense of revenue or equity or both. To overcome administrative difficulties from the use of discovery value,[4] percentage depletion was allowed in 1926 for oil and gas wells. A figure of 27½ percent of gross income was chosen, apparently to give approximately equal dollar deductions under the new method as had been available under the discovery value method. But this percentage method became more valuable as tax rates far above the 1926 corporate rate of 13.5 percent and as price levels increased, causing a high revenue cost to the Treasury and arousing the envy of other industries still restricted to cost or discovery value depletion. And the percentage depletion method, as noted above, unlike the cost and discovery value methods, has no overall limit so that deductions continue as long as a property is producing income.

A third lesson is that it is difficult to limit tax favors to just those who discover a new oil or mineral deposit or even to a few selected entire industries, however justified this special incentive is on grounds of relative risks or probable scarcity relative to needs for economic growth and national security. The other extractive industries regarded the availability of percentage depletion at liberal rates to a few industries as unfair discrimination and a tax deduction to which they were equally entitled. Politically the have-nots broke the dikes against percentage depletion in 1947, 1951, and again in 1954. Coverage was extended, percentage rates were raised, processes covered were broadened, and even mine residues were made eligible for percentage depletion. Apparent discrimination against certain industries was ended by extending the liberal deductions to all.[5] Companies exploiting sand and gravel pits and oystershells now qualify for percentage depletion along with oil companies and uranium prospectors, though at different rates.

The incentive value of percentage depletion for certain scarce minerals has been

[3] *Cherokee Brick & Tile Co.* (122 Fed. Supp. 59 (5 CCA, 1954)).

[4] Such questions as what was a new discovery, determination of value just after the discovery, and whether the owner was the discoverer plagued tax administrators.

[5] No reduction in depletion rates has ever been voted by Congress. In 1954 every amendment extending percentage depletion was passed in the Senate. It was impossible even to get the necessary 10 Senators to request a record rollcall on any of these votes. See Congressional Record, June 30, 1954, especially pp. 9301-9319.

blunted by extending the favors to all. One problem is that there are no yardsticks to indicate the incentives needed to get the socially desired amount of investment in different fields. Congress has no guide to determine which industries are entitled to percentage depletion and what depletion rates produce the needed amount and distribution of investment in the extractive industries.[6]

The economic defense of generous percentage depletion results from national policy to provide an incentive or subsidy for certain selected minerals for reasons of national security. But on grounds of tax neutrality, tax equity, and conformity to business income accounting practice, the excess of percentage over cost depletion reflects erosion in the income-tax base. In fact from the standpoint of accounting or economics, it is questionable whether these deductions are properly called depletion since they do not relate to any capital sum which is being exhausted. In some cases the income against which the statutory percentages apply includes not only extraction but also processes which are essentially manufacturing in character, such as finished brick or industrial talc.

The excess of percentage over cost-depletion deductions reduces corporate taxable net income by about $2¼ billion in 1955 and this figure, under existing legislation, will tend to increase with an expanding economy.

EXPLORATION AND DEVELOPMENT COSTS

Exploration and development costs are closely allied with the problem of depletion for mineral and oil producers. Current tax legislation allows these producers the option of capitalizing or expensing development and, with qualifications, exploration costs.

Oil and gas producers have enjoyed this option since 1917, first by Treasury regulation, now codified by the 1954 Internal Revenue Code, Intangible drilling and development costs include all costs of labor, fuel, repairs, materials, and construction, except cost of assets which have a salvage value, the latter assets being depreciated. The development costs eligible for expensing account on the average for about 75 percent of the costs incurred in bringing in a well.[7]

The Revenue Act of 1951 extended this option even more fully to mining. A taxpayer with mining interests may now decide each year for each mine to expense or capitalize development costs. Mine exploration and development costs can be deducted currently or set up as dererred expense to run over the life of ore benefited. In either case a deduction in lieu of cost depletion is given, but percentage-depletion deductions continue undiminished. Before 1951 all development costs in excess of current net income from a property during the development stage had to be capitalized.

This option to expense what are essentially capital costs is another loss to the tax base. Tax neutrality and conformity to business accounting would require that these costs be capitalized and amortized over the life of the assets or, if the assets cannot be moved, over the life of the mineral deposit, if it will be exhausted before the assets are fully depreciated.

The erosion here is twofold. First, the option to expense development costs allows deductions to be taken sooner than if these costs were capitalized and deducted gradually over a period of years. This means that total deductions to any given date are larger than if these costs were spread over several years. Secondly, expensing of development costs combined with percentage depletion allows double deductions for the same costs. To the extent that development costs are expensed, there is no need for depletion to recover investment. If 75 percent of the cost of an oil well is expensed, only the remaining 25 percent remains to be recovered tax free through cost depletion. But with percentage depletion, the annual and total deductions bear no direct relation to capital costs but depend on gross and net income. The dollar amount of deductions under percentage depletion is not influenced by the election to capitalize or expense.

Thus, with the expensing of development costs, percentage depletion becomes more than ever an additional deduction which must be justified on grounds other than recovery of costs for these are recovered through expensing. Leasehold costs cannot be expensed but they are usually in the form of royalty payments. Development costs may be offset against income from all sources, a feature which has

[6] The President's Materials Policy Commission, op. cit., vol. I, pp. 33-35. The Commission recommended that percentage depletion be retained because of its strong inducement to risk capital to enter the minerals field. It also recommended that no depletion rates be raised above the 1952 level and that recent additions to minerals eligible for percentage depletion be reexamined to see if incentives are needed for their production.

[7] Oakes, op. cit., p. 17.

attracted corporations (and individuals) primarily interested in other industries to finance new oil wells, thus reducing or even eliminating their taxable income while building up their capital assets.[8]

The Treasury study for 1946–47 cited above reported that 96.8 percent of all corporate development costs were claimed by oil and gas producers and that these deductions were about two-thirds of the excess of percentage over cost depletion. Applied to 1955, this suggests about $1.5 billion of costs which are expense in addition to being recovered through percentage depletion. Without percentage depletion, to avoid any erosion these costs would still not be expense but would be capitalized and deducted gradually over the life of the assets or the life of the well, whichever is shorter; from this point of view erosion would be at least $1.1 billion a year at first, declining gradually as annual depreciation charges accumulate for all such property in use.

The great value of these tax-saving features to the oil industry is documented by published 1954 annual reports. The following table compares the tax position of 3 companies which specialize in crude-oil production, 24 large oil companies combined (whose annual reports were available), and all corporations. Note that the effective taxrate increases from 9.2 percent for Tidewater, to 22.6 percent for 24-company aggregate, to 48.1 percent for all corporations.

Federal taxes and effective tax rates for oil companies and all corporations, 1954

	Net income before tax	Federal income tax	Effective tax rate	Per share	
				Earnings before tax	Federal income tax
	Millions	*Millions*	*Percent*		
Tidewater Associated Oil Co	$38.0	$3.5	9.2	$3.45	$0.32
Humble Oil & Refining Co	174.8	28.5	16.3	4.86	.79
Skelly Oil Co	36.1	6.7	18.5	6.28	1.16
24 large petroleum companies	2,541.0	575.0	22.6	----------	----------
All corporations	34,042.0	16,369.0	48.1	----------	----------

Source: Annual reports: Department of Commerce estimate of corporate profits and Federal tax liability.

Since the Revenue Act of 1951, mining companies may expense a limited amount of exploration costs, even if for a productive property. The limit on such costs of a mining taxpayer was raised to $100,000 a year and $400,000 total by the 1954 code. The cost here is relatively small, although taxpayers are increasing their tax saving by incorporating each mine separately. Exploratory expenses above these limits by mining corporations must be capitalized. Only exploratory expenses which lead to dry holes may be expensed currently by the oil and gas industry. This conforms to neutrality and accounting concepts.

Senator DOUGLAS. Mr. Chairman, among the other points which Professor Hellmuth makes is that, in 1954, one major oil company paid taxes at an effective rate of 9.2 percent, not 52 percent, but at 9.2 percent; another at 16.3 percent, and still another at 18.5 percent. He shows further that 24 large petroleum companies paid taxes at an effective rate of only 22.6 percent.

Mr. Chairman, I myself have been collecting some facts and figures on the taxes paid by oil and gas producing companies. I have collected figures for 27 companies since 1945, and have revised them almost annually to take into account later figures, and I have figures which show the amount of income taxes they have paid compared with their net income before taxes. As we all know, since World War II, these taxes for most corporations have been in the neighborhood of 47 to 52 percent. However, these oil and gas companies have paid taxes at a considerable lower rate than what one would believe they should pay and what other corporations actually pay.

[8] J. K. Butters, L. E. Thompson, L. L. Bollinger, Effects of Taxation: Investments by individuals, pp. 201–202 (1953). Some investors regard investments in the oil industry as a source of tax exempt income, competitive with State and municipal securities.

Mr. Chairman, I try to deal with these issues on the basis of principle and with a minimum of damage to reputations, and with a minimum of personal reference. So I am not giving the names of these companies, and never have given the names of these companies, although I have the names, and if the correctness of these figures is disputed by responsible persons I am willing to produce them. But I prefer to call these companies A, B, C, and so forth, for they have done nothing illegal, and I do not want to condemn them morally, but merely wish to condemn the principles of percentage depletion.

Thus I have no reason to go after any of the individual companies, but I do wish to illustrate the effects of the great many legal tax avoidance provisions of the tax code on the taxes which these companies actually pay.

Mr. Chairman, I ask that tabulations in that connection be printed at this point in the record of the hearings.

The CHAIRMAN. Without objection.

What is it you want to do, Senator? Do you wish to file this?

Senator DOUGLAS. I would like to have them printed in the record, Mr. Chairman.

The CHAIRMAN. Without objection.

(The material referred to follows:)

Company A

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$22,485,135	(1)	$22,485,135	
1957	35,208,979	$5,260,000	29,948,979	14.94
1956	29,523,395	3,024,000	26,499,395	10.24
1955	28,143,673	2,780,000	25,363,673	9.88
1954	21,029,684	1,252,000	19,777,648	5.96
1953	18,812,590	367,000	18,445,590	1.95
1952	16,550,361	654,000	15,896,361	3.95
1951	17,369,652	1,073,000	16,296,652	6.17
1950	18,467,607	3,068,000	15,399,607	16.61
1949	14,759,193	375,000	14,384,193	2.54
1948	27,367,252	4,725,000	22,642,252	17.27
1947	17,749,626	2,830,000	14,919,626	15.94
1946	10,130,975	1,275,000	8,855,975	12.59
1945	6,611,770	215,000	6,396,770	3.83

[1] Not available.

Company B

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$4,371,094	$525,000	$3,846,094	12.01
1957	5,392,505	150,000	5,242,505	2.78
1956	6,975,382	1,095,000	5,880,382	15.70
1955	5,975,382	485,000	4,965,220	9.90
1954	3,291,733	38,172	3,253,561	1.16
1953	5,594,074	1,552,500	4,441,574	27.75
1952	4,436,030	669,500	3,766,530	15.09
1951	5,561,770	714,880	4,846,890	12.85
1950	5,709,537	1,023,900	4,685,637	17.93
1949	3,259,928	163,040	3,096,888	5.00
1948	6,295,858	896,900	5,396,958	14.28
1947	4,011,073	1,023,126	2,987,947	25.51
1946	2,089,932	417,000	1,672,932	19.95
1945	2,321,605	205,908	2,115,697	8.87

Company C

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$5,402,894	$481,413	$4,921,481	8.91
1957	5,561,652	640,635	4,921,017	11.52
1956	4,770,495	261,837	4,508,658	5.49
1955	4,826,687	417,388	4,409,299	8.65
1954	4,625,759	336,889	4,288,870	7.28
1953	4,391,404	179,114	4,212,290	4.08
1952	3,588,107	91,660	3,496,447	2.55
1951	3,934,107	399,397	3,534,710	10.15
1950	3,696,584	847,072	2,849,412	22.91
1949	3,373,448	679,553	2,693,895	20.14
1948	4,542,842	982,540	3,560,302	21.63
1947	2,284,109	529,781	1,754,328	23.19
1946	161,816	212	161,604	.13
1945	33,895	256	33,639	.76

Company D

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$156,130	[1] $13,000	$169,130	0
1957	271,515	5,000	266,515	1.84
1956	472,556	35,000	437,556	7.41
1955	549,093	15,000	534,093	2.73
1954	309,405	----------	309,405	----------
1953	303,453	11,332	292,121	3.73
1952	150,094	25,698	133,398	16.15
1951	415,948	8,234	407,714	1.98
1950	277,514	1,500	276,014	.54
1949	177,187	1,000	176,187	.56
1948	526,061	35,000	491,061	6.65
1947	399,643	52,000	347,643	13.01
1946	139,923	1,000	138,923	.71
1945	140,101	1,500	138,601	1.07

[1] Credit.

Company E

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$8,108,706	$800,000	$7,308,706	9.87
1957	11,303,747	1,600,000	9,703,747	14.15
1956	11,379,241	1,900,000	9,479,241	16.69
1955	8,509,136	1,500,000	7,009,136	17.63
1954	5,320,750		5,320,750	
1953	6,420,968	1,048,000	5,372,968	16.32
1952	5,601,723	1,400,000	4,201,723	24.30
1951	5,866,052	2,000,000	3,866,052	34.09
1950	4,951,476	1,500,000	3,451,476	30.29
1949	4,928,459	1,020,000	3,908,459	20.70
1948	5,766,543	960,000	4,806,543	16.65
1947	3,650,374	600,000	3,050,374	16.44
1946	3,248,813	200,000	3,048,813	6.16

Company F

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$54,865,371	$7,400,000	$47,465,371	13.49
1957	51,273,749	4,550,000	46,723,749	8.87
1956	67,517,000	15,700,000	51,817,000	23.25
1955	50,259,000	9,900,000	40,359,000	17.60
1954	50,383,000	8,700,000	41,683,000	17.27
1953	55,775,000	14,900,000	40,875,000	26.71
1952	52,488,000	14,400,000	38,088,000	27.43
1951	58,503,000	17,300,000	41,203,000	29.53
1950	57,407,000	15,000,000	42,407,000	26.13
1949	46,487,000	10,390,000	36,097,000	22.35
1948	74,080,000	19,863,000	54,217,000	26.81
1947	40,655,000	9,298,000	31,357,000	22.87
1946	22,599,000	3,585,000	19,014,000	15.86
1945	16,371,000	1,228,000	15,143,000	7.50

Company G

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$804,716	$50,000	$754,716	6.21
1957	1,167,546	115,000	1,052,546	9.85
1956	560,753		560,753	
1955	832,765		832,765	
1954	785,624		785,624	
1953	730,699		730,699	
1952	968,287	69,022	899,265	7.13
1951	935,134	137,220	797,914	14.67
1950	892,552	147,275	745,277	16.50
1949	969,991	204,860	765,131	21.12
1948	872,719	150,367	722,352	17.23
1947	654,922	160,452	494,470	24.45
1946	471,923	135,664	336,259	28.75
1945	461,448	180,808	280,640	39.18

Company H

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$1,760,794	0	$1,760,794	0
1957	2,176,226	$160,000	2,016,226	7.35
1956	2,647,058	93,000	2,554,058	3.51
1955	1,994,072	86,000	1,908,072	4.31
1954	2,276,415	238,329	2,038,086	10.47
1953	1,899,343	156,039	1,743,304	8.22
1952	1,998,758	370,291	1,628,467	18.53
1951	1,992,234	411,166	1,581,068	20.64
1950	1,270,271	72,843	1,197,428	5.73

NOTE.—Records available only for last 9 years.

Company I

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958 [1]	$7,076,455	[2] $23,352	$7,099,807	0
1957 [1]	9,079,022	[2] 5,860	9,084,882	0
1957	9,078,922	[2] 5,860	9,084,882	(0)
1956	8,886,172	151,000	8,735,172	1.69
1955	8,106,746	429,075	7,677,671	5.29
1954	6,769,145	196,335	6,572,810	2.90
1953	5,414,053	26,156	5,387,897	.48
1952	5,067,243	410,539	4,656,704	8.10
1951	4,477,673	404	4,477,269	.01
1950	3,456,001	202,087	3,253,914	5.85
1949	2,949,585	72,628	2,876,957	2.46
1948	2,774,079	201,176	2,572,903	7.25
1947	3,172,001	504,487	2,667,514	15.90
1946	755,220	258,488	496,732	34.23
1945	102,860	65,966	368,946	64.13

[1] 12 months ended June 30.
[2] Credit.
[3] Credit taxes.

NOTE.—In total analysis 1956 equals 1957 on this company, etc.

Company J

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$2,950,700	$90,000	$2,860,700	3.05
1957	3,154,900	20,000	3,134,900	.63
1956	3,168,549	75,000	3,093,549	2.37
1955	3,656,274	150,000	3,506,274	4.10
1954	3,570,162	360,000	3,210,162	10.08
1953	3,363,964	500,000	2,863,964	14.86
1952	2,561,162	267,461	2,293,701	10.44
1951	3,971,370	965,230	3,006,140	24.30
1950	2,302,729	519,263	1,783,466	22.55
1949	1,551,586	104,000	1,447,586	6.70
1948	1,344,021	150,000	1,194,021	11.16
1947	1,230,364	50,000	730,364	4.06
1946	409,171	----------	409,171	----------
1945	328,260	----------	328,260	----------

Company K

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$14,145,331	$2,300,000	$11,845,331	16.23
1957	17,938,378	3,400,000	14,538,378	18.95
1956	16,316,268	2,500,000	13,816,268	15.32
1955	15,599,264	1,900,000	13,699,264	12.18
1954	11,541,464	1,278,154	10,263,310	10.01
1953	11,762,519	1,590,080	10,172,439	13.52
1952	9,218,224	1,875,000	7,343,224	20.34
1951	10,327,002	2,400,000	7,927,002	23.24
1950	8,723,484	2,000,000	6,723,484	22.93
1949	8,716,231	1,800,000	6,916,231	20.65
1948	17,245,547	4,000,000	13,245,547	23.19
1947	9,301,386	2,300,000	7,001,386	24.73
1946	5,321,560	1,010,000	4,311,560	18.98
1945	4,235,097	257,000	3,978,097	6.07

Company L—Liquidated Apr. 11, 1957

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1954	$7,762,785	$1,275,000	$6,487,785	16.42
1953	8,494,844	1,785,000	6,709,844	21.01
1952	7,844,057	1,500,000	6,344,057	19.12
1951	8,553,640	1,500,009	7,053,640	17.54
1950	8,086,702	1,983,000	6,103,702	24.52
1949	7,805,345	1,900,000	5,905,345	24.34
1948	7,512,733	1,726,006	5,786,727	22.97
1947	7,667,536	1,575,000	6,092,536	20.54
1946	5,146,094	1,100,000	4,046,094	21.38
1945	3,209,359	831,500	2,377,859	25.91
1944	3,519,208	1,068,760	2,450,448	30.37

Company M

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$152,543,223	$16,000,000	$136,543,223	10.49
1957	192,910,393	17,000,000	175,910,393	8.81
1956	212,961,000	34,000,000	178,961,000	15.97
1955	215,997,000	41,000,000	174,997,000	18.98
1954	174,803,000	28,500,000	146,303,000	16.30
1953	207,757,854	43,500,000	164,257,854	20.94
1952	175,792,000	30,500,000	145,292,000	14.68
1951	220,981,000	51,500,000	169,481,000	23.30
1950	161,360,000	32,000,000	129,360,000	19.83
1949	138,480,000	18,000,000	120,480,000	13,00
1948	240,069,000	54,000,000	186,069,000	22.49
1947	153,207,000	29,100,000	124,107,000	18.99
1946	79,332,000	7,500,000	71,832,000	9.45
1945	80,395,000	9,500,000	70,895,000	11.82

Company N

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$5,378,973	0	$5,378,973	0
1957 [1]	7,972,558	$1,727,910	6,244,648	21.67
1956	5,378,994	699,000	4,679,994	13.00
1955	2,502,867	18,000	2,484,867	.72
1954	1,603,682	23,923	1,579,759	1.49
1953	3,077,447	4,724	3,072,723	.15
1952	2,334,532	99,844	2,234,688	4.28
1951	1,209,045	31,250	1,177,795	2.58
1950	282,202	19,750	232,452	17.63
1949	1,225,576	6,949	1,218,627	.57
1948	1,395,517	29,053	1,366,464	2.08
1947	359,903	15,000	344,003	4.17
1946	[2] 106,098	200	[2] 106,298	.....
1945	1,537,551	406,500	1,131,051	26.44

[1] 12 months ended June 30.
[2] Deficit.

NOTE.—In totals analysis, 1956–1957 on this company, etc.

Company O

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	(1)	(1)	(1)	.....
1957	$1,573,165	.....	$1,573,165	.....
1956	1,034,094	(2)	1,034,094	.....
1955	1,006,718	(2)	1,006,718	.....
1954	1,690,567	$42,130	1,648,437	2.49
1953	1,873,226	50,000	1,823,226	2.67
1952	1,502,077	40,000	1,462,077	2.66
1951	2,714,277	30,000	2,684,227	1.11
1950	2,692,947	40,000	2,652,947	1.49
1949	3,382,140	42,323	3,382,140	1.25
1948	4,235,057	348,900	3,887,157	8.24
1947	1,517,486	48,919	1,468,561	3.22
1946 [3]	689,609	10,241	679,368	1.51
1945 [3]	664,526	4,103	660,423	.62
1954 [3]	2,205,837	42,130	2,163,707	1.91
1953 [3]	2,600,271	50,000	2,550,271	1.92
1952 [3]	2,202,835	40,000	2,162,835	1.81
1951 [3]	2,623,191	30,000	2,593,191	1.14
1950 [3]	3,744,852	40,000	3,704,852	1.01
1949 [3]	4,158,672	42,322	4,116,350	1.00
1948 [3]	4,353,435	348,900	4,004,535	8.01

[1] Not available.
[2] Not reported.
[3] Figures for 1954–48 restated as result of revision of estimates of recoverable oil and gas reserves.

NOTE.—Company O felt not liable for Federal income tax in this period.

Company P

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$6,135,363	$470,000	$5,765,363	7.66
1957	6,611,110	660,000	5,951,110	9.98
1956	6,277,997	478,000	5,799,997	7.61
1955	6,211,916	470,000	5,741,916	7.56
1954	6,209,395	470,000	5,739,395	7.57
1953	6,761,834	515,000	6,246,834	7.62
1952	7,023,582	540,000	6,483,582	7.60
1951	7,008,444	535,000	6,473,444	7.63
1950	6,616,103	415,000	6,201,103	6.27
1949	4,940,029	270,000	4,670,029	5.47
1948	5,679,055	333,000	5,346,055	5.86
1947	2,827,824	159,000	2,668,824	5.62
1946	2,532,718	151,000	2,381,718	5.96
1945	2,522,301	157,075	2,365,226	6.23

Company Q

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$16,144,274	$3,271,000	$12,873,274	20.26
1957	19,137,735	4,500,000	14,637,735	23.51
1956	10,590,947	2,703,000	7,887,947	25.52
1955	13,034,071	1,852,000	11,182,071	14.21
1954	14,484,813	1,967,000	12,517,813	13.58
1953	12,815,586	1,143,000	11,672,586	8.92
1952	9,570,934	602,000	8,968,934	6.29
1951	8,190,680	385,000	7,805,680	4.70
1950	6,263,638	400,000	5,863,638	6.39
1949	5,183,830	210,000	4,973,830	4.05
1948	7,713,057	407,622	7,305,434	5.28
1947	3,896,936	85,000	3,811,936	2.02
1946	1,614,888	65,000	1,549,888	4.02
1945	997,075	40,000	957,075	4.01

Company R

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$3,620,312	[1] $968,000	$4,588,312	.....
1957	6,908,969	882,000	6,026,969	12.77
1956	10,595,588	2,640,000	7,955,588	24.92
1955	8,052,718	1,164,559	6,888,159	14.46
1954	8,395,561	1,636,500	6,759,061	19.49
1953	11,536,428	3,477,350	8,059,078	30.14
1952	13,532,095	3,884,000	9,648,095	28.70
1951	14,940,795	4,645,000	10,295,795	30.11
1950	10,850,226	2,351,801	8,498,425	21.68
1949	6,470,610	299,023	6,171,587	4.62
1948	8,229,656	1,635,000	6,594,656	19.87
1947	4,773,864	576,444	4,197,420	12.07
1946	2,475,239	370,000	2,105,239	14.95
1945	1,983,259	252,500	1,730,759	10.27

[1] Credit.

Company S

Year [1]	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958 [1]	$3,337,324	[2] $236,642	$3,100,682	7.09
1957 [1]	4,712,841	330,000	4,382,841	7.00
1957	4,712,841	330,000	4,382,841	7.02
1956	4,060,798	260,000	3,800,798	6.40
1955	4,284,521	220,000	4,064,521	5.13
1954	5,241,179	43,000	5,198,179	.82
1953	5,525,948	583,000	4,942,948	10.55
1952	5,618,762	1,425,000	4,193,762	25.36
1951	5,280,578	964,000	4,316,578	18.26
1950	2,944,322	191,000	2,753,322	6.49
1949	4,736,153	342,000	4,394,152	7.22
1948	4,213,001	266,000	3,947,001	6.31
1947	3,200,034	160,000	3,040,034	4.99
1946	1,809,404	30,000	1,779,404	1.66

[1] 12 months ended June 30.
[2] Includes credit of $1,642 prior years' tax adjustment.

NOTE.—In total analysis 1956=1957 for this company, etc.

Company T

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$1,011,165	[1] $235,320	$1,246,485	0
1957	701,822	0	701,822	0
1956	949,659	138,000	811,659	14.53
1955	1,385,335	185,000	1,200,335	13.35
1954	542,208	2,500	539,708	4.61
1953	408,107	----------	408,107	----------
1952	431,569	----------	431,569	----------
1951	273,473	----------	273,473	----------
1950	183,116	5,000	178,116	2.73
1949	[1] 6,000	----------	[1] 6,000	----------

[1] Credit.

Company U

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	(1)	(1)	(1)	----------
1957	$11,719,324	$560,482	$11,158,842	4.78
1956	9,568,842	200,000	9,368,842	2.09
1955 [2]	9,340,810	900,000	8,440,810	9.64
1954	7,805,307	335,000	7,470,307	4.29
1953	7,140,132	600,000	6,540,132	8.40
1952	7,715,591	1,000,000	6,715,591	12.96
1951	10,239,600	2,900,000	7,396,000	28.32
1950	7,659,000	1,200,000	6,459,000	15.67
1949	6,656,347	875,000	5,781,347	13.15
1948	9,030,713	2,250,000	6,780,713	24.91
1947	7,191,002	1,250,000	5,941,002	17.38
1946	3,400,586	400,000	3,000,586	11.76

[1] Not available.
[2] Restated to conform with accounting practice effective Jan. 1, 1956—method of charging intangible development costs was changed. 1956 net income would have been $1,470,000 less without such change.

Company V, liquidated

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1954	$4,173,767		$4,173,767	
1953	3,951,367	$350,000	3,601,367	8.86
1952	4,414,623	660,000	3,754,623	14.95
1951	3,112,871		3,112,871	
1950	1,904,836	526,000	1,378,836	27.61
1949	[1] 592,448	7,500	584,948	1.26
1948	461,640	2,400	459,240	.52
1947	416,506	4,100	512,406	.98
1946	328,052	11,282	316,770	3.44
1946 [2]	176,841	5,250	171,591	2.97
1945 [2]	293,539	6,127	287,412	2.00

[1] Before $653,408 loss on wells abandoned.
[2] 12 months ended Apr. 30. In 1946, the company changed to a calendar-year basis so 1946 taxes are shown both ways.

Company W

Year [1]	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958 [1]	$16,726,337	[2] $175,000	$16,551,337	1.05
1957 [1]	18,887,389	0	18,877,389	0
1957	18,877,389		18,877,389	
1956	5,040,752		[3] 5,040,752	
1956 [4]	(5)		(5)	
1955	3,395,446		3,395,446	
1954	10,260,388	[6] 100,000	10,360,388	(7)
1953	11,500,382	[6] 500,000	12,000,382	(7)
1952	12,100,165	200,000	11,900,165	1.65
1951	15,195,639	1,900,000	13,295,639	12.03
1950	7,128,542	200,000	6,928,542	2.81
1949	7,483,443	200,000	7,283,443	2.67
1948	17,917,474	3,000,000	14,917,474	16.74
1947	5,266,897	400,000	4,866,897	7.59
1946	1,844,156		1,844,156	
1945	5,422,254	450,000	4,972,254	8.29

[1] 12 months ended Aug. 31.
[2] Foreign income taxes.
[3] Same for both consolidated and co. only.
[4] Consolidated.
[5] Same.
[6] Credit.
[7] Credit taxes.

NOTE.—In total analysis, 1956–1957 on this company, etc.

Company X

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$4,642,978	$670,023	$3,972,955	14.43
1957	7,670,654	840,709	6,829,945	10.96
1956	6,057,708	400,000	5,657,708	6.60
1955	6,720,029	400,000	6,320,029	5.95
1954	5,245,527		5,245,527	
1953	4,470,659	240,000	4,230,659	5.37
1952	3,635,498	450,000	3,185,498	12.38
1951	3,702,765	550,000	3,152,765	14.85
1950	3,770,706	696,200	3,047,506	18.46
1949	4,022,266	640,907	3,831,359	15.93
1948	4,731,952	901,906	3,830,046	19.06
1947	2,940,750	597,621	2,343,129	20.32
1946	1,394,512	163,973	1,230,539	11.75
1945	666,557		666,557	

Company Y

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$6,231,481	0	$6,233,481	0
1957	7,802,218	$570,000	7,232,218	7.31
1956	7,859,694	650,000	7,209,694	8.27
1955	8,449,374	500,000	7,949,374	5.92
1954	8,256,034	400,000	7,856,034	4.85
1953	8,874,068	1,275,000	7,599,068	14.37
1952	8,101,335	1,255,000	6,846,335	15.49
1951	8,009,124	1,185,000	6,824,124	14.79
1950	7,047,367	1,050,000	5,997,367	14.89
1949	7,048,753	710,000	6,338,753	10.07
1948	9,186,038	1,725,000	7,461,038	18.78
1947	4,883,907	760,000	4,123,907	15.56
1946	2,428,249	315,000	2,113,249	12.97
1945	1,934,850	175,000	1,759,850	9.04

Company Z

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$2,065,816	0	$2,065,816	0
1957	2,215,290	0	[1] 2,215,290	0
1956 [2]	746,447		746,447	
1956 [3]	1,602,988		1,602,988	
1955	1,262,177		1,262,177	
1954	1,720,086		1,720,086	
1953	1,508,988		1,058,988	
1952	1,547,048		1,547,048	
1951	703,747		703,747	
1950	151,488		151,488	
1949	154,707		154,707	
1948	134,881		134,881	

[1] Adjusted.
[2] 7 months ending Dec. 31.
[3] In totals analysis, May 31 ending years used.

NOTE.—Years end May 31 prior to 1957.

Company A–Z

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	$909,982	0	$909,982	0
1957	891,025	0	891,025	0
1956	783,082	----------	783,082	----------
1955	981,994	----------	981,994	----------
1954	647,516	----------	647,516	----------
1953	1,008,416	$80,000	928,416	7.93
1952	768,664	----------	768,664	----------
1951	1,143,004	283,000	860,044	24.76
1950	969,156	264,774	704,382	27.32
1949	394,227	----------	394,227	----------
1948	874,306	173,000	701,306	19.79
1947	655,289	73,000	582,289	11.14
1946	227,789	----------	227,789	----------
1945	322,232	----------	332,232	----------

Company B–Z

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	[1] $31,647,420	[2] $4,074,002	$33,825,276	----------
1957	35,009,503	[2] 1,827,610	35,669,759	----------

[1] State and foreign income taxes included.
[2] Credit.

Senator DOUGLAS. I pick out a company which I designate as "Company W," and I would like to use this as an illustration. In 1958 its net income before income taxes was $16.7 million; it paid an income tax of only $175,000, or 1.05 percent.

In 1957 its net income before income taxes was $18.9 million—I am reading to the nearest hundred thousand. It paid no income taxes whatever.

In 1956 its income was lower, $5,040,000, but still it paid no taxes.

In 1955 its income was $3,395,000 and it paid no taxes whatsoever.

In 1954 its income was $10.3 million. I find they not only paid no taxes, but they got $100,000 back.

In 1953 net income before taxes was $11,500,000 and they got $500,000 back.

In 1952 their net income was $12.1 million; taxes only, the income tax which they paid was only $200,000, or 1.65 percent.

In 1951 the income was $15.2 million. This year they did pay more income tax. They paid $1,900,000, and this was 12 percent, but it was not the 52 percent which I believe prevailed at that time.

In 1950 their net income before taxes was $7.1 million. They paid only $200,000 in income taxes, or 2.8 percent of their income.

In 1949 they had $7.5 million in income, paid only $200,000, and this amounted to 2.67 percent. I think the rate then was 47 percent.

In 1948 they had a good year, $17,900,000 profits; they paid $3 million in taxes, but this was only 16.7 percent. This was the highest year, and it was about only one-third the rate which corporations in other fields would pay.

Well, I could go on and give the figures. In 1946 they paid no taxes. In 1947 they paid taxes at a rate of 7.95 percent. In 1945 they paid taxes at a rate of 8.29 percent.

In the last 6 years they have had profits of $65.5 million, and have paid only $175,000 in taxes, but this was offset by a credit of $600,000, so that in practice, with profits of $65.5 million, they have actually had a refund of $425,000.

Now this, I think, is the worst case I have been able to discover. But there are other cases which are not too good. In fact, they are quite bad.

I read off percentages for one company. The last 4 years they either paid no taxes or the figures were unreported. Then the percentage rates—this is Company O—percentage rates in 1954 and preceding years were 2.49, 2.67, 2.66, 1.11, 1.49, 1.25, 8.24, 3.22, 1.51, 0.62, 1.91, 1.92, 1.81, 1.14, 1.01, 1.00, and 8.01.

Mr. Chairman, I do not want to beat my breast with protestations of virtue. I would like to point out, though, that Illinois is the eighth largest oil-producing State in the country, and I cannot be accused of taking on a proposal to support local interests. But I think the justice of this case is such that we do need to deal with it.

Now, Mr. Chairman, these are just some of the facts concerning the depletion allowance. My amendment is designed to plug, in small part, a very large and a very serious loophole. In fact, when one considers all of the special privileges which are accorded to this industry and the small amount in taxes which it pays, I am amazed at the extreme modesty of my proposals.

My amendment is not a punitive one, for, first, it does not do away with the depletion allowance altogether and, second—this is very important—it would not affect in the slightest degree the small wildcat driller or the small producer except to his competitive advantage. In fact, my amendment is written in such a way that the small royalty holder would not be affected by my amendment.

This I want to make clear, that when a farmer gives to an oil operator the right to drill, takes a royalty agreement that he will get one-eighth of the yield, this amendment will not affect the depletion allowance which he can take, because on all cases where the gross income is less than $1 million, the present rate of 27½ percent is maintained.

Moreover, the amendment is written in such a way that depletion taken on foreign assets by American companies would be reduced on the same sliding-scale principle as would apply to domestic companies.

When I proposed this amendment before, I had been greeted by some saying, "Why don't you go after the foreign depletion allowance?" which, I think, is subject to great abuse and which, from the testimony taken in executive session, we know has been subject to great abuse.

The amendment is written in such a way that we reach these groups, and, as a matter of fact, $90 million of the added revenue will come from this source, so that our estimates this year are that the amendment, instead of bringing in added income of $310 million, as in past estimates, will bring in $400 million.

Now you will notice that my amendment has a graduated scale. The reason for making this graduated reduction in the amendment is that drilling for oil and gas does involve some risk. It is estimated

that only about one in nine wells which are drilled actually produce gas or oil. The small driller, with only a few wells over which to to spread this risk, does not have enough wells to assure that he will hit the one in nine and may, in fact, drill 20 or 30 dry holes before hitting oil or gas. Consequently, without a great number of wells over which to spread the risk, he takes a greater risk than the large driller who will average 1 in 9 successful wells if he drills 100 or 200 wells a year. In other words, the large enterprise by large numbers can distribute its risk and, therefore does not need the same compensation which the small driller who has only a few leases needs.

My amendment reflects this greater risk for the small operator.

The Treasury estimated a year ago that the adoption of this amendment would result in a net revenue increase to the Federal Treasury of $305 to $310 million per year. That was the increased revenue from domestic operations. Another $90 million should, as I have said, be added for foreign depletion. In other words, my amendment will produce—I should say our amendment will produce—$400 million annually.

I would also like to have inserted in the record a comparison of the tax advantages which come from an investment in an oil property as compared with an investment in depreciable facilities and a memorandum on the application of capital gains to the oil industry.

(The material referred to follows:)

APPLICATION OF CAPITAL GAINS TREATMENT TO INCOME FROM OIL AND GAS PROPERTIES

A taxpayer owning rights in an oil and gas property may sell a fractional share in these rights and claim capital gains treatment with respect to the excess of the proceeds from the sale over his adjusted basis in the fractional share sold. The character of the fractional share as a capital asset within the meaning of section 1221 of the Internal Revenue Code of 1954 is not and has not been seriously questioned. The distinguishing characteristic of such fractional shares is that the original owner permanently divests himself of all interests therein, i.e., no provision is made for a return of the rights to him after a specified period of time, or after a specified volume of production or number of dollars of royalties realized with respect to the fractional share.

On the other hand, for some considerable time past there has been considerable confusion about the tax treatment of "carved-out" oil payments. These differ from assignment or sale of fractional shares in that the taxpayer does not permanently relinquish rights to income in the oil and gas property but merely assigns or sells some portion thereof for a limited period of time. For example, he may sell the next 2 years' production, or the next 100,000 barrels, or the next $1 million worth of output. Upon satisfaction of these conditions, the rights revert to the taxpayer. Numerous court decisions, at variance with Treasury rulings, maintained that the proceeds from such sales should be treated as capital gains.

Quite recently, however, the U.S. Supreme Court in the Lake case, ruled that proceeds from sale or exchange of carved-out oil payments were to be construed as realization of future income and therefore subject to ordinary income-tax treatment. The Treasury Department apparently feels that the Supreme Court ruling is sufficiently broad and sufficiently definite as to preclude further dispute about the tax treatment of carved-out oil payments. However, the ingenuity of the American taxpayer must never be underestimated.

COMPARATIVE TAX BENEFITS IN INVESTMENT IN OIL PROPERTY AND IN DEPRECIABLE FACILITIES

Taxpayer A invests $100,000 in developing an oil property. Taxpayer B invests $100,000 in, say, a manufacturing enterprise through purchase of $100,000 of depreciable facilities.

In the year in which these investments are made, taxpayer A in computing his Federal tax liability, may claim a deduction for that portion of the $100,000 outlay which goes into intangible drilling and developments costs, i.e., costs of labor, fuel and power, materials and supplies, tool rental, repairs of drilling equipment, etc., incurred during the drilling of wells and their preparation for production. Such outlays may aggregate two-thirds of the total capital outlay in bringing the well into production. Of his initial $100,000 outlay, therefore, taxpayer A will have recovered, for tax purposes, all but one-third in the first year, through the privilege of expending certain capital costs. Most, if not all, of this remaining one-third will represent depreciable facilities, e.g., drilling rigs, structures, etc., which are subject to depreciation allowances for tax purposes. Assuming the average useful life of these facilities is, say 10 years, taxpayer A may claim, for tax purposes, an additional deduction of about 6⅔ percent of his capital outlay.[1] Together with the intangible drilling and development cost deduction, therefore, he may claim in the year of his investment close to 75 percent of his outlay.

Taxpayer B, on the other hand, can claim as a tax deduction, with respect to his capital outlay in the year the investment is made, only the amount allowable as depreciation on the facilities he acquired. Assuming the average economically useful life of these facilities is, say 10 years (and ignoring salvage value), the most liberal depreciation he can claim would be 20 percent of his outlay.

Assuming both A and B are corporate taxpayers, taxpayer A will enjoy a tax advantage of $28,000 (= 52 (.75×100,000−.20×100,000)) in the year in which the investment is made with respect to direct capital recovery charges.

In addition, however, taxpayer A can claim a percentage depletion allowance equal to 27½ percent of the gross income produced by the oil property up to 50 percent of the net income therefrom. If, conservatively estimated, the oil property produces an annual gross income of $50,000 and a net income of, say, $25,000, annual depletion allowances will be $13,750. Accordingly, taxpayer A's total deductions for intangible drilling and development costs, depreciation, and percentage depletion will exceed his actual $100,000 investment in less than 2 taxable years. Over the same 2 years, taxpayer B's capital recovery deductions through depreciation will total 36 percent of his investment. In 2 years' time, therefore, taxpayer A will enjoy a tax advantage compared to taxpayer B of $33,713, or more than one-third of the original capital outlay.

Since total percentage depletion allowances which may be claimed are not limited by the unrecovered investment in the property, taxpayer A may continue to claim percentage depletion so long as the well continues to produce. In this example, therefore, he will be able to claim, during the remaining 8 years of production by the well, additional deductions of $110,000, or total deductions over the 10 years of about $210,000, more than double his actual investment.

Taxpayer A's actual savings, with a 52 percent corporate tax rate, will amount to almost $110,000, or 10 percent more than his actual investment. On the other hand, taxpayer B's actual tax savings will be $52,000, less than half taxpayer A's.

The CHAIRMAN. Would it be satisfactory to the Senator to file some of these instead of printing them in the record?

Senator DOUGLAS. Yes. I will file them for insertion in the record, Mr. Chairman.

The CHAIRMAN. File them with the committee. Any official documents are usually filed with the committee and not inserted in the record of the hearings.

Senator DOUGLAS. The acoustics in the room are bad. Did I understand——

The CHAIRMAN. Would it be satisfactory to the Senator to file some of these instead of burdening the record?

[1] Using the double declining-balance depreciation method, the first year's depreciation deduction would be 20 percent of $33,333, or $6,666.

Senator DOUGLAS. Well, I regret, Mr. Chairman, that it would not be satisfactory, because when the bill comes out on the floor, unless the committee has adopted these amendments, we intend to move them as amendments to the bill itself and, therefore, the Members of the Senate should, I think have the advantage of these facts in deciding how they are going to vote on the question, and if these documents are locked up in the files over here, they will not have any access to them.

But if they are printed in the record, they will be available.

The CHAIRMAN. How voluminous are they?

Senator DOUGLAS. I will say, if it is desirable to economize, we might cut down on a couple of the less important ones.

The CHAIRMAN. The Chair would like to suggest that the staff of the committee go over it with your representative. We are not trying to suppress any information, of course, but I think we ought not to encumber the record more than necessary.

Senator DOUGLAS. Well, we will just submit that material which is needed for intelligent discussion.

The CHAIRMAN. I suggest that your representative go over it, with the staff of the committee, to arrive at what is necessary.

Senator DOUGLAS. I hope that, in turn, Mr. Stam will not be too severe in excluding vital material from the record, but I think we can work out an agreement, Mr. Chairman.

The CHAIRMAN. We will adjourn until 2:30 this afternoon.

(Whereupon, at 1 p.m., the committee recessed to reconvene at 2:30 p.m., the same afternoon.)

AFTERNOON SESSION

Senator KERR (presiding). We will hear from the Senator from Pennsylvania, Senator Clark.

STATEMENT OF HON. JOSEPH S. CLARK, A U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

Senator CLARK. Thank you, Senator.

It would be my view if I could convince the two members of the committee presently sitting on the righteousness of my cause, I would accomplish all I came over here for today.

Senator KERR. I want to say that the Senator from Delaware and I would be glad to resolve ourselves into a committee of three with the Senator from Pennsylvania to decide the matter.

Senator CLARK. Mr. Chairman, I appreciate the courtesy extended to me by the committee to permit me to testify in support of two bills, S. 2039 and S. 2040, which I have introduced on behalf of Senators Douglas, Proxmire, McCarthy, Muskie, Moss, McGee, and myself to amend the Internal Revenue Code of 1954 to provide for additional information on certain returns and to prohibit tax deduction of certain expenditures as trade and business expenses.

I would hope that the committee would see fit to attach these bills as amendments to the excise and corporate tax extension bill presently before the committee.

I will deal first with S. 2040, which denies income deductions for five different categories of expenditures which are now deductible as

"ordinary and necessary" business expenses under certain conditions stated in the code and regulations and by the courts. Most of the expenditures which are cited in the bill are claimed under that peculiar American institution known as the expense account. Expense account spending has been estimated to total between $5 and $10 billion a year by a Revenue Service spokesman. This fact is cited in an article in the Yale Law Journal published in July of 1958, starting at page 1363. The article is by two experienced tax lawyers, V. Henry Rothschild, and Rudolf Sobernheim. The quotation is from an article in New York Times magazine on April 20, 1958, page 48, column 1 appears in footnote 1 of the law review article.

The annual total of expense account claims has been increasing sharply in recent years, but we do not have any accurate figures on the rate of increase. The deductions claimed for these sums have been computed to result in an annual revenue loss of from $1 to $2 billion. And for that statement, I refer to page 1363 of the Yale Law Journal article.

As the members of the committee know, the general rule permitting deductions of "ordinary and necessary" business expenses has probably been the subject of more tugging and hauling by taxpayers and tax lawyers on the one side and Internal Revenue representatives and courts on the other than any rule of comparable length ever devised by Congress. Under the circumstances it is scarcely surprising to find that the words "ordinary and necessary" have been tortured to cover some rather "extraordinary" and "unnecessary" deductions.

Let me give the committee a couple of examples. In one recent case the $17,000 cost of a 6-month, big game safari to Africa by the head of a dairy company and his wife was held to be an "ordinary and necessary" business expense of the dairy company because of the promotional value of the game heads and film brought back which were displayed in the office of the dairy.

Senator FREAR. Was he in search of supplies or new sources of milk?

Senator CLARK. That is a reasonable question, Senator Frear. I understand a few years ago there was some thought that they could convert rhinoceras milk into milk for human consumption. But I am sure that the cows in Delaware and Oklahoma are able to carry their burden of producing any needed additional milk.

Senator FREAR. You don't think we need new sources?

Senator CLARK. I don't think so.

However, they didn't put it on the basis of looking for new products. They said the safari had promotional value to the dairy company because of the rhinoceras heads and the moving-picture film that they brought back.

It also developed in the course of the hearing that this sportsman couple were both experienced big-game hunters, and in order to make this trip to Africa for promotional and film purposes, they stopped over on the way in London and Paris and Rome, but these facts were not considered to contradict the tax ruling in any way.

The case in question is Sanitary Farms Dairy, Inc. (25 Tax Court 463 (1955)).

Now, I imagine that members of the committee share my admiration for Olivia de Haviland as a movie actress. I have always thought she is able, intelligent, and beautiful. And what did she do? Well,

she was allowed to deduct as ordinary and necessary business expenses the costs of gifts of a $775 oil painting to her agent, a $920 silver tea set and coffee pot to her dialogue director, and an $810 gold necklace and gold clips to her dress designer. In each instance, she certified, and the tax authorities found, that the gift was made solely for business purposes, not for personal reasons, although the recipients were associates of hers and that the value of the gift was "commensurate with the service rendered." Tax law has reduced the noble art of gift giving to an ignoble plane. The case is Olivia de Haviland Goodrich (20 Tax Court 323 (1953)).

I ask my friends on the committee to consider whether a similar gift by a surgeon to his operating room staff, or by a school principal to the teachers that taught in his classrooms, would be held deductible.

Gentlemen, I consider these rulings morally wrong, but they are permitted under the code.

Other rulings have allowed as deductible business expenses part or all of the cost of food and liquor at nightclubs, tickets for hit musicals, expenses of attending the Kentucky Derby, the Mardi gras, football games, country club dues, initiation fees, and the cost of maintaining seasonal residences, yachts, and hunting lodges.

Senator DOUGLAS. May I ask the Senator a question?

Do I understand you to say that expenses of operating a yacht had been deducted as a business expense?

Senator CLARK. The Senator is correct.

Senator DOUGLAS. You say it is a matter of public record?

Senator CLARK. The Senator is correct. He will find citations in the exhaustive treatment of the subject under the heading "Expense Accounts for Executives," by V. Henry Rothschild and Rudolf Sobernheim, which appear in volume 67 of the Yale Law Review of July 1958 beginning at page 1363. It gives the citations in each case for these things that I have cited, and a number of others in the same field.

Senator DOUGLAS. What was the particular case?

Senator CLARK. The expense of maintaining a yacht was held to be an ordinary and necessary business expense in the case of *Wm. T. Stover* (27 T.C. 434 (1956)).

Senator DOUGLAS. May I ask this. Is the name of the man who has this boat mentioned in the case?

Senator CLARK. Well, I am sure it is. But I haven't looked at the 27 Tax Court report, and I am not here for the purpose of pillorizing anybody. It is the principle involved in this thing. The only reason I mentioned Olivia de Haviland is because her name appeared in the title of the case, and it is there for all to see; you can't get away from it.

Other cases in which yacht expenses were held to be deductible are cited in footnote 65 of the law review article to which I referred earlier.

I would be happy to file the article with the committee, although because of its length I do not suggest that it be printed in the record.

If it is agreeable, I will file it with the committee for its use with the understanding that it will not be printed as a part of the record.

Senator KERR. Very good.

(The article referred to will be found in the files of the committee.)

Senator CLARK. Mr. Chairman, the format of S. 2040, which lists certain specific types of expenditures as nondeductible, was suggested to us by one of the two authors of the law review article I have

been referring to. We looked him up; he did not solicit us. I commend the article to you as worthy of your serious consideration.

Now, gentlemen, if I may, let me enter a disclaimer that I am a "bluenose." I don't know many people who would rather go to the Kentucky Derby or the Mardi Gras or go to a nightclub or go to the opening of a new musical than the senior Senator from Pennsylvania. I enjoy going to such places and I intend to do so so long as I can get in and pay the freight. But I do not believe that I should be entitled to deduct those expenses from my income tax, and I do not see why anybody else should be. As I said before, I think this tax practice has an immoral effect.

In almost all of the instances cited, the Treasury agent, the auditing agent, is faced with an almost impossible task.

Senator McCarthy. I have a question of the witness. I think the Senator from Oklahoma wanted to have a distinction between a "bluenose" and a "blueblood."

Senator Clark. I think the Senator from Oklahoma needs no coaching from me, being an owner of fine blueblooded cattle.

Senator Kerr. They are blacknose and not bluenose.

Senator Clark. Are they black in the nose, too?

Senator Kerr. Yes, sir.

Senator Clark. I was pointing out, gentlemen, that the auditing agent, in all of these cases, who is usually a civil servant who does not enjoy the fiscal or social status of the individuals whose returns he audits, is faced with the almost impossible task of determining, under the present rule of the law and the cases which interpret it, whether the entertainment expense in question was undertaken primarily for reasons of personal pleasure or for reasons for business and duty, and then of allocating costs and allowable deductions accordingly. If a taxpayer tells a revenue agent: "Sure, I like to go out in my cabin cruiser, but I use it to entertain business clients, it is important to me in my business, and I believe it is an ordinary and necessary business expense," I think it is asking too much of a civil service Internal Revenue Service employee to expect him to determine what percentage of the cruiser cost was undertaken for personal reasons and what percentage for business purpose. But that is what he has to do at present.

Senator Kerr. May I ask the Senator a question? Is it your position, and would that position be implemented if this amendment were adopted, that such an expenditure, even though made primarily for the purpose of promoting business or securing orders, or helping to bring about a business transaction which would be profitable to the corporation for which the person is working, would you still feel that it should not be allowable as an expense item for that company?

Senator Clark. Senator, in S. 2040, which is before you, we have tried to eliminate as deductions only those expenses which, at least from where I sit, are most apt to be made for personal rather than business reasons or for an inseparable combination of both. The bill would still permit as deductions a wide variety of entertainment expenses which can be claimed as business expenses. If the Senator would turn to page 2 of S. 2040, he will see the specific items which are excluded from claim:

Entertainment at nightclubs, theaters, sporting events, or other places of public amusement (unless the conduct of the place of amusement is a trade or business of the taxpayer).

I pause to ask my good friend from Oklahoma how much business he thinks is going to get done during the floorshow of a nightclub, during a play in the theater, during a boxing match or baseball game?

Now, let me say that under the terms of this bill a taxpayer can take his customers to dinner, he can charge the liquor bill, he can take them to lunch, he can do anything with them where they could reasonably be expected to be discussing business. While that is being done, if he wants to buy them a steak from one of the Senators Angus cattle, he certainly can do it if he wants to even if the place charges him as much as the traffic will bear, and he can buy whisky or champagne and all of those expenses would still be deductible if they meet the present requirements of the law.

Senator KERR. I don't understand the Senator's amendment is subject to that interpretation.

I want to say to the Senator from Pennsylvania I am not taking a position for or against his amendment, I am seeking to find out the purpose of it, and what would be the result if enacted.

Senator CLARK. I understand.

Senator KERR. But if I understand it, entertainment at nightclubs, theaters, sporting events, or other places of public amusement, any expenses paid or incurred for that would not be allowable as a deduction unless the conduct of the place of business is the trade or business of the taxpayer.

Senator CLARK. That means if the taxpayer is in the entertainment business, that is all.

Senator KERR. The Senator said that this would not prevent the charging as an expense of the cost of entertainment, and I believe he said liquor, and a nightclub ticket——

Senator CLARK. Nightclub expenses would not be deductible. If you were to take a customer for Magnolia Oil Co., whatever the name of the Senator's company is——

Senator KERR. If I were taking my customer, it wouldn't be for Magnolia.

Senator CLARK. Well, let's assume that one of the Senator's varied business interests is in such a condition that he desired to do a little salesmanship. You could take customers to the Mayflower and you could buy them, under this bill, as good and expensive dinners as you wanted; you could have it upstairs in a private suite or in the main dining room; or you could give them champagne or anything else you wanted, and this bill would not prevent the deduction of these expenses if they met the ordinary and necessary test.

Senator DOUGLAS. Would the Senator from Pennsylvania yield?

Senator CLARK. I would like to finish my thought.

Senator KERR. I yield to the Senator from Illinois, because when he has an urge it is an urge.

Senator DOUGLAS. I am trying to defend the reputation of the Senator from Oklahoma. It is well known that he is a teetotaler, he is immaculate in his personal habits, and he neither smokes nor drinks——

Senator KERR. He was talking about steaks.

Senator DOUGLAS. And I don't think I would order champagne for anyone.

Senator CLARK. Before the Senator arrived, I distinguished myself from the Senator from Oklahoma. I like to drink liquor and I am not ashamed of it.

Senator KERR. I am not trying to keep you from it.

Senator CLARK. I don't want to keep anybody from buying all the liquor he wants while making a business deal, but I say they can't make much of a deal while Marilyn Monroe is doing an act or during a floor show at a nightclub.

Senator KERR. I would take the Senator's word for that, and I have to be advised by the Senator or somebody else, because I must say to him that there is nothing in my experience by which I can arrive at an accurate conclusion on that. So I appreciate the Senator's volunteering that information.

Senator CLARK. I am very happy that the Senator and I are in accord on this subject.

Senator KERR. We have had a perfect meeting of the minds, you know about it, and I don't, and we are both happy about that. I didn't begin this questioning to get into any kind of a situation of personal reference here between the two of us. I was just trying to get it over to the Senator that if I understood his amendment, the only way that a taxpayer could deduct any expense which would be encompassed in the items he has mentioned in sections 1 and 2 would be if the expense were incurred in a place of business or a place of amusement which was the trade or business of the taxpayer, or if the maintenance or operation of the lodge or house were to be the trade or business of the taxpayer.

Senator CLARK. The Senator is absolutely correct, we misunderstood each other.

Senator KERR. It looks to me like that is discriminatory, because it appears to me that even though this amendment were enacted, one who owned a nightclub or a theater or a sporting event—and I must say that in that regard that there was a time when I had a rather definite idea of what was meant by a sporting event, but I am sure that the language in the bill involves another or different connotation—but if a person owned a nightclub or a theater or a place where they had sporting events—and I am sure the Senator would want to explain that so we would know what it meant if we enacted it—or another place of public amusement, that he could charge off these items of expense, but that if he didn't own such a place, he couldn't.

Senator CLARK. Let me try to explain it to the Senator——

Senator KERR. Is that correct?

Senator CLARK. The Senator is quite correct.

Let me try to explain why we wrote it this way. I ask him to turn back to line 8 on page 1 and read the language there, so that our minds can meet:

No deduction shall be allowed under subsection (a) for any expenses paid or incurred for (1) entertainment at nightclubs—

Stop there and skip to the parenthesis—

(unless the conduct of the place of amusement is the trade or business of the taxpayer.)

If I own a nightclub or if the Senator owns a nightclub——

Senator KERR. No, let's each one of us speak for ourselves.

Senator CLARK. If the Senator would really like to——

Senator KERR. We can illustrate the position of the taxpayer without involving either one of us.

Senator CLARK. I would be happy to do that.

Let us assume that an anonymous Mr. Smith owns a nightclub, and Mr. Smith wants to hire entertainers at that nightclub. All this parenthesis provides is that Mr. Smith can deduct the cost of hiring those entertainers from his income tax, because that is his business. That is all this means.

Senator KERR. Let's say that Mr. Smith both owned a nightclub and an insurance agency, and he took the insurers, prospective insurance customer to his own nightclub and entertained him and involved a considerable expense, which he paid to his nightclub for the purpose of influencing or being effective in his efforts to sell the prospective client some insurance.

Now, if I understand this amendment, he could charge that off as a business deduction. But if somebody else had an insurance business and wanted to entertain a prospective customer, he couldn't take him to Mr. Smith's nightclub and entertain him and charge the cost of it off as a business expense.

Now, have I interpreted that wrong in the light of the language of the amendment?

Senator CLARK. It is my opinion that the Senator has interpreted it wrong. But I am not wed to the language in the bill, and if the Senator thinks that some clarifying language would make it clearer——

Senator KERR. No, I am just addressing myself to the language here. You asked me to go back and read beginning at line 8. It says:

> No deduction shall be allowed under subsection (a) for any expenses paid or incurred for entertainment at nightclubs, theaters, sporting events, or other places of public amusement unless the conduct of the place of amusement is the trade or business of the taxpayer.

Now, I take it that if the conduct of the place of amusement is the trade or business of the taxpayer, that then a deduction could be allowed.

Senator CLARK. Well, if I might explain my point of view to the Senator——

Senator KERR. Is that the meaning of the language, aside from the point of view?

Senator CLARK. Not entirely. And I would be happy to explain. The purpose of this language, and in my opinion the way this language would be interpreted by a tax lawyer—and I used to be one myself, although maybe not a very good one——

Senator KERR. Is the Treasury's tax counsel here?

Senator CLARK. May I finish the sentence, Senator?

Senator KERR. Yes.

Senator CLARK. Or by a court would be, that the obvious purpose of the exception was to make it clear beyond per adventure of a doubt that a man who was conducting the business of a nightclub, theater, or sporting event could, nonetheless, nothing in this amendment to the contrary withstanding, deduct the ordinary and normal business costs of such an enterprise from his income tax, but if he also owned an insurance company and wanted to bring some insurance company clients there and take them to the nightclub or theater, that he would not be able to deduct that expense. That is what it was intended to mean, and if that isn't what it means, then let's change it.

Senator KERR. I want to say to the Senator that I don't believe that that would be the interpretation given by a tax lawyer. That is the reason I asked if the counsel from the Treasury were here.

Senator CLARK. The Senator is certainly entitled to his opinion, and if he is right, we should change the language.

Senator CURTIS. Were you through, Senator?

Senator KERR. Yes.

Senator CURTIS. Senator, according to this bill in your statement it would be unlawful for a businessman to take his customer to a baseball game, wouldn't it?

Senator KERR. It wouldn't be unlawful, he just couldn't deduct it.

Senator CLARK. Of course, it wouldn't be unlawful, he just couldn't take a deduction from his income tax, and I don't think he should be able to.

Senator CURTIS. What does a baseball ticket cost?

Senator CLARK. The Senator knows as well as I. And I don't think the cost is involved. It is the principle which is important. I don't think it is morally right to permit such costs as business expenses.

Senator CURTIS. Why is it that you would disallow a deduction—and I assume all of these are for goodwill and public relations and to keep customers happy—why would you disallow a claim for a businessman that took a customer to a baseball game, but would allow the deduction for a case of champagne?

Senator CLARK. Because, Senator, you have to proceed by petty steps in this thing. If I had my way, I would knock out the case of champagne, too. But I don't think this committee or the Senator or the House is ready to do that. And I don't think there is any real connection between ordinary and necessary business expenses and taking somebody to a ball game, and I think there could be such a connection between taking a customer to a dinner and trying to put over a business deal with him. And if, in the course of that, they want to buy a case of champagne, I am not going to object now. If the Senator wants to put the case of champagne in, too, I will be very happy to amend my bill accordingly.

Senator CURTIS. Here is what I am trying to get out. Suppose among those customers he has one or two that are teetotalers, they don't want any champagne.

Senator CLARK. He can buy some ginger ale, Coca-Cola, Seven-Up.

Senator CURTIS. He couldn't send them out to the baseball game at maybe a fraction of the cost for entertainment?

Senator CLARK. I don't think he would need to do either, and I don't think the Senator does, either.

Senator CURTIS. I am just following your statement. You said a moment ago that is what you propose; he could continue to buy the steaks and the champagne.

Now, what I am trying to find out is what this bill means. Now, if a businessman took a customer to a very exclusive restaurant, and bought him a $12 dinner, your bill, if there was no show, no entertainment there, your bill would not deny it was a business deduction?

Senator CLARK. The Senator is correct. Has he ever read "The Status Seeker"? It is a good book, I recommend it to him.

Senator CURTIS. But if another one took someone to dinner and this was sufficient—there was sufficient show so it was classified as a nightclub by the Internal Revenue, but the cost was $4 a head, that would be denied, would it not?

Senator CLARK. It would. But I don't know of any nightclub where you can get steaks and champagne and entertainment at $4 a throw.

If the Senator does, I wish he would tell me about it.

Senator CURTIS. Here is what happens. These restaurants that have a little music and so on, many of them are classified by the Cabaret Act as nightclubs, and I suppose that would be the yardstick you would look at. Is it also true under your proposal that if a large taxpayer was entertaining customers, and he rented a hall and hired a dance band, that the expense of that would not be denied as a deduction under your bill?

Senator CLARK. The Senator is correct, unless the hall was a place of public amusement. I have not attempted to close all of the loopholes in this bracket of business-expense allowance. We have just tried to close as the first step some of the most notorious and indefensible ones.

Senator CURTIS. I am talking about these—you would not deny a large taxpayer from renting a hall and hiring a dance band, but your bill would deprive a small taxpayer of the privilege of taking three or four customers to a public dancehall to create good will, wouldn't it?

Senator CLARK. The Senator is correct, unless the hall could be considered "a place of public amusement" as stated in subparagraph (1) of the bill. I would be happy to proceed with my prepared statement.

Senator CURTIS. What I am trying to get at, isn't the Government's interest in this, the extent to which money, and how much money, is allowed as a business expense.

Senator CLARK. I think that is part of it, I don't think that is all of it. I think the primary interest of this thing from where I sit is twofold. In the first place, it is to permit the Government to collect money which, under any moral or equitable point of view, is justly owing to it, but which it is not getting now because of the breadth of the general rule in the code, and rulings which have extended to the deduction privilege. In the second place, it is to give the American taxpayers specific rules under which they can determine what is fair and right and just and what isn't, instead of the present vague "ordinary and necessary" rule, which has been widely abused. I think that it is impossible to do all of this at once, and the effort of this bill is merely to hit some of the most notorious and indefensible practices.

Senator CURTIS. Now, is the real objective to prevent dollars from being charged off as business expense that were not necessary business expenses?

Senator CLARK. I think that is a fair statement. You say the real objective. I stated it just a minute ago in my own words, and it seems to me the Senator has said pretty much what I have said. I think I would agree with that.

Senator CURTIS. I am not so sure that it does that, because—and perhaps it couldn't fix any kind of limits or yardstick to measure business expenses—but it attempts to classify them by their activity.

Senator CLARK. The Senator is correct. This is a very difficult problem, and we have been in long and involved communication with a number of tax experts, and we have tried to read all the literature which was available on this matter.

If the Senator has not had an opportunity to read this article in the Yale Law Journal which I have referred to earlier entitled "Expense Accounts for Executives" which I have filed with the committee, I would urge you to do so. I think it is a very intelligent article on the subject. We have been in conference not only with tax lawyers, but with one of the authors of this article, and we came up with this bill as the best we can do. I do not think it is perfect, but I am confident that it would improve the situation considerably.

Senator CURTIS. I notice you use the phrase "nightclubs, sporting events, other places of public amusement," which would still leave open the opportunity for the larger taxpayer to provide his own premise and bring this his own floor show, or his own dance band, or what have you, to create goodwill among his customers, because that won't be a nightclub, it wouldn't be a theater, it wouldn't be a sporting event, and it certainly is not a place of amusement if he is providing it himself.

Senator CLARK. The Senator is correct. There is no specific provision in my bill to that effect. That is a loophole within a loophole.

On the other hand, let me point out that in such an event he would still have the requirement under the present law of satisfying the revenue agent that this vast expenditure was an ordinary and necessary business expense. And if this bill should be passed, it might well be interpreted as a general expression of intent by the Congress that the rule permitting only ordinary and necessary business expense to be deducted should be more strictly applied. The revenue agent passing on the case posed by the Senator might decide that that kind of entertainment expenses would not be subject to deduction.

As a matter of fact, you get into these things in a number of five fields. I happen to belong to a legal club in Philadelphia consisting of 25 members. Each member of the club entertains his colleagues once every 3 years. When you entertain you put out quite a lot of money, you give them a good party, you ask a few guests. Many of my colleagues in that club claim those expenditures as deductions. I have never done it; but I believe I could under the law as applied at present.

Senator CURTIS. Line 9, page 2, "gifts," would that include trading stamps?

Senator CLARK. Trading stamps?

Senator CURTIS. Yes, Top Value stamps and green trading stamps.

Senator CLARK. I think that such a conclusion would be a tortured interpretation of the language.

Senator CURTIS. Isn't that a gift?

Senator CLARK. Well, if the Senator wants to make it so.

Senator CURTIS. I am asking you.

Senator CLARK. I would say that the answer is clearly "No," it would not include trading stamps.

Senator CURTIS. Now, under lines 12 and 13, a taxpayer in the main could not deduct traveling expenses to a convention held a few miles away in Canada, but he would be able to deduct traveling expenses to a convention in California; is that correct?

Senator CLARK. Yes, the Senator is correct, and there again we have a question of judgment. And, frankly, I am not sure that in

this instance the judgment was correctly exercised, and there may be some hardship that might result. This item was included because of what happened about a couple of years ago when the American Bar Association met in London, and hundreds and hundreds of lawyers got a tax-free trip abroad, and in many instances were permitted to deduct the expenses of taking their wives along with them, ostensibly to attend the American Bar Association convention in London. I happen to be a lawyer, and I would estimate—let me be conservative—that 50 percent of the gentlemen who went on that trip and took that deduction from their income taxes didn't attend more than one or two of the legal meetings which took place, and then proceeded to gallivant all over England and the Continent with the idea in mind that their trip over and their trip back and their expenses while they were in London at the convention and thereafter were deductible for income tax purposes.

Senator CURTIS. What was the theory of the deduction?

Senator CLARK. The theory of the deduction was that it was a business expense incurred by the lawyer in advancing his profession through the contacts he made with his colleagues and with members of the British bar—when I say the British "bar," and I see my friend Senator Cotton laughing a bit—I don't mean the pub, I mean barristers and solicitors.

Senator COTTON. You are imputing motives to me which are a violation of the rules of the Senate, but in this case I am guilty.

Senator MCCARTHY. By way of defense, the Senator didn't impute motives, he said what he thought was in the mind of the Senator. That is different from motives, isn't it?

Senator CURTIS. Well, if one businessman carries his sales department, including his goodwill gestures, and so on, at a lower percentage cost than his competitor in identically the same business, isn't that really the thing that inures to the benefit of the Treasury?

Senator CLARK. Well, I don't think so. Let me put it this way, that under the present law there is a substantial inducement to every corporation to encourage a wide use of the business expense deduction by their sales executives because Uncle Sam picks up 52 percent of the tab, and if we are talking in terms of partnerships or agencies like advertising agencies, there is even a greater inducement, because in terms of the personal income tax of the individual claiming the deduction on his personal income tax, he starts at 91 percent and works on down. So that for every dollar of nightclub entertainment paid by one of the top level Madison Avenue boys, or paid by the executives of one of our great steel companies out of his own personal accounts, Uncle Sam pays 91 cents, and he only pays 9.

Senator CURTIS. Well, I think that is one of the problems of the high rates.

Senator CLARK. I agree with the Senator, the rate should be cut, but this is a condition which confronts us, not a theory, and this is a good way to plug up some loopholes.

Senator KERR. Does the Senator think the rate should start at 1 percent and go up, instead of 90 percent and go down?

Senator CLARK. In all candor, I don't think the Senator fully got my thought. Perhaps he did.

Shall I continue my statement? I shall be happy to respond to further questions.

Senator CURTIS. I am through.

Senator CLARK. The tax amendment proposed in S. 2040 would prevent a corporation or business executive from claiming as deductions the sums spent for items on which the return to the taxpayer in terms of personal services is apt to be high and the business purpose subordinate or indistinguishable. To force auditing agents to pass on the reasonableness of claims when the personal and business purpose of the expenditures are almost sure to be blurred is totally unrealistic.

I contend, Mr. Chairman, that the Government should cease subsidizing the yacht and lodgeowners, the Stork Clubs proprietors, and the managers of theatrical and sporting events in America by this indirect means. If the privileged few in business circles who enjoy the luxuries permitted by expense accounts wish to continue to do so, let them do so at their own expense as in the case of the overwhelming majority of other taxpayers.

I had an incident come to my personal attention the other day which I think is of some pertinence. And I would be happy if my good friend from Oklahoma would consider it.

A friend of mine and his wife went down to an international airline the other day to buy a round-trip ticket to Europe. The agent said to them, "Are you going for business or pleasure?" They said, "We are going for pleasure."

The agent said, "Then, of course, you want the economy rate. If you are going for business, we would give you the luxury first-class rate."

They asked, "What is the difference?"

"Oh, $350 to $400."

I would hazard a guess that there is almost nobody traveling luxury class on the airlines today except people who can deduct the costs as business expenses. Don t you think that is right?

Senator FREAR. Government people?

Senator KERR. I would hesitate to ask my good friend from Pennsylvania to document that statement. But I must say to him in all candor that my judgment is that he would have difficulty documenting it if he were asked to.

Senator CLARK. The Senator is entitled to his own opinion, of course.

Mr. Chairman, expense accounting spending would be nondeductible for income tax purposes under the provisions of S. 2040 if the money has been used for entertainment at nightclubs, theaters, and sporting events. Similar tax prohibitions would cover spending for maintenance of yachts and hunting lodges, gifts between businessmen, country club dues, and travel to conventions outside the United States.

A well-advised individual, quoted in the article by V. Henry Rothschild and Rudolph Sobernheim which I cited above, made the following statement;

> In cities like New York, Washington, and Chicago, it is safe to say that at any given moment well over half the people in the best hotels, restaurants, and nightclubs are charging the bill as an expense of their company.

I believe that could be documented.

Uncle Sam pays 52 percent of the cost of the theater tickets or nightclub performances, all on the theory that this is a justifiable business expense.

As I pointed out a little while ago, if the taxpayer as an individual is a wealthy individual, Uncle Sam pays more than 52 percent, of course.

Permitting this type of tax deduction lowers public moral standards and results in an utterly unjustifiable reduction of the revenue which the Federal Government is entitled to receive.

I do not pretend—and this I would say to my good friend from Nebraska—that the list of items cited in this bill will eliminate all tax abuses in the business expense field. All I contend is that it will eliminate some of the worst. Perhaps this committee's deliberations will indicate that the list should be lengthened or revised. I should welcome such consideration.

Mr. Chairman, I turn now to S. 2039, the other bill which I introduced on behalf of Senators Douglas, Proxmire, McCarthy and myself. It is designed to enable the Internal Revenue Service to enforce existing rules regarding all expense deductions more thoroughly.

Corporations and other employers are required today to file information returns where there are compensation payments of over $600 per person. The amounts included in those returns, however, are only those which the employer regards as "compensation." The purpose of this bill is to permit the Internal Revenue Service to acquire information as to employer payments whether or not the employer regarded them as compensation. In this way the payments would be identified, and the Service could consider independently whether the payments are taxable as income to the employee or nontaxable as reimbursement of expenses.

Two exemptions are contained in the bill. The first eliminates payments totaling less than $200 to any person per year, and the second exempts payments made equally available to all employees or class of employees, unless the group consists primarily of officers, shareholders, or highly compensated employees.

The additional control over expense account deductions, provided by this measure, would act as a brake on loose use of this item on all tax returns on which such deductions were claimed with the two exceptions stated.

Anyone who doubts the effectiveness of such a move should review the history of a recent proposal in this field. In 1957 the Treasury Department proposed to put out a tax form containing a new "line 6–A" to require total reimbursed expenses to be reported in the employee's gross income and claimed business expenses to be deducted with appropriate itemization. Strong protests from many quarters led to the abandonment of this requirement in short order. "You have no idea of the pressure that was brought on the Service from people who get expense account money," said one official of the Internal Revenue Service.

That is quoted in the U.S. News & World Report of November 22, 1957, on page 33, and repeated in the Yale Law Journal article referred to previously in footnote 1 on page 1363.

The proposal made in this bill was favored by the Treasury in 1952, as can be seen from the Department, comments on H.R. 7893, 82d Congress, 2d session, section 104. The second exemption in the bill, which has been added at the suggestion of Prof. Stanley S. Surrey of the Harvard Law School removes one of the chief objections to the earlier bill.

I would like to recommend to the members of the committee also, favorable action on Senator Douglas' bill (S. 2037) to provide graduated rates of percentage depletion for oil and gas wells; Senator Proxmire's bill (S. 2038) to provide for withholding tax at source on interest and dividends; and Senator McCarthy's bill (S. 2036) to repeal provisions allowing credit against tax and excluded from gross income for dividends received by individuals. I am a cosponsor of each of these proposals and endorse in full the remarks of the chief sponsor of each measure.

The time to make a start on tax reforms is now. The loopholes and special privilege provisions which have been written into the code over the years now cost the Government many billions of dollars in lost revenue each year, and perhaps more seriously, the "gentle art of tax avoidance" has had an erosive effect on the morality of the Nation. We estimate that the enactment of these five bills (S. 2036 through S. 2040) would increase annual public revenue by $2¼ billion per annum. These additional revenues could be used (1) to provide funds for public services such as schools, urban renewal, and housing; area redevelopment, hospitals, medical research, and the like; (2) to make available, sums for debt retirement; and (3) to permit, eventually, tax reforms which would make our tax system more equitable than at present and ease the burden of all taxpayers.

At an earlier time this year I would have added a fourth use for such funds to help balance the 1960 budget. Now, as the result of the recovery, it looks as if the budget may be balanced without closing tax loopholes. I would strongly urge the committee not to withhold approval of these bills because of that consideration. The money which would be raised by these bills ought to be in the Treasury anyway; we ought to have a surplus, we ought to pare down the debt; we ought to provide a lot of service that we are not providing. This can be done without injustice to anyone by closing these unconscionable loopholes.

Let me express again to my friend, the chairman of the committee, my heartiest thanks for his courteous hearing. I know he and the other members of the committee will consider carefully these two bills dealing with the tax treatment and the reporting of certain business account expenditures, as well as the loophole closing bills of my colleagues. I apologize for having detained the committee so much longer than I had expected.

Senator KERR. I thank the Senator from Pennsylvania.

Are there questions?

Senator CURTIS. One thing. You cited specific cases such as Olivia de Haviland. Would you insert in the record the year of the tax in question on that?

Senator CLARK. We would be happy to do it, Senator.

Mr. Benjamin Read, who is a lawyer and my assistant, will go to the law library and obtain those case reports.

Do you want the year of the tax?

Senator CURTIS. The year the tax question arose in controversy.

Senator CLARK. Let's be sure we understand each other. We already have in the record the year the tax case was decided.

Senator CURTIS. I want the year of the return.

Senator CLARK. The taxable year?

Senator CURTIS. The taxable year in which the incident arose.

Senator CLARK. Right.

Senator CURTIS. I am interested in seeing whether or not this problem was changed any by the 1954 code.

Senator CLARK. I think that is a very pertinent inquiry.

Senator KERR. I was going to say to the Senator from Pennsylvania that in my judgment the committee is going to consider this bill in executive session tomorrow, and if they do, and if they report it out tomorrow with or without amendments, it would seem to me that in order for any additional material to be available to be printed in the record, it would have to be supplied to the committee reporter by that time.

Senator CLARK. I would think Mr. Read could get it this afternoon, Senator.

(Information supplied by Senator Clark at the request of the committee:)

(1) Sanitary Farms Dairy, Inc. (25 Tax Court 463 (1955)); the taxable year of the disputed deduction was calendar 1950.
(2) Olivia de Haviland Goodrich (20 Tax Court 823 (1953)); the taxable years of the disputed deductions were calendar 1945 and 1947.
(3) Wm. T. Stover Co. (27 Tax Court 434 (1957)); the taxable years of the disputed deductions were calendar 1949 and 1950.

Senator KERR. Are there other questions?

The Senator from Minnesota, Mr. McCarthy. We would be glad to have you make it from where you are sitting, Senator.

Senator MCCARTHY. I think I can do it more effectively down here, Mr. Chairman.

Senator CLARK. Mr. Chairman, could I just make a two-sentence additional statement?

Senator KERR. Yes.

Senator CLARK. If the Senator from Minnesota and the Senator from Oklahoma and other members of the committee are concerned about the proper interpretation of subsections (1) of section (d) of S. 2040, I would suggest the addition of the following language before the end parentheses on line 4 and line 8 of page 2: "And the expenses so paid or incurred are made in furtherance of such trade or business."

I thank you.

Senator KERR. All right, Senator McCarthy.

STATEMENT OF HON. EUGENE J. McCARTHY, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator MCCARTHY. Mr. Chairman, the bill which I have introduced provides for the repeal of section 34 and section 116 of the Internal Revenue Code of 1954. This is the section which allows credit against tax and exclusion from gross income for dividends received by individuals. It is estimated that the removal of this privilege will produce approximately $400 million a year in additional revenue for the Federal Government.

Members of the Senate are familiar with the background of these provisions in the Internal Revenue Code. In the early years of income tax legislation, a situation arose under which a man who received income from salary and wages paid a smaller tax than the man who received the same amount of income from dividends. This disparity was eliminated by the Tax Adjustment Act of 1943, when

the law was changed so that those with incomes from dividends paid a tax which was equal to that paid on similar incomes derived from wages and salaries. This is in keeping with the principle enunciated here this morning by the Senator from Illinois, that equal income should bear an equal tax burden.

In 1954, the tax bill, which was passed with the strong support of Secretary of the Treasury George Humphrey, gave preferential treatment to those with incomes from dividends. The act of 1954 provided a $50 deduction for dividend income in addition to the regular deductions which were given to all taxpayers, and it provided for a straight deduction from income taxes of an amount equal to 4 percent of the dividend income up to 4 percent of the individual's taxable income. The original bill proposed by the Treasury proposed a tax deduction which would have risen to 10 percent. The amount was reduced to 4 percent. This provision, it should be noted, is not a deduction from taxable income, but a tax credit; in other words, a deduction from the tax itself. It is determined in this way: After the tax liabilities of taxpayers are calculated, a man with income from dividends is permitted to subtract from this amount an amount equal to 4 percent of the amount of his dividends, with a top limit of 4 percent of his taxable income. A man who receives an income from salary or wages has no such privilege.

The arguments advanced for this preferential treatment included, first, the argument that the tax laws had been devised to punish success, since the tax laws encouraged people to invest in tax-exempt bonds rather than in the risk capital through stock purchases. In my opinion, this point was never proved, but if it were true in 1954, the proper action it seems to me should have been by way of removing the tax exemption from bonds. In any case, no one could call the stock market sluggish today. On the contrary, if there is need to incentive, it is to encourage people to buy Government securities, either State or Federal, or both.

The basic question is whether special treatment should be given to the man's income from investment in corporate structures as against the man whose income comes from wages and salaries or from interest.

There is nothing in my bill which discriminates against the investor. The man who invests is entitled to his income. We recognize investment capital is needed in our economy just as labor is needed.

The question, however, which is of vital importance here is whether or not income from investment is to be given preferred tax status as against income from labor or income from interest and rent.

It is my opinion that income gained in the way of wages and salaries and rent and interest should not be taxed more heavily than income from investments.

The second argument which was advanced for the administration's bill in 1954 was that sections 34 and 116 would decrease the burden of double taxation.

The argument was that since corporations had already paid a tax on profits it would be double taxation if individual investors should pay individual taxes on their dividends.

It should be noted that the imposition of two or more taxes on the same income as considerable precedent and is not unnecessarily unjustified.

A person is taxed once on the income he receives and again when he spends it on any of the many items that carry excise taxes: Cars, gasoline, and so on. The farmer pays a property tax on the value of his land; the size of that tax is closely related to the income the farm will yield. He is also taxed by the Federal Government and in many cases by the State government on the income the land produces.

When a man with income from salary or wages hires someone to work for his family, the wages he pays are first taxed as income and then are subject to the tax on his employee's income.

Of course, legally, the corporation tax and the tax on dividends to individuals do not result in double taxation.

A corporation and stockholder are, by law, different persons than the individuals who are taxed on dividend income. In the case of a large corporation it requires little imagination to recognize the separation of the stockholder from the corporation. Thus, the tax on dividends received by the stockholder are not so much double taxation of the same income as separate taxation of the income of two related economic entities.

Likewise, it should be noted that undistributed profits of a corporation are not included in the taxable income of the stockholders. None of the supporters of the dividend credit are urging that undistributed profits of corporations be assigned to stockholders annually and thus become subject to personal income tax. The distinction here between the corporation and individuals receiving dividends is clear.

On the point of double taxation, as I noted this morning, the Treasury, when the dividend exclusion and the dividend credit was proposed, did have an opportunity to recommend a reduction in the overall corporate profits tax. If they had been concerned with double taxation, they could much more easily have proceeded to propose simply reduction in the corporate profits tax.

Actually, the corporate profits tax is largely a regressive tax. Its cost is often paid by the consumer who purchases the company's goods or services and thus it is more of a sales tax than a corporate profits tax. In effect, corporations tend to price their goods to the level which will produce sufficient profits after taxes so they can pay dividends comparable to what the investors would receive even if there were no tax.

The pertinent question for the Senate is whether or not the corporate profits tax is fair and equitable; whether it is actually so high as to injure the economy.

We all recognize that overlapping of taxation is inevitable when revenue comes from more than one source.

If one claims that the tax on dividends is double taxation, then there is scarcely a taxpayer who cannot complain of double taxation in somewhat similar instances. The fact is that the individual investor pays only one tax on his personal income. If we decided to give deductions for every claim of so-called double taxation, there would not be much left to the local, State, and Federal tax structure.

Finally, there is little or no evidence that those who benefit from the dividend credit are in need of special tax relief.

In 1955, for instance, 75 percent of all reported dividends were contained in only 2.2 percent of the returns which were filed.

Mr. President, I ask unanimous consent to print in the record at this point a table drawn up last year which contrasts and shows rather clearly the difference in tax treatment of individuals who received their income from wages and salaries, or it might be from interest or rent, as compared to those who received their income strictly from dividends.

Senator KERR. Without objection, it will be inserted at this point.

(The table referred to follows:)

Married taxpayer with two children and income of $10,000 per year

JOINT RETURN OF TAXPAYER A—ALL INCOME FROM WAGES AND SALARY	
Income	$10,000.00
Less 10 percent standard deduction	1,000.00
Income after deduction	9,000.00
Less personal exemptions	2,400.00
Taxable income	6,600.00
Tax owed	1,372.00
JOINT RETURN OF TAXPAYER B—ALL INCOME FROM DIVIDENDS [1]	
Income from dividends	10,000.00
Less dividend exclusion	100.00
Income after dividend exclusion	9,900.00
Less 10 percent standard deduction	990.00
Income after 10 percent standard deduction and dividend exclusion	8,910.00
Less personal exemption	2,400.00
Taxable income	6,510.00
Tax liability before credit	1,352.20
Less 4 percent of dividends up to 4 percent of taxable income	260.40
Tax owed	1,091.80
Difference between taxpayer A and taxpayer B	280.20

[1] Stock on which dividends paid owned jointly by husband and wife.

Senator MCCARTHY. To summarize the table, I would point out that a joint return of a married taxpayer with two children who had $10,000 of income, all of it from wages and salaries, would owe a tax of $1,372; whereas a taxpayer, also married and with two children and who received all of his $10,000 income from dividends, would be called upon to pay tax of only $1,091.80.

The advantage to the taxpayer whose income is from dividends would in this case come to $280.20.

Mr. Chairman, I would like to point out that when this matter was before the Congress in 1954 that the Senate was opposed to the dividend exclusion and to the dividend credit provisions which were included in the bill which finally passed.

It was on the insistence of the House conferees that this special tax privilege was included.

Senator George, then the ranking minority member of the committee, offered an amendment which would have stricken these provisions along with a number of other provisions.

I might point out that of the men who are now serving on this committee, Senator Kerr, Senator Frear, Senator Smathers, Senator Anderson, Senator Douglas, and Senator Gore all voted for the George amendment. However, the George amendment was defeated 49 to 46.

Subsequently, the Senator from Colorado, Mr. Johnson, offered an amendment which struck out section 34, which is the tax credit provision, and this amendment offered by Senator Johnson was approved by the Senate by a vote of 71 to 13.

Of those who are now on this committee, Senator Byrd, Senator Frear, Senator Smathers, Senator Anderson, Senator Douglas, Senator Williams, Senator Carlson, and Senator Butler all supported the Johnson amendment.

The members of the Senate Finance Committee evidently in 1954 did not believe that a good case had been made for this particular proposed change in the Internal Revenue Code. Their judgment was supported on the Senate floor by a vote of 71 to 13.

Mr. Chairman, I submit that the Senate should consider the amendment which I offered since it conforms clearly to the action which the Senate took in 1954. I believe the Senate made a wise judgment in 1954. Today, when we are faced again with lifting the debt limit, we should act to repeal this special treatment and increase revenue by an estimated $400 million.

Mr. Chairman, that finishes my testimony.

Senator FREAR. Are there any questions?

Senator DOUGLAS. I merely want to congratulate the Senator from Minnesota on the very excellent and cogent statement.

Senator KERR. Thank you very much, Senator.

Senator Proxmire of Wisconsin.

Come right up, Senator.

STATEMENT OF HON. WILLIAM PROXMIRE, U.S. SENATOR FROM THE STATE OF WISCONSIN

Senator PROXMIRE. Mr. Chairman and members of the committee, the amendment which I am offering to H.R. 7523 is aimed at producing $540 million in additional revenue for the Federal Government each year by assisting taxpayers to discharge their present tax liabilities more honestly and more fully.

This amendment imposes no new tax nor does it limit in any way the privileges legally available to taxpayers under the present law.

This amendment, in other words, would increase no one's tax liability.

It would, however, increase the amount of taxes paid by people who do not now pay the full amount for which they are legally liable.

Senator FREAR. Senator, in Senator Douglas' statement this morning I thought he gave the revenue as $750 million.

Senator PROXMIRE. That was correct, and Senator Douglas' estimate was correct.

Since then, however, we have modified the amendment.

Senator FREAR. Have you?

Senator PROXMIRE. We have changed it because there were certain difficulties which we anticipated if we covered everyone, including mutual banks and so forth and for that reason, we have changed it since this morning.

Senator KERR. What is the figure now?

Senator PROXMIRE. The figure now is $540 million. And, incidentally, that $540 million is a conservative figure as I will show as I proceed.

It is often forgotten that while the basic income tax is withheld at the source for those who earn wages and salaries, that is not true for dividends and interest.

Consequently, vast sums which are received by individuals as dividends and as interest—and which should be treated as ordinary income—are never reported on the tax returns of these individuals, and no tax is paid on these sums.

In fact, this is one of the most glaring examples of actual tax avoidance which is to be found in our tax structure.

The latest conservative estimate from thoroughly competent and authoritative tax experts which we have is that approximately $1.5 billion in dividends paid out are never reported as income.

Thus, there is this large gap between the dividends which individuals receive and the dividends which are reported and on which income tax is paid.

Even if as much as one-fifth of this amount—and this is certainly a generous estimate—is paid to those who need not report their income because they have incomes which are below the level—$600 a year—on which income tax is paid, that still leaves approximately $1.2 billion in dividends which are paid, but on which no tax is collected.

Senator FREAR. Is this an estimate of the Treasury Department?

Senator PROXMIRE. No, this is an estimate that is based on the best that I could make, that my staff could make and the members of the staffs of other Members of the Senate.

Senator FREAR. Well, it runs in my mind that the Treasury Department some time ago did make an estimate on the income from dividends and interest not included in tax returns.

Do you know of that?

Senator PROXMIRE. That is possible. I am not familiar with the Treasury Department estimate.

There are a number of estimates that we based ours on, quite a few estimates of private economists and others.

I am not sure the Treasury Department itself has made that estimate.

Perhaps Senator Kerr or Senator Douglas or Senator McCarthy who are familiar with that might know.

Senator DOUGLAS. It might have been some estimates submitted in 1950 or 1951 when Secretary Snyder appeared before the House Ways and Means Committee.

Senator PROXMIRE. I do not think the estimates made in 1951—well, of course you could update them based on the increase in dividends—but dividends have increased fantastically since then.

Senator FREAR. But it is the same percentage.

Senator PROXMIRE. It might apply.

Senator KERR. Senator, on the first page, the last paragraph, it says:

> Authoritative tax experts have said that approximately $1.5 billion in dividends is paid out and never reported as income.

And then on the next page we take one-fifth of that. What is the significance of the $600 million?

Senator PROXMIRE. Well, Senator, that is $600 a year. You are talking about the fifth line where I say "$600 a year."

Senator KERR. Yes.

Senator PROXMIRE. The significance there is that it is conceivable that as much as $300 million might be paid to people whose income is so low that they don't have to report it.

Senator DOUGLAS. May I say that that is an extremely high estimate.

Senator KERR. The Senator said his figures were conservative.

Senator DOUGLAS. I would not only say they are conservative, but I would say they are very, very conservative.

Senator KERR. The emphasis is the Senator's

Senator DOUGLAS. I try to emphasize it as much as I can.

Senator KERR. Well, I was trying to get it into the record.

Senator DOUGLAS. If I could finish the sentence which I started on and when my good friend from Oklahoma interjected, it seems that the major part of American stocks—stocks of American corporations are held by a small percent of the American public.

I have supplied these figures for the Congressional Record. Only two or three families have owned a mass majority of stock in American corporations.

Senator PROXMIRE. My figures are conservative all down the line, as I will indicate.

Withholding the basic tax of 18 percent at the source would, of itself, bring in an estimated $220 million a year.

In addition, if the basic tax were withheld, the individual who received the dividends would then not be able to excape or evade the full tax, and he would be more likely to report the full amount of his dividend and interest income on his return.

Since the great bulk of dividends go to those in the upper income groups, and since it has been estimated that the average rate of income tax which is paid by those who receive dividends is at least 40 percent, this part of the bill could, in fact, bring in additional revenue in the neighborhood of $500 million a year.

Of course, I have been dealing only with that part of the amendment which has to do with withholding on dividends at the source.

Here again, I am conservative. We aren't including any of the additional amount in our $540 million revenue. All we are including is the amount that would be brought in by the 18 percent withholding tax.

Actually, I think it is quite obvious on the basis of the evidence which the Senator from Illinois is giving us, that the estimates are, as he says, very, very conservative.

Senator FREAR. What is this estimate that you have come by—altogether from withholding of taxes by corporations and institutions and not by individuals?

Senator PROXMIRE. This would be a withholding of tax on the income of individuals by corporations as far as dividends are concerned.

Senator FREAR. Yes.

Senator PROXMIRE. That is correct.

Senator FREAR. By interest as far as institutions are concerned?

Senator PROXMIRE. That is correct, yes.

Senator FREAR. You assume, of course, that an individual paying interest to a bank would not withhold 18 percent of his interest and report it?

Senator PROXMIRE. Well, that part of the interest payment is not affected by this bill.

For example, if the Senator from Delaware or the Senator from Wisconsin should borrow from a bank and pay interest to it, that would not be covered by the bill.

Senator FREAR. Your intention is not to cover that?

Senator PROXMIRE. It is my intention not to.

Senator FREAR. Do you think the bank would certainly include the interest as part of their income?

Senator PROXMIRE. That is correct.

Senator FREAR. Then they would pay that, of course, obviously, as a part of their tax burden but not file any withholding on receipts?

Senator PROXMIRE. No.

Senator FREAR. Of interest income.

Senator PROXMIRE. No.

Senator FREAR. So there would be no record of that.

Senator PROXMIRE. No additional record.

Senator FREAR. That is right, no additional record.

Senator PROXMIRE. Right. In addition to that, the amendment provides for withholding at the source on certain interest payments.

Daniel Holland and C. Harry Kahn, of the National Bureau of Economic Research, Inc., estimated that for the taxable year 1952, the difference or gap between the interest which was received by individuals and that which was reported on tax returns was $3.4 billion.

They estimated that something like 60 percent of interest receipts were not reported in that year.

Senator FREAR. They didn't take into consideration what you have just taken into consideration—those who would not be required to because of the low income?

Senator PROXMIRE. They are talking about all the interest received by individuals.

They also wouldn't take into account the interest that has been received by institutions. That is correct. For the taxable year 1956, the amount of this gap is closer to $3.7 billion. For 1958 it would be larger, and 1959 would be larger because interest payments are increasing.

Even if we assume, as in the case of dividends, that 20 percent of this amount is received by individuals who, by virtue of the amount of their income, exemptions, and deductions, are not liable for tax, there remains $3 billion of interest income which should, but does not, appear on the taxable returns of individuals.

Now, as I said before, because of practical difficulties, this withholding proposal would not apply to the total amount of the interest income.

Senator FREAR. The figure of 18 percent is calculated on 20 percent, less the normal 10 percent allowance?

Senator PROXMIRE. It is calculated in that way; that is correct.

Withholding at the basic withholding rate of 18 percent should, in itself, therefore, produce an additional $320 million of revenue annually for the Federal Government.

Such a system as is proposed in this amendment to withhold taxes on certain dividend and interest income would help very much to improve compliance with the law of the land.

From the point of view of those people who do not want to break the law, this bill would have the very good effect of helping them to be as honest as they would wish to be.

From the point of view of the deliberate evader of income tax payments on dividends and interest, this amendment would produce a great gain in revenues above that from the withholding itself, since this type of person is more often than not in a bracket much higher than the one from which the basic or minimum rate is withheld.

It would further have the virtue of reducing the rewards for deliberate dishonesty.

I see no reason whatsoever why this or a similar provision should not be passed by the Congress of the United States.

Further, it ought to have the very active support of the administration, which, while it is very vocal in its opposition to inflation and deficits, none the less has refused to use its powers of persuasion to effect any really equitable change in our tax laws and has thus, by its neutrality, aided and abetted those who now escape taxation altogether on income which is properly taxable.

Senator FREAR. Would the withholding corporation or institution issue to the person to whom the dividends or interests were paid, a receipt in order that those persons who, of course, pay more than 20 percent tax would pay the difference between that which was withheld and the amount due the Treasury?

Senator PROXMIRE. No. It would be unnecessary. Every individual receiving dividends would automatically know that 18 percent of his dividend had been withheld as taxes. The corporation would just take 18 percent of the amount paid to individuals as dividends and pay it to the Treasury quarterly and that is the only action they have to take.

It is then up to the individual to carry on from there.

Senator FREAR. But that institution or corporation would have to issue a receipt to each individual.

Senator PROXMIRE. No. No receipt would be necessary.

There will be those who will say we should not withhold on interest and dividends.

But the best answer to that opposition is that we now do withhold on personal income and on wages and salaries at the source.

This is not too cumbersome and as a result, only 5 percent of wages are not reported as income, compared to 60 percent in the case of interest and vast sums received as dividends.

If it can be done in the case of the wage earner, it certainly can be done in the case of those who receive income from dividends and interest.

Briefly summarizing, the proposed amendment would require companies paying dividends and interest to withhold from such payments a tax computed at 18 percent of the dividend or interest payment.

The withholding agent would be required to file a simple return at such times as would be prescribed by the Secretary of the Treasury, presumably quarterly, showing the total amount of interest and dividends with respect to which tax has been withheld and they could be quarterly or annually.

This return would be accompanied by a remittance from the withholding agent of the amount of the withheld taxes.

Mr. Chairman, I am perfectly willing to read the rest of my statement. However, the remainder of this is a technical explanation of the features of the withholding plan. If it pleases the Chairman, I would be perfectly willing to have the rest of it put into the record.

Senator KERR. Well, that is entirely up to the witness.

Senator PROXMIRE. I ask unanimous consent to have this included in the record.

Senator KERR. Without objection, it will be included in the record.

(The unread portion of Senator Proxmire's statement follows:)

The dividend or interest recipient would report on his tax return (1) the net amount of dividends or interest he received after withholding, (2) 22 percent of the net amount received, and (3) the sum of the net amount received and the amount withheld computed, as indicated, in step 2. The taxpayer would then compute his tax on his total taxable income including the amount shown in step 3 and would claim a credit against his final tax liability for the amount computed in step 2.

For example, assume a corporation declares and pays a dividend of $100 per share. The dividend recipient would receive $82 after the tax had been withheld. On his return, the dividend recipient would report the $82 net dividend received. In step 2 he would add the $18 in tax withheld (22 percent times $82) and the sum of these amounts, $82 plus $18 or $100, would be reported as his total dividend income. He would then compute his tax in the ordinary manner upon his total income including the $100 dividend and claim the credit in the amount of $18 against this tax.

It should be noted that this plan calls for no special forms to be filed by the dividend or interest recipient and very little additional calculation to be made by him in completing his tax return. Indeed, the required changes in the tax form would be very modest and would therefore involve little, if any, additional compliance burden for the dividend and interest recipient.

It should also be noted that the paying company would not be required to keep records, for this purpose, of each dividend or interest payment or of the amount withheld with respect to each payment. Nor would the paying company be required to submit a withholding receipt to the interest or dividend recipient. The additional compliance burden, therefore, for the paying company would also be extremely modest, requiring only a flat percentage deduction from the amount actually paid or distributed to the dividend or interest recipient and a brief return to the Internal Revenue Service of the amounts so withheld.

On three previous occasions the Treasury Department has sought legislation to deal with the problem of under-reporting of dividend and interest income. Plans for withholding were offered in 1942, in 1950, and again in 1951. Each of these plans was rejected primarily on the basis of certain practical problems. The plan which I offer today would overcome these practical difficulties while foreclosing a major area of tax evasion.

The principal problem cited in connection with the previous withholding plans was that it would involve withholding of tax on individuals and organizations which, for one reason or another, incur no tax liability with respect to the dividend or interest payment. The plan I proposed today would eliminate this difficulty by providing for quick refunds to such individuals or organizations of any tax withheld. The extraordinary success which the Internal Revenue Service has achieved in providing quick refunds of overwithheld taxes upon filing of taxpayers' annual returns but before audit of returns, clearly demonstrates that quick refunds for any taxes which may be overwithheld on interest and dividend payments is quite feasible. The dividend or interest recipient incurring no tax liabilities with respect to the dividend or interest receipt would be permitted to file a claim for refund immediately upon receipt of the dividend or interest payment, by completing and remitting to the district director of internal revenue a simple form showing the dividend recipient's name and address, the name and address of the dividend or interest payor, and the amount of the dividend or interest received. Use of this quick refund device would eliminate the objection to previous plans that many individuals and organizations without tax liability would be deprived of the use of the tax withheld upon their dividend and interest income for a fairly long period of time. At the most, under the quick refund

plan, the dividend or interest recipient would have to wait about one-half a calendar quarter for refund of the tax withheld.

The second practical objection to previous plans for withholding on interest and dividend was that they involve substantial burdens on withholding agents. This objection should not have been particularly persuasive when offered in 1950 and 1951 since by that time every company or organization which would have been required to withhold on interest or dividends was then withholding on salaries and wages. Some specific types of cases were cited in which it was alleged the recordkeeping required in connection with withholding would add substantially to the companies' bookkeeping costs. In the intervening years widespread adoption of machine bookkeeping methods has robbed this objection of virtually all of its force. Apart from the bookkeeping facility made possible by these technological advances, however, the extent of the additional record or bookkeeping required by the withholding plan I am now proposing is very modest indeed. As already indicated, the withholding agent would be required merely to deduct a flat percentage of the payment to be made and file a return indicating the total amount of payments with respect to which tax has been withheld and to remit the amount of the withheld taxes.

The amendment that I propose would provide for certain exclusions from the withholding requirement. With respect to interest, the withholding provision would not be applicable to interest paid by a corporation to any government or political subdivisions, or wholly owned instrumentalities or agencies thereof, if the evidence of indebtedness in respect of which such interest is paid is owned by one or more of such governments, subdivisions, organizations, instrumentalities, or agencies. Withholding would not apply to interest paid to a foreign corporation, or any payment of interest to a foreign corporation not engaged in trade or business within the United States, a nonresident alien individual, any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or any foreign government or international organization.

With respect to dividends, the withholding provision would not be applicable to dividends paid under certain specified conditions or by certain specified organizations. These exceptions would not materially reduce the amount of dividends upon which tax would be withheld at the source. They would significantly reduce the administrative burden on the Internal Revenue Service, without, however, complicating the simple procedures described above for withholding agents.

The amendment also provides for conforming adjustments in the provisions of the present law dealing with declaration of estimated tax, which, on the whole, should simplify the declaration for many dividend and interest recipients.

Senator PROXMIRE. That completes my statement, Mr. Chairman.

Senator KERR. Are there any questions?

Let the record show that a letter was received by the chairman of the committee from the Machinery and Allied Products Institute furnishing three copies of their research study on the effect of the corporate income tax on investments which will be filed with the record, but not incorporated in the record.

The committee will recess until 10 o'clock in the morning for an executive session on the bill, and in the meantime those witnesses who have appeared here and who have supplemental material that they would like to have included, either for the files of the committee or for the record, may submit it.

(Whereupon, at 4:15 p.m., the committee took a recess until tomorrow, Wednesday, June 24, 1959, at 10 a.m.)

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