

SOLDIERS' ADJUSTED COMPENSATION

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

**SIXTY-SIXTH CONGRESS
THIRD SESSION**

ON

H. R. 14157

**AN ACT TO PROVIDE ADJUSTED COMPENSATION FOR VETERANS
OF THE WORLD WAR; TO PROVIDE REVENUE THEREFOR;
AND FOR OTHER PURPOSES**

PART 5



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SOLDIERS' ADJUSTED COMPENSATION.

MONDAY, DECEMBER 27, 1920.

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

The committee met, pursuant to call, in the committee room in the Capitol at 10.30 o'clock a. m., Senator Porter J. McCumber presiding.

Present: Senators McCumber (acting chairman), Smoot, La Follette, Dillingham, McLean, Curtis, Sutherland, and Gerry.

Present also: Hon. David F. Houston, Secretary of the Treasury, Dr. T. S. Adams, and Mr. John E. Walker.

Senator McCUMBER (acting chairman). Mr. Secretary, I believe that the intention was now to take up the tax provisions of this bonus bill, and we will probably do just as well if we began right at the beginning of those tax propositions that are laid down and get your opinion on them.

STATEMENT OF HON. DAVID F. HOUSTON, SECRETARY OF THE TREASURY—Resumed.

Secretary HOUSTON. Have you had an estimate, Mr. Chairman, of the possible cost of the various proposals in the bill?

Senator McCUMBER. I have not read over the House report on it. I presume that they covered that. But we have not completed the hearing, and we would like to hear from you, if you have anything to say on it, and we will complete that proposition before we take up the tax matter.

Secretary HOUSTON. I have an estimate furnished me by the Treasury actuary, which is as follows for the direct cost:

Title II of the bill providing for the payment of a cash bonus would cost \$1,343,000,000; Title III, providing for the issuance of insurance certificates, if all who are entitled were to avail themselves of the provision, would cost \$4,534,000,000; Title IV, providing for training, if all who are entitled were to avail themselves of the provision, would cost \$1,880,000,000; and Title V, providing for aiding the veterans to purchase or improve a home or farm, the same amount—that is, \$1,880,000,000.

The actuary adds that Title VI, providing for land-settlement scheme, contains uncertainties which makes it impossible for him to estimate the cost, and also this: "As these schemes are optional, veterans will choose the one which appeals to them. The more re-

sponsible would undoubtedly choose to benefit under Title III. It is estimated that, depending upon the number who would accept the various schemes, the total direct cost to the Government would be, as estimated, \$2,275,000,000, with an additional cost of administration of \$25,000,000."

He points out that in addition to these direct costs there would be very considerable indirect costs, arising from the fact that not a few of those who might receive aid in cash might perhaps not exert themselves as actively as they would if they did not receive the aid; that the conditions of labor, therefore, might become more difficult, affecting production, and that costs would advance. But, of course, it is very difficult to indicate what the indirect costs might be. So I shall not undertake to give figures.

The House report, Mr. Chairman, contains estimates furnished the committee by the actuary as to the possible yields of the various taxes carried in the bill on the basis of conditions as the actuary saw them last spring. Perhaps it would save time to refer to the page of the committee report which contains those estimates—page 7. The report, toward the close, reads as follows:

* * * It is estimated that the five tax provisions of the bill herein recommended will yield in a period of three years additional revenue aggregating \$1,276,500,000, a sum ample to carry out the purposes of the bill.

And then it sets out the possible yield of each of the items.

An additional surtax on individual incomes of 1 per cent of the amount by which the net income exceeds \$5,000 and does not exceed \$10,000; 2 per cent from \$10,000 to \$20,000, and 3 per cent of incomes in excess of \$20,000. (This provision is estimated to yield \$108,000,000 per annum.)

2. A tax equivalent to one-fifth of 1 per cent on the sale of stocks and bonds. (This provision is estimated to yield \$100,000,000 per annum.)

3. A tax equivalent to one-half of 1 per cent on the sale of real estate. (This provision is estimated to yield \$50,000,000 per annum.)

4. An increase of approximately 15 per cent in the existing tax on cigars and tobacco and of approximately 25 per cent of the tax on cigarettes. (This provision is estimated to yield \$55,000,000 per annum.)

5. An excise tax on corporations issuing stock dividends subsequent to March 15, 1920, equivalent to 10 per cent of the value of stock so issued. (This provision is estimated to yield \$45,000,000 on stock dividends already declared and \$7,500,000 per annum on future stock dividends.)

I do not know that I should have any very valuable views on these specific proposals. My thought has rather turned to the consideration of the simplification of the existing tax laws and possible methods of raising revenue to meet existing burdens on the Government. I have not been giving specific thought to methods of meeting these additional proposed burdens. I do not know to what extent Dr. Adams and his associate, Dr. Walker, have considered these matters, but they have been actively and intimately dealing with tax matters for the Treasury, and I shall be very glad to have them take up any specific points which you may wish them to discuss.

Senator McCUMBER. That is very well, Mr. Secretary, but I believe you stated you had been considering the question of taxation to take care of present conditions?

Secretary HOUSTON. Yes, sir.

Senator McCUMBER. And possibly before we call Dr. Adams we had better hear from you on that proposition of what is to be done to meet the present situation, irrespective of this particular bill, and then we can take up the tax question.

Secretary Houston. I undertook at the last meeting to outline the financial situation in as summary a fashion as I could along the lines followed in the annual report. Perhaps I can save time by following this statement which I have in my hand.

I have recommended that the revenue from taxation be maintained after this fiscal year and until the close of the fiscal year 1923, on a level of at least \$4,000,000,000. This represents a substantial reduction of aggregate taxes collected from the people. During the fiscal year 1920 the internal tax receipts amounted to \$5,400,000,000, and it is estimated that for the fiscal year 1921 they will amount to \$4,700,000,000. The proposed \$4,000,000,000 levy, therefore, represents a reduction of \$1,400,000,000 from the level of 1919, and a reduction of \$700,000,000 from the level of 1921. What it means in brief is that a system of taxation based upon the income tax, adjusted to ability to pay, a system progressive for the most part, bears less heavily upon the taxpayer and yields less revenue, as it must when the income of the country declines.

I have recommended the reduction of the extreme income surtaxes, not to exempt the rich but to tax the rich. At present, by investing in tax-free securities and by the use of other devices the very wealthy can and do avoid taxation. The taxable income of taxpayers having net incomes over \$300,000 a year, fell from \$992,972,985 in 1916 to \$392,247,329 in 1918. This condition, I have suggested, may be met either by reducing the upper surtaxes to a lower general level, or by reducing the upper surtaxes with respect to that part of the income which is saved and reinvested in taxable property or business, leaving the present rates, if necessary, upon income which is wasted or used in ostentatious and unnecessary consumption.

I have recommended that the excess-profits tax should be replaced, primarily because it is losing its productivity, and promises in the near future to become a statute of exemptions rather than an effective tax. Moreover, the tax is so complicated that it imposes upon both taxpayers and administrative authorities burdens too difficult to be permanently carried. I recommend that it be replaced—not merely repealed—with a simpler and more certain tax upon corporation income or profits. I suggest in this connection for the consideration of the Congress either a flat additional tax on corporation profits, such as has recently been adopted in the United Kingdom, or a tax upon the undistributed profits of corporations under which, if adopted, corporations should be expressly authorized to pay taxes through their stockholders, as partnerships are now taxed through their members. By either of these proposals the income tax on corporations—and, of course, we understand that the excess-profits tax rests on corporations—could be made a fair equivalent for the income tax as now applied in effect to individuals, partnerships, and personal-service corporations.

I recommend the retention of a simple system of specific sales or consumption taxes designed to collect a moderate proportion of the aggregate tax levy from a few highly productive taxes on nonessentials. Miscellaneous sales or excise taxes shifted in main to the consumer supplied in the last fiscal year about 20 per cent of the total taxes, or about 25 per cent if customs duties are counted as consumption taxes.

In view of the financial needs of the Government these proportions may properly be maintained or even increased to perhaps 30 or 35 per cent; but no radical increase such as doubling the consumption taxes would, in my opinion, be justified. There must be a fair balance in the tax system as a whole between taxes on the consumption of the masses and taxes on wealth, income, and business. It would be especially unfortunate to substitute sales taxes, of any variety, for taxes upon corporation profits, which are required both to balance the tax system and to equalize taxes on corporations with the progressive income tax as applied to unincorporated business concerns. To place such an unfair load on the masses would violate all the recognized principles of justice as to the division or distribution of the total tax burden. I do not oppose all sales taxes; but I have recommended the repeal of those sales taxes which are difficult to enforce, unduly vexatious, and of inconsiderable yield. The entire tax system, including the existing specific sales taxes, should be simplified, not further complicated by the adoption of a turnover or general sales tax which would require a huge additional administrative force if administered properly and would result in widespread evasion if not thoroughly administered.

The excess profits and other taxes, which, in my opinion, should be replaced, would yield in the future less than \$730,000,000 a year. In order to meet this reduction or deficit I have mentioned—merely for the convenience of the committees of Congress which will be directly responsible for tax revision—a large number of possible new or additional taxes, including higher income taxes and additional specific sales taxes upon luxuries and nonessentials, capable of yielding over \$2,000,000,000 a year. I have not recommended these taxes—I have mentioned them as possible new sources from which to make selections, if it is necessary to take that course.

Except for some obvious misunderstandings or misstatements, it would be unnecessary for me to repeat what is so emphatically stated in my annual report, that sound public policy demands the exercise of the most rigid economy. Unless every unnecessary expenditure, including the proposed appropriation for the payment of soldiers' bonuses, be avoided, and unless every official public estimate or request for appropriation be kept at a minimum, a sound plan of tax revision could be carried out, if at all, only with very great difficulty and the successful financial conduct of the Government during the next three years would be rendered exceedingly difficult, if not imperiled.

I think that while the legislation passed during the war was hastily passed and contains defects, it was based on a sound principle. In the main, it established in Federal taxation, for the first time in our history, a sound policy—that is, a progressive tax system based on the ability of the taxpayer to bear the burden. My suggestions look to the simplification of these laws in the light of experience and to methods of meeting possible reductions incident to steps of simplification or other action which the Congress may see fit to take. I have suggested the elimination of certain undesirable sales taxes which we now have and the concentration of action on such sales of commodities of a luxury or nonessential sort as will yield considerable sums, and I have proposed certain substitutes for the excess-profits tax on corporations.

Senator McCUMBER. Mr. Secretary, you have given us the pressing situation quite clearly. The matter before us now is this bonus bill. We have got to assume either that it will not or that it will pass. Assuming that it will pass, notwithstanding the present state of the Treasury, the committee would like to have your suggestions as to how it could or would be met by you.

Secretary HOUSTON. I am not now prepared myself, Mr. Chairman, to make suggestions as to how the additional revenue can be secured.

Senator SMOOR. Congress will have to provide for that.

Senator McCUMBER. However, Congress has to provide this which the Secretary has also recommended, but nevertheless we take the Secretary's advice.

Secretary HOUSTON. I shall be glad if the gentlemen who are with me have any suggestions to make to have them give their views. I have not had time to give the requisite study to plans for meeting this additional proposed burden. I should simply take up the time of the committee with views I have not myself matured.

Senator McCUMBER. Does any one of the committee desire to ask the Secretary any questions?

Senator McLEAN. This bill provides for an additional surtax. From your statement just made with regard to the general situation, I take it that you are opposed to an additional surtax?

Secretary HOUSTON. I suggested, as I stated, the reduction of the level of the surtaxes, for the reason that the sources themselves are drying up. I do not know how you would get the additional money in the circumstances. Perhaps these gentlemen who have been intimately in touch with these matters may have some views.

Senator McCUMBER. Dr. Adams, we will hear from you, then, on the question of the proposed taxation in the bill itself, or any other suggestions which you think the committee ought to have.

STATEMENT OF DR. T. S. ADAMS, STATISTICAL EXPERT, TREASURY DEPARTMENT.

Mr. ADAMS. Senator, I have nothing particular that I want to say. I think on the points which have been raised these suggestions might possibly be made: The Secretary's report contains a statement of a number of taxes, sufficient to yield, I think, more than \$2,000,000,000 a year. Those are by way of suggestion to the committees in canvassing possible new taxes. In the Secretary's report, at pages 44 and 45, there are lists of taxes, which he has not recommended but which would seem to him a little less evil than some other proposals that have been made, which are capable of yielding, as I have said, considerably over \$2,000,000,000 a year.

Senator McCUMBER. Under the present situation?

Mr. ADAMS. Under the present situation; yes.

Senator McCUMBER. The probability of business being very much lessened in the next year or so, or depressed for some time to come?

Mr. ADAMS. In general, they take account of the shrinkage, Senator. The very latest movements, however, were not known when the estimates were prepared. From the very latest statistics, curiously enough and contrary to everything we had expected, the sale of cigarettes is falling off. We had always thought of cigarettes as

the most inelastic commodity with which we had to deal and the one which would most easily stand increased taxation. I am not yet thoroughly convinced that they would not, but the most recent statistics show that there is apparently a falling off in the cigarette consumption.

The yield, however, of the automobile tax—and that will have to be studied, of course, because it is surprising—but the most recent figures with respect to automobiles, candy, and many of these taxes show for November, 1920, a larger yield of the tax and suggest larger sales, if anything, than for November, 1919, one of the best periods in the history of commerce.

I will cite some of those figures, Mr. Chairman, with the idea that they may be of interest:

The tax upon cigars, for instance, is holding up and shows a yield of \$4,848,000 for November, 1920, as compared with \$4,708,000 for November, 1919; on the other hand, cigarettes, small—the larger cigarettes are negligible, practically—yielded \$10,587,000 in November, 1920, as contrasted with \$14,307,000 in November, 1919. Tobacco, smoking and chewing, showed \$3,332,000 November, 1920, as contrasted with \$5,933,000 for November, 1919; the entire yield of the tobacco taxes for November, 1920, is only \$19,371,000 as contrasted with \$25,769,000 for November, 1919. So here is one item which in the very short time intervening between the compilation of these figures and the preparation of the Secretary's report would have to have some little revision.

Senator McCUMBER. Do not those figures approximately agree with the decrease in consumption of very many other articles, owing to closer times and the desire to economize?

Mr. ADAMS. Senator, it is very dangerous to generalize. Our experience in the past suggested that cigarettes were the one thing we could depend upon to go on expanding and increasing, and we have suggested an increase in the cigarette tax on that account, in the belief that it was an article that could stand heavier taxes without the industry paying the increase.

Senator McCUMBER. You indicate there that the probabilities are that you could receive a higher amount from the automobiles.

Mr. ADAMS. I will give you some figures on that—

Senator McCUMBER (interposing). I was going to say that the information I have from various automobile dealers is that the orders for 1921 are very, very much lower than they were for the corresponding months of 1920.

Mr. ADAMS. I had thought so, Senator. That was my own impression. But I will give you the figures which seem to show rather a surprising continuation of the prior volume of sales there. The tax yield on automobiles, motor cycles, and accessories for November, 1920, was \$12,485,000, and for the corresponding month in 1919, \$11,263,000.

Senator SMOOT. Was that on sales?

Mr. ADAMS. That is on sales.

Senator SMOOT. Of course, the sale prices were higher in 1920 than in 1919.

Mr. ADAMS. Higher in 1920 than 1919?

Senator SMOOT. Yes.

Mr. ADAMS. There were some reductions, you know, Senator.

Senator SMOOT. November reductions?

Mr. ADAMS. This is only one month, November, 1920, as contrasted with November, 1919.

Senator LA FOLLETTE. Have you the other months there?

Mr. ADAMS. I have them here, but I thought that was most significant; Senator.

Senator LA FOLLETTE. Because of the decline in prices toward the end of the year?

Mr. ADAMS. We are moving rapidly. They are confirmed by the earlier figures. The yield of automobile tax for the four months, July to October, 1920, was higher than for November, 1919, to me a most surprising thing, I am bound to say.

Senator LA FOLLETTE. Have you in mind, Dr. Adams, the time when the price was cut? There was a general movement toward lower prices over the country, starting—

Mr. ADAMS (interposing). My impression about July.

Senator LA FOLLETTE. I was trying to recall about when it was.

Senator SMOOT. The first one was July, but others went along.

Senator LA FOLLETTE. They followed pretty rapidly.

Mr. ADAMS. That shows it ought to be investigated, but the figures interested me so much that I thought they might interest also the committee.

The freight and express and similar charges covered by Title V of the act are increasing quite rapidly, as would be expected by reason of the increase in the rates. The telegraph taxes also and the other public-utility taxes are all increasing.

Coming now to some of the other and more interesting items, the figures for the taxes on carpets and rugs, picture frames, and the so-called luxuries were \$2,136,000 for November, 1920, as contrasted with \$1,340,000 for November, 1919.

The tax on jewelry shows \$1,661,000 for November, 1920, as contrasted with \$1,583,000 for November, 1919.

Perfumeries, cosmetics, and medicinal articles, \$504,000 in November, 1920, as contrasted with \$512,000 in November, 1919. That is a small decline. That is one of the taxes which the Secretary has recommended should be either abolished or radically changed.

The near-beer tax, so-called, collected under section 628 of the statute, yielded \$2,900,000 in November, 1920, and \$1,716,000 in November, 1919, a large increase. In other words, the near-beer habit apparently is not decreasing; it is increasing.

Senator LA FOLLETTE. Perhaps the percentage is increasing. [Laughter.]

Senator SMOOT. Doctor, do you believe there were twice as many rugs and carpets sold in November, 1920, as in 1919, in the United States?

Mr. ADAMS. The increase was about 50 per cent.

Senator SMOOT. Do you think even that is possible? Is there not some mistake in regard to the reports that may have been made on that?

Mr. ADAMS. You have always got to figure on this Senator—that there may be an increase, or the opposite movement, in the efficiency of the tax collection.

Senator SMOOT. More than likely that is where it is, rather than the amount or yards of carpet.

Mr. ADAMS. That includes all those miscellaneous goods covered by section 904. I think it is possible that to some extent the drop in prices may have stimulated sales.

Senator SMOOT. I was going to say that November would catch all of these sales, you know, that the merchants have been compelled to put forth. November is the month, perhaps more than any other month in the year, where those sales were general, and that may account for the November figures. But taking the whole year, I do not think it is possible.

Mr. ADAMS. The movements or changes which I have been describing apply not only to November, but to the five months' period July–November, 1920, as contrasted with the same five months in 1919. We have the aggregates for July–November, and I can cite those figures if you want them.

Senator CURTIS. Put them in the record.

Mr. ADAMS. I do not know as I need to go on. But it is interesting to note the same increases are shown for the taxes on admission and dues—\$7,982,000 for November, 1920, as contrasted with \$5,877,000 for November, 1919. This reflects an actual increase in admissions, although there has been some improvement in the collection of the tax.

Senator SMOOT. Not only that, but the prices for admission have increased in a great many of these moving-picture concerns. Take it in Washington here, and I think that is only a sample of what is taking place all over the United States. I know wherever I have been the price has increased.

Mr. ADAMS. Chicago made a cut last week.

The lesson which I personally draw from this is that you have got to study each particular line of business with some care before you can tell just what will happen, because the movements are not as simple or as uniform as one would expect from general knowledge.

The candy tax for the period July to November, inclusive, yielded \$9,346,000 in 1920, and for the corresponding months in 1919, \$8,452,000.

These are preliminary figures which I quote, they having just been finished at half past 9 this morning, and so I may have to change them somewhat; but there will be no appreciable changes.

(The table covering in detail the above figures quoted by Dr. Adams are here printed in full, as follows:)

Comparison of the internal revenue receipts (1) for the month of November, 1919 and 1920, and (2) for the 5-month periods from July 1, 1919, to Nov. 30, 1919, and July 1, 1920, to Nov. 30, 1920.

Sources of revenue.	Receipts for month of November, 1919.	Receipts for month of November, 1920.	Increase.	Decrease.	Receipts from July 1, 1919, to Nov. 30, 1919.	Receipts from July 1, 1920, to Nov. 30, 1920.	Increase.	Decrease.
INCOME AND EXCESS PROFITS.								
Individuals, partnerships, and corporations.....	\$49,749,230.31	\$70,560,306.12	\$20,820,075.81		\$1,097,244,306.96	\$931,061,938.53		\$163,182,968.43
ESTATES.								
Transfer of estates of decedents.....	6,332,263.04	10,799,592.69	4,467,329.65		42,389,486.74	59,451,163.16	\$17,061,676.42	
DISTILLED SPIRITS.								
Distilled spirits (nonbeverage).....	3,571,501.59	7,467,541.22	3,896,039.63		15,714,581.62	44,242,589.77	28,528,008.15	
Distilled spirits (beverage).....	117,866.44	30,166.93		\$87,699.51	1,903,024.56	253,007.04		1,550,017.52
Rectified spirits or wines.....	7,541.39	1,857.88		5,726.51	166,889.38	17,563.63		89,325.75
Still or sparkling wines, cordials, etc.....	318,643.15	137,216.24		181,476.91	1,241,633.93	1,176,985.87		64,648.06
Grape brandy used in fortifying sweet wines.....	2,869.11	295,319.82	292,450.71		42,927.68	360,659.04	317,731.36	
Floor taxes:								
Distilled spirits.....	122,336.16	34,212.33		88,123.83	22,226,909.09	152,979.03		22,073,930.06
Rectified spirits or wines.....	2,557.58	143.86		2,413.72	75,950.14	1,338.94		74,611.20
Still or sparkling wines, cordials, etc.....	4,249.79	83,303.60	79,053.81		153,582.97	167,457.83	13,874.86	
Grape brandy used in fortification.....					55,223.57			55,223.57
Rectifiers: retail and wholesale liquor dealers; manufacturers of stills, etc. (special taxes).....	97,119.78	36,899.43		60,220.35	1,487,746.37	480,243.38		1,007,502.99
Stamps for distilled spirits intended for export.....	4,450.25	260.90		4,189.35	18,185.15	4,891.86		13,503.26
Case stamps for distilled spirits bottled in bond.....	12,726.00	18,586.20	5,860.20		38,492.10	145,226.61	106,734.51	
Total.....	4,261,954.24	8,165,508.41	3,933,554.17		42,965,156.56	47,002,904.03	4,037,747.47	
FERMENTED LIQUORS.								
Fermented liquors (barrel tax).....	362,345.50			362,345.50	41,132,071.20	9,975.43		41,122,095.77
Brewers: retail and wholesale dealers in malt liquors (special taxes).....	4,995.29	198.41		4,796.88	180,985.55	6,573.03		174,412.52
Total.....	367,340.79	198.41		367,142.38	41,313,056.75	16,548.46		41,296,508.29
NATIONAL PROHIBITION ACT.								
Taxes collected, including offers in compromise, penalties, etc.....	2,675.00	126,401.16	123,726.16		2,675.00	540,889.32	538,214.32	
Total.....	2,675.00	126,401.16	123,726.16		2,675.00	540,889.32	538,214.32	

Comparison of the internal revenue receipts (1) for the month of November, 1919 and 1920, and (2) for the 5-month periods from July 1, 1919, to Nov. 30, 1919, and July 1, 1920, to Nov. 30, 1920—Continued.

Sources of revenue.	Receipts for month of November, 1919.	Receipts for month of November, 1920.	Increase.	Decrease.	Receipts from July 1, 1919, to Nov. 30, 1919.	Receipts from July 1, 1920, to Nov. 30, 1920.	Increase.	Decrease.
TOBACCO.								
Cigars, large.....	\$4,708,223.07	\$4,818,633.38	\$110,380.31		\$20,514,635.37	\$25,237,411.81	\$4,722,776.44	
Cigars, small.....	85,621.22	85,519.75		\$81.47	422,912.25	407,982.27		\$14,929.98
Cigarettes, large.....	34,875.79	30,657.58		4,178.21	114,430.95	155,933.36	41,502.41	
Cigarettes, small.....	14,307,709.56	10,587,616.30		3,720,093.26	64,764,855.44	52,651,034.64		12,113,820.80
Snuff of all descriptions.....	467,570.96	294,566.43		173,004.53	2,741,517.45	2,465,065.34		276,452.11
Tobacco, chewing and smoking.....	5,933,716.14	3,332,457.81		2,601,258.31	32,062,506.14	25,355,115.54		6,707,390.60
Cigarette papers and tubes.....	40,611.06	73,513.03	32,901.97		630,291.13	644,596.95	14,305.82	
Floor taxes (cigars, cigarettes, tobacco, and snuff).....	62,011.66	25,612.14		36,399.52	3,661,709.53	69,646.55		3,592,062.98
Additional taxes on cigar and cigarette stamps.....	26.02	28.34		7.68	1,636.42	1,935.93	299.51	
Additional taxes on tobacco and snuff stamps.....	127.30	12.70		114.60	1,212.09	608.85		603.14
Manufacturers of cigars, cigarettes, and tobacco (special taxes).....	129,457.92	92,614.21		36,843.71	841,591.23	1,198,318.45	356,727.22	
Total.....	25,769,920.70	19,371,221.69		6,398,699.01	125,757,278.00	108,187,649.69		17,569,628.31
REVENUE ACTS OF 1917 AND 1918.								
Documentary stamps, etc.:								
Bonds, capital-stock issues, conveyances, etc.....	4,655,594.12	4,326,939.69		328,654.43	20,842,177.24	23,082,321.09	2,240,143.84	
Capital-stock transfers.....	1,329,322.46	661,314.59		668,007.87	6,218,013.87	2,989,376.95		3,228,636.92
Sales of produce (future deliveries).....	774,466.47	682,322.39		92,044.08	3,591,062.00	3,748,544.92	157,482.92	
Playing cards.....	273,255.84	18,011.92		255,243.92	1,035,573.00	1,232,213.52	196,640.52	
Transportation of freight.....	9,714,854.58	15,350,834.01	5,635,949.43		47,869,090.66	62,561,766.78	14,692,676.12	
Transportation of express.....	80,199.07	318,015.82	237,816.75		5,618,498.09	6,591,291.02	972,792.93	
Transportation of persons.....	7,514,615.31	8,828,559.79	1,364,944.48		38,470,603.61	44,949,370.67	6,478,767.06	
Seats, berths, and staterooms.....	89,471.61	98,612.61	9,141.00		3,062,056.62	3,386,263.32	324,206.70	
Oil by pipe lines.....	441,573.78	685,505.16	243,931.38		3,417,665.91	3,945,372.64	527,706.73	
Telegraph, telephone, and radio messages.....	1,217,991.77	1,541,235.97	323,244.20		9,835,635.19	10,823,624.62	987,989.43	
Leased wires or talking circuits.....	26,956.36	92,441.40	65,485.04		351,503.01	441,056.16	89,553.15	
Insurance (life, marine, inland, fire, and casualty).....	1,239,614.58	1,378,423.08	138,808.50		6,865,612.91	8,189,830.50	1,324,217.59	
Excise taxes (revenue act of 1917).....	300,932.37			300,932.37	2,276,380.19			2,276,380.19
Manufacturers' excise tax:								
Automobiles, motor cycles, accessories, etc.....	11,263,535.79	12,485,124.90	1,221,589.11		54,788,778.58	63,965,012.61	9,176,234.03	
Other excise taxes, section 900 (see supplement).....	6,082,877.00	5,803,994.49		278,882.51	25,016,858.22	27,295,620.77	1,278,762.55	
Motion-picture films leased.....	362,506.66	33,542.52		21,035.86	1,420,687.07	2,396,063.12	975,316.05	
Employment of child labor.....		10,808.59	10,808.59			11,468.84	11,468.84	

Consumers' or dealers' excise tax:								
Sculpture, paintings, statuary, etc.	64,429.34	48,737.00		15,691.75	418,603.47	315,656.46		102,947.01
Carpets and rugs, picture frames, trunks, wearing apparel, etc.	1,340,582.32	2,136,908.11	796,325.83		5,120,841.33	9,659,521.24	4,538,679.91	
Jewelry, watches, clocks, opera glasses, etc.	1,583,456.11	1,661,209.15	77,753.04		8,290,228.97	9,133,760.35	843,531.38	
Perfumes, cosmetics, and medicinal articles	512,766.44	504,674.28		8,092.36	2,516,277.41	2,473,199.37		43,078.04
Beverages made wholly or in part from cereals, etc.	1,716,298.99	2,900,325.44	1,184,026.45		14,067,827.19	21,455,036.51	7,387,209.32	
Soft drinks mixed at soda fountains, and ice cream	1,897,584.67	2,076,092.03	160,507.36		16,211,181.70	15,019,006.42		1,192,174.88
Opium, coca leaves, including special taxes, etc.	50,473.07	32,549.94		17,903.13	874,935.50	634,607.13		240,328.37
Corporations, on value of capital stock	17,037,711.03	6,792,934.29		10,242,776.74	51,111,234.28	59,518,372.98	8,407,118.70	
Brokers, stock, etc.	69,636.04	44,090.07		25,555.97	1,440,753.78	1,440,670.98		82.80
Theaters, museums, circuses, etc.	39,364.76	39,568.34		19,796.42	1,382,339.11	1,254,403.20		127,935.91
Bowling alleys, billiard and pool tables	86,294.73	67,789.75		18,513.98	1,865,572.31	1,572,696.89		292,875.42
Shooting galleries and riding academies	1,851.29	892.38		958.91	32,951.52	30,647.87		2,303.65
Passenger automobiles for hire	91,125.15	59,415.75		31,709.40	1,489,745.62	1,282,781.14		206,964.48
Yachts, pleasure boats, power boats, etc.	13,967.37	16,331.42	2,364.05		596,794.03	496,650.52		100,143.51
Admission to theaters, concerts, cabarets, etc.	5,877,251.58	7,982,248.61	2,104,997.03		27,222,779.02	36,571,524.02	9,338,745.00	
Dues of clubs (athletic, social, and sporting)	388,340.99	508,270.81	119,929.82		1,887,916.70	2,236,896.45	348,979.75	
Total	77,203,994.68	78,538,847.76	1,334,853.08		366,180,178.11	428,704,529.45	62,524,351.34	
MISCELLANEOUS.								
Adulterated and process or renovated butter and mixed flour	10,308.06	4,773.80		5,534.26	47,208.12	33,326.29		13,881.83
Oleomargarine, colored	74,698.15	114,865.60	40,167.45		275,645.03	467,106.35	191,461.32	
Oleomargarine, uncolored	89,422.52	77,387.89		12,034.63	364,171.88	344,355.00		19,816.88
Oleomargarine manufacturers and dealers (special taxes)	74,576.85	57,455.23		17,121.62	884,949.53	960,821.83	75,872.30	
Sales of Government property, receipts from miscellaneous sources, etc.	48,327.00	17,382.26		30,944.74	244,138.35	53,204.07		190,934.28
Total	297,332.58	271,864.78		25,467.80	1,816,112.91	1,858,813.54	42,700.63	
Aggregate classified receipts	163,975,711.34	187,773,941.02	23,798,229.68		1,717,668,851.03	1,579,824,436.18		137,844,414.85

SOLDIERS' ADJUSTED COMPENSATION.

Senator McCUMBER. Doctor, can you take up item 7, Victory taxes, in the bill, and in the order here give us any information you have on the subject, or make any suggestions that you think proper?

Mr. ADAMS. Senator, what I shall say is not the result of any very serious study, but there are certain observations which may be made with respect to these various suggestions. The proposal that there should be an increase in the income surtaxes, I think, obviously raises a conflict, in view of the fact that these surtaxes in the upper brackets are now too high for successful collection. Take the proposal in the House bill, for instance, that there should be an increase of 3 per cent in the surtaxes on incomes in excess of \$20,000. Those surtaxes now, as you will recall, go to 65 per cent. That would mean 68 per cent surtax, which, with the normal tax, would mean 76 per cent tax. You are familiar with the statistics showing that the taxable income reported by the very wealthy taxpayers is falling off. The Secretary has probably called your attention to the fact that, with respect to taxpayers having incomes in excess of \$300,000 a year, the income reported fell off from \$922,000,000 for 1916 to \$392,000,000 for 1918, a period of two years, or a falling off of 66 per cent in the income reported by the very rich.

There are many ways by which that can be brought about—many ways which could not be prevented by law. There is the investment in tax-free securities, and a great deal of that has taken place. The rich man can comb over his securities, selling those which have fallen in value, thus taking his losses, and holding all those which have increased in value. Very wealthy men find it possible to incorporate and escape surtaxes altogether on undistributed income. There are many ways of reducing income, and they are showing themselves in the falling off of the taxable income reported by the very rich.

Senator LA FOLLETTE. Have you any way of estimating, Doctor, what percentage of this reduction in income is due to investment in nontaxable securities?

Mr. ADAMS. Senator, I have not. The real experts differ a great deal about that. I meet constantly tax experts, bondmen, and so on, who are in close, intimate, personal contact with very wealthy men, and I hear two reports: From one set I hear all about the tax-free bonds. They tell me about this man to-day and another man next day who are taking millions and transferring them from taxable securities to nontaxable securities. Then I run into another expert and he tells me that the very wealthy men he meets are not changing over into municipal so much, but are using these other devices.

Senator McCUMBER. Does not the questionnaire in the report of taxes require a list or sum total of nontaxable securities held by the taxpayer?

Mr. ADAMS. It does, Senator.

Senator McCUMBER. And can you not through that method obtain accurate information about how much they hold in one year, and then see how much that has increased in the next fiscal year, and in that way determine about what part has gone into that character of investment?

Mr. ADAMS. Question on the return was not answered in every case. Many taxpayers affected were advised by counsel that the

question was ultra vires, so that the answers are incomplete. However, exempt interest on Federal, State, municipal, and farm-loan bonds aggregating \$214,992,558 was reported. This represents, capitalized, about \$5,000,000,000 par value of tax free securities. These figures are for the taxable year 1918. We have not yet tabulated the returns for 1919, so a comparison is not yet possible.

Senator SMOOR. We know there are about 18 billions of tax-free bonds of all kinds in the United States. They are held by somebody, and they are tax-free, and I am quite sure that many, many of the wealthiest men in the United States are buying tax-free bonds.

Mr. ADAMS. I hear that, as I said.

Senator SUTHERLAND. Do the prices of bonds of that character indicate that there is any unusual activity in the buying of them?

Mr. ADAMS. The best of them are selling on a better basis than Liberties.

Senator SUTHERLAND. At a higher rate of interest?

Mr. ADAMS. At a lower rate of interest.

Senator SMOOR. Take 3½ Liberty bonds, which were held above par for a long time, and they were being purchased then and gathered in by the wealthy people of the United States. That applies also to the bonds of the Federal farm loan bank and the joint-stock land banks, which were purchased in large blocks in New York. I have no doubt but what they have been purchased and are being held today by very wealthy men, to avoid taxation.

Mr. ADAMS. Mr. Chairman, I think if one uses their imagination a little here it is hardly necessary to get statistics. I have quoted some which, so far as they go, are almost conclusive. Do you need statistics when there are perfectly easy ways to avoid a 70 per cent rate—and they are lawful ways? Can you expect any rich man to pay over 70 per cent of his income in taxes? It seems to me one of those questions which we rather dignify too much, if we look for statistics. The meaning is plain on its face. I do not mean to suggest that we should not get all the statistics we can, but I do not see how we can expect to collect a 70 per cent tax if there are obvious ways out.

Senator LA FOLLETTE. It might raise the question as to how many holes there are to be plugged and whether they could all be plugged in order to prevent taxes escaping.

Mr. ADAMS. You will still have this tax-free outlet, although Secretary Houston suggests in his last annual report several ways of partially plugging that hole.

Senator LA FOLLETTE. That is one reason I cared to know how much was escaping that way.

Mr. ADAMS. Senator, we will be able to give you the amount of municipals and other tax-free securities held in the year 1918. I hope, within a few days. We can not give you the corresponding figure for 1919.

Senator SMOOR. As shown by the returns?

Mr. ADAMS. As shown by the returns. I have been very much interested in your question as to the methods of reducing taxable income. In addition to the devices to which attention has already been called, there is another device, of putting their money into enterprises which will yield their returns 5 or 6 or 8 or 10 years in the future, and from which they would get no immediate income.

The device of giving money away has not been used so much by the very rich, according to my investigations, as by the moderately rich. There is an amendment to correct that in House bill 14198, which is before this committee as passed by the House.

My feeling about it is, personally—and I do not know how the Secretary feels on this point—I should have surtax rates as high as could be successfully collected, but I am perfectly certain that the present surtaxes can not be successfully collected.

Senator SMOOT. What is the maximum rate, in your opinion, that men of means will not undertake to avoid?

Mr. ADAMS. I do not believe, Senator, an income tax can be successfully enforced in the long run in time of peace, with a large volume of tax-free bonds outstanding, which imposes a rate much above 30 per cent, if any.

Senator SMOOT. Thirty-three and a third per cent tax-free bonds make money worth about $7\frac{2}{3}$ per cent, and I do not believe myself it is possible to have a larger rate of interest than $33\frac{1}{3}$ per cent and compete against tax-free bonds.

Senator McCUMBER. Thirty-three and a third per cent on what income?

Senator SMOOT. The highest income—the total.

Mr. ADAMS. Normal and surtax.

Senator SMOOT. Normal and surtax.

Mr. ADAMS. We considered a 5 or 6 per cent rate as something rather daring when we first introduced it. In the Federal law we started at 1 per cent. England and Germany levied at that time only 5 per cent taxes. I remember that in the introduction of the income tax in Wisconsin a 6 per cent rate was regarded as highly disturbing, and great evil was expected from it. I think that was mistaken, but we have now gone to the other extreme. I do not see how we can successfully carry rates much beyond, if any, 30 per cent permanently.

Senator McLEAN. Especially as a good many of the States are driven to income taxes to pay their bills.

Mr. ADAMS. A majority of the wealthier States of the Union are coming to an income tax.

Senator GERRY. Dr. Adams, have you a sufficient number of income-tax collectors throughout the country to collect the tax properly, or is there a limit to income-tax collectors which necessitates the slow collection of taxes in a few big centers or more densely populated States?

Mr. ADAMS. Senator, I do not know that I get your question. Do you have reference to giving aid to taxpayers by agents?

Senator GERRY. I mean in regard to the adequate number of income-tax collectors in the service of the Treasury Department. I noticed some time ago there was a protest made by the Secretary of the Treasury, when he came before this committee, to the effect that he did not have a sufficient number of income-tax collectors to properly collect the income tax throughout the country, and the result of that was that he had to go where he could get the most money. I do not know whether the Appropriations Committee removed that difficulty or not. But at that time Congress was not allowing a sufficient appropriation to provide ample funds to properly collect the income tax, and in remote sections of the country, notably in

the Northwest, taxation was being escaped on that account. Do you know anything about that?

Mr. ADAMS. Why, yes, Senator; the war legislation increased the number of taxpayers from perhaps 400,000 or 500,000 to approximately 5,000,000—

Senator GERRY (interposing). I understand that—

Mr. ADAMS. If I may go on—it is an exceedingly difficult matter to increase rapidly the administrative force capable of administering these taxes. It can not be done quickly. It is even more difficult when, as at present, it is almost impossible to hold the most expert men. I, personally, consider the gravest problem that confronts the Treasury Department at the present time to be the inability to hold the best men in the department. The turnover among the most expert men in the Bureau of Internal Revenue has been at times over 100 per cent a year. It is very difficult to keep experts at the present time.

Now, then, under those circumstances, it has proved impossible properly to decentralize the administrative force. There ought to be far more assistance given to the taxpayers; there ought to be many more expert agents, not only for the purpose of auditing the returns properly and checking them up, but helping the taxpayer to make up his return. You will never have a first-class system of income taxation until that is done.

Senator CURTIS. You want to simplify the returns, too, do you not?

Mr. ADAMS. That needs to be done. But that, again—

Senator GERRY (interposing). That is really my point—whether there is a sufficient number of agents who are seeing that the income taxes are paid throughout the whole country, who are collecting the tax. I know that two or three years ago they were not being properly collected, and I understand that the Appropriations Committee did increase the appropriation for this purpose, but I do not know whether they increased it sufficiently and whether at the present time there are a sufficient number of collectors; and I wondered if you knew that, because, naturally, that has a large effect on the revenue?

Mr. ADAMS. Senator, I can not answer that. I know that we need every assistance in getting and holding the most expert men.

Senator GERRY. In other words, what I had in mind was that very likely it might be economy to increase the appropriation for income-tax collectors, with the idea of getting an increased revenue from that increased appropriation.

Senator SMOOR. I was going to say that the appropriation gave them \$21,000,000—what they asked for. And it is not altogether a question of what we can do by way of increasing salaries for these men, because of this fact: That we get men in the department, we train them there, and they immediately go out and secure employment from wholesale houses and large retail establishments and large manufacturing concerns at a salary that we can not afford to pay in the Government of the United States, and they are hired for the very purpose of trying to evade the law just as much as it is possible to do, and that is where most of these men go, and you can not keep them.

Senator GERRY. The matter I referred to was brought out by Mr. McAdoo when he was Secretary of the Treasury, and at that time Congress had not given a sufficient appropriation for enough income-tax collectors to properly do the work. I understand that subsequently Congress did increase that appropriation.

Senator SMOOT. From \$10,500,000 to \$21,000,000.

Senator GERRY. And the part I wanted to bring out was whether they had increased that appropriation sufficiently.

Senator LA FOLLETTE. I want to ask Dr. Adams if it would not be good economy for the Government to pay salaries sufficient to retain these experts instead of having them taken away for the purpose of reducing the revenues of the Government—that is, pointing out methods to taxpayers by which they can escape taxation?

Mr. ADAMS. Senator, I agree thoroughly with what you say. The greatest reform that could be worked would be to give the department elasticity with respect to the salaries of some men. I am certain that the resignation of one man about a year or a year and a half ago has cost or will cost the Government of the United States at least \$50,000,000. There happened to be one man in this country, who came down here during the war, who combined expert knowledge in a particularly difficult field with the administrative capacity of teaching and training and directing a big department. He had received something over \$6,000 a year in his previous employment. He came here during the war at \$5,000 a year. When the war ceased he felt a little restive, because his expenses were very much heavier in Washington. He had owned his own home where formerly employed, and so on, and he suggested that he ought to be given \$7,500 a year; and he would have stayed if he had been given that. There was not a plain statutory warrant for it, and the proposed salary was above that paid to other men of similar rank, and he was permitted to leave. He obtained, I understand, \$20,000 a year outside. I think it has cost the Government an indefinite number of millions of dollars. I say that seriously, and I am trying not to exaggerate.

Answering Senator Gerry's question, we were, at the time Secretary McAdoo spoke, actually crippled by an insufficient number of agents. I think that has been largely remedied, however.

We need more elasticity with respect to salaries and other means of holding expert men. I think, combined with freedom, under proper regulation, to pay the necessary salaries, there ought to go some prohibition on persons coming into the Government service, passing a period of training in the Government service, and then leaving for private work in the field of Federal taxation.

Secretary HOUSTON. Mr. Chairman, may I take a moment to read into the record a paragraph of my annual report in which I touched on this very question?

Senator McCUMBER. We will be very glad to have you do it, Mr. Secretary.

Secretary HOUSTON. I read it because I am sure I could not state it any better and perhaps would take more time if I were to try to restate it [reading]:

The attention of Congress is invited to the pressing need of the readjustment of the salaries of Government officers and employees. The great business of the Federal Government has grown in magnitude through increased and increasing activities, particularly as a result of the war. No one will dispute the fact that

the Government should pay a living wage to every employee and that the amount should be in due relation to the value of the services rendered. If the business of the departments is to proceed along efficient and economical lines the salaries in the public service and the opportunities for promotion must be sufficient to offer a career to men and women of ability. In many of the supervisory grades particularly, the compensation paid is unattractive and far below the standards of private enterprise. It is of the highest importance that the Government secure and retain in certain positions of great responsibility individuals of the highest integrity, of wide experience and of exceptional ability. The public business in higher degree even than private enterprise needs the service of persons of talent. If it is not available the people's interests will suffer.

The Government need not pay salaries as high as those given in many industrial establishments, but it should pay enough to retain able and experienced servants. It should pay enough to enable them to live decently, to save something, and to work without undue apprehension as to the future of their families. Democracy for us is the best form of government, but it is a difficult one. Its performance will depend in no small measure on the quality of its administrators. If these are mediocre, our democracy, it is true, is not likely to fail, but its performances will probably be below the high standard to which it aspires and which it should set.

May I take a moment more? I have been in the service of the Government for nearly eight years. I shall soon cease to be in the service. While I have been sympathetic with the study, survey, and recasting of the compensation of the Government employees generally, I would say, in the light of my experience, that the essential thing, so far as efficient administration of this Government is concerned, is that there be in each department of the Government in a number of very responsible positions individuals of great ability and tested experience whom you can retain, or if they leave whose places you can fill with others of equal ability. But you can not hope to get the results you wish, no matter how much you may pay clerks and the rank and file, unless the Government can get and keep in a number of the most important executive positions—I am not speaking of political positions—men of the requisite training, ability, judgment, and experience. You can not otherwise accomplish what you wish in the way of economy or anything else. I do not know how to secure the necessary action. George Washington called attention to the need of it about 125 years ago toward the close of his administration. We have not yet succeeded in meeting his views. I regard it as of first importance that we do so.

We have gentlemen in the Treasury who have immense responsibilities. Private business would pay men who could discharge their duties \$50,000, \$75,000, or \$100,000 a year. We pay them \$5,000. I am not suggesting that we pay such salaries as private industries pay. I think we could get and secure men of the kind I have in mind, of the standard I suggest, by giving them enough to live on with reasonable decency and out of which they may save something. This would go a long ways toward solving the problem.

You have officers in the Treasury Department to-day whose responsibilities exceed or equal those of the large banking institutions in America.

Senator SUTHERLAND. Mr. Secretary, how much do we lack in being current in the examination of the income tax and tax returns?

Secretary HORSTON. Dr. Adams will answer that.

Mr. ADAMS. We are over two years behind on the larger returns and more difficult returns for 1917. The smaller returns for 1917 and

approximately 400,000 of the returns for 1918 have been cleaned up or audited. With the invested capital once established for 1917 the audit of the later years will be very much easier and more rapid.

Senator SUTHERLAND. Do we not stand a chance of losing quite large sums of revenue in the checking up of these later and then finding they are not able to pay? Some companies have made money, but which would possibly be thrown into bankruptcy if called upon to pay large additions. It seems to me there is danger of losing large sums of revenue by reason of that.

Senator SMOOR. All this can be avoided by passing laws that any ordinary business man can understand, so that anybody can make a return and know it is true. That is what we want to do.

Senator SUTHERLAND. That would not affect the last two or three years.

Senator SMOOR. It can very easily be done, in my opinion.

Senator McCUMBER. Doctor, we have run somewhat afield, although not unprofitably, from the consideration of the proposed taxes in this bill. We have now 10 minutes before adjournment of the committee, and we would like to hear from you on that subject.

Mr. ADAMS. I had been speaking about the proposal to raise about \$108,000,000 by increasing the surtaxes, and called your attention to the fact that it conflicted with the necessity of bringing down some of the higher surtaxes. Proposal No. 2 places a tax of one-fifth of 1 per cent on the sale of stocks and bonds. This raises a question of policy and legislative judgment. The present tax is one-fiftieth of 1 per cent. Here you have, of course, to be very careful that the tax does not so restrict the sales that you pass what Senator Penrose calls "the collection point," frequently called the point of maximum yield. I am rather inclined to think that a tax of one-fifth of 1 per cent on the sale of stocks and bonds would so diminish transactions that you would cut down the yield that could otherwise be obtained, and that a smaller tax would yield larger results.

The third proposal, to place a tax of one-half of 1 per cent on the sale of real estate, seems to me, under existing housing conditions, and so on, to be a proposal of very questionable policy. You are better able to discuss the policy of it than I could be.

Proposal No. 4 is for an increase of approximately 15 per cent in the existing tax on cigars and tobacco and of approximately 25 per cent on the tax on cigarettes. In view of the statistics read this morning it now becomes questionable. I should have regarded it as perhaps the soundest of the proposals in the past, but the change in statistics gives me some concern.

The tax on stock dividends raises another question of general legislative policy. I personally feel, after the decision of the Supreme Court, that it would be wiser to exempt stock dividends when declared, and tax the gain on the sale of the stock when it is sold, rather than attempt at this late date, by retroactive legislation, to tax stock dividends when paid.

Senator McCUMBER. Tax the gain as against the holder, as income, by the person who received the dividends; is that what you mean?

Mr. ADAMS. I mean that when an individual gets a stock dividend, it represents in large part merely an additional paper showing of

what he theretofore owned. I suppose this method of taxing stock dividends by an excise tax is constitutional, although there is some doubt about it. But, as a matter of policy, it seems better, in the case of stock dividends, simply to wait until the recipient realized some profit, something in the nature of cash. If I get a stock dividend, I doubt if I have that increase in my monetary resources which makes it desirable to impose a tax.

Senator McCUMBER. Do not those stock dividends generally go to people who are not compelled to sell stock and who would undoubtedly hold them and would not sell them for a great many years, and certainly not sell them while they would be subject to tax?

Senator SMOOR. If you had this tax imposed on stock dividends retroactive, as it is provided here, it would ruin a good many people.

Mr. ADAMS. That is a large question of policy, Mr. Chairman, upon which you need no advice from me. I should prefer to avoid hardship and await the sale of those certificates until the stockholder knew what he was going to get from them and had the cash with which to pay, particularly when the Supreme Court may regard such a retroactive excise tax as an unwarranted method of avoiding the substance of its recent decision.

Senator McCUMBER. Take a case of this kind, Doctor: Suppose here are two corporations. Their earnings are \$100,000 each for 1920. One corporation declares a dividend and distributes that \$100,000 in cash, and the recipients of that \$100,000 in cash, by reason of their added income, pay their taxes on that. The other corporation distributes an additional sum, which represents nothing but the earnings, and the recipients of that stock pay nothing. Ought we not find some method by which we could equalize that and compel the payment of a tax out of the earnings of that corporation by those individuals who received it?

Mr. ADAMS. The finding of the Supreme Court is that on the receipt of stock dividends the stockholder has substantially nothing more than he had before.

Senator McCUMBER. In other words, he has not got the property—it has not been paid to him—and that is their holding; he did not get any cash out of it. The stock dividend is not income, it is not in the shape of income, as he got it. I am speaking now of the earnings. That dividend represented wholly the earnings in a given year. It does seem to me that there is some legitimate way of taxing that income in the hands of that individual who received it that would not be unconstitutional?

Mr. ADAMS. The Secretary suggests that if left in the business that amount of money would show itself in the larger earnings of subsequent years. But I call further attention to this, that the Secretary has also recommended, as one of the available taxes to take the place of the excess-profits tax, a tax upon the undistributed profits of corporations.

Senator McCUMBER. For the future?

Mr. ADAMS. Would that meet the point in your mind?

Senator McCUMBER. That might meet the point in my mind in the future. But I want, if possible, to get the income that the Government is distinctly entitled to from the earnings of those corporations which distributed those earnings in the year 1920 in the form of stock dividends.

Mr. ADAMS. I say that is a question of larger policy, which you gentlemen can settle better than I.

Senator McCUMBER. I did not know but what you had some suggestions. There were suggestions made by Mr. McAdoo on the subject.

Mr. ADAMS. The only suggestion is, so far as this problem is likely to arise in the future, that the object you have in mind will be more completely and effectually accomplished by the adoption of an undistributed-profits tax than it would by an excise tax on stock dividends.

Senator McCUMBER. I think you are right; and if I could make it retroactive I would prefer to do it.

The committee will now stand adjourned until further notice.
(Thereupon, at 12.05 o'clock p. m., the committee adjourned.)