
WITHHOLDING TAX

HEARING

BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON FINANCE

UNITED STATES SENATE

SEVENTY-SEVENTH CONGRESS

SECOND SESSION

ON

DATA RELATIVE TO WITHHOLDING PROVISIONS
OF THE 1942 REVENUE ACT

WEDNESDAY, AUGUST 19, 1942

Printed for the use of the Committee on Finance



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1942

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CONTENTS

Statement of—	Page
Ruml, Beardsley, of R. H. Macy Co., Inc., New York, N. Y.-----	1
Friedman, Milton, Treasury Department.....	58
Gretz, Harry C., American Telephone & Telegraph Co., New York, N. Y.-----	67
Helvering, Guy T., Commissioner, Bureau of Internal Revenue.....	75
Atkeson, T. C., Bureau of Internal Revenue.....	86

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WEDNESDAY, AUGUST 19, 1942

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

The subcommittee met at 10 a. m., pursuant to call, in room 312, Senate Office Building, Senator Clark (acting chairman) presiding.
Present: Senators Danaher and Gerry.

STATEMENT OF BEARDSLEY RUMI

Senator CLARK. Mr. Ruml, come up here and sit down, will you please? and everybody better move in a little closer.

Now, Mr. Ruml, the committee appreciates very much your coming down here.

We were all interested in your exposition of your plan before the full committee, but we thought we could get a good deal more information in a small group than in the full committee.

We would be very glad to have you explain your plan in your own way.

Mr. RUMI. I am very happy to do that, and I certainly appreciate the opportunity of unburdening myself a little further on it.

Of course, you will interrupt me as I go along, because I have no prepared statement.

Senator CLARK. That is all right.

Mr. RUMI. I think you might be interested in the way I got interested in the problem, because I have been working on the thing, with my friends, off and on, for a year or so, but it first came to my attention in connection with the awkwardness in providing for the proper retirement of people who had grown old in service, who were making reasonably fair salaries, and who would be perfectly prepared to retire on a modest income of 5, 7, or \$8,000; but found themselves in an income-tax difficulty, and there apparently was no solution for it, because it was necessary to provide them first with the income tax, and that became income, and income tax on that income, and it got into a situation that made it impossible for a corporation to get into that sort of thing generally.

So what we did was to find some work the best we could or leave the man in his position, because after all he wasn't doing any harm, and the thing rolled along.

After the war broke out I saw another thing. We had a young fellow there in the Comptroller's office who was making \$75 or \$100 called immediately into the Navy at a salary of \$2,600, and we had to get together and take care of his income tax for him, and it was

another impossible situation. And some of my friends who have come down to Washington to work in the Government; their alternative is to either come on a dollar-a-year sort of thing, which is very objectionable, maintaining their corporate salary, or come against the old income tax debt problem.

I hadn't generalized the whole situation as a problem of income-tax debt until along about last of January or February, and then I saw that the same thing that was blocking this retirement thing, that was making difficulties about men going into the service, that was causing difficulties about men coming to Washington, was all the same problem, that we all were in hock to the Government for the same income-tax debt, and it was a pernicious fungus permeating the structure of things, and tying our hands from doing the thing we ought to be doing, and it occurred to me, what would happen in case we just started continuing paying our income tax, but on this year instead of on last year, and as we began to talk about what would happen we discovered that nothing would happen. It would happen some time during the generation, to be sure, but as far as the Treasury and income were concerned, things would move along just the same as time moves on under daylight saving, so as we analyzed it it seemed clear that great benefits would come, that there would be no substantial economic consequences except spread out over such a long period that it could be taken care of in some other form, and it would serve a real public purpose.

Then, subsequent to that, it was pointed out that the plan would be very helpful in connection with the whole withholding problem, but I want to point out that the withholding aspect of it, from my particular point of view, came after the original conception from the public welfare point of view, and of course it does fit in admirably with whatever needs to be done or should be done as far as withholding tax is concerned.

Senator CLARK. You didn't emphasize, when you appeared before the full committee, the withholding feature of it, I think, at all, but it does seem to me that, if you are going to have a withholding tax—I note you did in your memorandum.

Mr. RUMBL. There was one short paragraph.

Senator CLARK. Yes; I read it very carefully, but it does seem to me that, if you are going to have a withholding tax, the plan which you suggest gets away from what, to my mind, is the greatest deterrent to the withholding tax, which is double taxation during the period of transition, and I don't see any reason why your plan couldn't be admirably integrated with the withholding tax.

Mr. RUMBL. I don't either. I think it could be. There is a difficulty that would have to be met in one form or another.

There are a number of ways of meeting it, but due to the fact that the year is progressed so far, under the plan it calls, you see, for people paying a tax on the excess of this year's income over last year's income.

Now, there are, due to the fact that we have had so much new employment, and all the rest of it, there are doubtless many, many people who never did pay an income tax, you see, who would be liable for the payment of the difference, and there are a number of ways of solving it. None of them are very pretty.

I mean, it is an awkward situation. But I did want to point that out, because it is a difficulty.

Senator DANAHER. May I submit this letter now, Mr. Chairman.

Senator CLARK. Yes. It bears directly on what we are discussing.

Senator DANAHER. Would you bear with me, Mr. Ruml, while I submit to you a letter from a most responsible business official in Connecticut?

Since I have not yet procured from him permission to use his name, I shall withhold it; but I have wired him for that permission.

I am going to read only what is really pertinent:

Here in the office, we are simply overburdened with paper work now.

We have more than 20 complicated forms we have to fill out every month to send to various Government departments, and the pay roll which used to be handled by 2 people now requires 6 people to handle it.

When I read of the proposed law that manufacturers would take the deductions from each employee based on some kind of a dependency schedule as to what that employee might have to pay, I nearly had heart failure. It would mean a whole new department for us and as we would be collecting money for the Government I was afraid of the responsibility.

Further, at the present time, and for almost the first time in the history of this company, we have many employees who are drifters.

That is, they work here a few months, they work somewhere else a few months, and then they wander on to a third place. During the course of the year some of these men may work in anywhere from four to six factories, scattered over almost as many States.

If each factory were making pay-roll deductions for that drifter's income-tax payment, it seems to me it would be most difficult for the Government ever to check back and find out where his taxes had been paid.

Let us say that our pay roll was \$30,000 a week and 5 percent of that were to be paid in stamps: We would buy the \$1,500 worth of stamps and in making up the cash envelopes would put 5 percent of the pay due each employee in stamps in that envelope rather than cash.

The employee could have a little folder such as is used for War Savings stamps; keep his stamps pasted in this folder.

If he moved on from one factory to another he would have his income tax in anticipation stamps with him all the time.

The Government would have the money. The only check the Government would have to make would be to see that we stood by our 5 percent of the weekly pay roll. That would be a quick and effective check.

In some plants where the pay is smaller it might be well to have a provision that no deductions would be made from the weekly pay if it is less than \$25 per week, or some such figure as that.

The installment-payment basis, in my judgment, is necessary for the employees will not be able to pay the taxes when they come due.

The majority of them are not accustomed to paying large income taxes. They would not accumulate the money and have it on hand ready to make the payment, and there would be a lot of fuss and trouble when the payments did have to be made.

Here in our company we have a number of employees who previously made \$25 to \$30 a week and who are now in the three- to five-thousand-dollar-a-year-income bracket. When the men take time off, as they frequently do, and I ask them why, the usual explanation is: "We must have some time off so we can spend our money; otherwise it is no good to us."

At the same time that I make this stamp suggestion, I realize that, if it should go into effect, the men are coming right back and wanting a raise so that they will still have as much cash in their envelopes after the income-tax deduction has been made as before.

That, however, is something which need not concern those of you who are working on the tax bill.

However, don't think for one minute that the men are going to stand for any kind of withholding tax or lessening of their cash income.

They have been getting the money, and some way or other they are going to continue to get it.

I say this because I am close enough to a great many of our employees so that they talk frankly with me. A withholding tax will not be acceptable to the men.

I end the quotation.

The sum of the gentleman's intimate knowledge of the ways and manners of his employees comes down to this: That they are going to resent a withholding tax.

They certainly will resent it doubly if we overlap as has been suggested.

However, as this gentleman recommends, if a flat 5 percent of their weekly pay is deposited in the form of a savings stamp, which will accrue and ultimately be available to pay the tax if and when it becomes due, he believes the method simply and adequately will cover the situation.

Do you choose to comment on the view thus expressed, Mr. Ruml?

We would appreciate your comments very much, because of your own vast experience.

Mr. Ruml. Well, of course, it isn't related to the plan I have been proposing, much, one way or the other. It is a supplement, in the sense that it is parallel, but it is not an integral part of it.

I think it is terribly important—I put a great deal of stress on this—that whatever is done, withholding or no withholding, or what not, that it shall be in the form where you will get the maximum amount of voluntary law obedience.

It seems to me that we have a situation here where millions of people are going to become responsible, under a statute of the Federal Government, who never were before, and we must do everything we can to make it easy for them to obey the law.

There is a story at Macy's that the reason the old gentleman introduced the odd-cents, selling things at \$1.98 and \$1.96, and so forth, was so that most sales people would have to go to the cashier for change. He trusted them all, but he wanted to make it easy for them to be honest.

Now, I am troubled, as an officer of Macy's, by the amount of paper work, and so forth, that might be involved in the withholding tax, but if it is necessary to do that we can organize to do it, if the issue is that that is a cleaner-cut way of getting easier law obedience than to depend on these people, a year from now, to file a return on their own initiative.

I have my own views as to which is the easier way to get law obedience.

I believe that if only a portion of the tax is collected at the source, if the individual knows that his name and address are a matter of record, that he will be inclined to file a return, whereas if there is no knowledge of a name and address he will not be inclined to file a return.

So I put a great deal of stress on that particular point.

Now, I don't know the mechanics of how it would be done, but I do know this:

I have had a great deal of experience about—if I may use the word—bellyaching about one kind of regulation after another: A sales tax or real-estate tax that was going to involve this, that, and the other thing—40 new employees; the next year it was 20—and then we got a machine to do the thing, and of course there is some additional expense, there is no doubt about that, but it is nothing like the difficulty it looks as though it is going to be when you start out.

I don't know whether I have made any comments that would be useful to you, but, just to repeat, I put great stress on a measure going through now that is not only easy to enforce, but is as self-enforceable as possible to be made.

Senator DANAHER. You gentlemen obviously agree that some sort of withholding tax is necessary. He foresees that his employees are going to hate every part of it.

He suggests, as a matter of mechanics, to bridge over their belly-aching, that they be given funds in the form of stamps to pay the tax when due.

Mr. RUMML. If the employees are going to resent a withholding tax, they are going to resent doubly making voluntary declarations.

That is, it is not going to be any simpler. The basic situation is that these people—if his statement is true, and I don't know how true it is—apparently are not willing to pay taxes for the benefit of winning the war.

Senator CLARK. They would resent it much more, wouldn't they, Mr. Ruml, under the House proposal of paying not only their 1942 income tax, as many of them would have to do for the first time in 1943, as taxpayers, and on top of that paying a portion of their 1943 taxes?

Mr. RUMML. If I may speak as an expsychologist—which I was a long time ago—there is a power in words to evoke emotion, and double taxation evokes emotion. People don't believe in double taxation, even though the single taxation may be the sum of the two.

Do you follow what I mean?

Senator CLARK. Yes, sir.

Mr. RUMML. A person would rather pay 20 percent as a single tax than 15 percent for one year and 5 percent for the other year and feel that he is having double taxation. It is a psychological thing that I think is terribly important.

Senator DANAHER. We would be better off to raise the rate at the beginning and have it only once?

Mr. RUMML. I think so. Those are things you can't prove, Senator.

Senator CLARK. I think I agree with you.

Senator GERRY. Mr. Ruml, one of the great complaints that I am getting on the withholding tax is in regard to the administrative difficulties and the difficulties of doing the accounting.

For example, if you have a great many people employed on contracting work, I have complaints about that—people coming in to see me about it and saying that they don't know anything about these men, they come from all over the country to get work, and it is very difficult to find out if they have any families, or whether they should pay an income tax or not, and it makes a very difficult proposition, and if you put a flat rate on, then you are on the other horn of the dilemma also, aren't you?

Mr. RUMML. Surely.

Senator GERRY. Your administrative features are very difficult.

I have had some letters from some big firms in my own State that the accounting difficulties would be terrific. If the flat tax were put on that would be alleviated to some extent, but then of course if you put a flat tax on you are going into difficulties involving fairness to the employee.

Mr. RUMBL. I appreciate their difficulties, but I will say this: Their difficulties, I will wager with odds, will not turn out to be as great as it is anticipated they will be, and (2) I think that if that is the best way of getting law enforcement on the income tax for great groups of people that have never paid I am in favor of the trouble, because I really think that that is terrifically important.

Senator GERRY. That of course doesn't really enter into your plan except relatively, that you think your plan will make the withholding tax work more smoothly.

Mr. RUMBL. I think it will make it much more acceptable, because after all this plan takes a terrific burden off the minds of people, when they realize—and they are beginning to realize—as I said in my testimony, that, although only tens of thousands of people are actually hurt by the loss of income through one form or another, every single person is in danger, and there is a terrific apprehension that we can eliminate at one stroke.

Senator GERRY. In other words, one of the great questions of taxation—problems of taxation—where you have to pay taxes, is uncertainty?

Mr. RUMBL. If you are on a current basis.

Senator GERRY. If you are on a current basis you will do away with a certain amount of uncertainty.

I want to see if I am clear in the way your tax works. For example, say this tax bill was passed after the September collections.

Then in December would there be any additional collections of the tax, or would it be in the following January?

Mr. RUMBL. If the bill were passed after the September payment it would provide that all the payments that had been made in 1942, and to be paid in 1942, be applicable to 1942. There would be no change of any kind in what the taxpayer does this year.

Senator GERRY. That is what I understood it would be, but I was asked that question, and I wanted to bring that out.

Mr. RUMBL. Yes, sir.

Senator CLARK. But if he owes the tax for 1942 over and above the payments for 1942, of course he has to arrange to pay them?

Mr. RUMBL. If his income has been more in 1942 than it was in 1941 he will be liable for an income tax on the increase, you see, and that is where we get into our problem of these people who have never paid income tax, because they will have a little problem there coming due on the 15th of March, and as I say there are ways of meeting it—they are all undesirable—but nevertheless it is fair. In relation to the great benefits to be gained they are not important. I am sure the perfect plan has not been described. The perfect plan without a flaw: that, I can assure you, it is not.

Senator CLARK. Since we are on that point: what methods would you suggest of handling this excess? Have you given any thought to that?

Mr. RUMBL. In this first year?

Senator CLARK. Yes, sir.

Mr. RUMBL. In the first place we have given some thought to it, and I don't think we are prepared to make a recommendation, but we are prepared to present alternatives. I think we have to bear in mind that this first year is a special situation, due to the lateness of the bill being passed.

Had it been possible to have a bill on the 1st of last March, then everyone would have been on notice.

Senator CLARK. It is a transition problem, no matter what.

Mr. RUMBL. I know, but there is a little special situation, and we would think about things for the first year that we would not propose in general.

These are alternatives:

(1) That for this first year the installment due for payment on the excess should be payable in four quarters, rather than only one quarter, which would ease the impact of it.

Another suggestion is that, for taxpayers who had never paid an income tax at all, and this was the first one, that perhaps we ought to generalize the plan and say that we skip the first year of all income tax payers, whether they happened to be '41 or not.

There would be a certain equity in that. Just because these people didn't have income in '41 they are not getting a benefit.

That is a drastic solution—one that I don't care for too well, but nevertheless there is a certain logic in it.

Another solution would be, in view of the fact that time is so late, to assess for that increment only the normal tax and not the normal and surtax.

That would establish, in principle, that there was a tax due on this excess.

It is all gravy, in a sense, anyway, because, in addition to what would be normally coming in, and that would make the amount so small that I don't think it would be a significant problem or one that anyone would resist.

There may be other solutions, but I am just rattling these things off to show that there are ways of solving it—as I say, all of them bad; I mean not good.

Senator CLARK. Suppose the 1942 income were less than 1941?

Mr. RUMBL. That is a very important consideration, because that includes so many men who are in the Army, and so many men that have been out of employment on account of priorities and all the rest of it.

For those people, you see, they would be in the group that began immediately.

They get the benefits that go over the whole generation, because they are the ones that have already lost income, but one of the important reasons for doing it now is this: And I am bringing out this point—it is coming out in Fortune in a week or so—that this is a particularly good year, from a public point of view, to make this kind of adjustment, because for the most part people who have more income in '42 than they had in 1941 have it on account of the war, and for the most part those who have less have it on account of the war.

In other words there is a great public crisis, not a lot of individual merit and demerit, that has been responsible for people's economic status at the present time, and so for the people whose income was less, and who would have a refund, who would pay less, by and large they are war casualties of one form or another, either through priorities or through going into the service, or something of the kind.

Senator CLARK. Mr. Paul, if there is anything that occurs to you or Mr. Stam as we go along we would like to have you make any

suggestions or ask any questions you wish, because that is an advantage of anything of this sort, where we don't have to proceed formally.

If, in connection with anything that Mr. Ruml or anybody else says, it occurs to you to make inquiries, it would be best to make them as we go along.

Mr. PAUL. All right. For the present I will break in only if there is a particular matter that I don't want to lose sight of. Otherwise, I would prefer to hear first what Mr. Ruml has to say.

Mr. RUMML. I want to bring out all the difficulties.

Mr. PAUL. I would like to ask Mr. Ruml to restate those two remedies that he mentioned, arising out of the lateness.

Mr. RUMML. There were three.

Mr. PAUL. Three; all right.

Mr. RUMML. No. 1: To permit four installments for the payment of the amount due, instead of one as would ordinarily be the case.

These are all special solutions for next year. I would not suggest them in general.

No. 2: To waive the income tax for the first year of all income taxpayers—that is, people who had never paid an income tax would not be liable for 1942. Theirs would be waived; others would be waived for 1941.

The third solution is to assess everyone with the normal tax only and not the surtax. The advantage of that is that it establishes the principle of paying on the excess, making people conscious that next year they could do it but without making it an economic burden. That would be the status of it.

Mr. STAM. Would interest be allowed on the overpayment of the '41 tax?

Mr. RUMML. No, sir.

Mr. STAM. I mean: assume the '42 income was greater than their '41 income, would the Government pay interest on the amount that is paid?

Mr. RUMML. That would not be my thought. I may be giving an answer that I would change my mind on, but I would not think of complicating it with interest.

Mr. STAM. And that would be true also of the additional tax, of the so-called excess tax: there would be no interest there?

Mr. RUMML. No, sir. The declaration that is made is a tentative declaration, and then it is equalized at the end without interest.

Mr. PAUL. Would there be any way of preventing people from making a low declaration?

Mr. RUMML. Yes, sir; the law would require that their declaration should be the income of the previous year. One advantage that I can see in the plan is that it would make it possible for people to pay more than they declared, if their income went up, and thereby automatically relieve themselves from a high payment the following year.

Now, we have at Macy's a number of people who are having pay-roll deductions in order to pay their income tax next year.

Every once in awhile something happens, and they go and get their deduction and use it for something else. If they had actually paid it to the Government there it would have been.

Mr. PAUL. I don't want to get off on small technicalities here because this plan should be judged on a broad basis, but I was think-

ing when I asked the question about your relief provisions: Suppose somebody really underestimated his new income, you are getting away from using the former year's income in your relief provision by letting a person estimate his income, where he knows it is going down.

Now, is there any way to prevent abuse of that?

Mr. RUMML. Well, I think that that declaration would have the same formality and the same dignity that the original declaration of income did.

In other words, I would assume that it would be a sworn statement that "my income is now on such and such a basis," and that it would not be a casual estimate in any way at all. It is intended to take care of people whose income is—definitely and permanently and with knowledge—down; people whose salary has been reduced, who have changed their occupations, and so forth.

Mr. PAUL. There is obviously a need for the provision, but I was just wondering what you had in mind.

Senator CLARK. That would apply to the situation you mentioned awhile ago—a man who was drawing a good salary and retired, and he knows that if he doesn't go into another business, which would be another change of status, that his income would be materially reduced—a man who has been making a considerable income and goes into the Army, who knows his income would be reduced.

Mr. PAUL. Of course, it washes out the next year.

Mr. RUMML. The whole purpose of the relief provision is really to make it easy, so that you don't make a payment and then get a refund, that is all. It just saves that much annoyance, inconvenience, and paper work.

Mr. PAUL. You are bound, aren't you, to have some refund or payment, because you can never estimate exactly what your income will be?

Mr. RUMML. That is right.

Mr. PAUL. So you don't eliminate that problem?

Mr. RUMML. No, sir; but you do when it is a gross problem.

Mr. PAUL. That is right; you minimize the amount?

Mr. RUMML. Yes, sir.

Mr. TARLEAU. Didn't you have some idea at one time of mitigating the effect of these refunds by allowing that as a credit for the succeeding year's liabilities?

Mr. RUMML. I think that that would be the ordinary way that that would be handled.

Ordinarily there would be a plus or minus adjustment on your new income tax blank, but we are talking about these cases of gross disparity—about this fellow that gets \$7,500 and goes into the Navy, there is no use waiting a year to get relief.

Mr. PAUL. I am pointing out that your plan is better on the refund side, in the sense that it is true that incomes vary up and down, but if they do vary down you don't automatically have to file a claim for refund and go through all that procedure?

Mr. RUMML. No, sir. You just subtract it from what you otherwise would have paid the following year. That is true.

It is just an entry.

Mr. STAM. But you really would have to file probably an amended return?

Mr. RUMI. My thought was this: that the regular return could be so printed and so organized that it would serve both purposes.

Mr. PAUL. Have you prepared any drafts of that sort? Is it in your plan?

Mr. RUMI. It didn't seem terribly difficult. We may have forgotten something.

Mr. PAUL. I would like to ask Mr. Rumi to develop one point which I think needs development.

Senator CLARK. The committee wants all the information about this plan it can get, sir.

Mr. PAUL. I am not expressing any opinion one way or the other about the plan, but I do think that one of the main virtues of the plan is that it facilitates collection at the source.

On the other hand, it seems to me to have a defect, and I would like to develop Mr. Rumi's views on that defect, in that it produces windfall gains for people with high 1941 incomes.

You can have one type of windfall gain: a very large capital gain. Suppose a man had sold out his entire business in 1941 and made a profit of several million dollars.

Now, he gets a special and very extraordinary break. That is a capital gain.

The same sort of situation might be present in the field of ordinary income payment, such as salaries, or lawyers' fees, or something of that sort.

Now, it seems to me that there will be a certain amount of resentment on the part of taxpayers if too many of these extraordinary gains are permitted to go untaxed.

I wish you would state what you think about that, Mr. Rumi.

Mr. RUMI. Well, that has been a worrisome problem, and I should be inclined to agree that the plan would not be harmed, sir, if capital gains and losses were excluded from the benefits, on the theory that capital gains and losses are more like business or commercial profits, by and large, in ordinary income, and it would tend to help this problem of windfall, but my general views on the windfall are stated in the testimony, and they are these: That no tax plan will cut as fine as we would like to have it cut; that these people who have the windfalls couldn't have known about the plan in 1941, and so they didn't plan it that way.

Finally, it seems to me that it is important to realize that, under this plan, the inequities are of this character: That some people get more benefit than they might otherwise have gotten, but that no one gets less.

In other words, it is beneficial to all, harmful to none; perhaps too beneficial to some, and, accordingly, I would be prepared, for myself, to accept these embarrassing windfall situations as part of the price of getting a general benefit. That is not to say that if some other solution that I haven't been able to think of comes along, that I like these windfalls.

I don't like them at all. I would like to see them out of the picture, but I wouldn't do anything to materially hurt the effectiveness of the plan in order to eliminate the windfalls.

In other words, I would not want to so change the plan that the major benefits could not be had in order to eliminate windfall profits to what cannot be more than a few hundred people, or perhaps a few thousand—a very small number.

Mr. PAUL. How would you feel about a modification of the plan that minimized this situation we have just been discussing by canceling the 1941 liabilities or the 1942 liability, whichever was smaller?

Mr. RUMML. I would be opposed to that, on the ground that that would eliminate the benefits for all the men in the Army and the Government service, and all people whose income was less for national reasons.

Mr. PAUL. Well, it wouldn't eliminate—

Mr. RUMML (interposing). I mean it would eliminate the benefit.

Mr. PAUL. Yes.

Mr. STAM. Of course, lots of these automobile dealers naturally had a pretty good year in 1941, as I recollect. They sold quite a lot of cars.

In 1942 they practically had no income. This would benefit them.

Mr. RUMML. Yes, sir.

Mr. PAUL. How would you feel about a modification which limited the forgiveness or cancelation to the normal tax plus the first bracket of surtax, making the benefit accrue in whole to the smaller taxpayers, and in part to the larger income taxpayers, and then giving the larger income taxpayers a fair amount of time as to that part of their tax which wasn't forgiven?

Mr. RUMML. Well, as I see it, you have this problem: You have got, it seems to me, in order to get the most out of the plan, to take care of the great masses of income taxpayers, and you have to take care of the middle brackets well through the range of executive compensation, in order to get the full values out of the plan.

Now, then, when you get above that range—not thinking about these special windfall cases, but just about the range in general—it doesn't make much practical difference what you do.

The amounts aren't large, relatively. Such taxes as you would collect—or if you didn't collect them in some measure—would turn up in the estates of these people, would be recovered in inheritance taxes.

So, as I see it, there isn't a practical situation involved there, but I do think that there is another type of problem, and that is the problem of handling the plan on a basis that gives equal treatment to all taxpayers. I think there is a question of principle and a question of policy there, and I shouldn't want to, for the sake of catching these few people who would benefit through windfall, I would not want to do something that seemed discriminatory, or treating one group of taxpayers on one basis and another on another basis when you pass the 1941 year.

Mr. PAUL. Well, the modification I suggested would treat everybody on the same basis.

The small taxpayer would have a flat percentage forgiven; the large taxpayer would also have a flat percentage forgiven. Each would be benefited, and the benefit might be adjusted to such amount as would be necessary to take care of our problem here.

We all recognize we have a problem.

Mr. RUMML. I thought that a suggestion that Mr. Tarleau made some months ago had more promise in it, if it were developed, and that is to use a relation between 1940 and 1941.

Now the difficulty about his original suggestion, from my point of view—that is, of averaging the two and taking 12 months out—is that it made a very cumbersome thing for the bulk of taxpayers, and

it would appear to be a kind of chisel if the differences weren't very large, but if you had a situation where you compared 1940 and 1941, and there was an enormous disparity in 1941 as compared with 1940, then I think some adjustment might be made.

I think what we ought to catch are the eccentric cases and not the high cases, if I have made my plan clear.

Mr. TARLEAU. One of the merits of the plan is that the declining revenue of the situation is being taken care of, and to make it go back to the high plateau of 1941 rather than compute it on the lower ground of 1941 would be to defeat one of the purposes you mentioned.

It is the erratic cases, however, which are likely to gain prominence, and are the ones that may prove embarrassing.

Mr. RUMML. I think, if I may say so, that we must realize that our awkwardness here is due to what the public reaction to these cases is going to be.

That is, there is not a problem of revenue—we don't need the revenue—by and large, as far as the question of inequities of the situation are concerned, we have to realize that any plan is going to have some inequities.

It only happens that these people happen to be speculators and operators rather than Baptist clergymen.

Mr. TARLEAU. We usually temper the wind to the shorn lamb.

The Baptist clergyman needs all these kinds of helps and I take it that is what you really have said, and I take it that, consequently, because, as far as he is concerned, we wouldn't feel so bad about it, I think your suggestion about capital gains and losses would cover one of that type of income.

I think you are well advised in ruling that out. For one thing they have already received certain benefits which take that into account.

Senator GERRY. How would your plan work with the small corporation that is being put out of business on account of the war? A useful corporation—put it that way.

Mr. RUMML. This plan is not intended to reach the corporate difficulty.

Senator GERRY. It wouldn't help them at all?

Mr. RUMML. No, sir.

Senator GERRY. How about a corporate individual? I said "corporation" but I meant to say "individual"—a small copartnership.

Mr. RUMML. Well, I think, sir, that it would depend on what attitude the committee took toward individuals trading as businesses.

You could, on the one hand, say that the plan would not apply to individual trading as basis for their business gains.

On the other hand you could say that the plan would apply to everyone except corporations and trusts.

If that were done, sir, it would help him very much, sir; very much indeed.

On the other hand, if it were decided that individuals trading as businesses ought to be treated as businesses, it would not help them.

That is one of the decisions that will have to be made as the plan is worked out in detail.

Mr. PAUL. I would like to develop another point. Assuming that one of the virtues of the plan is that we get away from the extra burden of this 5 percent superimposed over above the ordinary tax under the present House bill, don't you have that same defect where

there is an increase of income, because that increase means that you will have to pay an additional tax?

You haven't paid enough on the basis of your estimate, and so, in those cases, you will in the following year have your increased tax plus your regular tax. That is true, isn't it?

Mr. RUMML. Yes, sir. I think the problem is more serious for this year than it will be in the future, because no provision has been made whereby people can accrue for that and make payments, but I want to point this out: that the three suggestions I made for mitigating that were intended to help that very situation; and the second thing I would point out is that the difference between this and the over-all 5 percent is that this would only hit the people who had more income in 1942 than they had in 1941.

So that, if the thing is mitigated and it applies only to the people who have the more income, it would seem to me a more equitable arrangement than the plan that was proposed.

Senator CLARK. The present plan hits the fellow who has lost income, actually, harder than the fellow who has gained income.

Mr. PAUL. As to that man who has lost income, Senator Clark, he has to pay on the basis of his previous year's income.

He derives a benefit which is postponed a year, except for this relief provision.

Mr. RUMML. Well, except that, if his income is less in 1942 than it was in 1941 he will not have a payment to make. It is only the people whose income is more in 1942 than in 1941.

Mr. PAUL. That is true as to that particular condition, yes; but in any year taxpayers as a whole, in any year in which the national incomes goes up, taxpayers as a class— if you care to consider them as a class, which is of course only one way of considering them—there will be an approach to this 5 percent which we now have under the House bill, wouldn't there?

Mr. RUMML. Of course there will.

Mr. PAUL. And your point against that is that the people who have the additional tax to pay will be the very ones who have the additional income?

Mr. RUMML. That is right.

Mr. FRIEDMAN. One qualification that needs to be made, I think, of this statement about people having the additional income runs through this whole plan. That is, the difference between the plan when viewed on a bookkeeping basis on the one hand, or on a cash basis on the other.

The actual payments that a man makes in the year 1943, if we neglect for the moment the special relief provision, unless you have collection at source, if you take Mr. Rumml's plan in its initial version, without collection at source, the actual amount of money that any man must pay in 1942 doesn't depend in any way whatsoever on his 1943 income—it depends on his income in 1941 and his income in 1942, so that if his income goes down in 1943 he gets in a cash benefit from this proposal only in 1944.

That is to say, in a bookkeeping sense, you are paying taxes currently as you go, but in a cash sense the amount of cash you actually have to pay out in no way at all depends on your current income.

It depends, rather, on your income for the preceding 2 years.

In that respect, from a cash point of view, the plan is in some measure more serious than our problem. Our present problem is that the actual payments in any year depend on the income in the preceding year.

Under Mr. Ruml's plan, as I understand it—I wonder if you would comment on this?—the actual payments in any year depend on the income of the 2 preceding years, so you are really going further back in determining the amount you have to pay in any given year.

Let's take an example: If a man had a high income in '42, a low income in '41, and a low income in '43, he would pay a high amount, for two reasons: His tentative tax for '43 would be computed on the basis of his high '42 income, and in the second place he would have a large deficiency payment left over from '42, because he would have paid in '42 on the basis of '41 income, so that, if you look at the problem from a cash point of view, I think you get a somewhat different picture than if you look at it from a bookkeeping point of view.

Mr. PAUL. I think we have to be fair, in this respect: That the bookkeeping sense is somewhat important in that that high payment will come back the following year.

Mr. FRIEDMAN. Absolutely. I didn't mean to say that you ought to look only at the cash point of view, but that both points of view were relevant, and that it was from that cash point of view that it was so important to combine Mr. Ruml's plan with collection at source, because, if you did combine it with collection at source, then with respect to the first bracket at any rate you would be current in both the cash sense and the bookkeeping sense.

Mr. RUMML. If I may answer very briefly: I think Mr. Friedman has developed admirably an illustration of what might happen under a number of circumstances:

- (1) That we don't have withholding at source.
- (2) That the individual does not take advantage of the relief provision.
- (3) That he does not anticipate his higher income and make payments, as he might have, accordingly.
- (4) That there are not very many people whose income fluctuates up and down like that. Most people's incomes rise rather gradually until their period of retirement, and then drops suddenly, and that is the end of it.

I don't believe those cases will be numerous enough to cause any embarrassment.

Mr. FRIEDMAN. As to the relief provision, I think Mr. Ruml's suggestion would be an excellent one. There would be no difficulty in connection with men who have gone into the Army and Navy.

As it is now, we get a report from every employer on the amount of money he has paid to the employee during the preceding year, so that when the employee files his return in March of each year we have a record with which to check the amount he enters, but if you were to permit him to file a lower figure, if his income had gone down, you would have to go back to the employer and get a prospective statement of income in order to check that.

You would have to get a report from employers as to what they expected this man would earn during the coming year, and that would be difficult for the employers to file, and it would be very difficult to us to get, and therefore, desirable as that provision cer-

tainly is in principle, I rather think it would be very difficult, administratively, and might not be feasible for anybody except the people who had gone into the Army and Navy; for them there would be no question about the feasibility of it.

Mr. RUMBL. We have in Macy's every year many adjustments downward for employees. We know exactly what they are going to get, as far as we are concerned.

I mean, there would be drops on account of retirement, partial pensions, change of occupation.

I have in mind a friend of mine who was working for the Rockefeller Foundation, who was taken with a spinal tumor, and he is now out in California paralyzed. They know exactly what they are retired at.

I think you will find many cases, and every one of them humanly terribly important for the individual involved, and it is for them that the relief provision is intended. It is only of a temporary character, because they would have gotten the relief in the following March anyway.

Senator GERRY. Mr. Ruml, do I understand that your '41-'42 basis is only for next year; after that you just take the previous year, don't you?

Mr. RUMBL. That is really what you would do—yes, you are quite right.

For '43, sir, you will file tentative returns based on your '42 income.

Senator CLARK. And you pay on your '42 income in '43?

Mr. RUMBL. On '42.

Senator GERRY. And then you take into account '41?

Mr. RUMBL. If there was a difference.

Senator GERRY. That, I understand, but that is only—'41 is only used once as a basis?

Mr. RUMBL. That is right; correct. Next time it will be '43-'42; that is right. Quite right. '41 only once.

Mr. FRIEDMAN. That is quite true, but each year, as Mr. Ruml just indicated, the two preceding years would be taken into account, so in 1944 you would take into account '43 and '42; in '45 you would take into account '44 and '43; in '46 you would take into account '45 and '44; and so on. So every year there are two preceding years that would enter into the picture.

Mr. RUMBL. Yes; but I think that makes it sound more complicated than it is.

The second succeeding year is taken into account only in the sense of establishing whether you overpaid or underpaid; that is all.

The basis for the tentative tax is only the preceding year.

In addition to that you have an over- or underpayment.

Senator CLARK. In other words, if you overpay in '43 it is only considered to the extent to which you get a credit?

Mr. RUMBL. That is right.

Senator CLARK. If you underpay it is only to the extent to which you have to make up the difference?

Mr. RUMBL. That is right.

Senator CLARK. That is the only way in which the second preceding year enters into it at all?

Mr. RUMBL. Quite right.

Mr. STAM. Where the law changes, wouldn't you have to make two computations? Where your income changes wouldn't you have to make one computation on the basis of the old law?

Mr. RUMML. Yes; I believe you would.

Mr. STAM. And another computation on the basis of the new law?

Mr. RUMML. Simply on your excess. There would have to be a computation made and entered on your blank, but you do that anyway.

Mr. PAUL. Do you have any fears from the standpoint of inflation, with respect to people who had accrued funds, for instance, to pay their '42 taxes in '43, whose funds were under this plan released so that they could be spent?

Mr. RUMML. Well, I have made some inquiries which have been on a strictly personal basis, and statistically would hardly be a valid sample as a whole of people who have accrued their income tax.

I find that very few have, and most of the people who have accrued their income tax are people whose personal books are kept by accountants.

I can assure you that that is not the mass of the population and, therefore I think that the amounts which have been accrued exist in hands where they will ultimately pass into estates and into estate taxes.

I don't believe that, from an inflationary point of view, it is an important problem.

Mr. PAUL. I would like to look at that a little more broadly.

I didn't mean accrue in the technical sense of one who would put money in the bank or tax-anticipation notes, but in any informal way saved up the money or anticipated a payment a year or so hence.

There must be a lot of those people, who would feel, "Well, I don't have to make that payment now; I can spend that money," and I am wondering to what extent that might constitute an increase or multiplication of the inflation problem.

Mr. RUMML. My answer to that is—of course, it is only my own personal impression—that unless the money has actually been accrued the taxpayer is in the position of paying exactly what they would have paid anyway.

They are no better and no worse off from a cash point of view.

Therefore, I do not believe that the problem will be of inflationary significance.

Mr. PAUL. Here again I would like to make this refinement: that when we think of inflation we think of a particular moment of danger, which probably is in the next 9 months or a year from this particular date, and my fear is—at least I think we ought to take into consideration—the danger that there would be some psychological release of purchasing power there.

Mr. RUMML. May I comment that I think that is a real danger.

I want to admit the fact that we have to think of Mr. Paul's point, because I think we all recognize that inflation is not merely a matter of arithmetic; it is partly a matter of mood.

If this plan made everyone so happy, if you please, that they would use the purchasing power that is already at their disposal, I think we would have some inflationary trouble, and consequently I think that it is very important, in bringing out the plan, to talk about the fact that this is being done to get people out of debt, to make it possible for them to save, to emphasize the thrift aspects, I mean, really, because if the psychology turned the other way we have got plenty of ammunition for inflation right here now. Is that the point?

Mr. PAUL. Yes; that seems to me a genuine fear. It may be a public-relations problem—I don't know—but I know that I would feel that I could go out and buy a few things if this plan went through, whichever you applied it—to forgiveness of the 1942 or 1941 liabilities.

Of course, I don't get to spend any money, but a lot of people must be in a position to do so.

Mr. TARLEAU. I don't get any time to get any money. I don't get any money to spend.

Mr. RUMML. As long as you are talking personally, let me tell you what my attitude is:

I know that, if I ever lose my job at Macy's I won't have an income tax to pay, but in fact I will have to pay the Government about \$3,500 more next year than I would if the plan didn't go through.

Mr. TARLEAU. Yes.

Mr. RUMML. You see what I mean?

Mr. TARLEAU. Yes.

Mr. RUMML. So I mean I won't be any better off, and I think a lot of other people will be in the same position.

Mr. TARLEAU. On your relief plan, I was wondering:

I think Mr. Friedman raised the point which is of some significance, namely, that if you are really going to have a section that is workable, to circumscribe it a bit. I mean, every person whose income fluctuates up or down ought not to be in a position of running over and saying, "Don't compute my tax base on last year's income; compute it on this year's income," so I think one of the problems we would have if this plan is adopted and we had this kind of relief provision is to limit types of decrease in income that we would take into account—separation from service, illness, and so on.

I mean, just the fact that you don't anticipate that your profits from your profession are going to be as high as they were in the year before ought not to be grounds for asking for relief, and I take it that you would be willing to modify your relief provision along that line.

Mr. RUMML. I prefer it that way, because it seems to me it is only people who have had some accident of circumstances that was foreseeable, such as reduction of regular compensation by someone who is compensated. Yes; I quite agree with you.

Mr. PAUL. As a matter of fact, it would probably be necessary to limit that relief provision to wages and salaries. I doubt if it could be applied to income from dividends and interest.

Mr. RUMML. Excuse me, Randolph, but I don't think it is terribly important that it should be, because people who have income from dividends and interest should be able to finance the period until they get their refund.

Mr. PAUL. Well, there would be some small incomes from those sources who would have great difficulty, and I think we would have to face it, but I think it is quite clear that any such relief provision would have to be limited to wages and salaries.

I have, Senator Clark, a memorandum here. Since a record is being made, it may be that you would wish to have it inserted.

Senator CLARK. I do want it inserted. This is not a public record. I am having it made for the convenience in reporting to the full committee, of course. I would like very much to have the memorandum inserted in the record.

(The memorandum referred to is as follows:)

RESULTS OF FIELD INVESTIGATION INTO EMPLOYERS' PROBLEMS IN INTRODUCING COLLECTION AT SOURCE FOR WAGES AND SALARIES

1. DESCRIPTION OF SURVEY

During the month of July, the Treasury Department undertook a field inquiry into the effect that collection at source from wages and salaries would have on employers. The survey was designed to determine the machine and personnel needs of employers and to elicit suggestions from employers as to changes in the proposed system that would make it better adapted to their needs. In addition, a supplementary survey of employers was made to determine what effect collection at source would, in their view, have on the pay-roll allotment plan for the purchase of War bonds. A third survey is now under way to determine the reaction of employees to collection at source.

The initial survey was made in two ways:

(1) Four teams of investigators were sent from Washington, consisting of one representative each of the Bureau of Internal Revenue and the Office of the Secretary. These teams interviewed employers in the Chicago, Detroit, New York, and southeastern (North Carolina, Georgia) areas. In addition, one of the teams went to Toronto, Canada, to see how the Canadian collection-at-source system was working.

(2) The 38 internal revenue agents in charge throughout the United States were asked to have revenue agents interview approximately 10 firms in each of their districts.

In all, over 450 concerns were interviewed. The sample included one-third of all firms in the United States with more than 10,000 employees, about 7 percent of all firms with between 1,000 and 10,000 employees, one-half of 1 percent of all firms with between 100 and 1,000 employees, and about 50 firms employing fewer than 100. A list of the firms interviewed and a copy of the questionnaire used are attached. Table 1 shows the distribution of the firms covered in the field inquiry by size of firm. (This and later tables exclude a few returns received too late for inclusion in the tabulations.)

The supplementary inquiry into the employers' views about the effect of collection at source on the War-bond program was made by internal revenue agents in charge. The survey covered about 450 firms. A copy of the questionnaire used is attached.

2. THE MACHINE NEEDS OF EMPLOYERS

Collection at source alone raises no serious machine problems for employers. Some employers will undoubtedly need additional office machines; but the great majority can adapt their present machines to collection at source with relative ease, and can handle the additional work on their present machines. As table 2 shows, out of a total of 454 employers, employing almost two and a half million workers, fewer than 30 percent expressed the opinion that they would need more equipment, and fewer than 60 percent of these, or 17 percent of the total number, indicated a need for major items of equipment. Further, the field interviews suggest that many of the employers who indicated a need for additional equipment, could, if necessary, handle the additional work through more intensive use of their present equipment. Approximately 70 percent of the firms indicating a need for additional equipment use their present equipment no more than 8 hours a day. (See table 3.) This does not necessarily eliminate the need for additional machines, since pay-roll work is frequently concentrated in a few days. At the same time, it does indicate considerable leeway.

The need for additional machines is concentrated in the large concerns, which are most highly mechanized and which tend to use their present equipment most fully. Nonetheless, the sample suggests that more than two-thirds of all employees in the country are in firms indicating no need for additional equipment; and less than one-third in firms indicating a need for additional equipment. (This statement takes account of the percentage of all firms of each size represented in the sample.)

The indicated needs for additional equipment are relatively small. For example, the interviewed firms employing more than 10,000 now use in their payroll-work a total of almost 8,000 machines of all types; the employers indicating a need for additional equipment use almost 6,000 machines; the additional machines needed for collection at source total fewer than 400. These figures are, of course, very rough, grouping as they do typewriters and tabulators, accounting machines,

and adding machines. The general picture is, however, confirmed by similar figures for specific types of machines. There are few types for which the additional needs represent more than 10 percent of the machines now in use.

The conclusions stated in the preceding paragraphs must be supplemented by the observation that there will undoubtedly be a large demand in coming months for additional office machines arising from the expansion of the size of the pay roll in war plants and the increasing turn-over of employment. The very real need for additional machines for these reasons will be many times as great as any need arising from collection at source. At the same time, firms may be unable to separate the two needs and may incorrectly attribute to the introduction of collection at source some of the need arising from expanded personnel.

The introduction of collection at source will require no drastic changes in pay-roll systems. The operations involved in deducting taxes at source are similar to those now being performed in connection with social security taxes, pay-roll allotments for War bonds, and deductions for community chest, Red Cross, insurance, union dues, and the like. Consequently, collection at the source will merely add another operation of a familiar kind, and can be integrated with existing pay-roll systems without serious difficulty.

3. THE PERSONNEL NEEDS OF EMPLOYERS

The need for additional employees to handle collection at source appears to be more widespread than the need for additional mechanical equipment. Almost two-thirds of the employers interviewed expressed a need for additional employees. According to the employers' estimates, collection at source would involve an increase of about 15 percent in pay-roll personnel. (See table 4.) On the basis of Canadian experience as well as information gathered in the field, this estimated increase seems unduly high.

4. EMPLOYERS' REACTIONS TO COLLECTION AT SOURCE

The interviewers were instructed to indicate the reaction of employers to collection at the source. As table 5 shows, the reaction of the employers, as interpreted by the interviewers, was overwhelmingly favorable. Only 6 percent of the employers viewed it unfavorably, and only an additional 6 percent were indifferent or did not state their reaction.

One of the most striking findings of the survey was the extent to which the convenience of the employers would be served by permitting them to read the tax from simplified tables, rather than requiring them to compute it. These tables would show the tax for each marital and dependency status by wage brackets. Almost two-thirds of the employers interviewed expressed a preference for the use of such tables. Permitting their use would serve the convenience of the employer and would also reduce the need for additional machines.

5. EMPLOYERS' OPINIONS OF THE EFFECT OF COLLECTION AT SOURCE ON WAR BOND PURCHASES

The supplementary survey of employers was directed toward determining (a) whether the introduction of collection at source would affect the employers' activities in connection with the purchase of war bonds under the pay-roll allotment plan and (b) whether the employers thought the introduction of collection at source would affect employee participation.

Out of 449 firms interviewed, 372 firms, or 83 percent, had pay-roll deduction plans. Of these 372 firms, 93 percent indicated that the introduction of collection at source would not affect their activities in connection with the pay-roll allotment plan. Only 3 percent said that the introduction of collection at source would lead them to reduce their present activities or to abandon them (see table 6).

The employers' expectations as to their employees' behavior differed sharply from their expectations as to their own behavior. Almost two-thirds of the employers expressed the view that collection at source would lead to a decrease in the amount allotted by employees to the purchase of War Bonds. Another 22 percent thought it would not affect the amount allotted; and the remaining 12 percent expressed no definite view.

Source: Treasury Department, Division of Tax Research August 18, 1942.

WITHHOLDING TAX

TABLE 1.—Distribution of firms covered in field inquiry by size of firm

Size of firm (number of employees)	Number of firms	Aggregate number of employees on pay roll	Average number of employees per firm	Percent of firms	Percent of employees
Under 20.....	44	301	7	9.7	(¹)
20 to 99.....	42	2,418	58	9.3	0.1
100 to 499.....	80	22,238	278	17.6	.9
500 to 999.....	59	39,291	666	13.0	1.6
1,000 to 4,999.....	129	320,543	2,485	28.3	13.2
5,000 to 9,999.....	42	282,477	6,726	9.3	11.7
10,000 to 49,999.....	50	993,015	19,960	11.0	41.2
50,000 and over.....	8	760,000	95,000	1.8	31.3
Total.....	454	2,425,283	5,342	100.0	100.0

¹ Less than 0.05 percent.

Source: Treasury Department, Division of Tax Research, Aug. 17, 1942.

TABLE 2.—Distribution of 454 firms covered in field inquiry by need for additional office machines and equipment, by types of requirements, and by size classes

Size classes (number of employees)	NUMBER OF FIRMS							Firms not stating needs
	All firms	Firms indicating no need for additional machines	Firms indicating need for additional machines				Total	
			Types of machines required					
			Major ¹	Intermediate ²	Minor ³	Unknown		
Under 20.....	44	41						3
20 to 99.....	42	39	2	1	1			2
100 to 499.....	80	69	9	5	4			2
500 to 999.....	59	48	11	7	3	1		
1,000 to 4,999.....	129	77	50	25	22	2	1	2
5,000 to 9,999.....	42	17	24	17	6		1	1
10,000 to 49,999.....	50	19	29	18	8	1	2	2
50,000 and over.....	8	1	7	3	4			
Total.....	454	310	132	76	48	4	4	12

PERCENTAGE OF FIRMS								
Size classes (number of employees)	All firms	Firms indicating no need for additional machines	Total	Major ¹	Intermediate ²	Minor ³	Unknown	Firms not stating needs
Under 20.....	100	93						7
20 to 99.....	100	91	4	2	2			5
100 to 499.....	100	86	11	6	5			3
500 to 999.....	100	81	19	12	5	2		
1,000 to 4,999.....	100	59	39	19	17	2	1	2
5,000 to 9,999.....	100	41	57	41	14		2	2
10,000 to 49,999.....	100	38	53	36	16	2	4	4
50,000 and over.....	100	13	87	37	50			
Total.....	100	68	29	17	11	1	1	3

¹ Major types: Heavy automatic machinery.² Intermediate types: Adding machines, calculators, comptometers.³ Minor types: Typewriters, parts to major types, office equipment, etc.

NOTE.—Highest requirement rules the classification of each firm.

Source: Treasury Department, Division of Tax Research, Aug. 17, 1942.

TABLE 3.—Distribution of firms indicating need for additional machines, by present utilization of machines, and by size classes

Size classes (number of employees)	NUMBER OF FIRMS				
	Total	Average number of hours present machines used per day			
		8 hours or less	More than 8 but less than 16 hours	More than 16 hours	Unknown
Under 20.....	0				
20 to 99.....	2	2			
100 to 499.....	9	7			
500 to 999.....	11	8	2		1
1,000 to 4,999.....	50	38	7	3	2
5,000 to 9,999.....	24	16	6	2	
10,000 to 49,999.....	29	16	8	5	
50,000 and over.....	7	3	2	2	
Total.....	132	90	27	12	3
Percentage distribution of total.....	100	69	20	9	2

Source: Treasury Department, Division of Tax Research, Aug. 17, 1942.

TABLE 4.—Distribution of firms by indicated need for additional pay-roll employees to handle collection at source and by size of firm

Size of firm (number of employees)	Total number of firms	Number of firms			Aggregate number of equivalent full-time employees on pay-roll work	
		Indicating no need for additional pay-roll employees	Indicating need for additional pay-roll employees	Not stating need	Total at present	Additional number needed
Under 20.....	44	44			6	
20 to 99.....	42	34	8		10	8
100 to 499.....	80	36	43	1	127	43
500 to 999.....	59	19	40		221	60
1,000 to 4,999.....	129	16	111	2	1,940	401
5,000 to 9,999.....	42	1	41		2,117	332
10,000 to 49,999.....	50	4	45	1	6,047	871
50,000 and over.....	8		8		3,211	342
Total.....	434	154	296	4	13,678	2,056

Source: Treasury Department, Division of Tax Research, Aug. 17, 1942.

WITHHOLDING TAX

TABLE 5.—Distribution of firms by reaction to collection at source and by size of firm
NUMBER OF FIRMS

Size of firm (number of employees)	All firms	Firms whose reaction was			
		Favorable	Indifferent	Unfavorable	Not stated
Under 20.....	44	38	1	2	1
20 to 99.....	42	35	3	3	1
100 to 499.....	80	76	3	1	1
500 to 999.....	59	52	1	4	2
1,000 to 4,999.....	129	114	6	7	2
5,000 to 9,999.....	42	36	2	3	1
10,000 to 49,999.....	50	45	3	1	1
50,000 and over.....	8	6	1	1	1
Total.....	454	402	20	25	7

PERCENTAGE OF FIRMS

Under 20.....	100	87	2	11	2
20 to 99.....	100	84	7	7	2
100 to 499.....	100	95	4	1	1
500 to 999.....	100	88	2	7	3
1,000 to 4,999.....	100	88	5	5	2
5,000 to 9,999.....	100	86	6	7	2
10,000 to 49,999.....	100	90	6	2	2
50,000 and over.....	100	76	12	12	2
Total.....	100	88	4	6	2

Source: Treasury Department, Division of Tax Research, Aug. 17, 1942.

TABLE 6.—Percentage distribution of 372 firms in various size classes having a payroll deduction plan for the purchase of war bonds and stamps by their employees, by probable change in employer's present activities as a result of the introduction of collection at source

Size classes (number of employees)	Total	Probable change in employer's present activities as a result of collection at source				
		Reduce or abandon	No change	Increase	Don't know	Not stated
Under 20.....	100 ¹	100				
20 to 99.....	100	5	90		5	
100 to 499.....	100	2	96			2
500 to 999.....	100	2	92	2	4	
1,000 to 4,999.....	100	2	96	1	1	
5,000 to 9,999.....	100	3	91			6
10,000 to 49,999.....	100	7	88		5	
50,000 and over.....	100		100			
Additional returns ¹	100	7	90		3	
Total.....	100	3	93	1	2	1

¹ Size unknown.

Source: Treasury Department, Division of Tax Research, Aug. 17, 1942.

FIELD INQUIRY ON EFFECT OF COLLECTION OF PART OF THE REGULAR INCOME TAX AT SOURCE ON PAY-ROLL ALLOTMENT PLANS FOR PURCHASE OF WAR BONDS

Name of company.....
 Address.....
 Type of business.....
 Name and titles of officers previously interviewed.....
 Name and titles of any additional officers interviewed.....
 Name of interviewer.....

QUESTIONS TO EMPLOYERS

1. Do you now have a pay-roll deduction plan for the purchase of War bonds?

if firm has a pay-roll deduction plan

2. If so, what percentage of your employees are now having deductions made from their pay for the purchase of War bonds?

3. What percentage of the total wages paid to all employees are you now deducting for the purchase of War bonds?

4. The tax bill recently passed by the House of Representatives provides for the collection of part of the employee's regular income tax by the employer at the time of wage payment. The plan is that, beginning January 1, 1943, the employer will deduct 5 percent of the difference between the employee's wage and an allowance for his personal exemption. Would the introduction of this plan affect your activities in connection with the pay-roll deduction for War bonds?

5. If so, in what way?

6. In your view, would the introduction of collection at source affect participation in the pay-roll allotment plan by your employees?

7. If so, how and to what extent?

If firm does not have a pay-roll deduction plan

8. Are you now planning to introduce a pay-roll savings plan?

(If answer to question 8 is no, do not ask remaining questions.)

9. If so, when do you plan to put it into effect?

10. The tax bill recently passed by the House of Representatives provides for the collection of part of the employee's regular income tax by the employer at the time of wage payment. The plan is that, beginning January 1, 1943, the employer will deduct 5 percent of the difference between the employee's wage and an allowance for his personal exemption. Would the introduction of this system affect your present plans with respect to pay-roll deductions for the purchase of War bonds?

11. If so, how and to what extent?

FIELD INQUIRY ON COLLECTION OF PART OF THE REGULAR INCOME TAX AT SOURCE FROM WAGES AND SALARIES

Name of company.....
 Address.....
 Type of business.....
 Names and titles of officers interviewed.....

GENERAL STATEMENT OF PLAN FOR COLLECTION AT SOURCE

Several plans for the deduction of a portion of the employees' Federal income tax by the employer at the time of wage payment have been suggested from time to time from several sources.

One such plan recently advanced provides for the deduction, by the employer, of a tax computed on that amount of the employee's earnings during each pay-roll period which is in excess of the employee's exemption for that period; the object being to collect the tax on an approximation of net income after allowance for personal exemption and credit for dependents, rather than on gross earnings, such as is the case with the Social Security tax. The employee would be required

to file an income-tax return on March 15, as at present, and the amount of tax collected by the employer would be used as a credit against the total tax shown to be due on the employee's income-tax return. If the tax collected at the source should not be sufficient to satisfy the total liability declared on the income-tax return, the difference would have to be paid by the employee; if the tax collected at source should be in excess of the total liability, such excess would be refunded to the employee by the collector of internal revenue.

ILLUSTRATION OF TWO METHODS WHICH HAVE BEEN ADVANCED FOR COMPUTING THE TAX TO BE WITHHELD

Under both of the two methods illustrated on the next page, the employer will, on January 1, 1943, obtain a statement, in duplicate, from each employee showing the employee's marital status and number of dependents. This statement will form the basis upon which the employer will ascertain the employee's exemption from withholding.

METHOD No. 1.—Weekly pay period

Name of employee	Information from employee's statement obtained on Jan. 1 of each year	Gross earnings for pay-roll period (weekly)	Amount of exemption for pay-roll period (from table immediately following)	Balance subject to withholding	Withholding rate	Income tax to be withheld
Adams, A. B.	Single—No dependents	\$24.02	\$13.00	\$11.02	Percent 10	\$1.10
Allen, R. N.	Married—2 dependents	38.60	43.00	None	10	None
Brown, C. R.	Single—No dependents	16.50	13.00	3.50	10	.35
Botts, J.	Head of family—1 dependent	47.04	26.00	21.04	10	2.10
Butler, T. R.	Single—1 dependent	33.96	21.50	12.46	10	1.25
Cook, M. C.	Married—No dependents	54.47	28.00	26.47	10	2.85
Davis, E. B.	Married—3 dependents	74.99	51.50	23.49	10	2.35
Total		289.58	194.00	95.58		10.00

Table for determining amount exempt from withholding

Pay-roll period	Single person (not head of family) or married person where both husband and wife are employed	Married person (other than where both husband and wife are employed) or head of family	Each dependent (for head of family, subtract one from number of dependents)
Weekly	\$13	\$26	\$8.50

METHOD No. 2.—Weekly pay period

Name of employee	Information from employee's statement obtained on Jan. 1 of each year	Gross earnings for pay-roll period (weekly)	Income tax to be withheld (from attached tax table)
Adams, A. B.	Single—No dependents	\$24.02	\$1.10
Allen, R. N.	Married—2 dependents	38.60	None
Brown, C. R.	Single—No dependents	16.50	.35
Botts, J.	Head of family—1 dependent	47.04	2.10
Butler, T. R.	Single—1 dependent	33.96	1.25
Cook, M. C.	Married—No dependents	54.47	2.85
Davis, E. B.	Married—3 dependents	74.99	2.35
Total		289.58	10.00

At the close of each quarter, under both of the foregoing methods, the employer will determine the total gross earnings and the total amount of tax withheld and will enter those amounts on a quarterly return to be filed with the collector of internal revenue accompanied by payment of the amount of tax withheld. At the end of the calendar year (or at the end of the employment period, if within the year), the employer will post to each employee's statement (in duplicate) total gross earnings for the year and the amount of tax withheld. The original of each of these statements, when so completed, will be transmitted to the collector along with the final quarterly return and the duplicate will be returned to the employee as his receipt for the tax withheld during the year. (If there are only a small number of employees, say, fewer than eight, it will probably be provided that a receipt be issued each pay-roll period.) The original statement filed with the collector will be accepted in lieu of the present information returns, that is now required in the case of all payments of wages in excess of filing requirements.

GENERAL DESCRIPTION OF YOUR SITUATION IN RESPECT TO PAY-ROLL WORK

1. Approximate number of employees whose names appear on your pay roll during the course of a calendar year
2. Average number of names on your pay roll in each pay-roll period
3. Approximate percentage of employees paid in the following pay-roll period: Pay-roll period or periods used—(a) Daily
4. On what basis are, roughly, three-fourths or more of your employees paid; i. e., on hourly rates, piece work, daily, etc.?
5. Approximate total number of man-days devoted to pay-roll work per year
6. What types of office machines, and estimate as to number of each, are used directly in the computation of wages payable to your employees?

Type	Quantities	Approximate hours each machine is in operation	
		Total	On pay-roll work
.....
.....
.....

7. List the types of deductions from gross earnings for which provision is now made on your payroll records
8. Approximately what percentage of your employees are paid (a) in cash
9. Do you now furnish in any form an itemization of any deductions made from gross earnings?
10. Do you now spread your pay-roll work by staggering the end of the pay period among your several departments, or groups of employees?
11. Is your pay-roll work performed in a central office for the entire establishment, or is it performed by the separate departments or branches? (Describe.)

SPECIFIC QUESTIONS RELATING TO THE APPLICATION OF THE TWO METHODS ILLUSTRATED

12. Under your system of pay-roll records and wage payments, which of the two methods illustrated above can be better employed by you?
13. Based on the method stated as your preference in question 12, what changes, if any, in your system of pay-roll work will be necessitated by the installation of the plan illustrated for withholding the tax by you? (Describe.)

14. Would the change necessitate any additional personnel? ----- If so, how many? -----

15. Can the changes, if any, described in question 13 be accomplished with your present office machine equipment? -----

16. If the answer to question 15 is "No," state the type and estimated quantities of additional equipment required.

<i>Type</i>	<i>Estimated quantities</i>
-----	-----
-----	-----
-----	-----
-----	-----

17. Will you suggest any variation in the plan outlined herein which would make it better suited to your needs? -----

18. If additional equipment is needed would the changes suggested under 17 eliminate this need? -----

19. Interviewer's comments as to observed reaction of the employer to the plan outlined: -----

20. Interviewer's appraisal as to—
 (a) Adaptability of employer's present method to the proposed withholding tax plan (machine capacities, printed pay roll record forms, etc.): -----

(b) Estimate as to percentage of full time (24 hours daily) use now being made of equipment: -----

(c) Practicability of a closer approach to full time machine use if such is not now the case: -----

(d) Other -----

Signature of interviewer: -----

FIRMS COVERED IN SURVEY OF EMPLOYERS ON COLLECTION OF PART OF REGULAR INCOME TAX AT SOURCE

- *1. Ford Motor Co., Dearborn, Mich.
- *2. Proximity Manufacturing Co., Greensboro, N. C.
- *3. Jefferson Standard Life Insurance Co., Greensboro, N. C.
- *4. Blue Bell-Globe Manufacturing Co., Greensboro, N. C.
- 5. Martin W. Shaffer, Baltimore, Md.
- 6. Hutzler Bros. Co., Baltimore, Md.
- 7. U. S. Fidelity and Guaranty Co., Baltimore, Md.
- *8. El More Cigar Co., Greensboro, N. C.
- 9. Pointer Cigar Co., Raleigh, N. C.
- 10. R. B. Lloyd Tobacco Co., York, Pa.
- *11. Younts-Debre Co., Greensboro, N. C.
- *12. Sunrise Lunchroom, Greensboro, N. C.
- *13. Hat Cleaning & Shoe Shine Parlor, Greensboro, N. C.
- *14. Gate City Paint Co., Greensboro, N. C.
- 15. Coca Cola Bottling Co., Richmond, Va.
- 16. Greentree's, Richmond, Va.
- 17. Larus & Bro. Co., Richmond, Va.
- 18. Virginia Stationery Co., Inc., Richmond, Va.
- 19. Guaranty Trust Co., New York, N. Y.
- 20. Universal Carloading & Distributing Co., N. Y.
- 21. A. S. Callaway & Co., New York, N. Y.
- 22. Monroe Calculating Machine Co., Orange, N. J.
- 23. Fireman's Insurance Co., Newark, N. J.
- 24. Bristol Myers Co., Hillred, N. J.

25. Newark Transformer Co., Newark, N. J.
26. Howard Savings Institution, Newark, N. J.
27. Griffith Piano Co., Newark, N. J.
- *28. Peabody Coal Co., Chicago, Ill.
29. Murray Manufacturing Corporation, Brooklyn, N. Y.
30. Scott, Connor, & Scott, Philadelphia, Pa.
31. Rumsey Electric Co., Philadelphia, Pa.
32. Philco Corporation, Philadelphia, Pa.
33. Philadelphia National Bank Philadelphia, Pa.
34. Penn Mutual Life Insurance Co., Philadelphia, Pa.
35. Lansdowne Steel & Iron Co., Morton, Pa.
36. Fels & Co., Philadelphia, Pa.
37. Electric Storage Battery Co., Philadelphia, Pa.
38. W. A. Alexander & Co., Chicago, Ill.
39. Accurate Steel Treating Co., Chicago, Ill.
40. Hellums Furniture Co., Wichita, Kans.
- *41. Consolidated Oil Corporation, New York, N. Y.
42. Geo. Innes Co., Inc., Wichita, Kans.
43. Kansas Gas & Electric Co., Wichita, Kans.
44. Cardwell Manufacturing Co., Inc., Wichita, Kans.
45. The Coleman Lamp & Stove Co., Wichita, Kans.
46. Myers Bros., Springfield, Ill.
47. First National Bank, Springfield, Ill.
48. Estes & Wheeler, Springfield, Ill.
49. Wells Fargo Bank & Union Trust Co., San Francisco, Calif.
50. Telephone-Business Service Co., San Francisco, Calif.
51. I. Magnin & Co., San Francisco, Calif.
52. Joshua Hendy Iron Works, Sunnyvale, Calif.
53. Busy Bee Candy Co., St. Louis, Mo.
54. Mississippi Glass Co., St. Louis, Mo.
55. Wortendyke Manufacturing Co., Richmond, Va.
56. Williams & Reed, Richmond, Va.
57. Whitehead Drug Store, Richmond, Va.
58. Manchester Board & Paper Co., Richmond, Va.
59. Kimball Laundry Co., Omaha, Nebr.
60. S. Rickes & Sons, Omaha, Nebr.
61. Mid-West Fixture Co., Omaha, Nebr.
62. Franklin Savings Bank, New York, N. Y.
- *63. Great Atlantic & Pacific Tea Co., New York, N. Y.
64. Standard Dredging Corporation, New York, N. Y.
65. National Distillers Products Corporation, New York.
66. Fidelity & Casualty Co., New York, N. Y.
67. Concord Clothes, Inc., New York, N. Y.
68. American Smelting & Refining Co., New York, N. Y.
69. American National Bank, Nashville, Tenn.
70. Falk Corporation, Milwaukee, Wis.
71. Cutter-Hammer, Inc., Milwaukee, Wis.
72. Higgins Industries, Inc., New Orleans, La.
73. Louisville Cement Corporation, Speed, Ind.
74. Fidelity & Columbia Trust Co., Louisville, Ky.
75. Louisville Gas & Electric Co., Louisville, Ky.
76. Grand Quality Laundry Service, Louisville, Ky.
77. Wiscasset Mills Co., Albemarle, N. C.
78. Mock-Judson, Volkringule, Greensboro, N. C.
- *79. Marshall Field & Co., Chicago, Ill.
80. Henry Hinch, Brooklyn, N. Y.
81. Mabee Kanenely Co., Brooklyn, N. Y.
82. Polaks Fruit Works, Inc., Long Island, N. Y.
83. Harvard Clothes, Inc., Brooklyn, N. Y.
84. Brewster Aeronautical Corporation, Long Island, N. Y.
85. Baltimore & Ohio Railroad Co., Baltimore, Md.
86. Fidelity Trust Co., Baltimore, Md.
87. F. K. Hooper Co., Inc., Glenarm, Md.
- *88. R. J. Reynolds Tobacco Co., Winston-Salem, N. C.
- *89. Adams-Millis Corporation, High Point, N. C.
90. John Muller's & Sons, Brooklyn, N. Y.
91. Merkel Inc., Jamaica, N. Y.

92. Liquidometer Corporation, Long Island, N. Y.
93. American Airlines, Inc., Jackson Heights, N. Y.
94. Mack Trucks, Inc., Long Island, N. Y.
95. McCormick & Co., Baltimore, Md.
96. Warner & Co., Baltimore, Md.
97. Union Trust Co., Pittsburgh, Pa.
98. National Valve & Manufacturing Co., Pittsburgh, Pa.
99. Cleveland Welding Co., Cleveland, Ohio.
100. Greif Bros. Co-op Corporation, Cleveland, Ohio.
101. Sangamo Electric Co., Springfield, Ill.
- *102. Radio-Keith-Orpheum Corporation, New York, N. Y.
- *103. Book-Cadillac Hotel, Detroit, Mich.
- *104. J. L. Hudson Co., Detroit, Mich.
105. Standard Oil Co. of Ohio, Cleveland, Ohio.
106. Valley Camp Coal Co., Cleveland, Ohio.
107. Republic Steel Corporation, Cleveland, Ohio.
108. National Mortar & Supply Co., Pittsburgh, Pa.
109. Joseph Home Co., Pittsburgh, Pa.
110. A. & A. Motor Service, Chicago, Ill.
111. Safeway Stores, Oakland, Calif.
112. P. E. O'Haer Plumbing, San Francisco, Calif.
113. C. E. Grostean Rice Mill, San Francisco, Calif.
114. Ames Harries Neville, San Francisco, Calif.
115. Omar, Inc., Omaha, Nebr.
116. Paxton & Gallagher Co., Omaha, Nebr.
117. Omaha Cold Storage, Omaha, Nebr.
118. Nebraska Consolidated Mills Co., Omaha, Nebr.
119. Mutual Benefit Health & Accident Association, Omaha, Nebr.
120. American Can Co., New York, N. Y.
121. Hart, Schaffner & Marx, Chicago, Ill.
122. Chicago Towel Co., Chicago, Ill.
123. Yellow Cab Co., Chicago, Ill.
124. Riverside & Dan River Cotton Mills, Danville, Va.
125. Central Illinois Public Service Co., Springfield, Ill.
126. Weaver Manufacturing Co., Springfield, Ill.
127. Midwest Curtain Co., St. Louis, Mo.
128. Miss Halling's Cafeteria, Inc., St. Louis, Mo.
129. Anheuser-Busch, Inc., St. Louis, Mo.
130. Tidewater Associated Oil Co., San Francisco, Calif., (western division).
131. Century Ribbon Mills, New York, N. Y.
132. Perkins & Squier Co., New York, N. Y.
133. Van Raalte Co., Inc., New York, N. Y.
134. Dunhill Hat Corporation, New York, N. Y.
135. Molybdenum Corporation of America, New York, N. Y.
136. Bush Terminal Buildings Co., Brooklyn, N. Y.
137. Board of Transportation, Brooklyn, N. Y.
138. Anaconda Wire & Cable Co., Brooklyn, N. Y.
139. The American News Co., Inc., Brooklyn, N. Y.
140. Flint Sand & Gravel Co., New Orleans, La.
141. Waldrum Drug Co., Nashville, Tenn.
142. Wisconsin Bankshares Corporation, Milwaukee, Wis.
143. Raak & Mattern Co., Milwaukee, Wis.
144. Northwestern National Insurance Co., Milwaukee, Wis.
145. Milwaukee-Western Fuel Co., Milwaukee, Wis.
146. Kearney & Tracker Corporation, West Mills, Wis.
147. First Wisconsin National Bank, Milwaukee, Wis.
148. Harnischfeger Corporation, Milwaukee, Wis.
149. Axton-Fisher Tobacco Co., Louisville, Ky.
150. Steider Stores, Inc., Louisville, Ky.
151. Gibson Co., Indianapolis, Ind.
152. P. R. Mallory & Co., Indianapolis, Ind.
153. Indianapolis Power & Light Co., Indianapolis, Ind.
154. Federal Lithographing Co., Detroit, Mich.
155. R. L. Polk & Co., Detroit, Mich.
156. Redford Lumber Co., Detroit, Mich.
157. Ideal Cement Co., Denver, Colo.
158. Great Western Sugar Co., Denver, Colo.

- 159. Colorado Fuel & Iron Corporation, Denver, Colo.
- 160. Nayly Manufacturing Co., Denver, Colo.
- 161. John H. Swisher & Son, Jacksonville, Fla.
- 162. St. James Realty Department Store, Jacksonville, Fla.
- 163. Duval Engineering & Contracting Co., Jacksonville, Fla.
- 164. Winn & Lovett Grocery Co., Jacksonville, Fla.
- 165. Charlotte Pipe & Foundry Co., Charlotte, N. C.
- 166. Piedmont & Northwestern Railroad Company, Charlotte, N. C.
- 167. Duke Power Co., Charlotte, N. C.
- 168. Crown Cork & Seal Co., Baltimore, Md.
- 169. Lord Baltimore Press, Inc., Baltimore, Md.
- 170. Retail Credit Co., Atlanta, Ga.
- 171. Evans Clothing Co., Atlanta, Ga.
- 172. Campbell Coal Co., Atlanta, Ga.
- 173. Rick's Inc., Atlanta, Ga.
- *174. Commonwealth Edison Co., Chicago, Ill.
- 175. Wesson Oil & Snowdrift Co., New Orleans, La.
- 176. Roger Brooks, Inc., Newark, N. J.
- 177. Congoleum-Nairn, Inc., Kearny, N. J.
- 178. Worthington Pump & Machine Corporation, Harrison, N. J.
- 179. Prudential Insurance Co., Newark, N. J.
- 180. Ingalls Shipbuilding Corporation, Birmingham, Ala.
- 181. Western Coal & Mining Co., St. Louis, Mo.
- 182. Burke & Co., Nashville, Tenn.
- 183. Standard Candy Co., Nashville, Tenn.
- 184. Florida East Coast Railroad Co., St. Augustine, Fla.
- *185. City of Chicago, Chicago, Ill.
- 186. Wilson Cypress Co., Palatka, Fla.
- 187. Florida Power & Light Co., Miami, Fla.
- 188. South Carolina Electric & Gas Co., Columbia, S. C.
- 189. Newport Industries, Inc., Pensacola, Fla.
- 190. Utah Copper Co., Salt Lake City, Utah.
- 191. Monsanto Chemical Co., St. Louis, Mo.
- 192. John Snowcroft & Sons Co., Ogden, Utah.
- 193. Specification Motor Oil Co., Salt Lake City, Utah.
- 194. Utah Fuel Co., Salt Lake City, Utah.
- 195. Morning Milk Co., Salt Lake City, Utah.
- 196. Utah Oil Refining Co., Salt Lake City, Utah.
- 197. International Smelting & Refining Co., Salt Lake City, Utah.
- 198. First Security Trust Co., Salt Lake City, Utah.
- 199. A. C. M. I., Salt Lake City, Utah.
- 200. Utah Idaho Sugar Co., Salt Lake City, Utah.
- 201. Miller & Rhoads, Richmond, Va.
- 202. Muzzy-McCoy Partnership, Wichita, Kans.
- 203. Foulston-Siefkin-Bartlett & Morris, Wichita, Kans.
- 204. Derby Oil Co., Wichita, Kans.
- 205. Consolidated Flour Mills Co., Wichita, Kans.
- 206. Cessna Aircraft Co., Wichita, Kans.
- 207. Beech Aircraft Corporation, Wichita, Kans.
- 208. Boeing Airplane Co. (Wichita division), Wichita, Kans.
- 209. Bachrach, Sanderbeck & Co., Pittsburgh, Pa.
- 210. United Engineering & Foundry Co., Pittsburgh, Pa.
- 211. Sun Shipbuilding & Drydock Co., Chester, Pa.
- 212. Lit Bros., Philadelphia, Pa.
- 213. Hazel-Atlas Glass Co., Wheeling, W. Va.
- 214. United Fuel Gas Co., Charleston, W. Va.
- 215. Atlantic Greyhound Corporation, Charleston, W. Va.
- 216. Marianna Smokeless Coal Co., Huntington, W. Va.
- 217. The Diamond, Inc., Charleston, W. Va.
- 218. Foster-Thornburg Hardware Co., Huntington, W. Va.
- 219. Smith & Barnett, Inc., Huntington, W. Va.
- 220. Don W. Dunham, Cleveland, Ohio.
- 221. Cook Coffee Co., Cleveland, Ohio.
- 222. Buckeye Brass & Manufacturing Co., Cleveland, Ohio.
- 223. Joseph & Feiss Co., Cleveland, Ohio.
- 224. Varnish Products Co., Cleveland, Ohio.

- 225. Cleveland Electric Illuminating Co., Cleveland, Ohio.
- 226. Ohio Bell Telephone Co., Cleveland, Ohio.
- 227. Remington Rand Co., Buffalo, N. Y.
- 228. Carborundum Co., Niagara Falls, N. Y.
- 229. Dunlop Tire & Rubber Corporation, Tonawanda, N. Y.
- 230. Spencer Lens Co., Buffalo, N. Y.
- 231. J. N. Adam & Co., Buffalo, N. Y.
- 232. Kleinhaus Co., Buffalo, N. Y.
- 233. Buffalo Slag Co., Inc., and affiliates, Buffalo, N. Y.
- 234. Master Metal Products, Inc., Buffalo, N. Y.
- 235. Aaron & Dautch, attorneys, Buffalo, N. Y.
- 236. United Shoe Machinery Corporation, Boston, Mass.
- 237. Cable Raincoat Co., Boston, Mass.
- 238. Cochrane Steam Specialty Co., Boston, Mass.
- 239. Chase Parker & Co., Inc., Boston, Mass.
- *240. Timken-Detroit Axle Co., Detroit, Mich.
- 241. Southwest Bell Telephone Co., St. Louis, Mo.
- 242. May Department Stores Co. (St. Louis store only), St. Louis, Mo.
- 243. Krey Packing Co., St. Louis, Mo.
- 244. Gaylord Container Co., St. Louis, Mo.
- 245. American Stove Co., St. Louis, Mo.
- 246. Alderson Furniture Co., St. Louis, Mo.
- 247. R. G. LeTourneau, Inc., Peoria, Ill.
- 248. Caterpillar Tractor Co., Peoria, Ill.
- 249. Hiram Walker & Sons, Inc., Peoria, Ill.
- 250. Standard Oil Co. of California, San Francisco, Calif.
- 251. Newport News Shipbuilding and Dry Dock Co., Newport News, Va.
- 252. Union Pacific Railroad Co., Omaha, Nebr.
- *253. Government of City of New York, New York, N. Y.
- 254. Commonwealth & Southern Co., New York, N. Y.
- 255. Charles of the Ritz Distributors Corporation, New York, N. Y.
- 256. New York Shipbuilding Corporation, Camden, N. J.
- 257. Switlik Parachute Co., Trenton, N. J.
- 258. National Life & Accident Ins. Co., Nashville, Tenn.
- 259. Blue Diamond Coal Co., Knoxville, Tenn.
- 260. American Snuff Co., Memphis, Tenn.
- 261. Sanford & Day Iron Works, Inc., Knoxville, Tenn.
- 262. Johnson Service Co., Milwaukee, Wis.
- 263. Louisville Fabric Shop, Louisville, Ky.
- 264. Audubon Distributing Co., Louisville, Ky.
- 265. The Mengel Co., Louisville, Ky.
- 266. Terra Haute House Garage, Terra Haute, Ind.
- 267. Maumee Collieries Co., Terra Haute, Ind.
- 268. Fort Wayne Corrugated Paper Co., Fort Wayne, Ind.
- 269. The Studebaker Corporation, South Bend, Ind.
- 270. Progressive Welder Co., Detroit, Mich.
- 271. B. E. Taylor, Detroit, Mich.
- 272. Bundy Tubing Co., Detroit, Mich.
- 273. Davidson Bros., Inc., Detroit, Mich.
- 274. Detroit Waste Paper Co., River Rouge, Mich.
- 275. Vinco Corporation, Detroit, Mich.
- 276. Vickers, Inc., Detroit, Mich.
- 277. Holley Carburetor Co., Detroit, Mich.
- 278. Public Service Co. of Colorado, Denver, Colo.
- 279. Kloepell Hotels, Inc., Jacksonville, Fla.
- 280. Hoosier Lamp & Stamping Corporation, Evansville, Ind.
- 281. L. S. Ayres & Co., Indianapolis, Ind.
- 282. Old National Bank in Evansville, Evansville, Ind.
- 283. Thomas-Bootz & Thomas, Evansville, Ind.
- 284. Wm. R. Bootz Manufacturing Co., Evansville, Ind.
- 285. Tokheim Oil Tank & Pump Co., Fort Wayne, Ind.
- 286. Merchants Distilling Corporation, Terra Haute, Ind.
- 287. Smith-Alsof Paint Co., Terra Haute, Ind.
- 288. Ziffrin Truck Lines, Inc., Indianapolis, Ind.
- 289. Wheeling Steel Corporation, Wheeling, W. Va.
- 290. State Operating Co., Huntington, W. Va.
- 291. Crystal Block Coal & Coke Co., Huntington, W. Va.

292. Stinson Aircraft, Wayne, Mich.
293. Industrial Wire Cloth Co., Wayne, Mich.
294. McLouth Steel Co., Detroit, Mich.
295. Wolverine Tube Division, Detroit, Mich.
296. Neusteter's, Denver, Colo.
297. Mountain State Telephone & Telegraph Co., Denver, Colo.
298. Knight-Campbell Music Co., Denver, Colo.
299. Daniels & Fisher Stores Co., Denver, Colo.
300. Arapahoe Cleaners & Dyers, Denver, Colo.
301. Hudson Motor Co., Detroit, Mich.
302. Head & Mount Construction Co., Denver, Colo.
303. Hendrie & Bolthoff Manufacturing & Supply Co., Denver, Colo.
304. Colorado Milling & Elevator Co., Denver, Colo.
305. Broderick & Gordon, Denver, Colo.
306. Texas & Pacific Railway Co., Dallas, Tex.
307. Continental Supply Co., Dallas, Tex.
308. United Fidelity Life Insurance Co., Dallas, Tex.
309. Fred S. Lake & Co., Dallas, Tex.
310. Taylor-Colquitt Co., Spartanburg, S. C.
311. Riverdale Mills, Spartanburg, S. C.
312. Carolina Life Insurance Co., Columbia, S. C.
313. Greenville Community Hotel Corporation, Greenville, S. C.
314. Lexington Lumber Co., Columbia, S. C.
315. Hoffman Lumber Co., Columbia, S. C.
316. Columbia Garment Mills, Columbia, S. C.
317. Maryland Drydock Co., Baltimore, Md.
318. Atlanta Gas Light Co., Atlanta, Ga.
319. Geo. Huse Clothing Co., Atlanta, Ga.
320. Atlantic Co., Atlanta, Ga.
321. Atlantic Steel Co., Atlanta, Ga.
322. American Bakeries Co., Atlanta, Ga.
- *323. Georgia Power Co., Atlanta, Ga.
- *324. State Highway Board of Georgia, Atlanta, Ga.
325. Citizens National Trust & Savings Bank, Los Angeles, Calif.
326. Automobile Club of Southern California, Los Angeles, Calif.
327. Anderson Clayton & Co., Los Angeles, Calif.
328. Thomas & Howard Co., Charlotte, N. C.
329. Queen City Coach Co., Charlotte, N. C.
330. Riller Motor Express, Charlotte, N. C.
331. Kay Jewelry Co., Greensboro, N. C.
332. Burlington Mills Corporation, Greensboro, N. C.
333. Belk Bros. Co., Charlotte, N. C.
334. Cannon Mills Co., Kannapolis, N. C.
335. Eckerd's of Charlotte, Inc., Charlotte, N. C.
336. Rochester Packing Co., Inc., Rochester, N. Y.
337. General Railway Signal Co., Rochester, N. Y.
338. Eastman Kodak Co., Rochester, N. Y.
339. Wabash Railroad Co., Decatur, Ill.
340. Mueller Co., Decatur, Ill.
341. New York Life Insurance Co., New York.
342. Jones & Laughlin Steel Corporation, Pittsburgh, Pa.
343. Southern California Gas Co., Los Angeles, Calif.
344. Industrial Electrical Co., Seattle, Wash.
345. Associated Shipbuilders, Seattle, Wash.
346. Centennial Flouring Mills Co., Seattle, Wash.
347. Pacific Car & Foundry Co., Renton, Wash.
348. Lake Washington Shipyard, Houghton, Wash.
349. Pittsburgh Coal Co., Pittsburgh, Pa.
350. Gulf Oil Corporation, Pittsburgh, Pa.
351. Blaw Knox Co., Pittsburgh, Pa.
352. Whitney National Bank, New Orleans, La.
353. Theme Hosiery Co., Inc., Los Angeles, Calif.
354. Richfield Oil Corporation, Watson, Calif.
355. Douglas Aircraft Co., Inc., Santa Monica, Calif.
356. Northwestern Bell Telephone Co., Omaha, Nebr.
357. Updike Lumber & Coal Co., Omaha, Nebr.
358. Capitol Steel & Iron Co., Oklahoma City, Okla.

- 359. Anderson-Prickard Oil Corporation, Oklahoma City, Okla.
- 360. Black, Sivalls & Bryson, Oklahoma City, Okla.
- 361. Skelly Oil Co., Tulsa, Okla.
- 362. Continental Oil Co., Ponca City, Okla.
- 363. Phillips Petroleum Co., Bartlesville, Okla.
- 364. Pioneer Reserve Life Insurance Co., Oklahoma City, Okla.
- 365. Old King Distributing Co., Oklahoma City, Okla.
- 366. First National Bank & Trust Co., Oklahoma City, Okla.
- 367. John A. Brown Co., Oklahoma City, Okla.
- 368. Lone Star Cement Co., New York.
- 369. The Old Quaker Co., New York.
- 370. Air Reduction Co., Inc., New York.
- *371. Tony & Adele (Beauty Parlor), New York.
- 372. Times-Picayune Publishing Co., New Orleans, La.
- 373. Emile M. Babst Co., Inc., New Orleans, La.
- 374. Frost Lumber Industries, Shreveport, La.
- 375. Arkansas Natural Gas Corporation, Shreveport, La.
- 376. Lykes Bros. Steamship Co., Inc., New Orleans, La.
- 377. Jackson Brewing Co., New Orleans, La.
- 378. D. H. Homes Co., Ltd., New Orleans, La.
- 379. H. Flaunhaft, New Orleans, La.
- 380. Louisville & Nashville Railroad, Louisville, Ky.
- 381. Thomas Quilt Factories, Denver, Colo.
- 382. Moffat Coal Co., Denver, Colo.
- 383. The National Bank of Commerce, Houston, Tex.
- 384. J. Weingarten, Inc., Houston, Tex.
- 385. Humble Oil & Refining Co., Houston, Tex.
- 386. Interstate Circuit Inc., Dallas, Tex.
- 387. Lone Star Gas Co., Dallas, Tex.
- 388. Trinity Portland Cement Co., Dallas, Tex.
- 389. Duncan Mills, Greenville, S. C.
- 390. Arkwright Mills, Spartansburg, S. C.
- 391. Victor-Monaghan Co., Greenville, S. C.
- 392. Dewey and Alvy Chemical Co., Cambridge, Mass.
- 393. Boston Elevated Railway Co., Boston, Mass.
- 394. John Hancock Mutual Life Insurance Co., Boston, Mass.
- 395. New England Telephone & Telegraph Co., Boston, Mass.
- 396. The Glenn L. Martin Co., Baltimore, Md.
- 397. Colonial Stores Inc., Atlanta, Ga.
- 398. Fulton Bag & Cotton Mills, Atlanta, Ga.
- 399. Southern Bell Telephone & Telegraph Co., Atlanta, Ga.
- *400. Trust Co. of Georgia, Atlanta, Ga.
- 401. Exposition Cotton Mills Co., Atlanta, Ga.
- 402. Florida National Bank, St. Petersburg, Fla.
- 403. Alabama Dry Dock & Shipbuilding Co., Mobile, Ala.
- 404. American Radiator & Standard Sanitary Corporation, Louisville, Ky.
- 405. Tampa Shipbuilding Co., Inc., Tampa, Fla.
- 406. D. A. Smith, Jacksonville, Fla.
- 407. Florida Public Service Co., Orlando, Fla.
- 408. A. E. Staley Manufacturing Co., Decatur, Ill.
- 409. Cargill, Inc., Minneapolis, Minn.
- 410. Minneapolis-Honeywell Regulator Co., Minneapolis, Minn.
- 411. Northland Electric Co., Minneapolis, Minn.
- 412. Pillsbury Flour Mills Co., Minneapolis, Minn.
- 413. John W. Thomas & Co., Minneapolis, Minn.
- 414. General Mills, Inc., Minneapolis, Minn.
- 415. F. H. Peavey, Minneapolis, Minn.
- 416. Minneapolis Gas Light Co., Minneapolis, Minn.
- 417. Gamble-Robinson Co., Minneapolis, Minn.
- 418. Minneapolis-Moline Power Implement Co., Minneapolis, Minn.
- 419. Twin City Rapid Transit Co., Minneapolis, Minn.
- 420. Great Northern Railway Co., St. Paul, Minn.
- 421. Morris Co., Atlanta, Ga.
- 422. Johns-Manville Corporation & Subsidiaries, New York, N. Y.
- 423. Hotel Bond Co., Hartford, Conn.
- 424. Brown & Sharpe Manufacturing Co., Providence, R. I.
- 425. Colt's Patent Fire Arms Manufacturing Co., Hartford, Conn.

426. Sterling Sugars, Inc., Franklin, La.
 427. Southern New England Telephone Co., New Haven, Conn.
 428. Premier Thread Co., Central Falls, R. I.
 429. Universal Optical Co., Providence, R. I.
 430. City of New Haven, New Haven, Conn.
 431. C. Cowles & Co., New Haven, Conn.
 432. Jacobs Manufacturing Co., Newington, Conn.
 433. G. Fox & Co., Hartford, Conn.
 *434. A. O. Smith Corporation, Milwaukee, Wis.
 *435. Allis Chalmers Manufacturing Co., Milwaukee, Wis.
 436. Business Mens Federal Savings & Loan Association, Cincinnati, Ohio.
 437. Multi-Colortype Co., Cincinnati, Ohio.
 438. Gentile Bros. Co., Cincinnati, Ohio.
 439. Cincinnati Sheet Metal & Roofing Co., Cincinnati, Ohio.
 440. Gibson Hotel Co., Cincinnati, Ohio.
 441. General Machinery Corporation, Hamilton, Ohio.
 442. John Shillito Co., Cincinnati, Ohio.
 443. Cincinnati Milling Machinery Co., Cincinnati, Ohio.
 444. Procter and Gambel Co., Cincinnati, Ohio.
 445. Kroger Grocery & Baking Co., Cincinnati, Ohio.
 446. Cushman Sons, Inc., Chicago, Ill.
 447. M. Born & Co., Chicago, Ill.
 448. Wilson & Co., Inc., Chicago, Ill.
 449. Chicago Surface Lines, Chicago, Ill.
 450. Sears, Roebuck & Co., Chicago, Ill.
 451. Whiting Milk Co., Boston, Mass.
 452. Boston Edison Co., Boston, Mass.
 453. Friend Bros., Inc., Melrose, Mass.
 454. State Street Trust Co., Boston, Mass.
 455. The Biltmore Hotel, 515 North Olive Street, Los Angeles, Calif.
 456. Lockheed Aircraft Corporation, Fairbanks, Calif.
 457. B. & N. Construction Co., Oklahoma City, Okla.
 458. First National Bank & Trust Co., Tulsa, Okla.
 459. O'Dell Brothers Service Station, 2275 East Cole Street, Pasadena, Calif.
 *460. City of Atlanta, Ga.
 461. Macts', Inc., Fifth and Union Streets, Seattle, Wash.
 462. Rhodes Department Store, Seattle, Wash.
 463. Peoples National Bank, Seattle, Wash.
 464. Seattle Hardware Co., 501 First Avenue South, Seattle, Wash.
 465. Boeing Aircraft Co., Seattle Wash.
 466. Jos. Schlitz Brewing Co., 235 West Galena Street, Milwaukee, Wis.

*These companies are not being resurveyed.

SUMMARY OF REVISED PROCEDURE FOR COLLECTION OF INDIVIDUAL INCOME TAX AT THE SOURCE

Collection at source will apply, beginning January 1, 1943, to three types of income: (1) Wages and salaries, (2) bond interest, and (3) dividends.

A. CURRENT WITHHOLDING

1. Wages and salaries.

(a) Each employee advises his employer, on a form (Form W-1) called the withholding deduction' certificate (or on an approved substitute form), of his marital and dependency status and, if married, whether the spouse is also employed. If the employee fails to submit the necessary information, the employer treats him as a single individual without dependents.

(b) Each pay period the employer withholds from the employee's wage or salary an amount determined by either of two optional methods:

(1) On the basis of the information as to family status provided by the employee, the employer reads from the table in section 426 (b) (1) of H. R. 7378, the amount exempt from withholding. (This amount includes an arbitrary allowance for deductions in addition to the personal exemption and credit for dependents.) He deducts this amount from the employee's wage or salary and withholds 5 percent of the balance (10 percent after 1943); or (2) on the basis of the information as to family status provided by the employee and the size of the employee's gross earnings in a given pay period, the employer reads from tables to be incorporated into H. R. 7378 the amount of tax to be withheld. These

tables show, for each pay period, the tax to be withheld according to the wage class and the family status group into which the employee falls.

(c) At the end of each quarter, the employer remits to the Bureau of Internal Revenue the amounts withheld during that quarter. The remittance is accompanied by a summary form (Form W) showing the total amount of wages paid during the quarter and the amount of tax withheld, but containing no information for individual employees.

(d) At the end of the year, together with this remittance for the final quarter of the year (Forms W and W-5), the employer sends to the Bureau of Internal Revenue one copy of the withholding deduction certificate (Form W-1) filled out by each employee (or of a substitute form approved by the Commissioner and filled out by the employer), entering on each the amount of wages paid during the year and the amount of tax withheld. This operation supplants the filing of the present information returns (Form 1099).

(e) At the end of the year, or at the termination of employment, employers of eight or more give their employees as a receipt the second copy of the withholding deduction certificate or its equivalent, showing thereon the amount of wages paid during the year and the amount of tax withheld. Employers of fewer than eight are required to give employees a receipt each pay period (Form W-4).

2. Dividends and registered bond interest.

(a) Corporations and institutions exempt from the individual income tax file once each year exemption certificates (Form W-2) with the payor corporation certifying to their exempt status.

(b) Individuals who expect their total net income for the year to be less than their personal exemption and dependent credit may also file exemption certificates (Form W-2) with the payor corporation, certifying to that effect. This provision is designed to give relief to persons with small incomes derived largely from interest and dividends.

(c) Payors of dividends and registered bond interest withhold 5 percent (10 percent after 1943) of the total amount of dividends and interest payable to security holders who have not filed exemption certificates.

(d) All payors of dividends and registered bond interest must provide payees with a receipt for the amount of tax withheld. These receipts are sent out either at the time of each payment (Form W-4) or at the end of the year, at the option of the payor corporation.

(e) At the end of each quarter the payor corporations remit to the Bureau of Internal Revenue the amounts withheld during that quarter, accompanied by a summary form showing the total amount of dividends and interest subject to withholding and the amount of tax withheld (Form W).

(f) At the end of the year, together with the remittance for the final quarter (Forms W and W-5), the payor corporations send to the Bureau of Internal Revenue for each stockholder or registered bondholder a return of information showing total dividends and registered bond interest paid and the amount of tax withheld, if any. This return is made on the exemption certificate (Form W-2), the forms previously filed by exempt owners being used for them. This operation supplants the filing of the present information returns (Forms 1099). If it wishes to, the payor corporation may use a duplicate of the exemption certificate as a receipt to be sent to the security owners.

3. Coupon bond interest.

(a) At the time of cashing the interest coupon the recipient fills out and submits to the bank two copies of an ownership certificate (Form W-3) showing the taxable status of the bond owner, the gross amount of interest, the tax to be withheld, if any, and the net amount of interest.

(b) If the bond owner is a corporation or exempt institution or an individual or fiduciary who states that his gross income does not exceed personal exemption and credit for dependents, the bank pays (or credits to the depositor's account, subject to collection) 100 percent of the coupon amount.

(c) If the bond owner is a partnership or common trust fund or an individual or fiduciary who states that his gross income does exceed the personal exemption and credit for dependents, the bank pays 95 percent (90 percent after 1943) of the coupon amount, returning the duplicate ownership certificate (marked "received") as a receipt to the bond owner.

(d) The interest coupons, accompanied by ownership certificates, flow through banking channels to the obligor corporation or Government agency, which is the actual withholding agent. The latter reimburses the paying bank for the actual amounts paid out.

(e) At the end of each quarter, the obligor corporations and Government agencies remit to the Bureau of Internal Revenue the amounts withheld during that quarter (Form W) accompanied by original copies of the ownership certificates. The latter are used to account for all interest payments on coupon bonds, whether taxable or nontaxable. This operation supplants the filing of the present ownership certificates (Forms 1000) except for tax-free covenant bonds, which are not affected by the foregoing procedure.

B. YEAR-END ADJUSTMENT

(a) All persons from whom any tax has been withheld are required to file an individual income-tax return by March 15 of the following year, along with all other persons required to file returns.

(b) The tax liability is computed as at present.

(c) The tax form carries space for entering the amount of tax withheld at source.

(d) If the tax liability exceeds the amount withheld, the difference represents the amount the taxpayer must pay to satisfy his liability.

(e) If the amount withheld exceeds the tax liability, the difference represents the refund to which the taxpayer is entitled.

(f) If the refund claimed is less than \$50 and if the taxpayer submits with his tax return receipts for all amounts withheld at source, the refund is made promptly without further evidence.

(g) The information given by employers and by payors of interest or dividends is matched with the individual income-tax returns. This furnishes a check on the additional tax liability of individuals whose liability exceeds the amount withheld at source as well as validation of the claims for refunds.

(h) Refunds not made promptly (as described in (f) above) are made as soon as the tax returns have been compared with the reports of employers and of payors of interest and dividends.

Source: Treasury Department, Division of Tax Research, August 17, 1942.

U. S. Treasury Department
Internal Revenue Service
Form W

UNITED STATES

RETURN OF INCOME TAX WITHHELD AT SOURCE FOR QUARTER ENDED -----
1942

(Under Supplement U of the Internal Revenue Code)

Item and instruction No.	1. Wages	2. Dividends and registered bond interest	3. Bond interest	8. I swear (or affirm) that I have examined this return, that it is made in good faith, and that to the best of my knowledge and belief all entries made herein, and contained in each schedule or statement attached and made a part hereof, are true, correct, and complete, and in accordance with the law and regulations applicable hereto. (Signed) (Title) (Owner, president, partner, member, etc. See instructions) Sworn to and subscribed before me this day of, 1941. (Signature and title of officer administering oath)	
1. Total payments from which tax is withheld.....	\$.....	\$.....	\$.....		
2. Tax withheld.....	\$.....	\$.....	\$.....		
3. Adjustments.....	\$.....	\$.....	\$.....		
4. Net tax.....	\$.....	\$.....	\$.....		
5. TOTAL TAX in item 4 (Cols. 1, 2, and 3). \$.....					
6. Enter below number of forms transmitted herewith: W-1 (Tax withheld... No withholding.) W-2 (Tax withheld... No withholding.) W-3 (Tax withheld... No withholding.)				Master list number Total tax..... \$..... Penalty..... \$..... Interest..... \$..... Total..... \$.....	
7. Type or print in above space withholding agent's name and address of principal place of business.					Cashier's Stamp

SPECIFIC INSTRUCTIONS ON HOW TO FILL IN THIS FORM

(For general instructions, see back of duplicate copy)

The return is to be prepared in duplicate. The original is to be filed with the collector of internal revenue; the duplicate is to be retained by the Withholding Agent. Failure to receive a blank return from the collector does not relieve the Withholding Agent from the duty of filing a complete return by the date prescribed or from payment of the tax. If a blank return is not received by the end of the quarter for which it should be filed, immediate inquiry should be made of the collector's office.

The following instructions are numbered to correspond with the item numbers on the return

1. Enter as item 1 the total amount paid out during the quarter under each category of payment subject from which tax has been withheld. (See General Instructions C, D, and E for payments subject to withholding).

2. In computing the tax to be entered as item 2, fractions of a cent amounting to less than one-half cent should be dropped. If amounting to more than one-half cent, tax should be increased to one cent.

3. Enter as item 3 the net result or any underpayments or overpayments of the tax reported on a prior return filed for any quarter of the same taxable year within which falls the quarter for which this return is filed and the net adjustment in the current quarter for fractions of cents added or dropped in the withholding. *This item is not to be used to effect adjustments of the tax reported in returns for any quarter year which does not fall within the same calendar year in which falls the quarter covered by this return.* Adjustments necessary in returns covering quarters of calendar years other than the calendar year to which this return relates will be effected by means of claims for refund filed on Form 843 if an overpayment, or by means of deficiency assessments if an underpayment. If there is a difference between the amount of the tax actually withheld during the current quarter and the total amount computed as item 2, due to fractional cents added or dropped on the withholding, this difference should be reflected in item 3. If such a difference is the only entry to be made as item 3, no statement explaining this item need be attached to the return, but the taxpayer should insert the words "fractions only" over item 3. Any other amount entered as item 3 must be explained by a statement, in duplicate, attached to the return, setting forth an explanation of the error the entry is intended to correct, the tax return period in which the error was ascertained, the particular return period or periods to which the overpayment or underpayment relates, the amount of overpayment or underpayment chargeable to each return period and the manner in which the Withholding Agent has adjusted the matter with the person concerned.

6. Forms W-3, ownership certificates relating to coupon bond interest, which have been received by the Withholding Agent during each of the first three quarters, are to be transmitted with Form W for each such quarter. With the return Form W for the last quarter of the year, however, there will be filed all the Forms W-1, W-2, and W-3 accumulated throughout the calendar year and not previously submitted, together with Form W-5, "Reconciliation of Tax Withheld at Source Reported on Forms W and Forms W-1, W-2, and W-3."

7. Type or print the Withholding Agent's name and business address, unless shown on the form when received from the collector. If already shown, make any changes necessary to show correct name and address. Do not enter the trade name or names, if any, if different from the true name.

8. Each return must be signed by the Withholding Agent and acknowledged before a notary public, internal revenue agent, deputy collector, or other officer authorized to administer oaths for general purposes. No charge will be made for this service if the oath is administered by an internal revenue agent or a deputy collector. If the Withholding Agent is a corporation, the return must be signed by a principal officer. If the Withholding Agent is a partnership, or other unincorporated organization, the return must be signed by a responsible and duly authorized member or officer who has knowledge of the organization's affairs. If the Withholding Agent is a trust or estate, the return must be signed by the fiduciary.

INSTRUCTIONS FOR FORM W, UNITED STATES QUARTERLY RETURN OF TAX WITHHELD AT THE SOURCE UNDER SUPPLEMENT U OF THE INTERNAL REVENUE CODE

(References are to the Internal Revenue Code, unless otherwise noted)

GENERAL INSTRUCTIONS

A. WHO MUST FILE A RETURN.—This form is to be used in reporting and paying the taxes required to be withheld from payments of (1) Wages, (2) Dividends, and (3) Bond interest, by the person having control of the payment of such amounts. Such persons are designated as Withholding Agents. Withholding is required from such payments made to partnerships and common trust funds and to individuals, estates, and trusts subject to Federal income tax. This withholding is separate and apart from withholding required under sections 143 and 144 relating to interest on bonds containing a tax-free covenant and issued prior to January 1, 1934, and payments to a nonresident alien or a foreign corporation.

B. WHEN AND WHERE RETURN MUST BE FILED.—A return on this form, accompanied by the tax withheld from the payments reported thereon, must be filed by each Withholding Agent for each of the quarters ended March 31, June 30, September 30, and December 31, on or before the last day of the month following the close of each quarter. The first return required must be filed not later than April 30, 1943, covering the quarter ended March 31, 1943. The return must be filed with the collector of internal revenue for the district in which is located the principal office or place of business of the Withholding Agent, or if he has no principal office or place of business, then in the district in which is located his legal residence.

C. WAGES.—(1) *Subject to withholding.*—Wages comprise all forms of remuneration for personal services actually rendered, irrespective of how such remuneration may be designated, and regardless of the medium in which payment is effected. If the payment is in other than money, the amount of the remuneration is the cash value of whatever other thing is received, such as meals, lodging, clothing, merchandise, laundry, etc., to the extent such remuneration is includible in gross income. If the remuneration paid by an employer to an employee for services performed during more than one-half of any pay-roll period constitutes "wages," all the remuneration paid by such employer to such employee for such period shall be deemed to be wages, and subject to withholding. In computing the tax required to be withheld from wages, the following deductions shall be allowed for each pay-roll period on the basis of the information supplied by employees on Form W-1. If the employee fails to supply his employer with a properly executed Form W-1, the employer shall prepare such form himself from such data as is available to him, but shall consider such employee as a single person without dependents and shall be liable to withhold on that basis. If both husband and wife receive wages, each shall be entitled to one-half of the deductions allowed a married person, except that if one receives wages for casual services, no deduction shall be allowed to that one, and the other shall be entitled to the deduction allowed a married person.

Tax may be computed in accordance with the following Schedule No. 1:

Pay roll	Single person (not head of family) or married but not living with husband or wife (not head of family)	Married person living with husband or wife or head of family	Each dependent, excluding one dependent used to qualify individual as head of family
Weekly.....	\$11.00	\$26.00	\$3.50
Biweekly.....	22.00	52.00	17.00
Semi-monthly.....	23.00	53.00	18.00
Monthly.....	46.00	110.00	36.00
Quarterly.....	138.00	330.00	109.00
Semi-annually.....	276.00	660.00	216.00
Annually.....	552.00	1,320.00	432.00

Or tax may be determined from the following Schedule No. 2.

(2) *Not subject to withholding.*—(a) Payments not exceeding the amount of deduction indicated in the Schedule No. 1, and payments in amounts for which no tax is shown in Schedule No. 2.

WITHHOLDING TAX

SCHEDULE No. 2

If gross earnings are—	The tax to be deducted is—									
	For single persons having dependents as follows:					For married persons having dependents as follows:				
	None	1	2	3	4 or more	None	1	2	3	4 or more
Over \$1 but not over \$11.....										
Over \$11 but not over \$13.....	\$0.10									
Over \$13 but not over \$15.....	.20									
Over \$15 but not over \$17.....	.25									
Over \$17 but not over \$19.....	.35									
Over \$19 but not over \$21.....	.45	\$0.05								
Over \$21 but not over \$23.....	.55	.15								
Over \$23 but not over \$25.....	.65	.25								
Over \$25 but not over \$27.....	.75	.35				\$0.05				
Over \$27 but not over \$29.....	.85	.45	\$0.05			.15				
Over \$29 but not over \$31.....	.95	.55	.15			.25				
Over \$31 but not over \$33.....	1.00	.65	.25			.35				
Over \$33 but not over \$35.....	1.10	.75	.35			.45	\$0.05			
Over \$35 but not over \$37.....	1.20	.85	.45	\$0.05		.55	.15			
Over \$37 but not over \$39.....	1.30	.90	.55	.15		.65	.25			
Over \$39 but not over \$41.....	1.40	1.00	.65	.25		.75	.35			
Over \$41 but not over \$45.....	1.55	1.15	.75	.40		.85	.50	\$0.10		
Over \$45 but not over \$49.....	1.75	1.35	.95	.65	\$0.20	1.05	.65	.30		
Over \$49 but not over \$53.....	1.90	1.55	1.15	.75	.40	1.25	.85	.45	\$0.10	
Over \$53 but not over \$57.....	2.10	1.70	1.35	.95	.55	1.45	1.05	.65	.30	
Over \$57 but not over \$61.....	2.30	1.90	1.55	1.15	.75	1.60	1.25	.85	.45	\$0.10
Over \$61 but not over \$65.....	2.50	2.10	1.75	1.35	.95	1.80	1.45	1.05	.65	.30
Over \$65 but not over \$69.....	2.70	2.30	1.95	1.55	1.15	2.00	1.65	1.25	.85	.60
Over \$69 but not over \$77.....	3.00	2.60	2.25	1.85	1.45	2.30	1.95	1.55	1.15	.80
Over \$77 but not over \$85.....	3.40	3.00	2.65	2.25	1.85	2.70	2.35	1.95	1.55	1.20
Over \$85 but not over \$93.....	3.80	3.40	3.05	2.65	2.25	3.10	2.75	2.35	1.95	1.60
Over \$93 but not over \$101.....	4.20	3.80	3.45	3.05	2.65	3.50	3.15	2.75	2.35	2.00
Over \$101 but not over \$109.....	4.60	4.20	3.85	3.45	3.05	3.90	3.55	3.15	2.75	2.40
Over \$109 but not over \$117.....	5.00	4.60	4.25	3.85	3.45	4.30	3.95	3.55	3.15	2.80
Over \$117 but not over \$125.....	5.40	5.00	4.65	4.25	3.85	4.70	4.35	3.95	3.55	3.20
Over \$125.....	5.60	5.20	4.85	4.45	4.05	4.90	4.55	4.15	3.75	3.40

Plus 5 percent of the amount by which the gross earnings for the pay period exceeds \$125.

(b) Payments for services performed by a member of the military or naval forces of the United States other than pensions and retired pay.

(c) Payments for agricultural labor.

(d) Payments for domestic service in a private home, local college club, or local chapter of a college fraternity or sorority.

(e) Payments for casual labor not in the course of the employer's trade or business.

(f) Payments by a nonresident alien individual, foreign partnership or foreign corporation, not engaged in trade or business in the United States.

(g) Payments for services as an employee of a foreign government or any wholly-owned instrumentality thereof.

(h) Payments for services performed as an employee while outside the United States unless the major part of the services performed during the calendar year by such employee for his employer is performed within the United States.

(i) Payments otherwise constituting compensation for personal services which are not required to be included in gross income.

(j) Payments made to persons hired and employed for less than one week and paid a total of less than \$11. If the remuneration paid by an employer to an employee for services performed during more than one-half of any pay roll period does not constitute "wages", as defined in Instruction C (1), above, then none of the remuneration paid by such employer to such employee for such period shall be deemed to be wages, and no withholding therefrom is required.

D. DIVIDENDS.—(1) Subject to withholding.—The term "dividends" means any distribution made by a corporation to its shareholders, whether in money or other property, (a) out of its earnings or profits accumulated after February 28, 1913, or (b) out of earnings or profits of the taxable year (computed as of the close of the taxable year without diminution by reason of any distributions made during the taxable year), without regard to the amount of the earnings or profits at the time the distribution was made. If the distribution is in property other than

money, the amount of such distribution is the fair market value of the property distributed.

(2) *Not subject to withholding.*—The term "dividends" shall not include any dividends paid by a foreign corporation which is not engaged in trade or business in the United States. In any case where the tax is not withheld from dividends paid because the payor is of the opinion that the distribution is nontaxable, the Withholding Agent must file Form 1095 in accordance with the instructions thereon.

E. COUPON BOND INTEREST.—(1) *Subject to withholding.*—Coupon bond interest means the amount paid for the use of money loaned as evidenced by a contract in writing specified in any bond, debenture, note, certificate, or other evidence of indebtedness, with interest coupons or in registered form, issued by any domestic corporation (which includes associations, joint-stock companies, and insurance companies), by any foreign corporation engaged in trade or business in the United States, or by the Federal Government or any agency or instrumentality thereof with respect to such obligations issued on or after March 1, 1941, or which otherwise may be subject to Federal income tax.

(2) *Not subject to withholding.*—(a) Interest on obligations issued by States or political subdivisions thereof, the District of Columbia, or United States possessions.

(b) Interest on obligations of the United States or any agency or instrumentality thereof which are totally exempt from Federal income tax. Such obligations are (I) Obligations issued prior to March 1, 1941, under Federal Farm Loan Act, or under such Act as amended; (II) Obligations of the United States issued on or before September 1, 1917; (III) Treasury Notes (other than National Defense Series), Treasury Bills, and Treasury Certificates of Indebtedness issued prior to March 1, 1941; and (IV) United States Savings Bonds and Treasury Bonds issued prior to March 1, 1941, not exceeding \$5,000 principal amount.

(c) Interest on obligations containing a tax-free covenant and issued prior to January 1, 1934.

F. REGISTERED BOND INTEREST.—(1) Subject to withholding; (2) Not subject to withholding.

(d) Interest on obligations issued by a foreign government or any wholly owned instrumentality thereof or issued by a foreign corporation which is not engaged in trade or business in the United States.

G. COLLECTION OF TAX.—The Withholding Agent should deduct the tax at the time payment is made. If he does not do so, he becomes liable for this tax from his own property. Tax so deducted is a special fund held in trust for the United States and must be accumulated until the time fixed for the filing of the return and the payment of the tax. (See Instruction B, above.) Such tax must not be commingled with the other funds of the Withholding Agent or used by him for his own purposes. The amount of the tax must be paid over to the collector of internal revenue on or before the last day of the month following the close of the quarter.

H. FINAL RETURNS.—Any person who ceases to be a Withholding Agent must file a final return on this form. He should write the words "Final Return" at the top of the form, show the period covered by the return from the beginning of the quarter to the last date on which he was, in law and/or in fact, such Withholding Agent, and mail or deliver it to the collector of internal revenue accompanied by a remittance to cover all tax due to such date so that it will reach the office of the collector on or before the last day of the following month. He should also attach to the return, in duplicate, as a part thereof, a statement showing why he no longer will occupy the status of a Withholding Agent, the name and address of his successor, if any, as such, and where the records referred to in Instruction H below, will be kept, together with the name of the custodian thereof.

I. RECORDS TO BE MAINTAINED.—Every person required to withhold any tax must keep sufficiently accurate and complete records of the names and addresses of payees and the amounts paid to each payee under each of the three classes of payments subject to withholding, to insure the preparation of a proper and complete return on this form at the time required and to enable the collector to verify the amount of tax due.

J. INTEREST AND PENALTIES.—If the tax is not paid when due, interest accrues at the rate of 6 percent per annum. If the return is not filed on time, 5 percent to 25 percent of the tax (but not less than \$5) will be added to the tax unless the Withholding Agent establishes that a reasonable cause exists for the delinquency. The amount to be added to the tax depends on the duration of the delinquency. Penalties are also imposed by law for willful failure to collect, pay, or truthfully

WITHHOLDING TAX

account for tax, furnish receipts, keep records, make returns, or for filing false or fraudulent returns.

Form W-1
U. S. Treasury Department
Internal Revenue Service

EMPLOYEE'S EXEMPTION CERTIFICATE, ANNUAL RECEIPT FOR TAX WITHHELD AT THE SOURCE, AND EMPLOYER'S RETURN OF INFORMATION

(Under Supplement U of the Internal Revenue Code)

(Employer make all entries below)	(Employees make all entries below)
<p>Name and address</p>	<p>Name Social Security No. Address Check whether wages for regular services <input type="checkbox"/> or casual services Collector's office in which employee will file income tax return (City) (State)</p>
<p>1. Total wages paid to the employee named above during the year 1940... \$.....</p> <p>2. Tax withheld..... \$.....</p> <p>This is to certify that to the best of my (our) knowledge and belief the information entered above is correct.</p> <p>..... (Name of employer)</p> <p>..... (Signature and title)</p> <p>....., 194... (Date)</p>	<p>3. Check (✓) applicable block below to show your status on the day this form is filed in.</p> <p>(a) Single (and not head of family) <input type="checkbox"/></p> <p>(b) Married but not living with husband or wife (and not head of family) <input type="checkbox"/></p> <p>(c) Married and living with husband or wife <input type="checkbox"/></p> <p>Other spouse receives wages for regular services <input type="checkbox"/> or casual services <input type="checkbox"/></p> <p>(d) Head of a family (a single person or a married person not living with husband or wife who exercises family control and supports closely connected dependent relative(s) in one household) <input type="checkbox"/></p> <p>4. Number of dependents receiving chief support from you who are under 18 years of age or incapable of self-support because of mental or physical defects <input type="checkbox"/></p> <p>5. Name in which your income tax return will be filed if different from name given above</p> <p>6. If married, state (a) name of husband or wife if he or she is employed or has other income ; (b) collector's office in which his or her separate income tax return will be filed, if such person files a separate return (City) (State)</p> <p>I certify that to the best of my knowledge and belief the information entered above is correct.</p> <p>....., 194... (Date)</p> <p>..... (Signature of employee)</p>

INSTRUCTIONS

This form or its equivalent must be executed in duplicate by the employee and furnished to his employer on or before the close of the first pay-roll period (1) in respect of which withholding is required, (2) in each calendar year thereafter, (3) after the commencement of employment with a different employer, and (4) on or before the close of any payroll-period during which a change in employee's status occurs. (The penalty for willful failure to supply the information or willfully supplying false or fraudulent information is in each instance a fine of not more than \$500, or imprisonment for not more than 1 year, or both.)

The employee will make no entries as items 1 and 2, such data being entered by the Withholding Agent.

Duplicate copy (or copies), properly completed by the employer, will be given to the employee (a) upon termination of employment if prior to the end of the calendar year or (b) at the close of the year.

If the employee is entitled to a refund on account of excess withholding, he should attach to his individual income tax return when filed the duplicate copy (or copies) given him by his employer at the close of the year or upon termination of employment.

The employer must file the original copy of this form, completely filled in, with his return on Form W for the fourth quarter of the calendar year in which the withholding occurred or with his final return, if filed prior to the date provided for the filing of a fourth-quarter return.

U. S. Treasury Department
Internal Revenue Service
Form W-2

RETURN OF INFORMATION—EXEMPTION CERTIFICATE

DIVIDENDS, INTEREST ON REGISTERED BONDS PAID TO INDIVIDUALS, FIDUCIARIES,
DOMESTIC OR RESIDENT CORPORATIONS, OR EXEMPT ORGANIZATIONS

(Under Supplement U of the Internal Revenue Code)

Name and
address of
payor

Name and
address of
payee

RETURN OF INFORMATION

OWNER'S EXEMPTION CERTIFICATE

(Payor corporation make all entries below)

(Owner make all entries below)

- 1. Total dividends or registered bond interest paid above-named owner during the year 194..... \$.....
- 2. Tax withheld..... \$.....

This is to certify that to the best of my (our) knowledge and belief the information entered above is correct.

This is to certify that the owner in whose behalf exemption is claimed is: (Check (✓) appropriate block below:)

- A. An individual, fiduciary, with gross income for the taxable year not in excess of personal exemption and credit for dependents.....
- B. A domestic or resident corporation, or an organization exempt from taxation under chapter I of the Internal Revenue Code.....

..... 194 .
(Date)

..... 194 .
(Date)

INSTRUCTIONS

This form must be prepared annually by the Withholding Agent in every case where a dividend or interest on registered bonds has been paid to an individual owner (other than a nonresident alien) and such owner has not filed an exemption certificate. The Withholding Agent should indicate on forms filed by owners claiming exemption the total dividends paid to such owners and that no tax has been withheld from such payments.

The Withholding Agent must file with his return on Form W for the last quarter of the year Forms W-2 on which owners have claimed exemption and Forms W-2 prepared by the Withholding Agent.

This form should be executed and filed with the payor corporation annually by (1) an individual (including estates and trusts) with gross income (or if such individual is a married person, the gross income of such individual and his or her spouse) for the taxable year not in excess of the personal exemption and credit for dependents, and (2) a domestic or resident corporation, or an organization holding a notice from the Bureau of Internal Revenue that it is exempt from Federal income tax under chapter 1 of the Internal Revenue Code.

The executed form should be filed with the payor corporation 30 days prior to the payment of the first dividend or due date of interest on registered bonds, on (1) stock or registered bonds held at the beginning of the year and (2) stock or registered bonds acquired during the year.

Form W-3
U. S. Treasury Department
Internal Revenue Service

OWNERSHIP CERTIFICATE AND RECEIPT FOR TAX WITHHELD AT SOURCE—C
COUPON BOND INTEREST

(Under Supplement U of the Internal Revenue Code)

<p style="text-align: center;">OWNER OF BONDS (Print name)</p> <p>Name and address</p>	<p style="text-align: center;">OBLIGOR OF BONDS</p> <p>Name and address</p>												
<p>Check (✓) your classification below:</p> <p>I. Individual or fiduciary whose gross income-- (a) Exceeds personal exemption and credit for dependents. <input type="checkbox"/> (b) Does NOT exceed personal exemption and credit for dependents. <input type="checkbox"/></p> <p>II. Partnership or common trust fund. <input type="checkbox"/></p> <p>III. Domestic or resident corporation, or exempt organization. <input type="checkbox"/></p>	<p>Name of bond.....</p> <p>Date of issue.....</p> <p>Date interest due.....</p> <p>Date interest paid.....</p>												
<p>OBLIGATIONS</p>	<table border="1" style="width: 100%;"> <tr> <th style="width: 60%;">Gross amount of interest</th> <th style="width: 10%;">Tax withheld</th> <th style="width: 30%;">Net amount paid</th> </tr> <tr> <td style="border-top: 1px dashed black;">1. Issued by corporation without tax-free covenant, or after December 31, 1933, with tax-free covenant.....</td> <td style="border-top: 1px dashed black;">\$.....</td> <td style="border-top: 1px dashed black;">\$.....</td> </tr> <tr> <td style="border-top: 1px dashed black;">2. (a) Issued by the United States on or after March 1, 1941; (b) United States savings bonds and Treasury bonds issued before Mar. 1, 1941, owned in principal amount aggregating more than \$5,000; (c) Treasury notes of the national defense series; (d) issued by any agency or instrumentality of the United States, except obligations issued under Federal Farm Loan Act prior to Mar. 1, 1941.....</td> <td style="border-top: 1px dashed black;"></td> <td style="border-top: 1px dashed black;"></td> </tr> <tr> <td style="border-top: 1px dashed black;">3. (a) Issued by the United States prior to Mar. 1, 1941, except United States savings bonds and Treasury bonds owned in principal amount aggregating more than \$5,000 and Treasury notes of the national defense series; (b) issued under Federal Farm Loan Act prior to Mar. 1, 1941.....</td> <td style="border-top: 1px dashed black;"></td> <td style="border-top: 1px dashed black;">XXXX</td> </tr> </table>	Gross amount of interest	Tax withheld	Net amount paid	1. Issued by corporation without tax-free covenant, or after December 31, 1933, with tax-free covenant.....	\$.....	\$.....	2. (a) Issued by the United States on or after March 1, 1941; (b) United States savings bonds and Treasury bonds issued before Mar. 1, 1941, owned in principal amount aggregating more than \$5,000; (c) Treasury notes of the national defense series; (d) issued by any agency or instrumentality of the United States, except obligations issued under Federal Farm Loan Act prior to Mar. 1, 1941.....			3. (a) Issued by the United States prior to Mar. 1, 1941, except United States savings bonds and Treasury bonds owned in principal amount aggregating more than \$5,000 and Treasury notes of the national defense series; (b) issued under Federal Farm Loan Act prior to Mar. 1, 1941.....		XXXX
Gross amount of interest	Tax withheld	Net amount paid											
1. Issued by corporation without tax-free covenant, or after December 31, 1933, with tax-free covenant.....	\$.....	\$.....											
2. (a) Issued by the United States on or after March 1, 1941; (b) United States savings bonds and Treasury bonds issued before Mar. 1, 1941, owned in principal amount aggregating more than \$5,000; (c) Treasury notes of the national defense series; (d) issued by any agency or instrumentality of the United States, except obligations issued under Federal Farm Loan Act prior to Mar. 1, 1941.....													
3. (a) Issued by the United States prior to Mar. 1, 1941, except United States savings bonds and Treasury bonds owned in principal amount aggregating more than \$5,000 and Treasury notes of the national defense series; (b) issued under Federal Farm Loan Act prior to Mar. 1, 1941.....		XXXX											

I certify that to the best of my knowledge and belief the information entered hereon is correct.

(Signature of owner, trustee, agent)

(Address of trustee or agent)

(Fiduciaries must disclose name of estate or trust; nominees, name of actual owner)

INSTRUCTIONS

This form is for use by a citizen or resident individual, fiduciary, partnership, a domestic or resident corporation, or an organization exempt from Federal income tax under chapter 1 of the Internal Revenue Code, in connection with interest on obligations of the United States or any agency or instrumentality thereof or bonds of a domestic or resident corporation, with coupons attached, except bonds containing a tax-free covenant which were issued prior to January 1, 1934. Form 1000 will continue to be used in reporting interest payments on such bonds containing tax-free covenants.

In the case of coupon bonds, this form, properly executed in duplicate by the bond owner, must be presented at the time coupons are cashed. The duplicate, stamped by the payor, will be returned to the person presenting the coupons to be cashed; the original will accompany the coupons to the withholding agent.

The withholding agent must file the original with his next quarterly return on Form W or his final return on Form W if that be the next return filed.

WITHHOLDING TAX

Form W-4
 U. S. TREASURY DEPARTMENT
 Internal Revenue Service

RECEIPT FOR TAX WITHHELD AT SOURCE FROM EMPLOYEE OR STOCKHOLDER, OR OWNER OF REGISTERED BONDS

(Under Supplement U of the Internal Revenue Code)

Name of employee or stockholder, or owner of registered bonds _____
 Social security number, if employee _____
 Address _____
 Pay period, from _____, 194____, to _____, 194____
 Total wages \$_____; amount of tax withheld \$_____
 Amount of dividend or registered bond interest \$_____; date paid _____, 194____;
 amount of tax withheld \$_____.

The undersigned certifies that the amount shown above has been withheld for Federal tax purposes from the wages or dividends of the employee or stockholder named hereon with respect to the pay period or dividend indicated.

 (Name of payor)

 (Signature and title)

_____, 194____
 (Date)

INSTRUCTIONS

Every person having in his employ less than eight employees must furnish with each payment of wages subject to withholding a receipt on this or a substantially identical form containing all the information called for hereon with respect to the wages then being paid.

Every domestic corporation or other paying agent paying dividends or registered bond interest from which the tax has been withheld must transmit to the stockholder or bondholder concerned a receipt on this or a substantially identical form containing all of the information called for hereon with respect to the dividend or interest then being paid.

Form W-5
 U. S. Treasury Department
 Internal Revenue Service

RECONCILIATION OF TAX WITHHELD AT SOURCE AND REPORTED ON FORM W AND FORMS W-1, W-2, AND W-3

(Under Supplement U of the Internal Revenue Code)

 (Name of withholding agent)

 (Street address)

 (City)

 (State)

1. Item No.	2. Quarter ended	Tax withheld from--			6. Total of amounts in cols. 3, 4, and 5
		3. Wages (Forms W-1)	4. Dividends (Forms W-2)	5. Bond interest (Forms W-3)	
1.	Mar. 31, 194	\$.....	\$.....	\$.....	\$.....
2.	June 30, 194	.....	.....	.....	.....
3.	Sept. 30, 194	.....	.....	.....	.....
4.	Dec. 31, 194	.....	.....	.....	.....
5.	Totals.....	\$.....	\$.....	\$.....	\$.....
6.	Total tax reported on Forms W-3 previously transmitted.....				\$.....
7.	Total tax reported on Forms W-1, W-2, and W-3 transmitted with Form W for last quarter (or final period).....				\$.....
8.	Total of items 6 and 7.....				\$.....

_____, 194____
 (Date)

 (Signature and title)

WITHHOLDING TAX

INSTRUCTIONS

The purpose of this form is to reconcile the amount of tax withheld during the calendar year and reported on the quarterly returns (Form W) with the amount of tax withheld and reported on Forms W-1, W-2, and W-3. The amount entered as item 5, column 6, should agree with the amount entered as item 8. Any adjustment necessary to effect a reconciliation should be made through the use of item 3, Form W, for the last quarter (or final period) and a complete explanation furnished as to the nature of such adjustment.

This form should accompany Form W covering the last quarter (or final period), together with return Forms W-1 and W-2 for the entire year (or final period) and Forms W-3 for the last quarter (or final period).

There should be attached to this form a list or adding machine tape of the amounts reported on Forms W-1, W-2, and W-3, corresponding with the amount to be entered as item 7 of this form.

Form W-6
Treasury Department
Internal Revenue Service

RECORD OF OWNERSHIP OF STOCK FOR USE BY RECORD OWNERS TO DISCLOSE TO THE COLLECTOR THE ACTUAL OWNER OF STOCK AND TO FURNISH ACTUAL OWNER A RECEIPT FOR TAX WITHHELD FROM DIVIDENDS

RECORD OWNER		ACTUAL OWNER (OR PAYEE)	
Name		Name	
Street		Street	
City	State	City	State

Number of shares: Common stock Preferred stock
Dividends received during 194... , \$ Tax withheld \$
Issuing corporation
Address

I HEREBY CERTIFY that the actual owner of (or the payee of the dividends or owner of registered bonds on) the stock or registered bonds described above is to the best of my knowledge and belief the person named hereon, and that such owner has been advised to include the dividends or registered bond interest reported above in his income tax return for the current year, (or that such payee has been advised to execute Form 1087 to disclose the name and address of the actual owner).

Date, 194...

(Signature of record owner)

INSTRUCTIONS

When the person receiving a payment falling within the provisions of the Revenue Section is not the actual owner of the income received, the name and address of the actual owner or payee should be shown hereon. Dividends on stock or registered bond interest are prima facie the income of the record owner of the stock or bonds. Upon receipt of dividends or registered bond interest by a record owner, he should execute Form 1087 to disclose the name and address of the actual owner or payee. The original Form 1087 in duplicate should be filed with the Collector of Internal Revenue, for the district in which actual owner resides, not later than January 31, 1943 of the succeeding year and a copy furnished the actual owner as his receipt for tax withheld. Unless such a disclosure is made, the record owner will be held liable for any tax based upon such dividends.

Form 1099
Treasury Department
Internal Revenue Service

UNITED STATES INFORMATION RETURN FOR CALENDAR YEAR 1941

INSTRUCTIONS TO PAYORS

Prepare one of these forms for each payee in accordance with the instructions on return Form 1096.

Do not include payments to nonresident aliens reported on Form 1042.

Forward with return Form 1096 so as to reach the Commissioner of Internal Revenue, Returns Distribution Section, Washington, D. C., on or before February 15, 1942.

Copy of this form as filed with the Government should be furnished to the employee whose income is reported in first column to assist him in preparing his income tax return.

To WHOM PAID _____ Employee's social security number, if any _____
 (Full name and home address.) (If employee is a married woman, name of husband should be furnished.)

KIND AND AMOUNT OF INCOME PAID

Salaries, wages, fees, commissions, bonuses (if single \$750 or more, if married \$1,500 or more)	Interest on notes, mortgages, etc.	Rents and royalties	Other fixed or determinable income	Foreign items (\$750 or more)	Dividends (\$100 or more) (total paid, including amounts claimed non-taxable)
	(\$750 or more aggregate amount of above items)				
\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
<input type="checkbox"/> Single <input type="checkbox"/> Married					

By whom paid _____ (Name and address)

INCOME TAX RETURN REQUIREMENTS

An income tax return must be filed with the United States Collector of Internal Revenue for the district in which you live, on or before March 15, 1942, if you are a single person or a married person not living with husband or wife, and if the total payments reported on this form when added to your income from all other sources amount to \$750 or more.

If you are a married person living with husband or wife, a return must be filed if the total payments reported on this form when added to your income from all other sources amount to \$1,500 or more, or if the combined total income of husband and wife amounts to \$1,500 or more.

An income tax return form may be obtained from Collector of Internal Revenue for your district.

Optional Form 1040A (simplified form) may be filed if your gross income is not more than \$3,000 and is derived only from sources indicated thereon; otherwise Form 1040 should be filed.

PROPOSED CHANGES IN PROCEDURE FOR COLLECTION OF INCOME TAX AT SOURCE ON WAGES AND SALARIES, BOND INTEREST, AND DIVIDENDS

This memorandum summarizes the Treasury's proposals for changes in the system of collection at source contained in H. R. 7378. Most of the proposed changes will involve changes in the bill; some of the proposed changes, however, are merely modifications of the administrative procedure as previously described to the House Ways and Means Committee and will involve no change in the law.

A. WAGES AND SALARIES

1. Optional method of determining amount of tax to be withheld.

H. R. 7378 specifies that the employer compute the amount to be withheld by subtracting the appropriate withholding deduction (see sec. 426 (b) (1)) from the wage paid, and multiplying the balance by the withholding tax rate (5 percent in 1943, 10 percent in 1944 and thereafter).

The Treasury proposes that an alternative method be embodied in the bill to be used at the employer's option. This alternative method employs simplified tax tables giving the amount of tax to be withheld for various wage brackets and for each marital and dependency status. Table 1 is an example of such a table. It is for a weekly pay period. Similar tables would be made available for bi-weekly, semimonthly, and monthly pay periods.

The use of these tax tables enables employers to avoid any computation in arriving at the amount to be withheld. The exemption status can be indicated on the pay-roll record, and the tax determined from the gross wage or salary by use of the table. This method not only reduces the work for many employers;

it also greatly reduces the needs for machines. Out of 454 employers interviewed, almost two-thirds expressed a preference for the table method rather than the method now contained in H. R. 7378.

2. Withholding deduction certificates.

(a) *From transient employees.*—H. R. 7378 requires the employer to obtain a "withholding deduction certificate" from every employee (sec. 431). This certificate would indicate the employee's status for the purpose of computing his exemption status. This requirement is burdensome and unnecessary for transient low-paid employees—for example, extra waiters hired by a hotel for a banquet, persons hired for a day or two by a city to aid in snow removal, and the like. Consequently the Treasury proposes that no withholding deduction certificates be required for persons hired and employed for less than 1 week and paid a total of less than \$11. These persons would not in any event be subject to withholding of tax since their wages are less than the lowest exemption.

(b) *From employees generally.*—The original procedure contemplated that the withholding deduction certificate filed by the employee at the beginning of the year would also be used as the return of information at the end of the year, and the duplicate as a receipt to the employee. Under this procedure the employers would keep the withholding deduction certificates and at the end of the year enter on them the total amount of wages paid and the amount of tax withheld.

Several employers have indicated that they would prefer to use two separate forms, i. e., to have the withholding deduction certificate serve solely to notify them of the employee's status and to fill out separate information returns in duplicate at the end of the year in the same way as they now prepare the information returns on Form 1099. The Treasury recommends that employers be permitted to use this procedure. This change requires no modification of the bill.

3. Receipt to employee terminating employment.

H. R. 7378 requires that an employee whose employment is terminated shall be given a receipt for tax withheld on the day on which the last payment of wages is made to him. The receipt must show the total wages paid to the employee during the calendar year and the total amount of tax withheld.

Some employers, particularly the railroads, have indicated that it would be difficult for them to comply with this requirement because the records needed to prepare the receipt may not be readily available or may not be current. The Treasury therefore recommends that this requirement be relaxed either by allowing all employers 30 days after termination of employment within which to give a receipt or by giving the Commissioner the power to waive the requirement for certain employers.

4. Change in marital or dependency status.

H. R. 7378 requires that if an employee notifies an employer of change in his marital and dependency status by filing an amended withholding deduction certificate, the employer must give effect to the change at the beginning of the next pay-roll period. Some employers have indicated that it might be difficult to give effect to the change in exemption status so rapidly, because of the time needed to alter records, etc. Consequently, the Treasury recommends that the change be given effect for a pay-roll period beginning not more than 30 days after the employer has been notified of the change in exemption status. This will give the employer a minimum of 30 days within which to make the change.

B. DIVIDENDS

1. Receipt for tax withheld.

H. R. 7378 requires that a receipt be given with each dividend payment. In addition, under the contemplated procedure, the payor corporation would send the Bureau once a year a statement showing the amount of dividends paid each person and the amount of tax withheld. This annual statement would replace the present information return Form 1099, now required for every person paid more than \$100 in dividends.

In order to simplify the task of the payor corporation, the Treasury proposes that the payor corporation be given the option of sending each stockholder an annual receipt instead of a receipt with each dividend payment. This annual receipt could take the form of a duplicate of the information return filed with the Bureau. We are informed by some dividend payors that the annual receipt would be much simpler for them than the receipt with each dividend payment. For example, one large dividend payor has indicated that the substitution of an annual receipt for a quarterly receipt would halve the additional expense imposed by collection at source.

2. *Exemption certificate.*

Stockholders whose gross income is less than their personal exemption and credit for dependents are given the privilege under H. R. 7378 of filing a certificate to that effect with the withholding agent, who is then required not to withhold the tax. The bill gives the Commissioner authority to specify the time at which such exemption certificates may be filed. It is proposed to require that the certificate be honored by the withholding agent only if filed before the record date of the dividend. This requires no change in the bill, but is mentioned because some dividend payors have expressed apprehension that this requirement might not be made.

3. *Corporations and exempt organizations.*

H. R. 7378 appears to place the responsibility on the withholding agent to determine whether a stockholder is a corporation or exempt organization from which no tax should be withheld. It is the intention that the responsibility be placed on the stockholder to notify the payor corporation of its exempt status by filing an exemption certificate, and that the payor corporation be permitted to withhold the tax if it has not received an exemption certificate. A minor change in the bill may be required.

4. *Credit unions, building and loan associations, etc.*

It is recommended that dividends paid by credit unions, savings and loan associations, building and loan associations, cooperative banks, and farm cooperatives be exempted from withholding. These types of dividends are typically paid in small amounts to a very large number of persons. In consequence, they involve unjustified compliance and administrative burdens. Further, these types of dividends are similar to interest on savings deposits, which was exempted from withholding in order to avoid compliance and administrative problems.

5. *The nominee problem.*

Considerable apprehension has been expressed that the collection-at-source system contained in H. R. 7378 would seriously threaten the "nominee" and "street name" systems of registration of corporate stocks. The proposed treatment of the nominee problem makes this apprehension groundless. The actual owner of the stock, if entitled to exemption, has the choice of continuing to have his stock registered in the name of a nominee, in which case he will be unable to claim exemption, or of registering the stock in his own name. If he chooses the former, he will have the tax withheld, to be refunded the following year. The payor corporation will withhold from the nominee, giving the nominee a receipt for the tax withheld. The nominee, in turn, will prepare in duplicate forms similar to the present Form 1087, showing the actual owner, the amount of dividends received on his account, and the amount of tax withheld. He will send one copy of this form to the Bureau of Internal Revenue, as he now does, and one copy to the actual owner. This duplicate will serve as a receipt to the actual owner. Minor changes in the bill may be required to permit this treatment.

C. BOND INTEREST

1. *Interest on Government discount bonds.*

It is proposed to modify H. R. 7378 as to exempt from withholding discount bonds issued by Federal, State, or local governments. This exemption will cover series E and F savings bonds.

2. *Registered bonds.*

The procedure originally developed contemplated that interest on registered bonds would be treated like coupon bond interest. On further investigation it seems simpler to treat such interest like dividends. This will require no change in the bill.

3. *Interest on coupon bonds.*

It has been the intention throughout that the bondholder would fill out in duplicate an ownership certificate, similar to the present Form 1000, when he cashes the coupon; and that the initial paying bank would stamp the duplicate copy of the ownership certificate "received," returning it to the bondholder as his receipt. However, this procedure would not be possible under H. R. 7378, since the obligor is required to issue the receipt. It is therefore proposed to change the bill to permit the initial paying bank to issue the receipt. The stamping of the duplicate ownership certificate will not impose any obligation on the initial

WITHHOLDING TAX

paying bank. It will merely certify that the bank received the coupon and the accompanying ownership certificates.

D. RETURNS BY WITHHOLDING AGENT

H. R. 7378 requires the withholding agent to file a return and remit the tax withheld on or before the last day of the month following each quarter. This same requirement would, under the bill as now drawn, apply to the return for the last quarter of each calendar year, which must be accompanied by the annual returns of information for individuals from whom tax has been withheld. Some employers have asked for a longer period within which to file this final return for each calendar year. This request seems entirely reasonable, especially since the existing information returns on Form 1099 are not due until February 15. The Treasury therefore recommends that the bill be changed to give withholding agents until February 15 to file the final returns for each calendar year.

5-percent withholding tax, weekly basis

Number of dependents....	Single persons, not heads of families						Married person with employed spouse					
	None	1	2	3	4	5 or more	None	1	2	3	4	5 or more
Weekly wage:												
0 to \$9.99.....												
\$10 to \$14.99.....	\$0.10						\$0.20					
\$15 to \$19.99.....	.30						.50					
\$20 to \$24.99.....	.60	\$0.10					.70	\$0.30				
\$25 to \$29.99.....	.80	.40					1.10	.70	\$0.20			
\$30 to \$39.99.....	1.20	.80	\$0.30				1.60	1.20	.70	\$0.30		
\$40 to \$49.99.....	1.70	1.30	.80	\$0.40			2.10	1.70	1.20	.80	\$0.40	
\$50 to \$59.99.....	2.20	1.80	1.30	.90	\$0.50	\$0.10	2.60	2.20	1.70	1.30	.90	\$0.50
\$60 to \$69.99.....	2.70	2.30	1.80	1.40	1.00	.60	3.10	2.70	2.20	1.80	1.40	1.00
\$70 to \$79.99.....	3.20	2.80	2.30	1.90	1.50	1.10	3.60	3.20	2.70	2.30	1.90	1.50
\$80 to \$89.99.....	3.70	3.30	2.80	2.40	2.00	1.60	4.10	3.70	3.20	2.80	2.40	2.00
\$90 to \$99.99.....	4.20	3.80	3.30	2.90	2.60	2.10	4.60	4.20	3.70	3.30	2.90	2.60
\$100 to \$109.99.....	4.70	4.30	3.80	3.40	3.00	2.60	5.10	4.70	4.20	3.80	3.40	3.00
\$110 to \$119.99.....	5.20	4.80	4.30	3.90	3.60	3.10	5.60	5.20	4.70	4.30	3.90	3.60
\$120 to \$129.99.....	5.70	5.30	4.80	4.40	4.00	3.60	6.10	5.70	5.20	4.80	4.40	4.00
\$130 to \$139.99.....	6.20	5.80	5.30	4.90	4.50	4.10	6.60	6.20	5.70	5.30	4.90	4.50
\$140 to \$149.99.....	6.70	6.30	5.80	5.40	5.00	4.60	7.10	6.70	6.20	5.80	5.40	5.00
\$150 to \$159.99.....	7.20	6.80	6.30	5.90	5.50	5.10	7.60	7.20	6.70	6.30	5.90	5.50
\$160 to \$169.99.....	7.70	7.30	6.80	6.40	6.00	5.60	8.10	7.70	7.20	6.80	6.40	6.00
\$170 to \$179.99.....	8.20	7.80	7.30	6.90	6.50	6.10	8.60	8.20	7.70	7.30	6.90	6.50
\$180 to \$189.99.....	8.70	8.30	7.80	7.40	7.00	6.60	9.10	8.70	8.20	7.80	7.40	7.00
\$190 to \$199.99.....	9.20	8.80	8.30	7.90	7.50	7.10						

Number of dependents....	Married person with spouse not employed						Head of family					
	None	1	2	3	4	5 or more	None	1	2	3	4	5 or more
Weekly wage:												
0 to \$9.99.....												
\$10 to \$14.99.....												
\$15 to \$19.99.....												
\$20 to \$24.99.....												
\$25 to \$29.99.....	\$0.10						\$0.10	\$0.10				
\$30 to \$39.99.....	.40						.90	.40				
\$40 to \$49.99.....	.90	0.50	\$0.10				1.40	.90	\$0.50	\$0.10		
\$50 to \$59.99.....	1.40	1.00	.60	\$0.20			1.90	1.40	1.00	.60	\$0.20	
\$60 to \$69.99.....	1.90	1.50	1.10	.70	\$0.20		2.40	1.90	1.50	1.10	.70	\$0.20
\$70 to \$79.99.....	2.40	2.00	1.60	1.20	.70	\$0.30	2.90	2.40	2.00	1.60	1.20	.70
\$80 to \$89.99.....	2.90	2.50	2.10	1.70	1.20	.80	3.40	2.90	2.50	2.10	1.70	1.20
\$90 to \$99.99.....	3.40	3.00	2.60	2.20	1.70	1.30	3.90	3.40	3.00	2.60	2.20	1.70
\$100 to \$109.99.....	3.90	3.50	3.10	2.70	2.20	1.80	4.40	3.90	3.50	3.10	2.70	2.20
\$110 to \$119.99.....	4.40	4.00	3.60	3.20	2.70	2.30	4.90	4.40	4.00	3.60	3.20	2.70
\$120 to \$129.99.....	4.90	4.50	4.10	3.70	3.20	2.80	5.40	4.90	4.50	4.10	3.70	3.20
\$130 to \$139.99.....	5.40	5.00	4.60	4.20	3.70	3.30	5.90	5.40	5.00	4.60	4.20	3.70
\$140 to \$149.99.....	5.90	5.50	5.10	4.70	4.20	3.80	6.40	5.90	5.50	5.10	4.70	4.20
\$150 to \$159.99.....	6.40	6.00	5.60	5.20	4.70	4.30	6.90	6.40	6.00	5.60	5.20	4.70
\$160 to \$169.99.....	6.90	6.50	6.10	5.70	5.20	4.80	7.40	6.90	6.50	6.10	5.70	5.20
\$170 to \$179.99.....	7.40	7.00	6.60	6.20	5.70	5.30	7.90	7.40	7.00	6.60	6.20	5.70
\$180 to \$189.99.....	7.90	7.50	7.10	6.70	6.20	5.80	8.40	7.90	7.50	7.10	6.70	6.20
\$190 to \$199.99.....	8.40	8.00	7.60	7.20	6.70	6.30						

Source: Treasury Department, Division of Tax Research, Aug. 14, 1942.

Total amount of individual income tax payable in 1943 and 1944 under revenue bill of 1942 as passed by the House of Representatives

1. SINGLE PERSON, NO DEPENDENTS, EXEMPTION, \$500

A. AMOUNT PAYABLE IN 1943

[Income assumed to be same in 1942 and 1943]

Net income before personal exemption ¹	Total tax liability on 1942 income	Amount collected at source in 1943 (5 percent of income in excess of exemptions)	Total amount payable in 1943 (column 2+ column 3)	Effective rates	
				Total tax liability of 1942 on income (column 2)	Total amount payable in 1943 (column 4)
(1)	(2)	(3)	(4)	(5)	(6)
				Percent	Percent
\$550					
\$600	\$15	\$5	\$20	2.5	3.3
\$700	34	10	44	4.9	6.3
\$800	52	15	67	6.5	8.4
\$900	71	20	91	7.8	10.1
\$1,000	89	25	114	8.9	11.4
\$1,200	126	35	161	10.5	13.4
\$1,500	181	50	231	12.1	15.4
\$2,000	273	75	348	13.7	17.4
\$2,500	365	100	465	14.6	18.6
\$3,000	472	125	597	15.7	19.9
\$4,000	585	175	861	17.2	21.5
\$5,000	920	225	1,145	18.4	22.9
\$6,000	1,174	275	1,449	19.6	24.2
\$8,000	1,742	375	2,117	21.8	26.5
\$10,000	2,390	475	2,865	23.9	28.7
\$15,000	4,366	725	5,091	29.1	33.9
\$20,000	6,816	975	7,791	34.1	39.0
\$25,000	9,626	1,225	10,851	38.5	43.4
\$50,000	25,811	2,475	28,286	51.6	56.6
\$100,000	64,641	4,975	69,616	64.6	69.6
\$500,000	414,616	24,975	439,591	82.9	87.9
\$1,000,000	854,616	49,975	904,591	85.5	90.5
\$5,000,000	4,374,616	219,975	4,624,591	87.5	92.5

¹ Assuming that all income is received from sources subject to collection at source and assuming maximum earned income for purposes of the earned income credit.

Source: Treasury Department, Division of Tax Research, Aug. 18, 1942.

WITHHOLDING TAX

Total amount of individual income tax payable in 1943 and 1944 under revenue bill of 1943 as passed by the House of Representatives—Continued

1. SINGLE PERSON, NO DEPENDENTS, EXEMPTION \$500—Continued

B. AMOUNT PAYABLE IN 1944

(Income assumed to be the same in 1943 and 1944)

Net income before personal exemption ¹	Total tax liability on 1943 income	Credit for amount collected at source in 1943	Amount payable in 1944 on 1943 income (column 2—column 3)	Amount collected at source in 1944 (10 percent of income in excess of exemptions)	Total amount payable in 1944 (column 4—column 5)	Effective rates	
						Total tax liability on 1943 income (column 2)	Total amount payable in 1944 (column 6)
(1)	(2)	(3)	(4)	(5)	(6)	Percent	Percent
\$500							
\$700	\$15	\$5	\$10	\$10	\$20	2.5	3.3
\$700	34	10	24	20	44	4.9	6.3
\$900	52	15	37	30	67	6.5	8.4
\$900	71	20	51	40	91	7.8	10.1
\$1,000	89	25	64	60	114	8.9	11.4
\$1,200	126	35	91	70	161	10.5	13.4
\$1,500	181	50	131	100	231	12.1	15.4
\$2,000	273	73	198	150	348	13.7	17.4
\$2,500	365	100	265	200	465	14.6	18.6
\$3,000	472	125	347	250	597	15.7	19.9
\$4,000	686	175	511	350	861	17.2	21.5
\$5,000	920	225	695	450	1,145	18.4	22.9
\$6,000	1,174	275	899	550	1,449	19.6	24.2
\$8,000	1,742	375	1,367	750	2,117	21.8	26.5
\$10,000	2,390	475	1,915	950	2,865	23.9	28.7
\$15,000	4,366	725	3,641	1,450	5,091	29.1	33.9
\$20,000	6,616	975	5,641	1,950	7,791	34.1	39.0
\$25,000	9,626	1,225	8,401	2,450	10,851	38.5	43.4
\$50,000	25,811	2,475	23,336	4,950	28,286	51.6	56.6
\$100,000	64,641	4,975	59,666	9,950	69,616	64.6	69.6
\$500,000	414,616	24,975	389,641	49,950	439,591	82.9	87.9
\$1,000,000	854,616	49,975	804,641	99,950	904,591	85.5	90.5
\$5,000,000	4,374,616	249,975	4,124,641	499,950	4,624,591	87.5	92.5

¹ Assuming that all income is received from sources subject to collection at source and assuming maximum earned income for purposes of the earned income credit.

Source: Treasury Department, Division of Tax Research, Aug. 18, 1942.

Total amount of individual income tax payable in 1943 and 1944 under revenue bill of 1942 as passed by the House of Representatives—Continued

2. MARRIED PERSON, NO DEPENDENTS, EXEMPTION, \$1,200

A. AMOUNT PAYABLE IN 1943

[Income assumed to be same in 1942 and 1943]

Net income before personal exemption ¹	Total tax liability on 1942 income	Amount collected at source in 1943 (5 percent of income in excess of exemptions)	Total amount payable in 1943 (column 2+ column 3)	Effective rates	
				Total tax liability on 1942 income (column 2)	Total amount payable in 1943 (column 4)
(1)	(2)	(3)	(4)	(5)	(6)
				Percent	Percent
\$1,200					
\$1,300	\$13	\$5	\$18	1.0	1.4
\$1,400	30	10	40	2.1	2.9
\$1,500	48	15	63	3.2	4.2
\$1,600	66	20	86	4.1	5.4
\$1,800	103	30	133	5.7	7.4
\$2,000	140	40	180	7.0	9.0
\$2,500	232	65	297	9.3	11.9
\$3,000	324	90	414	10.8	13.8
\$4,000	532	140	672	13.3	16.8
\$5,000	746	190	936	14.9	18.7
\$6,000	992	240	1,232	16.5	20.5
\$8,000	1,532	340	1,872	19.2	23.4
\$10,000	2,152	440	2,592	21.5	25.9
\$15,000	4,052	690	4,742	27.0	31.6
\$20,000	6,452	940	7,392	32.3	37.0
\$25,000	9,290	1,190	10,480	36.9	41.6
\$50,000	25,328	2,440	27,768	50.7	55.5
\$100,000	64,060	4,940	69,000	64.1	69.0
\$500,000	414,000	24,940	438,940	82.8	87.8
\$1,000,000	854,000	49,940	903,940	85.4	90.4
\$5,000,000	4,374,000	249,940	4,623,940	87.5	92.5

¹ Assuming that all income is received from sources subject to collection at source and assuming maximum earned income for purposes of the earned income credit.

Source: Treasury Department, Division of Tax Research, Aug. 17

Total amount of individual income tax payable in 1943 and 1944 under revenue bill of 1943 as passed by the House of Representatives—Continued.

2. MARRIED PERSON, NO DEPENDENTS, EXEMPTION, \$1,200—Continued

B. AMOUNT PAYABLE IN 1944

[Income assumed to be the same in 1943 and 1944]

Net income before personal exemption ¹	Total tax liability on 1943 income	Credit for amount collected at source in 1943	Amount payable in 1944 on 1943 income (column 2—column 3)	Amount collected at source in 1944 (10 percent of income in excess of exemptions)	Total amount payable in 1944 (column 4+column 5)	Effective rates	
						Total tax liability on 1943 income (column 2)	Total amount payable in 1944 (column 6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						Percent	Percent
\$1,200							
\$1,300	\$13	\$5	\$8	\$10	\$18	1.0	1.4
\$1,400	30	10	20	20	40	2.1	2.9
\$1,500	48	15	33	30	63	3.2	4.2
\$1,600	66	20	46	40	86	4.1	5.4
\$1,800	103	30	73	60	133	5.7	7.4
\$2,000	140	40	100	80	180	7.0	9.0
\$2,500	222	65	167	130	297	9.3	11.9
\$3,000	324	90	234	180	414	10.8	13.8
\$4,000	532	140	392	260	672	13.3	16.8
\$5,000	746	190	556	380	936	14.9	18.7
\$6,000	992	240	752	480	1,232	16.5	20.5
\$8,000	1,532	340	1,192	680	1,872	19.2	23.4
\$10,000	2,152	440	1,712	880	2,592	21.5	25.9
\$15,000	4,052	690	3,362	1,380	4,742	27.0	31.6
\$20,000	6,452	940	5,512	1,880	7,392	32.3	37.0
\$25,000	9,220	1,190	8,030	2,380	10,410	36.9	41.6
\$30,000	25,328	2,440	22,888	4,880	27,768	50.7	55.5
\$100,000	64,060	4,940	59,120	9,880	69,000	64.1	69.0
\$500,000	414,000	24,940	389,060	49,880	438,940	82.8	87.8
\$1,000,000	854,000	49,940	804,060	99,880	903,940	85.4	90.4
\$5,000,000	4,374,000	249,940	4,124,060	499,880	4,623,940	87.5	92.5

Source: Treasury Department, Division of Tax Research, Aug. 18, 1942.

¹ Assuming that all income is received from sources subject to collection at source and assuming maximum earned income for purposes of the earned income credit.

Total amount of individual income tax payable in 1943 and 1944 under revenue bill of 1943 as passed by the House of Representatives—Continued

3. MARRIED PERSON, 2 DEPENDENTS, EXEMPTION, \$1,200; DEPENDENT CREDIT, \$400

A. AMOUNT PAYABLE IN 1943

[Income assumed to be same in 1942 and 1943]

Net income before personal exemption ¹	Total tax liability on 1942 income	Amount collected at source in 1943 (5 percent of income in excess of exemptions)	Total amount payable in 1943 (column 2+ column 3)	Effective rates	
				Total tax liability on 1942 income (column 2)	Total amount payable in 1943 (column 4)
(1)	(2)	(3)	(4)	(5)	(6)
				Percent	Percent
\$1,500					
\$1,900					
\$2,000					
\$2,100	\$13	\$5	\$18	0.6	0.9
\$2,200	26	10	36	1.2	1.6
\$2,300	43	15	58	1.9	2.5
\$2,400	62	20	83	2.6	3.4
\$2,500	80	25	105	3.2	4.2
\$3,000	172	50	222	5.7	7.4
\$4,000	356	100	456	8.9	11.4
\$5,000	570	150	720	11.4	14.4
\$6,000	784	200	984	13.1	16.4
\$8,000	1,292	300	1,592	16.2	19.9
\$10,000	1,880	400	2,280	18.8	22.8
\$15,000	3,716	650	4,366	24.8	29.1
\$20,000	6,036	900	6,936	30.2	34.7
\$25,000	8,756	1,150	9,906	35.0	39.6
\$50,000	24,776	2,400	27,176	49.6	64.4
\$100,000	63,396	4,900	68,296	63.4	68.3
\$500,000	413,296	24,900	438,196	82.7	87.6
\$1,000,000	853,296	49,900	903,196	85.3	90.3
\$5,000,000	4,373,296	249,900	4,623,196	87.5	92.6

¹ Assuming that all income is received from sources subject to collection at source and assuming maximum earned income for purposes of the earned income credit.

Source: Treasury Department, Division of Tax Research. Aug. 18, 1942.

Total amount of individual income tax payable 1943 and 1930, under revenue bill of 1942 as passed by the House of Representatives—Continued

3. MARRIED PERSON, 2 DEPENDENTS, EXEMPTION, \$1,200; DEPENDENT CREDIT, \$400—Continued

B. AMOUNT PAYABLE IN 1944

[Income assumed to be the same in 1943 and 1944]

Net income before personal exemption ¹	Total tax liability on 1943 incor.	Credit for amount collected at source in 1943	Amount payable in 1944 on 1943 income (column 2—column 3)	Amount collected at source in 1944 (10 percent of income in excess of exemptions)	Total amount payable in 1944 (column 4+column 5)	Effective rates	
						Total tax liability on 1943 income (column 2)	Total amount payable in 1944 (column 6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						Percent	Percent
\$1,800							
\$1,900							
\$2,000							
\$2,100	\$13	\$5	\$8	\$10	\$18	0.6	0.9
\$2,200	26	10	16	20	36	1.2	1.6
\$2,300	43	15	28	30	58	1.9	2.5
\$2,400	62	20	42	40	82	2.6	3.4
\$2,500	80	25	55	50	105	3.2	4.2
\$3,000	172	50	122	100	222	5.7	7.4
\$4,000	356	100	256	200	456	8.9	11.4
\$5,000	570	150	420	300	720	11.4	14.4
\$6,000	784	200	584	400	984	13.1	16.4
\$8,000	1,292	300	992	600	1,592	16.2	19.9
\$10,000	1,890	400	1,490	800	2,290	18.8	22.8
\$15,000	3,716	650	3,066	1,300	4,366	24.8	29.1
\$20,000	6,036	900	5,136	1,800	6,936	30.2	34.7
\$25,000	8,756	1,150	7,606	2,300	9,906	35.0	39.6
\$50,000	24,776	2,400	22,376	4,800	27,176	49.6	54.4
\$100,000	63,396	4,900	58,496	9,800	68,296	63.4	68.3
\$500,000	413,296	24,900	388,396	49,800	438,196	82.7	87.6
\$1,000,000	853,296	49,900	803,396	99,800	903,196	85.3	90.3
\$5,000,000	4,373,296	249,900	4,123,396	499,800	4,623,196	87.5	92.5

Source: Treasury Department, Division of Tax Research. Aug. 18, 1942.

¹ Assuming that all income is received from sources subject to collection at source and assuming maximum earned income for purposes of the earned income credit.

Mr. PAUL. A great deal of what is in the memorandum I have put in the form of questions, but there are some estimated revenue effects that I think might be interesting to you.

The CHAIRMAN. We would be very glad to have you tell the committee about that, Mr. Paul.

Mr. RUMML. I was wondering whether I had anything additional that I ought to file.

There are two or three paragraphs in this article that is coming out in Fortune that I might clip, which introduces some new material that may or may not be helpful.

Senator CLARK. We want as full a record as possible. You understand that this subcommittee just consists of three members of the full committee, and when we go to rehash to the full committee what has been said in the subcommittee we want as full a record as possible.

(Supplemental information submitted by Mr. Ruml is as follows:)

How would the plan affect Treasury revenues in general? Each taxpayer would continue to pay income tax every year—the only difference being that under the plan he would be paying a tax on this year's income rather than on last year's income. The skipping of a year's tax actually occurs only when the taxpayer dies or ceases to receive income. This resulting loss of revenue would be spread over the years as the current generation of taxpayers cease to be taxpayers. The

loss of revenue is offset in some measure by recoveries that would be made under the estate tax and by the acceleration of payments of tax during periods of rising national income. The loss in revenue, spread perhaps over a period of 50 years, could be made up by slightly higher rates over this long period of time. It has been pointed out that the bulk of income taxes are paid by individuals 40 years old or over, and accordingly the bulk of the loss would occur during the first 30 years. If the net loss should in the aggregate be \$3,500,000,000 and a period of 35 years be taken as a representative period against which to project the loss, the per annum figure comes to only \$100,000,000. This is a small price to pay for the benefits of the plan, assuming it to be undesirable to attempt to recover the loss through slightly higher future rates.

DELINQUENCY TROUBLE AHEAD

Certain important advantages to the Government also help to balance any net loss in revenue. It is as desirable for the Government to collect taxes currently as it is for the taxpayer to pay them currently. The problem of delinquencies in tax collections, although it has not been serious in past years of higher exemption and lower rates, is certain to become serious in the future if taxes are not paid on a current basis. The collection problem has brought to the forefront the desire for some type of withholding tax. Yet a withholding tax implies current tax collections—it does not fit well into our present tax system.

Under the present system it is extremely difficult to institute a withholding tax without some amount of double taxation during the transition period. The difficulty lies in the fact that under the present rules taxpayers will be paying in 1943 a full year's tax on 1942 income. If withholding is instituted in 1943 against 1943 income, under the present system double taxation is inevitable.

Under the pay-as-you-go plan, the tax paid in 1943 would be a current tax on 1943 income, and accordingly amounts withheld against 1943 income could be directly credited against the installments of tentative tax that year. Further, since the amounts withheld in 1943 could be directly credited against the installments of tentative tax, the withholding rate could be set at the rate equivalent to the sum of the normal tax rate plus the lowest bracket surtax rate—19 percent, under the rates of the bill as it was passed by the House. Under the Treasury's proposal it would be impossible to set the withholding rate so high since full withholding rate superimposed on the present system involves an impossible tax burden during the transition years. Statements which have appeared charging that there will be loss of revenue unless we have double taxation are wholly misleading, since under pay-as-you-go rates can be made as high as consistent with maximum payment possibilities, and a far larger proportion can be withheld with increased certainty of collection.

One criticism that the plan does not meet should be mentioned and answered. It has been argued that under the pay-as-you-go plan there will be a certain number of individuals who will benefit unduly because of the fact that for them 1941 happened to be a year of unusually large income, larger than that of the years that preceded or that followed. Consequently, in selecting 1941 as the year to be omitted, they receive unintended benefits.

This is conceded. In answer, it can be pointed out that no tax program will cut with the precision of a surgical knife. Furthermore, these few individuals could not have built up their 1941 incomes with provision that this plan would be suggested or adopted, and therefore no deliberate manipulation of income for this purpose is involved. Insofar as there is inequity in the plan on this account, it resides in being too beneficial to some few taxpayers, but since the plan is beneficial to all and harmful to none, inequity of this kind, though regrettable, is an imperfection of a minor order.

An advantage of pay-as-you-go to which businessmen will be sensitive is the way the plan facilitates retirement and pension programs, which in recent years have been increasingly harmed by the existence of income-tax debt that must be paid during the first year of retirement.

I feel sure that something like pay-as-you-go will have to be done someday. The aggregate tax on 1941 income is lower than in the years immediately ahead of us and therefore the ultimate loss will be less. But even more important, there is a certain rough justice in making the change in a year when the exigencies of a national disaster have been the controlling factor in most of our incomes. Those of us who are getting less are mostly getting less because of the war; those of us who are getting more are mostly getting more because of the war. It would certainly seem wise to make the change now so that our 1942 taxes will

be proportional to our 1942 incomes, our 1943 taxes similarly proportional to our 1943 incomes, and so on in the future. Let us eliminate the anachronism of paying in this year income taxes on the incomes that were produced by the pre-war economic circumstances of 1941.

Senator CLARK. Have you any other suggestions, Mr. Ruml, in connection with this plan?

Mr. RUML. No, sir.

I have mentioned all the things that I had in mind to mention—the awkwardnesses and the difficulties.

I think that I have covered everything, both pro and con, that I know about.

Senator CLARK. We are very much obliged to you.

(Witness excused.)

Senator CLARK. Mr. Paul, will you tell us about the affect on the revenue? We are all very much concerned about that, of course.

Mr. PAUL. Well, I think this estimate that has just been made by Mr. Friedman is pertinent, and I think he might be in a better position to summarize it than I.

It is very difficult. There are various alternative methods of estimating—with collection at the source, and without, and so on.

Suppose you summarize that, Mr. Friedman.

STATEMENT OF MILTON FRIEDMAN, TREASURY DEPARTMENT

Mr. FRIEDMAN. Let me say, first, the basis on which this was estimated.

It is awfully difficult. In order to get a fair picture you have to carry the estimate over at least 3 years—1943, 1944, and 1945—and of course it is awfully hard, now, to estimate what income will be in '44 and '45, so I made up figures on the hypothetical assumption that income in '44 and in '45 will be identically the same as in '43, assuming '43, '44, and '45 to be all at the same level of income, to get a fair picture, and then I have estimates for three things: The bill as it was enacted by the House of Representatives; Mr. Ruml's plan without collection at source; and then a modification of Mr. Ruml's plan, which has two main changes: (1) It introduces collection at source at the full first bracket rate of 19 percent; (2) it adopts this proposal that Mr. Paul suggested, of canceling not the whole 1941 liability but rather part of 1942 liability, the part canceled being equal to 10 percent of the surtax net income, namely, the normal tax plus the first bracket of surtax under existing rates.

Those are the three sets of estimates: H. R. 7378; the unmodified Ruml plan; and a modified Ruml plan.

Now, one more point that I ought to mention: In taking into account withholding at source you have the problem that the withholding agents take it away from the employees and others, but don't turn it over to the Government until the quarter thereafter—that is, what they collect.

For example, during January, February, and March, they pay over to the Treasury in April, and so on.

Well, I made these estimates on the basis of what was withdrawn from the people, not what was turned over to the Government, because that, it seemed to me, was a more pertinent, important concept; so long as the employers have withdrawn it and were holding it in a special fund it is practically equivalent to having it in the Treasury.

Senator CLARK: So far as the employees are concerned anyway.

Mr. FRIEDMAN: And certainly so far as the inflationary problem is concerned.

Mr. PAUL: I think it is fairly called, from that standpoint, a collection.

Senator CLARK: I think so.

Mr. FRIEDMAN: In the calendar year '43 the actual collection of personal income tax, under the plan in H. R. 7378, would be approximately 9.4 billion dollars.

Mr. PAUL: Just a minute. I think it might be of help to the committee to have copies of this memorandum to examine. Do you have some copies of it?

Mr. FRIEDMAN: Yes; I think I have enough copies.

Mr. PAUL: So the committee may have copies before it.

Mr. FRIEDMAN: I think I have enough copies. I am sorry that these are not good carbons. It is on page 9 of the memorandum. (Mr. Paul hands copies to committee members.)

Mr. FRIEDMAN: The first table shows the aggregate collections on this basis for the three plans.

As you can see, in 1943 there would be 9.4 billion dollars under H. R. 7378, 9 billion dollars under the unmodified Ruml plan, and 9.8 billion dollars under the modified Ruml plan.

In 1944, 10.4 billion dollars under H. R. 7378, 10 billion under the unmodified Ruml plan, and 10.8 billion under the modified Ruml plan.

In 1945 there would be 9 billion under all three proposals, because by 1945 you would, in effect, have gotten over the hump, and all three would come down to the same thing.

The total revenues over the 3-year period would be highest under the modified Ruml plan, 0.8 billion less under H. R. 7378, and 1.6 billion less under the unmodified Ruml plan.

The table that follows shows how the amounts are broken down into the amount payable in quarterly installments, the amounts that would be collected at source, the deficiency payment because the liability hadn't been fully discharged under the 1942 tax, and finally the 1942 taxes under the plan suggested by Mr. Paul—that is, under the modified plan.

If I may introduce a few additional figures, Mr. Ruml's plan, which would cancel 1941 liabilities, would cancel about five billion dollars of liabilities.

Mr. Paul's suggestion, which would cancel the first bracket surtax on 1942 income would involve the cancelation of about 2.4 billion dollars and would involve the payment of 2.6 billion on account of '42 liabilities.

Total liabilities under existing law rates are \$9,000,000,000.

\$2,400,000,000 of that is made up of the normal tax and the first bracket surtax, and \$2,600,000,000 is made up of the higher surtax rates.

Under Mr. Paul's proposal that \$2,600,000,000 would still be due from the taxpayers, but they would have 2 years in which to pay it—1943 and 1944—making \$1,300,000,000 from that source in each of the 2 years.

In comparing the revenue effects under these plans, I think consideration should be given to the point that Mr. Paul raised about the approval of tax liabilities, so far as the effect on consumer spending is concerned.

The modified Ruml plan, although it yields \$800,000,000 more than H. R. 7378, that \$800,000,000 would probably be more than offset by the amount people had accrued on account of their liabilities, and which they would feel free to spend, so that in its effect on consumer spending, I think you have to take account not only of the actual cash receipts, but also this psychological effect on people who had accrued their tax liabilities and felt they were relieved of that debt and could now spend it.

You must also take into account the timing of the receipts.

As it happens, the three plans involve approximately the same timing over the 3-year period, so they are pretty much on a par, so far as that is concerned.

Mr. TARLEAU. Did you say the unmodified Ruml plan raised more?

Mr. FRIEDMAN. No; the modified Ruml plan—I am sorry. The unmodified Ruml plan raises less in revenue, and it also involves a psychological effect of accrual, so that it is clear that the unmodified Ruml plan would have less of an effect in withdrawing purchasing power from the market for consumer goods than either of the others, and that is why I confined my comments on that score—

Senator CLARK (interposing). To what extent do you think that taxpayers do accrue taxes?

Mr. FRIEDMAN. Unfortunately we have practically no information on that.

Senator CLARK. I have no statistics. I don't think I am personally acquainted with any one man who does that.

Mr. RUMML. I know one.

Senator CLARK. It is very sound business, but I personally don't know of one man who does it.

Mr. PAUL. I think there, Senator, we have to think of the accrual in the broader sense.

You may not think of an accrual item on your books, but you may have in mind the subsequent necessity of paying, and you may informally set aside funds.

I think quite a fair number of taxpayers do that. I don't know how many. Nobody knows. And I don't think that that is done very much in the lower brackets.

Therefore, the modified plan has the virtue at least of taking primary care of those people who haven't accrued.

Mr. RUMML. I wanted to ask Mr. Friedman a question as to whether the unmodified plan includes withholding.

Mr. FRIEDMAN. No; it doesn't.

Mr. RUMML. Then I think we need an intermediate computation, because I am in favor of the withholding thing being associated, because we need a modified withholding plan.

Mr. FRIEDMAN. The reason I didn't include one for the unmodified withholding was that, while you specified that withholding could be combined with your plan, you didn't set forth the details of it, and there are several different ways in which you can work withholding into it, and they affect the estimates, but I can, if you would like, get up an estimate of the unmodified Ruml plan on the same basis as the modified withholding.

Mr. RUMML. The reason I mentioned that is that I am afraid that, on examination, that too many of the important values in this plan will be lost, if the taxpayers have to pay this balance over a 2-year period.

I think it would probably be better to have a clean-cut situation, so that everyone is treated alike, and for that reason I would like to be able to examine the revenues under the pay-as-you-go plan, with collection at source, together with the modification suggested by Mr. Paul.

Senator CLARK. Well, I don't know whether it is possible to produce any statistics about this thing, on this particular point, but it has been occurring to me constantly, as to what extent the loss of 1941 taxes, which would be spread over, of course, a period of many years, until the taxpayers gradually died or ceased to be taxpayers, to what extent that would be offset by the certainty and promptness of collection of the taxes under the Ruml plan, as coupled with a withholding plan. It seems to me that would be a very large extent.

Mr. PAUL. There is not any question of the decided advantage of withholding, but I don't think your computation is possible.

Senator CLARK. But you don't have doubt that it would be a very considerable offset, do you?

Mr. PAUL. I think that the more we collect at the source the better off we are, from that standpoint, and I like the idea of collecting at the source immediately a high percentage of income—say 19 or 20 percent.

We might have to change the rate, because 19 would be a very inconvenient percentage to use for collection-at-source purposes, but there is a lot in that point.

Senator CLARK. My only thought about this modified Ruml plan is that, if you are going to adopt the Ruml plan at all, you don't want to lose what to my mind is the outstanding and primary advantage of it, of getting the whole country current with its tax debt, and relieving the country from that tax debt.

Mr. PAUL. I quite appreciate the importance of that, but a great deal of the value is achieved there, if you get current, so far as taxes are concerned, the people who have been primarily depending on current income to pay their last year's taxes.

A great many of these higher taxpayers have no problem; whether or not they have accrued taxes, they have capital, and they are in a position to meet the extraordinary demands of the new revenue act.

The average man, and, I quite freely admit, some people with substantial salaries, are not in a position to meet them. I only modified the plan on the principle that we take care of the real heart of the problem that way, and we don't, in effect, bestow what will certainly look to be—whether it can be justified logically or not—a very great favor, which looms in large proportion on high-bracket taxpayers.

Mr. FRIEDMAN. I think that comment can be supplemented with the statistical observation that the plan Mr. Paul outlined, which would cancel the first bracket normal and first bracket surtax, would relieve entirely from any problem of excess payments approximately over 18 million out of fewer than 20 million taxpayers in 1942.

That is, you would relieve, in that way, over 90 percent of all the people who would be subject to income tax under the present law on 1942 income, because, you see, that relieves from tax everybody who has less than \$2,000 of surtax net income, which means that his total net income, if he is married and no dependents, would be \$3,500.

If he is married and with one dependent, it would be \$3,900, and so on.

So that this figure I am giving you is a rough approximation, and isn't intended to be accurate, but it is of the right order of magnitude.

About 90 percent of all the people would have no excess whatsoever to pay.

Mr. RUMML. I think Mr. Friedman is speaking quantitatively. The problem, if solved on that basis, would give absolutely no relief to the problem of executive retirement, and getting up the efficiency of American industry, which I think is one of the paramount values of the plan.

Mr. PAUL. I agree with you there—I think that is a problem—but I must call attention to the other end of the problem, which is a psychological one.

If a lot of resentment is going to develop because we are giving a lot of gravy to these high bracket taxpayers we are going to hurt the morals of the country, too, because it is not only important to get a lot of those executives out of business, but it is also important to keep up the morale of the lower-grade employees in those businesses.

Mr. FRIEDMAN. And your objective would be entirely accomplished once you had passed this transition period. That is, the problem you raised would exist only while you were working off this excess.

These people are paying, in '42, installments on their income tax.

Senator CLARK. This double taxation, to my mind, is the great objection to the withholding tax.

Mr. FRIEDMAN. On a quantitative level, of course, as Mr. Ruml recognized, his initial plan involved double taxation to about the same quantitative magnitude as the aggregate collection at source.

The deficiency in 1943, because incomes were higher in '42 than in '41, would amount to about a billion dollars.

The aggregate amount that would be collected at source, at 5 percent during '43, would be a billion and a quarter dollars.

Of course, Mr. Ruml is entirely right that those two sums would come from different people.

The billion dollars would come from the people who had higher incomes in '42 than they had in '41.

The billion and a quarter dollars would come from all taxpayers.

So that there is a substantial difference in who pays that, but so far as the aggregate quantitative amounts are concerned, the two plans involve about the same additional tax payments in 1943.

Mr. PAUL. I don't know whether you developed—I wasn't able to hear your testimony—but I think all the facts ought to be put on the table, including the psychological facts. I think you have a feeling that there are psychological values here that are not merely arithmetical, and I would like to have you develop that.

Mr. RUMML. I don't like to go into the blue sky of psychological speculation, but I know that the perfectly extraordinary press that has resulted from this suggestion is due to the fact that people want to get out of debt, and they are terribly troubled about it, and it does seem to me that, if we could create a situation, and I am sure it could be done under this plan, where people would have the relief of going into the future on a current basis, and at the same time have an emphasis that we must be prudent and we must not squander our resources, that enormous national benefit can come from an attitude of that kind, which is far beyond the question of whether it is 0.4 billion dollars, more or less.

The period over which—as you pointed out, Mr. Senator—over which the loss would be taken is so long, and so much is going to happen in the next 30 to 50 years, that adjustments will be made, necessarily, as we go along, as to how much revenue we need from year to year.

Senator CLARK. Psychology almost certainly ought to be considered in the tax year. Some British Chancellor of the Exchequer once said: "Taxation consists of getting the greatest amount of money with the least amount of squawks."

Mr. PAUL. Do you think, if we cut down the squawking under this method we could raise the individual tax rates?

Senator CLARK. That is what I am trying to find out: How we can raise the greatest amount of money with the least amount of hardship on the taxpayer.

Are there any other suggestions?

(No response.)

Senator CLARK. Thank you very much, Mr. Ruml. The committee appreciates your coming down.

(Witness excused.)

(Memorandum submitted by Mr. Friedman is as follows:)

THE RUMI PLAN

1. THE PLAN

The plan presented by Beardsley Ruml before the Senate Finance Committee contemplates that each year the individual would pay (a) a tentative tax computed on the basis of the preceding year's income, plus or minus (b) the difference between his actual liability for the preceding year and the tentative tax paid in that year. Item (a) would be payable in instalments as at present; item (b) if positive, i. e., if a deficiency, would be payable in one lump sum on March 15. In order to get the system started, liabilities on 1941 incomes would be canceled, and the return filed in March 1942 would be considered a computation of a tentative tax on 1942 income.

For example, on March 15, 1943, an individual would compute his tax liability on 1942 income at the new higher rates enacted in this bill. Suppose this turned out to be \$1,000. Although exactly equal to the tax liability payable under present law, this amount is interpreted differently, being treated as a tentative tax on 1943 income rather than as an ultimate liability on 1942 income—it is item (a) above, and is payable in four equal instalments in 1943. Second, the individual would compute his tax liability on 1942 income at existing rates and exemptions. This would be his ultimate tax liability for 1942 income, say, \$525. Against this amount, the individual would credit the taxes actually paid in 1942, say \$400. (This assumes a lower income in 1941 than in 1942). The difference, or \$125 would be the deficiency payable in one lump sum on March 15, 1943. The total amount payable would therefore be \$1,125. To summarize:

Tentative tax on 1943 income.....	\$1,000
Final tax on 1942 income.....	\$525
Tentative tax paid on 1942 income.....	400
Deficiency payable on Mar. 15, 1943.....	125
Total payable in 1943.....	1,125

It is clear from this example that 1941 income drops out of the picture, involving a cancellation of 1941 liabilities. The actual tax paid on 1941 income is treated as a prepayment of 1942 tax liabilities. It is also clear that the application of the higher rates is postponed to 1943 income since the final 1942 liabilities are computed at the lower rates.

Essentially the same procedure is followed in future years. In 1944, for example, the amount payable would be equal to:

Liability on 1943 income at 1944 rates, plus liability on 1943 income at 1943 rates, minus liability on 1942 income at 1943 rates.

Mr. Ruml proposes a special relief provision for persons whose income from personal services fluctuates. Taxpayers whose income from personal services decreases would be permitted, upon proper certification, to compute their tentative tax on the basis of the lower income rather than the income of the preceding year. Similarly, taxpayers whose income from personal services rises would be permitted to compute their tentative tax on the higher income. This special treatment is not to be accorded income from property, although ordinarily income from property is probably more variable than income from personal services.

Mr. Ruml points out that collection at source can be incorporated into his plan. However, he has not outlined any specific procedure for doing so. This memorandum will therefore first consider the plan without taking into account collection at source.

2. CRITIQUE OF THE RUMI PLAN, WITHOUT COLLECTION AT SOURCE

(a) *Effect on the taxpayer.*—There are two related objectives that the title pay-as-you-go seems to imply: (a) Keeping the taxpayer out of debt to the Government, (b) synchronizing the payment of taxes and the receipt of income.

The Ruml plan in large measure accomplishes the first of these objectives; without collection at source and without the special relief provision for taxpayers with fluctuating income from personal services, it accomplishes the second objective hardly at all. In addition, it increases the burden on the taxpayer in filing out his return.

(i) *Keeping the taxpayer out of debt to the Government.*—The Ruml plan would accomplish this objective entirely, at least in a bookkeeping sense, for all individuals whose incomes were unchanged or declined from one year to the next; and would accomplish it very largely for individuals whose income rose. At the end of 1942, the individual whose 1942 income was the same as in 1941, would have all his liabilities paid up. True, he would still be obligated to pay the same amount in 1943 as at present. But if his income in 1943 were small or negligible, he would not be parting completely from his money; rather he would be lending it to the Government, engaging, as it were, in compulsory saving or in the compulsory purchase of a tax anticipation note. He would be building up an asset on which he presumably could borrow, an asset that would be redeemed in 1944. True, also, he would be required to engage in compulsory saving when he could least afford it, i. e., when his income had declined sharply; but this is certainly better than making him pay taxes that he will never get back.

The individual whose income has risen from 1941 to 1942 will not be entirely out of debt to the Government, but his debt will be only a fraction of what it is at present, since it would be equal solely to the excess of 1942 liabilities over the tentative tax paid in 1942.

(ii) *Synchronizing tax payments with receipt of income.*—The Ruml plan without collection at source and without the special relief provision admittedly does not involve the collection of liabilities simultaneously with the receipt of income. The tax payable in 1945, for example, would depend not at all on actual income in 1945, but solely on income in 1944 and the change in income from 1943 to 1944; i. e., actual tax payments in any year under the Ruml plan depend on the income history during the preceding 2 years.

Indeed, for persons with fluctuating incomes, the plan would make the payment problem worse rather than better. This is indicated by the following example, which assumes unchanged tax rates.

Year	Tax liabilities	Tax payment	
		Present method	Ruml plan
1942	\$10,000		
1943	15,000	\$10,000	
1944	10,000	15,000	\$20,000
1945	15,000	10,000	5,000
1946	10,000	15,000	20,000

In a year following an abnormally good year, the amount to be paid is high because, as at present, the tentative tax is figured on the preceding year's high income and, in addition, because there is substantial deficiency payment on the preceding year's income. Conversely, in a year following an abnormally bad year, the amount to be paid is low because the tentative tax is figured on a low income and because a tax credit is due for the preceding year.

In general, in any year following an increase in income, an individual would pay more than 1 year's tax liability since he would have to pay not only his tentative tax for the current year but also a deficiency on the previous year's income. Similarly, in any year following an increase in national income (as, for example, 1943), taxpayers as a group would have to pay more than 1 year's tax liability.

The special relief provision suggested by Mr. Ruml is not an adequate solution to the lack of synchronization of tax payments with the receipt of income. In the first place, it would apply only to income from personal services. For administrative reasons, it could not be extended to income from property and, indeed, might have to be restricted even further to wages and salaries alone. Yet business income and income from property are typically far more variable than income from wages and salaries. In the second place, the provision would be optional, not mandatory. Consequently, it would tend to be invoked only when income decreased, although the need for synchronization is at least as great when income increases. In the third place, even if restricted to wages and salaries, the provision would involve serious administrative difficulties. Information returns are now received from employers only for wages and salaries during the preceding year. To check individual declarations of reduced wages and salaries would require information returns for a year ahead. It is dubious whether the gain from the relief provision would be worth the administrative cost, except possibly for persons who go into military service. For these persons, the administrative problem is least, and the need for relief greatest.

From the point of view of an adequate and flexible fiscal policy for wartime, the lack of synchronization of tax payments with receipt of income would be a fatal defect. At present, neither a change in tax rates nor a change in national income affects tax collections until March of the following year. Further, present methods of collection—self-assessment and quarterly installment payments—are completely inadequate for an income tax with higher rates applicable to some 30,000,000 persons. Such a tax requires methods of collection adapted to the needs of the masses of the people accustomed to budgeting in terms of weeks or months rather than quarters or years. The major problem of income tax reform is to remove these defects, which prevent the income tax from playing as large a role as it should play in the financing of the war.

(iii) *Burden on taxpayer in filling out his return.*—Under the Ruml plan, the taxpayer will in March of each year have to compute (a) the tax on the income of the preceding year at the rates, exemptions, and definition of taxable income applicable to the current year; (b) the tax on the income of the preceding year at the rates, exemptions, and definition of taxable income applicable to the preceding year. Item (a) is the tentative tax for the current year; item (b) is his actual liability for the preceding year. This double computation raises no problem if rates, exemptions, and the definition of taxable income do not change, since (a) and (b) would then be the same. It does, however, seriously complicate the computation of the tax if any of these items change, involving in essence the preparation of two tax returns instead of one.

(b) *Shifts in the tax burden under the Ruml plan.*—The cancellation of 1941 liabilities would have no effect on the taxes paid by persons with stable incomes until incomes ceased because of death or retirement. At that time, 1 year's tax payments would be eliminated. This shifts part of the total tax burden from individuals who are now taxpayers to persons who newly become taxpayers. The latter will pay a tax for all years during which they receive income; the former for all but 1 year.

The cancellation of the 1941 liabilities would constitute a windfall gain to persons whose incomes were abnormally high in 1941 and a relative loss to persons whose incomes were abnormally low in 1941. This feature is particularly undesirable since abnormally high incomes in 1941 in many cases resulted from the war effort. True, in some cases the decline in income from 1941 to 1942 may reflect a shift into wartime activities that might well have deserved special treatment. However, the Ruml plan would confer relief only after the need for it had passed since such persons will already have arranged to pay their taxes on 1941 incomes. Moreover, many, and probably most, of the declines in income were not associated with such a shift from peacetime to wartime activity.

Since the Ruml plan delays the application of the higher rates in H. R. 7378 until 1943 (in March of which year the taxpayer pays at the new rates on estimated 1943 income) it also provides a windfall gain to persons with abnormally high income in both 1941 and 1942. Their 1941 liabilities would be canceled, and their 1942 liabilities would be at the present lower rates, whereas under present methods of taxation, the new higher rates would apply to 1942 income.

(c) *Effects on demand for consumer goods.*—Actual collections during 1943 under the Ruml plan (with rates as in H. R. 7378) would be approximately \$9,000,000,000, or \$1,000,000,000 larger than under H. R. 7378 (disregarding collection at source), the extra billion dollars arising from the aggregate deficiency payable on 1942 income. Despite these larger collections, the Ruml plan would probably be less effective than H. R. 7378, even in the absence of collection at source in withdrawing purchasing power from the market for consumer goods. The reason for this is that persons who had accrued funds during 1942 to pay their 1942 tax liabilities in 1943 would be able to pay the tentative tax on 1943 income from such funds and would be under no compulsion to accrue the 1944 tax during 1943. In order to offset the extra billion dollars that would be collected under the Ruml plan, only one-eighth of the \$8,000,000,000 liability under the rates of H. R. 7378 would have to be accrued. While the amount actually accrued is not known, it seems likely that considerably more than one-eighth would be accrued. Consequently, the Ruml plan, even though it yielded more revenue, would be less effective than H. R. 7378 without collection at source, in withdrawing purchasing power from the market for consumer goods.

3. THE INTRODUCTION OF COLLECTION AT SOURCE INTO THE RUMI PLAN

(a) *Method.*—The Ruml plan could be linked with collection at source at a rate of 19 percent, the combined normal tax and first bracket surtax rate under H. R. 7378. Since the tentative tax as computed in, say, March 1943, would be considered a tax on 1943 income, the taxpayer could be required to pay in quarterly instalments only that part of the tax that would not be collected at source. This could be done in either of two ways:

(1) In computing his tentative 1943 tax on the basis of his 1942 income, the taxpayer could be given a credit equal to 91 percent of the excess of his 1942 income subject to collection at source (wages and salaries, bond interest, and dividends) over his personal exemption and dependent credit; that is, he could make a tentative estimate of the amount to be withheld during 1943 on the basis of his receipts during 1942 from sources subject to withholding, in the same way as he makes a tentative estimate of his 1943 tax.

(2) The taxpayer could credit against each quarterly installment payable in 1943 the amount actually collected at source in the preceding 3 months (or for the first quarterly installment, the preceding 2 months); that is, against his March installment, he would offset the amount collected at source in January and February; against his June installment, the amount collected at source in March, April, and May, etc.

Alternative (1) seems distinctly the better. Alternative (2) would involve greater administrative complexity;¹ would deny an offset to individuals who wished to pay the tax in one lump sum; and would offset amounts withheld from 1943 income against a tentative tax computed on the basis of 1942 income. Consequently, in what follows, we shall assume that alternative (1) would be adopted.

(b) *Effect.*—Linking the Ruml plan with collection at source would go a long way toward synchronizing tax payments with receipt of income, accomplishing this objective entirely for the first bracket rate and for sources of income subject to withholding. At the rates included in H. R. 7378 and at 1942 levels of business, a 19-percent withholding rate would mean collecting at source almost \$5,000,000,000 out of total liabilities of \$8,000,000,000, or more than 60 percent of total liabilities.

The introduction of collection at source into the Ruml plan would largely remove one of the chief defects noted above. It would permit changes in tax rates and changes in national income to be reflected in tax collections immediately, and would adapt the income tax to the needs of the large group of small income recipients who budget on a weekly or monthly basis. The Ruml plan deserves serious consideration as a wartime reform of the income tax only if it is thus linked with collection at source.

¹The administrative problems would arise because of the need to give employees receipts or information slips every 2 or 3 months, and because of the timing problem raised by the necessity of having receipts within 15 days after the close of the month.

4. OTHER POSSIBLE MODIFICATIONS IN THE RUMI PLAN

As noted above, one of the chief remaining defects of the Ruml plan is that the cancellation of 1941 tax liabilities would constitute a windfall gain to persons whose incomes were abnormally high in 1941 and a relative loss to persons whose incomes were abnormally low in 1941; the postponement of the application of the higher rates to 1943 income would lead to similar though less serious effects for 1942. Two possible modifications in the Ruml plan that would mitigate this defect are suggested below.

(a) *Cancellation of either 1941 or 1942 liabilities.*—One possible modification of the Ruml plan would be to cancel either the taxpayer's 1941 liability or his 1942 liability, whichever is smaller. When the individual filed his return in March 1943, he would compute the tax on 1942 income under rates and exemptions in the present law. If this tax were higher than the tax he computed in March 1942, on the basis of 1941 income, he would be required to pay the difference. But if the tax on 1942 income were lower than the tax on 1941 income, he would not be given a credit or a refund. Instead, the tax computed on 1941 income would be treated as the tax due. Even with this modification, windfall gains would be realized by persons with abnormally high incomes in both 1941 and 1942. This, too, is undesirable since many persons profiting from the war will be in this situation.

(b) *Cancellation of part of 1942 liabilities.*—Another possible modification in the Ruml plan would be to cancel only part of 1942 liabilities computed under existing law. The part canceled would be the normal tax and the first bracket of surtax, and the balance of the tax would be payable in 2 years. The advantage of this procedure would be that no taxpayer would be relieved of liability under the progressive part of the rate structure. A person with abnormally high income in 1942 would still receive a windfall gain, but this gain would only be the flat rate part of the total tax, and the gain would be progressively larger the higher the income. Details of the plan are as follows:

(i) *Taxes payable in 1943.*—(a) *Tentative tax for 1943:* In March 1943 the taxpayer would compute his tentative 1943 tax at the proposed rates and exemptions on the basis of his 1942 income.

(b) *Credit for collection at source:* Against this tentative tax, the taxpayer would credit 19 percent of the excess of his 1942 income from wages and salaries, bond interest, and dividends over the personal exemption and credit for dependents. This represents a tentative estimate of the amount to be withheld during 1943. Like the tentative tax, it is based on 1942 experience. The balance of item (a) would be paid in quarterly installments as at present.

(c) *Collection at source:* During all of 1943, the taxpayer would be subject to collection at source from wages and salaries, bond interest, and dividends at a rate of 19 percent, the combined normal and first bracket surtax rate.

(d) *Settlement of 1942 liabilities:* On his March 15, 1943, return, the individual would be required to compute a tax on his 1942 income under existing law provisions, except that the normal tax and first bracket surtax rate would be omitted; i. e., he would compute his tax using a rate schedule identical with the existing law surtax schedule except that the initial 6 percent rate would be replaced by zero, and all other surtax rates would be reduced by 6 percent. This computation would, therefore, be required only for individuals with more than \$2,000 surtax net income in 1942. Individuals with low incomes would in effect have their 1942 liabilities canceled. The 1942 liabilities computed in this way would be payable in installments during 1943 and 1944.

(ii) *Taxes payable in 1944 and later years.*—Except for the balance of 1942 tax due from persons in the upper income groups, the original Ruml plan will govern tax payment in 1944 and later years, the procedure being integrated, of course, with collection at source.

5. REVENUE EFFECT OF ALTERNATIVE PLANS

Estimates of aggregate collections from the individual income tax for calendar year 1943 and hypothetical calendar years 1944 and 1945 are summarized in the following table for (a) H. R. 7378, (b) unmodified Ruml plan without collection at source, (c) a modified Ruml plan with collection at source at a 19 percent rate and with the cancellation of part of 1942 liabilities. (See sec. 4 (b) above.) While the figures for 1943 are based on an estimated level of income for 1943, those for 1944 and 1945 were derived by assuming that the level of income would be the same as in 1943. The figures include the total amount withheld from taxpayers at source,

WITHHOLDING TAX

even though some of it would not yet have been turned over to the Bureau of Internal Revenue by the withholding agents.

Calendar year	Aggregate collections		
	H. R. 7378	Unmodified Ruml plan	Modified Ruml plan
	(a)	(b)	(c)
1943.....	9.4	9.0	9.8
1944.....	10.4	10.0	10.8
1945.....	9.0	9.0	9.0
Total.....	28.8	28.0	29.6

The following table subdivides these estimates into the amount payable in quarterly installments, the amount collected at source, the deficiency between the final and tentative tax, and the adjustment for uncanceled 1942 tax liabilities.

Calendar year	Amount payable in quarterly installments	Amount collected at source	Deficiency	Adjustment for 1942 taxes	Total
(a) H. R. 7378:					
1943.....	8.0	1.4			9.4
1944.....	7.6	2.8			10.4
1945.....	6.2	2.8			9.0
(b) Unmodified Ruml plan:					
1943.....	8.0		1.0		9.0
1944.....	9.0		1.0		10.0
1945.....	9.0				9.0
(c) Modified Ruml plan:					
1943.....	3.2	5.3		1.3	9.8
1944.....	3.7	5.3	0.5	1.3	10.8
1945.....	3.7	5.3			9.0

For the 3 years combined, the unmodified Ruml plan yields least. The modified Ruml plan yields \$800,000,000 more than H. R. 7378. However, so far as its effect on the withdrawal of purchasing power from the market for consumer goods is concerned, this extra revenue is more than offset by two other factors. In the first place, the modified Ruml plan involves the cancelation of approximately \$2,400,000,000 of tax liabilities. Accruals on account of these liabilities would probably considerably exceed the \$800,000,000 extra collections.

In the second place, the amounts collected in each year in excess of a single year's liabilities come from very different income groups. Under H. R. 7378 this amount comes from the 5-percent collection at source and hence from all income groups. Under the modified Ruml plan, it comes from the uncanceled part of 1942 liabilities, and hence predominantly from the upper income groups since the lower income groups have the bulk of their 1942 liabilities canceled. Consequently, the extra amounts collected under H. R. 7378 would be much more effective, dollar for dollar, in reducing demand for consumer goods than the extra amounts collected under the modified Ruml plan.

6. CONCLUSIONS

(a) The Ruml plan without collection at source in large measure accomplishes the objective of keeping the taxpayer out of debt to the Government.

(b) The Ruml plan without collection at source does not synchronize tax payments with the receipt of income. Indeed, in some cases it may make the payment problem worse than under the present law. Actual tax payments in any year depend on the income history during the preceding 2 years.

(c) The Ruml plan does not eliminate the payment of more than 1 year's taxes in calendar 1943. The deficiency payments on 1942 income due in March 1943, are quantitatively almost as large as the amount that would be withheld under the 5-percent collection at source provided for in H. R. 7378. The additional payments would, however, be made by different persons.

(d) The cancelation of 1941 liabilities provided for by the Ruml plan would confer a windfall gain on persons with abnormally high incomes in 1941.

(e) The cancelation of 1 year's liabilities would shift part of the long-run tax burden from persons who are now taxpayers to persons who newly become taxpayers.

(f) The Ruml plan deserves serious consideration as a wartime reform of the income tax only if it is linked with collection at source at a rate equal to the combined normal and first bracket surtax rate, since this is the only way that tax payments can be synchronized with the receipt of income.

(g) The inequities arising from the cancelation of 1941 tax liabilities can be mitigated, though not eliminated, by canceling either 1941 or 1942 liabilities, whichever is smaller, or by canceling only a part of 1942 tax liabilities equal to the normal tax plus the first bracket of surtax.

Senator CLARK. Is Mr. Gretz here?

Mr. GRETZ. Yes, sir.

STATEMENT OF HARRY C. GRETZ, ASSISTANT COMPTROLLER, AMERICAN TELEPHONE & TELEGRAPH CO.

Senator CLARK. Mr. Gretz, the committee would be glad to hear from you.

Mr. GRETZ. I filed a statement before the Senate committee last week.

I have copies of it here if they would be of use to anybody.

It contains a table for simplification that I would like to refer to.

It is also in the record.

It should be understood, of course, that I am interested primarily in accounting methods, and therefore in the mechanics of the withholding, rather than whether there should be a withholding or whether withholding should be combined with Mr. Ruml's plan or not.

The thing that bothered me was the fact that this withholding, as put out in the House bill, was a withholding on the net, which required the subtraction of the amount of exemption from the gross paid, in order to get the net on which we would apply the rate, and my idea was that we could simplify and get rid of some of those operations if we could predetermine the amount of the tax in relation to gross wages in wage bands set forth in some tables.

We find that we can always do a better clerical job where there are computations involved if we can predetermine the calculations and reduce them to tables, than by requiring our clerks to make the computations as they go along.

Under the particular House bill, where it was necessary to figure the tax down to a penny, it would take, as I think, here, illustrating a type of table, about four hundred-and-odd tables to set forth all of the amounts that would be applicable on weekly pay rolls.

It would take another group of four hundred-and-odd for bi-weekly, another group for semi-monthly, and another group for monthly.

In order to get an average amount of withholding in those wage bands I used \$10 wage bands in my table. Of course, you reduce those tables to four for weekly employees. One of those would be for a single man, one for a married man, one for a husband and wife both working, and one for a head of a family.

And then four for each of the other pay-roll periods.

Now, I haven't any brief for the particular wage bands I put in there.

We can consider that merely as illustrative, and I would like to say that this idea is not new: It has been employed for other purposes.

I know I did quite a lot of work on social security, and helped out the New York Unemployment Compensation Commission get their plan on a practical basis, and what we did there was to simplify the benefit structure by putting them in wage bands.

So it is easily understood by the employees affected and saves the employer having to stop to make this calculation.

I know that the Treasury Department has been thinking along the same terms, because Mr. Friedman called on me in New York at the same time as I was working up this plan.

Senator CLARK. You mean that you would simply set up a band to say that a man who got \$30 but not more than \$40 would have so much deduction?

Mr. GRETZ. And with columns on the table which would indicate his family status.

You could pick out what the taxpayer would pay. On that table 3, if a man would get \$45 a week, we would find a line which says \$40 to \$49.99, and if that man were a married man with one dependent, we go to the top of the column and see M-1, which would identify him as a married man with one dependent.

His weekly deduction would be \$34.50.

Now, we would subtract that \$34.50 from \$45 and we come up with \$10.50, and we would apply 5 percent to \$10.50 and that is 52½ cents, and we go to the table here and we find it precalculated and rounded out to 50 cents. That is the theory of the plan.

I think that would be all I have to say about it. I would be glad to answer any questions.

Senator CLARK. Senator Gerry, do you have any questions?

Senator GERRY. No, sir.

Senator CLARK. Senator Gerry has no questions. Mr. Tarleau and Mr. Stam?

Mr. STAM. I think we went over this.

Mr. GRETZ. I went over this with Mr. Stam when we appeared before the committee, and also with the Treasury people including Mr. Cann of the Bureau.

Mr. FRIEDMAN. Both Mr. Cann and the Bureau are in agreement that this would be a desirable thing to introduce.

Senator CLARK. If a man gets \$31 instead of \$39.99, of course he would have a refund coming to him, wouldn't he?

Mr. GRETZ. I don't think he would, because after all the withholding is not all of the tax; it is only a partial prepayment, and you have got quite a little spread there.

Senator CLARK. Yes; that is true.

Mr. GRETZ. And that is one reason, I think, why we can consider this in rather broad wage bands, because after all it is only a prepayment of a part.

Senator CLARK. If a man gets \$31, and a man gets \$41.99?

Mr. GRETZ. That is right. You hit them a little heavier at the lower part of the wage band, and give in a little at the upper part of the wage band.

Mr. FRIEDMAN. The maximum difference on these tables, or on some similar tables, if a man were at the very bottom of a wage band for every single week in the year, the maximum difference between the amount that would be withheld on that basis and on the exact basis would come to something like \$15 a year.

Senator CLARK. You mean, that would be withheld under this plan over the House plan?

Mr. FRIEDMAN. That would mean if he were at the bottom of that bracket every single week in the year. Of course, most people have fluctuations in income.

Senator CLARK. If he were at the top it would be under the same amount?

Mr. GRETZ. Yes, sir.

I prepared some comments on an idea that Senator Danaher had given us from this letter he quoted on the use of stamps.

Senator CLARK. The committee would be very glad to hear that.

In that connection, I had a letter this morning from a man I didn't know, who made a suggestion that these payments of this withholding, under the withholding tax, could be in the form of these stamps for prepayment of income, which are now being used in the form of bonds, I understand. What about that, Mr. Tarleau?

Mr. TARLEAU. You have given some thought to that, Mr. Friedman.

Mr. FRIEDMAN. We have given it a great deal of thought. I may say, as a matter of fact, that some others in our division and I were very much enamored of the stamp plan. We thought on the whole it was the best plan, but then, after very lengthy and extended discussions with the Bureau of Internal Revenue, they brought out many of the problems that would be involved, and we finally came to the conclusion that we had been wrong and the stamp plan, instead of being simpler, as it appears at first, would in fact be more complicated, for a variety of reasons, so we finally agreed with the Bureau that they were right and we were wrong, and that this other plan was the simpler; for that reason we have a great deal of sympathy with the proponents of the stamp plan, because for months we were convinced that it was much better, until we were shown it was wrong.

Mr. TARLEAU. The number of stamps was one thing that astounded us. I have forgotten the number of billions of stamps that would have to be put out of the Bureau of Engraving into the hands of some of our horny-handed sons of toil.

That is not said in any invidious sense, but when you get all of these messy stamps in an envelop, and piling them up, and losing them, and managing them, that just frightened the wits out of the Bureau of Internal Revenue, because we just saw ourselves surrounded by masses of these stamps.

We had how many wage earners who would be collecting these stamps?

Mr. FRIEDMAN. It ran beyond the billions. It ran into the trillions.

Mr. TARLEAU. We just finally gave up.

Mr. GRETZ. I don't know whether it is worth while to read this memorandum, because they have been talking exactly my same language.

Senator CLARK. Go ahead.

Mr. GRETZ. (reading):

On Thursday, August 6, Mr. Richard F. Berry, representing the manufacturers in Connecticut, proposed that instead of an employer furnishing an employee with a tax-withholding receipt at each pay period, the Government issue tax stamps, which would be purchased in advance by the employers, given to the employee with his net pay, and inserted by the employee in a tax-stamp book.

When the employee files his return, the book would be filed with it, and of course the amount of money represented by it would act as a credit against the final tax liability.

Mr. Berry claimed that this plan would reduce the amount of bookkeeping and the necessary clerical help to a considerable degree, which especially at this time should be an objective to be seriously considered.

I can sympathize with Mr. Berry in his effort to diminish the burden on industry from a clerical and bookkeeping standpoint, but I seriously doubt whether the stamp plan would really accomplish this purpose.

In answer to Senator Byrd's question, "How would it work?" Mr. Berry referred to a deduction of 67 cents, saying that instead of issuing a receipt for 67 cents the employer would put a 67-cent stamp in the envelope.

It certainly would not be practical for the Government to issue stamps for the whole range of 1-cent multiples. The plan would require denominations equivalent to our coins and bills.

This would mean that in lieu of a receipt for 67 cents Mr. Berry would give the employee: one 50-cent stamp, one 10-cent stamp, one 5-cent stamp, two 1-cent stamps.

Stamps are more difficult to count out than coins—

especially if those stamps were gummed stamps—

and it would be easier to make mistakes in the counting of stamps than in the furnishing of receipts.

From the Bureau's standpoint, instead of handling annual information returns it would be required not only to handle the tax books but to add up all the stamps in the books presented by each taxpayer to determine the aggregate withholding for the year.

A stamp plan is available now to employers who have established pay-roll savings plans for the purchase of War bonds.

It is my understanding that only in the case of small employers, and in a few special cases, have employers elected to give the employee War stamps with his pay.

Most of these plans contemplate accumulating the pay-roll deductions and buying the bonds when the accumulations equal the purchase price, rather than use War stamps.

I might say, in connection with these War bonds, the denominations are 25 and 50, and under these voluntary plans the employer can control his pay-roll deductions—that is, he can limit his authorizations to multiples of 25 cents, so he doesn't have to handle many denomination stamps.

Now, I advised the New York State War Savings Committee, in connection with these pay-roll-deduction plans.

The Bell system had our saving plan for War bonds, had gone back into the old days of Baby bonds. We were one of the first to adopt that.

We did it because our employees were asking us to give them some kind of a saving plan where they could invest some of their money, and we looked on these Baby bonds as ideal for that situation, because the individual could always get his money back.

A lot of these saving plans which are invested in stocks of companies—those stocks are liable to go down, and when the employee has to cash them in, he might get less than he put in, but in the case of these Baby bonds and these War bonds you always got the money back that you put in, and with an amount of interest determined on how long you kept them.

Now, we recommended, and most of the employers adopted, the plan involving a pay-roll deduction without the use of stamps.

We only suggested stamps for small employers. Small employers don't usually have adequate clerical help, and it is easier for them.

We had another situation where we were a little afraid, in one particular industry where there was a lot of fly-by-night employers, that some of this employee money might not get into stamps, and we recommended there, and worked out with the union, the use of a stamp plan for that purpose.

So that there is something already available, and employers haven't taken advantage of it.

In the early days of social security, I think it was a pretty general conception that that was going to be handled on a stamp basis.

I sat in with numerous conferences with a committee of the advisory council to the Secretary of Commerce, and then in joint meetings with the Treasury Department and with the Social Security Board, employers there were agreed that the stamp plan would be just too much for them to handle, and they preferred the ordinary deduction and the making of information returns to the Government.

Now, there may be a field for stamps for small employers—I don't know that.

That seems to be the case in connection with the pay-roll savings plan, and if a stamp plan is to be worked into the bill I think it ought to be done on some optional basis, if it can be arranged that way, or limited to smaller employers, with larger employers doing it on the other basis.

Senator CLARK. Mr. Gretz, your company has had a lot of experience, and so has Mr. Ruml, in connection with this voluntary bond purchasing. Now, what is your opinion as to the effect of withholding tax on voluntary purchase of bonds?

Mr. GRETZ. Well, I had a chance to think out that question, because Mr. Friedman asked me that same question at a conference we had sometime ago.

I told him that I thought you had to combine both the withholding tax and the higher taxes, because, after all, that is the real burden on the employee.

The effect is this: He has to pay higher taxes out of an income reduced by the withholding, and by his voluntary pay-roll purchases of War bonds under the pay-roll plan.

Senator CLARK. That is just exactly what I was thinking.

Mr. GRETZ. Now, I talked to our vice president in charge of personnel and asked him whether I had answered Mr. Friedman correctly, and he agreed with me a hundred percent, and our conclusion is this: That where the employers have shown an interest in getting participation up to 10 percent, that the employee, realizing that his employer knows what is being deducted, will continue his deductions, but what he will do is use the bonds that he had previously purchased, redeem them, in order to pay his income tax.

That is what I think is going to be the first effect of the higher taxes and the withholding: that there will be a lot of bonds redeemed.

Now, the Treasury will tell you that their redemption of bonds has been awfully low to date, but we haven't yet come up to this first payment of these higher income taxes that this House bill and the final bill will of course put in, and I think you are going to have an immense amount of redemptions at that particular time, which means it has been a pretty costly way of financing for a short period.

On the other hand, there might be some advantages to it.

Mr. PAUL. I would like to give you some figures, Senator Clark, on that question.

Senator CLARK. Yes; you better.

Mr. PAUL. We conducted a survey directed toward getting employers' reactions on the effect of collection at the source on War bond purchases.

We are now conducting a further survey to get the employees' reactions, but that survey is not completed.

In connection with getting the general reaction of employers to collection at the source, we did ask them this question that you just asked Mr. Gretz, and out of 449 firms interviewed, 372 firms, or 83 percent, had pay-roll-deduction plans.

Of these 372, 93 percent indicated that the introduction of collection at source would not affect their activities in connection with the pay-roll-allotment plan.

Senator CLARK. You mean the employer's activities?

Mr. PAUL. That is right.

Now I am coming to the employee in just a moment.

Only 3 percent said that the introduction of collection at the source would lead them to reduce their collection activities or to abandon their voluntary-savings activities.

The employers' expectations as to their employees' behavior differed sharply from their expectations as to their own behavior.

Almost two-thirds of the employers expressed the view that collection at source would lead to a decrease in the amount allotted by employees to the purchase of War bonds. Another 22 percent thought it would not affect the amount allotted; and the remaining 12 percent expressed no definite view.

I don't think there is a bit of doubt, as Mr. Gretz says, that when you get your higher taxes to put in collection at the source, you are going to have some effect on voluntary savings.

It would be utterly unrealistic, in my opinion, not to count on it, but I don't think anybody can tell exactly how much.

We will have a report later for you as to the reactions of employees, which after all on the part of the employer is hearsay as to what the employee is going to do, and we are going to go directly to the employees.

Senator CLARK. What do you say about that, Mr. Ruml?

Mr. RUMML. I think one thing is terribly important to keep in mind in making this kind of analysis, and that is the reason we are talking about this withholding and savings and so forth is because we anticipate a substantially higher income next year than we are having at this time—at the time we are planning these things—but in planning them we are trying to assess them against the national income we have today.

So I mean we are trying to project ourselves into the future, into the situation which we are trying to meet. For that reason, I think, at Macy's there is no doubt but what the employees who are now saving, who have withholding, will have to stop saving.

The reason that is the truth is because we are a retail establishment. We are not going to have more wages or more business; probably we will have less; but this national income is going some place, and at the places where it finally turns up there is going to be the reservoir from which withholding and savings and everything else does come,

so I think that probably, in the absolute amount, you will have an increase of both, but the impact of the thing in different parts of the country, and on different people, and so forth, will produce a considerable amount of readjustment of people's personal planning.

Mr. FRIEDMAN. I wonder if I might ask Mr. Gretz and Mr. Ruml one additional question.

Mr. Gretz implied you would have to take account of both higher tax rates and the withholding.

The question is this: Which would have the greater effect on the deductions made by employees?

First, you put on 5 percent extra in taxes, collecting it the way you now collect taxes.

Second, you put on the same 5 percent extra in taxes, collecting it at the source.

That is the point I am trying to get at. As Mr. Gretz indicated, there are two problems. One is that we are enacting higher taxes on these people, and they have to meet that out of an income and, if those taxes go up, other parts of the use of the income have to go down, but now suppose we were to consider putting 5 percent extra in taxes.

In the first case we would put it on, collecting it in quarterly installments, as we now do by self-declaration and self-assessment.

In the other case we collected that 5 percent at source by taking it out of the pay check week by week.

Then the question is: In which of those two cases do you think the deductions for pay-roll bonds would be more seriously affected?

Mr. GRETZ. I would say not. My guess would be the other way.

In withholding you take the money away from the individual before he gets it.

We usually refer to that as the painless method. Individuals, I don't think—certainly in the small income, and even in the higher income, up to the present high taxes, didn't really accrue; they felt they could pay the income taxes as they came due.

Now, for that reason I feel that, if you put off the payment until the quarterly payment, you are going to have more cashing in of your bonds at that time to meet those payments than if you keep the quarterly payments down and spread it out over 52 payments in the year for weekly pay people.

What do you think about it?

Mr. RURL. I would have answered the other way until you spoke, but I think you are absolutely right, because you establish a habit of life at the withholding level, and you don't have these suggested things that you have to meet.

Mr. GRETZ. And that habit of life, I think, the experts in connection with income taxes overlook sometimes. They think, because one fellow gets \$5,000 more than another fellow, he has \$5,000 more saving. He doesn't do that. His habit of life brings him up to that higher level, and he has made commitments in mortgages and insurance, and those kind of things, and he doesn't have that money lying around.

Mr. PAUL. As an expert, let me say I agree with you.

(The following memorandum was submitted for the record.)

The question has been raised by Mr. Paul as to whether the pay-as-you-go plan should be applied equally to all individual taxpayers.

I personally favor the all-over application of the pay-as-you-go principle for eliminating income-tax debt.

We can distinguish three great groups of income taxpayers, those in the lower brackets, those in the middle brackets, and those in the upper brackets.

For those in the lower brackets, the plan will obviously have far-reaching beneficial results. To be free of income-tax debt, to pay as you go, means that unfortunate circumstance of loss of income will not be doubly unfortunate because of a last year's tax debt.

For those in the middle brackets, it will eliminate countless personal and family tragedies. It will free thousands for public service at lower incomes. Most important of all, it will step up the efficiency of American industry by making possible the retirement and pensioning of executives who are holding on, largely to pay their last year's tax—and never catching up. More vitality in these positions in thousands of companies will add measurably to our productive capacity.

For those in the upper brackets, it will make very little practical difference one way or the other.

On the one hand, the loss of revenue to the Treasury will not be a significant amount. What loss there is, is not inflationary spending power, and will be spread over many years. Of this, a large amount will be recovered by the inheritance tax, since what is saved will reappear taxable in the highest bracket of the individual's estate tax.

On the other hand a certain amount of good will be accomplished, since a sizable proportion of the remission to those in upper brackets will find its way to religious, charitable, and educational institutions, to our colleges and universities—sums which otherwise simply would not be available.

But these practical reasons are not the reasons why I favor all-over application of the principle. The reason I favor it is because it gives equal treatment for all taxpayers under the plan. When the 1941 tax law was passed the progressive rates were believed to be equitable. In adopting pay-as-you-go by skipping 1941, I believe we should treat all citizens alike. As I have pointed out, the practical issues for the upper bracket group are not of great importance; the real issue is an issue of this principle and of public policy.

I do feel that a case can be made for eliminating capital gains and losses as being outside the area of ordinary, annual income and not properly attributed to any particular year. Undoubtedly whatever year is chosen to be skipped there would be special transactions of a capital character and perhaps it would be just as well to eliminate them from the plan.

Senator CLARK. Any other questions?

(No response.)

Senator CLARK. Thank you very much indeed, gentlemen. The committee will meet at 2:15 this afternoon.

(Whereupon at 11:45 p. m., the committee recessed, to reconvene at 2:15 p. m. the same day.)

AFTERNOON SESSION

(Pursuant to the adjournment for the noon recess, the subcommittee reconvened at 2 p. m.)

Senator CLARK. All right, Mr. Commissioner. Have you got a statement?

Mr. HELVERING. Yes. Yesterday afternoon, I prepared this statement, and I have some copies which I would like to give to the committee so that they may follow it through with me, and you may feel perfectly free at any time to ask any question about the particular thing under consideration at that time.

Senator CLARK. Very well.

Mr. HELVERING. I got this statement up in a rather hurried manner, but I think it will cover the subject so far as the question of administration of this withholding law is concerned. If I may, I would like to read this statement.

Senator CLARK. Be glad to have you.

Mr. HELVERING. Feel perfectly free to ask any questions about any particular point that comes up.

Senator CLARK. Yes.

STATEMENT OF GUY T. HELVERING, COMMISSIONER OF INTERNAL REVENUE

Mr. HELVERING. When H. R. 7378 was pending before the House of Representatives I appeared before the Ways and Means Committee and made a statement in regard to the proposed plan to collect a portion of the income tax at the source. I called attention at that time to the fact that these are not normal times and that the work incident to such a plan cannot be done unless the Bureau is given a priority status respecting personnel, equipment, and space subordinate alone to the military forces. I expressed the view that the Committee did not wish to recommend, or that the Congress would not want to pass, a tax measure that could not be properly administered. I, therefore, emphasized that the Bureau of Internal Revenue could not satisfactorily administer the withholding plan unless adequate personnel, equipment, and space are made available to it with which to function.

During the several weeks that have intervened subsequent to my appearance before the Ways and Means Committee there have been certain developments concerning which I feel I should acquaint the Finance Committee while the proposed Revenue Act of 1942 is being considered.

With respect to the matter of equipment, the situation appears to be worse from the Bureau's viewpoint than it was when I appeared before the Ways and Means Committee. The prospect of securing adequate space in many localities has become decidedly worse, notably in areas such as Richmond, Philadelphia, and Baltimore.

I might say, gentlemen, that we have had a problem confronting us for space in these three places within the last couple or 3 weeks.

Senator CLARK. That is, under your present requirements?

Mr. HELVERING. Yes.

The Bureau has been given a priority status with respect to personnel much higher than it originally enjoyed. However, even a higher priority status in no way applies to the great number of our personnel enlisting in the armed forces of the United States or being drafted for service in the armed forces. Neither does the higher priority status recently granted the Bureau prevent its trained employees from transferring temporarily to war agencies in class 1. The continued building up of the Army and Navy is, of course, denuding civilian enterprises of their manpower. The higher wages paid by many plants engaged in war industries is even making it difficult to secure competent female help. The personnel situation cannot, therefore, be said to have improved.

Senator CLARK. It is true, isn't it, that the compensation paid by the Government in this particular Bureau, considering the character of the work to be done, is relatively low as opposed to some of the private corporations at the present time?

Mr. HELVERING. Yes, sir; it is, sir. We are working on that proposition and trying to correct that as far as we can under the existing law. We previously took deputy collectors in, in grade 4, at \$1,800.

You just can't get anybody to come in, that is capable of doing the work we require them to do, because they must have some ability as accountants or bookkeepers or trained in the manipulation of some of this equipment.

Senator CLARK. I asked that question because I happen to be personally acquainted with a good many people that have quit to go into private employment for that very reason.

Mr. HELVERING. Yes.

At the time the Revenue Act of 1941 was enacted it was estimated that the broader coverage would result in the filing of 6,108,000 additional income tax returns.

Senator DANAHER. An interruption, please?

Mr. HELVERING. Yes, sir.

Senator DANAHER. And when that 6,108,000 additional income tax returns were expected, how many were you then receiving?

Mr. HELVERING. Well, at that time, confining it to income tax returns, we were receiving about 16,000,000 then.

Senator DANAHER. Thank you.

Mr. HELVERING. The collectors' offices were authorized to employ additional personnel and to secure additional equipment for the purpose of handling that additional work load.

I might say there, concerning that: It isn't in the statement, but after the passage of that bill I made a requisition for equipment in November, December, January, and February last year. We are getting some of that equipment now, piecemeal, and a great deal of it we haven't got at this time, which is now 10 months after the first requisitions went in.

It developed, however, that the increase in returns filed was approximately 11,000,000 returns—

Senator CLARK (interposing). Instead of 6,000,000?

Mr. HELVERING. Instead of 6,000,000—which left the collectors' offices understaffed insofar as the Revenue Act of 1941 is concerned.

Senator DANAHER. You actually had to process a total of 27,000,000 returns?

Mr. HELVERING. Yes.

Senator DANAHER. Thank you.

Mr. HELVERING. I might say to you, Senator, in explanation of that, that the Bureau of Internal Revenue is receiving, of all sorts of returns, 44,751,746 returns as of the last fiscal year.

Senator CLARK. What is that figure again?

Mr. HELVERING. 44,751,746 returns of all kinds. This represented an increase in all returns, of all kinds, of 16,674,821 over the previous fiscal year.

Of the above 44,751,746 returns, 27,773,070 were income-tax returns, or an increase of 11,622,000, where we had estimated 6,000,000 previously.

As I stated, it developed, however, that the increase in returns filed was approximately 11,000,000 returns, which left the collectors' offices understaffed insofar as the Revenue Act of 1941 is concerned. In addition, it has been estimated that the pending Revenue Act of 1942 with its further reduced exemptions will result in the filing of 8,000,000 additional returns.

Senator CLARK. That is without the withholding tax?

Mr. HELVERING. Yes.

Therefore, the collectors' offices will be required to recruit additional personnel to the extent of approximately 5,400 employees before they will be adequately staffed. This is without regard to the proposed withholding tax.

Senator GERRY. You spoke about difficulty in getting your machines. Is that difficulty increasing?

Mr. HELVERING. Well, I think it is. I have been advised by the War Production Board that there will be no further manufacture of certain lines of machines, which are very essential to our work, after November 1, and another class after December 1.

Now, on the matter of personnel, I might state, to give you an idea of what our problem is—and we have no fuss with this first item, of those going into military service. I think that is their duty. But in our Bureau we have at this time sent 1,614 boys out of our Bureau, that is, in the whole country, to the armed services, and we have 1,709 classed in A-1, which are going daily. Just when they will all get in, I don't know.

In other words, we have 16 percent of our total male employees that have gone or will go into the armed forces.

In addition to that, since April 1, we have lost 3,408 people who have gone to war industries and other employment at higher salaries than we are able to pay, making a total, if we count those that will undoubtedly be called, those in A-1, personnel loss for our Bureau of about 20 percent of our total people, for 5,022 people that we will lose by recruitment in the war service and going to war industries paying higher salaries.

The Bureau is experiencing great difficulty in recruiting personnel in many collection districts. There are over 1,000 vacancies in the collectors' offices at the present time, and, with the great turn-over in personnel, it develops that as rapidly as vacancies are filled other positions become vacant with the result that the Bureau is unable to keep its personnel recruited up to the total authorized.

I mean by that, we may have a thousand vacancies today, and we may get those recruited up, those particular vacancies, but while we are doing that there are 2,000 men that go out. So, that is the problem as to the personnel.

We look with great concern upon our inability to recruit the approximately 5,400 employees that must be obtained to carry the regular work load.

I might state it is not a matter of getting people who are out of employment to do our work. We must have them qualified in certain essential functions. We can get the file clerks and train them in a few months. We are obtaining lady file clerks. It isn't the best work in the world for the women to be climbing around over our file cases.

Senator CLARK. A fellow can't walk in off of the street and go to work as a deputy collector, can he?

Mr. HELVERING. You cannot take a "spit in the gutter" fellow and put him in as a deputy collector or any other job in the Internal Revenue service. We must have somebody that has the necessary educational qualifications to know how to examine books and compute taxes, and, in our Bureau here and in the offices of the collectors,

know how to manipulate Elliott-Fisher machines and adding machines, and all that.

Senator CLARK. And have machines to operate?

Mr. HELVERING. Yes.

It has been estimated that if the withholding tax is enacted, over 11,000 additional employees will be required to administer the withholding plan. This is in addition to the approximately 5,400 employees hereinbefore mentioned and would lead to the recruitment of over 16,000 employees at a time when we must compete with the high wages being paid by industry to employees of all types.

Now, this recruitment is nearly all in the collectors' offices. Our present force in the collectors' offices, our total present force in the collectors' offices, is 15,800. This means that the collectors' offices must be recruited something over 100 percent of their present personnel.

Without the use of modern accounting equipment, the Bureau of Internal Revenue could not carry the enormous work load which is being constantly placed upon it. We have been informed that priorities upon the purchase of accounting equipment cannot be granted until we operate our force on a two-shift program.

We are advised that we would have to make an analysis and work our machines longer. Well, of course, we work them practically all the time on an 8-hour-day shift now, so the only way we can work them longer is to go on a night and day shift.

This will mean night work for approximately 50 percent of our force.

Senator CLARK. That applies to your personnel here and in the field, too; doesn't it?

Mr. HELVERING. Yes.

Senator CLARK. In the collectors' offices scattered all over the country?

Mr. HELVERING. Yes.

Senator CLARK. And in your Washington office?

Mr. HELVERING. Yes. Not so much the Washington office, but we will have to do it here to take care of these various accounts coming in.

As I say, this will mean night work for approximately 50 percent of our force. While there are exceptions, it is the general rule that the individuals who would be willing to accept night employment would be inferior in qualifications to those offered daytime employment, or persons who are incapable of securing daytime positions. This will, of course, result in a more difficult approach to the entire subject.

We often find a person who is willing to work at night if he hasn't a regular job in the daytime, but our problem would be further increased in many of these places where we have our large offices, like New York, Chicago, San Francisco, St. Louis, Philadelphia, and Boston, in that a great many of these employees would have to necessarily be women, and it would call for them leaving the offices for their homes at 12:30 or 1 o'clock at night, which is not a very agreeable thing.

As the requirement to file income-tax returns is extended to the persons in the lower-income brackets, the difficulties of the Internal Revenue Service appear to increase at a faster ratio than the tax returns themselves increase. This no doubt is due to the fact that millions of the newer taxpayers have had little experience in the

preparation of income-tax reports and in the forwarding of remittances to collectors' offices, which situation results in more difficulties in the matter of record keeping. For instance, in one of the large offices during the last quarterly payment period approximately 30,000 payments were sent to the collector's office without bills, or other identifying communications.

You will understand, gentlemen, that if a man files his return and pays his quarterly installment we give him credit for that and then we send him a bill about the 1st of June for his June 15 payment. Now, we have printed on there, in big letters, "Please return this bill with the remittance"; but they don't do it. In the Chicago office there were 30,000 of those.

I happened to be in my home State 3 weeks ago, and Wichita, Kans., is very small compared with some of these offices. There were 5,400 unidentified accounts on the June payments. To give you some of the difficulties, 72 of them were checks on which no one could decipher the signature. Now, the only way we could find those 72 was to get in touch with the bank. Frankly, the only way we could do it was to send a deputy collector to the bank to identify the signature, and so forth. That problem increases as we go down in the lower brackets.

As there are now many classes of Federal taxes in cases of this kind, it becomes necessary to search voluminous records in order to ascertain the exact identity of the taxpayers, as well as the classes of taxes these remittances are intended to liquidate. The searching and correspondence incident to the unclassified items add tremendously to the burdens now being carried by collectors' employees.

During the last filing period the volume of returns was so great, the personnel was inadequate to place the documents under control and deposit the moneys promptly. As a matter of fact, many thousands of nontaxable returns are still unlisted in collectors' offices.

Of course, we leave those to the last, because they are nontaxable, but we have to get them under control because next year this man that filed that nontaxable return may be a taxpayer.

Senator DANAHER. One of the advantages claimed for the plan is that we would add several million names to the list and thereafter have a group whom we could follow up.

Mr. HELVERING. Yes.

Senator DANAHER. Whom you could, I mean.

Mr. HELVERING. Yes.

During the June 15 income tax installment period the number of income tax installments was so large it required almost 15 days to complete the deposit of the moneys. The law contemplates that the money shall be deposited daily.

Of course, we did not foresee this extra amount, large amounts, of money that we would get in addition to what we had had before, because the year previous to that our total collection was 7 billion, and this last year it was over 13 billion. So the collectors' offices took about 15 days in making these deposits, when it usually takes about 5 days.

Where there are delays in deposits, it inevitably occurs that there is an increase in the number of bad checks, the taxpayers during the period of the delay having closed or overdrawn their accounts.

We found items of that sort in several collectors' districts.

Some collectors, due to the necessity for receiving and recording the returns and depositing the remittances, have been unable for several months to perform other vital duties, such as the issuance of demands for delinquent taxes and the preparation of warrants for distraint looking to the collection of overdue liabilities.

I might say that it was my purpose, when I came into the Bureau of Internal Revenue, to try to handle the Bureau of Internal Revenue, as near as I could, just like a big business concern. In other words, I thought if I could put it on the same basis on which my bank is run out in Salina, Kans. At any time a person can come into a bank and find out how much money there is on deposit, and so forth. We have tried consistently to do that. In order to do that we must complete this whole system of collecting the delinquents, issuing the warrants where they refuse to pay, and have everything up to date.

There are still many thousands of unidentified items in collector's suspense accounts, and until these are cleared out it is not possible to determine definitely what taxpayers are delinquent in making their payments.

I would like to call attention to this matter:

During the first World War nearly all of the collectors' offices lost control of their accounting records; that is, they were unable to balance the transactions reflected in their ledgers with the assessments and moneys recorded on the assessment lists. The records were subsequently brought into balance, but it required several years to do so.

I might say to you that those were cleared up finally in 1938.

Senator CLARK. From the first World War?

Mr. HELVERING. Yes; 1918, 1919, and 1920.

Senator DANAHER. Did you say 1938?

Mr. HELVERING. Yes, sir; 1938.

Senator DANAHER. I just wanted to see what the word "several" meant.

Mr. HELVERING. You mean in my statement?

Senator DANAHER. Yes.

Mr. HELVERING. Now, the staff of the Bureau of Internal Revenue has been laboring diligently to prevent a recurrence of this situation during the current emergency. It would be unfortunate if by the enactment of the withholding tax such a burden is placed upon collectors' offices as would bring about a condition similar to that which existed during the first World War.

The foregoing portion of this statement has related particularly to the situation in the Internal Revenue Service. Since the time I appeared before the Ways and Means Committee, many representatives of business and industry have presented their views for the purpose of informing the Bureau how they would be affected by the withholding plan. It is probably true that with respect to most employers of labor the withholding plan would not impose any great burden upon them. However, the great majority of employees work for a comparatively few employers.

We, therefore, have had, not a large number but we have people who represent a large number of employees, employees of large branches, large ranks of employees.

Banking institutions and paying agents which are concerned with the payment of bond interest and stock dividends, according to

information received by the Bureau, are seriously concerned with the withholding plan. It is understood that due to orders of the War Production Board, which either limit or abolish the manufacture of accounting equipment, financial and industrial institutions which will need additional accounting equipment will probably be unable to procure the same.

Senator CLARK. If the Bureau of Internal Revenue, a governmental agency, has great difficulty in getting equipment, naturally it would be much harder for private concerns?

Mr. HELVERING. I think that the private concern—Yes, I think they will experience more difficulty than we.

Senator CLARK. That is what I mean.

Mr. HELVERING. Yes.

Senator CLARK. You have been talking about the difficulty you were experiencing, but it seems to me it would be greater in the case of private industry.

Mr. HELVERING. There is another point, as to private industry: The War Production Board will say, "If you are essential to the war effort." In that case they will be more liberal than to one not in war production.

Senator CLARK. But they will have to withhold the taxes whether they are an essential industry or not.

Mr. HELVERING. Yes. We have to get the tax from them as well as we do from the others.

Such institutions have advised the Bureau that they are having difficulty in maintaining and securing competent personnel. It is possible that a number of financial and industrial organizations would be even more seriously embarrassed by the withholding plan than would the Bureau of Internal Revenue.

As you have suggested, Senator, that is a possibility if not a probability.

This Bureau can, therefore, fully sympathize with the problems of such institutions.

I might say in passing there, and this was given me just as a memorandum. I don't know whether it was filed with you or whether they appeared before you or not, but the Bankers Association, the committee on taxation of the Bankers Association—

Senator CLARK (interposing). I have a copy of that. I don't know whether it was sent to the whole committee or not.

Mr. HELVERING. Four of the larger banks in New York made a survey of their needs. The net result was that they will need \$190,000 in new equipment, and the personnel to be employed will be \$835,000.

Senator CLARK. That includes the additional personnel and the rental on the machines that it will be necessary for them to have?

Mr. HELVERING. Yes; or purchase of the machines.

Now, I understand there has never been any desire to enter into the cost of this withholding tax as perhaps the good to be accomplished from it would justify the cost, but I can't help but think that, while you gentlemen are scratching your heads to find additional items of taxation, the effect will be to force upon industry the payment of large sums for the administrative cost of the withholding tax. These items become deductions as a business expense and, with rates of 45 percent or 40 percent, result in considerably reduced taxes from these companies.

Senator GERRY. Wouldn't that follow in a great many other cases? I have had complaints along that line; people have been in to see me on this thing, on the amount of machines they would have to get and also on the increase in personnel.

Mr. HELVERING. I think that is going to be a question, taking to a certain extent our own survey and the letter the Secretary of the Treasurer sent to the War Production Board which showed that industry would need, in different categories of machinery, over 50,000 machines. We haven't received any reply from the War Production Board, as to whether they can furnish those or not; but I know it will be on a basis of making the application to the War Production Board, showing their status and the necessity for it, as well as their situation as to the war effort. That is, their status in relation to highly productive war facilities. They may have further questions. A fellow running a restaurant out in some small town, or a little concern in a small town, not necessarily a restaurant but a little concern that isn't connected with the war production program—

Senator CLARK (interposing). Let me ask you, Commissioner Helvering, you referred to this report from the American Bankers Association, committee on taxation of the American Bankers Association, which I am going to have included in the record, in which you referred to the figures of \$190,000 plus \$835,000. Those are rather startling figures. Does your investigation of this matter, in connection with your own prospective difficulty in the matter, lead you to believe that those figures are reasonable and approximately accurate?

Mr. HELVERING. Well, I can say that possibly it would be accurate if those are the four largest. They don't name the banks.

Senator CLARK. Of course, the memorandum explains the tremendous itemization in transactions that they are subject to as paying agents for various corporations and trusts. But does that figure seem to be reasonable to you?

Mr. HELVERING. It seemed to me, when I read it, that the cost that they attributed to the additional help necessary was a little high, but they go ahead and justify that to a certain extent in that one institution estimated it would take 12 people 12 months. I will read from page 9 of the report.

One bank alone estimates that in order for it to go through the complex legal procedures necessary to transfer the stocks which it now holds in nominee form to the actual owners would require the services of a crew of 12 men for a period of at least 12 months.

Senator CLARK. Yes; I noticed that statement.

Senator GERRY. But it would also leave to other industries, besides the banks, the difficulties of withholding and the amount of the work entailed by it.

Mr. HELVERING. Yes. The reason I called attention to the banks is because this bill includes the withholding from dividends and interest paid.

Senator GERRY. Yes.

Mr. HELVERING. And these are all—well, not all but nearly all are checked through some bank, and this bank will have to make a return and deduct the withholding tax from the recipient of the coupon, interest, or dividend check, as it may be.

Another further burden will be thrown on the bank, no matter what the size, and that is the determining of whether or not, when a man comes in for the payment of a coupon, there is a withholding provision in that particular issue; the burden is on the bank, whether a little bank out in the country or wherever it is, and there are very few people competent in these little institutions. Nearly all big banks would have somebody competent, but in the little institutions, the little country banks, where there are but a few of those coming in, it would be necessary for them to know. In many cases it would be necessary for the man with the coupon to bring them his certificate, so they can know whether it has the withholding clause in it at the source or whether he should have the 5 percent deducted when paid.

Senator CLARK. This memorandum suggests that it will result in practically all the banks in the country simply taking the coupons, taking them for collection rather than handling them the way they have been handling them; the banks can't afford other than to take them for collection under those circumstances.

Mr. HELVERING. Yes.

Senator CLARK. They are not going to take any chances on their rights and obligations.

Mr. HELVERING. Now, we have what we call the certificate of ownership which must be made out now, but the common practice is for the man who has some bonds to sign a withholding certificate and throw it in with his coupons to the bank and the bank makes it up. That will be such a burden on a bank of any size that they must have a regular department to handle that.

Senator DANAHER. May I interrupt?

Mr. HELVERING. Yes, sir.

Senator DANAHER. The statement of Mr. Mylander appears at page 1838 of the record, part 16, of the unrevised addition of the hearings.

Now, in that testimony, Mr. Commissioner, he urged upon us that the method proposed in the bill is unworkable (1) because of the provision which exempts certificates for a relatively small number of stockholders and bond holders. Suppose that we excluded entirely withholding taxes as to dividends and bond interest and limited the plan solely to gross wages over a stipulated sum, let us say \$20 per week? Would that reduce the mechanical defects that you now foresee?

Mr. HELVERING. Oh, yes.

Senator DANAHER. By any appreciable degree?

Mr. HELVERING. Well, to give you any definite idea about that, I would have to revise our whole estimate to see what the work load would be. I couldn't say offhand. No doubt it would decrease it materially. I understood you to say: "Leave out bond interest and dividends"?

Senator DANAHER. That is right, and limit the plan to gross wages over a stipulated sum without deductions.

For example, Mr. Gretz was here this morning—

Mr. HELVERING (interposing). You say without deductions?

Senator DANAHER. Yes.

Mr. HELVERING. Oh, well, of course—

Senator DANAHER (interposing). That is, just a further demarcation; but, you see, we had a proposal submitted to us this morning

by the assistant comptroller, Mr. Gretz, of the American Bell Telephone System, and he had a band method of allocating in units of \$10 the allocation or percentage of deduction against the several bands so that there would not be computations in minutation as to each individual taxpayer.

His plan has very great merit, let me say, and it well may be that we can modify the plan to make the thing workable.

I therefore wondered how much you could contribute to our thinking on that point. You say you would have to revise your estimates?

Mr. HELVERING. Well, I could say, if you are going to leave out bond interest, dividends, and exempt up to \$20, and on a straight withholding, without computation in the minutest detail as to each individual taxpayer, of course our problem would be simplified. But I must say to you, in consideration of that, I would think that a flat withholding would be highly inequitable as between a man with four children and a single man on the same salary.

Senator DANAHER. I haven't any question of that. I don't insist it be done. I am just trying to establish some yardstick of centralization so that we could have other angles to consider the proposition from.

Mr. HELVERING. In regard to the matter of compliance with the withholding plan on the part of governmental institutions, it may be stated that one Government department has already approached the Bureau with a view to being relieved of the responsibility of filing annual information returns for its civilian employees on the ground that this work interferes with the war effort.

That information return is what we designate as the 1099.

The plan to withhold tax at the source would be much more difficult for any department to administer than is the present plan of supplying information returns. It is quite possible that in the event the withholding plan is enacted into law, certain city governments, State governments, and perhaps Federal departments would simply advise the Bureau that they do not have the facilities for complying.

We will find that particularly with the State governments, from what I have heard, and the large city governments.

Senator CLARK. Do you have any basis on which to estimate what this withholding procedure would cost to, say, the City of New York?

Mr. HELVERING. I don't know. I understand the committee started to go into that, but I haven't any report on it.

Senator CLARK. It certainly would be very much larger than that of any aggregate of banks, three or four banks.

Mr. HELVERING. Well, it would be very much larger than the largest banking institution in the country—any individual banking institution.

Senator DANAHER. Before you leave that point, may I interrupt?

Mr. HELVERING. Yes.

Senator DANAHER. Mr. Paul, am I correct in my recollection that the plan would apply to unemployment compensation checks payable by a State labor administrator, for example?

Mr. PAUL. Yes, I think it would. We contemplate.

Senator DANAHER. Yes.

Mr. PAUL. Provided the amount is sufficient.

Senator DANAHER. Yes. That is my recollection, too, Mr. Paul. I just wanted to verify it before we left the point. Thank you, sir.

Mr. HELVERING. Coming back to the point I was making about city, State, and other governmental bodies, we are very much concerned as to what effective action we could take in cases of that kind, when they would simply tell us they cannot comply.

Senator CLARK. What is that?

Mr. HELVERING. When we try to administer this law, affecting everybody, what effective procedure I could follow if the city of Philadelphia or the city of Chicago or the city of New York told me, "We just cannot do this"; if the State of Massachusetts or the State of Illinois, or any other State would say, "We are not in a position to furnish you this information." Of course, on some other matters, which the States are supposed to cooperate on with us, we have been told that; but this is much more complicated.

Representatives of the American Bankers Association, of the railroads, and of other large employer groups, have appeared before the Department and expressed great concern over the many difficulties with which they are confronted in the event a withholding tax is enacted. In view of the fact that the representatives of some of these organizations have appeared before your committee, or probably will appear for the purpose of stating in detail their objections, it is not considered necessary to discuss the details of their problems in this statement.

I would like to say, Senator, I have here a letter—I think it is from your State—no, it is not from your State, but this letter comes from the National Council of Farmer Cooperatives. They have 2,000,000 farm members. These members own small amounts of stock. Some of them own one share. The shares are \$5. Some of them have 10 and some as high as 20, and so forth. He is protesting the withholding tax on the ground of the work it will throw on their organization.

I might say that in these small community cooperatives, the farmers have a man hired to run it. They will have maybe 200 or 300 members from that community. They have these participating shares which they take out at \$5 per share. This man is protesting on the ground that the cost of the work thrown on them is far in excess of the revenue that would come in to the Government.

I just mention that in passing. I haven't gone into that particular problem.

Senator CLARK. They would be very small transactions for the most part?

Mr. HELVERING. Yes; but nearly every one of these farmers now are under some sort of a tax.

Mr. PAUL. The farmers are exempt.

Mr. HELVERING. This is dividends.

Mr. PAUL. Pardon me.

Senator CLARK. They belong to this cooperative.

Mr. PAUL. Pardon me. I just didn't hear.

Mr. TARLEAU. Aren't they exempt under the Bureau rules?

Mr. HELVERING. No; not the dividends on the stock.

I want to say, gentlemen, that the problems with which the Bureau of Internal Revenue is now confronted are so serious, the additional problems which would be imposed upon the Bureau by the enactment of the withholding plan would be so numerous, and the effect of the plan upon a number of financial and industrial institutions which are

devoting their best energies to war work would apparently be so unfavorable, it is my mature opinion that the plan to withhold a portion of the income tax at the source should be foregone for the present.

Senator GERRY. Mr. Helvering, I wonder if you care to express any opinion on Mr. Ruml's plan?

Mr. HELVERING. Well, I haven't had time to study that yet. I just came back last Monday.

Senator GERRY. Yes.

Mr. HELVERING. I read the first information on the Ruml plan in the papers in Chicago as I came through. But I would say, from what I looked over this morning, that the adjustments that would be necessary, either by way of deficiency or refund, on the Ruml plan, would be terrific at the end of each year. That is, if I have it right; and I do not want to go any further than that on it because I have not studied the plan. But it seems to me that the adjustments must necessarily follow in nearly every case, unless the man is on a straight salary. I just took my own case, and I noticed for the last 12 years that no year was the same. It was relatively the same, but maybe two or three thousand difference.

Now, gentlemen, if you might indulge me, in order for you to get the entire picture, I would like to have Dr. Atkeson, of the Bureau, who is the head of our Statistical Section and who prepares forms—not exactly prepares them himself but outlines what we have in these forms in order to facilitate the handling of these returns—give you the story that would have to be followed by the employer and the withholding agents, like the banks and other branches of industry.

Senator CLARK. We will be very glad to hear Dr. Atkeson.

Mr. HELVERING. Doctor, come right up here.

I will ask Mr. Atkeson to identify each form as he talks about it, and I will give each one of you gentlemen a set of the forms.

STATEMENT OF T. C. ATKESON, HEAD OF THE CLEARING DIVISION OF THE BUREAU OF INTERNAL REVENUE

Mr. ATKESON. If you will turn to the second form in that group? It is a short form known as W-1, which is the basic form for the purpose of reporting the salaries. I would like to take that form up first.

This first form serves three purposes. First, it is to be used as an exemption certificate, determining the marital status and the number of dependents of the employee in order that the employer might know how much to withhold each week. The second purpose that it serves is a receipt for the amount of taxes deducted from the salary and wages each week. And the third purpose is that it is an information return which goes back to the employee to assist him in making out his own tax return at the end of the year.

Now, the steps that are necessary to carry this form through are these:

On January 1 of each year, or with the first day of employment, if after January 1, the employer will hand to each employee two blank copies of Form W-1 with the request that certain specified items be filled in by the employee and promptly returned to the employer.

The employee will enter his name; address; social security number (if any); collector's office with which he expects to file his next income tax return; a check mark opposite the line descriptive of his marital

status for tax purposes; number of dependents; name of spouse, if employed; his signature, and the date the entries are made.

The employer will collect all forms W-1 from the employees as soon as possible after distribution in the event such are not voluntarily returned as requested.

The information shown by the employee on Form W-1 as to marital status and number of dependents will be noted by the employer on his pay roll, or other records, to be used as his guide in deducting the tax from each succeeding wage payment.

I might give you an example: If the employee indicates that he is married and has one dependent, the employer determines from the schedule of exemptions, to be furnished him with the forms, that a married person paid on a weekly basis is entitled to \$26 plus \$8.50 for each dependent, or a total for the week of \$34.50. If his gross earnings are \$54.70 for the week, the exemption of \$34.50 is subtracted from the \$54.70 leaving a balance taxable of \$20.20 on which a tax of 5 percent (for 1943) or \$1.01 must be withheld.

Now, instead of computing the tax as outlined above, the employer may, under a proposed amendment to Supplement U, if approved, ascertain the tax to be withheld by reading the amount of tax to be deducted directly from a tax chart. This is accomplished by locating in the left-hand side of the chart the wage bracket in which the amount of the employee's gross earnings fall, and locating the tax in the column under the caption for married persons with one dependent.

The employer will make deductions each succeeding pay-roll period in accordance with the marital status shown on Form W-1 until the end of the year, or until an amended Form W-1 is voluntarily filed by the employee indicating that the marital status or dependency credits have changed.

The employer will retain in his files the Form W-1, filled in by his employees, until the end of the year, or termination of employment, whichever is earlier.

At the close of the year, or upon termination of employment if within the year, the employer will withdraw all Forms W-1 from his files and post to each the total wages paid during the year and the total amount of tax withheld during the year. The employer will also enter his name and address on each Form W-1.

The employer will give one copy of the completed Form W-1 to the employee for his information as to his earnings for his use in preparing his income tax and as his receipt for the amount of tax withheld.

The employer will forward the other copy of the completed Form W-1 to the collector of internal revenue, in the district in which the employer is located, accompanied by the quarterly return of tax withheld.

The above outline is a strict interpretation of the use of Form W-1 by employers and employees. There are a number of minor variations which may be authorized for purposes of better adapting the form to conditions peculiar to certain employers, for the purpose of facilitating its preparation, according to their own particular needs.

Upon receipt of Form W-1 by the collector, he will add the amount of tax reported as withheld from the wages of the employee—the tax withheld appears on line 2 of the form—and if the total for all Forms W-1 received from each employer equals the total tax reported and

paid by the employer, the forms will be released for sorting. If a sizable discrepancy appears, the forms will not be released for sorting until the discrepancy is cleared up with the employer.

If no discrepancy appears, or is eliminated through checking with the employer, the Forms W-1 will be sorted as follows:

A. By collection district in which the employee states that his next income tax return will be filed.

B. Alphabetically by name of each employee.

After the sorting is completed, the forms will be associated with the income tax returns of the respective employees; first, to insure that the proper income has been taken up on his return; and, second, to verify the credit which may be taken on his return for tax deducted from his wages.

The checking of Form W-1 against the individual income tax returns will constitute the basis for making any necessary changes in the credit for tax withheld at source.

And that essentially is the end of the route for the Form W-1.

May I proceed with the next form?

Senator CLARK. Yes.

Mr. ATKESON. The next form you have there is W-2. It is another small form which is designed for the dividends and interest on registered bonds.

Owners of corporate stock and registered bonds, whose income is not subject to deduction of tax at source under Supplement U, should obtain Form W-2 and enter the owner's name, address, a check mark in the line descriptive of his status, signature, and date, and forward to the corporation (or the Commissioner of Public Debt—United States Treasury in the case of certain registered Government bonds) paying the dividends or the interest on registered bonds, in advance of the usual date of payment.

In other words, a person who knows in January that their income is not going to be in excess of their personal exemption and therefore is not going to be liable for tax should not have the tax withheld from them during the year; and if they also know the approximate date they get dividends or interest on bonds, if they will in advance of these particular dates fill in this exemption certificate and file it with the corporation, no tax will be deducted.

The dividend and interest disbursing corporation, upon receipt of Form W-2, will make a notation on their records in such a manner as to permit them to issue the dividend or interest checks in full for that taxable year to owners from whom such forms have been received.

At the close of the taxable year the disbursing corporation will post to these forms the total amount paid during the year and forward them to the collector of internal revenue for use as information returns where appropriate.

In the case of all dividend payments and interest on registered bonds to stock or registered bond owners from whom no Forms W-2 have been received, the obligor corporation will deduct 5 percent (for 1943) of the payment made to each shareholder or bond owner.

That, in the main, will be the larger number of stockholders because they will have some tax to pay.

At the close of the year the disbursing corporation will prepare a Form W-2, in duplicate, for each person from whom tax has been withheld, showing the name and address of obligor; name and address

of shareholder, or bond owner; total dividends or interest paid during the year; and total tax withheld.

One copy of Form W-2 will be forwarded to the payee as his receipt for tax withheld.

The other copy will be forwarded to the collector of internal revenue accompanied by the quarterly return of tax withheld.

In the case of Form W-2 as in that of Form W-1 minor variations in the use of the form may be authorized to permit greater adaptability to corporations peculiarly circumstanced.

As in the case of Form W-1, the collectors will add the item of tax withheld on line 2 of the form for the purpose of verifying the accuracy of the tax payments made by the obligor. If sizable discrepancies are noted they will be taken up with the obligor before the Forms W-2 are released for sorting.

After corrections, if any, Form W-2 will be sorted by collection districts on the basis of the address of the stock or bond holder and then alphabetically by his name for association with the income tax returns filed by such owners.

Forms W-2 then become the basis for verification of the credit of tax paid at source on account of dividends or interest on registered bonds.

Senator CLARK. The collector has to go through the same procedure.

Mr. ATKESON. That is right, on each of those forms.

Now, the next form is entitled—the next form that I would like to take up is Form W-6. It is not in the order, but we will take it up while we have our minds on dividends and registered bond interest.

This is the record of ownership of stock for use by record owners.

For good and sundry reasons stocks and registered bonds are frequently of record on the books of the issuing corporation in names of others than the actual owners. Where such is the case dividend payments and interest on registered bonds will be subject to the deduction of the 5-percent tax and reported to the collector on Form W-2 previously described.

This form that I am about to describe here is designed to furnish a solution, if possible, to the questions raised by Mr. Mylander in the report that you referred to in respect to the nominee situation.

In such cases the record owner will prepare in duplicate Form W-6 for each payment received by him for the actual owner. He will enter on both copies his name and address; the actual owner's name and address; the name of the issuing corporation; amount of dividends or interest received; the amount of tax withheld; his signature; and the date.

He will furnish one copy of Form W-6 to the actual owner as his record of the income to be included in his income tax return and also to serve as his receipt for the amount of tax withheld from the dividend or interest payment.

He will forward the other copy to the collector of internal revenue for the district to which the original Form W-2 was forwarded by the issuing corporation.

The collector upon receipt of Form W-6 will make a copy of each; which copy will be sorted according to the name of the record owner for the purpose of canceling the income payment and the credit for tax withheld reported in his name by the issuing corporation on Form W-2, and also for the purpose of comparing the total of such forms

with the total reported on Form W-2 for the record owner to avoid issuance of Forms W-6 as receipts in excess of the total actually withheld.

The collector will sort the other copies of Form W-6 by collection districts, according to the address of the actual owner, and alphabetically by name of actual owner, for the purpose of associating the forms with the income-tax returns of the actual owner.

Forms W-6 then become the basis for verification of the credit for tax paid at source on dividends received through record owners by actual owners.

Now, we come to the item of interest on coupon bonds. This is a rather large item, which is Form W-3.

Form W-3 is required to be executed by the owner of any interest coupon from bonds of the nature described on the forms when presenting such coupon for collection or payment. If the interest payment is one from which tax is to be withheld, the owner must execute the form in duplicate; if no tax is to be withheld, only one form need be made.

The owner must enter on both copies of the form—if prepared in duplicate, otherwise on only one copy—the name and address of the debtor; name and address of owner; the name of the bond; date bond was issued; a check mark descriptive of the owner's status in respect to withholding under Supplement U; the amount of the interest coupon on the line applicable to the type of bond from which it was clipped; the amount of tax to be withheld, if any (5 percent of the interest for 1943); the net amount to be paid to him, and his signature.

Both copies—only one if no withholding is required—of the ownership certificate will be presented with his coupon at his bank; or at the office of the paying agent for the particular bond issue, or at the office of the debtor corporation; or in the case of certain Government bonds, to the Treasurer of the United States or Federal Reserve banks.

Bonds of the nature described on the form are coupon bonds of three classes:

(a) Bonds issued by corporations without the so-called tax-free covenant; or with the tax-free covenant, if issued after December 31, 1933;

(b) Bonds of the Federal Government of the type upon which interest is taxable to the bond owner; and,

(c) Bonds of the Federal Government of the type upon which interest is wholly nontaxable.

The bank or other paying agent, either cashing the coupon or accepting it for collection, will examine the two copies of the ownership certificate Form W-3 for the purpose of insuring that all the necessary information has been furnished and for determining from the information shown thereon whether or not tax is to be withheld, and, if so, will stamp one copy of the ownership certificate with a stamp showing its name as the initial point at which the coupon was presented for collection or payment, and hand this copy back to the person presenting the coupon as his receipt for the tax withheld.

Instances in which no withholding is required which may be determined from the ownership certificate presented by the bondholder are as follows—there is no real responsibility on the bank here except to examine the information that is reported on the Form W-3.

Instances in which no withholding is required which may be determined from the ownership certificate presented by the bondholder are as follows:

- (a) Interest reported from Federal obligations wholly tax exempt;
- (b) Interest from any type of bond where the owner is an individual and certifies on the form that his gross income does not exceed his personal exemption and credit for dependents; and
- (c) Interest from any type of bond owned by a domestic or resident corporation or exempt organization.

The coupon, if falling in the categories requiring withholding as described on Form W-3, will be paid to the bond owner or credited to his account less 5 percent (for 1943). If no withholding is indicated the coupon will be honored at 100 percent.

The first bank or agent receiving the coupons will forward the coupons accompanied by Forms W-3 through the customary banking channel to the debtor corporation or its paying agent for settlement.

The obligor will make settlement through banking channels at 95 percent for those coupons from which tax has been withheld and for the remainder at 100 percent.

The obligor will then forward all Forms W-3 to the collector of internal revenue with a remittance equal to 5 percent of those coupons from which tax has been held.

As in the case of Forms W-1 and W-2, the collectors will add the items of tax withheld—lines 1 and 2 of column 2 of the form—for the purpose of verifying the accuracy of the tax payments made by the obligor.

After corrections, of any, Form W-3 will be sorted by collection districts on the basis of the address of the bond holder and then alphabetically by his name for association with the income tax returns filed by such owners.

Forms W-3 then become the basis for verification of the credit for tax paid at source on account of interest on coupon bonds.

Now, in addition, you will find Form W-4, which is a standard receipt form, which is being provided to take care of employers where they have employees of less than eight, which receipt must be issued each pay period. Also it is a standard form to be used by those corporations paying dividends where they wish to issue a receipt to their stockholders with each dividend payment. It is not required each dividend payment. It is possible to have that issued at the end of the year and form 2 might serve that purpose. So there will probably be a number of variations in the receipt form that will finally be authorized.

Now, Form W, which is the return of income tax withheld at source.

Form W is the quarterly return of tax to be used by the payors in transmitting the tax withheld at source to the collector.

At the close of each quarter, employers will strike a total from their pay roll records of all salaries and wages from which tax has been withheld and a total of the tax withheld. The total of the wages will be entered in line 1 in column 1 and the tax in line 2 of the same column.

Corporations making disbursements of dividends and registered bond interest will enter the total of such payments from which tax has been withheld in line 1, column 2, and the tax in line 2 of the same column.

The same type of entries for coupon bond interest will be made in column 3.

On line 3 will appear any adjustments in tax due to raising or lowering on account of fractions of a cent and on account of overpayments or underpayments as between quarters resulting from adjustments of taxes withheld which have been refunded by the employer to the employees on the basis of amended exemption certificates or other bona fide changes. Such changes will be itemized on a supporting form designated as Form W-5.

The net tax, after giving effect to the adjustments will be entered on line 4, and the net total tax withheld from all sources of income will be shown on line 5.

The number of the several types of forms previously described accompanying the quarterly returns, Form W will be shown in item 6. In general, for the first three quarterly returns, the only accompanying forms will be the ownership certificates for coupon bonds, Form W-3, and the wage forms, Form W-1, for employees whose services are terminated prior to the close of the year. The main body of the accompanying forms will be submitted with the last quarterly returns for the year.

The tax shown to be due will be paid to the collector with each quarterly return.

The collectors will list for assessment each of the quarterly returns as filed and make the necessary deposits of tax received.

With the filing of the last quarterly return for the year, the collectors will assemble the returns for the four quarters for each withholding agent, add the tax on the four returns, and verify its accuracy by comparing it with the total obtained by adding the tax shown to have been withheld from each employee, stockholder, or bond owner on the separate forms W-1, W-2, and W-3 submitted with the quarterly returns by the withholding agent during the entire year.

Now, of course, these forms are, as they are marked, tentatively proposed, and I have to apologize for the crudeness of appearance. Naturally, the printed form of standard size and shape will look much better; but anyway that is the mechanism which we have tentatively thought might be used for carrying out the provisions of the proposed bill.

Senator CLARK. Thank you, Doctor.

Mr. HELVERING. I just want to make one or two more statements, gentlemen of the committee.

Senator CLARK. Go right ahead, Mr. Helvering.

Mr. HELVERING. I had nothing to do with making those forms out. It is the boys who have to handle that, the men in my Bureau who have to handle this. They have made up these forms on the basis of what they think is necessary. I think everybody is in agreement on that, that that procedure will have to be gone through.

Mr. PAUL. Of course, I haven't seen this before.

Mr. HELVERING. I think it is agreed that this procedure will have to be gone through.

I want to call attention to three or four more things, and then I am through.

The salary form there that Mr. Atkeson explained to you, I just want to call this to your attention, that our check on change in status in each year is 10% percent.

In other words, if there are 51,000,000 employees in these there will be 5,100,000 changes in the status, on the new form, W-1 I think it is numbered. That is a little additional burden on the employer and the employee.

Now, the 10 percent only refers to the change in status. That is where a man either gets married or his wife dies or a child was born, or a child reached 18 years of age, or something like that.

Now, the Social Security will be increased—when does that go into effect?

Mr. SCHOENEMAN. The new rate goes into effect the first of the year.

Mr. HELVERING. The first of the year, the Social Security will be increased from 1 to 2 on both the employer and the employee.

But I want to state what our experience was with the withholding of this Social Security tax, which was only 1 percent.

Senator CLARK. A flat 1 percent.

Mr. HELVERING. Yes.

Senator CLARK. In other words, was there any question of deductions, or anything else? That was a flat 1 percent.

Mr. HELVERING. Yes. But we have two hundred and fifty some thousand delinquents each quarter.

Now, this bill covers a great many more than Social Security covered, because we only run down into certain classes of those.

So, we estimate that there will be 750,000 delinquents each quarter or 3,000,000 a year.

Now, our experience has been that a deputy collector, even if he gets the soles of his shoes hot, cannot check more than 12 to 15 of those, if he has them all combined in one small area—

Senator CLARK. In a day?

Mr. HELVERING. In a day. So that is another thing to be considered in the problem that will confront us.

Senator CLARK. With this situation, these 3,000,000 employers as collecting agents, you have got to go out and police those 3,000,000 agents, haven't you, or lose a lot of money?

Mr. HELVERING. We have an estimated 17,000 claims on Social Security in the bankruptcy courts right now, where employers have gone out of business and we filed a claim in bankruptcy courts to get the Social Security tax.

In 1939, the total number of businesses, according to the information furnished me sometime ago, the total number that went out of existence, big, little, and indifferent, was 30,000; and I will say to you that if these 30,000 that go out of business and are bankrupt, have collected one or two or three installments of this withholding tax, you won't get it, in my opinion.

Senator CLARK. You are liable to have a lot of cases where the employer will collect and withhold this tax and instead of depositing it in the bank to a special account he will use it in his business until the time to pay it, and if he fails it becomes a matter for the Government to collect it.

Mr. HELVERING. That is true, unless you can force, by some act of law, him to put this in some special account for that purpose. Whether that can be done, I could not say.

Senator GERRY. Does the man in temporary employment make this much more difficult?

Mr. HELVERING. Well, of course, the bill provides for what we call casual employment, who wouldn't come under this. Like if you hired a man to clean up your yard for 3 days.

Senator GERRY. Yes; I know that; but where a man is employed say for a couple of months by a contractor and then he goes on to another job and works 2 or 3 months somewhere else; does that make the paper work more difficult by reason of that?

Mr. HELVERING. There is no doubt about it, because his return—his employer will have to return in the collection district where he tells him he files a return.

Senator CLARK. A lot of fellows are in the habit of going to Kansas, say, and working for various employers in the wheat harvest.

Mr. HELVERING. Yes.

Senator CLARK. Of course, I understand that agricultural labor is exempt.

Senator GERRY. What I had in mind is, with the condition we have now with all of this war construction and transitory labor, you are bound to have men going from one job to another and whether it is going to be very difficult to work out each one of these individual cases. The only thing I am wondering is how that will effect the war effort, if it will hold up any of our war production.

Mr. HELVERING. Well, I don't know just how the employers will handle that. I know that McDonald and—McDonald and somebody out in St. Louis, went out in Kansas and built a big bomber plant.

Senator CLARK. Donald Aircraft.

Mr. HELVERING. Yes. They have some 11,000 employees on the aircraft and cantonments. I don't know whether it is all for McDonald & Co., but anyway it is 11,000 employees. Their contract is to finish by December 31 of this year, and of course these men will not be there after that is finished. They may continue with this same employer or may not. Of course, that all adds to the burden of checking this in the collector's office.

Then, there is one other thing I want to mention, and that is that we anticipate we will have in excess of 100,000,000 certificates sent in with reference to wages, bond interest, and dividends. I think it will be more, but the boys in my Bureau tell me that that is a conservative estimate, and so I will use it. 100,000,000 of those to check. That is, transferring of certificates between collection districts. That will have to be done. A man may have a contract in any large city. For instance, if he had it in New York City, we have three collection districts in Brooklyn and New York City, the employees may live in any one of those three; so, the collector's office will have to transfer those to the proper district in order to match with his individual return.

I don't know what to say about the problem we will have with the refunds. Every man that works a part of a year and his tax is deducted, at the end of the year he isn't a taxpayer, why, of course, we have to give him a refund.

Senator CLARK. If the employer is confronted with the possibility of going to jail if he makes a mistake he is apt to take out more rather than less; isn't that true?

Mr. HELVERING. Yes.

Senator CLARK. I understand some of these people are not employed by one employer for more than a small portion of the year.

Mr. HELVERING. Yes; but I was talking about the man who changed employment. That is a big percent. I have no way to figure what that percentage is. At least, I don't know. I don't know how to get at that figure. I know it is considerable.

But I do want to call attention to it, because I know that Congress has been zealous about their granting refund privileges and while I think it is the correct idea, we will not be able to make quick refunds under our present procedure. After refunds have been approved by the Bureau of Internal Revenue, the schedules must be forwarded to the Treasury Department in order that the Disbursing Office may draw the checks. The entire subject of refunds will be a very troublesome one. The items of refund under the proposed withholding tax are not as involved as they are in any large refund inasmuch as a large refund, of course, must be sent up to the joint committee.

Mr. PAUL. That is only over \$75,000, isn't it?

Mr. HELVERING. Oh, yes. I was giving that illustration of the way the gentlemen of the Congress guard this refund, and I think it is right. The present procedure requires every one of those refunds to come into my office, and I think there will be a considerable number of them.

Thank you, gentlemen.

Senator CLARK. Mr. Helvering, have you made any estimate as to the effect of the withholding tax in the way of necessary expenditure?

Mr. HELVERING. Well, our office expenditures will be somewhere between \$25,000,000 and \$30,000,000.

Senator CLARK. That is, initial appropriation?

Mr. HELVERING. Yes. That is another thing we have got to get down to.

Senator CLARK. Does that include the policing of these 3,000,000 employees we were speaking about?

Mr. HELVERING. Well, we hope to do it with that.

Senator CLARK. That is not all the costs there will be?

Mr. HELVERING. No.

Senator CLARK. You have 1,100,000 Federal employees in the country, and all the governmental agencies will have to go through the process the same as a private employer. Have you any idea how much that would cost the Government?

Mr. HELVERING. No; that has never been considered as entering into the merits or demerits of this particular withholding tax. There is no doubt but what the tax we will lose on account of money expended by corporations in handling the tax and the cost to the Bureau will run somewhere between \$60,000,000 and \$75,000,000.

Senator CLARK. In other words, whatever cost there is to the private employer will diminish the tax which that corporation will pay in taxes?

Mr. HELVERING. Yes.

Senator CLARK. And you estimate that total will be between—

Mr. HELVERING. Some place in there, \$50,000,000 or \$60,000,000. In other words, based on the \$26,000,000 or \$27,000,000 cost to the Bureau of Internal Revenue and the cost to industry.

Senator CLARK. Does that include the cost to the other governmental bureaus, the Navy, the War Department, Agricultural Department, with their tremendous horde of employees? They have to make these deductions, too, according to this proposal; and that

will undoubtedly be a very considerable additional item of expense to the Government?

Mr. HELVERING. Undoubtedly.

Senator CLARK. Do you think the withholding tax would have any effect on inflation? Or perhaps you don't care to answer that.

Mr. HELVERING. Well, I am of the opinion that the more money we get out of circulation the more we control inflation. The Treasury officials estimate we would collect, on the 5 percent, the first year, one billion—

Mr. PAUL. Two hundred and fifty.

Mr. HELVERING. \$1,250,000,000.

Now, it is a very serious question in my mind, when the employees of the country have this deduction taken, if it won't make a very considerable difference in the bond purchases they make.

Senator CLARK. You mean the voluntary bond purchases in the system now under way?

Mr. HELVERING. Yes; what effect that will have I have no way of estimating. I have a few instances of what people have said to me that led me to that belief, that there would be a very considerable amount of cancelation of their voluntary bond purchases.

Senator CLARK. Do you expect all of these employees to make these returns without some compulsion from the Government?

Mr. HELVERING. Well, as I say, we expect to have 750,000 delinquencies each quarter.

Senator CLARK. I believe you said that if there was any difficulty in obtaining compliance by State, city, and local governments, you didn't know what you would be able to do to induce them to comply?

Mr. HELVERING. I don't know what we could say to a State government except "This is the law." I know of no provision in the statute that gives me power to compel them to make a statement, especially when they say they have no equipment with which to do it and no personnel to handle it, and so forth.

Senator CLARK. I don't know what you can do either. It is well known, I think, that the Bureau of Internal Revenue for many years, by reason of its experience and efficiency, has occupied a very enviable position in this country as far as public respect and cooperation is concerned. What effect do you think it will have on that public attitude of respect and cooperation if there is a very noticeable diminution in the efficiency of the Internal Revenue Bureau as the result of this? In other words, that is a big asset to you in the operation of your Bureau, isn't it, the general public attitude with respect to the efficiency of operation?

Mr. HELVERING. Yes. I think there never was a greater decrease in the respect the people had for the Federal Government than there was in the failure to enforce prohibition. And I think that started the view of the people that the Federal Government was not as grand as it was supposed to be, when they violated the prohibition law in many States with impunity, as they did for many years. I think the same thing will come back with any other law that can't be enforced.

Senator CLARK. I think that is true.

Mr. HELVERING. I want to say this, I think the American people are patriotic, but in connection with taxes you have to get to the point where you tell the taxpayer how much he owes. If you think

there is going to be any cooperation in this particular thing, just from the patriotic standpoint alone, it is not going to be done. It must be done by a system that will tell each taxpayer and each employer that is required to do something by the Federal Government that "this is the date it must be done," and the manner in which it is to be done.

The slipshod thing that this will develop into, I am afraid will get us into a different position than we have been in for the last 10 years—or going on 10 years that I have been in the Bureau of Internal Revenue.

Senator CLARK. Thank you very much, Mr. Helvering.

If there is nothing further, the committee will take a recess until 10 o'clock Friday.

Mr. PAUL. I hadn't seen this statement before today, and I didn't know that the Commissioner was going to express any opinion on policy. We have been working with the Commissioner on this question and I knew, of course, that he was going to discuss some of the administrative difficulties which we have been discussing with him for many months.

I would like to go into this problem somewhat more, in the light of this additional information submitted. I think it is a matter of differences of opinion. I think some of these difficulties have been overestimated. For instance, this figure of 11,000 employees. Well, that is true, but not all of those employees would be in the work, so to speak, in 1943. The large part of them not until 1944. And the whole matter of expense, that is a very debatable and difficult subject. I think many of those estimates in this bankers' statement are based on misconceptions of the law. I can't get around to the thought that this is an unsolvable problem. I can't believe that we can't do what Canada has done and what England has done.

I would therefore like to go further into the subject and submit further data to the committee.

Senator CLARK. We will be very glad to have it.

(Whereupon, at 4 p. m., a recess was taken until 10 a. m., Friday, August 21, 1942.)

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