

**CORPORATE AND EXCISE TAX RATES EXTENSION
AND CORPORATE TAX RATE CHANGE
AMENDMENTS**

HEARINGS
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
EIGHTY-FIFTH CONGRESS

FIRST SESSION

ON

H. R. 4090

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

AND

AMENDMENTS PROPOSED BY SENATORS FULBRIGHT AND
SPARKMAN TO CHANGE CORPORATE-TAX RATES

MARCH 19, 21, AND 22, 1957

Printed for the use of the Committee on Finance



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CORPORATE AND EXCISE TAX RATES EXTENSION AND CORPORATE TAX CHANGE AMENDMENTS

TUESDAY, MARCH 19, 1957

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

The committee met, pursuant to call, at 10:05 a. m., in room 312, Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Frear, Anderson, Martin, Williams, Flanders, Malone, and Bennett.

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

The CHAIRMAN. The committee will come to order.

We have before the committee for consideration H. R. 4090, to extend for another year the present corporate tax rates and certain excise tax rates.

We are very happy to have with us here today Senator Fulbright who will appear in behalf of his Senate bill 150 which he has now introduced as amendment 2-27-57-B to H. R. 4090. A copy of H. R. 4090 and your amendment will be inserted at this point.

(The documents referred to are as follows:)

[H. R. 4090, 85th Cong., 1st sess.]

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

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Tax Rate Extension Act of 1957".

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

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

(1) By striking out "APRIL 1, 1957" each place it appears and inserting in lieu thereof "APRIL 1, 1958";

(2) By striking out "April 1, 1957" each place it appears and inserting in lieu thereof "April 1, 1958";

(3) By striking out "MARCH 31, 1957" each place it appears and inserting in lieu thereof "MARCH 31, 1958";

(4) By striking out "March 31, 1957" each place it appears and inserting in lieu thereof "March 31, 1958".

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

(a) EXTENSION OF RATES.—The following provisions of the Internal Revenue Code of 1954 are amended by striking out "April 1, 1957" each place it appears and inserting in lieu thereof "April 1, 1958"—

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

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

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

- (4) section 5022 (relating to cordials and liqueurs containing wine);
- (5) section 5041 (b) (relating in wines);
- (6) section 5051 (a) (relating to beer); and
- (7) section 5701 (c) (1) (relating to cigarettes).

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

(1) Section 5063 (relating to floor stocks refunds on distilled spirits, wines, cordials, and beer) is amended by striking out “April 1, 1957” each place it appears and inserting in lieu thereof “April 1, 1958”, and by striking out “May 1, 1957” and inserting in lieu thereof “May 1, 1958”.

(2) Section 5134 (a) (3) (relating to drawback in the case of distilled spirits) is amended by striking out “March 31, 1957” and inserting in lieu thereof “March 31, 1958”.

(3) Subsections (a) and (b) of section 5707 (relating to floor stocks refunds on cigarettes) are amended by striking out “April 1, 1957” each place it appears and inserting in lieu thereof “April 1, 1958”, and by striking out “July 1, 1957” and inserting in lieu thereof “July 1, 1958”.

(4) Section 6412 (a) (1) (relating to floor stocks refunds on automobiles) is amended by striking out “April 1, 1957” each place it appears and inserting in lieu thereof “April 1, 1958”, by striking out “July 1, 1957” and inserting in lieu thereof “July 1, 1958”, and by striking out “August 10, 1957” each place it appears and inserting in lieu thereof “August 10, 1958”.

Section 497 of the Revenue Act of 1951 (relating to refunds on articles from foreign trade zones), as amended, is amended by striking out “April 1, 1957” each place it appears and inserting in lieu thereof “April 1, 1958”.

Passed the House of Representatives March 14, 1957.

Attest:

RALPH R. ROBERTS, *Clerk.*

FULBRIGHT AMENDMENT 2-27-57—B TO H. R. 4090 (ORIGINALLY INTRODUCED AS S. 150 ON JANUARY 7, 1957)

That this Act may be cited as the “Corporate Tax Rates Adjustment Act of 1957”.

SEC. 2. ADJUSTMENT OF CORPORATE NORMAL TAX AND SURTAX RATES.

(a) **CORPORATE NORMAL TAX RATE.**—Section 11 (b) of the Internal Revenue Code of 1954 (relating to rate of corporate normal tax) is amended to read as follows:

“(b) **NORMAL TAX.**—The normal tax is equal to 22 percent of the taxable income.”

(b) **CORPORATE SURTAX RATE.**—Section 11 (c) of such Code (relating to rate of corporate surtax) is amended by striking out “22 percent” and inserting in lieu thereof “31 percent”.

(c) **TAX ON CERTAIN MUTUAL INSURANCE COMPANIES.**—

(1) **NORMAL TAX.**—Section 821 (a) (1) (A) of such Code (relating to rate of normal tax on certain mutual insurance companies) is amended to read as follows:

“(A) **NORMAL TAX.**—A normal tax of 22 percent of the mutual insurance company taxable income, or 44 percent of the amount by which such taxable income exceeds \$3,000, whichever is the lesser; plus”

(2) **SURTAX.**—Section 821 (a) (1) (B) of such Code (relating to rate of surtax on certain mutual insurance companies) is amended by striking out “22 percent” and inserting in lieu thereof “31 percent”.

(d) **TAX ON CERTAIN INTERINSURERS AND RECIPROCAL UNDERWRITERS.**—

(1) **NORMAL TAX.**—Section 821 (b) (1) of such Code (relating to rate of normal tax on certain interinsurers and reciprocal underwriters) is amended to read as follows:

“(1) **NORMAL TAX.**—A normal tax of 22 percent of the mutual insurance company taxable income, or 44 percent of the amount by which such taxable income exceeds \$50,000, whichever is the lesser; plus”.

(2) **SURTAX.**—Section 821 (b) (2) of such Code (relating to rate of surtax on certain interinsurers and reciprocal underwriters) is amended to read as follows:

“(2) **SURTAX.**—A surtax of 31 percent of the mutual insurance company taxable income (computed as provided in subsection (a) (1)) in excess of

\$25,000, or 46.5 percent of the amount by which such taxable income exceeds \$50,000, whichever is the lesser."

(e) EFFECTIVE DATE.—The amendments made by this section shall apply only respect to taxable years beginning after March 31, 1957.

Amend the title so as to read: "An Act to amend the Internal Revenue Code of 1954 so as to adjust corporate normal tax and surtax rates and to provide a one-year extension of certain excise-tax rates."

The CHAIRMAN. Senator Fulbright, we are glad to hear from you, sir.

STATEMENT OF HON. J. W. FULBRIGHT UNITED STATES SENATOR FROM THE STATE OF ARKANSAS

Senator FULBRIGHT. Mr. Chairman, and members of the committee, I want to thank you for affording me this opportunity to testify on my bill, S. 150, and the amendment which I and 31 other Senators have proposed to the corporate tax extension bill, H. R. 4090.

I plan to make very brief remarks explaining my position, to ask that certain material be inserted in the record of this hearing, and then to discuss more fully with you any particular facets of the subject which may be suggested by members of the committee.

At the outset I should like to emphasize my understanding of the issue which is before the committee. Your committee must determine, for the fourth consecutive year, whether the present rates of corporate income taxation shall be extended for yet another year.

My amendment goes straight to the heart of this question. It is germane. The amendment does not bring into issue, nor does H. R. 4090, what the level of personal income tax should be, nor what the depletion allowance should be, nor what other extraneous tax policies should be. More importantly, neither my amendment nor H. R. 4090 raises the question of what level of revenue is required to finance the Federal budget. My amendment does not involve either a loss or a substantial increase in revenue.

I want to emphasize that I am not persuaded by the argument that the committee should not consider my amendment because to do so opens the door to other amendments. My amendment relates solely to the very question which will be before the Senate when it considers whether the present corporate tax rates shall be extended for the fourth consecutive year.

This is the third consecutive session of Congress in which I have attempted to reduce taxes for the smaller corporations. The proposal now before you is identical with a bill which I discussed with you at this time last year.

My amendment would redistribute the impact of Federal corporate income taxes in a way (1) to reduce taxes for approximately 2 percent of all corporations and (3) to increase Federal revenue by approximately \$20 million, which is why I said not a substantial amount.

I am motivated by the conviction that, just as our political democracy would wither by diminution of a growing and active electorate, our economic democracy cannot continue without growth in the numbers and strength of business units competing in the marketplace.

I am, quite frankly, alarmed at recent trends toward concentration in the business world, and I believe that Federal tax policies are a significant contributing factor.

Tax rates alone are not the full measure of the impact of taxation on business units. I am proposing a rate adjustment to benefit small corporations as a means of compensating for other tax provisions which primarily benefit larger corporations.

Some of these other factors are as follows:

(1) The treatment of interest on borrowed funds coupled with the superior credit position of larger corporations,

(2) The accelerated depreciation of new machinery,

(3) The capital gains taxation of employee bonuses received in the form of stock options,

(4) The ability of larger corporations to convert an income tax into virtually a sales tax upon consumers, and

(5) The treatment of expenditures for research and experimentation which primarily benefits larger corporations.

When these advantages operate in conjunction with preferential positions in equity stock flotations, in creation of borrowed capital, and in raw material purchasing power, the larger corporation can do business pretty much on its own terms.

Every economic indicator gives evidence that present policies, in taxation and perhaps other fields, may be leading this country toward economic domination by a very few powerful corporations.

It is only a matter of time—unless some changes are made.

Business failures, business mergers, reduction in growth rate of numbers of business units, net sales by asset size, earnings by asset size, earnings on stockholders' equity by asset size—all show a deterioration in the relative strength of smaller business units. We should not let these trends continue.

I must be frank with the committee and express my disappointment that this subject has not been thoroughly discussed in open hearings by both opponents and proponents.

I had hoped for such hearings last year and I felt assured that they would certainly occur this year. I realize that any committee of Congress is reluctant to act upon proposals which have not been thoroughly explored by the committee.

I believe, however, that the committee has had ample notice and ample time in which to hold such hearings. Perhaps it may be considered necessary to hear those whose taxes would be raised by my amendment. If so and if this cannot be done prior to March 31, then I suggest that the excise tax portions of H. R. 4090 be acted upon separately and that the corporate tax extension be considered at the earliest possible time thereafter.

It is my opinion, however, that this very simple amendment is quite well understood and has been quite thoroughly explored by all parties concerned.

I am strengthened in this view by two very significant events.

First, the Secretary of the Treasury told this committee last year that he could not endorse my proposal without thorough consideration. It would seem to me that this thorough consideration was accomplished by the President's Cabinet Committee on Small Business. On August 7, 1956, the Secretary of Defense, the Secretary of Commerce, the Secretary of Labor, the Director of the Office of Defense Mobilization, the Administrator of the Housing and Home Finance Agency, the Administrator of the Small Business Adminis-

tration, and the Chairman of the Council of Economic Advisers unanimously recommended a corporate tax structure almost identical to my amendment.

There are only two differences. My amendment contains a spread of only 9 percent between the normal tax rate and the surtax rate, whereas the Cabinet Committee proposes a higher spread of 12 percent; and my amendment would increase Federal revenue, whereas the Cabinet Committee proposal would reduce Federal revenue.

On August 9, 1956, the President of the United States endorsed the recommendations of his Cabinet Committee, and I must presume that this endorsement was made only after the thorough consideration deemed so necessary by the Secretary of the Treasury.

Secondly, both major political parties pledged tax relief for small businesses in the election campaign of 1956.

I believe that such steps would have been taken only after thorough and careful consideration by these great political parties.

This is the first, and perhaps only opportunity, the Senate will have during this session of Congress to live up to those pledges. I believe that the tax adjustment which I have offered has been thoroughly considered and that it is the first step toward recognizing the rightful claim of small businesses for tax relief.

Now, Mr. Chairman, with your permission I would like to insert in the record copies of statements which I made on this subject on January 7, 1957, and on February 21, 1957. I will be happy to answer any questions about my bill or amendment or to participate in any discussion which the committee members may care to initiate.

Thank you very much.

(The documents referred to are as follows:)

[From the office of Senator J. W. Fulbright, for immediate release, Monday, January 7, 1957]

STATEMENT BY SENATOR FULBRIGHT INTRODUCING A BILL TO REDUCE INCOME TAXES FOR LOW-INCOME CORPORATIONS

Mr. President, I announced publicly on December 23 that I would continue my efforts to adjust corporate tax rates and give relief to low-income corporations. Today, I introduce a bill for this purpose. I would be pleased, of course, if the House of Representatives would send the Senate a bill containing this or more favorable tax relief for small businesses. If the House does not, however, I plan to offer the substance of this bill as an amendment to any corporation income tax proposals passed by the House of Representatives.

Mr. President, this bill is the same as S. 3129, which I introduced on February 3, 1956, and which I offered as an amendment to revenue measures on two different occasions in the 2d session of the 84th Congress. I regret that the Finance Committee was unable to hold hearings on my bill and that its merits were not debated on the floor of the Senate. On one occasion, the Senate was told that the urgency for extension of certain excise taxes did not permit consideration of my proposal. On the other occasion, my amendment was objected to on the ground that it was not germane to the bill under consideration. I am hopeful that the early introduction of this proposal in the 85th Congress will permit the scheduling of hearings before the Finance Committee and full consideration by the Senate.

My proposal is easily understood and provides a partial answer to the vexing problem of halting the trend toward bigger and more powerful economic concentration in this country. Existing law prescribes a normal tax rate of 30 percent on all taxable corporate income, and a surtax rate of 22 percent on taxable corporate income in excess of \$25,000. My bill, in essence, reverses these rates in a way which will increase Federal revenue and will reduce the tax bill for corporations earning less than \$225,000 per annum. I propose a normal tax rate of 22

percent and a surtax rate of 31 percent. The effects of this change appear in the following table:

Effects of a normal tax rate of 22 percent and a surtax rate of 31 percent

Income subject to normal tax and surtax	Present tax liability (normal rate 30 percent, surtax rate 22 percent)	Proposed tax liability (normal rate 22 percent, surtax rate 31 percent)	Change	
			Amount	Percent
\$5,000	\$1,500	\$1,100	-\$400	-26.7
\$10,000	3,000	2,200	-800	-26.7
\$15,000	4,500	3,300	-1,200	-26.7
\$20,000	6,000	4,400	-1,600	-26.7
\$25,000	7,500	5,500	-2,000	-26.7
\$50,000	20,500	18,750	-1,750	-8.5
\$100,000	46,500	45,250	-1,250	-2.7
\$225,000	111,500	111,500	(¹)	(¹)
\$500,000	254,500	257,250	+2,750	+1.1
\$1,000,000	514,500	522,250	+7,750	+1.5
\$10,000,000	5,194,500	5,292,250	+97,750	+1.9
\$100,000,000	51,994,500	52,992,250	+997,750	+1.9

¹ No change.

The small tax increase for corporations earning over \$225,000 a year will more than offset the tax reductions for small businesses, and will increase the total Federal tax yield from corporate taxpayers.

I will defer until a later date a detailed justification for this change in the corporate tax rates. For the present, however, I merely point out the prime consideration which moves me to introduce this bill. It is axiomatic that no living thing can remain static—it must grow or it must wither. The small corporations in our free economy cannot escape the inevitable—if they cannot grow, they must eventually pass from the business scene by failure or by absorption into a larger business unit. If present trends continue, we conceivably may find our economic fate in the hands of fewer and fewer corporate giants.

Small businesses can survive and grow only by retention of earnings. Earnings are their only reasonable source of new capital. They cannot compete for borrowings or in the securities markets. If Federal tax policies are not adjusted to relieve this biased position of small business units in their efforts to obtain growth capital, they have little hope for the future. I am convinced that tax relief is essential to a resolution of their dilemma.

Mr. President, I am quite optimistic about the prospects for small-business tax relief this year. The small-business men of the country were promised tax relief by both parties in the recent political campaign. In spite of recent discouraging statements by administration spokesmen, I believe that the Congress will not forget so quickly. I respectfully request the sympathetic consideration of this bill by all Members of the Senate.

STATEMENT BY SENATOR FULBRIGHT INTRODUCING AN AMENDMENT TO H. R. 4090, PROPOSING TAX RELIEF FOR SMALL BUSINESS CORPORATIONS

Mr. President, on behalf of myself and Senators Bible, Blakley, Carroll, Case of South Dakota, Chavez, Church, Clark, Douglas, Ervin, Goldwater, Green, Hennings, Hill, Humphrey, Jackson, Johnston, Kennedy, Magnuson, Mansfield, Monroney, Morse, Neuberger, O'Mahoney, Pastore, Smathers, Smith of New Jersey, Smith of Maine, Sparkman, Symington, Thurmond, and Wiley, I introduce an amendment which I propose to offer to H. R. 4090, the bill which would extend the present Federal tax rates on corporate income. This amendment is the same as my bill (S. 150), which I introduced on January 7, 1957—the first day upon which the introduction of bills was in order in this session of the Senate.

My amendment would do two things. First, it would reduce the Federal tax burden on all corporations which have less than \$225,000 in taxable income. Second, it would increase total Federal revenue in an estimated amount of approximately \$20 million. These effects would be achieved as follows: The normal tax rate on all taxable corporate income would be lowered from 30 percent to 22 percent, and the surtax rate on taxable income in excess of \$25,000 would be raised

from 22 percent to 31 percent. This adjustment imposes the lower tax rate upon the lower amounts of income and imposes the higher tax rate upon the higher amounts of income.

I ask unanimous consent to insert at this point in my remarks a table showing the effects of my proposal:

Effects of a normal tax rate of 22 percent and a surtax rate of 31 percent

Income subject to normal tax and surtax	Present tax liability (normal rate 30 percent, surtax rate 22 percent)	Proposed tax liability (normal rate 22 percent, surtax rate 31 percent)	Change	
			Amount	Percent
\$5,000.....	\$1,500	\$1,100	-\$400	-26.7
\$10,000.....	3,000	2,200	-800	-26.7
\$15,000.....	4,500	3,300	-1,200	-26.7
\$20,000.....	6,000	4,400	-1,600	-26.7
\$25,000.....	7,500	5,500	-2,000	-26.7
\$50,000.....	20,500	18,750	-1,750	-8.5
\$100,000.....	46,500	45,250	-1,250	-2.7
\$225,000.....	111,500	111,500	(¹)	(¹)
\$500,000.....	254,500	257,250	+2,750	+1.1
\$1,000,000.....	514,500	522,250	+7,750	+1.5
\$10,000,000.....	5,194,500	5,292,250	+97,750	+1.9
\$100,000,000.....	51,994,500	52,992,250	+997,750	+1.9

¹ No change.

Mr. President, I am greatly encouraged that 31 members of the Senate have joined me in offering this amendment. These Senators are from all parts of the Nation and from both sides of the aisle. Because of this bipartisan support, I will not include in this statement what may be my own personal views regarding the program of the President in the field of corporate taxation. Instead, I will limit my remarks to the basic evidence which should compel the passage of this, or a similar, proposal without delay.

Mr. President, a healthy community of small businesses is essential to national growth, national prosperity, and political health. We must prevent the development of an economic no-man's land in the business world. This means that some form of encouragement must be devised for the modest-sized enterprise to enable it to grow and to remain strong. The Senate must be reminded again that a healthy community of small businesses can be maintained only to the extent that reasonable quantities of capital are available for normal growth and normal fluctuations in earned income. Capital is needed to replace wornout machinery and other equipment, to convert to new production techniques, to redesign or otherwise improve the product of the business, to weather periods of low income caused by necessary changes in product or in techniques of production, to launch new products and services, and to compete with the superior resources of giant corporations.

Businesses have three principal sources for funds with which to maintain and expand production: First, new capital investment; second, borrowing; and third, business earnings. Small business has difficulty in obtaining equity capital because it does not have the large financial resources which will guarantee stockholders against severe loss on their investment. A small-business man who needs equity capital usually is told that the expense of raising up to \$300,000 in the securities market averages almost 20 percent and may reach 25 percent or 30 percent. He must face the uncomfortable fact that it will cost him many times as much to tap the capital markets as it costs the larger corporations.

Because of the difficulty in obtaining equity financing, the small-business man usually must borrow money for a short term from a bank or other lender to realize his capital needs. Long-term borrowings in the securities markets are subject to the same difficulties as equity financing. Interest rates are commonly established at 6 percent or even higher for the small-business man. The large corporation may either float a debt issue of securities or borrow money at lower interest rates for long terms. What may be even more significant is that, under present conditions in the money markets, funds are not available to small businesses on any terms.

But even the supply of short-term, high-interest loans is insufficient. The Federal Government has for many years recognized this problem and the Congress

has provided lending programs under the RFC, the Small Defense Plants Administration, and the Small Business Administration. In fact, one of the first actions of the 85th Congress increased by \$80 million the business loan fund of the Small Business Administration. And this was stopgap legislation—intended to last the agency only through July 1957. This assistance has been but a token solution to the problem and I, for one, do not look to Government loans as the long-term answer.

This leaves for consideration the third source of capital—business earnings. If the flotation of securities is largely fruitless, if long-term loans at low interest are not available, the small business must depend upon earnings for its capital requirements. Hence, unless its profits are greater, or its tax burden is less, the small company finds itself in a position of relative weakness compared to larger companies. It is a demonstrated fact that earnings as a percentage of sales or as a percentage of assets are much smaller for small firms than they are for larger firms.

Therefore, the only hope for improving the competitive position of small businesses is through tax adjustments. If some tax relief is not given to small businesses soon, we may find our economy even more tightly controlled by giant corporations than it is today. Mr. T. M. Evans, president of the H. K. Porter Co. of Pittsburgh, as reported by the Senate Select Committee on Small Business, made the following observation:

"I think that, if our economic system is to continue, we must have smaller businesses developing, otherwise competition will be eliminated in the next 5 to 10 years, and we will end up with 1, or possibly 2, large companies in each of the major fields * * *. Smaller businesses * * * are * * * gradually being forced out of business by the giant corporations and by some of the unfair advantages which those corporations have under our present economy."

Mr. President, I believe that many of the "advantages" mentioned by Mr. Evans exist in our Federal tax laws, and there are many others in this country who believe that the corporate-tax structure favors the growth of large businesses as against small businesses. For instance, Mr. Dexter M. Keezer, vice president and director of the economics department of the McGraw-Hill Publishing Co., has made the following statement:

"I think we have at the present time a high and satisfactory level of business investment * * *. But simply in terms of maintaining an adequate level of investment, I would not say that the present is an occasion to reduce the corporate tax rate. Except, may I give this qualification? *Maintaining this rate means that you are going to have larger and larger corporate units at the expense of smaller units.* This seems to be a matter of great social, political, and economic significance. Over a period with which we are concerned, the smaller corporations, as you well know, have not had the same rate of growth and capital acquisition." [Italic supplied.]

Now, Mr. President, I want to point out some specific and significant advantages which large corporations have under our present Federal tax laws. One example of existing big business bias in our corporate tax laws involves the accelerated depreciation of new machinery, while similar treatment is not available for used machinery. It is well known that small businesses are the principal purchasers of used machinery. Thus, the very significant benefit of the accelerated depreciation tax provisions are not available to many smaller corporations. Some people advocate including secondhand machinery under the accelerated depreciation provisions, but I think that this action alone would merely accentuate the problem. For example, under present law a large corporation can, in a relatively short time, depreciate new machinery to a figure below its market value. The large corporation can then sell this machinery for more than its depreciated value and treat the income as a capital gain. If secondhand machinery had the benefit of accelerated depreciation, small businesses would be more eager to buy secondhand equipment. Then the giant corporations would realize even greater profits from the sales and greater capital gain windfalls.

The way to treat small businesses fairly would be to permit accelerated depreciation of both old and new machinery, and to tax income derived from the sale of depreciated machinery at the regular rates for corporate income. But until such changes are made, this is one more factor contributing to the financial dilemma of small businesses.

Another advantage for large corporations is their ability to attract and hold highly skilled management and technical personnel by deferred compensation plans. These plans reduce the impact of individual income-tax rates and give a

higher real income to such employees. For instance, a special bonus is given large corporations by those provisions of the tax laws which deal with stock options. All salaried employees must pay taxes upon their incomes at the regular income-tax rates. The fortunate recipient of a stock option, however, pays no tax, in most instances, when he receives the option; pays no tax when he exercises the option; and pays only a capital gains tax upon any profit he makes when he sells the stock.

To qualify for this preferred treatment, the corporation must be able to value its stock by some acceptable reference to market value at the time the option is granted. The small corporation, which is closely held, has great difficulty in meeting this requirement. As a result, it is the large publicly held corporations which benefit. Almost half the corporations listed on the New York Stock Exchange have such plans. The revenue loss to the Government cannot be estimated, but it is very substantial.

By this and similar devices, big business is able to attract and to hold the most able technical and executive talent. A small corporation must pay much higher salaries, if its employees who do not have stock options, are to be able to keep, after taxes, as much as the employees of the large corporation which does have a stock option plan in force. Naturally, in a competitive labor market, the most valuable employees will tend to enter the employ of the corporations paying them the highest net salaries, after taxes.

Even the owner of the small corporation may believe that he himself can find refuge against business risk, attain relative security, and provide a fund for his retirement by giving up his small business and going to work for a large corporation. The tax laws foster this trend by such provisions as restricted stock options.

Still another advantage of the large corporations is their ability to adjust to tax rates with little effect upon their rates of earnings after taxes. This is possible because large corporations can, to a considerable extent, shift a large portion of their taxes to consumers in the form of higher prices. This is especially the case in industries which are dominated by one or a few corporate giants, and where competition does not operate to hold prices down. An official of the General Motors Corp., when discussing his company's pricing and production policies with the Senate Subcommittee on Antitrust and Monopoly, in 1955, said that "we have come pretty close to earning what we expected over the years."

Small corporations can rarely set prices to absorb taxes. There are too many of them and generally no single one is in a position to exert substantial control over prices in its industry.

Actually, the small corporation gets hit from both sides under the present corporate tax structure. His raw materials tend to be produced by giant concerns which can pass on a large share of their taxes to him. Thus, corporate taxes, for the small corporation, will generally result in higher costs. At the same time, he does not have the economic power to set prices to absorb his own taxes.

And finally, some very wise provisions in the tax law, designed to encourage research and experimental programs by industry, operate to the primary benefit of big business. These provisions offer favorable tax treatment of expenditures made for research. While these provisions have considerable merit, I think we should frankly admit that the benefits inure almost exclusively to big businesses.

Furthermore, the defense needs of the Nation require direct Federal expenditures for research for weapons and other items of military necessity. The size of these Federal expenditures amounts to over a billion dollars every year, and the contracts go primarily to our huge industrial corporations. It would seem that the law has compounded the advantage of big business in the field of research.

Mr. President, I cite these other features of Federal tax laws to illustrate that rates alone do not measure the relative burden of corporate taxation. The rate adjustment which I propose may partially offset the big business bias existing in the tax structure as a whole.

To emphasize the urgency of this tax problem, I call the Senate's attention to two significant indicators of the dilemma of small businesses.

First, there is the appalling number of business failures. For the 5 years beginning in 1952, the number of failures reported by Dun & Bradstreet, Inc., is as follows:

1952-----	7, 611	1955-----	10, 969
1953-----	8, 862	1956-----	12, 686
1954-----	11, 086		

The 1956 figure is the highest since 1940. Furthermore, failures reached 320 in the week ending January 31, 1957, a figure reported to be the highest for any postwar week and exceeding the prewar figure of 318 for the comparable week in 1939.

Secondly, there is the matter of growth in the business population. One indicator of trends in the business world is the relationship between the gross national product and the number of operating business firms. A noticeable deterioration in this relationship has occurred in the last 4 years. During the 13-year period from 1940 through 1952, the gross national product (expressed in constant dollars) rose in a ratio of 3 to 1 over growth in business population. During the 4 years from 1953 through 1956, however, this ratio has increased to 4 to 1. The meaning of this change is crystal clear—the fruits of our expanding economy and flowing in ever increasing amounts into the hands of fewer and fewer business units.

Mr. President, I am fearful that our tax laws may be leading us down the road to a corporate state. The present corporate rate structure seems to have contributed to the decline in the relative importance of small business in recent years. To the extent that our tax laws foster larger and larger business units, our political democracy is weakened. I am sure that we all recognize the relationship between the survival of many thriving business units and the survival of our political democracy. This tax adjustment is one way to help relieve the pressure. The headlong rush toward economic concentration must be slowed before it can be stopped. I believe that this tax change is an essential first step in the right direction.

The CHAIRMAN. Thank you, Senator Fulbright.

I would like to ask this question and I want to say first that I am in great sympathy with any reduction in the taxes of small business which can be made within the income of the Government, but I do want to make clear these points.

I assume, Senator Fulbright, that you have given consideration to the fact that many small businesses are not incorporated. They are partnerships and individuals. They would not be covered, of course, under this legislation.

Senator FULBRIGHT. No. As I stated, individuals operating as either individuals or partnerships are not covered. I would like very much to do so. I am unable to see a way that that could be done without seriously affecting the income of the Government and since I have already been advised that no such proposal would be accepted, I thought it futile to consider it.

I am unable to see why we should not help one segment of small business, without influencing Federal income, merely because we cannot cut taxes for everyone. We cannot create a utopia all at once.

The CHAIRMAN. Isn't it true that there is competition between partnerships of small business and corporations of small business?

Senator FULBRIGHT. Certainly.

The CHAIRMAN. That will create a situation to some extent that you complain about in competition between large and small corporations. That tax reduction is given to the part that is incorporated and not given to the greater part in partnerships and individuals, may create a competitive situation adverse to the partnerships.

Senator FULBRIGHT. Mr. Chairman, if there should be any appreciable advantage to the corporate form of doing business over the individual there would be no hindrance to the individual incorporating. It is a very simple process under the laws of most States. I don't myself think there would be sufficient advantage in many cases to warrant it. But if it should happen then it would be extremely simple and a matter of a few hours I should say for most small businesses, to prepare the necessary papers to incorporate. So I don't think that's a substantial objection.

The real competition that is destroying small business is from the big corporations.

The CHAIRMAN. Could an individual very well incorporate?

Senator FULLBRIGHT. Certainly.

The CHAIRMAN. Could a small farmer incorporate?

Senator FULLBRIGHT. I don't understand—

The CHAIRMAN. He could technically but would it be advisable?

Senator FULLBRIGHT. I can't visualize a situation in which a farmer would be injured by competition from a small corporation. I thought you were talking of partnerships doing business similar to that of a small corporation. I know personally of very few small corporations that are engaged in the farming business. I know of some large ones that are.

The CHAIRMAN. You stated there would be no difficulty in all small business incorporating. I can't agree with that because corporations require certain conditions and regulations and so forth, individuals are not compelled to comply with and there are many single people doing business in the country. It's unbelievable to me that they could all incorporate.

Senator FULLBRIGHT. I don't know about Virginia, although I think there is also a difference. I know that in Arkansas if a man has \$10,000 and he wishes to incorporate, he can use his bookkeeper and his janitor if he wishes and he can own all the stock and maybe he can give 2 shares as qualifying shares, although even that is no longer required.

The CHAIRMAN. The law requires in Virginia a certain number of directors and they have to own stock in order to act as director.

Senator FULLBRIGHT. I can say in Arkansas, that as a typical Southwestern State—and I believe the Senator from Oklahoma who is familiar with the law in Oklahoma will also testify—that it is a very simple matter to form a small corporation and nearly any small town lawyer can prepare the application. The charter issued by the State is a very simple matter. It is true they require these forms but I know they accept the formalities of using nearly anyone that is in the company to be qualified as a director.

If it is a personal corporation dominated by one man he has no difficulty in creating a corporation and supplying the money and directing the corporation.

The CHAIRMAN. Do I understand you to say that in Arkansas you can have directors that do not own stock in the company?

Senator FULLBRIGHT. I think that is correct. They used to require qualifying shares. Banks must do it. But for ordinary corporations you can have a director who does not own shares. That is my present information. In any case if you wish him to have it you can give it to him in his name. He doesn't have to pay for it. It is technically on the books in his name. That was often done in the old days, but because of that practice it is no longer necessary for him to own shares.

The CHAIRMAN. I hope the Senator will understand my questions are not antagonistic at all. I want to try to find out what percentage of business in the small business—I'm sure the Senator has looked into it—is done by corporations earning \$25,000 or less. What percentage of the business is done by small corporations earning up to \$25,000, by partnerships and by individuals?

Senator FULBRIGHT. In order to clarify, I wouldn't like the record to stand that way. The income-tax breaking point here is \$225,000. My amendment benefits corporations earning up to \$225,000. I have inserted a table on this prepared by the staff of the Joint Committee on Internal Revenue Taxation.

The CHAIRMAN. Am I correct in this, that for a corporation that earns \$25,000 net, there will be a saving of \$2,500?

Senator FULBRIGHT. On \$25,000 there will be a saving of \$2,000. That will be 26.7 percent for the small business earning that amount.

The CHAIRMAN. For every dollar earned above \$25,000, that particular company would pay a 1 percent increase in tax?

Senator FULBRIGHT. No, the decrease in the normal tax will more than offset that.

The CHAIRMAN. I know that. Let's take a company that earns \$100,000.

Senator FULBRIGHT. All right.

On \$100,000 the present tax rate is \$46,500. Under my proposal the tax liability would be \$45,250, which would be a decrease of \$1,250 on \$100,000—a decrease of 2.7 percent. The breakeven point is \$225,000, where he is exactly the same. He pays no more and no less.

The CHAIRMAN. The largest decrease will be \$2,000.

Senator FULBRIGHT. That is right.

The CHAIRMAN. After that if there is an increase for that company, if it earns more than \$25,000?

Senator FULBRIGHT. That isn't correct.

The CHAIRMAN. It takes a part of this \$2,000 away.

Senator FULBRIGHT. What are you speaking of? Relative to what?

The CHAIRMAN. But they lose the increase of \$2,000 at the rate of 1 percent. You increase the tax to 53 percent instead of 52 percent.

Senator FULBRIGHT. That's correct. The decrease is not as great on the \$100,000 as it is at \$25,000 but it is a decrease relative to the present tax.

The CHAIRMAN. The breaking point is \$225,000.

Senator FULBRIGHT. Yes.

Senator ANDERSON. Would you say there is a substantial benefit at \$25,000 and there is a law of diminishing returns that catches up with him at \$225,000?

Senator FULBRIGHT. That's right.

The CHAIRMAN. Above \$225,000 there is an increase of 1 percent on all corporations?

Senator FULBRIGHT. That's correct. At \$100 million it will amount to an increase of 1.9 percent. That is as far as I carried the table because there are only a few corporations above that. You get into General Motors and companies like that. But \$100 million is as far as I carried the table, and that is a very slight burden on a company of that size.

The increase in dollars on a hundred million dollars would be only \$997,750; 98 percent of the corporations will get some relief. It is true that 2 percent will get some increase but I submit that it is a very slight increase and not a very injurious burden.

I would say that a \$400 relief to the company making \$5,000 is a tremendously more important event than a \$900,000 burden upon the company making \$100 million.

Senator ANDERSON. Would this accentuate the tendency to set up a number of small corporations in order to take advantage of tax considerations?

Senator FULBRIGHT. It probably would. One of the purposes is to preserve the independence of small ones and to give some incentive for people either to form or to stay in business.

Senator ANDERSON. Would a man—I am thinking now of an individual who happens to be in the construction business.

Senator FULBRIGHT. He is already in the business?

Senator ANDERSON. Yes. He has a house construction business. I notice he has 12 corporations. Every time he started a new flock of houses, he starts a new corporation. Would he now start twice as many in order to take advantage of it?

Senator FULBRIGHT. In order to get the present very slight relief some of them have done that. But I think if it is purely a tax evasion, the distinction that you already have in the law between any legitimate activity and one purely to avoid taxes with no reasonable business justification, that is the type of criteria you will have to apply.

Senator ANDERSON. I am not trying to say it critically of the proposal or not. I wonder what effect you think it would have upon that situation that some people regard as interesting and significant. Men have started these ventures and if they have a building superintendent in charge of a particular group of houses, they will put that superintendent in for a share or two of stock and therefore it is a different corporation entirely.

I am just wondering if that would build up that trend or whether you think this is a more wholesome thing that would encourage small business to develop within certain fields?

Senator FULBRIGHT. I think we should distinguish between the case where a man is contemplating entering the business and where he is already in business. If he is already in business and he complies with this purely as a matter of form and there is no change in the way he really does his business, it would be considered a type of activity that is merely a device to evade taxes and there is no business justification for it. He isn't really in fact operating his independent corporations. That is the distinction you have to finally deal with in each instance, that is very difficult to deal with generally.

But on the other hand if a man is contemplating entering business, I think this amendment will provide an incentive to a small extent for him to do it. Above all, I think the primary aim I have is to help 98 percent of our corporations which are small ones. And they are dying like flies. Failures are at the highest number this past year I think than at any time unless it was in the thirties, in the depression.

They are over 12,000. They are up very substantially. I have a table on that. In 1945, right after the war, there were only 809. In 1953, 8,862; 1954, 11,086; 1955, there was a small decrease to 10,969. But in 1956, a year which was a very prosperous one for business generally, they were up to 12,686.

In addition, I think that the gobbling up of small ones by large ones is even perhaps more disastrous to what I call an economic democracy—a dissemination of ownership and management—than are the failures.

The mergers range from 87 to 409 through the forties. They rose rapidly in 1951, reached 822 in 1952; 793 in 1953; 617 in 1954; 846 in 1955; and 905 in 1956.

That involves some of our best medium sized and smaller corporations.

Senator MARTIN. Mr. Chairman, at this point could you put in the record the number of corporations that we had in the United States those various years?

Senator FULBRIGHT. Oh, yes; I think presently there are some 697,975 active corporations. Those are Internal Revenue statistics for 1953, which is the latest publication on that.

Senator MARTIN. In that year how many went out of business.

Senator FULBRIGHT. In 1953, there were 8,862 failures.

Senator MARTIN. Was that as a result of mergers and everything else?

Senator FULBRIGHT. Those are just the failures.

Senator WILLIAMS. Aren't a lot of those really dummy corporations not intended to be active at the moment?

Senator FULBRIGHT. Of the 697,000?

Senator WILLIAMS. Yes.

I notice the joint committee has furnished figures in which they said in 1956 there were 394,718 returns filed by corporations below \$25,000 and 77,000 in 1949 returns were net income in excess of \$25,000. That is a total of 435,000 corporations filing returns; so there must be several in the \$200,000 or \$300,000 group that are filed and carried just in case they are used and not drop their charter. In our State a corporation when it is dissolved may lie dormant for 2 or 3 years and be picked up again if you want it.

Senator ANDERSON. If you pay the \$5 franchise tax, you can keep it alive for many years and never bother with it. That is what is going on here.

Senator WILLIAMS. That's right. Those figures are misleading in that effect. All corporations are supposed to file returns, and only about 435,000 have filed according to that report.

Senator BENNETT. I have another question on this point. I would like if Senator Fulbright could clear up.

Senator FULBRIGHT. Just a moment. These are the latest statistics published by the Internal Revenue. On page 10 it shows that there were 256,208 corporations who filed returns all right but had no net income. They are segregated over at the side. If the Senator will look at that, that is the explanation of the difference. There are 441,767 returns with net income. These others filed a return but had no income.

Senator WILLIAMS. That is what I am speaking of being dormant corporations.

Senator FULBRIGHT. I submit that all corporations that have no net income are not necessarily dormant. A lot don't have net income although they do their best. I happen to be familiar with a number of those.

Senator WILLIAMS. They file even though they file a loss. That doesn't mean that that many filed with a profit. They filed and registered a loss which can be picked up in later years.

Senator FULBRIGHT. If I may read this table. There were 730,974 filed.

Senator KERR. How many, Senator?

Senator FULBRIGHT. 730,974 in 1953 that were filed. The number—I would say then that difference between about 731,000 and

about 698,000 leaves about 33,000 which are dormant. That is, I think, the true dormant ones who are not doing anything. The ones that had no net income was that 256,000 and returns with net income, 441,767; these are the figures on this table.

Senator BENNETT. Mr. Chairman, may I ask the Senator? The Senator quoted his failure figures. Were those failures of corporations or business failures?

Senator FULBRIGHT. They are business failures.

Senator BENNETT. Then if the percentage of business failures and the business failures is the same percentage as the percentage of corporations in all business in relation to single proprietors, you have about 15 percent of that figure that is really corporation failures, and I think that takes a lot of the alarm out of the situation. If you have 10,000 business failures, you can expect about 1,500 of those to be corporation failures. The rest of them are failures of single proprietorships.

Senator FULBRIGHT. I think the point I seek to make with that is the relative trend in the way the failures are going.

It is 11 years from 809 to 12,686. It is going up all the time. I don't expect our economy to collapse tomorrow, but I think this is a very bad trend in the continual gradual erosion of the smaller ones. They are the ones that are failing. The big ones are not failing.

Senator MARTIN. If the Senator from Utah would yield, I think it is pretty important that we get into the record at this point the business concerns, the number that are incorporated and those that are individuals or copartnerships. I think I have some record on that but Senator Bennett, you probably have more than I do. But it is only about 15 percent incorporated, and the rest are individuals or copartnerships?

Senator BENNETT. I understand the Treasury testified to that effect before the House Committee, and I am basing my statement on my memory of that testimony. The Secretary will be here later and probably can answer it.

Senator ANDERSON. Didn't that figure include professional men that they regarded as individuals when it is rare that doctors and lawyers incorporate themselves?

Senator BENNETT. I understood that it included businessmen.

Senator KERR. Proprietary operations.

Senator BENNETT. Yes.

Senator KERR. You have the figures there in that book, don't you?

Senator FULBRIGHT. These are corporation income-tax returns. I don't think there is a figure in here—there may be another book including that. Since this bill has only to do with the corporations I didn't keep those figures.

Senator KERR. The Treasury Department gives the number of returns from sole proprietor and partnership returns for 1953 at 7,162,263.

Senator ANDERSON. About 4 million of that is business enterprises statistics, and about 700,000 are corporations in that 4 million.

Senator KERR. 7,162,000 sole proprietors and 41,000 taxpaying returns from corporations.

Senator FULBRIGHT. There is one other figure that might be interesting to the committee, that the growth rate of operating businesses is declining. While the gross national product in constant

dollars was rising only 3 times as fast as business population during the years from 1940 to 1953, it has risen almost 4 times as fast since 1953. In other words the relation between the gross national product and the number of people doing business is going down.

There are fewer businesses relative to the amount of business that is being done.

Senator BENNETT. May I make a comment on that or may I ask the Senator a question? Don't you think that represents the fact that these businesses have had better business than they did before and they have had increases in their volume, which is the kind of growth we have all been hoping for? I don't think you would want to always divide the gross national product by a constant figure to produce a relatively equal increase in the number of businesses. Otherwise no business could have any more volume on the average.

Senator FULBRIGHT. I don't think there is any constant relation necessary, because our economy should be flexible and we shouldn't try to freeze that. On the other hand, as a relative matter, I don't think we want to have all of our business in the hands of just a few.

Senator BENNETT. I don't think the figures necessarily show that, Senator.

Senator FULBRIGHT. That is the trend.

Senator BENNETT. Well, a small business can't stay alive unless it grows; it either grows or it deteriorates. That's one of the basic laws of life. I think we can expect growth in small business as well as we can expect it in large business.

Senator FULBRIGHT. Only if it can keep more of its earnings. It is a very simple proposition and if I am wrong, well, I am wrong. It seems to me that the imposition of 30 percent tax on a man making \$5,000 starting out as a small corporation is a much greater burden than 52 percent on General Motors.

General Motors ends up with a billion two hundred fifty thousand dollars roughly last year to do as she pleased with after taxes, and a little more or less makes no difference. It is a tremendous enterprise.

I don't think this will injure General Motors in the slightest; but the fellow trying to start and get going, if he has to pay 30 percent right at the beginning, he is in an almost hopeless position to accumulate enough capital to expand. Therefore he dies. That is about all there is to this proposition.

If there is nothing to that, then the bill is wrong. I don't think it is very complicated.

Senator BENNETT. I would like to ask the Senator another question.

Do you know or can we find out from Mr. Stam over here at what volume of income, a single proprietor would have to pay 30 percent of his income for taxes? How much money can he earn before he has to pay 30 percent?

Senator FULBRIGHT. Mr. Stam, I am sure can answer that sort of question.

Senator KERR. About \$10,000. The Senator is addressing himself to the fact that this corporation can pay himself a salary.

Senator BENNETT. No, I was thinking that here is a corporation—let's leave the salary problem out of it.

This corporation has to pay 30 percent on all its income up to \$25,000. If he does not incorporate and takes no salary, when he reaches \$10,000 that same man has to pay the same 30 percent. When

he reaches \$25,000, he is going to have to pay substantially more than 30 percent.

So this incorporated small-business man is not at a tremendous disadvantage with respect to the single proprietor.

Senator FULBRIGHT. That is not the relationship I am urging upon you to consider. It is the relationship between the large corporations, which is the real competition, and the very small. I am not saying that the individual is better or worse. That is why I haven't those figures. All I am pleading is that the small corporation doing business in our economy is at a great disadvantage.

That's all I am trying to advance.

Senator BENNETT. In response I am trying to indicate that we are trying to help 15 percent of the men who are small business and we have nothing to offer to the 85 percent whose burden may be heavier than the existing 15 percent.

Senator FULBRIGHT. I don't propose this as a total answer to all the problems. This is taking one little segment and the reason that it might be acceptable is that it involves no decrease in the income of the Government. Almost every other proposal that has been advanced in the last 3 or 4 years has been met with the flat and positive statement from the Treasury and the administration that we cannot afford a tax decrease, that is a decrease in income. This deals with one small segment. I grant that it is small. But there is, I think, the other very happy circumstance that it does not cause the Treasury to lose any money. It is merely a shifting from a great many small units in their business economy to a very small number of large ones. That is all it is. It involves no loss.

Senator BENNETT. It involves a tax increase.

Senator FULBRIGHT. To a small number.

Senator BENNETT. To absorb a tax cut.

Senator FULBRIGHT. That is correct. I maintain that the present relationship between the tax burden is unfair and unjust and unwise, particularly unwise to the continuation of a democratic economy.

Senator BENNETT. The present relationship is in the relation of 30 percent to 52 percent—you think that is unwise?

Senator FULBRIGHT. Yes.

Senator BENNETT. 22 percent becomes wise?

Senator FULBRIGHT. Yes. So stated the Advisory Committee of the President and so did both political parties in their pronouncements. I am giving you an opportunity to do what both parties said should be done and the President's Advisory Committee said should be done. This is the vehicle to do it if you want to do it.

Senator BENNETT. I see.

The CHAIRMAN. The Chair would like to insert in the record at this point a table showing exactly the present law relating to taxation of small corporations and then the effect of the Fulbright amendment.

(The document referred to is as follows:)

Senator Fulbright's corporation income tax amendment

[Proposal: Normal tax rate 22 percent; surtax rate 31 percent]

Income subject to normal and surtax	Present law	Tax liability under amendment	Tax change	
			Amount	Percent
\$5,000.....	\$1,500	\$1,100	-\$400	-26.7
\$10,000.....	3,000	2,200	-800	-26.7
\$15,000.....	4,500	3,300	-1,200	-26.7
\$20,000.....	6,000	4,400	-1,600	-26.7
\$25,000.....	7,500	5,500	-2,000	-26.7
\$50,000.....	20,500	18,750	-1,750	-8.5
\$75,000.....	33,500	32,000	-1,500	-4.5
\$100,000.....	46,500	45,250	-1,250	-2.7
\$200,000.....	98,500	98,250	-250	-.3
\$225,000.....	111,500	111,500		
\$500,000.....	254,500	257,250	+2,750	+1.1
\$1,000,000.....	514,500	522,250	+7,750	+1.5
\$10,000,000.....	5,194,500	5,292,250	+97,750	+1.9
\$100,000,000.....	51,994,500	52,992,250	+997,750	+1.9

The CHAIRMAN. The Chair would like to make a statement with respect to the reference made by Senator Fulbright of the fact that this is the first hearing that has been held.

The bill that we are now considering didn't pass the House until less than a week ago. Senator Fulbright on February 5 wrote to the chairman and he inserted this clause:

I will, of course, defer to your judgment concerning the necessity for or feasibility of holding hearings on S. 150; but I would expect that if such hearings are not held, this fact alone will not be construed as sufficient reason to preclude a discussion of the merits of the bill should it be offered as an amendment on the floor of the Senate.

That letter was submitted to the committee at its first meeting when it was organized and as the Senator from Arkansas knows, he was out of the city for 2 or 3 weeks on account of illness. This hearing could have been held sooner had he been here because I endeavored to communicate with him but he was out of town. I would like that letter put in the record in justifying the action of the committee that has been taken.

(The letter referred to is as follows:)

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
February 5, 1957.

HON. HARRY FLOOD BYRD,
*Chairman, Committee on Finance,
United States Senate, Washington, D. C.*

DEAR SENATOR BYRD: As you know, on January 7, 1957, I introduced a bill (S. 150) which proposes an adjustment in the Federal corporate income-tax rates so that the normal tax on all taxable corporate income would be at a rate of 22 percent and the surtax on taxable corporate income in excess of \$25,000 would be at a rate of 31 percent.

I realize that the Congress must act on the question of extending present corporate tax rates before April 1 and that this necessarily places a burden upon the committees of Congress concerned with internal-revenue taxation. It was my hope, however, that by introducing my bill early in the session, your committee would be able to schedule hearings on the bill.

If a bill to extend or adjust corporate tax rates comes before the Senate without provision for some relief in the rate for low-income corporations, I plan to offer the text of S. 150 as an amendment to the bill. You will recall that a similar proposal which I made in the last session of the Congress was not debated in the Senate for the principal reason that the Finance Committee had been unable to hold general hearings on the subject. I will, of course, defer to your judgment

concerning the necessity for a feasibility of holding hearings on S. 150; but I would expect that if such hearings are not held, this fact alone will not be construed as sufficient reason to preclude a discussion of the merits of the bill should it be offered as an amendment on the floor of the Senate.

I would appreciate receiving your views at your convenience concerning the possibility of hearing both proponents and opponents of S. 150.

Sincerely yours,

J. W. FULBRIGHT.

Senator FULBRIGHT. Mr. Chairman, if I may make a short statement regarding the hearings and what I had in mind this year and last. I prepared this very carefully based upon the record with regard to this matter.

As I said in my opening statement, this same proposal was before this same committee last year, and a very similar one before this same committee, I think in 2 other years.

I do not know what plans the committee may have for hearing other witnesses on my amendment. The chairman has told me, however, that there are many corporations which are opposed to it. If this be the case and if there are no plans to obtain the views of representatives of these corporations, I would hope that this fact alone will not prevent the committee and the Senate from considering my proposal on its merits.

I have done everything that I could in urging that all persons interested in this amendment be given an opportunity to testify.

In the last session of Congress, I wrote the chairman on four different occasions—on February 22, 1956, on March 13, 1956, on April 11, 1956, and on May 4, 1956, requesting that hearings be scheduled.

On May 29, 1956, during Senate debate on H. R. 10660, the Federal Highway Act of 1956, the chairman advised me as follows:

When an appropriate bill comes before the committee we will be glad to have hearings for those who are opposed and those who are in favor of the proposal.

I discussed the matter with the chairman further on the floor of the Senate, and he said to me:

I give the Senator the assurance that he will have an opportunity to be heard, and those in opposition will have an opportunity to be heard.

Hearings were not held during the remaining months of the last session of Congress and have not been held to date. In order to cooperate fully with the committee's work schedule, I introduced my current amendment on January 7, 1957, the first day of the present session upon which the introduction of bills was in order.

The bill I introduced at that time was S. 150, which is identical to the amendment I am offering to H. R. 4090.

On February 5, 1957, and on February 28, 1957, I wrote the chairman again, requesting that full hearings be scheduled on my proposal. It is now March 19, 1957, less than 2 weeks before the Congress is expected to pass a bill extending existing corporate tax rates.

I believe that over the past 2 years the committee has had ample notice of my proposal for altering corporate tax rates, and I have relied upon the chairman's assurance that such hearings would be held.

I must presume, therefore, that if opponents of this amendment, whoever they may be, are not heard, it is because the committee did not think such hearings were necessary.

It wasn't for you to hear me again in which I was interested or urging. I have been heard more than certainly was necessary. This is about the third or fourth time. It was enabling an opportunity for anybody who may oppose it that I was urging upon the committee. Whether I am here or not is quite immaterial.

The CHAIRMAN. The Senator appreciates the fact that he was absent about 3 weeks.

Senator FULBRIGHT. As I say to the Senator, it wasn't my testimony that I was seeking and urging the chairman to get; it was those who were opposed. Not being a member of this committee I don't understand why it was relevant whether I was here or not. To make the record straight, it was a day less than 2 weeks. Having a cold and a cough, I thought it was necessary to go south to cure it.

The CHAIRMAN. I have no criticism of the Senator. As I understand it, what the Senator desired was to hear those who were opposed to the amendment; is that correct?

Senator FULBRIGHT. The chairman has said to me before we had to have full hearings.

The CHAIRMAN. You asked the committee to hear those opposed to it?

Senator FULBRIGHT. I was urging the Senator to have those opposed so I wouldn't be met on the floor with the plea that we haven't had an opportunity to hear those who were injured by it.

The CHAIRMAN. That plea will not be made. The committee will hold 2 days of open hearings on your amendment with the time equally divided between the proponents and opponents. We shall hear the proponents on Thursday and the opponents on Friday, March 21 and 22.

Senator FULBRIGHT. I'm delighted to hear that. That's all I am urging the chairman to do. I have said my say two or three times. I can't imagine I can make it clearer than I have. I think the essential question is very simple here.

The CHAIRMAN. The Senator's letter was worded so that he indicated that he did not desire hearings so that the committee would not use that fact against him in consideration of the bill on the floor of the Senate.

I will assure the Senator that no such plea will be made. He has a right to offer the amendment to the bill on the floor and I as chairman will not object to his presenting the amendment.

Senator FULBRIGHT. The Senator will recall that he did feel that the injection of the amendment in the bill might delay it and it was so important to extend the corporate tax. I was appealed to not to urge that then and put in a later bill.

The CHAIRMAN. When the Senator speaks of full hearings, he recognizes this effect is on every corporation in the United States. If the hearings were full, it could last for weeks and weeks. Last year, the Finance Committee had under consideration social-security legislation, the survivors' benefit bill on which hearings were held day after day for over 6 weeks. Those hearings could not be set aside. In order to satisfy the Senator for whom I have great respect, I will set Thursday, March 21, to hear the proponents and Friday, March 22, to hear those in opposition if they choose to be heard. Is that satisfactory to the Senator?

Senator FULBRIGHT. Certainly.

The CHAIRMAN. Any further questions?

Senator ANDERSON. A moment ago the Senator from Utah asked at what point an individual got up to the 30-percent bracket?

I wasn't completely satisfied with the answer. Did the Senator from Utah have a figure in mind?

Senator BENNETT. No; I don't know.

Senator ANDERSON. At \$37,500, if he has a net of about \$35,000 to pay on, he will pay about \$10,800 which is about 30 percent.

Senator KERR. The Senator's question was at what point in a man's income he begins to pay 30 percent.

Senator ANDERSON. That is a question whether he means he hits the 30-percent bracket which is not important. It is the average income.

Senator KERR. I answered the Senator's question on the basis of at what point in an individual's income he will pay 30 percent.

Senator BENNETT. Both figures may be relevant and important to this discussion.

Senator ANDERSON. He hits 30 percent very early as a top base or bracket but he doesn't hit an average 30 percent of his take until he gets above \$37,500 or an equivalent figure. He has \$35,000 net income. He pays \$10,800.

Senator FULBRIGHT. The corporation right at the beginning starts at 30 percent. If he has a \$5,000 income he pays 30 percent of that.

Senator ANDERSON. That's what I'm trying to say. If he had the business incorporated he would pay a 30 percent tax all the way until he got up to a very high figure but if he is a private individual operating, giving him the benefit of his deductions if he has almost automatic and splitting the income he would go up to \$37,500.

Senator BENNETT. Of course, Senator Kerr raised the interesting additional question—we could pursue this for hours if he were incorporated, he probably is taking income out of that.

Senator ANDERSON. As salary.

Senator BENNETT. As salary.

Senator ANDERSON. He would do that.

Senator BENNETT. So his gross would be much higher than that.

Senator FULBRIGHT. Of course in connection with that there are a great many small corporations that have a diversified ownership and no one person can take all the earnings. It is run in the regular fashion. There are a great many in my State of that type. The stockholders do not permit the president to take all the income and salary.

Senator ANDERSON. The only point I was trying to make is that your amendment will not tempt people to abandon the private ownership and get to a corporate form until they passed about \$37,500. Then it might be attractive to consider that possibility.

The CHAIRMAN. Any further questions?

Senator KERR. I would like to have the staff put into the record at this point the table showing the schedule of taxation both on single and married taxpayers, Mr. Chairman, so it can be reiterated, although it has been put into the record hundreds of times and although every member of this committee either for himself or through an agent who does it for him, faces the tabulation of the different rates of tax at the different levels of income every year.

The CHAIRMAN. Without objection it will be done.

(The document referred to is as follows:)

TAX COMPUTATION

If you do not use the Tax Table, then figure your tax on amount on line 5, page 2, by using appropriate tax rate schedule.

Schedule I applies to (1) single taxpayers who do not qualify for the special rates for "Head of Household" or for "Widow or Widower," and (2) married taxpayers filing separate returns.

Schedule II applies to married taxpayers filing joint returns, and to widows or widowers who qualify for the special rates. It provides the split-income benefits.

Schedule III applies to unmarried (or legally separated) taxpayers who qualify as "Head of Household."

SCHEDULE I.—(A) *Single taxpayers who do not qualify for rates in Schedules II and III, and (B) married persons filing separate returns*

If the amount on line 5, page 2, is: Enter on line 6, page 2:

Not over \$2,000.....	20% of the amount on line 5.
Over \$2,000 but not over \$4,000....	\$400, plus 22% of excess over \$2,000.
Over \$4,000 but not over \$6,000....	\$840, plus 26% of excess over \$4,000.
Over \$6,000 but not over \$8,000....	\$1,360, plus 30% of excess over \$6,000.
Over \$8,000 but not over \$10,000....	\$1,960, plus 34% of excess over \$8,000.
Over \$10,000 but not over \$12,000..	\$2,640, plus 38% of excess over \$10,000.
Over \$12,000 but not over \$14,000..	\$3,400, plus 43% of excess over \$12,000.
Over \$14,000 but not over \$16,000..	\$4,260, plus 47% of excess over \$14,000.
Over \$16,000 but not over \$18,000..	\$5,200, plus 50% of excess over \$16,000.
Over \$18,000 but not over \$20,000..	\$6,200, plus 53% of excess over \$18,000.
Over \$20,000 but not over \$22,000..	\$7,260, plus 56% of excess over \$20,000.
Over \$22,000 but not over \$26,000..	\$8,380, plus 59% of excess over \$22,000.
Over \$26,000 but not over \$32,000..	\$10,740, plus 62% of excess over \$26,000.
Over \$32,000 but not over \$38,000..	\$14,460, plus 65% of excess over \$32,000.
Over \$38,000 but not over \$44,000..	\$18,360, plus 69% of excess over \$38,000.
Over \$44,000 but not over \$50,000..	\$22,500, plus 72% of excess over \$44,000.
Over \$50,000 but not over \$60,000..	\$26,820, plus 75% of excess over \$50,000.
Over \$60,000 but not over \$70,000..	\$34,320, plus 78% of excess over \$60,000.
Over \$70,000 but not over \$80,000..	\$42,120, plus 81% of excess over \$70,000.
Over \$80,000 but not over \$90,000..	\$50,220, plus 84% of excess over \$80,000.
Over \$90,000 but not over \$100,000..	\$58,620, plus 87% of excess over \$90,000.
Over \$100,000 but not over \$150,000..	\$67,320, plus 89% of excess over \$100,000.
Over \$150,000 but not over \$200,000..	\$111,820, plus 90% of excess over \$150,000.
Over \$200,000.....	\$156,820, plus 91% of excess over \$200,000.

SCHEDULE II.—(A) *Married taxpayers filing joint returns, and (B) certain widows and widowers*

If the amount on line 5, page 2, is: Enter on line 6, page 2:

Not over \$4,000.....	20% of the amount on line 5.
Over \$4,000 but not over \$8,000....	\$800, plus 22% of excess over \$4,000.
Over \$8,000 but not over \$12,000....	\$1,680, plus 26% of excess over \$8,000.
Over \$12,000 but not over \$16,000..	\$2,720, plus 30% of excess over \$12,000.
Over \$16,000 but not over \$20,000..	\$3,920, plus 34% of excess over \$16,000.
Over \$20,000 but not over \$24,000..	\$5,280, plus 38% of excess over \$20,000.
Over \$24,000 but not over \$28,000..	\$6,800, plus 43% of excess over \$24,000.
Over \$28,000 but not over \$32,000..	\$8,520, plus 47% of excess over \$28,000.
Over \$32,000 but not over \$36,000..	\$10,400, plus 50% of excess over \$32,000.
Over \$36,000 but not over \$40,000..	\$12,400, plus 53% of excess over \$36,000.
Over \$40,000 but not over \$44,000..	\$14,520, plus 56% of excess over \$40,000.
Over \$44,000 but not over \$52,000..	\$16,760, plus 59% of excess over \$44,000.
Over \$52,000 but not over \$64,000..	\$21,480, plus 62% of excess over \$52,000.
Over \$64,000 but not over \$76,000..	\$28,920, plus 65% of excess over \$64,000.
Over \$76,000 but not over \$88,000..	\$36,720, plus 69% of excess over \$76,000.
Over \$88,000 but not over \$100,000..	\$45,000, plus 72% of excess over \$88,000.
Over \$100,000 but not over \$120,000..	\$53,640, plus 75% of excess over \$100,000.
Over \$120,000 but not over \$140,000..	\$63,640, plus 78% of excess over \$120,000.
Over \$140,000 but not over \$160,000..	\$84,240, plus 81% of excess over \$140,000.
Over \$160,000 but not over \$180,000..	\$100,440, plus 84% of excess over \$160,000.
Over \$180,000 but not over \$200,000..	\$117,240, plus 87% of excess over \$180,000.
Over \$200,000 but not over \$300,000..	\$134,640, plus 89% of excess over \$200,000.
Over \$300,000 but not over \$400,000..	\$223,640, plus 90% of excess over \$300,000.
\$400,000.....	\$313,640, plus 91% of excess over \$400,000.

SCHEDULE III.—*Unmarried (or legally separated) taxpayers who qualify as head of household*

If the amount on line 5, page 2, is:	Enter on line 6, page 2:
Not over \$2,000-----	20% of the amount on line 5.
Over \$2,000 but not over \$4,000----	\$400, plus 21% of excess over \$2,000
Over \$4,000 but not over \$6,000----	\$820, plus 24% of excess over \$4,000
Over \$6,000 but not over \$8,000----	\$1,300, plus 26% of excess over \$6,000
Over \$8,000 but not over \$10,000----	\$1,820, plus 30% of excess over \$8,000
Over \$10,000 but not over \$12,000--	\$2,420, plus 32% of excess over \$10,000
Over \$12,000 but not over \$14,000--	\$3,060, plus 36% of excess over \$12,000
Over \$14,000 but not over \$16,000--	\$3,780, plus 39% of excess over \$14,000
Over \$16,000 but not over \$18,000--	\$4,560, plus 42% of excess over \$16,000
Over \$18,000 but not over \$20,000--	\$5,400, plus 43% of excess over \$18,000
Over \$20,000 but not over \$22,000--	\$6,260, plus 47% of excess over \$20,000
Over \$22,000 but not over \$24,000--	\$7,200, plus 49% of excess over \$22,000
Over \$24,000 but not over \$28,000--	\$8,180, plus 52% of excess over \$24,000
Over \$28,000 but not over \$32,000--	\$10,260, plus 54% of excess over \$28,000
Over \$32,000 but not over \$38,000--	\$12,420, plus 58% of excess over \$32,000
Over \$38,000 but not over \$44,000--	\$15,900, plus 62% of excess over \$38,000
Over \$44,000 but not over \$50,000--	\$19,620, plus 66% of excess over \$44,000
Over \$50,000 but not over \$60,000--	\$23,580, plus 68% of excess over \$50,000
Over \$60,000 but not over \$70,000--	\$30,380, plus 71% of excess over \$60,000
Over \$70,000 but not over \$80,000--	\$37,480, plus 74% of excess over \$70,000
Over \$80,000 but not over \$90,000--	\$44,880, plus 76% of excess over \$80,000
Over \$90,000 but not over \$100,000--	\$52,480, plus 80% of excess over \$90,000
Over \$100,000 but not over \$150,000--	\$60,480, plus 83% of excess over \$100,000
Over \$150,000 but not over \$200,000--	\$101,980, plus 87% of excess over \$150,000
Over \$200,000 but not over \$300,000--	\$145,480, plus 90% of excess over \$200,000
Over \$300,000-----	\$235,480, plus 91% of excess over \$300,000

Senator FULBRIGHT. Thank you very much for hearing me.

The CHAIRMAN. Thank you.

Senator FULBRIGHT. I have been here several times on this matter. I hope this will be my last appearance on this.

The CHAIRMAN. I would like to commend Senator Fulbright for bringing this matter to the attention of the country and the committee and the Senate. I personally feel that something must be done and should be done with respect to small business.

Whether this is an adequate approach, I am not prepared to say.

Senator FULBRIGHT. Thank you.

Senator MARTIN. How much would it cost to exempt from the individual income tax the first \$10,000 of dividends received by an individual?

Mr. STAM. The estimated revenue loss is \$2.3 billion.

The CHAIRMAN. Senator Sparkman, we are pleased to have you appear before us on your five amendments, 3-18-57 A, B, C, D, and E to H. R. 4090, copies of which will be inserted in the record at this point.

SPARKMAN AMENDMENT 3-18-57-A TO H. R. 4090 (ORIGINALLY INTRODUCED AS S. 348 ON JANUARY 7, 1957)

(At the end of the bill add a new section as follows:)

SEC. 4. PAYMENT OF ESTATE TAX IN INSTALLMENTS.

(a) ELECTION TO PAY ESTATE TAX IN INSTALLMENTS.—Subchapter A of chapter 62 of the Internal Revenue Code of 1954 (relating to place and due date for payment of tax) is amended by adding at the end thereof a new section as follows:

"SEC. 6157. INSTALLMENT PAYMENTS OF ESTATE TAX.**"(a) ELECTION TO MAKE INSTALLMENT PAYMENTS.—**

"(1) PAYMENT IN 2 TO 10 INSTALLMENTS.—The executor of any estate subject to the tax imposed by chapter 11 may elect to pay the amount of such tax in 2 or more (but not exceeding 10) equal installments.

"(2) PAYMENT IN 11 TO 20 INSTALLMENTS.—If the Secretary or his delegate finds that the payment in 10 installments of the tax imposed on any estate by chapter 11 would result in undue hardship to the estate, the executor of such estate may elect to pay the amount of such tax in any number (not exceeding 20) of equal installments as may be approved by the Secretary or his delegate.

"(b) DATE FOR PAYMENT OF INSTALLMENTS.—If an election is made under subsection (a), the first installment shall be paid on the date prescribed for payment of the tax by section 6151, and each succeeding installment shall be paid one year following the date for payment of the preceding installment.

"(c) PRORATION OF DEFICIENCY TO INSTALLMENTS.—If an election has been made under subsection (a) and a deficiency is assessed, the deficiency shall be prorated to the installments remaining unpaid on the date of such assessment, and the part of the deficiency so prorated to each such installment shall be collected at the same time and as a part of such installment.

"(d) INSTALLMENTS PAID IN ADVANCE.—At the election of the executor, any installment, or part thereof, under subsection (a) may be paid prior to the date prescribed for its payment by subsection (b).

"(e) ACCELERATION OF PAYMENTS.—If any installment under subsection (a) is not paid on or before the date prescribed for its payment by subsection (b), the whole of the unpaid tax shall be paid upon notice and demand from the Secretary or his delegate.

"(f) UNDUH HARDSHIP.—For purposes of subsection (a) (2) of this section and for purposes of section 6161 (a) (2), there shall be considered to be an undue hardship to an estate in any case in which property comprising 50 percent or more of the value of the gross estate consists of any of the following:

"(1) Capital assets (other than money), or property used in the trade or business, of an unincorporated business enterprise in which the decedent owned a proprietary interest.

"(2) An undivided proprietary interest in a partnership of which the decedent was a partner.

"(3) Stock of a corporation in which the decedent owned (at the time of his death) 10 percent or more of all outstanding stock."

(b) TABLE OF SECTIONS.—The table of sections for such subchapter is amended by adding at the end thereof the following:

"Sec. 6157. Installment payments of estate tax."

(c) AMENDMENT OF SECTION 6161.—Section 6161 of such Code (relating to extension of time for paying tax) is amended—

(a) by striking out "10 years" in subsection (a) (2) and inserting in lieu thereof "20 years", and

(b) by redesignating subsection (d) as subsection (e), and inserting after subsection (c) a new subsection as follows:

"(d) INSTALLMENT PAYMENT OF ESTATE TAX.—In any case in which an executor has elected under section 6157 to pay the tax imposed by chapter 11 in installments, subsection (a) (2) shall not apply to the amount determined by the executor as the tax imposed by chapter 11, and subsection (b) shall not apply to the amount determined as a deficiency with respect to any such tax."

(d) TECHNICAL AMENDMENT.—Section 6601 (c) (2) of such Code (relating to determination of last date prescribed for payment of tax) is amended by striking out "6152 (a)" and inserting in lieu thereof "6152 (a) or 6157 (a)", and by striking out "6152 (b)" and inserting in lieu thereof "6152 (b) or 6157 (b), as the case may be".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply only with respect to estates of decedents dying after December 31, 1956.

Amend the title so as to read: "An Act to provide a one-year extension of the existing corporate normal-tax rate and of certain excise-tax rates, and for other purposes."

SPARKMAN AMENDMENT 3-18-57-B TO H. R. 4090 (ORIGINALLY INTRODUCED AS S. 349 ON JANUARY 7, 1957)

(At the end of the bill add a new section as follows:)

SEC. 4. ELECTION OF SMALL CORPORATIONS TO BE TAXED AS PARTNERSHIPS.

(a) **ALTERNATIVE TAXABLE STATUS OF CERTAIN CORPORATIONS.**—Subchapter R of chapter 1 of the Internal Revenue Code of 1954 (relating to election of certain partnerships and proprietorships as to taxable status) is amended—

(1) by striking out the heading and table of sections for such subchapter and inserting in lieu thereof the following:

“Subchapter R—Election of Certain Partnerships, Proprietorships, and Corporations as to Taxable Status

“Part I. Alternative taxable status of certain partnerships and proprietorships.

“Part II. Alternative taxable status of certain corporations.

“PART I. ALTERNATIVE TAXABLE STATUS OF CERTAIN PARTNERSHIPS AND PROPRIETORSHIPS

“Sec. 1361. Unincorporated business enterprises electing to be taxed as domestic corporations.”; and

(2) by inserting after section 1361 a new part as follows:

“PART II. ALTERNATIVE TAXABLE STATUS OF CERTAIN CORPORATIONS

“Sec. 1371. Certain corporations electing to be treated as partnerships.

“SEC. 1371. CERTAIN CORPORATIONS ELECTING TO BE TREATED AS PARTNERSHIPS.

“(a) **GENERAL RULE.**—Subject to the qualifications in subsection (b), a domestic corporation may, not later than 60 days after the close of any taxable year, elect, in accordance with regulations prescribed by the Secretary or his delegate, to be treated as a partnership for such year and all subsequent years, if all the shareholders owning stock in such corporation at any time on or after the first day of such year and on or before the date of the election consent to the election.

“(b) **QUALIFICATIONS.**—The election described in subsection (a) may not be made by a domestic corporation unless at all times during the period on or after the first day of the taxable year with respect to which the election is made and on or before the date of election—

“(1) such corporation has _____ or less shareholders all of whom are individuals (including all partners of any partnership owning stock in such corporation);

“(2) all the shareholders are actively engaged in the conduct of the business of such corporation;

“(3) no shareholder of such corporation is a nonresident alien or a foreign partnership;

“(4) such corporation is not a corporation which was a party to a reorganization described in section 368 (b), or a corporation to which section 355 (or so much of section 356 as relates to section 355) applies and such corporation has not received a distribution under section 332 (relating to liquidations of subsidiaries) except in a case in which the basis of the assets distributed is determined under section 334 (b) (2);

“(5) such corporation has only one class of stock; and

“(6) no more than 80 percent of the stock of such corporation is owned by persons who formerly owned the business of such corporation as an unincorporated enterprise taxable as a domestic corporation under section 1361.

“(c) **PARTNERSHIP PROVISIONS APPLICABLE.**—Under regulations prescribed by the Secretary or his delegate, a domestic corporation making the election under subsection (a) shall be considered a partnership for purposes of this subtitle (except chapter 2 thereof) and shall be subject to subchapter K (sec. 701 and

following, relating to partnerships) with respect to formation, operation, distributions, liquidation, sale of an interest, and any other purpose; and each shareholder of such corporation shall be considered a partner owning an interest in the partnership in the proportion which shares owned by such shareholder bear to the total number of outstanding shares of such corporation.

“(d) ELECTION IRREVOCABLE.—Except as provided in subsections (e) and (g), the election described in subsection (a) by a domestic corporation shall be irrevocable with respect to—

“(1) the electing corporation and its shareholders; and

“(2) any corporate successor to the business of the electing corporation and the shareholders of such successor.

“(e) CHANGE OF OWNERSHIP.—In the first year in which the shareholders who consented to the election described in subsection (a) own 80 percent or less of the stock of a corporation described in subsection (d), such corporation shall not be treated as a partnership for such year or for subsequent years, unless such corporation makes a new election in accordance with the provisions of subsection (a).

“(f) CONSTRUCTIVE OWNERSHIP.—For purposes of subsections (b) (6) and (e), the ownership of a stock interest shall be determined in accordance with the rules for constructive ownership of stock provided in section 267 (c) other than paragraph (3) thereof.

“(g) DISQUALIFICATION.—If a corporation described in subsection (d) issues stock of a different class than that outstanding, the election described in subsection (a) shall be deemed never to have been made and the corporation shall be liable for all taxes due (except penalties) and such taxes may be assessed and collected as if no return had been filed.

“(h) CROSS REFERENCE.—

“For period of limitations on assessment and collection of tax where no return has been filed, see section 6501.”

(b) TECHNICAL AMENDMENT.—

(1) Section 1361 (b) of such Code (relating to unincorporated business enterprises electing to be taxed as domestic corporations) is amended—

(A) by striking out “and” at the end of paragraph (3);

(B) by striking out the period at the end of paragraph (4) and inserting in lieu thereof “; and”; and

(C) by adding at the end thereof a new paragraph as follows:

“(5) no proprietor or partners having more than 80 percent interest in the profits or capital of such enterprise formerly owned stock in a corporation treated as a partnership under section 1371 which carried on the business of such enterprise.”

(2) Section 1504 (b) of such Code (relating to definition of includible corporation) is amended by adding at the end thereof a new paragraph as follows:

“(8) Corporations subject to tax as partnerships under section 1371.”

(3) The table of subchapters for chapter 1 of such code is amended by striking out

“SUBCHAPTER R. Election of certain partnerships and proprietorships as to taxable status.”

and inserting in lieu thereof

“SUBCHAPTER R. Election of certain partnerships, proprietorships, and corporations as to taxable status.”

(c) The amendments made by this section shall apply to taxable years beginning after December 31, 1956.

Amend the title so as to read: “An Act to provide a one-year extension of the existing corporate normal-tax rate and of certain excise-tax rates, and for other purposes.”

SPARKMAN AMENDMENT 3-18-57-C TO H. R. 4090 (ORIGINALLY INTRODUCED AS S. 350 ON JANUARY 7, 1957)

(At the end of the bill add a new section as follows:)

SEC. 4. ELECTION OF PROPRIETORS OF UNINCORPORATED BUSINESSES TO BE TREATED AS EMPLOYEES UNDER QUALIFIED PENSION, PROFIT-SHARING, AND STOCK BONUS PLANS.

(a) AMENDMENT OF SECTION 401.—Section 401 of the Internal Revenue Code of 1954 (relating to qualified pension, profit-sharing, and stock bonus plans) is amended by redesignating subsection (c) as subsection (d), and by inserting after subsection (b) a new subsection as follows:

“(c) PROPRIETORS OF UNINCORPORATED BUSINESSES.—

“(1) TREATMENT AS EMPLOYEES.—For purposes of this part, an individual who—

“(A) owns a proprietary interest in an unincorporated business enterprise, and

“(B) performs services in the conduct of the trade or business of such business enterprise, which, if performed by an individual who does not own a proprietary interest in such business enterprise, would constitute services performed by an employee,

shall, at his election, be treated as an employee of such business enterprise. Except as provided in paragraph (3), such election shall be irrevocable. Such election shall be made at such time and in such manner as the Secretary or his delegate may by regulations prescribe.

“(2) ELECTION BY PARTNERS.—In the case of members of a partnership, paragraph (1) shall not apply to any member unless all members who perform services described in paragraph (1) (B) make an election under paragraph (1).

“(3) CHANGE OF OWNERSHIP.—An election by a member of a partnership under paragraph (1) shall cease to be effective—

“(A) upon the withdrawal from the partnership of a partner who has made an election under paragraph (1), unless, within 90 days after such withdrawal, the remaining members who perform services described in paragraph (1) (B) make a new election under paragraph (1); or

“(B) upon the addition to the partnership of a new partner who performs services described in paragraph (1) (B), unless, within 90 days after such addition, all partners (including the new partner) who perform services described in paragraph (1) (B) make a new election under paragraph (1).

“(4) STATUS AS EMPLOYER UNAFFECTED.—The election by an individual under paragraph (1) to be treated, for purposes of this part, as an employee shall not affect the status of such individual as an employer for purposes of this part or of any other provision of this title.”

(b) REPEAL OF SECTION 1361 (d).—Section 1361 (d) of such Code (relating to limitation on treatment of certain proprietors as employees) is repealed.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1956.

Amend the title so as to read: “An Act to provide a one-year extension of the existing corporate normal-tax rate and of certain excise-tax rates, and for other purposes.”

SPARKMAN AMENDMENT 3-18-57-D TO H. R. 4090 (ORIGINALLY INTRODUCED AS S. 351 ON JANUARY 7, 1957)

(At the end of the bill add a new section as follows:)

SEC. 4. USE OF NEW METHODS AND RATES OF DEPRECIATION FOR USED PROPERTY.

(a) AMENDMENT OF SECTION 167.—Section 167 of the Internal Revenue Code of 1954 (relating to depreciation) is amended—

(1) by striking out the period at the end of subsection (c) (2) and inserting in lieu thereof “, or”;

(2) by adding at the end of subsection (c) a new paragraph as follows:

“(3) acquired after December 31, 1956, if the original use of such property does not commence with the taxpayer, and the use of such property by the taxpayer commences after such date.”; and

(3) by redesignating subsection (h) as (i), and inserting after subsection (g) a new subsection as follows:

“(h) LIMITATIONS WITH RESPECT TO USED PROPERTY.—

“(1) ANNUAL LIMITATION.—Paragraph (3) of subsection (c) shall apply to property acquired in any taxable year only to the extent that the basis of such property (determined as of the close of the day of its acquisition), when added to the basis of all other property described in such paragraph (determined as of the close of the day of its acquisition) which is acquired by the taxpayer during the same taxable year, does not exceed \$50,000. This paragraph shall not apply to property acquired by the taxpayer during any taxable year which is included within a 60-month period with respect to which an election under paragraph (2) has been made.

“(2) FIVE-YEAR LIMITATION.—At the election of the taxpayer, paragraph (3) of subsection (c) shall apply to property acquired in any taxable year to the extent that the basis of such property (determined as of the close of the day of its acquisition), when added to the basis of all property described in such paragraph (determined as of the close of the day of its acquisition) which is acquired by the taxpayer during the 60-month period which includes such taxable year, does not exceed \$250,000. The 60-month period shall begin, with respect to any taxable year, with the first day of the first taxable year for which the taxpayer elects to have the provisions of this paragraph apply. Such election shall be irrevocable, except with the approval of the Secretary or his delegate, and shall be made in such manner and at such time as the Secretary or his delegate shall by regulations prescribe.”

(b) EFFECTIVE DATE.—The amendments made by this section shall apply only to taxable years beginning after December 31, 1956.

Amend the title so as to read: “An Act to provide a one-year extension of the existing corporate normal-tax rate and of certain excise-tax rates, and for other purposes.”

SPARKMAN AMENDMENT 3-18-57-E TO H. R. 4090 (ORIGINALLY INTRODUCED AS S. 352 ON JANUARY 7, 1957)

(On page 1, beginning with line 3, strike out all through line 15 on page 2, and in lieu thereof insert the following:)

That this Act may be cited as the “Corporate Tax Revision Act of 1957”.

TITLE I—REVISION OF INCOME TAX ON CORPORATIONS

SEC. 101. GRADUATED CORPORATE INCOME TAX.

Subsections (a), (b), and (c) of section 11 of the Internal Revenue Code of 1954 (relating to tax on corporations) are amended to read as follows:

“(a) CORPORATIONS IN GENERAL.—A tax is hereby imposed for each taxable year on the taxable income of every corporation. The tax shall be computed under subsection (b) in the case of a taxable year beginning before January 1, 1957, and under subsection (c) in the case of a taxable year beginning after December 31, 1956.

“(b) TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1957.—In the case of a taxable year beginning before January 1, 1957, the tax shall consist of—

“(1) a normal tax equal to 30 percent of the taxable income, and

“(2) a surtax equal to 22 percent of the amount by which the taxable income (computed without regard to the deduction, if any, provided in section 242 for partially tax-exempt interest) exceeds \$25,000.

“(c) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1956.—In the case of a taxable year beginning after December 31, 1956, the tax shall be determined in accordance with the following table:

"If the taxable income is:	The tax is:
Not over \$5,000-----	5 percent of the taxable income.
Over \$5,000 but not over \$10,000..	\$250, plus 10 percent of excess over \$5,000.
Over \$10,000 but not over \$15,000..	\$750, plus 15 percent of excess over \$10,000.
Over \$15,000 but not over \$20,000..	\$1,500, plus 25 percent of excess over \$15,000.
Over \$20,000 but not over \$25,000..	\$2,750, plus 35 percent of excess over \$20,000.
Over \$25,000 but not over \$100,000_	\$4,500, plus 45 percent of excess over \$25,000.
Over \$100,000-----	\$38,250, plus 55 percent of excess over \$100,000."

SEC. 102. TECHNICAL AMENDMENTS.

(a) Section 12 (7) of the Internal Revenue Code of 1954 (cross references relating to tax on corporations) is amended by striking out "section 11 (c)" and inserting in lieu thereof "section 11 (b) (2)".

(b) Section 244 (2) (B) of such Code (relating to dividends received on certain preferred stock) is amended to read as follows:

"(B) the denominator of which is that percentage which equals—

"(i) the sum of the normal tax rate and the surtax rate prescribed by section 11, in the case of a taxable year beginning before January 1, 1957, or

"(ii) the tax rate prescribed by section 11 (determined as though the amount of such tax were expressed entirely in terms of a percentage of taxable income), in the case of a taxable year beginning after December 31, 1956."

(c) Section 247 (a) (2) (B) of such Code (relating to dividends paid on certain preferred stock of public utilities) is amended to read as follows:

"(B) the denominator of which is that percentage which equals—

"(i) the sum of the normal tax rate and the surtax rate prescribed by section 11, in the case of a taxable year beginning before January 1, 1957, or

"(ii) the tax rate prescribed by section 11 (determined as though the amount of such tax were expressed entirely in terms of a percentage of taxable income), in the case of a taxable year beginning after December 31, 1956."

(d) Section 511 (a) (1) of such Code (relating to imposition of tax on unrelated business income of charitable, and so forth, organizations) is amended by striking out "a normal tax and a surtax" and inserting in lieu thereof "a tax".

(e) (1) Sections 802 (a) and 802 (c) (2) (A) of such Code (relating to imposition of tax on life insurance companies) are amended by striking out "a normal tax (computed under section 11 (b)) and a surtax (computed under section 11 (c))" and inserting in lieu thereof "a tax (computed under section 11)".

(2) Section 811 (a) of such Code (relating to imposition of tax on life insurance companies) is amended to read as follows:

"(a) TAX IMPOSED.—A tax (computed under section 11) is hereby imposed on the life insurance company taxable income of every life insurance company for each taxable year beginning after December 31, 1956."

(f) Section 852 (b) (1) of such Code (relating to taxation of regulated investment companies and their shareholders) is amended (1) by striking out "NORMAL TAX AND SURTAX" in the heading and inserting in lieu thereof "TAX", (2) by striking out "a normal tax and surtax" and inserting in lieu thereof "a tax", and (3) by striking out "the normal tax under section 11" and inserting in lieu thereof "the tax under section 11 (but only the normal tax under such section in the case of a taxable year beginning before January 1, 1957)".

(g) Section 922 (2) (B) of such Code (relating to special deduction for Western Hemisphere trade corporations) is amended to read as follows:

"(B) the denominator of which is that percentage which equals—

"(i) the sum of the normal tax rate and the surtax rate prescribed by section 11, in the case of a taxable year beginning before January 1, 1957, or

"(ii) the tax rate prescribed by section 11 (determined as though the amount of such tax were expressed entirely in terms of a percentage of taxable income), in the case of a taxable year beginning after December 31, 1956."

(h) Section 1361 (h) (1) of such Code (relating to imposition of taxes on unincorporated business enterprises electing to be treated as domestic corporations) is amended by striking out "the normal tax and surtax" and inserting in lieu thereof "the tax".

(i) Section 1503 (a) of such Code (relating to computation and payment of tax on consolidated returns) is amended (1) by striking out "tax imposed under section 11 (c)" and inserting in lieu thereof "surtax imposed under section 11", and (2) by adding at the end thereof the following new sentence: "For purposes of the first sentence of this subsection, the term 'surtax imposed by section 11' means (1) the tax imposed by section 11 (b) (2), in the case of a taxable year beginning before January 1, 1957, and (2) that portion of the tax imposed by section 11 (c) which is attributable to taxable income exceeding \$25,000, in the case of a taxable year beginning after December 31, 1956."

(j) Section 1551 of such Code (relating to disallowance of surtax exemption and accumulated earnings credit) is amended by striking out "provided in section 11 (c)" and inserting in lieu thereof "provided (in the case of a taxable year beginning before January 1, 1957) in section 11 (b) (2)".

SEC. 103. EFFECTIVE DATE.

The amendments made by sections 101 and 102 shall apply only with respect to taxable years beginning after December 31, 1956.

TITLE II—EXCISE TAX RATES

SEC. 201. ONE-YEAR EXTENSION OF CERTAIN EXCISE TAX RATES.

Amend the title so as to read: "An Act to impose a graduated tax on the taxable income of corporations and to provide a one-year extension of certain excise-tax rates."

STATEMENT OF HON. JOHN SPARKMAN, UNITED STATES SENATOR FROM THE STATE OF ALABAMA; ACCOMPANIED BY WALTER B. STULTS, STAFF DIRECTOR OF THE SMALL BUSINESS COMMITTEE, AND CHARLES M. NOONE, TAX CONSULTANT

Senator SPARKMAN. Thank you, Mr. Chairman.

Accompanying me are Mr. Walter Stults, staff director of the Small Business Committee and Mr. Charles Noone, who was formerly a member of the staff and has worked with us in the formulation of the legislation that I am proposing.

Mr. Chairman and members of the Finance Committee, just 1 year ago this week, I had the privilege of appearing before your committee on the same sort of measure you are considering today.

At that time, speaking as chairman of the Small Business Committee, I strongly urged the Finance Committee approval of an amendment to the corporate tax schedule sponsored by Senator Fulbright, and cosponsored by myself and a number of other Senators.

I may say that that is the same proposal or essentially the same that Senator Fulbright has presented today.

At that time we were hopeful that the relatively minor change proposed in the Fulbright proposal would be incorporated in the Tax Extension Act of 1956.

Unfortunately, however, the administration's spokesman on tax matters, Secretary of the Treasury George M. Humphrey, testified that he opposed amendments at that time, considering them hasty and ill-advised.

The Finance Committee itself rejected the Fulbright amendments, as well as any other changes, and the Senate joined the House in sending to the President for signature a measure without any relief provisions.

I received the strong impression at that time, however, that the urgency of the measure and the imminence of the March 31 expiration date were large factors in this committee's decision not to incorporate any amendment.

Furthermore, I felt that the committee would take these important matters under consideration and possibly incorporate them in a later revenue bill sent over from the House.

The CHAIRMAN. Will you yield? You say the Finance Committee rejected the Fulbright amendments. There has never been a vote taken on that.

Senator SPARKMAN. I would have been more accurate if it said it reported the bill out without the Fulbright amendments.

The CHAIRMAN. That would be more accurate for we did not actually reject it.

Senator SPARKMAN. Of course, I was not in on the executive session. I appreciate the chairman making that correction.

That hope for later action proved to be a forlorn one, and once again, Congress did nothing to remedy the admittedly inequitable impact of Federal tax levies on small and independent business enterprises.

During the past 12 months, nothing has occurred to indicate a lessening need for small business tax relief. To the contrary, it is even more imperative, according to every index I have seen and from every bit of testimony gathered by our Small Business Committee.

I am not being overdramatic when I say that the entire free enterprise system of the United States is threatened if the Congress does not take prompt action to revitalize the smaller segments of our economy and remove from them the stultifying burden of present high personal and corporate tax rates.

I recognize that again in 1957, your committee is facing a fast-approaching deadline and that, once again, the administration is likely to assassinate tax-relief measures by pleading lack of time to examine relief proposals.

I ask you most respectfully not to reject these well thought out amendments strictly on a time basis.

If there is indeed no opportunity in the next 10 days to pass H. R. 4090 with amendments, then perhaps consideration should be given to a joint resolution extending present tax rates for 30 or 60 days, while the Congress has a chance to examine these proposals and take positive action on them, rather than approving another round of dismissals on the grounds that there is no time to change this dangerous law, even if it is throttling the capitalist system we are supposed to support.

Several comments should be added before I discuss the details of the five amendments I am today proposing to be added to H. R. 4090. These changes of mine are nothing new—they are not out of the blue. The staff of the Joint Committee on Internal Revenue Taxation has been aware of them for almost 6 months, and the graduated corporate tax bill has now been well publicized for almost a year.

I assume the Treasury Department has also been aware of congressional mutterings on the need for tax relief—I know the President himself last October called for small business tax relief even if it cost the Government some 600 to 700 million dollars in revenue losses.

In its first progress report, dated August 7, 1956, the Cabinet Committee on Small Business strongly supported four specific small business tax relief measures, in recognition of the primacy of this problem in the ranking of business ills.

The first of these proposals was somewhat similar to the amendment supported by Senator Fulbright in his testimony before you this morning.

Secondly, the Cabinet group called for more liberal depreciation allowances for purchasers of used property and machinery. The third recommendation called for closely held corporations to be given the option to be taxed as partnerships, while the final proposal sought this enactment of an amendment to the code providing for the payment of estate taxes over a period of 10 years.

Along with all others sincerely interested in helping small business in our country, I applauded the findings and recommendations of this Cabinet group.

As if proving I was not alone in this endorsement, President Eisenhower himself, on October 21, wired a group, strangely enough labeled the "Small-Business Men for Ike," that he was carrying through on all the Cabinet committee recommendations that could be effected administratively, but that the tax proposals would have to wait until the next session of Congress.

Here we are near the end of the third month of "the next session," but we still have not received the small-business message we were awaiting and the President's subordinate, Secretary Humphrey, has already told at least three congressional committees that small business tax relief is against administration policy at this time.

Thus, the hopes which bloomed so beautifully before that fateful day in November 1956, seem withered indeed in the spring of 1957.

Let me be completely fair, however; it is also important to note that the Democratic platform was specific in its pledge of action in this matter. I shall quote briefly from that platform, adopted in Chicago last year:

In contrast to the maladministration by the Republican Party of the Federal program to assist small and independent business, we pledge ourselves (among other things).

* * * * *

(2) To tax relief for all small and independent businesses by fair and equitable adjustments in Federal taxation which will encourage business expansion and to apply the principle of graduated taxation realistically to such corporate income. There should be an option to spread Federal estate taxes over a period of years when an estate consists principally of the equity capital of a closely held small business.

Thus, the record is clear; thinking has been done, examination has taken place, a search for alternatives has been made. There is no time for further delays if we are to remove this threat to our economic system.

In the succeeding pages, I shall identify my five tax relief amendments by the letters given them yesterday.

The extension of the present tax rates on corporate income would only serve to prolong the excessive burden now falling on small corporations, and I therefore propose that H. R. 4090 be amended by substituting the rates contained in 3-18-57-E as lettered yesterday. My

amendment would eliminate the present normal tax of 30 percent on the first \$25,000 of taxable net income and the surtax of 22 percent on all income over \$25,000 and would provide instead for a graduated tax beginning at 5 percent on the first \$5,000 of net income and increasing in 7 evenly graduated stages to a top rate of 55 percent on all net income over \$100,000.

I submit, Mr. Chairman, that if we are to bring any substantial tax relief to small corporations in this Congress, then my proposal for the adoption of this amendment provides the means to the accomplishment of that objective. I have studied this question long and hard.

I have given searching consideration to all measures thus far introduced in the Congress for the relief of small business, and I am of the firm opinion that this measure which I am proposing as an amendment to H. R. 4090 is the most meaningful and the most practical approach to the solution of the extremely serious situation facing small business in America today.

I say that this proposal is the most meaningful because it brings the greatest measure of relief to those who need it most, the smallest corporations. It would mean a tax saving of some 83 percent for all corporations earning up to \$5,000 of net taxable income—and according to the Treasury Department's report, Statistics of Income, that would include about 47 percent of all corporations reporting net income. My proposal would result in a tax saving for all corporations having up to \$375,000 of taxable income, and again referring to the Treasury Department's report, that would mean almost 98 percent of all corporations with net income.

In other words, only some 2 percent of all corporations would pay an increased tax, and that increase at most would be only some 5 percent over what the largest corporations are paying today under our present corporate tax rates.

With your permission, Mr. Chairman, I should like to submit for inclusion in your record a table showing a comparison between my proposal and the present law as to the impact of the two tax rate structures on various size corporations.

The CHAIRMAN. Without objection, that will be done.

(The document referred to is as follows:)

TABLE I.—Comparison of present and proposed corporate income-tax laws

Income subject to tax	Effective rate		Present tax liability	Proposed tax liability	Change	
	Present law	Proposed law			Amount	Percent
	<i>Percent</i>	<i>Percent</i>				
\$5,000.....	30	5	\$1,500	\$250	-\$1,250	-83.3
\$10,000.....	30	7 5	3,000	750	-2,250	-75
\$15,000.....	30	10	4,500	1,500	-3,000	-66.6
\$20,000.....	30	13.75	6,000	2,750	-3,250	-54.2
\$25,000.....	30	18	7,500	4,500	-3,000	-40
\$50,000.....	41	31.5	20,500	15,750	-4,750	-23.2
\$100,000.....	46 5	38 25	46,500	38,250	-8,250	-17.7
\$250,000.....	49.8	47 7	124,500	120,750	-3,750	-3.01
\$375,000.....	50.53	50 53	189,500	189,500	None	None
\$500,000.....	50 9	51.65	254,500	258,250	+3,750	+1.22
\$1,000,000.....	51.4	53.33	514,500	533,250	+18,750	+3.6
\$5,000,000.....	51.9	54.68	2,594,500	2,733,250	+138,750	+5.3
\$10,000,000.....	51.95	54 83	5,194,500	5,483,250	+288,750	+5.6

Senator SPARKMAN. I know that you are concerned about revenue yield. I am informed by the staff of the Joint Committee on Internal Revenue Taxation that my proposal would not cause any loss in revenue.

On the contrary, it would result in a gain of some 90 to 100 million dollars. I am further informed, however, that it would not be possible to alter any of the rates in my proposal to any significant extent without causing revenue loss.

I should personally prefer to avoid increasing the tax on any corporation, and with this thought in mind I explored the possibility of retaining a top rate of 52 percent on my bill.

I was informed by the staff of the Joint Committee on Internal Revenue Taxation that the retention of a top rate of 52 percent on my bill, the other rates remaining unchanged, would result in a revenue loss of some \$900 million assuming corporate income remained at the mid-1956 level.

While this loss would be substantial, it is not far removed from the \$740 million loss which the present administration was willing to recommend as recently as last October in support of several small business tax relief measures proposed by the President's Cabinet Committee on Small Business.

I submit, gentlemen, that a revenue loss of \$900 million might well be a small price to pay for the tremendous relief that would accrue to business generally and to small business particularly, through the adoption of such a measure.

I venture to predict further that the stimulus this would give to our economy would in a relatively short time generate even more tax dollars and thus more revenue for the Federal Treasury.

I therefore urge you to give most serious consideration to the possibility of adopting and approving, as an amendment to H. R. 4090, my measure with a top rate of 52 percent on all net income over \$100,000.

For your assistance in evaluating this proposal, I offer for inclusion in the record a second table showing the taxes that would be paid by various-size corporations as compared with today's taxes.

Senator ANDERSON. Will you read that sentence again?

Senator SPARKMAN. The last sentence?

Senator ANDERSON. Not about the table.

Senator SPARKMAN. I therefore urge you to give most serious consideration to the possibility of adopting and approving, as an amendment to H. R. 4090, my measure with a top rate of 52 percent on all net income over \$100,000.

For your assistance in evaluating this proposal, I offer for inclusion in the record a second table showing the taxes that would be paid by various-size corporations as compared with today's taxes.

(The table referred to follows:)

TABLE II.—Comparison of present corporate income-tax laws and Sparkman amendment with 52 percent top rate

Income subject to tax	Effective rate		Present tax liability	Proposed tax liability	Change	
	Present law	Proposed law			Amount	Percent
	Percent	Percent				
\$5,000.....	30	5	\$1,500	\$250	-\$1,250	-83.3
\$10,000.....	30	7.5	3,000	750	-2,250	-75
\$15,000.....	30	10	4,500	1,500	-3,000	-66.6
\$20,000.....	30	13.75	6,000	2,750	-3,250	-54.2
\$25,000.....	30	18	7,500	4,500	-3,000	-40
\$50,000.....	41	31.5	20,500	15,750	-4,750	-23.2
\$100,000.....	46.5	38.25	46,500	38,250	-8,250	-17.7
\$250,000.....	49.8	46.50	124,500	116,250	-8,250	-6.62
\$375,000.....	50.53	48.33	189,500	181,250	-8,250	-4.36
\$500,000.....	50.9	49.25	254,500	246,250	-8,250	-3.25
\$1,000,000.....	51.4	50.62	514,500	506,250	-8,250	-1.61
\$5,000,000.....	51.9	51.72	2,594,500	2,586,250	-8,250	-.32
\$10,000,000.....	51.95	51.86	5,194,500	5,186,250	-8,250	-.16

Senator SPARKMAN. I stated above that that would amount to a \$900 million revenue loss, but that as late as October, the Cabinet Committee recommended measures that would, according to their statements net a \$740 million loss and the President gave the semi-approval in this telegram to which I referred a moment ago.

Senator ANDERSON. Then you would amend your 3-18-57-E?

You would now change it so that the top would read "52" in place of "55."

Senator SPARKMAN. That would be my preference. I introduced this measure June 2, last year. I put it at the 55 percent top level because I was informed at that time that the administration could not absorb any revenue loss.

Now I am pointing to the fact that in October it was indicated by the administration that they could sustain a revenue loss of as much as \$740 million. I am saying if it would be possible to absorb a possible loss of \$900 million, the top rate could be held at 52 percent and I personally would prefer that; yes.

To sum up my position on this key proposal, if you gentlemen decide that a revenue loss can be tolerated, then I strongly favor the version of my proposal containing the top rate of 52 percent.

If you feel you must avoid any loss in revenue, then I urge you to endorse my measure with the 55-percent top rate. In any case, I feel strongly that only the graduated tax rate can enable us to bring any substantial relief to small corporations, and I therefore want to urge you most strongly to endorse such a rate structure when you report H. R. 4090 to the Senate.

Before leaving this discussion of graduated taxes, I want to stress one point about which there has appeared to be much confusion.

The Sparkman tax proposals—I use that in order to differentiate from the Fulbright proposals—and the Fulbright bill as well, do not apply merely to businesses organized as corporations.

I have heard the Secretary of the Treasury and others say that they are opposed to measures which would grant relief to only a small percentage of business taxpayers.

Let me direct your attention to section 1361 of the 1954 Code—by the way I think this answers the questions you put to Senator

Fulbright a moment ago—which allows unincorporated businesses to elect to be taxed as corporations.

I am informed my bill would not change that power of election and therefore, the lower rates on corporations with lower earnings would also apply to other businesses as well.

The CHAIRMAN. Senator, will you yield? Mr. Stam, what about the new provisions in the 1954 code which would permit a partnership or a sales proprietorship to be taxed as a corporation?

Mr. STAM. The regulations haven't been issued on that section of the law.

Senator BENNETT. May I ask a question to try and clear something up at this point?

Is that privilege granted to some individual proprietorships or just to partnerships?

Mr. STAM. It would apply to individual proprietorships as well as partnerships. They can elect to be taxed as a corporation under the provisions of the 1954 law. But it is a rather complicated provision, and there are quite a lot of problems involved, and I don't think that has been exercised by anybody as yet.

Senator SPARKMAN. I should think that it would be on the rarest occasion that that option would be exercised because the individual, unless he is really in the high income bracket, would get a better break on paying personal taxes, than he would being incorporated as a corporation paying corporate taxes and then turning around and paying individual taxes on the dividends he collects from that corporation.

So I think both of them really serve as an answer to the query that the chairman had.

The CHAIRMAN. I am sorry for the interruption, but that is an important matter as to whether the present law is effective.

Senator ANDERSON. Regulations have not even been issued on it, so if the law has passed in 1954 and no occasion has arisen for the issuance of a regulation it probably isn't being widely used if at all.

Mr. STAM. There are a lot of problems involved, for example, whether the individual property owner, the proprietor, or the partnership would have to set up corporate accounting, earnings and profits and everything they took out of the business apart from the salary should be treated as a dividend and things like that that a lot of people are very hesitant about what they are getting into in exercising that privilege.

The CHAIRMAN. Pardon the interruption, Senator.

Senator SPARKMAN. It is all right, sir.

Supplementing my proposal for a graduated income tax on corporations, I have introduced four other measures in this Congress which are designed to bring further relief to small business in the very important areas of the tax law.

I hope the committee will give serious attention to these measures. I think they are entirely practical, and I think they are necessary in order to give across-the-board relief in the tax field for small business. I should like to touch briefly on each of those amendments and ask that you also endorse them as amendments to H. R. 4090.

The first of these additional proposals relates to the tax benefits bestowed on tax-exempt, pension, profit-sharing, and stock bonus plans under section 401 (a) of the Internal Revenue Code of 1954.

By the terms of the law, such plans are designed to benefit employees. The majority stockholder of a corporation or even the sole stockholder of a corporation who also serves as an officer of the corporation, may be a beneficiary under one of these plans because he qualified as an employee of the corporation.

But the sole proprietor or partner in an unincorporated business does not qualify as an employee under the law and therefore does not qualify for the great tax benefits accruing to beneficiaries under these plans.

I have proposed in my amendment C that a partner or sole proprietor be granted the same benefits as his corporate counterpart.

In fairness to all small-business men, they should be entitled to the same security and opportunity for saving as their corporate brothers, and I have therefore proposed the adoption of this measure as an amendment to H. R. 4090.

The other three measures concern the extension of the rapid depreciation provisions of the 1954 Code to used capital equipment. That is amendment D.

The granting of an election to pay estate taxes over a period of 10 years (or over a period of 20 years where earlier payment would cause hardship), that is amendment A.

And the granting of an election to corporations with 10 or fewer stockholders to be taxed as partnerships. That is amendment B.

All three of these proposals parallel very closely certain of the proposals made last August by the President's Cabinet Committee on Small Business when it was recommending certain steps to ease the tax burden on small business.

I would therefore expect that all three of these measures would command the support of vast sections of both major political parties in the Congress.

As for the revenue effect in the event of the adoption of these four measures, the staff of the Joint Committee on Internal Revenue Taxation informs me that it is unable to furnish an estimate on the proposal relating to the tax-exempt plans for the reason that basic data on this subject, at least so far as it relates to unincorporated businesses, have never been compiled.

On the proposal relating to rapid depreciation schedules, it was estimated that there would be a loss of approximately \$25 million for the first year.

As I understand that, that is really a deferred payment rather than an outright loss.

The estate-tax provision would entail a temporary loss the size of the loss depending on the number of estates that took advantage of the privilege. As to the election of certain corporations to be taxed as partnerships, basic data are meager, but a rough estimate indicated a loss of approximately \$50 million.

I believe it significant to note, gentlemen, that even assuming all the losses estimated on these four measures, the adoption of S. 352, that is my amendment E, with a top rate of 55 percent would virtually cancel out such losses. Furthermore it is my firm belief that the adoption of these measures would in short time generate substantial additional revenues by virtue of the increased vitality that would result in the small-business community.

I have no doubt that the adoption of the graduated corporate income-tax measure would enable small business to plow back funds into the business with the result that we would see a tremendous increase in the health and prosperity of small business generally and thus an increase in net income, the ultimate source of our Federal revenues.

I feel equally certain that comparable benefits would flow to small business from the other four measures which I have proposed.

My explanation of these measures has been brief, and in order that this committee may have before it a detailed explanation of each of my proposals, I should like to submit for the record the full texts of separate statements on each of these proposals.

I feel that each of these measures is extremely important, and I therefore want you to have the full benefit of my exploration and explanation of each of them.

Gentlemen, small business is in dire need of help. It must receive that help quickly. The members of this committee have within their grasp the opportunity to render the most meaningful type of help to small business—tax relief.

I trust that you will give most careful consideration to my proposals because we in the Senate may not have a like opportunity in this session of the Congress to give small business the help it so desperately needs.

I know that you share with me a great sense of responsibility toward the small business community of our Nation. I know that you recognize as I do that the continued health of our economy depends in large measure on the continued health and vitality of the 4 million small-business enterprises that dot our country.

I am confident, therefore, that you will take full advantage of the opportunity you now have in your consideration of H. R. 4090, to write into that bill the measures which I have proposed to buttress and to foster the health of our small-business community.

The CHAIRMAN. Thank you very much, Senator Sparkman. Any questions?

Senator KERR. I would like to ask a question or two. First I want to say that I have great respect for the distinguished Senator from Alabama and the service he has rendered to small business. And certainly I am impressed, Mr. Chairman, by what I believe to be the great desirability of building a healthier environment for small business.

Now, as the Senator has said there are 4 million small businesses in the country.

Senator SPARKMAN. That's the figure that is generally used.

Senator KERR. How many are incorporated?

Senator SPARKMAN. The figure was given here earlier of seven-hundred-some-odd-thousand.

Senator KERR. That is the total number of corporations filing returns with the Internal Revenue Department?

Senator SPARKMAN. According to the corporate income tax returns for 1952, there were 207,201 with income under \$5,000; 61,780 were with income between five and ten thousand; 37,136 with income between ten and fifteen thousand; 27,752 with income between fifteen and twenty thousand; 26,357 with income between twenty and twenty-five thousand; 33,470 in the twenty-five to fifty thousand bracket; 20,623 in the fifty to one hundred thousand bracket.

Senator KERR. Where do you figure they meet the small business definition?

Senator SPARKMAN. Of course, that is difficult to tell but if you will stop there with the \$100,000 bracket, then we have—

Senator ANDERSON. Over 400,000.

Senator SPARKMAN. About 450,000.

Senator KERR. I don't so add it.

Senator SPARKMAN. 413,000.

Senator KERR. Yes.

The CHAIRMAN. 393 up to 50,000

Senator KERR. You have a different figure than the one you estimate when you added it up.

Senator SPARKMAN. Not too bad, I am saying about 450.

Senator KERR. It is 415.

Senator MARTIN. Could we have it in the record, the amount of that income, that is capital gains.

Senator SPARKMAN. How much of it is capital gains?

Senator MARTIN. How much of it is capital gains? I wouldn't figure having it?

Mr. SPARKMAN. We would not have it. I should think if anyone has it, your staff of the joint committee would.

Senator MARTIN. It that could be inserted at this point.

Senator SPARKMAN. I would be glad to see that.

Senator MARTIN. I think it is valuable information.

The CHAIRMAN. The staff will prepare that information.

(The information referred to is as follows:)

For 1953 about \$140 million of capital gains (long term) were reported by corporations with net income of \$100,000 or less.

For 1953 capital gains reported on all returns with net income were \$919 million.

Senator WILLIAMS. That's about 10 percent of the small business that would be involved in the amendment that you offer.

Senator SPARKMAN. There are that many within these income brackets. There are 230,000 with no net income.

Senator WILLIAMS. Any tax relief to a man who is not making any money?

Senator SPARKMAN. It might.

Senator WILLIAMS. It won't mean anything until he makes money.

Senator SPARKMAN. If these other four proposals of mine are put in then it might mean something to him. And small business lives in hope, not only of survival, but of the right to grow.

Senator BENNETT. Do you accept the fact that was developed in the discussion with Senator Fulbright that many of these two-hundred-odd-thousand are probably dormant corporations?

Senator SPARKMAN. I have no way of knowing. Undoubtedly some of them are. But my understanding is that these 230,000 filed returns showing no income.

Senator BENNETT. Every corporation has to file a return.

Senator SPARKMAN. Even if dormant?

Senator BENNETT. Surely.

Senator ANDERSON. To the Internal Revenue Service.

Senator BENNETT. I'm sure they do.

Senator SPARKMAN. According to figures I have this shows 705,000 returns, 672,000 were active; 442,000 of them were net income. That is the 1952 returns.

Senator BENNETT. Can you define "active"?

Senator SPARKMAN. Probably we could get that definition from the Treasury Department. These figures are taken from their statistics.

Senator BENNETT. I have no further comments.

Senator KERR. Then Senator, I will proceed with the next question I had in mind. On the basis of the figures you have there for 1952, and certainly they wouldn't be exactly accurate for 1956 or 1957 but they give us a very good idea as to the number—

Senator SPARKMAN. Probably the same general pattern.

Senator KERR. As to the number of the small businesses that are incorporated. Roughly 10 percent of them are incorporated, aren't they?

Senator SPARKMAN. Yes, slightly over.

Senator KERR. The provision you read from the Democratic platform I believe reads as follows:

In contrast to the maladministration by the Republican Party— and I am reading that not for emphasis but in order that the next sentence might be properly understood.

Senator SPARKMAN. That is the preamble.

Senator KERR. Yes. [Continues reading:]

of the Federal program to assist small and independent business we pledge ourselves to tax relief for all small and independent businesses.

You don't interpret that to mean to all small and independent incorporated businesses?

Senator SPARKMAN. No, sir. The five bills that I have proposed I think would give relief to all.

Senator KERR. Well, the first one that you have proposed I believe you said would give \$900 million relief.

Senator SPARKMAN. No; I said that—well I suppose that is what it would amount to. If it amounted to that much loss in revenue if you stopped the top level at the present level of 52 percent.

Senator KERR. That was what you recommended.

Senator WILLIAMS. That is what you recommended.

Senator SPARKMAN. I would recommend that provided the committee comes to the conclusion that the Government can afford to take a revenue loss.

Senator KERR. But that is still what you recommend.

Senator SPARKMAN. If it holds to the other provision that it cannot sustain a revenue loss, then I would recommend my first presentation.

Senator KERR. If I may just get a little further. If you took the other provision there would still be that much relief to the same group of corporations.

Senator SPARKMAN. That is correct.

Senator KERR. And it would be recaptured by the Treasury by an increase in the rate on other corporations?

Senator SPARKMAN. That's correct.

Senator KERR. So regardless of which of your recommendations we take, there would be approximately \$900 million relief to the corporate taxpayer.

Senator SPARKMAN. That is correct.

Senator KERR. And it would be of no benefit to the 90 percent of unincorporated small-business taxpayers; would it?

How would the unincorporated small-business taxpayer on one side of the street be relieved by the incorporated taxpayer on the other side of the street being given \$900 million relief?

Senator SPARKMAN. I referred you to section 1361 of the 1954 code which allows unincorporated businesses to elect to be taxed as corporations if they see fit to do so.

Senator KERR. And you were advised that the provisions of the act were unworkable to the extent that they had not yet been put into operation by the Treasury issuing regulations telling people how to come under it?

Senator SPARKMAN. I presume that comes from no demand on the part of businesses to be treated that way. I suppose after it has been passed under that into a law the business has a right to the benefit of the demand so there has been no demand.

Senator KERR. Ordinarily that presumption would prevail but in the light of the facts that were put in the record, I think it would create a doubt as to whether the assumption in this point would be valid.

Senator ANDERSON. Mr. Chairman, will you request the Treasury Department to give us a list of how many returns had been filed using this provision, if any? I would imagine it is unworkable. If it is unworkable why don't we repeal it?

The CHAIRMAN. That request will be made and it will be put in the record.

(The following was later submitted for the record:)

At the present time the Treasury Department has no statistical data as to the number of unincorporated business enterprises electing to be taxed as corporations under section 1361 of the Internal Revenue Code of 1954.

Senator SPARKMAN. May I say this, Mr. Chairman, I call your attention to this fact. As Senator Anderson pointed out in questioning Senator Fulbright, an individual would have to be in the \$37,000 bracket, I believe it was, before he would pay as much as the smallest corporation pays on its earnings.

If my proposal is adopted to set that lowest percentage at 5 percent, undoubtedly a great many of the unincorporated would prefer to be taxed as corporations and there would be a demand for the use of that section.

Senator KERR. I will get to that in just a minute but in order to get the proper perspective and understanding, the \$900 million estimated loss in revenue would come from tax saving to the incorporated taxpayers.

Senator SPARKMAN. I am not willing to say it would come only from the incorporated—it would come from those who took advantage of the opportunity to be taxed as corporations.

Senator KERR. No; the estimate you used was an estimate from the staff and you requested the information as to the loss in revenue from the corporate-tax returns and that was the information given you.

Senator SPARKMAN. All right.

Senator KERR. Now I agree with the first sentence of your last paragraph, "Small business is in dire heed of help." I have the greatest doubt of that being met by a measure that could benefit only 10 percent of them. Since 1951 due to limitations in the law passed under Democratic administration, in the Revenue Act of 1954, there have been a grand total of \$7.4 billion in reduction of taxes

annually. The excess-profit tax accounts for \$2 billion of that. The excise tax reductions account for \$1 billion of that. Individuals have received \$3.800 million of the \$7.4 billion.

Corporations have received \$3,600 million.

In other words, the individuals have received a little more benefit of the \$7.4 billion than the corporations have, including the termination of the excess-profits tax under the proposal you make, Senator, there would be a loss of \$900 million which should not be reduction to any individual, but would be given to corporate taxpayers who according to your own testimony constitute only about 10 percent of the small businesses.

Do you feel that that would meet the dire need of small business generally or effectively?

Senator SPARKMAN. Not that alone. I have introduced a series of five bills. I think the five bills would give considerable relief.

Senator KERR. You tell us however that the other 5 bills—the other 4 bills would result in less than \$75 million total relief. Is that not correct?

Senator SPARKMAN. As a matter of fact, take deferred payments of estate taxes.

Senator KERR. That will not help small business.

Senator SPARKMAN. Senator, I wish you could have been with me in hearings that our committee held across this country and heard the number of small-business men come in and plead with our committee to do something about our inheritance tax.

I recall a case of a man in the Midwest that appeared before our committee in Chicago. He had had a stroke not long before he was there. He sat on that stand with tears running down his cheek saying that "I know that I am not going to be here much longer. I have spent 50 years in building up this business and when I die, there is nothing that my widow can do or my family can do except liquidate the business in order to pay the inheritance tax." So it does mean—it might not affect a great number but it is very important to those who it does affect.

Senator KERR. I think the proposal has great merit.

Senator SPARKMAN. It does not result in the ultimate loss of a single dollar to the Government.

Senator KERR. I am not disagreeing with the suggestion. I am only seeking appropriately to apply it to the question which you yourself have addressed yourself, and that is the promise of the two political parties and especially that one to which you and I belong and for which I have a great respect and also the statement that small business is in dire need of help.

On page 8 of your statement, the last paragraph, after you have outlined the effect of your other four proposals, you say [reading]:

I believe it is significant to note, gentlemen, that even assuming all the losses estimated on these four measures, the adoption of my amendment 3-18-57E—with a top rate of 55 percent would virtually cancel out all such losses.

That statement has the same dignity as the other statements in your presentation I'm sure.

Senator SPARKMAN. That assumes now the 55 percent top level.

Senator KERR. I understand. But now what did you say would be the net gain if the 55 percent amendment would be put into effect?

Senator SPARKMAN. Between 90 to 100 million dollars.

Senator KERR. So that all of the other four that we are talking about would amount to 90 to 100 million dollars relief?

Senator SPARKMAN. Measuring that by dollars, you are correct, but I want to emphasize that there can be relief that is not measured by dollars. I think a good example is the one I made on inheritance tax.

The Government doesn't lose. The Government doesn't lose on this rapid depreciation of used property. Two years ago this committee voted that purchasers of new equipment might have rapid depreciation. I am saying let's make it applicable to purchasers of used equipment too.

Senator KERR. I am not trying to find fault with that. I am trying to address myself to the degree that we would accomplish a purpose that we both hold of giving small business relief and in the final analysis I believe that small business is interested in it primarily in terms of dollars.

Senator SPARKMAN. I would not agree with the Senator on that at all.

Senator KERR. You would not agree that what they are interested in is primarily expressed in terms of dollars?

Senator SPARKMAN. They are interested in any relief that will enable them to carry on their work, meet their obligations, with the hope of making a profit and growing.

Senator KERR. Certainly when you address yourself to the subject of taxes, you would have to make the approach primarily in terms of dollars, wouldn't you?

Senator SPARKMAN. Certainly on the cut of tax rates and in considering the impact of the other Government revenues, naturally you have to measure that by dollars but I repeat—

Senator KERR. On that basis—and I do not make the recapitulation in a dispute with you that the other elements—

Senator SPARKMAN. You and I might argue, we don't dispute.

Senator KERR. That's right.

I recognize the value of the intangibles. But addressing ourselves to the dollar issue.

Senator SPARKMAN. I agree with what you have said but I want my agreement to be contained on the fact that much relief cannot be measured by dollars.

Senator KERR. That's right. As the mouse said in the trap and looked around and was willing to give a quitclaim deed to the cheese if he could just get out of the trap. I know there are a lot of relief not limited in terms of dollars but that is primarily what we are talking about here. As I understand the proposals they would result in \$900 million relief not to exceed 10 percent or approximately 10 percent of the small-business people of the country.

And then the other total relief you envision would be from \$90 to \$100 million and that also would go in a measure to corporate taxpayers. And it just occurs to me that as you and I contemplate the pledge that our party has to small business, if we are going to effectuate a \$900 million relief that it ought to be at least proportionately and equitably to all small business, both corporate and unincorporated, wouldn't you think so?

Senator SPARKMAN. No, I can't agree with you.

May I say this, I think it ought to be extended as far as we can afford to extend it. As a matter of fact I would be happy if this committee could find it possible to drop the 22 percent surtax altogether. I would be happy if we could reduce the 30 percent level. I would be happy of any relief given. I realize we can't. So I say let's go as far as we can. And this series of five amendments goes much further than the Senator from Oklahoma has yet been willing to admit.

Senator KERR. This series of 5 amendments based upon the Senator's testimony as I understand it would give 90 percent of the relief provided by the 5 amendments or \$900 million to corporate taxpayers alone which is 10 percent of the small business of the country. Is that what it would do, if I understand the proposals and the testimony?

Senator SPARKMAN. If the Senator is willing to base his idea of relief solely upon dollar measure, I would have to say that his reasoning is sound. But I do not believe that the Senator's own feeling, that he is on firm ground when he thinks of relief being measured only by dollars. For instance, may I call your attention to this proposal that this committee made 2 years ago in giving corporate employees the right to deduct moneys that are paid for the purpose of profit sharing, pension plans, and so forth?

I am asking that that be extended to proprietorships. Let's make it—

Senator KERR. I think the suggestion has merit.

Senator SPARKMAN. That is one that frankly I don't have an estimate on, I don't know what it would cost. I think that is one that is not to be measured by dollars. I think it is simply fairness. You take the proposition of allowing rapid depreciation of purchases of used equipment. Lots of small businesses must buy used equipment. They simply cannot afford the new equipment that they would like to have.

Two years ago we gave to corporations—

Senator FREAR. Three years ago.

Senator SPARKMAN. Three years ago, yes. We gave to everybody the right to have rapid depreciation.

Senator KERR. I opposed the law.

Senator SPARKMAN. Nevertheless it became law.

Senator KERR. That's right.

Senator SPARKMAN. If we have it to new equipment, let's make it applicable to used equipment.

Senator KERR. I am in favor of that. I want to ask one other question and I will be through. This \$900 million loss that you have estimated—

Senator SPARKMAN. Keep in mind that I have been following pretty closely the administration. I prepared my first bill last year when they said they couldn't take any loss. I prepared the amendment following the President's endorsement of the Cabinet's Committee findings at which time they estimated they could take up to \$740 million loss on the tax bill alone.

Senator KERR. I understand that. The estimate you have given us is based upon the assumption that the corporate identities with reference to numbers and sizes remain approximately in relationship one to the other as what they are.

Senator SPARKMAN. I think that's correct.

Senator KERR. Is it not entirely probable that if this additional incentive or relief is made available for small corporations, that we might not have an epidemic of larger business enterprises being divided and split up into larger numbers of small corporations, rather than the continuation of the present general structure that is in effect of larger units?

Senator SPARKMAN. I doubt that very seriously and I call attention to the fact that there is a statute which allows the proper agent of the Government, the Secretary of the Treasury I presume or the Commissioner of Internal Revenue to handle the matter administratively in the event corporations are formed for the purpose of evading taxes.

Senator KERR. The sole purpose?

Senator SPARKMAN. That's right.

Senator KERR. But if they have different incorporators—

Senator SPARKMAN. As a practical reason, you realize the highest saving to any one corporation would be \$8,250 under my tax proposal. I don't believe a hundred-million-dollar corporation—

Senator KERR. I don't either.

Senator SPARKMAN. Is going to break up to save \$8,250.

Senator KERR. I believe a lot of million-dollar corporations will do this. The Treasury will tell you that one of the big problems they have now by reason of the differential in tax rate is administering that provision that enables them to disregard numerous corporations—

Senator SPARKMAN. Of course if you hold to my preference and hold this at 52 percent, that million-dollar corporation will get \$8,250 saving too.

Senator KERR. We ought to stay with one or the other.

Senator SPARKMAN. Your question was posed on the assumption of a loss of \$900 million. Remember that is my 52-percent level.

Senator KERR. I thought you agreed that the \$900 million loss would occur with reference to the corporation whether 52 or 55 percent?

Senator SPARKMAN. Not at all. You put it the other way. There would be a \$900 million benefit, it wouldn't be a \$900 million loss to the Government.

Senator KERR. But the \$900 million loss or deduction would occur in either event; in the case of your 55 percent amendment that amount would be recaptured from the larger corporation. But that wouldn't change the amount of reduction that would be effective with reference to the same identical group of corporations under either amendment.

Senator SPARKMAN. I am not sure that I understand just what the Senator means by that.

Senator KERR. That is my understanding. You can tell me whether I am correct or not.

Senator SPARKMAN. If you are talking on the 52 percent top level then your million-dollar corporation would get the maximum saving under the bill just as the \$50,000 corporation would. If you are talking about the 55 percent level then that corporation would not get it but would have to pay a little additional.

Senator KERR. But if the million-dollar corporation were broken into twenty \$50,000 corporations, then your loss would be greater.

Senator SPARKMAN. Each one would get the \$8,250.

Senator KERR. I merely addressed myself to the additional incentives that would be created by the adoption of either amendment for

the formation of numerous corporations to do any given amount of business instead of having it done by one.

Senator SPARKMAN. I think the Senator's fear is illusory.

Senator KERR. I say to him that it is very real, and the Treasury will so advise him.

Senator BENNETT. I would like to comment that having been in business through all these years when the income-tax laws have been changed and patterns have been shifted, I have been a part of a business organization that has broken up its groups into small corporations and then has united them into one corporation as the tax atmosphere and pattern changed, and I am just as sure as I sit here that every businessman gages his basic policies on the tax climate and the tax pattern. And if this graduated income tax became the pattern for our corporate structure, you would see the number of corporations in this country multiply by 2 or 3 times.

Senator KERR. There isn't any doubt about that. I am acquainted with numerous businesses. I know one setup where they have 50 corporations now. And they are all generally owned by the same group, but they have incorporated into about 50 different corporations because of the tax saving available to them.

They can do it under the law. I do not find fault with it.

It is just a natural result of the tax environment which we create. I say to the Senator if he thinks that there would be no additional examples of that kind if the incentive were proportionately increased, I think he is viewing it on an illusory basis.

Senator SPARKMAN. I certainly would not say there would not be any, but I don't believe that it would take anything like the proportions that have been suggested.

Senator KERR. I thank the Senator for his kindness in testifying.

The CHAIRMAN. Thank you, Senator Sparkman.

Senator SPARKMAN. Thank you. Mr. Chairman, I made the request there that the statements that I had prepared on each of these bills might be included in the record.

The CHAIRMAN. Without objection, these statements will be inserted in the record.

(The documents referred to are as follows:)

(Statement by Senator John Sparkman on his amendment 3-18-57-A to H. R. 4090, originally introduced as S. 348 on January 7, 1957:)

AMENDMENT OF INTERNAL REVENUE CODE TO PROVIDE FOR THE PAYMENT OF
THE ESTATE TAX IN INSTALLMENTS

Mr. President, on January 7 I introduced S. 348, a bill to amend the Internal Revenue Code of 1954 so as to permit the payment of the estate tax in installments. Nine Members of this body joined me in sponsoring S. 348. My cosponsors are Senators Hill, Humphrey, Kefauver, Neuberger, Kennedy, Morse, Thyne, Schoeppel, and Kuchel. All of these very able gentlemen have been keenly interested in the problems of small business, and I was, therefore, gratified to receive their assistance in cosponsoring S. 348. I trust that when I have completed my explanation of this bill here today, my cosponsors and I may be able to count on the support of a majority of this body to speed the early enactment of S. 348 into law.

Estate taxes are peculiarly damaging to small businesses, whether they be closely held family corporations, partnerships or sole proprietorships. Upon the death of an owner of a major interest in a family business, the cash required to pay the Federal estate tax frequently places a very heavy drain on the assets of the estate. Under present law, the estate tax is due and payable 15 months

after the death of the decedent, and the tax is payable in cash. The business of the decedent may have been prosperous in terms of book value of his holdings in the business, but that value seldom consists of cash in the bank or readily convertible assets. Such values are more often reflected in the brick and mortar and inventory of the small business. Raising the cash to pay the estate tax can, and frequently does, result in the sale of the business, because there is just no other way to raise substantial sums of cash to meet the tax. It is generally conceded that the impact of estate taxes has had a very definite part in the trend of recent years toward greater concentration of economic power in the hands of fewer large companies. The survivors of a majority owner of a small family business, unable to raise the cash to pay the estate tax upon the death of the decedent, within the time specified by the present law, look around for a way out. And most frequently, the only way out is to sell out to a larger competitor. We who serve on the Select Committee on Small Business have seen this happen much too often.

The present law authorizes the Secretary of the Treasury to permit the payment of the Federal estate tax over a period of 10 years where the payment of the tax within the statutory period of 15 months would cause hardship. The difficulty with this provision of the law has arisen in the definition of hardship. Under existing estate-tax regulations, the Treasury Department takes the position that no hardship results so long as the estate can sell its assets at a fair price in order to raise the funds to pay the estate tax. Thus, the effect of the present law and regulations on the Federal estate tax is to condone the forced sale of a small family business in order to be able to pay estate taxes. No consideration is given to the fact that the sale of the business, in and of itself, writes an end to what the decedent and founder probably intended to be an enduring legacy, a continuing livelihood and security for his widow and his children. No consideration is given to the fact that one more small business falls by the wayside. So long as the Government receives its tax dollars on the death of the decedent, and on time, no hardship results.

I submit that each such demise of a family business is a severe hardship. It is a very real and practical hardship on the surviving members of the family. It is likewise a very real and practical hardship to our economy. Small business must be encouraged to continue its dynamic role in our economy. It must be encouraged to keep going, to grow and to thrive. Every obstacle in the path of this growth must be eliminated wherever possible. I say the present law on Federal estate taxes is such an obstacle to the continued health and vitality of small business and that it must be amended to ease the impact of those taxes on small family businesses.

S. 348 is designed to do just that. It would permit the payment of estate taxes in installments over a period of 10 years without any showing of hardship. In addition, where the payment of the tax would impose a hardship under the 10-year payment method, the Secretary of the Treasury would have the authority to extend the payment period to 20 years. The bill defines "hardship" in terms of the decedent's holdings in a business, and thus takes the matter of definition of "hardship" out of the realm of administrative judgment and places it where it should be, in the law itself.

The Federal estate tax is currently yielding approximately \$1 billion a year in revenue. The adoption of S. 348 would, of course, result in some immediate loss in revenue, but over the long run there would be no net loss. The amount of immediate loss would be entirely dependent upon the number of estates that took advantage of the election in S. 348 to pay the tax over a period of years. The bill as written does not call for the payment of any interest on the deferred payments, but if there be any major concern over the possibility of revenue loss in early years as a result of the enactment of the bill, provision could be made for an interest payment in the amount of 4 percent on the deferred balance of the tax—just as estates pay now where they are granted the 10-year payment privilege. I for one, however, do not feel that such interest should be exacted, for the reason that the slight loss in revenue that might be involved would be well worth the price in terms of the many small businesses that would thereby be saved and permitted to contribute to our economic health and vitality as a nation.

I was encouraged to note last August that the President's Cabinet Committee on Small Business recommended the adoption of a provision very similar to S. 348. In spite of Secretary Humphrey's recent expressions of opposition to any small-business-tax assistance that might result in revenue loss, I would hope that the President's endorsement of his Cabinet Committee's proposal would encourage the Republican as well as the Democratic Members of this body to lend

their full support of S. 348. The impact of the enactment of S. 348 on the Federal revenues would be relatively slight but its impact on our economy, particularly in terms of its encouragement to the continuation of family businesses, would be very great. In my opinion, S. 348 deserves the full support of every Member of this body who understands the problems of small business and who wants to see those problems surmounted. I submit that the Federal estate tax is a very real problem to the small-business man and that S. 348 provides the solution to that problem. I trust that the vast majority of my colleagues will join me in pressing for early and favorable action on the bill.

(Statement by Senator John Sparkman on his amendment 3-18-57-B to H. R. 4090 originally introduced as S. 349 on January 7, 1957:)

Mr. President, on January 7, I introduced five bills designed to bring tax relief to small businesses. One of these was S. 349, a bill to permit certain corporations to be taxed as partnerships. Nine of my colleagues joined me in sponsoring S. 349. My cosponsors are Mr. Hill, Mr. Humphrey, Mr. Kefauver, Mr. Neuberger, Mr. Kennedy, Mr. Morse, Mr. Thye, Mr. Schoepel, and Mr. Kuchel. I was delighted to welcome the support of these distinguished gentlemen, and I hope that when I have completed my explanation of this bill here today, my cosponsors and I will be joined by a great majority of this body in supporting S. 349.

Section 1361 of the Internal Revenue Code of 1954 grants an election to certain partnerships and proprietorships to be taxed as corporations. This election has certain obvious benefits for those business entities which can qualify for the election, chief among these being tax savings.

It is clear to me that a companion election should be granted to certain small corporations to be taxed as partnerships. Such a provision was contained in H. R. 8300 as reported by the Committee on Finance in the 83d Congress, but it was dropped prior to the enactment of H. R. 8300 as the Internal Revenue Code of 1954. In the 3 years since the enactment of the new code, it has become increasingly clear to me that such an election would be of great benefit to numerous small corporations which are hit especially hard by our present high corporate income-tax rates. Those taxes take 30 percent of the first \$25,000 of net corporate income and 52 percent of all net income over \$25,000. The dividends which are passed on to the stockholders—if there is any money left for dividends—is then taxed at the personal income-tax rates of the stockholders. These taxes siphon off the liquid funds which a small corporation needs for expansion, retooling, and other business purposes.

If the income of a small corporation were taxed instead to the stockholders as if they were partners, the total tax bill would often be considerably lower, and thus more money would be retained in the business to meet its cash needs.

Take, for example, a small corporation with say \$50,000 of net taxable income. The corporate tax on that income at present rates would be \$20,500, or 41 percent of the total profits of the business. Assuming the corporation were made up of 10 stockholders, and the profits were divided equally among them as if they were partners, each of the stockholders would then have \$5,000 added to their taxable income and taxed at personal income-tax rates. Assuming that salaries of these "partners" were reasonable, the overall tax saving to the company could be considerable.

This, in essence, is what S. 349 would provide. It would grant the election to any corporation having not more than 10 stockholders, all of the stockholders being active in the business. It thus would favor those small corporations which are truly small businesses, and those businesses in which the owners are also the active managers, not simply investors.

S. 349 would also have the effect of avoiding the threat that continues to hang over all corporations by virtue of section 531 of the 1954 Code relating to surplus accumulations. It was my hope that the new code section, clarifying and in many ways improving upon the old section 102, would eliminate the fears of small corporations in this area, but apparently this has not been accomplished. On the Small Business Committee we continue to receive complaints and inquiries from small corporations relative to the imposition of the penalty surtax on surplus accumulations. S. 349 should eliminate that problem once and for all, since it would tax the stockholders as partners, and partners are not subject to the penalty provisions of section 531.

The Joint Committee on Internal Revenue Taxation has informed me that it is difficult to estimate the revenue effect of S. 349 since we do not have adequate data on which to make firm estimates. The staff of that committee informs me

however, that a rough estimate which it prepared on H. R. 8300 in the 83d Congress indicated that there would be a revenue loss in the neighborhood of \$50 million a year. In this connection I should like to note that S. 352, the corporate income tax bill which I introduced along with S. 349 on January 7, would result in a revenue gain of some \$90 million, so that these two bills taken together would result in a revenue surplus. Even granting the loss on S. 349 alone, I believe the loss would be a temporary one, and that the increased vitality of small corporations that would result from an exercise of the election, would in the long run produce more income for those companies and thus more tax dollars for the Treasury.

I was encouraged to note that the President's Cabinet Committee on Small Business recommended the adoption of a measure such as S. 349 in its report last August, and that the President endorsed the proposal. I would therefore hope that, in spite of Secretary Humphrey's recently expressed opposition to any tax relief for small business that would result in revenue loss, the Republican as well as the Democratic members of this body will recognize the need for S. 349 and that they will lend it their full support.

Section 1361 of the 1954 Code grants the election to certain partnerships and proprietorships to be taxed as corporations. This provision would obviously be of greatest benefit to those business entities where the partners are already in the 52 percent plus personal income tax brackets. S. 349 would simply grant a similar election to those stockholders of small, closely held corporations who find themselves in the 52 percent corporate income tax brackets and who would benefit by being taxed instead at personal rates. In fairness to all businessmen, I believe the corporate shareholder envisaged by S. 349 should be given an advantage commensurate with that bestowed upon partners and proprietors by section 1361.

In my opinion, S. 349, even granting that it might necessitate some loss in revenue, would yield impressive dividends in the increased vitality and prosperity of small corporations now struggling to save money to reinvest in the business. Viewed in that light, I believe that S. 349 deserves the unanimous support of this body, and I earnestly hope that my colleagues will join with me in urging early and favorable action on the bill.

(Statement of Senator John Sparkman on his amendment 3-18-57-C to H. R. 4090 originally introduced as S. 350, on January 7, 1957:)

AMENDMENT OF TAX LAW AS IT AFFECTS UNINCORPORATED BUSINESSES

Mr. President, on Monday, January 7, I introduced a bill, S. 350, which would amend the Internal Revenue Code of 1954 so as to permit the proprietor of an unincorporated business to be treated as an employee under a qualified pension, profit-sharing, or stock bonus plan.

Seven of my distinguished colleagues, including a majority of the Select Committee on Small Business, joined me in sponsoring S. 350. My cosponsors are: Mr. Hill, Mr. Humphrey, Mr. Kefauver, Mr. Neuberger, Mr. Kennedy, Mr. Morse, Mr. Thyne, Mr. Schoeppel, and Mr. Kuchel. I am delighted to welcome the support of these very able gentlemen to S. 350, and I trust that when I have completed my explanation of this important measure today, the great majority of the Members of this body will join with me and my cosponsors in urging its early enactment into law.

S. 350 is designed to correct what appears to me to be an inequity in our present tax law as it affects unincorporated businesses, particularly small unincorporated businesses. The inequity arises from the fact that section 401 (a) of the 1954 Internal Revenue Code, relating to the qualifications of tax-exempt pension, profit sharing, and stock bonus plans, makes it possible for a sole stockholder of a corporation who is also an officer of the corporation, to qualify for the great benefits bestowed taxwise under that section, while the partners or proprietors of an unincorporated business do not qualify for the same benefits. This comes about because such plans must be for the exclusive benefit of employees. Officers of corporations, while they may be sole stockholders or majority stockholders in their corporations, qualify as "employees" of the corporation. But the partners or proprietors of an unincorporated business entity are regarded under the present law as "employer" and not as "employees."

These plans to benefit employees through pensions, profit-sharing and stock bonuses are not new, but their growth in recent years has been remarkable. Albert Gallatin, Secretary of the Treasury under Jefferson and Monroe, established a profit-sharing plan at his glass works in 1794. An early study of the subject showed that 23 such plans existed in the United States as of 1899. Even

as recently as 1930, however, the number of plans in operation totaled only 110. The phenomenal growth in the number and scope of the plans began following enactment of special provisions in the Revenue Act of 1942. At the end of that year there were 1,947 pension and profit-sharing plans in operation in the United States. By 1950 the number had grown to 12,925, and at the end of 1954, the most recent year for which we have comprehensive statistics, there were 26,573 qualified pension and profit-sharing plans in operation. It has been estimated that new, qualified plans are being established at a rate of 4,000 a year at the present time.

The growth in the size of employer contributions to these plans gives further indication of their popularity. The Treasury Department reports that corporations were claiming deductions in the amount of \$835 million for their contributions to these plans in 1946. By 1951 the annual rate of corporate contributions to the plans had grown to \$2.3 billion. The Treasury has not published any more recent statistics on these contributions, but it is fair to assume that the size of annual corporate contributions to these tax-exempt plans has not decreased since 1951.

The extent of the investment in these plans is also impressive. A recent study published by the Securities and Exchange Commission on corporate pension funds reflects that the assets of such funds amounted to approximately \$1.1 billion in 1940. By 1950 the total investment had grown to \$5 billion, and as of the close of 1954, total assets of all corporate pension funds were in the neighborhood of \$11.8 billion.

What accounts for the growth of these funds in recent years? The principal reason for their growth can be explained in one word—taxes. Present tax rates—both personal and corporate—make these plans extremely attractive to businessmen because the plans qualify for very favorable tax treatment. An employer may deduct from his taxable income up to 15 percent of the compensation normally paid to his employees when he contributes such amounts out of his profits to a profit-sharing plan. He may deduct up to an additional 5 percent on contributions to pension plans. Thus, a corporation paying income tax at the 52-percent level could contribute \$10,000 to one of these tax-exempt trusts at an after-tax cost of only \$4,800.

Money earned by the trust as a result of its investment of contributed funds is tax exempt. An employee on whose behalf the employer makes a contribution is not taxed on his share of the contribution. And if the employee retires and takes his share of the trust fund in 1 year, he is taxable only at capital gains rates.

Thus it can readily be seen how great are the benefits accruing to beneficiaries under these plans. As I have previously pointed out, a sole stockholder or a majority stockholder of a corporation serving as an officer of the corporation qualifies for the benefits accruing to employees of his company under one of these plans for the reason that under the present law, he meets the test of an employee. He is an employee of his own corporation. But a partner or the proprietor of an unincorporated business entity does not qualify as an employee and thus is not entitled to the benefits of such a plan established in his unincorporated business.

The value of these benefits is very great in terms of security and opportunities for savings. These savings are particularly important for the proprietors of small, unincorporated businesses. Oftentimes their life savings are tied up in the brick and mortar of their businesses. When they die, the impact of the Federal estate tax forces liquidation of the business, frequently a sale of the business to a larger competitor, in order to raise the liquid funds necessary to meet the estate tax. The sole stockholder-president of a corporation having a qualified plan has a ready source of liquid funds—his equity in the plan.

The same situation arises when the time comes for normal retirement. The beneficiary of a tax-exempt pension or profit-sharing plan has at his disposal a fund which has appreciated very greatly in value simply because of the tax benefits which I have already cited. The partner or proprietor of an unincorporated business has a much lesser sum available for his retirement years—only the after-tax dollars which he has managed somehow to set aside for retirement purposes. This is undoubtedly the reason why we find so many more executives of unincorporated businesses continuing their active participation in the business right down to the day of death. They have not been able to accumulate the savings which would be sufficient to enable them to retire comfortably. They simply cannot afford retirement such as their corporate brothers enjoy, because they have not had the benefits of these tax-exempt plans.

Stated in its simplest terms, S. 350 would put the small partner or proprietor on an even footing with his corporate counterpart. It would enable him to save some

of the profits of his business for his own retirement and for meeting the cost of estate taxes on his death. The enactment of S. 350 would be a great step in the direction of helping small-business men. It would eliminate the present discrimination in favor of corporate executives and stockholders in closely held corporations.

The staff of the Joint Committee on Internal Revenue Taxation informs me that it is unable to estimate the effect this measure would have on the Federal revenues for the reason that basic data on this subject, so far as it relates to unincorporated business entities, has never been compiled. I venture to state, however, that the increased morale among small-business men which would result from the enactment of S. 350, the greater productivity of their businesses, and the increased profits which would therefore flow from those businesses, would create even more taxable revenue for the Federal Treasury and thus would not, in the long run, result in any revenue loss.

In my opinion, the present law discriminates unfairly against the executive in the small, unincorporated business enterprise. In fairness to him he should be entitled to the same benefits accorded his corporate competitor. I earnestly hope that the great majority of this body will agree with me, and that we can bring about early and favorable action on S. 350.

(Statement of Senator John Sparkman on his amendment 3-18-57-D to H. R. 4090 originally introduced as S. 351 on January 7, 1957:)

Mr. President, on January 7, I introduced S. 351, a bill to amend section 167 of the Internal Revenue Code of 1954 so as to extend to purchasers of used equipment the same privileges of accelerated depreciation which were extended to purchasers of new equipment in the 1954 Code. When I introduced the bill I stated that I would explain it in some detail at a later date. Subsequent to January 7, nine members of this body joined me as cosponsors of the measure. My cosponsors are Mr. Hill, Mr. Humphrey, Mr. Kefauver, Mr. Neuberger, Mr. Kennedy, Mr. Morse, Mr. Thye, Mr. Schoeppel, and Mr. Kuchel. The support of these gentlemen is particularly gratifying to me, because I regard all of them as being particularly knowledgeable in the problems of small business and aware of the need for early and practical action to assist small business and to stem the tide toward the growing concentration of economic power in the hands of fewer and fewer large companies. I trust that when I have completed my explanation of S. 351 here today, my cosponsors and I will be able to count upon a great majority of this body to join us in supporting this bill.

By way of background, section 167 of the Internal Revenue Code of 1954 was adopted to correct a problem that had plagued businessmen, large and small alike, for nearly two decades. * * * the ultraconservative policies of the Treasury Department relative to depreciation schedules on capital plant and equipment. Basically, the Treasury Department's policy was sound. It provided that a businessman could not write off the cost of his capital investment except over the period of its useful life. The basic difficulty with this policy arose when Treasury published a document known as bulletin F in 1942. This document set out in great detail what Treasury regarded as the "useful life" of various types of capital items. And these criteria as to "useful life" were regarded by a great many businessmen as unrealistic. Bulletin F announced, for example, that the average useful life of store or a garage was 50 years, that furniture, fixtures, and filing cases could be expected to last 20 years, and so on. Businessmen taking depreciation on these items could do it only over the "useful life" laid down in bulletin F, unless they could obtain special permission from Treasury to vary the bulletin F schedule. In addition, unless the businessman could convince the Treasury that he had a special problem, he could depreciate the capital asset only at a fixed rate, and never below the "salvage" value of the asset. For example, if a businessman bought an asset costing \$5,500, and it had a "useful life" of 10 years and a "salvage" value of \$500, he would divide \$5,000 by 10 and take just \$500 depreciation in each of the 10 years he held the asset.

The great advances in technology in World War II and the succeeding years made it apparent that the "useful life" in many assets was much shorter than Treasury would admit. New production equipment, for example, while admittedly the finest when first introduced and sold, would soon be made obsolete by the introduction of even better equipment. To keep abreast of the competition, a manufacturer had to replace equipment long before it had really worn out. But many such manufacturers could not afford to buy new equipment because the

slow rates of depreciation on their present equipment made it economically unfeasible for them to replace it.

This basically was the situation which section 167 of the 1954 Code was designed to correct. And it corrected it by allowing businessmen for the first time to elect to use accelerated depreciation schedules without the necessity of first obtaining the approval of the Treasury Department. Stated very briefly, these accelerated schedules allow a businessman to depreciate a capital asset more rapidly in its early years, thus taking into account the fact that an asset's most useful and productive years are the first years of use. These schedules also result in an asset acquiring a depreciated value which is more realistically related to its fair market value over its entire life. Thus, a businessman wishing to sell a relatively new and still useful piece of equipment, is able to do so without suffering great loss in real, depreciated value.

Generally speaking, the new rates enable a businessman to depreciate his capital assets at rates approaching twice the old, conservative, straight-line method. Citing again the example of the man who purchases a piece of equipment at a cost of \$5,500, and assuming it has a normal useful life of 10 years and a salvage value at the end of that time of \$500, whereas under the old method he could charge off only \$500 a year in depreciation, today, using the special declining balance method authorized by section 167 of the 1954 Code, he could charge off twice that amount, or \$1,000 in the first year. In the second year he would charge off 20 percent of the remaining balance, which would be \$800, that is, 20 percent of \$4,000.

The one great difficulty with section 167, however, was that it permitted the use of these accelerated depreciation schedules only on new equipment. It specifically applied only to capital assets acquired new, and used for the first time after 1953. Thus, section 167 is not of any help to those thousands of small-business men who cannot afford the price of new capital plant and equipment. It is of no help to the man going into business for the first time, the man who must stretch his investment just as far as possible by buying used buildings and used machine tools to make his start. It is of no use to the small man who wants to expand his production modestly by adding one more machine or one more show case or a delivery truck—it is of no use to him unless he has the money to go out and buy that item brand new. And in this day of high taxes, the small-business man is hard pressed to meet his tax bills. If he has anything left over on which to feed his business, he has to shop around for the best bargain he can find. More than likely, the capital item he can afford to buy will be a used item.

I believe the small-business man in this situation should have the same benefits of accelerated depreciation as his more affluent competitor, and this is what S. 351 would accomplish. It would allow the purchasers of used equipment to depreciate that equipment at accelerated rates. Aside from the equity of S. 351, I believe it takes into account a very real fact: a piece of capital equipment purchased secondhand is certainly closer to obsolescence than a new asset. The purchaser has probably paid a premium for his secondhand asset. Allowing him to depreciate it rapidly may enable him to replace that old asset at an earlier date with an improved unit, or even a brandnew one.

There has been considerable expression of concern in the past lest the allowance of accelerated depreciation on used capital assets might lead to abuses which would seriously affect the Federal revenues. I believe there may be some merit in this concern, and I have therefore included in S. 351 a limitation on the amount of equipment that might be subject to these rapid rates of depreciation. The bill provides that the rates shall apply only to the first \$50,000 worth of equipment purchased in 1 year, except that the businessman may, under a separate section of the bill, lump his benefits for 5 years into 1 year if he wishes. The latter provision is designed to take care of the situation where a business wants to purchase a considerable amount of used, capital assets in 1 year, such a reequipment program to take care of the needs of the business for several years to come. Expressed in terms of dollars, under S. 351 a business could purchase \$250,000 worth of used capital assets in 1 year and take advantage of the accelerated depreciation schedules on all of that equipment, but it would not be able to add any other used assets to its accelerated depreciation schedules during the succeeding 4 years.

I was pleased to note that the President's Cabinet Committee on Small Business made a recommendation along the lines of S. 351 last August. The major difference between S. 351 and the Cabinet Committee proposal would be that the latter did not make provision for lumping purchases in excess of \$50,000 in 1 year, and I believe this feature of S. 351 is extremely important for the reasons which I have already cited.

It is difficult to estimate the effect that S. 351 would have on the Federal revenues. The staff of the Joint Committee on Internal Revenue Taxation has informed me that it estimates S. 351 would bring about a reduction in fiscal 1958 in the neighborhood of \$25 million. This would be on the assumption that all purchasers would elect the new methods, which would be a reasonable expectation. I say it is difficult to estimate the revenue effect of S. 351, however, for the reason that the increased productivity and efficiency of small business resulting from the adoption of the bill might very well yield greater profits and thus more tax dollars for the Treasury. On this point I am inclined to agree with the Cabinet Committee on Small Business which commented that its tax proposals, while in some instances entailing a temporary loss of revenue, would, in the long run, "tend to enlarge the national income which is the ultimate source of all tax revenues." I believe it fair to predict that S. 351 would, in the long run, have the same result.

In these days of high taxes, depreciation is just as meaningful to the businessman as profits in the bank. The small corporation paying a 52-percent income tax can retain \$52 in the business for every \$100 of depreciation it can justify. Thus, the accelerated depreciation schedules authorized by the 1954 Code are very real benefits. But those benefits should not be extended exclusively to those businesses financially able to purchase new capital assets. They should be made available on an equitable basis to the businessman who purchases used capital assets as well. And the small-business man will be found most often in the latter category.

It is essential that help be extended quickly to small business. S. 351 is a practical bill that will bring practical results to all small-business men. And this can be accomplished quickly—this year—by early action on S. 351. I urge all of my colleagues to give their full support to S. 351 to the end that we may give early and practical help to a great segment of our economy that is in dire need of help and which is looking to this Congress for that help—the entire small-business community.

(Statement of Senator John Sparkman on his amendment 3-18-57-E to H. R. 4090, originally introduced as S. 352 on January 7, 1957:)

TAX RELIEF FOR SMALL CORPORATIONS

Mr. President, on Monday, January 7, I introduced S. 352, a bill designed to bring much-needed tax relief to small corporations. I have since been joined by six distinguished colleagues in the sponsorship of this vital piece of proposed legislation. My cosponsors are Mr. Hill, Mr. Humphrey, Mr. Kefauver, Mr. Kennedy, Mr. Morse, and Mr. Neuberger. I am delighted to receive the active support of these distinguished Senators at the outset of the 85th Congress, and I trust that when I have completed my detailed analysis of S. 352, the great majority of this body will see fit to lend it their active support so that the bill may be enacted into law at the earliest possible date.

The purpose of S. 352 is simple. It is to bring substantial tax relief to the smallest corporations of this country. The bill accomplishes this purpose by substituting a graduated tax for the present normal and surtax on corporate income. The present law exacts a tax of 30 percent on all taxable corporate income up to \$25,000 and a tax of 52 percent on all income over that amount.

S. 352 would substitute the following rates:

If the taxable income is:	The tax is:
Not over \$5,000-----	5 percent of the taxable income.
Over \$5,000 but not over \$10,000.	\$250 plus 10 percent of the excess over \$5,000.
Over \$10,000 but not over \$15,000.	\$750 plus 15 percent of the excess over \$10,000.
Over \$15,000 but not over \$20,000.	\$1,500 plus 25 percent of the excess over \$15,000.
Over \$20,000 but not over \$25,000.	\$2,750 plus 35 percent of the excess over \$20,000.
Over \$25,000 but not over \$100,000.	\$4,500 plus 45 percent of the excess over \$25,000.
Over \$100,000-----	\$38,250 plus 55 percent of the excess over \$100,000.

The schedule of rates contained in S. 352 accomplishes two very important purposes: It brings the maximum relief to those who need it most, the smallest corporations, and it causes no loss in Federal revenues. In fact, I am informed by the staff of the Joint Committee on Internal Revenue Taxation that S. 352 would bring about an increase in revenues in the neighborhood of \$90 million a year if corporate income continues at its mid-1956 pace. While this revenue gain is significant, I am further informed that it would not be possible to lower any of the rates in S. 352 without causing revenue loss.

I do not intend to lose sight of the revenue gain embodied in S. 352, however. That gain could well be used to offset slight revenue losses implicit in other important small business tax-relief measures which I have introduced and which I shall discuss in detail in the near future.

I have said that S. 352 would bring the maximum relief to the smallest corporations. It would mean a tax saving in excess of 83 percent for all corporations earning up to \$5,000 a year. According to statistics compiled by the Treasury Department on corporate income for 1952—the latest year for which complete statistics on corporate income are available—corporations earning less than \$5,000 constituted nearly 47 percent of all corporations with net income.

S. 352 would bring a tax saving to all corporations earning up to \$375,000 a year. Again citing the Treasury statistics such corporations constituted nearly 98 percent of all corporations reporting net income in 1952. In other words, only about 2 percent of all corporations would pay increased taxes, and then in only relatively minor amounts.

For the benefit of my colleagues in their study of this measure, I request that there be printed in the Record at this point two tables, the first setting forth a comparison of S. 352 and the present law on corporate income tax, and the second setting forth some detailed statistics on the structure of our corporate economy as of 1952.

(There being no objection, the tables were ordered to be printed in the Record, as follows:)

TABLE 1.—Comparison of present and proposed corporate income tax laws

Income subject to tax	Effective rate (percent)		Present tax liability	Proposed tax liability	Change	
	Present law	Proposed law			Amount	Percent
\$5,000.....	30.0	5.0	\$1,500	\$250	-\$1,250	-83.3
\$10,000.....	30.0	7.5	3,000	750	-2,250	-75
\$15,000.....	30.0	10.0	4,500	1,500	-3,000	-66.6
\$20,000.....	30.0	13.75	6,000	2,750	-3,250	-54.2
\$25,000.....	30.0	18.0	7,500	4,500	-3,000	-40
\$50,000.....	41.0	31.5	20,500	15,750	-4,750	-23.2
\$100,000.....	46.5	38.25	46,500	38,250	-8,250	-17.7
\$250,000.....	49.8	47.7	124,500	120,750	-3,750	-3.01
\$375,000.....	50.53	50.53	189,500	189,500	None	None
\$500,000.....	50.9	51.65	254,500	258,250	+3,750	+1.22
\$1,000,000.....	51.4	53.33	514,500	533,250	+18,750	+3.6
\$5,000,000.....	51.9	54.68	2,594,500	2,733,250	+138,750	+5.3
\$10,000,000.....	51.95	54.83	5,194,500	5,483,250	+288,750	+5.6

TABLE 2.—Corporation income tax returns for 1952, returns with net income

Net income classes	Number of returns	Percent of total	Net income (thousands)	Percent of total	Income tax (thousands)
Under \$5,000.....	207,201	46.8	\$340,250	0.8	\$85,457
\$5,000 under \$10,000.....	61,780	14.0	447,571	1.1	119,900
\$10,000 under \$15,000.....	37,136	8.4	458,022	1.1	126,748
\$15,000 under \$20,000.....	27,752	6.3	483,872	1.2	127,321
\$20,000 under \$25,000.....	26,357	6.0	594,566	1.5	171,104
\$25,000 under \$50,000.....	33,470	7.5	1,162,855	2.9	388,666
\$50,000 under \$100,000.....	20,623	4.7	1,443,968	3.6	582,342
\$100,000 under \$250,000.....	15,004	3.4	2,335,476	5.8	1,043,674
\$250,000 under \$500,000.....	5,968	1.3	2,080,026	5.1	961,861
\$500,000 under \$1,000,000.....	3,243	.7	2,260,864	5.6	1,052,863
\$1,000,000 under \$5,000,000.....	3,020	.7	6,351,075	15.7	2,983,348
\$5,000,000 under \$10,000,000.....	455	.1	3,129,000	7.7	1,453,751
\$10,000,000 or more.....	508	.1	19,344,152	47.9	8,539,788
Total.....	442,577	100.0	40,431,697	100.0	17,596,832

Mr. President, I shall not labor the question of the need for the enactment of S. 352. Small business has received wide attention during the past year. Everyone appears to be in agreement that small business must be given some form of tax relief quickly. The platforms of both major political parties made prominent mention of this need last summer. In October the President endorsed proposals of his Cabinet Committee on Small Business which would have brought tax relief to small business with accompanying revenue losses approaching \$740 million. We no longer hear mention of relief for small business of such magnitude, however, for reasons which are clear to all of us.

It is very significant, nevertheless, that in his budget message to the Congress last week, the President conceded that some loss of revenue might be tolerated in just one area of the economy, namely for tax relief for small business. Here are the President's words:

"In the area of taxation, I am especially interested in the problems of small business. Last August the Cabinet Committee on Small Business made a series of carefully considered recommendations in this field. Some relief in the tax burden affecting small business, as recommended by that committee, which will give help with a minimum loss of revenue, should have early consideration by the Congress. Any changes involving substantial loss of revenue should be considered at a later time when a general tax reduction is possible."

Mr. President, I submit that S. 352 will accomplish the maximum benefit envisaged by the President, and by all those who take a sober interest in the welfare of small business, and it will accomplish this most worthy objective without any loss of revenue, in fact with a slight gain.

S. 352 could bring immediate and substantial relief to the overwhelming majority of corporations in business today. And by virtue of section 1361 of the 1954 Internal Revenue Code, which grants an election to partnership and proprietors to be taxed as corporations, it could benefit hundreds of thousands of unincorporated businesses as well.

The melancholy statistics on small-business failures continue to paint an ever-darkening picture of the outlook for small business in today's economy. Figures published by Dun & Bradstreet show that thus far in 1957, business failures are running ahead of those in 1956 and 1955. The current average is about 240 a week as against 222 in 1956 and 199 in 1955. There is an undeniable trend toward concentration of productive wealth. The Treasury's own statistics confirm this. Preliminary data on corporate income for 1953 show that there were fewer corporations with net income in 1953 than there were in 1952, but that the combined income of corporations in business in 1953 was in excess of that for the larger number of corporations reporting in 1952.

If small corporations are to stay in business, they must have money to plow back into the business and to meet competition. Earnings of the business are potentially the best source for such funds. But today's oppressive corporate income tax rates make it virtually impossible for a small corporation to retain any significant part of its earnings. And the smaller the corporation, the more burdensome the present tax structure becomes in a company's effort to survive or to expand. S. 352 would give the smallest corporations the wherewithal to survive and to expand and to become truly competitive with their larger competitors. It would enable them to retain significant amounts of the earnings of the business for purposes of improving their products, expanding their facilities, enlarging their markets, to the benefit of all the taxpayers, the consuming public.

It may be true that world conditions have prevented any tax relief for small business which would cause substantial loss of revenue. But that does not discharge us from the responsibility of finding some solution to the problems so clearly confronting small business today. We cannot stand idly by and allow the deterioration of the small business segment of our economy to continue. Small business is the very essence of democracy, and the lifeblood of our national economy. S. 352, in my opinion, provides a solution that accomplishes objectives on which I believe all of us can unite—immediate and substantial relief for small business and at no cost to the national revenues.

As chairman of the Select Committee on Small Business, I offer S. 352 for the Senate's most serious consideration and urge its early passage.

The CHAIRMAN. We are pleased to have the Secretary of the Treasury with us today. Mr. Secretary, will you take a seat.

May I suggest that you first make a statement with respect to the House-passed bill H. R. 4090. Afterward, if you care to make a

statement with respect to the Fulbright and Sparkman amendments, we shall be pleased to have the benefit of your views.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY; ACCOMPANIED BY WILLIAM HEFFELFINGER, FISCAL ASSISTANT SECRETARY, AND DAN T. SMITH, DEPUTY TO THE SECRETARY

MR. HUMPHREY. I have a statement, Mr. Chairman, that refers very generally to both. With your permission I will read that and then be prepared to answer questions.

Mr. Chairman and members of the Committee on Finance, I appreciate this opportunity to appear before you in support of H. R. 4090, which was passed by the House of Representatives on March 14, 1957. This legislation would extend for 1 year the existing excise rates on liquor, tobacco, and automobiles, and the tax rate on corporate income. If this legislation were not adopted, the tax rates would drop on April 1.

The full year effect of the 1-year rate extensions would be slightly more than \$3 billion. \$2.2 billion of this comes from the corporation income tax; \$231 million from various alcohol taxes; \$185 million from the tax on cigarettes; and \$436 million from the tax on automobiles and automobile parts and accessories.

Of the total of more than \$3 billion we estimate that \$186 million will be collected in the current fiscal year; \$2,166 million in the fiscal year 1958; and virtually all of the rest in the fiscal year 1959.

The President made his recommendation for these rate extensions in his budget message in the following terms:

It is my firm belief that tax rates are still too high and that we should look forward to further tax reductions as soon as they can be accomplished within a sound budget policy. Reductions in tax rates would give relief to taxpayers and would also release funds for the activity and investment necessary for sustained economic growth through private initiative. However, the reduction of tax rates must give way under present circumstances to the cost of meeting our urgent national responsibilities.

For the present therefore I ask for continuation for another year of the existing excise tax rates on tobacco, liquor, and automobiles, which, under present law, would be reduced next April 1. I must also recommend that the present corporate tax rates be continued for another year. It would be neither fair nor appropriate to allow excise and corporate tax reductions to be made at a time when a general tax reduction cannot be undertaken.

The estimated surplus for the fiscal year 1958 is considerably less than the revenue which will be received during that year from the legislation which is now before you. Therefore, if these rates are not extended we would have a substantial deficit in 1958. After 2 years of balanced budgets as a result of the combined hard work of the Congress and the administration, it would be inexcusable to slip back into deficit financing for next year.

We must have the revenue that a continuation of existing tax rates would provide.

As I have said many times, the present tax rates are too high for long continued retention and would in the long run seriously hamper our vigorous economic growth. The most important and effective tax change that can possibly be made to promote steady economic development is a reduction in all rates for all taxpayers when our fiscal situation permits.

To make this general reduction possible for all taxpayers we must avoid new special relief provisions for particular groups of taxpayers which will dissipate our revenues.

Such relief provisions would not only still further complicate a law that is already too complicated, but they also, in the aggregate, might involve so much revenue loss as to postpone indefinitely the time when it will be possible to have such general relief for all taxpayers.

I have been asked about two bills which would modify the corporate tax structure to give lower taxes to corporations with smaller incomes. Before commenting on the two bills, I would like to present a few figures which show the present vitality of new enterprises in our private-enterprise system.

The following facts stand out:

(1) At the end of 1955, the last full year for which figures are available, the total business population stood at an all-time high of 4,252,000 firms. The net increase during 1955 was 63,000 firms. This was the largest increase in any year since 1948, when the surge of new business formations that followed World War II came to a close. During the first half of 1956 there was a further growth in the business population. The Small Business Administration estimates that the total number in operation was between 4,275,000 and 4,300,000 firms on June 30, 1956.

Senator KERR. May I interrupt right there?

Mr. HUMPHREY. Yes, sir.

Senator KERR. I am trying to understand the figures. According to the report of the Treasury for 1953, there were 441,000 taxpaying corporations, 221,000 making returns, showing no tax liability; 7,162,000 taxpaying businesses referred to as sole proprietor and partnership returns. And I am trying to harmonize those figures with the one that says the total business population is 4,252,000. I am not questioning the figures. I am just trying to reconcile them.

Mr. HUMPHREY. The difference is this: The corporate form of organization is about 10 to 15 percent of the total. It is somewhere in that area. It is difficult to tell exactly. That corresponds to your figure. The partnership is another group and then there are a great many individual operators that are neither incorporated nor partnerships. The difference comes in the various forms under which business of one kind or another is carried forward.

Senator KERR. I am trying to find out what the figure of 7,162,000 applies to.

Mr. HUMPHREY. Seven million?

Senator KERR. Yes. Preliminary 1953 statistics of Internal Revenue Department.

Mr. HUMPHREY. You may have farmers in there, too. I believe the heading of that is Proprietors.

Senator KERR. Sole proprietors?

Mr. HUMPHREY. That might be a sole proprietor of a farm, something other than a business enterprise.

Senator KERR. You don't refer to that as a business firm?

Mr. HUMPHREY. We are talking here about business.

Senator KERR. You are talking here about commercial business enterprises?

Mr. HUMPHREY. Manufacturing, trading.

Senator KERR. Other than farm?

Mr. HUMPHREY. That's right.

Senator KERR. Thank you very much.

Mr. HUMPHREY. That may not be the whole thing but that may account for a substantial part of it. These statistics are all pretty rough figures. They are not exact.

Senator KERR. In order that we might have the information which will be clear, your counsel is familiar with the figure I referred to?

Mr. HUMPHREY. We will get it.

Senator KERR. Would you put in the record a breakdown of that so the committee will have it, the identities referred to in that tabulation?

Mr. HUMPHREY. We will try to harmonize the two.

Senator KERR. Thank you.

(The following was later submitted for the record:)

The 4,252,000 firms in the total business population at the end of 1955 and the Small Business Administration estimate of between 4,275,000 and 4,300,000 firms in operation on June 30, 1956, referred to in Secretary Humphrey's statement, are based on the generally accepted definition of business firms in operation used in Department of Commerce data on the business population.

This definition excludes persons and firms engaged in agriculture and professional services. Under this definition of the business population, a self-employed person is not considered a business firm unless he has either at least one paid employee or an established place of business. The definition includes corporations other than "paper" corporations which have no established place of business regularly devoted to the business activities involved. For example, it would exclude certain individually owned corporations set up to hold small apartment houses or other real estate, the entire income of which is in the form of rents.

The figure of 7,162,000 cited by Senator Kerr as representing the number of taxpaying businesses taken from sole proprietor and partnership income-tax returns for 1953 was compiled by taking the sum of the number of individual income tax returns for 1953 reporting net business profit and the number of partnership returns for that year with ordinary net income. As contrasted with the regular business population figures used by Secretary Humphrey, it includes those engaged in farming and professional services. In addition, such income tax return data cited by Senator Kerr include persons or firms receiving business income at any time during the taxable year, as distinguished from the Commerce Department business population figure which includes only those firms in operation at the reporting date. On the other hand, the figures cited by Senator Kerr from tax returns are limited to those reporting net income, whereas the business population series includes firms in operation whether or not they are earning net profits. Another difference arises from the fact that if the 441,000 taxable corporations for 1953 cited by Senator Kerr were added to the 7,162,000 figure for unincorporated businesses, the resulting total of 7,603,000 would include some corporations which would not meet the definition of an active business concern used in the Commerce Department figures.

Mr. HUMPHREY. (2) In 1956 the record number of 140,775 new corporations were formed. This exceeded the previous record of 139,651 estimated in 1955. There has been an increase in the number of new corporations in every year beginning with 1952.

Senator ANDERSON. Do you have a record of the number of corporations that ceased to do business?

Mr. HUMPHREY. I think we are coming right to that. I will give it to you in a moment.

(3) Though the number of business failures increased in 1956 over 1955, the rate of business failures is still far below the prewar level and in fact it is far below the average rate for the entire period since 1900.

Specifically stated in the last report of the Small Business Administration, December 31, 1956:

In 1956 the number of business failures per 10,000 firms was 48. In 1954 and 1955 there were 42 business failures per 10,000 operating businesses; in 1949, 34 per 10,000; and in 1952, 29 per 10,000.

In the prewar period of 1939, however, the failure rate was 70 per 10,000 firms, and in 1940, 63 per 10,000. For the whole period, 1900-1956, the rate was 70 per 10,000 firms.

Senator ANDERSON. Does that give the answer?

Mr. HUMPHREY. It shows a net gain.

Senator KERR. In 1956 the number of business failures per 10,000 were 48?

Senator ANDERSON. I don't think it gives it at all.

Senator KERR. Senator, if there were 4,275,000, and if there were 48 per 10,000.

Mr. HUMPHREY. It would be about 50,000.

Senator KERR. You multiply 48 by 4,275 and you have it.

Senator ANDERSON. That is like giving the vital statistics by saying there were so many births and ignoring how many deaths there were.

Mr. HUMPHREY. This gives the deaths.

Senator ANDERSON. It gives them on business failures but not on corporations. I want to know how many corporations died as well as how many business corporations started.

Senator KERR. I'll give you that right now.

Senator BENNETT. It raises the question I raised earlier. This is the total business failure; that's not the corporation failure.

Senator ANDERSON. Exactly. Why can't we get that figure?

Mr. HUMPHREY. We will get it so that you have it as nearly as the statistics will show the corporation increases and the corporate failures.

Senator ANDERSON. My point is that you use a number saying the number of new corporations which were formed.

Mr. HUMPHREY. The only reason I didn't get it is because it is only 10 or 15 percent of what we are talking about anyhow. What we are talking about is all of this small-business activity of which the corporations themselves are important but they are only 10 to 15 percent.

Senator KERR. According to this figure there were 205,000 approximate failures in 1956 and of that approximately 10 percent would be corporate.

Mr. HUMPHREY. That would be about right.

Mr. SMITH. I think that is high, Senator.

Mr. HUMPHREY. We will get the figures. What you are interested in, is there a net gain or net loss? It will show a net gain.

Senator ANDERSON. The entire group might have been corporations and not a single corporation might have gone down the drain.

Mr. HUMPHREY. We will get the figures.

(The following was later received for the record:)

There is no available breakdown of the Dun & Bradstreet business failure rate, cited in Secretary Humphrey's statement, as between corporate and noncorporate businesses. Commerce Department data on comparative business turnover rates for corporate and noncorporate firms show that the rate at which corporations have been discontinued or reorganized has consistently been lower in every year in the period 1947 through 1954 than the rate at which noncorporate businesses have been sold or liquidated. There appears to be no reason to expect a reversal of this trend in 1955 and 1956. Accordingly, in view of the past experience and the net increase of 63,000 in the total business population during 1955 and further

estimated net increases in 1956, it seems likely that there was a continued net increase in the corporate business population during this period.

Mr. HUMPHREY. The increase in the number of failures should be appraised in perspective as related to the earlier record. On that basis the present vitality of business concerns is good.

Amendment 2-27-57-B would reduce the existing normal tax on corporation income from 30 percent to 22 percent and increase the surtax on corporation income over \$25,000 from 22 percent to 31 percent. This is the Fulbright proposal.

The total tax rate on income above \$25,000 would thus be increased from 52 percent to 53 percent.

About 85 percent of small-business firms are proprietorships and partnerships and are not taxed as corporations. Thus amendment 2-27-57-B provides tax relief for only the 15 percent of small-business concerns which are organized as corporations.

Special tax relief of the sort contemplated by S. 150 therefore directly discriminates against the overwhelming majority of small businesses which are not conducted as corporations, and most importantly, discriminates against individual taxpayers generally.

In view of the very high rates now in effect, it would be unfortunate to increase the relative tax burden on such a large group of taxpayers as would be done by S. 150, especially for the benefit of such a comparatively small favored few.

S. 352, which is Mr. Sparkman's proposal, would make the corporate tax generally progressive, starting at 5 percent on the first \$5,000 of income and rising by 5 and 10 percent steps to 55 percent on income over \$100,000.

There is no justification for a progressive corporate tax. The analogy with the progressive individual income tax is not correct.

Smaller and medium sized corporations may be, and in fact often are, owned by a few individuals each of whom has a sizable individual income, while the larger corporations are most likely to be owned by a great many individuals, large numbers of whom have quite modest incomes.

The most recent figures on the ownership of companies listed on the New York Stock Exchange show that two-thirds of the eight-million-six-hundred-and-thirty-odd shareowners of listed securities have incomes of less than \$7,500 a year. Almost 38 percent of all shareowners have incomes of less than \$5,000 a year.

The effect of a progressive corporate tax thus in many respects would be altogether unfair in that it would indirectly impose a disproportionately large tax burden on the small investors who buy stock in large companies.

Senator ANDERSON. Did you hear the questions which the Senator from Oklahoma addressed to Senator Sparkman on the estimates of losses under his amendment?

Mr. HUMPHREY. I listened to the conversation.

Senator ANDERSON. I just wondered if you have an opinion on the question that Senator Kerr raised. I thought it was a very important question. You could estimate that the loss might be \$900 million but you have no way of estimating what might happen if certain corporations started to break up as a result of that amendment? You might have a loss that could run 2 or 3 times of that. I thought the Senator from Oklahoma brought up a very interesting point on that.

Mr. HUMPHREY. I think the point is not only well taken but I think it is unrealized what might happen. If you could reduce your individual tax rate to 5 percent by incorporating yourself instead of paying 20 percent, I think you would find everybody in America would try to incorporate themselves.

Senator ANDERSON. I thought the Senator from Utah made a very good point that his business had separated and united depending upon the climate where we were then operating. I thought it was a very valid point. There is no way, it seems to me, of calculating what the loss might be under the so-called Sparkman amendment.

Mr. HUMPHREY. There is no way.

Senator ANDERSON. Because business would tend to follow what the climate was, would it not?

Mr. HUMPHREY. It would and it's legitimate that it should. Taxes are to be paid according to the law that the Congress passes. And if there is a provision of the law that by a reorganization you can take advantage of to pay a lesser tax or an individual can rearrange his affairs to pay a lesser amount and fully comply with the provisions of the law, it is his right to do so.

Senator ANDERSON. This is not immoral.

Mr. HUMPHREY. There is nothing immoral about it. In fact he is kind of stupid if he doesn't. You are supposed to pay what the law provides and that is the business of a great many of hundreds of lawyers in America to do that. In fact, one of our very greatest difficulties in administering our laws is these multiple corporations and multiple trusteeships and things of that kind which spring up when you attempt to give a special relief in a special case. You have no idea of the number of places where that will turn up to do all sorts of things that you had no idea would occur.

Senator KERR. Nearly always somebody looking for just such an opportunity.

Mr. HUMPHREY. Everybody. There are not only one but there are several thousand people in America whose job is to find those places and suggest them to their clients to do them. It is a perfectly proper and right function and proper function to do it.

Senator FREAR. After what you just said, there is not much excuse for an attorney not filing an income return, is there?

Mr. HUMPHREY. That is not part of this hearing. I agree very fully with the Senator and the position except I think he was understating it. He was being too cautious. I am sure that if you reduced corporate rates to anything like what has been suggested and permitted to be done, you would have a wave of changes.

Senator ANDERSON. Mr. Secretary, I had a letter that came to me from a businessman. I don't wish to identify his name because I am not trying to single him out as different from everybody else. He is a builder and developer. Down below I noticed the following affiliated companies come in. I will refer to him as Mr. X. Mr. X, he states, Mr. X realty company, Mr. X land company, Mr. X subdividers, Mr. X contractors, Mr. X housing company, Mr. X development company, Mr. X building company, Mr. X rentals and Mr. X enterprises.

Mr. HUMPHREY. In addition to that you will find that every apartment or store he built was probably a separate corporation he built it for.

Senator ANDERSON. Surely. That is why I thought what the Senator from Oklahoma said supported by the Senator from Utah, those remarks are extremely pertinent as to it.

Mr. HUMPHREY. Very pertinent and very important.

Moreover, a progressive corporate tax would actually work against the small business itself which is seeking tax relief to permit its growth and expansion. Under a progressive tax system the moment a company does in fact grow larger it will have to pay a higher rate of tax. Thus the progressive tax scheme actually has a built-in mechanism to retard the continued growth of a successful small business.

Senator FLANDERS. Did you ever hear of an individual who refused to increase his income because it brought him into a higher bracket?

Mr. HUMPHREY. I have heard it said that that was done many, many times particularly with respect to overtime and various activities.

Senator FLANDERS. When that is done, the individual refused a net gain.

Mr. HUMPHREY. I suppose he does refuse a net gain, but on the other hand he gets what he thinks in most cases is recompense by having more leisure and he has that leisure at the expense of a comparatively very small loss.

Senator FLANDERS. That is pertinent so far as overtime is concerned. But I can't imagine a small-business company refusing to grow because it gets into a higher bracket.

Mr. HUMPHREY. No; you missed the point, Senator, entirely. I didn't say they refused to grow. I say it gets progressively harder to grow. Let me read another paragraph here.

Senator FLANDERS. All right.

Mr. HUMPHREY. I don't see it right here.

Senator FLANDERS. I am not arguing for it, for the Sparkman bill.

Mr. HUMPHREY. The point is this: If you have this progressive rate, every time you grow a little bigger you have to pay a higher rate, therefore, you are retarding your growth to that extent. The way small business grows is by demonstrating its success. As it goes along and proves it's successful, it attracts more capital and maybe my brother and I start a business and we can't get the uncle interested. We prove we can make a little money and the first thing you know our uncle will take an interest with us; and we go on and prove we can make some more money and do well and we have our grandfather and a couple of cousins in with us; and the third time we can get in some outsiders and they come along and the first thing you know we can sell some stock to the public and we can keep on growing. What you do with this progressive thing is to keep every time a concern proves that it is doing well, it gets penalized for doing well.

It keeps paying a higher and higher tax for doing better.

Senator FLANDERS. What it does is that it no longer gets certain new and unusual advantages which it had before.

Mr. HUMPHREY. That's right.

Senator FLANDERS. And that doesn't seem to me that that quite matches up to the idea of an in-built brake because you get an initial velocity.

Mr. HUMPHREY. But you keep changing your competitive relationship you see. You keep changing your competitive relationship all the time.

And after all success or failure in a business depends upon your competitive position.

Senator FLANDERS. May I say that I think I have followed you all along in that until that point and I just wanted to enter a little reservation on that little paragraph.

Mr. HUMPHREY. I'll be glad to try to dissipate the reservation.

The present two levels in the corporate tax—this is referring to the Fulbright proposal—are justified if at all only because the smaller companies are especially dependent on retained earnings until they prove themselves to have become sufficiently successful to induce more investors to put their funds into their securities.

But it would be a great mistake to go from the present two levels to a generally progressive corporate tax and thereby reduce investment incentive at the very time when increasingly successful proven operations make the need for expansion and more capital investment continually more important.

That is the point I was trying to make with you, Senator Flanders.

Senator FLANDERS. I can perhaps see that you make your case by saying that the profits made under the 5 percent tax were in a sense fallacious profits and when you get up to be a real business you can't make them.

Mr. HUMPHREY. They don't obtain as you get higher up.

Senator FLANDERS. All right.

Mr. HUMPHREY. Even if the proposed graduated rates—these are the graduated rates in the Sparkman proposal—could be so balanced that there would be no net loss of revenue from the proposed tax changes, the Treasury would still oppose the proposal because any action to change the spread between tax rates on different sizes of corporate income has such a far-reaching implication. This committee should certainly not initiate any such sweeping changes in our tax system until their full effects can be determined by the most extensive public hearings and after full consideration from every standpoint.

Certainly small business would be helped if its taxes were lower, just as every other group in America would be better off with lower taxes. But we must hold to the line and we must now avoid giving preferential tax treatment, group by group, to any special group and so discriminate against all other groups and delay that happy day when general tax relief can again be given to every taxpayer in America.

Now, Mr. Chairman, I would just like to add a word.

My duty as Secretary of the Treasury is to see that we raise in every way that I can, to urge you gentlemen, to raise enough money to pay our bills. Real tax reduction, real tax relief can only come from lowering expenditures. At any given level, whatever it may be, of expenditures, my job is to raise that level of money to meet those expenditures and to do it in such a way as to as fairly as possible spread that burden among all of the people who are contributing.

Now, we are in this position. Our taxes are so high today that almost anybody in America can come in to you or to me and can make a pretty good case for a hardship or for difficulties that he is encountering because his taxes are so high.

And he can make a pretty good showing that he would do better if his taxes are lower. And what has gone on for a period of years is

that one group after another have come down here and they proved to you gentlemen that the taxes they were paying were a hardship on them and they were a hardship because the taxes that everybody is paying are a hardship to them. And they got, one after another, some special relief.

We started out with a fairly simple tax law and we now have a tax law that is 3 inches thick. And most of it are special relief provisions for special groups of one kind or another and special detailed enforcement provisions and all that that are tremendously complicated by these special relief provisions.

I am not criticizing that because I think in many cases, special relief was justified. In fact I think everybody is entitled to something off these taxes and should look forward to getting them. But as I say that can only come with reduced expenditures, really come with reduced expenditures. I think we are in a position here where we ought to be careful not to further complicate these issues and we ought to be extremely careful not to pick out any one group and give one group preferential treatment over other groups, over the rest of the people, and I think that is particularly so when you pick out corporations and give corporations advantages over individual taxpayers.

What we need and what we need badly in this country as soon as we can get our house in order to do it, is a general reduction that will affect all taxpayers and that particularly will affect the individual taxpayer.

That is what we need to stimulate our economy. That is what we need for the best progress of America to stimulate individual initiative and individual saving and that will have a marked effect on small business as well as on big business.

It is the small business that starts with the contributions of some members of the family or some friends or something of that kind, some young man with an idea. I am the last man in America to urge that we should do anything that will prevent America being the land of opportunity for the young man who hasn't got anything but a good head and a lot of hard work. That is what has made America. Our big businesses have all come from that kind of a beginning and we want to preserve that. But we don't want to preserve it at a detriment to all of America and to our whole economic system.

Senator KERR. Wouldn't you be more correct to say that we can't preserve this by doing this?

Mr. HUMPHREY. I will go that far by saying that we can't do it.

Not that we want to, but I will say you can't do it.

Senator ANDERSON. Then, Mr. Secretary, why do you make this recommendation for 1 year? You recognize that we are going on for many years unless the Congress does trim down some of these appropriations. Wouldn't it simplify the task of those people who are trying to reduce expenditures if we said frankly you are going to have this present burden of excise and corporation taxes until the Congress and unless the Congress reduces the expenditures?

Mr. HUMPHREY. I wouldn't quarrel with that. That is a matter of psychology. You gentlemen can decide. I like to think that we are, that the spirit of America is looking forward to reduce taxation for everybody, and that the time will come when reduction in taxes can be made and I just don't like to sort of give way and say all right, put it in forever.

I would rather go from year to year. If you want it the other way, I couldn't object very much.

Senator FLANDERS. Mr. Secretary, I want to propose something that is almost the opposite of what my friend across the table here proposes. I want to suggest that April 1 is a bad date and that it should be July 1.

I am living in the faint hope that the Congress can cut down expenditures, cut down the appropriation bill. I admit that it is a faint hope, but it is still with me a hope, and it seems to me most appropriate that our tax structure should coincide with our appropriations structure and that when we get toward the end of our appropriations we should then look at our taxes. I have had this hope—I say it is a faint one—but it is still a hope—that we could cut off enough so that we could take say effective July 1, some of these retail, some of these excise taxes that act as sales taxes to every citizen of the country. For instance, retail excise taxes—if we could cut enough off our appropriation bill to warrant it, why we might cut off three-hundred-forty-thousand-odd dollars of retail excise taxes. Or we might cut off transportation of persons, two-hundred-eight-million-odd dollars and so on.

I would like to see this bill deferred until its effect takes place on July 1, deferred by a resolution, and then take a look at our taxes and our appropriations together and do that yearly instead of trying to get at it now. It would be salutary for the Congress to do that. In my own State the legislature always sits until it has provided the money for its appropriations. That is a splendid practice. The only trouble with it is that it makes the appropriations anyway and then has trouble raising the money.

If we could look at them both together and have them before us as of the same date, it seems to me it would be sensible. May I inquire, sir, of you as to whether you think that is judicious procedure or not?

Mr. HUMPHREY. The Treasury would have no objection, Senator Flanders to making this July 1, not this year but a year from now, so that hereafter I think it would be perfectly idle to postpone this for 3 months. Our figures are too well known. The whole situation is too well known to bother with it now. If you want to make it July 1, a year from July, I wouldn't have any objection. I don't see where there would be an objection to that.

Senator WILLIAMS. Mr. Secretary, I noticed you commented upon the two proposals to change the corporate tax rate. There is also a proposal before the committee to change the depletion allowance on oil. I wonder what your comment would be and what the stand of the Treasury in that connection would be?

Mr. HUMPHREY. I don't have my depletion figures. I didn't know that the proposal was here.

Senator WILLIAMS. I wrote you some time back.

Mr. HUMPHREY. That may well be. I don't recall it at the moment.

Senator WILLIAMS. It has been done. I wondered what the stand of the Treasury Department would be.

Mr. HUMPHREY. That comes in with what I was about to say. I think it's most unfortunate that this small-business matter has come up at this time in this connection with this bill. This bill is a must bill for action within 30 days.

Senator KERR. It is a single-purpose bill; isn't it?

Mr. HUMPHREY. It is a single-purpose bill for action within 2 weeks, 12 days, something like that.

Everybody is concerned about the problems of small business. There are many other items in the tax law which people can be concerned about. Depletion is an item that people can have concern about. You can't do anything in my opinion that will give proper consideration to what you should or should not do about small business in 12 days.

Senator WILLIAMS. Would you go along—

Mr. HUMPHREY. You cannot do it with depletion allowance. These proposals are presented. They are tacked onto this bill which is a must single-purpose bill, and I think if these things want consideration and if you want the consideration of these things you have raised, what they ought to do is bring them up in an orderly way in and of themselves so they can have the proper hearings and attention devoted to them without sitting at a time when they are holding a gun at your head for a special purpose that has no relation to the purpose you are seeking.

Senator WILLIAMS. Let's disregard the gun at your head. I recognize we are operating as to a time limit. What is the position of the Treasury with respect to the depletion allowance on oil?

Mr. HUMPHREY. I am not prepared to tell you. It is a very complicated thing. We have studied it a great deal. If it is the desire of the Congress to bring it up for hearings and for study I would suggest that it would have to have substantial hearings and that it should go into it very fully.

I said the other day, I was asked at a press conference this question you asked me. I said we had not had hearings on it, we had not had the advice on it except in a general way, and in a general way the figures that I have show that we are having about the same reserves of oil—and you are talking about oil depletion, I take it—that we are having about the same reserves of oil today that we have previously had, that the present law is providing about the proper stimulus as to exploration and development to risk taking and finding new deposits to keep our reservation at about a level keel, and if by careful study it should prove that is what is happening and that is what is going on and our reserves are not excessive and this inducement is necessary to keep our reserves on a reasonably level keel and of a reasonably satisfactory nature and quantity, then I would think it would be about right. Somebody said, Where did you get 27½ percent? I said I haven't the faintest idea. I can't argue for 27½ any more than I could for 27%.

I don't know what it is. What we need in America, what I believe we should have in America on that particular provision is the kind of a law that will provide the incentive to keep that great natural resource in America in about the same relative abundance for the benefit of the people that it now exists.

It takes a great deal of money year by year to accomplish that purpose.

Senator WILLIAMS. At the time the depletion was put at 27½—I believe it was in 1926—the corporate rate at that time was 13 to 13½ percent.

Mr. HUMPHREY. I think so.

Senator WILLIAMS. As the corporate rate has increased, the depletion allowance becomes more of a taxsaving than it does at a lower corporate rate.

Mr. HUMPHREY. That's right.

Senator WILLIAMS. If 27½ percent was correct, in 1926, with a 13- to 13½-percent corporate rate, then the companies that are getting that are not paying an equal proportionate part of the cost of running the Government today that they were back at the time it was first started; is that correct?

Mr. HUMPHREY. I am not undertaking to justify it. And I don't think you can do it on any such grounds as that. I believe that if you want to go into that, that what you ought to do is to have—and I think it might be very desirable, I think it might be a very desirable thing to really have a thoroughgoing complete study with hearings and determine whether or not our general national purposes are being carried out or whether they are not.

Senator WILLIAMS. I recognize those points, but the reasoning behind that would be substantially true, would it not, that as the—for instance, we had the excess taxes, where we hit the 80-percent rate, then the 27½ percent became even more attractive than it does under the 52 percent.

Mr. HUMPHREY. You can't reason in a vacuum. We are living in a practical world. We want to accomplish a practical result. If we are accomplishing the result, fine. If we are not, it ought to be changed. I am not prepared to say either way. I would personally be very glad to have a thoroughgoing examination with evidence gathered from every source to see if our true national purpose is being subserved.

Senator WILLIAMS. I think you have a point there.

Would you suggest there, and I recognize a substantial part of this bill H. R. 4090 must be extended beyond April 1 to be effective at all, what would be the position of the Treasury about extending the excise tax and extending the corporate rate for 90 days and during that time go into this question and have extensive hearings on all these proposals?

Mr. HUMPHREY. Think for a moment of what my job is. We have to sell from a billion and a half to \$1.6 billion worth of notes every week, every Monday. I am faced with selling over a billion and a half dollars' worth of securities every Monday. In addition to which about every 6 weeks we have other funding operations and selling operations. We just had to raise 3 billions of dollars of new money to carry us on to pay our bills. Our Treasury balance was down, we were just scraping the bottom of the box this morning. We didn't know whether we could get through the next few days. I can't go from day to day. I have to know where our money is coming from, and I have to have a system to do it. There is nothing theoretical with me. I have to write checks every day and I can't write ones that the bank won't pay, or we will be in a lot of trouble.

Senator KERR. You have to do it in terms of dollars, and not in relationship to intangibles.

Mr. HUMPHREY. That's correct. There's nothing theoretical in my life. I live with the practicalities every day. I beg of you don't mess this bill up with a lot of other things. This bill is for a purpose. It is a quick purpose. Let's get it done for that purpose.

and then try the rest to your heart's content but don't put them in here.

Senator WILLIAMS. According to figures furnished to the committee if we change that depletion allowance as it is proposed—and I recognize there are arguments for and against it—but if the committee adopted that proposal and Congress passed it and reduced the depletion rate from 27½ to 15 percent it will provide you with extra \$500 million. That wouldn't mess you up, as short as you are of money, would it?

Mr. HUMPHREY. I will be glad to have it, but you can't do that in 12 days. Do it in proper order.

Senator WILLIAMS. I have been for 4 years trying to get a position from the Treasury Department on this.

Mr. HUMPHREY. You have a position now. My position is: If you want it examined let's go at it.

Senator WILLIAMS. I want it examined and will you give the committee a letter outlining the recommendations of the Treasury Department, whether or not they must be changed?

Mr. HUMPHREY. No, I will not. I don't know whether it will be changed or not until you get through the hearings. You have the hearings, bring in the witnesses, let us make all the studies that are required. This is a terrifically big question.

Senator WILLIAMS. Mr. Secretary, I recognize that. Congress had extensive hearings just before you came into office. They are all available and every one of your predecessors have made recommendations and surely there must be some statistics available in your Department.

Mr. HUMPHREY. There are a lot of them.

Senator WILLIAMS. I won't press you for an answer now. But surely we can get some recommendations; if we can't get some recommendations then Congress is perfectly within its rights in making up their own minds.

Mr. HUMPHREY. If you want them studied I would be delighted to participate with you in the study and when we get all the facts before us we will make a decision.

I don't like to make decisions before I know the facts.

Senator ANDERSON. I have an amendment in some pending business on the floor and I wonder if I can ask a question.

You have on page 2 the fact that the estimated surplus for fiscal 1958 is considerably less than revenue and so forth. Doesn't that estimated surplus include the postal increase?

Mr. HUMPHREY. Yes, sir.

If you don't get the postal increase we will be out about \$500 million.

Senator ANDERSON. Isn't there a merit to this suggestion that we end up on July 1 next year rather than this year with this increase? Do you think the House might take a 15 months' extension rather than a 12 months?

Mr. HUMPHREY. I don't know. I have no objection to that.

Senator ANDERSON. The very able chairman of this committee—

Mr. HUMPHREY. Except as a matter of time.

Senator ANDERSON. Has been trying for a long time to get the budgets and the appropriation bills and the tax bills together.

Mr. HUMPHREY. We are very grateful to him.

Senator ANDERSON. I am too. I think it is a fine thing and I think Senator Flanders' suggestion that we try to get them together—not maybe this year but next year—might be worthwhile if you passed this for 15 months.

Mr. HUMPHREY. I am not skilled enough in this method of treating this, but the only objection I can see to it would be if it caused a delay which impeded the passage of the bill this year.

Senator ANDERSON. Yes.

Mr. HUMPHREY. If it has to go to conference—if the House would tell you ahead of time they would accept it or something of that kind. All I am pleading for is, just don't delay it. If you can do it without delay, I have no objection.

The CHAIRMAN. I am impressed with the suggestion because that makes it concurrent with the fiscal year. It may be advisable to confer with the House leadership. We couldn't have a disagreement between the House and the Senate because that would delay the passing of the bill.

Mr. HUMPHREY. That's right. If they would accept it so there was no delay, Mr. Chairman, we would have no objection whatever.

Senator MALONE. Mr. Chairman, in view of the colloquy on depletion allowances, and your statement would you believe that depletion allowances on other critical materials like minerals should be considered in the same light?

Mr. HUMPHREY. I think if you are going to take it up for one you might as well take it up for all.

You can take it up for anyone you want. All the talk is about oil. Whether you want to confine it to one is up to you.

Senator MALONE. You expressed yourself in favor of the depletion allowance not specifying any particular amount.

Mr. HUMPHREY. That's right.

Senator MALONE. You think that is gambling money for underground exploration and it would apply to other minerals the same as the mineral of petroleum?

Mr. HUMPHREY. I think that depletion of natural resources which have to be found and developed is a very necessary part of any tax administration distinguishing natural resources industries from the manufacturing industries. There is no way in the world if you stop looking for minerals or oil, any kind of minerals, including oil and if the continuing search that goes on all the time was so impeded that it stopped for a year or two I don't think we would catch up again in America.

I don't think you could raise that amount of money. I think it is a very essential part of a tax fabric.

Just what the rate should be, that is something you can argue about every year or two if you want.

Senator WILLIAMS. Mr. Secretary, I would like to say I wasn't raising this question to find fault with the principle of depletion.

I think that is something which has a lot of merit but it is a matter of rate, how far it has been extended or overextended. I fully concur in your statement that tax laws must provide adequate formulas

whereby they can recover invested capital and carry some incentive for the depletion.

There may be a question as to the merit of the fixed rate and I recognize also that it is debatable.

Mr. HUMPHREY. That's right. There is no great all-seeing power that will tell you that one rate within a half of 1 percent is correct. What you have to look at is the fact, is it accomplishing the national purpose. Over a period of time is that purpose being served?

Senator MALONE. Then, Mr. Chairman, I would like to ask the Secretary a further question. Isn't it a fact that even with the depletion allowance in petroleum of 27½ percent and the depletion allowance for minerals, the critical list of minerals which of course includes petroleum or has up until right recently that even with the depletion allowances in these fields, that there was a 20-year period shown where the Secretary of the Interior and the Administration always said unequivocally that we did not have many of these minerals at all and a very limited supply of petroleum, isn't that a fact?

Mr. HUMPHREY. I think they have said that, yes, sir.

Senator MALONE. Now then if I understand you correctly Mr. Secretary, you think that wherever underground exploration is necessary, for the production of critical materials and critical meaning, of course, scarce?

Mr. HUMPHREY. Essential.

Senator MALONE. Essential materials, then it is necessary to have an additional incentive to spend money on exploration continually and then it just happens that we have called that a depletion allowance.

Mr. HUMPHREY. That is correct.

Senator MALONE. Thank you.

The CHAIRMAN. Mr. Secretary, there is one question I would like to ask you from the information that I have been able to secure last year when we collected in cash \$110 billion of taxes contributed by the States, the localities, the direct Federal taxes, the trust fund taxes, social security and so forth.

That the total cash take from the people of America was \$110 billion. Our total income of the individual income was \$325 billion. That's more than 33 percent. I want to ask you how long do you think you can or we can preserve our enterprise system and make progress in this country when we take more than 33 percent in cash of the individual income each year?

Mr. HUMPHREY. Senator Byrd, I have said as you know and I firmly believe that our present tax rates and our present expenditures in this country are too high and that we cannot continue with the present expenditure programs at the rates at which we are now going and take that amount of money from the people and maintain America as the land of opportunity for the young man. America is the land of competitive enterprise; individual freedom and competitive enterprise go together.

The CHAIRMAN. You stated that the only way to reduce it is to reduce expenditures as far as Federal taxation?

Mr. HUMPHREY. Yes.

The CHAIRMAN. These figures include social security and unemployment insurance, all of them are taxes?

Mr. HUMPHREY. That's right.

The CHAIRMAN. Is that what you estimate, Mr. Smith, is the total?

Mr. SMITH. That total is about right.

The CHAIRMAN. In fact it may be a little more than that. That is for last year. I think that is a very serious condition confronting us.

Senator KERR. May I ask a question at that point?

The CHAIRMAN. Senator Kerr?

Senator KERR. Would that figure of \$325 billion, does that represent the individual income?

Mr. SMITH. That is the personal income.

Senator KERR. Isn't \$110 billion total tax inclusive of the tax on corporations?

Mr. SMITH. That's right.

Senator KERR. Then isn't the income from which the tax is collected in excess of the total of \$325 billion?

Mr. HUMPHREY. I don't know. I think you have to study these, Mr. Chairman.

Senator KERR. It has to be.

Mr. HUMPHREY. I don't care whether it is the \$400 billion gross figure you are talking about or the \$300 billion net figure you are talking about. It is too much against every one of them.

The CHAIRMAN. That is an interesting point. After all the corporations are owned by individuals. I have understood that this was one of the best barometers of the real income of the country because the stockholders own the stock in the corporations and then they pay dividends, they receive the dividends and it is included in individual income. It is better than the gross national product.

Mr. HUMPHREY. I believe so.

Senator KERR. Let me say I have the greatest respect both for the Secretary and the chairman and I am not finding fault with either. I likewise know the devotion of each of you to accuracy. And I am sure that you don't want the record to reflect an inaccuracy. And I would like to have the staff of the Treasury answer the question.

Is it not a fact that the income to which the amount of tax applies includes both corporate and individual income?

Mr. HUMPHREY. What we ought to do with your permission would be to have our staff and your staff get these figures in proper relationship so we know what's in and what's out.

Senator KERR. I think your counsel can answer that question right now.

Mr. SMITH. I would like to look at the whole set of figures.

Senator KERR. How much was the corporate income tax last year?

Mr. SMITH. About \$20 billion.

Senator KERR. Isn't that a part of this \$110 billion?

Mr. SMITH. I'm not sure what the chairman's figures were, but I presume they are.

Mr. HUMPHREY. It would have to be.

Senator KERR. It has to be a part of the \$110 billion?

Mr. HUMPHREY. Yes. And the individuals were \$87 to \$88 billion.

Senator KERR. The individual income is still \$300 billion.

Mr. HUMPHREY. It is a subject that interests me a great deal.

Senator KERR. It interests me. I know your devotion to accuracy. This tax is collected not only from individual income but also corporate income.

The CHAIRMAN. But the individuals own the corporations. It finally gets down to the individuals, isn't that correct?

Mr. SMITH. That's right. But there is the element of corporate profits out of which the corporate tax is paid first and there's an element of the retained profits.

The CHAIRMAN. That's right. There's some retained profits. By and large that's one of the best barometers of the people to pay taxes, is it not? They own the corporations, they receive the dividends from the corporations.

The corporations retain certain parts of their profits that is true.

Mr. SMITH. The corporate taxes do come out of the corporate income before there is anything available either for dividends or for retention by the corporations.

The CHAIRMAN. That's right. What other figure could you take as representing what we would call the national income of the country? In other words if you wanted to estimate the percentage of taxes paid out of the total national economy, what definition would you take?

Mr. HUMPHREY. I would like to try to work it out, Mr. Chairman. I have found that it is a very dangerous thing to make quick figures on all these statistics because—they have so many——

The CHAIRMAN. Isn't it true that you have to make estimates as to what effect for instance a decline in the national income would have on the net tax revenue. Isn't this figure the one of the total individual income one of the main factors——

Mr. HUMPHREY. No; what we make our figures on in estimating our Federal Government income. This has nothing to do with States. This is Federal Government income. Our Federal Government's income comes from three sources. It comes about \$20 billion from corporations, which is about half of the corporate earnings of \$41 billion to \$42 billion; it comes about \$36 billion or \$37 billion from individuals which is based upon \$340 billion or such a figure of individual income; and it comes from our miscellaneous, excises, and tariffs and things of that kind.

The CHAIRMAN. Isn't it a fact——

Mr. HUMPHREY. But that third category is very small. It is those things, it is the fluctuation in those things that determine how much money we get. But whether there is a duplication in there or not, as you and Senator Kerr are now trying to bring out, I can't tell you that. I would have to check on that.

The CHAIRMAN. I wish the Treasury would make a study of that.

Mr. HUMPHREY. We will make a study. It is very interesting and we will try to find out.

The CHAIRMAN. It has generally been accepted that a reduction in the so-called individual national income would be reflected in a loss to the Treasury on the basis of 20 percent.

Mr. SMITH. That depends on whether it hits the individual income or the corporate-profit component. If it hits the corporate-profit component, we lose half.

The CHAIRMAN. Is that correct?

Mr. SMITH. The relationship of the corporate profit to the individual income is an erratic thing. That is our problem. In making our revenue estimates we have to look not at some overall concept of income but two breakdowns—the individual income and the corporate profits. For instance last year the individual income went up quite a bit. Corporate profits went up only a little bit.

Mr. HUMPHREY. That has been true for the last 3 years.

Senator KERR. What is the total dividend payments?

Mr. HUMPHREY. We can get that.

Senator KERR. It is in the neighborhood of \$10 billion.

Mr. SMITH. It is a little over \$10 billion.

Mr. HUMPHREY. \$10 billion to \$12 billion.

Senator KERR. That is the only corporate revenue that is included in this income figure of \$325 billion.

Mr. HUMPHREY. I believe that is correct. I believe that is so, but I can't say for sure.

The CHAIRMAN. Give us a study on it.

Mr. HUMPHREY. We will.

(The following was later received for the record:)

It is difficult to select a single figure in the national income account as a standard against which to measure changes in tax receipts. For purposes of revenue estimating, the Treasury Department relies particularly upon estimates of personal income and of corporate profits, since individual income taxation and corporate income taxation constitute the principal sources of budget receipts. Personal income and corporate profits do not ordinarily change to the same extent from year to year, and, indeed, they may even move in opposite directions. For example, in 1954 personal income increased by more than \$1 billion over 1953, though corporate profits fell by almost \$4 billion. In 1956, personal income increased by more than \$19 billion over 1955 or by 6.2 percent, while corporate profits rose by only \$700 million, or 1.6 percent.

Almost one-half of a change in corporate profits would be reflected in tax receipts, while a change in personal income would be reflected in tax receipts only to the extent of something like 15 percent. Even these relationships vary substantially from year to year.

Total tax receipts may be usefully related to various aggregate figures in the national income accounts. Personal income is the largest single component of income and is immediately related to the principal source of tax receipts. The figure for national income which in recent years has been from \$10 billion to \$20 billion above personal income is a significant figure which includes retained corporate profits and taxes and also makes other adjustments for various transfer payments. The following table shows the relationship between budget receipts and various elements in the national income accounts.

Net budget receipts of Federal Government by fiscal years and certain aggregates as shown in national income accounts for calendar years ending in fiscal years

[In billions of dollars]

Calendar year	National income	Personal income	Corporate profits before tax	Fiscal year	Net budget receipts of Federal Government			
					Individual income taxes ¹	Corporation income taxes ¹	All other receipts ¹	Total
1953.....	302.1	286.0	37.0	1954	29.5	21.1	14.1	64.7
1954.....	298.3	287.3	33.2	1955	28.7	17.9	13.8	60.4
1955.....	324.0	308.1	42.7	1956	32.2	20.9	15.1	68.2
1956.....	342.4	325.2	43.4	1957 ²	35.2	21.0	14.4	70.6

¹ Net, after deduction of refunds.

² Estimated.

The CHAIRMAN. Thank you very much, Mr. Secretary.

Mr. HUMPHREY. Thank you, gentlemen.

The CHAIRMAN. The hearing is adjourned.

(Whereupon, at 12:50 p. m. the hearing in the above-entitled matter was adjourned to reconvene at 10:10 a. m., Thursday, March 21, 1957.)

CORPORATE AND EXCISE TAX RATES EXTENSION AND CORPORATE TAX RATE AMENDMENTS

THURSDAY, MARCH 21, 1957

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

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

Present: Senators Byrd (chairman), Kerr, Frear, Long, Douglas, Martin, Jenner, and Bennett.

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

The CHAIRMAN. The meeting will come to order. The chairman would first like to insert in the record a letter that has been written to the chairman by Senator Douglas of Illinois endorsing the Fulbright amendment, and also a letter written by Senator Fulbright, giving a list of the organizations that have endorsed the amendment he introduced.

(The documents referred to are as follows:)

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
March 20, 1957.

HON. HARRY FLOOD BYRD,
Chairman, Senate Finance Committee,
Washington, D. C.

DEAR MR. CHAIRMAN: I am writing with respect to the Fulbright amendment to H. R. 4090 of which I am a cosponsor. This amendment is the same as the Fulbright bill, S. 150, which would reverse the normal and surtax corporate income tax rates, except that, in addition, another percentage point would be added to the surtax rate. As you know, the present normal tax rate is 30 percent and the surtax rate is 22 percent. Were the Fulbright amendment to be adopted the normal tax would be 22 percent and the surtax would be 31 percent.

I believe that the adoption of this amendment would be a tremendous help to small-business men all over the Nation. It is true that the amendment would not help those small-business men whose enterprises are not incorporated, but this is no reason for failing to act on the corporate tax bill which is presently before the Senate Finance Committee. Moreover, many small-business men can incorporate their concerns if they wish to do so.

The Fulbright amendment would greatly improve what I have always considered to be a regressive feature of the corporate income tax structure, where a heavier proportionate burden falls on corporations with small incomes compared with corporations with large incomes. Although the Fulbright amendment would not make corporate income tax rates progressive, it would at least eliminate its worst regressive features.

But perhaps the most important point to raise with respect to the Fulbright amendment is that it would result in no loss of revenue to the Government. In my judgment, we should not at the present time lower the amount of revenue the Government receives. Nevertheless the Fulbright amendment would correct an unjust burden which is presently on the small corporations without any loss of

revenue, and so I hope very much that the committee will recommend its adoption to the Senate.

Faithfully,

PAUL H. DOUGLAS.

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
March 20, 1957.

HON. HARRY F. BYRD,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

DEAR SENATOR BYRD: It occurs to me that your announcement on March 19, 1957, that proponents of my amendment to H. R. 4090 will have an opportunity to be heard by the Finance Committee on March 21, 1957, may not come to the notice of many such proponents and may not allow sufficient time for other to make plans for appearing before your committee. For this reason, I am enclosing a list of the names and addresses of persons and organizations who have written me in the past few months expressing support of my bill, S. 150, which bill is identical to my amendment to H. R. 4090.

It will be appreciated if you will insert this letter and the attached list in the record of your hearings to be held on Thursday, March 21, 1957.

Sincerely yours,

J. W. FULBRIGHT.

LIST OF PERSONS AND ORGANIZATIONS EXPRESSING SUPPORT FOR S. 150

- Ernest H. Wakefield, manager, Radiation Counter Laboratories, Inc., 5121 West Grove Street, Skokie, Ill.
National Federation of Independent Business, 740 Washington Building, Washington, D. C.
Roscoe Turner, Roscoe Turner Aeronautical Corp., Indianapolis, Ind.
James Wm. Jones, sales manager, William Whitaker & Sons, Philadelphia, Pa.
H. W. Martin, Read, Martin & Slickman, certified public accountants, Rome, Ga.
William R. Schmidt, executive secretary, North Side Chamber of Commerce, Pittsburgh, Pa.
W. C. Tucker, publisher, Daily Star Journal, Warrensburg, Mo.
Victor von Schlegel, Jr., president, Forty-eight Insulations, Inc., Post Office Box 472, Aurora, Ill.
W. J. Teutsch, 319 Greenwood Drive, West Palm Beach, Fla.
Mrs. J. Moeller, 2281 West Grand Boulevard, Detroit, Mich.
J. I. Cohen, Store of Three Wonders, 209 Main Street, Falmouth, Mass.
P. W. Brandt, president, Stephen Putney Shoe Co., Richmond, Va.
Alan G. Fleischer, Hirschler & Fleischer, attorneys at law, Central National Bank Building, Richmond, Va.
Louis Fabian Bachrach, Bachrach, Newton, Mass.
Lee Thorell, A. R. Thorell Supply Co., Post Office Box 227, Stuttgart, Ark.
Sydney Babson, Avalon Orchard, Hood River Valley, Parkdale, Oreg.
L. F. Farmer, the First National Bank, Tuckerman, Ark.
B. A. Wyss, No. 1 Drumm Street, San Francisco, Calif.
Forrest C. Fay, president, Southwestern Sash & Door Co., Joplin, Mo.
J. Earl Bell, president, Rochester State Bank, Rochester, Ill.
Emery Johnson, president, Texas Rubber Supply, Inc., Post Office Box 6007, Dallas, Tex.
J. L. Wiggins, executive vice president, National Standard Parts Association, Chicago, Ill.
Charles H. Lambur, president, Tekera International, Inc., 303 Fifth Avenue, New York, N. Y.
J. W. Ruf, secretary, J. George Electric Co., Inc., 426 Baxter Avenue, Louisville, Ky.
George W. Martin, vice president, Duhig and Co., Inc., 5105 Telegraph Road, Los Angeles, Calif.
Frank F. Card, president, Duhig and Co., Inc., 5105 Telegraph Road, Los Angeles, Calif.
Fred H. Tolan, freight traffic consultant, 251 Civic Business Center, Seattle, Wash.

W. F. Barron, Rome Coca-Cola Bottling Co., 106-108 Fifth Avenue, Rome, Ga.
F. E. Coan, accountants and auditors, 1815 Washington Street, Amarillo, Tex.
J. W. Hutton, 907 American Building, Dayton, Ohio.
Milton H. London, president, Allied Theaters of Michigan, Inc., 607 Fox Building, Detroit, Mich.

The CHAIRMAN. We are very happy to have the Honorable Mike Mansfield, one of our distinguished Senators, before the committee.

**STATEMENT OF HON. MIKE MANSFIELD, UNITED STATES SENATOR
FROM THE STATE OF MONTANA**

Senator MANSFIELD. Thank you, Mr. Chairman. I wish to thank the chairman and the committee for allowing me the privilege to appear before you and to Senator Clark for allowing me to precede him this morning.

Mr. Chairman and members of the committee, I am pleased to appear here today as a proponent of the amendment which I have cosponsored with Senator Fulbright.

I understand that Senator Fulbright discussed this amendment with you at some length on Tuesday morning, and I will not burden you with a repetition of that discussion.

I appear here to express my hope that you will see the merit of this amendment and that you will modify H. R. 4090 accordingly.

I understand that this amendment is substantially the same as a proposal adopted unanimously by the President's Cabinet Committee on Small Business, except that this amendment does not involve a revenue loss and would increase the taxes of some large corporations by a small amount.

I am advised that some objection has been raised because this amendment does not reduce taxes for businessmen who file as individuals.

Let me assure you that I favor reduction in the individual income-tax rates as soon as Federal revenue requirements will permit—and I would say this is not the year to do that in view of the great expenditures being incurred and the budget presented to the Congress—but I do not believe that all reasonable tax adjustments should be postponed until a general reduction can occur.

This amendment does not reduce the Federal revenue derived from corporate taxpayers. It merely redistributes the corporate tax burden so that approximately 98 percent of all corporations will have a small tax reduction.

I do not believe that the slight increase for corporations earning over \$225,000 will make an appreciable difference in the success of such businesses—but the reduction for small corporations can make a real difference for them.

I hope that the committee will consider this proposal most carefully and that you will adopt this amendment to H. R. 4090.

Thank you.

The CHAIRMAN. Thank you, Senator. I appreciate your appearance.

We are pleased to have Senator Schoepel with us today. Will you take the stand, Senator.

**STATEMENT OF HON. ANDREW F. SCHOEPEL, UNITED STATES
SENATOR FROM THE STATE OF KANSAS**

Senator SCHOEPEL. It is a privilege to appear before you today in support of various small-business tax relief measures which you have been considering. For the past 7 years, I have been a member of the Senate Small Business Committee and I took part in that committee's intensive survey of small-business tax problems in 1952 and 1953. From that service and from my own personal knowledge of many small businesses in the State of Kansas, I am very well aware of the critical problems of American small business, and I recognize that their foremost problem involves present high rates of Federal taxes.

Unfortunately, I am also aware of the need for a high level of Federal revenues at a time when our lowest possible budget requires so many billions of dollars. Therefore, it is obvious to me, as it must be to all rational men, that there can now be no general across-the-board cuts in taxes for every individual and every business taxpayer.

With these basic premises in mind, I come to my basic approach to this important problem. I feel that small business is not sharing in the general prosperity—that there are certain troubles which segments of the small-business community have which are peculiar to small business—and that small and independent business must be carefully protected if we are to retain our free-enterprise system. Thus, I state that small business should be given some priority in relief; despite the fact that aid cannot be given to all, still some help should be channeled to small business.

For these reasons, I have joined with Senators Barrett, Capehart, Potter, Goldwater, and Case of South Dakota, in introducing Senate bill 1422, calling for a reversal of the present normal and surtax rates for small corporations. I feel that this is a sound and prudent investment in the health of our economy.

In addition, I have joined with Senator Sparkman and 8 other Senators in sponsoring Senate bills 348, 349, 350, and 351 which would give some help to other businesses, unincorporated as well as corporations. I am informed that these measures are not likely to result in any substantial loss of revenues, and I strongly support them. I think they will show the people of the country that we are sincere in our pledge to make meaningful tax cuts whenever and wherever we are able to do so. Since this is perhaps the only chance that we shall have during this session of the 85th Congress, I strongly urge your committee to give careful consideration to these proposals and to the critical needs of this important segment of our economic well-being.

The CHAIRMAN. We are pleased to have Senator Hill with us. Will you take the stand, Senator.

**STATEMENT OF HON. LISTER HILL, UNITED STATES SENATOR
FROM THE STATE OF ALABAMA**

Senator HILL. Mr. Chairman and members of the Finance Committee, I deeply appreciate the opportunity to appear before you today in support of the measures which I am cosponsoring with Senator Sparkman, Senator Fulbright, and others.

I strongly believe that the most encouraging milestone in our Nation's economy today is the new and widespread awareness of the true

significance of small businesses as a part of our national life, whose well-being is basic to our continuing economic growth and strength. A necessary corollary to this national awareness is the realization that the more than 95 percent of our business world represented by independent businessmen in 1956 is in need of purposeful legislation at the earliest possible moment. It is indisputable that the hourglass of time is running out for many small enterprises.

According to a recent analysis by Dun & Bradstreet, business failures 10 years old or more have doubled since 1947. In 1956 experienced companies in business 10 or more years accounted for 18.3 percent of the total failures as compared with 9.1 percent in 1947. On the other hand, new businesses, firms in operation 3 years or less, accounted for 40 percent of the failures last year as compared with 69 percent in 1947. This significant information squarely rebuts the arguments of those who are accustomed to dismiss the high postwar rate of business failures as being primarily, if not exclusively, due to inexperience and mismanagement on the part of operators of new ventures. In the years 1955 and 1956 in mining and manufacturing 45 companies with assets of over \$1 million floundered and 720 in the \$100,000 to \$1 million category failed. These facts compel me to the conviction that today's competitive economic climate is inimical to the welfare of many well-established small and medium-sized companies.

Once we have accepted these facts as evidence of the need to come to the rescue of many of our 4,000,000 small and independent businesses, the question is then: how can we best assist them to continue and expand their indispensable service to the Nation? The customary way for small businesses to expand is to finance their endeavors by the use of retained earnings. In the years 1947 to 1950 about 80 percent of the physical expansion of nonfinancial corporations was paid for with retained profits. From 1953 to 1955 this proportion increased to 87 percent.

Small companies endeavoring to finance their growth out of earnings find themselves saddled with the heavy burden imposed by the present Federal income tax structure. Federal taxes take 30 percent of corporate profits up to \$25,000 and 52 percent of all earnings above that amount. When we consider the fact that 98 percent of all corporations earn less than \$375,000 a year and that 47 percent earn less than \$5,000 a year, we can understand how the aspirations for growth of the owners and operators of these businesses may wither and die, and, in many instances, are shortly followed by the demise of the businesses themselves. With the passing of so many of these firms from the American economic scene, we behold the deplorable spectacle of a galloping concentration of economic power in the hands of the giant companies, who have available not only a rich toll of heavy profits but also sources of money other than retained earnings. I am appalled by the present trend toward giantism in industry and business, and I strongly believe that if the trend is allowed to continue unabated, it will imperil our American system of free enterprise.

Mr. Chairman, I, therefore, believe that this committee is afforded an excellent opportunity to serve our people by giving the necessary tax relief to our small businesses, that the virile spirit of independence and initiative that has made our Nation great may continue to thrive and strengthen the heartbeat of our economic life.

I respectfully urge the committee to approve either the Sparkman bill or the Fulbright bill, which would graduate the corporate income tax rates. These bills are reasonable measures, designed to remove the restrictive effects of our present tax laws by applying the principle of the personal income tax to business in general. I can see no reason to have one principle for taxing personal incomes and another for taxing corporate incomes, and surely if our concept of graduating income taxes for individuals is sound, then the proposals which we are asking you to approve are sound.

I also urge the committee to approve the four other amendments, which I am cosponsoring with Senator Sparkman and others. They do not constitute any departure from our present tax theory and are intended merely to correct certain inequities in the existing law.

The CHAIRMAN. The next witness is Senator Clark, another one of our distinguished Members of the Senate. Take a seat, Senator Clark.

**STATEMENT OF HON. JOSEPH S. CLARK, UNITED STATES SENATOR
FROM THE STATE OF PENNSYLVANIA**

Senator CLARK. Thank you.

Mr. Chairman, I appreciate very much the courtesy extended to me in permitting me to appear here in support of Senator Fulbright's amendment of which I am one of the cosponsors. I think I can cut the time on which I will impose on this committee by associating myself with the comments just made by the distinguished Senator from Montana, Senator Mansfield.

I think perhaps I should also note for the record that I am the chairman of the Subcommittee on Small Business of the Banking and Currency Committee and therefore charged at least with some knowledge of this subject. Whether I have it in adequate detail as yet, I wouldn't be prepared to say.

The need for tax assistance to small business is in my judgment, Mr. Chairman, very clearly established. It was stated by President Eisenhower first in his state of the Union address in 1953 when he said and I quote:

That we must develop a system of taxation which includes particularly real opportunities for the growth of small business.

It was reiterated in his budget message for this year, delivered a month or two ago, when he said and I quote:

In the area of taxation I am especially interested in the problems of small business. Last August the Cabinet Committee on Small Business made a series of carefully considered recommendations in this field. Some relief in the tax burden affecting small business as recommended by that Committee which will give help with a minimum loss of revenue should have early consideration by the Congress.

This proposal of Senator Fulbright's would of course not cut any revenue and therefore meets the President's conditions.

I should also like to refer the committee to the Seventh Annual Report of the Select Committee on Small Business of the United States Senate, chaired by the distinguished Senator from Alabama, Senator Sparkman, in which, under the heading of "Taxes," strong support is given for the need for tax reduction on small business corporations.

I shall not read that excerpt from the report into the record but

merely note that it appears on pages 6, 7, and 9 of that seventh annual report which was released under date of February 1, 1957.

In addition, Mr. Chairman, I think it worth noting for the record that in last fall's campaign both political parties committed themselves to a reduction of taxes on small business. I quote from the Democratic Party's platform under the heading "Small and Independent Business."

We pledge ourselves to tax relief for all small and independent businesses by fair and equitable adjustments in Federal taxation which will encourage business expansion, and to the realistic application of the principle of graduated taxation to such corporate income.

And in the Republican platform, under the heading "Small":

Small business can look forward to certain tax reductions as budgetary requirements permit.

I point out again that under Senator Fulbright's amendment budgetary conditions would permit because more revenue is estimated to come in than would be lost.

It occurs to me, Mr. Chairman, that the additional 1 percent which would be imposed by the Fulbright amendment on the taxes of larger corporations, approximately 2 percent of the number, would not seriously adversely affect those larger corporations, while I take it to be established that continuation of the tax on small-business corporations at the present rate is immediately and has for some time past imposed a heavy and most undesirable burden on them.

It occurs to me, Mr. Chairman, that if this committee should, however, decide that they don't think it desirable to make the increase of 1 percent in the corporate tax of the larger corporations, there are any number of loopholes in the present tax structure, any one of which might be eliminated with an additional amount of taxation resulting which would more than make up for the loss of revenue which would result if Senator Fulbright's amendment were itself amended so as not to put the additional 1 percent increase on the larger corporations.

May I again express my appreciation for the opportunity of appearing before the committee?

Senator LONG. May I ask this question, Mr. Chairman?

The CHAIRMAN. Senator Long?

Senator LONG. If we put into effect the tax relief for small business without increasing anyone's taxes to offset the cost of it, do you have the estimate of how much that would cost?

I am sure it is available for the record already but I want to have it in the record.

Senator CLARK. Senator Long, it is in the record and all I can tell you from what is in my mind now is that the increase of 1 percent to the larger corporations would result in a net increase of revenue of \$20 million. If that 1 percent were not added there would be some decrease in the overall take, but I don't carry that figure in my mind.

The CHAIRMAN. It is approximately \$900 million.

Mr. STAM. Without the 1 percent increase, you would lose \$400 million.

Senator LONG. You would lose the \$400 million if you made the tax reduction for small business without the 1 percent increase.

Senator CLARK. The elimination of the dividend credit would make that up.

Senator LONG. One thing we could look into someday, if Congress passed a single resolution instructing the Federal Reserve Board to reverse its interest rate policies, that we would save three times that much money.

Senator CLARK. I'm in accord with you on that subject.

Senator BENNETT. The dividend credit is a benefit to the small-business man too. The small-business man who is incorporated either must take all his profits out in wages or if he has any hope of getting his friends to join him he must be able to pay them dividends and the dividend credit, small as it is, probably is as significant to the people who invest in small business as it is to those who invest in big business.

Senator CLARK. I would have to speak and respectfully dissent from that argument that it is a significant factor with respect to any small business where the revenue to proprietors does not come out in terms of dividends. Almost all of it comes out in salaries and other emoluments and small fringe benefits.

Senator BENNETT. Most small businesses are not incorporated and this would give them no relief.

Senator CLARK. I don't think I care to comment any further.

Senator FREAR. That was the question I wanted to ask the Senator too. As cosponsors of this bill, you recognize that you could give us as good a definition of small business as I could but we'll skip that. This bill will give relief in the small business field to approximately 15 percent or less.

Senator CLARK. Senator Frear, I agree that this is no panacea, but I think we must attack this whole small-business problem around the periphery and on a number of fronts. It so happens that the problem of extending the present corporate rates brings before this committee at this time what seems to me to be a golden opportunity to make some progress in that direction, progress which I think both political parties and the President and many of us on both sides of the aisle have committed ourselves to. I certainly did in the course of my campaign for the Senate.

Senator FREAR. Do you think this would stimulate individuals or proprietorships to incorporate?

Senator CLARK. I should think it would almost inevitably do that.

Senator FREAR. If it were enacted?

Senator CLARK. Yes.

The CHAIRMAN. Thank you very much. We are always glad to have you before the committee.

Next witness is Mr. Robert I. Black of the Independent Small Business and Coordinating Committee.

Mr. Black, will you please take a seat and proceed?

STATEMENT OF ROBERT I. BLACK, INDEPENDENT SMALL BUSINESS AND COORDINATING COMMITTEE

Mr. BLACK. Senator, I wish to thank you for the privilege of appearing before the committee. I do not want to take time so I would like permission to file for the information of the committee one of our bulletins.

The CHAIRMAN. We shall be pleased to make it a part of our committee files.

Mr. BLACK. I will tell you briefly what this committee is. The Independent and Small Business Coordinating Committee is composed of a group of regional business associations around the country all small-business members. The members of this association are the smaller business associations of New England, of which Mr. John Carleton, Manchester, N. H., is president; the National Association of Independent Business of New York, of which Mr. Miles Penneybacker is president; the United Businessman's Association of Philadelphia which consists of a great many smaller groups and corporate and one large group; the Smaller Business of American, Inc., Cleveland, Ohio; the St. Louis Small Business Council; the American Association of Small Business in New Orleans which you are familiar with.

Senator LONG. Yes.

Mr. BLACK. The Federation of Businessmen's Associations of the District of Columbia, of which Arthur Clarendon Smith is the head; the American Business Association, Washington, D. C., of which Mr. Norman Bowles is president; the National Small Business Foundation of Washington, D. C. and Oakland, Calif., of which Jess M. Ritchie is president; the Independent Business Council of America of which I am president; the Maryland Small Business Council of Baltimore, Md.

In addition to that there are these individuals who have been active in the committee and have been very helpful with their background: Dewey Anderson who is executive director of the Public Affairs Institute; former Congressman Robert Grant of South Bend, Ind.; who was a member of the Ways and Means Committee when he was in Congress; Lawrence Henderson who was formerly executive staff director of the Senate Small Business Committee; former Congressman Walter Ploeser of St. Louis, Mo., who was formerly chairman of the House Small Business Committee; Mr. T. K. Quinn who has written a number of books in the field of economics and former vice president of General Electric Corp.; Mr. Jay Jerome Williams who has been very active in different civic groups.

I am filing the statement of our material so I will not have to take the committee's time. You are all familiar with the arguments. Every Senator knows, I am sure, of the problems back home of his own smaller businesses and I do not want to repeat here unnecessary statements which are already in the record.

I do want to say our group is completely nonprofit. No salaries are paid. We are only working together to try for the first time—we are working together in this field because we all know how important it is. If we had had time, all of these groups would have sent men here to represent them, all men who own and operate their own businesses who would have presented case histories in their own particular territories about the need for some form of tax relief. We endorse both the Sparkman and Fulbright bill. We don't attempt to tell this committee—we wouldn't be presumptuous to tell this committee what rate should be fixed; that is up to you people. We do want you to know that some form of tax relief is desperately needed in all these areas from which I read.

Thank you very much for your time.

The CHAIRMAN. Thank you, Mr. Black.

Next witness is Mr. John A. Gosnell, of the National Small Business Men's Association.

Will you take a seat, sir?

Mr. GOSNELL. Thank you, sir.

The CHAIRMAN. You may proceed.

STATEMENT OF JOHN A. GOSNELL, NATIONAL SMALL BUSINESS MEN'S ASSOCIATION

Mr. GOSNELL. I would like to say, Senator, I appreciate very much the opportunity to make a brief statement today. My name is John A. Gosnell of the firm of Hawes, Gosnell, and Dougherty of Washington, D. C.

I am general counsel of the National Small Business Men's Association of Washington.

The membership of the association includes representation in every State in the Union and I believe it can be said that our membership regards the impact of Federal taxes as the most serious problem faced by the small-business community today.

In the belief that this is a matter of concern to the entire economy, this association has had in process for several months a tax study being made by competent economists and experts and we expect this study to be completed in the next 2 to 3 weeks. We hope this study will serve as the basis for a sound tax program and we expect at an early date to submit specific recommendations to that end.

It should be stated that we are not aiming at any selfish program but at tax reforms beneficial to the entire economy, based on rational grounds that will take into consideration the national debt, and the budget as well as the tax policy.

With respect to the amendments which have been proposed to 4090 we recognize that at best these represent expedient plans for the relief of small business but we recognize also that these do not by any means cover the entire problem. However, we have to be practical about the situation and if there is any substance to the assurance from both sides of the aisle that tax relief will be made available during this session, we feel that this may be the only opportunity for constructive relief at this time.

We therefore would like to endorse the Fulbrigh proposal, recognizing that it falls far short of the relief we hope eventually to get.

We also urge this committee to consider holding at some later date this session full-scale hearings on the subject in order that we may approach the problem on a businesslike basis.

The CHAIRMAN. I would like to say, Mr. Gosnell, the committee is very much aware of the situation regarding small business and I think the universal sentiment is that relief should be given in some proper form at the earliest time. Whether this present legislation covers it, which is now under consideration, is a matter for determination.

Thank you very much for your presentation.

Mr. GOSNELL. Thank you. In view of the shortness of time may I have permission to file a supplemental statement.

The CHAIRMAN. We shall be pleased to receive it and incorporate it in the record.

(The supplemental statement follows:)

MARCH 22, 1957.

HON. HARRY F. BYRD,
Chairman, Senate Committee on Finance,
Washington, D. C.

DEAR SENATOR BYRD: Since making the foregoing statement we have reappraised this situation with our directors and they have come to the conclusion that rather than give you a qualified endorsement of an inadequate formula of tax relief for small business, we prefer to recommend that the Fulbright proposal be not approved by your committee in that it does not provide comprehensive relief for the small-business community.

Respectfully,

JOHN A. GOSNELL,
Counsel, National Small Business Men's Association.

The CHAIRMAN. The Chair has an old friend in the audience, Mr. George J. Burger of the National Association of Independent Business. He has written me a letter to insert in the record. Since he is here I will ask him to present it in person.

STATEMENT OF GEORGE J. BURGER, VICE PRESIDENT, NATIONAL FEDERATION OF INDEPENDENT BUSINESSMEN

Mr. BURGER. I want to thank the chairman for giving me this opportunity because I have another appearance before the House Judiciary on the premerger notification bill.

I am George J. Burger. I am the vice president in charge of the Washington office of the National Federation of Independent Business. We believe we have the largest individual membership of any business organization in the Nation comprising exclusively independent business and professional men. Our membership is in excess of 100,000 all individual voting members.

Due to the fact that I am scheduled to appear before the House Judiciary Committee on Thursday, March 21, to give testimony in support of legislation on the merger trend, and it's impossible to appear before your committee and give testimony in support of the Fulbright amendment and similar bills that would bring about long-overdue tax relief for small business, our position in support of this legislation is by direct nationwide vote of our membership, all voting member, all independent business and professional men.

Mr. Chairman, on the Fulbright proposal last fall our members voted on that and the result of that poll was 84 percent for the proposition.

The financial position of our Government is no different today than a year ago and still both political parties, in their recent national conventions pledged in no uncertain words tax relief for small business. Small business looked upon these pledges as sincere obligations of the respective political parties.

Small business is facing a life-or-death struggle to survive due to the increasing merger trend, due to the failure of the administrations over the years in merely giving lipservice to the enforcement of the antitrust laws, and in no way, due to the increasing taxload, can small business build up the necessary reserves to take care of their financial situation in normal or lull periods in our economy.

Acting for small business of this Nation, we trust your committee will recognize the justice in the claim for tax relief for small business

and that appropriate legislation be reported out favorably by your committee. Failing to act, small business can come to only one conclusion—they are the real forgotten men in our Nation's economy.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much indeed, sir.

Before adjournment I would like to insert into the record letters from Senators Frank Church, Alexander Wiley, Henry M. Jackson, A. S. Mike Monroney, Richard L. Neuberger, Ervin, Congressmen James Roosevelt, and George McGovern, and many telegrams from small-business men endorsing the Fulbright and/or Sparkman amendments.

(The material referred to follows:)

UNITED STATES SENATE,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
March 21, 1957.

SENATE COMMITTEE ON FINANCE,
*310 Senate Office Building,
Washington, D. C.*

GENTLEMEN: I understand that you are today receiving testimony on amendment 2-27-57-B to H. R. 4090 which adjusts the corporate income surtax rate in favor of corporations with net taxable incomes of less than \$500,000 per year. I regret that I am unable to appear personally before your committee to express my support for this amendment. It would be an effective means, I think, to meet one of the most pressing problems confronting small corporate enterprises—the problem of obtaining new expansion capital. I endorse this amendment and I hope you will give it careful and sympathetic consideration.

Sincerely,

FRANK CHURCH,
United States Senator.

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
March 21, 1957.

Re my support of Fulbright amendment to tax extension bill.

HON. HARRY F. BYRD,
*Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.*

MY DEAR MR. CHAIRMAN: May I respectfully convey to your committee my earnest recommendation for its favorable consideration of the amendment which has been offered by our colleague, Senator Fulbright, on behalf of 32 Senators, including myself, for the purpose of easing the tax on small business during the next fiscal year.

In my judgment, the issue before the Senate Finance Committee, and a bit later on before the full Senate, is relatively simple: Are we going to continue the present tax burden on small business for another year, or are we going to make at least a modest effort toward easing that burden?

I feel that the answer should be that at least minimal relief should be granted in the form of the Fulbright amendment.

Neither its principal sponsor nor any of the other sponsors would, I am sure, contend that the Fulbright amendment is a cure-all for small-business problems. It is, however, at least a meager beginning toward tax justice for the overwhelming number of small corporations which are currently operating under conditions of soaring expenses and relatively stationary or slightly increasing sales.

As we all aware, the amendment does not pertain to the taxing of proprietorships nor, for that matter, does it cover many other phases of business taxation.

But the fact that it is not a cure-all is hardly a conclusive criticism of it.

Moreover, we must meet squarely the fact that if there is to be some relief for small business, then the revenue lost to Uncle Sam must be made up in some way. The only alternative, it seems to me, therefore, is that suggested in the Fulbright amendment, namely, a minimal increase in the taxes of much larger enterprises.

You on the committee have it within your power, therefore, to take a first step toward tax justice for the little fellow. I respectfully hope that you will see your way clear toward taking that step by approving the Fulbright amendment.

With all good wishes, I am,
Sincerely yours,

ALEXANDER WILEY.

UNITED STATES SENATE,
COMMITTEE ON ARMED SERVICES,
March 21, 1957.

Senator HARRY BYRD,
*Chairman, Senate Finance Committee,
Senate Office Building, Washington 25, D. C.*

DEAR SENATOR BYRD: I regret being unable to attend the hearings today to testify in favor of Senator Fulbright's amendment to H. R. 4090.

I am pleased to be a cosponsor of this amendment and I would like to inform the committee of my continued support and strong hopes for its passage.

Sincerely,

HENRY M. JACKSON,
United States Senator.

UNITED STATES SENATE,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
March 21, 1957.

Senator HARRY F. BYRD,
*Chairman, Senate Finance Committee,
Senate Office Building.*

DEAR SENATOR BYRD: I am conducting hearings this week and am unable to ask to be heard before your committee. I would appreciate it, however, if you would convey to committee members my conviction that aid to small business such as that included in the Fulbright amendment to H. R. 4090 proposing tax relief for small-business corporations is long overdue.

Not only have we seen business failures generally increase in 4 years by about 67 percent—in my own State it has been about 214 percent, from 22 to 69—but also Dun & Bradstreet has reported that business failures among firms 10 years old or older have doubled since 1947, refuting the argument that failures are simply due to inexperienced management.

Almost two-thirds of the businesses failing had liabilities of \$25,000 or less in 1956 and 99.6 percent had liabilities of less than \$1 million. There is no question that it is small business which has been hit—even experienced small business.

Since 1951 small-business profits after taxes have been below the 1947-49 averages consistently, while those of large business have been far above that average. Through this period, the spread between the two groups profits has been enormous, and despite a small upturn in 1956 the small manufacturers' share of the earnings pie is about half what it was in 1947.

If we are to have a healthy small-business community, legislation is needed now, as quickly as possible. I do not see the relevancy of Secretary Humphrey's position that no tax relief for small business should be permitted until a tax cut is possible for all. The administration has made it plain that no such general tax relief is planned this year. Since the bill would not decrease revenue, I do not see how it would delay budget balancing and general tax relief.

This is not a new proposal. Various bills to improve the tax position of the little-business man have been before Congress for several years, and we lose many of these small businesses each week that we wait.

This bill will not take the risk out of small business. The American who wants to start a business for himself still may go broke. He must furnish the know-how. He must acquire the capital. He will not have a headstart or a special advantage if we give him this relief. He simply will have a fairer chance for survival.

This measure will slightly increase taxes on larger corporations. I do not indict the giant businesses, but it would seem that they have an advantage in our present business environment which makes it easier for them to obtain new capital, to borrow money for short terms, and to make very large profits.

I support this amendment because I think it may help us maintain a freedom we are in danger of losing. This is business freedom, the freedom that permits any American to start a business for himself.

Sincerely yours,

A. S. MIKE MONRONEY,
United States Senator.

STATEMENT OF HON. RICHARD L. NEUBERGER, UNITED STATES SENATOR FROM THE STATE OF OREGON

Mr. Chairman, I want to take this opportunity to thank the chairman of this committee for the opportunity to include my statement in the record. I also want to commend both the chairman and the committee for giving small-business people an opportunity to plead their case for the tax relief which amendments proposed by Senator Sparkman and Senator Fulbright would provide them. As a supporter of these amendments, I would like to submit for the record my own brief statement and a letter from one of my constituents, Mr. Milton H. Mater, a small-business man and president of the Mater Machine Works in Corvallis, Oreg.

Mr. Chairman, the small-business men of America compose one segment of our society which seldom sends lobbyists to call on us. Rarely is a small-business man to be found who can boast of his depletion allowances, or his rapid amortizations. His most frequent contact with his Government is in the process of collecting tax receipts. The small-business man is reluctant as a rule about asking his Government for help. He prides himself in his independence, resourcefulness, and ability to adjust to the economic weather of the moment. The weather has been getting rough of late, however, and the small-business man sees many things not of his own making relentlessly crowding and pressing him. The story is told in the increased number of bankruptcies, the mounting number of mergers, and the disturbing number of empty business buildings found increasingly along the main streets of America.

Gradually, this small-business man is becoming aware that there are certain things his Government can and must do for him that will enable him to continue to survive as he has up to now—independent, resourceful and still able to adjust to the normal highs and lows of the economic climate.

Among the important things Government might do to help materially would be a greater allocation of Government purchases to small business, a stepped-up share of defense contracts which now go in most cases to big industry, increased availability of both short- and long-term credit at reasonable rates of interest, and some form of tax relief like that in the bill being considered.

Mr. Chairman, among the different suggestions which have been made for tax relief for small business, I want to speak particularly in support of the proposal to permit small, closely held corporations to elect to be taxed as partnerships instead of as corporations for purposes of the Federal income tax. As I recall, this is not a new suggestion but is one which not so long ago won the approval of this committee although it did not find its way into the final version of the 1954 revision of the Internal Revenue Code.

It seems to me that it is fair and reasonable to make a categorical distinction between large corporations whose capital stock is widely held by the public, and smaller enterprises which are owned by members of a single family or by a few business associates who themselves manage the enterprise. Under modern conditions, the great bulk of all business enterprise is carried on in the corporate form because of the advantages which accompany this form of business organization under State laws, particularly so far as survivorship of the corporate entity, and limitation of liability to the invested capital, are concerned. I believe that the choice of the form in which owners of a small enterprise wish to organize and carry on their business should be dependent entirely on the advantages and disadvantages of the different forms of organization for legal and business purposes. This judgment should not be distorted or superseded by the overriding importance of the Federal tax consequences which follow the choice of one form or another. Yet this is the case under the present Federal income-tax law and its high rates.

Consequently, I believe that it will be of real value to many small businesses to be able to choose for themselves the advantages of the corporate form of business organization, while being free to file partnership income tax returns providing they meet certain conditions of size and ownership. Such a Federal tax policy would merely reflect realistically the fact that there is much more similar-

ity between many small partnerships and small closely held or family-owned corporations than there is between such corporations and the great, publicly held corporate giants of big business and industry in our country.

Present tax policy coupled with spiralling costs makes it increasingly difficult for small corporations to accumulate surpluses needed for expansion. Small-business men caught in the cost-price squeeze have been confronted, despite inventory adjustments in recent tax law revisions, with the problem of replacement costs in a rising market. The proposed exemption from income taxes of a portion of profits would help to ameliorate this situation which has placed ceiling limitations on small-business growth. For that reason, Mr. Chairman, I urge your favorable consideration of the proposed amendments to H. R. 490.

MATER MACHINE WORKS, INC.,
Corvallis, Oreg., January 3, 1956.

Senator RICHARD NEUBERGER,
Senate Office Building, Washington, D. C.

DEAR SENATOR NEUBERGER: This letter is written to give you the opinion of one small-business man on the matter of tax reduction for small corporations. During the recent election campaign both parties advocated this step, but now newspaper stories quote spokesmen from both parties saying that this is not advisable or practical this year.

One of the news stories stated that the Treasury could not afford the loss of revenue. Another stated that since most small businesses are not incorporated only a very few would be helped by reducing the taxes on the first \$25,000 of earnings. My comments will be directed at these two stories.

1. On the face of it, if the second story is true and only a very small proportion of small businesses are incorporated, then the drop in tax revenues shouldn't hurt the Treasury very much. The worst part of the second story is that, since the facts on the number of small corporations must have been known during the campaign, it makes both parties appear insincere when they spoke of the tax reduction. This puts small business in the position of being just another political football.

2. I think that most small businesses are not incorporated because of the heavy tax penalties involved. There are no deductions on corporate earnings, so that even if the corporation earns a single dollar, it must pay 30 cents of it in taxes. Our firm has been operating as a partnership until the end of 1956 when we incorporated, partly because we relied on the promises of both parties to reduce this heavy tax on small corporations.

3. The heavy tax burden on small corporations is, I feel, part of the vicious circle which starts by preventing small businesses from incorporating; this in turn, deprives them of the "limited liability" which large corporations have; this, in turn, deprives them of important methods of financing and personal protection of the owners, so that many small businesses fail. When the owners of a small unincorporated business are faced with failure, their homes, personal savings, and cars are in jeopardy. This makes for a tendency to "pull out" when things get rough, so that they can save something from the failure. Yet it is well known that only by toughing it out over the first few years' rough spots, can a business survive and grow strong. I feel that if small businesses were encouraged to incorporate by the reduction of taxes, then the owners would be able to take losses during their early years of operation without jeopardizing everything they have in the world. This would enable a greater percentage to survive the critical first 5 years, whose failure statistics were made much of during the recent campaign.

4. In my opinion, lower taxes on small corporations would encourage small businesses to incorporate; this, I feel, would result in fewer failures. The Treasury would then receive more taxes from small businesses rather than less. The saving in human misery which each failure represents would also be greatly lessened.

In view of the opinions expressed above, I urge you to work for the introduction and passage of bills which will lower the taxes on the first \$25,000 of earnings of small corporations.

Yours truly,

MILTON H. MATER, *President.*

UNITED STATES SENATE,
COMMITTEE ON ARMED SERVICES,
March 21, 1957.

HON. HARRY FLOOD BYRD,
*Chairman, Committee on Finance,
United States Senate, Washington, D. C.*

DEAR MR. CHAIRMAN: I understand you have set Thursday, March 21, for hearing the proponents of amendments to H. R. 4090, the bill which would extend the present tax rates on corporate income.

I am a cosponsor of the amendment proposed by Senator Fulbright.

I regret that time does not permit preparation of a detailed statement in support of this amendment and that my schedule does not enable me to appear personally before the committee. However, I do strongly urge favorable consideration of the amendment.

I believe the small corporations are in a relatively disadvantageous position with their large competitors under the present tax structure. Our amendment would grant relief to corporations with taxable incomes of less than \$225,000 and would provide a very slight increase to those earning in excess of that amount. This avoids a revenue loss and at the same time provides a substantial benefit to smaller corporations.

I am very much concerned with the health to our small-business community which I consider essential to national growth and prosperity. I urge favorable consideration of the amendment by your committee.

Sincerely,

SAM J. ERVIN, Jr.

STATEMENT OF HON. JAMES ROOSEVELT ON THE NEED FOR TAX REDUCTION FOR
SMALL BUSINESS

Mr. Chairman, in coming before you and the members of this great committee, I come only because of my deep conviction that the subject matter which you are considering deeply affects our entire economy.

Small business is being squeezed out by monopolies and by the trend toward economic concentration. So far, Government policy has been helping big business while small business, the lifeblood of our free-enterprise system, is on the decline. In 1955 Dun & Bradstreet reported 11,000 small-business failures. During the first 10 months of 1956 business failures have been running 17 per cent higher. The recent final report of the House Select Committee on Small Business, of which I am a member and of which I have the honor to be chairman of the Subcommittee on Distribution Problems, details some of the depressing statistics that tell the story of the decline of small business.

Last year the 50 largest banks earned 44 percent of all commercial bank profits. The 50 largest life insurance companies have 90 percent of all life insurance assets. The 50 largest public utilities now receive 80 percent of all operating revenues. Looking at the manufacturing field, the report said that should the present growth toward concentration in the manufacturing field continue, without acceleration in 18 years this broad field will be entirely controlled by corporations having more than \$100 million.

I do not believe that any serious student of our economy can deny that small business is declining. The question now arises, How can we remedy this situation? On the one hand, it would be foolhardy to enact a program of tax reduction that would substantially reduce revenues and thus further the inflationary wage-price spiral. A program of tax reduction will provide small business with an effective source of funds with which to maintain and expand production. At present it is almost impossible for a small business to raise equity capital or to float long-term loans. It costs small business many times as much as it costs the larger corporations. Thus, we are reduced to using earnings for expansion. And, as is well known, earnings are much smaller for small firms than they are for large firms. Therefore, the only way to improve the position of small business today is through tax reduction.

The Republican administration has been promising tax relief for small business for some time. The last three sessions of Congress have considered measures for tax relief, but the executive branch has not given effective support to any tax reduction proposals. This is in direct contradiction to campaign promises of the President—on October 24, 1956, on a national TV network the President called for direct tax relief and loosening of credit for small business—and, more im-

portantly, to the recommendations of the President's Cabinet Committee on Small Business. In August of 1956 this Committee announced 14 recommendations including a direct cut in taxes for small business amounting to \$6 million. Four months later, after the election, Secretary of the Treasury Humphrey, in a press conference on January 15, 1957, went on record as opposing any tax relief for small business. This is, in my view, a direct demonstration of the adherence of the administration to a philosophy of Government that favors big business at the expense of small business.

I am certain that many of my colleagues, particularly the 80 fellow signers of a liberal Democratic program announced on January 30, will join with me in this plea for tax reduction. Unfortunately, as the members of this committee well know, it is impossible to propose amendments to revenue legislation on the floor of the House and thus give this matter the thorough debate that it deserves. I hope, therefore, that either the Fulbright or the Sparkman bill, which are now under consideration by your distinguished committee, will be reported favorably. Such action will strike a blow for this Nation's historic policy of maintaining a diffusion of power and wealth, which history shows to be a predicate to political democracy.

The health of our economy depends to a large degree on the continued health and vitality of our small-business community and I am confident that, despite the discouraging statements by the administration, the Congress will not shirk its responsibility in enacting one of these vitally needed bills before you.

STATEMENT OF HON. GEORGE MCGOVERN

Mr. Chairman and distinguished members of this committee, I wish to offer a brief statement in support of the amendments to H. R. 4090 offered by Senator Fulbright and Senator Sparkman. I do not choose to differentiate between the two. Both are acceptable. I only wish to say that small business in my opinion is in dire need of immediate tax relief. Both of these amendments would accomplish this goal.

Small-business men are finding themselves in increasing economic difficulty. I have received literally scores of letters from the businessmen in the First Congressional District of South Dakota, which I represent, pleading with Congress to give them tax relief so they can stay in business. Some of these men who have written me are personal acquaintances. I know their cases well. They are honest and sincere men. The darkened stores along mainstreet in every town and city in South Dakota are increasing in numbers. They are mute and tragic evidence that a serious problem exists in the small-business community.

The year 1955 was not a good year for small business. A high percentage of small-business failures was registered. I would remind the distinguished members of this committee that last year small-business failures rose 16 percent over 1955.

The big corporations of this Nation are able to shift the tax burden as you know only too well. It is standard procedure in big-business planning to base the price of manufactured goods in part on the amount of taxes that will be paid. This tax is passed along to the consumer as other costs are.

Unfortunately the small-business man cannot do this as easily as the big business corporation. Business among the small firms is much more highly competitive and restrictive when it comes to figuring taxes into the retail price of goods.

As every person in small business can tell you, one of his biggest problems is that of expansion. If small business is to expand, the capital for such a venture must either come out of retained earnings or through loans. The latter course has been almost entirely closed in recent months. Consequently those firms who are without retained earnings of adequate amounts are not able to expand at all.

On the other hand, the huge corporations merely have to go to the capital market if sufficient funds aren't available through retained earnings.

I would also urge this committee to consider a relaxation of the restriction imposed on small business in section 1361 under the Internal Revenue Code of 1954. I refer to that specification of the law, allowing small unincorporated businesses to file their taxes as a corporation, but which also forces them thereafter to file as a corporation. This, I believe, imposes an unnecessarily harsh restriction on small business firms.

I would also call to the committee's attention the need for revising the law in respect to the payment of inheritance taxes. The high rate of this tax places a tremendous hardship upon families which own and operate small businesses. I would request the committee to give serious thought to the proposition that families be allowed to pay the inheritance tax over a 10-year period. This would provide an incentive to small business.

AMES, IOWA, *March 21, 1957.*

HON. HARRY F. BYRD,
*United States Senator, Senate Office Building,
Washington, D. C.:*

If small business to remain in our economy some tax relief essential. Urge your support present tax cut move.

HOWARD AMES, *Diesel Service Co.*

LOS ANGELES, CALIF., *March 20, 1957.*

HON. HARRY BYRD,
*Chairman, Senate Finance Committee,
Capitol, Washington, D. C.:*

Understand Senate Finance Committee is giving attention to problems present Federal taxes impose on small business. Pleases us to know this subject is to receive consideration your committee. Our industry is composed of many small manufacturers who are acutely adversely affected by existing Federal tax levies. In event hearings are held many representative small plastics manufacturers would like to appear to present factual information on how present taxes are strangling them.

SOCIETY PLASTICS INDUSTRY,
WILLIAM T. CRUSE,
Vice President, New York, N. Y.

DAVENPORT, IOWA, *March 21, 1957.*

HON. HARRY F. BYRD,
*Senate Finance Committee,
Senate Office Building, Washington, D. C.:*

We support and congratulate you for your stand on tax relief for small business.

BOB PLATH,
Plaths Building Supply.

AMES, IOWA, *March 21, 1957.*

HON. HARRY F. BYRD,
*United States Senator,
Senate Office Building, Washington, D. C.:*

The present tax burden on small business is its greatest obstacle toward sound growth. Please help to secure small business tax cut move.

J. P. LAWLER,
President, General Filter Co.

FORT MADISON, IOWA, *March 21, 1957.*

Senator HARRY F. BYRD,
*Senate Finance Committee,
Senate Office Building, Washington, D. C.:*

Small business needs this tax cut now in order to survive. Do your best and congratulations.

ED BOYLE.

DES MOINES, IOWA, *March 20, 1957.*

Senator HARRY F. BYRD,
Senate Finance Committee, Washington, D. C.:

Congratulations; please help secure small business tax cut now.

RALPH. G. MILLER.

DAVENPORT, IOWA, *March 20, 1957.*

Hon. Senator HARRY F. BYRD,
Senate Finance Committee,
Senate Office Building, Washington, D. C..

Glad to hear about hearing on tax relief for small business. Congratulations; we need action now.

R. J. FEY,
Fey Builders Supply.

NEVADA, IOWA, *March 21, 1957.*

Hon. HARRY F. BYRD,
Senate Office Building, Washington, D. C.:

Good work. Please get small business tax cut now.

W. M. COOVER,
Coover Chevrolet Olds.

DAVENPORT, IOWA, *March 20, 1957.*

Hon. Senator HARRY F. BYRD,
Senate Finance Committee,
Senate Office Building, Washington, D. C.:

Congratulations on hearing tax cuts for small business. We need action now.
Cordially,

GENE C. JOHNSON.

KANSAS CITY, MO., *March 21, 1957.*

Senator HARRY F. BYRD,
Senate Finance Committee, Washington, D. C.:

Congratulations on the small business tax cut; we certainly needed some.
ROBERT MACDOWELL.

DAVENPORT, IOWA, *March 21, 1957.*

Hon. HARRY F. BYRD,
Senate Finance Committee,
Senate Office Building, Washington, D. C.:

Congratulations on being granted hearing for tax cuts for small business, it's now or never.

FREDERICKS STUDIO.

DAVENPORT, IOWA, *March 20, 1957.*

Hon. HARRY F. BYRD,
Senate Finance Committee, Senate Office Building, Washington, D. C.:

Congratulations on being granted hearing for tax cut for small business; we need action now.

LLOYD KOEHLER,
WALTER GEBEL,
Paint Mart, Bettendorf, Iowa.

SPRINGFIELD, MO., *March 20, 1957.*

Senator HARRY F. BYRD,
Senate Finance Committee, Senate Office Building, Washington, D. C.:

Congratulations. Favor immediate tax cut for small business.

BEN A. BRAASCH.

GALVESTON, TEX., *March 20, 1957.*

Senator HARRY F. BYRD,
Senate Finance Committee, Senate Office Building, Washington, D. C.:

Congratulations on hearing on tax cut for small business. Imperative we have it now; do your best, we are with you.

LOUIS M. DREW.

AKRON, OHIO, *March 21, 1957.*

HON. HARRY BYRD,
Senate Office Building, Washington, D. C.:

You are to be congratulated in holding hearing Thursday on tax relief for small business. It would be my hope that I could appear personally and present testimony and support this relief that is long overdue. Small business must be in a position to build up the necessary reserve to take care of our businesses when our economy reaches a normal or lull period. No other way can we hope to stay in business. Both parties in the recent presidential campaign promised tax relief for small business. Small business expects and rightfully demands these pledges to be kept. I am not alone speaking for myself, but also my independent associates in the States of Ohio, Pennsylvania, New York, New Jersey, and West Virginia. Will you make this message a part of the records. Senator Byrd and your associates we trust your committee will report out tax relief for small business.

CHARLES P. RANEX,
Raney Tire Co.

CLEVELAND, OHIO, *March 21, 1957.*

HON. SENATOR HARRY F. BYRD,
*Chairman, Senate Finance Committee,
 United States Senate, Washington, D. C.:*

Thursday and the immediate future you will consider tax relief for small business. The needs of the budget are great but the needs of small business back home here are greater. This morning a third generation businessman called me up and is thinking of closing the doors of the business his grandfather started. His bills and taxes are mounting beyond control. Last year the Tax Institute of New Jersey and asked me as 1 of 4 men picked out of 160 men considered to write on "Should Federal Tax Policy Encourage Development of Small Business." This was sponsored by Princeton University and University of Alabama tax organizations and trade organizations to bring to the front what the next major appeal would be that would be brought to the attention of Congress the next few years.

The appeal is here: it is needed sooner than was thought. The figures from Dun & Bradstreet show that more businesses over 10 years in business are going bankrupt than since before the war. Small business cannot survive and without tax relief and financial aid that was brought about by high taxes siphoning off its working capital needed to operate.

Each month small business is suffering more and more while our Government is meticulously policing the tax collections with an exactness to the penny and severity in enforcing and examining the records of the businesses to still extract further taxes from them while at the other end huge amounts are spent for what appears to the businessman and the average taxpayer amount equal to 10 times what it really takes to run the Government of our country. Income taxes are 80 percent too high.

How can this severe treatment of the small-business man be justified? The only way is cut his taxes so he can survive too, and take off the Government collectors who are hounding him to death caused by the law to raise such large taxes.

W. J. FRANZ,
*Tax Consultant, 26 Years in Business, 35 Years' Experience. Present
 Non-paid Secretary and Past President Smaller Business of America,
 Inc., and a Trustee Since 1937, Past First Vice President of the Na-
 tional Society of Public Accountants, Past President of the Public
 Accountants Society of Ohio.*

NEW YORK, N. Y., *March 20, 1957.*

HON. HARRY BYRD,
*Chairman, Senate Finance Committee,
 Senate Office Building, Washington, D. C.:*

As reported in the press today understand your committee will hold hearings Thursday on tax relief for small business. Speaking for so many thousands of small-business men in this area who expect tax relief now for small business. I urge you please not to fail to give the necessary relief for small business.

A. S. CLARK.

LOS ANGELES, CALIF., *March 21, 1957.*

Senator HARRY BYRD,
*Senate Finance Committee,
 Senate Office Building, Washington, D. C.:*

Urge support of Fulbright type bill: 10 to 15 businessmen contacted each day are in favor of such bill at this time to insure increased working capital and to help tide over hard money.

W. T. CANNON, JR.

ORLANDO, FLA., *March 20, 1957.*

HON. HARRY F. BYRD,
*Senate Finance Committee,
 Senate Office Building, Washington, D. C.:*

May I strongly endorse Senator Fulbright's bill to reduce taxes on small business and/or the efforts along this line, including those of Cabinet Committee on Small Business. Both parties are obligated to actually do something affirmative at this time in this matter in accordance with their platform promises and small-business men everywhere will hold Congress responsible for action now in reducing taxes on small business.

ERNEST H. GAUNT.

BURLINGAME, CALIF., *March 20, 1957.*

Senator HARRY F. BYRD,
*Chairman, Senate Finance Committee,
 Senate Office Building, Washington, D. C.:*

Just read your committee will hold hearings on small business tax relief. Congratulations. Small firms desperately need relief from profits squeeze which is due to constantly increasing operating costs on one hand and increasing competition which involves much cutthroat, underhanded pricing. Government itself is responsible for some of this squeeze, due to such things as its tight money policy and increased interest rates and to its refusal to take steps it should take to eliminate unfair competition. One thing independents know: both parties promised freely last year to make tax cuts. They insist the parties keep their word. They are tired of more words and more promises which they can't eat or bank. Unfortunately, due to shortness of notice, I can't be present to testify before your committee, but I urge you to start the ball rolling for these tax cuts by approving the Fulbright or similar proposals now, and include them as part of the general tax bill to be sent to the Senate this month.

C. WILSON HARDER,

President, National Federation of Independent Business.

NEW YORK, *March 20, 1957.*

Senator HARRY BYRD,
*Chairman, Senate Finance Committee,
 Senate Office Building, Washington, D. C.:*

Regret short notice makes it impossible for me to attend hearings this week. Would like following statement incorporated in the record:

"I am president of the National Association of Independent Business and president of Eastern Rolling Mills, Inc. cannot urge you too strongly to incorporate a graduated corporate income tax for small business in present tax bill. Our present survey indicates that 1957 bankruptcies will substantially exceed 1956 total, which was highest since 1941. In addition I am a member of the Young Presidents' Organization whose survey released yesterday indicates 45 percent of membership contemplating mergers. Only immediate tax relief for small business will change this trend."

HERBERT BARCHOFF,
Eastern Rolling Mills, Inc.

BURLINGAME, CALIF., *March 20, 1957.*

Senator HARRY F. BYRD,
*Chairman, Senate Finance Committee,
 Senate Office Building, Washington, D. C.:*

Understand your committee will hold hearings on small-business tax cuts. Wish I had known about this earlier so I might have arranged to testify. What

are we small-business men in this area going to get, Senator, performance or more of the same empty promises we've been getting from Congress over past years? Can tell you this much: We know that you promised this cut. We feel certain that when you promised it you knew generally what the budget outlook would be. We think you should keep your word by approving bill by Senator Fulbright or any similar legislation and send same to Senate for vote along with general tax legislation this month. You've made a good start by scheduling these hearings. Now let's finish it by voting for the tax cuts.

GARY H. GRIFFITH,
San Carlos, Calif.

MONTE RIO, CALIF., *March 20, 1957.*

Senator HARRY F. BYRD,
*Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.:*

As the traditional champion of economy in government we in small business believe our taxes have already passed the point of diminishing returns to Internal Revenue Service. It is extremely difficult if not impossible to grow from earnings and we must grow or die. We earnestly hope your committee will give serious consideration to proposals for tax help to us.

FRED M. WELLS, INC.,
F. M. WELLS, *President.*

TORRANCE, CALIF., *March 20, 1957.*

Senator HARRY F. BYRD,
*Chairman, Senate Finance Committee,
United States Senate, Washington, D. C.:*

Small companies such as ours are facing desperate situation in effort to remain independent in face of heavy tax burden which prevents retention of earnings to meet inflated costs and to provide for growth. We urge immediate consideration of a tax measure similar to proposal advanced by Senator Sparkman as means for providing essential relief. Large companies are constantly acquiring smaller firms because of tax advantage they enjoy. We fear for future of American economy unless early action is taken.

HAMPDEN WENTWORTH,
President, Longren Aircraft Co., Inc.

GLENDALE, CALIF., *March 20, 1957.*

Senator HARRY BYRD,
*Chairman, Senate Finance Committee,
United States Senate, Washington, D. C.:*

Urge your consideration of corporate tax adjustment to ease burden on small firms. Our company feels this action desperately needed to stop wave of corporate mergers caused by inability of small firms to keep enough earnings to stay independent.

L. A. PFANKUCH,
Executive Vice President, Pacific Scientific Aero Products.

KANSAS CITY, MO., *March 20, 1957.*

HON. HARRY BYRD,
Senate Finance Committee, Washington, D. C.:

Independent businessmen in western half State of Missouri voted overwhelmingly for immediate tax reduction.

CARL J. MEYER,
District Manager, National Federation of Independent Business.

ATLANTA, GA., *March 20, 1957.*

HON. HARRY BYRD.,
*Chairman, Senate Finance Committee,
 Senate Office Building, Washington, D. C.:*

I noticed in the paper today that your committee will hold hearings Thursday on tax relief for small business. Speaking for some 30,000 small-businessmen in this area who expect tax relief now, I urge you please not to fail to give them the needed relief.

RENO IVY, Jr.

CHICAGO, ILL., *March 20, 1957.*

HON. HARRY BYRD.
Senate Office Building, Washington, D. C.:

We ask your indulgence in behalf of small business at the hearings. It is urgent that small business gets tax relief which is long overdue.

R. H. KIMBALL Co.

CHICAGO, ILL., *March 20, 1957.*

HON. HARRY BYRD,
Senate Office Building, Washington, D. C.:

It is urgent that small business gets tax relief which is long overdue. We request your cooperation in our behalf at the hearings.

CHAS. D. KIMBALL Co.

BALTIMORE, MD., *March 20, 1957.*

HON. HARRY BYRD.,
*Chairman, Senate Finance Committee,
 Senate Office Building, Washington, D. C.:*

Regarding hearing of your committee on small-business tax relief, please exert your greatest powers to see that this tax relief so urgently needed and expected be forthcoming for the many thousands of small businesses.

PAUL D. MALCHESON,
Hagerstown, Md.

BALTIMORE, MD., *March 20, 1975.*

HON. HARRY BYRD,
*Chairman, Senate Finance Committee,
 Senate Office Building, Washington, D. C.:*

Knowing your committee is holding a hearing on relief of tax on small business, I urge you, on behalf of the thousands of small businesses who need such relief, please use your great strength to effect such tax relief for small business.

PHILIP W. CLARK,
Red Bank, N. J.

HAWTHORNE, CALIF., *March 20, 1975.*

Senator HARRY BYRD,
*Senate Finance Committee,
 Senate Office Building, Washington, D. C.:*

Suggest you analyze Fulbright bill or equivalent to apply to small business tax aid benefits which are desperately needed now.

EUGENE H. TWAROWSKI, Jr.,
Double T Products.

WALTHAM, MASS., *March 20, 1975.*

HON. HARRY BYRD,
*Chairman, Senate Finance Committee,
 Senate Office Building, Washington, D. C.:*

As reported in the press today, understand your committee will hold hearings Thursday on tax relief of small business. Speaking for thousands of small-business men in this area who expect tax relief now for small business, I urge you please not to fail to give the necessary relief for small business.

WILLIAM B. ARGY,

WICHITA, KANS., *March 20, 1957.*

Senator HARRY F. BYRD,

*Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.:*

Tax relief is a must if small business is to survive. As a statesman and one of America's greatest protectors of our great free-enterprise system please lend your influence and support to full-scale hearings on the small business plight. I admire the effort on our behalf being made by the National Small Business Men's Association. Please do what you can.

JOHN S. STEVENS,
President, Stevens Enterprises, Inc.

MINNEAPOLIS, MINN., *March 20, 1957.*

Hon. HARRY BYRD,

*Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.:*

We have noted in the press today that your committee will hold hearings for tax relief for small business on such relief. We would like to appear in person but time will not permit us. We believe that tax relief is long overdue for small business if they are to continue on in our necessary businesses. We were promised in recent presidential election by both parties that we could look forward to tax relief for small business. Both parties were definite in their pledges, so we will expect Congress to carry out these pledges. Please read this into your records. Thank you for any help.

PAUL E. HAWKINSON CO.

CANASTOTA, N. Y., *March 21, 1957.*

Senator HARRY BYRD,

*Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.:*

It is my understanding that your committee will hold hearings Thursday on small business tax relief. Speaking for so many thousands of small business men in this area who expect tax relief I urge you please not to fail to do everything in your power to give necessary relief for small business.

WARD RAMSDELL.

DAVENPORT, IOWA, *March 21, 1957.*

Senator HARRY F. BYRD,

*Senate Finance Committee,
Senate Office Building, Washington, D. C.:*

Congratulations favoring tax cut for small business. We need it now. Do your best. Survival of small business depends upon help at once. Major cut is necessary now and free enterprise and our freedom is at stake unless we get general tax cut and specific small business tax cut.

J. M. McIVER, *Blackhawk Hotel.*

WASHINGTON, D. C., *March 20, 1957.*

Senator HARRY BYRD,

Senate Office Building, Washington, D. C.:

Your committee will conduct hearings tomorrow with relation to problems of small business. Both parties adopted almost typical platforms in conventions last fall. Small business is our last fortress against other forms of government and through it hopes of many millions depend on its right to current and future opportunities. We do not need gifts, subsidies, or other types of support now afforded labor, farmers, and many minority groups. Would like to appear personally but time precludes. The favor of your committee's consideration sincerely solicited.

Very truly yours,

EUGENE H. TWAROWSKI,
Double T Products Co., Hawthorne, Calif.

WEST NEW YORK, N. J., *March 21, 1957.*

HON. HARRY BYRD,
*Senate Finance Committee,
Senate Office Building, Washington, D. C.:*

From press reports today we understand your committee will hold hearings Thursday on tax relief for small business. Speaking for many thousands of small-business men in this area who were promised in both party platforms last August tax relief for small business. I earnestly urge you and your committee to give the necessary tax relief for small independent business the backbone of our national economy.

JAMES F. LANGAN.

LOS ANGELES, CALIF., *March 20, 1957.*

Senator HARRY F. BYRD,
*Chairman, Senate Finance Committee,
United States Senate, Washington, D. C.:*

Regret inability to have representative of Strategic Industries Association in Washington to testify on tax problems of small business. We regard this as single most serious problem. Large firms able to pass tax burden to consumer. Small firms must absorb tax impact to remain competitive and are unable to retain sufficient dollars for growth or to attract either equity or loan capital. Result is considered root cause of trend toward centralization of manufacturing in handful of large firms. A half dozen of our former members have had to sell out during past year. Ultimate effect will be socialistic demand for nationalization of large companies and disappearance of free-enterprise economy. Several years of research have gone into our study of problem as covered in our booklet titled "Case for Incentive Corporate Taxes." Copy following in mail. We urge early serious consideration leading to adoption of relief measure along lines of Sparkman bill or Seely-Brown, H. R. 9851, of preceding congressional session.

JOHN MARSCHALK,
Executive Director, Strategic Industries Association.

PALO ALTO, CALIF., *March 20, 1957.*

Senator HARRY F. BYRD,
*Senate Finance Committee,
Senate Office Building, Washington, D. C.:*

As a public accountant speaking for many small-business men with whom I work you're urged to take prompt action on the tax reduction bill introduced by Senator Fulbright. In my circle of business relationships and that of many fellow accountants, it is apparent that small business is suffering badly due to constant rising costs with little relief at the gross income level. Tax cuts were promised during the political campaigns and were not contingent on the current Federal budget. These tax cuts are desperately needed now.

Respectfully,

F. J. COSTELLO, Jr.

SAN DIEGO, CALIF., *March 20, 1957.*

Senator HARRY BYRD,
Senate Office Building, Washington, D. C.:

Wiring in behalf of hundreds of small-business men, San Diego County, we sincerely hope you will give favorable report to Fulbright bill or any similar measures pertaining tax relief for small business. Both platform committees promised same. Deepest condolences for loss of my old shipmate, Admiral Byrd.

E. G. RICHARD, *Barcelona Hotel.*

PASADENA, CALIF., *March 20, 1957.*

Senator HARRY BYRD,
*Senate Finance Committee,
Senate Building, Washington, D. C.:*

Certainly hope you give a complete and favorable report on the Fulbright bill or any similar measures concerning tax relief for small business. This is in conformity with the pledges made by both parties during the last convention. I talked to 15 to 20 businessmen per day.

CHARLES HECKATHORN.

PARAMOUNT, CALIF., *March 20, 1957.*

Senator HARRY F. BYRD,

Chairman, Senate Finance Committee, Washington, D. C.:

DEAR SIR: We respectfully urge you to give favorable consideration to any bills which will provide tax relief for small business. The recent installment paid on our corporate tax bill has dangerously depleted our working capital which we employ to produce for defense.

PAUL OMOHUNDRO CO.

LOS ANGELES, CALIF., *March 20, 1957.*

Senator HARRY F. BYRD,

*Chairman, Senate Finance Committee,
United States Senate, Washington, D. C.:*

We think the major problem facing the country is the effect of high taxes that are destroying independent business. Senator Sparkman's proposal and others like it gives the only promise of relief without jeopardizing national defense. We hope you will give serious consideration to these tax measures. We feel they are the only way to stop concentration of manufacturing in the hands of a few giant industries.

GEORGE S. WING,
President, Tranland Co.

DAVENPORT, IOWA, *March 20, 1957.*

Hon. Senator HARRY F. BYRD,

*Senate Finance Committee,
Senate Office Building, Washington, D. C.:*

Immediate need for small-business tax cut. Solicit your support.

Sincerely,

M. H. P. PLAMBECK,
District Chairman, National Federation of Independent Business.

HIGH POINT, N. C., *March 20, 1957.*

Hon. HARRY BYRD,

*Chairman, Finance Committee,
Senate Office Building, Washington, D. C.:*

As reported in the press today understand your committee will hold hearings Thursday on tax relief for small business. Speaking for so many thousands of small-business men in this area who expect tax relief for small business now, I urge you please not to fail to give the necessary relief for small business.

VELKO JAICH.

INDIANAPOLIS, IND., *March 20, 1957.*

Senator HARRY F. BYRD,

*Chairman, Senate Finance Committee,
Senate Office Building:*

Respectfully request your committee hold hearings on tax relief for small-business firms. Impact of income taxes and inheritance taxes on small business extremely serious. Eighty percent of small business is not incorporated. Proprietorships, partnerships, and ownerships urgently need consideration when corporate taxes are considered. Current tax rates take so large an amount from small firms that many are forced to borrow money. Tight money situation for many small firms results from need to borrow money to pay taxes. The great majority of firms in this predicament are well-managed concerns.

FRANK M. CRUGER,
*President, National Industrial Distributors Association,
Partner, Indiana Manufacturers Supply Co.*

CLEVELAND, OHIO, *March 20, 1957.*

Senator HARRY F. BYRD,
*Chairman, Senate Finance Committee,
 United States Senate, Washington, D. C.:*

Sincerely believe tax relief should be granted small businesses. Bills have been introduced that provide relief without reducing total income.

INTERIOR STEEL EQUIPMENT Co.,
 WILBUR J. SCHAEFER.

HIALEEAH, FLA.,
March 20, 1957.

In re H. R. 4090 Fulbright and Sparkman amendments.

Senator BYRD,
*Senate Finance Committee,
 Senate Office Building Washington, D. C.:*

In 1951 when corporate tax rates were increased from 47 percent to 52 percent a serious error was made instead of the normal tax being increased from 25 percent to 30 percent the surtax should have been increased from 22 percent to 27 percent. I believe that this statement is noncontroversial. Because of the tight fiscal position of the budget, which makes it difficult to grant substantial relief, I respectfully suggest that H. R. 4090 be amended to provide for above. The maximum tax reduction would be \$1,250 per corporation. It would conform with President Eisenhower's desire to grant moderate relief for small business that would not unduly affect the budget. The President's Cabinet Committee headed by Dr. Burns recommended 20 percent normal tax and 32 percent surtax (cost per corporation \$2,500). Neither of these proposals would impose a graduated taxation burden on large corporations.

BENJAMIN BOTWINICK,
Certified Public Accountant, New York, N. Y.

MINEOLA, N. Y.,
March 20, 1957.

Senator HARRY F. BYRD,
*Chairman, Senate Finance Committee,
 Washington, D. C.:*

Our greatest problem to survive is inability to retain earnings for growth. Offers to sell out to larger companies are hard to resist because this is common problem with all small manufacturers. We urge immediate relief to tax measure following principle of Sparkman bill.

S. SHAW,
President, Shaw Metals Products Corp.

CLEVELAND, OHIO, *March 20, 1957.*

Senator HARRY BYRD,
*Chairman, Senate Finance Committee, Senate Office Building,
 Washington, D. C.:*

We strongly support small-business tax relief measures. We feel Senators Sparkman and Fulbright proposals are minimum requirements for this year. Regret exceedingly short-time notice prevents us from testifying in person.

SMALLER BUSINESS OF AMERICA, INC.,
 E. J. KALTENBACH,
Chairman, Legislative and Tax Committee.

LOS ANGELES, CALIF., *March 20, 1957.*

Senator HARRY BYRD,
Chairman, Senate Finance Committee, Washington, D. C.:

Understand your committee convenes today to consider problem of tax relief for small business. As an operator of a small business in plastics I can state first hand the tremendous obstacles such taxes represent. Materials, processes,

and equipment are changing so rapidly that to fall behind is to seal your doom. To keep abreast takes money which we feel can only come from tax relief.

J. A. CARMEN,
President, New Plastic Corp.

PORT BYRON, ILL., *March 21, 1957.*

HARRY F. BYRD,

Senate Finance Committee, Senate Office Building, Washington, D. C.:

Small business must have tax cut now. Grateful for your interest.

F. E. MUELLER,
Chairman, Federal Independent Business Group.

LOS ANGELES, *March 21, 1957.*

Senator HARRY BYRD,

Senate Office Building.

Washington, D. C.:

Very much interested in passage of Fulbright bill or any similar measures pertaining to tax relief for small business which is in conformity with the pledges made by both political parties during last campaign. Certainly hope you feel the need of giving a favorable report on these urgent measures.

DONALD G. BOGGS.

TACOMA, WASH., *March 21, 1957.*

Senator HARRY F. BYRD,

Chairman, Senate Finance Committee,

Washington, D. C.:

As trustee of National Small-Business Men's Association, member of the national board of field advisors for region 13, Small Business Administration, and on my own behalf I am deeply concerned about the tax burden of small business. Request your committee hold full-scale hearings to the end that method of giving much needed relief may be forthcoming.

R. C. BARLOW,
President, C. S. Barlow & Sons.

CLEVELAND, OHIO, *March 21, 1957.*

Senator HARRY F. BYRD,

Chairman, Senate Finance Committee,

Washington, D. C.:

Tax relief is essential for small businesses. Please hold full-scale hearings on the subject this session.

BUCKEYE HEATING & APPLIANCE CO.,
WALTER SCHOCII.

CLEVELAND, OHIO, *March 21, 1957.*

Senator HARRY F. BYRD,

Chairman, Senate Finance Committee,

Washington, D. C.:

Tax relief is essential for small businesses. Please hold full-scale hearings on the subject this session.

GEROW EQUIPMENT CO.,
S. GEROW.

CLEVELAND, OHIO, *March 21, 1957.*

Senator HARRY F. BYRD,

Chairman, Senate Finance Committee, Washington, D. C.:

Tax relief is essential for small businesses. Please hold full scale hearings on the subject this session.

C. W. SCOTT,
Metal Equipment Co.

NEW ORLEANS, LA., March 22, 1957.

Senator HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C. :

Re Tel advising Finance Committee holding hearings today and tomorrow. Please insert in the records of the hearings this telegram and also telegram to you dated March 21 stating that the American Association of Small Business, Inc. is opposed to continuance of World War excise taxes which should have been repealed long ago. The small businesses and individual taxpayers must have some tax relief and be permitted to build a larger reserve in order to tide them over a period of recession and of expansion. Both Republican and Democratic platforms provided for reduction in excessive spending and taxation. The current peacetime budget is a record which should not be permitted to stand. Your best efforts and those of the members of your committee in bringing about tax relief for all small businesses and ultimate consumers will be appreciated by millions of citizens in our Nation. Excessive taxation is the tool of tyrants.

J. D. HENDERSON,
National Managing Director, American Association of Small Business, Inc.

NEW ORLEANS, LA., March 21, 1957.

Senator HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C. :

H. R. 4090 before your committee for consideration is being rushed through without permitting opponents to testify. It is most important small businesses and ultimate consumers be given an opportunity to be heard in opposition to railroading through Congress legislation to continue the tremendous tax load the people are now being forced to carry against their will. Tax relief is urgently needed and the citizens of this Nation do not appreciate the tactics being used to rush through H. R. 4090 for quick and last minute passage.

J. D. HENDERSON,
*National Managing Director, American Association of
 Small Business, Inc.*

HARTMANN-SANDERS CO.,
Chicago, Ill., March 20, 1957.

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
United States Senate, Washington, D. C.

DEAR MR. BYRD: We have studied the Fulbright amendment (Senate bill 150) which will reduce the rate of corporate tax to 22 percent and increase the rate of corporate surtax to 31 percent. We wish to advise you that we support this amendment and feel that it would be a step toward tax relief for corporations such as ours which comprises the majority of corporations.

Thanking you, we are
 Yours very truly,

NORBERT J. EGGERT, *Secretary.*

VOLTARC TUBES, INC.,
Norwalk, Conn., March 20, 1957.

Senator HARRY BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

DEAR SIR: I sincerely regret my inability, because of such short notice, to appear at the hearing of your committee in connection with income tax relief for small and medium size corporations. I shall appreciate it if this statement can be included in the record of these hearings.

The company of which I am principal owner and president is Voltarc Tubes, Inc. We manufacture fluorescent lamps and materials used in neon signs. We now have a total of 62 employees.

There are over 3,000 neon sign manufacturers in this country who are present or prospective customers. I am familiar with the types of problems that they face. As chairman of the board of the National Association of Independent Business, Inc., which is made up principally of small manufacturers, I have had additional opportunity to become familiar with the problems of manufacturers in other fields. I have been asked to deliver talks on the problems of small

business at various meetings of the American Management Association and other groups of executives. I mention this merely to indicate that I have devoted some time and study to this problem.

The small manufacturer in this country is going the way of the American Indian. Whereas in previous periods of peacetime prosperity the number of small manufacturers has increased, during the 3-year period ending in 1955 the total number of manufacturers declined from 328,800 to 308,000. Mergers accounted for only a small portion of the decline. Most of it was the result of business failures.

Total failure liabilities have been in a generally increasing trend since 1951, and are now running at a higher rate than in any year since that time. The great bulk of these liabilities are made up from small and medium business failures.

Manufacturing corporations with assets under \$1 million took less than 4 percent net profit on sales before Federal income taxes during the 4 years ending in 1955, those with assets over \$100 million took over 12 percent. If we take a longer period, 1947 through 1955, we find that the total earnings, after taxes, of this large group of small manufacturers declined, whereas the earnings, after taxes, of those with assets over \$100 million increased from \$3,779 million to \$9,873 million. This gives reason to believe that the inflationary price trend we have had during this period has been due more to the disproportionate and rapidly increasing profits which big business has taken than to the much smaller percentage increases in wage rates.

The great difference in profit rate per dollar of sales between big manufacturers and smaller manufacturers is by no means due to a corresponding difference in manufacturing efficiency. It is well known that large manufacturers find it cheaper to buy many of their components from smaller manufacturers than to make themselves. The advantage lies rather in market dominance. For example, a replacement part carrying the label of an automobile manufacturer brings a higher price at retail than the same part carrying the name of the small manufacturer who supplies it to the automobile maker. It is the prestige of national advertising, combined with market dominance, that permits the relatively few large units in each field to "administer" their prices rather than have them determined by the free market with which small business is faced.

Entirely aside from the urgent need for tax reduction for small business owners and their millions of employees, such tax reduction is essential to the protection of the consumer. Only if small and medium businesses are given a better opportunity to compete will the consumer get a fair break on prices. Consequently, I urge that the small corporation tax be reduced in the manner proposed by Senators Sparkman and Fulbright. This step will enable small business to compete more effectively and will hence have a salutary effect on the tendency for big business to bring about inflationary pricing. If the Federal revenue is kept substantially the same by a corresponding increase in total dollars of tax on big corporations, the percentage effect on their huge earnings will be negligible.

During the recent national campaign both parties gave us every reason to believe that they were then ready and willing to reduce taxes on small business. Since then the need has become greater, the justification more apparent. I respectfully urge that a change of this nature be incorporated in the appropriate tax bill which will be acted upon this month.

Very truly yours,

MILES PENNYBACKER.

NEW YORK, N. Y., *March 21, 1957.*

Senator HARRY F. BYRD,

Chairman, Senate Finance Committee,

United States Senate, Washington, D. C.:

Survival and growth of small business dependent on ability to retain earnings because long-term capital is unavailable. Inability to retain earnings and obtain capital for expansion forces fast-growing small companies to sell out to larger companies having loss positions. Loss of tax revenue from this type of transaction may be greater than loss resulting from tax relief.

THE SPECIAL CORP.,
VICTOR SILBER, *President.*

The CHAIRMAN. Are there any further witnesses? If not, the meeting will adjourn until tomorrow.

(Whereupon at 10:30 a. m. the hearing was adjourned, to reconvene on March 22, 1957.)

CORPORATE AND EXCISE TAX RATES EXTENSION AND CORPORATE TAX RATE CHANGE AMENDMENTS

FRIDAY, MARCH 22, 1957

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

The Committee met, pursuant to adjournment, at 10:15 a. m., in room 312, Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Kerr, Frear, Long, Smathers, Anderson, Douglas, Gore, Martin, Williams, Flanders, Carlson, Bennett, and Jenner.

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

The CHAIRMAN. The committee will come to order. We are honored to have with us today Hon. Edward J. Thye, one of our most distinguished Senators.

Senator THYE. Thank you, Mr. Chairman. Would you want me to take my place at the table there or remain here?

The CHAIRMAN. You may sit where you are, you are a Senator. We hope someday to see you as a member of this committee.

Senator THYE. Mr. Chairman, I would like to be here.

The CHAIRMAN. You are certainly qualified.

Senator THYE. Thank you.

STATEMENT OF HON. EDWARD J. THYE, UNITED STATES SENATOR FROM THE STATE OF MINNESOTA

Senator THYE. Thank you for the privilege of appearing before you this morning to present testimony urging your favorable consideration of tax-relief measures for small business.

As a representative of a State where business is predominantly small and where I have seen throughout my lifetime hundreds of enterprising and intelligent young men enter business and make a success of it, I consider it a duty to bring to this committee my observations on the impact of present high Federal taxes on the young and small enterprisers of this Nation.

For the past 7 years, I have been a member of the Senate's Committee on Small Business; for 2 of them, I was honored to serve as its chairman. In 1952 and 1953, I was a member of its Subcommittee on Taxes when that group held a series of hearings in all parts of the United States and submitted a report to the Senate on the "Tax Problems of Small Business" making 5 specific recommendations. Our tax report was well received by all those interested in general tax policies,

and I am aware of no more comprehensive study which has been made since that time.

In the 4 years between 1953 and 1957, our committee has continued its long-range survey of the impact of high taxes on young and small businesses. Studies by other groups have merely strengthened the chief conclusion we reached at that time; small business is particularly hit by these high taxes, since they are unable to raise funds in any way other than the reinvestment of earnings. When a large corporation wishes to expand or market a new product, it can go to the public securities markets—this is impossible for small business. Large corporations are diversified enough to minimize losses, or can get large loans from banks, insurance companies or other financial institutions. Small businesses, however, must count on earnings for growth, and must also depend on savings to tide them over slack periods.

Just last year, the Department of Commerce made a nationwide survey of the credit needs of business and found that small business experienced much greater difficulty in receiving necessary money than did their larger competitors. Even the Secretary of the Treasury in his testimony before your committee several days ago indicated his awareness of the fact that small business must have earnings after taxes to reinvest if it is to survive and to grow.

On one of the first days of this session, I joined with the chairman of the Small Business Committee, Senator Sparkman, in introducing four bills which I felt to have great merit and to contain some measure of help for small business. I am aware that these bills do not meet the whole problem, nor do I claim that this package of bills is a cure for all the ills of small business. I feel very strongly, however, that they represent a start in the right direction.

I would refer you, for instance, to S. 351 (amendment 3-18-57-D) which would extend the benefits of rapid depreciation to purchasers of used equipment and facilities. It is a well-recognized fact that oftentimes a young man starting a small business concern cannot afford the present-day high costs of new equipment necessary for the operation of his business. He must buy used equipment at the price he can afford to pay. He should be granted the same privilege of rapid depreciation now given to purchasers of new equipment. In that the equipment is secondhand and possibly approaching obsolescence when purchased, it would appear to me to be the only fair that the purchaser should be entitled to write off his cost over a relatively short period of time. This would represent a very definite tax benefit to an enterprising young man who is starting his own business.

I would also call special attention to the S. 349 (Amendment 3-18-57-B) which would grant an election to certain corporations to be taxed as partnerships. This option would be extended to corporations having not more than 10 stockholders, all of which stockholders having an active part in the business.

This type of tax legislation would benefit many small corporations which are hit especially hard by what is often termed "double taxation" resulting from the tax on the profit of the corporation and then on the income of the stockholders to whom the corporation profits are distributed.

These proposals are among those recommendations made by the President's Cabinet Committee on Small Business in its report of last

August. In view of the President's endorsement of the Committee's proposals and in view of the much-recognized need for aid to our small-business economy, it is my sincere wish that you will see fit to give favorable consideration to these small business tax-relief measures.

If we wait until we can make substantial tax reductions which will benefit everyone, I doubt that many of these small businesses we are now seeking to help will be around to benefit from our consideration.

Therefore, I respectfully urge that you give your most careful consideration to the beneficial effects which these measures of tax relief for small business will have on the continued growth and well-being of our Nation's overall economy.

Mr. Chairman, that is all of my statement. And I again state my appreciation for you hearing me here this morning.

THE CHAIRMAN. We are very happy to have you at any time, sir. We thank you for coming. The Chair would like to insert in the record a statement from the Association of American Railroads, and also a statement from the National Retail Furniture Association.

(The documents referred to are as follows:)

NATIONAL RETAIL FURNITURE ASSOCIATION,
Washington, D. C., March 21, 1957.

Senator HARRY FLOOD BYRD,
*Chairman, Committee on Finance,
United States Senate, Washington 25, D. C.*

DEAR SENATOR BYRD: The purpose of this letter is to submit to the Senate Committee on Finance the views of the National Retail Furniture Association with reference to Senator J. W. Fulbright's proposed amendment to H. R. 4090, and S. 150, both of which would have the effect of adjusting the corporate normal tax to 22 percent and surtax to 31 percent.

We appreciate very much the opportunity to present the views of the members of the National Retail Furniture Association and respectfully request that they be included in the official record of the hearings on March 21 and 22, 1957, before the committee.

This statement is made in behalf of the owners of the 8,500 furniture stores throughout the United States represented by the National Retail Furniture Association.

The association has been in existence since 1921. Its members account for better than 85 percent of furniture store sales volume.

It is the opinion of the members of NRFA that there is a pressing need for relief for small business firms from the oppressively heavy emergency tax load they have carried for many years, particularly furniture stores which are almost without exception small business firms.

The membership of the association would welcome the general prospect of any tax relief to both incorporated and unincorporated firms, whether the potential savings would be large or small.

However, they are opposed to any increase in taxes in any income bracket at this time.

It is the firm conviction of the association's members, who are almost entirely small firms, that some general tax reduction needs to be made regardless of the consequence that the loss of revenue would require a reduction in Federal spending.

They believe that taxes should be cut now to give relief to the economy and that Federal spending should be adjusted down to the lower income.

They believe it is unsound to give the Federal budget priority over the need for relief to the economy. They believe the wise approach is to cut spending plans to fit income, not to raise taxes to fit spending plans.

Within the framework of this philosophy, this association officially favors S. 3128, 84th Congress, which would have reversed the normal tax and surtax rates making the normal tax on all corporations 22 percent on the first \$25,000 of taxable income, and the surtax an additional 30 percent on all taxable income above \$25,000. This measure would not have increased any corporation's taxes.

There would be no discrimination against any class of corporate taxpayer because of size of taxable income.

The association also favors the recommendation of the President's Cabinet Committee on Small Business that the taxes imposed on business corporations be modified by reducing the tax rate from 30 to 20 percent on incomes up to \$25,000.

The association's members welcome the prospect of any tax relief which would be afforded small corporations by Senator Fulbright's amendment to H. R. 4090, and by S. 150, which would establish a normal corporate tax rate of 22 percent and surtax rate of 31 percent.

The members of the association are appreciative of Senator Fulbright's efforts to bring about tax relief by these measures. They are not completely in accord with these particular proposals because they are opposed to tax relief measures which would give relief to lower bracket corporate taxpayers at the expense of higher bracket taxpayers, by means of increases in the corporate tax rate above a certain level.

It is this association's opinion that any program of tax reduction should give relief not only to small and medium-size corporations but to unincorporated businesses as well. We urge your committee to give this matter specific attention. We emphasize that amendments to the tax code are needed to bring about relief for unincorporated firms comparable to what is proposed for incorporated businesses.

The 1954 Census of Business lists 50,729 furniture and homefurnishings stores in the United States. Of these 23,427 were individual proprietorships and 10,791 were partnerships. There were 11,391 corporations.

The present tax burden on small and medium-size firms is making it increasingly difficult for this segment of the economy to maintain its relative position in the national economy as a whole. One of the most difficult problems is that income taxes prevent small firms retaining their earnings for use as investment capital for future growth. Yet these firms are of a size that does not give them ready access to capital markets. It is exceedingly difficult for these firms to finance their growth.

Tax relief designed to encourage and keep in existence the incentive for more small firms in our country to develop their business will do much to keep the free enterprise system alive.

It is urgent that some steps be taken to deal with this problem.

With respect to the fact that such a large proportion of retail furniture businesses are not incorporated, we respectfully urge that the Senate Committee on Finance consider the needs of unincorporated as well as incorporated firms. NRFA is participating in the efforts of organized retailing to develop sound and reasonable proposals for dealing with this and related tax relief problems, but if this matter can also receive the attention of the Senate Finance Committee progress will be made simultaneously at the congressional level while the problem is being studied by private organizations.

One proposal for small business tax relief which has attracted the interest of NRFA but on which the directors of the association have not yet taken a formal position is that incorporated in H. R. 5735, introduced by Representative Thomas B. Curtis of Missouri, a member of the House Ways and Means Committee.

This bill would permit a business (whether corporation, individual proprietorship, or partnership), or a self-employed person to deduct from business net income, for tax purposes, an amount equal to "additional investment" in depreciable assets or inventory during the taxable year, but not to exceed 20 percent of such income or \$30,000, whichever is lower.

By "additional investment" is meant (a) the amount by which depreciated value of depreciable assets as of the end of the year exceeds the depreciated value of depreciable assets as of the beginning of the year, or (b) the amount by which the cost of inventory as of the end of the year exceeds such costs as of the beginning of the year.

It appears that this proposal would provide the means for small and medium size firms to retain earnings to provide capital for growth, and to keep pace with the growing economy. It provides incentive to invest a greater proportion of taxable net income in depreciable assets or inventory for the purpose of growth.

We note that this proposal would apply to all legal forms of business, incorporated or unincorporated, and that it would not increase the taxes of any business. Furthermore, it appears to be nondiscriminatory. It does not require an arbitrary line of definition between what is small business and what is not.

To sum up:

1. The National Retail Furniture Association on behalf of the membership reiterates the crying need of small and medium size firms for income tax relief.

2. Such relief should be made available to both unincorporated as well as incorporated companies.

3. Any relief granted should be nondiscriminatory. It should not be given to one group of business firms at the expense of another group of business firms.

4. Such relief should be given within the framework of a positive program of reducing the tax load on the economy and adjusting Federal spending down to the lower level of revenue.

5. NRFA supports Senator Fulbright's earlier proposal to reverse the normal and surtax rates for corporations without increasing the surtax rates.

6. NRFA also supports the recommendations of the President's Cabinet Committee reducing the normal tax to 22 percent on the first \$25,000 of net income.

7. NRFA respectfully urges the committee to study the problem of providing tax relief for unincorporated businesses.

8. NRFA believes that current proposals to permit small and medium size businesses to retain out of earnings investment capital to finance growth necessary to keep pace with the growing economy are worthy of serious consideration, in view of the inability of most small firms to tap capital markets, due to the relatively small size of their requirements.

Respectfully submitted.

DEREK BROOKS,
Manager, Washington Office.

ASSOCIATION OF AMERICAN RAILROADS,
LAW DEPARTMENT,
Washington, D. C., March 21, 1957.

HON. HARRY FLOOD BYRD,
Chairman, Senate Finance Committee,
Washington, D. C.

DEAR SENATOR BYRD: This association appreciates very much the opportunity extended to appear in opposition to the amendment proposed by Senator Fulbright to H. R. 4090. If agreeable to you, and I understand it is, we would like to submit this letter for the record in opposition to the proposal in lieu of a personal appearance.

In summary, we understand Senator Fulbright's proposed amendment to H. R. 4090 would transpose the rates of tax presently applicable to corporations and, in addition, would increase the surtax rate to 31 percent. The total tax under his proposal would, in general, be 53 percent. We understand that the justification for this transposition is to help small business. With this objective, this association has no disagreement, but we have some doubt as to whether or not such objective would be accomplished by the proposed amendment.

Small business, as generally understood, includes businesses conducted in the form of sole proprietorships, partnerships, and corporations. It is recognized that the largest segment of small business is carried on by individuals and partnerships; the smallest segment is conducted in the corporate form. It is perfectly clear, with this background in mind, that the Fulbright amendment fails to accomplish its purpose. It only aids the smallest segment of small business, i. e., those using the corporate form, while at the same time it proposes an additional tax on large corporations. It is the position of this association that if small business is to be helped, all of such business should be assisted and not just a part thereof. As we analyze the proposal, the purported beneficiaries are not helped but, in fact, a distinction or even a discrimination is created between corporations based on size with the larger ones paying 1 percent more tax than present law requires. This association is opposed to this proposal even though it is sympathetic to relief for small business.

As you know, the railroad industry is a large taxpayer. In the 5 years ended December 31, 1956, it is estimated that as an industry it will pay into the Federal Treasury an average of some \$437 million in Federal income taxes. A 1 percent increase would be substantial, particularly when it is realized that this industry is so closely regulated and so hard pressed for cash. Such an increase in tax as proposed would merely aggravate the industry's already distressed condition. Because of this, we would urge that if consideration of this proposal by your committee is favorable like consideration be given to a counter suggestion that the

railroads, being a regulated nonmonopoly and a distressed industry, be exempt from its terms.

Yours very truly,

GREGORY S. PRINCE.

Senator KERR. I am trying to get before me, Senator Thye, the specific suggestions you have made. Have you limited your statement to the proposals of Senator Sparkman and others, including yourself, on the payment of State tax in installments, was that one to which you addressed yourself?

Senator THYE. Not State tax, that would be an inheritance tax. I would support the general philosophy of an inheritance tax to come over a period of years rather than at a lump settlement at the time.

Senator KERR. That is the purpose of the amendment?

Senator THYE. Yes, sir. I think that has much merit because—

Senator KERR. That was not one which you addressed yourself to?

Senator THYE. No, but the philosophy of my general statement is one which I would address myself to this committee on, for reasons that I have noted the necessity of merger because of the inheritance-tax program and I have noted the absolute destruction of properties inherited because the taxes were such that it financially crippled the corporation and it could not continue after it was—by the probate judge's action—transferred to the inherited person or persons. And that the inheritance tax imposed destroyed the ability of the new owners to carry that corporate structure and it is for that reason that I direct you to the general philosophy of giving some study to that question because, if in the event that we find that these corporations that have been a success, but as it is transferred from the deceased estate to the new owners, if it is to be destroyed in the process of that transfer, then we have destroyed what has made America the free-enterprise system that it is and what has made forthright initiativeness and the will to progress.

If we destroy the opportunity, we will destroy thrift and initiative likewise. And for that reason, I think we should give a very careful study to the question of the inheritance tax imposed on an estate and if it could be paid over a period of years rather than in a lump sum you might not financially cripple the properties as it is transferred in to new ownership.

Senator KERR. I heard you say you were addressing yourself in favor of four proposals.

Senator THYE. That is the bill of which I am a cosponsor with Senator Sparkman. There are many other fine bills.

Senator KERR. I am trying to identify what the four are, if I may.

Senator THYE. You will find those of which Senator Sparkman and I are cosponsors; however, there are other bills in here that are possibly even more important to the small corporation and the small-business man than even those bills to which I was a cosponsor.

Senator KERR. I was trying to find out whether you had addressed yourself to whom it may concern, or to certain specific proposals.

Senator THYE. I have addressed myself to this honorable body, this committee, and to whom it may concern, on the general philosophy of trying to protect the small-business men of America.

Senator ANDERSON. Mr. Chairman.

The CHAIRMAN. Senator Anderson.

Senator ANDERSON. Would it be correct to deduce from your remarks that you would favor an amendment of the tax law in such a manner that the sons of Henry Ford could inherit the Ford Motor Co. without in any way disrupting the Ford Motor Co. structure?

Senator THYE. In the event you would not deny the United States Treasury or the State any right to that inheritance, but you would give them an opportunity to pay it over a period of years rather than to levy a sum directly against the corporate structure, and thereby force that corporate structure to refinance in its attempt to pay its obligation and have operating funds.

And that is the philosophy I have in mind, while we may think of Ford Corp. so large and gigantic that even the inheritance question would not be serious, but I am thinking in the general philosophy that they would be better as a future corporation, and it would be more sound to the future system of free enterprise that if in the event they had a longer period than just what is now involved in one lump settlement of the inheritance tax, that might be involved in the estate.

Senator SMATHERS. Are you recommending that we extend the time limit in which you can pay your inheritance tax to exceed that which is now 15 months?

Senator THYE. Yes; I am. I propose that it be examined very carefully and see if there isn't merit in extending it over a period of several years even to the extent of 10 years, because it would give an opportunity to the corporation having finances to operate with, and if you force it to pay all its inheritance tax at one time, it might very well destroy either the financial ability or even the life of the corporation and that it may force it into a merger or it may force it into a forced sale which would be disastrous to the corporation or to the inheritant.

Senator SMATHERS. Is that one of the proposals that Senator Sparkman has introduced?

Senator THYE. That is one of the proposals in the various bills before the committee at the present time. There are several bills in here. There are bills in here by other members other than the ones introduced by Senator Sparkman and myself. I am only speaking to the philosophy specifically.

Senator MARTIN. Mr. Chairman.

The CHAIRMAN. Senator Martin.

Senator MARTIN. The distinguished Senator from Minnesota is a member of the Appropriations Committee. I think we all realize that for the strength of the American economy taxes ought to be decreased. I am particularly interested personally in small business, but unfortunately there is less than 15 percent of small business incorporated so what you propose will not aid all small business.

I would like to call the attention of the committee and to you, Senator Thye, because you are a member of the Appropriations Committee, that we can't reduce taxes until we reduce appropriations. One of our real competitors now, from an American standpoint, is Western Germany. Western Germany has made such marvelous industrial progress. Two years ago they started in the reconstruction of their tax structure. One of the things they did was to eliminate tax on dividends, as that is a duplication taxation. Another thing that they did was to eliminate capital gains tax. And another thing they did was to make a ceiling on income taxes of 56 percent.

I think it is a matter, as Americans, that we have to give very serious consideration to, because the expansion of business can only come about because we have earnings plowed back into the business, and with the heavy taxes that we now have, it is just getting pretty near impossible to do it.

I am making that observation because you are on a very important committee.

Senator THYE. Well, Mr. Chairman and Senator Martin, I would say that as one member of the Appropriations Committee, we have always endeavored to scrutinize every item in those bills and try to bring about a reduction in the economy but the public, of course, is making certain demands constantly.

I recognize now, however, that there is an awakening on the part of the public and that they are looking at what they demand of Congress and what they demand of the Appropriations Committee more carefully than they have heretofore and they say that while we recognize that we would desire this project—but we also recognize our problem in appropriating funds—and we shall try to help you and, I think, with that general spirit appearing on the part of the public now, that there is a sounder and more certainty in the endeavors of Senator Byrd and all of us to reduce the taxes, that it will be accomplished by a reduction in the overall appropriations.

You can't bring about a tax reduction until we cease appropriating the funds that demand the revenues to finance them.

And, as a member of the Appropriations Committee, I shall do my utmost and I am going to a committee session right now.

Senator MARTIN. All right. Cut it, cut it then. [Laughter.]

The CHAIRMAN. The next witness is Mr. William Grede, chairman, taxation committee, National Association of Manufacturers.

Mr. GREDE. Good morning, gentlemen.

The CHAIRMAN. Take a seat, sir.

Mr. GREDE. Thank you, sir.

STATEMENT OF WILLIAM J. GREDE, CHAIRMAN, TAXATION COMMITTEE, NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. Chairman and members of the committee, I have with me Mr. John C. Davidson, who is the director of our finance department of the National Association of Manufacturers.

I am William J. Grede, president, Grede Foundries, Inc., of Milwaukee, Wis. I appear here as chairman of the taxation committee of the National Association of Manufacturers, an association of predominantly small- and medium-sized companies. In fact, 83 percent of our members are small, they employ fewer than 500 employees, as smallness in manufacturing is defined by the Department of Commerce. Since its founding 35 years ago, my company has grown from an employer of 40 persons to its present modest size of an employer of 1,200 persons.

We appreciate this opportunity to testify in regard to S. 150 and S. 352, as they are before this committee in the form of amendments (2-27-57-B, and 3-18-57-E) to H. R. 4090. While we agree that a tax reduction is urgently needed, we are convinced that these amendments would not serve the interests of small or any size business, and especially new and growing enterprises.

The principal tax impediment to the beginning and development of business is the system of steeply graduated individual tax rates and the still existing wartime corporate top rate of 52 percent.

The extension of this high corporate rate is not the subject of this hearing, but we certainly are opposed to making this "temporary" tax rate a permanent part of the tax structure by the regular postponement of its expiration.

However, we are here today to oppose the further graduation of the corporate tax which is involved in these amendments because of its destructive effect on incorporated businesses.

In amendment 2-27-57-B would reverse the present normal and surtax rates applying to corporations with a 1 percent addition to the proposed new surtax rates. The basic objection to the tax method embodied in amendment 5-3-18-57-C is that it would establish a new tax hurdle in the form of a 31 percent surtax instead of the present 22 percent, which would have an even greater restriction on the growth of small companies.

Even though some immediate relief to the smaller companies would be involved, it would be only a short time before dissatisfaction would again develop with this reversed combination of rates, and renewed pressures would quickly follow for some form of additional rate graduation. That our fears are not groundless is evident from a pamphlet recently published by the Public Affairs Institute entitled "Small Business at the Crossroads." After firmly endorsing a graduated income tax-rate structure, this booklet states that "a small but important step in this direction" is the kind of proposal included in amendment 2-27-57-B.

The accuracy of this statement is found in the fact that a tax hurdle to growth of 31 percent would economically and psychologically be more damaging to small concerns than the present hurdle of 22 percent. Amendment S-3-18-57-E, of course, would bring about full-fledged graduation of corporate rates immediately.

Both of these bills fail to cope with the underlying problem, namely, the excessively high progressive tax rates on individual incomes. In this respect, there is no conflict between the interests of incorporated and unincorporated small business. This, of course, is the only income tax paid by 85 percent of all small-business firms, and it is also paid by the owners of incorporated concerns. The extreme application of this tax principle is drying up the prime source of venture capital for small concerns, incorporated or unincorporated. I refer to the savings of individuals who once could afford to take a risk in the hope of making a profit. The tax not only drastically limits the accumulation of such savings, but it discourages the investment of what is accumulated in new and speculative enterprises.

As the progressive part of the individual tax structure produces only about 17 percent of the revenue, or about \$5.5 billion out of about \$33 billion, the only continuing impediment to bringing all rates of individual tax down to moderate and reasonable levels is the failure to face up to the issue.

Senator Thye, in his comment referred to the shortage of capital for small business. He talked about plowing back their earnings, but you realize that the saving of taxes is so small that it will hardly provide the necessary capital for these small businesses. In fact, when

I recall my own experiences when I was just getting started in business, I had to rely on venture capital who were willing to make an investment in an unknown business with the possibility of some revenue gain. They had no opportunity to make a capital gain because there was no market for the stock in a small corporation. So we have to rely on the venture capital that comes from individuals, who are now in such a high rate they flee to tax exemptions and things of that kind.

Incorporated concerns, of course, have the added problem of coping with an unduly high corporate income tax. However, the fundamental problem here, especially for the growing concern, is not the normal tax paid on all net income, but the surtax of 22 percent levied on net income in excess of \$25,000.

With small business bedridden with the affliction of the steeply progressive individual tax, it is difficult to take seriously a proposal that it would be helped by outright graduation of the corporate tax. If full progression is imposed on corporations, each and every decision as to expansion and growth will become predicated on whether the additional investment and effort is worthwhile, with the penalty always being a higher tax bracket.

However, even if progression were acceptable and tolerable insofar as individuals are concerned, there would be no case for its application to corporations. Corporations are owned by individuals for varying income status. The ownership of a large corporation may be spread widely, with heavy concentration in the lower- and middle-income brackets. In 1952, 28.6 percent of all dividends reported in individual and fiduciary returns were in adjusted gross income classes up to \$10,000. Many small corporations, on the other hand, are owned by people of more substantial means. It is clear, therefore, that outright corporate tax graduation would be inequitable and discriminatory to a degree even beyond that found in the present tax rate structure.

Mr. Chairman, I submit most seriously that the only fair and equitable solution to the corporate tax problem as regards small business and all business, is to reduce both the normal and the surtax rates, just as the only solution to the individual tax problem is to bring the oppressive rates down to a moderate and reasonable level. The National Association of Manufacturers has sponsored a plan for accomplishing these results, which we are ready and willing to talk about on any appropriate occasion. More than 180 other organizations have joined with NAM in supporting this plan.

In conclusion, we are gratified at the bipartisan interest in doing something about the tax problem of small business, but urge an outright attack on both the individual and corporate rate structures.

The CHAIRMAN. Thank you very much, Mr. Grede.

Senator KERR. Mr. Grede, as I understand it, you take the position that the thing either small or large corporations need, more than what might be available to them under this proposed graduated scale, is an environment in which investors would have an opportunity to get their money back and make a profit on their investment.

Mr. GREDE. That is right.

Senator KERR. Now, just to get that down to specifics, let us assume that a corporation pays 52 percent of its earnings in taxes. That leaves 48 percent of what has been earned available for dividends and

extension. Now let us assume that the owner of stock in the corporation is in the average income bracket or that a group of them in varying income brackets receive dividends from this corporation. They then pay upon what they receive, anywhere from 20 to 91 percent of what they receive in taxes to the Government. So that it is entirely possible for the owner of stock in a corporation to have to get his money back—if he hopes to get it back—out of about 4 to 6 percent of what the corporation earns, his interest in it.

Mr. GREDE. That is right.

Senator KERR. And what you are telling us is that if it were possible for people to invest their money, either as individuals in a business and have a hope of a more substantial return, or invest their money in small corporations, and have the hope of getting their money back at a profit out of something more than 4 to 10 percent of what the corporation is going to make, that that would give a grater impetus to small business, either incorporated or otherwise, than the proposals which are before the committee.

Mr. GREDE. That is right. It would make available to them much more venture capital than just plowing back of this small tax saving.

Senator KERR. Thank you.

The CHAIRMAN. Any further questions?

Senator Anderson?

Senator ANDERSON. You say, "As the progressive part of the individual tax structure produces only about 17 percent of the revenue * * *," and then you say, "We ought to 'face up' to the issue."

Mr. GREDE. What I am saying is this high progression which is so damaging to venture capital doesn't, in fact, produce very much revenue to the Government.

Senator ANDERSON. Then everything over 20 percent only produces \$5 billion?

Mr. GREDE. That is right; no; it is more than that.

Senator ANDERSON. Well, the progressive part starts above 20 percent, doesn't it?

Mr. DAVIDSON. That is right, \$5 billion.

Senator ANDERSON. I would like to have him tell me where it starts.

Mr. GREDE. Above 20 percent.

Senator ANDERSON. It is your contention then that all above 20 percent only produces \$5 billion?

Mr. GREDE. That is right.

Senator ANDERSON. Would you have no tax above 20 percent?

Mr. GREDE. Our interim program suggests that over a period of years that there be a reduction, equal percentage reduction in each progressive rate to get that progressive rate down to in the neighborhood of 35 percent, the top progressive part of the rate, which would—you see, in our program this progression, of course, starts at \$2,000 of taxable income. And it rises very steeply so that one-half of the progression is about at \$18,000 of income.

I have here a chart which shows the rate of progression which is very damaging in these middle income brackets around the \$20,000 level, which is the bracket, the income bracket of so many of our professional people and executives, etc., who might be providing the kind of venture capital that would supply small business.

When I needed capital to expand my business I went down the street and called on some doctors and insurance people and what not, and I persuaded some of them to put a thousand or two dollars in it with the hope of getting some return. But if I talk to people in that bracket now they don't want to take the risk. At that time our business was completely unknown. Nobody knew whether we were going to succeed or not, and the risk for the return that they get after deducting this penalty tax isn't worth it, so most of them flee into tax exemptions or something like that.

Senator ANDERSON. I have some interest in trying to see reduction in these top brackets, but I certainly won't think of going down 35 percent and I was trying to find out what you thought "facing up to the issue" involves.

Mr. GREDE. Our NAM program suggests we reduce up to about 16 percent a year so that at the end of the 5-year period used, each bracket would be reduced to—

Senator ANDERSON. You are not trying to get down to 20 percent—

Mr. GREDE. And we are not trying to get down to 35 in 1 year. We recognize the problem of the Government with their budget problem, but you see if we could gradually reduce the discriminatory part of this rate, we would stimulate venture in more and more business which would, in itself, develop some additional income, but we are suggesting that we use the normal growth in the economy which at the same rate produces more income and instead of spending that growth use that growth to make a gradual reduction in these penalty rates.

Senator SMATHERS. May I ask this question. Does the National Association of Manufacturers put much credence in the theory that the best way to reduce the expenses of the Government would be to reduce the income of the Government first?

Mr. GREDE. No; we recognize that you have budget problems and we do make a study of the budget and each year we submit to the hearings here in Congress our ideas of what budget reduction we think are possible.

Senator SMATHERS. You would not want to have any tax reduction until such time as you first have a reduction in the cost of Government.

Mr. GREDE. We are very much opposed to deficit financing.

Senator SMATHERS. Thank you, sir.

The CHAIRMAN. Any further questions

Senator MARTIN. Mr. Chairman?

The CHAIRMAN. Mr. Martin.

Senator MARTIN. Has your association made any observation or any study recently that we now depend so much on expansion of business through borrowed money, rather than equity capital?

Mr. GREDE. As an association we have made no particular study, but there are studies like that, and I think most economists recognize that incidentally, largely because of the tax structure—you borrow money instead of getting equity capital. The interest is deductible for tax purposes so we get a topheavy structure.

Senator MARTIN. Isn't that one of the reasons that so many people now, instead of increasing in equity capital—well, we will say stocks—that we are investing in bonds, tax-free bonds. A bond now that is

tax free at a round 4 or 4½ percent, is about as good as an 8-percent return in equity capital, because of the tax situation.

Mr. GREDE. That is correct. Now, those are municipal and tax-free bonds. Of course, corporation financing with bonds that interest is not tax free.

Senator MARTIN. It is not tax free, but it is at a very greatly increased rate. I went over some of that yesterday, and I was amazed that some of the corporations with a very fine dividend are paying an interest rate now up as high as five and a half percent.

Mr. GREDE. That is right.

Senator MARTIN. And, of course, then that reduces the earning power of the corporation, which if it continues too long, is going to affect the revenues that we will receive in taxes for governmental purposes.

Mr. GREDE. That is right. It is a way of avoiding the double taxation and dividends. Instead of paying it as dividends they pay it as interest.

Senator MARTIN. I don't know whether you were present a moment ago when I was talking to Senator Thye, as to what Germany had done along that line. They have now a ceiling of 56 percent on income tax. They have practically done away with the tax on dividends. And they have done a great number of things to encourage people to further risk capital, and risk capital is what has developed the United States to what we enjoy.

Senator WILLIAMS. Of course, Germany lost the war and we won it.

The CHAIRMAN. Any further questions.

(No further questions.)

The CHAIRMAN. Thank you very much.

I submit for the record a statement of the Chamber of Commerce of the United States favoring the passage of H. R. 4090.

(The statement referred to follows:)

CHAMBER OF COMMERCE OF THE UNITED STATES,
LEGISLATIVE DEPARTMENT,
Washington, D. C., March 22, 1957.

HON. HARRY F. BYRD,

Chairman, Senate Finance Committee, Senate Office Building, Washington, D. C.

DEAR SENATOR BYRD: The Chamber of Commerce of the United States urges that your committee reject proposals now before you which would transpose the normal and surtax rates and increase the combined rate of tax or impose progressive tax rates on the income of corporations.

At a time when the well-being of the economy requires that the 1958 budget estimates be substantially reduced with a corresponding reduction of individual income-tax rates, an increase in the present 52-percent combined corporate rate of tax cannot be justified.

Our objection to those proposals which would either reverse the normal and surtax rates and increased the combined rate of tax to 53 percent or would impose a progressive tax rate in lieu of the present flat normal tax and surtax rates is fundamental.

They have been made under the guise of giving assistance to small business. While the chamber fully recognizes the real importance of small business to the welfare of the American economy, it also recognizes that the present proposals to alter the corporate income-tax structure not only do not deal with those small corporations but actually would work to the detriment of such small businesses. It is no more realistic to classify a corporation as a small business on the basis of \$25,000 of taxable income than it is to classify such a corporation as small business merely because it has "500 employees or less."

This latter standard was employed to define small business by the Small Business Administration. The "500 employees or less" definition has for some time been recognized as being completely unsatisfactory. Any useful definition of small business must be worked out on an industry-by-industry basis and only for specific purposes.

Any use of \$25,000 taxable income as a specific definition of small business for general corporate income-tax purposes is even more unsatisfactory than the "500 employees or less" classification. Such a definition will probably include far fewer small manufacturing or distributing concerns than small companies which have been organized and are operated for investment purposes.

Proposals which call for the institution of a system of progressive corporate income taxation would have a disastrous effect on the traditional pattern of the American economy. Proponents of such measures argue that the corporate income tax is "passed on," whether it be to the shareholder, the consumer, or the wage earner, or all three, and then argue further that the degree to which the tax is so "passed on" varies directly with the size of taxable income. Economists who have studied the problem agree there is a possibility that some portion of the corporate tax may be "passed on." Even this expert conclusion then finds differences only in degree of industry dominance, not in size. Even this conclusion is by no means clear in the case of diversified companies and industries.

Should we accept the premises of the proponents, we could agree only that a progressive structure could be applied industry by industry, after determination of each company's degree of dominance, and after a Government determination of allowable profit margins for each industry. Nothing could be more unworkable.

The innovation of a progressive corporate tax structure cannot be justified by economic theories or on the grounds of equality of sacrifice and ability to pay. Such an innovation would serve only to make the progression in personal income tax even more arbitrary and inequitable. Once progression is introduced, taxpayers ultimately will be taxed not according to their ability to pay but according to accident of ownership, purchase, or job.

Except for the proposal to extend the present corporate tax rates, the proposals before your committee constitute a basic and fundamental revision of the American tax system. We urge that they be rejected.

Both large and small businesses—whether corporate, individual, or partnership—are struggling under too high tax rates. Nondiscriminatory tax reduction is essential to realization of the growth potential of our economy.

To effect sound reduction in our national tax burden the chamber has recommended:

1. That individual income-tax rates be lowered in such a manner as to reduce the tax burden by \$2 billion, and particularly in those areas of the rate structure where there is the steepest progression.

2. That the corporate income-tax rate be reduced by 2 percentage points.

3. That excise taxes be reduced by \$500 million.

These recommended reductions are based upon an intensive chamber study of the 1958 budget estimates. This study shows clearly that at least \$5 billion can be eliminated from these requests without injury to any essential governmental function. These findings, with our recommendations, are being sent to the Appropriations Committees as the several appropriations measures are considered.

I would appreciate it if you would make this letter a part of the record of your current hearings on H. R. 4090.

Cordially yours,

CLARENCE R. MILES.

The CHAIRMAN. The next witness is Mr. Alger B. Chapman, Empire State Chamber of Commerce and Council of State Chambers of Commerce.

Mr. Chapman, take a seat, sir.

**STATEMENT OF ALGER B. CHAPMAN, EMPIRE STATE CHAMBER OF
COMMERCE AND FEDERAL FINANCE COMMITTEE OF THE
COUNCIL OF STATE CHAMBERS OF COMMERCE**

Mr. CHAPMAN. Thank you.

Mr. Chairman, I have with me Mr. Eugene F. Rinta, research director of the Council of State Chambers, to assist in answering any questions the committee may have.

The CHAIRMAN. You may proceed.

Mr. CHAPMAN, I want to say I have reviewed most of the testimony that has been presented, both for and against Senate bills 150 and 352, (amendments 2-27-57-B and 3-18-57-E) which are the two bills I want to talk to. I have read with considerable interest, and I hope intelligently, the testimony of Senator Fulbright and Senator Sparkman and the Secretary of the Treasury. I think there is much to be said for postponing consideration of the basic issue underlying these two legislative proposals until there have been full public hearings, and until general corporation tax reduction is possible. I think that point has been made a number of times before this committee. That is a suggestion of delay as to the basic issue, which is one of graduated corporation taxation.

In any event, regardless of what reason there may be for taking no action at this time, the New York Chamber of Commerce—that is, the Empire State Chamber of Commerce—and I think I can also say that the Council of State Chambers of Commerce are opposed to any extension of the graduated corporation tax rates.

It is our belief that whatever justification may be presented for graduated personal income tax rates, which I think our last witness, together with the help of questioning that came from your committee, recognizes are essentially aimed at soaking the rich because of the amount of revenue that is obtained by the surtaxes, is relatively unimportant. There can be no justification for application of the same principle to corporations, which principle can result in not soaking the rich, but soaking the poor—or soaking somebody that isn't rich, at least.

The statistics are available to prove that the general public is inclined to invest its earnings in the well-known, successfully run, large corporations. The individual small business entrepreneur may or may not incorporate. But certainly his corporate growth should not be discouraged by a graduated tax schedule that frowns on growth.

Since the public corporations are for the most part owned by the public, and since the successful small corporations are for the most part owned by a few, I fail to see—I think that the chambers fail to see—any public interest in increasing the existing discrepancy between the tax rates on the public and the private corporations.

If you believe in the philosophy that most corporate taxation is passed on to the consumer, then certainly there is no justification for the two Senate bills to which I have referred.

If you believe in the concept that all or some of such taxation is consumed by the corporation taxpayer itself, then I repeat that there is no justification for a corporation tax structure aimed at soaking the small taxpayer owning stock in a large corporation, and to the advantage of large stockholders in the small corporations.

The Chamber of New York State, at least, believes in fostering both small and large businesses alike. ' It is willing to rely on the enormous amount of Federal law aimed at creating competition, and stifling competition, and stifling monopolies.

It does not believe in the use of the tax laws for arriving at such goals when the result would be so unrealistic in respect to the individual corporate investor.

I recognize that the underlying issue behind these two Senate bills is debatable, and that reasonably well-informed people can disagree with respect to that.

I simply want to put on record at this time, both on behalf of the Empire State Chamber of Commerce and the Council of State Chambers of Commerce, their position, which is that they are opposed to the concept of increasing or expanding graduated tax rates.

That is all I have to say, and I would love to attempt to answer questions if there are some.

The CHAIRMAN. Any questions?

(No questions.)

The CHAIRMAN. Thank you, Mr. Chapman.

Mr. CHAPMAN. Thank you very much, Mr. Chairman.

The CHAIRMAN. The committee will meet on Monday at 10 a. m., to mark up the bill. That will be an executive session.

(By direction of the Chairman, the following is made a part of the record :)

CONTROLLERS INSTITUTE OF AMERICA,
New York, N. Y., March 21, 1957.

Senator HARRY F. BYRD,
Chairman, Senate Finance Committee,
Washington, D. C.

MY DEAR SENATOR BYRD: It has come to our attention that the Senate Finance Committee of which you are the honorable chairman is going to hold hearings in March with reference to the advisability of revising the United States Federal income tax on small corporations.

We understand that Senators Sparkman of Alabama and Fulbright of Arkansas are going to present to your committee reasons why small corporations should have a different tax treatment from the standpoint of base of tax and rate of tax than what presently prevails for corporations in general under the Internal Revenue Code of 1954. We also understand that these same Senators are advocating either a lower graduation of rate on small business or a reversal of the present normal and surtax rates or a graduated rate of tax on corporations in general, which latter proposal would have the effect of increasing the present overall tax of 52 percent beyond a certain taxable income.

The national committee on Federal taxation of Controllers Institute of America is opposed to these suggestions.

As you undoubtedly know, the members of Controllers Institute represent approximately 4,000 business corporations located in many places in the United States. The institute has repeatedly presented to both the Ways and Means Committee of the House of Representatives and to the Senate Finance Committee its recommendation that the present corporation income tax be reduced from the present rate of 52 percent to 47 percent. The organizations represented in the institute have year after year looked forward to this reduction in rate and we know that you, Senator Byrd, have tried by every possible human means to get the United States budget reduced so that this could be accomplished.

To have presented to you now any proposal that would in any way increase the income tax liability of larger corporations of the United States would be the most unfair and unjust treatment that could be imposed upon that type of business. If our economy is going to remain strong, none of us should be advocating increased rates of tax on one segment of our economy for the benefit of another segment of our economy. If our economy is going to remain sound, corporate business regardless of its size should not be called upon to pay to the

United States Government any more than 50 percent of its income. Further, large business is not owned by a few wealthy individuals. Large corporate business in this Nation is owned by millions of small people who own the stock of these corporations. If the rate of tax on these larger corporations is going to be increased, then it follows that the dividends paid to the millions of stockholders will be less than they have been receiving. Therefore, many of those individuals who depend upon income from dividends are going to suffer because of the inevitable reduction in their fixed incomes.

Senator Kerr of Oklahoma has raised a very interesting point which warrants the consideration of the Senate Finance Committee and that point deals with the thousands of small businesses that are not incorporated. Surely we cannot give preferential treatment to the small corporation and not the same kind of treatment to the business that is operated as a proprietorship or as a partnership.

We have no quarrel particularly with any segment of our economy getting fair tax treatment but we do not believe that one segment of our economy should be harmed to benefit another.

We therefore urgently and sincerely request that your committee do not entertain the proposals of the Honorable Senators Sparkman and Fulbright.

Sincerely yours,

JOHN MCFARLAND,
Chairman, National Committee on Federal Taxation.

AIR TRANSPORT ASSOCIATION OF AMERICA,
Washington, D. C., March 21, 1957.

HON. HARRY F. BYRD,
*Chairman, Finance Committee,
United States Senate, Washington, D. C.*

DEAR MR. CHAIRMAN: The Air Transport Association, representing the certificated scheduled airlines of the United States, would like to express its views concerning the legislation pending before your committee to extend or adjust the corporate normal tax and surtax rates. We favor H. R. 4090, the House-passed bill extending these taxes at their present rates for another year, and opposed S. 150, a bill to establish the normal tax at 22 percent and surtax at 31 percent.

The effect of S. 150 would appear to be a net increase of 1 percent in the corporate taxes to which the air carriers would be subject. The airlines would find the additional expense of greater taxes both burdensome and damaging to their economic situation. This added burden does not appear to be justified in our opinion.

The air transport industry is faced with a serious and growing financial problem. Although the airline fare level has remained relatively unchanged over the past 18 years, the airlines experience a steadily increasing burden of costs and expenses. The result is a narrowing profit margin in spite of a continual increase in the volume of business. This is occurring at a time when the airlines face huge outlays for new equipment requirements.

With regard to the factor of rising costs and expenses, everything an airline buys from aircraft and other property to the various materials and supplies used in operation, has risen in price in proportion or more rapidly than the general rise in wholesale and consumer cost indexes. In addition, airline wages and salaries have risen by 50 percent in the past 9 years.

On the other hand, the average airline fare in 1956 was less than the average fare in 1938. The average revenue per revenue passenger-mile has declined from 5.32 cents to 5.28 cents. Along with this decline in average revenue, the airlines have instituted many improvements. In addition to more comfort, safety, convenience, and schedules, there has been an introduction of coach fares and family-plan fares, all of which means a choice of services to the public at lower rates.

Thus, the air carriers are faced with a situation where they find themselves doing more and more business but earning less money. I am sure that the committee is aware of the fact that over 90 percent of airline revenues come from commercial sources, and that so far as the domestic trunklines are concerned, all are, or will soon be, dependent entirely upon these revenues.

All of this is happening at a time when the airlines are confronted with the necessity, not alone for reasons of safety and passenger comfort, but also out of

the compulsion to continually keep abreast of technological advances, of investing some \$4.6 billion in new aircraft and other equipment in the next 10 years. In the past decade, nearly \$1.5 billion, or 82 percent of all funds available to the airlines, has gone into new planes, ground equipment, and related facilities to insure efficient and economical service. Yet, in the next few years, almost twice this amount will be spent for aircraft alone. For this reason, an increase in the corporate income-tax rate as proposed by S. 150 would be a serious blow to the airlines in their efforts to meet these forthcoming financial obligations.

Therefore, if the scheduled airlines are to continue an orderly development to provide a modern air transport system adequate to meet the commerce, postal, and national defense needs of the Nation, an added cost in the form of a 1-percent increase in the corporate tax rate should not be imposed on them. We urge the committee to act favorably on H. R. 4090, and to reject the adjustments recommended in S. 150. The shortness of time prevents our furnishing the reasons for our objection to this bill in as complete detail as we would like. However, we would be pleased to furnish any further information on this subject which the committee might desire.

Sincerely yours,

LEO SEYBOLD,
Assistant to the President.

DAYTON, OHIO, *March 21, 1957.*

HON. HARRY F. BYRD,
Senate Office Building, Washington, D. C.:

I wish to register by opposition to amendments suggested by Senators Fulbright and Sparkman to H. R. 4090 increasing the already burdensome tax levels. Business taxes today threaten the survival of the free enterprise system. We must not forget that big government did not build this Nation. Freedom did it. National thrift is just as essential as personal thrift.

LOREN M. BERRY,
L. M. BERRY & Co.

AMERICAN RETAIL FEDERATION,
Washington, D. C., March 21, 1957.

HON. HARRY F. BYRD,
*Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.*

DEAR SENATOR BYRD: Your committee is presently considering a proposal to increase the corporate surtax to 31 percent and reduce the normal corporate tax to 20 percent. This proposal is intended to provide tax relief for small business.

The American Retail Federation is strongly opposed to this proposal.

First, the proposal does not provide real tax relief for small business. In the field of retailing there are more than 1,700,000 retail establishments. Of these, about 85 percent are owned and operated by individual proprietors and partnerships. The proposal would afford absolutely no tax relief to these unincorporated businesses. Similar relationships are found in other branches of industry.

Second, the proposal is unfair and discriminatory in that it proposes to provide relief for one segment of the business world at the expense of another. Much as the smaller retail corporations desire tax relief, they do not believe that it should be done in this manner. Furthermore, they feel that acceptance of this proposal would in fact be tantamount to acquiescing to the principle of a graduated corporate income tax, a principle which they strongly oppose.

The American Retail Federation is a federation of 38 statewide associations of retailers and 30 national retail associations representing in their combined membership more than 700,000 retail stores of all types. This letter is being sent to you instead of a direct appearance in order to save the time of your committee.

Sincerely yours,

ARTHUR STURGIS, JR.,
Secretary, American Retail Federation Tax Committee.

(Whereupon, at 11:10 a. m., the hearing was adjourned.)