

DIARY

Book 499

February 20 and 21, 1942

- A -

|                                                                                  | Book | Page |
|----------------------------------------------------------------------------------|------|------|
| Airplanes                                                                        |      |      |
| Shipments to British Forces - Kamarck report -<br>2/20/42.....                   | 499  | 323  |
| American Federation of Labor                                                     |      |      |
| See Speeches by HMJr                                                             |      |      |
| Appointments and Resignations                                                    |      |      |
| Morris, Dave, Jr.: Exchange of letters on leaving<br>for the Army - 2/20/42..... |      | 217  |

- B -

|                                                                                                             |  |     |
|-------------------------------------------------------------------------------------------------------------|--|-----|
| Barth, Alan                                                                                                 |  |     |
| Editorial Opinion on the War: The Basic Cleavage -<br>2/20/42.....                                          |  | 290 |
| Belgium                                                                                                     |  |     |
| See Foreign Funds Control: Sofina                                                                           |  |     |
| Brazil                                                                                                      |  |     |
| See Latin America                                                                                           |  |     |
| British Purchasing Mission                                                                                  |  |     |
| Federal Reserve Bank of New York statement showing<br>dollar disbursements, week ending February 11, 1942.. |  | 327 |

- C -

|                                                                                                                       |  |            |
|-----------------------------------------------------------------------------------------------------------------------|--|------------|
| China                                                                                                                 |  |            |
| Loan:                                                                                                                 |  |            |
| Draft agreement discussed by representatives of<br>Treasury and State, together with Fox and Currie -<br>2/20/42..... |  | 201<br>302 |
| a) Draft agreement.....                                                                                               |  | 420        |
| b) Re-draft - 2/21/42.....                                                                                            |  |            |
| Ambassador Gauss's recommendations concerning loan -<br>2/21/42.....                                                  |  | 425        |
| Chinese students in United States - financial aid to -<br>2/20/42.....                                                |  | 336        |
| Churchill, Winston                                                                                                    |  |            |
| HMJr asks for autographed picture - 2/20/42.....                                                                      |  | 321        |
| Correspondence                                                                                                        |  |            |
| Mrs. Forbush's resume' - 2/20/42.....                                                                                 |  | 258        |

- D -

|                                                                                        |  |     |
|----------------------------------------------------------------------------------------|--|-----|
| Defense Savings Bonds                                                                  |  |     |
| See Financing, Government                                                              |  |     |
| Deferments, Military                                                                   |  |     |
| Secret Service: Gaston recommendations concerning White<br>House detail - 2/20/42..... |  | 312 |
| Dows, Olin                                                                             |  |     |
| See Financing, Government: Defense Savings Bonds                                       |  |     |

- E -

# Exchange Market

Resume's - 2/20-21/42.....

| Book | Page    |
|------|---------|
| 499  | 357,448 |

- F -

## Financing, Government

### Defense Savings Bonds:

See also Speeches by HMJr - American Federation of Labor purchase of \$1 billion

Monroe, Lucy: Thanked for offer of participation - 2/20/42.....

219

Dows, (Olin) and Mrs. HMJr to advise on future art work - 2/20/42.....

220

a) Sloan-HMJr conversation on Dows' appointment - 2/24/42: See Book 500, page 191

b) Delay recommended in view of Melvyn Douglas publicity - 2/25/42: Book 501, page 60

Progress report - 2/20/42.....

230

Payroll Savings Plan: Firms employing 500 persons or more - report on.....

240

Series E Savings Bonds: Daily changes in stock on hand - 2/20/42.....

242

## Foreign Funds Control

### Belgium:

Sofina (Société financière de transports et d'entreprises industrielles): HMJr and Nelson Rockefeller discuss - 2/21/42.....

378

Wenner-Gren, Axel: Wega, S. A. - American Embassy, Mexico City, message concerning organization - 2/20/42..

354

- G -

## General Counsel, Office of

Congressional Record digest as affecting Treasury - 2/20/42.....

249

## Gold

"Bullets" (payments to soldiers partly in gold):

Treasury--Mrs. FDR correspondence concerning - 2/20/42.....

316

Vatican: Further purchases discussed by National City Bank of New York and Federal Reserve Bank of

New York - 2/20/42.....

356

(See also Book 501, page 457 - 2/26/42; Book 504, pages 236 and 237 - 3/5/42)

- L -

## Latin America

Status of loans and Stabilization Fund explained to Senator Burton (Ohio) - 2/20/42.....

350

### Brazil:

Current position - White memorandum - 2/20/42.....

351

- E -

|                           | Book | Page    |
|---------------------------|------|---------|
| Exchange Market           |      |         |
| Resumes - 2/20-21/42..... | 499  | 357,448 |

- F -

# Financing, Government

|                                                                                       |  |     |
|---------------------------------------------------------------------------------------|--|-----|
| Defense Savings Bonds:                                                                |  |     |
| See also Speeches by HMJr - American Federation of Labor purchase of \$1 billion      |  |     |
| Monroe, Lucy: Thanked for offer of participation - 2/20/42.....                       |  | 219 |
| Dows, (Olin) and Mrs. HMJr to advise on future art work - 2/20/42.....                |  | 220 |
| a) Sloan-HMJr conversation on Dows' appointment - 2/24/42: See Book 500, page 191     |  |     |
| b) Delay recommended in view of Melvyn Douglas publicity - 2/25/42: Book 501, page 80 |  |     |
| Progress report - 2/20/42.....                                                        |  | 230 |
| Payroll Savings Plan: Firms employing 500 persons or more - report on.....            |  | 240 |
| Series E Savings Bonds: Daily changes in stock on hand - 2/20/42.....                 |  | 242 |

# Foreign Funds Control

|                                                                                                                              |  |     |
|------------------------------------------------------------------------------------------------------------------------------|--|-----|
| Belgium:                                                                                                                     |  |     |
| Sofina (Société financière de transports et d'entreprises industrielles): HMJr and Nelson Rockefeller discuss - 2/21/42..... |  | 378 |
| Fenner-Gren, Axel: Wega, S. A. - American Embassy, Mexico City, message concerning organization - 2/20/42..                  |  | 354 |

- G -

# General Counsel, Office of

|                                                                                                                            |  |     |
|----------------------------------------------------------------------------------------------------------------------------|--|-----|
| Congressional Record digest as affecting Treasury - 2/20/42.....                                                           |  | 249 |
| Gold                                                                                                                       |  |     |
| "Bullets" (payments to soldiers partly in gold): Treasury--Mrs. FDR correspondence concerning - 2/20/42.....               |  | 316 |
| Vatican: Further purchases discussed by National City Bank of New York and Federal Reserve Bank of New York - 2/20/42..... |  | 356 |
| (See also Book 501, page 457 - 2/26/42; Book 504, pages 236 and 237 - 3/5/42)                                              |  |     |

- I -

# Latin America

|                                                                                          |  |     |
|------------------------------------------------------------------------------------------|--|-----|
| Status of loans and Stabilization Fund explained to Senator Burton (Ohio) - 2/20/42..... |  | 350 |
| Brazil:                                                                                  |  |     |
| Current position - White memorandum - 2/20/42.....                                       |  | 351 |

- L - (Continued)

|                                                                                                               | Book | Page    |
|---------------------------------------------------------------------------------------------------------------|------|---------|
| Lehmann, Lotte                                                                                                |      |         |
| Canadian trip discussed by HMJr and Acheson - 2/21/42..                                                       | 499  | 398     |
| Lend-Lease                                                                                                    |      |         |
| U.S.S.R.:                                                                                                     |      |         |
| Shipments - Swope report - 2/20/42.....                                                                       |      | 245,416 |
| (See also Book <u>500</u> , pages 71 and 73)                                                                  |      |         |
| a) Delivery of all orders by April 1: HMJr's memorandum to Swope - 2/24/42: Book <u>500</u> , page 258        |      |         |
| b) Mack's further memorandum: Book <u>500</u> , page 259, and Book <u>501</u> , page 452                      |      |         |
| c) HMJr's note to Stettinius on delay in requisitions reaching Treasury - 2/24/42: Book <u>500</u> , page 261 |      |         |
| d) Stettinius' answer - 2/25/42: Book <u>501</u> , page 190                                                   |      |         |
| e) Nelson-HMJr correspondence - 3/4/42: Book <u>504</u> , page 50                                             |      |         |
| f) McCabe (Deputy Administrator)-HMJr correspondence - 3/4/42: Book <u>504</u> , page 52                      |      |         |
| g) Mack memorandum on "Russian Protocol items" - 3/5/42: Book <u>504</u> , page 182                           |      |         |
| 1) Nelson informed and copy of letter taken to Cabinet - 3/6/42: Book <u>505</u> , page 2                     |      |         |
| 2) Nelson-HMJr conversation about pressure on Nelson - 3/6/42: Book <u>505</u> , page 5                       |      |         |
| a) Conversation repeated to Mack: Book <u>505</u> , page 12                                                   |      |         |
| h) Mack memorandum (additional) - 3/6/42: Book <u>505</u> , page 32                                           |      |         |
| i) Nelson memorandum (further)--Book <u>505</u> , page 36, 3/6/42--supported by                               |      |         |
| 1) Report of Iron and Steel Branch: Book <u>505</u> , page 37                                                 |      |         |
| 2) Tabulation covering 11 items other than steel: Book <u>505</u> , page 86                                   |      |         |
| 3) Procurement Division (Mack) comment - 3/9/42: Book <u>506</u> , page 132                                   |      |         |
| (See also Book <u>507</u> , pages 15 and 18)                                                                  |      |         |
| j) Conference with Gromyko - 3/6/42: Book <u>505</u> , page 89                                                |      |         |
| Operating report for week ending February 21, 1942.....                                                       |      | 418     |

- M -

|                                                                                   |  |           |
|-----------------------------------------------------------------------------------|--|-----------|
| Melia, Joseph                                                                     |  |           |
| Editorial Comment on the Home Front: Economics and Taxes - 2/20/42.....           |  | 296       |
| Military Reports                                                                  |  |           |
| Reports from London transmitted by Halifax and Campbell - 2/20-21/42.....         |  | 357-A,449 |
| British Home Intelligence report for week ending February 16, 1942 - 2/21/42..... |  | 454       |
| Monroe, Lucy                                                                      |  |           |
| See Financing, Government: Defense Savings Bonds                                  |  |           |

- M - (Continued)

|                                                    | Book | Page |
|----------------------------------------------------|------|------|
| Morgenthau, Henry, III                             |      |      |
| Draft Status: Postal cards answered - 2/21/42..... | 499  | 402  |
| (See also Book <u>501</u> , page 116 - 2/25/42)    |      |      |
| Morris, Dave, Jr.                                  |      |      |
| See Appointments and Resignations                  |      |      |

- N -

Netherlands  
See Westchester Apartments

- P -

|                                                                                                                                                       |  |     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----|
| Philippine Islands                                                                                                                                    |  |     |
| Silver pesos - report on contents of Treasury vaults -<br>2/20/42.....                                                                                |  | 355 |
| Plant Expansion                                                                                                                                       |  |     |
| Reconversion from war production to peace-time<br>production, and War Department reaction against,<br>discussed in Sullivan memorandum - 2/21/42..... |  | 415 |
| Post-War Planning                                                                                                                                     |  |     |
| British press reactions on problems - Hoflich<br>memorandum - 2/20/42.....                                                                            |  | 349 |

- R -

|                                                                                                                                                |  |    |
|------------------------------------------------------------------------------------------------------------------------------------------------|--|----|
| Revenue Revision                                                                                                                               |  |    |
| 1942 Revenue Bill:                                                                                                                             |  |    |
| Conference; present: HMJr, Sullivan, Paul, Tarleau,<br>and Blough - 2/20/42.....                                                               |  | 10 |
| a) Paul describes conference with Doughton,<br>George, and Stam; discussion of                                                                 |  |    |
| 1) \$1 billion corporate tax program                                                                                                           |  |    |
| 2) Individual tax program, particularly<br>withholding at source                                                                               |  |    |
| 3) Sales tax and excise taxes                                                                                                                  |  |    |
| a) HMJr asks for study on amounts<br>paid by single person earning \$750<br>and couple earning \$1500 - 2/26/42:<br>Book <u>501</u> , page 234 |  |    |
| 4) Loopholes, especially tax-exempts and<br>joint returns                                                                                      |  |    |
| Tentative Treasury program as of February 20, 1942..                                                                                           |  | 53 |

- S -

Secret Service  
See Deferments, Military  
Sofina (Société financière de transports et d'entreprises  
industrielles)  
See Foreign Funds Control: Belgium

- S - (Continued)

|                                                         | Book | Page |
|---------------------------------------------------------|------|------|
| Speeches by H.M.Jr                                      |      |      |
| Defense Savings Bonds                                   |      |      |
| American Federation of Labor thanked for participation: |      |      |
| Draft 1 - 2/20/42.....                                  | 499  | 222  |
| " 2 - 2/21/42.....                                      |      | 359  |
| " 3 - 2/21/42.....                                      |      | 369  |
| Reading copy - 2/22/42: See Book 500, page 1            |      |      |
| 1) Guests: Book 500, page 11                            |      |      |
| 2) Pledge to buy \$1 billion in Defense Bonds:          |      |      |
| Book 500, page 16                                       |      |      |
| 3) Set of recordings sent to William Green -            |      |      |
| 2/27/42: Book 502, page 124                             |      |      |

- T -

Taxation  
See Revenue Revision

- U -

U.S.S.R.  
See Lend-Lease

- V -

Vatican  
See Gold

- W -

|                                           |  |     |
|-------------------------------------------|--|-----|
| War Department                            |  |     |
| See Plant Expansion                       |  |     |
| Wenner-Gren, Axel                         |  |     |
| See Foreign Funds Control                 |  |     |
| Westchester Apartments                    |  |     |
| Ownership explained to FDR - 2/20/42..... |  | 335 |

February 20, 1942  
10:23 a.m.

HMJr: Hello.

Mrs.  
Brady: Mr. Secretary.

HMJr: Yes.

B: Is there something I can do for you?

HMJr: I think there is. Is Grace coming in this morning?

B: Oh, she's in; but she's over at the house right now.

HMJr: Well, I wonder if you could get this message, because I'd like to get a clearance if possible.

B: Uh huh.

HMJr: Before lunch.

B: Uh huh.

HMJr: Have you got a pencil?

B: Yes, sir.

HMJr: I've asked Mr. Sumner Pike.....

B: Yes.

HMJr: .....of SEC.....

B: Uh huh.

HMJr: .....whether he would take charge of the - and run - the Aniline Dye Corporation for me.

B: Uh huh.

HMJr: Hello. He'd like to do it very much.

B: Uh huh.

HMJr: But before resigning from the SEC to do this,

- 2 -

he'd just like to know that it meets with the President's approval.

B: Uh huh. All right.

HMJr: He'd like to do it very much, and I'm very anxious to have him do it.

B: All right. Well, I'll get an answer for you as soon as I can.

HMJr: Would you, please?

B: Yes, sir.

HMJr: Thank you.

February 20, 1942  
10:40 a.m.

HMJr: Hello.

William C.  
Bullitt: Hello.

HMJr: Bill.

B: Hello, Henry.

HMJr: How are you?

B: Fine, how are you?

HMJr: I read your letter yesterday.

B: Yeah.

HMJr: And I just wanted to compliment you on it.

B: (Laughs) You approved of it, did you?

HMJr: Well, I - you know where I stood when you asked me originally.

B: Yes.

HMJr: And I'm very glad you did it at this time for everybody who's involved.

B: Well, that's fine, Henry. I'm delighted.

HMJr: Because it was a good letter, and it helped us in what we're trying to do.

B: Well, what I thought was that I'd try to devise one that wasn't going to hurt anybody's feelings and wasn't going to look as if there was anything more in it than met the eye.

HMJr: Right. Now, the funny thing is, you know, we suggested that they release the letter.

B: Yes.

HMJr: And Mack has not yet released it.

B: Well, now, I'll tell you. I was called up yesterday by, I think his name is Williamson, I've never met him.

HMJr: Yeah.

B: And he said to me that you had made that suggestion to do that, and did I have any objection to it being released; and I said certainly I had no objection to the thing being released at once.

HMJr: Yeah. Well, I think we'll get them to release it today because I think for your sake, it should be released.

B: Yeah.

HMJr: And the sooner the better.

B: Yeah.

HMJr: For your sake.

B: Well, there we are. Henry.

HMJr: Yes.

B: Are you going to be in town over the week-end?

HMJr: Yes.

B: I'd love to sit down with you for a few minutes.

HMJr: Well, will you give me a ring?

B: You bet.

HMJr: Righto. I'd like to see you.

B: Righto. Good-bye. I'll let you know then.

HMJr: Thank you.

B: Good-bye.

February 20, 1942  
10:44 a.m.

Francis  
Biddle:

Hello, Henry.

HMJr:

I just wanted to tell you that my wife, who has lots more horse sense than I have, says I should go to that dinner Monday night.

B:

(Laughs) Well.

HMJr:

She says she thinks it's a mistake.

B:

Well, I'll probably hear from Ed. Did you hear from Ed again?

HMJr:

No, I haven't.

B:

Yeah.

HMJr:

But I thought I would send word to them that I'll be glad to go and sit wherever he wants to put me.

B:

Is Mrs. Morgenthau going, too?

HMJr:

Yeah.

B:

I see.

HMJr:

Yeah.

B:

Well, I'll consider it; but I don't want to if I can help it.

HMJr:

Well, I wanted to tell you. I found that she'd already accepted.

B:

Oh, I see.

HMJr:

But she thinks that I should go

B:

All right, Henry. Thank you.

HMJr:

Thank you.

February 20, 1942  
10:44 a.m.

Francis  
Biddle:

Hello, Henry.

HMJr:

I just wanted to tell you that my wife, who has lots more horse sense than I have, says I should go to that dinner Monday night.

B:

(Laughs) Well.

HMJr:

She says she thinks it's a mistake.

B:

Well, I'll probably hear from Ed. Did you hear from Ed again?

HMJr:

No, I haven't.

B:

Yeah.

HMJr:

But I thought I would send word to them that I'll be glad to go and sit wherever he wants to put me.

B:

Is Mrs. Morgenthau going, too?

HMJr:

Yeah.

B:

I see.

HMJr:

Yeah.

B:

Well, I'll consider it; but I don't want to if I can help it.

HMJr:

Well, I wanted to tell you. I found that she'd already accepted.

B:

Oh, I see.

HMJr:

But she thinks that I should go

B:

All right, Henry. Thank you.

HMJr:

Thank you.

Pages 6-9:

See pages 357A-D

February 20, 1942  
10:45 a.m.

# TAXES

Present: Mr. Tarleau  
Mr. Blough  
Mr. Paul  
Mr. Sullivan

H.M.JR: Before we go in on our own, somebody give me a little thumbnail sketch of last night.

MR. PAUL: Well, we - Mr. Doughton and Senator George and John Sullivan and I and Stam were there. We discussed four points. We first discussed the corporate tax problem. We put up to them very tentatively a new scheme which we evolved yesterday to get verbally around the emotional objection they have to a reduction of the credit from ninety-five to seventy-five percent. Stam had provisionally indicated his acceptance of that in the afternoon. George took quite to it. I don't know how much Doughton understood it from the conversation last night.

MR. SULLIVAN: He didn't.

MR. PAUL: But he didn't indicate anything. George cottoned right to it. George indicated that - one thing that I thought showed good development, that he wasn't against the billion dollar corporate tax program. In fact, he said that if you are going to raise nine billion, about a third of it has to come from the corporations. Then we went on to discuss the individual program. We didn't discuss any specific rates, but the principal item we discussed there was withholding at the source. The principal thing we discussed in connection with individual taxes was the control of inflation and necessity plus the withholding mechanism. I think Doughton had some doubts about the withholding but he centered mostly on whether it was practical and

and we assured him that our scheme was, and he seemed to accept that pretty well. George accepted it more than he. ② Then we discussed sales taxes.

H.M.JR: You don't agree?

MR. SULLIVAN: No, I don't. He feels just exactly the way they felt up there after that first meeting, that you couldn't withhold from the wage earner because you weren't withholding except on a three months basis on the provisional fellow and the provisional employer. He didn't feel that way, Randolph.

MR. PAUL: I thought he did when we said we were going to have the employer withhold from himself every three months.

MR. SULLIVAN: No. The reason I know this, Randolph, is that he has talked with me about this over the phone and other times within the last month, several times.

MR. PAUL: Well, he talked privately to you while I was talking to George for a while so it might be that he said something then, but I am inclined to disagree with you. I don't think we are going to have any trouble any way.

MR. SULLIVAN: I think we are going to have trouble but I think we can win. I think it is the most important part of the whole program.

MR. PAUL: Then we discussed sales taxes and there isn't any doubt that we are going to have some trouble. I don't think Mr. Doughton or Mr. George are very strong for them but they recognize that there is a strong pressure on the Hill and they indicated that in their opinion a reduction of the exemptions, about which we asked their opinion, would be something in the nature of an alternative to sales taxes. We discussed excises to some extent. The general reaction - some of them were all right. We indicated some of them we were thinking of. For instance, increased tax on beer is all right with me.

Some of them Doughton objected to and the general feeling about excise taxes, well, if you have got to have them, why not have a sales tax, and I don't think we made too much progress on that point. We finally - I had better say we discussed loop-holes. The principal one under discussion - two under discussion being tax-exempts and they said we wouldn't possibly get that through their committees. Second, joint returns and there Doughton brought back the whole conversation--

MR. SULLIVAN: He really got warmed up then.

MR. PAUL: He got warmed up at that point.

H.M.JR: Which way is he?

MR. SULLIVAN: Anti-President, anti-Rayburn, anti-McCormack.

MR. PAUL: He doesn't want the earned income exemption from the individual tax. He indicated, for instance, that by God he wasn't going to have any sales taxes until they closed that loop-hole.

MR. SULLIVAN: He wasn't going to have any taxes, Mr. Secretary.

MR. PAUL: Any taxes, but particularly he said sales.

H.M.JR: Did he get personal on it?

MR. SULLIVAN: As far as the President and Rayburn and McCormack? You bet your life!

MR. PAUL: He got personal as far as the Secretary was concerned. He said he appreciated his being on his side of it.

MR. SULLIVAN: That was on economy, Randolph. That was the second time he has pulled that.

- 4 -

MR. PAUL: He or George said that. He brought in economy at the end, yes, and George then said, "Well, I guess, Mr. Doughton, we have to get a little economical up on the hill, too."

MR. SULLIVAN: "Oh, we can't do that unless they take that--" They can't pass the buck to us.

H.M.JR: I am sick and tired of hearing that.

MR. SULLIVAN: Yes, I know.

H.M.JR: I mean, your telling it to me. I'm not sick of your telling it to me, I mean what the Hill tells me.

MR. SULLIVAN: I know.

MR. PAUL: Finally, we discussed the matter of when we would come up there and it was tentatively arranged subject to your plans that we are to let them know Tuesday.

H.M.JR: Tuesday?

MR. PAUL: Next week.

H.M.JR: Do they want me Tuesday?

MR. PAUL: No, they want you the following Tuesday, if that is convenient to you and we are to let them know next Tuesday whether it is.

H.M.JR: Who?

MR. PAUL: Doughton.

MR. SULLIVAN: The reason why we don't let them know until next Tuesday is that Doughton left this morning and won't be back until Monday night.

MR. PAUL: I think it is March 3rd.

H.M.JR: This is the twentieth. We have one more week in this month. I didn't realize.

MR. PAUL: Isn't that Tuesday March 3rd, or is it the second?

H.M.JR: Tuesday is the third.

MR. PAUL: Well, that is the day then.

H.M.JR: Well, I can tell them right now.

MR. PAUL: Well, you can't tell Mr. Doughton. He is away. He went down home for the week end.

H.M.JR: I see. That is swell. I thought you meant this next Tuesday.

MR. PAUL: We offered to go this next week but Doughton--

MR. SULLIVAN: You looked pretty good when he said, "No, we couldn't."

MR. PAUL: Well, we made the offer didn't we?

MR. SULLIVAN: We certainly made the offer.

H.M.JR: Is that the highlights?

MR. PAUL: That is right.

MR. SULLIVAN: That is right.

H.M.JR: Let's do it this way. Let's start with the thing that bothers me the most first. That is the advantage of being the boss. I can pick the order in which we will take things up. That is, this question, I can go around and ask where each of you

stand and then where the people on the Hill stand. I am talking about lowering the exemptions.

MR. PAUL: We brought that up specifically last night to get their reaction.

H.M.JR: Let's just--

MR. PAUL: John can tell what he thinks about it.

MR. SULLIVAN: I am opposed to it, sir. We are now down to the point where an individual, a single individual earning fourteen dollars and forty-five cents pays an income tax. There is no point of reducing it unless you reduce it down at least to six hundred from seven hundred fifty. There is no point to it unless you go down at least a hundred and fifty dollars. If you do that, that will mean that the person who earns eleven dollars and sixty cents a week will be paying an income tax. Now, there are many areas in the country where a person earning that money can support himself. There are other areas in which he can't possibly do that and he will have to be getting supplementary help from the state or the county and I think for us to levy an income tax on a person who must receive help or charity is a rather absurd situation. Now, some people, and I think Roy is one of them, feel that this is bad but it is worth while if it helps us beat a sales tax. I don't feel that way about it. I think that there is a very dangerous threat of a sales tax but I don't think it is up to us to beat it with something we think is bad, but not quite as bad as the sales tax. I think it is up to us to try to beat both of them. That is my position.

H.M.JR: That is clear.

MR. PAUL: Let's hear from Roy.

H.M.JR: Let's hear from Roy. Did you get that thing I sent you?

MR. BLOUGH: Yes. On the basis of the pure equity involved, I wouldn't want to see this exemption lowered.

H.M.JR: Should Tarleau be in on this?

MR. SULLIVAN: I think so.

MR. PAUL: I would like to have him in. In fact, I think Tarleau ought to be in almost every tax discussion.

MR. SULLIVAN: So do I.

MR. PAUL: If not all staff discussions.

H.M.JR: Go ahead, Roy.

MR. PAUL: He loses a certain amount of familiarity with your point of view. He just gets a derivative.

MR. BLOUGH: So far as the equity of the deduction is concerned, I agree with Mr. Sullivan. On the other hand, the situation at the present time is an extremely unusual one and I feel that because of the threat of infliction on the one hand, because of the feeling of the rest of the population that more people ought to be paying direct taxes, because even with a reduction in personal exemptions to six hundred and twelve hundred we won't have half the population of the United States paying income taxes, and because I think that this helps to meet the general public sentiment which is back of the sales tax, I am in favor of having the personal exemptions lowered, but only to be accompanied by some tax savings at the bottom so that part of this--

H.M.JR: Tax savings?

MR. BLOUGH: Well, some people call it compulsory savings which I prefer to call tax savings accounts or something like that like that.

MR. PAUL: Or bonds.

MR. BLOUGH: Or bonds, which would be given to the people at the very bottom and available to them after the war.

H.M.JR: Sir Frederick Phillips gave me this yesterday, what Donald Duck would pay in England. We have all been wrong so far. "Personal allowance, three hundred two dollars. Ten percent earned income allowance, two hundred fifty. Three dependent children, six hundred. Total allowance, one thousand one hundred seven. Taxable income, one thousand three hundred thirty. The first six hundred sixty dollars of taxable income on six showings equals two hundred fourteen dollars. The remaining six hundred seventy of taxable income is three hundred seventy-five. Income payable, five hundred forty-nine dollars and fifty cents."

(Mr. Tarleau entered the conference.)

H.M.JR: That is Donald Duck's income in England. He would pay five hundred forty-nine dollars and fifteen cents.

MR. PAUL: Against thirteen.

MR. BLOUGH: Of course, there are more things to be added to the thirteen but even so, it is nothing like that.

H.M.JR: But you are for lowering it?

Mr. Sullivan is for not lowering it and Mr. Blough is for lowering it and I wondered where you (Tarleau) stood.

MR. TARLEAU: Well, reluctantly, I am for lowering it, yes.

H.M.JR: And you?

MR. PAUL: I am. I have changed my position and I want to add--I can't add anything on the point - on the merits to what Roy has said, but I do want to say two things. I have discussed this question with Hetzel. You were there one day and yesterday I ran into him over at the Washington at lunch hour. I said, "Now tell me what you really think about this." He said, "Well, if it will help beat the sales tax we won't kick about it. We may make a little nominal kick." Now, another thing that ought to be borne in mind is George's attitude which he displayed last night. He has a fear - he might be wrong, but he expressed it - that after the war there are going to be so many bonds, if we don't do something about it, in the hands of the wealthier classes that there is going to be a strong political pressure toward simply ignoring the liability and therefore he expressed a view that we ought to have some scheme for getting bonds into the hands of the widespread public.

H.M.JR: What the hell does he think we are doing now?

MR. SULLIVAN: That is what I told him, about the payroll deduction.

MR. PAUL: We told him about that and he was very pleased, but this would be an additional expedient to that end.

MR. SULLIVAN: He mentioned that before he knew what we were doing on payroll deductions, Randolph.

MR. PAUL: I know, and you called that to his attention, but all I am saying, John, is this, that if you have a reduction of the exemption coupled with the distribution of bonds to cover the tax representing the reduction, then you do spread bonds more than otherwise among the public.

MR. SULLIVAN: No doubt.

MR. PAUL: So I wanted to mention that point. I am sure that aspect of it will be popular with George.

MR. SULLIVAN: I would just like to add one thing, Mr. Secretary, to this discussion.

H.M.JR: Please.

MR. SULLIVAN: It was perfectly apparent to me last night that lowering exemptions is not going to defeat the sales tax. You recall, Randolph, that Senator George said, "We are going to have one group that is very strong for lowering exemptions, and we are going to have another group that is very strong for lowering the sales tax. My suspicion is that if we can't hold this thing we are going to get both, which I think would be very very bad."

H.M.JR: Now, could you (Blough) give me verbally a summary of the thing that Hetzel sent me this morning?

MR. BLOUGH: Yes.

H.M.JR: What does it say?

MR. BLOUGH: The summary, verbally, is this, that they made an examination of their affiliated unions in sixteen industries and about fifty three towns and nine states. In other words, it is a sample. They found that their membership had had about a fifteen percent increase in income between November, '41, and November '40, or about twenty-two dollars increase in their income.

H.M.JR: Twenty-two dollars per week?

MR. BLOUGH: Per month. These were fairly prosperous families; a hundred and seventy-three dollars a month was the average. They have had an increase of twenty-two dollars in a year per month.

MR. PAUL: A hundred and seventy three is with the increase, isn't it?

MR. BLOUGH: With the increase.

H.M.JR: From what date to what date?

MR. BLOUGH: November '40, to November '41.

H.M.JR: Go ahead.

MR. BLOUGH: And that practically - well, about nineteen dollars of that, they figure, though their calculations don't all check, about nineteen dollars of that twenty-two went into higher food, clothing, and housing expenditures. In the case of food - well, in the case of all of them, they bought more. The increases in prices were not sufficient to offset the increase in wages and they bought more, especially in the case of clothing.

H.M.JR: You mean they bought more clothing?

MR. BLOUGH: More or higher priced clothing and they bought more or higher priced housing, because the indexes in those particular fields didn't go up as much as their expenditures went up and they also increased their other expenditures like expenditures on cars and household operations, installment purchases and personal care by a somewhat higher percentage but it is still, of course, a very small proportion of their total. I don't know if that is sufficient for you or not.

H.M.JR: That is enough. This is the way I feel, gentlemen. I look at this thing from the social viewpoint and I can't look at it whether this is the way to defeat the sales tax or whether it isn't. But feeling the way I do at this particular stage of the war effort, and until I am convinced that Congress means to close up these billion dollar loop-holes which I mentioned in Cleveland, I am not going to recommend lowering it. I can't do it. My conscience won't let me. I know what is going on in the automobile industry. They want to

give these people their twenty-four dollars a month to tide them over. They pay the automobile companies the price to tear the machinery down and they set a price aside - money aside to put it back into place again. Incidentally, couldn't we get a copy of one of those contracts?

MR. SULLIVAN: Sure.

H.M.JR: Will you get me one of those?

MR. SULLIVAN: Yes.

H.M.JR: I would like to see one of those contracts. I understand they pay them to take the machinery down and they give them money to put it back, but they won't pay the human beings.

MR. SULLIVAN: Any reason why I shouldn't ask Bob Patterson to send me one?

H.M.JR: I would like you to, on one of these change-overs.

MR. SULLIVAN: One of those tank factories, for instance.

H.M.JR: Any one where there is a change-over, not a new factory.

MR. SULLIVAN: No, I understand.

H.M.JR: There is much more reason to pay the man while he is being changed over--

MR. PAUL: Oh, I agree with that but I consider that an isolated problem. I am for paying them, but I don't--

H.M.JR: Well, Randolph, I have had lots of time, you know. We started discussions of this very thing about two months ago.

MR. PAUL: When I was the other way around.

H.M.JR: Well, I have had two months and after carefully thinking of it, I just can't. And the temper of the times, the temper of the Congress against all social effort, whether it is farm security or anything that is to help the lower one third, I can't sit here and be the fellow to go after the lower one, and I am not convinced and I wish I could get hold of one or two people - I am not convinced that - I mean, I won't take statistics that the people in the lower one third are the people who are going to cause inflation and price rising. Nobody has yet been able to sell it to me. No one has been able to sell it to me.

MR. SULLIVAN: I am rather arguing against my own point here, but you should have this information. It was made very clear by Mr. Doughton last night that no increases in Social Securitys are going to be considered at this session if he can possibly avoid it. I asked if he wanted to have the two combined and both he and George immediately said, "Certainly not." and then Doughton said, you recall, Randolph--he whirled on me and said, "If anybody thinks they are going to get my committee to consider another bill after we get through with this one, they have got another think coming."

MR. PAUL: Yes. He also said, "Social Security is a year's fight."

H.M.JR: Well, gentlemen, I don't want to sound bumptious or anything else, but the only support that I can get in this country is from the working man and the working woman in a real tax program and I am not going to hit them first and then pray that I will get the other fellows with the loopholes afterward.

MR. SULLIVAN: You are not going to get them.

MR. PAUL: Of course we were contemplating the loopholes. In fact, that is what we thought about yesterday.

H.M.JR: All right, get those loopholes first.

- 14 -

MR. PAUL: That is reduced somewhat, by the way.

H.M.JR: I know exactly what will happen. I will go up and favor this thing and we will hit the fellow from seven hundred fifty down to six hundred or whatever you are talking about and we won't get the other and I can't do it.

MR. PAUL: I can understand your attitude.

H.M.JR: All of my training from my early boyhood days to this rebels against that kind of thinking.

MR. PAUL: I can understand your attitude. I don't feel too dogmatic about the thing.

H.M.JR: And I would like very much, Roy, if you would - if we could get hold of a couple of bright girls or boys just out of college and make our own little survey, see. Get a couple of boys or girls who have got a Ph.D. or something. You can get them at two thousand a year. I will put them on my own payroll. Let them get out and stay out. I would like to know, are we in the twenty-five dollar shirt era of the last World War. I mean, Col. Greenbaum last night said that when Mr. Patterson testified, that Knudsen said, "I understand in my district that you are paying a hundred and ten dollars to the negro worker in the camp and so forth and so on." Greenbaum was give the job for Patterson to check up on the conditions. He said the only thing wrong with the figures is that it is an under statement. But I would like to go into some places like Hartford and Norfolk. I would like to send these boys or girls. We ought to be able to get women. Ask Miss Newcomery, who is supposed to be here, to give us a couple of Vassar girls. I am serious.

MR. TARLEAU: To sample the purchasing?

H.M.JR: To go in and see what they are doing. What in - Hartford is as good a place an any.

MR. PAUL: Patterson, New Jersey, would be a good place.

MR. SULLIVAN: Hartford is number one on the list. They are throwing it away there at Pratt and Whitney. I know of a boy who wanted me to recommend him for an eighteen dollar a week job in November and he went into a dentist the week end I was home and showed him his check for the last week with overtime, a hundred and five dollars.

H.M.JR: Well, let somebody go into the very top and do it--

MR. BLOUGH: I know a corking good person over in the Women's Bureau if I could get them to loan her for a few weeks.

H.M.JR: That would be good. Well, if she went out for a week you could see in the first week what she found.

MR. BLOUGH: She has been out. She has been out. She may already know something about it.

H.M.JR: What is the Women's Bureau?

MR. BLOUGH: It is over with the Children's Bureau in the Security Agency. I will see what can be done.

H.M.JR: Well, let her go to where the thing is the tops, in the Hartford area, or just let her spend a week there. What are these people spending their money for, see.

MR. BLOUGH: Yes, I do.

H.M.JR: I mean, I would like to know. I would like to go into some of these homes of these munitions workers and if they could talk to the wife - "Now, how much does your husband earn, what is your family budget, what are you doing, how much are you saving,

how much is going to clothing, how much for food?" and are they buying pianos or Defense Bonds, see.

MR. BLOUGH: Yes.

H.M.JR: And if you haven't got the money, let the Defense Bond people pay for the survey, but let's quit looking at figures and let's get some facts.

MR. BLOUGH: All right, good.

H.M.JR: Don't you think it would be a good idea?

MR. PAUL: Yes.

H.M.JR: This thing doesn't convince me, but I would like to know, are they buying pianos and musical instruments or--

MR. BLOUGH: Well, the C.I.O. doesn't think so.

MR. SULLIVAN: Not from what I have seen. We have a lot of people in Manchester working in the Navy Yard. They are paying up doctor bills and all that sort of stuff.

H.M.JR: Well, that is good.

MR. SULLIVAN: That is just what we want to have done, but I think we want to take a sample of the whole country.

H.M.JR: But the whole argument that everybody is advancing, we have got to tax the lower group because that is where you get your inflations. Well, I don't believe it.

MR. SULLIVAN: And even if you do, Mr. Secretary--

H.M.JR: Excuse me one minute, John.

MR. SULLIVAN: Certainly.

H.M.JR: This is certainly an intelligent way.

MR. PAUL: That is right.

H.M.JR: Now, if it is going into the few luxuries that are left, O.K., I will take a fresh look at it.

MR. BLOUGH: May I suggest this, that there is under contemplation - I am not sure that it has been decided on. I think it is more or less hush-hush at the moment. There is under contemplation having a sort of quarterly study of consumers' purchases.

H.M.JR: It is no damn good. Look, for Defense Bonds - somebody told me the other day we ought to have an economist in Defense Bonds. We don't need one. We have got enough around here.

We ought to have a couple of intelligent girls out all the time in the field finding out in these various areas - take some of these - jump them around, but let's start at Hartford. I would like to know, for instance - they have got some shipyards somewhere on the Mississippi River. What are those people doing with that money? It is a big country. They have got some shipyards in the Great Lakes. What do they do with their money? They have got shipyards around Seattle. What do they do with their money?

MR. PAUL: Some of the airplane factories, too.

H.M.JR: Then go down to San Diego. What do the people down there - I mean, Defense Bonds could very well have one crew in four areas constantly studying this thing. I mean, the Treasury itself. Each agency is - Internal Revenue could chip in a little bit and Defense Bonds chip in a little bit, and you could have four crews going all the time so we get a fresh weekly report, so that I would know what these people - divide the country into four areas, what are they doing with their money. Then when the thing is getting out of hand - and you could ask Leon Henderson, has he got anything like that?

MR. BLOUGH: Let me look into the matter and report back either tomorrow or Monday.

H.M.JR: Don't take too much time about it.

MR. BLOUGH: I mean today.

H.M.JR: Henderson might have somebody.

MR. PAUL: He may also have some data.

MR. SULLIVAN: If they haven't anybody, they will get somebody if they get the idea.

H.M.JR: Well, if he hasn't, it an outrage.

MR. BLOUGH: I am sure there are several agencies doing this, but I agree we might do some of our own as a check.

H.M.JR: Have you got the time to find out what is being done?

MR. BLOUGH: I can find out before this evening what is being done in the Government and if the ground-work for doing something ourselves have--

H.M.JR: Until I find out what is happening and you know you could go - there must be commercial people--

- 19 -

MR. PAUL: I wouldn't be surprised if the Federal Reserve had something on this in connection with their installment regulations.

H.M.JR: Well, you take a concern like - if you had what Sears-Roebuck knew, you would be - it would be a pretty good cross-section.

MR. SULLIVAN: The purchases from Sears-Roebuck alone would be a pretty good indication.

H.M.JR: And I can get Nelson to do that for me. Why don't I just take two minutes and get Nelson on the wire?

MR. SULLIVAN: I think it would be well worth while.

H.M.JR: And tell him to send a - because he wouldn't know from which area though, would he?

MR. BLOUGH: I don't know how closely they analyze their statistics. They have the opportunity to do it.

MR. PAUL: We could discuss it with him in a little detail.

H.M.JR: Could you?

MR. SULLIVAN: Sure.

H.M.JR: Well, you have got my idea.

MR. SULLIVAN: Yes.

H.M.JR: I mean, we all sit here and this fellow Friedman, he pulls out some statistics which are a couple of years old. They are theoretical. Brookings statistics are theoretical. I would like to have once a week a report from four shopping crews, that is what it amounts to, to go into the shopping stores and say, "Mr. so and so in Seattle, well, what are you selling in this town, what are the people buying?" and then go to the families themselves.

- 20 -

MR. SULLIVAN: I accept Friedman's figures, Mr. Secretary, but then I go on from there. Now, here is the fellow who earns seven hundred fifty dollars a year. He is single. You drop the exemption to six hundred. All right, he will pay twelve dollars a year in income taxes at the present rates. Now, I don't think that the twelve dollars we take out of him is going to contribute an awful lot to defeat inflation.

H.M.JR: Well, if you people do the things so well, stop being theoretical. I am not impressed with the CIO figures, I am not satisfied, and I think that from the Defense Bond standpoint and the tax standpoint the Treasury ought to know every week, and that our figures should not be over ten days old. I would like a check every ten days, and by God, Leon Henderson ought to have something over there.

MR. PAUL: I won't be surprised.

H.M.JR: Would you like to know what you are doing? This is Dow Jones, "Treasury tax experts are trying to work out provisions which will preserve the basic policy of the excess profits tax. This was disclosed last night by Chairman George following a conference between Treasury and Congressional spokesmen. The present excess profits tax law gives corporations exemptions amounting to," and so forth. "Chairman George said that experts are considering plans to tighten up the excess profits by making other adjustments which would not require changes in policy. Such proposals would avoid basic changes in the tax plan. Chairman George says the Treasury plans a withholding tax."

Well, that takes care of that for the moment. Now, let me take up the next thing, withholding tax.

MR. PAUL: All right.

H.M.JR: Well, I mean, let's keep on and settle one thing after another. What is the position on the withholding tax?

MR. PAUL: Suppose we have Tommy tell us the technical situation on it first. We all, I think - you (Sullivan) are for the withholding, aren't you, John?

MR. SULLIVAN: Yes, I think I am a little stronger for it than--

MR. PAUL: We are all pretty strong.

MR. SULLIVAN: I know you are all strong for it, but I think that is the keystone of any fight against inflation. The only difference I have with you is on any kind of enforced saving feature attached to it. To that I am opposed.

MR. PAUL: Our enforced savings feature was attached only to the reduction of exemptions.

MR. SULLIVAN: That is right.

MR. PAUL: We have no forced savings feature attached--

MR. SULLIVAN: Then, we are in entire accord.

H.M.JR: I thought you did have an enforced savings on the very lowest level.

MR. PAUL: Only in case we reduced the exemptions.

H.M.JR: I see.

MR. PAUL: It might be that we ought to have some forced saving in connection with deduction at the source if we put it on too fast.

H.M.JR: Somebody state the withholding tax thing for me, will you please?

MR. TARLEAU: Well, we weren't proposing a separate tax, but we were proposing to collect part of the forty-two liabilities in 1942. Let us say that we would start

July 1 and collect ten percent at the source on a net amount, that is, on wages and salaries, the ten percent to be computed after deducting the pro rata part of the credit exemption for dependents.

H.M.JR: I don't understand that.

MR. TARLEAU: Let us say that a person is paid by the week, Mr. Secretary. We could divide his personal exemption on credit for dependents by fifty. You see, there are fifty-two weeks in the year. Let us say that would amount to twenty dollars a week, just for convenience. He has paid thirty dollars a week. We deduct the twenty from the thirty, leaving ten dollars, and we would collect ten percent of that ten dollars or one dollar at the source every week.

H.M.JR: His exemption is ten dollars.

MR. TARLEAU: A week.

H.M.JR: And he gets paid thirty.

MR. TARLEAU: Thirty.

H.M.JR: And the difference is--

MR. TARLEAU: Ten dollars.

H.M.JR: And you take ten percent of that.

MR. TARLEAU: That is right.

MR. PAUL: We only withhold on the amount over the exemption.

H.M.JR: I see. And that is really collecting taxes in advance.

MR. TARLEAU: That is really collecting part of his '42 taxes in 1942.

MR. PAUL: It advances the collection date.

MR. TARLEAU: From the fifteenth of March to these weekly payments during 1942.

H.M.JR: Why do you say no?

MR. BLOUGH: I didn't say no. I am sorry.

H.M.JR: Oh, I am sorry.

MR. TARLEAU: That is as you understand it, isn't it?

MR. BLOUGH: Yes. In other words, you are paying in 1942 part of what you otherwise would have had to pay anyway in '43.

H.M.JR: What is the idea of advancing it by six months, eight and a half months?

MR. SULLIVAN: Because the bill won't be passed so you can get it into effect and also because they have got to have the first six months of this year to pay up tax liabilities that accrued last year.

H.M.JR: They won't pay it up in the first six months.

- 24 -

MR. SULLIVAN: Most of the little fellows will.

H.M.JR: Will they?

MR. SULLIVAN: I think so.

H.M.JR: But I mean, what is the idea? Is this a curb against inflation?

MR. SULLIVAN: Yes.

MR. PAUL: That is the first. There are two or three reasons for it. One is that by advancing the collections from six months to a year you have a more immediate check on inflation. Secondly, with so many millions of taxpayers as we now have it is just impossible to enforce the law. A lot of them will get out of it by not filing returns, but when the employer has to file a return, we will get the money. The third thing is that it is on - it saves for these people. They don't get the money and spend it, it is taken out at the source.

MR. SULLIVAN: It is a very distinct convenience to the tax payer, Mr. Secretary.

H.M.JR: And you don't want to - out of that dollar you don't want to set some of it aside in a bond for them.

MR. PAUL: We haven't contemplated that.

MR. SULLIVAN: No.

H.M.JR: Do that on a volunteer basis.

MR. SULLIVAN: Yes.

MR. BLOUGH: Unless the personal exemptions were lowered, in which case we will.

MR. PAUL: That is right, we contemplated that in connection with the lowering of the exemptions, taking the sting out of that.

H.M.JR: And then this dollar which he pays in July, he won't have to pay it again.

MR. SULLIVAN: No, sir. It is not an additional tax. It is merely a method of collecting what would otherwise be due March 15 through the year as he earns it.

H.M.JR: I see. So he would be paying - well, you are advancing the payment date by six months.

MR. BLOUGH: He pays as he goes.

MR. SULLIVAN: By eight and a half months.

MR. PAUL: Yes, that is a good way to put it. Just like we have been saying we ought to do.

H.M.JR: Is ten percent a good rate?

MR. PAUL: We contemplate holding at the lowest surtax rate, whatever that is. Four percent normal plus the lowest surtax rate, but we also contemplated there a flexible plan whereby you could fix the rate of withholding within limits. You (Tarleau) had a conversation on that.

MR. TARLEAU: Yes. Mr. Stam felt that - I talked to him about giving you the power to fix the rate of withholding, and he said that he felt that up to ten percent

he would be willing to see you empowered to fix the rate of withholding.

H.M.JR: You mean, from one to ten?

MR. TARLEAU: That is right, anything from one to ten. You might feel ten percent was too much to withhold from the source at this time, and you might want to withhold only five percent.

H.M.JR: This is against an argument which we sat around with Barnard on a long time ago. It goes back to when?

MR. PAUL: We were talking about an entirely different sort of withholding tax then. We were talking about a supplementary tax on top of everything else. We are talking now about an advance in the collections.

H.M.JR: I thought it finally revolved itself that way.

MR. SULLIVAN: It did, that is right.

H.M.JR: What month was that, November?

MR. SULLIVAN: October and early November.

MR. BLOUGH: It started in October and wound up in December.

H.M.JR: Well, O.K., I would go along with you on that, so that is that point.

MR. TARLEAU: I think that will be a very helpful point because Mr. Stam feels that it would be suitable, and it has all the advantages that Mr. Paul outlined to you.

H.M.JR: Well, I think that is all right. Let's see, we have got the lowering of exemptions, and we have got the withholding. What is the next most controversial one?

MR. SULLIVAN: Excess profits.

MR. PAUL: Corporate tax.

H.M.JR: Corporate and excess?

MR. PAUL: Yes.

H.M.JR: Let's tackle that. We will clean up some of these things.

MR. PAUL: The first thing I think we ought to settle about that is the excess profits rates. We have contemplated in our tentative discussions raising the rates - the whole rate schedule. The top rate is now sixty percent. We propose to raise it to seventy-five percent at the top and correspondingly along the line.

H.M.JR: Oh, the excess?

MR. PAUL: This is only excess profits.

Now, we will come - this corporate tax problem has several facets. We will come to them. Let's take one at a time. In the raising of the excess profits tax rates, that is one of the main items of the corporate tax problem.

H.M.JR: What is it now, the excess?

MR. PAUL: Sixty percent is the top rate. We propose to raise that as high as seventy-five percent which, with other changes which we will come to later, brings up the marginal rate problem. Now, the marginal rate under our present contemplated program is about eighty-five percent, isn't it, Roy?

MR. BLOUGH: Well, under the one we have in there, it is higher than that.

MR. SULLIVAN: Eighty-seven and a half.

MR. BLOUGH: In that one in there, it must be eighty-nine.

MR. PAUL: That bring up the idea of reducing the marginal rate by your re-employment plan. That is, holding that excess over eighty percent top rate in reserve for the corporation on certain conditions of re-employment. Now, that is - I don't know, John, I think with that re-employment, you are not against that, are you?

MR. SULLIVAN: Yes, I am. I think that the danger, and the only danger in our going ahead on these rates is that we will get up to a rate on the marginal dollar where the company that is in that highest bracket will feel, "Well, why should I take this extra contract here? If I make money on it, I am only allowed to retain twelve and a half percent." Now, I don't think that is prudent, Randolph, to say that we are going to take eighty-seven and a half percent and give back seven and a half. The immediate job is to get out production in this war, and I think it is more important to get your eighty rather than to take eighty-seven and a half and agree maybe, if certain things happen sometime later, to give them back seven and a half.

H.M.JR: But, as I understand it, that isn't correct. If it is, I misunderstand it. If a company earns a million dollars, we don't propose to take eight hundred seventy-five thousand dollars away from them?

MR. PAUL: No, that is right.

MR. SULLIVAN: That is right.

H.M.JR: So when he sits down to figure - when he sits down to figure, as I understand the thing, he has very much more than that left. He may have, on these figures, as I get it, almost a third of his earnings left.

MR. SULLIVAN: We are talking about two different situations, Mr. Secretary.

MR. PAUL: Well, he is right on that.

MR. SULLIVAN: Yes, he is right on the point he is

talking about, but it isn't the point I am talking about.

H.M.JR: Let me just talk about the point you raised. You said a fellow, if he figures there is only going to be twelve and a half percent left, why should he take the contract, and I think that is wrong.

MR. SULLIVAN: No, sir, it isn't, and if you will let me tell you, I will explain why. Here is a man who, when he earns a million dollars, gets into the top bracket, and everything he earns above that he pays eighty-seven and a half percent on. Now, I am not worried about the fellow--

H.M.JR: Everything above the million?

MR. SULLIVAN: That is right.

H.M.JR: Well, this is right.

MR. SULLIVAN: Yes. Once he gets into the top bracket, everything he earns above that, under this system, he pays eighty-seven and a half percent. Now, what I say does not apply to the concern that hasn't gotten up into the top bracket. What I say does apply to all the concerns who are already in the top bracket without taking the additional contracts.

H.M.JR: Well, how do you get the eighty-seven and a half?

MR. SULLIVAN: Seventy-five percent on excess profits. Then half of the balance - say he has got a million dollars. Let's suppose this is above the top rate. Seven hundred fifty thousand of that will go in excess profits. That leaves two hundred fifty thousand, of which fifty percent will go in your normal and surtax, so that there will be left a hundred and twenty-five thousand out of the million.

H.M.JR: No, I don't think that--

MR. SULLIVAN: Well, these gentlemen will tell you.

H.M.JR: I asked to have some examples.

MR. PAUL: We have some.

H.M.JR: Let me have some examples.

MR. BLOUGH: I doubt if there is an example of that in there. I have got a bunch of examples, but not of that.

H.M.JR: Let me have some examples.

MR. BLOUGH: Look at it this way. Suppose the fellow already has a million, and he is considering a contract which will make him another dollar.

H.M.JR: You mean a million net?

MR. BLOUGH: He already has--

MR. PAUL: Let's take a simpler example than that. Let's get this point clear.

MR. BLOUGH: Suppose he already has a million dollars and he is considering a contract which will make him another hundred thousand. Now, on that million dollars we assume, for the purposes of this example, that he is paying excess profits tax and that he is up in the top brackets of the excess profits tax, so that on each additional dollar, the maximum rates will apply. Now, if he makes another hundred thousand dollars and our excess profits tax rates are seventy-five percent at the top, then the first thing we will do is to take seventy-five thousand dollars in excess profits tax. That will leave him twenty-five thousand dollars. Now, this does not relate to his - he will have more of that left. This is the additional hundred thousand dollars. Now, that twenty-five thousand he has left after the excess profits tax, I think Mr. Sullivan had in mind a rate of fifty percent--

MR. SULLIVAN: We all have, Roy.

MR. BLOUGH: ... of normal and surtax combined. I think it will have to be higher than that to make the three billion.

MR. SULLIVAN: Call it just the fifty.

H.M.JR: Fifty on the--

MR. BLOUGH: Fifty of normal and surtax.

MR. PAUL: Fifty on the profits that are left after the deduction of the excess profits tax.

H.M.JR: Oh, yes. You said he was going to have another contract which was going to furnish him a hundred thousand dollars. The excess profits is seventy-five, which leaves him twenty-five thousand.

MR. BLOUGH: That is right.

H.M.JR: Now, what we are arguing about, what are you going to do with that twenty-five thousand?

MR. BLOUGH: Take fifty percent of that in normal and surtax.

H.M.JR: That is Sullivan's point.

MR. BLOUGH: Yes. And that will mean that he will pay twelve thousand five hundred in normal and surtax, which, added to his seventy-five thousand excess profits tax, will mean that on that hundred thousand dollars he will have a total new tax of eighty-seven thousand five hundred. He will have left for his wife and kiddies the twelve thousand five hundred, so that the top rate there, under that proposal, is eighty-seven and a half percent.

H.M.JR: Well, then, is the whole argument - let me get this thing straight. Is everybody agreed that the excess profits should be seventy-five percent?

MR. BLOUGH: No, I don't think Mr. Sullivan agrees with that.

MR. SULLIVAN: No.

H.M.JR: I mean, are we arguing about the seventy-five or what is left afterward?

MR. PAUL: The seventy-five is mostly what brings up the problem.

MR. SULLIVAN: You can't disassociate these different factors, Mr. Secretary. The thing that concerns me, I am willing to go just as far as we can go on corporations, but I don't think we should get up to a marginal rate that will--

H.M.JR: How high would you go--

MR. SULLIVAN: Well--

H.M.JR: ... on the excess?

MR. SULLIVAN: I don't know.

H.M.JR: Well, you ought to know by now, John.

MR. SULLIVAN: I beg your pardon, sir, this is the toughest one in the whole thing, and I don't think there is anybody in the room who knows how far we should go.

MR. PAUL: We asked Senator George last night.

H.M.JR: Let's go around, and we will ask you last. What do you (Paul) think it should be?

MR. PAUL: I am getting very rapidly to the point with Harry White where I think we can go as high as we want to go, but we don't want to - we just - the corporations, along with everybody else, have to make things now to win the war, and I would go, if necessary, to ninety percent. I don't think we have to. Harry White said the other day, jokingly, "You go to a hundred percent." I am just not worrying so much about that with the war going the way it is now. I think we have got to have more

to win the war.

H.M.JR: That still doesn't give my answer.

MR. PAUL: I would go eighty-five percent.

H.M.JR: Eighty-five percent excess?

MR. PAUL: Eighty-five marginal dollar rate, yes.

H.M.JR: How much excess profit?

MR. PAUL: Seventy-five.

H.M.JR: And that would make the normal and the -  
what is the other tax?

MR. PAUL: Surtax.

H.M.JR: Fifty?

MR. PAUL: That is about - yes. We have another tax we want to talk about, but the total would be about eighty-five percent marginal dollar rate, or eighty-seven, and I would go that whole hog. Senator George said last night he would go eighty-five percent, didn't he, John?

MR. SULLIVAN: Eighty, I think he said.

MR. PAUL: I think he said eighty-five.

MR. SULLIVAN: Anyway, it doesn't make any difference.

H.M.JR: Where would you go, Tarleau?

MR. TARLEAU: If we do the other things that are in the program, I would go as high as eighty-seven and a half percent which is what we have outlined here, if we do the other things in the program. I think we need additional relief for hardship cases in the excess profits tax. If we do that, I would go up on eighty-seven and a half percent.

MR. PAUL: Plus the inventory provision and so forth.

MR. TARLEAU: Various other revenue provisions in there to have a fair tax.

MR. PAUL: Plus the re-employment fund return.

H.M.JR: Well, I will come to that.

MR. PAUL: But that affects this question, you see, because if you take eighty-seven and a half and give seven and a half back, you are only net taking eighty.

H.M.JR: What you are talking about is this. You are proposing, I take it, to take eighty-seven and a half and then set seven and a half in a fund to be paid back after the war is over, is that right?

MR. PAUL: That is right. That is your re-employment fund.

H.M.JR: The seven and a half?

MR. PAUL: Yes, whatever figure is necessary to bring it down to eighty.

MR. TARLEAU: In that example, it would be seven and a half percent, yes.

MR. PAUL: In the last war we had a marginal rate of eighty-two and a half percent, didn't we?

MR. BLOUGH: I am not willing to go net beyond eighty percent. If you have this re-employment fund set up sufficiently definitely that the businesses can count on it, I am willing to go as high as ninety. I don't think we should go above ninety even in total, including everything we take from them.

H.M.JR: You raise the eighty-seven and a half to ninety?

MR. BLOUGH: I wouldn't go any higher than we need to to get our money.

H.M.JR: Let's stick to the eighty. As I understand it, they say seventy-five percent excess profits, and these other taxes going up to eighty-seven and a half, and then we set aside seven and a half in a reserve, and you say you would be willing to go up to ninety. Give them a ten percent reserve, is that it?

MR. BLOUGH: You asked my top limits. Those are my top limits, and I prefer to go below them. Ninety and eighty would be the top limits, ninety to be taken away from them and eighty to be kept away from them.

H.M.JR: Well, you are together.

MR. PAUL: We are all together.

H.M.JR: Now where does John come in?

MR. SULLIVAN: Well, the present marginal rate is seventy-two percent. I would be willing to raise that to eighty. I think you are biting off your own nose if you try to take ten more and give it back to them on certain contingencies. For whatever there may be in what I say about people not being anxious to earn more money, you are throwing that away. I don't see the point of taking an extra ten percent away and then promising to turn it back to them on some contingency. You see, the concern who is now in the top bracket, Mr. Secretary, under the present rates, on a hundred thousand dollars extra profit, is allowed to retain twenty-eight percent or twenty-eight thousand. This reduces that from twenty-six thousand to twelve thousand five hundred. It cuts it more than half. So that you are more than halving the profit a concern can make if he makes a profit on an additional contract.

Now, I say to cut that down to twelve thousand five hundred and then to agree to restore seventy-five hundred at some time in the remote future when, as, and if certain things happen isn't going to make him feel too good.

H.M.JR: Well, I happen to be very strong for the reserve fund.

MR. SULLIVAN: Yes, I understand that. I don't. I would be if we weren't working on such a narrow margin, but we are on such a terribly narrow margin that I am afraid concerns are going to be reluctant, concerns who are in this particular situation are going to be reluctant to take on additional contracts.

H.M.JR: Well, here is the point. I happen to know a man who works for one of these investment people. He went out recently into Ohio. We all talk about what we think and none of us know. This fellow visited two or three of these tire companies trying to find out - their attitude was this: "We are so swamped with business we don't know what to do, and we just have no idea whether we are making or losing money, and we are not particularly interested." He visited three of them, their comptrollers, trying to find out about the tire industry. This happened last week. This was three big ones. This just happened. I say it is the kind of thing I am always hungry for. He visited them and said their only worries were, could they turn out these entirely new things that the Government had given them, but they weren't - they just don't know--

MR. PAUL: I think if we don't get that attitude, we are not going to win the war.

H.M.JR: It was either Goodyear or Goodrich who have laid off two thousand salesmen and taken one plant down entirely, the entire machinery and greased it and put it away. The Government paid them to do that, and they were putting in - what were they making? It seems impossible. It was something so foreign to the tire business that they were making.

MR. SULLIVAN: Tail fins. Tails on airplanes. There is a big ad in "Life" today or in "Time" yesterday.

H.M.JR: Anyway, it was something quite foreign.

But that was the thing that he was told by the comptrollers of these big companies. They were so overwhelmed - they were just interested in one thing. Every day the Government gives them more business, and they weren't talking profits at all, John.

MR. PAUL: That is a very promising sign.

H.M.JR: This man visited the three. He visited Firestone, Goodyear, and Goodrich last week or the week before. It was within the last ten days. It is just one case where these people - I suppose those three together must do quite a tidy business.

MR. PAUL: Well, if we don't all do that, we are not going to win. We are going to think of the dollars--

MR. SULLIVAN: Well, the fact remains there are an awful lot of people in the country who still are thinking of it, Randolph. I agree with you that that is the way things should be, but my only concern with that, Mr. Secretary, is that we mustn't go so far that we will retard full production.

H.M.JR: Well, I told Nelson to give me a call any day on the telephone when anything that the Treasury was doing in any way was retarding his program. I told him that two weeks ago, and I have yet to get a telephone call from him.

MR. SULLIVAN: I think Randolph and I ought to try to have lunch with him on this other thing, this purchasing business. Why don't we put this up to him and see what he says?

H.M.JR: It is all right.

MR. SULLIVAN: I think we can talk safely with him on that, don't you, Randolph?

MR. PAUL: Oh, sure.

H.M.JR: I think he should be talked to. I think you

should also talk to Patterson and Forrestal.

MR. PAUL: All right.

H.M.JR: Because the last word I have got is that the Army is not cognizant of the fact that Nelson has made a single change. I only heard that yesterday. As far as the Army is concerned, they don't know.

MR. SULLIVAN: Want us to introduce him?

H.M.JR: Well, that may sound silly, but that was practically - I mean, this is in the room. I was told that Patterson said, "When am I going to hear what Nelson is doing?" I only heard that last night. He said, "When am I going to find out what Nelson is doing? As far as the Army is concerned, we don't know that he is doing anything." This is in this room. So I don't see why it wouldn't be a very good idea to get hold of Patterson and Forrestal and Nelson and say, "We are proposing this eighty-seven and a half percent with seven and a half percent in the Treasury on non-interest bearing funds for these corporations to set the wheels of industry going when the war is over."

MR. PAUL: I think it would be a good idea. That is my whole thought all the time, to coordinate with these other agencies.

H.M.JR: Those would be the three.

MR. PAUL: I know what some of them think already.

H.M.JR: Those would be the three men. They are responsible for production.

MR. SULLIVAN: That is right, they are the three.

H.M.JR: Why not put it up to them? As of today, I am all right on the eighty-seven and a half.

MR. PAUL: We can see them as soon as they can see us.

MR. SULLIVAN: That is right. I will call them right after this.

H.M.JR: I think this is a good time to stop right now. I will give you either nine or ten tomorrow morning.

MR. PAUL: All right. I would like to say that we have here a program - tax program here in this volume--

H.M.JR: Supposing I got an appointment with the President tomorrow, what would we do?

MR. PAUL: We have some summaries. We have a summary of our tax program that will have to be changed because of the reduction of the exemptions.

H.M.JR: Can that be changed?

MR. PAUL: We can do that this afternoon. Then we have a summary of the principal items, which is three or four pages. We can even reduce that to a smaller space.

H.M.JR: That is all right.

MR. PAUL: Then we have exhibits and various rate schedules and material that shows our individual rates. Then we have over here your statement rewritten and examples of various types over here. So that is your tax program.

MR. SULLIVAN: Wait a minute, Randolph.

H.M.JR: Let me keep this. I won't get a chance to look at this until after four. Can I give it to Roy, if there is any change to be made?

MR. BLOUGH: We would like to have so revisions made in there.

H.M.JR: Be sure, when I go home tonight, that I get it, will you?

MR. SULLIVAN: Your personal exemptions have got to

be changed there, Randolph.

MR. PAUL: Yes, we just mentioned that.

H.M.JR: That is a good job. Let me ask you gentlemen this. Let me change the subject for a minute. I am talking Sunday night at eight o'clock for seven minutes on the radio with Brother Green of the AF of L, you see. I haven't looked at the speech yet. He is talking about seven minutes. He is giving me a whole bunch of checks, you see. Is there anything that I should talk to labor about about taxes that I want to kind of get them interested in? Is there anything we can say?

MR. PAUL: Well, I think you might--

MR. SULLIVAN: When is this?

H.M.JR: This Sunday, two days from tonight.

MR. PAUL: Labor pretty well knows.

H.M.JR: Is there anything I don't want to say?

MR. PAUL: I saw Murray the other day at lunch, and he expressed himself as being pleased.

H.M.JR: I meant on the air. Is there anything I want to say on taxes?

MR. SULLIVAN: Whatever you say will be incidental, won't it?

MR. PAUL: I think Sunday night is a bad time.

MR. SULLIVAN: It would be a small part of seven minutes.

H.M.JR: That is right.

MR. SULLIVAN: I don't think so. I think that sometime pretty soon you had better make a tax speech, but I

don't think I would want to have you get into an incidental thing.

MR. PAUL: I think we ought to have a conference with Green and Murray and Leo Pressman and Hetzel and the AF of L man. I think you ought to take some time, because they are going to be our chief supporters.

H.M.JR: I know it. That is why I don't want to lower the thing. Hetzel will say, "Well, we won't criticize you much," but he isn't going to say, "We are coming out for you a hundred percent," but if we leave out this other thing, we will get some enthusiasm from him.

MR. PAUL: We are going to get it. I have got a resolution here passed by them, the CIO--

H.M.JR: But if I made my speech lowering the exemptions to six hundred dollars--

MR. SULLIVAN: Well, the resolution is against lowering it.

H.M.JR: It is?

MR. SULLIVAN: Sure. All the resolutions from labor that are coming in are against it.

MR. PAUL: The resolution has some point on this seven and a half percent rate. They recommend increasing normal taxes, excess profits taxes, taxes on present individual tax base, I mean by not lowering the exemptions, closing the loopholes, increased rates, lowered exemptions on the state taxes and excise taxes on certain luxury things, and then they come out against the sales tax.

H.M.JR: Who is this?

MR. PAUL: CIO.

H.M.JR: Has that been acknowledged?

MR. PAUL: Yes.

MR. SULLIVAN: Mr. Secretary, there is one thing we should talk to you about very soon and that is this extension of time for filing excess profits tax. The accounting industry and the corporations themselves are in a very, very difficult position.

H.M.JR: Well, let's do it at the next meeting we have. You will get a chance. I will see you again between now and sunset tomorrow night.

MR. SULLIVAN: That is fine.

MR. PAUL: I would like to leave with you a very dirty editorial, "Treasury Masterpiece." It is in this morning's News. I think it is one of the dirtiest editorials I have seen.

H.M.JR: Masterpiece of what?

MR. PAUL: It is against your tax literature.

MR. BLOUGH: Savings Bonds?

MR. PAUL: No, I think it is the tax anticipation. It isn't quite clear. Yes, it is the Defense Bonds thing. You don't need to read the whole thing. It is just that part that is entitled, "Treasury Masterpiece." It is as dirty as it can be.

H.M.JR: Is that us? That little thing up in the left-hand corner. Do we get that out?

MR. BLOUGH: He attributes it to us. I don't know.

MR. PAUL: He says we are writing down to the people as if they were morons. It is unfortunate they should take that position.

H.M.JR: Look at the stuff today that - I understand Patterson and this reporter went to Pearl Harbor, and look

at the report this morning that they are making from Honolulu. I will look into this. Ask somebody for me - no, I will ask Ferdie.

MR. PAUL: All right. I just picked it up this morning.

H.M.JR: O.K., I'll be seeing you.

TENTATIVE  
TREASURY TAX PROGRAM

\*\*\*\*\*

FEBRUARY 20, 1942

## SUMMARY

February 20, 1942

TENTATIVE TREASURY TAX PROGRAMSummary

|                                              |                          |
|----------------------------------------------|--------------------------|
| I. Special privilege and hardship provisions | 765.0                    |
| II. Individual income tax                    | 3,000.0                  |
| III. Corporation taxes                       | 2,830.0                  |
| IV. Estate and gift taxes                    | 250.0                    |
| V. Excise taxes                              | <u>1,200.0</u>           |
| Total                                        | 8,045.0                  |
| Less: Allowance for inter-related effects    | <u>1,000.0</u> <u>1/</u> |
| Total                                        | 7,045.0                  |

---

1/ The revenue under I will be higher than indicated if the rate changes under II and III are enacted; the revenue under II will be substantially lower if the rate changes under III are enacted.

February 25, 1942

TREASURY TAX PROGRAM

|                                                                                                                               | Revenue<br>(approximate)<br>in millions<br>of dollars |
|-------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| I. <u>Individual Income Taxes</u> .....                                                                                       | 3,000                                                 |
| Retain present exemptions                                                                                                     |                                                       |
| Eliminate earned income credit                                                                                                |                                                       |
| Increase rates heavily throughout<br>schedule                                                                                 |                                                       |
| II. <u>Corporation Taxes</u> .....                                                                                            | 2,830                                                 |
| Retain the present excess-profits<br>tax credit                                                                               |                                                       |
| Increase excess-profits tax rates<br>by 15 percentage points to a<br>top rate of 75%                                          |                                                       |
| Retain normal tax at 24 percent                                                                                               |                                                       |
| Increase surtax (to be designated<br>"war surtax") to 36% with relief<br>up to 20% for corporations having<br>reduced incomes |                                                       |
| Smaller rate increases for corpora-<br>tion incomes under \$25,000                                                            |                                                       |
| Repeal capital stock tax and de-<br>clared value excess-profits tax                                                           |                                                       |
| III. <u>Estate and Gift Taxes</u> .....                                                                                       | 250                                                   |
| IV. <u>Excise Taxes</u> .....                                                                                                 | 1,200                                                 |
| Distilled spirits increase from \$4<br>to \$6 a gallon.....                                                                   | 234                                                   |
| Gasoline increase from 12¢ to 3¢ a<br>gallon.....                                                                             | 245                                                   |
| Cigarettes increase from \$3.25 per M<br>to \$3.50 per M on 10¢ brands and<br>\$4 per M on 15¢ brands.....                    | 163                                                   |
| Other excises.....                                                                                                            | 508                                                   |
| V. <u>Special Privilege and Hardship<br/>    Provisions</u> .....                                                             | 725                                                   |
| Tax-exempt securities: tax interest<br>from outstanding and future State<br>and local securities.....                         | 200                                                   |
| Percentage depletion.....                                                                                                     | 30                                                    |
| Joint returns with special relief<br>for earned income.....                                                                   | 350                                                   |
| Capital gains.....                                                                                                            | 35                                                    |
| Life insurance companies.....                                                                                                 | 30                                                    |
| Mutual casualty insurance companies.....                                                                                      | 30                                                    |
| Other.....                                                                                                                    | -                                                     |
| Grand total...                                                                                                                | 8,005                                                 |
| Less: Allowance for inter-<br>related effects.....                                                                            | 1,005                                                 |
| Total.....                                                                                                                    | 7,000                                                 |

PROGRAM

February 20, 1942

TENTATIVE TREASURY TAX PROGRAM

Revenue  
(approximate  
figures to  
be revised)  
in millions  
of dollars

---

I. Special Privilege and Hardship Provisions

1. Tax exempt securities: Eliminate exemption from income and profits taxes with respect to the interest from all (outstanding and future) State and local governmental obligations. 200.0

2. Percentage depletion 60.0

Oil and gas: Limit percentage depletion for existing properties to 5 percent except in the cases where intangible drilling costs have been capitalized, in which event the allowance would be 15 percent; royalty interests to be excluded from the privilege of percentage depletion and to be restricted to cost depletion. For new discoveries the rate will be 27½ percent to the participants in the discovery, with no option to expense intangible drilling costs; all other new oil and gas properties to be subject only to cost depletion.

Other mines: Reduce percentage depletion allowance to \_\_\_\_\_ percent.

3. Joint returns: Require joint income tax returns for all married couples, with relief for the working wife. 350.0

4. Capital gains: Long-term capital gains to be subject to a maximum effective rate of tax of 30 percent (instead of the present 15 percent); capital losses not to be allowed as a deduction against ordinary income but solely against capital gains, with excess capital losses to be carried forward as an offset against future capital gains for a period of 5 years. 35.0

- 2 -

5. Life insurance companies: Eliminate the double deduction with respect to tax exempt interest and reduce the reserve earnings deduction. 30.0

6. Mutual casualty insurance companies: Include in the tax base (a) the dividends paid to policyholders from investment income and (b) additions to surplus. 30.0

7. Bank expenses: Disallow as a deduction against taxable income expenses properly allocable to tax exempt interest. 60.0

8. Other: Remove other special privileges and eliminate hardships and inequities. -

---

Total 765.0

## II. Individual Income Taxes

9. Surtax rates: Increase surtax rates throughout and reduce width of lower surtax brackets. (Exhibit A, B, C, D, E) 3,000.0

10. Earned income credit: (a) Allow 5 percent for both normal and surtax instead of 10 percent for normal tax only; (b) eliminate \$3,000 minimum and reduce \$14,000 maximum to \$2,500. -

11. Withholding at source: Beginning July 1, 1942, withhold at source not to exceed 10 percent of wages and salaries in excess of prorated personal exemptions and 10 percent of the gross amount of dividends and bond interest, as partial payment of 1942 tax liabilities. (Exhibit F-K) For 1942 total withholding about \$1.5 billion.

---

Total 3,000.0

- 3 -

III. Corporation Taxes (Exhibit L)

12. Excess profits tax: Increase rates by 15 percentage points. 640.0

13. Normal tax: Increase normal tax rate from 24 to 25 percent. 120.0

14. Surtax: For corporations of over \$50,000 increase surtax from 7 to 21 percent, with smaller increases for corporations with smaller incomes. 1,500.0

15. War tax: Impose a special war tax of 10 percent allowing a tax credit of 5 percent of the amount by which the surtax net income of the taxable year is less than the average surtax net income of the years 1936 - 1939. 750.0

16. Capital stock tax: Repeal the capital stock and declared value excess profits taxes -180.0

---

Total 2,830.0

IV. Estate and Gift Taxes

17. Estate tax rates: Increase rates throughout. (Exhibit N,N,O)

18. Exemptions: In place of the existing exemption of \$40,000 and insurance exclusion of \$40,000, allow a single exemption of \$60,000.

19. Gift tax rates: Increase to three-fourths of revised estate tax rates.

20. Gift tax exemptions: Reduce exemption from present \$40,000 to \$30,000. Change annual exclusion of gifts from \$4,000 for each donee to a single exemption of \$5,000.

---

Total 250.0

- 4 -

V. Excise Taxes

|                                                                                                                              |                   |
|------------------------------------------------------------------------------------------------------------------------------|-------------------|
| 21. <u>Distilled spirits:</u> Increase rate from \$4 per gallon to \$6 per gallon.                                           | 284.0             |
| 22. <u>Gasoline:</u> Increase rate from 1 $\frac{1}{2}$ ¢ per gallon to 3¢ per gallon.                                       | 245.0             |
| 23. <u>Cigarettes:</u> Increase rate from \$3.25 per M. to \$3.50 per M. on 10-cent brands and \$4 per M. on 15-cent brands. | 163.0             |
| 24. <u>Other excises.</u> (Exhibit P)                                                                                        | 508.0             |
| Total excises                                                                                                                | 1,200.0           |
| Grand total                                                                                                                  | 8,045.0           |
| Less: Allowance for inter-related effects                                                                                    | 1,000.0 <u>1/</u> |
| Total                                                                                                                        | 7,045.0           |

---

1/ The revenue under I will be higher than indicated if the rate changes under II and III are enacted; the revenue under II will be substantially lower if the rate changes under III are enacted.

EXHIBITS

LIST OF EXHIBITS

- A. Individual income tax: Effective rates for married person without dependents - 1918 and selected taxable years 1929-'41
- B. Comparison of individual surtax rate schedule under present law and proposal to raise approximately \$3 billion with present exemptions
- C. Amount of income taxes and effective rates under individual income tax - present law and proposal. Single person - no dependents - personal exemption \$750.
- D. Amount of income taxes and effective rates under individual income tax - present law and proposal. Married person - no dependents - personal exemption \$1,500
- E. Amount of income taxes and effective rates under individual income tax - present law and proposal. Married person - two dependents - personal exemption \$1,500 - dependent credit \$400
- F. Comparison of increase in tax under proposal and amount withheld at source with a 10 percent withholding rate in effect for half the year. Single - no dependents - personal exemption \$750
- G. Comparison of increase in tax under proposal and amount withheld at source with a 10 percent withholding rate in effect for a full year. Single - no dependents - personal exemption \$750
- H. Comparison of increase in tax under proposal and amount withheld at source with a 10 percent withholding tax in effect for a half year. Married - no dependents - personal exemption \$1,500
- I. Comparison of increase in tax under proposal and amount withheld at source with a 10 percent withholding rate in effect for a full year. Married person - no dependents - personal exemption \$1,500
- J. Comparison of increase in tax under proposal, and amount withheld at source with a 10 percent withholding rate in effect for one-half year. Married - two dependents - personal exemption, \$1,500; dependent credit \$400
- K. Comparison of increase in tax under proposal, and amount withheld at source with a 10 percent withholding rate in effect for a full year. Married - two dependents - personal exemption \$1,500; dependent credit \$400

LIST OF EXHIBITS - page 2

- L. Proposed corporation tax plan with special war tax
- M. Effective estate tax rates before credit for State death taxes
- N. Comparison of estate tax rate schedule under present law and proposal to increase the tax yield by approximately \$250 million with \$60,000 specific exemption, no exclusion for life insurance
- O. Comparison of present and proposed estate taxes on net estates of selected sizes
- P. Summary of excise recommendations through February 17, 1942

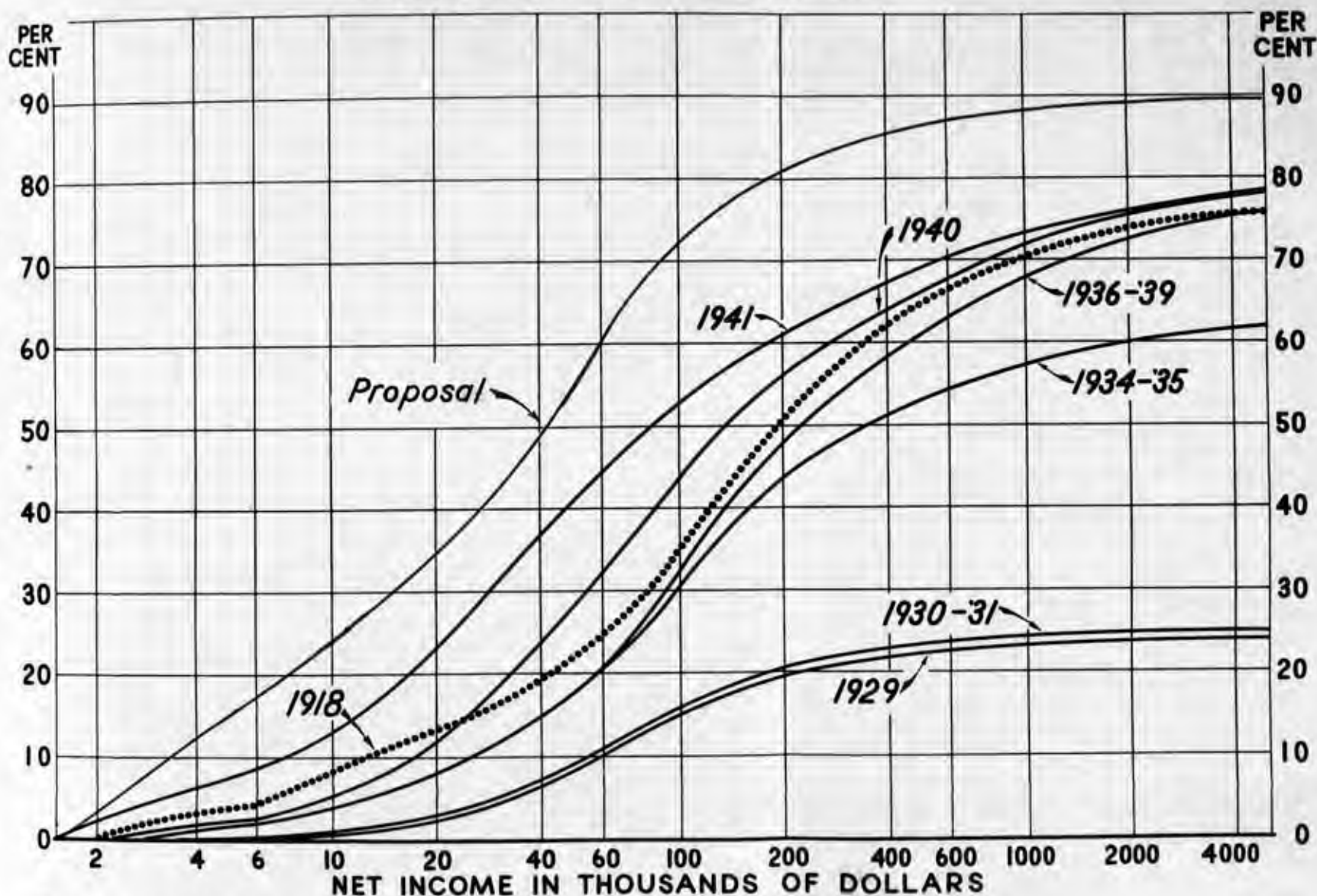
65

A

# INDIVIDUAL INCOME TAX

## Effective Rates for Married Person without Dependents

### 1918 and Selected Taxable Years 1929 - '41



Office of the Secretary of the Treasury  
Division of Tax Research

B-238-1  
I-E-revised

67

B

Comparison of individual surtax rate schedule under present law and proposal to raise approximately \$3 billion with present exemptions

| Surtax<br>net income<br>(\$000) | Bracket rate |          | Total surtax cumulative |           |
|---------------------------------|--------------|----------|-------------------------|-----------|
|                                 | Present law  | Proposal | Present law             | Proposal  |
| 0 - \$ .5                       | 6½           | 12½      | 30                      | 60        |
| .5 - 1                          | 6            | 15       | 60                      | 135       |
| 1 - 1.5                         | 6            | 18       | 90                      | 225       |
| 1.5 - 2                         | 6            | 20       | 120                     | 325       |
| 2 - 3                           | 9            | 22       | 210                     | 545       |
| 3 - 4                           | 9            | 24       | 300                     | 785       |
| 4 - 6                           | 13           | 27       | 560                     | 1,325     |
| 6 - 8                           | 17           | 30       | 900                     | 1,925     |
| 8 - 10                          | 21           | 34       | 1,320                   | 2,605     |
| 10 - 12                         | 25           | 38       | 1,820                   | 3,365     |
| 12 - 14                         | 29           | 42       | 2,400                   | 4,205     |
| 14 - 16                         | 32           | 45       | 3,040                   | 5,105     |
| 16 - 18                         | 35           | 48       | 3,740                   | 6,065     |
| 18 - 20                         | 38           | 51       | 4,500                   | 7,085     |
| 20 - 22                         | 41           | 54       | 5,320                   | 8,165     |
| 22 - 26                         | 44           | 57       | 7,080                   | 10,445    |
| 26 - 32                         | 47           | 60       | 9,900                   | 14,045    |
| 32 - 38                         | 50           | 64       | 12,900                  | 17,885    |
| 38 - 44                         | 53           | 68       | 16,080                  | 21,965    |
| 44 - 50                         | 55           | 72       | 19,380                  | 26,285    |
| 50 - 60                         | 57           | 76       | 25,080                  | 33,885    |
| 60 - 70                         | 59           | 78       | 30,980                  | 41,685    |
| 70 - 80                         | 61           | 80       | 37,080                  | 49,685    |
| 80 - 90                         | 63           | 82       | 43,380                  | 57,885    |
| 90 - 100                        | 64           | 84       | 49,780                  | 66,285    |
| 100 - 150                       | 65           | 86       | 82,280                  | 109,285   |
| 150 - 200                       | 66           | 86       | 115,280                 | 152,285   |
| 200 - 250                       | 67           | 86       | 148,780                 | 195,285   |
| 250 - 300                       | 69           | 86       | 183,280                 | 238,285   |
| 300 - 400                       | 71           | 86       | 254,280                 | 324,285   |
| 400 - 500                       | 72           | 86       | 326,280                 | 410,285   |
| 500 - 750                       | 73           | 86       | 508,780                 | 625,285   |
| 750 - 1,000                     | 74           | 86       | 693,780                 | 840,285   |
| 1,000 - 2,000                   | 75           | 86       | 1,443,780               | 1,700,285 |
| 2,000 - 5,000                   | 76           | 86       | 3,723,780               | 4,280,285 |
| 5,000 and over                  | 77           | 86       | -                       | -         |

Treasury Department, Division of Tax Research

February 28, 1942

C

Amount of income taxes and effective rates  
under individual income tax - present law and proposal

Single person - no dependents  
Personal exemption \$750

| Net income :<br>before<br>personal<br>exemption | Amount of tax  |           |                    | Effective rates |          |                                   |
|-------------------------------------------------|----------------|-----------|--------------------|-----------------|----------|-----------------------------------|
|                                                 | Present<br>law | Proposal  | Increase<br>in tax | Present<br>law  | Proposal | Increase in<br>effective<br>rates |
| \$ 800                                          | \$ 3           | \$ 8      | \$ 5               | .4%             | 1.0%     | .6%                               |
| 900                                             | 11             | 24        | 13                 | 1.2             | 2.7      | 1.5                               |
| 1,000                                           | 21             | 40        | 19                 | 2.1             | 4.0      | 1.9                               |
| 1,100                                           | 31             | 56        | 25                 | 2.8             | 5.1      | 2.3                               |
| 1,200                                           | 40             | 72        | 32                 | 3.3             | 6.0      | 2.7                               |
| 1,500                                           | 69             | 128       | 59                 | 4.6             | 8.5      | 3.9                               |
| 1,600                                           | 79             | 147       | 68                 | 4.9             | 9.2      | 4.3                               |
| 2,000                                           | 117            | 230       | 113                | 5.9             | 11.5     | 5.6                               |
| 2,500                                           | 165            | 345       | 180                | 6.6             | 13.8     | 7.2                               |
| 3,000                                           | 221            | 470       | 249                | 7.4             | 15.7     | 8.3                               |
| 4,000                                           | 347            | 735       | 388                | 8.7             | 18.4     | 9.7                               |
| 5,000                                           | 483            | 1,023     | 540                | 9.7             | 20.5     | 10.8                              |
| 6,000                                           | 649            | 1,333     | 684                | 10.8            | 22.2     | 11.4                              |
| 8,000                                           | 1,031          | 1,990     | 959                | 12.9            | 24.9     | 12.0                              |
| 10,000                                          | 1,493          | 2,720     | 1,227              | 14.9            | 27.2     | 12.3                              |
| 12,500                                          | 2,178          | 3,740     | 1,562              | 17.4            | 29.9     | 12.5                              |
| 15,000                                          | 2,994          | 4,888     | 1,894              | 20.0            | 32.6     | 12.6                              |
| 20,000                                          | 4,929          | 7,473     | 2,544              | 24.6            | 37.4     | 12.8                              |
| 25,000                                          | 7,224          | 10,418    | 3,194              | 28.9            | 41.7     | 12.8                              |
| 50,000                                          | 20,882         | 27,715    | 6,833              | 41.8            | 55.4     | 13.6                              |
| 75,000                                          | 36,487         | 48,055    | 11,568             | 48.6            | 64.1     | 15.5                              |
| 100,000                                         | 53,214         | 69,625    | 16,411             | 53.2            | 69.6     | 16.4                              |
| 500,000                                         | 345,654        | 429,610   | 83,956             | 69.1            | 85.9     | 16.8                              |
| 1,000,000                                       | 733,139        | 879,610   | 146,471            | 73.3            | 88.0     | 14.7                              |
| 5,000,000                                       | 3,923,124      | 4,479,610 | 556,486            | 78.5            | 89.6     | 11.1                              |

Treasury Department, Division of Tax Research

February 28, 1942.

71

D

Amount of income taxes and effective rates under  
individual income tax - present law and proposal

Married - no dependents  
Personal exemption \$1,500

| Net income<br>before<br>personal<br>exemption | Amount of tax  |           |                    | Effective rates |          |                                   |
|-----------------------------------------------|----------------|-----------|--------------------|-----------------|----------|-----------------------------------|
|                                               | Present<br>law | Proposal  | Increase<br>in tax | Present<br>law  | Proposal | Increase in<br>effective<br>rates |
| \$ 1,500                                      | -              | -         | -                  | -               | -        | -                                 |
| 1,600                                         | \$ 6           | \$ 16     | \$ 10              | .4%             | 1.0%     | .6%                               |
| 1,700                                         | 13             | 32        | 19                 | .8              | 1.9      | 1.1                               |
| 1,800                                         | 23             | 48        | 25                 | 1.3             | 2.7      | 1.4                               |
| 1,900                                         | 32             | 64        | 32                 | 1.7             | 3.4      | 1.7                               |
| 2,000                                         | 42             | 80        | 38                 | 2.1             | 4.0      | 1.9                               |
| 2,100                                         | 52             | 99        | 47                 | 2.5             | 4.7      | 2.2                               |
| 2,200                                         | 61             | 118       | 57                 | 2.8             | 5.4      | 2.6                               |
| 2,300                                         | 71             | 137       | 66                 | 3.1             | 6.0      | 2.9                               |
| 2,400                                         | 80             | 156       | 76                 | 3.3             | 6.5      | 3.2                               |
| 2,500                                         | 90             | 175       | 85                 | 3.6             | 7.0      | 3.4                               |
| 3,000                                         | 138            | 285       | 147                | 4.6             | 9.5      | 4.9                               |
| 4,000                                         | 249            | 535       | 286                | 6.2             | 13.4     | 7.2                               |
| 5,000                                         | 375            | 805       | 430                | 7.5             | 16.1     | 8.6                               |
| 6,000                                         | 521            | 1,100     | 579                | 8.7             | 18.3     | 9.6                               |
| 8,000                                         | 873            | 1,735     | 862                | 10.9            | 21.7     | 10.8                              |
| 10,000                                        | 1,305          | 2,435     | 1,130              | 13.1            | 24.4     | 11.3                              |
| 12,500                                        | 1,960          | 3,425     | 1,465              | 15.7            | 27.4     | 11.7                              |
| 15,000                                        | 2,739          | 4,535     | 1,796              | 18.3            | 30.2     | 11.9                              |
| 20,000                                        | 4,614          | 7,060     | 2,446              | 23.1            | 35.3     | 12.2                              |
| 25,000                                        | 6,864          | 9,960     | 3,096              | 27.5            | 39.8     | 12.3                              |
| 50,000                                        | 20,439         | 27,145    | 6,706              | 40.9            | 54.3     | 13.4                              |
| 75,000                                        | 35,999         | 47,425    | 11,426             | 48.0            | 63.2     | 15.2                              |
| 100,000                                       | 52,704         | 68,965    | 16,261             | 52.7            | 69.0     | 16.3                              |
| 500,000                                       | 345,084        | 428,935   | 83,851             | 69.0            | 85.8     | 16.8                              |
| 1,000,000                                     | 732,554        | 878,935   | 146,381            | 73.3            | 87.9     | 14.6                              |
| 5,000,000                                     | 3,922,524      | 4,478,935 | 556,411            | 78.5            | 89.6     | 11.1                              |

Treasury Department, Division of Tax Research

February 28, 1942

I-E Revised-3

BWA

73

E

Amount of income taxes and effective rates  
under individual income tax —  
present law and proposal

Married person — Two dependents  
Personal exemption \$1,500, dependent credit \$400

| Net income | Amount of tax |           |          | Effective rates |          |             |
|------------|---------------|-----------|----------|-----------------|----------|-------------|
| before     | Present       | Proposal  | Increase | Present         | Proposal | Increase in |
| personal   | law           | law       | in tax   | law             | law      | effective   |
| exemption  |               |           |          |                 |          | rates       |
| \$ 2,300   | -             | -         | -        | -               | -        | -           |
| 2,400      | \$ 6          | \$ 16     | \$ 10    | .3              | 0.7%     | .4%         |
| 2,500      | 12            | 32        | 20       | .5              | 1.3      | .8          |
| 2,700      | 29            | 64        | 35       | 1.1             | 2.4      | 1.3         |
| 3,000      | 58            | 118       | 60       | 1.9             | 3.9      | 2.0         |
| 4,000      | 154           | 333       | 179      | 3.9             | 8.3      | 4.4         |
| 5,000      | 271           | 587       | 316      | 5.4             | 11.7     | 6.3         |
| 6,000      | 397           | 861       | 464      | 6.6             | 14.4     | 7.8         |
| 8,000      | 717           | 1,472     | 755      | 9.0             | 18.4     | 9.4         |
| 10,000     | 1,117         | 2,143     | 1,026    | 11.2            | 21.4     | 10.2        |
| 12,500     | 1,738         | 3,089     | 1,351    | 13.8            | 24.7     | 10.9        |
| 15,000     | 2,475         | 4,167     | 1,692    | 16.5            | 27.8     | 11.3        |
| 20,000     | 4,287         | 6,629     | 2,342    | 21.4            | 33.1     | 11.7        |
| 25,000     | 6,480         | 9,472     | 2,992    | 25.9            | 37.9     | 12.0        |
| 50,000     | 19,967        | 26,537    | 6,570    | 39.9            | 53.1     | 13.2        |
| 75,000     | 35,479        | 46,753    | 11,274   | 47.3            | 62.3     | 15.0        |
| 100,000    | 52,160        | 68,261    | 16,101   | 52.2            | 68.3     | 16.1        |
| 500,000    | 344,476       | 428,215   | 83,739   | 68.9            | 85.6     | 16.7        |
| 1,000,000  | 721,930       | 878,215   | 146,285  | 73.2            | 87.8     | 14.6        |
| 5,000,000  | 3,921,684     | 4,478,215 | 556,531  | 78.4            | 89.6     | 11.2        |

Treasury Department, Division of Tax Research

February 28, 1942

F

Comparison of increase in tax under proposal and amount  
withheld at source with a 10 percent withholding rate  
in effect for a half year

Single - no dependents  
Personal exemption \$750

| Net income<br>before<br>personal<br>exemption | Amount of tax  |           |                    | Amount<br>withheld<br>at source | Percent<br>of total<br>tax<br>withheld<br>at source | Percent of<br>increase in<br>tax<br>withheld<br>at source |
|-----------------------------------------------|----------------|-----------|--------------------|---------------------------------|-----------------------------------------------------|-----------------------------------------------------------|
|                                               | Present<br>law | Proposal  | Increase<br>in tax |                                 |                                                     |                                                           |
| \$ 800                                        | \$ 3           | \$ 8      | \$ 5               | \$ 3                            | 37.5%                                               | 60.0%                                                     |
| 900                                           | 11             | 24        | 13                 | 8                               | 33.3                                                | 61.5                                                      |
| 1,000                                         | 21             | 40        | 19                 | 13                              | 32.5                                                | 68.4                                                      |
| 1,100                                         | 31             | 56        | 25                 | 18                              | 32.1                                                | 72.0                                                      |
| 1,200                                         | 40             | 72        | 32                 | 23                              | 31.9                                                | 71.4                                                      |
| 1,500                                         | 69             | 128       | 59                 | 38                              | 29.7                                                | 64.4                                                      |
| 1,600                                         | 79             | 147       | 68                 | 45                              | 29.3                                                | 63.2                                                      |
| 2,000                                         | 117            | 230       | 113                | 63                              | 27.4                                                | 55.8                                                      |
| 2,500                                         | 165            | 346       | 180                | 88                              | 25.5                                                | 45.9                                                      |
| 3,000                                         | 221            | 470       | 249                | 113                             | 24.0                                                | 45.4                                                      |
| 4,000                                         | 347            | 735       | 388                | 163                             | 22.2                                                | 42.0                                                      |
| 5,000                                         | 483            | 1,023     | 540                | 213                             | 20.6                                                | 39.1                                                      |
| 6,000                                         | 649            | 1,333     | 684                | 263                             | 19.7                                                | 36.5                                                      |
| 8,000                                         | 1,031          | 1,990     | 959                | 360                             | 18.2                                                | 37.9                                                      |
| 10,000                                        | 1,493          | 2,720     | 1,227              | 463                             | 17.0                                                | 37.1                                                      |
| 12,500                                        | 2,178          | 3,740     | 1,562              | 588                             | 15.7                                                | 37.6                                                      |
| 15,000                                        | 2,994          | 4,888     | 1,894              | 713                             | 14.6                                                | 37.6                                                      |
| 20,000                                        | 4,929          | 7,473     | 2,544              | 963                             | 12.9                                                | 37.9                                                      |
| 25,000                                        | 7,224          | 10,415    | 3,194              | 1,213                           | 11.6                                                | 38.0                                                      |
| 50,000                                        | 20,882         | 27,715    | 6,833              | 2,463                           | 8.9                                                 | 36.0                                                      |
| 75,000                                        | 36,487         | 48,055    | 11,568             | 3,713                           | 7.7                                                 | 32.1                                                      |
| 100,000                                       | 53,214         | 69,625    | 16,411             | 4,963                           | 7.1                                                 | 30.2                                                      |
| 500,000                                       | 345,654        | 429,610   | 83,956             | 24,963                          | 5.8                                                 | 29.7                                                      |
| 1,000,000                                     | 733,139        | 879,610   | 146,471            | 49,963                          | 5.7                                                 | 34.1                                                      |
| 5,000,000                                     | 3,923,124      | 4,479,610 | 556,486            | 249,963                         | 5.6                                                 | 44.9                                                      |

Treasury Department, Division of Tax Research

February 28, 1942.

Comparison of increase in tax under proposal and amount withheld at source with a 10 percent withholding rate in effect for a half year

Single - no dependents  
Personal exemption \$750

| Net income<br>before<br>personal<br>exemption | Amount of tax  |           |                    | Amount<br>withheld<br>at source | Percent<br>of total<br>tax<br>withheld<br>at source | Percent of<br>increase in<br>tax<br>withheld<br>at source |
|-----------------------------------------------|----------------|-----------|--------------------|---------------------------------|-----------------------------------------------------|-----------------------------------------------------------|
|                                               | Present<br>law | Proposal  | Increase<br>in tax |                                 |                                                     |                                                           |
| \$ 800                                        | \$ 3           | \$ 8      | \$ 5               | \$ 3                            | 37.5%                                               | 60.0%                                                     |
| 900                                           | 11             | 24        | 13                 | 8                               | 33.3                                                | 61.5                                                      |
| 1,000                                         | 21             | 40        | 19                 | 13                              | 32.5                                                | 68.4                                                      |
| 1,100                                         | 31             | 56        | 25                 | 18                              | 32.1                                                | 72.0                                                      |
| 1,200                                         | 40             | 72        | 32                 | 23                              | 31.9                                                | 71.9                                                      |
| 1,500                                         | 69             | 128       | 59                 | 38                              | 29.7                                                | 64.4                                                      |
| 1,600                                         | 79             | 147       | 68                 | 43                              | 29.3                                                | 63.2                                                      |
| 2,000                                         | 117            | 230       | 113                | 63                              | 27.4                                                | 55.8                                                      |
| 2,500                                         | 165            | 345       | 180                | 88                              | 25.5                                                | 48.9                                                      |
| 3,000                                         | 221            | 470       | 249                | 113                             | 24.0                                                | 45.4                                                      |
| 4,000                                         | 347            | 735       | 388                | 163                             | 22.2                                                | 42.0                                                      |
| 5,000                                         | 483            | 1,023     | 540                | 213                             | 20.8                                                | 39.4                                                      |
| 6,000                                         | 649            | 1,333     | 684                | 263                             | 19.7                                                | 38.5                                                      |
| 8,000                                         | 1,031          | 1,990     | 959                | 363                             | 18.2                                                | 37.9                                                      |
| 10,000                                        | 1,493          | 2,720     | 1,227              | 463                             | 17.0                                                | 37.7                                                      |
| 12,500                                        | 2,178          | 3,740     | 1,562              | 588                             | 15.7                                                | 37.6                                                      |
| 15,000                                        | 2,994          | 4,888     | 1,894              | 713                             | 14.6                                                | 37.6                                                      |
| 20,000                                        | 4,929          | 7,473     | 2,544              | 963                             | 12.9                                                | 37.9                                                      |
| 25,000                                        | 7,224          | 10,418    | 3,194              | 1,213                           | 11.6                                                | 38.0                                                      |
| 50,000                                        | 20,882         | 27,715    | 6,833              | 2,463                           | 8.9                                                 | 36.0                                                      |
| 75,000                                        | 36,487         | 48,055    | 11,568             | 3,713                           | 7.7                                                 | 32.1                                                      |
| 100,000                                       | 53,214         | 69,625    | 16,411             | 4,963                           | 7.1                                                 | 30.2                                                      |
| 500,000                                       | 345,654        | 429,610   | 83,956             | 24,963                          | 5.8                                                 | 29.7                                                      |
| 1,000,000                                     | 733,139        | 879,610   | 146,471            | 49,963                          | 5.7                                                 | 34.1                                                      |
| 5,000,000                                     | 3,923,124      | 4,479,610 | 556,486            | 249,963                         | 5.6                                                 | 44.9                                                      |

Treasury Department, Division of Tax Research

February 28, 1942.

77

G

Comparison of increase in tax under proposal and amount withheld at source with a 10 percent withholding rate in effect for a full year

Single person - No dependents  
Personal exemption \$750

| Net income :<br>before per-<br>sonal exemp-<br>tion : | Amount of tax  |           |                    | Amount<br>withheld<br>at<br>source | Percent of<br>total tax<br>withheld<br>at source | Percent of<br>increase in<br>tax withheld<br>at source |
|-------------------------------------------------------|----------------|-----------|--------------------|------------------------------------|--------------------------------------------------|--------------------------------------------------------|
|                                                       | Present<br>law | Proposal  | Increase<br>in tax |                                    |                                                  |                                                        |
| \$ 800                                                | \$ 3           | \$ 8      | \$ 5               | 5                                  | 62.5%                                            | 100.0%                                                 |
| 900                                                   | 11             | 24        | 13                 | 15                                 | 62.5                                             | 115.4                                                  |
| 1,000                                                 | 21             | 40        | 19                 | 25                                 | 62.5                                             | 131.6                                                  |
| 1,100                                                 | 31             | 56        | 25                 | 35                                 | 62.5                                             | 140.0                                                  |
| 1,200                                                 | 40             | 72        | 32                 | 45                                 | 62.5                                             | 140.6                                                  |
| 1,500                                                 | 69             | 128       | 59                 | 75                                 | 58.6                                             | 127.1                                                  |
| 1,600                                                 | 79             | 147       | 68                 | 85                                 | 57.8                                             | 125.0                                                  |
| 2,000                                                 | 117            | 230       | 113                | 125                                | 54.3                                             | 110.6                                                  |
| 2,500                                                 | 165            | 345       | 180                | 175                                | 50.7                                             | 97.2                                                   |
| 3,000                                                 | 221            | 470       | 249                | 225                                | 47.9                                             | 90.4                                                   |
| 4,000                                                 | 347            | 735       | 388                | 325                                | 44.2                                             | 83.8                                                   |
| 5,000                                                 | 483            | 1,023     | 540                | 425                                | 41.5                                             | 78.7                                                   |
| 6,000                                                 | 649            | 1,333     | 684                | 525                                | 39.4                                             | 76.8                                                   |
| 8,000                                                 | 1,031          | 1,990     | 959                | 725                                | 36.4                                             | 75.6                                                   |
| 10,000                                                | 1,493          | 2,720     | 1,227              | 925                                | 34.0                                             | 75.4                                                   |
| 12,500                                                | 2,178          | 3,740     | 1,562              | 1,175                              | 31.4                                             | 75.2                                                   |
| 15,000                                                | 2,994          | 4,888     | 1,894              | 1,425                              | 29.2                                             | 75.2                                                   |
| 20,000                                                | 4,929          | 7,473     | 2,544              | 1,925                              | 25.8                                             | 75.7                                                   |
| 25,000                                                | 7,224          | 10,418    | 3,194              | 2,425                              | 23.3                                             | 75.9                                                   |
| 50,000                                                | 20,882         | 27,715    | 6,833              | 4,925                              | 17.8                                             | 72.1                                                   |
| 75,000                                                | 36,487         | 48,055    | 11,568             | 7,425                              | 15.5                                             | 64.2                                                   |
| 100,000                                               | 53,214         | 69,625    | 16,411             | 9,925                              | 14.3                                             | 60.5                                                   |
| 500,000                                               | 345,654        | 429,610   | 83,956             | 49,925                             | 11.6                                             | 59.5                                                   |
| 1,000,000                                             | 733,139        | 879,610   | 146,471            | 99,925                             | 11.4                                             | 68.2                                                   |
| 5,000,000                                             | 3,923,124      | 4,479,610 | 556,486            | 499,925                            | 11.2                                             | 89.8                                                   |

Treasury Department, Division of Tax Research

February 28, 1942

L-E Revised-3



Comparison of increase in tax under proposal and amount withheld  
at source with a 10 percent withholding rate in effect a half year

Married — No dependents  
Personal exemption \$1,500

| Net income :<br>before : | Amount of tax : |            |            | Percent : Percent of |                     |
|--------------------------|-----------------|------------|------------|----------------------|---------------------|
|                          | Amount of tax : |            |            | of total : increase  |                     |
| personal exemption :     | Present :       | Proposal : | Increase : | withheld :           | tax : in tax        |
|                          | law :           |            | in tax :   | at source :          | withheld : withheld |
|                          |                 |            |            | at source :          | at source :         |
| \$ 1,500                 | -               | -          | -          | -                    | -                   |
| 1,600 \$                 | 6 \$            | 16 \$      | 10 \$      | 5                    | 31.3% 50.0%         |
| 1,700                    | 13              | 32         | 19         | 10                   | 31.3 52.6           |
| 1,800                    | 23              | 48         | 25         | 15                   | 31.3 60.0           |
| 1,900                    | 32              | 64         | 32         | 20                   | 31.3 62.5           |
| 2,000                    | 42              | 80         | 38         | 25                   | 31.3 65.8           |
| 2,100                    | 52              | 99         | 47         | 30                   | 30.3 63.8           |
| 2,200                    | 61              | 118        | 57         | 35                   | 29.7 61.4           |
| 2,300                    | 71              | 137        | 66         | 40                   | 29.2 60.6           |
| 2,400                    | 80              | 156        | 76         | 45                   | 28.8 59.2           |
| 2,500                    | 90              | 175        | 85         | 50                   | 28.6 58.8           |
| 3,000                    | 138             | 285        | 147        | 75                   | 26.3 51.0           |
| 4,000                    | 249             | 535        | 286        | 125                  | 23.4 43.7           |
| 5,000                    | 375             | 805        | 430        | 175                  | 21.7 40.7           |
| 6,000                    | 521             | 1,100      | 579        | 225                  | 20.5 38.9           |
| 8,000                    | 873             | 1,735      | 862        | 325                  | 18.7 37.7           |
| 10,000                   | 1,305           | 2,435      | 1,130      | 425                  | 17.5 37.6           |
| 12,500                   | 1,960           | 3,425      | 1,465      | 550                  | 16.1 37.5           |
| 15,000                   | 2,739           | 4,535      | 1,796      | 675                  | 14.9 37.6           |
| 20,000                   | 4,614           | 7,060      | 2,446      | 925                  | 13.1 37.8           |
| 25,000                   | 6,864           | 9,960      | 3,096      | 1,175                | 11.8 38.0           |
| 50,000                   | 20,439          | 27,145     | 6,706      | 2,425                | 8.9 36.2            |
| 75,000                   | 35,999          | 47,425     | 11,426     | 3,675                | 7.7 32.2            |
| 100,000                  | 52,704          | 68,965     | 16,261     | 4,925                | 7.1 30.3            |
| 500,000                  | 345,084         | 428,935    | 83,851     | 24,925               | 5.8 29.7            |
| 1,000,000                | 732,554         | 878,935    | 146,381    | 49,925               | 5.7 34.1            |
| 5,000,000                | 3,922,524       | 4,478,935  | 556,411    | 249,925              | 5.6 44.9            |

Treasury Department, Division of Tax Research

February 28, 1942

I-E Revised-3



Comparison of increase in tax and amount withheld  
at source with a 10 percent withholding rate  
in effect for a full year

Married - no dependents

Personal exemption - \$1500

| Net income<br>before<br>personal<br>exemption | Amount of tax  |           |                       | Amount<br>with-<br>held at<br>source | Percent<br>of total<br>tax with-<br>held at<br>source | Percent of<br>increase in<br>tax withheld<br>at source |
|-----------------------------------------------|----------------|-----------|-----------------------|--------------------------------------|-------------------------------------------------------|--------------------------------------------------------|
|                                               | Present<br>law | Proposal  | Increase<br>in<br>tax |                                      |                                                       |                                                        |
| \$ 1,500                                      | -              | -         | -                     | -                                    | -                                                     | -                                                      |
| 1,600                                         | 6              | 16        | 10                    | 10                                   | 62.5%                                                 | 100.0%                                                 |
| 1,700                                         | 13             | 32        | 19                    | 20                                   | 62.5                                                  | 105.3                                                  |
| 1,800                                         | 23             | 48        | 25                    | 30                                   | 62.5                                                  | 120.0                                                  |
| 1,900                                         | 32             | 64        | 32                    | 40                                   | 62.5                                                  | 125.0                                                  |
| 2,000                                         | 42             | 80        | 38                    | 50                                   | 62.5                                                  | 131.6                                                  |
| 2,100                                         | 52             | 99        | 47                    | 60                                   | 60.6                                                  | 127.7                                                  |
| 2,200                                         | 61             | 118       | 57                    | 70                                   | 59.3                                                  | 122.8                                                  |
| 2,300                                         | 71             | 137       | 66                    | 80                                   | 58.4                                                  | 121.2                                                  |
| 2,400                                         | 80             | 156       | 76                    | 90                                   | 57.7                                                  | 118.4                                                  |
| 2,500                                         | 90             | 175       | 85                    | 100                                  | 57.1                                                  | 117.6                                                  |
| 3,000                                         | 138            | 285       | 147                   | 150                                  | 52.6                                                  | 102.0                                                  |
| 4,000                                         | 249            | 535       | 286                   | 250                                  | 46.7                                                  | 87.4                                                   |
| 5,000                                         | 375            | 805       | 430                   | 350                                  | 43.5                                                  | 81.4                                                   |
| 6,000                                         | 521            | 1,100     | 579                   | 450                                  | 40.9                                                  | 77.7                                                   |
| 8,000                                         | 873            | 1,735     | 862                   | 650                                  | 37.5                                                  | 75.4                                                   |
| 10,000                                        | 1,305          | 2,435     | 1,130                 | 850                                  | 34.9                                                  | 75.2                                                   |
| 12,500                                        | 1,960          | 3,425     | 1,465                 | 1,100                                | 32.1                                                  | 75.1                                                   |
| 15,000                                        | 2,739          | 4,535     | 1,796                 | 1,350                                | 29.8                                                  | 75.2                                                   |
| 20,000                                        | 4,614          | 7,060     | 2,446                 | 1,850                                | 26.2                                                  | 75.6                                                   |
| 25,000                                        | 6,864          | 9,960     | 3,096                 | 2,350                                | 23.6                                                  | 75.9                                                   |
| 50,000                                        | 20,439         | 27,145    | 6,706                 | 4,850                                | 17.9                                                  | 72.3                                                   |
| 75,000                                        | 35,999         | 47,425    | 11,426                | 7,350                                | 15.5                                                  | 64.3                                                   |
| 100,000                                       | 52,704         | 68,965    | 16,261                | 9,850                                | 14.3                                                  | 60.6                                                   |
| 500,000                                       | 345,084        | 428,935   | 83,851                | 49,850                               | 11.6                                                  | 59.5                                                   |
| 1,000,000                                     | 732,554        | 878,935   | 146,381               | 99,850                               | 11.4                                                  | 68.2                                                   |
| 5,000,000                                     | 3,922,524      | 4,478,935 | 556,411               | 499,850                              | 11.2                                                  | 89.8                                                   |

Treasury Department, Division of Tax Research

February 28, 1942

83

J

Comparison of increase in tax under proposal and amount withheld at source with a 10 percent withholding rate in effect for a half year

Married - two dependents  
Personal exemption \$1,500, dependent credit \$400

| Net income<br>before<br>personal<br>exemption | Amount of tax  |           |          | Amount<br>withheld<br>at source | Percent<br>of total<br>tax<br>withheld<br>at source | Percent of<br>increase in<br>tax<br>withheld at<br>source |
|-----------------------------------------------|----------------|-----------|----------|---------------------------------|-----------------------------------------------------|-----------------------------------------------------------|
|                                               | Present<br>law | Proposal  | Increase |                                 |                                                     |                                                           |
| \$ 2,300                                      | -              | -         | -        | -                               | -                                                   | -                                                         |
| 2,400                                         | 6              | 16        | 10       | 5                               | 31.3%                                               | 50.0%                                                     |
| 2,500                                         | 12             | 32        | 20       | 10                              | 31.3                                                | 50.0                                                      |
| 2,700                                         | 29             | 64        | 35       | 20                              | 31.3                                                | 57.1                                                      |
| 3,000                                         | 58             | 118       | 60       | 35                              | 29.7                                                | 58.3                                                      |
| 4,000                                         | 154            | 333       | 179      | 85                              | 25.5                                                | 47.5                                                      |
| 5,000                                         | 271            | 587       | 316      | 135                             | 23.0                                                | 42.7                                                      |
| 6,000                                         | 397            | 861       | 464      | 185                             | 21.5                                                | 39.9                                                      |
| 8,000                                         | 717            | 1,472     | 755      | 285                             | 19.4                                                | 37.7                                                      |
| 10,000                                        | 1,117          | 2,143     | 1,026    | 385                             | 18.0                                                | 37.5                                                      |
| 12,500                                        | 1,728          | 3,089     | 1,361    | 510                             | 16.5                                                | 37.5                                                      |
| 15,000                                        | 2,475          | 4,167     | 1,692    | 635                             | 15.2                                                | 37.5                                                      |
| 20,000                                        | 4,287          | 6,629     | 2,342    | 885                             | 13.4                                                | 37.8                                                      |
| 25,000                                        | 6,480          | 9,472     | 2,992    | 1,135                           | 12.0                                                | 37.9                                                      |
| 30,000                                        | 19,967         | 26,537    | 6,570    | 2,385                           | 9.0                                                 | 36.3                                                      |
| 75,000                                        | 35,479         | 46,753    | 11,274   | 3,635                           | 7.8                                                 | 32.2                                                      |
| 100,000                                       | 52,160         | 68,261    | 16,101   | 4,885                           | 7.2                                                 | 30.3                                                      |
| 500,000                                       | 344,476        | 428,215   | 83,739   | 24,885                          | 5.8                                                 | 29.7                                                      |
| 1,000,000                                     | 731,930        | 878,215   | 146,285  | 49,885                          | 5.7                                                 | 34.1                                                      |
| 5,000,000                                     | 3,921,854      | 4,478,215 | 556,331  | 249,885                         | 5.6                                                 | 44.9                                                      |

Treasury Department, Division of Tax Research

February 28, 1942.

85

K

Comparison of increase in tax under proposal, and amount withheld at source with a 10 percent withholding rate in effect for a full year

Married - Two Dependents

Personal exemption \$1,500, dependent credit \$400

| Net income :<br>before per-<br>sonal exemp-<br>tion | Amount of tax  |           |                    | Amount<br>withheld<br>at<br>source | Percent of<br>total tax<br>withheld<br>at<br>source | Percent of<br>increase in<br>tax with-<br>held at<br>source |
|-----------------------------------------------------|----------------|-----------|--------------------|------------------------------------|-----------------------------------------------------|-------------------------------------------------------------|
|                                                     | Present<br>law | Proposal  | Increase<br>in tax |                                    |                                                     |                                                             |
| \$ 2,300                                            | -              | -         | -                  | -                                  | -                                                   | -                                                           |
| 2,400                                               | 6              | 16        | 10                 | 10                                 | 62.5%                                               | 100.0%                                                      |
| 2,500                                               | 12             | 32        | 20                 | 20                                 | 62.5                                                | 100.0                                                       |
| 2,700                                               | 29             | 64        | 35                 | 40                                 | 62.5                                                | 114.3                                                       |
| 3,000                                               | 58             | 118       | 60                 | 70                                 | 59.3                                                | 116.7                                                       |
| 4,000                                               | 154            | 333       | 179                | 170                                | 51.1                                                | 95.0                                                        |
| 5,000                                               | 271            | 587       | 316                | 270                                | 46.0                                                | 85.4                                                        |
| 6,000                                               | 397            | 861       | 464                | 370                                | 43.0                                                | 79.7                                                        |
| 8,000                                               | 717            | 1,472     | 755                | 570                                | 38.7                                                | 75.5                                                        |
| 10,000                                              | 1,117          | 2,143     | 1,026              | 770                                | 35.9                                                | 75.0                                                        |
| 12,500                                              | 1,728          | 3,089     | 1,361              | 1,020                              | 33.0                                                | 74.9                                                        |
| 15,000                                              | 2,475          | 4,167     | 1,692              | 1,270                              | 30.5                                                | 75.1                                                        |
| 20,000                                              | 4,287          | 6,629     | 2,342              | 1,770                              | 26.7                                                | 75.6                                                        |
| 25,000                                              | 6,480          | 9,472     | 2,992              | 2,270                              | 24.0                                                | 75.9                                                        |
| 50,000                                              | 19,967         | 26,537    | 6,570              | 4,770                              | 18.0                                                | 72.6                                                        |
| 75,000                                              | 35,479         | 46,753    | 11,274             | 7,270                              | 15.5                                                | 64.5                                                        |
| 100,000                                             | 52,160         | 68,261    | 16,101             | 9,770                              | 14.3                                                | 60.7                                                        |
| 500,000                                             | 344,476        | 428,215   | 83,739             | 49,770                             | 11.6                                                | 59.4                                                        |
| 1,000,000                                           | 731,930        | 878,215   | 146,285            | 99,770                             | 11.4                                                | 68.2                                                        |
| 5,000,000                                           | 3,921,884      | 4,478,215 | 556,331            | 499,770                            | 11.2                                                | 89.8                                                        |

Treasury Department, Division of Tax Research

February 28, 1942

I-E Revised-3

87

L

## Proposed corporation tax plan

### I. Excess profits tax

Make no change in the present excess profits credit but increase the rates of the excess profits tax by 15 percentage points.

### 2. Corporation normal and surtax rates

#### a. Corporations with net income under \$25,000

| <u>Net income</u> | <u>Normal tax</u> | <u>Surtax</u> |
|-------------------|-------------------|---------------|
| \$ 0 - \$ 5,000   | 15%               | 16%           |
| 5,000 - 20,000    | 17                | 16            |
| 20,000 - 25,000   | 19                | 16            |

#### b. Corporations with net income over \$25,000

Normal tax: Flat rate of 24 percent  
Surtax: Flat rate of 31 percent

Relief provision: Corporations with current year surtax net income less than the average surtax net income of the base period years, 1936-1939, are allowed a tax credit of 10 percent of the difference, but not to exceed 20 percent of surtax net income. This relief provision does not apply to corporations under a above or a below.

#### c. Notch provision - Corporations with net income slightly over \$25,000

Normal tax: Continue 19 percent as bracket rate  
Surtax: \$4,000 plus 60 percent of the excess over \$25,000

Treasury Department  
Division of Tax Research

March 2, 1942

|                                                                                                                                                                                                                                                                                                                                | Present<br>law | Proposal                                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------------------------------------|
| 1. Excess profits credit                                                                                                                                                                                                                                                                                                       |                |                                              |
| a. Invested capital method:                                                                                                                                                                                                                                                                                                    |                |                                              |
| First \$5,000,000 of invested capital                                                                                                                                                                                                                                                                                          | 8%             | 8%                                           |
| Over \$5,000,000 of invested capital                                                                                                                                                                                                                                                                                           | 7              | 7                                            |
| b. Income method:                                                                                                                                                                                                                                                                                                              |                |                                              |
| Portion of average earnings in base period, 1936-1939                                                                                                                                                                                                                                                                          | 95%            | 95%                                          |
| c. Specific exemption                                                                                                                                                                                                                                                                                                          | \$5,000        | \$5,000                                      |
| 2. Excess profits tax rates                                                                                                                                                                                                                                                                                                    |                |                                              |
| Adjusted excess profits net income:                                                                                                                                                                                                                                                                                            |                |                                              |
| First \$20,000                                                                                                                                                                                                                                                                                                                 | 35             | 50                                           |
| \$ 20,000 - 50,000                                                                                                                                                                                                                                                                                                             | 40             | 55                                           |
| 50,000 - 100,000                                                                                                                                                                                                                                                                                                               | 45             | 60                                           |
| 100,000 - 250,000                                                                                                                                                                                                                                                                                                              | 50             | 65                                           |
| 250,000 - 500,000                                                                                                                                                                                                                                                                                                              | 55             | 70                                           |
| Over 500,000                                                                                                                                                                                                                                                                                                                   | 60             | 75                                           |
| 3. Income tax                                                                                                                                                                                                                                                                                                                  |                |                                              |
| a. Normal tax                                                                                                                                                                                                                                                                                                                  |                |                                              |
| (1) Corporations with net income of not more than \$25,000:                                                                                                                                                                                                                                                                    |                |                                              |
| First \$5,000                                                                                                                                                                                                                                                                                                                  | 15             | 15                                           |
| \$ 5,000 - 20,000                                                                                                                                                                                                                                                                                                              | 17             | 17                                           |
| 20,000 - 25,000                                                                                                                                                                                                                                                                                                                | 19             | 19                                           |
| (2) Corporations with net income over \$25,000:                                                                                                                                                                                                                                                                                |                |                                              |
| Flat rate                                                                                                                                                                                                                                                                                                                      | 24             | 24                                           |
| (3) Notch provision - corporations with net income slightly over \$25,000:                                                                                                                                                                                                                                                     |                |                                              |
| First \$5,000                                                                                                                                                                                                                                                                                                                  | 15             | 15                                           |
| \$5,000 - 20,000                                                                                                                                                                                                                                                                                                               | 17             | 17                                           |
| 20,000 - 25,000                                                                                                                                                                                                                                                                                                                | 19             | 19                                           |
| Over 25,000                                                                                                                                                                                                                                                                                                                    | 37             | 19                                           |
| b. Surtax                                                                                                                                                                                                                                                                                                                      |                |                                              |
| (1) Corporations with net income of not more than \$25,000:                                                                                                                                                                                                                                                                    |                |                                              |
| First \$25,000                                                                                                                                                                                                                                                                                                                 | 6              | 16                                           |
| (2) Corporations with net income over \$25,000:                                                                                                                                                                                                                                                                                |                |                                              |
| First \$25,000                                                                                                                                                                                                                                                                                                                 | 6              | 31                                           |
| Over \$25,000                                                                                                                                                                                                                                                                                                                  | 7              | 31                                           |
| (a) Relief provision: Corporations with current year surtax net income less than the average surtax net income for the base period years, 1936-1939, are allowed a tax credit of 10% of the difference, but not to exceed 20% of surtax net income. This provision applies only to corporations with net income over \$25,000. |                |                                              |
| (3) Notch provision - corporations with net income slightly over \$25,000:                                                                                                                                                                                                                                                     |                |                                              |
| First \$25,000                                                                                                                                                                                                                                                                                                                 | 6              | 16                                           |
| Over \$25,000                                                                                                                                                                                                                                                                                                                  | 7              | 60                                           |
| 4. Post-war credit                                                                                                                                                                                                                                                                                                             | -              | Tax in excess of 80¢ of any dollar of income |

(Amounts in thousands of dollars)

| Items                                 | American<br>Car and<br>Foundry | Coca-<br>Cola | Colt's<br>Patent<br>Fire Arms | E. I. du<br>Pont de<br>Nemours | General<br>Motors | Great<br>Lakes<br>Dredge<br>and Dock | Liggett<br>and<br>Myers | Glenn L.<br>Martin |
|---------------------------------------|--------------------------------|---------------|-------------------------------|--------------------------------|-------------------|--------------------------------------|-------------------------|--------------------|
| Net income <sup>2/</sup>              | \$6,984                        | \$35,819      | \$4,242                       | \$109,964                      | \$347,250         | \$ 432                               | \$27,043                | \$8,355            |
| Excess profits net income             | 7,001                          | 35,562        | 4,247                         | 104,667                        | 336,078           | 432                                  | 26,903                  | 8,346              |
| Excess profits credit and exemption   | 6,613                          | 30,831        | 1,374                         | 53,709                         | 217,770           | 2,521                                | 23,757                  | 5,473              |
| Excess profits tax                    | 251                            | 3,502         | 2,109                         | 38,173                         | 88,685            | -                                    | 2,313                   | 2,115              |
| Normal tax base                       | 6,733                          | 32,317        | 2,134                         | 71,792                         | 258,565           | 432                                  | 24,730                  | 6,240              |
| Normal tax                            | 1,616                          | 7,756         | 512                           | 17,230                         | 62,056            | 104                                  | 5,935                   | 1,498              |
| Surtax base                           | 6,733 <sup>3/</sup>            | 32,317        | 2,134 <sup>3/</sup>           | 71,792 <sup>3/</sup>           | 258,565           | 432 <sup>3/</sup>                    | 24,730                  | 6,240              |
| Surtax, gross                         | 2,087                          | 10,018        | 661                           | 22,255                         | 80,155            | 134                                  | 7,666                   | 1,934              |
| Average base period surtax net income | 799                            | 23,819        | 1,246                         | 64,472                         | 237,175           | 1,575                                | 25,193                  | 2,530              |
| Relief for decreased earnings         | -                              | -             | -                             | -                              | -                 | 86                                   | 46                      | -                  |
| Surtax, net                           | 2,087                          | 10,018        | 661                           | 22,255                         | 80,155            | 48                                   | 7,604                   | 1,934              |
| Total tax                             | 3,954                          | 21,276        | 3,282                         | 77,658                         | 230,896           | 151                                  | 15,852                  | 5,547              |
| Effective rate (percent)              | 56.6                           | 59.4          | 77.4                          | 70.6                           | 66.5              | 35.0                                 | 58.6                    | 66.4               |
| Marginal rate (percent)               | 86.5                           | 88.8          | 88.8                          | 88.8                           | 88.8              | <del>75.0</del> 35.0                 | 91.3 <sup>4/</sup>      | 88.8               |
| Excess profits credit method          | I. C.                          | Inc.          | Inc.                          | Inc.                           | Inc.              | Inc.                                 | Inc.                    | Inc.               |

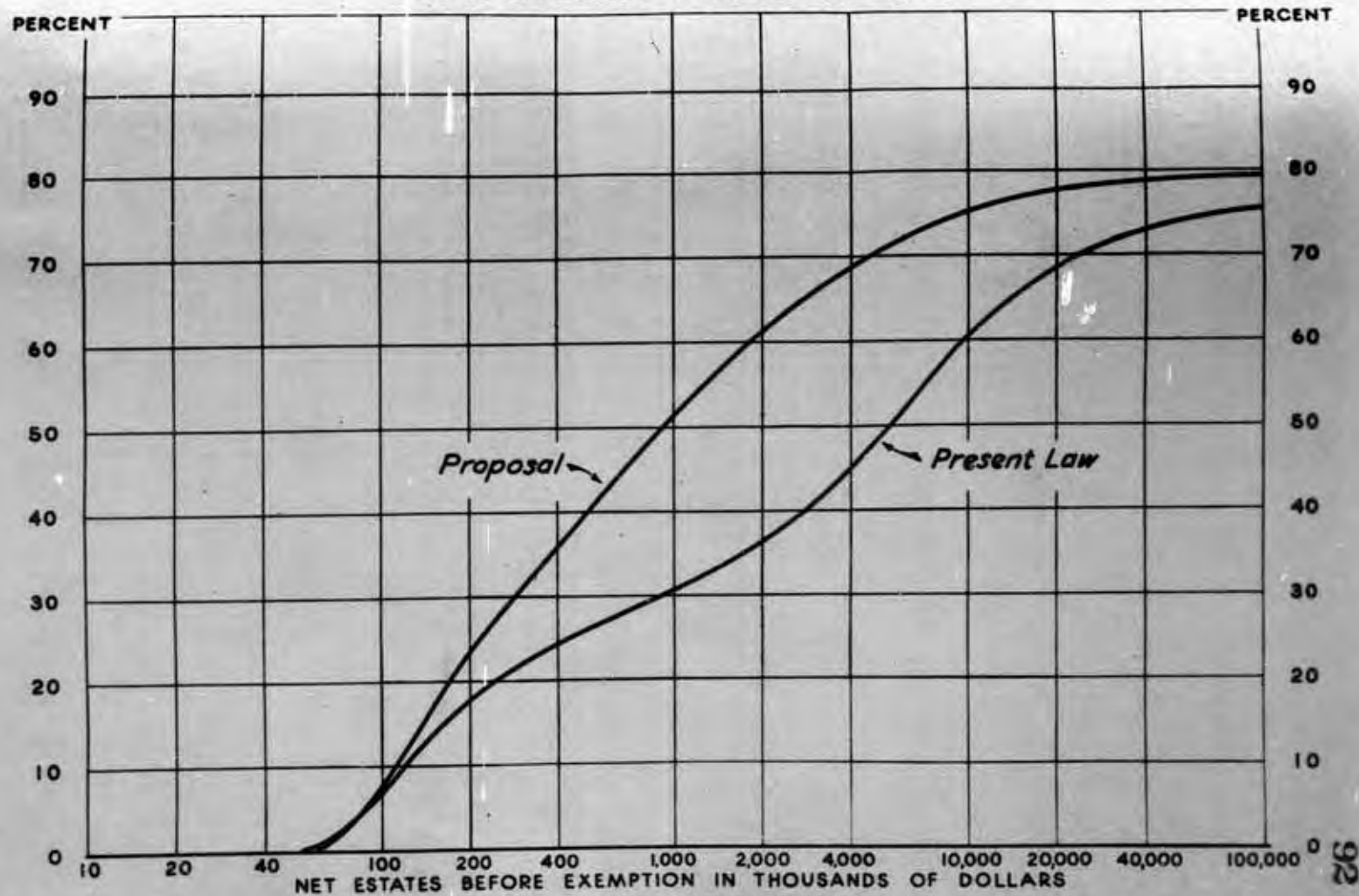
Treasury Department, Division of Tax Research

March 2, 1942

- <sup>1/</sup> Excess profits credit and normal tax rate as under present law; excess profits tax rates increased 15 percent in each bracket; surtax rate increased to flat rate of 31 percent; relief in form of tax credit of 10 percent of amount by which average surtax net income of base period exceeds current year surtax net income, but not more than 20 percent of surtax net income.
- <sup>2/</sup> Net income as reported for normal tax in 1940.
- <sup>3/</sup> Small amounts of taxable interest on government obligations disregarded for surtax purposes.
- <sup>4/</sup> A higher marginal rate results for companies subject to excess profits tax and eligible for relief in the form of the tax credit.

M

# EFFECTIVE ESTATE TAX RATES Before Credit for State Death Taxes





Comparison of estate tax rate schedule under present law and proposal to increase the tax yield by approximately \$250 million with \$60,000 specific exemption, no exclusion for life insurance

| Net estate after:     |  | Bracket rate |          | Total estate tax |           |
|-----------------------|--|--------------|----------|------------------|-----------|
| specific exemption 1/ |  | Present      | Proposal | cumulative       |           |
| (\$000)               |  | law          |          | Present law      | Proposal  |
| Under \$5             |  | 3%           | 8%       | \$ 150           | \$ 400    |
| 5 - 10                |  | 7            | 12       | 500              | 1,000     |
| 10 - 15               |  | 11           | 15       | 1,050            | 1,750     |
| 15 - 20               |  | 11           | 18       | 1,600            | 2,650     |
| 20 - 30               |  | 14           | 22       | 3,000            | 4,850     |
| 30 - 40               |  | 18           | 26       | 4,800            | 7,450     |
| 40 - 50               |  | 22           | 30       | 7,000            | 10,450    |
| 50 - 60               |  | 25           | 33       | 9,500            | 13,750    |
| 60 - 70               |  | 28           | 36       | 12,300           | 17,350    |
| 70 - 100              |  | 28           | 40       | 20,700           | 29,350    |
| 100 - 150             |  | 30           | 44       | 35,700           | 51,350    |
| 150 - 200             |  | 30           | 46       | 50,700           | 74,350    |
| 200 - 250             |  | 30           | 48       | 65,700           | 98,350    |
| 250 - 300             |  | 32           | 50       | 81,700           | 123,350   |
| 300 - 350             |  | 32           | 52       | 97,700           | 149,350   |
| 350 - 400             |  | 32           | 54       | 113,700          | 176,350   |
| 400 - 450             |  | 32           | 56       | 129,700          | 204,350   |
| 450 - 500             |  | 32           | 58       | 145,700          | 233,350   |
| 500 - 600             |  | 35           | 60       | 180,700          | 293,350   |
| 600 - 700             |  | 35           | 62       | 215,700          | 355,350   |
| 700 - 800             |  | 35-37        | 64       | 251,700          | 419,350   |
| 800 - 900             |  | 37           | 66       | 288,700          | 485,350   |
| 900 - 1,000           |  | 37           | 68       | 325,700          | 553,350   |
| 1,000 - 1,500         |  | 39-42        | 70       | 528,200          | 903,350   |
| 1,500 - 2,000         |  | 45           | 72       | 753,200          | 1,263,350 |
| 2,000 - 2,500         |  | 49           | 75       | 998,200          | 1,638,350 |
| 2,500 - 3,000         |  | 53           | 76       | 1,253,200        | 2,018,350 |
| 3,000 - 4,000         |  | 56-59        | 78       | 1,838,200        | 2,798,350 |
| 4,000 - 5,000         |  | 63           | 79       | 2,468,200        | 3,588,350 |
| 5,000 - 6,000         |  | 67           | 80       | 3,138,200        | 4,388,350 |
| 6,000 - 7,000         |  | 70           | 80       | 3,838,200        | 5,188,350 |
| 7,000 - 8,000         |  | 73           | 80       | 4,568,200        | 5,988,350 |
| 8,000 - 9,000         |  | 76           | 80       | 5,328,200        | 6,788,350 |
| 9,000 - 10,000        |  | 76           | 80       | 6,088,200        | 7,588,350 |
| 10,000 and over       |  | 77           | 80       | -                | -         |

Treasury Department, Division of Tax Research February 19, 1942.

1/ A specific exemption of \$40,000 and a life insurance exclusion of \$40,000 are allowed by the present law. The proposed law would allow a single specific exemption of \$60,000 but no life insurance exclusion.



Comparison of present and proposed estate taxes on  
net estates of selected sizes

| Net estate :<br>before :<br>specific :<br>exemption; :<br>including :<br>\$10,000 life :<br>insurance 1/ :<br>(\$000) : | Amount of tax : |            |                       | Effective rate : |          |                                        |
|-------------------------------------------------------------------------------------------------------------------------|-----------------|------------|-----------------------|------------------|----------|----------------------------------------|
|                                                                                                                         | Present         | Proposal   | Increase<br>in<br>tax | Present          | Proposal | Increase<br>in ef-<br>fective<br>rates |
|                                                                                                                         | law             |            |                       | law              |          |                                        |
| \$ 60                                                                                                                   | \$ 500          | -          | \$ -500               | .8%              | -        | -.8%                                   |
| 70                                                                                                                      | 1,600           | 1,000      | -600                  | 2.3              | 1.4%     | -.9                                    |
| 90                                                                                                                      | 4,800           | 4,850      | 50                    | 5.3              | 5.4      | .1                                     |
| 100                                                                                                                     | 7,000           | 7,450      | 450                   | 7.0              | 7.5      | .5                                     |
| 150                                                                                                                     | 20,700          | 25,350     | 4,650                 | 13.8             | 16.9     | 3.1                                    |
| 200                                                                                                                     | 35,700          | 46,950     | 11,250                | 17.9             | 23.5     | 5.6                                    |
| 400                                                                                                                     | 97,700          | 144,150    | 46,450                | 24.4             | 36.0     | 11.6                                   |
| 600                                                                                                                     | 163,200         | 257,350    | 94,150                | 27.2             | 42.9     | 15.7                                   |
| 800                                                                                                                     | 233,200         | 380,950    | 147,750               | 29.2             | 47.6     | 18.4                                   |
| 1,000                                                                                                                   | 307,200         | 512,550    | 205,350               | 30.7             | 51.3     | 20.6                                   |
| 2,000                                                                                                                   | 730,700         | 1,220,150  | 489,450               | 36.5             | 61.0     | 24.5                                   |
| 4,000                                                                                                                   | 1,808,700       | 2,751,550  | 942,850               | 45.2             | 68.8     | 23.6                                   |
| 6,000                                                                                                                   | 3,104,700       | 4,340,350  | 1,235,650             | 51.7             | 72.3     | 20.6                                   |
| 10,000                                                                                                                  | 6,050,200       | 7,540,350  | 1,490,150             | 60.5             | 75.4     | 14.9                                   |
| 20,000                                                                                                                  | 13,749,700      | 15,540,350 | 1,790,650             | 68.7             | 77.7     | 9.0                                    |
| 40,000                                                                                                                  | 29,149,700      | 31,540,350 | 2,390,650             | 72.9             | 78.9     | 6.0                                    |

Treasury Department, Division of Tax Research

February 19, 1942

- 1/ It is assumed that all of the insurance would have been excluded under the present act. The proposal would allow a single specific exemption of \$60,000 but no life insurance exclusion.

E-E- Revised

P

# Excise Tax proposals

| Article                              | Present tax                                   | Recommended tax rate and base                                                                                                                      | Estimated increase in revenues 1/ (In millions) |
|--------------------------------------|-----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| 1. Photographic apparatus            | 10% manufacturers' sales price                | 25% manufacturers' sales price                                                                                                                     | \$ 11.2                                         |
| 2. Transportation by pipe line       | 4 1/2% of amount paid                         | 10% of amount paid                                                                                                                                 | 18.7                                            |
| 3. Communications:                   |                                               |                                                                                                                                                    |                                                 |
| a. Telephone toll service            | 24-50¢, tax 5¢; additional 5¢ tax on each 50¢ | 25¢ to 39¢ ..... 5¢ tax<br>40¢ " 64¢ ..... 10¢ "<br>65¢ " 99¢ ..... 15¢ "<br>5¢ additional tax for each 5¢ or fraction thereof                     | 24.3                                            |
| b. Telegraph, cable                  | 10% of charge                                 | 15% of charge                                                                                                                                      |                                                 |
| c. Leased wires, etc.                | 10% of charge                                 | 15% of charge                                                                                                                                      |                                                 |
| d. Local telephone bill              | 6¢ of bill                                    | 10% of bill                                                                                                                                        | 46.5                                            |
| e. Coin-operated telephone under 25¢ | Exempt                                        | 10% of service charge                                                                                                                              | 6.7                                             |
| 4. Gasoline                          | 1 1/2¢ per gal.                               | 3¢ per gal.                                                                                                                                        | 242.2                                           |
| 5. Lubricating oil                   | 4 1/2¢ per gal.                               | 10¢ per gal.                                                                                                                                       | 6.9                                             |
| 6. Beer                              | \$6 per bbl.                                  | \$8 per bbl.                                                                                                                                       | 117.1                                           |
| 7. Wines:                            |                                               |                                                                                                                                                    |                                                 |
| Still wines -                        |                                               |                                                                                                                                                    |                                                 |
| Not more than 14% alcohol            | 8¢ per gal.                                   | 15¢ per gal.                                                                                                                                       |                                                 |
| 14-21% alcohol                       | 30¢ per gal.                                  | 50¢ per gal.                                                                                                                                       |                                                 |
| More than 21%                        | 65¢ per gal.                                  | 100¢ per gal.                                                                                                                                      | 25.0                                            |
| Sparkling wines                      | 7¢ per half-pint                              | 10¢ per half-pint                                                                                                                                  |                                                 |
| Artificial carbonated wines          | 3¢ per half-pint                              | 5¢ per half-pint                                                                                                                                   |                                                 |
| Liqueurs, cordials, etc.             | 2 1/2¢ per half-pint                          | 5¢ per half-pint                                                                                                                                   |                                                 |
| 8. Distilled spirits                 | \$4 per gal.                                  | \$6 per gal.                                                                                                                                       | 279.7                                           |
| 9. Transportation of persons         | 5% of amount paid                             | 15% on transportation;<br>20% on seats and berths                                                                                                  | 94.8                                            |
| 10. Carbonated soft drinks           | None                                          | a. Schedule for bottled drinks based on 1¢ per bottle retailing at not more than 10¢; b. 80¢ per lb. of carbonic acid gas used in unbottled drinks | 146.9                                           |
| 11. Candy and chewing gum            | None                                          | 15% manufacturers' sales price                                                                                                                     | 45.3                                            |
| 12. Cigars                           | Rate schedule                                 | New schedule 2/                                                                                                                                    | 13.1                                            |
| 13. Smoking tobacco                  | 18¢ per lb.                                   | 36¢ per lb.                                                                                                                                        | 26.8                                            |
| 14. Cigarettes                       | \$3.25 per M.                                 | \$3.50 per M - 10-cent brands;<br>\$4.00 per M - 15-cent brands                                                                                    | 188.6                                           |
| 15. Cigarette papers and tubes       | Schedule                                      | No exemption; tax all papers and tubes 1/2¢ per 25 papers or tubes                                                                                 | 7.8                                             |
| Total                                |                                               |                                                                                                                                                    | \$ 1,344.9                                      |

1/ Estimated full year effect of indicated excises at estimated fiscal year 1943 levels of business after allowing for the initial impact of the imposition of the suggested rates.

2/ Class A, retail price 2-5¢, tax \$2.50 M; B, 5¢, tax \$5.00 M; C, 5.1-8¢, tax \$7.50 M; D, 8.1-10¢, tax \$10.00 M; E, 10.1-15¢, tax \$15.00 M; F, 15.1-20¢, tax \$20.00 M; G, 20.1-30¢, tax \$25.00 M; H, 30.1 and over, tax \$40.00 M.

99



Handwritten text, possibly a signature or date, written vertically along the right edge of the page.

Comparison of individual income tax rates, exemptions and credits under present and proposed  
United States law and under the laws of Canada and Great Britain

|                                                     | United States<br>present law | United States<br>proposal | Canada<br>present law 1/                                                                                                                                                                                                                                                                         | Great Britain<br>present law 2/                                                                                                                                                  |
|-----------------------------------------------------|------------------------------|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Normal tax                                          | 25%                          | 25%                       | 15% on first \$1,000 in excess of<br>exemptions to 85% on net income<br>in excess of \$500,000.                                                                                                                                                                                                  | 50% -<br>reduced rate of 32½% on first \$660                                                                                                                                     |
| Surtax rates:                                       |                              |                           |                                                                                                                                                                                                                                                                                                  | 10%                                                                                                                                                                              |
| Minimum rate                                        | 6%                           | 12%                       |                                                                                                                                                                                                                                                                                                  | 47.5%                                                                                                                                                                            |
| Maximum rate                                        | 77%                          | 86%                       |                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                  |
| Minimum rate applies to                             | \$0 - \$2,000                | \$0 - \$500               |                                                                                                                                                                                                                                                                                                  | \$8,000 - \$10,000                                                                                                                                                               |
| Maximum rate applies to                             | Over \$5,000,000             | Over \$100,000            |                                                                                                                                                                                                                                                                                                  | Over \$80,000                                                                                                                                                                    |
| Personal exemptions and<br>credit for dependents 3/ |                              |                           |                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                  |
| Single person                                       | \$ 750                       | \$ 750                    | \$ 750                                                                                                                                                                                                                                                                                           | \$320                                                                                                                                                                            |
| Married person                                      | 1,500                        | 1,500                     | 1,500                                                                                                                                                                                                                                                                                            | 560                                                                                                                                                                              |
| Each dependent                                      | 400                          | 400                       | 400                                                                                                                                                                                                                                                                                              | 200                                                                                                                                                                              |
| Earned income credit                                | 10%, maximum \$1,400         | --                        | --                                                                                                                                                                                                                                                                                               | 10%, maximum \$600                                                                                                                                                               |
| Special income taxes:                               |                              |                           |                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                  |
| National Defence tax<br>(collected at source)       | --                           | --                        | For single persons: 4/<br>5% of gross income if over \$660 per<br>year and not in excess of \$1,200 per<br>year or 7% if gross income exceeds<br>\$1,200 per year.<br>For married persons: 4/<br>5% of gross income if over \$1,200 per<br>year with a tax credit of \$70 for each<br>dependent. |                                                                                                                                                                                  |
| Surtax on investment income                         | --                           | --                        | 25% on amount in excess of \$1,500 or<br>personal exemption and credit for<br>dependents if in excess of \$1,500                                                                                                                                                                                 |                                                                                                                                                                                  |
| Post-war credit                                     | --                           | --                        | --                                                                                                                                                                                                                                                                                               | The difference between the tax (at<br>above rates) computed on the basis<br>of (a) prior law personal<br>exemptions and credits and (b) the<br>present exemptions and credits 5/ |

Treasury Department, Division of Tax Research

February 27, 1942

- 1/ Income War Tax Act of 1941.
- 2/ British Finance Act (No. 7) of 1943 and Finance Act of 1941. Pound converted at \$4.
- 3/ In the case of Great Britain, personal exemption and credit for dependents are allowed for normal tax purposes only.
- 4/ In no case shall the tax reduce the income of a single person below \$660 or if married below \$1,200.
- 5/ The post-war credit is limited as follows: (a) all earned income less (\$720) for single persons and less (\$750) for a married person;  
(b) all investment income, less (\$40) for a single person and less (\$60) for a married person.

Comparison of individual income tax schedules under present and proposed United States law,  
and under the laws of Canada and Great Britain

| Net income<br>classes 1/<br>(\$000) | United States, present<br>(Revenue Act, 1931) |           |            | United States, proposed<br>(Schedule I-B, H.R. 2-1) |         |            | Canada, present (Income<br>Tax Act, 1948) 2/ |         |            | Great Britain, present<br>(Finance (no. 2) Act, 1940) |           |               | Net income<br>classes 1/<br>(\$000) |
|-------------------------------------|-----------------------------------------------|-----------|------------|-----------------------------------------------------|---------|------------|----------------------------------------------|---------|------------|-------------------------------------------------------|-----------|---------------|-------------------------------------|
|                                     | Rate                                          | Total     |            | Rate                                                | Total   |            | Rate                                         | Total   |            | Rate                                                  | Total     |               |                                     |
|                                     |                                               | surplus   | cumulative |                                                     | surplus | cumulative |                                              | surplus | cumulative |                                                       | surplus   | cumulative 3/ |                                     |
| 0 - .5                              | 66                                            | 30        | 126        | 60                                                  | 126     | 126        | 75                                           | -       | -          | -                                                     | -         | 0 - .5        | 0 - .5                              |
| .5 - 1                              | 6                                             | 60        | 135        | 15                                                  | 135     | 141        | 150                                          | -       | -          | -                                                     | -         | .5 - 1        | .5 - 1                              |
| 1 - 1.5                             | 6                                             | 90        | 141        | 18                                                  | 153     | 159        | 250                                          | -       | -          | -                                                     | -         | 1 - 1.5       | 1 - 1.5                             |
| 1.5 - 2                             | 6                                             | 120       | 147        | 20                                                  | 173     | 179        | 350                                          | -       | -          | -                                                     | -         | 1.5 - 2       | 1.5 - 2                             |
| 2 - 3                               | 9                                             | 210       | 156        | 22                                                  | 195     | 201        | 500                                          | -       | -          | -                                                     | -         | 2 - 3         | 2 - 3                               |
| 3 - 4                               | 9                                             | 300       | 165        | 24                                                  | 219     | 225        | 900                                          | -       | -          | -                                                     | -         | 3 - 4         | 3 - 4                               |
| 4 - 5                               | 13                                            | 450       | 178        | 27                                                  | 246     | 252        | 1,250                                        | -       | -          | -                                                     | -         | 4 - 5         | 4 - 5                               |
| 5 - 6                               | 13                                            | 560       | 191        | 27                                                  | 273     | 279        | 1,550                                        | -       | -          | -                                                     | -         | 5 - 6         | 5 - 6                               |
| 6 - 7                               | 17                                            | 730       | 208        | 30                                                  | 303     | 309        | 1,970                                        | -       | -          | -                                                     | -         | 6 - 7         | 6 - 7                               |
| 7 - 8                               | 17                                            | 900       | 225        | 30                                                  | 333     | 339        | 2,370                                        | -       | -          | -                                                     | -         | 7 - 8         | 7 - 8                               |
| 8 - 9                               | 21                                            | 1,100     | 246        | 34                                                  | 367     | 373        | 2,790                                        | 10      | 100        | 10                                                    | 200       | 8 - 9         | 8 - 9                               |
| 9 - 10                              | 21                                            | 1,320     | 267        | 34                                                  | 401     | 407        | 3,290                                        | 10      | 200        | 10                                                    | 400       | 9 - 10        | 9 - 10                              |
| 10 - 12                             | 25                                            | 1,620     | 292        | 38                                                  | 439     | 445        | 4,170                                        | 11.25   | 425        | 11.25                                                 | 825       | 10 - 12       | 10 - 12                             |
| 12 - 14                             | 29                                            | 2,400     | 321        | 42                                                  | 481     | 487        | 5,110                                        | 16.25   | 750        | 16.25                                                 | 987       | 12 - 14       | 12 - 14                             |
| 14 - 15                             | 32                                            | 2,720     | 353        | 45                                                  | 526     | 531        | 5,580                                        | 16.25   | 913        | 16.25                                                 | 1,100     | 14 - 15       | 14 - 15                             |
| 15 - 16                             | 32                                            | 3,040     | 385        | 45                                                  | 571     | 576        | 6,080                                        | 16.25   | 1,075      | 16.25                                                 | 1,213     | 15 - 16       | 15 - 16                             |
| 16 - 18                             | 35                                            | 3,740     | 420        | 48                                                  | 619     | 624        | 7,080                                        | 21.25   | 1,500      | 21.25                                                 | 1,725     | 16 - 18       | 16 - 18                             |
| 18 - 20                             | 38                                            | 4,500     | 458        | 51                                                  | 670     | 675        | 8,080                                        | 21.25   | 1,925      | 21.25                                                 | 2,137     | 18 - 20       | 18 - 20                             |
| 20 - 22                             | 41                                            | 5,320     | 500        | 54                                                  | 724     | 729        | 9,140                                        | 25      | 2,425      | 25                                                    | 2,562     | 20 - 22       | 20 - 22                             |
| 22 - 24                             | 44                                            | 6,200     | 544        | 57                                                  | 781     | 786        | 10,200                                       | 25      | 2,925      | 25                                                    | 3,067     | 22 - 24       | 22 - 24                             |
| 24 - 26                             | 44                                            | 7,080     | 588        | 57                                                  | 838     | 843        | 11,250                                       | 26.75   | 3,500      | 26.75                                                 | 3,637     | 24 - 26       | 24 - 26                             |
| 26 - 30                             | 47                                            | 8,960     | 635        | 60                                                  | 898     | 903        | 13,380                                       | 26.75   | 4,650      | 26.75                                                 | 4,887     | 26 - 30       | 26 - 30                             |
| 30 - 32                             | 47                                            | 9,900     | 682        | 60                                                  | 958     | 963        | 14,460                                       | 26.75   | 5,225      | 26.75                                                 | 5,457     | 30 - 32       | 30 - 32                             |
| 32 - 34                             | 50                                            | 12,900    | 732        | 64                                                  | 1,022   | 1,027      | 17,780                                       | 35      | 7,325      | 35                                                    | 8,082     | 32 - 34       | 32 - 34                             |
| 34 - 40                             | 53                                            | 13,760    | 785        | 64                                                  | 1,086   | 1,091      | 18,880                                       | 35      | 8,025      | 35                                                    | 8,607     | 34 - 40       | 34 - 40                             |
| 40 - 44                             | 53                                            | 16,080    | 838        | 64                                                  | 1,150   | 1,155      | 21,150                                       | 41.25   | 9,675      | 41.25                                                 | 10,542    | 40 - 44       | 40 - 44                             |
| 44 - 50                             | 55                                            | 19,380    | 893        | 72                                                  | 1,222   | 1,227      | 24,580                                       | 41.25   | 12,150     | 41.25                                                 | 13,392    | 44 - 50       | 44 - 50                             |
| 50 - 60                             | 57                                            | 25,080    | 950        | 76                                                  | 1,298   | 1,303      | 30,480                                       | 41.25   | 15,775     | 41.25                                                 | 17,367    | 50 - 60       | 50 - 60                             |
| 60 - 70                             | 59                                            | 30,980    | 1,009      | 78                                                  | 1,376   | 1,381      | 36,380                                       | 45      | 20,775     | 45                                                    | 21,042    | 60 - 70       | 60 - 70                             |
| 70 - 75                             | 61                                            | 34,030    | 1,070      | 80                                                  | 1,456   | 1,461      | 39,330                                       | 45      | 23,025     | 45                                                    | 23,292    | 70 - 75       | 70 - 75                             |
| 75 - 80                             | 61                                            | 37,080    | 1,131      | 80                                                  | 1,536   | 1,541      | 42,480                                       | 45      | 25,275     | 45                                                    | 25,542    | 75 - 80       | 75 - 80                             |
| 80 - 90                             | 63                                            | 43,380    | 1,194      | 82                                                  | 1,618   | 1,623      | 48,780                                       | 47.50   | 30,025     | 47.50                                                 | 30,302    | 80 - 90       | 80 - 90                             |
| 90 - 100                            | 64                                            | 49,780    | 1,258      | 84                                                  | 1,699   | 1,704      | 55,080                                       | 47.50   | 34,775     | 47.50                                                 | 35,072    | 90 - 100      | 90 - 100                            |
| 100 - 150                           | 65                                            | 62,280    | 1,323      | 86                                                  | 1,781   | 1,786      | 68,580                                       | 47.50   | 58,525     | 47.50                                                 | 58,802    | 100 - 150     | 100 - 150                           |
| 150 - 200                           | 66                                            | 115,280   | 1,389      | 86                                                  | 1,863   | 1,868      | 123,580                                      | 47.50   | 82,275     | 47.50                                                 | 82,552    | 150 - 200     | 150 - 200                           |
| 200 - 250                           | 67                                            | 148,780   | 1,456      | 86                                                  | 1,945   | 1,950      | 151,080                                      | 47.50   | 106,025    | 47.50                                                 | 106,302   | 200 - 250     | 200 - 250                           |
| 250 - 300                           | 69                                            | 183,280   | 1,523      | 86                                                  | 2,027   | 2,032      | 198,580                                      | 47.50   | 129,775    | 47.50                                                 | 130,052   | 250 - 300     | 250 - 300                           |
| 300 - 400                           | 71                                            | 254,280   | 1,590      | 86                                                  | 2,109   | 2,114      | 278,580                                      | 47.50   | 177,275    | 47.50                                                 | 177,552   | 300 - 400     | 300 - 400                           |
| 400 - 500                           | 72                                            | 326,280   | 1,657      | 86                                                  | 2,191   | 2,196      | 358,580                                      | 47.50   | 224,775    | 47.50                                                 | 225,052   | 400 - 500     | 400 - 500                           |
| 500 - 750                           | 73                                            | 508,780   | 1,730      | 86                                                  | 2,273   | 2,278      | 571,080                                      | 47.50   | 343,525    | 47.50                                                 | 343,802   | 500 - 750     | 500 - 750                           |
| 750 - 1,000                         | 74                                            | 693,780   | 1,804      | 86                                                  | 2,355   | 2,360      | 783,580                                      | 47.50   | 462,275    | 47.50                                                 | 462,552   | 750 - 1,000   | 750 - 1,000                         |
| 1,000 - 2,000                       | 75                                            | 1,343,780 | 1,879      | 86                                                  | 2,437   | 2,442      | 1,633,580                                    | 47.50   | 637,275    | 47.50                                                 | 637,552   | 1,000 - 2,000 | 1,000 - 2,000                       |
| 2,000 - 5,000                       | 76                                            | 3,773,780 | 1,955      | 86                                                  | 2,519   | 2,524      | 4,183,580                                    | 47.50   | 2,362,275  | 47.50                                                 | 2,362,552 | 2,000 - 5,000 | 2,000 - 5,000                       |
| Over 5,000                          | 77                                            | -         | 1,955      | 86                                                  | -       | -          | -                                            | 47.50   | -          | -                                                     | -         | Over 5,000    | Over 5,000                          |

Treasury Department, Division of Tax Research

February 27, 1942

- 1/ For the United States and Canadian laws, net income after personal exemption and credits for dependents; for Great Britain, net income before personal exemption and credit for dependents.
- 2/ Canadian rates are the basic rates applicable to individual net income in excess of personal exemption and credit for dependents. In addition to the above rates there is also imposed a surtax of 4 percent on investment income applicable to such income in excess of \$1,500 (or the amount of a taxpayer's normal exemption if higher than \$1,500).
- 3/ Pounds converted at \$4.

## INDIVIDUAL INCOME TAX

Comparison of individual income taxes under present and proposed United States law and under the laws of Canada and Great Britain

Single Persons - No Dependents

| Net income before personal exemption | United States present law |      | United States proposal (L-R Revised-3) |      | Canada present law 2/   |      | Great Britain present law 3/ (includes post-war credit) |       | Net income before personal exemption |
|--------------------------------------|---------------------------|------|----------------------------------------|------|-------------------------|------|---------------------------------------------------------|-------|--------------------------------------|
| 1/                                   | Amount of Effective tax   | Rate | Amount of Effective tax                | Rate | Amount of Effective tax | Rate | Amount of Effective tax                                 | Rate  | 2/                                   |
| 800 \$                               | 3                         | 0.4% | \$ 8                                   | 1.0% | \$ 48                   | 6.0% | \$ 130                                                  | 16.3% | \$ 800                               |
| 900                                  | 11                        | 1.2  | 24                                     | 2.7  | 66                      | 7.6  | 199                                                     | 17.7  | 900                                  |
| 1,000                                | 21                        | 2.1  | 40                                     | 4.0  | 88                      | 8.8  | 189                                                     | 18.9  | 1,000                                |
| 1,100                                | 31                        | 2.8  | 56                                     | 5.1  | 108                     | 9.8  | 220                                                     | 20.0  | 1,100                                |
| 1,200                                | 40                        | 3.3  | 72                                     | 6.0  | 128                     | 10.7 | 265                                                     | 22.1  | 1,200                                |
| 1,500                                | 69                        | 4.6  | 128                                    | 8.5  | 216                     | 14.5 | 400                                                     | 26.7  | 1,500                                |
| 1,600                                | 79                        | 4.9  | 147                                    | 9.2  | 240                     | 15.0 | 445                                                     | 27.8  | 1,600                                |
| 2,000                                | 117                       | 5.9  | 230                                    | 11.5 | 340                     | 17.0 | 625                                                     | 31.3  | 2,000                                |
| 2,500                                | 165                       | 6.6  | 345                                    | 13.8 | 475                     | 19.0 | 850                                                     | 34.0  | 2,500                                |
| 3,000                                | 221                       | 7.4  | 470                                    | 15.7 | 623                     | 20.8 | 1,075                                                   | 35.8  | 3,000                                |
| 4,000                                | 347                       | 8.7  | 735                                    | 18.4 | 955                     | 23.9 | 1,525                                                   | 38.1  | 4,000                                |
| 5,000                                | 485                       | 9.7  | 1,023                                  | 20.5 | 1,333                   | 26.7 | 1,975                                                   | 39.5  | 5,000                                |
| 6,000                                | 649                       | 10.8 | 1,333                                  | 22.2 | 1,740                   | 29.0 | 2,425                                                   | 40.4  | 6,000                                |
| 8,000                                | 1,031                     | 12.9 | 1,990                                  | 24.9 | 2,630                   | 32.9 | 3,425                                                   | 42.8  | 8,000                                |
| 10,000                               | 1,493                     | 14.9 | 2,729                                  | 27.2 | 3,600                   | 36.0 | 4,625                                                   | 46.3  | 10,000                               |
| 12,500                               | 2,178                     | 17.4 | 3,740                                  | 29.9 | 4,928                   | 39.4 | 6,181                                                   | 49.4  | 12,500                               |
| 15,000                               | 2,994                     | 20.0 | 4,888                                  | 32.6 | 6,278                   | 41.9 | 7,837                                                   | 52.2  | 15,000                               |
| 20,000                               | 4,929                     | 24.6 | 7,473                                  | 37.4 | 9,105                   | 45.5 | 11,350                                                  | 56.8  | 20,000                               |
| 25,000                               | 7,224                     | 28.9 | 10,418                                 | 41.7 | 12,083                  | 48.3 | 15,137                                                  | 60.5  | 25,000                               |
| 50,000                               | 20,582                    | 41.2 | 27,715                                 | 55.4 | 28,393                  | 56.8 | 36,575                                                  | 73.2  | 50,000                               |
| 75,000                               | 36,487                    | 48.6 | 48,055                                 | 64.1 | 45,878                  | 61.2 | 59,950                                                  | 79.9  | 75,000                               |
| 100,000                              | 53,214                    | 53.2 | 69,625                                 | 69.6 | 64,348                  | 64.3 | 84,200                                                  | 84.2  | 100,000                              |
| 500,000                              | 345,654                   | 69.1 | 429,610                                | 85.9 | 411,720                 | 82.3 | 474,200                                                 | 94.8  | 500,000                              |
| 1,000,000                            | 733,139                   | 73.3 | 879,610                                | 88.0 | 892,683                 | 89.2 | 961,700                                                 | 96.2  | 1,000,000                            |
| 5,000,000                            | 3,923,124                 | 78.5 | 4,479,610                              | 89.6 | 4,731,683               | 94.6 | 4,861,700                                               | 97.2  | 5,000,000                            |

Treasury Department, Division of Tax Research

February 28, 1942

In calculating the taxes under present United States and British law maximum earned income is assumed. No earned income credit is allowed under the United States proposal. In the Canadian calculations all income in excess of \$50,000 is assumed to be investment income.

Includes national defense tax and surtax on investment income.

Unlike the United States and Canadian, British personal exemptions and credit for dependents are allowed for normal tax purposes only. Pounds converted at \$4.

## INDIVIDUAL INCOME TAX

Comparison of individual income taxes under present and proposed United States law and under the laws of Canada and Great Britain

Married person - no dependents

| Net income before personal exemption 1/ | United States present law | United States proposal (L-E Revised -3) | Canada 2/ present law | Great Britain 3/ present law (includes post-war credit) | Net income before personal exemption |                |           |
|-----------------------------------------|---------------------------|-----------------------------------------|-----------------------|---------------------------------------------------------|--------------------------------------|----------------|-----------|
|                                         | Amount of tax             | Effective rate                          | Amount of tax         | Effective rate                                          | Amount of tax                        | Effective rate |           |
| \$ 1,500                                | -                         | -                                       | 75                    | 5.0%                                                    | 280                                  | 18.7%          | \$ 1,500  |
| 1,600                                   | 6                         | .4%                                     | 95                    | 5.9                                                     | 325                                  | 20.3           | 1,600     |
| 1,700                                   | 13                        | .8                                      | 115                   | 6.8                                                     | 370                                  | 21.8           | 1,700     |
| 1,800                                   | 23                        | 1.3                                     | 135                   | 7.5                                                     | 415                                  | 23.1           | 1,800     |
| 1,900                                   | 32                        | 1.7                                     | 155                   | 8.2                                                     | 460                                  | 24.2           | 1,900     |
| 2,000                                   | 42                        | 2.1                                     | 175                   | 8.8                                                     | 505                                  | 25.3           | 2,000     |
| 2,100                                   | 52                        | 2.5                                     | 195                   | 9.3                                                     | 550                                  | 26.2           | 2,100     |
| 2,200                                   | 61                        | 2.8                                     | 215                   | 9.8                                                     | 595                                  | 27.0           | 2,200     |
| 2,300                                   | 71                        | 3.1                                     | 235                   | 10.2                                                    | 640                                  | 27.8           | 2,300     |
| 2,400                                   | 80                        | 3.3                                     | 255                   | 10.6                                                    | 685                                  | 28.5           | 2,400     |
| 2,500                                   | 90                        | 3.6                                     | 275                   | 11.0                                                    | 730                                  | 29.2           | 2,500     |
| 3,000                                   | 138                       | 4.6                                     | 400                   | 13.3                                                    | 955                                  | 31.8           | 3,000     |
| 4,000                                   | 249                       | 6.2                                     | 675                   | 16.9                                                    | 1,405                                | 35.1           | 4,000     |
| 5,000                                   | 375                       | 7.5                                     | 1,000                 | 20.0                                                    | 1,855                                | 37.1           | 5,000     |
| 6,000                                   | 521                       | 8.7                                     | 1,365                 | 22.8                                                    | 2,305                                | 38.4           | 6,000     |
| 8,000                                   | 873                       | 10.9                                    | 2,180                 | 27.3                                                    | 3,305                                | 41.3           | 8,000     |
| 10,000                                  | 1,305                     | 13.1                                    | 3,080                 | 30.8                                                    | 4,505                                | 45.1           | 10,000    |
| 12,500                                  | 1,960                     | 15.7                                    | 4,325                 | 34.6                                                    | 6,061                                | 48.5           | 12,500    |
| 15,000                                  | 2,739                     | 18.3                                    | 5,625                 | 37.5                                                    | 7,717                                | 51.4           | 15,000    |
| 20,000                                  | 4,614                     | 23.1                                    | 8,330                 | 41.7                                                    | 11,230                               | 56.2           | 20,000    |
| 25,000                                  | 6,864                     | 27.5                                    | 11,185                | 44.7                                                    | 15,017                               | 60.1           | 25,000    |
| 50,000                                  | 20,439                    | 40.9                                    | 26,965                | 53.9                                                    | 36,455                               | 72.9           | 50,000    |
| 75,000                                  | 35,999                    | 48.0                                    | 43,935                | 58.6                                                    | 59,830                               | 79.8           | 75,000    |
| 100,000                                 | 52,704                    | 52.7                                    | 61,875                | 61.9                                                    | 84,080                               | 84.1           | 100,000   |
| 500,000                                 | 345,084                   | 69.0                                    | 401,120               | 80.2                                                    | 474,080                              | 94.8           | 500,000   |
| 1,000,000                               | 732,554                   | 73.3                                    | 871,045               | 87.1                                                    | 961,580                              | 96.2           | 1,000,000 |
| 5,000,000                               | 3,922,524                 | 78.5                                    | 4,631,045             | 92.6                                                    | 4,861,580                            | 97.2           | 5,000,000 |

Treasury Department, Division of Tax Research

February 28, 1942.

1/ In calculating the taxes under present United States and British law maximum earned income is assumed. No earned income credit is allowed under the United States proposal. In the Canadian calculations all income in excess of \$30,000 is assumed to be investment income.

2/ Includes national defense tax and surtax on investment income.

3/ Unlike the United States and Canadian, British personal exemption and credit for dependents are allowed for normal tax purposes only. Pound converted at \$4.

## Individual Income Tax

Comparison of individual income taxes under present and proposed United States law  
and under the laws of Canada and Great Britain

Married person - Two dependents

| Net income before personal exemption & dependent credit 1/ | United States present law | United States proposal (1-E Revised-3) | Canada 2/      | Great Britain present law (includes post-war credit 3/) | Net income before personal exemption & dependent credit 1/ |           |       |           |
|------------------------------------------------------------|---------------------------|----------------------------------------|----------------|---------------------------------------------------------|------------------------------------------------------------|-----------|-------|-----------|
| Amount of tax                                              | Effective rate            | Amount of tax                          | Effective rate | Amount of tax                                           | Effective rate                                             |           |       |           |
| \$ 2,300                                                   | -                         | \$ 16                                  | .7%            | \$ 75                                                   | 3.3%                                                       | \$ 440    | 19.1% | \$ 2,300  |
| 2,400                                                      | 6                         | 32                                     | 1.3            | 95                                                      | 4.0                                                        | 485       | 20.2  | 2,400     |
| 2,500                                                      | 12                        | 64                                     | 2.4            | 115                                                     | 4.6                                                        | 530       | 21.2  | 2,500     |
| 2,700                                                      | 29                        | 118                                    | 3.9            | 155                                                     | 5.7                                                        | 620       | 23.0  | 2,700     |
| 3,000                                                      | 58                        | 333                                    | 8.3            | 215                                                     | 7.2                                                        | 755       | 25.2  | 3,000     |
| 4,000                                                      | 154                       | 587                                    | 11.7           | 450                                                     | 11.3                                                       | 1,205     | 30.1  | 4,000     |
| 5,000                                                      | 271                       | 861                                    | 14.4           | 735                                                     | 14.7                                                       | 1,655     | 33.1  | 5,000     |
| 6,000                                                      | 397                       | 1,472                                  | 18.4           | 1,070                                                   | 17.8                                                       | 2,105     | 35.1  | 6,000     |
| 8,000                                                      | 717                       | 2,143                                  | 21.4           | 1,842                                                   | 23.0                                                       | 3,105     | 38.8  | 8,000     |
| 10,000                                                     | 1,117                     | 3,089                                  | 24.7           | 2,710                                                   | 27.1                                                       | 4,305     | 43.1  | 10,000    |
| 12,500                                                     | 1,728                     | 4,167                                  | 27.8           | 3,909                                                   | 31.3                                                       | 5,861     | 46.9  | 12,500    |
| 15,000                                                     | 2,475                     | 6,629                                  | 33.1           | 5,209                                                   | 34.7                                                       | 7,517     | 50.1  | 15,000    |
| 20,000                                                     | 4,287                     | 9,472                                  | 37.9           | 7,890                                                   | 39.5                                                       | 11,030    | 55.2  | 20,000    |
| 25,000                                                     | 6,480                     | 13,721                                 | 42.9           | 10,721                                                  | 42.9                                                       | 14,817    | 59.3  | 25,000    |
| 50,000                                                     | 19,967                    | 26,537                                 | 53.1           | 26,437                                                  | 52.9                                                       | 36,255    | 72.5  | 50,000    |
| 75,000                                                     | 35,479                    | 46,753                                 | 62.3           | 43,391                                                  | 57.9                                                       | 59,630    | 79.5  | 75,000    |
| 100,000                                                    | 52,160                    | 68,261                                 | 68.3           | 61,299                                                  | 61.3                                                       | 83,680    | 83.9  | 100,000   |
| 500,000                                                    | 344,476                   | 428,215                                | 85.6           | 400,408                                                 | 80.1                                                       | 473,880   | 94.8  | 500,000   |
| 1,000,000                                                  | 731,930                   | 878,215                                | 87.8           | 870,293                                                 | 87.0                                                       | 961,380   | 96.1  | 1,000,000 |
| 5,000,000                                                  | 3,921,884                 | 4,478,215                              | 89.6           | 4,630,293                                               | 92.6                                                       | 4,861,380 | 97.2  | 5,000,000 |

Treasury Department, Division of Tax Research

February 28, 1942

- 1/ In calculating the taxes under present United States and British law maximum earned income is assumed. No earned income credit is allowed under the United States proposal. In the Canadian calculations all income in excess of \$30,000 is assumed to be investment income.
- 2/ Includes national defense tax and surtax on investment income.
- 3/ Unlike the United States and Canadian, British personal exemption and credit for dependents are allowed for normal tax purposes only. Pound converted at \$4.00.

British and Canadian corporation income and excess profits taxes.

British corporations are subject to the income tax and either the National Defence Contribution or the excess profits tax, whichever is greater.

The income tax rate is 50 percent on net income (after excess profits tax or National Defence Contribution.) The corporation income tax rate is the same as the standard rate applicable to individuals. Corporations may reimburse themselves for the income tax when distributing earnings to shareholders. Corporations are, therefore, merely the withholding agents with respect to the standard rate of 50 percent on dividends.

The National Defence Contribution rate is 5 percent on net income (before deduction of income tax and excess profits tax).

The excess profits tax rate is 100 percent on profits (before income tax and National Defence Contribution) which exceed the profits for 1935, 1936, the average of 1935 and 1937 or the average of 1936 and 1937. Under the Finance Act of 1941, 20 percent of the net amount of excess profits tax paid by every concern (after deducting any repayment on account of deficiencies) is treated as a credit to be refunded to the taxpayer after the war at such date as Parliament may determine.

Canadian corporations are subject to an income tax of 15 percent (20 percent for corporations filing consolidated returns) and an excess profits tax. The excess profits tax rate is 75 percent on profits in excess of average profits for 1936-1939 (after deduction of income tax thereon) or 22 percent on current year net income (before deduction of income tax thereon) whichever results in the greater tax. Businesses with profits of \$5,000 or less, before shareholders' or partners' and proprietors' salaries, drawings or other payments are exempt from the excess profits tax.

The income and excess profits tax rates applicable to corporations in the United States under present and proposed Federal law and under the British and Canadian laws are shown in the following table:

- 2 -

Comparison of corporation income and excess profits  
tax rates in the United States, Great Britain and Canada.

|                                     | United States (Federal)                                                                        |                                                                              | Great Britain                                                                                        | Canada                                                                                          |
|-------------------------------------|------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
|                                     | Present law                                                                                    | Proposal                                                                     |                                                                                                      |                                                                                                 |
| Income tax                          | 31% <sup>1/</sup><br>(for corporations with normal<br>tax net income of more than<br>\$25,000) | 55% <sup>2/</sup>                                                            | 50% <sup>3/</sup>                                                                                    | 10% (20%<br>for corporations<br>filing consoli-<br>dated returns)                               |
| Minimum under excess<br>profits tax | -                                                                                              | -                                                                            | 5                                                                                                    | 22                                                                                              |
| Total income tax                    | 31% <sup>1/</sup>                                                                              | 55% <sup>2/</sup>                                                            | 55% <sup>3/</sup>                                                                                    | 40%                                                                                             |
| Excess profits tax                  | 35% - 60% <sup>4/</sup>                                                                        | 50% - 75% <sup>4/</sup>                                                      | 100% of excess<br>profits <sup>5/</sup> or<br>5 percent of<br>net income<br>whichever is<br>greater. | 75% of excess<br>profits <sup>6/</sup><br>or 22% of net<br>income which-<br>ever is<br>greater. |
| Post-war credit                     | -                                                                                              | Tax in ex-<br>cess of 80%<br>on any dol-<br>lar of in-<br>come <sup>1/</sup> | 20% of the net<br>amount of ex-<br>cess profits<br>tax paid<br><sup>5/</sup>                         | -                                                                                               |

<sup>1/</sup> Includes 24% normal tax and surtax of 7%.

<sup>2/</sup> Includes 24% normal tax and surtax of 31%. If current year surtax net income is less than the average surtax net income of the base period years 1936-1939, a tax credit equal to 10% of the difference is allowed. The credit is limited to a maximum of 20% of current year surtax net income.

<sup>3/</sup> The corporation may reimburse itself for the tax when distributing earnings to shareholders. The corporation, therefore, is merely the withholding agent with respect to the standard rate of 50% on dividends.

<sup>4/</sup> The excess profits tax is imposed at graduated rates on excess profits net income in excess of (a) a credit of 95% of the average earnings for 1936 - 1939 or 8% on the first \$5,000,000 of invested capital and 7% on the balance, whichever is greater, and (b) a specific exemption of \$5,000.

<sup>5/</sup> The excess profits tax is imposed on the excess of profits of the taxable year over profits for 1935, 1936, the average of 1935 and 1937 or the average of 1936 and 1937.

<sup>6/</sup> The excess profits tax is imposed on excess profits net income in excess of the average profits for 1936-1939.

- 3 -

- 1/ Such amounts are to be held by the Government to the account of the corporation and be returnable within a limited period after the war, in those cases where it is spent for new and additional capital equipment or otherwise is spent in the additional employment of labor.
- 8/ After deducting any repayment on account of deficiencies. The amount of the credit is to be refunded to the taxpayer after the war at such date as Parliament may determine.

Treasury Department  
Division of Tax Research

February 27, 1942.

Amount and percent of corporation profits remaining after individual income tax and corporate income and excess profits taxes in the United States under present law and under proposed 1942 plan, and in Great Britain and Canada 108  
1/

I. Amount of corporation profits remaining after individual income tax and corporate income and excess profits taxes

|                               | : Shareholder's income from other sources          |       |       |       |       |
|-------------------------------|----------------------------------------------------|-------|-------|-------|-------|
|                               | : None : \$5,000 : \$10,000 : \$50,000 : \$100,000 |       |       |       |       |
| United States, present law 2/ | \$841                                              | \$718 | \$631 | \$345 | \$269 |
| United States, proposal 2/    | 512                                                | 358   | 317   | 123   | 61    |
| Great Britain 3/              | 500                                                | 500   | 387   | 87    | 25    |
| Canada 4/                     | 900                                                | 537   | 433   | 306   | 252   |

II. Percent of corporation profits remaining after individual income tax and corporate income and excess profits taxes

|                               | : Shareholder's income from other sources          |       |       |       |       |
|-------------------------------|----------------------------------------------------|-------|-------|-------|-------|
|                               | : None : \$5,000 : \$10,000 : \$50,000 : \$100,000 |       |       |       |       |
| United States, present law 2/ | 56.1%                                              | 47.9% | 42.1% | 23.0% | 17.9% |
| United States, proposal 2/    | 34.1                                               | 24.5  | 21.1  | 8.2   | 4.1   |
| Great Britain 3/              | 31.3                                               | 33.3  | 25.8  | 5.8   | 1.7   |
| Canada 4/                     | 60.0                                               | 35.8  | 28.9  | 20.4  | 16.8  |

Treasury Department, Division of Tax Research March 2, 1942

- 1/ Basis of computation: It is assumed that the corporation has current year profits of \$1,500,000 and average base year earnings of \$1,000,000; that the concept of income is the same in the United States, Great Britain and Canada; that the corporation's excess profits credit is determined on the basis of average earnings during the base period; that the corporation distributed all of its profits after taxes and that the shareholder in the examples has a 1/10 of 1% equity in the income of the corporation.
- 2/ Present law, Revenue Act of 1941; proposal, for individual income tax surtax Schedule I-B, revised-2, is substituted for present schedule and the earned income credit is eliminated; and for corporations, excess profits credit same as under present law, rates increased by 15 percentage points and surtax rate increased to flat rate of 31%.
- 3/ Finance Act of 1941.
- 4/ Income War Tax Act of 1941.

Comparison of the interlocking effects of the individual income tax and corporation income and excess profits taxes in the United States under present law and under the proposed 1942 plan, with British and Canadian systems 1/

|                                                                                    | : Shareholder with no income from other sources |             |             |             |
|------------------------------------------------------------------------------------|-------------------------------------------------|-------------|-------------|-------------|
|                                                                                    | : United States                                 |             | : British   | : Canadian  |
|                                                                                    | : Present                                       | : Proposal  | : <u>4/</u> | : <u>5/</u> |
|                                                                                    | : law <u>2/</u>                                 | : <u>3/</u> | :           | :           |
| 1. Amount of share in corporation profits before corporation taxes <u>6/</u>       | 1,500                                           | 1,500       | 1,500       | 1,500       |
| 2. Total corporation income and excess profits tax on share                        | 659                                             | 988         | 1,000       | 600         |
| 3. Amount available for distribution by corporation to shareholder <u>7/</u> (1-2) | 841                                             | 512         | 500         | 900         |
| 4. Individual income tax on share of profits received from corporation             | -                                               | -           | -           | -           |
| 5. Total tax on share of corporation profits (2+4)                                 | 659                                             | 988         | 1,000       | 600         |
| 6. Amount of profits remaining after corporation and individual taxes (1-5)        | 841                                             | 512         | 500         | 900         |
| 7. Profits after taxes as a percent of profits before taxes (6+1)                  | 56.1%                                           | 34.1%       | 33.3%       | 60.0%       |

Treasury Department, Division of Tax Research

February 27, 1942.

- 1/ Basis of computation: It is assumed that the corporation has current year profits of \$1,500,000 and average base year earnings of \$1,000,000; that the concept of income is the same in the United States, Great Britain and Canada; that the corporation's excess profits credit is determined on the basis of average earnings during the base period; that the corporation distributes all of its profits after taxes and that the shareholder in the example has a 1/10 of 1% equity in the income of the corporation.
- 2/ Revenue Act of 1941.
- 3/ Proposals: For corporations, excess profits credit as under present law, excess profits rates increased by 15 percentage points, normal tax as under present law, surtax rate increased to a flat rate of 31%; for individuals surtax Schedule I-E, rev. 3, substituted for present schedule and the earned income credit eliminated.
- 4/ Finance Act of 1941. The corporation excess profits tax is before post-war credit and the amount of individual income tax on share of profits from corporation is the surtax only. The standard rate is withheld at source by corporations.
- 5/ Income War Tax Act of 1941.
- 6/ Assumed to be 0.1% of current year earnings of corporation.
- 7/ Assuming full distribution of profits.

Comparison of the interlocking effects of the individual income tax and corporation income and excess profits taxes in the United States under present law and under the proposed 1942 plan, with British and Canadian systems 1/

|                                                                                    | : Shareholder with \$5,000 from other sources |             |             |             |
|------------------------------------------------------------------------------------|-----------------------------------------------|-------------|-------------|-------------|
|                                                                                    | : United States                               |             | : British   | : Canadian  |
|                                                                                    | : Present                                     | : Proposal  | : <u>4/</u> | : <u>5/</u> |
|                                                                                    | : law <u>2/</u>                               | : <u>3/</u> |             |             |
| 1. Amount of share in corporation profits before corporation taxes <u>6/</u>       | 1,500                                         | 1,500       | 1,500       | 1,500       |
| 2. Total corporation income and excess profits tax on share                        | 659                                           | 988         | 1,000       | 600         |
| 3. Amount available for distribution by corporation to shareholder <u>7/</u> (1-2) | 841                                           | 512         | 500         | 900         |
| 4. Individual income tax on share of profits received from corporation             | 123                                           | 144         | -           | 363         |
| 5. Total tax on share of corporation profits (2+4)                                 | 782                                           | 1,132       | 1,000       | 963         |
| 6. Amount of profits remaining after corporation and individual taxes (1-5)        | 718                                           | 368         | 500         | 537         |
| 7. Profits after taxes as a percent of profits before taxes (6÷1)                  | 47.9%                                         | 24.5%       | 33.3%       | 35.8%       |

Treasury Department, Division of Tax Research

February 27, 1942.

- 1/ Basis of computation: It is assumed that the corporation has current year profits of \$1,500,000 and average base year earnings of \$1,000,000; that the concept of income is the same in the United States, Great Britain and Canada; that the corporation's excess profits credit is determined on the basis of average earnings during the base period; that the corporation distributes all of its profits after taxes and that the shareholder in the examples has a 1/10 of 1% equity in the income of the corporation.
- 2/ Revenue Act of 1941.
- 3/ Proposals: For corporations, excess profits credit as under present law, excess profits rates increased by 15 percentage points, normal tax as under present law, surtax rate increased to a flat rate of 31%; for individuals surtax Schedule I-E, rev. 3, substituted for present schedule and the earned income credit eliminated.
- 4/ Finance Act of 1941. The corporation excess profits tax is before post-war credit and the amount of individual income tax on share of profits from corporation is the surtax only. The standard rate is withheld at source by corporations.
- 5/ Income War Tax Act of 1941.
- 6/ Assumed to be 0.1% of current year earnings of corporation.
- 7/ Assuming full distribution of profits.

Comparison of the interlocking effects of the individual income tax and corporation income and excess profits taxes in the United States under present law and under the proposed 1942 plan, with British and Canadian systems 1/

|                                                                             | : Shareholder with \$10,000 from other sources |            |           |            |
|-----------------------------------------------------------------------------|------------------------------------------------|------------|-----------|------------|
|                                                                             | : United States                                |            | : British | : Canadian |
|                                                                             | : Present                                      | : Proposal | : 4/      | : 5/       |
|                                                                             | : law 2/                                       | : 3/       |           |            |
| 1. Amount of share in corporation profits before corporation taxes 6/       | 1,500                                          | 1,500      | 1,500     | 1,500      |
| 2. Total corporation income and excess profits tax on share                 | 659                                            | 988        | 1,000     | 600        |
| 3. Amount available for distribution by corporation to shareholder 7/ (1-2) | 841                                            | 512        | 500       | 900        |
| 4. Individual income tax on share of profits received from corporation      | 210                                            | 195        | 113       | 467        |
| 5. Total tax on share of corporation profits (2+4)                          | 869                                            | 1,183      | 1,113     | 1,067      |
| 6. Amount of profits remaining after corporation and individual taxes (1-5) | 631                                            | 317        | 387       | 433        |
| 7. Profits after taxes as a percent of profits before taxes (6-1)           | 42.1%                                          | 21.1%      | 25.8%     | 28.9%      |

Treasury Department, Division of Tax Research

February 27, 1942.

- 1/ Basis of computation: It is assumed that the corporation has current year profits of \$1,500,000 and average base year earnings of \$1,000,000; that the concept of income is the same in the United States, Great Britain and Canada; that the corporation's excess profits credit is determined on the basis of average earnings during the base period; that the corporation distributes all of its profits after taxes and that the shareholder in the example has a 1/10 of 1% equity in the income of the corporation.
- 2/ Revenue Act of 1941.
- 3/ Proposals: For corporations, excess profits credit as under present law, excess profits rates increased by 15 percentage points, normal tax as under present law, surtax rate increased to a flat rate of 31%; for individuals surtax Schedule I-E, rev. 3, substituted for present schedule and the earned income credit eliminated.
- 4/ Finance Act of 1941. The corporation excess profits tax is before post-war credit and the amount of individual income tax on share of profits from corporation is the surtax only. The standard rate is withheld at source by corporations.
- 5/ Income War Tax Act of 1941.
- 6/ Assumed to be 0.1% of current year earnings of corporation.
- 7/ Assuming full distribution of profits.

Comparison of the interlocking effects of the individual income tax and corporation income and excess profits taxes in the United States under present law and under the proposed 1942 plan, with British and Canadian systems <sup>1/</sup>

|                                                                               | Shareholder with \$50,000 from other sources |          |         |          |
|-------------------------------------------------------------------------------|----------------------------------------------|----------|---------|----------|
|                                                                               | United States                                |          | British | Canadian |
|                                                                               | Present                                      | Proposal |         |          |
|                                                                               | law 2/                                       | 3/       | 4/      | 5/       |
| 1. Amount of share in corporation profits before corporation taxes 6/         | 1,500                                        | 1,500    | 1,500   | 1,500    |
| 2. Total corporation income and excess profits tax on share                   | 659                                          | 988      | 1,000   | 600      |
| 3. Amount available for distribution by corporation to shareholder 7/ (1 - 2) | 841                                          | 512      | 500     | 900      |
| 4. Individual income tax on share of profits received from corporation        | 496                                          | 389      | 413     | 594      |
| 5. Total tax on share of corporation profits (2 + 4)                          | 1,155                                        | 1,377    | 1,413   | 1,194    |
| 6. Amount of profits remaining after corporation and individual taxes (1 - 5) | 345                                          | 123      | 87      | 306      |
| 7. Profits after taxes as a percent of profits before taxes (6 + 1)           | 23.0%                                        | 8.2%     | 5.8%    | 20.4%    |

Treasury Department, Division of Tax Research

March 2, 1942

- 1/ Basis of computation: It is assumed that the corporation has current year profits of \$1,500,000 and average base year earnings of \$1,000,000; that the concept of income is the same in the United States, Great Britain and Canada; that the corporation's excess profits credit is determined on the basis of average earnings during the base period; that the corporation distributes all of its profits after taxes and that the shareholder in the examples has a 1/10 of 1% equity in the income of the corporation.
- 2/ Revenue Act of 1941.
- 3/ Proposals: For corporations, excess profits credit as under present law, excess profits rates increased by 15 percentage points, normal tax as under present law, surtax rate increased to a flat rate of 31%; for individuals, surtax Schedule I-E, revised-3, substituted for present schedule and the earned income credit eliminated.
- 4/ Finance Act of 1941. The corporation excess profits tax is before post-war credit and the amount of individual income tax on share of profits from corporation is the surtax only. The standard rate is withheld at source by corporations.
- 5/ Income War Tax Act of 1941.
- 6/ Assumed to be 0.1% of current year earnings of corporation.
- 7/ Assuming full distribution of profits.

Comparison of the interlocking effects of the individual income tax and corporation income and excess profits taxes in the United States under present law and under the proposed 1942 plan, with British and Canadian systems <sup>1/</sup>

|                                                                                          | : Shareholder with \$100,000 from other sources |                        |               |               |
|------------------------------------------------------------------------------------------|-------------------------------------------------|------------------------|---------------|---------------|
|                                                                                          | United States                                   |                        | British       | Canadian      |
|                                                                                          | Present law <sup>2/</sup>                       | Proposal <sup>3/</sup> | <sup>4/</sup> | <sup>5/</sup> |
| 1. Amount of share in corporation profits before corporation taxes <sup>6/</sup>         | 1,500                                           | 1,500                  | 1,500         | 1,500         |
| 2. Total corporation income and excess profits tax on share                              | 659                                             | 988                    | 1,000         | 600           |
| 3. Amount available for distribution by corporation to shareholder <sup>7/</sup> (1 - 2) | 841                                             | 512                    | 500           | 900           |
| 4. Individual income tax on share of profits received from corporation                   | 572                                             | 451                    | 475           | 648           |
| 5. Total tax on share of corporation profits (2 + 4)                                     | 1,231                                           | 1,439                  | 1,475         | 1,248         |
| 6. Amount of profits remaining after corporation and individual taxes (1 - 5)            | 269                                             | 61                     | 25            | 252           |
| 7. Profits after taxes as a percent of profits before taxes (6 + 1)                      | 17.9%                                           | 4.1%                   | 1.7%          | 16.8%         |

Treasury Department, Division of Tax Research

March 2, 1942

- <sup>1/</sup> Basis of computation: It is assumed that the corporation has current year profits of \$1,500,000 and average base year earnings of \$1,000,000; that the concept of income is the same in the United States, Great Britain and Canada; that the corporation's excess profits credit is determined on the basis of average earnings during the base period; that the corporation distributes all of its profits after taxes and that the shareholder in the examples has a 1/10 of 1% equity in the income of the corporation.
- <sup>2/</sup> Revenue Act of 1941.
- <sup>3/</sup> Proposals: For corporations, excess profits credit as under present law, excess profits rates increased by 15 percentage points, normal tax as under present law, surtax rate increased to a flat rate of 31%; for individuals, surtax Schedule I-E, revised 3, substituted for present schedule and the earned income credit eliminated.
- <sup>4/</sup> Finance Act of 1941. The corporation excess profits tax is before post-war credit and the amount of individual income tax on share of profits from corporation is the surtax only. The standard rate is withheld at source by corporations.
- <sup>5/</sup> Income War Tax Act of 1941.
- <sup>6/</sup> Assumed to be 0.1% of current year earnings of corporation.
- <sup>7/</sup> Assuming full distribution of profits.

Estate tax liability under present and proposed United States laws and under present British and Canadian laws, for net estates (before exemption but including \$10,000 insurance) of selected sizes

| Net estate :<br>before specific:<br>exemption 1/<br>including<br>\$10,000 life<br>insurance 2/ | Amount of tax    |            |            |            |      | Effective rate, percent |          |         |        |
|------------------------------------------------------------------------------------------------|------------------|------------|------------|------------|------|-------------------------|----------|---------|--------|
|                                                                                                | United States 3/ |            | Great      | Canada     |      | United States           |          | Great   | Canada |
|                                                                                                | Present          | Proposal   | Britain    |            |      | Present                 | Proposal | Britain |        |
|                                                                                                |                  |            | 4/         |            |      |                         |          | 4/      |        |
|                                                                                                | law              |            |            | 5/         |      | law                     |          |         | 5/     |
| \$ 10,000                                                                                      | -                | -          | \$ 300     | 6/         | -    | -                       | 3.0%     | 6/      |        |
| 20,000                                                                                         | -                | -          | 800        | 6/         | -    | -                       | 4.0      | 6/      |        |
| 30,000                                                                                         | -                | -          | 1,200      | \$ 574     | -    | -                       | 4.0      | 1.9%    |        |
| 40,000                                                                                         | -                | -          | 2,400      | 992        | -    | -                       | 6.0      | 2.5     |        |
| 50,000                                                                                         | -                | -          | 3,600      | 1,546      | -    | -                       | 7.2      | 3.1     |        |
| 60,000                                                                                         | \$ 500           | -          | 5,040      | 2,173      | .8%  | -                       | 8.4      | 3.6     |        |
| 70,000                                                                                         | 1,600            | \$ 1,000   | 5,880      | 2,831      | 2.3  | 1.4%                    | 8.4      | 4.0     |        |
| 80,000                                                                                         | 3,000            | 2,650      | 7,680      | 3,564      | 3.8  | 3.3                     | 9.6      | 4.5     |        |
| 90,000                                                                                         | 4,800            | 4,850      | 9,720      | 4,367      | 5.3  | 5.4                     | 10.8     | 4.9     |        |
| 100,000                                                                                        | 7,000            | 7,450      | 12,000     | 5,246      | 7.0  | 7.5                     | 12.0     | 5.2     |        |
| 150,000                                                                                        | 20,700           | 25,350     | 21,600     | 10,856     | 13.8 | 16.9                    | 14.4     | 7.2     |        |
| 200,000                                                                                        | 35,700           | 46,950     | 39,000     | 17,201     | 17.9 | 23.5                    | 19.5     | 8.6     |        |
| 400,000                                                                                        | 97,700           | 144,150    | 104,000    | 51,391     | 24.4 | 36.0                    | 26.0     | 12.8    |        |
| 600,000                                                                                        | 163,200          | 257,350    | 187,200    | 88,441     | 27.2 | 42.9                    | 31.2     | 14.7    |        |
| 800,000                                                                                        | 233,200          | 380,950    | 270,400    | 129,531    | 29.2 | 47.6                    | 33.8     | 16.2    |        |
| 1,000,000                                                                                      | 307,200          | 512,550    | 364,000    | 176,221    | 30.7 | 51.3                    | 36.4     | 17.6    |        |
| 2,000,000                                                                                      | 730,700          | 1,220,150  | 884,000    | 425,281    | 36.5 | 61.0                    | 44.2     | 21.3    |        |
| 4,000,000                                                                                      | 1,808,700        | 2,751,550  | 2,080,000  | 992,861    | 45.2 | 68.8                    | 51.0     | 24.8    |        |
| 6,000,000                                                                                      | 3,104,700        | 4,340,350  | 3,510,000  | 1,580,651  | 51.7 | 72.3                    | 58.5     | 25.3    |        |
| 10,000,000                                                                                     | 6,050,200        | 7,540,350  | 6,500,000  | 2,691,450  | 60.5 | 75.4                    | 65.0     | 26.9    |        |
| 20,000,000                                                                                     | 13,749,700       | 15,540,350 | 13,000,000 | 5,396,430  | 68.7 | 77.7                    | 65.0     | 27.0    |        |
| 40,000,000                                                                                     | 29,149,700       | 31,540,350 | 26,000,000 | 10,796,430 | 72.9 | 78.9                    | 65.0     | 27.0    |        |

Treasury Department, Division of Tax Research

February 28, 1942

E-E Revised.

For footnotes see following page.

Estate tax liability under present and proposed United States laws and under present  
British and Canadian laws, for net estates (before exemption but including \$10,000  
insurance) of selected sizes  
(Continued-2)

Footnotes

- 1/ A specific exemption of \$40,000 and a life insurance exclusion of \$40,000 are allowed by the present United States law. The proposed law would allow a single specific exemption of \$60,000 but no life insurance exclusion.
- 2/ It is assumed that all insurance would have been excluded under the present act. The average amount of excluded insurance in recent years has been about \$6,000 per taxable estate.
- 3/ Before credit for death taxes paid to States; this credit is limited to 80 percent of the tax imposed by the 1926 Act, which applied only to estates of more than \$100,000.
- 4/ Pound converted at \$4. Excludes legacy and succession duties applicable to personal property and real property, respectively. The rates of tax are graduated on the basis of consanguinity and not on the size of the share received by each beneficiary. Under present law the rates, after certain exemptions, in the case of both of these taxes, are as follows:

|                                                                                                                          |    |
|--------------------------------------------------------------------------------------------------------------------------|----|
| On shares passing to husband or wife, child or lineal descendant of child, father or mother or any lineal ancestor ..... | 1% |
| On shares passing to brother or sister, lineal descendant of brother or sister .....                                     | 5  |
| On shares passing to any other person, including any related only by natural ties .....                                  | 10 |

In certain cases supplementary rates to a maximum of 1½ percent are chargeable excepting as between spouses. The average rate in recent years has been about 1.4 percent of net estates. No allowance is made for the provisions granting relief at points where rates change. If two rates are possible, the higher is used.
- 5/ Assumes equal division of estate between widow and one adult child.
- 6/ No tax, on assumption that full advantage is taken of the \$25,000 exemption allowed a widow.

116

R

S

T

119



*Last 21 pages  
Revised by  
Mr. Blough  
1920*  
February 16, 1942

Statement by Secretary Morgenthau before  
the Ways and Means Committee

I. Introduction

I am here to offer my suggestions as to our first revenue act of the war. I hardly need emphasize the seriousness of the occasion. The task before us is to decide how this war is to be financed and how its cost is to be distributed. Economic and social conditions during and after the war will depend to a large degree upon the courage and wisdom with which we attack these problems.

Victory in this war will demand expenditures on a scale for which there is no precedent. The President has announced a program involving war expenditures of \$52.8 billion in the fiscal year 1943. If we are to furnish the weapons to the men who are doing the fighting, we shall have to mobilize every possible dollar of our income. The President's Budget Message calls for an additional \$7 billion in addition to a Social Security Program of \$2 billion. This will

- 2 -

leave \$\_\_\_ billion to be borrowed. In so far as is possible this borrowing will be from the income and savings of the great mass of our people.

In the development of our program for financing the war, several principles should guide us. The first will be to facilitate the maximum production of war materials. This will mean that our usual ways of living will be drastically affected. We should not hesitate to change our ways of living in any way that helps the war effort.

On the other hand, it is important to the war effort to maintain a high standard of morale in civilian life. Still another consideration is that the readjustment after the war should not be made unnecessarily difficult. We must never forget that our first task is to win the war, but we must also remember that new problems will face us at the end of the war.

As we assemble for the consideration of the 1942 tax bill we are confronted with an economic problem which is intimately associated with the need of revenue. I refer, of course, to the grave threat of inflation. In war time money incomes are high due to full employment

at high wages, while the quantity of civilian goods available for purchase is not enlarged, and in general is actually diminished. Unless effective preventive measures are taken there will result a rapid general increase in prices.

While moderate price rises may stimulate production when resources are partially unused, a substantial price rise would be an unqualified evil at a time when we are approaching full utilization of our productive resources. An inflationary price rise is a source of grave social injustice. It undermines morale and impedes war production. The hardships of inflation strike at random without consideration of equity or ability. Once it has acquired momentum, inflation is extremely difficult to control, and it will leave a heritage of post-war difficulties that will haunt us for decades. Every consideration of national welfare calls for its prevention.

The way to prevent inflation is to prevent people from engaging in the futile effort to buy more goods than can be produced. This requires a comprehensive and integrated program of anti-inflationary measures, in which increased taxes and increased savings are

- 4 -

essential parts. Price control, allocations, rationing, and the regulation of consumer credit are other parts of such an integrated program.

All these controls are interrelated. The devices of price control, allocation, and rationing will be more effective if taxes and savings are increased. Similarly, the effectiveness of the fiscal devices in preventing inflation will be greater if price and commodity controls are used.

Although increased taxes cannot by themselves solve the inflation problem, a much larger volume of tax revenue is necessary than will be collected from our existing tax system. My purpose today is to indicate the tax program which the Administration believes should be adopted at this time for the best interest of the country in the light of the considerations I have mentioned.

## II. Objectives of Tax Bill

### A. Volume of Revenue

In reaching the conclusion that the tax bill should raise \$7 billion of additional revenue, I have had in mind the fact that the social security program

should be expanded both as to coverage and as to protection, and that increased taxes and contributions for this purpose should be increased by approximately \$2 billion a year. I am not making any recommendations with regard to social security taxation or benefits in connection with this bill, but changes of the magnitude indicated should be kept in mind in planning the tax program.

B. Restraint of Inflation

The tax recommendations which will be presented have been framed also to promote the objective of curbing inflation as well as raising revenue. I have already indicated the menace of inflation and the manner in which taxes contribute to its restraint. The most effective anti-inflationary taxes are those which bear most directly on consumers' purchasing power. Since mass purchasing power is very largely in the low incomes, it is necessary to place heavier burdens on such incomes than would be justifiable if there were no inflationary danger.

The increased collections for social security taxes will also serve an anti-inflationary purpose.

C. Ability to Pay

In his recent Budget Message the President said that "progressive taxes are the backbone of the Federal tax system." Although the financing of the war requires taxes upon lower income levels to help in restraining inflation, we must not lose sight of the basic principle of our tax system, namely, that taxes should be fair and nondiscriminatory and imposed in accordance with ability to pay.

Taxation according to ability to pay leads me to recommend increases in taxes upon higher levels of income as well as lower levels. Another corollary of the principle of ability to pay is that special privileges in our tax laws should be removed. Another is that taxes not capable of being adjusted to differences in income or family responsibilities, such as general sales taxes, should be avoided. Finally, it is an essential of taxation according to ability to pay that undue profits should be recaptured wherever they occur. It is not necessary to allow unreasonable profits in order to secure maximum production with economical business management. Under conditions of a war time

economy the country cannot tolerate the retention of undue profits.

### III. Tax Recommendations

#### A. Removal of Special Privileges

There are in our tax system certain provisions which grant to relatively few of our people special advantages and privileges at the expense of the great mass who must pay what is thereby lost. I am unwilling to ask the great mass of the taxpayers of the United States to pay billions of dollars of additional revenues until these defects have been removed from the tax laws. They are bad enough in time of peace--they are completely inexcusable in time of war.

An important example of such a privilege is presented by tax exempt securities. <sup>(Example 1)</sup> Every element in our population should bear its fair share of the burdens which war imposes. Through tax exempt securities, however, persons with large taxpaying ability find themselves in a sheltered position. For the most part they did not buy these securities at prices reflecting to any significant extent the great privilege of escape from war time burdens and surely the States did not

offer the securities on any such basis. The holders of tax exempt securities are obtaining what are essentially windfall profits in a time of national sacrifice.

For a long time Presidents, Secretaries of the Treasury, and Congressional Committees have recommended the elimination of the tax exemption of interest on future Government securities. Last year the Congress, at my recommendation, removed the exemption on interest from future issues of Federal securities. No action has been taken with respect to the interest on future or outstanding State and local securities.

In times of peace, when the strain on other elements in the population was not so heavy, the gradual elimination of tax exemption through imposing taxes only on future issues had much to recommend it, but the national emergency of war makes this gradual approach unacceptable. I therefore recommend the repeal of the present exemption applicable to outstanding issues of State and local securities. Unfortunately, tax exemption clauses appear in many of the outstanding issues of Federal securities and these promises must not be violated. In the case of State and local securities, however, there has never been any contract or moral commitment between

the Federal Government and the security holders or the local governmental authorities regarding Federal taxation. It is true that some representations have been made in good faith by these governmental authorities on the strength of a mistaken interpretation of the Constitution. However, since the Supreme Court decision in the case of Graves v. O'Keefe in 1939 fair minded experts in constitutional law have had no doubt of the Federal power and moral right to tax the income from State and municipal securities. Federal tax policy has never been static; new taxes and higher rates have always been adopted when necessary. Such changes, as well as the possibility of new interpretations of the Constitution, have always been an unavoidable risk of those subject to our laws. Where this involves special hardships in particular cases, I would recommend that effort be made to devise relief measures designed to alleviate the situation.

A tax system cannot be defended which in a time of grave national emergency calls upon the great mass of our taxpayers to shoulder the heavy burden of additional taxes and yet permits persons with large taxpaying ability to pay virtually nothing in taxes. The

- 10 -

sacrifices necessary to win a war for the benefit of all of us should be shared by all of us--including the holders of tax exempt securities. The President said in his Budget Message, "When so many Americans are contributing in their energies and even their lives to the Nation's great task, I am confident that all Americans will be proud to contribute their utmost in taxes." I should feel remiss in duty if I did not recommend the elimination of an exemption which prevents all Americans from contributing their utmost.

2. Percentage depletion. A second example of special privilege is the allowance for depletion. At the present time the owners of mines and oil wells are allowed to deduct so-called percentage depletion or cost depletion, whichever is higher. Percentage depletion consists of a certain percentage ( $27\frac{1}{2}\%$  in the case of persons having an economic interest in oil and gas properties) of gross income, the deduction being limited to 50 percent of the net income from the property. Under this arrangement percentage depletion goes on after 100 percent of the cost is recovered and may substantially exceed depletion based on cost. (Example 2)

- 11 -

In 1937 the President and the Treasury recommended the elimination of percentage depletion, but no action was then taken. The war has intensified the necessity of the elimination of any such special favor to one group of taxpayers.

One of the reasons asserted in behalf of percentage depletion is that it stimulates exploration for new mineral properties. If this is a proper objective, it would be better achieved by a special allowance depletion to those who do explore for new minerals without indiscriminate extension of the same favor to all owners. At the convenience of the Committee, we shall place before it a plan directed to this purpose. So far as other minerals are concerned, it is believed that an adequate stimulus for exploration would remain if the percentages allowable for depletion purposes were substantially reduced.

3. Joint returns. A third example of special favoritism in the tax laws is the option allowed married couples to file separate income tax returns. This permission has little or no significance for most taxpayers since at the present time married couples with incomes of up to \$3,500 (the amount is higher in the case of married couples with dependents) pay the same total tax

- 12 -

whether they file joint returns or separate returns. (Example 3) It may make a great deal of difference in tax, however, in the case of married couples with large incomes, especially if the income is more or less evenly divided between husband and wife. (Example 4)

This difference in tax is unwarranted since in actual operation the family is the economic unit. Two families with the same total income will usually manage and dispose of that income in a similar fashion, regardless of whether the income is received by only one spouse or is received by both spouses. One difference may be noted--that when both spouses work, the expenses of the family ordinarily are higher than when only the husband works, since the services of the wife in the home must be replaced by hired help.

The adoption of mandatory joint returns would remove this tax differential and would also eliminate two specific kinds of tax avoidance which are present under existing law. The first is the treatment of community income in the so-called community property states. In the non-community property states the income is taxable to the spouse who earns it. In the community property states, however, the husband who earns the

- 13 -

income may for tax purposes attribute half the earnings to his wife, although he retains the management and control of all the earnings. The result is that married couples in community property states receive a very substantial tax advantage over those living in other states. <sup>(Example 5)</sup> This advantage would be removed if joint returns were made mandatory.

A second source of tax avoidance which would be eliminated by mandatory joint returns is the possibility of manipulating incomes within families. For example, if the husband receives a large amount of income from securities, he may reduce the family income tax substantially (and also reduce the amount of estate tax in case he predeceases his wife) by giving a portion of his <sup>(Example 6)</sup> fortune to his wife. This, and other methods of reducing taxes by married couples, would be eliminated through provision for mandatory joint returns.

It is accordingly suggested that the filing of joint tax returns by married couples be made mandatory with a special allowance for the earned income of the wife in order to give recognition to the loss of the wife's services in the home. (Example 7)

- 14 -

At the increased rates of individual income tax previously suggested, it is estimated that the revenue from requiring the filing of joint income tax returns would be approximately \$ .

4. Capital gains. At the present time the maximum tax rates on gains from capital assets held 18 months or more are disproportionately low, having been left at their 1938 level of an effective rate of 15 percent, while other income taxes have been very substantially increased. (Example 8)

The rate increases on other incomes have encouraged an unusually large amount of capital loss realization which was unusually noticeable during the last few weeks in 1941 and indicated tremendous use of capital losses to escape taxation on other income.

In the light of these facts, the following suggestions are made with respect to the tax treatment of capital gains and losses. It is suggested, first, that capital gains from assets held 18 months or more be included in income at 50 percent, which is the present rule for gains from assets held two years or more. It is suggested that the maximum tax rate, which is allowed the taxpayer as an alternative in place of the regular progressive tax rate, should be increased from the present

- 15 -

30 percent to 60 percent, changing the maximum effective rate of tax on capital gains from 15 percent to 30 percent. It is recommended also that long-term capital losses be not allowed as a deduction against ordinary income, but that instead they be allowed to be carried forward for a liberal period, perhaps 5 years, as a deduction against long-term gains. Similarly, the provision for the carry-over of short-term capital losses should be liberalized. It is suggested further that the basis of property for the computation of capital gains and losses be not changed at the death of the owner as at present, but that the basis in the hands of the person receiving the property be made the same as it was in the hands of the decedent.

5. Other examples of unwarranted favorable treatment. There are a number of other respects in which the tax laws grant unwarranted favorable treatment.

The life insurance companies of the United States with assets of \$ , premiums of \$ , and investment income of \$ , had a total income tax of only \$ (Example 9). Many mutual casualty insurance companies are exempt from taxation. Other companies, while nominally subject to tax, ordinarily pay no tax

- 16 -

because the allowance of expenses, losses and returned premiums more than offsets their included income. The provisions of insurance company taxation should be changed to remedy these defects and impose a fair burden of taxation on the insurance business.

Banks and other taxpayers owning tax exempt interest bearing securities are able to deduct, against their taxable income, expenses allocable to the tax exempt securities. Obviously, this special favor should be eliminated from the statute. <sup>(Example 10)</sup> Under existing law trusts may be set up to provide pensions for a few high-salaried key men in a corporation. Although provision for the protection of retired employees is laudable there is no reason why tax benefits should be granted in order to provide large pensions for high-salaried executives. It is therefore suggested that the pension trust provision be amended to require a more general coverage of employees and to limit the amount which may be paid as a pension to any one officer or employee.

Time does not permit the enumeration of still other tax advantages that should be removed. They will be presented to the Committee at your convenience.

- 17 -

### B. Removing Other Discriminations

The inequities of our tax laws work in two directions. As I have said, some of them extend undue privileges to a favored few. Still others result in unfair burdens upon certain taxpayers. Such inequities are like the defects in a picture--bad enough when the picture is on a small scale, but increasingly glaring as the picture is enlarged. With rates at war time levels it becomes urgent to correct all such defects. I, therefore, propose that we make every effort in this session of Congress to eliminate all hardships of this character so that our tax laws will cast their burden equitably upon all taxpayers.

### C. Individual Income Taxes

Most of the revenue that will be raised by the elimination of special privileges will come from the individual income tax. In addition, it is recommended that the individual income tax be changed to yield approximately \$2.5 billion, or 50 percent more revenue than will be yielded under the present law. In recommending this amount I have had in mind the fact that the great bulk of tax increases under the social security changes will fall on individual incomes.

- 18 -

The individual income tax is the best available type of tax based upon ability to pay. Its rates and exemptions can be adjusted according to amount of income and differing family responsibilities. Furthermore, it is a direct tax. It falls where the Congress wants it to fall.

I am suggesting a substantial increase in the income surtax rates throughout the scale. At the present time the first surtax bracket combined with the normal tax is 10 percent. Under the proposed schedule it would be 20 percent. The surtax rates above the first bracket would be progressive and would be increased in every bracket of income. The rate scale, together with comparative effective rates of tax, under present law and under the suggested scale, are shown in the accompanying tables. (Exhibits A, B, C, D).

Because of the large increases suggested in the rates, it becomes essential to afford a more convenient method for the payment of income taxes.

A provision for the collection of as much of the tax as possible at the source for those incomes which are paid periodically, including wages, salaries, bond interest, dividends, and royalties, is the only available expedient to this end. To institute such a system immediately, however, might cause considerable hardship to taxpayers because of the substantial increases they are already called upon to pay during the year 1942 as a result of the Revenue Act of 1941. On the other hand, if the threat of inflation makes necessary quick and substantial increases in the rate of tax collection, the institution of collection at the source cannot be postponed. Since it is not known how soon substantial increases in the rate of tax collection may be necessary for the restraint of inflationary price rises, it would be desirable to enable the collection of income taxes at the source at any time and at rates within the discretion of the Treasury up to 10 percent. This will furnish desirable flexibility without imposing additional taxes that may not be necessitated by future economic conditions.

19-20

A provision for the collection of as much of the tax as possible at the source for those incomes that are paid periodically, including wages, salaries, bond interest, dividends, and royalties, is the best available expedient to this end. To institute such a system immediately, however, might cause considerable hardship to taxpayers because of the substantial increases they are already called upon to pay during the year 1942 as a result of the Revenue Act of 1941. On the other hand, if the threat of inflation makes necessary quick and substantial increases in the rate of tax collection, the institution of collection at the source cannot be postponed. Since it is not known how soon substantial increases in the rate of tax collection may be necessary for the restraint of inflationary price rises, it would be desirable to enable the collection of income taxes at the source at any time and at rates within the discretion of the Treasury up to 10 percent. This will furnish desirable flexibility without imposing additional taxes that may not be necessitated by future economic conditions.

- 21 -

#### D. Corporation Taxes

It is recommended that additional taxes be raised from corporations in the amount of \$3 billion, an increase of slightly more than 40 percent.

A substantial share of the increased corporation tax should fall on excess profits. Taxes paid from such profits have less disrupting effects on business than have taxes which are generally applicable to all corporate earnings, irrespective of amount. A tax which absorbs excess profits still leaves the corporate taxpayer with a sufficient margin of income for dividends and safety and for continued incentive to produce.

- 22 -

On the other hand, a tax which dips too deeply into the incomes of low earning corporations may seriously affect their debt-paying capacity, if not their very existence. Excess-profits taxes have the additional virtue of recapturing undue profits on war contracts.

It is suggested that the maximum rate of the excess profits tax be increased from 60 percent to 75 percent with corresponding increases in the lower rate brackets.

With rates of this magnitude it is increasingly important to have a fair basis from which to measure the profits subject to the excess profits tax. In addition to the many provisions in existing law to adjust earnings of the base period to correct for unusual circumstances, it is suggested that further relief be afforded where the earnings of the base period were abnormally depressed, such relief to be administered by a special board in the Treasury Department.

It is believed that other changes in the excess profits tax law should also be made, some to eliminate defects which have been brought to light in the operation of the law, and others to eliminate unnecessary

- 23 -

hardships. These changes are of a more technical character and will be presented to the Committee later, at its convenience.

Under present conditions, when incomes of many businesses are declining because of shortages of raw materials and for other reasons, the corporation which continues to earn as much as it did during the base period is in better position to pay taxes than is the corporation whose earnings have declined, just as the corporation which is making more than its base period earnings is in better position to pay taxes than the corporation which is merely maintaining such earnings. At a time when very heavy taxes must be imposed on corporations, there should be a differentiation between corporations which have suffered a substantial decline in earnings and corporations which have not. It is therefore suggested that a portion of the increased corporation tax be imposed in the form of a special war tax against which a tax credit would be allowed for corporations whose incomes have declined. The credit would be determined by the extent that the sur-tax net income of the taxable year is less than the

- 24 -

average surtax net income of the years 1936 - 1939. It is suggested that the rate of the war tax be 10 percent with the tax credit computed at 5 percent.

It is suggested that the balance of \$3 billion additional corporate taxes be provided by increasing the rates on corporate incomes generally. It is suggested that the surtax be increased from 7 percent to 21 percent with smaller increases for corporations having less than \$50,000 income. The normal tax rate might be increased from 24 percent to a round figure of 25 percent, but there should be no further increase in the corporate normal tax because any such increase would result in an undesirable windfall to the holders of partially tax exempt Federal securities. (Example 11)

There can be no fair quarrel with the imposition upon corporations of a substantial proportion of the increased load of taxation required by our national peril. We are fighting for the maintenance of the very system of free enterprise which makes corporate profits

- 25 -

possible. I am confident that incorporated business will willingly pay at such a time an additional amount of tax which will leave it in a position in which its profits after taxes will in the aggregate be at the level of corporate earnings during the prewar years.

The imposition of corporation taxes at the level and in the manner suggested will require a very high rate of tax on any additional profits earned by corporations subject to maximum excess profits tax rates. In the critical months ahead our patriotism will be put to the acid test. It must rise above the profit motive. National war production depending upon that motive alone may be tragically inadequate. This is a time in which we must forget profits and concentrate upon a supreme productive effort which alone will win the war.

However, it is recognized that very high top, or so-called "marginal rates," may leave little incentive for the maintenance of efficiency in business operation. Furthermore, after the war there may well be need for a large volume of expenditure in readjusting industry and maintaining employment. For these reasons it is believed desirable that in the case of any dollar of corporate profits the receipt of which results in an

- 26 -

increase in tax beyond 80 cents, the additional tax on such dollar shall be held by the Government to the account of the corporation and be returnable within a limited period after the war, in those cases where it is spent for new and additional capital equipment or otherwise is spent in the additional employment of labor.

When tax rates are very high it is more than ordinarily important that profits be accurately determined. The determination of profits on an annual basis necessarily depends largely on more or less uncertain prophecies of the future and some of these prophecies later turn out to be false. Some supposed profits prove, in the light of subsequent events, to be illusory; this sometimes happens, for example, to be profits due to the rising prices of inventories. In a period combining unusual uncertainty and high tax rates, such as the present, there should be in the tax law provision for the practical correction of tax liabilities based upon erroneous assumptions.

The uncertainties of this period also make it important to reduce the necessity for prophesying to the minimum. The capital stock tax and the associated

- 27 -

declared value excess profits tax are determined largely by the accuracy of guesses about future profits. It is suggested that the revenue produced by these taxes can be more fairly and less harmfully produced by the other taxes on corporations and that accordingly the capital stock and declared value excess profits taxes be repealed.

#### E. Estate and Gift Taxes

The estate and gift taxes are imposed at the time of the transfer of wealth from one person to another. Many of the fortunes which are being transferred, and will be transferred in the future, were built up during a period when income tax rates were far lower than they are today. It is much more difficult now to build up large holdings of property. For this reason substantial increases in the estate and gift taxes should be imposed as a method of equalizing tax burdens. The suggested increases are indicated in the tables. ~~(Tables 4 and 5)~~ (Exhibit E and F)

In conjunction with the rate increases, it is suggested that the existing insurance exclusion of \$40,000 be merged with the existing exemption of \$40,000, and that a single exemption of \$60,000 be allowed. This will increase the present exemption in some cases and

- 25 -

decrease it in others, and will remove a discrimination between persons who are insured and those who are not.

It is likewise suggested that the exemption for the gift tax be reduced to \$30,000 and that the annual exclusion of gifts be made a total of \$5,000 for each donor, regardless of the number of donees to whom property is given.

It is believed that these changes in rates and exemptions, together with certain changes designed to prevent avoidance of the tax, will increase the annual revenue from the estate and gift taxes by \$

#### F. Excise Taxes

New and increased special excise taxes are suggested to raise approximately \$1.2 billion of additional revenue.

Although these excise taxes are in the nature of sales taxes, their effects are substantially different from the effects of general sales taxes. Many of them are imposed on commodities of which there is or will increasingly be a scarcity. Such taxes not only yield revenue but help to conserve materials needed for defense. Those excise taxes not relating to commodities of which there is a particular scarcity have been chosen so as

- 29 -

to fall on goods which are widely used and are of a luxury or semi-luxury character. The increase in consumer incomes will permit maintenance of the demand for those commodities despite the higher taxes. The Government will thus secure needed revenue, consumer purchasing power will be tapped, the producers will not be injured, and the consumers will not be taxed on necessities of life.

These special excise taxes have the further advantage of not requiring any substantial expansion of administrative machinery.

No general sales tax is recommended and, indeed, I strongly urge that no such tax be made a part of this revenue bill. The general sales tax falls on scarce and non-scarce commodities alike. It falls across the board on necessities and luxuries alike. It bears disproportionately on the low income groups whose incomes are  
(Example 12)  
almost wholly spent on consumers goods. It is, therefore, regressive and harmfully encroaches upon the standard of living. It increases prices and makes price control more difficult. It stimulates demands for higher wages and adds to the parity prices of agricultural products. It is not, as many suppose, easily collected; on the contrary, its collection would require much additional administrative machinery at a time when manpower is scarce.

- 30 -

#### IV. Conclusion

I would like to end my recommendations with a further plea as to their importance as part of our war effort. Your task is the hardest any Congress has ever faced. The consequences of failure are staggering. But--on the happier side--if our war financing is wisely done, war production will be encouraged, inflation will be curbed, public morale will be improved, and our economic world after the war will be in a better position to meet the inevitable problems following victory.

Such objectives cannot be painlessly accomplished. There must be temporary dislocation, hardship, and sacrifice. But I feel certain that we will all rise to the challenge presented to us. Taxes have been described by a great American as "the cost of living in a civilized society." It will be our privilege to pay that cost cheerfully.

This is the spirit in which the American people will want to approach the problem of financing the war.

RB:ddd  
2/18/42

EXAMPLES

LIST OF EXAMPLES

1. Tax saving through fully tax exempt securities.
2. Percentage depletion in excess of cost.
3. Individuals with small incomes derive no benefit from separate returns.
4. Tax saving through filing separate returns.
5. Tax saving for community income.
6. Tax saving through intra-family gifts.
7. Comparative changes of capital gains tax and tax on other income since 1938.
8. Life insurance companies pay no income taxes.
9. Illustration of banks deducting expenses.
10. Proposed Corporation Tax Plan with Special War Tax.
11. Estimated 1942 distribution of sales tax burden, assuming all consumers' purchases taxable excepting rents.
12. Tax increases due to increasing rates.
13. Collection at source.
14. Compulsory savings for corporations.
15. Estate tax.

151

1

## Example

## Tax saving through fully tax-exempt securities

A.

A married man without dependents, receiving \$250,000 from dividends and \$1,000,000 in wholly tax-exempt interest, pays a total tax of \$157,103 under present law. This amounts to 12.6 percent of his total income. If his tax-exempt interest were taxable, his tax would be \$930,083 or 74.4 percent of his income.

B.

A married man without dependents receiving a total income of \$250,000, of which \$25,000 is salary, \$100,000 dividends, and \$125,000 wholly tax-exempt interest, pays a total tax of \$69,939 under present law. This amounts to 28.0 percent of his total income. If his tax-exempt interest were taxable, the tax would be \$157,659, or 63.1 percent of his income.

C.

A married man without dependents receiving a total income of \$50,000, of which \$10,000 is salary, \$30,000 dividends, and \$10,000 wholly tax-exempt

## Example

Tax saving through fully tax-exempt securities  
Continued - 2

interest pays a total tax of \$14,665 under present law. This amounts to 29.3 percent of his total income. If his tax-exempt interest were taxable, the tax would be \$20,455, or 40.9 percent of his income

## Recapitulation

|                                        | A          | B         | C        |
|----------------------------------------|------------|-----------|----------|
| Salary                                 | -          | \$ 25,000 | \$10,000 |
| Dividends                              | \$ 250,000 | 100,000   | 30,000   |
| Interest from State<br>and local bonds | 1,000,000  | 125,000   | 10,000   |
| Total income                           | 1,250,000  | 250,000   | 50,000   |
| Present law:                           |            |           |          |
| Tax                                    | 157,703    | 69,939    | 14,665   |
| Effective rate                         | 12.6%      | 28.0%     | 29.3%    |
| If interest were taxable:              |            |           |          |
| Tax                                    | 930,083    | 157,659   | 20,455   |
| Effective rate                         | 74.4%      | 63.1%     | 40.9%    |

2

**Example****Percentage depletion in excess of cost****A.**

An oil company purchased an oil producing property at a cost of \$154,461 and in seven years was allowed \$316,061 depletion (or 204.6 percent of the cost of the property). At the end of the period 73.4 percent of the original oil reserve still remained.

**B.**

This company purchased another oil producing property at a cost of \$113,033 and in seven years was allowed \$215,390 depletion (or 190.6 percent of the cost of the property). At the end of the period 80.3 percent of the original oil reserve still remained.

**C.**

The third oil producing property was purchased at a cost of \$176,071 and in six years the company was allowed \$184,257 depletion (or 104.6 percent of the cost of the property). At the end of the period 71.8 percent of the original oil reserve still remained.

**D.**

A fourth oil producing property was purchased at a cost of \$1,120,070 and in six years the company was allowed \$872,347 depletion (or 77.9 percent of the cost of the property). At the end of the period 82.8 percent of the original oil reserve still remained.

## EXAMPLE

Percentage depletion in excess of cost  
Continued - 2

## Recapitulation

|                                                   | : A       | : B       | : C       | : D         |
|---------------------------------------------------|-----------|-----------|-----------|-------------|
| Cost of property                                  | \$154,461 | \$113,033 | \$176,071 | \$1,120,070 |
| Depletion deduction:                              |           |           |           |             |
| Amount                                            | 316,061   | 215,930   | 184,257   | 872,347     |
| Percent of cost<br>of property                    | 204.6%    | 190.6%    | 104.6%    | 77.9%       |
| Percent of original<br>oil reserve remain-<br>ing | 73.4%     | 80.3%     | 71.8%     | 82.8%       |

157

3

## Example

Individuals with small incomes derive no benefit from separate returns

A.

Under present law, the tax liability of a married couple without dependents, having \$2,000 of net income and filing a joint return, is \$42. If each spouse files a separate return, one reporting 60 percent and the other 40 percent of the income, their combined tax is still \$42.

B.

For a married couple with a net income of \$3,000, the total tax liability is \$138 under either a joint return or under separate returns.

C.

For a married couple with \$3,500 net income, the total tax liability is \$186 under either a joint return or under separate returns.

## Recapitulation

|                                             | A            | B        | C       |
|---------------------------------------------|--------------|----------|---------|
| Net income                                  | \$ 2,000     | \$ 3,000 | \$3,500 |
| Tax liability, joint returns                | 42           | 138      | 186     |
| Combined tax liability,<br>separate returns | 42 <u>1/</u> | 138      | 186     |
| Tax savings; separate returns               | ---          | ---      | ---     |

1/ One spouse reports 60% and the other 40% of the income.

159

4

## Example

## Tax saving through filing separate returns

A.

Under present law, the tax liability of a married couple without dependents, having \$100,000 of net income and filing a joint return, is \$52,704. If each spouse files a separate return, one reporting 60 percent and the other 40 percent of the income, their combined tax liability is reduced by \$10,691, to \$42,013.

B.

For a married couple with net income of \$20,000, the tax liability on a joint return is \$4,614; on a separate return, \$3,005. The tax saving is \$1,609.

C.

For a married couple with \$10,000 net income, the tax liability on a joint return is \$1,305. If they file separate returns, their combined liability is reduced by \$340, to \$965.

## Recapitulation

|                                             | A         | B        | C        |
|---------------------------------------------|-----------|----------|----------|
| Net income                                  | \$100,000 | \$20,000 | \$10,000 |
| Tax liability, joint returns                | 52,704    | 4,614    | 1,305    |
| Combined tax liability,<br>separate returns | 42,013    | 1/ 3,005 | 965      |
| Tax saving under separate<br>returns        | 10,691    | 1,609    | 340      |

1/ One spouse reports 60% and the other 40% of the income.

161

5

## Example

## Tax saving for community income

A.

Under present law, the tax on a married man without dependents, having a net income of \$20,000, is \$4,614. The tax on the same amount of community income is \$2,985.

B.

Under present law, the tax on a married man without dependents, having a net income of \$50,000, is \$20,439. The tax on the same amount of community income is \$14,448.

C.

Under present law, the tax on a married man without dependents, having a net income of \$100,000, is \$52,704. The tax on the same amount of community income is \$41,763.

## Recapitulation

|                                     | A        | B        | C         |
|-------------------------------------|----------|----------|-----------|
| Net income                          | \$20,000 | \$50,000 | \$100,000 |
| Tax liability, non-community income | 4,614    | 20,439   | 52,704    |
| Tax liability, community income     | 2,985    | 14,448   | 41,763    |
| Effective rates                     |          |          |           |
| Non-community income                | 23.1%    | 40.9%    | 52.7%     |
| Community income                    | 14.9%    | 28.9%    | 41.8%     |

163

6

## EXAMPLE

## Tax saving through intra-family gifts

A.

A married man without dependents owns a \$1,000,000 equity in a corporation yielding \$100,000 a year. He has no income from other sources and his total tax under present law is \$52,748. If he transfers half of his equity in the corporation to his wife, the combined tax on their separate incomes amounts to only \$41,852. The tax saving amounts to \$10,896. The tax saving does not allow for the gift tax payable on the intra-family gift. The gift tax would, however, in general, be more than offset by reduction of the estate tax base.

B.

If a married man without dependents has a salary of \$50,000 and an investment yielding \$100,000 his total tax under present law is \$87,189. If he transfers half of his investment to his wife, the combined tax on their separate incomes amounts to \$74,140, or a tax saving of \$13,049. The tax saving does not allow for the gift tax payable on the intra-family gift. The gift tax would, however, in general, be more than offset by reduction of the estate tax base.

165

7

### Example

#### Comparative changes of capital gains tax and tax on other income since 1938

##### A.

An individual with a surtax net income of \$50,000 from ordinary sources who received an additional dollar of income in the form of long-term capital gains would be subject to a tax of 15 percent on that additional income under the Revenue Acts of 1938, 1940 and 1941. However, if the additional dollar of income were from ordinary sources, such as interest or dividends, a tax would be imposed at the rate of 35 percent under the 1938 Revenue Act, 45 percent under the 1940 Revenue Act <sup>1/</sup>, 62 percent under the 1941 Revenue Act, and 80 percent under the proposal.

##### B.

An individual with a surtax net income of \$75,000 from ordinary sources, who received an additional dollar of income in the form of long-term capital gains would be subject to a tax of 15 percent on that additional income under the Revenue Acts of 1938, 1940 and 1941. However, if the additional dollar of income were

---

<sup>1/</sup> Excluding 10 percent defense tax.

### Example

#### Comparative changes of capital gains tax and tax on other income since 1938 - Continued 2

from ordinary sources, such as interest or dividends, a tax would be imposed at the rate of 51 percent under the 1938 Revenue Act, 54 percent under the 1940 Revenue Act 1/, 65 percent under the 1941 Revenue Act, and ~~84~~ percent under the proposal.

#### g.

An individual with a surtax net income of \$100,000 from ordinary sources, who received an additional dollar of income in the form of long-term capital gains would be subject to a tax of 15 percent on that additional income under the Revenue Acts of 1938, 1940, and 1941. However, if the additional dollar of income were from ordinary sources, such as interest or dividends, a tax would be imposed at the rate of 62 percent under the 1938 Revenue Act, 62 percent under the 1940 Revenue Act 1/, 69 percent under the 1941 Revenue Act, and 90 percent under the proposal.

---

1/ Excluding 10 percent defense tax.

## Example

Comparative changes of capital gains tax and tax on  
other income since 1938 - continued 3

## Recapitulation

|   | Surtax net<br>income | Tax rate on additional dollar of -- |                              |           |           |        |
|---|----------------------|-------------------------------------|------------------------------|-----------|-----------|--------|
|   |                      | Capital                             | Income from ordinary sources |           |           |        |
|   |                      | gains                               |                              |           |           |        |
|   |                      | Rev. Acts:                          | Rev. Act:                    | Rev. Act: | Rev. Act: | Pro-   |
|   |                      | 1938-41                             | 1938                         | 1940 1/   | 1941      | posals |
| A | \$50,000             | 15%                                 | 35%                          | 48%       | 61%       | 80%    |
| B | 75,000               | 15%                                 | 51%                          | 54%       | 65%       | 84%    |
| C | 100,000              | 15%                                 | 62%                          | 62%       | 69%       | 90%    |

1/ Exclusive of 10 percent defense tax.

169



## Example

Life insurance companies pay no income taxes

A.

None of the 26 largest life insurance companies paid corporation income taxes in 1938 or 1939, although these companies represent 87 percent of the assets of all life insurance companies.

B.

In 1939, out of 656 active life insurance companies, only 114 paid any corporation income taxes whatever. The combined taxes for all these companies amounted to less than one-half million dollars (\$459,000). Over one-half of all income taxes collected from insurance companies came from 4 medium-sized companies accounting for less than 1 percent of the assets of all life insurance companies.

C.

In 1938 a certain large insurance company 1/ had assets of over \$5.0 billion, premium income of \$756 million, investment income of \$245 million, and

---

1/ Metropolitan Life

## Example

Life insurance companies pay no income taxes  
Continued - 2

insurance in force amounting to over \$11 billion.  
This company had no income tax liability.

D.

In 1938 another large insurance company 1/  
had assets of almost \$4.0 billion, premium income  
of \$650 million, investment income of almost \$200  
million, and insurance in force amounting to \$8.8  
billion. This company also had no income tax  
liability.

---

1/ Prudential



## Example

Illustration of banks deducting  
expensesA.

In 1940 a bank with net income, including tax-exempt interest, of \$15.5 million reported a deficit for normal tax purposes of \$6.0 million and no tax liability. Under the proposal this bank would pay a tax of \$2.8 million.

B.

In 1940, a bank with net income, including tax-exempt interest, of \$14.4 million reported normal tax net income of \$35,230 and a tax of \$8,025. Under the proposal this bank would pay a tax of \$3.9 million.

## Recapitulation

|                                          | A               | B               |
|------------------------------------------|-----------------|-----------------|
| Net income including tax-exempt interest | \$ 15.5 million | \$ 14.4 million |
| Normal tax net income, present law       | - 6.0 million   | 35,230          |
| Tax liability, present law               | ---             | 8,025           |
| Tax liability, proposal                  | 2.8 million     | 3.9 million     |

174

10

## Example

## Proposed corporation tax plan

A.

In 1940 a certain company 1/ had a net income of \$347.3 million. It would use the income method and would have an excess-profits credit of \$217.8 million. Its total tax liability under present law would be \$156.6 million.

Under the proposal, this company using the same excess-profits credit, would have an excess-profits tax liability of \$88.7 million. Its net income, after the deduction of the excess-profits tax would be \$258.6 million, on which it would have a normal and surtax liability of \$142.2 million. Its total tax liability under the proposal would be \$230.9 million or an effective rate of 66.5 percent. This compares with an effective rate of 45.1 percent under present law.

The combined tax rate applicable to its last dollar of income is 88.8 percent compared with 72.4 percent under present law.

---

1/ General Motors

## Example

Proposed corporation tax plan  
continued - 2B.

In 1940 a certain company 1/ had a net income of \$35.8 million. It would use the income method and would have an excess-profits tax credit of \$30.8 million. Its total tax liability under present law would be \$13.0 million.

Under the proposal, this company, using the same excess-profits credit, would have an excess-profits tax liability of \$3.5 million. Its net income, after the deduction of the excess-profits tax would be \$32.3 million, on which it would have a normal and surtax liability of \$17.7 million. Its total tax liability under the proposal would be \$21.3 million or an effective rate of 59.4 percent. This compares with an effective rate of 36.4 percent under present law.

The combined tax rate applicable to its last dollar of income is 88.8 percent, compared with 72.4 percent under present law.

---

1/ Coca Cola

## Example

Proposed corporation tax plan  
continued - 3

## Recapitulation

|                                        | A                                      | B       |
|----------------------------------------|----------------------------------------|---------|
|                                        | (money figures in millions of dollars) |         |
| Net income                             | \$347.3                                | \$ 35.8 |
| Excess-profits credit and exemption    | 217.8                                  | 30.8    |
| Proposed excess-profits tax            | 88.7                                   | 3.5     |
| Proposed normal tax                    | 62.1                                   | 7.8     |
| Proposed surtax                        | 80.2                                   | 10.0    |
| Total proposed tax liability           | 230.9                                  | 21.3    |
| Total tax liability, present law       | 156.6                                  | 13.0    |
| Effective rate                         |                                        |         |
| Present                                | 45.1%                                  | 36.4%   |
| Proposed                               | 66.5%                                  | 59.4%   |
| Combined rate on last dollar of income |                                        |         |
| Present                                | 72.4%                                  | 72.4%   |
| Proposed                               | 88.8%                                  | 88.8%   |

## Example

## Computation of War Surtax with Relief

(No excess profits tax)

|                                    |               |
|------------------------------------|---------------|
| Base period surtax net income..... | \$150,000     |
| 1942 surtax net income.....        | <u>50,000</u> |
| Decrease in surtax net income..... | 100,000       |

Computation of surtax

|                                                                  |               |
|------------------------------------------------------------------|---------------|
| 1942 surtax net income.....                                      | 50,000        |
| 31 percent gross surtax.....                                     | 15,500        |
| <u>Less:</u> 10 percent of decrease in<br>surtax net income..... | <u>10,000</u> |
| Surtax.....                                                      | 5,500         |
| Normal tax (24 percent).....                                     | <u>12,000</u> |
| Total tax.....                                                   | 17,500        |

Portion of net income taken in tax..... 35 percent

## Example

## Computation of War Surtax with Relief

(No excess profits tax)

|                                    |                |
|------------------------------------|----------------|
| Base period surtax net income..... | \$150,000      |
| 1942 surtax net income.....        | <u>100,000</u> |
| Decrease in surtax net income..... | 50,000         |

Computation of surtax

|                                                                  |               |
|------------------------------------------------------------------|---------------|
| 1942 surtax net income.....                                      | 100,000       |
| 31 percent gross surtax.....                                     | 31,000        |
| <u>Less:</u> 10 percent of decrease in<br>surtax net income..... | <u>5,000</u>  |
| Surtax.....                                                      | 26,000        |
| Normal tax (24 percent).....                                     | <u>24,000</u> |
| Total tax.....                                                   | 50,000        |

|                                         |            |
|-----------------------------------------|------------|
| Portion of net income taken in tax..... | 50 percent |
|-----------------------------------------|------------|

## Example

## Computation of War Surtax

|                                                     |                |
|-----------------------------------------------------|----------------|
| Excess profits credit (8% of invested capital)..... | \$160,000      |
| Base period surtax net income.....                  | 150,000        |
| 1942 surtax net income.....                         | <u>150,000</u> |
| Decrease in surtax net income.....                  | 0              |

Computation of surtax

|                              |               |
|------------------------------|---------------|
| 1942 surtax net income.....  | 150,000       |
| 31 percent gross surtax..... | 46,500        |
| Normal tax (24 percent)..... | <u>36,000</u> |
| Total tax.....               | 82,500        |

Portion of net income taken in tax..... 55 percent

11

Estimated 1942 distribution of sales tax burden, assuming all  
consumers' purchases taxable excepting rents

(Confidential)  
(Rough estimates)

| (1)             | (2)                                | (3)                              | (4)                                | (5)                                | (6)                                              | (7)                                |
|-----------------|------------------------------------|----------------------------------|------------------------------------|------------------------------------|--------------------------------------------------|------------------------------------|
| Income level    | Families and single<br>individuals | Aggregate income<br>distribution | Percentage: Cumulative<br>of total | Percentage: Cumulative<br>of total | Distribution of<br>aggregate sales<br>tax burden | Percentage: Cumulative<br>of total |
| Under \$500     | 6.8%                               | 6.8%                             | 1.0%                               | 1.0%                               | 2.04%                                            | 2.04%                              |
| \$ 500 - 750    | 8.8                                | 15.6                             | 2.3                                | 3.3                                | 3.62                                             | 5.66                               |
| 750 - 1,000     | 10.7                               | 26.3                             | 4.0                                | 7.3                                | 5.78                                             | 11.44                              |
| 1,000 - 1,250   | 12.1                               | 38.4                             | 5.7                                | 13.0                               | 7.69                                             | 19.13                              |
| 1,250 - 1,500   | 10.8                               | 49.2                             | 6.1                                | 19.1                               | 7.89                                             | 27.02                              |
| 1,500 - 1,750   | 10.0                               | 59.2                             | 6.7                                | 25.8                               | 8.34                                             | 35.36                              |
| 1,750 - 2,000   | 7.4                                | 66.6                             | 5.7                                | 31.5                               | 6.70                                             | 42.06                              |
| 2,000 - 2,500   | 8.8                                | 75.4                             | 8.1                                | 39.6                               | 9.29                                             | 51.35                              |
| 2,500 - 3,000   | 6.7                                | 82.1                             | 7.5                                | 47.1                               | 8.19                                             | 59.54                              |
| 3,000 - 4,000   | 7.7                                | 89.8                             | 10.8                               | 57.9                               | 11.14                                            | 70.68                              |
| 4,000 - 5,000   | 4.2                                | 94.0                             | 7.6                                | 65.5                               | 7.31                                             | 77.99                              |
| 5,000 - 10,000  | 3.6                                | 97.6                             | 10.2                               | 75.7                               | 8.51                                             | 86.50                              |
| 10,000 and over | 2.4                                | 100.0                            | 24.3                               | 100.0                              | 13.90                                            | 100.00                             |
| Total           | 100.0                              |                                  | 100.0                              |                                    | 100.00                                           |                                    |

Revenue Department, Division of Tax Research

February 20, 1942

Note: Data in columns 2 through 5 cannot be released except with specific consent of the Agency which supplied them.

Approximate 1942 retail sales tax burden, as percent of  
consumer income, by income classes

(Assuming all consumer purchases, except rent, taxable)

| Consumer<br>income<br>class | Sales tax, as percent of income, under a<br>sales tax rate |            |                 |               |
|-----------------------------|------------------------------------------------------------|------------|-----------------|---------------|
|                             | Which imposes a burden equal to                            |            |                 |               |
|                             | 1% of consumer income on those                             |            |                 |               |
|                             | with incomes of                                            |            |                 |               |
|                             | Less than \$500                                            | Over \$500 | Less than \$500 | Over \$10,000 |
| Under \$500                 | 1.06%                                                      | 1.00%      | 3.65%           |               |
| 500 - 750                   | .81                                                        | .76        | 2.79            |               |
| 750 - 1,000                 | .75                                                        | .71        | 2.60            |               |
| 1,000 - 1,250               | .71                                                        | .67        | 2.43            |               |
| 1,250 - 1,500               | .68                                                        | .64        | 2.33            |               |
| 1,500 - 1,750               | .65                                                        | .62        | 2.25            |               |
| 1,750 - 2,000               | .62                                                        | .59        | 2.14            |               |
| 2,000 - 2,500               | .60                                                        | .57        | 2.06            |               |
| 2,500 - 3,000               | .57                                                        | .54        | 1.97            |               |
| 3,000 - 4,000               | .54                                                        | .51        | 1.86            |               |
| 4,000 - 5,000               | .50                                                        | .47        | 1.73            |               |
| 5,000 - 10,000              | .44                                                        | .41        | 1.51            |               |
| 10,000 and over             | .29                                                        | .27        | 1.00            |               |

Treasury Department, Division of Tax Research February 23, 1942

184

12

**Example****Tax increases due to increasing of rates****A.**

A married person with two dependents having earned income of \$3,000 has an income tax liability under present law of \$58. Under the proposal, his tax would be \$118, an increase of \$60. The effective rate of tax at present is 1.9 percent and under the proposal, 3.9 percent.

**B.**

A married person with two dependents having earned income of \$5,000 has an income tax liability under present law of \$271. Under the proposal, his tax would be \$587, an increase of \$316. The effective rate of tax at present is 5.4 percent and under the proposal, 11.7 percent.

**C.**

A married person with two dependents having earned income of \$10,000 has an income tax liability under present law of \$1,117. Under the proposal, his tax would be \$2,143, an increase of \$1,026. The effective rate of tax at present is 11.2 percent and under the proposal, 21.4 percent.

## Example

Tax increase due to increasing of rates  
continued - 2

D.

A married person with two dependents having earned income of \$100,000 has an income tax liability under present law of \$52,160. Under the proposal, his tax would be \$68,261, an increase of \$16,101. The effective rate of tax at present is 52.2 percent and under the proposal, 68.3 percent.

## Recapitulation

| Example | :  | :       | Tax liability, married |                        |      | Effective |         |        |       |       |
|---------|----|---------|------------------------|------------------------|------|-----------|---------|--------|-------|-------|
|         | :  | Net     | :                      | person, two dependents | :    | rates     |         |        |       |       |
|         | :  | income  | :                      | Present                | Pro- | Increase  | Present | Pro-   |       |       |
| :       | :  | :       | law                    | posal                  | :    | law       | posal   |        |       |       |
| A       | \$ | 3,000   | \$                     | 58                     | \$   | 118       | \$      | 60     | 1.9%  | 3.9%  |
| B       |    | 5,000   |                        | 271                    |      | 587       |         | 316    | 5.4%  | 11.7% |
| C       |    | 10,000  |                        | 1,117                  |      | 2,143     |         | 1,026  | 11.2% | 21.4% |
| D       |    | 100,000 |                        | 52,160                 |      | 68,261    |         | 16,101 | 52.2% | 68.3% |

187

13

## Example

## Collection at source

A.

A married person with two dependents having earned income of \$3,000, would, under the proposal, have a tax liability of \$118. Of this amount \$70 or 59.3 percent would be withheld at source.

B.

A married person with two dependents having earned income of \$5,000 would, under the proposal, have a tax liability of \$587. Of this amount \$270 or 46.0 percent would be withheld at source.

C.

A married person with two dependents having earned income of \$10,000 would, under the proposal, have a tax liability of \$2,143. Of this amount \$770 or 35.9 percent would be withheld at source.

D.

A married person with two dependents having earned income of \$50,000 would, under the proposal, have a tax liability of \$26,537. Of this amount \$4,770 or 18.0 percent would be withheld at source.

## Example

Collection at source  
Continued - 2

## Recapitulation

|                      |          | Tax liability, married<br>person, two dependents |                              | Percent<br>of total<br>tax with-<br>held at<br>source |
|----------------------|----------|--------------------------------------------------|------------------------------|-------------------------------------------------------|
| Example: Net income: |          | Total                                            | Amount withheld<br>at source |                                                       |
| A                    | \$ 3,000 | \$ 118                                           | \$ 70                        | 59.3%                                                 |
| B                    | 5,000    | 587                                              | 270                          | 46.0                                                  |
| C                    | 10,000   | 2,143                                            | 770                          | 35.9                                                  |
| D                    | 50,000   | 26,537                                           | 4,770                        | 18.0                                                  |

14

### Example

#### Compulsory savings for corporations

A corporation with surtax net income of \$1,000,000 and subject to the top excess-profits tax rate of 75 percent, would be subject to a total normal and surtax rate of 55 percent on the balance of net income after surtax. The tax on the last dollar of income is 88.75 cents.

The excess of the tax over 50 cents on any dollar of income will be held by the Government to the account of the corporation and be returnable within a limited period after the war, in those cases where it is spent for new and additional capital equipment or otherwise is spent in the additional employment of labor.

192

15

## Example

## Estate tax

A.

A person with a net estate of \$60,000 before specific exemption (excluding life insurance) would pay, under present law, an estate tax of \$500, or an effective rate of 0.8 percent. Under the proposal which would allow a single specific exemption of \$60,000 but no life insurance exclusion, this person would pay no estate tax.

B.

A person with a net estate of \$200,000 before specific exemption (excluding life insurance) would pay, under present law, an estate tax of \$35,700, or an effective rate of 17.9 percent. Under the proposal which would allow a single specific exemption of \$60,000 but no life insurance exclusion, this person would pay \$46,950, or an effective rate of 23.5 percent.

C.

A person with a net estate of \$2,000,000 before specific exemption (excluding life insurance) would

## Example

## Estate tax Continued - 2

pay, under present law, an estate tax of \$730,700, or an effective rate of 36.5 percent. Under the proposal which would allow a single specific exemption of \$60,000 but no life insurance exclusion, the person would pay \$1,220,150, or an effective rate of 61.0 percent.

## Recapitulation

|                                      | A         | B          | C            |
|--------------------------------------|-----------|------------|--------------|
| Net estate before specific exemption | \$ 60,000 | \$ 200,000 | \$ 2,000,000 |
| Present estate tax                   | 500       | 35,700     | 730,700      |
| Proposed estate tax                  | ---       | 46,950     | 1,220,150    |
| Effective rate                       |           |            |              |
| Present                              | 0.8%      | 17.9%      | 36.5%        |
| Proposed                             | ---       | 23.5%      | 61.0%        |

February 20, 1942  
12:19 p.m.

WMJr: Hello.

Grace Tully: Hello. Mr. Secretary.

WMJr: Yes.

T: Mr. Secretary, on your memorandum about Pike this morning.....

HMJr: Yes.

T: .....the President says everybody's pleaded with him, meaning the President, to keep Pike on the SEC Commission, and he suggests you talk to Ganson Purcell about it; but he said that they've all pleaded to have him kept on there.

HMJr: But if it's all right with Purcell.....

T: Well, he didn't - I didn't ask him further than that because he said everybody had said that they needed Pike on that Commission and that they'd pleaded with him, and then he said, "Talk to Purcell."

HMJr: Well, if I clear.....

T: If you want to give us a report on what Purcell says, all right. I'll take it up with him again.

HMJr: With pleasure.

T: All right, sir.

HMJr: With pleasure.

T: Right.

HMJr: Thank you.

T: All right, Mr. Secretary.

HMJr: Thank you.

T: Good-bye.

February 20, 1942  
12:20 p.m.

HMJr: Hello.

Operator: Mr. Pike.

HMJr: Hello.

Sumner  
Pike: Yes, sir.

HMJr: Mr. Pike, I got this word back from the White House, that everybody at the SEC is pleading with the President to leave you over there.

P: Oh.

HMJr: And that I should talk with Purcell.

P: Yeah.

HMJr: Now, before I talk with him, I just thought I'd ask you if it was all right.

P: Oh, yes. Oh, yes, Mr. Secretary. I think that.....

HMJr: You don't want to talk to him first yourself?

P: Well, as a matter of fact, when I came over we were just going in to meet him, and I had a couple of minutes with him. I thought that probably that might work out that way, and I told him what we had talked over this morning, extremely briefly, so that he had prepared on that.

HMJr: He is? Well, I didn't want to call him without talking to you first.

P: Well, that's all right. Thank you very much.

HMJr: Well, I'll call him and tell him I want you.

P: Well, all right.

HMJr: The President didn't turn me down, you see.

- 2 -

P: Yeah.

HMJr: Yeah.

P: Yeah.

HMJr: Right.

P: Righto, thank you.

HMJr: Good-bye.

February 20, 1942  
12:26 p.m.

Ganson

Purcell: Hello, sir.

HMJr: How are you?

P: Fine, thank you.

HMJr: Good.

P: How are you, sir?

HMJr: Fine. Mr. Purcell, Sumner Pike, I understand, has talked to you about what I've asked him to do.....

P: Yeah.

HMJr: .....in connection with Aniline Dye.

P: Yeah.

HMJr: Now, he'd like to do it, and I'm extremely anxious to have him do it, and I called up the White House and asked them to ask the President about it, and I got word back that - to talk to you first.

P: Uh huh.

HMJr: And so I'm calling up to urge the Commission to let Mr. Pike go ahead and do this for us because we think it's terribly important to do the first one right.

P: Well, I can understand your position.

HMJr: And it's - they've got a lot of war contracts and we're up against a very tough situation there and - because they got off to such a bad start.

P: Yes. Well, I can appreciate your situation. All I can ask is that you give some consideration to ours. We're in an awful tough spot.

HMJr: Uh huh.

- 2 -

P: And, of course, Sumner is a tower of strength here. On many angles, as you know, he's so well informed.....

HMJr: Yeah.

P: .....that he's a great help to us.

HMJr: Yeah.

P: I would - I'd very much like to have a talk with you about this if I could.

HMJr: Well, that's.....

P: Sit down and talk it over with you.

HMJr: Well.....

P: I think I could point out some of the problems that we've got here.

HMJr: How about four o'clock?

P: Four o'clock this afternoon?

HMJr: Yeah.

P: Surely, sir.

HMJr: I'll be glad to see you.

P: I'll come over to your office then.

HMJr: Fine.

P: All right, Mr. Secretary.

HMJr: Do you want to come alone or with Sumner Pike?

P: Well, perhaps I should come alone first; but I'll talk with him and see how he feels about it.

HMJr: All right.

P: All right.

- 3 -

HMJr: This is something that we'd like very, very much so.....

P: Oh, I know it. I appreciate that, sir. I'm not trying to gum the works at all. I just want to - I do want to talk over thoroughly with you the problems and.....

HMJr: Well, that's fair. That's fair.

P: All right.

HMJr: Thank you.

P: I'll see you this afternoon.

HMJr: Thank you.

P: Good-bye.

February 21, 1942

MEMORANDUM FOR THE SECRETARY'S FILES:

Meeting held in Mr. Bell's Office  
February 20, 1942  
3:15 P. M.

## Present:

For Treasury: Mr. White  
Mr. Foley  
Dr. Viner  
Mr. B. Bernstein  
Mr. Southard  
Mr. Friedman

For State: Mr. Hornbeck  
Mr. Hamilton  
Mr. Livesey  
Mr. Hiss

Mr. Fox  
Mr. Currie

Meeting discussed draft agreement submitted by Treasury. Mr. Hornbeck said that he found it a very admirable document, and then went on to suggest some minor changes.

The two main points which were discussed were the provision for consultation between Secretary of the Treasury and China (Article II) and the question of repayment (Article IV).

It seemed to be the sentiment of those present that it was desirable to provide for consultation although at the same time the request of the Chinese for no strings on the loan as to uses had to be kept in mind.

With regard to repayment it seemed to be generally felt that the benefits which the United States is receiving and shall receive from China's activities in the war should offset at least in part our financial assistance to China. However, Treasury officials were particularly concerned with writing into the agreement some clause which would indicate that this financial aid is not a gift and that the Secretary has reason to expect that the United States would receive benefits in return for the financial assistance. The point was also made that if it was clear that some form of repayment was requested, more beneficial results from the loan could be anticipated.

The Treasury undertook to redraft the agreement in light of the above discussions.

I. S. Friedman

WHEREAS, The Governments of the United States of America and of the Republic of China are engaged, together with other nations and peoples of like mind, in a cooperative undertaking against common enemies, to the end of laying the bases of a just and enduring world peace securing order under law to themselves and all nations, and

WHEREAS, The United States and China are signatories to the Declaration of United Nations of January 1, 1942, which declares that "each government pledges itself to employ its full resources, military or economic, against those members of the Tripartite Pact and its adherents with which such government is at war"; and

WHEREAS, the Congress of the United States, in unanimously passing Public Law No. 442, approved February 7, 1942, has declared that financial and economic aid to China will increase China's ability to oppose the forces of aggression and that the defense of China is of the greatest possible importance, and has authorized the Secretary of the Treasury of the United States, with the approval of the President, to give financial aid to China, and

WHEREAS, such financial aid will enable China to strengthen greatly its war efforts against the common enemies by helping China to

- (1) strengthen its currency, monetary, banking and economic system;
- (2) finance and promote increased production, acquisition and distribution of necessary goods;
- (3) retard the rise of prices, promote stability of economic relationships, and otherwise check inflation;
- (4) prevent hoarding of foods and other materials;
- (5) improve means of transportation and communication;
- (6) effect further social and economic measures which will safeguard the unity of the Chinese people; and
- (7) meet military needs and take other appropriate measures in its war effort.

- 2 -

In order to achieve these purposes, the undersigned, being duly authorized by their respective Governments for that purpose, have agreed as follows:

#### ARTICLE I.

The Secretary of the Treasury of the United States agree to establish forthwith on the books of the United States Treasury a credit in the name of the Government of the Republic of China in the amount of 500,000,000 U. S. dollars. The Secretary of the Treasury shall make transfers from this credit, in such amounts and at such times as the Government of the Republic of China shall request, to an account or accounts in the Federal Reserve Bank of New York in the name of the Government of the Republic of China or any agencies designated by it. Such transfers may be requested by and such accounts at the Federal Reserve Bank of New York may be drawn upon by the Government of the Republic of China either directly or through such persons or agencies as it shall authorize.

#### ARTICLE II.

China desires to keep the Secretary of the Treasury of the United States informed as to the use of the funds herein provided and to consult with him from time to time as to such use. The Secretary of the Treasury of the United States desires to make available to the Government of the Republic of China technical and other appropriate advice as to ways and means of effectively employing these funds to achieve the purposes herein described. Technical problems that may from time to time arise in effectuating the financial aid herein provided will be subjects of discussion between the Secretary of the Treasury of the United States and the Government of the Republic of China.

- 3 -

## ARTICLE III.

The final determination of the terms upon which this financial aid is given, including the benefits to be rendered the United States in return, is deferred until the progress of events makes clearer the final terms and benefits which will be in the mutual interest of the United States and China and will promote the establishment of lasting world peace and security. In determining the final terms and benefits no interest charges shall be made for the financial aid herein provided and full cognizance shall be given to the desirability of maintaining a healthy and stable economic and financial situation in China in the post-war period as well as during the war and to the desirability of promoting mutually advantageous economic and financial relations between the United States and China and the betterment of world-wide economic and financial relations.

## ARTICLE IV.

This Agreement shall take effect as from this day's date.

Signed and sealed at Washington, District of Columbia, in duplicate this \_\_\_\_\_ day of \_\_\_\_\_, 1942.

On behalf of the United States of America

\_\_\_\_\_  
Secretary of the Treasury

On behalf of the Republic of China

\_\_\_\_\_

February 20, 1942  
4:19 p.m.

Sumner  
Pike:

Yes, Mr. Secretary.

HMJr:

Mr. Pike, Mr. Purcell is sitting here with me.

P:

Yeah.

HMJr:

And he's been appealing to my sympathies and one thing and another, and I'm just a soft-hearted fellow.

P:

Yeah.

HMJr:

This is the suggestion that I made. I don't know whether you like it or not - I mean, to be fair to SEC and ourselves.....

P:

Yeah.

HMJr:

.....and I said, "Why not let us have your services and let's break this chain which is around my neck," you see?

P:

Yeah.

HMJr:

And then after you've been with us a couple of months and you can decide how important that is and how SEC - you could decide - we could - which way you'd go.

P:

Yeah.

HMJr:

And that would - I think from what Purcell tells me, that would give him a chance to think about whether he wants to fill your vacancy and so forth and so on. Now, when I say it, I think it's a compliment to ask for SEC for somebody.

P:

(Laughs)

HMJr:

And Justice said that when they asked us for Bob Jackson to try a case for them, we considered it was a compliment.

P:

Well - (Laughs) - does that impress him very much?

HMJr:

(Talks aside) Does that impress you?

- 2 -

P: (Laughs)

HMJr: I think I made a dent.

P: (Laughs) Good.

HMJr: I told him not to trade too hard, and he's asked to let me know tomorrow morning, which is only fair.

P: Yes.

HMJr: But I frankly want you very, very badly.

P: I think that might ease the situation if Gansen's willing that - I thought of that on the way back this morning as a possible way out, because Gansen's right in that there are some real repercussions over here if anybody takes a hop at this moment.

HMJr: Well, this wouldn't be - this would - we'd word it so that we'd ask the SEC to lend us one of their Commissioners.

P: Yeah.

HMJr: Lend the Treasury one of their Commissioners to help them, and I think that if the Treasury goes to the SEC for help, it isn't - well, I.....

P: Well, I don't.....

HMJr: .....I think it's a compliment.

P: Well, I don't see why our Chairman isn't softening up at the moment. You've certainly got me softened up.

HMJr: I've got you softened up?

P: Yeah.

HMJr: Well, I don't know how to soften them up, but he looks like a nice fellow.

P: (Laughs) Well, I guess he'll probably give in

- 3 -

over night. That would be my guess.

HMJr: Well, I wanted to talk to you in his presence.  
It appeals to you?

P: Yeah. Yeah.

HMJr: Well.....

P: I think on the breaking up thing, the repercussions wouldn't be anywhere near as severe on that basis as they might on the other.

HMJr: Well, I can see he's just taking this thing over and he doesn't want.....

P: Well, he's on quite a spot, you know. There was a stink that lasted a month or two over the whole thing, and Gansen's in a tough spot; and I don't want to do anything that will make a pretty tough job anyway any tougher for him.

HMJr: Well, we can help maybe in other ways, too.

P: Yeah.

HMJr: I mean, with the SEC.

P: Yeah. I kind of like that.

HMJr: You kind of like that?

P: Yeah.

HMJr: Okay.

P: All right, sir.

HMJr: We'll - he said he's going to talk to you and.....

P: I'll be here when he gets back.

HMJr: Right.

P: Yes, sir.

HMJr: Thank you.

February 20, 1942  
4:30 p.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello.

Robert  
Rouse: Good afternoon, sir.

HMJr: Hello, Bob. You seem to have been doing a swell job down there.

R: This is the brightest minute of the week.

HMJr: Really?

R: Yeah.

HMJr: How do you mean?

R: Well, we took in six million, four today on the two's.

HMJr: Yes.

R: But at the close, the Central Hanover came in and went to the dealers and said, "If you boys are patriotic, we are; and we'll take some of these two's on at par."

HMJr: Oh, wonderful.

R: So they turned some, and we saw to it they couldn't get too many.

HMJr: I see.

R: And on the two and a quarters, I know of two or three outright sales of five million each today, and in other sections of the list there's a demand in the sense that the boys have been going over and look at what their taxes are going to be, and they've got to buy more income.

HMJr: I see.

- 2 -

R: And time is helping it.....

HMJr: Good.

R: .....so that the picture looks a good deal better tonight than it has any day this week.

HMJr: Fine.

R: Bonds got up as high as twenty-two bid, and closed, oh, at least nineteen bid. It's not very big, but there isn't any sellers; they're pretty well cleaned up now.

HMJr: Well, when you think of all the private issues were called off and that we just went through with it, I think it's pretty good.

R: Yes. And I think as it wears along the fact that we did a billion and a half and everybody is down to earth again won't do us any harm.

HMJr: How much did we buy of the two and a quarters.

R: Oh, I haven't the exact figures in my mind, but it's quite a small amount.

HMJr: Yeah. Right.

R: It - well, if I were to guess, offhand, it would be about twenty million.

HMJr: Right. And of the two's?

R: The two's, about thirty.

HMJr: Well, that's not bad.

R: No, it's not bad at all. It will - let's see, it will work out twenty-nine - fifty-eight million about all together.

HMJr: Well, after all, we're handling bigger and bigger issues and we'll have to - when we support it'll take more money.

R: Yes, and I think we'll just have to recognize it

- 3 -

as part of the cost of doing business.

HMJr: That's right.

R: I think there's a - it can be handled practically if we don't get too theoretical about it.

HMJr: That's right. Well, thank you very much.

R: Thank you for calling.

HMJr: How's your sinus?

R: It's better.

HMJr: Good. Sounds better.

R: I'm feeling a good deal better. I've got it fairly well cleaned up.

HMJr: Good. Well, take care of it.

R: Thank you very much.

HMJr: Good-bye.

R: Good-bye.

February 20, 1942  
4:50 p.m.

HMJr: I understand you called me last night.

Aubrey Williams: Well, it's very kind of you to return it. I just had a brainstorm. I saw this picture of Donald Duck.....

HMJr: Yeah.

W: .....and I was so terribly impressed with it that I wondered if you might not work something in the way of a public support of that thing.

HMJr: No.

W: It seemed to me so darned good that - are you going to be able to pay for it?

HMJr: Oh, we paid for it.

W: Oh, you did?

HMJr: And I told the Committee I'd pay for it.

W: Oh.

HMJr: We're all right on that.

W: Well, I was wondering - you know this bomber idea of yours is going over big.....

HMJr: Yeah.

W: .....and I wondered along - the people might take a pleasure and a joy in throwing in a quarter, fifty cents, or a dollar for a proposition like that and feel they had a part in spreading the gospel.

HMJr: Well, I think - I appreciate your thinking of us, but we had the money and I told the committees we were going to pay for it and we went ahead and did.

W: Uh huh.

- 2 -

HMJr: And we're going ahead and making another one.

W: Good. I thought it was perfectly marvelous.

HMJr: So we're not going to let them stop us.

W: The enthusiasm of the people after it was over was the complete justification.

HMJr: Well, it's awfully nice to hear it, because I think that Disney really did quite an unusual job.

W: Yes, he did.

HMJr: Yeah.

W: Well, I just wanted to give you that idea.

HMJr: Well, thank you, but we happen to be all right this time, but we might not have been.

W: Fine.

HMJr: Thank you.

W: Good-bye.

FEB 20 1942

Dear Senator Downey:

The nice things you said on the floor of the Senate last Tuesday in connection with our tax collection and defense bond sales efforts have just been brought to my attention.

Please accept my personal thanks for your hearty support.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Sheridan Downey,  
United States Senate.

*H. M. C.*

*Copies to Thompson  
and Foley*

HAR:HMC:EHF:vls - 2/20/42

FEB 20 1942

Dear Senator Barkley:

Your recent statements to the Senate commending the Donald Duck film and urging the Senate and its employees to participate in the payroll-savings plan for the purchase of Defense Bonds have come to my attention.

As always, your remarks have been of great help in our program and I want you to know they are deeply appreciated.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Alben W. Barkley  
United States Senate.

NOT:hcp 2/20/42

*H. M. C.*  
*Copies to Thompson*  
*as Foley*

FEB 20 1942

Dear Mr. McCormack:

The remarks which you made in the House on Wednesday urging members and their employees to participate actively in the payroll-savings plan for the purchase of Defense Bonds have been brought to my attention.

Your statements were very effective and I want you to know that your support of the defense bond program is sincerely appreciated.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. John W. McCormack  
House of Representatives.

NOT:hep 2/20/42

*H. M. C.*

*Copies to Thompson  
and Foley*



# ADVERTISING CLUB of Baltimore

OFFICES AND CLUB ROOMS: SUITE 1222 EMERSON HOTEL • BALTIMORE, MD.  
PRIVATE TELEPHONE: CALVERT 6159

February 20, 1942

## OFFICERS

WILLIAM T. CHILDS  
PRESIDENT  
WILLIAM K. FREIBY  
IMMEDIATE PRESIDENT  
HUBERT P. STEFF, JR.  
FIRST VICE-PRESIDENT  
VICTOR P. BRUCKER  
SECOND VICE-PRESIDENT  
ABRAHAM WATKIN  
TREASURER  
EDWARD F. REUBEN  
SECRETARY  
KARL F. STEINMANN  
GENERAL COUNSEL

## BOARD OF GOVERNORS

ALL OFFICERS INCLUDED:  
EDWARD L. ANDMANN, JR.  
LOUIS S. ASHMAN  
J. O. BLARELY  
RALPH W. BROWNFIELD  
HAROLD C. BURKE  
WILLIAM H. GIBSON  
S. L. HAMMERMAN  
J. TOUCHSTONE JONES  
JOSEPH KATE  
C. MARLAND KELLY  
BENJAMIN G. KLING  
J. R. LAMB  
E. H. LANDAUER  
ROY B. LANHAM  
CHARLES T. LEVINSON  
B. F. LITINGER  
E. LESTER MULLER  
THEODORE A. NEWHOFF  
A. G. SCHOTTA  
LOUIS E. SPECTER  
RAYMOND B. TOMPKINS  
D. STUART WEBB

Honorable Henry Morgenthau, Jr.  
Secretary of the Treasury  
Washington, D. C.

Dear Mr. Secretary:

The Advertising Club of Baltimore was singularly fortunate in having you as its guest speaker last Saturday evening, when you gave the nation, through our club, your masterful address.

In my opinion this was one of the very best addresses you have thus far made.

Assuredly, we would not have held an annual banquet this year if you had not graciously consented to address us, thus enabling us to devote the banquet to National Defense.

I think your reference in your address to our Commander-in-Chief was superb.

You may be interested to know that we are still active in our efforts with Defense Bonds and Stamps. Syracuse, New York, wired us for particulars, and one of our guests purchased \$10,000 of bonds on Monday.

It was indeed a real pleasure to meet you, and I know you will be happy to learn that you gave so many folks in Baltimore and millions of the radio audience so much assurance and real enjoyment.

Wishing you all power in the continuance of the great work you are doing, I am, with real appreciation,

Sincerely yours,

*W. T. Childs*

W.T.Childs  
cmw

President  
6 S. Calvert Street

February 20, 1942

Dear Dave:

I am very sorry to learn from your letter of February 19 that we are about to lose your services at the Treasury.

You have been of immense help in your few months here, and I appreciate all the assistance that you have given. More than that, it has been a personal pleasure for me to have had you as a member of my Treasury family.

Now that you are going into the army, I should like you to know that all our good wishes will go with you, in whatever part of the world you may be serving.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Mr. Dave H. Morris, Jr.

Treasury Department.

FK/hkb

*File Thompson  
Photo file - m.m.c.*



TREASURY DEPARTMENT  
WASHINGTON

February 19, 1942

Dear Mr. Secretary:

As I told you a little while ago, I have just received orders to report on Monday morning for army duty. Under these circumstances I hereby tender my resignation as your Assistant, to be effective Saturday, February 21st.

Working for you has been one of the most stimulating and delightful experiences of my life and I only regret that I cannot be in two places at once so as to continue working here and also fulfill my new assignment.

With kind personal regards and best wishes for your ever continuing success in the wonderful job you are doing, I am

Very sincerely yours,

*Dave H. Morris, Jr.*  
Dave H. Morris, Jr.

The Honorable

The Secretary of the Treasury



February 20, 1942

Dear Miss Monroe:

Your generous offer to serve as a "Minute Man" in the Defense Savings Campaign and to conduct "Victory Sings" throughout the nation is a most welcome contribution to the nation's war effort.

A program of community singing in communities throughout the country cannot fail to foster that spirit of united devotion to our cause which is so essential to victory. I know that your efforts will be of great help to the Treasury Department in its campaign for the voluntary participation of all our people in the financing of the war.

Sincerely,

(Signed) H. Morgenthau, Jr.

Miss Lucy Monroe,  
RCA Victor Manufacturing Company,  
Camden, New Jersey.

FK/hkb

*N.M.C.  
Copies to Thompson  
Original sent to Mrs. Duffus  
office for mailing.*

February 20, 1942

Harold Graves  
Eugene Sloan  
Secretary Morgenthau

The art in the advertisement in the Evening Star, paid for by Hahn, entitled "They're giving their all; won't you lend yours?" is at least fourth grade. I would like to know whether the drawings were done in the Treasury. Please give me a memo on this today.

This is the thing that I complained to Sloan about at least two weeks ago.

If this work is done in the Treasury I wish that the art end of it would be referred to Mrs. Morgenthau and Olin Dows as I am confident that with their help we could produce advertisements which would be much more effective and that the art work would be the best.

I would like an answer to this memorandum by this afternoon. Thank you.

*Memo submitted 2/20/42*

TREASURY DEPARTMENT

221

INTER OFFICE COMMUNICATION

DATE 2/20/42

TO Mr. Sloan  
FROM Mr. Mahan

The advertisement entitled "They're Giving Their All; Won't You Lend Yours?" which appeared last night in the Evening Star was one of the series prepared and released at the same time as the portfolio which the Secretary discussed with you.

The artwork for this advertisement was done in our own shop. I am sure the reorganization which we have completed this week will enable us to turn out advertisements which will be more satisfactory to everyone than this first series.

In connection with the meeting on Tuesday afternoon with Mrs. Morgenthau and Mr. Dows, I will arrange to exhibit and discuss advertisements as well as posters. It will be of help to us in our reorganization of the Creative Department to get their comments.

Feb 20<sup>th</sup> 1942 V 1st draft  
222

President Green and members of the American

Federation of Labor: This pledge of yours to buy a billion dollars of Defense Bonds in 1942 is a magnificent example to the whole country. It is the biggest single pledge that has come to us from any single organization. It amounts to about \$200 for every one of your five million members. If you fulfill and exceed your pledge -- as I am confident that you will -- you will be winning a victory as important in its way as a victory on the battlefield. For you will be proving once more that the American people here at home are working and saving to help win this war for freedom.

This war is a crisis for the whole labor movement in more ways than one. Unless we and our allies win it,

there will be no survival of free trade unions, no  
liberation of the millions of workers now enslaved<sup>abroad,</sup>  
no continuance of the rights that American labor  
has won in generations of struggle, no better future  
for the working men and women of the world. Upon  
the outcome depends everything that <sup>American labor</sup> you stand for,  
everything that <sup>American labor</sup> you dream of for <sup>itself and its</sup> ~~yourselves and your~~  
children.

Our American future will be determined not only  
by events on the battlefields but by our response,  
here and now, on the home front. Most of you are  
fighting on the assembly lines in the Battle of  
Production, which may become one of the decisive  
battles of the world. All the giant strength of

American industry is being mobilized to produce the weapons and materials that will smash our enemies; all the skill and energy of American labor are going into that battle, and they are going to win it in the end.

Yet we shall be hampering our own efforts to produce if we then go into the market place to buy unnecessary goods that compete with our war production.

I am reminded of an advertisement in the New York papers a few days ago showing Hitler pinning a medal on an American man and woman; the caption was "For Distinguished Services to the Axis -- For Hoarding."

We know that it is unprofitable and unpatriotic to hoard rubber, sugar or any commodity in times like

these, but hoarding is only an extreme example of  
a more widespread evil. It is just as unprofitable,  
just as ~~unpatriotic~~ <sup>unhelpful</sup> for us to buy ~~anything~~ <sup>a great many things</sup> that we  
can do without until the end of the war. If the  
Battle for Production is to be won -- and I know  
that labor is determined that it shall be won --  
we shall have to cut down on our own everyday expend-  
itures, to do without new gadgets and luxuries, to  
keep our buying strictly to necessities. The more  
goods we buy now for civilian use, the more we may  
have to ration as those goods become scarce and as  
the war goes on.

That is an additional reason for continuing to  
buy Defense Bonds every week, every pay day, to the

very limit of our ability. Bond-buying is the very opposite of luxury buying in wartime. It helps to keep prices in check. It helps to clear the decks for war production. It helps the Government to finance the colossal costs of war, and it will help you by giving you a reserve of spending money after the war when you will need it most.

I am glad that in your billion dollar campaign you are emphasizing the importance of continuous week-by-week investment out of your pay checks. The money that we need most urgently is new income, week-by-week income, the income that would otherwise be spent on unnecessary things. It does not help to finance the war, or to keep inflation down, to buy Defense Bonds by taking money out of savings bank

accounts; for that money is already out of the stream of purchasing power, and it is already largely invested in other Government bonds. The best way you can help in financing the war and in safeguarding your future is to buy Defense Bonds out of your new earnings, regularly and as much as you can.

In this effort the Treasury is relying upon all the five million members of the American Federation of Labor, and especially upon the shop stewards and presidents of locals. I should like to say a few words in conclusion to the shop stewards and local presidents who may be listening to me tonight. You are my partners in this payroll savings enterprise. You are the ones who know how much your members are

investing in payroll savings plans. You are in a position to know whether a particular worker is doing all that he can, or less than he should. I am relying on you to tell your members throughout the year about the advantages of payroll savings; to keep track, in a friendly way, of what your members are investing; and to see that they set aside every dollar they can, for their own good and their country's good.

As I have said repeatedly, this is not a token war, and it cannot be paid for with spare change. We are engaged in a war of desperate seriousness. It is so serious that it allows no margin of safety for any of us. Remember, whoever relaxes helps the Axis.

This is a time for sweat, for work, for saving,  
for maximum effort in every phase of the war effort.  
I have such confidence in American labor that I know  
you will put forth that maximum effort, voluntarily,  
willingly, cheerfully, whatever the cost, however long  
and hard the war may be.

C-A