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November 17, 1943

MEMORANDUM FOR THE PRESIDENT

Policy on Land-Lease and British Dollar Balances

On January 1, 1943, Messrs. Wallace, Hull, Stimson, Stettinius and Bell (acting for Mr. Morgenthau), who formed the senior inter-agency Committee on the Dollar Position of land-lease countries, submitted the following recommendation to you which you approved:

> "It is recommended, in the light of present circumstances, that the United Kingdom's gold and dollar balances should not be permitted to be less than about $600 million nor above about $1 billion."

* * *

The reasons supporting this decision were:

1. Land-lease countries should be allowed to maintain their gold and dollar balances at a level consistent with their needs for the vigorous prosecution of the war.

2. In the early discussions with the British they suggested that they should have a "minimum working balance of $600 million required to meet contingencies everywhere." This figure was made the "floor."

3. The $1 billion "ceiling" was a freezing of the status quo since on January 1 British balances were actually at about that level.

4. In your March 11, 1942 Report to Congress on Land-Lease Operations you said:

> "No items (i.e., for land-lease aid) are approved unless the following conditions are met..... (e) the land-lease aid requested must not be obtainable, as a practical matter, by payment therefor in American dollars or other currency available to the requisitioning country."

5. In testifying on the Land-Lease Bill in January 1941 the Secretary of the Treasury assured Congress that the British had only sufficient dollar exchange resources to pay for the goods already ordered in this country. In this connection (with the full approval of the British authorities) he told the Senate Committee:

"every dollar of property, real property or securities that any English citizen owns in the United States, they have agreed to sell during the next 12 months, in order to raise the money to pay for the orders they have already placed, they are going to sell -- every dollar of it."

6. The liquid dollar assets of the British had risen from some $350 thousand at the start of lend-lease to $1 billion on January 1, 1943 - exclusive of very large holdings by South Africa. Early in 1941 the Treasury Department, in cooperation with the other agencies, had initiated and pressed for an increase in the scope of lend-lease in order to relieve the pressure on Britain's gold and dollar holdings, and later to restore those balances to a level considered by the British as necessary for working purposes. In accordance with that policy a number of transactions were placed under lend-lease, which otherwise would have had to be handled by the British on a cash basis. Since the scope of lend-lease had been increased in order to maintain and boost British balances, it became necessary, when those balances continued to rise, to consider whether a limit should be placed upon them.

* * *

Since January 1943 British balances have continued to rise, until they are now at approximately $1.6 billion, or $600 million more than the top figure set at the beginning of the year. In May the Treasury initiated discussions with the British for raw materials as reciprocal aid. It was originally expected that between $200-$300 million would be received in this way. However, the negotiations have taken a long time, major parts of the Empire have still not agreed, and even twelve months from now it is not believed that the Foreign Economic Administration will have received raw materials from the British Empire much in excess of $100 million.

British Investments in the United States

Of the estimated $1.5 billion of American investments owned by residents of the United Kingdom approximately $400 million have been sold outright. $500 million were pledged against an RFC loan of $390 million, which was later reduced by payment to $350 million. Accordingly, the British still retain about $650 million of these investments, with no strings on them, and another $450 million are on deposit as collateral.

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Summary of Dollar Position

In summary the British foreign exchange position vis-a-vis the United States — excluding the holdings of other parts of the Empire vis-a-vis the United States, which have improved over the period — has changed as follows:

	Dec. 30, 1940	Oct. 31, 1943
	(In millions)	
Gold.....	$ 202	$ 975
Official dollar balances.....	54	615
Private dollar balances.....	305	320
Total liquid balances.....	561	1,910
U. S. securities.....	616	360
Direct and miscellaneous investments in U.S.	900	785
Deduct collateral pledged to RFC	-	- 500
Total U.S. investments (net)	$1,516	$ 645

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The British Argument

The British oppose any effort by the United States to narrow the scope of lend-lease aid, in order to prevent the increase in British gold and dollar holdings. They point out that foreign countries hold approximately $7 billion of short-term claims on sterling, that these sterling balances owned outside England are increasing three or four times faster than the British balance of gold and dollars, that accordingly their international financial position is worsening, and that they need all the gold and dollars they are accumulating. Furthermore, they assert that of the $1.6 billion holdings, $365 million must be deducted because of specific gold and dollar payment obligations to foreign countries.

There is no doubt that these mounting sterling obligations of the British constitute a serious financial problem especially for the post-war. The policy problem is whether the scope of lend-lease to the British should be kept as wide as it now is for the purpose of enabling the British to keep a growing reserve against obligations to foreign countries, which the British do not intend to meet until the post-war. A further consideration is that most of the short-term obligations owed by the British fall under two heads:

1. Many were accumulated before the U. S. extended lend-lease aid; and
2. Most of those contracted since lend-lease are owed to British Empire countries.

It is recognized that in all probability Britain can make no better deals with the Dominions and with India than to pay in sterling or sell their securities back to them. But it must also be recognized that the essence of the British position is that the scope of U. S. lend-lease should be kept wide in order to compensate for monetary payments made to the Empire.

Recommendations

The considerations which prompted the President's directive of January 1, 1943, are still sound, and require action to curtail the scope of lend-lease aid to the British, unless Congress is informed of the situation and agrees to a more generous policy.

1. It is therefore proposed to have the British pay for a larger proportion of civilian goods obtained in this country.

2. In particular, it is proposed to discontinue certain transactions which would never have been undertaken except for Britain's acute shortage of dollars, and which experience has shown are opposed

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by considerable sections of opinion in this country. Among the transactions which it is proposed to cut are: (a) long-term capital installations; (b) off-shore purchases such as Iceland fish, Caribbean sugar, and oil from outside the U. S.; (c) civilian goods to the Middle East; (d) all goods to South Africa (which is well off financially); (e) small requisitions (which are a nuisance); (f) certain other controversial civilian items.

If you approve will you please indicate below:

_____

_____

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11/17/43

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NOV 18 1943

My dear Admiral Leahy:

The U. S. Treasury has been requested by the Government of India to grant its immediate approval for the lend-leasing of 100 million ounces of silver to the Government of India. The Government of India has indicated that this silver will be used for anti-inflationary purposes.

The U. S. Treasury has been studying the situation in India and believes that the use of this silver may be of assistance to the Government of India in its efforts to cope with the difficult problem of inflation. However, since India is a base for military operations in Eastern Asia and since the Government of India has given military necessity as one of its principal arguments for the lend-leasing of this silver, I feel that the Combined Chiefs of Staff may have an interest in this matter.

Therefore, I would appreciate if the Combined Chiefs of Staff would take under consideration the question of whether or not the importance of granting this request from a military point of view outweighs the financial considerations involved.

If the Combined Chiefs of Staff feel that this matter is of concern to it, I would be pleased to receive its opinion as to the desirability of acquiescing to the Government of India's request.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Admiral William D. Leahy,
Chief of Staff to the Commander
in Chief of the U. S. Army and Navy,
Washington, D. C.

HDW/ISH/efs 11/18/43

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November 16, 1943

TO: Dr. White

FROM: The Secretary

I wish you could either take it up with the Combined Chiefs of Staff or prepare a letter for me to write to Admiral Leahy explaining to Admiral Leahy that we have been asked for this 100 million ounces of silver for India and does it mean anything to the Combined Chiefs of Staff that we make this loan to India and also explain to them that I am asking for this information because I could use it, if it is favorable, when I appear before the Silver Committee in the Senate.

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11/18/43

Reading copy of Secretary's address before the Association of National Advertisers in New York City.

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GENTLEMEN:

I am glad to have this opportunity tonight to talk to the Nation's leading advertising people, because I have confidence in the ability of advertising men to bring the facts of the war to the American public. And today, perhaps more than at any time since the war began, there is a vital job to be done on that front.

The dangerous dream of a quick end to this war grows more serious every day. It is particularly pressing right now. On every hand we see a surge of activity to prepare for post-war, sometimes at the expense of the vital job at hand. The stock market has been in a steady decline ever since word first got around that the Nazis are about to crack.

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The newspapers regularly report new signs of the coming collapse of Germany. In Washington the exodus to after-the-war jobs has started in earnest.

No one in Washington can give me any concrete evidence that Germany is tottering on the brink of capitulation -- and I have sought out practically everyone who would have any reason to know. And I can tell you that on the Italian front the Nazi troops are not near cracking.

It is always possible, of course, that the people on the Nazi Home Front will be unable to take the bad news from Russia or the terrible destruction our bombs are raining upon them.

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But if the Nazi Home Front should crack, that would be a wind-fall. In the meantime, we are only playing Hitler's game when we see peace just around the corner.

I am convinced, by the way, that the Nazis have a proprietary interest in this wave of optimism. The early signs of German collapse came from stories printed in Nazi-controlled newspapers; then from travelers out of Germany, who reported their observations to neutral newspapers, chiefly those with pro-Nazi tendencies. Finally, Hitler himself managed to convey the impression in his most recent speech that life in Germany is hell. I cannot think that he and Mr. Goebbels would be so tender about keeping us posted of a coming crisis unless there is a rabbit in the hat somewhere.

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Those who hail an early crack-up of the German nation have not talked to German prisoners, I can assure you of that. I had some first-hand reports on the state of mind of prisoners when I was in Italy. They are mighty arrogant. They believe in Adolf Hitler, and say the Russian campaign is the fault of the German generals. They don't understand when you talk to them about Democracy. They say: "What? A nation without a Fuehrer? That is chaos!" Then if you pursue the subject of their present leader, they may admit he is not perfection -- but he will do very well until they find another. And -- get this, gentlemen -- they say their next Fuehrer will win the next great war. So here they are -- these defeated prisoners -- already planning another assault on civilization.

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This is one reason why we must concentrate on fighting the war right up to the last bitter day. There is a good chance that letting down now can needlessly prolong the war for weeks and months.

I was in Italy three weeks ago. I went with General Mark Clark up to the front lines. I drove in a jeep through the mountains to a spot within a mile of the Nazi troops. I went through a small village -- or what had, a few days before, been a village -- called Dragoni. It was still smouldering. American bulldozers were busy clearing debris out of the streets so that our supply trucks could get through; and at one spot our jeep had to climb high over a pile of masonry and stones that the day before had been a public building.

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That was about all there was left of Dragoni -- that huge pile of wreckage. It was the same in a half dozen other small towns that we passed through. That happens because the Nazis don't like fighting in the open. They run from building to building, and Mark Clark's Fifth Army or Jimmy Doolittle's planes simply have to take the buildings down around them. It is, I can tell you, a mighty slow and difficult process. When I broadcast from Algiers, I pointed out some of the difficulties of fighting over there. "I had no idea," I said, "of the terrible terrain in this area over which we must fight the Nazis. The area between Naples and Rome is mountainous and thick with trees and foliage.

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It is ideal for defensive action, because the Nazi forces can hide high in the mountains, and fire on our forces without being seen. And when they are driven from one mountain, they need only to retreat a few hundred yards to another and it is the same thing all over again."

Since I left Dragoni, the Allied Armies have managed to get fifteen miles closer to Rome. Five bloody, hard-earned miles a week, that's all. But it isn't the fault of our fighting men. They are tough and in the pink of condition. They've got what it takes to lick the Nazis, man for man. The fact is that no Army in the world could move any faster. ~~It will be almost a miracle if we are in Rome before Christmas.~~

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And that's the picture on the Italian front while we, back here, are congratulating ourselves on polishing off the war in a hurry.

But even that's not the whole story.

The weather is closing in over there. Our troops may be without air protection more of the time than they will have it, and they tell me that air protection is just about the most important single factor in modern invasion.

I talked to General Doolittle about that in Tunis. In his war room, lined with huge maps of the entire Allied battle front, he showed me how aircraft are dispatched almost on a moment's notice to any fighting sector to take care of difficult enemy implacements or stubborn resistance.

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Just two days before I arrived in Tunis, Doolittle said, some of the forces in Italy were caught in what might have been a serious trap had it not been for the medium bombers called to the scene.

In an hour or two the bombers had done a job that would have been next to impossible without them -- and certainly would have meant heavy, bloody losses! This was only one case that Doolittle pointed out where a temporary setback had been turned, through immediate air support, into a victory.

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But now the winter is here, and the weather is closing in. Jimmy Doolittle and Air-Marshal Tedder cannot send airplanes anywhere, at any time, on a moment's notice, as they did this summer. Is there any promise of early peace about that?

Or, can you find hope of quick victory in the fact that the Allies have still not crossed that narrow ditch called the English Channel, for the simple reason that the other side is lined solidly with sudden death? Can anyone really think it is going to be easy to bring Germany to her knees in unconditional surrender while her troops are planted within gunshot of Great Britain?

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But because the Nazis promise, through their propaganda bureau, to fold up; and because we'd like to get on with the peace, too many of us are getting eager to sidetrack the main job.

Personally, I think it is serious enough to call for somebody to do something; and I came here tonight because I think you advertisers and advertising people who are already using your talents and facilities and genius to make the American people understand many of the facts of war, can do still more.

I asked your help once before. Representatives of your group came to Washington a year ago and I told them, if I recall correctly, that we were faced with the biggest selling job in history with practically no precedent to go on.

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Through your War Advertising Council, you secured the volunteer help of the ablest advertising people in the United States and the cooperation of advertisers and media, and went to work. I think everyone knows what a splendid job has been done.

During the Third War Loan, advertisers sponsored 89,000 advertisements in the daily newspapers -- a total of 61,573,588 lines, at a cost to themselves of more than six and one-half million dollars. Two-thirds of the advertisements were prepared by the advertisers themselves, and one-third were prepared for us by the War Advertising Council.

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Throughout the Drive, I am told, practically all of the 10,000 weeklies carried advertisements which were paid for by one or more local businesses.

In daily and weekly newspapers, business supported the campaign with more than eight and one-half million dollars worth of space.

On the radio you did a magnificent job. The National Association of Broadcasters tells me 3,382 hours of radio time and 200,000 announcements (valued at $12,000,000) carried Third War Loan messages to the public, throughout the days and nights of the Drive.

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Through the Allocation Plan and additionally contributed time, advertisers played a most important part. You gave us the use of your best radio audiences.

At least $3,000,000 in magazine space was provided by advertisers and the magazines themselves. 250 general magazines, 50 farm journals and 450 business and trade magazines each contributed a full page.

Advertisers and the Outdoor Industry provided by all odds the most expansive outdoor showing of all time. I am told this had a value of $1,700,000.

This 3-week campaign, provided by advertisers, would have cost a commercial advertiser $30,000,000 -- 10 million dollars a week!

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A National survey made afterward revealed that 90% of the people in the country knew about the Bond Drive, and understood that extra Bond purchases were the measurement of participation. This was an important contribution, for in previous Drives, too much of the public took the position that "They don't mean me."

You see, therefore, something of the job advertising has done.

You may be interested to know that my experience with advertising in connection with this war started even before the War Loans.

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It started back in the days when those of us who felt that an attack on the United States was inevitable, were trying to get the country ready to defend our shores against any aggressor. Our biggest job was trying to make the people see that, as the President said, we couldn't simply climb into bed and pull the covers over our heads.

In those days -- about four years ago -- Gallup polls pointed out that 92% of all Democrats and 94% of all Republicans were saying that we simply should not fight.

Yet steps had to be taken to protect ourselves -- steps that worried some Americans because they thought we were inviting war, inviting war simply because we admitted its approach.

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But even then we had a good idea of Hitler's program. We felt sure he intended to take Britain in the Spring of 1941, and then join forces with Japan and go to work on us in the fall. And we could not be sure that this program would not succeed.

Today everyone everywhere agrees that we were scheduled on the aggressors' program as much as Poland, Czechoslovakia, or Britain. But things were different then.

Even Dunkirk, and the Fall of France, did not arouse the American people to a sense of the reality of the danger ahead.

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Here was the very moment when the light of civilization in Europe came nearest to dying, perhaps forever. The British were desperate. Their entire future, their whole defense depended upon getting materiel, and getting it quickly.

Winston Churchill had made it clear that equipment losses at Dunkirk had been staggering. Britain needed everything -- artillery, ammunition, aircraft, and most of all rifles. Every able-bodied man in England had to be prepared to fight off invasion, but in all Britain there was only a handful of rifles for them, and not much of anything else, and you can't stop Nazis with sticks and stones.

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The British needed help. Somehow, by some means, we had to get them some rifles, and enough other equipment to prepare them for the invasion which seemed imminent -- and which, if it had been imminent, almost certainly would have been successful.

General Marshall, and a group from the War and Navy Departments, came several times to my office to discuss what might be done. After twenty years of peace, we had very little equipment of any sort to use in fighting a war. But we felt that if we dug deeply enough we could find some obsolete materiel, and perhaps some equipment in private hands, that would help out. Before long we found quite a collection of usable materiel.

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For example, we found 500 old 75 millimeter guns, and 400 Thompson sub-machine guns left over from the last war. The Navy turned up 5000 obsolete 30-pound bombs and the Army found 560 hundred pounders. Some place, we found 80 out-of-date torpedoes, and someone came up with 500 38 caliber revolvers which antedated even the First World War.

To arm the British foot soldiers and the Home Guard, we managed to dig up nearly a half million rifles. We might have added to this several thousand more old Springfield 30-30's, but there was no ammunition to be found anywhere in the world, and the guns were no good without bullets.

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What was more important, we found that this equipment could be sold legally to the British without involving the American Government in an act of war.

When I look back over the last three or four years, I think this meeting stands out above all else in my mind, because the stakes were so great. I am proud and happy to have had a hand in arranging for this materiel to go to England in her darkest moment. I shudder a little to think of our cast-off equipment being thrown into battle against the Nazi's modern machinery of war, but it was certainly better than nothing.

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Britain was again armed, inefficient and meager though the armament may have been, and civilization passed a crisis. But it was a mighty narrow squeak.

It was back in these days when we were struggling to make the public see what stark dangers lay ahead that American advertising men first came to the aid of their Government. It seemed obvious, at least to me, that the American people were not getting the true significance of the news reports. They did not see the approaching danger. Something more positive had to be done. That something, it seemed to me, was some good, factual, hard-hitting advertising to help the people see and feel what we were up against.

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Not long after that, advertising began to appear. It was bought and paid for by patriotic Americans who took upon themselves the responsibility of making their friends and neighbors aware of the situation. They were written by some of you advertising men, I think, who are here tonight. You were pioneers then. You were pioneering the biggest job of public information in history. And you were pioneering too in giving advertising the dignity of social responsibility.

Obviously we could not continue indefinitely to find antiquated guns and odd bits of equipment in private hands for the British to buy and use.

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The time had come to take drastic steps. We knew for example that a few months later there would be a crisis in the British Navy; that with the rising power of the German Navy, Britain would have too few ships to defend herself, let alone keep the invading Nazis in any kind of check.

The public had to be made aware of this situation. The majority of newspapers went to work on the problem editorially and you prepared an advertising campaign that helped achieve amazing results. That was only three months after Dunkirk, but the Gallup box score began to look much different than it had before.

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sixty per cent of the American people stood solidly back of the President in transferring over-aged destroyers to the British to help bolster their Navy. The people were beginning to see.

A few months later there was another educational job to be done. Nazi U boats were preventing our shipping from reaching its destination. It became necessary either to convoy our freighters or simply to consign a good part of our materiel to Davy Jones. To tell the public about this, you developed an advertising campaign. I remember one of the advertisements. It was headed, "Okay, Mr. President, go ahead and clear the Atlantic." And again you were helped by many influential editorial columns.

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What the President was able to do in a fireside chat, plus what you were able to do, gained the support of a majority of American voters behind the idea of arming and convoying our ships. Fifty-five per cent of the people backed the decision, and only thirty-eight per cent definitely opposed it. A few weeks before, fifty per cent of the people had been definitely against it and only forty-one per cent were willing to see it done. Here again was a victory for the policy of letting the people know the facts.

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Public sentiment is much improved now. Today the Nation is not only solidly behind the war, but has gone on record as wishing to take on a big share of the responsibility in helping keep the world peace through world organization.

Much of this change was due to the Jap attack at Pearl Harbor. But even while the Japs were pulling their sneak attack, three out of every ten Americans still felt that it was most important to stay out of the European war.

The striking reversal of public sentiment from narrow isolationism to a complete acceptance of International responsibility is a monument to public education.

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And some of you who are here in this room, by writing and financing advertising campaigns, had as much to do with that education over a period of time as any other group of people.

Since the early days, when most of the work was done in spare time by patriotic volunteers you have taken the war as your professional assignment. It is no longer a spare time operation. You are applying your best brains, and converting sizeable portions of your appropriations to this war information job -- this job which I want to repeat must be stepped up, not tapered off, as we march toward Victory.

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Some of this increased war information effort can and should be channeled through bond advertising. Promoting bonds, I feel, is a double-headed job. Half the job is raising money, but the other half is maintenance of interest in this war, and what it means to every American.

We hit a high spot in this job, I believe, the day the Third War Loan opened, which also was the day Italy surrendered. I wondered what the effect would be on the drive. I was not long finding out. One of our State Chairmen called up and said: "Well, I guess the Third War Loan is off -- the war's over and there's no need to raise money."

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So we called in the Advertising Council. I asked them to write us an advertisement that would stop this in its tracks. They went to work and in a few hours produced what I think was a great advertisement. You may remember it. It said: "Will the Surrender of Italy mean a Home Front Defeat?" Then, because of the smooth working arrangement between your people and ours, the ad started running, the next day, in 970 newspapers throughout the Nation. We followed this up by telling the people the bitter truth about our equipment losses in Sicily. We must have had a sobering effect on a lot of people, because we didn't get any more phone calls, and that particular surge of optimism soon faded away.

I want to make one more observation.

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A year ago, I went to England. What I saw there gave me a lot of inspiration, and a lot of confidence about the outcome of this war. I came back knowing in my heart that we were going to win. The British had survived the Blitz; the Russians had stopped the German advance; we had halted the Jap drive in the Far East. Slowly and painfully the Allies were overtaking the enemy's lead. Obviously, it would take a long time, but in the end we would win.

When I returned from the front early this month, I still felt sure we would win, but I felt far more grim about the war than I did a year ago.

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I had an opportunity to discuss the actual fighting and the nature of our enemy with many American and British officers and men. I was given a pretty clear idea of the heroism required of our men when they face the tough, fanatic Nazis, and as a result I achieved a healthy respect for the blood and sweat that goes into every foot of enemy ground we take. And I found no evidence anywhere along the line that we are near the end, unless the end should come through some freak of circumstance.

I do not want to underestimate, however, the effects that the terrible defeats in Russia, or the destruction of Germany from the air, must have on the Nazi Home Front.

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That destruction must be fantastic. In Italy I saw what bombs can do. I saw the Port of Naples, lying in a mass of ruins. I saw the Port of Palermo in Sicily battered so badly that one sizeable ship lay high and dry on a wharf, blown completely out of the water. But General Patton assured me that Palermo was only three or four per cent destroyed. Hamburg has been seventy per cent destroyed, the Germans themselves admit, and several other Nazi cities have received even more destruction.

Yes, it is conceivable that the Germans can't take it. It is possible that the same thing will happen that happened the last time. We may be awakened some morning by whistles and bells and newspaper boys selling extras.

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But it is also possible that we can waste a great deal of precious time thinking about that morning, and we can divert a great deal of our energy into making ready for it, and then find that it shows no signs of coming.. And in the meantime, good American young men are losing their lives trying to end the war the hard way, because they have no choice except to do it that way, or not at all.

I am glad that you and I have been partners so often in the use of advertising in connection with this war. I have told you the whole story. I have enjoyed working with you.

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You have established a remarkable record. By concentrating on the job to be done, and casting aside all thought of political differences, you have immeasurably improved the stature of advertising.

But this is no funeral oration. Your job is barely begun. And the job is going to get more difficult every week, and every month, that the war wears on. Because we are going to get tired. Everybody is going to get tired. We are going to want peace and relief from the restrictions that war puts on what we do, and what we eat, and what we have.

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Pause

Unconditional surrender is a large order, and there may be a temptation to settle for less as the possibility of peace approaches. I hope you will remember that. I hope you will put your minds to doing something about it, and thus continue the patriotic record that some of you started back in those early days of Defense.

End

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NOV 18 1943

My dear Senator:

I have your letter of November 15, concerning deductions made from salaries of Federal employees for the purchase of War Savings Bonds.

There has been no deviation from the voluntary policy established by the Treasury Department and the President's Interdepartmental War Savings Bond Committee when the Payroll Savings Plan was first established in the various Federal departments and agencies.

At the beginning of the program, we adopted as an over-all objective a goal of "At Least 10%" of gross pay rolls for both Government employees and those in industry. More recently, a program has been adopted in which employees are asked to figure out for themselves the greatest possible amount they can afford to invest in War Savings Bonds. This policy has been adopted not only because the investing of money in War Bonds reduces the danger of inflation, but also because such an investment forms a backlog of financial security for the employees for post-war use.

The extent to which different individuals can participate varies according to circumstances and each person must be the judge of his own ability to enroll in the plan. The fact that an employee does not feel financially able to allot as much as 10% of his income is no reflection upon his willingness to support the Government in its time of need. At the beginning of the Payroll Savings Plan, it was recognized that some employees would not be able to invest anything at all, and others could not invest as much as ten per cent. Because of this, a policy was adopted of encouraging the higher-salaried personnel to invest more than 10% of their income in order to meet the Government's over-all objective. Incidentally, some of these percentages for officials in the higher grades run up as high as 15% and 20%.

If any information has come to your attention indicating that the Pay-roll Savings Plan in any agency is not being conducted on a truly voluntary basis, I would be glad if you would call the cases to my attention in order that the Chairman of the Interdepartmental Committee may have an opportunity to investigate them.

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I appreciate the interest which you have taken in this matter, and want to assure you that it is far from my desire to have any employee feel that the Pay-roll Savings Plan is in any way compulsory.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Robert R. Reynolds
United States Senate
Washington, D.C.

KFB:hbw 11/18/43

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United States Senate

COMMITTEE ON MILITARY AFFAIRS

November 15, 1943.

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Treasury Department,
Washington, D. C.

My dear Mr. Secretary:

Recently a number of government employees in the smaller wage scale bracket have communicated with me concerning the recently announced policy of forced deductions for the purchase of victory bonds. I realize that in the months past the sale of bonds and the contributions on the part of government employees has been entirely on a voluntary basis.

I am frank to say that it is my honest opinion that the average government clerk is willing and only too glad to purchase the maximum amount of bonds possible. It does not seem to me to be either practicable or advisable to adopt any forced plan of purchase due to the fact that the living costs in Washington have pyramided, and this coupled with the every day necessities that must be taken care of by the average employee makes it a physical impossibility for many of these government clerks to continue even a normal standard of living, particularly if this 10% deduction is forced upon them.

I trust you will submit this matter to your associates who have charge of the bond selling section with a view to seeing that some kind of adjustment is made so that hardships will not be worked on many of the employees in individual cases. I would be glad to hear from you concerning your reaction to this very important matter.

Sincerely yours,

Robert R. Reynolds

Robert R. Reynolds, U. S. S.

rrr/mw

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UNITED STATES DEPARTMENT OF AGRICULTURE
BUREAU OF AGRICULTURAL ECONOMICS
WASHINGTON 25, D. C.

November 18, 1943

The Honorable
The Secretary of the Treasury

Dear Mr. Secretary:

It occurred to me that you might be interested in having a copy of the charts we discussed at the recent conference of the State Chairmen of the War Finance Division. These charts present the major findings of our preliminary analysis of the data obtained in our study of the Third War Loan Drive.

Respectfully yours,

Rensis Likert

Rensis Likert, Head
Division of Program Surveys

Enclosure

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AN APPRAISAL OF

THE THIRD WAR LOAN DRIVE

Charts Discussed at the National Conference of State Chairmen
of the War Finance Division

Based on a study for the
Treasury Department made by
Division of Program Surveys, B. A. E.

November 9, 1943

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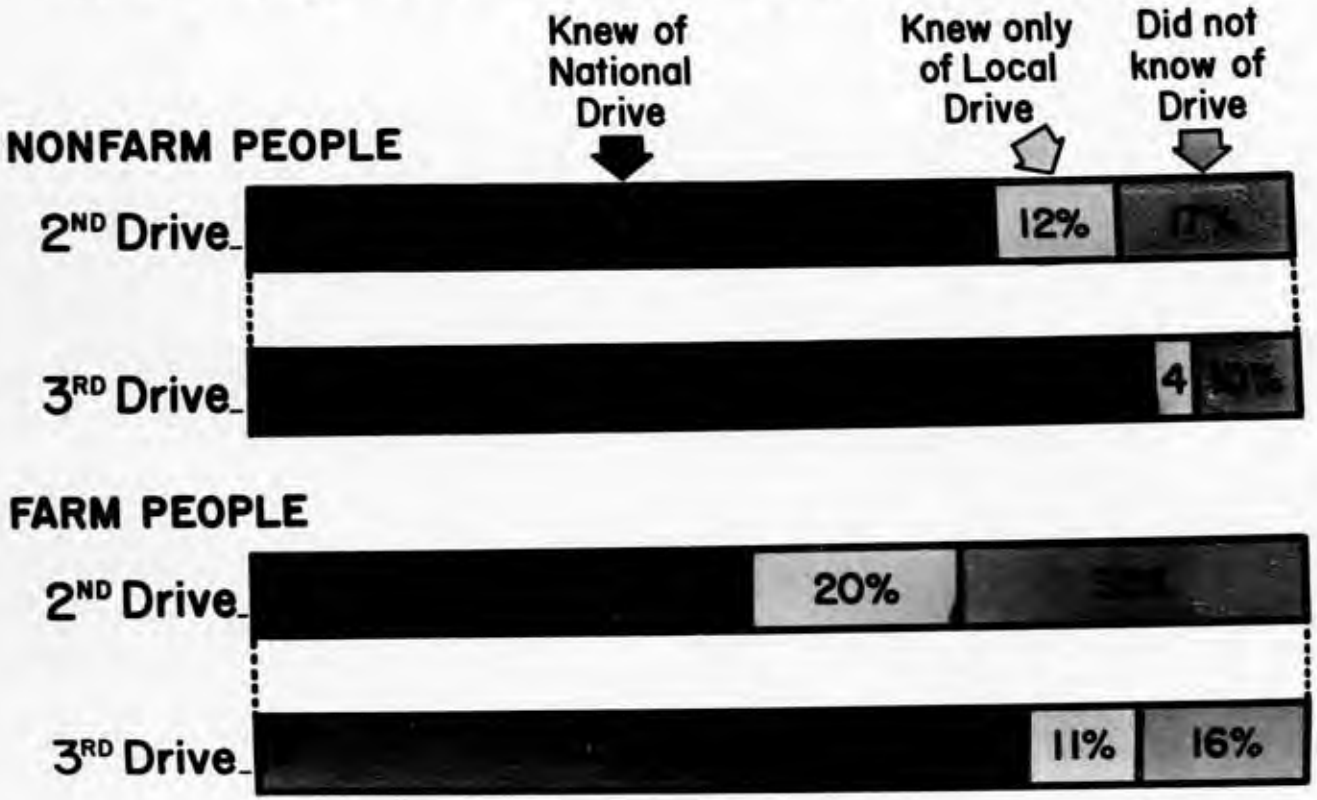
How Many Were AWARE of the Campaign?



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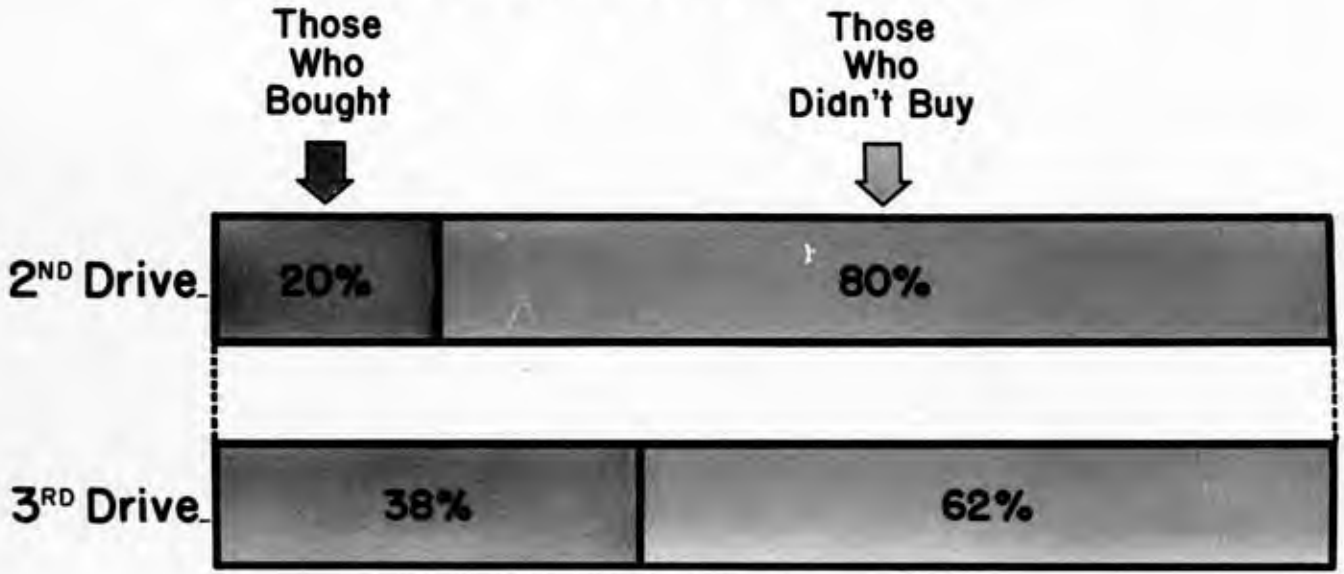
Of All Gainfully Employed in the Country, How many BOUGHT EXTRA BONDS in the 2ND and 3RD Drive ?



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Comparison of Estimated and Actual Sale of "E" Bonds During the 3RD Drive

Nonfarm Sale

Extra purchases of people we talked to..$17,831
We sampled 1 person in 59,300
Thus: $17,831
x 59,300
= $1,057,400,000

Farm Sale

Extra purchases of farmers we talked to..$6,337
We sampled 1 farmer in 52,000
Thus: $6,337
x 52,000
= $329,500,000

Total estimated sales of extra "E" bonds (exclusive of sales to men in service).....	$1,387,000,000
Estimated usual sale of "E" bonds.....	992,000,000
Estimated total sales.....	$2,379,000,000
Actual total sales (including men in service).....	$2,472,000,000

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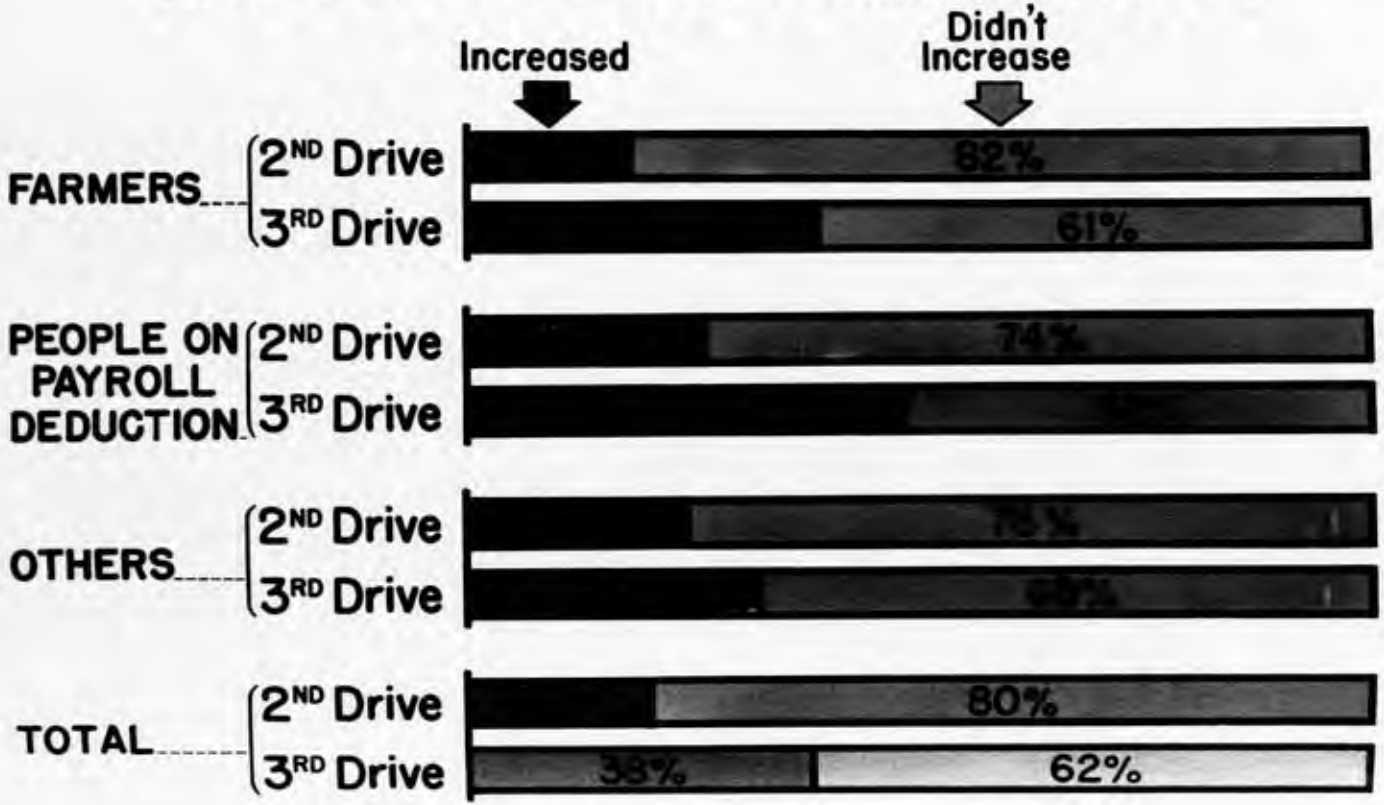
How Many People in Different Groups INCREASED Their BOND BUYING During the Drives?



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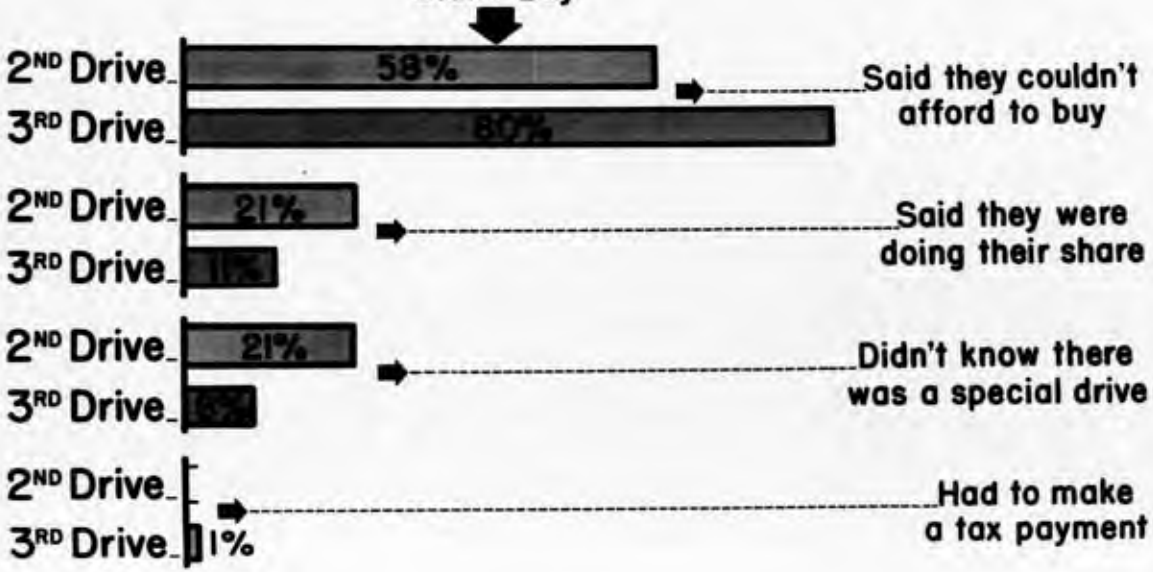
What REASONS Did People Give For NOT BUYING in the Drives?

Of Those Who Didn't Buy



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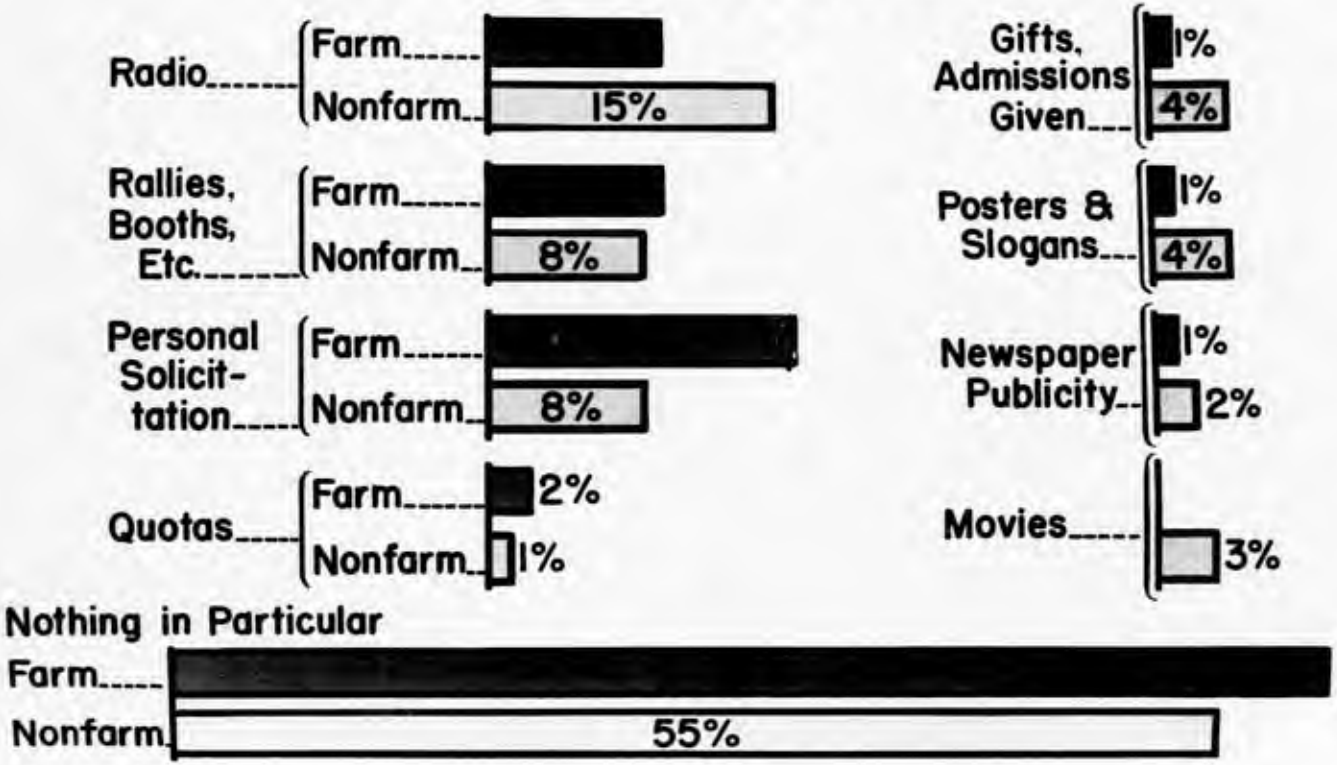
What Types of PROMOTION Do People Remember FAVORABLY?



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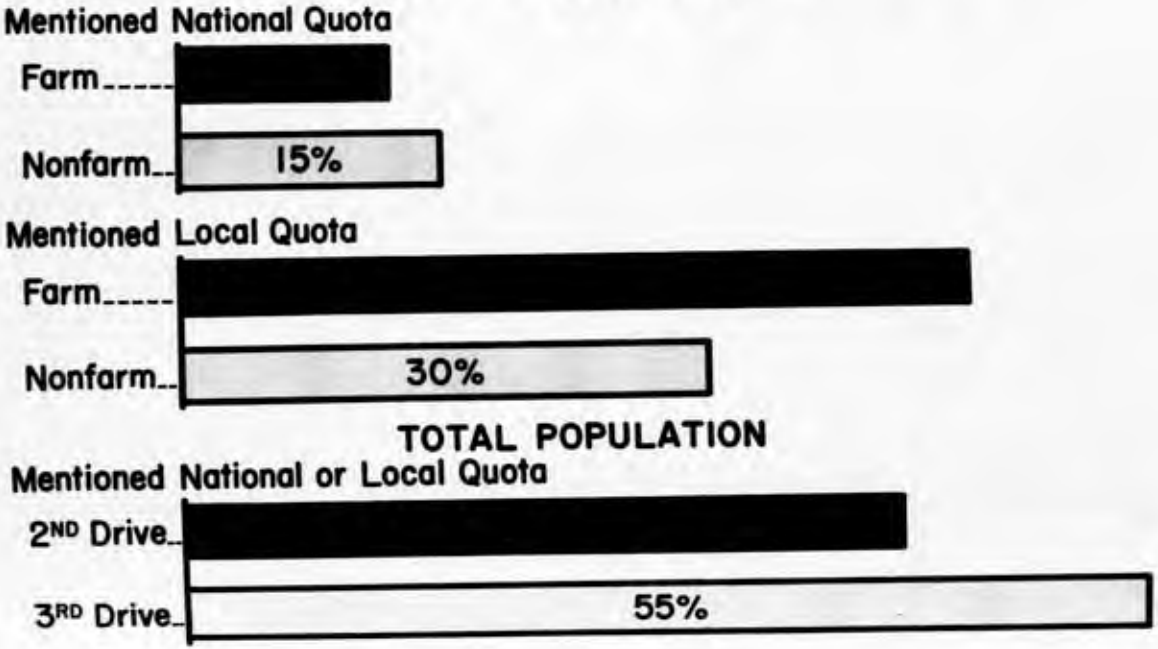
In Talking About the 3RD Drive How Many People Spontaneously Mentioned NATIONAL and LOCAL QUOTAS ?



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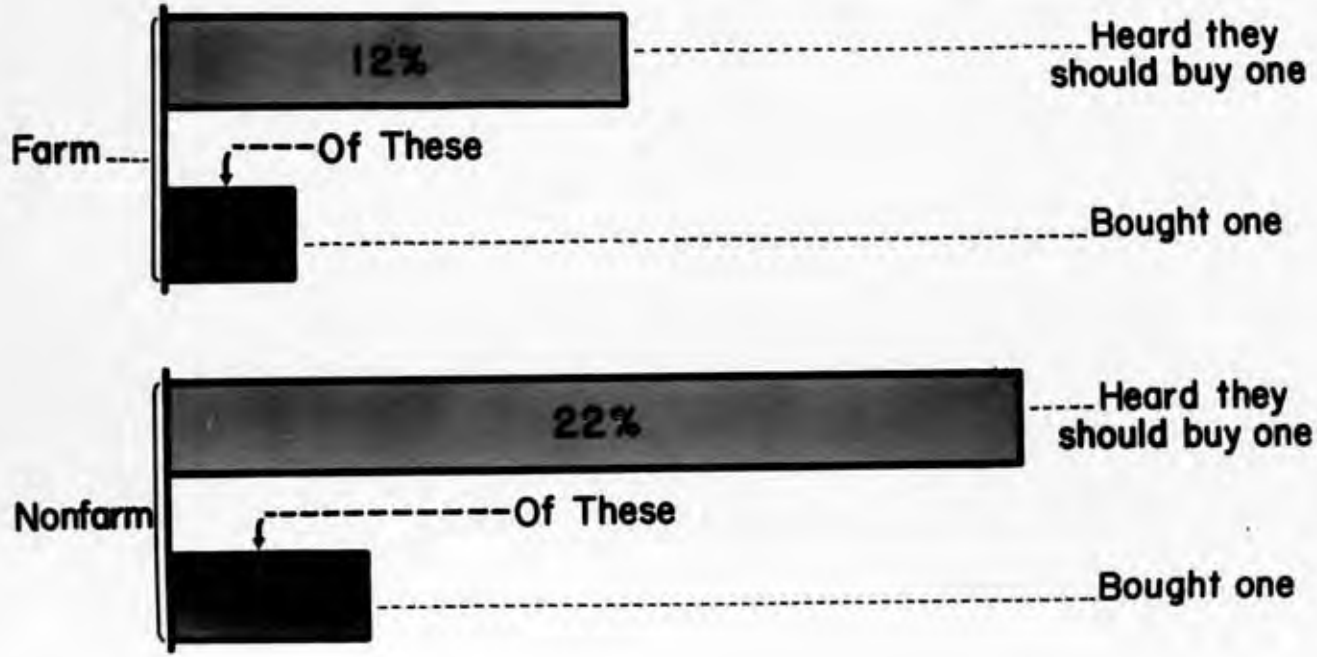
How Effective was the QUOTA of an EXTRA $100 BOND in 3RD Drive ?



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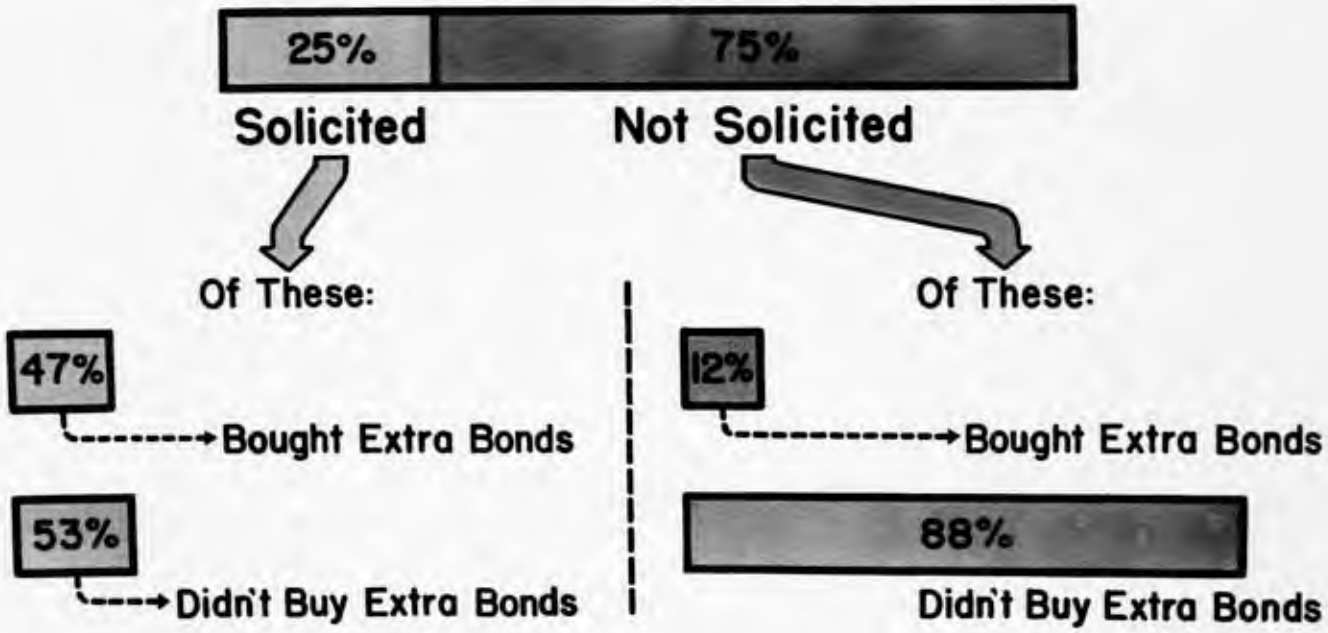
Of All Gainfully Employed in the Country, How Many Were PERSONALLY ASKED* to Buy in 2ND Drive?



*Includes those whose wives were solicited

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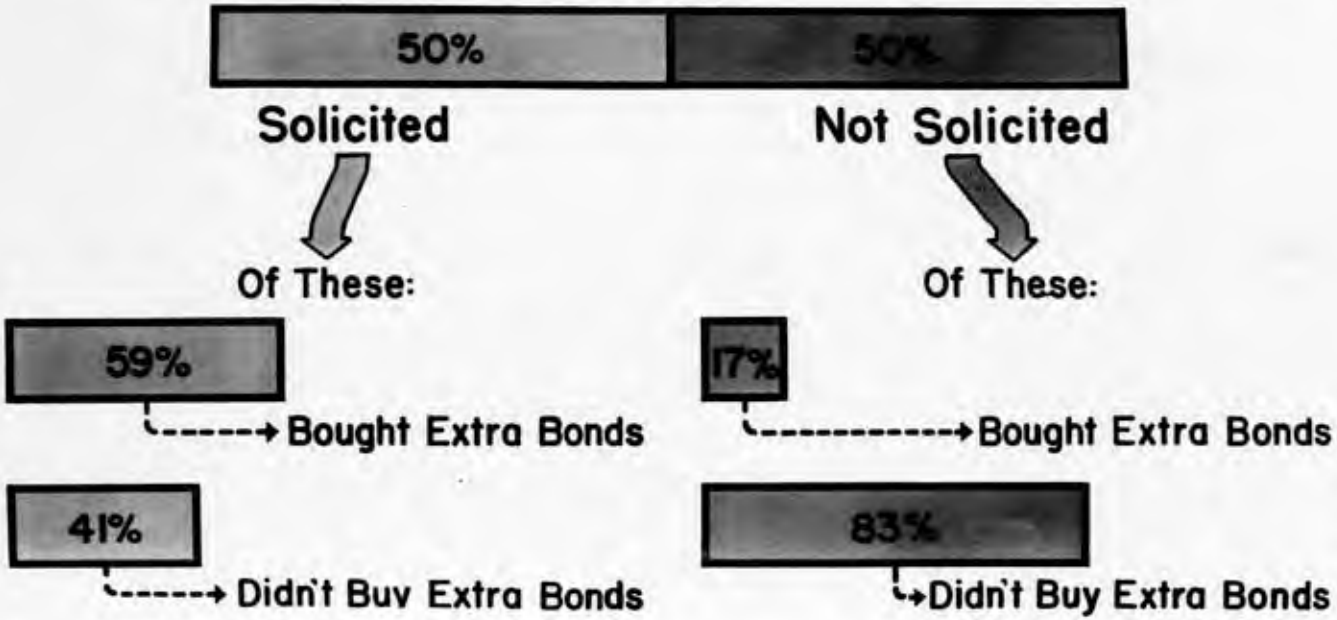
Of All Gainfully Employed in the Country, How Many Were PERSONALLY ASKED* to Buy in 3RD Drive?



*Includes those whose wives were solicited

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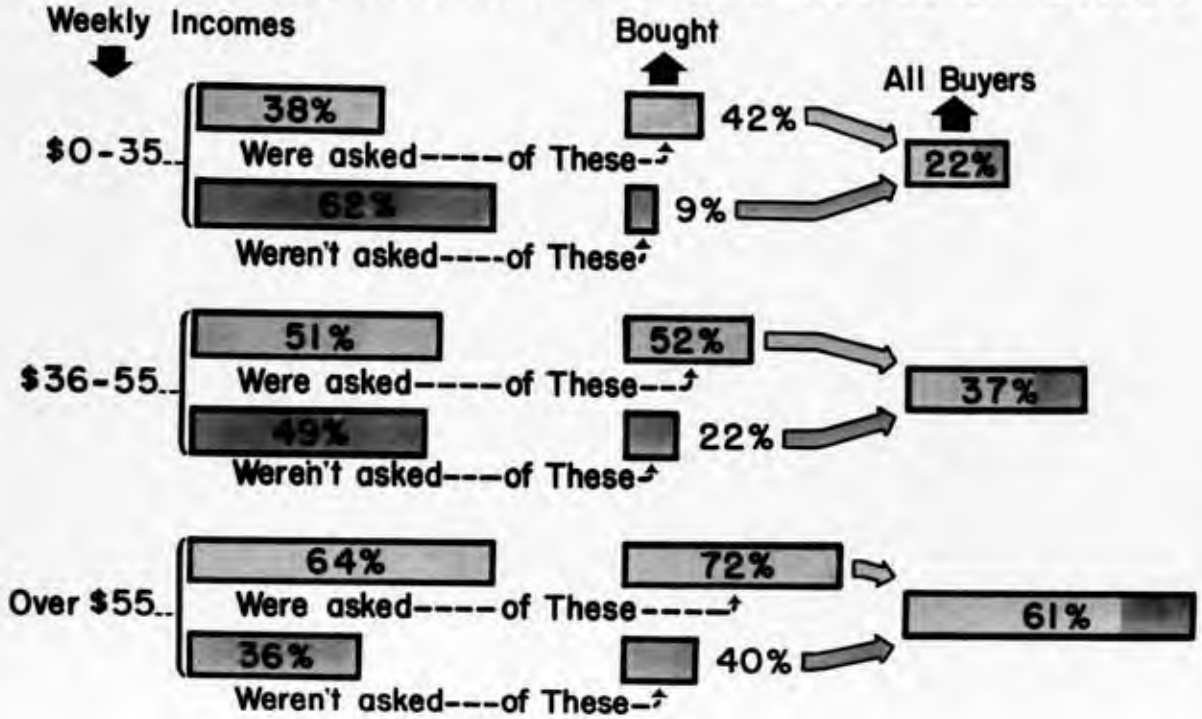
How Did the Effectiveness of SOLICITATION Vary at Different INCOME LEVELS in 3RD Drive?



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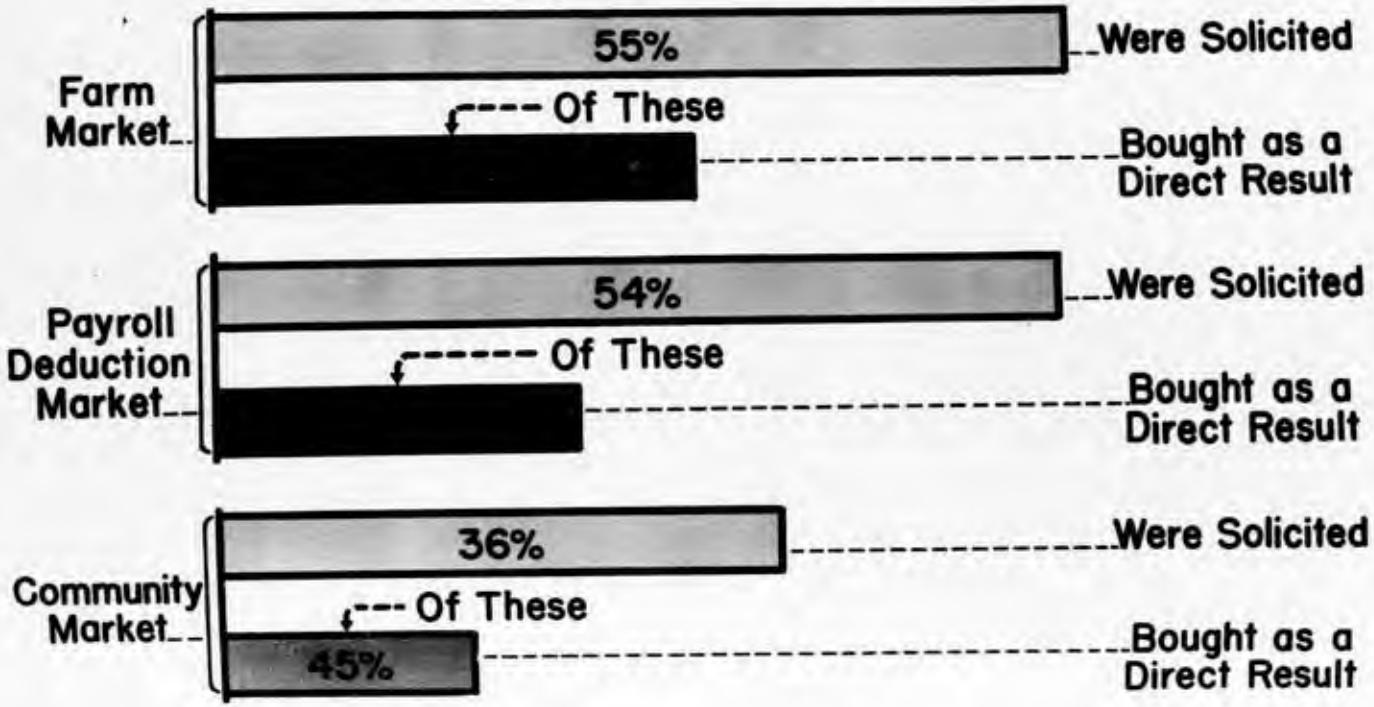
How Many People in the Different MARKETS Bought as a Direct Result of Being SOLICITED In 3RD Drive?



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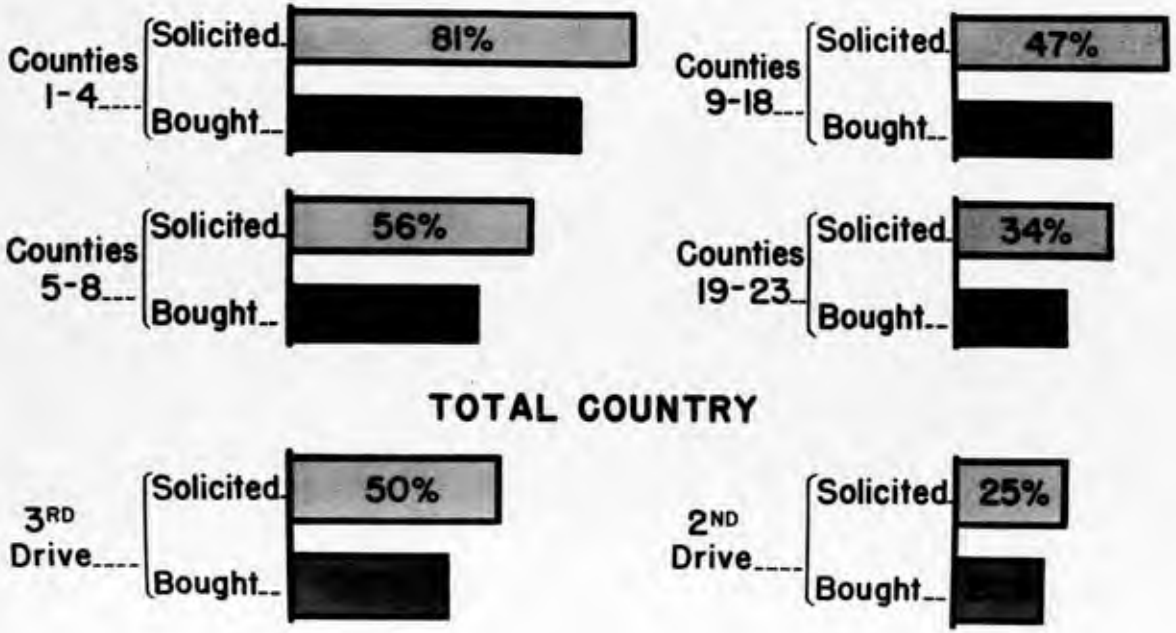
In Counties Where More People BOUGHT, More People Had Been SOLICITED in 3RD Drive



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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 11-18-43

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current Developments in the High-grade Security Markets

I. High-grade Bond Prices Declined on Balance

During the last calendar week, prices of most Government securities either registered small declines or showed no change at all from their levels of a week ago. Declines of 1/32 were general among the medium-term taxable bonds, while somewhat larger losses, ranging up to 5/32, were registered by the medium- and long-term partially tax-exempt issues. Short-term issues were firm.

Modest price recessions were general in the high-grade corporate and municipal markets during the week. The Treasury average of high-grade corporate bond yields (moving inversely to prices) rose 2 basis points to close on Saturday at 2.61 percent. The Dow-Jones yield index of twenty municipals rose to 1.87 percent from 1.85 percent at the end of the preceding week. The new issue market was quiet, offerings in the New York market totaling only $11.0 millions of which $4.5 millions were State and municipal securities.

II. Excess Reserves Show Little Change

At the close of business on Wednesday, November 10, excess reserves of all member banks were $1,080 millions, only $4 millions less than at the close of the previous statement week. Principal factors which offset purchases of $389 millions of Government securities by the Federal Reserve System were increases of $160 millions in money in circulation and $130 millions in required reserves due to the growth of deposits subject to reserve requirements.

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III. Treasury Bond Market Has Declined Since Summer

Prices of intermediate and long-term taxable Treasury bonds have declined from the highs reached early this summer, as shown in the table below. Although these declines have not broken through the interest rate pattern, they have resulted in a rather poor tone in the market.

	June 1, 1943	November 13, 1943	Net Change
	(Decimals are thirty-seconds)		
2 percent bond - September 1950-52	100.25	100.16	-.09
2-1/2 percent bond - March 1956-58	104.02	103.20	-.14
2-1/2 percent bond (restricted) - June 1964-69	100.20	100.03	-.17
2-1/2 percent bond - September 1967-72	101.03	100.15	-.20

IV. Member Bank Earnings at High Since Bank Holiday

Apparently fears that low interest rates on Government securities available to banks would impair bank earnings have been unjustified. The current Federal Reserve Bulletin reports that member bank earnings, both gross and net, were larger during the first six months of 1943 than during the first half of any year since the Bank Holiday. The annual rate of net profits on total capital accounts was 8.0 percent in the first half of 1943; as compared with 5.7 percent and 6.9 percent in the comparable periods of 1942 and 1941, respectively. Interest and dividends on securities exceeded the amount of interest and discount on loans for the first time in history although the average rate of return on securities decreased.

V. Canadian Three-month Treasury Bill Rate at All-time Low

The rate on Canadian three-month Treasury bills has declined 10 basis points since the beginning of 1943, from

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0.514 percent to 0.411 percent. The latter rate is an all-time low for this type of security in Canada and compares with the war-time high of 0.925 percent on an issue dated September 29, 1939. Since that time the rate has declined steadily. The rate on the last issue prior to the outbreak of the war in September 1939 was 0.683 percent.

VI. Preliminary Figures on the Canadian Fifth Victory Loan

The most recently released statistics on the Canadian Fifth Victory Loan, which ended November 6, show that total subscriptions reported so far amount to $1,364 millions -- 14 percent above the $1,200 millions' objective of the loan. This total, which it may be assumed will be revised upward when final figures become available, compares with $1,309 millions raised in the Fourth Victory Loan, when the goal was $1,100 millions.

Reported subscriptions of individuals (not including those individuals capable of buying $25,000 or more of bonds) totaled $587 millions -- 12 percent above the $525 millions goal. In the preceding loan, individuals subscribed $530 millions, only 6 percent more than their quota of $500 millions.

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78TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 871

THE REVENUE BILL OF 1943

NOVEMBER 18, 1943.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. DOUGHTON, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H. R. 3687]

The Committee on Ways and Means to whom was referred the bill (H. R. 3687) to provide revenue, and for other purposes, having had the same under consideration, report it back to the House without amendment and recommend that the bill do pass.

In preparing this tax bill, your committee has given consideration to the following factors:

(1) The need for additional revenue.
(2) The inflationary problem.
(3) The present tax burden.
(4) The necessity for simplifying the present tax system.
(5) The possibility for economy in governmental expenditures.

(1) THE NEED FOR ADDITIONAL REVENUE

In the Statement by the President on the Summation of the 1944 Budget, released August 1, 1943, it was estimated that for the fiscal year 1944 Federal expenditures, excluding debt retirement and trust fund disbursements, would total $104,000,000,000. Of this amount, $97,000,000,000 were war expenditures. The net receipts were estimated at $38,000,000,000 for the fiscal year 1944.

Based upon the figures for the first quarter of the current fiscal year, Federal receipts are running at an annual rate of over $2,000,000,000 in excess of the revised Budget estimate of August 1, 1943, while expenditures are $15,000,000,000 below. Although it is recognized that the receipts during the first quarter were increased somewhat by nonrecurring revenues, and that war expenditures may rise above present levels, it seems probable that the changes from the present level of revenues and expenditures necessary to bring the year's final result into agreement with the August 1 Budget summation are of so great magnitudes the deficit for the year may be reduced from the Budget figure of $66,000,000,000 to not more than $57,000,000,000.

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Therefore, from the revenue standpoint, the need for additional revenues has apparently been exaggerated; and lower governmental expenditures than estimated would reduce income payments, the net inflationary gap, and pressure on prices.

If our expenditures reach no more than $96,000,000,000 they will still be far greater than those of the United Kingdom and Canada. It is estimated that the total expenditures for the United Kingdom will amount to $23,000,000,000 for the fiscal year 1944, while for Canada the total expenditures for the fiscal year 1944 will amount to $5,500,000,000.

Your committee gave serious consideration to the question of reduction of governmental expenditures, so far as such reduction would not interfere with the war effort. In this connection, the Budget Director was called before the committee to explain the present need for such large expenditures. It is believed that a considerable reduction of expenditures below the estimate may be accomplished through joint action of the legislative and executive departments. This would lessen the tax burden which our citizens are called upon to meet.

(2) The Inflationary Problem

Your committee gave careful consideration to the inflationary gap and its effect on price control.

It was found that while there was little variation among estimates of total income payments to individuals for 1944, or among estimates of the gross inflationary gap, after deduction of personal taxes and consumer expenditures, there were considerable differences among the estimates furnished to the committee by official sources of the net inflationary gap, after allowing for regular forms of savings such as War bonds and life insurance and other noninflationary consumer expenditures. These estimates of the net gap varied from about $10,000,000,000 to over $25,000,000,000, depending upon the classification of savings between those temporarily and those permanently set aside. Moreover, it was readily apparent that the current inflationary gap is small in magnitude compared with the grand total of more than $100,000,000,000 of accumulated savings in the hands of individuals in the form of War Savings bonds, cash surrender value of life insurance, savings deposits, and idle currency and demand deposits, of which $50,000,000,000 to $60,000,000,000 represents potential excess buying power because this amount is clearly in excess of normal savings.

The conclusion of the committee was that maintenance by the Government of the proper psychology, and freedom from fear of inflation, on the part of every consumer, is considerably more important than the absorption of current excess buying power through additional taxes. The committee is firmly convinced that the proper psychology can be maintained only by strict economy in governmental expenditures, through effective price control, rationing, and wage control.

(3) The Present Tax Burden

Your committee has endeavored to raise as much revenue as it is believed can reasonably be borne by the taxpayer at this time without unduly disturbing our economy.

(a) Individual Income-Tax Rates and Exemptions

Our present individual income-tax rates and exemptions are as follows:

1. Normal tax, 6 percent.
2. Surtax, 13 to 82 percent.
3. Exemptions for normal and surtax:

   Single person, $500.
   Married person, $1,200.
   Credit for dependents, $350.

4. Gross Victory tax, 5 percent.
5. Victory tax exemptions, $624.
6. Victory tax current credit:

   (*a*) In the case of a single person, 25 percent of the Victory tax or $500, whichever is the lesser.

   (*b*) In the case of a head of family, or married persons filing one return, 40 percent of the Victory tax or $1,000, whichever is the lesser.

   (*c*) For each dependent, 2 percent of the Victory tax or $100, whichever is the lesser.

(b) Individual Income Tax Burden

It is believed that so far as the individual income tax is concerned, we are approaching the point of diminishing returns. Few persons realize that under the existing law, with the carry-over of the 1942 tax required to be paid in 1944 and in 1945, no individual, no matter how high his income, will have left more than $25,000, assuming his income remained constant and his uncanceled tax is paid out of current income.

The following table illustrates this point:

Table 1.—*Existing income-tax burden for 1944 and 1945, including net Victory tax and one-half of unforgiven 1942 tax (assuming no change in net income)—Married person, no dependents*

Net income before personal exemption	Income, net Victory, and one-half unforgiven tax [1]	Effective rate	Income remaining after tax	Net income before personal exemption	Income, net Victory, and one-half unforgiven tax [1]	Effective rate	Income remaining after tax
		Percent				*Percent*	
$600	$1.28	0.213	$598.72	$20,000	$7,906.45	39.532	$12,093.55
$750	6.28	.837	743.72	$25,000	11,187.11	44.748	13,812.89
$800	7.94	.992	792.06	$30,000	14,710.78	49.035	15,289.22
$1,000	14.62	1.462	985.38	$40,000	22,163.11	55.407	17,836.89
$1,200	21.28	1.773	1,178.72	$50,000	30,240.58	60.481	19,759.42
$1,500	79.28	5.285	1,420.72	$60,000	38,855.63	64.759	21,144.37
$1,800	157.38	8.743	1,642.62	$70,000	47,808.19	68.297	22,191.81
$2,000	205.45	10.272	1,794.55	$80,000	57,098.24	71.372	22,901.76
$2,500	325.61	13.024	2,174.39	$90,000	66,725.80	74.139	23,274.20
$3,000	445.78	14.859	2,554.22	$100,000	76,591.86	76.591	23,408.14
$4,000	713.11	17.827	3,286.89	$150,000	127,155.13	84.770	22,844.87
$5,000	987.20	19.744	4,012.80	$200,000	178,843.41	89.421	21,156.59
$6,000	1,297.28	21.621	4,702.72	$250,000	231,107.69	92.443	18,892.31
$7,000	1,616.36	23.090	5,383.64	$500,000	492,496.58	98.499	7,503.42
$8,000	1,971.44	24.643	6,028.56	$750,000	753,250.00	100.433	−3,250.00
$9,000	2,335.53	25.950	6,664.47	$1,000,000	1,000,750.00	100.075	−5,750.00
$10,000	2,735.62	27.356	7,264.38	$2,000,000	2,015,750.00	100.787	−15,750.00
$15,000	5,039.78	33.598	9,960.22	$5,000,000	5,045,750.00	100.915	−45,750.00

[1] Net Victory tax computed on a gross income equal to ten-ninths of net income.

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Other tables relating to the amount of unforgiven tax, and to the 1944 and 1945 tax burden in the case of a single person and a married person with two dependents will be found in the Appendix, tables 16, 17, and 18.

It will be noted from the above table that a married person with a $10,000 net income will have $7,264.38 left after Federal income taxes, a $100,000 net income, $23,408.14 left after Federal income taxes; in the case of a net income of $1,000,000 the total Federal income tax will exceed the net income by over $5,000.

The above table does not include the State income-tax burden. The following summary indicates the total Federal and State income-tax burden in selected cases:

TABLE 2—*Combined Federal and State income-tax burden, calendar year 1944, married*

Net income	Georgia and Federal	North Carolina and Federal	New York and Federal	Minnesota and Federal	Wisconsin and Federal
$2,000	$206	$206	$206	$200	$200
$5,000	1,003	1,063	980	1,045	1,037
$10,000	2,808	2,959	2,872	2,913	2,914
$100,000	76,702	77,032	76,941	76,771	77,081
$1,000,000	1,005,664	1,004,880	1,005,098	1,005,621	1,004,261

It should be noted, in addition, that these figures do not include social-security taxes, or Federal and State excise and sales taxes, or State property taxes, all of which make the direct income tax more burdensome.

In this connection, one feature in the recent development of American taxes, especially under the stress of war, has been the growing reliance on direct taxes as against taxes on consumption. Not only does the income tax put great emphasis on the total amount of taxes that one must pay, but it exerts little restraint on the use of luxury items. Significantly, Canada collects 32.4 percent of her taxes by levies on consumption, and Great Britain 23.9 percent, while the United States at the present collects only 18.8 percent in consumption taxes, Federal, State, and Local. The proposed changes will lift this percentage to 21.

This indicates that the burden of direct taxes on individuals has been increasing too rapidly and without leaving sufficient time for people to adjust their budgets to take care of this increased tax burden. The increases in the individual income tax from the pre-war period are shown in the following two tables. In addition to the rate increases taxpayers have to make higher actual payments, while income is rising, as a result of paying on current income instead of the past year's income. The following table shows the result of increases since 1936 at certain income levels:

TABLE 3—*Married person, no dependents*

TAX PAYABLE IN TAXABLE YEARS

Net income before personal exemption	Yearly 1936-39	1940	1941	1942	1943 [1]	1944 [1] [2]
$1,200					$21.28	$21.28
$1,500				$48.00	79.28	79.28
$1,800			$22.80	103.20	144.48	157.38
$2,000			42.00	140.00	187.95	205.45
$2,500		$11.00	90.00	202.00	296.61	325.61
$3,000	$8.00	30.80	138.00	324.00	405.28	448.78
$5,000	90.00	110.00	375.00	746.00	893.95	987.20
$10,000	413.00	528.00	1,303.00	2,152.00	2,466.62	2,735.62
$25,000	2,489.00	3,843.40	6,864.00	9,220.00	10,634.61	11,187.11
$50,000	8,889.00	14,128.40	20,459.00	25,328.00	27,074.58	30,246.58
$100,000	32,469.00	43,476.40	52,794.00	64,060.00	68,584.36	76,591.86
$1,000,000	679,044.00	717,583.60	732,554.00	854,000.00	899,000.00	1,005,700.00

AMOUNT OF INCREASE IN TAX

Net income before personal exemption	1940 over 1936-39	1941 over 1940	1942 over 1941	1943 over 1942 [1]	1943 over 1939 [1]	1944 over 1936-39 [1] [2]
$1,200				$21.28	$21.28	$21.28
$1,500			$48.00	31.28	79.28	79.28
$1,800		$22.80	80.40	41.28	144.48	157.38
$2,000		42.00	98.00	47.95	187.95	205.45
$2,500	$11.00	79.00	142.00	94.61	296.61	325.61
$3,000	22.80	107.20	186.00	81.28	397.28	437.78
$5,000	30.00	265.00	371.00	147.95	813.95	907.20
$10,000	115.00	777.00	847.00	314.62	2,051.62	2,320.62
$25,000	1,354.40	3,020.60	2,356.00	834.61	7,545.61	8,098.11
$50,000	5,239.40	6,330.60	4,869.00	1,746.58	18,205.58	21,371.58
$100,000	11,007.40	9,277.60	11,356.00	4,524.36	36,115.36	44,122.86
$1,000,000	38,539.60	14,970.40	121,446.00	45,000.00	219,956.00	326,706.00

[1] Includes net Victory tax.
[2] Includes 12½ percent of unforgiven tax.

More complete tables showing rates of tax and the tax on a single person, married person with no dependents, and a married person with two dependents are given in the Appendix tables 19, 20, 21, and 22.

(C) PRESENT CORPORATE TAX BURDEN

Your committee has given careful consideration to the present tax burden upon corporations. It is recognized that the taxes which are now being imposed directly upon corporations, and indirectly upon the dividend income flowing to shareholders, are as high or higher than those imposed by the other United Nations. It is vitally important that our corporations be kept in a sound financial condition so that they may be able to convert to peacetime production and provide employment for men leaving the armed forces after the war.

The following summary will show our existing corporate tax burden:

1. NORMAL TAX RATES

	Percent
(a) Corporations with normal tax net incomes of not more than $50,000:	
First $5,000	15
$5,000 to $20,000	17
$20,000 to $25,000	19
(b) Corporations with normal tax net incomes in excess of $25,000 and not in excess of $50,000—$4,250 plus 31 percent of amount over $25,000.	
(c) Corporations with normal tax net income over $50,000	24

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II. SURTAX RATES

	Percent
(a) Corporations with surtax net incomes of not more than $25,000	10
(b) Corporations with surtax net incomes in excess of $25,000 and not in excess of $50,000—$2,500 plus 22 percent of the amount over $25,000.	
(c) Corporations with surtax net incomes over $25,000	16
(d) Consolidated returns: Consolidated surtax net income, additional	2

III. EXCESS-PROFITS TAX

(a) Rate	90
(b) Specific exemption ($5,000).	
(c) Excess-profits credit:	
(1) Invested capital method:	
First $5,000,000 of invested capital	8
$5,000,000 to $10,000,000	7
$10,000,000 to $200,000,000	6
Over $200,000,000	5
(2) Income method: Portion of average earnings in base period	95
(d) Post-war credit of excess-profits tax	10
(e) Debt relief: Retirement of debt outstanding as of Sept. 1, 1942 (limited to amount of post-war credit)	40
(f) Over-all tax limitation applied to surtax net income before being reduced by adjusted excess-profits net income	80

In spite of the fact that some corporations may have large profits after taxes, the dividend record does not show large distributions, in comparison with the dividends of corporations in the pre-war years. The following table shows the net dividends paid by net income corporations over several recent years:

TABLE 4.—*Net dividends paid 1936–44*

1936	$4,675,000
1937	4,794,000
1938	3,155,000
1939	3,783,000
1940	4,036,000
1941	4,426,000
1942 (estimated)	4,000,000
1943 (estimated)	3,900,000
1944 (estimated)	4,000,000

Source: Treasury Department.

It will be noted that in spite of the fact that some corporations have large profits, the dividend distributions are less in the aggregate than in the pre-war years of 1936 and 1937. It should be pointed out that a large portion of dividends go to persons in the low income groups. The following table indicates how the income from dividends is distributed:

TABLE 5.—*Income from dividends from domestic and foreign corporations by net income classes (including fiduciary returns)*

Net income classes	1938	1939	1940
Under $5,000	$796,373,000	$835,062,000	$1,025,497,000
$5,000 to $10,000	354,126,000	392,423,000	435,901,000
$10,000 to $25,000	474,145,000	528,377,000	608,740,000
$25,000 to $50,000	310,131,000	384,540,000	422,008,000
$50,000 to $100,000	221,436,000	295,218,000	317,082,000
$100,000 to $150,000	83,199,000	107,611,000	128,095,000
$150,000 to $300,000	89,089,000	118,102,000	139,419,000
$300,000 to $500,000	54,581,000	58,210,000	68,464,000
$500,000 to $1,000,000	36,311,000	56,860,000	50,443,000
$1,000,000 and over	38,890,000	58,047,000	72,703,000
Total	2,461,881,000	2,865,080,000	3,268,442,000

TABLE 5.—*Income from dividends from domestic and foreign corporations by net income classes (including fiduciary returns)*—Continued

PERCENTAGE DISTRIBUTION

Net income classes	1938	1939	1940
Under $5,000	32.4	29.1	31.4
$5,000 to $10,000	14.4	13.7	13.3
$10,000 to $25,000	19.2	19.5	18.6
$25,000 to $50,000	12.6	13.4	12.9
$50,000 to $100,000	9.0	10.3	9.7
$100,000 to $150,000	3.4	3.8	3.9
$150,000 to $300,000	3.6	4.1	4.3
$300,000 to $500,000	2.2	2.0	2.1
$500,000 to $1,000,000	1.5	2.0	1.5
$1,000,000 and over	1.6	2.0	2.2
Total	100.0	100.0	100.0

The reduction in dividend distribution to the shareholders can in a large measure be traced to the heavy taxes we are imposing upon corporations. In this respect, our present burden upon dividends is greater than that imposed in either Great Britain or Canada.

To get an accurate picture of this situation it is necessary to consider both our corporate and individual burden with that of Great Britain and Canada.

The peacetime normal rate in Canada was 15 percent. This has been raised to 40 percent except where the 100-percent excess-profits tax is higher than 10 percent of the net income. In such a case, the 10-percent tax does not apply, thereby making the normal rate only 30 percent. The reason for not increasing the rate in the 1942 law was explained by the Canadian Minister of Finance in his budget message as follows:

> I have given a good deal of consideration to various alternative means of increasing the excess-profits tax. I believe that the increase should affect the tax on excess profits rather than on profits that have not increased substantially over pre-war levels. Already the tax on profits that have not increased is heavy when we bear in mind that those profits when distributed as dividends are subject to all the personal income taxes in addition to the corporation taxes. This involves, in effect, a discrimination against income earned in the form of corporate profits as distinct from other types of income, such as interest. Some discrimination may be justified, but I believe we have already gone far enough in that direction. Consequently, I propose to increase the rate of tax on excess profits but not the flat rate of tax which applies to profits generally.

Furthermore, in Canada the Provinces have given up the income-tax field for the duration of the war.

The British peacetime normal rate was 25 percent and this has been raised to 50 percent. But dividends from British corporations are not subject to a further normal tax in the hands of the British shareholder. Moreover, the British surtax does not apply to incomes of individuals of less than $8,000, and the British shareholder will receive a refund of the normal tax if his income is less than his exemption, which is $320 for a single person, $560 for a married person, and $200 for each dependent.

Great Britain's 50-percent tax on corporations is regarded as the individual's normal tax and when the individual pays tax on his total income the 50-percent tax which has been paid by the corporation on his dividend income is deducted from the sum of the individual's tax; and if the individual owes no individual tax the whole

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50-percent normal tax which the corporation paid will be refunded to him by the Government. Moreover, in Great Britain, no State or local income taxes are imposed.

Not only do high corporate normal and surtax rates affect the small investor, but they also seriously curtail the normal income received by charitable, religious, and educational institutions which is so necessary for them to carry on their activities. Many of our educational institutions have had their revenues severely curtailed through war activities.

The curtailment of dividends will not be any great burden upon the wealthy shareholder. If he is in the surtax bracket above $200,000, the Government will, under present law, take at least 90 percent of every dollar of income above that amount. On the other hand, a shareholder in the lowest bracket will pay, under the existing law, a tax, even after the post-war credit is taken into account, equivalent to a tax on comparable income from noninvestment sources of nearly $50,000. In addition, many States impose corporation income taxes which also lessen the amount available for dividend distributions.

(d) EXCISES

The existing law also imposes a long list of excise taxes. This has been greatly increased since 1939. For the fiscal year ended June 30, 1944, Federal excise taxes are estimated to yield over $4,000,000,000, exclusive of social-security taxes.

(e) PER CAPITA BURDEN

Our State and local taxes yield approximately $10,000,000,000. When these are added to the Federal tax burden, we find that the total taxes on a per capita basis are much higher than the per capita tax burden in Great Britain or Canada. This is shown by the following table prepared by the Treasury Department:

Total central and noncentral government taxes per capita 1943–44

United States	$357
United Kingdom	291
Canada	261

COMMITTEE PROPOSALS

(a) ESTIMATED REVENUE EFFECTS

It is estimated that the committee bill will increase Federal revenues, including postal, by a total of $2,139,300,000, during a full year of operation, at levels of income and business activity estimated for the calendar year 1944. Income-tax receipts will be increased by $770,800,000, of which corporation taxes will account for $616,000,000, and individual income taxes for $154,800,000. Revenue from taxes on commodities and services will be increased by $1,201,700,000,

while postal revenue will be increased by $166,800,000. Total Federal revenue, including net postal revenue, will be increased from an estimated $41,341,200,000 under present law, to $43,480,500,000 under the committee bill. The above estimates do not include changes in revenue resulting from the termination of governmental exemption from certain excise taxes, as such changes in revenue will be completely offset by changes in expenditures. The additional revenue under this bill will make the Federal, State, and local tax burden in excess of $50,000,000,000 annually.

Details of the revenue effects of the committee bill are shown in the following table:

TABLE 6.—*Estimated tax liability under the committee bill, as compared with the tax liability under the present law, for a full year of operation* [1]

[In millions of dollars]

General and special accounts and net postal revenue	Yield of committee bill	Yield of present law	Increase (+) or decrease (−) over yield of present law
1. Internal revenue:			
(1) Income and excess-profits taxes:			
Corporation:			
Income [1]	4,666.6	4,734.6	−68.0
Excess-profits tax	11,648.8	10,888.8	760.0
Declared value excess-profits tax	105.6	105.6	.....
Total corporation (gross)	16,421.0	15,729.0	692.0
Less post-war credit	1,164.9	1,088.9	76.0
Total corporation (net)	15,256.1	14,640.1	616.0
Individual:			
Net income tax (gross)	17,732.1	14,105.5	3,646.6
Victory tax (gross)	.....	5,324.2	−5,324.2
Less post-war credit	.....	−1,832.4	1,832.4
Victory tax (net)	.....	3,491.8	−3,491.8
Total individual	17,732.1	17,597.3	134.8
Total income and excess-profits taxes	33,008.2	32,237.4	770.8
(2) Miscellaneous internal revenue:			
Capital stock, estate, and gift taxes:			
Capital stock tax	365.0	365.0	.....
Estate tax	522.4	522.4	.....
Gift tax	40.2	40.2	.....
Total capital stock, estate, and gift taxes	927.6	927.6	.....
Taxes on commodities and services:			
Liquor taxes:			
Distilled spirits (domestic and imported) (excise tax) [1] [2]	1,105.2	735.2	370.0
Fermented malt liquors [1]	574.0	504.0	70.0
Rectification tax [1]	11.5	11.5	.....
Wines (domestic and imported) (excise tax) [1]	54.6	36.6	18.0
Special taxes in connection with liquor occupations	11.0	11.0	.....
Container stamps	9.4	9.4	.....
Floor-stocks taxes	.6	.6	.....
All other	1.6	1.6	.....
Total liquor taxes	1,767.9	1,309.9	458.0

See notes at end of table.

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TABLE 6.—*Estimated tax liability under the committee bill, as compared with the tax liability under the present law, for a full year of operation*—Continued

General and special accounts and net postal revenue	Yield of committee bill	Yield of present law	Increase (+) or decrease (−) over yield of present law
1. Internal revenue—Continued.			
(2) Miscellaneous internal revenue—Continued.			
Taxes on commodities and services—Con.			
Tobacco taxes:			
Cigarettes (small)[1]	892.8	892.8	
Tobacco (chewing and smoking)[1]	45.0	45.0	
Cigars (large)[1]	31.7	31.7	
Snuff	7.0	7.0	
Cigarette papers and tubes	1.3	1.3	
All other[2]	.1	.1	
Total tobacco taxes	977.9	977.9	
Stamp taxes:			
Issues of securities, bond transfers, and deeds of conveyance	25.0	25.0	
Stock transfers	19.0	19.0	
Playing cards[3]	7.5	7.5	
Silver bullion sales or transfers	(4)	(4)	
Total stamp taxes	51.6	51.6	
Manufacturers' excise taxes:			
Gasoline	251.1	251.1	
Lubricating oils	54.3	54.3	
Passenger automobiles and motorcycles	.9	.9	
Automobile trucks, busses, and trailers	3.5	3.5	
Parts and accessories for automobiles	25.0	25.0	
Tires and inner tubes	40.0	40.0	
Electrical energy	48.5	48.5	
Electric, gas, and oil appliances	3.6	3.6	
Electric light bulbs	25.0	5.0	20.0
Radio receiving sets, phonograph records, and musical instruments	3.5	3.5	
Refrigerators, refrigerating apparatus and air-conditioners	1.1	1.1	
Business and store machines	2.8	2.8	
Photographic apparatus	11.9	11.9	
Matches	10.5	10.5	
Luggage[5]		5.0	−5.0
Sporting goods	2.0	2.0	
Firearms, shells, pistols, and revolvers	.8	.8	
Total manufacturers' excise taxes	484.5	469.5	15.0
Retailers' excise taxes:			
Jewelry, etc.	161.7	89.2	72.5
Furs	93.0	38.2	54.8
Toilet preparations	86.4	35.0	51.4
Luggage,[5] handbags, wallets, etc.	58.4		58.4
Total retailers' excise taxes	399.5	162.4	237.1
Miscellaneous taxes:			
Telephone, telegraph, radio and cable facilities, leased wires, etc.	170.0	121.2	48.8
Telephone bill, local service	146.7	97.8	48.9
Transportation of oil by pipe line	14.5	14.5	
Transportation of persons	216.8	141.8	75.0
Transportation of property	174.8	170.3	4.5
General admissions, etc.	327.0	163.5	163.5
Cabarets, etc.	110.7	19.4	91.3
Club dues and initiation fees	11.3	6.2	5.1
Leases of safe deposit boxes	6.5	6.5	
Use of motor vehicles and boats	115.5	115.5	
Coconut and other vegetable oils processed[7]	2.0	2.0	
Oleomargarine, etc., including special taxes and adulterated butter	3.1	3.1	

See footnotes at end of table.

TABLE 6.—*Estimated tax liability under the committee bill, as compared with the tax liability under the present law, for a full year of operation*—Continued

General and special accounts and net postal revenue	Yield of committee bill	Yield of present law	Increase (+) or decrease (−) over yield of present law
1. Internal revenue—Continued.			
(2) Miscellaneous internal revenue—Continued.			
Taxes on commodities and services—Con.			
Miscellaneous taxes—Continued.			
Sugar tax	61.0	61.0	
Coin-operated amusement and gaming devices	12.2	12.2	
Bowling alleys and billiard and pool tables	28.8	1.8	27.0
Parimutuel wagers	27.5		27.5
All other, including repealed taxes[8]	1.2	1.2	
Total miscellaneous taxes	1,429.6	938.0	491.6
Total taxes on commodities and services	5,110.0	3,909.3	1,201.7
Total miscellaneous internal revenue	6,038.6	4,836.9	1,201.7
(3) Employment taxes:			
Employment by other than carriers:			
Federal Insurance Contributions Act	2,799.0	2,799.0	
Federal Unemployment Tax Act	207.0	207.0	
Total	3,006.0	3,006.0	
Taxes on carriers and their employees (chap. 9, subchap. B of the Internal Revenue Code)	262.7	262.7	
Total employment taxes	3,268.7	3,268.7	
Total internal revenue	42,315.5	40,343.0	1,972.5
2. Railroad unemployment insurance contributions	12.1	12.1	
3. Customs	400.0	400.0	
4. Miscellaneous receipts[9]	577.5	577.5	
Total yield, general and special accounts[9]	43,305.1	41,332.6	1,972.5
5. Net postal revenue:[6]			
First class:			
Local delivery letters	+69.9	+25.9	+44.0
Other than local delivery letters	+140.2	+140.2	
Air mail, domestic	+7.9	−3.1	+11.0
Second class	−86.0	−86.0	
Third class	+50.4	−24.0	+74.4
Fourth class (see tax on transportation of property)	−17.9	−17.9	
Special services:			
Registry	−3.8	−8.3	+4.5
Insurance	+5.0	−1.5	+6.5
Collect on delivery	+.9	−4.5	+5.4
Special delivery	−.6	−.6	
Money order	+14.3	−6.7	+21.0
Other	−4.9	−4.9	
Total net postal revenue	+173.4	+8.6	+166.8
Total yield, general and special accounts, and net postal revenue	43,480.5	41,341.2	2,139.3

[1] Estimates of the yield of the committee bill and of present law are at levels of income and business estimated for the calendar year 1944, and do not take into consideration changes in revenue which are completely offset by changes in expenditure, such as termination of governmental excise tax exemptions.
[2] Collections for credit to trust funds are not included.
[3] These estimates are after allowances for drawbacks of $19.7 millions under the committee bill and of $14.8 millions under present law.
[4] Less than $0.05 million.
[5] The tax on luggage has been changed from a manufacturers' excise to a retailers' excise tax.
[6] Includes collections from taxes on narcotics: taxes under the National Firearms Act; and the tax on hydraulic mining, all of which are effective currently. In addition, includes collections from repealed taxes not reinstated by the Revenue Act of 1941: and collections from the following excise taxes repealed by the Revenue Act of 1942: rubber articles, electric signs, optical equipment, and washing machines.
[7] Excludes postal surplus, if any, shown separately below.
[8] Excess of revenue over expenditure; based upon the "Cost Ascertainment Report for the Fiscal Year 1942," of the Post Office Department; nonpostal services excluded.

NOTE.—Figures are rounded and will not necessarily add to totals.

Source: Staff of Joint Committee on Internal Revenue Taxation, Nov. 19, 1943.

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(b) Individual Income Tax

Your committee is of the opinion that there should be no increase in individual income taxes, at this time, except where a slight increase is necessary for the purpose of integrating the Victory tax without a net loss in revenue.

The committee felt that in the interest of simplification of the tax structure it was advisable to repeal the Victory tax. But, at the same time, it was believed highly desirable to retain as taxpayers as many as possible of the twelve to fourteen million persons now subject only to the Victory tax, and to integrate the Victory tax in such manner that the $3,500,000,000 of revenue brought into the Treasury under this tax would not be lost. These requirements are substantially met by the committee bill.

In brief, your committee bill, as it pertains to the individual income tax, is as follows:

1. Repeal Victory tax.
2. Increase the normal tax rate from 6 percent to 10 percent.
3. Adopt the surtax rate schedule which is shown below.
4. Repeal the earned income credit.
5. Require married persons filing separate returns each to take a single person's exemption.
6. Provide that the tax shall not be less than 3 percent of the net income in excess of a special exemption of $500 for a single person, $700 for married persons, and $100 as a credit for each dependent.
7. Retain all other major provisions of present law, including regular income tax exemptions of $1,200 for married persons and $500 for single persons and credits for dependents of $350 each, and the over-all tax limitation of 90 percent of net income.

A few changes have been made in the surtax rates to effect the integration of the Victory tax with the income tax in such manner as to retain as nearly as possible the existing tax burden. The revised surtax table is as follows:

COMMITTEE BILL SURTAX SCHEDULE

If the surtax net income is—	The surtax shall be—
Not over $2,000	13 percent of the surtax net income.
Over $2,000 but not over $4,000	$260, plus 16 percent of excess over $2,000.
Over $4,000 but not over $6,000	$580, plus 20 percent of excess over $4,000.
Over $6,000 but not over $8,000	$980, plus 23 percent of excess over $6,000.
Over $8,000 but not over $10,000	$1,440, plus 27 percent of excess over $8,000.
Over $10,000 but not over $12,000	$1,980, plus 31 percent of excess over $10,000.
Over $12,000 but not over $14,000	$2,600, plus 36 percent of excess over $12,000.
Over $14,000 but not over $16,000	$3,320, plus 40 percent of excess over $14,000.
Over $16,000 but not over $18,000	$4,120, plus 43 percent of excess over $16,000.
Over $18,000 but not over $20,000	$4,980, plus 46 percent of excess over $18,000.
Over $20,000 but not over $22,000	$5,900, plus 49 percent of excess over $20,000.
Over $22,000 but not over $26,000	$6,880, plus 52 percent of excess over $22,000.
Over $26,000 but not over $32,000	$8,960, plus 55 percent of excess over $26,000.
Over $32,000 but not over $38,000	$12,260, plus 58 percent of excess over $32,000.
Over $38,000 but not over $44,000	$15,740, plus 62 percent of excess over $38,000.
Over $44,000 but not over $50,000	$19,460, plus 65 percent of excess over $44,000.
Over $50,000 but not over $60,000	$23,360, plus 68 percent of excess over $50,000.
Over $60,000 but not over $70,000	$30,160, plus 71 percent of excess over $60,000.
Over $70,000 but not over $80,000	$37,260, plus 74 percent of excess over $70,000.
Over $80,000 but not over $90,000	$44,660, plus 77 percent of excess over $80,000.
Over $90,000 but not over $100,000	$52,760, plus 80 percent of excess over $90,000.
Over $100,000 but not over $150,000	$60,360, plus 82 percent of excess over $100,000.
Over $150,000 but not over $200,000	$101,360, plus 83 percent of excess over $150,000.
Over $200,000	$142,860, plus 84 percent of excess over $200,000.

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After the changes above described, the individual income tax burden will compare with that under present law as follows:

TABLE 7.—*Comparison of tax burden, exclusive of one-half unforgiven tax, under present law and under committee bill*

Net income before personal exemption	Single person		Married person, no dependents		Married person, 2 dependents	
	Present law [1]	Committee bill	Present law [1]	Committee bill	Present law [1]	Committee bill
$600	$17.00	$23.00	$1.28	.....	$1.19	.....
$750	50.85	57.50	6.28	$1.50	5.86	.....
$800	62.13	69.00	7.94	3.00	7.41	.....
$1,000	107.27	115.00	14.62	9.00	13.64	$3.00
$1,200	152.40	161.00	21.28	15.00	19.86	9.00
$1,500	220.10	230.00	79.28	69.00	29.19	18.00
$1,800	287.80	299.00	144.48	138.00	38.53	27.00
$2,000	332.93	345.00	187.95	184.00	57.75	33.00
$2,500	445.77	460.00	296.61	299.00	159.31	138.00
$3,000	573.60	590.00	405.28	414.00	206.86	253.00
$4,000	829.26	850.00	646.61	668.00	484.97	485.00
$5,000	1,104.93	1,130.00	893.95	928.00	730.08	746.00
$6,000	1,400.60	1,430.00	1,173.28	1,220.00	979.19	1,010.00
$7,000	1,716.27	1,745.00	1,460.61	1,520.00	1,264.31	1,310.00
$8,000	2,051.93	2,075.00	1,779.94	1,844.00	1,553.41	1,613.00
$9,000	2,407.60	2,425.00	2,107.28	2,174.00	1,878.53	1,943.00
$10,000	2,783.27	2,795.00	2,456.62	2,536.00	2,207.64	2,277.00
$15,000	4,967.60	4,970.00	4,533.28	4,628.00	4,297.19	4,366.00
$20,000	7,625.93	7,620.00	7,099.95	7,228.00	6,692.75	6,836.00
$25,000	10,644.27	10,630.00	10,034.61	10,196.00	9,574.31	9,762.00
$30,000	13,857.60	13,835.00	13,185.28	13,380.00	12,692.86	12,923.00
$40,000	20,602.02	20,620.00	19,846.61	20,116.00	19,289.97	19,612.00
$50,000	28,057.58	27,985.00	27,074.58	27,460.00	26,391.58	26,935.00
$60,000	35,798.13	35,770.00	34,794.13	35,224.00	34,090.13	34,678.00
$70,000	43,838.69	43,855.00	42,813.69	43,288.00	42,088.69	42,721.00
$80,000	52,179.24	52,240.00	51,133.24	51,652.00	50,387.24	51,064.00
$90,000	60,819.80	60,925.00	59,752.80	60,316.00	58,985.80	59,707.00
$100,000	69,665.36	69,910.00	68,584.36	69,280.00	67,803.36	68,650.00
$150,000	114,933.13	115,900.00	113,838.13	115,256.00	113,643.13	114,612.00
$200,000	161,200.91	162,395.00	160,091.91	161,744.00	159,282.91	161,093.00
$250,000	207,973.69	209,390.00	206,857.69	208,732.00	205,041.69	208,074.00
$500,000	441,892.58	444,390.00	440,746.58	443,732.00	439,980.58	443,074.00
$750,000	674,500.00	675,000.00	674,000.00	675,000.00	673,800.00	675,000.00
$1,000,000	899,500.00	900,000.00	899,000.00	900,000.00	898,800.00	900,000.00
$2,000,000	1,799,500.00	1,800,000.00	1,799,000.00	1,800,000.00	1,798,800.00	1,800,000.00
$5,000,000	4,499,500.00	4,500,000.00	4,499,000.00	4,500,000.00	4,498,800.00	4,500,000.00

[1] Net Victory tax computed on gross income equal to ten-ninths of net income.

TABLE 8.—*Comparison of effective rates under present law and under committee bill*

[Computed with and without one-half of unforgiven tax added]

Net income before personal exemption	Single person				Married person, no dependents				Married person, 2 dependents			
	Without unforgiven tax		With unforgiven tax		Without unforgiven tax		With unforgiven tax		Without unforgiven tax		With unforgiven tax	
	Present law	Committee bill	Present law	Committee bill	Present law	Committee bill	Present law	Committee bill	Present law	Committee bill	Present law	Committee bill
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
$600	2.833	3.833	2.833	3.833	213	.....	213	.....	.198	.....	.198	.....
$750	6.780	7.666	6.780	7.666	.837	.....	.837	.....	.781	.....	.781	.....
$800	7.766	8.625	7.965	8.702	.992	.....	.992	.....	.926	.....	.926	.....
$1,000	10.727	11.500	11.640	12.613	1.462	.....	1.462	.....	1.364	.....	1.364	.....
$1,200	12.700	13.416	14.010	14.727	1.773	.....	1.773	.....	1.655	.....	1.655	.....
$1,500	14.663	15.333	16.952	17.666	2.265	.....	2.265	.....	2.146	.....	2.146	.....
$1,800	16.646	17.250	18.611	19.306	2.743	.300	2.743	.300	2.597	.300	2.597	.300
$2,000	17.830	18.400	19.556	20.255	3.073	.750	3.073	.750	2.922	.750	2.922	.750
$2,500	19.731	19.666	21.635	21.635	3.893	1.500	3.893	1.500	3.733	1.500	3.733	1.500
$3,000	21.250	21.250	23.505	23.000	4.633	2.250	4.633	2.250	4.465	2.250	4.465	2.250
$4,000	23.843	22.600	24.398	24.900	5.931	3.000	5.931	3.000	5.755	3.000	5.755	3.000
$5,000	24.618	23.853	25.279	26.279	7.131	4.000	7.131	4.000	6.955	4.000	6.955	4.000
$6,000	25.149	24.925	25.757	27.514	8.233	5.000	8.233	5.000	8.057	5.000	8.057	5.000
$7,000	25.523	25.567	26.144	28.550	9.236	6.000	9.236	6.000	9.060	6.000	9.060	6.000
$8,000	25.803	26.150	26.420	29.357	10.173	7.000	10.173	7.000	9.997	7.000	9.997	7.000
$9,000	26.117	26.733	26.739	30.111	11.052	8.000	11.052	8.000	10.876	8.000	10.876	8.000
$10,000	26.129	26.100	27.390	30.811	11.864	9.000	11.864	9.000	11.688	9.000	11.688	9.000
$15,000	26.842	27.333	28.333	33.333	14.859	13.500	14.859	13.500	14.683	13.500	14.683	13.500
$20,000	27.537	28.000	29.000	35.000	17.827	18.000	17.827	18.000	17.651	18.000	17.651	18.000
$25,000	28.000	28.400	29.400	36.400	19.744	22.500	19.744	22.500	19.568	22.500	19.568	22.500
$30,000	28.333	28.833	29.833	37.833	21.621	27.000	21.621	27.000	21.445	27.000	21.445	27.000
$40,000	28.750	29.500	30.500	39.500	24.643	35.000	24.643	35.000	24.467	35.000	24.467	35.000
$50,000	29.000	30.000	31.000	40.000	25.950	43.500	25.950	43.500	25.774	43.500	25.774	43.500
$60,000	29.167	30.333	31.333	40.333	26.891	52.000	26.891	52.000	26.715	52.000	26.715	52.000
$70,000	29.286	30.571	31.571	40.571	27.583	60.500	27.583	60.500	27.407	60.500	27.407	60.500
$80,000	29.375	30.750	31.750	40.750	28.153	69.000	28.153	69.000	27.977	69.000	27.977	69.000
$90,000	29.444	30.889	31.889	40.889	28.649	77.500	28.649	77.500	28.473	77.500	28.473	77.500
$100,000	29.500	31.000	32.000	41.000	29.088	86.000	29.088	86.000	28.912	86.000	28.912	86.000
$150,000	29.667	31.333	32.333	41.333	30.872	93.500	30.872	93.500	30.696	93.500	30.696	93.500
$200,000	29.750	31.500	32.500	41.500	31.905	96.000	31.905	96.000	31.729	96.000	31.729	96.000
$250,000	29.800	31.600	32.600	41.600	32.576	96.500	32.576	96.500	32.400	96.500	32.400	96.500
$500,000	29.900	31.800	32.800	41.800	35.746	98.000	35.746	98.000	35.570	98.000	35.570	98.000
$750,000	29.933	31.867	32.867	41.867	37.593	98.500	37.593	98.500	37.417	98.500	37.417	98.500
$1,000,000	29.950	31.900	32.900	41.900	38.941	99.000	38.941	99.000	38.765	99.000	38.765	99.000
$2,000,000	29.975	31.950	32.950	41.950	42.329	99.500	42.329	99.500	42.153	99.500	42.153	99.500
$5,000,000	29.990	31.980	32.980	41.980	45.614	99.800	45.614	99.800	45.438	99.800	45.438	99.800
$10,000,000	29.995	31.990	32.990	41.990	46.900	99.900	46.900	99.900	46.724	99.900	46.724	99.900
$25,000,000	29.998	31.996	32.996	41.996	47.760	99.960	47.760	99.960	47.584	99.960	47.584	99.960
$50,000,000	29.999	31.998	32.998	41.998	48.320	99.980	48.320	99.980	48.144	99.980	48.144	99.980
$100,000,000	30.000	32.000	33.000	42.000	48.680	99.990	48.680	99.990	48.504	99.990	48.504	99.990
$250,000,000	30.000	32.000	33.000	42.000	48.908	99.996	48.908	99.996	48.732	99.996	48.732	99.996
$500,000,000	30.000	32.000	33.000	42.000	48.949	99.998	48.949	99.998	48.773	99.998	48.773	99.998
$1,000,000,000	30.000	32.000	33.000	42.000	48.960	99.999	48.960	99.999	48.784	99.999	48.784	99.999
$2,000,000,000	30.000	32.000	33.000	42.000	48.970	100.000	48.970	100.000	48.794	100.000	48.794	100.000
$5,000,000,000	30.000	32.000	33.000	42.000	48.980	100.000	48.980	100.000	48.804	100.000	48.804	100.000

Regraded Unclassified

TABLE 9.—*Comparison of tax burden (including one-half of unforgiven tax) under present law and under committee bill*

Net income before personal exemption	Single person				Married, no dependents				Married, 2 dependents			
	Present law [1]	Committee bill	Net after tax: Present law	Net after tax: Committee bill	Present law [1]	Committee bill	Net after tax: Present law	Net after tax: Committee bill	Present law [1]	Committee bill	Net after tax: Present law	Net after tax: Committee bill
$500	$17.00	$23.50	$503.00	$577.00	$1.25		$498.75	$500.00	$1.19		$498.81	$500.00
600	56.95	57.50	599.15	662.50	6.34	$1.00	593.66	599.00	5.95		594.05	599.00
700	95.25	70.10	695.17	729.90	14.02	3.00	685.98	697.00	7.41		692.59	697.00
800	118.49	126.13	801.62	873.87	31.25	6.00	768.75	794.00	13.64		786.36	794.00
900	142.73	178.75	907.27	1,021.25	48.47	15.00	851.53	885.00	19.86		880.14	885.00
1,000	167.03	232.13	1,012.97	1,167.87	65.69	24.00	934.31	976.00	26.19		973.81	976.00
1,100	191.29	285.50	1,118.71	1,314.50	82.92	33.00	1,017.08	1,067.00	32.53		1,067.47	1,067.00
1,200	215.55	338.88	1,224.45	1,461.12	100.14	42.00	1,099.86	1,158.00	38.86		1,161.14	1,158.00
1,300	239.81	392.25	1,330.19	1,607.75	117.36	51.00	1,182.64	1,249.00	45.19		1,254.81	1,249.00
1,400	264.07	445.63	1,435.93	1,754.37	134.59	60.00	1,265.41	1,340.00	51.53		1,348.47	1,340.00
1,500	288.33	499.00	1,541.67	1,901.00	151.81	69.00	1,348.19	1,431.00	57.86		1,442.14	1,431.00
1,600	312.59	552.38	1,647.41	2,047.62	169.03	78.00	1,430.97	1,522.00	64.19		1,535.81	1,522.00
1,700	336.85	605.75	1,753.15	2,194.25	186.26	87.00	1,513.74	1,613.00	70.53		1,629.47	1,613.00
1,800	361.11	659.13	1,858.89	2,340.87	203.48	96.00	1,596.52	1,704.00	76.86		1,723.14	1,704.00
1,900	385.37	712.50	1,964.63	2,487.50	220.70	105.00	1,679.30	1,795.00	83.19		1,816.81	1,795.00
2,000	409.63	765.88	2,070.37	2,634.12	237.93	114.00	1,762.07	1,886.00	89.53		1,910.47	1,886.00
2,100	433.89	819.25	2,176.11	2,780.75	255.15	123.00	1,844.85	1,977.00	95.86		2,004.14	1,977.00
2,200	458.15	872.63	2,281.85	2,927.37	272.38	132.00	1,927.62	2,068.00	102.19		2,097.81	2,068.00
2,300	482.41	926.00	2,387.59	3,074.00	289.60	141.00	2,010.40	2,159.00	108.53		2,191.47	2,159.00
2,400	506.67	979.38	2,493.33	3,220.62	306.83	150.00	2,093.17	2,250.00	114.86		2,285.14	2,250.00
2,500	530.93	1,032.75	2,599.07	3,367.25	324.05	159.00	2,175.95	2,341.00	121.19		2,378.81	2,341.00
2,600	555.19	1,086.13	2,704.81	3,513.87	341.28	168.00	2,258.72	2,432.00	127.53		2,472.47	2,432.00
2,700	579.45	1,139.50	2,810.55	3,660.50	358.50	177.00	2,341.50	2,523.00	133.86		2,566.14	2,523.00
2,800	603.71	1,192.88	2,916.29	3,807.12	375.73	186.00	2,424.27	2,614.00	140.19		2,659.81	2,614.00
2,900	627.97	1,246.25	3,022.03	3,953.75	392.95	195.00	2,507.05	2,705.00	146.53		2,753.47	2,705.00
3,000	652.23	1,299.63	3,127.77	4,100.37	410.18	204.00	2,589.82	2,796.00	152.86		2,847.14	2,796.00
3,100	676.49	1,353.00	3,233.51	4,247.00	427.40	213.00	2,672.60	2,887.00	159.19		2,940.81	2,887.00
3,200	700.75	1,406.38	3,339.25	4,393.62	444.63	222.00	2,755.37	2,978.00	165.53		3,034.47	2,978.00
3,300	725.01	1,459.75	3,445.00	4,540.25	461.85	231.00	2,838.15	3,069.00	171.86		3,128.14	3,069.00
3,400	749.27	1,513.13	3,550.73	4,686.87	479.08	240.00	2,920.92	3,160.00	178.19		3,221.81	3,160.00
3,500	773.53	1,566.50	3,656.47	4,833.50	496.30	249.00	3,003.70	3,251.00	184.53		3,315.47	3,251.00
3,600	797.79	1,619.88	3,762.21	4,980.12	513.53	258.00	3,086.47	3,342.00	190.86		3,409.14	3,342.00
3,700	822.05	1,673.25	3,867.95	5,126.75	530.75	267.00	3,169.25	3,433.00	197.19		3,502.81	3,433.00
3,800	846.31	1,726.63	3,973.69	5,273.37	547.98	276.00	3,252.02	3,524.00	203.53		3,596.47	3,524.00
3,900	870.57	1,780.00	4,079.43	5,420.00	565.20	285.00	3,334.80	3,615.00	209.86		3,690.14	3,615.00
4,000	894.83	1,833.38	4,185.17	5,566.62	582.43	294.00	3,417.57	3,706.00	216.19		3,783.81	3,706.00
5,000	1,117.23	2,345.00	5,242.77	7,155.00	754.75	385.00	4,245.25	4,615.00	279.53		4,720.47	4,615.00
6,000	1,347.35	2,870.75	6,252.65	8,729.25	927.08	476.00	5,072.92	5,524.00	342.86		5,657.14	5,524.00
7,000	1,597.35	3,409.00	7,252.65	10,291.00	1,099.40	567.00	5,900.60	6,433.00	406.19		6,593.81	6,433.00
8,000	1,864.02	3,962.75	8,235.98	11,837.25	1,271.73	658.00	6,728.27	7,342.00	469.53		7,530.47	7,342.00
9,000	2,146.35	4,531.00	9,253.65	13,369.00	1,444.05	749.00	7,555.95	8,251.00	532.86		8,467.14	8,251.00
10,000	2,443.35	5,113.75	10,256.65	14,886.25	1,616.38	840.00	8,383.62	9,160.00	596.19		9,403.81	9,160.00
11,000	2,755.02	5,711.00	11,244.98	16,389.00	1,788.70	931.00	9,211.30	10,069.00	659.53		10,340.47	10,069.00
12,000	3,081.35	6,322.75	12,218.65	17,877.25	1,961.03	1,022.00	10,038.97	10,978.00	722.86		11,277.14	10,978.00
13,000	3,422.35	6,949.00	13,177.65	19,351.00	2,133.35	1,113.00	10,866.65	11,887.00	786.19		12,213.81	11,887.00
14,000	3,778.02	7,589.75	14,121.98	20,810.25	2,305.68	1,204.00	11,694.32	12,796.00	849.53		13,150.47	12,796.00
15,000	4,148.35	8,245.00	15,051.65	22,255.00	2,478.00	1,295.00	12,522.00	13,705.00	912.86		14,087.14	13,705.00
16,000	4,533.35	8,914.75	15,966.65	23,685.25	2,650.33	1,386.00	13,349.67	14,614.00	976.19		15,023.81	14,614.00
17,000	4,933.02	9,599.00	16,866.98	25,101.00	2,822.65	1,477.00	14,177.35	15,523.00	1,039.53		15,960.47	15,523.00
18,000	5,347.35	10,297.75	17,752.65	26,502.25	2,994.98	1,568.00	15,005.02	16,432.00	1,102.86		16,897.14	16,432.00
19,000	5,776.35	10,996.50	18,623.65	27,903.50	3,167.30	1,659.00	15,832.70	17,341.00	1,166.19		17,833.81	17,341.00
20,000	6,220.02	11,695.25	19,479.98	29,304.75	3,339.63	1,750.00	16,660.37	18,250.00	1,229.53		18,770.47	18,250.00
21,000	6,678.35	12,394.00	20,321.65	30,706.00	3,511.95	1,841.00	17,488.05	19,159.00	1,292.86		19,707.14	19,159.00
22,000	7,151.35	13,092.75	21,148.65	32,107.25	3,684.28	1,932.00	18,315.72	20,068.00	1,356.19		20,643.81	20,068.00
23,000	7,639.02	13,791.50	21,960.98	33,508.50	3,856.60	2,023.00	19,143.40	20,977.00	1,419.53		21,580.47	20,977.00
24,000	8,141.35	14,490.25	22,758.65	34,909.75	4,028.93	2,114.00	19,971.07	21,886.00	1,482.86		22,517.14	21,886.00
25,000	8,658.35	15,189.00	23,541.65	36,311.00	4,201.25	2,205.00	20,798.75	22,795.00	1,546.19		23,453.81	22,795.00
26,000	9,190.02	15,887.75	24,309.98	37,712.25	4,373.58	2,296.00	21,626.42	23,704.00	1,609.53		24,390.47	23,704.00
27,000	9,736.35	16,586.50	25,063.65	39,113.50	4,545.90	2,387.00	22,454.10	24,613.00	1,672.86		25,327.14	24,613.00
28,000	10,297.35	17,285.25	25,802.65	40,514.75	4,718.23	2,478.00	23,281.77	25,522.00	1,736.19		26,263.81	25,522.00
29,000	10,873.02	17,984.00	26,526.98	41,916.00	4,890.55	2,569.00	24,109.45	26,431.00	1,799.53		27,200.47	26,431.00
30,000	11,463.35	18,682.75	27,236.65	43,317.25	5,062.88	2,660.00	24,937.12	27,340.00	1,862.86		28,137.14	27,340.00
35,000	14,476.35	22,178.50	30,523.65	49,321.50	5,925.05	3,115.00	29,074.95	32,385.00	2,179.53		32,820.47	32,385.00
40,000	17,604.02	25,674.25	33,395.98	55,325.75	6,787.22	3,570.00	33,212.78	37,430.00	2,496.19		37,503.81	37,430.00
45,000	20,846.35	29,170.00	36,153.65	61,330.00	7,649.38	4,025.00	37,350.62	42,475.00	2,812.86		42,187.14	42,475.00
50,000	24,203.35	32,665.75	38,796.65	67,334.25	8,511.55	4,480.00	41,488.45	47,520.00	3,129.53		46,870.47	47,520.00
60,000	31,211.02	39,657.25	44,788.98	79,342.75	10,235.88	5,390.00	49,764.12	57,610.00	3,762.86		56,237.14	57,610.00
70,000	38,894.35	46,648.75	51,105.65	91,351.25	11,960.20	6,300.00	58,039.80	67,700.00	4,396.19		65,603.81	67,700.00
80,000	46,886.02	53,640.25	57,113.98	103,359.75	13,684.53	7,210.00	66,315.47	77,790.00	5,029.53		74,970.47	77,790.00
90,000	55,212.35	60,631.75	63,787.65	115,368.25	15,408.85	8,120.00	74,591.15	87,880.00	5,662.86		84,337.14	87,880.00
100,000	63,874.35	67,623.25	70,125.65	127,376.75	17,133.18	9,030.00	82,866.82	97,970.00	6,296.19		93,703.81	97,970.00
110,000	72,871.02	74,614.75	76,128.98	139,385.25	18,857.50	9,940.00	91,142.50	108,060.00	6,929.53		103,070.47	108,060.00
120,000	82,202.35	81,606.50	82,093.65	151,393.50	20,581.83	10,850.00	99,418.17	118,150.00	7,562.86		112,437.14	118,150.00
130,000	91,868.35	88,598.25	88,131.65	163,401.75	22,306.15	11,760.00	107,693.85	128,240.00	8,196.19		121,803.81	128,240.00
140,000	101,869.02	95,590.00	94,130.98	175,410.00	24,030.48	12,670.00	115,969.52	138,330.00	8,829.53		131,170.47	138,330.00
150,000	112,205.35	102,581.75	99,794.65	187,418.25	25,754.80	13,580.00	124,245.20	148,420.00	9,462.86		140,537.14	148,420.00
160,000	122,876.35	109,573.50	105,623.65	199,426.50	27,479.13	14,490.00	132,520.87	158,510.00	10,096.19		149,903.81	158,510.00
170,000	133,883.02	116,565.25	111,116.98	211,434.75	29,203.45	15,400.00	140,796.55	168,600.00	10,729.53		159,270.47	168,600.00
180,000	145,225.35	123,557.00	116,774.65	223,443.00	30,927.78	16,310.00	149,072.22	178,690.00	11,362.86		168,637.14	178,690.00
190,000	156,903.35	130,548.75	122,596.65	235,451.25	32,652.10	17,220.00	157,347.90	188,780.00	11,996.19		177,903.81	188,780.00
200,000	168,916.02	137,540.50	128,583.98	247,459.50	34,376.43	18,130.00	165,623.57	198,870.00	12,629.53		187,370.47	198,870.00
250,000	231,211.35	172,536.25	158,788.65	307,563.75	43,238.60	22,685.00	206,761.40	249,415.00	15,946.19		234,053.81	249,415.00
300,000	297,894.35	207,532.00	192,105.65	367,568.00	52,100.77	27,240.00	247,899.23	299,960.00	19,262.86		280,737.14	299,960.00
400,000	433,913.02	277,523.50	266,086.98	487,576.50	69,825.12	36,350.00	330,174.88	401,050.00	25,896.19		374,103.81	401,050.00
500,000	576,275.35	347,515.00	323,724.65	607,585.00	87,549.45	45,460.00	412,450.55	502,140.00	32,529.53		467,470.47	502,140.00
750,000	937,981.35	522,499.75	562,018.65	877,643.25	131,986.80	68,205.00	618,013.20	753,795.00	48,796.19		701,203.81	753,795.00
1,000,000	1,327,000.00	697,487.50	672,999.00	1,147,701.50	176,424.15	90,950.00	823,575.85	1,005,450.00	65,062.86		934,937.14	1,005,450.00
2,000,000	3,016,337.00	1,872,975.00	1,983,663.00	3,167,025.00	353,848.30	182,900.00	1,629,151.70	2,015,100.00	130,125.73		1,869,874.27	2,015,100.00
5,000,000	8,046,337.00	5,046,337.00	4,953,663.00	4,953,663.00	884,620.75	457,250.00	4,068,379.25	4,542,750.00	325,314.46		4,674,685.54	4,542,750.00

[1] Net Victory tax computed on gross income equal to 5/6-ninths of net income.

It will be noted that only relatively small changes in individual income tax burden result from the committee bill. Those that do occur result, in general, from the fact that the net Victory tax, which was levied at different rates for different family status, but with the use of a flat exemption, is being replaced by a flat rate of tax, applied to the net income in excess of exemptions and credits which vary with the family status.

The following steps toward simplification have been achieved through the integration above described:

(*a*) The separate computation of Victory tax and credit taken currently has been eliminated.

(*b*) The income base subject to normal tax and surtax has been made the same for practically all persons (all those not receiving partially tax-exempt interest).

(*c*) The computation of earned-income credit has been eliminated.

(*d*) The use of the short-form return for those receiving less than $3,000 gross income has been retained but the return has been simplified by (a) providing for the number of dependents in the tax table and thereby eliminating the deduction of the credit for dependents on the face of the return and (b) reducing the number of alternative headings for family status from 3 to 2.

A further simplification is achieved in the committee bill by setting July 1 of the taxable year as the date for determination of the family status of the taxpayer for purposes of all returns; heretofore the family status determination date of July 1 applied only in connection with the filing of the alternative tax on the short form of return; under the committee bill it will apply as well to both the long form of return and the declaration of estimated tax. Hereafter no taxpayer in filing his return will be required to prorate exemptions and credits because of a change in status.

The following table has been designed for inclusion in Supplement T of the code, and for inclusion in the optional form of return for use by persons having gross incomes of $3,000 or less, consisting wholly of one or more of the following: salary, wages, compensation for personal services, dividends, interest, or annuities. For purposes of this report, a heavy line has been drawn through the table and certain figures are printed in italics. Figures in the tax columns to the left of the heavy line represent regular income tax, while those to the right represent minimum tax. Figures printed in italics indicate that at these points the taxpayer has income above the income-tax exemptions and credits but that his minimum tax is greater than his income tax.

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TABLE 10.—*Short-form return income tax table*

And the gross income is		If the individual is a single person, or a married person making a separate return whose spouse has gross income, and has—							
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
				Or the individual is a married person making a joint return, or a married person making a separate return whose spouse has no gross income, or is the head of a family, and has—					
Over	But not over			No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents
		The tax shall be—							
$0	$525	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
525	550	1.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00
550	575	6.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00
575	600	12.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
600	625	17.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00
625	650	22.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00
650	675	28.20	0.70	0.00	0.00	0.00	0.00	0.00	0.00
675	700	33.60	1.40	0.00	0.00	0.00	0.00	0.00	0.00
700	725	39.00	2.10	0.00	0.00	0.00	0.00	0.00	0.00
725	750	44.50	2.80	0.00	0.00	0.00	0.00	0.00	0.00
750	775	49.90	3.50	0.50	0.00	0.00	0.00	0.00	0.00
775	800	55.30	4.20	1.20	0.00	0.00	0.00	0.00	0.00
800	825	60.70	4.90	1.90	0.00	0.00	0.00	0.00	0.00
825	850	66.10	5.60	2.60	0.00	0.00	0.00	0.00	0.00
850	875	71.50	6.30	3.30	0.30	0.00	0.00	0.00	0.00
875	900	76.90	7.00	4.00	1.00	0.00	0.00	0.00	0.00
900	925	82.30	7.70	4.70	1.70	0.00	0.00	0.00	0.00
925	950	87.70	8.40	5.40	2.40	0.00	0.00	0.00	0.00
950	975	93.10	12.00	6.10	3.10	0.10	0.00	0.00	0.00
975	1,000	98.50	18.00	6.80	3.80	0.80	0.00	0.00	0.00
1,000	1,025	103.90	23.40	7.60	4.60	1.00	0.00	0.00	0.00
1,025	1,050	109.30	28.80	8.30	5.30	2.30	0.00	0.00	0.00
1,050	1,075	114.70	34.20	9.00	6.00	3.00	0.00	0.00	0.00
1,075	1,100	120.10	39.60	9.70	6.70	3.70	0.70	0.00	0.00
1,100	1,125	125.50	45.00	10.40	7.40	4.40	1.40	0.00	0.00
1,125	1,150	130.90	50.40	11.10	8.10	5.10	2.10	0.00	0.00
1,150	1,175	136.30	55.80	11.80	8.80	5.80	2.80	0.00	0.00
1,175	1,200	141.70	61.20	12.50	9.50	6.50	3.50	0.50	0.00
1,200	1,225	147.10	66.60	13.20	10.20	7.20	4.20	1.20	0.00
1,225	1,250	152.50	72.00	13.90	10.90	7.90	4.90	1.90	0.00
1,250	1,275	158.00	77.50	14.60	11.60	8.60	5.60	2.60	0.00
1,275	1,300	163.40	82.90	15.30	12.30	9.30	6.30	3.30	0.30
1,300	1,325	168.80	88.30	16.00	13.00	10.00	7.00	4.00	1.00
1,325	1,350	174.20	93.70	16.70	13.70	10.70	7.70	4.70	1.70
1,350	1,375	179.60	99.10	18.60	14.40	11.40	8.40	5.40	2.40
1,375	1,400	185.00	104.50	24.00	15.10	12.10	9.10	6.10	3.10
1,400	1,425	190.40	109.90	29.40	15.80	12.80	9.80	6.80	3.80
1,425	1,450	195.80	115.30	34.80	16.50	13.50	10.50	7.50	4.50
1,450	1,475	201.20	120.70	40.20	17.20	14.20	11.20	8.20	5.20
1,475	1,500	206.60	126.10	45.60	17.90	14.90	11.90	8.90	5.90
1,500	1,525	212.00	131.50	51.00	18.70	15.70	12.70	9.70	6.70
1,525	1,550	217.40	136.90	56.40	19.40	16.40	13.40	10.40	7.40
1,550	1,575	222.80	142.30	61.80	20.10	17.10	14.10	11.10	8.10
1,575	1,600	228.20	147.70	67.20	20.80	17.80	14.80	11.80	8.80
1,600	1,625	233.60	153.10	72.60	21.50	18.50	15.50	12.50	9.50
1,625	1,650	239.00	158.50	78.00	22.20	19.20	16.20	13.20	10.20
1,650	1,675	244.40	163.90	83.40	22.90	19.90	16.90	13.90	10.90
1,675	1,700	249.80	169.30	88.80	23.60	20.60	17.60	14.60	11.60
1,700	1,725	255.20	174.70	94.20	24.30	21.30	18.30	15.30	12.30
1,725	1,750	260.60	180.10	99.60	25.00	22.00	19.00	16.00	13.00
1,750	1,775	266.10	185.60	105.10	25.70	22.70	19.70	16.70	13.70
1,775	1,800	271.50	191.00	110.50	30.00	23.40	20.40	17.40	14.40
1,800	1,825	276.90	196.40	115.90	35.40	24.10	21.10	18.10	15.10
1,825	1,850	282.30	201.80	121.30	40.80	24.80	21.80	18.80	15.80
1,850	1,875	287.70	207.20	126.70	46.20	25.50	22.50	19.50	16.50
1,875	1,900	293.10	212.60	132.10	51.60	26.20	23.20	20.20	17.20
1,900	1,925	298.50	218.00	137.50	57.00	26.90	23.90	20.90	17.90
1,925	1,950	303.90	223.40	142.90	62.40	27.60	24.60	21.60	18.60
1,950	1,975	309.30	228.80	148.30	67.80	28.30	25.30	22.30	19.30
1,975	2,000	314.70	234.20	153.70	73.20	29.00	26.00	23.00	20.00
2,000	2,025	320.10	239.60	159.10	78.60	29.80	26.80	23.80	20.80

TABLE 10.—*Short-form return income tax table*—Continued

And the gross income is		If the individual is a single person, or a married person making a separate return whose spouse has gross income, and has—							
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
				Or the individual is a married person making a joint return, or a married person making a separate return whose spouse has no gross income, or is the head of a family, and has—					
Over	But not over			No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents
		The tax shall be—							
$2,025	$2,050	$325.50	$245.00	$164.50	$84.00	$39.60	$27.50	$24.50	$21.50
2,050	2,075	330.90	250.40	169.90	89.40	31.20	28.20	25.20	22.20
2,075	2,100	336.30	255.80	175.30	94.80	32.80	28.90	25.90	22.90
2,100	2,125	341.70	261.20	180.70	100.20	34.40	29.60	26.60	23.60
2,125	2,150	347.10	266.60	186.10	105.60	36.00	30.30	27.30	24.30
2,150	2,175	352.50	272.00	191.50	111.00	37.60	31.00	28.00	25.00
2,175	2,200	357.90	277.40	196.90	116.40	39.20	31.70	28.70	25.70
2,200	2,225	363.30	282.80	202.30	121.80	41.30	32.40	29.40	26.40
2,225	2,250	368.70	288.20	207.70	127.20	43.70	33.10	30.10	27.10
2,250	2,275	374.20	293.70	213.20	132.70	46.20	33.80	30.80	27.80
2,275	2,300	379.60	299.10	218.60	138.10	48.60	34.50	31.50	28.50
2,300	2,325	385.00	304.50	224.00	143.50	51.00	35.20	32.20	29.20
2,325	2,350	390.40	309.90	229.40	148.90	53.40	35.90	32.90	29.90
2,350	2,375	395.80	315.30	234.80	154.30	55.80	36.60	33.60	30.60
2,375	2,400	401.20	320.70	240.20	159.70	58.20	37.30	34.30	31.30
2,400	2,425	406.60	326.10	245.60	165.10	60.60	38.00	35.00	32.00
2,425	2,450	412.00	331.50	251.00	170.50	63.00	38.70	35.70	32.70
2,450	2,475	417.40	336.90	256.40	175.90	65.40	39.40	36.40	33.40
2,475	2,500	422.80	342.30	261.80	181.30	67.80	40.10	37.10	34.10
2,500	2,525	428.20	347.70	267.20	186.70	70.20	40.90	37.90	34.90
2,525	2,550	433.60	353.10	272.60	192.10	72.60	41.60	38.60	35.60
2,550	2,575	439.00	358.50	278.00	197.50	75.00	42.30	39.30	36.30
2,575	2,600	444.40	363.90	283.40	202.90	77.40	43.00	40.00	37.00
2,600	2,625	449.80	369.30	288.80	208.30	79.80	47.30	40.70	37.70
2,625	2,650	455.20	374.70	294.20	213.70	82.20	52.70	41.40	38.40
2,650	2,675	460.70	380.10	299.60	219.10	84.60	58.10	42.10	39.10
2,675	2,700	466.80	385.50	305.00	224.50	87.00	63.50	42.80	39.80
2,700	2,725	472.90	390.90	310.40	229.90	89.40	68.90	43.50	40.50
2,725	2,750	479.00	396.30	315.80	235.30	91.80	74.30	44.20	41.20
2,750	2,775	485.20	401.80	321.30	240.80	94.30	79.80	44.90	41.90
2,775	2,800	491.30	407.20	326.70	246.20	96.70	85.20	45.60	42.60
2,800	2,825	497.40	412.60	332.10	251.60	99.10	90.60	46.30	43.30
2,825	2,850	503.50	418.00	337.50	257.00	101.50	96.00	47.00	44.00
2,850	2,875	509.60	423.40	342.90	262.40	103.90	101.40	47.70	44.70
2,875	2,900	515.70	428.80	348.30	267.80	106.30	106.80	48.40	45.40
2,900	2,925	521.80	434.20	353.70	273.20	108.70	112.20	49.10	46.10
2,925	2,950	527.90	439.60	359.10	278.60	111.10	117.60	49.80	46.80
2,950	2,975	534.00	445.00	364.50	284.00	113.50	123.00	50.50	47.50
2,975	3,000	540.10	450.40	369.90	289.40	115.90	128.40	51.20	48.20

If the number of dependents is in excess of the largest number of dependents shown, the tax shall be the amount applicable in the case of the largest number of dependent shown, reduced by $3.00 for each dependent over the largest number shown.

The table shown above was computed by using the gross income at the midpoint of each gross income bracket; deductions were allowed at the rate of 6 percent of gross income, and the resulting tax figure

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was rounded to the nearest 10 cents. The following examples will illustrate the procedure:

EXAMPLE 1.—*Married person, no dependents*

Gross income bracket	$1,000-$1,025
Gross income at midpoint of bracket	1,012.50
Deductions (6 percent of gross income)	60.75
Net income	951.75
Income-tax exemption	1,200.00

Not subject to income tax, as exemption exceeds net income.

Minimum tax exemption	$700.00
Income subject to minimum tax	251.75
Minimum tax at 3 percent	7.55
Minimum tax rounded to nearest 10 cents	7.60

This figure of $7.60 will be found in the twenty-first line, fifth column, of the above table.

EXAMPLE 2.—*Married person, two dependents*

Gross income bracket	$2,100-$2,125
Gross income at mid-point of bracket	2,112.50
Deductions (6 percent of gross income)	126.75
Net income subject to income tax	1,985.75
Income tax exemption	1,200.00
Income tax credit for dependents	700.00
Amount subject to income tax	85.75
Normal tax at 10 percent	8.58
Surtax at 13 percent	11.15
Total income tax	19.73
Minimum tax exemption	700.00
Minimum tax credit for dependents	200.00
Amount subject to minimum tax	1,085.75
Minimum tax at 3 percent	32.57
Minimum tax rounded to nearest 10 cents	32.60

As the minimum tax is higher than the income tax, this person would be required to pay the minimum tax; therefore, the rounded figure of $32.60 is contained in the table, $2,100–$2,125 line, seventh column.

In connection with the income tax table it should be made clear that those using the short-form return will not be required to compute either the regular income tax or the minimum tax. It will be immaterial whether the required tax is minimum tax or income tax. Those having a gross income in excess of $3,000, and therefore using the long form, will only in rare instances be required to compute the minimum tax as it will apply only where the number of dependents is in excess of five in the case of a single person, or three in the case of a married person. The following table shows the gross income level above which the regular income tax would be greater than the minimum tax.

TABLE 11.—*Gross income level above which the regular income tax is greater than the minimum tax, according to marital status and number of dependents* [1]

Number of dependents for which credit is allowed	Single person, or a married person making a separate return whose spouse has gross income	Married person making a joint return, or a married person making a separate return whose spouse has no gross income, or the head of a family [2]	Number of dependents for which credit is allowed	Single person, or a married person making a separate return whose spouse has gross income	Married person making a joint return, or a married person making a separate return whose spouse has no gross income, or the head of a family [2]
0	$531.91	$1,356.38	6	$3,005.32	$3,820.79
1	944.15	1,708.62	7	3,417.55	4,242.02
2	1,356.38	2,189.85	8	3,829.79	4,654.26
3	1,768.62	2,593.09	9	4,242.02	5,066.49
4	2,189.85	3,005.32	10	4,654.26	5,478.72
5	2,593.09	3,417.55			

[1] Assumes deductions of 6 percent of gross income, as allowed on short-form return.
[2] If taxpayer is head of a family only because of dependents for whom he would be entitled to credit, credit is allowed for each of such dependents except 1.

Three further modifications in individual income-tax provisions are made in the committee bill. One of these provides that married couples filing separate returns must each take a single person's exemption. While one effect of this provision will be to reduce slightly the present advantage available to married persons filing separate returns over those filing joint returns, this requirement was a necessary step for this simplification of the short-form return. Another modification is found in the section which discontinues the allowance of Federal excise taxes paid as a deduction from gross income, except where the tax paid is a business expense. This provision will not only raise revenue but eliminate existing confusion and administrative difficulty.

Lastly, the committee has provided for a special deduction of $500 from the gross income of every blind person in order to cover the expenses resulting directly from blindness, such as the cost of readers and guides. This would relieve many blind persons of any tax whatsoever, and would reduce the tax of other blind persons.

WITHHOLDING RATES AND EXEMPTIONS

Because the present law's income-tax burden is not materially altered under the committee bill, it was not necessary to change the present 20 percent withholding rate applicable with respect to salaries and wages above the income-tax exemptions. Nor was it necessary to change the 3 percent minimum rate applicable under present law to those subject only to the Victory tax, and under the committee bill, to those subject only to the minimum tax. It was found desirable, however, to adjust by small amounts the exemptions used for withholding purposes, in order to approximate more closely the correct amount of tax than does the existing system.

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The following exemptions are to be used for purposes of withholding only:

TABLE 12

NORMAL TAX AND SURTAX WITHHOLDING EXEMPTIONS

Pay-roll period	Married person claiming a personal exemption for withholding whose spouse claims none, or head of family	Single person, or married person claiming a personal exemption for withholding whose spouse claims a personal exemption for withholding	Person claiming no personal exemption for withholding	Each dependent
Weekly	$24	$10	$0	$7.00
Biweekly	48	20	0	14.00
Semimonthly	52	22	0	15.50
Monthly	106	44	0	31.00
Quarterly	318	132	0	93.00
Semiannual	636	264	0	186.00
Annual	1,272	528	0	372.00
Daily or miscellaneous (per day of such period)	3.50	1.50	0	1.00

MINIMUM TAX WITHHOLDING EXEMPTIONS

Weekly	$14	$10	$0	$2.00
Biweekly	28	20	0	4.00
Semimonthly	31	22	0	4.50
Monthly	62	44	0	9.00
Quarterly	186	132	0	27.00
Semiannual	372	264	0	54.00
Annual	744	528	0	108.00
Daily or miscellaneous (per day of such period)	2.00	1.50	0	.25

The wage brackets used in the withholding tables have been made narrower than those used in the Current Tax Payment Act of 1943 in order to reduce the amount of over-withholding and under-withholding resulting from the fact that wages may vary from the midpoint of the bracket in which they fall. In the weekly table, for example, the wage brackets rise in steps of only $1 up to a weekly wage of $60, or $2 from wages of$60 per week to $100 per week, etc. The withholding tables are computed by the so-called precise method which is made optional for employers. The tax is computed upon the gross income at the midpoint of the wage brackets, deducting the proper exemption and credit for dependents, and applying either the 3 percent minimum rate or the 20 percent regular income tax rate to the excess. The resulting tax is then rounded to the nearest 10 cents.

(c) PROPOSED CORPORATE INCREASE

Your committee recommendations as to corporate taxes may be briefly summarized as follows:

(1) Retain existing corporate normal and surtax rates.
(2) Increase the excess-profits rate to 95 percent.
(3) Retain the present 80 percent over-all ceiling with respect to corporate normal, surtax, and excess-profits taxes.

(4) Reduce the invested capital credit with respect to invested capital in excess of $5,000,000 as shown by the following table:

	Proposed, percent	Existing law, percent
First $5,000,000 invested capital	8	8
$5,000,000 to $10,000,000 invested capital	6	7
$10,000,000 to $200,000,000 invested capital	5	6
Over $200,000,000 invested capital	4	5

(5) Increase the specific exemption credit now allowed for excess-profits taxes from $5,000 to $10,000.

(6) Prevent litigation under the present law by affirmatively closing the loophole by which stock of defunct corporations is purchased, or other acquisitions made, for the purpose of avoiding Federal income or excess-profits taxes.

(7) Require returns from certain tax-exempt organizations.

Your committee was of the opinion that to extend the normal and surtax rate beyond 40 percent might also seriously affect the war production of the smaller companies. It is believed, however, that a rate of 95 percent on excess profits, as suggested in the hearings before the War Policy Commission, 1931, is not unreasonable, so long as an added incentive is retained through the 10 percent post-war credit together with an 80 percent ceiling.

Your committee also gave careful consideration to the effect upon the excess-profits tax of the various credits, carry-backs, and carry-overs. While it was not possible to suggest changes in these credits, carry-overs, and carry-backs at this time, these matters, as well as the relief provisions of section 722 of the Internal Revenue Code, will be carefully studied in connection with the 1944 revenue bill. However, there is a change which we believe should be made at this time. Under the invested capital method, corporations are permitted to increase their invested capital by plowing back into the business, earnings which have not been subject to taxation in the hands of the individual shareholder. However, corporations using the average earnings method are not permitted to increase their earnings base by plowing back into the corporation profits which have not been subject to taxation in the hands of the shareholders.

Earnings after January 1, 1939, are not permitted under the Canadian law to increase the invested capital of the corporation until they have been capitalized by being subject to taxation in the hands of the individual shareholder. The reason for such a rule was very obvious, for otherwise a company would stop paying dividends and leave its profits in the business in order to obtain the additional invested capital credit. Moreover, the Government would lose not only excess-profits taxes but also individual income taxes from the individual shareholder. In view of this obvious advantage of the invested capital method over the average earnings method, it does not seem unreasonable further to reduce the invested capital credit, particularly with respect to capital in excess of $5,000,000.

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AVOIDANCE OF INCOME AND EXCESS PROFITS TAXES

There has come to the attention of your committee a practice on the part of some corporations with large excess profits of purchasing corporations with current, past, or prospective losses, deficits, or large current or unused excess profits credits for the purpose of reducing excess profits and income taxes. It is the custom of many reputable attorneys to advise clients not to indulge in such transfers since they feel that the courts can interpret present law so as to invalidate them, and if the courts should not act the impression has been prevalent that Congress would take direct action to close this loophole.

In order to prevent further abuses that might undermine the position of the honest taxpayers, your committee has inserted a provision allowing the Commissioner to invalidate such claims for deductions or credit where he finds that the transfer was made for the purpose of avoiding payment of taxes. Your committee believes that taxpayers deserve the assurance that they are not going to be discriminated against in favor of tax dodgers, and that they may continue to conduct their affairs and business in the ordinary way without fear either that they will bear a tax burden which others similarly situated will escape, or that their ordinary and usual transactions will be impugned as tax dodging. Since the devices dealt with by the bill have always been such palpable tax-dodging schemes, the legality of which was questioned from the beginning, this provision is made retroactive to all taxable years beginning after December 31, 1939. This would avoid giving approval, even by implication, to any previous tax-dodging scheme.

RETURNS BY TAX-EXEMPT ORGANIZATIONS

Under existing law a large group of corporations enjoy tax exemption and many of which are not required to file information returns.

It has come to the attention of your committee that many of these exempt corporations and organizations are directly competing with companies required to pay income taxes, and that this practice is becoming more widespread and affording a loophole for tax evasion and avoidance.

These organizations were originally given this tax exemption on the theory that they were not operated for profit, and that none of their proceeds inured to the benefit of shareholders. However, many of these organizations are now engaged in operation of apartment houses, office buildings, and other businesses which directly compete with individuals and corporations required to pay taxes on income derived from like operations. Your committee was without sufficient data to act intelligently, since many of these corporations and organizations are not now required to file reports, and in the absence of such information it was felt best to continue the present tax exemption, but to require them to file reports stating specifically the items of gross income, receipts, and disbursements and such other information, and keep such records, as the Commissioner of Internal Revenue may prescribe.

These returns, under the bill, are required to be made for the taxable years beginning after December 31, 1942, and all subsequent years, and it is the intent of your committee to make a thorough study

of the information contained in such returns with the view to closing this existing loophole and requiring the payment of tax, and the protection of legitimate companies against this unfair competitive situation. Your committee exempted from this requirement to file returns, religious, educational, and charitable organizations which meet the definite standards set forth under section 112 of the bill.

(d) Excise Tax Recommendations

Your committee felt that the most productive source of revenue, and the most effective device feasible for the curtailment of inflationary spending, was increased excise taxes. By this method, it is possible to select those goods which are clearly luxuries and tax them at a rate in accord with the particular market situation. The following recommendations impose only minor administrative burdens since in most cases they only involve a rate change in a tax that is now being successfully collected. The excise taxes selected have the virtue that in individual cases where the tax would be a hardship, consumption may be curtailed or shifted to nontaxable items.

Even if the entire increase in excise taxes were shifted to consumers, an extreme assumption, the general cost of living would be raised by only a slight degree. The total increased revenue from excises and postage will be $1,368,500,000.

Table 13.—*Excise tax and postal rate changes contained in the committee bill*

Article or service	Present tax base and rate	Proposed tax base and rate	Estimated additional revenue under proposed tax base and rate [1]
			Millions of dollars
1. Distilled spirits	$9 per gallon (draw-back of $0.75 per gallon on nonbeverage alcohol).	$9 per gallon (draw-back of $5 per gallon on nonbeverage alcohol).	378.0
2. Beer	$7 per barrel	$8 per barrel	70.0
3. Wine:			
Still:			
Under 14 percent	10 cents per gallon	15 cents per gallon	
14 to 21 percent	40 cents per gallon	60 cents per gallon	
Over 21 percent	$1 per gallon	$2 per gallon	18.0
Sparkling	10 cents per half pint	15 cents per half pint	
Other	5 cents per half pint	10 cents per half pint	
4. Electric light bulbs and tubes.	5 percent of manufacturers' sales price.	25 percent of manufacturers' sales price.	20.0
5. Jewelry	10 percent of retail price	20 percent of retail price	72.5
6. Fur and fur-trimmed articles.	do	25 percent of retail price	54.9
7. Luggage, handbags, wallets, etc.	10 percent of manufacturers' sales price on luggage only.	do	53.4
8. Toilet preparations	10 percent of retail price	do	53.4
9. Telephone, telegraph, radio, etc.:			
Local telephone	10 percent of charge	15 percent of charge	48.9
Long-distance telephone	20 percent of charge	25 percent of charge	
Telegraph, radio, and cable.	15 percent of charge (domestic). 10 percent of charge (international).	25 percent of charge. 15 percent of charge.	
Leased wires, etc.	15 percent of charge	20 percent of charge	48.8
Wire and equipment service.	5 percent of charge for service.	7 percent of charge for service.	
10. Transportation of persons	10 percent of charge	15 percent of charge	75.0
11. Transportation of property	3 percent of amount paid; coal, 4 cents per short ton.	Apply tax to fourth-class mail also.	4.5

See footnote at end of table.

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TABLE 13.—*Excise tax and postal rate changes contained in the committee bill*—Con.

Article or service	Present tax base and rate	Proposed tax base and rate	Estimated additional revenue under proposed tax base and rate
12. Admissions:			
General admissions	1 cent for each 10 cents or fraction thereof.	2 cents for each 10 cents or fraction thereof.	165.5
Leased boxes, etc.	11 percent of charge	20 percent of charge	
13. Cabarets	5 percent of charge	30 percent of charge	91.3
14. Club dues and initiation fees	11 percent of charge	20 percent of charge	5.1
15. Bowling alleys, billiard and pool tables.	$10 per alley	do	27.0
	$10 per table	$20 per table	
16. Pari-mutuel wagers	None	5 percent of total wagers	27.5
Total, excluding postage			1,201.7
17. Postage[2]			
First class	2 cents per ounce, local delivery.	3 cents per ounce	44.0
Air mail	6 cents per ounce	8 cents per ounce	11.0
Third class	1 and 1½ cents for each 2 ounces.	2 and 3 cents for each 2 ounces.	74.4
Money orders	6 to 22 cents per order, depending upon amount.	10 to 37 cents	21.0
Registered mail	15 cents to $1 per article	20 cents to $1.35 per article	4.5
Insured mail	5 to 35 cents per article	10 to 70 cents per article	6.5
C. O. D. mail	12 cents to $1.20 per article	24 cents to $2.40 per article	5.4
Total postage			166.8
Grand total			1,368.5

[1] Estimates of additional revenue are for a full year of operation at levels of business estimated for calendar year 1944.
[2] Estimates are based upon the revenue figures cited in the Cost Ascertainment Report for 1942, released by the Post Office Department.

As your committee felt that the rates of excise taxes contained in this bill were justified only in view of the wartime emergency, it was provided that the increases imposed shall terminate 6 months after the close of hostilities in the present war. In this connection, it was brought to the committee's attention that in the case of distilled spirits, wines, and fermented malt liquors, upon which floor stocks taxes, corresponding to the respective rate increases, are imposed in this bill, there might result extremely heavy burdens upon certain dealers if, when the increases in tax are terminated, there s not provided some form of adjustment for floor stocks then on hand. As there was insufficient time to study this question fully it was decided to take the matter up in the next tax bill.

DISTILLED SPIRITS

The most important excise proposal from a revenue standpoint is that raising the tax on distilled spirits from $6 to $9. This will result in increased revenue of $370,000,000. Since the production of all liquor with the exception of limited amounts of rum and brandy has been suspended, the demand is so high that the added tax will not reduce consumption. Ordinarily such a high tax rate might increase the amount of bootlegging. It is felt that this will not occur under the present circumstances. The wartime shortages of such materials as sugar and copper will prevent a substantial increase in illegal distillation.

Distilled spirits are now subject to price control. Since payment of the tax by the dealer will result in a greater capital investment, some

mark-up may have to be allowed on the amount of the tax in the new ceiling prices so that slightly more than the amount of the tax may be passed along to the consumer.

A draw-back of $5 a gallon is allowed on alcohol used for nonbeverage purposes.

BEER AND ALE

High wartime incomes and the shortage of distilled spirits together indicate that an additional tax of $1 a barrel on beer, bringing the tax to $8, will have little effect on the market situation while raising additional revenue of $70,000,000. The probabilities are that beer consumption during this and next year will for the first time pass the prohibition peak. On the supply side, producers are faced with shortages of malt and containers and with limitations on transportation. Hence, despite the tax, brewers will be able to sell as much of their product as they can market. The tax is imposed at the manufacturer's level.

WINE

Taxes on various grades of wine are recommended according to the following schedule:

	Present rate	Proposed rate	Estimated additional revenue
(a) Still wines:			*Millions of dollars*
Under 14 percent alcohol	10 cents per gallon	15 cents per gallon	
14-21 percent alcohol	40 cents per gallon	60 cents per gallon	
Over 21 percent alcohol	$1 per gallon	$2 per gallon	19.0
(b) Sparkling	10 cents per half pint	15 cents per half pint	
(c) Other	5 cents per half pint	10 cents per half pint	

The consumption of wine in 1943 is running considerably above 1942. An increase in consumption is indicated even with the increased tax. This tax also is imposed at the manufacturer's level and it may in most cases be necessary to allow some mark-up on the amount of the tax, resulting in a slightly heavier burden on the consumer.

ELECTRIC LIGHT BULBS AND TUBES

Increasing the present tax on electric light bulbs and tubes from 5 to 25 percent of the manufacturer's sales price will result in increased revenue of $20,000,000. Since the tax is measured as a percent of manufacturer's sales price it is not believed that this rate will result in any substantial increase in retail price.

In cases where bulbs are used in stores and factories the tax will be reflected as an added business cost but it was felt that this would be negligible in the whole picture of business expenses.

JEWELRY

Increasing the tax on jewelry from 10 to 20 percent of the retail price is estimated to bring in $72,500,000 in additional revenue, after allowance for the exemption for silver plated flatware. While it was felt that most jewelry was a luxury and that in many cases individuals

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were investing in jewelry as an inflation hedge, nevertheless some items classed as jewelry are actually utility articles. Since it appears administratively impracticable, except in the case of silver plated flatware, to separate various items sold in jewelry stores, a lower rate was adopted. The tax is levied at the retail level.

FURS AND FUR-TRIMMED ARTICLES

Increasing the tax on furs and fur-trimmed articles from 10 to 25 percent of the retail price is expected to bring an additional $54,800,000 in revenue. The increase in sales of expensive furs and fur coats in the past year has been phenomenal and demand promises to continue well ahead of the dealers' ability to get furs. On these articles the tax will be passed along to consumers. On cheaper fur coats and fur-trimmed coats, which compete with tax-free cloth coats some of the tax might have to be absorbed, or shifted to the wholesalers.

LUGGAGE, HANDBAGS, WALLETS, ETC.

It is proposed that the tax on luggage be increased from 10 to 25 percent and that it be measured against the retail price instead of against the manufacturers' sales price as at present. In addition to this the bill extends the tax to various related articles including wallets, and handbags. Together, these changes will result in increased revenue of $53,400,000. Shifting the tax on luggage to the higher retail base at a 25 percent rate is the equivalent, on the average, of raising the rate to 45 percent on the manufacturer's price.

TOILET PREPARATIONS

At present there is a tax of 10 percent of the retail price of certain toilet preparations, mainly cosmetic, and perfumes. The suggested increase to 25 percent will add $51,400,000 in new revenue. The main limitation on the supply of most cosmetics is a scarcity of containers, and on the whole the sales will not be affected appreciably by the tax.

TELEPHONE, TELEGRAPH, RADIO, ETC.

Taxes on various communication services are proposed at the following rates:

	Present tax	Proposed tax	Estimated additional revenue (millions)
(a) Local telephone	10 percent of charge	15 percent of charge	$45.9
(b) Long-distance telephone	20 percent of charge	25 percent of charge	
(c) Telegraph, radio, and cable	15 percent of charge (domestic).	do	
	10 percent of charge (international).	15 percent of charge	49.8
(d) Leased wires, etc	15 percent of charge	20 percent of charge	
(e) Wire and equipment service	5 percent of charge for service.	7 percent of charge for service.	

It is generally recognized that the telephone lines are at the present time overburdened. While these rates will probably not reduce nonessential use materially, this does appear to be a desirable source of revenue. To the extent that these taxes represent business expenses they are deductible for income-tax purposes. The tax on leased wires is necessary since they are in competition with telegraph services. All of these taxes are levied directly on consumers.

TRANSPORTATION OF PERSONS

The wartime increase in transportation has been far beyond that required for essential uses. Since much railroad travel is necessary in view of gasoline restrictions, it would be unwise to impose a tax at sufficiently high rates to cut substantially civilian travel. It would, nevertheless, seem desirable to make those that do travel pay extra for the privilege. The proposed increase of the rate from 10 to 15 percent would increase revenues by $75,000,000. This tax is levied directly on individuals while servicemen on furlough or being transferred, are specifically exempt while traveling in coaches.

We have also provided that this tax should be paid with respect to official travel by employees of the Federal Government, out of funds specifically appropriated for such purpose. The bill authorizes such appropriations and further directs all disbursing officers of the Government to make quarterly reports to the Comptroller General setting forth the names of officials or employees traveling on official business, the date of each trip and destination points, and the total amount of expense allowance for each trip. These provisions also apply in the case of persons other than officials and employees traveling at the expense of the Federal Government. This information shall be furnished to the Congress in the annual report of the Comptroller General.

Your committee is convinced that there is a considerable amount of unnecessary travel by officials and employees of the Government. It is believed that by requiring this information to be furnished the Congress much of the present abuse and waste of the taxpayers' money will be eliminated, and those who must travel on essential business will be afforded a greater opportunity to secure suitable accommodations to do so.

TRANSPORTATION OF PROPERTY

The tax of 3 percent on the transportation of property imposed in the Revenue Act of 1942 has worked satisfactorily. The tax imposes only a slight burden on a particular article while returning a net revenue of $170,300,000. While it did not seem advisable to increase this tax the committee felt that it should be made applicable to fourth-class mail or parcel post. The proposal to extend this tax to parcel post will account for an increase in revenue of $4,500,000. This is necessary to restore the previous competitive situation.

GENERAL ADMISSIONS

An increase in the general admissions tax from 1 to 2 cents per 10 cents or fraction thereof of the price of the ticket, will raise additional

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revenue of $163,500,000. Most types of amusement are greatly profiting from the expanded national income. The 2-cent rate appeared to our committee to be desirable in order to secure additional revenue and which would create no great hardship. On leased boxes, and sales of tickets outside of the box office, the tax is raised from 11 to 20 percent of the charge.

CABARETS

Increasing the cabaret tax from 5 to 30 percent of the total bill would yield an increase of $91,300,000 in revenue. With the exception of a few roadhouses that have been hurt by the gasoline shortage, cabarets have been experiencing an unprecedented demand for their entertainment services. It is felt that this is more of a luxury than those services which are subject to the general admissions tax which is a minimum of 20 percent.

CLUB DUES AND INITIATION FEES

It is proposed to raise the tax on club dues and initiation fees so as to apply similar rates to the various services in the amusement and entertainment field. The rate of 20 percent in place of the present 11 percent will account for $5,100,000 additional revenue. It is not contemplated that this tax will affect the use of club facilities.

BOWLING ALLEYS, BILLIARD AND POOL TABLES

For bowling alleys, it is recommended that the present annual license tax of $10 per alley be converted into a tax of 20 percent of the charge. For pool and billiards, since records of charges are very inadequate in most establishments, it is recommended that the license tax be increased from $10 to $20 per table. These two changes will provide $27,000,000 in new revenue. These recreations are in a general way in competition with amusements subject to the admissions tax. For this reason, the bowling alley tax was shifted to a percentage basis comparable with the general admissions tax. This was not practical for pool and billiards.

POSTAGE RATES

Were it not for the great lack of sources to which the committee could turn for additional revenue, it would not recommend increases in postage rates, especially in view of the fact that the Committee on the Post Office and Post Roads expect at an early date to consider the desirability of making adjustments in postage rates. The committee thought that it was desirable to provide for this additional revenue at this time and adjust the rates later, especially since the Post Office Department continues to operate most of its services at a loss under present rates despite the heavy volume of wartime mailings. The Cost Ascertainment Report for 1942 of the Post Office Department shows that while first-class mail service was operated at a profit of $163,000,000 during the fiscal year 1942, all other classes of mail service operated, in the aggregate, at a loss of $172,000,000. A similar over-all situation has existed with respect to postal services for years.

The following table shows, for the postage rates dealt with in the committee bill, the rates under present law and the modifications adopted by the committee, together with the estimates of additional revenue.

TABLE 14.—*Comparison of postage rates under present law and under committee bill*

Article or service	Present base and rate	Proposed base and rate	Estimated additional revenue under proposed base and rate
			Millions of dollars
17. Postage:[1]			
First class	2 cents per ounce, local delivery.	3 cents per ounce	44.0
Air mail	6 cents per ounce	8 cents per ounce	11.0
Third class	1 and 1½ cents for each 2 ounces.	2 and 3 cents for each 2 ounces.	74.4
Money orders	6 to 22 cents per order, depending upon amount.	10 to 37 cents	25.0
Registered mail	15 cents to $1 per article	20 cents to $1.35 per article	4.2
Insured mail	5 to 35 cents per article	10 to 70 cents per article	6.2
C. O. D. mail	12 cents to $1.20 per article	24 cents to $2.40 per article	5.4
Total postage			166.8

[1] Estimates of additional revenue are for a full year of operation and are based upon the revenue figures cited in the Cost Ascertainment Report for 1942, released by the Post Office Department.

PARI-MUTUEL WAGERS

The introduction of a Federal tax on the total wagers at pari-mutuel racetracks at 5 percent would raise $27,500,000 in revenue. As a result of high wartime incomes betting at the large racetracks in the past year has been greater than ever before. This tax would be paid by those who can afford to bet.

TERMINATION OF CERTAIN GOVERNMENTAL EXCISE TAX EXEMPTIONS

In a letter to your committee, dated August 1, 1943, the President recommended that legislation be enacted which would terminate numerous excise tax exemptions conferred by existing law with respect to articles sold for the use of, and services rendered to, the Federal Government. In support of his recommendation, the President stated: "I propose this step for the purpose of saving the very considerable manpower utilized both inside and outside the Government for the administration of these exemptions, and for the further reason that the manpower and expenditure devoted to such administration results in no benefit to the Government. Stated otherwise, the termination of the exemption will not operate to the disadvantage of the Government inasmuch as the expenditure incurred by the Government in the payment of the taxes in question will be recovered in the collection of those taxes."

To give effect to the President's recommendation, therefore, the bill removes many excise-tax exemptions now existing with respect to articles sold, or services rendered, to the United States. In general, the taxes thus affected by the bill are the retailers' excise taxes, the manufacturers' excise taxes, and the taxes applicable to telegraph, telephone, radio, and cable facilities, and the transportation of persons and property. Except in the case of the manufacturers' excise taxes

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applicable to sales of pistols and revolvers, firearms, shells and cartridges, and radio receiving sets, phonographs, phonograph records, and musical instruments, the taxes will become applicable to articles sold, or services rendered, to the United States approximately 3 months after the date of enactment of the act. This period has been allowed to permit the various governmental agencies to make any necessary changes in their contracting practices and policies.

The application of the manufacturers' excise taxes on sales of pistols and revolvers, firearms, shells and cartridges, and radio receiving sets, phonographs, phonograph records, and musical instruments is postponed until approximately 6 months after the termination of hostilities in the present war. The difference in the treatment accorded the taxes on the sales of pistols and revolvers, firearms, shells and cartridges is justified by the fact that under present conditions nearly the entire output of these articles is now being sold to the War or Navy Department or other Federal governmental agencies directly concerned in the prosecution of the war and the administration of the exemption is not, accordingly, attended by the same difficulties that exist in the case of other taxes. The difference in the treatment accorded radio receiving sets, etc., proceeds from difficulties which would be involved in determining the taxability of certain radio equipment purchased by the armed forces. The section which imposes the tax on radio receiving sets also imposes taxes on phonographs, phonograph records, and musical instruments. Administrative convenience makes it advisable that the exemption with respect to all taxes imposed by the section be terminated at the same time.

(e) Miscellaneous Provisions

(1) TRUSTS FOR BENEFIT OF MINORS AND OTHERS LEGALLY DEPENDENT UPON GRANTOR

Your committee have given careful consideration to the decision of the Supreme Court in the case of R. Douglas Stuart (317 U. S. 154) which held that a father, who created an irrevocable trust containing a provision that the income thereof might, in the discretion of the trustees, be used for the support and maintenance or education of his minor children, was taxable on the trust income even though it was not actually used for such maintenance, education or support but was accumulated in the trust.

Prior to the decision of the Supreme Court in the *Stuart case*, the Bureau of Internal Revenue, The Tax Court of the United States and the lower courts had held that where the trust income or a portion thereof might, in the discretion of the trustees, have been used to support minor children of the grantor, only the amount of the trust income actually distributed for the support and maintenance of such beneficiaries was taxable to the grantor.

Your committee believes that the rule in effect prior to the *Stuart case* is a sound rule and has inserted a provision in the bill to restore the old rule. Under the bill, income of a trust is not taxable to the grantor merely because such income in the discretion of another person or the trustee may be applied or distributed for the support or maintenance of a beneficiary whom the grantor is legally obligated to support or maintain, except to the extent that such income is so applied

or distributed. The amendment is made retroactive to all taxable years where proper consents are filed so that all taxes which would have been payable if this amendment had been in effect, will be paid.

(2) BACK PAY OF INDIVIDUALS

The taxes on back pay received by an individual because of an alleged unfair labor practice under the National Labor Relations Act, or a violation of the Fair Labor Standards Act, or a retroactive wage increase approved by the National War Labor Board, are limited to such taxes as would be payable if the back pay were received in the years for which paid. This amendment is made effective with respect to taxable years beginning after December 31, 1940.

(3) PERCENTAGE DEPLETION

Percentage depletion is extended to flake graphite, vermiculite, potash, beryl, feldspar, mica, lepidolite, and spodumene, in addition to those minerals presently receiving it, and discovery depletion is consequently terminated with respect to these minerals. The extension to flake graphite applies to years beginning after December 31, 1942, but the extensions made by this bill and the Revenue Act of 1942 are limited to the duration of the war.

(4) STRATEGIC MINERALS

Fluorspar, flake graphite, and vermiculite are added to the list of strategic minerals exempt from the excess-profits tax.

(5) EXCESS-PROFITS TAX TREATMENT OF TIMBER, COAL, AND NATURAL GAS

The present excess-profits tax treatment given certain excess output and bonus income for mineral and timber property is extended to lessors of mineral property or a timber block, new coal and iron mines and timber blocks not in operation during the base period, and certain natural gas companies. The amendments with respect to lessors of property in operation during the base period and with respect to natural gas companies are made retroactive to years beginning after December 31, 1941.

(6) VALUATION OF CLOSELY HELD CORPORATIONS UNDER ESTATE TAX

An amendment to the estate tax provides that in certain instances the value of unlisted stock and securities shall be determined taking into consideration, in addition to all other factors, the value of stock or securities of comparable corporations which are listed on an exchange.

(7) GIFT TAX

A gift tax amendment provides that in certain instances the appointment of a new trustee, the vesting of discretion in a trustee or the exercise by a trustee of discretion shall not be a taxable gift.

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(8) COMMISSIONERS—TAX COURT OF UNITED STATES

Provision is made permitting The Tax Court of the United States to use commissioners in particular cases.

(9) CREDIT FOR STATE UNEMPLOYMENT TAXES

The present restriction limiting the credit against Federal unemployment tax for contributions made to a State unemployment fund to contributions made before June 30 next following the due date for the Federal tax return is lifted, and provisions are made with respect to the operation of this credit for the years from 1936 to 1942.

Your committee was not able to give full consideration to the problem of reserves for post-war conversion; that is, reserves to convert factories engaged in war production back to peacetime production and prevent unemployment. This matter will be given early consideration by your committee.

Renegotiation of War Contracts

(Sec. 701 of the bill)

GENERAL STATEMENT

The prevention of excessive profits out of war has long been a deep concern of the Congress. During the last World War, intensive studies were conducted and reports made thereon. In an address to the joint session of Congress, May 27, 1918, the President said, "The profiteering that cannot be got at by the restraints of conscience and love of country, can be got at by taxation." Following the war, a report was made by the Federal Trade Commission dated June 25, 1924, on wartime profits and costs in the steel industry, in which Chairman Huston Thompson stated:

> Capable management, or good fortune in investment and operation, were apparently the major factors in determining the rate of profit, and they, rather than mere size were the characteristic elements of business success.

A War Policies Commission was established by joint resolution of Congress, approved June 27, 1930, to report to the President methods of such prevention. Its purpose was stated as a plan to mobilize effectively the resources of the Nation for war which shall eliminate war profiteering, prevent wartime inflation, and equalize wartime burdens. The commission was composed of four Members of the House and four Members of the Senate, and the Secretaries of War, Navy, Agriculture, Commerce, Labor, and the Attorney General. Its report was submitted on December 4, 1931. It made definite recommendations of procedure for the control of profits in wartime. It recognized the part of industry in the prosecution of war.

Mr. Bernard Baruch, testifying before the Commission, quoted Field Marshal Von Hindenburg's statement as to the United States and its war industry in which he said, "Her brilliant, if pitiless, war industry had entered the services of patriotism and had not failed it." The control of war profits during the last World War was left mainly to taxation and price control.

In the years prior to the present World War, the provisions of the Vinson-Trammell Act, the result of searching studies by the Committee on Naval Affairs under the able direction of Chairman Vinson, sought to limit profit by certain limiting provisions as to contracts for naval vessels and aircraft. In 1940, on the recommendation of the departments, the provisions of these acts were suspended and there was enacted the excess profits tax on corporations seeking to control war profits.

An amendment limiting profits was proposed by Representative Case of South Dakota in connection with the sixth supplemental national defense appropriation bill. Subsequently, a proviso was adopted as section 403 of such appropriation act. This provision directed the Secretary of each department concerned (1) to insert in contracts for amounts in excess of $100,000 a provision for renegotiation of the contract price at a time when the profits could be determined with reasonable certainty, and (2) a provision for the retention or recovery of excessive profits by the Government.

In the Revenue Act of 1942 the Committee on Finance of the Senate reported and the Senate adopted amendments recommended by the departments concerned, which were limited to implementing the practices and procedures of such departments under section 403 as enacted. In the conference report on the revenue bill of 1942 the managers on the part of the House inserted the following statement:

> The committee of conference does not feel that the amendments which are made by the bill to the renegotiation law contain all the changes and improvements which it might be desirable to make. No attempt has been made to study and reexamine all the possible methods for dealing with excessive profits realized on war contracts. The bill merely attempts to remove some of the more pressing objections to the present law and to make the law administratively workable. It is anticipated that the Ways and Means Committee will study section 403 in connection with matters now pending before the committee with an eye to a more general revision than is contained in the 1942 revenue bill.

Your committee has devoted considerable study to the problem of renegotiation. A subcommittee of the Ways and Means Committee was appointed in July which conducted studies on the subject. Public hearings were held before the full committee which started on September 9 and lasted for a period of 12 days. These hearings were in addition to those conducted by the House Naval Affairs Committee which started on June 10, 1943, and covered a 14-day period. The subcommittee, as a result of its studies, made a report to the full committee on November 8, 1943.

After considering the excellent report of the subcommittee, the reports of the Naval Affairs Committee and the Truman committee, the suggestions of the departments and the testimony of the witnesses appearing at the public hearings of both our committee and the Naval Affairs Committee, your committee reached the following conclusions:

First, that the renegotiation law should be continued, with amendments, until after the termination of hostilities.

Second, that there is just ground for complaint about the existing renegotiation law and the manner of its administration, particularly as applied to the small contractor.

Third, that certain changes in the renegotiation law should be made to make it more workable and equitable in its application.

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It is believed that the changes recommended admittedly will materially improve the situation.

The following is a summary of the principal changes recommended by your committee:

PRINCIPAL CHANGES RECOMMENDED IN RENEGOTIATION LAW

1. In lieu of the existing provision, exempting contracts or subcontracts of $100,000 or less, it is provided that contracts or subcontracts shall be exempt from renegotiation for a particular year if the aggregate of the amounts received or accrued during the fiscal year does not exceed $500,000. This change is being made at the suggestion of the Departments.

2. The definition of subcontract has been rewritten to include only subcontracts for the article, work, services, building, structure, improvement or facility contracted for under the prime contract or for articles to be incorporated in the item contracted for under the prime contract.

3. Contracts or subcontracts for agricultural commodities, such as grains of all kinds, vegetables, cotton, tobacco, cattle, hogs, wool, eggs, milk and cream, including canned, bottled, or packed fruits or vegetables or their juices, are exempt from renegotiation.

4. The bill grants discretionary authority in the War Contracts Price Adjustment Board (a new Board hereafter discussed) to exempt from renegotiation standard commercial articles, if in its opinion normal competitive conditions exist affecting the sale of such articles.

5. The bill also exempts from renegotiation contracts or subcontracts with religious, charitable, or educational organizations if such organizations are exempt from income tax.

6. Your committee has set forth in the bill certain factors to be taken into consideration in determining excessive profits. These factors are as follows:

(*a*) Efficiency of contractor, with particular regard to attainment of quantity and quality production, reduction of costs, and economy in the use of raw materials, facilities, and manpower;

(*b*) Reasonableness of costs and profits, with particular regard to volume of production and normal pre-war earnings;

(*c*) Amount and source of public and private capital employed and net worth;

(*d*) Extent of risk assumed, including the risk incident to reasonable pricing policies;

(*e*) Nature and extent of contribution to the war effort, including inventive and developmental contribution and cooperation with the Government and other contractors in supplying technical assistance;

(*f*) Character of business, including complexity of manufacturing technique, character and extent of subcontracting, rate of turn-over;

(*g*) Such other factors the consideration of which the public interest and fair and equitable dealing may require.

Your committee believes that in computing excessive profits, consideration should be given to the financial problems in connection with reconversion in applying factor (*g*).

7. In computing profits, costs are determined in accordance with the method of cost accounting regularly employed by the contractor or subcontractor in keeping his books. All items of the character allowed as deductions and exclusions for income and excess profits tax purposes, including the currently deductible annual amortization allowance, are allowed as items of cost to the extent allocable to contracts with the departments and subcontracts.

8. State income taxes are allowed only with respect to income after eliminating excessive profits upon renegotiation, and then only to the extent allocable to the renegotiable business.

9. Credit is allowed against excessive profits for income and excess profits tax paid with respect to such profits.

10. The present system of future or forward repricing is continued under the bill. However, the bill gives the contractor or subcontractor the right to petition The Tax Court of the United States in case he is dissatisfied with the price as refixed by the Secretary.

11. A central board called the War Contracts Price Adjustment Board, is created to have charge of renegotiation. This Board is to consist of five members, selected from the departments. Though the Board may delegate its powers of renegotiation, every contractor or subcontractor is entitled, upon request, to have his case reviewed by the Board.

12. The contractor or subcontractor is required to file with the War Contracts Price Adjustment Board a statement of actual costs of production and such other financial statements as the Board may by regulations prescribe unless the aggregate of the amounts received in the fiscal year by the contractor or subcontractor does not exceed $500,000.

13. The War Contracts Price Adjustment Board is required to determine excessive profits with respect to the aggregate amounts received or accrued during the fiscal year by a contractor or subcontractor and not separately. However, at the request of the contractor or subcontractor, the Board may make such determination with respect to the amounts received under any one or more separate contracts.

14. If the War Contracts Price Adjustment Board finds that the amounts received under the contracts with the Department and the subcontracts may reflect excessive profits, the Board is required to give to the contractor or subcontractor reasonable notice of the time and place for a conference. This notice is required to be sent to the contractor by registered mail and constitutes the commencement of the renegotiation proceedings.

15. The War Contracts Price Adjustment Board is required to furnish, upon request of the contractor or subcontractor a statement of its determination, of the facts used as a basis therefor, and of the reasons for such determination.

16. The contractor or subcontractor is given the right to have his excessive profits determined by The Tax Court of the United States in a de novo proceeding, in case he is unable to reach an agreement with the War Contracts Price Adjustment Board.

17. If the contractor or subcontractor is aggrieved by a determination of the Secretary made prior to the enactment of this act with respect to a fiscal year ending before July 1, 1943, whether or not such determination is embodied in an agreement, he is also entitled to have a determination in a de novo proceeding before The Tax Court of the United States.

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18. Proceedings must be commenced by the Board within 1 year after the close of the fiscal year in which the excessive profits were received or accrued, or within 1 year after financial statements are filed by the contractor or subcontractor, whichever is the later; otherwise, liabilities for the excessive profits for such fiscal year will be discharged.

19. In order to expedite the disposition of the case, after a proceeding has been commenced, the bill provides that the liabilities for excessive profits with respect to which such proceeding was commenced, will be discharged if a determination by agreement or order is not made within 1 year following the commencement of the renegotiation proceedings. This limitation does not apply to a review by the Board of an order by the Secretary. The 1-year period of limitation may also be extended by agreement between the parties.

20. Your committee continued the provisions of existing law as to war contract brokers, who are subject to renegotiation if the aggregate of the amounts received by such broker for the fiscal year exceeds $25,000. This provision was further strengthened by disallowing as costs to the prime contractor any commission, percentage, brokerage, or contingent fee paid or payable to any person for, or in connection with, the soliciting or securing by such person of a contract with a department, unless such person is a bona fide established commercial or selling agency maintained by the contractor for the purpose of securing business.

21. The bill provides for closing agreements. Such agreements, according to their terms, in the absence of fraud or willful misrepresentation, cannot be reopened, so far as the determination of excessive profits is concerned.

22. The renegotiation provisions of the bill are terminated with respect to contracts or subcontracts made after the date proclaimed by the President as the termination of hostilities, or such earlier date as may be specified in a concurrent resolution of Congress.

23. The bill applies to fiscal years ending after June 30, 1943. Exceptions are made with respect to the exemption for agricultural commodities which is effective as of April 28, 1942, and the right to petition The Tax Court of the United States which applies to fiscal years ending before July 1, 1943, as well as fiscal years ending on or after that date.

24. All amounts of excessive profits, whether recovered by repayment, withholding, or credit, shall be covered into the Treasury as miscellaneous receipts.

25. The War Shipping Administration was not specifically named in the Renegotiation Act as originally adopted. However, the War Shipping Administration derives substantially all of its powers from the Maritime Commission, and has been one of the renegotiating agencies pursuant to Executive order. The amendments continue the War Shipping Administration as one of the renegotiating agencies, since under the amendments all of the renegotiating agencies (including the War Shipping Administration) are specifically named.

26. It is the opinion of your committee that under the existing renegotiation law, or such law as amended by this bill, there is no authority to renegotiate the profits accruing to a company by reason of the increment in value of its long inventories (i. e., inventories over and above its normal requirements to fulfill existing contracts).

DETAILED DISCUSSION OF THE TECHNICAL PROVISIONS OF THE BILL

TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES AND WITHHOLDING OF TAX AT SOURCE ON WAGES

PART I—INDIVIDUAL AND CORPORATION INCOME TAXES

SECTION 101. TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE

This section provides that except where otherwise expressly indicated the amendments made by title I shall be applicable only with respect to taxable years beginning after December 31, 1943.

SECTION 102. NORMAL TAX ON INDIVIDUALS

Section 11 of the Internal Revenue Code imposes upon individuals a normal tax of 6 percent of the net income in excess of the credits provided in section 25 of the code for interest on certain Government obligations, earned income, personal exemption, and dependents. Section 102 of the bill amends section 11 to increase the normal tax rate to 10 percent and to impose such tax upon the net income in excess of the credits provided in section 25 (a) for interest on certain Government obligations and the credit provided in section 25 (b) as amended by section 106 of the bill, relating to the personal exemption and credit for dependents. Section 11 is also amended by the addition of subsection (b) to impose a minimum tax of 3 percent of the net income in excess of the credits for interest on certain Government obligations and a personal exemption and credit for dependents provided in section 25 (c) of the code, as added by section 106 of the bill. The minimum tax imposed by the new subsection (b) of section 11 is effective in any case in which such tax is greater than the combined normal tax and surtax imposed by sections 11 (a) and 12. Under the amendments, the 10 percent normal tax and the 3 percent minimum tax will not be applicable to interest on Government obligations which under existing law is subject only to surtax. The minimum tax will take effect at varying levels of income depending upon the status of the individual, the number of dependents, and whether joint or separate returns are filed. A cross-reference to the alternative tax imposed by section 400 for individuals having gross income from certain sources of $3,000 or less, is redesignated subsection (c).

SECTION 103. SURTAX ON INDIVIDUALS

This section amends section 12 (b) of the code relating to the rates of surtax on individuals. Under the amendments the rates on surtax net income between $6,000 and $12,000 are slightly lowered and on

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all amounts of surtax net income over $38,000 the rates are slightly increased.

Section 104. Alternative Tax on Individuals With Gross Income From Certain Sources of $3,000 or Less

Subsection (a) of this section amends section 400 (supplement T) of the code to conform the table of taxes on specified amounts of gross income with the changes made in section 11 relating to the normal tax and section 25 relating to the credits against net income for normal tax purposes. Under the proposed amendment, the normal tax, the surtax, and the minimum tax are combined into one table which sets forth the specific amount of the tax at varying income levels depending upon the status of the individual as single, married, or head of a family, and the number of his dependents.

Subsection (b) of section 104 amends section 404 of the code, relating to taxpayers who are ineligible to determine their tax under supplement T, to deny to citizens of the United States entitled to the benefits of section 251 of the code the right to make a return under supplement T. Such citizens are subject to tax only on gross income from sources within the United States, and are not entitled to the same exemptions and credits allowed to citizens generally. Inasmuch as the tax imposed under section 400 takes into account the personal exemption, credits and deductions ordinarily allowable for income tax purposes, the use of supplement T by persons entitled to the benefits of section 251 would operate further to reduce the taxes paid by such individuals and confer additional benefits to which they would not otherwise be entitled.

Section 105. Repeal of Victory Tax

This section provides for the repeal of the Victory tax and contains several technical amendments necessitated by such repeal.

Subsection (a) repeals subchapter D of chapter 1, relating to the Victory tax on individuals. The repeal of part I of subchapter D is, by section 101 of the bill, made effective for taxable years beginning after December 31, 1943. By subsection (d) of this section the repeal of part II of subchapter D, relating to collection of tax at source on wages, is made effective only with respect to wages paid on or after January 1, 1944. Thus the provisions of part II of subchapter D continue in effect with respect to wages paid during 1943 for pay-roll periods beginning on or before June 30, 1943.

Subsection (b) of this section adds to the code a new section, designated as section 16, which is in substance similar to section 456 of the present law. Section 456 provides in effect that the Victory tax shall in no case cause the total tax under chapter I (excluding increases under section 6 of the Current Tax Payment Act of 1943 and computed without regard to credits against the tax) to exceed 90 percent of the net income of an individual. Subsection (a) repeals this section together with all the other sections contained in subchapter D of chapter I. In view of the fact that section 102 of the bill provides for the integration of the Victory tax with the normal tax, it was deemed advisable to retain the underlying principle set forth in section 456. Therefore, this new section provides that in case the tax

imposed by chapter I, computed without regard to the limitation provided in this section and without regard to the credits for foreign taxes provided in section 31, to the credits for taxes withheld at the source provided in section 32, and to the credits for taxes withheld on wages provided in section 35, exceeds 90 percent of the net income of an individual for any taxable year, the tax, before the allowance of such credits, shall be reduced by the amount of such excess. This limitation is applicable also to estates and trusts.

Subsection (c) of section 105 of the bill contains 13 technical amendments necessitated by the repeal of the Victory tax. These amendments eliminate references in other sections of the code to the provisions of the code relating to the Victory tax. In appropriate instances they replace the reference eliminated with a reference to the credit provided in section 35 of the code with respect to the tax withheld on wages under chapter 9. The sections of the code affected by these amendments are: 3, 34, 56 (f), 58 (a) (2) (B), 58 (b) (1) and (2), 103, 131 (a), 131 (i), 145 (c), 291 (b), 294 (a) (5), 322 (a) (2), and 322 (e).

Section 106. Personal Exemption and Credit for Dependents

This section amends several provisions of the code relating to the amount and computation of the personal exemption allowed in the case of individuals (including estates and trusts), and also provides for personal exemptions and credit for dependents for the purpose of the minimum tax provided under the amendment to section 11 made by section 102 of the bill.

Under existing law a single person or a married person not living with husband or wife is allowed a personal exemption of $500; and the head of a family or a married person living with husband or wife is allowed a personal exemption of $1,200. If married persons living together make separate returns the personal exemption of $1,200 may be taken by either husband or wife or divided between them in any proportion. In addition to the personal exemption, section 25 (b) (2) of the code provides a credit of $350 for each person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer if such dependent person is under 18 years of age or is incapable of self-support because mentally or physically defective. If the taxpayer's status with respect to personal exemption and credit for dependents changes during the taxable year, section 25 (b) (3) of the code provides that such exemption and credit shall be apportioned in accordance with the number of months before and after such change. Subsection (a) of section 106 amends section 25 (b) (1) of the code to provide for the purposes of the regular normal and surtax as distinguished from the minimum tax, personal exemptions as follows: (1) a single person (not the head of a family), $500; (2) the head of a family (not a married person living with husband or wife), $1,200; (3) a married person not living with husband or wife (not the head of a family), $500; (4) a married person living with husband or wife: if a joint return is filed or if one spouse has no gross income, $1,200; and if each has gross income and no joint return is filed, $500. The effect of the amendments, therefore, is to make no change from existing law with respect to the amount of the personal exemption in the case of a single person, a head of a family, or married persons

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filing a joint return. Where, however, married persons report their income on separate returns, the amendments eliminate the election existing under present law to divide the married persons' exemption between the spouses as they choose. Under the amendments each spouse is allowed only the amount of personal exemption to which a single person would be entitled. No change is made in the credit for dependents for the purpose of the normal tax under section 11 (a) and the surtax.

Section 106 (b) of the bill amends section 25 (b) of the code by striking out paragraph (3), providing for the apportionment of personal exemption and credit for dependents. In lieu thereof section 106 (c) adds new subsection (d) to section 25 to provide that for the purposes of the personal exemption and credit for dependents the status of the taxpayer shall be determined as of July 1 of the taxable year. If the taxable year does not include July 1, the status shall be determined as of the last day of such taxable year. If a change in the status of the taxpayer occurs on the date fixed as the status determination date for the taxable year, the taxpayer would be entitled to claim the status which is most advantageous for the purpose of the personal exemption. For instance, persons marrying on July 1 would be entitled to the exemption allowed married persons if such date is their status determination date. Moreover, if prior to marriage on such date one of such persons occupied the status of the head of a family he would be entitled to claim the exemption allowed the head of a family in his separate return for the taxable year. If, however, the spouses make a joint return under the provisions of section 51 (b), as amended by section 107 of the bill, they would be entitled to the exemption allowed married persons making a joint return. With respect to the credit for dependents if the age of the person for whom credit is claimed is a factor, it is contemplated that the allowance of the credit be determined by reference to the birthday of the dependent. Thus if the status determination date of the taxpayer is July 1 of the taxable year, the credit would be allowed for a child born upon such date. If, however, the eighteenth birthday of a dependent child occurs on July 1 of the taxable year, the credit for dependents in respect of such child is not allowed. Similar principles are applicable where the status determination date is the last day of the taxable year. The status determination date of July 1 conforms with the rule applied for the purposes of the alternative tax on the short form of return, and will eliminate the complexities and difficulties occasioned by the present provisions of the law requiring apportionment. In connection with the amendments made to section 25, fixing July 1 as the status determination date for the purposes of the personal exemption, consideration was given to the provisions of section 58 (a) of the code, and it is the opinion of your committee that no change is required in the rule provided by existing law. In computing the amount of the estimated tax, however, the taxpayer's personal exemption should be based upon his anticipated status as of July 1, or the last day of his taxable year if it does not include July 1.

Subsection (c) also adds to section 25 of the code a new subsection designated (e) to provide a credit in the form of a personal exemption and a credit for dependents for the purpose of the minimum tax under section 11 (b). The exemptions provided are as follows: (1) Single person (not the head of a family), $500; (2) head of a family (not a

married person living with husband or wife), $700; (3) married person not living with husband or wife (not the head of a family), $500; (4) married person living with husband or wife: if a joint return is filed or if one spouse has no gross income, $700; or if each has gross income and no joint return is filed, $500. A credit for each dependent is provided in the amount of $100, excluding in the case of the head of a family one dependent if the taxpayer is the head of a family only because of dependents for whom he is otherwise entitled to credit.

Subsection (d) of section 106 repeals section 47 (c) of the code, relating to reduction of personal exemption and credit for dependents in the case of a short taxable year. The effect of this amendment is to provide for an undiminished personal exemption and credit for dependents in the case of the return of a decedent for a short taxable year, such exemption and credit depending upon the status of the decedent as of July 1 of such taxable year or if his taxable year does not include July 1, his status as of the date of death. In addition, this amendment would allow the credits provided in section 163 (a) (1) in the case of an estate or trust to remain undiminished by reason of a short taxable year.

Subsection (e) of section 106 amends section 163 (a) (1) of the code to provide in the case of an estate the same personal exemption allowed to single persons under section 25 (b) (1) and (c) (1) as amended in this bill and to insure that in the case of a trust the credit of $100 provided in section 163 (a) (1) shall be in lieu of the personal exemptions provided under section 25 (b) (1) and (c) (1) of the code.

Subsection (f) of section 106 is a technical amendment to conform the provisions of section 214 relating to credits against net income in the case of nonresident alien individuals and section 251 (f), relating to credits against net income in the case of citizens of the United States receiving income from sources within the possessions of the United States, with the changes made in section 25 in the case of citizens.

Section 107. Returns of Income

Under existing law the requirement for filing returns in the case of individuals is based upon specified amounts of gross income equivalent to the personal exemption allowed the individual occupying the status indicated. Thus section 51 (a) of the code requires a return from an individual who is single or married and not living with husband or wife if his gross income is $500 or over and from a married individual living with husband or wife if his gross income is $1,200 or over, or if the aggregate gross income of husband and wife is $1,200 or over. For the purpose of the return requirement, the statute ignores the status of "head of a family." Section 455 of the code sets out additional return requirements for the Victory tax. This section is repealed by section 105 of the bill.

Section 107 amends section 51 (a) of the code to conform the return requirements with the new exemptions provided for the purposes of the minimum tax and to fix the date for the determination of status for the purposes of such section as of July 1 of the taxable year, or the last day of the taxable year, if the taxable year does not include July 1. Under the amendments a return is required of every individual having for the taxable year a gross income of $500 or more unless

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such individual (1) is married and living with husband or wife on the status determination date, (2) is permitted to make a joint return with his spouse under the provisions of section 51 (b), as amended by this section, and (3) the aggregate gross income of such husband and wife is less than $700.

Under the provisions of the present section 51 (b) of the code, a husband and wife living together on the last day of the taxable year may include their income in a single return made by them jointly and compute the tax on the aggregate income. In view of the proposed changes fixing the status determination date as of July 1 for the purposes of the personal exemption and the return requirements, section 51 (b) would authorize joint returns in the case of individuals married and living together on July 1 of the taxable year, or if the taxable year does not include July 1, on the last day of the taxable year. Under existing law, joint returns are not authorized if husband and wife have different taxable years or if they are not living together on the last day of the taxable year. Hence, if one spouse dies prior to the last day of the taxable year, the surviving spouse may not include the income of the deceased spouse in a joint return for such taxable year. It is not intended that the change in the status determination date should effect any change in the rules applicable to cases involving different taxable years whether or not occasioned by the death of a spouse prior to the last day of the taxable year. Accordingly, to remove any doubt as to the rule applicable in such cases, section 51 (b) is amended to provide that no joint return may be made if husband and wife have different taxable years. Since the return of a decedent who dies prior to the last day of the taxable year is a return for a short period and thus differs from the taxable year of the surviving spouse, the latter may not include the income of the deceased spouse in a joint return even though death occurred after July 1 of the taxable year.

Subsection (c) of section 107 of the bill amends section 142 of the code relating to the requirement of fiduciary returns. Paragraph (1) of subsection (c) amends section 142 (a), relating to the requirement of returns by fiduciaries acting on behalf of individuals, to require a return in the case of every individual having a gross income for the taxable year of $500 or more without regard to marital status.

Paragraph (2) of subsection (c) is a technical amendment redesignating paragraphs (3), (4), and (5) of section 142 (a) as paragraphs (2), (3), and (4).

Section 108. Repeal of Earned Income Credit

Subsection (a) of section 108 of the bill repeals several provisions of the code to eliminate the earned income credit. These are section 25 (a) (3) and (4), relating to earned income credit for normal tax purposes, section 185, relating to computation of earned income in the case of the members of a partnership, and section 47 (d), relating to computation of earned income in the case of a return for a period of less than twelve months. The elimination of the earned income credit is effective for taxable years beginning after December 31, 1943.

Subject to certain conditions set forth therein, section 116 (a) of existing law provides an exemption from tax for earned income derived from sources without the United States in the case of citizens of the

United States who are bona fide residents of a foreign country during the entire taxable year. Except as otherwise provided in section 116 (a), earned income is determined by reference to the definition of earned income contained in section 25 (a). As a consequence of the repeal of section 25 (a) (3) and (4), subsection (b) of section 108 of the bill amends section 116 (a) (1) and (2) of the code to eliminate the references to section 25 (a). The definition of earned income previously contained in section 25 (a) (4) is inserted as paragraph (3) of section 116 (a) with an amendment authorizing the Commissioner with the approval of the Secretary to prescribe by regulations appropriate rules for the determination of earned income in the case of a taxpayer engaged in a trade or business in which both personal services and capital are material income producing factors.

Section 109. Certain Fiscal Year Taxpayers

Section 108 of the code, as added by section 140 of the Revenue Act of 1942, contains special rules for the computation of the tax under sections 11, 12, 13, 14, and 15, of the code for a taxable year beginning in 1941 and ending after June 30, 1942. Such tax is the sum of the prorated portions of two tentative taxes. The first tentative tax is computed under the law applicable to a taxable year beginning in 1941 (without regard to sec. 108) and at the rates prescribed for such a taxable year. The second tentative tax is computed under the law applicable to a taxable year beginning in 1941, with certain modifications relating to certain deductions and credits in the case of corporations, but at the rates specified for a taxable year beginning in 1942. The second tentative tax is to be computed without regard to section 108 except as certain provisions of the code are made specifically applicable in such computation by such section.

Under the law applicable to taxable years beginning in 1941 (other than sec. 108) used in computing the first tentative tax of a corporation, the excess profits tax imposed by subchapter E of chapter 2 is a deduction in computing net income. Under the law applicable in computing the second tentative tax, the income subject to the excess profits tax is a credit in computing normal tax net income and surtax net income.

The computation of the excess profits tax, under subchapter E of chapter 2, of corporations whose taxable year began in 1941 and ended after June 30, 1942, is prescribed in a manner similar to the computation under section 108 of the code, by section 710 (a) (3) of the code, as added by section 203 of the Revenue Act of 1942. As in section 108, the sum of the prorated portions of two tentative taxes constitutes the tax.

It was intended that the tentative tax computations in the case of corporations, both under section 108 and section 710 (a) (3) be computed upon a parallel basis. Thus the excess profits tax to be deducted in computing net income for the purposes of the first tentative tax under section 108 (a) (1) (A) should be the first tentative excess profits tax computed under section 710 (a) (3) (A). The income subject to excess profits tax to be credited in computing normal tax net income and surtax net income for the purpose of the second tentative tax computed under section 108 (a) (1) (B) should be the income subject to excess profits tax computed for the purpose

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of the second tentative excess profits tax determined under section 710 (a) (3) (B).

Through a technical inadvertence, however, section 108 (a) (1) (A) did not exclude consideration of section 710 (a) (3) in the computation of the first tentative tax. It thus appeared that the excess profits tax to be deducted in computing normal tax net income for such computation might be the total excess profits tax computed under section 710 (a) (3) rather than the first tentative excess profits tax computed under section 710 (a) (3) (A). Moreover, in the computation of the second tentative tax under section 108 (a) (1) (B), reference to the increased excess profits tax rates and certain other technical changes in the base for computing the tax was inadvertently omitted.

The regulations promulgated by the Commissioner under section 108 give full force and effect to the method of computation intended under section 108 (a) (1) and section 710 (a) (3). Inasmuch as an amendment to section 108 to relate to taxable years beginning in 1943 and ending in 1944 was required in any event, your committee has made an exception to the decision to postpone to next year clarifying changes required as a result of the provisions added by the Revenue Act of 1942, and has therefore amended section 108 (a) (1) and section 710 (a) (3) retroactively so as to remove any technical ambiguity which might have inhered in such sections as added by the Revenue Act of 1942, to clarify their provisions, and to give express statutory approval to the regulations issued by the Commissioner.

Section 109 of the bill also adds a new subsection to section 108 of the code to provide for the computation of the tax imposed by sections 11, 12, 13, 14, and 15 in the case of taxable years beginning in 1943 and ending in 1944. It provides that in the case of a corporation or an individual the tax shall be in an amount equal to the sum of (a) that portion of the tentative tax (computed as if the law applicable to taxable years beginning on January 1, 1943, were applicable to such taxable year) which the number of days in such taxable year prior to January 1, 1944, bears to the total number of days in such taxable year plus (b) that portion of a tentative tax (computed as if the law applicable to taxable years beginning on January 1, 1944, were applicable to such taxable year) which the number of days in such taxable year after December 31, 1943, bears to the total number of days in such taxable year.

In section 109 of the bill, as in section 108 of the code, insurance companies subject to the provisions in Supplement G, investment companies subject to the provisions of Supplement Q, and Western Hemisphere trade corporations, as defined in section 109 of the code, are specifically exempted from section 108. In addition, this section does not apply to individuals who pay their taxes under Supplement T.

Section 110. Denial of Deduction for Federal Excise Taxes Not Deductible Under Section 23 (a)

This section amends section 23 (c) (1) of the code which allows a deduction in computing net income for taxes paid or accrued during the taxable year. A new subparagraph is added to section 23 (c) (1) disallowing a deduction under this paragraph of the code for Federal import duties and Federal excise and stamp taxes. It is stated, however, that subsection (c) of section 23 shall not prevent such duties and

taxes from being deducted under subsection (a) relating to deductions for trade or business expenses and, in the case of an individual, nontrade, or nonbusiness expenses paid or incurred for the production or collection of income or for the management, conservation, or maintenance of property held for the production of income. In limiting the allowance of deductions for these taxes to subsection 23 (a) the amendment makes no change in the law respecting the taxable year for which these taxes are deductible.

Section 111. Special Deductions for Blind

This section, which adds a new subsection 23 (y) to the code, provides that in the computation of net income a special deduction of $500 from gross income shall be allowed all blind individuals. For the purposes of this deduction, the term "blind individual" means an individual whose central visual acuity does not exceed 20/200 in the better eye with correcting lenses, or whose visual acuity is greater than 20/200 but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than 20°. This definition corresponds to that adopted by the Social Security Board for the purpose of carrying out title X of the Social Security Act, as amended, relating to grants to States for aid to the blind. A person who is blind at any time on the status determination date for the taxable year will be entitled to this deduction for such taxable year.

Section 112. Returns by Organizations Exempt From Taxation

This section of the bill amends section 54 by adding a new subsection (f), requiring organizations exempt from taxation under section 101 to file annual returns of their income, receipts, and disbursements, and to keep such records and report whatever other information may be required by the Commissioner, with the approval of the Secretary.

The amendment specifically exempts certain of such exempt organizations from the annual return requirement of the subsection. These include religious organizations which the Commissioner has specifically ruled are exempt from taxation under paragraph (6) of section 101 and organizations similarly ruled to be exempt under such paragraph which are operated, supervised, or controlled by or in connection with such religious organizations; educational institutions also exempted by ruling of the Commissioner under such paragraph, which maintain a regularly organized faculty, curriculum, and student body in attendance at the places where their educational activities are regularly carried on; charitable organizations, likewise ruled by the Commissioner to be exempt under paragraph (6), which are supported, wholly or partially, by Federal or State funds or which are supported primarily by contributions of the general public, as distinguished from a few contributors or donors or from related or associated persons. The insertion of this subsection, as well as the exclusion of these organizations from the operation of the subsection, so far as it relates to the filing of annual returns, does not impair the powers the Commissioner now exercises or otherwise has with respect to requiring such returns, by duly prescribed and approved regulations.

This new subsection is made applicable to all taxable years beginning after December 31, 1942.

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Section 113. Back Pay Attributable to Prior Years

As a result of an alleged unfair labor practice of his employer under the National Labor Relations Act, an alleged violation of section 6 or 7 of the Fair Labor Standards Act of 1938, or a retroactive wage increase provided for by the National War Labor Board, an individual taxpayer may receive during the taxable year back pay which is in part attributable to one or more prior years. In this event the back pay may be subject to a greater income tax than if it had been received in the years from which it arises. Section 113 of the bill adds a new section 110 to the code to limit the tax in this event. Under the new section, the tax on such back pay is limited to the aggregate of the taxes which would be attributable to that pay if the portions of the pay attributable to prior years were included in gross income for those years according to the amount arising from each such year for which payment is made. The Commissioner, with the approval of the Secretary of the Treasury, is to prescribe regulations for determining the portions of such pay which may be attributable to years prior to the taxable year. This new section is made applicable to all taxable years beginning after December 31, 1940.

Section 114. Percentage Depletion for Flake Graphite, Vermiculite, Potash, Beryl, Feldspar, Mica, Lepidolite, and Spodumene

Subsection (a) of this section amends the heading and the first sentence of section 114 (b) (4), relating to percentage depletion for coal, fluorspar, ball and sagger clay, rock asphalt, and metal mines, and sulphur, so as to include among the mines or deposits entitled to percentage depletion flake graphite, vermiculite, beryl, feldspar, mica, lepidolite, spodumene, and potash. In the case of flake graphite, vermiculite, beryl, feldspar, mica, lepidolite, and spodumene mines, the allowance for depletion shall be 15 percent, and in the case of potash mines or deposits, the allowance for depletion shall be 23 percent, of the gross income from the property during the taxable year, excluding from such gross income an amount equal to any rents or royalties paid or incurred by the taxpayer in respect of the property. This allowance is subject to the further limitations contained in the existing provisions of section 114 (b) (4).

Subsection (b) amends section 114 (b) (2) relating to discovery value of certain mines, so as to debar the use of the discovery value as the basis for depletion in the case of flake graphite, vermiculite, beryl, feldspar, mica, lepidolite, spodumene, and potash mines.

Subsection (c) provides that the amendments made by subsections (a) and (b), insofar as they apply to flake graphite mines, shall be applicable to taxable years beginning after December 31, 1942.

Subsection (d) provides that the amendments made by subsections (a) and (b) and the amendments made to section 114 of the code by section 145 of the Revenue Act of 1942, providing percentage depletion for fluorspar, ball and sagger clay, and rock asphalt, shall not be applicable to any taxable year beginning on or after the date of the termination of hostilities.

Section 115. Acquisitions To Avoid Income or Excess Profits Tax

This section adds a new section 129 to chapter I of the code providing that in the case of acquisitions on or after October 8, 1940, of an interest in or control of corporations or property which the Commissioner finds to be principally motivated by or availed of for the avoidance of income or excess profits tax by securing the benefit of a deduction, credit, or other allowance, then the tax benefits are to be disallowed or allowed only in part in a manner consistent with the prevention of tax avoidance. This section is designed to put an end promptly to any market for, or dealings in, interests in corporations or property which have as their objective the reduction through artifice of the income or excess profits tax liability.

The crux of the devices which have come to the attention of your committee has been some form of acquisition on or after the effective date of the Second Revenue Act of 1940, but the devices take many forms. Thus, the acquisition may be an acquisition of the shares of a corporation, or it may be an acquisition which follows by operation of law in the case of a corporation resulting from a statutory merger or consolidation. The person, or persons, making the acquisition likewise vary, as do the forms or methods of utilization under which tax avoidance is sought. Likewise, the tax benefits sought may be one or more of several deductions or credits, including the utilization of excess profits credits, carry-overs and carry-backs of losses or unused excess profits credits, and anticipated expense or other deductions. In the light of these considerations, the section has not confined itself to a description of any particular methods for carrying out such tax avoidance schemes but has included within its scope these devices in whatever form they may appear. For similar reasons, the scope of the terms used in the section is to be found in the objective of the section, namely, to prevent the tax liability from being reduced through the distortion or perversion effected through tax avoidance devices. The term "Federal income or excess profits tax" refers to any Federal tax imposed by Congress upon an income base. The term "deduction, credit or allowance" has reference to any provision which has the effect of diminishing the tax liability resulting from the gross amount of any item of income or the aggregate of the gross amounts of any or all items thereof.

Since the objective of the section is to prevent the distortion through tax avoidance of the deduction, credit, and allowance provisions, the section does not abrogate or delimit, but supplements and extends, the present provisions of the code, and the principles established by judicial decisions, having the effect of preventing the avoidance of taxes. (See I. R. C., secs. 45, 102, 112, 115, and 337; *Gregory* v. *Helvering*, 293 U. S. 465; *Griffiths* v. *Commissioner*, 308 U. S. 355; *Higgins* v. *Smith*, 308 U. S. 473; *U. S.* v. *Joliet & Chicago R. Co.*, 315 U. S. 44; *Moline Properties* v. *Commissioner*, 319 U. S. 436; *Interstate Transit Lines* v. *Commissioner*, 63 Sup. Ct. 1279; *J. D. & A. B. Spreckels Co.* v. *Commissioner*, 41 B. T. A. 370.)

Subsection (a) provides for the disallowance in its entirety of the tax benefit sought by the tax-avoidance device, but in order that the disallowance may be consistent with the purpose and appropriate scope of the section, subsection (b) authorizes the allowance of such

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part of the deduction, credit, or allowance as will not result in the avoidance of the taxes sought by the acquisition or its utilization. It also contains authority permitting the allocation or distribution of any deduction, credit, or allowance between or among the corporations or properties involved. Due to the complex and varied form in which transactions of this character may be cast, the apportionment problems involved will require the specialized knowledge and experience of the Commissioner and his staff. Accordingly, section 129 (b) grants the Commissioner broad authority (of the same kind as that now exercised by him under secs. 45 and 141) commensurate with the task of determining such proper allowance. Thus the consideration passing upon the acquisition or the income of the corporations or properties involved may, in appropriate cases, be an important factor in determining a proper credit, deduction, or allowance.

To prevent any implication that section 45 was or is intended in a narrower sense than the new section 129, the amendment made by subsection (b) of this section 115 conforms the phrase used in section 45 to that used in section 129 (sec. 115 (a) of the bill). It is believed that the amendment makes no change in existing law.

Subsection (c) of this section makes the provisions of this section applicable to taxable years beginning after December 31, 1939. Under the applicability clauses in chapter 2 (such as secs. 508, 603, 702, and 729), the provisions of the section become applicable to each of the taxes imposed under chapter 2, including, of course, the excess-profits tax.

Section 116. Trusts for Maintenance or Support of Certain Beneficiaries

Subsection (a) of this section adds a new subsection (c) to section 167 of the code, relating to trust income which is attributed to the grantor.

Under existing law the income of a trust which is created in order to maintain or support a beneficiary whom the grantor is legally obligated to maintain or support is taxable to the grantor (*Douglas* v. *Willcuts*, 296 U. S. 1 (1935)). In accordance with the settled principle of *Douglas* v. *Willcuts* it has been held that if income of a trust may, in the discretion of persons lacking a substantial adverse interest, be applied in discharge of the same obligation, the income is taxable to the grantor regardless of whether or not it is actually so applied (*Helvering* v. *Stuart*, 317 U. S. 154 (1942)). This decision has, in effect, overruled G. C. M. 18972, C. B. 1937–2, page 231, which for reasons of administrative convenience had adopted the rule that in cases of such discretionary trusts the income is taxable to the grantor only to the extent that it is actually applied in discharging his obligation of maintenance or support. In view of various administrative difficulties created by a strict application of the decision in *Helvering* v. *Stuart*, your committee has deemed it desirable to return to the rule approved in G. C. M. 18972 and has amended section 167 in order to accomplish this result.

New subsection (c) provides that income shall not be taxable to the grantor under section 167 (a) of the code or any other provision of chapter 1 thereof merely because such income, in the discretion of another person or the trustee, may be applied or distributed for the support or maintenance of a beneficiary, such as the wife or child of

the grantor, whom he is legally obligated to support, except to the extent that such income is actually so applied or distributed. It is further provided that in those cases where the amounts so applied or distributed are paid out of corpus or out of other than income, such amounts are to be considered paid out of income to the extent that they do not exceed the income of the trust for such taxable year which is not paid, credited, or distributed under section 162 of the code. Thus, if the trust provides for the annual payment of income to the grantor's adult son whom he is no longer legally obligated to support in an amount not exceeding $10,000, and the application of the remaining income or principal, in the trustee's discretion, to the support of the grantor's minor daughter, and if out of the entire income for the taxable year aggregating $12,000 the trustee pays $10,000 to the son, and applies the other $2,000 as well as principal in the sum of $1,000 to the support of the daughter, the grantor is taxable with respect to $2,000 of trust income. Subsection (c) is not applicable if discretion to apply or distribute the trust income for support, maintenance, or education rests solely in the grantor or in the grantor in conjunction with other persons unless the grantor has such discretion as trustee.

Subsection (c) does not affect the present scope of sections 22 (k) and 171 of the code. Nor does subsection (c) alter the principles governing the taxability of trust income to the grantor under some other provision of law. For example, trust income remains taxable to the grantor under section 22 (a) of the code if the terms of the trust, not excluding the discretionary power to apply trust income, and all the circumstances attendant on its creation and operation indicate that the grantor has retained a control of the trust so complete that he is still, in practical effect, the owner of its income. The grantor of a trust continues to be taxable under section 167 with respect to such income as may, in the discretion of persons lacking a substantial adverse interest, be applied in discharge of his obligations other than his obligation of support and maintenance falling within the amendments made by subsection (c). Thus if the grantor creates a trust the income of which may, in the discretion of a person lacking a substantial adverse interest, be applied in the payment of his debts, such income is taxable to the grantor regardless of whether it is actually so applied.

The Treasury Department has already provided in I. T. 3609 that the decision in the *Stuart case* will not be applied retroactively because of difficulties which would otherwise arise. While this action adequately provides for prior years, since any limitation of the amendments made by your committee to future years might cause some misunderstanding as to the tax liability for prior years, it has accordingly provided in subsection (b) of this section for the retroactive application of the amendments.

Subsection (b) (1) of this section provides that the amendments made by subsection (a) shall be applicable with respect to taxable years beginning after December 31, 1942, unless a taxable year of the trust beginning in 1942 ends within a taxable year of the grantor beginning in 1943, in which case (except as provided in subsection (b) (2)) the amendments shall not be applicable to such taxable year of the grantor. Thus, if the trust is on a fiscal year ending June 30, and the grantor is on a calendar year, the amendments will be effective with

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respect to the trust commencing with its fiscal year beginning July 1, 1943. Since the grantor's return for the calendar year 1943 includes the income of the trust's fiscal year beginning on July 1, 1942, and ending on June 30, 1943, the amendments will first be applicable, with respect to the grantor, to his calendar year 1944.

Paragraph (2) of subsection (b) provides that the amendments made by subsection (a) shall apply retroactively if there are filed with the Commissioner (in accordance with regulations prescribed by him with the approval of the Secretary) at such time and by such persons as may be prescribed under such regulations, signed consents that there shall be paid, at such time as the Commissioner may prescribe, all of the taxes under chapter I of the Internal Revenue Code or under the corresponding provisions of prior revenue laws which would have been paid for the taxable years concerned if such amendments had been a part of the revenue laws applicable to such taxable years. Paragraph (3) of subsection (b) provides that such subsection does not change any provision or rule of law limiting the allowance of refund or credit with respect to overpayments of the grantor. However, if consents are filed within the period in which claim for credit or refund may be filed by the grantor, the period within which such claim for credit or refund may be filed, or credit or refund allowed or made if no claim is filed, with respect to any overpayment by the grantor resulting from the consents shall include one year immediately after the date of the filing of the consents. It is further provided that with respect to any deficiency resulting from consents filed, the period of limitations for making assessment and the beginning of distraint or a proceeding in court for collection shall include one year immediately after the date such consents are filed, and such assessment and collection may be made notwithstanding any provision of the internal revenue laws or any rule of law which bars such adjustment (such as a prior judicial determination of the tax for the taxable period of the person signing the consent). No interest is to be allowed or paid on any refund or credit to the grantor, and no interest shall be assessed on any deficiency, resulting from the filing of the consents.

Section 117. Treaty Obligations

This section provides that no amendment made by title I of the bill shall apply in any case where its application would be contrary to any treaty obligations of the United States.

PART II—WITHHOLDING AT SOURCE ON WAGES

Section 150. Years to Which Applicable

This section provides that the amendments made by Part II of the bill shall be applicable with respect to wages paid on or after January 1, 1944, except that such amendments shall not apply to wages paid during the calendar year 1944 with respect to pay-roll periods beginning before January 1, 1944. Wages paid in 1944 with respect to pay-roll periods beginning before 1944 will be subject to the withholding provisions of the present law.

Section 151. Definitions

The exemptions allowed for the purposes of determining the amount of tax to be withheld at the source are based roughly on the amount of the personal exemption allowed for income tax purposes under section 25 of the code. Hence, the determination of the withholding exemption or the wage bracket table applicable in a specific case is dependent upon the status of the individual as single, married, etc., and in the case of married persons where both spouses are employed, the amount of the withholding exemption claimed by each spouse. The status of the individual for the purposes of withholding is determined upon the basis of the information set forth in the withholding exemption certificate required to be furnished to the employer by the employee. The definitions relating to status for purposes of withholding are contained in section 1621 of the code. Under existing law if husband and wife are both employed, each may claim one-half of the withholding exemption allowed a married person or they may agree to allow one spouse to claim all of the withholding exemption and the other spouse to claim none of the withholding exemption. The definitions relating to the status of married persons for purposes of withholding of tax at the source are contained in section 1621 (g), (h), and (i) of the code. These definitions recognize three classes of married persons: (1) Married person claiming all of personal exemption for withholding; (2) married person claiming half of personal exemption for withholding; and (3) married person claiming none of the personal exemption for withholding.

Under existing law the aggregate amount of the personal exemption allowed a married couple is the same whether joint or separate returns are filed, and a similar principle was applied for withholding tax purposes in the case of married persons where both spouses are employed. However, under the provisions of section 106 of the bill, married persons filing a joint return are allowed a personal exemption of $1,200, whereas married persons filing separate returns are allowed an aggregate maximum exemption of $1,000. In conformity with these changes in the personal exemption made by reason of the integration of the Victory tax and the imposition of a minimum tax, the withholding exemption schedules and the wage bracket tables have been revised. Under the revised schedules and tables if a husband and wife are both employed and both claim withholding exemption, the exemption of each is the same as the exemption allowed a single person, and hence the aggregate of the exemptions allowed does not equal the exemption allowed where one spouse claims the entire exemption for withholding tax purposes. Accordingly, subsections (g), (h), and (i) of section 1621, relating to the status of married persons for withholding exemption purposes, are amended by section 151 (a) of the bill to conform with these changes and to define, respectively, (1) married person claiming a personal exemption for withholding whose spouse claims none; (2) married person claiming a personal exemption for withholding whose spouse claims a personal exemption for withholding; and (3) married person claiming no personal exemption for withholding.

Section 151 (b) amends section 1621 (k) of the code, relating to the definition of the term "dependent" for the purposes of withholding

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under the provisions of section 1622. Under existing law, the withholding exemption schedule provides for the elimination of one dependent in the case of the head of a family. Likewise, the wage bracket tables applicable in the case of the head of a family having a specified number of dependents take into account all but one of such dependents. The rule thus provided represents an attempt to simplify for withholding tax purposes the rule set forth in section 25 (b) (2) (B) relative to the credit for dependents for income tax purposes. This latter rule denies the credit for one dependent in the case of the head of a family if the taxpayer occupies the status of head of a family solely by reason of dependents for whom the credit is claimed. It is the opinion of your committee that the rule applied for income tax purposes should likewise be followed for the purpose of computing the tax to be withheld under the provisions of section 1622. This is accomplished by amending the definition of dependent contained in section 1621 (k) to provide for the exclusion as a dependent in the case of the head of a family one who would be excluded under section 25 (b) (2) (B) for income tax purposes and by complementary changes in the withholding exemption schedules and the wage bracket tables applicable to the head of a family.

Section 152. Withholding of Tax at Source on Wages

Subsection (a) of section 152 contains technical amendments changing the reference in section 1622 (a) (1) from "family status withholding exemption" to "normal tax and surtax withholding exemption," and changing the reference in section 1622 (a) (2) from "Victory tax withholding exemption" to "minimum tax withholding exemption."

Section 152 (b) amends section 1622 (b) (1) (A) to change the reference to "normal tax and surtax withholding exemption" from "family status withholding exemption," and to provide a new schedule for such withholding exemption in order to conform with the changes resulting from the integration of the Victory tax and the consequent changes in exemptions for income-tax purposes.

Section 152 (c) amends section 1622 (b) (1) (B) to change the reference to minimum tax withholding exemption from Victory tax withholding exemption, and to provide a schedule for the minimum tax withholding exemption in lieu of the Victory tax withholding exemptions. The new schedule is based upon the personal exemptions and credit for dependents allowed for purposes of the minimum tax and unlike the Victory tax withholding exemptions is dependent upon the status of the individual involved.

Section 152 (d) amends section 1622 (c) of the code relating to wage bracket withholding to provide a new series of tables in lieu of those contained in existing law. The revised tables take into account the changes made in exemptions as the result of the integration of the Victory tax and the substitution of the minimum tax and also the changes made with respect to the credit for dependents in the case of the head of a family. The rules relating to the application of the tables to specific types of cases are the same as those under existing law.

Subsection (e) of section 152 amends section 1622 (h) of the code, relating to withholding exemption certificates, in order to conform that section with the changes made by section 106, relative to the status determination date for the purposes of the personal exemption provided in section 25 (b). Section 1622 (h) of existing law provides that a withholding exemption certificate furnished by reason of a change of status shall take effect not later than the first payment of wages made on or after the first status determination date occurring at least 30 days after the certificate is furnished. At the election of the employer, however, such certificate may be given effect with respect to any payment of wages made on or after the date the certificate is furnished. Status determination date is defined as January 1 or July 1 of the taxable year. In view of the elimination of the requirement for proration of the personal exemption in the case of a change of status during the taxable year, and the substitution therefor of a fixed date, July 1, to govern the allowance of the personal exemption, section 1622 (h) (1) is amended so as to permit an employer to give immediate effect only with respect to changes of status occurring on or before July 1. Where a withholding exemption certificate is furnished on account of a change of status occurring after July 1 such change shall not be given effect until the first payment of wages made on or after January 1 of the succeeding calendar year.

TITLE II—EXCESS PROFITS TAX

PART I—EXCESS PROFITS TAX AMENDMENTS

Section 201. Taxable Years to Which Amendments Applicable

This section provides that the excess profits tax amendments made by this title of the bill shall be applicable only with respect to taxable years beginning after December 31, 1943, except as otherwise expressly provided.

Section 202. Increase in Excess Profits Tax Rate

Subsection (a) of this section amends section 710 (a) (1) (A) of the code by increasing the 90 percent rate specified therein to 95 percent.

Subsection (b) amends section 26 (e) of the code, which provides for the credit for income subject to excess profits tax to be used in the computation of normal tax net income and corporation surtax net income, by providing that in the case of any corporation which computes its excess profits tax under section 721 (relating to abnormalities in income in the taxable period), section 726 (relating to corporations completing contracts under the Merchant Marine Act of 1936), section 731 (relating to corporations engaged in mining strategic minerals), or section 736 (b) (relating to corporations with income from long-term contracts), the credit for income subject to the excess profits tax shall be the amount of which tax imposed by subchapter E of chapter 2 is 95 percent, instead of 90 percent.

Section 203. Certain Fiscal Year Taxpayers

Section 710 (a) (3), as added by section 203 of the Revenue Act of 1942, contains special rules for the computation of the excess profits tax under subchapter E of chapter 2 in the case of taxable years beginning in 1941 and ending after June 30, 1942. This tax is the sum of

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the prorated portions of two tentative taxes. The first tentative tax is computed under the law applicable to the taxable year beginning in 1941 and at the rates (or in the amounts of tax) specified for such a taxable year but without regard to the provisions of section 710 (a) (3). The second tentative tax is computed under the law applicable to the taxable year beginning in 1941, but with certain modifications relating to certain deductions and credits in the base for computing the tax, and at the rates (or in the amounts of tax) specified for a taxable year beginning in 1942. The second tentative tax is to be computed without regard to the provisions of section 710 (a) (3), except insofar as certain provisions of the code are made applicable by such section.

In computing the second tentative excess profits tax under section 710 (a) (3) (B) the 80 percent limitation provided by section 710 (a) (1) (B) might be applicable. Under this limitation the excess profits tax cannot exceed an amount which when added to the tax imposed under chapter 1 equals 80 percent of the corporation surtax net income (computed without regard to the credit provided in section 26 (c) relating to income subject to excess profits tax imposed by subchapter E of chapter 2). If such limitation is applicable, it becomes necessary to ascertain the amount of the tax under chapter 1 for the taxable year. It was the intention that in computing the second tentative excess profits tax under section 710 (a) (3) (B) the amount of the tax under chapter 1 to be used in computing the 80 percent limitation should be the second tentative normal and surtax computed under subparagraph (B) of section 108 (a) (1). That section provides for a tax computation similar to that of section 710 (a) (3) in computing normal tax and surtax. However, because of a technical inadvertence, no specific provision was inserted in section 710 (a) (3) providing that the total tax computed under section 108 (a) (1) should be disregarded, and that only the second tentative tax computed under section 108 (a) (1) (B) should be used in the computation of the 80 percent limitation. Moreover, this technical omission might give rise to a circular computation in cases in which the 80 percent limitation is applicable since the first tentative normal and surtax to be used in computing the total normal tax and surtax under section 108 (a) (1) (A) is based upon the allowance of the excess profits tax as a deduction in computing net income, and since the portion of such excess profits tax under the 80 percent limitation could not be ascertained until the total normal tax and surtax had been first computed under 108 (a) (1) (A).

The regulations promulgated by the Commissioner under section 710 (a) (3) give expression to the computation intended to be prescribed by section 710 (a) (3) which would require a parallel computation of the first tentative excess profits tax under section 710 (a) (3) (A) and the first tentative normal tax and surtax under section 108 (a) (1) (A), and a parallel computation of the second tentative excess profits tax under section 710 (a) (3) (B) and the second tentative normal tax and surtax under section 108 (a) (1) (B). Inasmuch as an amendment to section 710 to relate to taxable years beginning in 1943 and ending in 1944 was required in any event, your committee has made an exception to the decision to postpone to next year clarifying changes required as a result of the provisions added by the Revenue Act of 1942, and has therefore amended section 710 (a) (3) and section 108 (a) (1), retroactively, so as to remove any technical ambiguity which might have inhered in such sections as added by the Revenue

Act of 1942, to clarify their provisions, and to give express statutory approval to the regulations issued by the Commissioner.

This section also adds a new paragraph (6) to section 710 (a) of the code to provide for the computation of the excess profits tax in the case of taxable years beginning in 1943 and ending in 1944. This computation is similar to that provided with respect to the computation of normal and surtax under section 108 (b), as amended by section 109 of this bill.

The new paragraph provides that in the case of a taxable year beginning in 1943 and ending in 1944, the excess profits tax imposed by subchapter E of chapter 2 shall be an amount equal to the sum of (a) that portion of a tentative tax (computed as if the law applicable to taxable years beginning on January 1, 1943, were applicable to such taxable year) which the number of days in such taxable year prior to January 1, 1944, bears to the total number of days in such taxable year, plus (b) that portion of a tentative tax (computed as if the law applicable to taxable years beginning on January 1, 1944, were applicable to such taxable year) which the number of days in such taxable year after December 31, 1943, bears to the total number of days in such taxable year.

Section 204. Increase in Specific Exemption

This section amends section 710 (b) (1) (relating to specific exemption), section 729 (b) (2) (relating to excess profits tax return requirement), and section 141 (c) (relating to the computation of tax in case consolidated returns are filed), to increase the specific exemption applicable in the computation of adjusted excess profits tax net income from $5,000 to $10,000.

Section 205. Reduction of Excess Profits Credit Based on Invested Capital in Certain Brackets

This section amends section 714 of the code, relating to the excess-profits credit based on invested capital by reducing by 1 percent the existing percentages of invested capital taken as the invested capital credit with respect to amounts of invested capital over $5,000,000. Under existing law the invested capital credit is computed as 8 percent of the first $5,000,000 of invested capital, 7 percent of the next $5,000,000, 6 percent of the next $190,000,000, and 5 percent of the balance over $200,000,000. This amendment provides for a credit determined as 8 percent of the first $5,000,000 of invested capital, 6 percent of the next $5,000,000, 5 percent of the next $190,000,000, and 4 percent of the balance over $200,000,000.

Section 206. Publicity of Relief Granted Under Section 722

This section adds a new subsection (g) to section 722 to provide for publicity of certain salient facts with respect to relief granted under section 722 of the code. The amendment provides that the Commissioner shall compile for each fiscal year a list, arranged alphabetically and according to internal revenue districts, of all cases in which relief has been allowed pursuant to section 722 during such year either by the Commissioner or The Tax Court of the United States. This compilation shall contain the name and address of each taxpayer to

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which relief has been allowed, the business in which the taxpayer is engaged, the amount of the excess profits credit of the taxpayer before such allowance, the increase in such excess profits credit claimed and the increase in such credit allowed, and the amount of the gross reduction in the excess profits tax and of the gross increase in the tax under chapter 1, which results from the operation of section 722. In the case of relief allowed by The Tax Court the Commissioner shall also set forth the data previously reported pursuant to this subsection with respect to relief previously allowed in such case by the Commissioner. This compilation shall be published in the Federal Register.

Section 207. Strategic Minerals

This section amends section 731 of the code relating to the exemption from excess profits tax of the portion of the adjusted excess profits net income attributable to the mining in the United States of certain strategic minerals so as to extend the benefits of such section to corporations mining fluorspar, flake graphite, and vermiculite.

Section 208. Nontaxable Income of Certain Industries With Depletable Resources

This section amends sections 711 (a) (1) (I), 711 (a) (2) (K), and various paragraphs of section 735 so as to exempt from excess profits tax a certain portion of the income of a lessor of mineral property or a timber block, of new coal and iron mines and timber blocks not in operation during the base period, and of certain natural gas companies.

Under existing law a lessor is not included within the definition of a producer of minerals or a producer of logs or lumber from a timber block which is entitled to exclude from its excess profits net income the amount of nontaxable income from exempt excess output. Sections 711 (a) (1) (I), 711 (a) (2) (K), and 735 (a) (1) are amended by this section to permit a lessor to exclude from excess profits net income nontaxable income from exempt excess output as defined in section 735 (b). The term "lessor" has been defined to mean a corporation which owns an economic interest in a mineral property or a timber block, and is paid in accordance with the number of mineral units or timber units recovered therefrom by the producer to which such property or block is leased by the lessor. Section 711 (a) (1) (I) and (a) (2) (K) are amended so as not to authorize a lessor to exclude from excess profits net income any amounts of royalties which could be claimed to represent a distribution by the lessee producer of nontaxable bonus income derived from bonus payments made by any agency of the United States Government pursuant to section 735 (c).

The present provisions of section 735 extend no relief to coal mining or iron mining properties or timber blocks which were not in operation during the base period. Subsection (c) of this section of the bill adds a new paragraph to section 735 (b) which provides that for any taxable year, the nontaxable income from exempt excess output of a coal mining or iron mining property or a timber block, which was not in operation during the base period, shall be an amount equal to one-sixth of the net income for such taxable year (computed with the allowance for depletion) from the coal mining or iron mining property or from the timber block, as the case may be.

Section 735 (a) (8) (relating to the definition of "timber block") has also been amended so as to strike out the prohibition that an operation unit acquired after December 31, 1941, would not be included in the composition of a timber block.

In addition, this section of the bill extends to natural gas companies relief similar to the relief granted under the present law with respect to coal mining and iron mining properties and timber blocks. However, in the case of natural gas companies, the nontaxable income from exempt excess output is to be computed with respect to net income derived from withdrawal, storage, and transportation by pipe line, of natural gas, but is not to include any income attributable to the distribution of such gas. It is understood that the transportation by pipe line of natural gas ends at the point where the distribution system begins, for example, the city gate in the case of natural gas brought to a city for local distribution. Transportation by pipe line does not include the process of distributing the gas to the ultimate consumer. The relief extended to a natural gas company is available only if the whole or any part of its natural gas property was in operation during the base period as defined in section 735.

Therefore section 711 (a) (1) (I) and (a) (2) (K) is amended to include natural gas companies within the scope of those corporations entitled to exclude nontaxable income from exempt excess output in the computation of excess profits net income. Section 735 (a) (1) is amended by including the term "natural gas company" which means a corporation engaged in the withdrawal, or transportation by pipe line, of natural gas. Section 735 (a) (2) and (3) (relating to the definition of "mineral unit" and "timber unit") are consolidated into section 735 (a) (2) and this section is expanded to include the term "natural gas unit" which means a unit of natural gas sold by a natural gas company. Section 735 (a) (4) (relating to the definition of "excess output") is renumbered section 735 (a) (3) and is amended to include "natural gas unit." Section 735 (a) (5) (relating to the definition of "normal output") is renumbered section 735 (a) (4) and is amended to include the determination of normal output in the case of a natural gas company. In such case the term "normal output" means the average annual natural gas units sold in taxable years beginning after December 31, 1935, and not beginning after December 31, 1939 (hereinafter called "base period"), of the person owning the natural gas property (whether or not the taxpayer). The remaining provisions of section 735 (a) (5) are amended to include, along with mineral units and timber units and mineral property and timber blocks, natural gas units and natural gas property.

A new paragraph (5) is added to section 735 (a) to define the term "natural gas property" which means the property of a natural gas company used for the withdrawal, storage, and transportation by pipe line, of natural gas, excluding any part of such property which is an emergency facility within the provisions of section 124.

Section 735 (a) (12) (relating to the definition of "unit net income") is amended to provide that in respect of a natural gas property, the term "unit net income" means the amount ascertained by dividing the net income, computed in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, from such property during the taxable year by the number of natural gas units sold in such year. It is contemplated that the Commissioner with the

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approval of the Secretary will issue under this section appropriate regulations providing rules for the allocation of items of income, costs, expenses, and other deductible amounts between the natural gas property and the other property (or activities) of the natural gas company, and for the elimination of any duplication of benefits which might result from the application of this section providing for nontaxable income and any other section providing for allowable deductions which are also attributable to the natural gas property or which would effect a reduction in the income from such property.

A new paragraph (5) has been added to section 735 (b) to provide for the computation of nontaxable income from exempt excess output in the case of natural gas property. It prescribes that in the case of a natural gas company, any part of the natural gas property of which was in operation during the base period, the nontaxable income from exempt excess output for any taxable year shall be an amount equal to the excess output for such year multiplied by one-half of the unit net income for such year.

The amendments contained in this section of the bill are made applicable only to taxable years beginning after December 31, 1943, except that the amendments, to the extent that they affect lessors of mineral properties which were in operation during the base period, lessors of timber blocks (as defined in sec. 735 (a) (8) prior to the amendment made thereto by this section of the bill) which were in operation during the base period, and natural gas companies, shall be applicable to taxable years beginning after December 31, 1941.

PART II—POST-WAR REFUND OF EXCESS PROFITS TAX

SECTION 250. POST-WAR REFUND OF EXCESS PROFITS TAX

This section amends sections 780 and 781 of the Internal Revenue Code, relating to post-war refunds of excess profits tax imposed by subchapter E of chapter 2 of the code.

Under existing law the Secretary of the Treasury is authorized and directed to establish a post-war credit, for each of certain specified taxable years, to the account of each taxpayer subject to the excess profits tax. In general, the post-war credit is equal to 10 percent of the excess profits tax imposed for the taxable year, but it is subject to limitations under which it may not exceed the amount by which the amount of the tax paid exceeds the amount of tax that would be payable if such tax were reduced by 10 percent. Bonds of the United States in the amount of the post-war credit are required to be issued in the name of the taxpayer generally within 3 months (with the exception of bonds for a taxable year beginning or ending in 1942) after the tax is paid in full. Since the post-war credit is tentatively determined on the basis of the excess profits tax shown on the return, provision is made for upward adjustments of the post-war credit and bonds in case of the payment of a deficiency in respect of the excess profits tax for a taxable year for which a post-war credit is provided, and for downward adjustments of the post-war credit and bonds in case a refund or credit is made of an overpayment of the excess profits tax for a taxable year for which a post-war credit is provided.

Subsection (a) of this section of the bill amends section 780 (c) of the code, relating to the terms and maturity of the bonds. The present

section 780 (c) provides, in part, that the bonds shall not be transferable by sale, exchange, assignment, pledge, hypothecation, or otherwise, on or before the date of cessation of hostilities in the present war. The effect of the amendment is to permit the transfer of the bonds, prior to the date of cessation of hostilities in the present war, to the successor of the taxpayer in such cases as the Secretary of the Treasury may by regulations authorize. Thus, the Secretary may authorize the transfer of the bonds to a successor of the taxpayer in connection with certain liquidations, dissolutions, or reorganizations, or in case of certain transfers by operation of law, where the transfer would appear not to violate the purpose of the general provision that the bonds are not to be transferable before the date of cessation of hostilities. The prohibition on the transferability of the post-war credit or bonds should not be permitted to prevent a corporate liquidation, dissolution, merger, consolidation, reorganization, or other similar change in corporate structure which is consummated in good faith and not for the purpose of realizing on the post-war credit or bonds so that the proceeds thereof may be used prior to the date of cessation of hostilities in the present war.

The present section 780 (d) of the code provides that the proceeds of the bonds upon redemption shall not be included in gross income. Subsection (b) of section 250 amends section 780 (d) so as to limit this exemption to the taxpayer.

Subsection (c) of this section adds subsections (f) and (g) to section 780 of the Internal Revenue Code. Subsection (f) provides that subject to, and to the extent provided in, regulations prescribed by the Secretary of the Treasury, a successor of the taxpayer shall succeed to all the rights and liabilities of the taxpayer under part III of subchapter E of chapter 2 of the code, comprising sections 780 to 783, inclusive. Among other things, this subsection authorizes regulations under which transfer of the post-war credit, as well as the bonds, will be permitted in proper cases. The rights of the Government can be safeguarded in those cases where transfers are permitted by imposing on the successor the liabilities of the taxpayer to the extent deemed necessary. Subsection (g) defines the term "successor" to mean such person or persons who succeed, either directly or through one or more other persons, to ownership of property of the taxpayer, as the Secretary of the Treasury may by regulations prescribe. The requirement of regulations prescribed by the Secretary will be satisfied by regulations prescribed by the Commissioner of Internal Revenue with the approval of the Secretary. Under subsection (f) in appropriate cases the tax exemption accorded the taxpayer under section 780 (d) may be extended by regulations to a successor of the taxpayer.

Subsection (d) of this section of the bill amends section 781 (b) of the Internal Revenue Code, relating to the effect on the post-war credit or bonds, of a refund or credit of an overpayment of the excess profits tax for a taxable year for which a post-war credit is provided. Under existing law the outstanding post-war credit in favor of the taxpayer is first reduced by the amount of the post-war credit attributable to the overpayment of the excess profits tax; and in case the outstanding post-war credit is less than the amount by which it is required to be reduced, or if there is no such credit existing in favor of the taxpayer, the excess of such amount over the amount of the outstanding

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post-war credit, if any, is carried forward as a charge against the taxpayer to be applied in reduction of a subsequent post-war credit; and if no such subsequent post-war credit is made in favor of the taxpayer, the taxpayer is required to pay the amount of such charge to the United States or the amount of the bonds previously issued to the taxpayer is reduced by the amount of such charge. The amendment provides that in case of an overpayment of the excess profits tax for any taxable year for which a post-war credit is provided, the outstanding post-war credit for such taxable year in favor of the taxpayer shall be reduced by an amount equal to the post-war credit attributable to such overpayment; and that if the outstanding post-war credit for such taxable year is less than the amount by which it is required to be reduced, or if there is no such post-war credit existing in favor of the taxpayer, the excess of such amount over the amount of such post-war credit, if any, shall constitute a charge against the taxpayer to be applied in reduction of the amount of the bonds previously issued to the taxpayer with respect to such taxable year; or, if such bonds are not made available for that purpose or the amount of such bonds so made available is less than the amount of such charge, such charge or the excess of such charge over the amount of such bonds so made available, as the case may be, shall be applied at the time of the credit or refund (or as of the time of the maturity of the bonds with respect to such taxable year, if that time is earlier) in reduction of the amount of the credit or refund of the overpayment of the excess profits tax. If such reduction in the amount of the credit or refund of the overpayment for a taxable year for which a post-war credit is provided is effected on or before the maturity date of the bonds for such year, the interest on the overpayment is to be computed on the amount of the overpayment before such amount is reduced by the charge attributable to such overpayment. For example, assuming that on December 15, 1943, the taxpayer overpays its excess profits tax for the calendar year 1942 by $100; the bonds for 1942 mature on December 31, 1947; the overpayment is refunded on December 15, 1944; at that time the taxpayer has no outstanding post-war credit for 1942; and no bonds are made available for adjustment; the amount of the refund is $96, computed as follows: overpayment of $100 plus interest thereon for one year at 6 percent, making a total of $106, minus $10, the charge attributable to the overpayment.

In case the reduction in the amount of the credit or refund of the overpayment for a taxable year for which a post-war credit is provided is made after the maturity date of the bonds for such year, such reduction will, for the purpose of computing the interest on the overpayment, be made as of the date of the maturity of the bonds. For example, assuming that on December 31, 1943, the taxpayer overpays its excess profits tax for the calendar year 1942 by $100; the bonds for 1942 mature on December 31, 1947; the overpayment is refunded on December 31, 1948; at that time the taxpayer has no outstanding post-war credit for 1942; and no bonds are made available for adjustment; the amount of the refund is $119.40, computed as follows: $24, being the interest on the overpayment of $100 at 6 percent from December 31, 1943, to December 31, 1947 (the maturity date of the bonds for the taxable year), and $5.40, being the interest on $90 (overpayment of $100 less charge of $10) at 6 percent from December 31, 1947, to the date of the refund, plus $90, being the amount of the overpayment of $100 less the charge of $10.

Subsection (e) amends section 781 (d) (which relates to limitation on the post-war credit of excess profits tax) first by changing the limitation on the amount of the post-war credit to give effect to the increase in excess profits tax rate from 90 to 95 percent, and, second, by adding additional rules for the computation of the limitations upon the post-war credit in the case of certain taxable years beginning in 1943 and ending in 1944, the excess profits tax for which will be computed under section 710 (a) (6), as added by section 203 of this bill.

In the case of taxable years beginning in 1943 and ending in 1944, the excess profits tax is the sum of the prorated portions of two tentative excess profits taxes computed under section 710 (a) (6). The amount of the post-war credit is the sum of the prorated portions of each of the credits which would be computed upon the basis of each of the tentative excess profits taxes provided by section 710 (a) (6) (A) and (B). Thus, in the case of a taxable year beginning in 1943 and ending in 1944, the post-war credit shall be not greater than the excess of the excess profits tax paid to the United States for such taxable year (and not credited or refunded under the internal revenue laws) over the amount which would be payable to the United States if (a) in the computation of the first tentative excess profits tax under section 710 (a) (6) (A), the excess profits tax rate were 81 percent, or if the 80 percent limitation of section 710 (a) (1) (B) is applicable, if the amount determined under section 710 (a) (1) (B) were reduced by 10 percent; and (b) in the computation of the second excess profits tax under section 710 (a) (6) (B) the excess profits tax rate were 85½ percent, or if the 80 percent limitation of section 710 (a) (1) (B) is applicable if the amount determined under section 710 (a) (1) (B) were reduced by 10 percent.

Subsection (f) provides that the amendments made by subsections (a), (b), (c), and (d) shall be effective as if made by section 250 of the Revenue Act of 1942 and that the amendment made by subsection (e) inserting a new paragraph (2) of section 781 (d) shall be applicable with respect to taxable years beginning in 1943 and ending in 1944.

TITLE III—EXCISE TAXES

Section 301. Effective Date of This Title

Section 301 fixes the effective date of title III, which relates to excise taxes. Since the excise taxes are paid monthly and covered by monthly returns, it is desirable that changes with respect thereto shall take effect on the first day of a selected month. It is also desirable that there shall be reasonable opportunity for preparation by taxpayers, as well as by the Bureau of Internal Revenue, for compliance with the new requirements. Accordingly section 301 provides that title III shall take effect on the first day of the first month which begins more than 10 days after the date of enactment of the act.

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SECTION 302. INCREASES IN RATES

Section 302 (a) amends chapter 9A of the code to increase the rates of various excise taxes, impose certain new excise taxes, and make various administrative provisions relative thereto. The several sections of chapter 9A, as thus amended, are as follows:

Section 1650 of the code, as amended, increases the rates of various existing excise taxes as follows:

Description of tax	Old rate	War tax rate	Increase
			Percent
Admissions	1 cent for each 10 cents or fraction thereof.	2 cents for each 10 cents or fraction thereof.	100
Permanent use or lease of boxes or seats	11 percent	20 percent	82
Sales of tickets outside box office	do	do	82
Cabarets, roof gardens, etc	5 percent	30 percent	500
Dues or membership fees	11 percent	20 percent	82
Initiation fees	do	do	82
Jewelry	10 percent	do	100
Furs	do	25 percent	150
Toilet preparations	do	do	150
Distilled spirits	$6 per gallon	$9 per gallon	50
Imported perfumes containing distilled spirits	do	do	50
Still wines:			
(1) Not over 14 percent of alcohol	10 cents per gallon	15 cents per gallon	50
(2) Over 14 percent and not over 21 percent of alcohol	40 cents per gallon	60 cents per gallon	50
(3) Over 21 percent and not over 24 percent of alcohol	$1 per gallon	$2 per gallon	100
Sparkling wines, liqueurs, and cordials:			
(1) Champagne or sparkling wine	10 cents per half-pint or fraction thereof.	15 cents per half-pint or fraction thereof.	50
(2) Artificially carbonated wine	5 cents per half-pint or fraction thereof.	10 cents per half-pint or fraction thereof.	100
(3) Liqueurs, cordials, etc	do	do	100
Fermented malt liquors	$7 per barrel	$8 per barrel	14
Billiard and pool tables	$10 per year per table.	$20 per year per table.	100
Electric light bulbs and tubes	5 percent	25 percent	400
Telephone, long-distance	20 percent	do	25
Telegraph, cable, or radio dispatches:			
(1) Domestic	15 percent	do	67
(2) International	10 percent	15 percent	50
Leased wires, etc	15 percent	20 percent	33
Wire and equipment service	5 percent	7 percent	40
Local telephone service	10 percent	15 percent	50
Transportation of persons	do	do	50
Seats, berths, etc	do	do	50

The increased rates, except as otherwise provided by section 302 (b) of the bill, are applicable with respect to the period beginning with the effective date of title III of the bill, as fixed by section 301, and continuing until the first day of the first month beginning 6 months or more after the date of termination of hostilities in the present war.

Section 1651, added to the code, imposes a tax on enumerated articles of the general class of travelers' luggage, purses, wallets, key cases, toilet cases, and other containers sold at retail. The rate of tax is 25 percent of the sale price. The present tax on luggage sold by the manufacturer, producer, or importer, imposed by section 3406 (a) (2) of the code is suspended by section 304 of the bill.

Section 1652, added to the code, imposes a tax equivalent to 20 percent of all amounts paid for the privilege of bowling at any bowling alley. Section 305 of the bill amends section 3268 of the code to make inapplicable to the period beginning July 1, 1944, and ending with the date on which the tax imposed under section 1652 terminates, the

tax of $10 per annum on the operation of each bowling alley imposed by section 3268.

Section 1653, added to the code, imposes a tax on the conducting of parimutuel or totalizator wagering on any racing or sporting event. The rate of tax is 5 percent of the gross amount wagered or received into the parimutuel or totalizator pool before deductions for State taxes, the percentage going to the operators, or any other deductions. The tax is to be paid by the person conducting or having control of the pool.

Section 1654, added to the code, relates to the taxability of installment payments made under leases, contracts of sale, conditional sales, etc., made prior to the effective date of the title. The effect of the section is to confer exemption from the retailers' excise tax, or from increases in rates of existing manufacturers' and retailers' excise taxes, imposed by the bill in those cases in which the taxes are within the scope of sections 2405 and 3441 (c) of the code, with respect to installment payments made on or after the effective date of the title under contracts made prior to such date. The section also contains an existing contracts provision applicable to the excise tax imposed by section 1651 (on luggage, etc., sold at retail) and the increased rates of excise taxes imposed by section 1650 on sales of various articles. The provision is in all respects comparable to that set forth in section 553 of the Revenue Act of 1941 (section 3453 of the code). Liability for the tax or the increased rate of tax is shifted from the vendor to the vendee in the case of sales made pursuant to contracts executed before the effective date of the title, but consummated after that date, where the contract does not provide for the addition by the vendor to the sales price of the new tax or increased rate of tax but does not, however, prohibit such addition.

Section 1655, added to the code, deals with the situation of an article classifiable under more than one section of the code taxing articles sold at retail, namely, sections 2400, 2401, and 2402 of chapter 19, relating respectively to jewelry, furs, and toilet preparations, and section 1651 of chapter 9A added by section 302 (a) of the bill, relating to luggage. Section 1655 provides that if in such a case the rates of tax differ, the highest shall prevail. This rule is applicable to fittings and accessories sold on or in connection with the sale of the principal article, even though physically separated from the principal article, and even though they otherwise would fall within another classification. For example, a fitted traveling case containing an article classifiable as jewelry under section 2400 would be taxable in its entirety at the 25-percent rate even though the article of jewelry would otherwise be taxable at a 20-percent rate. Thus, the principal taxable article and the fittings and accessories are always subject to the same rate of tax.

Section 1656, added to the code, provides that the taxes imposed by section 1651 (relating to luggage, etc.), section 1652 (relating to bowling), and section 1653 (relating to parimutuel wagering) shall not apply with respect to the period commencing on the first day of the first month beginning 6 months or more after the termination of hostilities in the present war.

Section 1657, added to the code, defines the term "date of the termination of hostilities in the present war," as used in sections 1650 and

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1656, added to the code, as meaning the date proclaimed by the President as the date of such termination, or the date specified in a concurrent resolution of the two Houses of Congress, as the date of such termination, whichever is the earlier.

Section 302 (b) of the bill makes exceptions from the general rule established by section 301 relative to the effective date of the new taxes and increases of taxes imposed by section 302 (a). The increase in the cabaret tax becomes applicable at 10:00 a. m., prevailing local time, on the first day of the first month which begins more than 10 days after the date of enactment of the act. The increase in the tax imposed by section 3268 of the code with respect to billiard and pool tables becomes applicable with the year beginning July 1, 1944. The increases in the taxes imposed by section 3465 (a) (1) with respect to telephone toll calls and telegraph, cable, or radio dispatches or messages are applicable to amounts paid for services rendered on or after the effective date of the title. The increases in the taxes imposed by section 3465 (a) (2) and (3) with respect to leased wires, wire equipment service, and local telephone service are applicable only to amounts paid pursuant to bills rendered on or after the effective date of the title for services for which no previous bill was rendered. Where bills rendered on or after the effective date of the title include charges for services previously rendered, the increased rates do not apply to such services as were rendered more than 2 months before the effective date of the title.

Section 303. Furs

This section amends section 2401 of the Internal Revenue Code to meet a practice which has become somewhat prevalent whereby a person desiring to have a taxable fur article made for his own use procures and provides the fur himself, and thus avoids the tax on the article made from the fur. To put a check on tax avoidance by such means, it is provided that where a person who is engaged in the business of dressing or dyeing fur skins, or manufacturing, selling, or repairing fur articles, produces a taxable fur article for the use of a customer from fur on the hide or pelt furnished, directly or indirectly, by the customer, the transaction shall be deemed to be a sale at retail and the person producing the article shall be deemed to be the person selling the article at retail for the purposes of the tax. The tax is, in this case, to be computed and paid by such person upon the fair retail market value, as determined by the Commissioner, of the finished article.

Section 304. Suspension of Manufacturers' Excise Tax on Luggage

This section amends section 3406 (a) (2) of the Internal Revenue Code, which imposes a tax on luggage sold by the manufacturer, producer, or importer, to suspend such tax during the period of application of the tax imposed by section 1651, added to the code by section 302 (a) of the bill, on luggage, etc., sold at retail.

Section 305. Suspension of Special Tax With Respect to Bowling Alleys

This section amends section 3268, which imposes a special tax with respect to the operation of bowling alleys, to suspend such tax during the period beginning July 1, 1944, and ending with the date on which is terminated the tax with respect to amounts paid for the privilege of bowling at any bowling alley imposed by section 1652, added to the code by section 302 (a) of the bill.

Section 306. Technical Amendment of Manufacturers' Excise Tax on Tires and Inner Tubes

This section amends section 3400 of the code which taxes tires and inner tubes made wholly or in part of rubber, to define "rubber" as including synthetic or substitute rubber. This is to insure that the tax shall be applicable to tires and tubes made entirely without natural rubber.

Section 307. Termination of Certain Governmental Excise Tax Exemptions

Section 307 removes many excise tax exemptions now existing with respect to articles sold or services rendered to the United States. In general, the taxes affected by the section are the retailers' excise taxes, the manufacturers' excise taxes, and the taxes applicable to telegraph, telephone, radio and cable facilities, and the transportation of persons and property. The result of the section will be that these taxes shall apply with respect to articles sold or services rendered to the United States. As explained below, certain of the taxes will become applicable to such articles and services in the near future, while the application of others is postponed until approximately 6 months after the termination of hostilities in the present war.

The present exemptions are continued, however, with respect to articles sold to the United States pursuant to contracts entered into prior to the dates on which sales of such articles to the United States become taxable. The section also provides that a credit or refund otherwise allowable under section 3443 (a) (1) (A) (i) of the Internal Revenue Code to a manufacturer, producer, or importer, with respect to an article resold by any person to the United States, shall continue to be allowable with respect to a sale made to the United States prior to the date on which sales of the article to the United States become taxable or pursuant to a contract entered into prior to such date.

The exemptions are terminated and the taxes will, accordingly, apply with respect to articles sold (except those sold under preexisting contracts as above noted) and services rendered to the United States as follows:

(a) In the case of the retailers' and manufacturers' excise taxes (except the manufacturers' excise taxes applicable to sales of pistols and revolvers, firearms, shells and cartridges, and radio receiving sets, phonographs, phonograph records, and musical instruments), to sales made on or after the first day of the

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first month which begins three months or more after the date of the enactment of the Act.

(*b*) In the case of the manufacturers' excise taxes applicable to sales of pistols and revolvers, firearms, shells and cartridges, radio receiving sets, phonographs, phonograph records, and musical instruments, to sales made on or after the first day of the first month which begins six months or more after the date of the termination of hostilities in the present war.

(*c*) In the case of the taxes applicable to telephone toll calls and telegraph, cable, or radio dispatches or messages, to calls, messages, and dispatches originating on or after the first day of the first month which begins three months or more after the date of the enactment of the Act.

(*d*) In the case of the taxes applicable to leased wires, wire and equipment service, and local telephone service, to amounts paid pursuant to bills rendered on or after the first day of the first month which begins three months or more after the date of enactment of the Act for service for which no previous bill was rendered.

(*e*) In the case of the taxes applicable to the transportation of persons and property, to amounts paid on or after the first day of the first month which begins three months or more after the date of enactment of the Act.

Section 308. Floor-Stocks Taxes

Section 308 amends sections 2800 and 3150 of the code and adds section 3194 to the code so as to impose equalizing floor-stocks taxes on tax-paid distilled spirits and tax-paid wines held for sale or for use in the manufacture of any article intended for sale on the date the increased rates become effective, and on all tax-paid fermented malt liquors held for sale on the date the increased rate becomes effective. Provisions similar to those contained in the Revenue Act of 1942 are made for the filing of floor-stocks tax returns and for the payment of the taxes.

Section 309. Draw-back of Internal Revenue Taxes on Distilled Spirits

Subsection (a) of Section 309 amends section 2887 of the code, which provides for the allowance of draw-back (refund) of taxes paid in respect of distilled spirits which are exported. The section provides at the present time that the rate of draw-back which is allowed shall equal the rate of tax paid, but contains a limitation that such draw-back shall not exceed the rate of $6 per proof gallon. This rate in the limitation has been raised from time to time as the rate on the distilled spirits has been increased so that if the taxpayer pays the higher rate of tax he may recover it. The limitation in figures representing a money value serves no good purpose, since the section already provides that only the rate paid may be allowed in draw-back. Therefore, the limitation has been stricken out.

Subsection (b) increases the rate of draw-back authorized by section 3250 (l) (5) of the code. This section of the code authorizes the allowance of draw-back of distilled spirits taxes, under certain circumstances, to persons who use fully tax-paid distilled spirits of domestic production in the manufacture of certain nonbeverage products which are sold or otherwise transferred for use for other than intoxicating beverage purposes. The rate of draw-back under existing law is $3.75. Subsection (b) raises this rate to $5 with respect to the period in which the war tax rates specified by section 1650 of the Internal Revenue Code are in effect. Under the subsection the draw-back will revert to the rate of $3.75 immediately upon the expiration of 6 full calendar months following the termination of hostilities in the present war.

Subsection (c) provides that the amount of tax per proof gallon paid on the distilled spirits covered by timely claims under section 3250 (l) (5) of the code shall govern the rate of draw-back; i. e., if the tax was properly paid at only the $6 rate the draw-back shall be at the $3.75 rate, and if the tax was properly paid at the $9 rate (basic tax of $9 or present tax of $6 plus floor stocks tax of $3) the draw-back shall be at the $5 rate.

Section 310. Exemption of Silver-Plated Flatware From Tax on Jewelry

Section 310 amends section 2400 of the code so as to exempt silver-plated flatware from the tax on jewelry.

TITLE IV—POSTAL RATES

Section 401. Effective Date

This section provides that the increased postal rates provided by title IV shall take effect on the thirtieth day after the date of the enactment of the act.

Section 402. First Class Mail

Section 402 increases the rate of postage on all mail matter of the first class mailed for local delivery or for delivery wholly within a county which is entirely within a corporate city and the population of which exceeds 1,000,000 (except postal cards and private mailing or post cards, and except other first class matter on which the rate of postage under existing law is 1 cent for each ounce or fraction thereof) by 1 cent for each ounce or fraction thereof.

This section also increases the rate of postage on air mail by 2 cents for each ounce or fraction thereof.

Section 403. Third Class Mail

Section 403 increases the rate of postage on all mail matter of the third class by an amount equal to the rate provided by existing law.

Section 404. Fourth Class Mail

This section increases the rate of postage on all mail matter of the fourth class by an amount equal to 3 percent of the rate provided by existing law, or by 1 cent, whichever is the greater. It is further provided that if the additional 3 percent amount results in a fractional part of a cent, such fractional part shall be disregarded unless it

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amounts to one-half cent or more, in which case it shall be increased to 1 cent.

Section 405. Money Orders

Section 405 increases the fees for domestic money orders by 66⅔ percent, computed in each case, if the amount of such increase is not a multiple of 1 cent, to the nearest multiple of 1 cent above such amount.

Section 406. Registered Mail

Section 406 increases the registry fees for registered mail by 33⅓ percent, computed in each case to the nearest multiple of 5 cents, and the additional fees for registered mail by 33⅓ percent, computed in each case, if the amount of such increase is not a multiple of 1 cent, to the multiple of 1 cent next above such amount.

Section 407. Insured Mail

Section 407 increases the fees for insurance on mail matter in each case by an amount equal to the fee provided by existing law.

Section 408. Receipts on Registered Mail and Insured Mail

Section 408 increases the fees for obtaining receipts for registered mail and insured mail in each case by 33⅓ percent, computed in each case, if the amount of such increase is not a multiple of 1 cent, to the multiple of 1 cent next above such amount.

Section 409. Collect-on-Delivery Service

Subsection (a) of section 409 increases the fees for collect-on-delivery service with respect to domestic third and fourth class mail in each case by an amount equal to the fee provided by existing law.

Subsection (b) increases the fee for services in effecting delivery of collect-on-delivery mail upon terms differing from those originally stipulated at the time of mailing by an amount equal to the fee provided by existing law.

Subsection (c) increases the demurrage charges on collect-on-delivery parcels in each case by an amount equal to the charge provided by existing law.

Section 410. Additional Fee for Delivery of Registered, Insured, and Collect-on-Delivery Mail to Addressee Only

Section 410 increases the additional fee for effecting the delivery of domestic registered, insured, and collect-on-delivery mail, the delivery of which is restricted to the addressee only, or to the addressee or order, by an amount equal to the fee provided by existing law.

Section 411. Termination of Increases

Subsection (a) of section 411 provides that the increases in the postal rates, fees, and charges made by the title shall cease to be in effect on and after the first day of the first month which begins at least 6 months after the termination of hostilities in the present war.

Subsection (b) defines the term "termination of hostilities in the present war" as used in subsection (a) of this section as meaning the date proclaimed by the President as the date of such termination, or the date specified in a concurrent resolution of the two Houses of Congress as the date of such termination, whichever is the earlier.

TITLE V—MISCELLANEOUS ESTATE TAX AND GIFT TAX AMENDMENTS, AND OTHER MISCELLANEOUS AMENDMENTS AND PROVISIONS

Section 501. Valuation of Unlisted Stock and Securities for Estate Tax Purposes

This section amends section 811 of the code by adding a new subsection (k), providing that in the case of stock and securities of a corporation the value of which by reason of their not being listed on an exchange and by reason of the absence of sales thereof cannot be determined with reference to bid and asked prices or with reference to sales prices, the value thereof shall be determined taking into consideration, in addition to all other factors, the value of stock or securities of comparable corporations which are listed on an exchange. The effect of this section is to clarify the consideration by the Commissioner, along with other evidentiary factors, of the value of listed stock or securities of comparable corporations. The Commissioner retains his present authority under the law to determine the weight to be accorded all pertinent factors depending on the facts of each case.

Section 502. Appointment of New Trustee of Certain Discretionary Trusts not Transfer Subject to Gift Tax

This section, which adds a new subsection (e) to section 1000 of the code, relates to any trust created prior to September 1, 1943, on which a gift tax was paid if created after the effective date of the gift tax, or if created prior to the effective date of the gift tax, would have been subject to a gift tax had such trust been created after the effective date of the gift tax, of which the grantor is not a named beneficiary and no part of the net income of which is, under section 166 of the code, includible in computing the net income of the grantor. The section provides that in the case of any such trust no gift tax shall be imposed by reason of (1) the appointment, prior to January 1, 1945, of one or more new, successor, or additional trustees, or (2) the vesting, prior to such date, in the trustee or trustees of discretion as to the selection of beneficiaries or the distribution of the corpus or income of the trust, or (3) the exercise by the trustee or trustees of any such discretion prior to such date.

Section 503. Use of Commissioners in Cases Before The Tax Court of the United States

This section amends section 1114 by adding a new subsection (b), to permit the appointment of commissioners in cases before The Tax Court of the United States. Such commissioners are to be attorneys from the legal staff of the court, designated to act in particular cases, by written order of the presiding judge. Commissioners so designated

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shall proceed under such rules and regulations as may be promulgated by the court. They shall be entitled to receive the same travel and subsistence allowance as may be received by commissioners of the Court of Claims.

SECTION 504. AUTHORIZATION OF APPROPRIATIONS TO PAY CERTAIN EXCISE TAXES WITH RESPECT TO WHICH GOVERNMENT EXEMPTION TERMINATED

This section of the bill authorizes the appropriation of sums necessary to pay those excise taxes with respect to which Government exemption has been terminated, and requires certain reports to be filed pertaining to one of such taxes.

Subsection (a) authorizes the appropriation of sums required to be paid by the United States, in each fiscal year, as taxes, under section 3465 (relating to telephone, telegraph, radio, and cable services, facilities, and equipment), section 3469 (relating to transportation of persons) and section 3475 (relating to transportation of property).

Subsection (b) specifically requires that sums paid with respect to the tax imposed by section 3469, for the transportation of persons, in seats or berths, be paid only out of the funds specifically appropriated for that purpose.

Under subsection (c) each disbursing officer of the United States is required to file quarterly reports with the Comptroller General of the United States setting forth each payment by him of the tax imposed by section 3469 during any period following the effective date of the section which is not covered by a previous such report. Such reports shall also set forth the name of each person with respect to whom such payments were made (exclusive of members of the armed forces traveling under orders from one post of duty to another), the dates of travel by such named persons, their destination points, the total transportation charges (exclusive of the tax) paid for such travel of each such person, and the total amounts of the subsistence payments for each such person in connection with such travel. The information contained in these reports is to be included in the annual report to Congress by the Comptroller General.

TITLE VI—FEDERAL UNEMPLOYMENT TAXES

SECTION 601. CREDITS AGAINST FEDERAL UNEMPLOYMENT TAXES

This section amends section 1601 of the code, relating to credits against the Federal unemployment tax for the calendar year 1939 and subsequent calendar years. The present section 1601 permits full credit against the Federal tax for contributions with respect to the taxable year paid into a State unemployment fund on or before the due date of the Federal return for such year. Credit is also permitted under existing law for contributions paid after the due date of the Federal return but on or before June 30 next following the due date, but this credit is not to exceed 90 percent of the amount which would have been allowable as credit on account of such contributions had they been paid on or before the due date of the Federal return. Under the present section 1601 no credit, except in special cases, is permitted

against the Federal tax for a taxable year for contributions paid after June 30 next following the due date of the Federal return for such year.

The amendment to section 1601 (a) (3), made by subsection (a) of this section, removes the time limitation for payment of State contributions but preserves the 90 percent limitation on the amount of the credit applicable under existing law to contributions paid to a State fund after the due date of the Federal return. However, the allowance of the refund or credit of the Federal tax, which has been collected but with respect to which credit is allowable under section 1601 of the code, is subject to the 4-year period of limitation prescribed by section 3313 of the code. The special rule under existing law applicable to those cases where the assets of the taxpayer are in the custody or control of a court at any time beginning with the due date of the Federal return and ending with the next following June 30, both dates inclusive, has been eliminated. With the removal of the time limitation for payment of State contributions, this special rule does not appear to be warranted except as to past taxable years.

Subsection (b) of section 601 repeals the present section 1601 (a) (5) of the code, relating to refunds of the Federal tax based on any credit allowable under section 1601 of the code. The provisions of the present section 1601 (a) (5) are incorporated in the new section 1601 (d).

Section 1601 (d) of the code, as added by subsection (c) of section 601, provides for refund or credit of the Federal tax which has been collected but with respect to which the credit allowable under section 1601 of the code has not been taken. The law (including statutes of limitations or other time limitations) applicable in the case of erroneous or illegal collection of the tax will apply to such refunds or credits. Thus, all claims for refund or credit of the Federal tax, based on any credit allowable under section 1601, must be filed within 4 years next after the payment of the tax. In addition, the amount of the refund or credit of the Federal tax (including penalty and interest, if any), based on any credit allowable under section 1601, will be limited to the portion of the tax, penalty, or interest paid during the 4 years immediately preceding the filing of the claim for refund or credit, or if no claim was filed, then during the 4 years immediately preceding the allowance of the refund or credit. No interest will be paid on any such refund or credit.

SECTION 602. CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES FOR YEARS 1936 TO 1942

This section liberalizes the conditions of allowance of credit against the Federal unemployment tax imposed by title IX of the Social Security Act for the calendar years 1936, 1937, and 1938. It also continues without curtailment, for purposes of credit against the tax imposed by the Federal Unemployment Tax Act for the calendar years 1939 to 1942, both inclusive, the special treatment accorded under existing law in those cases where the assets of the taxpayer were in the custody or control of a court during the specified periods.

Under subsection (a), paragraph (1), credit is allowable against the tax for 1936, 1937, or 1938, imposed by title IX of the Social Security Act, for contributions paid into a State unemployment fund at any time, subject in the case of a refund or credit of the tax to the 4-year

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period of limitation prescribed by section 3313 of the code. Section 1601 (a) (3), as amended by section 601 of the bill, contains comparable provisions with respect to the tax for the calendar year 1939 and subsequent calendar years. If the contributions are paid after December 6, 1940, the credit against the tax for 1936, 1937, or 1938 on account of such contributions is limited to 90 percent of the amount which would have been allowable if they had been paid before the due date of the Federal return. Paragraphs (2) and (3) of subsection (a) provide in special cases for the allowance of credit, which is not subject to the foregoing limitation. These paragraphs continue without curtailment the relief heretofore granted in these cases by section 902 (a) (2) and (3) of the Social Security Act Amendments of 1939, section 701 (a) (2) and (3) of the Second Revenue Act of 1940, and section 701 (a) (2) and (3) of the Revenue Act of 1941.

The existing law provides, with respect to the credit against the tax imposed by the Federal Unemployment Tax Act for the calendar year 1939 and subsequent calendar years, that in those cases where the assets of the taxpayer are in the custody or control of a court during the periods specified in the present section 1601 (a) (3) of the code and section 701 (b) (2) of the Revenue Act of 1941 the taxpayer may pay the contributions to the State at any time and obtain full credit against the tax for such years. The allowance of refund or credit of the tax in such cases is subject to the 4-year period of limitation prescribed by section 3313 of the code. Subsection (b) continues this special treatment without curtailment for the calendar years 1939 to 1942, both inclusive.

Subsection (c), paragraph (1), provides for refunds and credits, without interest, based on the credit allowable under subsections (a) and (b). The law (including statutes of limitations or other time limitations) applicable in the case of erroneous or illegal collection of the tax will apply to such refunds or credits.

Paragraph (2) of subsection (c) permits refunds and credits of the tax imposed by section 901 of the Social Security Act or section 1600 of the Federal Unemployment Tax Act, based on credit for contributions allowable under this section or section 1601 of the Federal Unemployment Tax Act, as amended, in those cases where by virtue of the disallowance of a claim for refund or credit prior to the date of the enactment of this act the allowance of such claim would otherwise be considered erroneous under section 3774 (b) or 3775 (b) of the code at the time such claim is allowed. No interest will be allowed or paid on the amount of any such credit or refund.

Paragraph (3) of subsection (c) permits refunds, credits, and abatements, without interest, based on the credit allowable under this section or section 1601 of the Federal Unemployment Tax Act, as amended, in those cases where an offer in compromise with respect to the tax (or penalty or interest in connection therewith) imposed by section 901 of the Social Security Act or section 1600 of the Federal Unemployment Tax Act has been accepted prior to the date of the enactment of this act. This provision permits the reopening of cases compromised prior to the above-mentioned date so as to allow refunds, credits, and abatements based on credit allowable under the new

law which was not allowable under the law in force when the compromise offer was accepted. The law (including statutes of limitations or other time limitations) applicable in the case of erroneous or illegal collection of the tax will apply to such refunds or credits. Under paragraph (3) the amount of the refund, credit, or abatement will be determined as though an offer in compromise had not been accepted, except that any amount paid by the taxpayer under the compromise agreement will be treated as a payment on account of the tax (including penalty and interest in connection therewith, if any).

Paragraph (4) of subsection (c) provides that on and after the date of the enactment of this act no refund, credit, or abatement shall be allowed which is based on any credit allowable under prior relief legislation, that is, section 701 of the Revenue Act of 1941. The relief granted under such legislation is continued without curtailment by this section and section 1601 of the code, as amended by section 601 of this bill.

DETAILED DISCUSSION OF THE TECHNICAL PROVISIONS OF RENEGOTIATION

A. War Contracts Price Adjustment Board

The bill establishes a War Contracts Price Adjustment Board, to be composed of five members, one of whom shall be the Chairman, who shall be elected by the other members.

Membership.—Its members are to be officials or employees of the departments concerned with the renegotiation, one to be appointed by the Secretary of War, one by the Secretary of the Navy, one by the Secretary of the Treasury, one jointly by the Chairman of the Maritime Commission and the Administrator of the War Shipping Administration, and one by the chairman of the board of directors of the Reconstruction Finance Corporation. It is to have an official seal which shall be judicially noticed.

Location.—The principal office is to be in Washington, and it may establish field offices for the purpose of carrying on its work with which contractors may deal without the necessity of coming to Washington. Subject to the civil-service laws and the Classification Act it may appoint necessary employees and fix their compensation; and with the consent of the heads of departments or agencies concerned with renegotiation, may utilize the services of officers or employees of the departments and make reimbursement for such services.

It is contemplated by the bill that this board will utilize the same machinery which is now being used for the purpose of renegotiation. In fact, representatives of the departments have indicated that this is their contemplated action. A central board was recently set up by the departments concerned but its principal purpose is restricted to effecting a more uniform policy in the determination of excessive profits.

Duties to renegotiate contracts.—It shall be the duty of the Board whenever in its opinion amounts received or accrued under war contracts or subcontracts may reflect excessive profits to initiate renegotiation by giving contractors or subcontractors reasonable notice by registered mail of a time and place for a conference. At the conference the Board is to endeavor to reach an agreement with the

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contractor with respect to the elimination of excessive profits which have been realized or are likely to be realized, and other matters having regard to the standards set up in the bill. If it is unable to reach such an agreement, the Board may determine by order (unilaterally) the amount. Upon entering into an agreement with the contractor, or the making of a unilateral determination, the Board shall notify the Secretary or head of the department concerned, and the head of the department is authorized and directed by the bill to eliminate the excessive profits so found, either by reductions in the amounts otherwise payable or revision of the terms of a contract; by withholding from amounts otherwise due; by directing the contractor to withhold from amounts due subcontractors; by recovery through repayment, credit, or suit; or by any combination of these methods which the head of the department deems desirable. As to these amounts the head of the department concerned may bring actions in the appropriate courts of the United States to recover the excessive profits determined if not withheld or eliminated by some other method. The surety on a contract or subcontract is not to be liable for repayment of any excessive profits. Contractors and subcontractors are indemnified by the Government against claims by any subcontractor as to amounts withheld.

The Board is to renegotiate with respect to the aggregate of the amount received or accrued under the contracts or subcontracts during the fiscal year of the contractor or subcontractor, and not with respect to amounts received or accrued under separate contracts or subcontracts with the departments, except that at the request of the contractor or subcontractor the Board may exercise its powers separately with respect to the amounts received or accrued under one or more separate contracts or subcontracts or with respect to classes of contracts or subcontracts prescribed by regulations by the Board.

Statement to be furnished contractor.—The bill provides that in making a determination with respect to excessive profits, whether the determination is bilateral or unilateral, the Board shall, if requested by the contractor or subcontractor, furnish a statement as to such determination, setting out the facts used as a basis for the determination, and the Board's reasons for its findings. However, the statement thus furnished is not to be allowed in evidence or considered by the tax courts of the United States (which another provision of the bill provides shall make a determination de novo under certain conditions).

B. Right of Determination by The Tax Court of the United States

Under existing law there is no right of appeal or review whereby the contractor may have the question of his excessive profits redetermined.

Your committee bill establishes this right both as to renegotiation adjustments already made, and renegotiation adjustment in contracts entered into after June 30, 1943, the effective date of renegotiation procedure under the newly established War Contracts Price Adjustment Board. The proceeding before The Tax Court shall be a proceeding de novo, and not a review of the Board's determination.

Any contractor or subcontractor who feels aggrieved by an order of the Board (a unilateral determination) determining an amount of

excessive profits received or accrued by the contractor or subcontractor, or by such an order of the Secretary in determining a fair price, within 90 days after the entry of such order or unilateral determination, may file a petition with The Tax Court of the United States for a redetermination of such profits. That court will have exclusive jurisdiction, by an order, to make a final determination as to whether excessive profits have been received or accrued, or whether a fair price has been determined, and The Tax Court's determination may not be reviewed or redetermined by any other court or agency. The court may determine an amount less than the amount determined by the Board or by the Secretary, as the case may be, or equal to or greater than the amount so determined.

The proceeding before The Tax Court shall not be treated as a proceeding to review the determination of the Board or Secretary, but shall be a proceeding de novo. Thus the court may adduce any evidence which it sees fit in making its determination. It is provided that the contractor or subcontractor, as the case may be, is to have the burden of going forward with the evidence, whether as to the existence of excessive profits or as to the amount thereof. The burden of the proof, however, may be upon the Government or the contractor or subcontractor according to the court's determination.

It is provided that the court shall have the same powers and duties, insofar as is applicable in respect to the contractor, the subcontractor, the Board, the Secretary, the attendance of witnesses, the production of papers, notice of hearings, hearings before divisions, review by The Tax Court of decisions of divisions, and reports of proceedings, and such other powers as the court has under the applicable sections of the Internal Revenue Code with respect to a proceeding to determine a deficiency in income tax.

The filing of a petition with the court does not operate to stay the execution of an order of the Board or Secretary with respect to excessive profits or fair price.

As to determinations by the Secretary made prior to the enactment of the Revenue Act of 1943, with respect to a fiscal year ending before July 1, 1943, as to excessive profits, whether or not the determination is embodied in an agreement, the contractor or subcontractor by filing a petition with The Tax Court, may obtain a redetermination with respect to the excessive profits or as to the determination of the Secretary made on or after the date of the enactment of the Revenue Act of 1943, with respect to a fiscal year ending before July 1, 1943.

If the determination of the Secretary is by an agreement with the contractor or subcontractor neither the agreement nor the amount of excessive profits agreed upon, may be taken into consideration by the court in its determination of the amount.

The Tax Court of the United States is peculiarly fitted to determine what is fair price and what is fair profit, having long been engaged in the determination of similar questions and being thoroughly equipped for this purpose.

Moreover a determination before The Tax Court will be of great convenience to contractors or subcontractors by reason of the fact that the Board sits through its divisions in various localities all over the United States. Thus it will not be necessary for an aggrieved contractor to come to Washington to obtain a determination by The Tax Court.

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I. Reduction of the Area of Renegotiation

The amendments proposed in your committee bill to the existing statute governing renegotiation of war contracts considerably reduce the area of renegotiability.

1. INCREASE OF THE SPECIFIC EXEMPTION TO $500,000

Of the amendments reducing the area of renegotiation, the one increasing the existing specific exemption of $100,000 to $500,000 is of major importance. If the aggregate of the amounts received or accrued in the fiscal year of the contractor or subcontractor and persons under their control does not exceed $500,000, such amounts are exempt from renegotiation.

The existing specific exemption of $25,000 relating to so-called war contract brokers remains unchanged in the bill.

2. DEFINITION OF SUBCONTRACT

The field of operation of the renegotiation statute is further reduced by the definition of "subcontract" in the bill. Under the bill, the term "subcontract" means any purchase order or agreement (other than a contract with a department) to make or furnish or perform any part of the work required for the making or furnishing of a contract item or a component article. A "contract item" is defined to mean any article, work, services, building, structure, improvement, or facility contracted for by a department and a "component article" is defined to mean any article which is to be incorporated in or as a part of a contract item. The term "article" is defined to mean any material, part, assembly, machinery, equipment, or other personal property.

For example, under the above definition, suppose the War Department contracts with X for 1,000 airplanes. X, finding he cannot produce 1,000 planes in the time required, subcontracts with Y to furnish 500 of the airplanes complete for delivery, which X delivers, as produced by Y, to the War Department. Y's subcontract is renegotiable as a contract item.

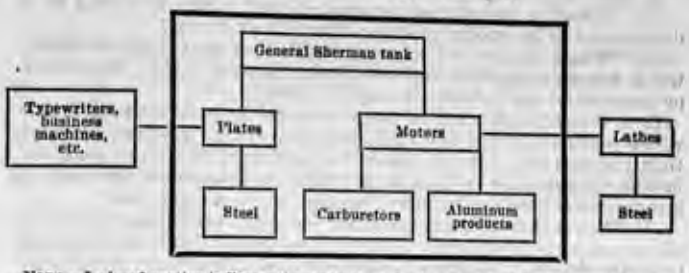
Under the new definition of subcontract, factory supplies such as tools or equipment, typewriters, business machines, etc., are exempt from renegotiation. The following example will illustrate the scope of the articles coming within the new definition of component article.

Assume that the War Department contracts with A for the purchase of a General Sherman tank. A contracts with B to furnish the plates and with C to furnish the motors. B contracts with D to furnish the steel and C contracts with E to furnish the carburetors for the motors. C also contracts with F for the aluminum products to be used in the construction of the motors.

Subcontracts for the purchase of all of these articles are subject to renegotiation because they are incorporated in or as a part of the contract item which is the General Sherman tank. If C, who has contracted to furnish the motors, contracts with G for lathes to be used in making parts of the motor, C's contract with G is not renegotiable, for the reason that it is not a contract for an article to be incorporated in or as a part of a contract item. For the same reason, if G contracts

with H for some steel for the lathes, G's contract with H is not renegotiable. Also, if B, who contracts to furnish steel plates to A, contracts with I for typewriters and business machines, that contract is not subject to renegotiation. In other words, only an end product or products which will enter into an end product will be subject to renegotiation.

The chart below will illustrate the above example:



NOTE.—Inclosed portion indicates the contracts and subcontracts subject to renegotiation; articles, etc., not inclosed, the subcontracts which are not subject to renegotiation.

3. SUBCONTRACTS UNDER EXEMPT PRIME CONTRACTS OR SUBCONTRACTS

Under existing law, considerable confusion results from the fact that a subcontract may be subject to renegotiation even though the prime contract or any intermediate subcontract may not be so subject. The bill exempts such subcontracts as are directly or indirectly under an exempt contract or subcontract.

4. CONTRACTS WITH ORGANIZATIONS EXEMPT FROM INCOME TAX

There are some instances of contracts or subcontracts with religious, charitable, educational, and other organizations of the type described in section 101 (6) of the Internal Revenue Code, which enumerates the organizations exempt from income tax under that section. The bill specifically exempts contracts and subcontracts with such organizations from the operation of the renegotiation provisions.

5. EXEMPTION OF AGRICULTURAL COMMODITIES

The existing law provides for no exemption from renegotiation of agricultural commodities as such. The bill expressly makes the amended provisions inapplicable to contracts or subcontracts for such commodities in their raw or natural state or (in the case of commodities not customarily sold or having an established market in their raw or natural state) in the first form or state beyond the raw or natural.

The definition of agricultural commodities in the bill is broad, including not only products of the cultivation of the soil but also saps and gums of trees; animals such as cattle, hogs, poultry and sheep; fish and marine life; and the products of live animals such as wool, eggs, milk, and cream.

Canned, bottled, or packed fresh fruits and vegetables (or their juices) which are customarily canned, bottled, or packed in the season of their harvest are also exempted.

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6. EXEMPTION OF STANDARD COMMERCIAL ARTICLES

The Board is authorized in its discretion to exempt any contract or subcontract for the making or furnishing of a standard commercial article if, in its opinion, normal competitive conditions affecting the sale of such article exist.

A "standard commercial article" is defined in the bill as an article—

(1) "Which is not specially made to specifications furnished by a department or by another contractor or subcontractor;"

(2) "Which is identical in every material respect with an article which was manufactured and sold, and in general civilian, industrial, or commercial use prior to January 1, 1940;"

(3) "Which is identical in every material respect with an article which is manufactured and sold, as a competitive product, by more than one manufacturer, or which is an article of the same kind and having the same use or uses as an article manufactured and sold, as a competitive product, by more than one manufacturer, and"

(4) "For which a maximum price has been established and is in effect under the Emergency Price Control Act of 1942, as amended, or under the act of October 2, 1942, entitled 'An act to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes,' or which is sold at a price not in excess of January 1, 1941, selling price."

An article made in whole or in part of substitute materials but otherwise identical in every material respect with the article with which it is compared under subparagraphs (2) and (3) is to be considered as identical in every material respect with such article with which it is so compared.

7. DISCRETIONARY EXEMPTION OF OTHER ARTICLES

Discretionary authority is also given the Board to exempt contracts or subcontracts for other than standard commercial articles if, in the opinion of the Board, competitive conditions affecting the making of such contract or subcontract are such as are likely to result in effective competition with respect to the contract or subcontract price.

8. SUBCONTRACTS WHERE PROFITS OTHERWISE RENEGOTIABLE CANNOT BE SEGREGATED

Discretionary authority is also given the Board to exempt any subcontract or group of subcontracts not otherwise exempt from renegotiation if, in its opinion, it is not administratively feasible to segregate the profits attributable thereto from profits attributable to nonrenegotiable business.

II. Determination of Excessive Profits

1. MANDATORY STATEMENTS OF COSTS

The bill requires every contractor and subcontractor holding contracts or subcontracts subject to the provisions of the statute to file with the Board, at such time or times and in such form and detail as the Board may by regulations prescribe, statements of actual costs of production and such other financial statements as it may by regulations prescribe. The willful failure or refusal to furnish such a statement or the filing of a false or fraudulent statement incurs liability to a fine of not more than $10,000 or imprisonment for not more than 2 years, or both.

2. PROFITS

War contract profits are defined by the bill to mean the excess of the amount received or accrued under such contracts over the costs paid or incurred with respect thereto. Costs that are unreasonable or not properly chargeable to the contract or subcontract, in the opinion of the Board or of The Tax Court of the United States, as the case may be, are disallowed. Subject to these qualifications, items of the character allowed as deductions or exclusions in computing net income for income tax purposes are, with the exception of taxes measured by income, allowable to the extent that they are allocable to such contracts or subcontracts.

All items of the character allowed as deductions and exclusions for income and excess profits taxes (including the current amortization deduction), to the extent allocable to such contracts and subcontracts allowed as items of cost. Federal taxes are not allowable as items of cost. After the excessive profits have been determined, however, credit is allowed for any income and excess profits taxes paid with respect thereto.

State income taxes likewise are disallowed as an item of cost but the bill provides for a proper adjustment, in determining the amount of excessive profits to be eliminated, for such taxes attributable to the nonexcessive portion of profits. For example, if the amount due on a contract is $1,000 and the cost, exclusive of State or Federal income tax, $800, the profit would be $200. Suppose it should be determined that of the $200 profit $100 was excessive, and $100 not excessive. In determining the amount of excessive profit to be eliminated it is provided that proper adjustment shall be made for the State income tax excluded as an item of cost which is attributable to the $100 not excessive. If in this case the State income tax on the $100 of fair profit is $10, then this $10 attributable to the $100 of fair profit would be credited against the $100 determined to be excessive profit reducing the amount to be eliminated to $90.

Any commission, percentage, brokerage, or contingent fee paid or payable to any person for or in connection with the soliciting or securing by any such person of a contract, with a department, unless such person is a bona fide established commercial or selling agency maintained by the contractor for the purpose of securing business is expressly disallowed as cost on any contract with a department.

3. COSTS ALLOWED TO CERTAIN PROCESSORS

To insure the equitable treatment of contractors or subcontractors producing minerals, oil or gas, or timber, and who process, refine, or treat such products to or beyond the first form or state suitable for

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industrial use, or who produce agricultural products and process, refine, or treat them to or beyond the first form or state in which they are customarily sold or in which they have an established market, the Board is required to prescribe such regulations as may be necessary to give the contractor or subcontractor a cost allowance substantially equivalent to the amount which would have been realized by him if he had sold such products in their first form or state.

4. AGGREGATION OF CONTRACTS

The bill provides for the aggregation of all renegotiable amounts received or accrued by a contractor or subcontractor under contracts or subcontracts during his fiscal year for the purpose of determining whether they may reflect excessive profits. Upon the request of the contractor or subcontractor, however, the Board may determine such excessive profits with respect to each contract or subcontract, separately, or by groups.

5. STANDARDS

The definition of excessive profits contained in the bill sets forth certain factors to be taken into consideration in the determination of excessive profits. The standards prescribed are: Efficiency, with particular regard to quantity and quality of production, reduction of costs, and economy in the use of raw materials, facilities, and manpower; reasonableness of costs and profits, with particular regard to volume of production and normal pre-war earnings; amount and source of public and private capital employed and net worth; risk assumed, including the risk incident to reasonable pricing policies; contribution to the war effort, including inventive and developmental contribution and cooperation in supplying technical assistance to the Government and to other contractors; character of business, including complexity of manufacturing technique, character and extent of subcontracting, and rate of turn-over; and such other factors the consideration of which the public interest and fair and equitable dealing may require.

6. APPLICATION OF THE SECOND WAR POWERS ACT, 1943

The Board is granted by the bill, for the purposes of renegotiation, the same powers with respect to any contractor or subcontractor that any agency designated by the President to exercise the powers conferred by title XIII of the Second War Powers Act, 1942, has with respect to any contractor to whom that title is applicable. The title cited confers upon the Chairman of the War Production Board, or any governmental agency or officer designated by the President, powers to inspect the plant and audit the books of any contractor with whom a defense contract has been placed at any time after the declaration of emergency on September 8, 1939, and before the termination of the present war. A defense contract is there defined to mean any contract, subcontract, or order placed in furtherance of the defense or war effort.

III. Renegotiation Procedure

1. RENEGOTIATION AND REPRICING DEFINED

"Renegotiate" and "renegotiation."—These terms are given new definition in the bill and mean the determination by agreement or order of the amount of profits considered to be excessive. In other words, the terms indicate (as is set forth in detail in later sections of the bill) that a determination may be by way of a bilateral agreement between the Government and the contractor or, in case such an agreement cannot be reached, a unilateral determination of the amount of excessive profits may be made by order.

"Reprice" and "repricing."—These terms are newly defined in the bill. They include determination by agreement or order of a fair price for performance under a contract or subcontract.

2. NOTICE OF CONFERENCE

The renegotiation proceeding begins with a notice of conference given the contractor or subcontractor by the Board. Such a notice is to be given whenever, in the opinion of the Board, amounts received or accrued under contracts or subcontracts may reflect excessive profits. The mailing of the notice by registered mail constitutes the commencement of the renegotiation proceeding.

3. AGREEMENT OR ORDER OF THE BOARD

The conference between the contractor or subcontractor and the Board is for the purpose of arriving at a final or other agreement between them with respect to the amount, if any, of excessive profits. In the event an agreement is not arrived at, the Board is authorized to determine the amount of the excess-profits taxes, if any, by order. If the determination is by order, the Board must forthwith give notice thereof by registered mail to the contractor or subcontractor.

Agreements of the Board with a contractor or subcontractor may cover such past and future periods, may apply to such contract or contracts, and may contain such terms and conditions as the Board deems advisable. Any such agreement is conclusive according to its terms and in the absence of fraud or malfeasance or a willful misrepresentation of a material fact shall not be reopened or modified by the Government or be modified or set aside in any suit, action, or proceeding.

4. STATEMENT OF THE DETERMINATION

Upon a determination of the Board, either by agreement or order, of the amount of excessive profits, the Board is required, at the request of the contractor or subcontractor, as the case may be, to prepare and furnish a statement of the determination, of the facts used as a basis therefor, and of the reasons underlying it.

5. ELIMINATION OF EXCESSIVE PROFITS

The next step in the renegotiation proceeding is the authorization and direction by the Board to the Secretary to eliminate the excessive profits by reducing the amounts otherwise payable to the contractor,

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by withholding amounts otherwise due the contractor, by directing a contractor to withhold from a subcontractor amounts otherwise due him, by recovery from the contractor or subcontractor through repayment, credit, or suit, or by any combination of these methods thought desirable.

In the event the determination is made by the Tax Court, the same method is followed by the Secretary in eliminating the excessive profits determined.

6. CURRENT PRICING

Whenever the price under any contract or subcontract exceeds a fair price, in the opinion of the Secretary of the contracting department interested, the Secretary may require negotiation to fix a fair price. If no agreement is reached, the Secretary may by order fix the price which he determines to be fair for performance under the contract or subcontract after the date of the order. The agreement or order may prescribe the period during which the price fixed thereby shall be effective and may contain such other terms and conditions as the Secretary deems appropriate.

In determining the fair price, the Secretary is required to take into consideration the same factors as are required to be considered in determining excessive profits and the determination may be effectuated by withholding by or for the account of the United States from amounts otherwise payable to the contractor or subcontractor.

This pricing authority may be exercised with respect to contracts and subcontracts separately or as a group.

7. REVIEW BY THE BOARD

Any contractor aggrieved by the decision of a division of the Board or of any officer or agency to whom it has delegated its powers, functions, or duties, is entitled to a review thereof by the Board upon request therefor made within a period to be specified by regulation of the Board. The Board is empowered to delegate any of its powers, functions, or duties to the Secretary of a department, who in turn may delegate to such officers or agencies of the United States as he may designate; successive redelegations of such powers, functions, and duties are also authorized. The Board may also, on its own motion, review a decision of any division, officer, or agency to whom delegation has been made.

IV. Redetermination by the Tax Court

1. DETERMINATIONS OF THE BOARD OR OF A SECRETARY WITH RESPECT TO FISCAL YEARS ENDING AFTER JUNE 30, 1943

Any contractor or subcontractor aggrieved by an order of the Board determining the amount of his excessive profits or by an order of the Secretary determining a fair price with respect to a fiscal year ending after June 30, 1943, is permitted by the bill to file a petition for a redetermination with The Tax Court of the United States within 90 days after the entry of the order. The court is given exclusive jurisdiction to determine the amount of the excessive profits or the

fair price, as the case may be, and its determination is not to be subject to review or redetermination by any court or agency.

The court may determine an amount of excessive profits less than, equal to, or greater than the amount determined by the Board, and the same latitude is given the court with respect to its determination of fair price.

The bill expressly provides that the proceeding before the court shall not be treated as a proceeding to review the determination of the Board or the Secretary but as a proceeding de novo. The powers and duties of the court are, in general, the same as those possessed by it in the case of a proceeding to redetermine a tax deficiency.

The filing of a petition with the court does not operate to stay the execution of an order of the Board determining the amount of excessive profits or an order of a Secretary fixing a fair price.

2. DETERMINATIONS OF A SECRETARY PRIOR TO ENACTMENT OF THE BILL AND WITH RESPECT TO FISCAL YEARS ENDING BEFORE JULY 1, 1943

Any contractor or subcontractor aggrieved by a determination of a Secretary made prior to the date of the enactment of the bill with respect to any fiscal year ending before July 1, 1943, as to the existence of excessive profits, whether or not the determination has been agreed to by him, may, within 90 days after the enactment of the bill, file a petition with the court for a redetermination thereof.

In the case of a determination by a Secretary on or after the enactment of the bill, with respect to the existence of excessive profits for any fiscal year ending before July 1, 1943, any contractor or subcontractor aggrieved thereby and who has not agreed thereto may file a petition with the court for a redetermination.

The jurisdiction, powers, and duties of the court in either case are subject to the same provisions as in the case of a petition filed with the court in respect of a fiscal year governed by the statute as proposed to be amended (namely, fiscal years ending after June 30, 1943), except that the other amendments made by the bill are not to be applicable.

In the event the determination of the Secretary has been agreed to by the contractor, neither the agreement nor the amount of excessive profits agreed upon is to be taken into consideration by the court in its determination of excessive profits.

V. Periods of Limitation

1. ON COMMENCEMENT OF PROCEEDING

The bill prohibits the commencement of any proceeding by the Board to determine the amount of excessive profits more than 1 year after the close of the fiscal year in which such profits were received or accrued or more than 1 year after the statements of costs of production and other financial statements required from the contractor or subcontractor have been filed with the Board, whichever date is the later, and if the proceeding is not commenced within that period all liabilities of the contractor or subcontractor for excessive profits received or accrued during the fiscal year in question are thereupon discharged.

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2. ON DETERMINATION OF EXCESSIVE PROFITS

If an agreement or order determining the amount of excessive profits is not made within 1 year following the commencement of the renegotiation proceeding, all liabilities of the contractor for excessive profits with respect to which the proceeding was commenced are thereupon discharged, except that if an order is made within such 1 year by the Secretary or by an officer or agency designated by him pursuant to his authority to delegate, such 1-year limitation shall not apply to review of the order by the Board. Provision is made, further, for the extension of the 1-year period by mutual agreement between the Board and the contractor.

VI. Disposition of Proceeds of Renegotiation

1. EXCESSIVE PROFITS RECOVERED

As under existing law, all moneys recovered by way of repayment or suit are to be covered into the Treasury as miscellaneous receipts.

2. EXCESSIVE PROFITS WITHHELD OR CREDITED

The bill provides that upon the withholding of any amount of excessive profits or the crediting of any amount thereof against amounts otherwise due a contractor the amount so withheld or credited is to be transferred to the Treasury to the credit of miscellaneous receipts, thus reducing the appropriations respectively available for the contracts in question.

3. CREDIT FOR FEDERAL INCOME AND EXCESS PROFITS TAXES

As under existing law, credit is to be allowed the contractor against any excessive profits to be recovered from him for taxes paid or accrued thereon.

VII. Administration

1. ESTABLISHMENT OF THE WAR CONTRACTS PRICE ADJUSTMENT BOARD

A new Board named the War Contracts Price Adjustment Board is created by the bill. It is to consist of five members of whom one is to be an officer or employee of the War Department, one of the Navy Department, one of the Treasury, one of the United States Maritime Commission or the War Shipping Administration, and one of the Reconstruction Finance Corporation. The Chairman of the Board is to be elected from among its members and the Board is to have a seal which shall be judicially noticed.

The principal office of the Board will be in the District of Columbia but the Board or any of its divisions may meet and exercise its powers at any other place within the United States. Such number of field offices as it may deem necessary to expedite its work may be established by the Board.

2. DELEGATION BY THE BOARD OF ITS POWERS, FUNCTIONS, AND DUTIES

The Board is authorized to delegate in whole or in part any of its powers, functions, or duties (except to review determinations of excessive profits) to the Secretary of a Department, and any such power, function, or duty, may be delegated in whole or in part by him to such officers or agencies of the United States as he may designate. The Secretary may also authorize successive redelegations.

3. DIVISIONS OF THE BOARD

The Board may be divided by its Chairman into divisions of one or more members and in case a division is of more than one, the Chairman is to designate the chief of it. The Board is also empowered to determine the character of cases to be heard and decided initially by the Board through an officer of or utilized by it, the character of cases to be heard and decided initially by the various officers and agencies authorized to exercise its powers, the character of cases to be heard and decided initially by the various divisions of the Board and the character of cases to be heard and decided initially by the full Board.

4. REVIEW BY THE BOARD OF THE ORDERS OF A DIVISION, OFFICER, OR AGENCY

Any contractor aggrieved by a decision of an officer, agency, or division of the Board, may request a review by the full Board. The Board may also review such a decision on its own motion or may provide, by regulations, that in the absence of a request for review within the time prescribed, the decision of the officer, agency, or division shall be deemed the decision of the Board.

VIII. Contract Obligation for Renegotiation

The bill authorizes and directs the Secretary of each department to insert in each contract, made by it 30 days or more after the date of enactment of the bill, a provision under which the contractor agrees to repricing and to the elimination of excessive profits through renegotiation; also to the retention by the United States from amounts otherwise due him or for the repayment to the United States, if paid to him, of any excessive profits; also that he will insert similar provisions in each subcontract made by him.

This provision may be incorporated by reference in any contract or subcontract but whether or not the contract contains such a provision it shall be construed to have been made subject to it.

Although such provision is required to be inserted in every contract and subcontract, the contractor or subcontractor will be bound thereby only if in any fiscal year the aggregate amounts received or accrued total the applicable specific exemption.

IX. Effective Dates of Amendments

The bill applies to fiscal years ending after June 30, 1943. Exceptions are made with respect to the exemption of agricultural commodities, which is effective as of April 28, 1942, and the right to petition The Tax Court of the United States, which applies to fiscal years ending before July 1, 1943, as well as fiscal years ending on or after that date.

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X. Termination of Renegotiation

Under existing law the renegotiation section will remain in force during the present war and for 3 years after the end thereof. The termination date under the bill is the date of the termination of hostilities in the present war or the date specified in a current resolution of Congress as the date ending the war, whichever is the earlier.

XI. Technical Amendments

1. PROSECUTION OF CLAIMS AGAINST THE UNITED STATES

The bill liberalizes the existing prohibition upon any person leaving the employ of the Government from acting as counsel, agent, or attorney for prosecuting any claim against the United States. The existing prohibition goes to the prosecution of any claim arising from any matter directly connected with which the person is employed or to such prosecution during the period such person is engaged in intermittent and temporary employment in a Department. The new provision changes the period mentioned in the second test to the period during which the person is employed in a Department.

The bill also adds a new subsection providing that nothing in the section shall be construed to limit or restrict any authority or discretion of a Secretary of a Department under the provisions of any other law or with respect to the making of agreements or amendment or modification thereof by mutual agreement or in accordance with their terms.

2. CREDIT FOR DECLARED VALUE EXCESS PROFITS TAXES

The bill amends these paragraphs by inserting the words "chapter 2B" after the words "chapter 2A" wherever they appear therein. The effect of the amendment is to include declared value excess-profits taxes paid with those in respect of which a credit is allowed against recoverable excessive profits.

3. AMENDMENT TO INTERNAL REVENUE CODE 3806 (A) (1) (B), (C)

The amendment striking out the words "by the Revenue Act of 1942" from this subparagraph has the effect of extending the application of the definition of the term "excessive profits" to a renegotiation section as amended by the bill.

4. SHORT TITLE

The bill provides that the renegotiation section may be cited as the Renegotiation Act. The purpose of this amendment is to obviate the necessity of the long citation now necessary in documents pertaining to renegotiation; namely, section 403 of the Sixth Supplemental National Defense Appropriation Act, 1942.

RENEGOTIATION OF WAR CONTRACTS

Outline of Changes Made in Existing Statute by the Ways and Means Committee Bill, November 18, 1943

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APPENDIX

TABLE 16.—*Amount of unforgiven tax (assuming no change in net income)*

Net income before personal exemption	Total unforgiven tax			Amount payable in 1944 and in 1945		
	Single person	Married, no dependents	Married, 2 dependents	Single person	Married, no dependents	Married, 2 dependents
$600						
$750						
$800	$2.20			$1.10		
$1,000	22.25			11.13		
$1,200	31.45			15.73		
$1,500	45.25			22.63		
$1,800	59.05	$25.80		29.53	$12.90	
$2,000	68.25	35.00		34.13	17.50	
$2,500	91.25	58.00	$24.75	45.63	29.00	$12.38
$3,000	118.00	81.00	47.75	59.00	40.50	23.88
$4,000	171.50	133.00	94.50	85.75	66.50	47.25
$5,000	230.00	186.50	148.00	115.00	93.25	74.00
$6,000	293.50	248.00	202.50	146.75	124.00	101.25
$7,000	362.00	311.50	266.00	181.00	155.75	133.00
$8,000	435.50	383.00	330.50	217.75	191.50	165.25
$9,000	514.00	456.50	404.00	257.00	228.25	202.00
$10,000	597.50	538.00	478.50	298.75	269.00	239.25
$15,000	1,091.50	1,013.00	939.50	545.75	506.50	469.75
$20,000	1,704.00	1,615.00	1,522.00	852.00	808.50	761.00
$25,000	2,406.50	2,305.00	2,203.50	1,203.25	1,152.50	1,101.75
$30,000	3,157.75	3,051.00	2,944.25	1,578.88	1,525.50	1,472.13
$40,000	4,750.25	4,633.00	4,515.75	2,375.13	2,316.50	2,257.88
$50,000	6,452.75	6,332.00	6,211.25	3,226.38	3,166.00	3,105.63
$60,000	8,249.00	8,123.00	7,997.00	4,124.50	4,061.50	3,998.50
$70,000	10,120.25	9,989.00	9,857.75	5,060.13	4,994.50	4,928.88
$80,000	12,066.50	11,930.00	11,793.50	6,033.25	5,965.00	5,896.75
$90,000	14,087.75	13,946.00	13,804.25	7,043.88	6,973.00	6,902.13
$100,000	16,160.25	16,015.00	15,869.75	8,080.13	8,007.50	7,934.88
$150,000	26,782.75	26,634.00	26,485.25	13,391.38	13,317.00	13,242.63
$200,000	37,655.25	37,503.00	37,350.75	18,827.63	18,751.50	18,675.38
$250,000	48,654.00	48,500.00	48,346.00	24,327.00	24,250.00	24,173.00
$500,000	103,654.00	103,500.00	103,346.00	51,827.00	51,750.00	51,673.00
$750,000	158,654.00	158,500.00	158,346.00	79,327.00	79,250.00	79,173.00
$1,000,000	213,654.00	213,500.00	213,346.00	106,827.00	106,750.00	106,673.00
$2,000,000	433,654.00	433,500.00	433,346.00	216,827.00	216,750.00	216,673.00
$5,000,000	1,093,654.00	1,093,500.00	1,093,346.00	546,827.00	546,750.00	546,673.00

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TABLE 17.—*Existing income-tax burden for 1944 and 1945, including net Victory tax and one-half of unforgiven 1942 tax (assuming no change in net income). Single person, no dependents*

Net income before personal exemption	Income, net Victory, and one-half unforgiven tax [1]	Effective rate	Income remaining after tax	Net income before personal exemption	Income, net Victory, and one-half unforgiven tax [1]	Effective rate	Income remaining after tax
		Percent				*Percent*	
$600	$17.00	2.833	$583.00	$20,000	$8,477.93	42.389	$11,522.07
$750	50.85	6.780	699.15	$25,000	11,847.52	47.390	13,152.48
$800	63.23	7.903	736.77	$30,000	15,439.48	51.454	14,563.52
$1,000	118.40	11.840	881.60	$40,000	23,067.15	57.667	16,932.85
$1,200	168.13	14.010	1,031.87	$50,000	31,283.96	62.567	18,716.04
$1,500	242.73	16.182	1,257.27	$60,000	39,922.63	66.537	20,077.37
$1,800	317.33	17.629	1,482.67	$70,000	48,898.82	69.855	21,101.18
$2,000	367.06	18.353	1,632.94	$80,000	58,212.49	72.765	21,787.51
$2,500	491.40	19.656	2,008.60	$90,000	67,863.68	75.404	22,136.32
$3,000	632.60	21.088	2,367.40	$100,000	77,745.49	77.745	22,254.51
$4,000	915.01	22.875	3,084.99	$150,000	128,324.51	85.549	21,675.49
$5,000	1,219.93	24.398	3,780.07	$200,000	180,028.54	90.014	19,971.46
$6,000	1,547.35	25.789	4,452.65	$250,000	232,300.69	92.920	17,699.31
$7,000	1,897.27	27.103	5,102.73	$500,000	493,689.58	98.737	6,310.42
$8,000	2,269.68	28.371	5,730.32	$750,000	753,827.00	100.510	−3,827.00
$9,000	2,664.60	29.606	6,335.40	$1,000,000	1,006,327.00	100.632	−6,327.00
$10,000	3,082.02	30.820	6,917.98	$2,000,000	2,016,327.00	100.816	−16,327.00
$15,000	5,513.35	36.755	9,486.65	$5,000,000	5,046,327.00	100.926	−46,327.00

[1] Net Victory tax computed on a gross income equal to 19/6 of net income.

TABLE 18.—*Existing income tax burden for 1944 and 1945, including net Victory tax and one-half of unforgiven 1942 tax (assuming no change in net income)*

Married person, 2 dependents

Net income before personal exemption	Income, net Victory, and one-half unforgiven tax [1]	Effective rate	Income remaining after tax	Net income before personal exemption	Income, net Victory, and one-half unforgiven tax [1]	Effective rate	Income remaining after tax
		Percent				*Percent*	
$600	$1.19	0.198	$598.81	$20,000	$7,453.75	37.268	$12,546.25
$750	5.86	.781	744.14	$25,000	10,676.06	42.704	14,323.94
$800	7.41	.926	792.59	$30,000	14,164.99	47.216	15,835.01
$1,000	13.64	1.364	986.36	$40,000	21,547.85	53.869	18,452.15
$1,200	19.86	1.655	1,180.14	$50,000	29,497.21	58.994	20,502.79
$1,500	29.19	1.946	1,470.81	$60,000	38,088.63	63.481	21,911.37
$1,800	38.53	2.140	1,761.47	$70,000	47,017.57	67.167	22,982.43
$2,000	57.75	2.887	1,942.25	$80,000	56,283.99	70.354	23,716.01
$2,500	171.69	6.867	2,328.31	$90,000	65,887.93	73.208	24,112.07
$3,000	290.74	9.691	2,709.26	$100,000	75,738.24	75.738	24,261.76
$4,000	532.22	13.305	3,467.78	$150,000	126,285.76	84.190	23,714.24
$5,000	804.08	16.081	4,195.92	$200,000	177,958.29	88.979	22,041.71
$6,000	1,080.44	18.007	4,919.56	$250,000	230,214.69	92.085	19,785.31
$7,000	1,397.31	19.961	5,602.69	$500,000	491,603.58	98.320	8,396.42
$8,000	1,718.66	21.483	6,281.34	$750,000	752,973.00	100.396	−2,973.00
$9,000	2,080.53	23.117	6,919.47	$1,000,000	1,005,473.00	100.547	−5,473.00
$10,000	2,446.89	24.468	7,553.11	$2,000,000	2,015,473.00	100.773	−15,473.00
$15,000	4,676.94	31.179	10,323.06	$5,000,000	5,045,473.00	100.909	−45,473.00

[1] Net Victory tax computed on a gross income equal to 10/9 of net income.

TABLE 19.—*Comparison of individual income tax rates and exemptions, taxable years 1936–43 and under committee bill*

Personal exemption		1936–39	1940 [1]	1941	1942	1943 [2]	Committee Bill
Single person		$1,000	$800	$750	$500	$500	$600
Married person		2,500	2,000	1,500	1,200	1,200	1,200
Each dependent		400	400	400	350	350	350
Normal tax		*Percent* 4	*Percent* 4	*Percent* 4	*Percent* 6	*Percent* 6	*Percent* 10
Surtax rates							
Exceeding	Not exceeding						
$0	$2,000			6	13	13	13
$2,000	4,000			9	16	16	16
$4,000	6,000	4	4	13	20	20	20
$6,000	8,000	5	6	17	24	24	23
$8,000	10,000	6	8	21	28	28	27
$10,000	12,000	7	10	25	32	32	31
$12,000	14,000	8	12	29	36	36	36
$14,000	16,000	9	15	32	40	40	40
$16,000	18,000	11	18	35	43	43	43
$18,000	20,000	13	21	38	46	46	46
$20,000	22,000	15	24	41	49	49	49
$22,000	26,000	17	27	44	52	52	52
$26,000	32,000	19	30	47	55	55	55
$32,000	38,000	21	33	50	58	58	58
$38,000	44,000	24	36	53	61	61	62
$44,000	50,000	27	40	55	63	63	65
$50,000	56,000	31	44	57	66	66	68
$56,000	60,000	35	44	57	66	66	68
$60,000	62,000	35	47	59	69	69	71
$62,000	68,000	39	47	59	69	69	71
$68,000	70,000	43	47	59	69	69	71
$70,000	74,000	43	50	61	72	72	74
$74,000	80,000	47	50	61	72	72	74
$80,000	90,000	51	53	63	75	75	77
$90,000	100,000	55	56	64	77	77	80
$100,000	150,000	58	58	65	79	79	82
$150,000	200,000	60	60	66	81	81	83
$200,000	250,000	62	62	67	82	82	84
$250,000	300,000	64	64	69	82	82	84
$300,000	400,000	66	66	71	82	82	84
$400,000	500,000	68	68	72	82	82	84
$500,000	750,000	70	70	73	82	82	84
$750,000	1,000,000	72	72	74	82	82	84
$1,000,000	2,000,000	73	73	75	82	82	84
$2,000,000	5,000,000	74	74	76	82	82	84
Over	5,000,000	75	75	77	82	83	84

[1] For 1940 tax increased by 10 percent, but not more than 10 percent of the amount by which the net income exceeds such tax.
[2] For 1943 a Victory tax of 5 percent on gross income in excess of $624, with post-war credits allowed.

Regraded Unclassified

SINGLE PERSON, NO DEPENDENTS

TABLE 20.—*Comparison of individual income tax—Taxable years 1936–44, and increases in tax since 1939*

Net income before personal exemption	Tax payable in taxable years						Amount of increase in tax					
	1936–39	1940	1941	1942	Existing law		1940 over 1936–39	1941 over 1940	1942 over 1941	1943 over 1942 [1]	1943 over 1936–39 [1]	1944 over 1936–39 [2]
					1943 [1]	1944 [2]						
$600				$15.40	$17.00	$17.00			$15.40	$1.60	$17.00	$17.00
$750				43.00	50.85	50.85			43.00	7.85	50.85	50.85
$800				52.20	62.13	63.23			49.20	9.93	62.13	63.23
$1,000		$4.40	$3.00	81.00	107.27	118.40	$4.40	$3.00	68.00	18.27	107.27	118.40
$1,200	$3.20	12.32	21.00	125.80	168.13	164.93	9.12	16.60	85.60	26.60	149.20	164.93
$1,500	14.00	24.20	69.00	181.00	220.10	242.73	10.20	27.88	112.00	39.10	206.10	228.73
$1,800	24.80	36.08	97.80	236.20	287.80	317.33	11.28	44.80	138.40	51.60	263.00	292.53
$2,000	32.00	44.00	117.00	273.00	332.93	367.06	12.00	61.72	156.00	59.93	300.93	333.06
$2,500	50.00	63.80	165.00	365.00	445.77	491.40	13.80	73.00	200.00	80.77	395.77	441.40
$3,000	68.00	83.60	220.50	472.00	573.60	632.60	15.60	101.20	251.50	101.60	505.60	564.60
$4,000	104.00	123.20	346.50	680.00	829.26	915.01	19.20	136.90	339.50	143.26	725.26	811.01
$5,000	140.00	171.60	482.50	920.00	1,104.93	1,219.93	31.40	223.30	437.50	184.93	964.93	1,079.93
$6,000	216.00	255.20	648.50	1,174.00	1,400.60	1,547.35	39.20	310.90	525.50	225.60	1,184.60	1,331.35
$7,000	292.00	343.20	824.50	1,448.00	1,715.27	1,897.27	51.20	393.30	623.50	268.27	1,424.27	1,606.27
$8,000	378.00	448.80	1,030.50	1,742.00	2,011.93	2,299.68	70.80	481.30	711.50	309.93	1,673.93	1,891.68
$9,000	464.00	558.80	1,246.50	2,056.00	2,407.60	2,694.60	94.80	581.70	809.50	351.60	1,943.60	2,203.60
$10,000	560.00	686.40	1,492.50	2,390.00	2,783.27	3,082.02	126.40	687.70	897.50	393.27	2,223.27	2,522.02
$15,000	1,104.00	1,476.20	2,994.00	4,366.00	4,967.60	5,513.35	372.20	806.10	1,372.00	601.60	3,863.60	4,409.35
$20,000	1,834.00	2,666.40	4,929.00	6,816.00	7,625.93	8,477.93	832.40	1,517.80	1,887.00	809.93	5,791.93	6,643.93
$25,000	2,804.00	4,252.00	7,224.00	9,626.00	10,644.27	11,847.52	1,448.00	2,971.40	2,402.00	1,018.27	7,840.27	9,043.52
$30,000	3,914.00	6,063.20	9,721.50	12,631.00	13,857.60	15,436.48	2,149.20	3,658.30	2,909.50	1,225.60	9,943.60	11,522.48
$40,000	6,384.00	10,080.40	15,076.50	19,001.00	20,692.02	23,037.15	3,696.40	4,996.10	3,924.50	1,691.02	14,308.02	16,653.15
$50,000	9,334.00	14,709.20	20,881.50	25,811.00	28,057.58	31,283.96	5,375.20	6,172.30	4,929.50	2,246.58	18,723.58	21,949.96
$60,000	12,914.00	19,954.00	26,996.50	32,996.00	35,798.13	39,922.63	7,040.00	7,012.50	6,029.50	2,802.13	22,884.13	27,008.63
$70,000	17,134.00	25,537.60	33,251.50	40,481.00	43,838.69	48,898.82	8,403.60	7,713.90	7,229.50	3,357.69	26,704.69	31,764.82
$80,000	22,034.00	31,451.20	39,730.50	48,266.00	52,179.24	58,212.49	9,417.20	8,283.30	8,529.50	3,913.24	30,145.24	36,178.49
$100,000	27,494.00	37,694.80	46,421.50	56,351.00	60,819.80	67,863.68	10,200.80	8,726.70	9,929.50	4,468.08	33,325.80	40,369.68
$150,000	33,354.00	44,268.40	53,214.00	64,641.00	69,565.36	77,745.49	10,914.40	8,945.60	11,427.00	5,024.36	36,211.36	44,391.49
$200,000	64,324.00	78,330.80	87,705.50	107,131.00	114,933.13	128,324.51	14,024.80	9,355.70	19,424.50	7,802.13	50,609.13	64,000.51
$250,000	96,304.00	112,890.80	122,699.00	150,621.00	161,200.91	180,028.54	16,586.80	9,808.20	27,922.00	10,579.91	64,896.91	83,724.54
$300,000	129,284.00	147,576.40	158,191.50	194,016.00	207,973.69	232,309.69	18,292.40	10,615.10	35,424.50	13,357.69	78,689.69	103,016.69
$500,000	305,224.00	330,933.20	345,554.00	414,016.00	441,852.58	493,685.58	25,709.20	14,720.80	68,462.00	27,246.58	135,628.58	188,455.58
$1,000,000	490,204.00	522,418.80	538,146.50	634,016.00	674,509.00	753,827.00	32,214.80	15,727.70	95,869.50	39,884.00	184,296.00	263,623.00	
$2,000,000	680,184.00	718,404.40	733,130.00	854,016.00	899,500.00	1,005,227.00	38,220.40	14,734.60	121,477.00	44,884.00	219,316.00	325,143.00	
$5,000,000	1,450,174.00	1,511,397.20	1,523,131.50	1,734,016.00	1,799,500.00	2,016,227.00	61,223.20	11,734.30	211,484.50	64,884.00	349,326.00	566,153.00	
	2,790,164.00	3,917,360.00	3,923,124.00	4,374,016.00	4,499,500.00	5,046,227.00	127,226.00	5,734.00	451,492.00	124,884.00	709,336.00	1,256,163.00	

[1] Includes net Victory tax.

[2] Includes 12½ percent of unforgiven tax.

MARRIED PERSON, NO DEPENDENTS

TABLE 21.—*Comparison of individual income tax—Taxable years 1936–44, and increases in tax since 1939*

Net income before personal exemption	Tax payable in taxable years						Amount of increase in tax					
	1936–39	1940	1941	1942	Existing law		1940 over 1936–39	1941 over 1940	1942 over 1941	1943 over 1942 [1]	1943 over 1936–39 [1]	1944 over 1936–39 [2]
					1943 [1]	1944 [2]						
$600					$1.28	$1.28				$1.28	$1.28	$1.28
$750					6.28	6.28				6.28	6.28	6.28
$800					7.94	7.94				7.94	7.94	7.94
$1,000					14.62	14.62				14.62	14.62	14.62
$1,200					21.28	21.28				21.28	21.28	21.28
$1,500				$48.00	79.28	79.28			$48.00	31.28	79.28	79.28
$1,800			$22.80	103.20	144.48	157.38		$22.80	80.40	41.28	144.48	157.38
$2,000			42.00	140.00	187.95	205.45		42.00	98.00	47.95	187.95	205.45
$2,500		$11.00	90.00	232.00	296.61	325.61	$11.00	79.00	142.00	64.61	296.61	325.61
$3,000	$8.00	30.80	138.00	324.00	405.28	445.78	22.80	107.20	186.00	81.28	397.28	437.78
$4,000	44.00	70.40	249.00	532.00	646.61	713.11	26.40	178.60	283.00	114.61	602.61	669.11
$5,000	80.00	110.00	375.00	746.00	893.95	987.20	30.00	265.00	371.00	147.95	813.95	907.20
$6,000	116.00	149.60	521.00	992.00	1,173.28	1,297.28	33.60	371.40	471.00	181.28	1,057.28	1,181.28
$7,000	172.00	233.20	687.00	1,246.00	1,460.61	1,616.36	61.20	453.80	559.00	214.61	1,288.61	1,444.36
$8,000	248.00	316.80	873.00	1,532.00	1,779.94	1,971.44	68.80	556.20	659.00	247.94	1,531.94	1,723.44
$9,000	329.00	422.40	1,079.00	1,826.00	2,107.28	2,335.53	93.40	656.60	747.00	281.28	1,778.28	2,006.53
$10,000	415.00	528.00	1,305.00	2,152.00	2,466.62	2,735.62	113.00	777.00	847.00	314.62	2,051.62	2,320.62
$15,000	924.00	1,256.40	2,739.00	4,052.00	4,533.28	5,039.78	334.40	1,480.60	1,313.00	481.28	3,609.28	4,115.78
$20,000	1,589.00	2,336.40	4,614.00	6,452.00	7,099.95	7,906.45	747.40	2,277.60	1,838.00	647.95	5,510.95	6,317.45
$25,000	2,489.00	3,843.40	6,864.00	9,226.00	10,014.61	11,187.11	1,354.40	3,020.60	2,362.00	814.61	7,545.61	8,698.11
$30,000	3,569.00	5,614.40	9,339.00	12,204.00	13,185.28	14,710.78	2,045.40	3,724.60	2,865.00	981.28	9,616.28	11,141.78
$40,000	5,979.00	9,582.40	14,649.00	18,532.00	19,846.61	22,163.11	3,573.40	5,066.60	3,883.00	1,314.61	13,867.61	16,184.11
$50,000	8,869.00	14,128.40	20,439.00	25,328.00	27,074.58	30,240.58	5,259.40	6,310.60	4,889.00	1,746.58	18,205.58	21,371.58
$60,000	12,329.00	19,320.40	26,509.00	32,492.00	34,794.13	38,835.63	6,991.40	7,188.60	5,983.00	2,302.13	22,465.13	26,506.63
$70,000	16,449.00	24,864.40	32,729.00	39,956.00	42,813.69	47,809.19	8,415.40	7,914.60	7,177.00	2,857.69	29,364.69	34,359.19
$80,000	21,269.00	30,738.40	39,249.00	47,720.00	51,133.24	57,098.24	9,469.40	8,510.60	8,471.00	3,413.24	35,829.24	41,829.24
$90,000	26,669.00	36,942.40	45,919.00	55,784.00	59,752.81	66,725.80	10,273.40	8,976.60	9,865.00	3,968.80	40,083.80	47,056.80
$100,000	32,469.00	43,476.40	52,704.00	64,016.00	68,584.26	76,391.86	11,007.40	9,227.60	11,356.00	4,524.26	36,115.26	44,122.86
$150,000	62,394.00	77,352.40	87,189.00	106,536.00	113,838.13	127,155.13	14,958.40	9,836.60	19,347.00	7,302.13	50,444.13	63,761.13
$200,000	95,344.00	112,199.60	122,174.00	150,012.00	160,001.91	178,843.41	16,855.60	9,974.40	27,838.00	10,079.91	64,747.91	83,496.41
$250,000	128,294.00	146,863.60	157,639.00	194,003.00	206,857.69	231,167.63	18,569.60	10,795.40	36,341.00	12,857.69	78,563.69	102,873.69
$300,000	304,144.00	330,155.60	345,084.00	414,000.00	440,746.58	492,496.58	26,011.60	14,928.40	68,916.00	26,746.58	136,602.58	188,352.58
$750,000	489,064.00	521,619.60	537,369.00	634,000.00	674,000.00	753,250.00	32,555.60	15,749.40	96,631.00	40,000.00	184,936.00	264,186.00
$1,000,000	679,044.00	717,583.60	733,554.00	854,000.00	899,000.00	1,003,750.00	38,539.60	14,970.40	121,446.00	45,000.00	219,956.00	324,706.00
$2,000,000	1,449,019.00	1,510,565.60	1,522,539.00	1,734,000.00	1,799,000.00	2,015,750.00	61,546.60	11,973.40	211,461.00	65,000.00	349,981.00	566,731.00	
$5,000,000	3,285,994.00	3,916,547.60	3,922,524.00	4,374,000.00	4,499,000.00	5,015,750.00	127,553.60	5,976.40	451,476.00	125,000.00	716,006.00	1,230,756.00	

[1] Includes net Victory tax.

[2] Includes 12½ percent of unforgiven tax.

Regraded Unclassified

MARRIED PERSON, 2 DEPENDENTS

TABLE 22.—*Comparison of individual income tax—Taxable years 1936–44, and increases in tax since 1939*

Net income before personal exemption	Tax payable in taxable years								Amount of increase in tax					
	1938–39	1940	1941	1942	Existing law		1940 over 1938–39	1941 over 1940	1942 over 1941	1943 over 1942 [1]	1943 over 1939–39 [1]	1944 over 1938–39 [2]
					1943 [1]	1944 [2]						
$800					$1.19	$1.19				$1.19	$1.19	$1.19
770					5.95	5.95				5.95	5.95	5.95
900					7.41	7.41				7.41	7.41	7.41
1,000					13.64	13.64				13.64	13.64	13.64
1,200					19.90	19.90				19.90	19.90	19.90
1,300					26.19	26.19				26.19	26.19	26.19
1,500					38.53	38.53				38.53	38.53	38.53
2,000					57.75	57.75				57.75	57.75	57.75
2,500					171.69	171.69				171.69	171.69	171.69
3,000					290.74	290.74				290.74	290.74	290.74
4,000					532.22	532.22				532.22	532.22	532.22
5,000					804.08	804.08				804.08	804.08	804.08
6,000					1,080.44	1,080.44				1,080.44	1,080.44	1,080.44
7,000					1,397.31	1,397.31				1,397.31	1,397.31	1,397.31
8,000					1,718.53	1,718.53				1,718.53	1,718.53	1,718.53
9,000					2,080.53	2,080.53				2,080.53	2,080.53	2,080.53
10,000					2,446.53	2,446.53				2,446.53	2,446.53	2,446.53
11,000					2,807.54	2,807.54				2,807.54	2,807.54	2,807.54
12,000					3,197.19	3,197.19				3,197.19	3,197.19	3,197.19
13,000					3,574.31	3,574.31				3,574.31	3,574.31	3,574.31
14,000					4,992.75	4,992.75				4,992.75	4,992.75	4,992.75
15,000					5,692.95	5,692.95				5,692.95	5,692.95	5,692.95
16,000					6,374.31	6,374.31				6,374.31	6,374.31	6,374.31
17,000					7,053.95	7,053.95				7,053.95	7,053.95	7,053.95
18,000					7,733.95	7,733.95				7,733.95	7,733.95	7,733.95
19,000					8,414.97	8,414.97				8,414.97	8,414.97	8,414.97
20,000					9,095.97	9,095.97				9,095.97	9,095.97	9,095.97
21,000					9,777.21	9,777.21				9,777.21	9,777.21	9,777.21
22,000					10,458.13	10,458.13				10,458.13	10,458.13	10,458.13
23,000					11,139.05	11,139.05				11,139.05	11,139.05	11,139.05
24,000					11,819.97	11,819.97				11,819.97	11,819.97	11,819.97
25,000					12,500.89	12,500.89				12,500.89	12,500.89	12,500.89
26,000					13,181.81	13,181.81				13,181.81	13,181.81	13,181.81
27,000					13,862.73	13,862.73				13,862.73	13,862.73	13,862.73
28,000					14,543.65	14,543.65				14,543.65	14,543.65	14,543.65
29,000					15,224.57	15,224.57				15,224.57	15,224.57	15,224.57
30,000					15,905.49	15,905.49				15,905.49	15,905.49	15,905.49
35,000					19,311.49	19,311.49				19,311.49	19,311.49	19,311.49
40,000					22,717.49	22,717.49				22,717.49	22,717.49	22,717.49
45,000					26,123.49	26,123.49				26,123.49	26,123.49	26,123.49
50,000					29,529.49	29,529.49				29,529.49	29,529.49	29,529.49
60,000					36,341.49	36,341.49				36,341.49	36,341.49	36,341.49
70,000					43,153.49	43,153.49				43,153.49	43,153.49	43,153.49
80,000					49,965.49	49,965.49				49,965.49	49,965.49	49,965.49
90,000					56,777.49	56,777.49				56,777.49	56,777.49	56,777.49
100,000					63,589.49	63,589.49				63,589.49	63,589.49	63,589.49
110,000					70,401.49	70,401.49				70,401.49	70,401.49	70,401.49
120,000					77,213.49	77,213.49				77,213.49	77,213.49	77,213.49
130,000					84,025.49	84,025.49				84,025.49	84,025.49	84,025.49
140,000					90,837.49	90,837.49				90,837.49	90,837.49	90,837.49
150,000					97,649.49	97,649.49				97,649.49	97,649.49	97,649.49
160,000					104,461.49	104,461.49				104,461.49	104,461.49	104,461.49
170,000					111,273.49	111,273.49				111,273.49	111,273.49	111,273.49
180,000					118,085.49	118,085.49				118,085.49	118,085.49	118,085.49
190,000					124,897.49	124,897.49				124,897.49	124,897.49	124,897.49
200,000					131,709.49	131,709.49				131,709.49	131,709.49	131,709.49
250,000					165,813.49	165,813.49				165,813.49	165,813.49	165,813.49
300,000					199,917.49	199,917.49				199,917.49	199,917.49	199,917.49
350,000					234,021.49	234,021.49				234,021.49	234,021.49	234,021.49
400,000					268,125.49	268,125.49				268,125.49	268,125.49	268,125.49
450,000					302,229.49	302,229.49				302,229.49	302,229.49	302,229.49
500,000					336,333.49	336,333.49				336,333.49	336,333.49	336,333.49
600,000					404,541.49	404,541.49				404,541.49	404,541.49	404,541.49
700,000					472,749.49	472,749.49				472,749.49	472,749.49	472,749.49
800,000					540,957.49	540,957.49				540,957.49	540,957.49	540,957.49
900,000					609,165.49	609,165.49				609,165.49	609,165.49	609,165.49
1,000,000					677,373.49	677,373.49				677,373.49	677,373.49	677,373.49
2,000,000					1,359,753.49	1,359,753.49				1,359,753.49	1,359,753.49	1,359,753.49
3,000,000					2,042,133.49	2,042,133.49				2,042,133.49	2,042,133.49	2,042,133.49
4,000,000					2,724,513.49	2,724,513.49				2,724,513.49	2,724,513.49	2,724,513.49
5,000,000					3,406,893.49	3,406,893.49				3,406,893.49	3,406,893.49	3,406,893.49

[1] Includes net Victory tax.

[2] Includes 12½ percent of unforgiven tax.

INDIVIDUAL VIEWS OF REPRESENTATIVE WESLEY E. DISNEY

In recent years there has been much discussion of economy in government. Important economies have been accomplished. The present bill provides no legislative means of operation to improve the governmental machinery in the direction of economy. Up to the time of the War between the States, the Ways and Means Committee was the tax-raising and money-spending committee of the House. It levied the taxes and took the appropriation bills to the House. At that time the Appropriations Committee was created, and since then each committee has gone its way. The Ways and Means Committee has been the revenue committee of the House and the Appropriations Committee has presented the appropriations bills to the House. Neither had had power or jurisdiction over the other.

In the legislative branch of the Government there is no committee or organization which deals with the subject matter of the over-all budget or the over-all revenues. The Bureau of the Budget, now in the arm of the executive branch, performs this function that is entirely separate and apart from the Congress. The Comptroller General in the main looks to the legality of expenditures.

It is therefore necessary for a Member of Congress, if he desires to get the over-all picture of expenditures and receipts, to go to the Bureau of the Budget, which has no legislative authority. Under the rules, procedure, and traditions of both Houses, the Ways and Means Committee and the House Appropriations Committee are independent of each other on this subject, as are the Senate Finance Committee (the revenue committee of the Senate) and the Senate Appropriations Committee.

I proposed in the Ways and Means Committee a provision to be inserted in instant H. R. 3687 which would require the President to furnish the Congress an estimate of expenses to be furnished to a newly created Joint Committee on the Budget, composed of five members of the Ways and Means Committee, five from the House Appropriations Committee, five from the Senate Finance Committee, and five from the Senate Appropriations Committee. This committee would be required to make a joint report to the two Houses, which, upon the adoption by each House, would create a statutory ceiling for appropriations for each department or establishment of the Government. This statutory ceiling could not be exceeded except by two-thirds of the votes of each House on a yea-and-nay vote and any individual Member could raise the question on a point of order.

As a part of these views the provision is offered as follows:

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TITLE II—BUDGET AND REVENUE CONTROL

PART 1

1. The President shall transmit to the two Houses of Congress, on or before June 1 of each year, a report showing:

(a) His estimate of the total revenues and receipts of the Government for the calendar year next succeeding.

(b) His estimate of the total of the expenditures by departments and independent establishments of the Government under obligations to be incurred during the fiscal year beginning on the 1st of July of the calendar year next succeeding.

(c) If the total of his estimates of expenditures under (b) exceed the total of his estimates of revenues and receipts under (a), he shall recommend to the Congress in said report the manner in which the revenues and receipts shall be increased so that the total of such revenues and receipts, as estimated, shall equal or exceed the total of the obligations, as estimated.

(d) Upon receipt of said report from the President, it shall be referred forthwith to the Joint Committee on the Budget created by part 2 hereof, and such reference by either body to such joint committee shall confer jurisdiction to consider and report as provided in part 2 hereof.

PART 2

This part is enacted by the Congress, with complete reservation of the constitutional rights of each House thereof, as follows:

(a) There is hereby created a joint committee of Congress to be known as the Joint Committee on the Budget, hereinafter referred to as "the Budget Committee." The Budget Committee shall consist of ten Members of the Senate, to be appointed by the President of the Senate (consisting of three members of the majority party and two members of the minority party from each of the committees on Appropriations and Finance); and ten Members of the House, to be appointed by the Speaker of the House (consisting of three members of the majority party and two members of the minority party from each of the committees on Appropriations and Ways and Means). The chairman shall be designated by the Speaker of the House.

(b) On or before June 15 of each year, following the transmission of the President's report as herein provided, the Budget Committee shall report its recommendations thereon to the respective Houses of Congress. Such report shall be accompanied by a joint resolution or bill with the customary resolving or enacting clause and the body thereof in following form:

"That the Budget submitted by the President for the fiscal year beginning July 1 of the calendar year next succeeding, shall not exceed a grand total, for all purposes, of $..... The said total sum shall include all appropriations of every kind whatsoever—regular, annual appropriations, permanent appropriations, reappropriations, indefinite appropriations, and authorizations to contract or commit, the amounts for which, if indefinite, shall be estimated."

The total of the estimated appropriations for each department or establishment shall constitute the statutory ceiling of appropriations for such department or establishment.

(c) Consideration of the report of the Budget Committee shall be first on the part of the House.

(d) If the Budget Committee fails to make a report within the time specified herein, it shall be in order for any Member of the House to present the resolution or bill set forth in (b) hereof and to call up the same for consideration at the earliest date; if said resolution or bill has not been considered, it shall after three days be considered as unfinished business of the highest privilege.

(e) Consideration of said resolution or bill shall not exceed ten hours in either House, the control of which shall be equally divided in either House among the chairmen and ranking minority members of the two committees of each of such Houses from which the members of the Budget Committee are chosen. Upon completion of consideration the resolution or bill shall be moved to final passage with no intervening motion, except that amendments may be offered to change, without qualification, the total amount.

(f) Upon passage by the House, the resolution or bill shall be transmitted forthwith to the Senate, where it shall be considered at the earliest date and after three calendar days shall be considered unfinished business of the highest privilege.

(g) Consideration by either House of Senate amendments to such bill or resolution, or of conference reports thereon, shall likewise be of the highest privilege.

(h) Whenever any appropriation bill for any department or other establishment, the ceiling for whose total appropriation is fixed pursuant to this Act, reaches a final vote in either House, if the total of such bill when moved to final passage is in excess of such ceiling, each such vote shall be by yeas and nays, and shall require a two-thirds vote for passage. If the bill shall have failed to receive a two-thirds vote, it shall be considered as having been recommitted with instructions to report the same back with each item proportionately reduced, to bring the total of the bill within the statutory ceiling.

(i) Whenever any appropriation bill for any department or other establishment, the ceiling for whose total appropriation is fixed pursuant to this Act, has passed the Senate with Senate amendments the net total of which will increase or further increase the total of such bill above such statutory ceiling, concurrence in the amendments to the extent which increases the total of the bill above the statutory ceiling, or adoption of any conference report the net effect of which is to increase or further increase the total of such bill above the statutory ceiling, shall require a two-thirds vote.

In my judgment, it is unfortunate that this provision was not adopted as a part of H. R. 3687. It would be a special move in the direction of governmental economy. Our appropriations have risen since 1913 from $700,000,000, when we had a population of 90,000,000, to nearly $8,000,000,000 in 1940, when our population had only increased to 130,000,000. In my judgment, our economy cannot continue to function with such tremendous increases in expenditures and consequent high rates of taxes.

WESLEY E. DISNEY.

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78TH CONGRESS 1st Session } HOUSE OF REPRESENTATIVES { REPT. 871 Part 2

THE REVENUE BILL OF 1943

NOVEMBER 18, 1943.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. KNUTSON, from the Committee on Ways and Means, submitted the following

SUPPLEMENTAL VIEWS

[To accompany H. R. 3687]

The members of the Republican minority of the Ways and Means Committee subscribe, in general, to the report submitted by Chairman Doughton for the full committee. The following statement is simply submitted in amplification of our views.

I. PROPOSED TAX INCREASES

A. GENERAL STATEMENT

The pending bill is the seventeenth major tax measure since 1933 and the third since Pearl Harbor.

As a consequence of the past 16 measures, most of which were enacted in a hopeless effort to keep pace with the extravagant and wasteful spending of the past decade, Federal taxes have been increased twentyfold—from 2 billions annually to more than 40 billions.

To this staggering and unprecedented burden now borne by the American people, the administration is insisting upon the addition of a further load of 10½ billions, largely through sharp increases in the already heavy personal income tax.

Though it is obvious that the Treasury needs every dollar of revenue that can possibly be raised, in order to minimize the portion of the war costs which must unavoidably be financed by borrowing upon the public credit, the fact nevertheless remains that there is a limit to the amount which can safely be taken from the people in taxes, even in wartime. We believe that this limit has substantially been reached—certainly so far as existing sources of revenue are concerned.

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Furthermore, we desire to point out that recent developments indicate that the Budget will be brought within the Treasury's goal of $1 of receipts for each $2 of expenditure without the imposition of a single dollar of additional taxes. The Administration has obviously overestimated probable expenditures for the current year, since they are running at the rate of 90 billions as compared with the 104 billions estimated. The action of the War Department in turning back some 13 billions of its appropriations is abundant evidence of the fact that the Government cannot spend the amount previously estimated. On the other hand, it appears that the probable tax receipts for the year have been underestimated, and will more likely come closer to 45 billions than 40 billions. On this basis, it is clear that the 1 to 2 ratio of taxes to expenditures will be achieved without additional taxation of any kind.

Having unanimously opposed the drastic tax program advocated by the administration, we are pleased to say that it is not embraced in the revenue bill as reported to the House, which provides only for certain limited tax increases involving a total of 2 billions, or one-fifth the amount of the administration's request.

Some may attempt to belittle the amount carried in the bill, but we do not believe that the time has yet come when 2 billions of increased taxes can be regarded as inconsequential, even in these days of astronomical spending. The increase represents $2 for every minute since the dawn of the Christian Era.

While we of the Republican minority have cooperated with the majority on a strictly nonpartisan basis in the preparation of the pending bill, we believe that the time has come when henceforth the administration, instead of insisting upon squeezing more and more taxes out of the public, should at long last be giving some concern to the elimination of unnecessary and wasteful expenditures. We shall insist upon such action before we shall be willing to consider the imposition of further taxes upon the people and upon business.

For too long the overburdened taxpayer has been the "forgotten man."

For too long the watchword has been, "spend and spend, tax and tax."

In opposing the administration's 10½-billion-dollar tax program, and in unanimously contributing to its defeat in committee, we took the position that a tax increase of this magnitude would impose entirely too great a burden on taxpayers generally, and that it would threaten the liquidation of the middle class in America, discourage maximum production for the war effort, and undermine the ability of private enterprise to provide jobs in the post-war period for the tens of millions of persons now temporarily engaged in war activity, both on the battle fronts and the home front.

It is a short-sighted and dangerous policy to "kill the goose" to get a few more "tax eggs" now, and thereby destroy its future productivity, but this would be the practical effect of putting the administration's tax proposals into operation.

The great Chief Justice, John Marshall, long ago pointed out that the power to tax is the power to destroy. With this admonition in mind, and in view of the tremendous tax load the people generally, and business enterprises, are already called upon to bear, we are of the opinion that the Congress should go exceedingly slow, and exercise discriminating judgment, in imposing further taxes.

The administration's program to increase taxes on the American people by an additional 10½ billions, if enacted, would become a prime factor in the destruction of all that our armed forces are now battling throughout the world to preserve and maintain.

Congress is the steward of America's welfare and destiny. As minority members, we believe we would be false to our trust were we to saddle this heavy additional burden on the backs of taxpayers already heavily burdened. It is our duty to contribute to the preservation of free enterprise and opportunity in America, not to their destruction, as would result from the excessive taxation proposed by the administration. We cannot do less for our fighting men than to make sure the America to which they will return when the war ends is the same land of liberty and opportunity from which they departed.

In proposing and insisting upon its 10½-billion-dollar tax program, the administration has either failed to give recognition to, or deliberately ignored, these facts:

1. That Federal taxes are already at an all-time high, being roughly eight times the greatest annual amount collected during the First World War.

2. That in addition to the more than 40 billions of Federal taxes, taxpayers must pay annually nearly 10 billions in State and local taxes.

3. That per capita taxes in the United States now exceed those levied in other countries, being $357 for every man, woman, and child, as compared with $291 in the United Kingdom, which has always been regarded as having the highest levies.

4. That under existing law, there will be two very substantial increases in taxes next year, namely: (*a*) Most individuals subject to income tax will have to pay in 1944, in addition to their regular income tax for that year, 12½ percent of their 1942 assessment, and will also have to make a like payment in 1945; (*b*) beginning January 1, 1944, the present 1 percent pay-roll tax under the Social Security Act will be doubled on both employers and employees.

5. That under the operation of the 12½ percent carry-over abovementioned, it will be impossible for any person, regardless of how great his income, to have more than $24,000 left after taxes in 1944 and 1945, and that in the highest brackets taxpayers will have to pay to the Treasury even more than their total income for these 2 years.

6. That, as Chairman Doughton has so aptly said, "You can shear a sheep indefinitely, but you can skin it but once."

We are reminded that it took only one straw to finally break the camel's back. Yet the administration, instead of diminishing its demands for additional revenue as the tax load has been approaching the limit, has in recent years virtually doubled each new request over the previous one. For example, in 1940, Congress was asked to raise $1,000,000,000 under the so-called defense tax bill. In 1941, the Treasury's request was for 3½ billions additional. Last year, it was for 7.6 billions. This time, the ante has been raised to 10½ billions. In other words, the more the American taxpayer has become burdened with increasing taxes, the more the administration has sought to pile on ever greater increases.

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Since 1940, Federal tax collections have risen approximately 700 percent, as shown in the following table:

Fiscal year ending June 30—	Total tax collections
1940	$5,925,000,000
1941	8,268,000,000
1942	13,668,000,000
1943	23,384,000,000
1944	40,350,000,000

It is apparent from the foregoing figures that the recent increases have been sharp and substantial. Taxpayers have not had time to adjust themselves to one increase before another even greater one has been imposed, and it is no wonder that they have become "groggy" under the load.

B. THE NEED FOR ECONOMY

The tremendous increase in taxes in recent years, coupled with the extension of the income tax to the great masses of the people, has resulted in increased interest on the part of the public in Government spending. Heretofore, the average person has been led to believe that he need have no concern with how much the Government was spending, since the "other fellow" was paying the bill. Now he knows how cruelly he has been deceived. He is justifiably resentful when he sees his hard-earned tax money wasted on every hand by the administration, which has refused to concern itself with trying to eliminate unnecessary expenditures, and has continued to spend and spend as if there were no bottom to the bin.

After the President had failed to act in the matter of economizing on nonmilitary expenditures, the Congress itself, upon recommendations made by the Byrd Economy Committee, made a number of substantial reductions. That committee, which was created under the Revenue Act of 1941, is continuing its good work. Only recently, it pointed out that of the 3,000,000 Federal employees now on the Federal pay roll, of whom 55 percent are said to be engaged in nonmilitary activity, a minimum of 300,000 could easily be removed from the rolls without in any way impairing governmental functions. There is no excuse for the administration's failure to take such action, which it has full power to do under existing law. From that source alone there would be a saving of close to $1,000,000,000 annually. At the same time the manpower shortage would thereby be greatly relieved.

During the early days of our country's participation in the present war, military appropriations had to be made quickly and on faith, in whatever amounts requested by the military authorities. The total war program has now reached the staggering sum of 345 billions, or approximately the amount of this country's entire national wealth. It is inevitable that in the expenditure of any such amount tremendous waste and extravagance will occur. This country's experience in the last World War proved this to be true.

We believe that from now on war expenditures should be examined with more care by the Budget Bureau and by Congress, with a view to eliminating all unnecessary outlays and all wasteful expenditures. Even if a saving of only 10 percent could be made in the total war program, it would result in lightening the future burden of American taxpayers by approximately $35,000,000,000, which is no small amount.

We feel that it would be money well spent if the Congress were to equip itself with an adequate staff to make the necessary inquiry into all Federal expenditures in order to establish their justification. We further feel that it would be desirable for Congress to take such steps as may be necessary to bring about the fullest possible coordination between the spending and revenue-raising committees of each branch. Both these suggested changes in procedure would be in the interest of sound fiscal policy and economy and of distinct benefit to the American taxpayer.

C. COMMENTS ON SPECIFIC TAX PROVISIONS

1. *Individual income tax.*—Under the bill as reported, the individual income tax burden is left unchanged, except for such incidental increases or decreases as may result from the integration of the present Victory tax with the regular income tax.

The freezing of the individual income tax rates and exemptions at the existing level is in accord with the position taken by the Republican minority at the outset of the committee's deliberations, when we publicly announced that we were opposed to further increases in the personal income tax.

In taking this stand, we were not unmindful of the fact that many persons are enjoying high wartime incomes and possibly are in a position to pay even higher taxes than are now levied. However, we recognize that any general increase in the income tax would also fall heavily on that large group whose incomes have not increased as a result of the war, and which in many cases have actually decreased. They are being ground between the upper millstone of rising living costs and the nether millstone of unprecedentedly high taxes, in the face of unchanged or lowered income out of which fixed commitments, such as payments on the home, life-insurance premiums, and similar outlays must also be met. To impose a general increase in the income tax would unduly oppress this group, who probably make up a third to a half of the total number of income recipients. It includes pensioners, so-called white-collar workers, school teachers, businessmen adversely affected by wartime restrictions on the production of consumer goods, and others too numerous to mention.

It should be stated that the Ways and Means Committee gave serious consideration to the imposition of a special wartime tax on increased income, but after careful study this method of attempting to reach swollen war incomes without burdening those who have enjoyed no such benefits was found to be administratively impracticable and to involve many insurmountable inequities as between taxpayers.

The administration's case for increasing the individual income tax by 6½ billions was based almost entirely on the alleged need for absorbing through taxation the so-called excess purchasing power of the people as a means of helping to combat the threat of inflation. The Treasury, however, in setting up its program, completely ignored the fact that such excess purchasing power as may exist is not equally distributed among all the people. Furthermore, its sincerity in putting forward the anti-inflation argument as a justification for increased personal income taxes became immediately questionable when it developed that its tax proposals were not aimed at reaching this so-called excess purchasing power in the hands of those who are

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known to enjoy the great bulk of it. Hence, even if enacted, the Treasury tax program would make little, if any, contribution to inflation control.

The Treasury's argument in favor of the use of the income tax for anti-inflation purposes suggests this question: "After Congress has increased personal income taxes to the limit of the people's ability to pay in order to meet currently as much as possible of the war cost, is there a still higher limit to their ability to pay taxes for purposes of preventing inflation?" We think not. All tax dollars come out of the same pocket, whether levied for one purpose or another.

If the administration is really sincere in wanting to tax the so-called excess purchasing power away from those who have it, then let it have the courage to come forward with a tax proposal which will meet effectively this specific problem, rather than continue to play politics with the tax question as it has done ever since it has been in power.

The Congress and the country may wonder why a general consumption tax was not included in the bill as a "last ditch" war measure. There is need for plain speaking with regard to this matter. The fact is that the administration flatly advised the committee that it would rather have the bill fall short of the total requested than to have a tax of this character included. There was even a suggestion of a Presidential veto. The committee had to face the practical situation that it would be impossible to secure the enactment of such a tax in the face of determined administration opposition. Furthermore, there are honest differences of opinion among the committee members, without regard to party, over the merits and demerits of general consumption taxes, even as a war measure. In addition, the committee was faced with the fact that it would take considerable time to draft such a levy so as to make it practical of administration, which time was not available for that purpose in view of the need for enacting the new bill by the end of the year, to make the proposed income tax readjustments effective January 1.

It appears that if further taxes are to be imposed, beyond those carried in the pending bill, there is no place to which the Congress can turn except to the field of general consumption taxes. This fact must be faced, whether one is opposed to, or in favor of, such a levy.

2. Corporation taxes.—The bill makes no increase in the rate of tax on normal corporate profits, which now stands at a maximum of 40 percent, but does increase the excess profits rate from 90 to 95 percent, and makes a reduction in the invested capital credit in the case of larger corporations. The impact of the proposed 95 percent excess-profits rate as applied to smaller corporations is cushioned to some extent by increasing the specific exemption under the excess profits tax from $5,000 to $10,000.

In our joint statement issued at the outset of the committee's deliberations, we pointed out that in view of the already high corporate rates, any drastic increase would threaten the future solvency of business and impair its ability to provide peacetime jobs to returning servicemen and unemployed war workers. The retention of the maximum rate of 40 percent on normal corporate income is in accord with our previously announced position.

If any increase is to be made in corporate taxes, it is desirable that it be confined to excess profits, although even in such case it is possible to go beyond the point of diminishing returns. While some may feel that a 100-percent excess profits tax would be justified in time of war, the fact is that the War and Navy Departments are vigorously opposed to any such rate for the reason that it would not only discourage production for the war effort but would also result in increased cost of war materials to the Government as a result of taking away all incentive to hold down production costs. Thus the proposed 95-percent rate is the absolute maximum to which Congress should go in the interest of maximum production and minimum costs.

3. Estate and gift taxes.—No change is made in the rates or exemptions under the estate and gift taxes. The estate tax now reaches a maximum of 77 percent, which is perhaps as high as Congress can go without bordering on actual confiscation of property through taxation, which is a policy that is totally foreign to fundamental American principles, although it has been embraced to a considerable extent by the present administration. It must not be forgotten that the States, too, make use of this form of taxation, and after all, they have sole control, under the American form of government, of the right of devolution of property at death.

4. Excise taxes.—Having different viewpoints among ourselves as to the proposed increases in excise taxes under the bill, we refrain from making any comment on these levies in this report.

D. THE NEED FOR REVISION OF THE WHOLE FEDERAL TAX STRUCTURE

The Federal tax system, like Topsy, just "growed" up. One tax law has been piled on another until we now have a veritable hodgepodge which is steadily becoming more complex and incomprehensible. The need for a thorough overhauling of our tax system has long been acknowledged but nothing has ever been accomplished along this line. It is one of our most pressing national problems, particularly if, in the post-war period, we are to realize maximum revenues consistent with the greatest encouragement to business and individual enterprise. We should develop as soon as possible a long-range, integrated, well-balanced, equitable, and simplified scheme of taxation, and we of the Republican minority propose to do all in our power to bring about such a plan.

Aside from other shortcomings of the present tax system, there has in recent years grown up a tendency to use taxes for other than revenue purposes. Under the present administration, the taxing power has been availed of for punitive purposes, for social experimentation, and for effectuating otherwise unconstitutional Federal controls over the people. This practice cannot be too severely condemned. It is entirely contrary to the intent and purpose of the Constitution in granting Congress the power to levy taxes solely for the raising of revenue for the support of government. Any worth-while revision of the tax laws must necessarily embrace a return to sound principles of taxation, including taxation for revenue purposes only.

When the war ends, Congress will be faced with the problem of financing a post-war budget which may exceed $20,000,000,000 annually. It is essential to the maintenance of sound fiscal policy, including national solvency, that Federal revenues and expenditures be brought into balance as soon as possible after peace comes. This can only be done if the national income is maintained at a high level.

The adoption of a wise tax policy will have more to do than anything else with whether that high level of national income is maintained,

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since the responsibility will rest primarily on private business enterprise for its realization. Government spending will not do the job but on the contrary will only take the country further along the road to national bankruptcy.

If a sound, healthy, and expanding national economy is to be achieved, Congress must not only permit American business to exist until the war ends, but it must permit the setting aside of sufficient funds to carry through the reconversion period. Moreover, if the many potential new industries made possible by war developments are to become a reality, every encouragement must be offered under our tax laws and other Government policies to so-called venture capital.

As no one knows when the day of peace may come, it would be the part of wisdom to prepare now to put into effect immediately upon the cessation of hostilities whatever tax reforms may be necessary or desirable. We, therefore, advocate prompt action in dealing with this all-important problem, and shall do our part to be ready to meet it.

II. Revision of the Law Relating to the Renegotiation of War Contracts

It is not our purpose, in this report, to go into any extended discussion of the proposed amendments to the law relating to the renegotiation of war contracts.

It is the settled policy of Congress, in which we join, that no one should be permitted to make excessive profits out of the war. The proposed amendments are in keeping with that purpose.

There are at present on the statute books a number of laws which are intended to limit and control the making of war profits. As heretofore stated, we have an excess-profits tax running up to 90 percent, which it is now proposed to increase to 95 percent, and a tax on individual incomes which reaches a maximum of 90 percent. Then there is a wage and salary stabilization act which prevents the skyrocketing of corporate salaries. Also, we have a war-contract-renegotiation law which permits the recovery of excessive profits on war contracts. Moreover, both the Bureau of Internal Revenue and the renegotiation authorities have the power to disallow unreasonable salary allowances. Thus Congress has made every possible effort to control war profits, and to recapture them if realized.

In granting power to the various war agencies to renegotiate war contracts when excessive profits are found to exist, Congress gave these agencies broad and virtually unlimited authority. As a result of public hearings on this subject, both before the Naval Affairs Committee and the Ways and Means Committee, it has developed that there is need for limiting this authority in some respects. The testimony before both committees is replete with instances where those administering the renegotiation law have been arrogant, high-handed and even tyrannical in dealing with contractors and subcontractors. The powers given them have, in a number of instances, been abused. They have discriminated as between different contractors, allowing one a greater percentage of profit than another under the same or similar circumstances. Also they have used duress, direct and implied, in order to secure the submission of contractors and subcontractors to their findings. No review of their decisions by the courts has been permitted. Countless numbers of contractors have been harassed,

and their war work interfered with, by having to go through the renegotiation process only to be given a clearance in the end, though at considerable expense to themselves.

The proposed changes in the renegotiation law as carried in the bill are intended to correct these abuses and assure contractors and subcontractors the fundamental American right to appeal to the courts from the decisions of the renegotiation authorities. Some of the proposed changes, including the right of appeal, and the exemption of contracts up to $500,000, are concurred in by the departments. Others are not.

The renegotiation provisions of the bill, as presented to the House, represent the composite judgment of the committee. Some members of the committee felt that the revisions made do not go far enough.

In order to agree upon any modifications at all, opposing viewpoints had to be compromised. We dare say that neither side is fully satisfied with the renegotiation provisions of the bill, but in view of all the circumstances they are the best that could be agreed upon.

Respectfully submitted.

Allen T. Treadway,
Harold Knutson,
Daniel A. Reed,
Roy O. Woodruff,
Thomas A. Jenkins,
Donald H. McLean,
Bertrand W. Gearhart,
Frank Carlson,
Richard M. Simpson,
Charles S. Dewey.

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NOV 18 1943

My dear Mr. Chairman:

Receipt is acknowledged of your letter of November 12, in which you request my comments, suggestions and approval of an additional report on Federal Personnel.

As I stated in my letter of June 12, in connection with the Committee's first report, I am in accord with the Committee's views that the tremendous expansion in Federal personnel is a cause of serious concern, but it is my belief that it is not an opportune time to undertake drastic and far-reaching changes in Government personnel. While there may be some organizations which could make substantial reductions at this time, such reductions should only be made after a careful study rather than in an arbitrary manner.

I do not agree with the general implications in the report that the Civil Service Commission and the Bureau of the Budget have failed to exercise properly their assigned functions or that they are primarily responsible for many of the unfavorable personnel conditions mentioned in the report.

I am in sympathy with the Committee's objectives, and except for the reservations made above, join in the Committee's report.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Harry F. Byrd
Chairman, Joint Committee on Reduction
of Nonessential Federal Expenditures
Senate Office Building
Washington, D. C.

TFW:NNT:aja

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[illegible], REPRESENTATIVE FROM NORTH CAROLINA, VICE CHAIRMAN

[illegible]

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[illegible], JR., SECRETARY OF THE TREASURY
[illegible], DIRECTOR OF THE BUREAU OF THE BUDGET

Congress of the United States

JOINT COMMITTEE ON REDUCTION OF NONESSENTIAL FEDERAL EXPENDITURES

CREATED PURSUANT TO SEC. 601, OF THE REVENUE ACT OF 1941

November 12, 1943 m

Honorable Henry Morgenthau, Jr.
The Secretary of the Treasury
Washington, D. C.

My dear Secretary:

I am enclosing a committee print on Federal Personnel (additional report). I should appreciate your comments, suggestions, and approval.

It is our hope that this can be presented to Congress sometime next week.

With kindest regards, I am

Faithfully yours,

Harry F. Byrd

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SECRETARY OF TREASURY
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TREASURY DEPARTMENT

U.S. SECRET

BRITISH MOST SECRET

COPY NO 12

OPTEL No. 378

Information received up to 10 A.M. 18th November, 1943.

1. NAVAL Levant 16th/17th. KOS bombarded by three of H.M. Destroyers.

2. MILITARY Italy Weather remains particularly bad on 8th Army Front, Many rivers are in flood. Enemy counter attacks repulsed in ATE A Area where we made a little progress.

One LEROS only isolated resistance continues.

During 15th/16th successful patrol raid on SYMI Island without casualties. Main ammunition dump destroyed, Power Station and Government House partially destroyed. O.C. enemy troops killed.

Russia Russians have captured CHERNOBYL on LOWER PRIPET but have given up ground between ZHITOMIR and KOROSTISHEV (E. of ZHITOMIR) in face of German counter attack from south.

3. AIR OPERATIONS Western Front 17th/18th.

Aircraft despatched:- MANNHEIM/LUD LUSHAFEN 83 (one missing), BERLIN 7, DUISBURG 8, BONN 4, BOCHUM 2, Leaflets 4.

First reports indicate good concentration on MANNHEIM.

Yugoslavia 14th. Railway and other targets attacked by 59 fighters.

Albania 15th. Oil storage depot DURAZZO hit in attack by fighters.

Greece On 15th and 16th escorted heavy and medium bombers dropped 155 tons on airfield ATHENS.

Dodecanese 16th. Siebel Ferry heavily escorted by aircraft destroyed by Beaufighters off KALIMNOS.

16th/17th. Airfield at CALATO and MARITZA attacked by 16 bombers.

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U.S. SECRET

BRITISH MOST SECRET

COPY NO 12

OPTEL No. 379

Information received up to 10 A.M. 19th November, 1943.

1. NAVAL North Atlantic 18th One of H.M. Sloops escorting home-bound convoy torpedoed N.E. Azores and taken in tow.

Dodecanese LEROS. An evacuation scheme by Caique is in operation small parties have already escaped in MGB's etc.

In SAMOS both Ports have been heavily attacked by air and communications were difficult on 18th. Bulk of British Troops had been moved earlier to LEROS, remaining Greeks and Italians are under British Command.

2. MILITARY Italy Patrolling continues. Wintry weather reported persisting up to 17th/18th. RIVER TRIGNO has risen 7 feet.

Yugoslavia Germans have captured DRVENIK ISLAND and TROGIR (West of SPLIT) and Partisans have evacuated PELJESAC PENINSULA.

3. AIR OPERATIONS Western Front 17th/18th. 303 tons dropped on MANNHEIM/LUDWIGSHAFFEN.

18th. 203 tons dropped by liberators (B24) (9missing) on Air Frame and Engine Repair Factories OSLO. Weather good, results reported "excellent". Enemy Fighter casualties 8.8.15. 46 Typhoons bombers attacked Military objectives S.E. of GRIS NEZ. Results reported "very good".

18th/19th. Aircraft despatched: BERLIN 440 Heavies (9missing) thick cloud. MANNHEIM 395 heavies (22 missing). Weather fair, bombing scattered; targets in Germany 26, Sea-mining 16, Leaflets 13, Intruders 28 (1 missing),

Three enemy aircraft crossed South Coast, bombed scattered points, damage slight, one fatal casualty.

South France. 16th. Fortresses (B17) dropped 179 tons on ISTRES LA PUSE Airfield (27 miles N.W. MARSEILLES) and 43 Marauders (B26) bombed SALON Airfield (same Area).

Yugoslavia 16th. Mitchells (B25) dropped 20 tons on docks at SIBENIK (32 miles N. . SPLIT)

Greece 17th. 41 Fortresses (B 17) and 36 Mitchells (B 25) bombed 2 airfields ATHENS.

China 15th and 16th. A total of 47 heavy bombers attacked shipping KOWLOON. 3 ships were sunk.

OFFICE SECRETARY OF TREASURY
1943 NOV 22 AM 11 15
TREASURY DEPARTMENT

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UNITED STATES OF AMERICA

TREASURY SAVINGS NOTES

Series C

1943
Department Circular No. 656
First Revision

Fiscal Service
Bureau of the Public Debt

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, November 20, 1943.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, offers for sale to the people of the United States, at par, an issue of notes of the United States, designated Treasury Savings Notes, Series C, which notes, if inscribed in the name of a Federal taxpayer, will be receivable as hereinafter provided at par and accrued interest in payment of Federal income, estate and gift taxes.

2. The term Treasury Savings Notes, Series C, as used in this circular shall include Treasury Notes of Tax Series C, issued under this circular as originally published and Treasury Savings Notes, Series C, issued under this circular as originally published and amended.

3. The sale of the notes will continue until terminated by the Secretary of the Treasury.

II. DESCRIPTION OF NOTES

1. *General.*—Treasury Savings Notes, Series C, will in each instance be dated as of the first day of the month in which payment, at par, is received and credited by an agent authorized to issue the notes. They will mature three years from that date, and may not be called by the Secretary of the Treasury for redemption before maturity. All notes issued during any one calendar year shall constitute a separate series indicated by the letter "C" followed by the year of maturity. At the time of issue the authorized issuing agent will inscribe on the face of each note the name and address of the owner, will enter the date as of which the note is issued and will imprint his dating stamp (with current date). The notes will be issued in denominations of $100, $500, $1,000, $5,000, $10,000, $100,000, $500,000 and $1,000,000. Exchange of authorized denominations from higher to lower, but not from lower to higher, may be arranged at the office of the agent that issued the note.

2. *Acceptance for Taxes or Cash Redemption.*—If inscribed in the name of an individual, corporation, or other entity paying Federal estate, income or gift taxes, the notes will be receivable, subject to the provisions of Section IV of this circular, at par and accrued interest, in payment of such Federal taxes assessed against the owner or his estate. If not presented in payment of taxes, or if not inscribed in the name of a Federal taxpayer, and subject to the provisions of Section V of this circular, the notes will be payable at maturity or, at the owner's option and request, they will be redeemable before maturity, at par and accrued interest.

3. *Interest.*—Interest on each $1,000 principal amount of Savings Notes, Series C, will accrue each month from the month of issue, on a graduated scale, as follows:

First to Sixth months, inclusive	$0.50 each month.
Seventh to Twelfth months, inclusive	.80 each month.
Thirteenth to Eighteenth months, inclusive	.90 each month.
Nineteenth to Twenty-fourth months, inclusive	1.00 each month.
Twenty-fifth to Thirty-sixth months, inclusive	1.10 each month.

The table appended to this circular shows for notes of each denomination, for each consecutive calendar month from month of issue to month of maturity, (*a*) the amount of interest accrual, (*b*) the principal amount of the note with accrued interest (cumulative) added, and (*c*) the approximate investment yields. In no case shall interest accrue beyond the month in which the note is presented in payment of taxes, or for redemption before maturity as provided in Section V of this circular, or beyond its maturity. Interest will be paid only with the principal amount.

4. *Forms of Inscription.*—Treasury Savings Notes, Series C, may be inscribed in the name of an individual, corporation, unincorporated association or society, or a fiduciary (including trustees under a duly established trust where the notes would not be held as security for the performance of a duty or obligation), whether or not the inscribed owner is subject to Federal taxation. They may also be inscribed in the name of a town, city, county or State or other governmental body and in the name of a partnership, but notes in the name of a partnership are not acceptable in payment of taxes, since a partnership is not a Federal taxpaying entity. The notes will not be inscribed in the names of two or more persons as joint owners or coowners; or in the name of a public officer, whether or not named as trustee, where the notes would in effect be held as security.

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5. *Nontransferability.*—The notes may not be transferred in ordinary course: except that (1) if inscribed in the name of a married man they may be reissued in the name of his wife, or if inscribed in the name of a married woman they may be reissued in the name of her husband, upon request of the person in whose name the notes are inscribed and the surrender of the notes to the agent that issued them; (2) if inscribed in the name of a corporation owning more than 50 percent of the stock, with voting power, of another corporation, the notes may be reissued in the name of the subsidiary upon request of the corporation and surrender of the notes to the agent that issued them; (3) upon the death or disability of an individual inscribed owner or the dissolution, consolidation or merger of a corporation or unincorporated association named as owner, reissue or payment may be made in accordance with Section VI hereof; and (4) payment but not reissue, may be made as a result of legal proceedings as set forth in said Section VI. The notes may not be hypothecated and no attempted hypothecation or pledge as security will be recognized by the Treasury Department: *Provided, however,* that the notes may be pledged as collateral for loans from banking institutions and if title thereto is acquired by a bank because of the failure of a loan to be paid, the notes will be redeemed at par and accrued interest to the month in which acquired on surrender to the agent who issued them, accompanied by proof of the date of acquisition and by request of the pledgee under power of attorney given by the pledgor in whose name the notes are inscribed. The notes will not be transferred to a pledgee. The notes will not be acceptable to secure deposits of public moneys.

6. *Taxation.*—Income derived from the notes shall be subject to all Federal taxes, now or hereafter imposed. The notes shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

III. PURCHASE OF NOTES

1. *Official Agencies.*—In addition to the Treasury Department, the Federal Reserve Banks and their Branches are hereby designated agencies for the issue and redemption of Treasury Savings Notes, Series C. The Secretary of the Treasury, from time to time, in his discretion, may designate other agencies for the issue of the notes, or for accepting applications therefor, or for making payments on account of the redemption thereof.

2. *Applications and payment.*—Applications will be received by the Federal Reserve Banks and Branches, and by the Treasurer of the United States, Washington, D. C. Banking institutions and security dealers generally may submit applications for account of customers, but only the Federal Reserve Banks and their Branches and the Treasury Department are authorized to act as official agencies. The use of an official application form is desirable but not necessary. Appropriate forms may be obtained on application to any Federal Reserve Bank or Branch, or the Treasurer of the United States, Washington, D. C. Every application must be accompanied by payment in full, at par. Any form of exchange, including personal checks, will be accepted subject to collection, and should be drawn to the order of the Federal Reserve Bank or of the Treasurer of the United States, as payee, as the case may be. The date funds are made available on collection of exchange will govern the issue date of the notes. Any depositary, qualified pursuant to the provisions of Treasury Department Circular No. 92, Revised, as amended, will be permitted to make payment by credit for notes applied for on behalf of itself or its customers up to any amount for which it shall be qualified in excess of existing deposits.

3. *Reservations.*—The Secretary of the Treasury reserves the right to reject any application in whole or in part, and to refuse to issue or permit to be issued hereunder any notes in any case or in any class or classes of cases if he deems such action to be in the public interest, and his action in any such respect shall be final. If an application is rejected, in whole or in part, any payment received therefor will be refunded.

4. *Delivery of notes.*—Upon acceptance of full-paid applications, notes will be duly inscribed and, unless delivered in person, will be delivered, at the risk and expense of the United States at the address given by the purchaser, by mail, but only within the United States, its territories and insular possessions and the Canal Zone. No deliveries elsewhere will be made.

IV. PRESENTATION IN PAYMENT OF TAXES

1. During and after the second calendar month after the month of purchase (as shown by the issue date on each note), during such time, and under such rules and regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe, notes issued hereunder in the name of a taxpayer (individual, corporation, or other entity) may be presented and surrendered by such taxpayer, his agent, or his estate, to the Collector of Internal Revenue to whom the tax return is made, and will be receivable by the Collector at par and accrued interest from the month of issue to the month, inclusive (but no accrual beyond maturity), in which presented, in payment of any Federal income taxes (current and back personal and corporation taxes, and excess-profits taxes), or any Federal estate or gift taxes (current and back) assessed

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against the inscribed owner or his estate. The notes must be forwarded to the Collector at the risk and expense of the owner, and, for the owner's protection, should be forwarded by registered mail, if not presented in person.

V. CASH REDEMPTION AT OR PRIOR TO MATURITY

1. *General.*—(*a*) Any Treasury Savings Note of Series C not presented in payment of taxes, will be paid at maturity, or, at the option and request of the owner and without advance notice, will be redeemed before maturity, but the notes may be redeemed before maturity only during and after the sixth calendar month after the month of issue (as shown on the face of each note). (*b*) Payment at maturity or on redemption before maturity will be made at par and accrued interest to the month of payment, except, if a note is inscribed in the name of a bank that accepts demand deposits, payment at maturity or on redemption before maturity will be made only at the issue price, or par, of the note. However, if a note is acquired by any such bank through forfeiture of a loan, payment will be made at the redemption value for the month in which so acquired.

2. *Execution of request for payment.*—The owner in whose name the note is inscribed must appear before one of the officers authorized by the Secretary of the Treasury to witness and certify requests for payment, establish his identity, and in the presence of such officer sign the request for payment appearing on the back of the note, adding the address to which check is to be mailed. After the request for payment has been so signed, the witnessing officer should complete and sign the certificate provided for his use.

3. *Officers authorized to witness and certify requests for payment.*—All officers authorized to witness and certify requests for payment of United States Savings Bonds, as set forth in Treasury Department Circular No. 530, Fifth Revision, as amended, are hereby authorized to witness and certify requests for cash redemption of Treasury notes issued under this circular. Such officers include, among others, United States postmasters, certain other post office officials, officers of all banks and trust companies incorporated in the United States or its organized territories, including officers at branches thereof, and commissioned officers of the Army, Navy, Marine Corps and Coast Guard.

4. *Presentation and surrender.*—Notes bearing properly executed requests for payment must be presented and surrendered to the agent that issued the notes (as shown by the agent's dating stamp), at the expense and risk of the owner. For the owner's protection, notes should be forwarded by registered mail, if not presented in person.

5. *Partial redemption.*—Partial cash redemption of a note, corresponding to an authorized denomination, may be made in the same manner as for full cash redemption, appropriate changes being made in the request for payment. In case of partial redemption of a note, the remainder will be reissued in the same name and with the same date of issue as the note surrendered.

6. *Payment.*—Payment of any note, either at maturity or on redemption before maturity, will be made only by the Federal Reserve Bank or Branch or the Treasury Department, as the case may be, that issued the note, and will be made by check drawn to the order of the owner, and mailed to the address given in his request for payment.

VI. PAYMENT OR REISSUE TO OTHER THAN INSCRIBED OWNER

1. *Death or Disability.*—In case of the death or disability of an individual owner and the notes are not to be presented in payment of taxes, payment will be made to the duly constituted representative of his estate, or they may be reissued to one or more of his heirs or legatees upon satisfactory proof of their right; but no reissue will be made in two names jointly or as coowners.

2. *Dissolution or Merger of Corporations, etc.*—If a corporation or unincorporated body, in whose names notes are inscribed, is dissolved, consolidated, merged or otherwise changes its organization, the notes may be paid to, or reissued in the name of those persons or organizations lawfully entitled to the assets of such corporation or body by reason of such changes in organization.

3. *Bankruptcy.*—If an inscribed owner of notes is declared bankrupt or insolvent, payment, but not reissue, will be made to the duly qualified trustee, receiver or similar representative if the notes are submitted with satisfactory proof of his appointment and qualification.

4. *Creditors' Rights.*—Payment, but not reissue, will be made as a result of judicial proceedings in a court of competent jurisdiction, if the notes are submitted with proper proof of such proceedings and their finality.

5. *Instructions and Information.*—Before executing the request for payment or submitting the notes under the provisions of this section, instructions should be obtained from the issuing agent or from the Treasury Department, Division of Loans and Currency, Washington 25, D. C.

VII. GENERAL PROVISIONS

1. *Regulations.*—Except as provided in this circular, the notes issued hereunder will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing bonds and notes of the United States; the regulations currently in force are contained in Department Circular No. 300, as amended.

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2. *Loss, Theft or Destruction.*—In case of the loss, theft or destruction of a savings note immediate notice (which should include a full description of the note) should be given the agency which issued the note and instructions should be requested as to the procedure necessary to secure a duplicate.

3. *Fiscal Agents.*—Federal Reserve Banks and their Branches, as fiscal agents of the United States, are authorized to perform such services or acts as may be appropriate and necessary under the provisions of this circular and under any instructions given by the Secretary of the Treasury.

4. *Amendments.*—The Secretary of the Treasury may at any time or from time to time supplement or amend the terms of this circular, or of any amendments or supplements thereto, and may at any time or from time to time prescribe amendatory rules and regulations governing the offering of the notes, information as to which will promptly be furnished to the Federal Reserve Banks.

D. W. BELL,
Acting Secretary of the Treasury.

(Filed with the Division of the Federal Register, November 23, 1943)

TREASURY SAVINGS NOTES—SERIES C
TABLE OF TAX-PAYMENT OR REDEMPTION VALUES AND INVESTMENT YIELDS

The table below shows for each month from date of issue to date of maturity the amount of interest accrual; the principal amount with accrued interest added, for notes of each denomination; the approximate investment yield on the par amount from issue date to the beginning of each month following the month of issue; and the approximate investment yield on the current redemption value from the beginning of the month indicated to the month of maturity.

Par value (issue price during month of issue)	$100.00	$500.00	$1,000.00	$5,000.00	$10,000.00	$100,000.00	$500,000.00	$1,000,000.00	Approximate investment yield on par amount from issue date to beginning of each monthly period thereafter	Approximate investment yield on current tax-payment or redemption values from beginning of each monthly period to maturity
Amount of interest accrual each month *after* month of issue	Tax-payment or redemption values during each monthly period *after* month of issue [1]									
Interest accrues at rate of $0.50 per month per $1,000 par amount:									*Percent*	*Percent*
First month	$100.05	$500.25	$1,000.50	$5,002.50	$10,005.00	$100,050.00	$500,250.00	$1,000,500.00	.00	6.6
Second month	100.10	500.50	1,001.00	5,005.00	10,010.00	100,100.00	500,500.00	1,001,000.00	.00	1.8
Third month	100.15	500.75	1,001.50	5,007.50	10,015.00	100,150.00	500,750.00	1,001,500.00	.00	1.0
Fourth month	100.20	501.00	1,002.00	5,010.00	10,020.00	100,200.00	501,000.00	1,002,000.00	.00	1.2
Fifth month	100.25	501.25	1,002.50	5,012.50	10,025.00	100,250.00	501,250.00	1,002,500.00	.00	1.0
Sixth month	100.30	501.50	1,003.00	5,015.00	10,030.00	100,300.00	501,500.00	1,003,000.00	.00	1.0
Interest accrues at rate of $0.80 per month per $1,000 par amount:										
Seventh month	100.38	501.90	1,003.80	5,019.00	10,038.00	100,380.00	501,900.00	1,003,800.00	.03	1.0
Eighth month	100.46	502.30	1,004.60	5,023.00	10,046.00	100,460.00	502,300.00	1,004,600.00	.03	1.2
Ninth month	100.54	502.70	1,005.40	5,027.00	10,054.00	100,540.00	502,700.00	1,005,400.00	.72	1.0
Tenth month	100.62	503.10	1,006.20	5,031.00	10,062.00	100,620.00	503,100.00	1,006,200.00	.74	1.0
Eleventh month	100.70	503.50	1,007.00	5,035.00	10,070.00	100,700.00	503,500.00	1,007,000.00	.76	1.5
Twelfth month	100.78	503.90	1,007.80	5,039.00	10,078.00	100,780.00	503,900.00	1,007,800.00	.78	1.2
Interest accrues at rate of $0.90 per month per $1,000 par amount:										
Thirteenth month	100.87	504.35	1,008.70	5,043.50	10,087.00	100,870.00	504,350.00	1,008,700.00	.80	1.2
Fourteenth month	100.96	504.80	1,009.60	5,048.00	10,096.00	100,960.00	504,800.00	1,009,600.00	.82	1.1
Fifteenth month	101.05	505.25	1,010.50	5,052.50	10,105.00	101,050.00	505,250.00	1,010,500.00	.84	1.1
Sixteenth month	101.14	505.70	1,011.40	5,057.00	10,114.00	101,140.00	505,700.00	1,011,400.00	.85	1.1
Seventeenth month	101.23	506.15	1,012.30	5,061.50	10,123.00	101,230.00	506,150.00	1,012,300.00	.86	1.2
Eighteenth month	101.32	506.60	1,013.20	5,066.00	10,132.00	101,320.00	506,600.00	1,013,200.00	.88	1.2
Interest accrues at rate of $1.00 per month per $1,000 par amount:										
Nineteenth month	101.42	507.10	1,014.20	5,071.00	10,142.00	101,420.00	507,100.00	1,014,200.00	.89	1.2
Twentieth month	101.52	507.60	1,015.20	5,076.00	10,152.00	101,520.00	507,600.00	1,015,200.00	.91	1.2
Twenty-first month	101.62	508.10	1,016.20	5,081.00	10,162.00	101,620.00	508,100.00	1,016,200.00	.92	1.2
Twenty-second month	101.72	508.60	1,017.20	5,086.00	10,172.00	101,720.00	508,600.00	1,017,200.00	.93	1.2
Twenty-third month	101.82	509.10	1,018.20	5,091.00	10,182.00	101,820.00	509,100.00	1,018,200.00	.94	1.2
Twenty-fourth month	101.92	509.60	1,019.20	5,096.00	10,192.00	101,920.00	509,600.00	1,019,200.00	.95	
Interest accrues at rate of $1.10 per month per $1,000 par amount:										
Twenty-fifth month	102.03	510.15	1,020.30	5,101.50	10,203.00	102,030.00	510,150.00	1,020,300.00	.97	1.2
Twenty-sixth month	102.14	510.70	1,021.40	5,107.00	10,214.00	102,140.00	510,700.00	1,021,400.00	.98	1.2
Twenty-seventh month	102.25	511.25	1,022.50	5,112.50	10,225.00	102,250.00	511,250.00	1,022,500.00	.99	1.2
Twenty-eighth month	102.36	511.80	1,023.60	5,118.00	10,236.00	102,360.00	511,800.00	1,023,600.00	1.00	1.2
Twenty-ninth month	102.47	512.35	1,024.70	5,123.50	10,247.00	102,470.00	512,350.00	1,024,700.00	1.01	1.2
Thirtieth month	102.58	512.90	1,025.80	5,129.00	10,258.00	102,580.00	512,900.00	1,025,800.00	1.02	1.2
Thirty-first month	102.69	513.45	1,026.90	5,134.50	10,269.00	102,690.00	513,450.00	1,026,900.00	1.03	1.2
Thirty-second month	102.80	514.00	1,028.00	5,140.00	10,280.00	102,800.00	514,000.00	1,028,000.00	1.04	1.2
Thirty-third month	102.91	514.55	1,029.10	5,145.50	10,291.00	102,910.00	514,550.00	1,029,100.00	1.05	1.2
Thirty-fourth month	103.02	515.10	1,030.20	5,151.00	10,302.00	103,020.00	515,100.00	1,030,200.00	1.05	1.2
Thirty-fifth month	103.13	515.65	1,031.30	5,156.50	10,313.00	103,130.00	515,650.00	1,031,300.00	1.06	
Thirty-sixth month (MATURITY)	103.24	516.20	1,032.40	5,162.00	10,324.00	103,240.00	516,200.00	1,032,400.00	1.07	

[1] Not acceptable in payment of taxes until during and after the second calendar month after the month of issue, and not redeemable for cash until during and after the sixth calendar month after the month of issue.

* Approximate investment yield for entire period from issuance to maturity.

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INTERDEPARTMENTAL WAR SAVINGS BOND COMMITTEE
WASHINGTON

OFFICE OF CHAIRMAN
TREASURY DEPARTMENT

November 19, 1943

TO THE SECRETARY:

During the Third War Loan Drive, you wrote to the Secretary of State asking that embassies, legations, and foreign missions in Washington be contacted with a view to stimulating the interest of American employees in the purchase of War Savings Bonds.

We followed this up as best we could, with the following results:

Australian Legation	1	bond	$18.75
Belgian Embassy	20	bonds	2,081.25
Czechoslovakian Embassy ..	-		10,450.00
Cuban Embassy	31	bonds	1,256.25
Nicaraguan Embassy	6	bonds	206.25
Norwegian Embassy	7	bonds	881.25
Venezuelan Embassy	17	bonds	693.75
Yugoslavian Embassy	14	bonds	1,781.25
Total			$17,368.75

The British Embassy, which I understand employs a large number of American citizens in various missions, did not receive the memorandum of the Department of State in sufficient time to arrange for the sale of bonds during the Third War Loan Drive. However, the American citizens employed there have a Pay-roll Savings Plan; and Mr. William Chase of the Embassy informally advised that a number of bonds were purchased for cash in addition to those regularly bought through the Pay-roll Plan.

Mr. Reuben J. Gordon, Chancellor of the Chilean Embassy, did not receive the memorandum in sufficient time to arrange for the sale of bonds. However, he informally advised that four American citizens employed at the Embassy purchased bonds, but he did not know the value of the bonds.

The Department of State advised that the Russian Embassy had not replied to the memorandum.

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Now that we have the contacts with the foreign embassies and legations, we may be able to do a better job in the future.

O. E. Barnett

Regraded Unclassified

December 1, 1943

The Secretary decided not to answer this letter.

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HEADQUARTERS
NORTH AFRICAN THEATER OF OPERATIONS
UNITED STATES ARMY

19 November 1943

Mr. Henry Morgenthau
Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

I have just received a report which indicates a truly remarkable compliance with your request to ship to the United States items for display in connection with the next War Bond Drive.

I am attaching a carbon copy of the report which lists the items now in transit to the United States in the hope that they will reach there by the 1st of December.

I do not know whether the shipment of the three Mark VI tanks was an ordinary or an extraordinary effort on the part of the NATOUSA organization. I suspect that it was extraordinary and as a result of special effort on the part of several of the special friends of Mrs. Prismall. I know that General Patton and General Stewart took unusual steps as soon as they realized the full implications of your promise to call her to the United States if three Mark VIs were shipped. At any rate they are on their way.

Yours sincerely,

E. S. HUGHES,
Major General, USA,
Deputy Theater Commander.

1 Incl: copy memo CG SOS to DTC
Report on shipments of
items for War Bond Drive

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The carbon copy attachment (of which this is a photostat) was given to Mr. Smith today 12/1/43

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SECRET

SECRET
18 NOV 1943

HEADQUARTERS SERVICES OF SUPPLY
NORTH AFRICAN THEATER OF OPERATIONS
UNITED STATES ARMY
ARMY POST OFFICE 750

[illegible]93 (SSQMC) 18 November 1943

MEMORANDUM:

TO : Deputy Theater Commander.

1. Reference is made to your Memorandum of 22 October pertaining to the shipment of at least a thousand pieces of selected Air Corps Salvage items to the United States for the purpose of promoting the December War Bond Drive. In connection therewith, the following information is furnished covering shipments of selected scrap items individually identified as "For War Bond Drive".

a. Left BIZERTE on the JOHN L. SULLIVAN on 3 November:

20	Airplane Wings
2	Mark IV Tanks
3	Half-Tracks Personnel Carriers
11	Anti-tank 75 mm guns
2	AA 88 mm Guns
5	AA 50 mm Guns
6	Miscellaneous Artillery pieces
15	Fuselages
1	Mark II Tank
6	Howitzer 105 mm
4	Howitzer 107 mm
1	Light Half-Track
3000	German Helmets
1200	Small pieces German Planes
1	AA 20 mm Gun

b. Loaded on the JOEL POINSETT which sailed from NAPLES on 3 November:

2	Cases fuselages for FOCKE WOULFE
1	Case Wings for FOCKE WOULFE
	Total weight 10 tons
2	Mark IV Medium Tanks
2	Mark III Tanks
1	Self-propelled 7.5 Gun on Mark III
1	Self-propelled 10.5 mm Howitzer on Mark III

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c. Loaded on JOHN JAY which sailed on 8 November from NAPLES:

Landing Gear Struts Elbows and Compression Chambers
Propellers
Housing for Control Wires for Stabilisers and Wing Flaps
Turret Machine Gun and Control Panel
Spandeau Gun Mounts Machine
Stabilizers
20 mm Cannon and Machine Gun and Mounts
Landing Gear and Wheel with Tires
Aircraft Tires

Shipped in 25 Crates—Total weight 6 tons

d. Left BIZERTE on the SS HARRISON on 2 November:

4 Boxes of Small Parts
Weigh Total of 500 lbs.
From German airplanes—parts identified as to nomenclature and type of plane from which they came.

e. Left LICATA on 8 November on an LST:

3 Mark VI Tanks
2 Mark IV Tanks

2. It will be noted that these shipments are composed of selected Air Corps items in excess of the desired 1000 pieces and also tanks, guns, and artillery pieces recently evacuated from battle areas in ITALY. Apparently during the Secretary of The Treasury's tour, he requested shipment of items other than Air Corps because of their publicity value in promoting the December War Bond Drive.

3. These ships are scheduled to leave the theater with UGS-21 in a few days.

T. B. LARKIN
Major General, USA
Commanding

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MEMORANDUM FOR THE SECRETARY.

November 19, 1943.

Mail Report

Although the routine mail of the Treasury Department is heavy, this is a period when the fan mail is noticeably slack. Not only have the receipts fallen off, but the topics covered are so scattered that any unified report on the mail is impossible to make. The only positive conclusion drawn from the week's receipts is that business firms prefer a short term security for the Fourth Drive. Of 185 replies received up to Friday morning, from those to whom the telegram asking preference was sent, 150 voted for a 1-year offering, 15 for a 5-year note, and the others for tax certificates, etc.

There were a few requests for special Christmas Bonds and Stamps, and the usual inquiries about redeeming or re-inscribing Bonds. A total of 62 were submitted directly for redemption. Two or three letters spoke of instances of excessive cashing of Bonds. Complaints about undelivered Bonds from War Department personnel now stay at about the 25 mark. Not many months ago they were three or four times above this. Reports of failure to receive interest on Bonds dropped to 10.

There were few comments on taxes. Several associations submitted resolutions asking simplification of taxes and forms. One resolved that a sales tax be adopted, and another that Social Security taxes be maintained at their present level. The proposed increase in taxes on liquor brought a few strong objections on the basis that bootlegging will be the inevitable result. Occasionally a correspondent advances the idea that tax refunds be made in the form of War Bonds.

In the miscellaneous mail were 5 Congressionally transmitted protests against the Salary Stabilization

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Memorandum for the Secretary. November 19, 1943.

Amendment concerning commissions. There were 5 plans for a national lottery, comments and questions about the International Stabilization Fund, and recent gold exportations, and quite a number of Foreign Funds communications. After all the opposition, now comes a letter protesting the discontinuance of the steel pennies. It was signed by officers of the Union of the company where the zinc coating of these pennies is done.

G. E. Forbush

Regraded Unclassified

General Comments

J. M. Jones, Acting Secretary, National Wool Growers Association, Salt Lake City, Utah. The wool growers of this country are very much interested in the work done and that that is being done by the Treasury Department in the testing of shrinkages and in the testing for fineness of wool. Many of us feel that Mr. Herbert Wollner has done a remarkable job in this field. We also feel that as citizens we should know more about how and what these methods of testing of wool have meant to our Government. Wool growers are naturally interested in this shrinkage work because of the tariff duty. We feel that for the first time you are now collecting the full amount of duty as provided by law. Therefore, we have a great amount of interest in this work. We feel, too, that the methods now in use by your Department have very definite application to the problems of the domestic wool grower. * * *

John Conrad Mrozinski, Wilkes-Barre, Pa. I as a private citizen of this great nation am in full accord with your leadership as head of the Treasury Department. Continue your splendid work.

Melchor León, El Dragon de Oro, S.A., Mexico City, Mexico. * * * I take the pleasure to inclose herewith New York draft in the amount of $72.99, equivalent of $354.00 Mexican pesos (at the rate of exchange of $4.85 pesos for $1.00), to which amounted the 25% of all purchases made by American citizens in this store during the month of October, 1943, that is donated to the U.S. Government for "National Defense".

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Favorable Comments on Bonds

Webb G. Welborne, Daytona Beach, Florida. May I presume to make the following suggestion in possible furtherance of the sale of War Bonds? Early in December the banks of the nation will mail to their Christmas Savings Club depositors checks amounting to approximately $400,000,000. This vast sum is new wealth for which those receiving it will have no urgent need. Much of it will be needlessly and foolishly squandered with the inevitable disastrous result -- another inflation boost. Why not, then, through the good offices of your Department have the banks mail to all depositors two-way post cards, one asking for authority to withhold a specified percentage (10, 20 or 25%) of the value of the check in payment for a War Bond or Bonds, to be delivered with the savings check before Christmas, the return card to bear a form to be filled in giving withholding authority and signature of the depositor. Big job, yes, and the time is short, but you have successfully put over bigger ones.

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Unfavorable Comments on Bonds

Floyd M. Jones, Jr., Harrisburg, Pa. I was employed at the Middletown Air Service Depot from November 4, 1942, until January 11, 1943. I subscribed to the War Savings Bond Plan, having the sum of $6.25 deducted from my earnings every pay period, which was semi-monthly. After a period of six months I called the War Bond Unit at Middletown Air Service Depot and also made several trips, trying to get some information why I had not received my Bond. I wrote to the office in Washington, as instructed, and received a letter from Lieut. Colonel J. H. Rees, Chicago, Ill., stating that civilian payroll deductions made prior to January 1, 1943, have not been applied to the purchase of Bonds as authorized by individual subscribers, and referred me to the Personnel Officer at Middletown Air Service Company. I have again written to the Personnel Officer at Middletown several times. In my last letter to them I cancelled my subscription to the Bond Plan, and asked for the refunding of my money. I received a reply requesting me to make no further inquiries for another three months or more, from George E. Boudreau, First Lieutenant, Air Corps Certifying Officer, Middletown Air Service Command. In view of the facts as stated, I feel that I am justified in making this appeal to you, after waiting over eleven months for that which I paid in all good faith, and having exhausted every conceivable source of redress, I am asking you to please advise the responsible authorities of the Air Service Command to send me a $25 War Bond or refund my money, $18.75, immediately. Allow me to thank you in advance for the prompt attention that I know you will give this most important matter.

Dorothy Bergh, Seattle, Washington. During 1942, War Bond deductions were taken from my wages each month for most of the year, in return for which I have received only one $50 paper Bond. The balance purchased prior

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to the time the Seattle Quartermaster Depot commenced issuing the paper Bonds from their own Department, were not received by me. I have terminated employment at the Seattle Army Service Forces Depot, and they have informed me that the Government has initiated an office at Chicago for taking care of these delinquent Bonds, but over a year has passed and nothing has been done regarding the matter which I have taken up with the Depot repeatedly. As you know, there is no incentive to purchase more Bonds, with this sort of matter in suspense. * * * As I have mentioned, the only answer I can obtain from the Seattle Army Service Depot is that an office is being established at Chicago to take care of such business. This only, however, without any further action from Chicago, does not furnish me any assurance that the money is credited to my account. * * *

John O. W. Coss, Salt Lake City, Utah. In August or September of 1942, while employed at the Quartermaster Market Center, San Francisco, Calif., I authorized a deduction from my pay for the purchase of Series "E" Bonds. I was transferred to the Chicago Office of the Quartermaster Market Center in October, 1942, where the pay deduction was continued. Throughout this more than a year, I have received but three $25 Bonds. I have written to the Bond Officer, Oakland, Calif., Quartermaster Depot, and to the Bond Officer, Chicago Quartermaster Depot, asking for a reason for the delay in the delivery of these Bonds. Their replies were all based on the same excuse -- that there had been a rearrangement of the Issuing Office and that my Bonds would be forthcoming when this reorganization was complete. That was some time in the early summer, and I am still without my Bonds. I have notified the Bond Officer of this office to discontinue deduction from my pay to cover Bond purchases. I shall continue to buy more than the 10% asked of the average person, but through my bank. * * *

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Unfavorable Comments on Taxation

Mrs. J. W. Howard, Kansas City, Mo. I'd like to know how any sane person can expect people to estimate their year's income in advance. That may be simple if you have a fixed income. For the most part, our income comes from dividends. * * * I have had to pay a tax man twice this year -- and will have to pay again in December, because I can't figure out all conglomeration on the returns. Of course I'm not so happy at having to pay out 28% of my income in taxes, but I wouldn't object so much, since the War must be won, except I'm nearly crazy trying to follow all the cock-eyed things demanded of us. In the name of humanity, won't you see if you can't find a more sane method of computing and collecting taxes? I'm just one of many who feel this way, but I'm one of the few who is willing to take time to write about it -- and contribute a 3-cent stamp -- and I hear it will soon be 4-cents! Yours for simpler taxes.

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TREASURY DEPARTMENT

WASHINGTON 25

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

NOV 19 1943

Memorandum for Mr. Sullivan,
Assistant to the Secretary.

This is with further reference to the survey which the Bureau has been conducting as to the current liquor shortage, and the black market in taxpaid domestic whiskies which has resulted therefrom.

The survey indicates that the distillers now are marketing only about sixty-five per cent of the quantity of whiskey withdrawn for taxpayment a year ago. There now are approximately 400,000,000 gallons of whiskey in warehouses, which is a four-year supply at the present reduced rate of withdrawals. In light of the existing demand brought about by increased purchasing power, it is safe to assume that the demand now exceeds by more than fifty per cent the supply being made available by distillers. While the survey indicated the trade was satisfied that industry-imposed rationing was necessary in order that an adequate post-war supply of whiskey might be available, yet it is not unlikely that other factors influenced the distillers.

The fact that all distillers are now engaged in the production of alcohol on a twenty-four hour basis has undoubtedly increased their profits to the place where their corporate income taxes are such, from their point of view, as to no longer furnish an incentive to risk the hazard of an inadequate post-war supply in order to meet more nearly the current demand for domestic whiskies.

As was pointed out in the Bureau's memorandum of November 9, 1943, interviews had with wholesalers and retailers in Washington, D. C., and Baltimore, Maryland, in connection with the survey, indicate that in license states wholesalers are supplying fully the requirements of hotels and bars, and discriminating against package stores, with the result that this type of outlet can

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Memorandum for Mr. Sullivan,
Assistant to the Secretary.

Page two.

supply only a small fraction of the demand. While the inquiry made in Washington, D. C., disclosed that some of the hotels and bars had been offered large quantities of liquor at black market prices, yet no evidence was disclosed indicating that either wholesale or retail dealers were selling liquor in the black market. This condition probably can be attributed to the close supervision exercised over the liquor business in the District of Columbia by the Alcoholic Beverage Board.

The survey made in Baltimore disclosed the liquor shortage to be almost as severe as in Washington, D. C. It was determined that package stores, probably acting as "fronts" for wholesalers, were selling large quantities of liquor in the monopoly States of Virginia and West Virginia. Inasmuch as investigation disclosed the alleged purchasers to be fictitious, as reflected by 52-B Records, there can be no question but that this liquor was disposed of at black market prices. Some evidence of so-called "back door" sales by package stores and local bars at bonus prices was also developed. A number of the dealers interviewed had been offered liquor at black market prices by individuals giving New York or New Jersey addresses.

The Baltimore Wholesale Liquor Dealers Association, as the result of the facts disclosed by the survey, has taken steps to police dealers in that area with a view of cutting off any black market operator's source of supply.

As you were previously advised, the Bureau, regardless of its lack of basic jurisdiction, has formulated an extensive investigative program for combating the black market in liquor. Attached is a communication directed to all District Supervisors which outlines the investigative approach. It will be noted, where violations of the liquor laws are not involved, that arrangements have been effected with the OPA to handle price ceiling cases through joint investigations.

Robert E. Hungerford

Commissioner.

Attachment

Regraded Unclassified

AT:S:DEA

November 13, 1943

District Supervisor,
New York, New York.

In the last sixty days an extensive black market in taxpaid domestic whiskies has developed, due to distillers, under an industry-imposed rationing system, marketing only about sixty-five per cent of the quantity of whiskey bottled a year ago.

The black market is created by the current liquor shortage and the control of prices through OPA ceilings. This situation has been taken advantage of by racketeers outside the industry and by unscrupulous dealers within the industry to make exorbitant profits reminiscent of the prohibition era. Black market prices range from $10 to more than $30 a case above ceiling prices in different sections of the country, depending largely on the supply in a particular locality. Conditions are particularly bad in the monopoly states, due to the inability of the state store systems to supply either the consumer or the retail outlet dispensing by the drink.

As the existing shortage becomes more acute, it is apparent that the distribution end of the liquor business will deteriorate into a racket if drastic steps are not taken to restrict this traffic. Because of the ultimate effect of black market operations on the revenue and law enforcement generally, the Unit has concluded, regardless of its lack of basic jurisdiction, in combating this traffic to make use not only of the applicable provisions of the revenue laws and the Criminal Code, but of the Emergency Price Control Act, consistent with the investigative personnel available for this purpose.

The statutes which appear to have application, depending upon the facts in each case, are as follows:

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(1) Section 3253, Internal Revenue Code. (Failure to pay special tax as rectifier, wholesale or retail liquor dealer.)

This statute will have application only where the black market operator has failed to qualify as a wholesale or retail liquor dealer. This section contains both criminal and forfeiture provisions.

Particular attention is called to the fact that the liquor sold or possessed by such unqualified dealers is subject to forfeiture "wherever found." (See AT-Circular, A. T. No. 706.) Attention is also called to the forfeiture provisions of Section 3116, Internal Revenue Code. It is problematical to what extent black market operations will be carried on by unqualified dealers. Some large scale operations of this character, conducted on a strictly clandestine basis, have already been detected. From the black market operator's point of view the advantage of this type of operation is that it aids in concealing his identity, avoids compliance with the internal revenue laws, keeping of records, et ceters. The disadvantage is, of course, that the unqualified dealer subjects himself to both the criminal and forfeiture provisions of the internal revenue laws.

(2) Section 2857 (a), Internal Revenue Code. (Falsification of 52-A and B Records.)

This statute has application where the black market operator is a qualified wholesale liquor dealer, and falsifies his records relative to the receipt and sale of liquors in order to conceal black market transactions. This section contains only criminal provisions.

It would appear that the forfeiture provisions of Section 3793 (a), Internal Revenue Code, are applicable to the liquor which is the subject of the false entries in the 52-A or B Record, but not until such time as the 52-A or B Record is incorporated in Form 338 and certified to by the wholesaler as being correct. Inasmuch as Form 338 is a monthly report and is not required to be submitted to your office until the tenth of the succeeding month, it is problematical how effectively the forfeiture provisions

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of this section can be utilized, since considerable difficulty would undoubtedly be encountered in tracing and identifying the liquor which was the subject of the false entry. Nevertheless, it is felt that the enforcement of this provision will tend to restrict black market operations materially.

(3) Section 240, Criminal Code; Section 390, U.S.C.A. 18. (Shipment of liquor not plainly marked in interstate commerce.)

This section has application to the black market operator who is operating either as a qualified or an unqualified dealer who ships liquor by common carrier under fictitious billing from one state into another. This type of operation has been resorted to by black market operators shipping liquor by truck either into or through monopoly states in order to avoid state officers seizing such shipments. The fictitious billing is usually to a state monopoly who never ordered the liquor, and consequently is wholly unacquainted with the shipment.

This section contains both criminal and forfeiture provisions. The forfeiture provisions have application to the liquor, but not to the conveyance used in transporting it into interstate commerce. (See AT-Circular, A. T. No. 706.)

(4) Section 2 (a), Emergency Price Control Act. (Authority under which price regulations covering liquor, MPR 193 and 445, are predicated.)

Section 205, Emergency Price Control Act. (Covers penalties for violation of regulations establishing price ceilings.)

Price ceilings are, of course, established by regulations promulgated under the Emergency Price Control Act, and have the effect of law. In the investigation of black market cases, it is desired to rely, where possible, primarily on violations of the revenue laws and Section 240 of the Criminal Code. The price ceiling violations, however, should be developed fully, if possible, to show motive and

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to enable the United States Attorney to also charge a violation of the Emergency Price Control Act. Where the black market operator has scrupulously complied with internal revenue and other liquor laws, you will, however, have to depend upon the provisions of the Emergency Price Control Act, and the regulations promulgated thereunder, for a basis of either administrative or prosecutive action. Cases of this character will involve sales invoiced and paid for at the ceiling price, with large cash payments made direct or through third persons representing the difference between the black market and invoice price of liquor. Where cash bonuses are paid, no difficulty will be encountered in establishing the black market aspect thereof. Such transactions should be reported to the Intelligence Unit for future income tax inquiry.

In maintaining accurate records and complying with the internal revenue laws, the black market operator necessarily takes the chance that, due to the very character of certain transactions, investigative leads may be secured, resulting in the establishment of price ceiling violations. Nevertheless, this method will probably be adopted by black market operators selling to outlets in license states as the least hazardous.

(5) Section 4 (d), Federal Alcohol Administration Act. (Basic permits conditioned upon compliance with Federal laws relating to distilled spirits, wines, and malt beverages, including taxes with respect thereto.)

Suspension proceedings may be instituted under this section where violations of the statutes listed under (1), (2), (3), and (4) above are involved. Inasmuch as the OPA regulations relative to ceiling prices on liquor are promulgated under the Emergency Price Control Act and have the effect of law, such regulations are considered to be "Federal laws" relating to distilled spirits and within the purview of this section. In cases involving violations of price ceilings only, advantage should not be taken of this section unless the evidence is quite conclusive.

(6) Section 7, Federal Alcohol Administration Act; 207 U.S.C.A. (Penalties for failure to obtain a permit as required by Section 3 of the Federal Alcohol Administration Act.)

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This section is particularly applicable where retail liquor dealers engage in black market operations and sell large quantities at wholesale for resale. Some evidence has been secured indicating that wholesalers, in connivance with package stores, are supplying such outlets with large quantities of liquor, which outlets are disposing of it in 25 to 100 case lots in the black market. Obviously, in such cases the package store is nothing more than a front or cover house for the wholesaler, who is the real black market operator. In some instances, these retailers have paid special tax as wholesalers, but have not qualified under the Federal Alcohol Administration Act.

As already indicated, the modus operandi is different, depending upon whether the liquor is destined for monopoly or license states. Consequently, different schemes are being used by black market operators in various sections of the country in order to circumvent the Federal and state laws which are being violated incident to the black market operations. Heretofore the Unit, as a matter of policy, has not enforced the criminal and forfeiture provisions of the revenue laws or Section 240 of the Criminal Code, where the basic tax had been paid on the liquor and only technical violations were involved. Such technical violations include failure to pay special tax, falsification of 52-B records, fictitious interstate shipments, et cetera. It is now considered necessary to temporarily suspend this policy in order to effectively combat the current black market. It is not believed that any purpose will be served by enforcing these provisions as to sales being made by dealers located in dry states or local option counties. These statutes should be enforced, however, against wholesalers supplying dealers in dry states or local option counties where black market operations are involved. Obviously, the Unit cannot be concerned with black market sales by retailers to consumers.

It is believed that much can be accomplished in combating this traffic by working closely with state officers and taking advantage of state liquor control laws, particularly in monopoly states. Where no forfeiture provision is contained in any Federal law, arrangements can, of course, be made for state officers to seize the liquor where state laws are involved. In several of the monopoly states liquor control boards have solicited the cooperation of local officers with the result that a substantial number of seizures are being made.

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It will be the Unit's purpose to report and submit to the United States Attorney for prosecution black market cases involving violations of the internal revenue laws, the Criminal Code, and the Emergency Price Control Act.

In cases involving violations of the internal revenue laws or Section 240 of the Criminal Code, as well as the Emergency Price Control Act, the assistance of an OPA investigator, if available, should be secured in developing the price ceiling violation. In such cases, where the price ceiling angle is developed, a copy of the report should be furnished the proper Office of Price Administration. In cases where the preliminary investigation indicates that only a price ceiling violation is involved, arrangements should be made for an OPA investigator to be assigned so that a joint investigation may be conducted. In such cases, the report should be submitted to the United States Attorney through the proper Office of Price Administration. The procedure outlined will permit the OPA to take any administrative action which may be warranted. The Price Administrator is advising OPA field offices of the Unit's program and instructing them to assign the necessary investigative personnel, on request.

The applicable statutes in combating black market operations having been discussed, the question of the investigative approach necessarily arises. A survey just completed in Baltimore, Maryland, and Washington, D. C., which had as its primary objective a determination of the reason for the current liquor shortage, has furnished a great deal of tangible information relative to black market conditions in this area. This survey included an examination of the merchandising methods of distillers and wholesale and retail liquor dealers. There is no doubt that the data obtained relative to the black market operations were made available to the Investigators on the assumption that the Unit had no jurisdiction in the matter and was only incidentally interested in this condition.

Inasmuch as this traffic cannot be effectively combated in any district without a knowledge of conditions, it is suggested that a similar survey be made before any large scale investigations are undertaken. It is possible that in certain supervisory districts, made up wholly of monopoly states, no purpose would be served by such a survey. The number of wholesalers and retailers to be surveyed and interviewed will be left to your

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discretion, inasmuch as conditions vary throughout the country. The surveys, however, should be sufficiently complete to determine the existing situation. It is not unlikely that you will desire the Investigators in Charge to assist in making these surveys, since some of the cases investigated will be handled by these offices. This matter, however, will be left to your determination.

Attached is an agendum used in the Baltimore district in making this survey. There will be forwarded to you, under separate cover, a twelve page summary of the report covering the Baltimore survey so you may appreciate fully the advantages to be derived therefrom.

The survey disclosed generally, in license states, that wholesalers were supplying fully the requirements of hotels, cocktail rooms, and bars, and discriminating against the package stores, with the result that these outlets were able to supply only a fraction of the demand. It was determined that the majority of retail outlets, including package stores, were backlogging as much whisky as possible and storing it off the premises, particularly in private dwellings. The explanation furnished for off-premises storage was that the merchandise was irreplaceable. Inasmuch as the Unit will be confronted in the immediate future with another floor stocks tax, it is suggested that particular attention be given in making this survey to the approximate quantity of liquor on hand at the time of the interview and to the point of storage.

It will not be necessary, at the conclusion of the survey, that you submit to this office a formal report. Black market conditions found as the result of the survey, together with any other interesting data, should be dealt with extensively in the weekly enforcement report.

There are also attached copies of the Emergency Price Control Act and OPA Regulations 103, 193, and 445. Regulations 445 apply to wholesale and retail transactions. These regulations are intricate and are not readily understandable. Ceiling prices for each distiller's brand must be computed as provided in the regulations. Certain basic data are required which must be secured from the OPA. It is for this reason that the assignment of a price expert by the OPA is deemed essential in cases where violations of price ceilings alone are involved. The difficulty

here is not as formidable as might appear, as in most black market cases the very character of the transactions will indicate that price ceilings have been violated. The black market price will be established by the investigations, and the ceiling price computed by the OPA. It will be noted that wholesalers' prices are based on a fifteen per cent mark-up over the distillers' prices, and retail prices computed on a thirty-three and one-third per cent mark-up over wholesale prices.

The Unit's sole objective in combating the black market in liquor is to avoid the development of a lawless condition in an industry over which it must exercise supervision. In combating this traffic, you should utilize only such personnel as can be made available without jeopardizing the revenue,or other major investigative work in your district. After the surveys are completed, and it becomes generally known that the Alcohol Tax Unit is attacking this problem, it is believed that this factor alone will have a very definite preventive effect. The industry can, of course, do a great deal toward policing itself. It is simply a question of keeping the liquor out of the hands of the unscrupulous dealer who is supplying the black market. It is not unlikely that after the surveys are completed and some cases perfected, the Unit will want to formulate some means by which it can cooperate with the industry in such a program.

You should perfect your organization immediately and have Investigators in the field within two days after receiving this letter.

This communication is being directed to all districts.

Stewart Berkshire,
Deputy Commissioner.

Attachments

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Examine Forms 338 on file in the office of the District Supervisor submitted by wholesale liquor dealers in Baltimore, Maryland, and obtain the following information as to approximately six of the largest wholesalers for the months of May 1942 to September 1943. Data should be restricted to whisky only.

(1) (a) On hand first of month. (This item will be the same as the item "On hand end of month for the April reports.")

(b) Received on premises.

(c) Sent out from premises.

(d) On hand end of month.

(e) Note special upward or downward trends as to each item.

(2) Make a spot check of commercial records of the wholesalers selected for the survey and make note of substantial decrease or increase of sales to particular customers. (Not more than 12 customers of any one wholesaler to be interviewed, consisting of four hotels, night clubs, or leading cocktail rooms, four package stores, and four medium or small bars.) In other words, ascertain whether the commercial records indicate that the self-imposed rationing of the industry has resulted in preference being given to certain customers. Make notes of names and addresses of such customers, amounts of liquor involved, etc. (If wholesalers refuse to submit to examination of commercial records, data can be secured from Records 52-B, but this will entail a great deal more work. No difficulty was encountered in the Baltimore survey in securing access to commercial records.)

(3) Examine Forms 52-A of wholesalers to determine principal sources of purchases and note any particular changes.

(4) Call upon the wholesalers, show them the figures taken from Forms 338, and question them as to the reasons for upward or downward trends in purchases, sales, and stocks generally. If an examination of the commercial records discloses preference being given to certain customers at the expense of others, question the wholesalers as to the reason therefor. If Forms 52-A show changes in sources of purchase, question the wholesaler as to the reasons therefor.

(5) Call upon the customers of the wholesalers which appear to be favored, as well as those which appear to be discriminated against, and question them as to why they are able to receive more or less whisky, as the case may be.

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(6) Call on the leading hotels and a number of prominent cocktail bars where large quantities of whisky are sold over the bar. Examine their purchase records to see whether their purchases have increased, decreased, or have remained stable. Here again obtain the proprietors' view with respect to any material increase or decrease in purchases. Determine the approximate quantity of whisky in cases on hand at the time of interview.

(7) Interview a number of representative package stores and obtain their views with respect to experiences had in purchasing whisky, and any discrimination or favoritism shown by wholesalers. Determine whether whisky is concealed under counters or in back rooms and sold to preferred retail customers, or placed on shelves; also determine whether the quantity sold each day is restricted. Indicate approximate quantity of case goods on hand at the time of interview.

(8) Determine whether warehouse receipts are held by wholesalers or retailers, and if so, determine the quantity of whisky involved, and reasons why they are not being placed on the market.

(9) Throughout the investigation question wholesalers, as well as retailers generally, with respect to what is known as "self-imposed" rationing imposed by distillers, and the effect it is having upon the industry generally.

(10) Watch for evidence of black market in whisky and any evidence of distillers or wholesalers quoting prices above the O.P.A. ceiling, or offering to sell at the ceiling price, plus a premium.

(11) Examination of records, etc., should be confined to whisky. Any general information, however, that might be of interest with respect to gin, rum, and brandy may be included in the report.

(12) If prominent hotels and cocktail bars are able to obtain sufficient supplies of liquors, whereas package stores are curtailed or rationed, this fact, together with the ways and means it was accomplished, should be shown in the report.

(13) All persons interviewed should be questioned as to the reasons for distillers rationing whisky.

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(14) The purpose of this survey is to determine conditions in the city of Baltimore as typical of any metropolitan area operating under the license system. The report of the investigation should be complete but concise, showing pertinent information with respect to each wholesaler or retailer. Conditions found to exist should be summarized in the concluding paragraph of the report.

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November 20, 1943

MEMORANDUM FOR THE SECRETARY

From: Mr. Paul

In accordance with your request of November 19, 1943, there is attached a brief statement explaining why reduction in government expenditures does not reduce the revenue needs below the amount of $10.5 billion recommended by the Treasury in its statement to the Ways and Means Committee October 4, 1943.

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Reply to contention that reduction in government expenditures reduces revenue needs below amount recommended by the Treasury

1. Unspent appropriations

It has been announced that the Army and Navy will turn back unspent appropriations amounting to $13 billion and $4 billion, respectively. Some people suggest that this will reduce revenue needs. The Treasury disagrees.

Appropriations affect revenue needs only as they affect expenditures. For the current fiscal year the amount which the armed forces are allowed to spend under appropriations already passed is enormously more than they plan to spend. Unexpended balances of appropriations from previous years plus new appropriations voted since the present fiscal year began in July 1943 amount to $197 billion. This is more than double the $97 billion of war expenditures budgeted for the fiscal year 1944. The $197 billion total of available war appropriations could be reduced far more than the $17 billion just announced without the slightest effect on actual spending.

2. Expenditures and revenue goals

The Treasury cannot conscientiously accept revenue goals lower than the $10.5 billion goal which was presented to the Committee on Ways and Means in light of prospects for actual expenditures.

a) Expenditures are not likely to fall far short of budget estimates

Total federal government expenditures for the fiscal year 1944 are budgeted at $104 billion. Through November 15, total expenditures were $34 billion. If the same rate of expenditures continued till the end of the fiscal year next June 30, expenditures would come out at $90 billion, or $14 billion below estimates. But there are many reasons for believing the rate of expenditures will continue to rise. There are more soldiers and sailors drawing pay every month, and the Congress has just increased allowances to their dependents. For many items the first few months of the fiscal year happen to be months of low expenditure. Further increases are scheduled in many lines of war production. Whether or not it reaches the budgeted $104 billion, expenditure is sure to go above the $90 billion average level of recent months.

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"Cut-backs" in some war production programs must be expected. But since other programs will be expanded and many production programs are behind schedule for lack of men and materials, what we save in one direction will be spent in another. It is not prudent to count on expenditures falling far below the budget estimates.

b) Any reduction in expenditure will only slightly reduce inflation pressure

Even though expenditures are held below estimates, we cannot conscientiously lower our revenue goals.

One of the most important reasons for recommending a heavy revenue program is the fact that consumers have so much more spending power than consumption goods supplies can absorb. From this standpoint any reduction in government expenditures will be an improvement. But per billion of reduction, the gain against inflation will be only slight. Economy programs are aimed largely to eliminate excessive war profits taxed at a 90 percent rate. Furthermore, a large part of the profits and other incomes affected would be invested in war bonds. Only a fraction would be money which people are trying to spend on consumption.

c) Any reduction in expenditure will only slightly reduce government borrowing

Another of our major reasons for asking the Congress to strengthen the tax structure is to reduce our reliance upon bank financing. With the aid of an able and energetic volunteer staff throughout the nation, the Treasury has been doing its utmost to borrow money from non-banking sources. The total amount raised through month-to-month sales of War Savings Bonds and through our periodic drives has been most gratifying; but it still falls far short of the amounts we are obliged to borrow.

As was just mentioned, the effect of reduced expenditures is apt to be chiefly upon income that goes into war bonds and into excess profits and other taxes. The combined reduction of tax revenue and of bond sales to individuals and corporations other than banks will be a large fraction of the reduction in expenditure, and the reduction in bank borrowing will accordingly be relatively small.

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d) Any reduction in expenditure does not reduce the amount that taxpayers can bear

The Treasury did not propose more than a $10.5 billion revenue program only because of its desire to avoid undue hardship on those taxpayers in the lower and middle income brackets who have not shared in the wartime growth of money incomes. In general, these taxpayers will not have their taxpaying capacity reduced by a cut in government expenditures. The amount of taxes we can levy with due consideration for the fixed-income groups is unchanged by any moderate curtailment of expenditures. If expenditures can be reduced, $10.5 billion of taxes will become somewhat more adequate from the standpoints of reducing inflationary pressure and of avoiding bank financing.

Such an improvement in the situation will be most welcome to the Treasury. It is a matter of record that the Treasury has stood for economy when economy was unpopular, as well as when it was popular; and the Treasury stands for economy now. But no cut in expenditures which is compatible with energetic conduct of the war can justify cutting our revenue proposals to a still lower level. The $10.5 billion is a minimum program which stands unaffected by any foreseeable reduction in government expenditures.

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November 19, 1943.

MEMORANDUM FOR THE SECRETARY'S FILES:

With the Secretary's approval Mr. White asked Mr. Sullivan to arrange with Speaker Rayburn a meeting of the committee which Speaker Rayburn had appointed to confer with the Treasury informally on postwar monetary problems. Mr. Sullivan arranged with Mr. Doughton a meeting for Friday morning, November 19, 1943.

Present: Honorable Andrew L. Somers,
Chairman, Coinage, Weights and Measures Committee

Honorable Robert L. Doughton,
Chairman, Ways and Means Committee

Honorable John M. Vorys,
Committee on Foreign Affairs

Honorable Jesse P. Wolcott,
Committee on Banking and Currency

Honorable Chauncey W. Reed,
Committee on Ways and Means

Honorable Harold Knutson,
Committee on Ways and Means

Mr. Sullivan and Mr. White

Mr. White said that Secretary Morgenthau was pleased at the formation of a Congressional committee of this character to keep in touch with the Treasury officials and confer on developments in the discussions going forward on postwar monetary problems. Mr. White distributed copies of the proposed draft outline of the international bank for development and reconstruction. Several of the Congressmen wanted to know the status of the discussions on the Fund and Mr. White outlined the situation bringing them up to date on the discussions with the British. The various Congressmen asked a number of questions on the Bank proposal and all indicated sympathic interest in the settlement of postwar monetary problems.

Mr. Sullivan said that they might find it helpful in arranging the meetings if there is a chairman of the committee. Mr. Doughton agreed and the group approved the selection of Mr. Steagall as chairman of this committee.

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The meeting adjourned with Mr. White informing them that we would come before them again as soon as there were any new developments and that in the meantime any of the committee could feel free to call on the Treasury staff for further information or discussion of the proposals.

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TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

November 20, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended November 10, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

EMB

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FEDERAL RESERVE BANK

OF NEW YORK

November 18, 1943.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended November 10, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

The Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

Enclosure

C O P Y

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ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended November 10, 1943

Strictly Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT) DEBITS: Total Debits	DEBITS: Gov't Expenditures (a)	DEBITS: Transfers to Official Canadian Account	DEBITS: Other Debits	CREDITS: Total Credits	CREDITS: Proceeds of Sales of Securities (Official) (b): Gold	CREDITS: Proceeds of Sales of Securities (Official) (b): Securities	CREDITS: Transfers from Official Australian Account	CREDITS: Other Credits (c)	Net Incr. (+) or Decr. (-) in $ Funds (d)	BANK OF FRANCE: Total Debits (e)	BANK OF FRANCE: Total Credits (e)	BANK OF FRANCE: Net Incr. (+) or Decr. (-) in $ Funds (d)
First year of war (e)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3(f)	1,095.3(f)	+299.0
War period through December, 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+220.1
Second year of war (h)	2,203.0	1,792.8	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2	38.9	8.8	- 30.1
Third year of war (i)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+ 125.9	18.5	4.4	- 14.1
Fourth year of war (j)	764.0	312.7	170.4	280.9	1,072.3	-	0.5	155.1	916.7	+ 308.3	10.3	1.0	- 9.3
1943													
Sept. 2 - Sept. 29	46.3	15.5	10.6	20.2	78.1	-	-	14.0	64.1	+ 31.8	-	-	-
Sept. 30 - Nov. 3	59.5	35.3	0.1	24.1	128.4	-	-	41.5	86.9	+ 68.9	-	-	-
Nov. 4 - Dec. 1													
Dec. 2 - Dec. 29													
Week Ended:													
October 20	9.2	4.9	-	4.3	6.4	-	-	-	6.4	- 2.8	-	-	-
October 27	5.8	0.8	-	5.0	32.4	-	-	-	32.4	+ 26.6	-	-	-
November 3	21.2	19.9	0.1	1.2	29.2	-	-	17.5	11.7	+ 8.0	-	-	-
November 10	24.5	12.7	5.7	6.1	26.5(k)	-	-	-	26.5(k)	+ 2.0	-	-	-

See attached sheet for footnotes.

Average Weekly Expenditures Since Outbreak of War
France (through June 19, 1940) $19.6 million
England (through June 19, 1940) $27.6 million
England (June 20, 1940 to March 12, 1941) $54.9 million
England (since March 12, 1941) $20.7 million

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(a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.

(b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to $334 million.

(c) Includes about $85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts. See (k) below.

(d) Reflects net change in all dollar holdings payable on demand or maturing in one year.

(e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.

(f) Adjusted to eliminate the effect of $20 million paid out on June 26, 1940 and returned the following day.

(g) For monthly breakdown see tabulations prior to April 23, 1941.

(h) For monthly breakdown see tabulations prior to October 8, 1941.

(i) For monthly breakdown see tabulations prior to October 14, 1942.

(j) For monthly breakdown see tabulations prior to September 29, 1943.

(k) Includes $ 19.5 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise exports, and $2.0 million to be held for credit of U. S. armed forces abroad.

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ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended November 10, 1943

Strictly Confidential

PERIOD	BANK OF CANADA (and Canadian Government) DEBITS: Total Debits	Transfers to Official British A/C	Others Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C: For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in $Funds(e)	COMMONWEALTH BANK OF AUSTRALIA (and Australian Government) DEBITS: Total Debits	Transfers to Official British A/C	Other Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in $Funds(e)
First year of war (a)	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	- 4.5
Second year of war(b)	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war (c)	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.7	95.0	+ 5.0
Fourth year of war(d)	723.6	-	723.6	958.8	47.1	170.4	-	741.3	+ 235.2	197.0	155.1	41.9	200.4	-	200.4	+ 3.4
1943																
Sept. 2 - Sept. 29	46.4	-	46.4	65.1	-	10.6	-	54.5	+ 18.7	15.8	14.0	1.8	4.8	-	4.8	- 11.0
Sept. 30 - Nov. 3	31.5	-	31.5	83.9	-	0.1	-	83.8	+ 52.4	44.9	41.5	3.4	41.7	-	41.7	- 3.2
Nov. 4 - Dec. 1																
Dec. 2 - Dec. 29																
Week Ended:																
October 20	5.1	-	5.1	13.5	-	-	-	13.5	+ 8.4	0.1	-	0.1	3.8	-	3.8	+ 3.7
October 27	8.0	-	8.0	21.6	-	-	-	21.6	+ 13.6	-	-	-	15.5	-	15.5	+ 15.5
November 3	7.2	-	7.2	16.8	-	0.1	-	16.7	+ 9.6	19.5	17.5	2.0	0.7	-	0.7	- 18.8
November 10	5.0(f)	-	5.0	47.2(f)	-	5.7	-	41.5(g)	+ 42.2	0.1	-	0.1	1.0	-	1.0	+ 0.9

Average Weekly Expenditures for

First year of war	6.2 million.
Second year of war	8.9 million.
Third year of war	10.1 million.
Fourth year of war	13.9 million.
Fifth year of war (through November 10, 1943)	8.3 million.

(a) For monthly breakdown see tabulations prior to April 23, 1941.
(b) For monthly breakdown see tabulations prior to October 8, 1941.
(c) For monthly breakdown see tabulations prior to October 14, 1942.
(d) For monthly breakdown see tabulations prior to September 29, 1943.
(e) Reflects changes in all dollar holdings payable on demand or maturing in one year.
(f) Does not reflect transactions in short term U. S. securities.
(g) Includes $ 17.0 million deposited by War Supplies, Ltd. and $24.1 million received from New York accounts of Canadian Chartered Banks.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 20 1943

TO Secretary Morgenthau

FROM Randolph Paul

You will recall that on October 28 the Banco de la Provincia and the Banco de la Nacion were designated Special Blocked Nationals with the concurrence of the State Department. You will be interested to know that the result of this action by Foreign Funds Control was the blocking in New York banks of balances aggregating $8,692,000 in the name of the Banco de la Provincia and $3,389,000 in the name of the Banco de la Nacion.

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1/20/43

MATERIAL ON ARGENTINA

Copy for Secretary Morgenthau

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THE SECRETARY OF THE TREASURY
WASHINGTON

MEMORANDUM FOR THE ACTING SECRETARY OF STATE

Since my return to Washington I have carefully reviewed the Argentine situation and I want to call your attention to the following points:

(1) Argentina subscribed to Resolution V of the Rio Conference (January 28, 1942) and to the Final Act of the Washington Conference on Systems of Economic and Financial Controls (July 10, 1942). Thus for two years she has been obligated to cut off all commercial and financial intercourse, direct or indirect, between Argentina and the Axis nations and to eliminate all other Axis financial and commercial activities inimical to the security of the Western Hemisphere.

(2) Notwithstanding the observance of these commitments by the other American Republics, Argentina has not only repeatedly refused to take effective measures to fulfill her obligations, but is now affirmatively promoting Axis interests. Specifically:

(a) Argentina is the Agency for the Transfer of Axis Funds to Europe.

Large transfers have been made to the Axis countries from Argentina and by way of Argentina. Not only are remittances of Axis funds permitted to Germany and Japan, but Argentina itself is a source of a large volume of the funds remitted to these countries.

(b) The Argentine Government has been giving direct material assistance to enemy firms. This is exemplified by the following points, contained in Despatch No. 12448 of October 19, 1943, from our Embassy in Argentina:

(i) From January 31, 1942, to March 31, 1943, certain Argentine Government departments awarded to enemy firms contracts totalling 34,000,000 pesos.

(ii) Since such firms are classified as unsatisfactory consignees and would therefore be unable to obtain certain materials for the execution of their

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contracts, the Argentine Government has often acted as an intermediary in purchasing such materials for them.

(iii) Firms which refuse to deal with enemy entities are often threatened with legal proceedings by Government agencies.

(iv) Firms are often instructed by the Argentine Government departments to accept sub-contracts on projects on which the main contractor is an enemy firm.

(v) Vicious anti-United States and pro-Axis newspapers and periodicals which cannot obtain newsprint supplies otherwise, are provided with their requirements by the Argentine Government at less than current market prices.

(vi) Despite the relatively strong financial position of most German firms, they often find themselves in need of additional finances. They encounter very little difficulty in obtaining financial assistance from the Banco de la Nacion and the Banco de la Provincia. An equally important source of financial assistance is the Banco Germanico which, on August 31, 1943, had outstanding loans and discounts totalling over 52,000,000 pesos, of which it is presumed that a large portion represents credits to German nationals.

(c) Argentina is a Refuge for Axis Funds.

In the weeks preceding the extension of our freezing order to the Axis, large sums were transferred to Argentina on behalf of Axis countries in the form of bank transfers and currency shipments. In this way, a large part of the funds which we had hoped to prevent being used for Axis activities escaped our control. This accumulation of Axis funds in Argentina has resulted in the Axis using Buenos Aires as the center point from which to transmit funds to Axis agents in all the other American Republics.

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(d) Argentina is the Base for Axis Financial Operations in the United States and Elsewhere in the Western Hemisphere.

Argentina has not only permitted Axis funds to move into Argentina but has actually fostered the accumulation of funds which can be used to finance subversive activities in all the other American Republics. Buenos Aires has become the center point through which funds are transferred for subversive activities throughout the Western Hemisphere. This is possible since this country and the other American Republics have failed to impose control measures on Argentine transactions.

(e) Argentine Institutions are a Cloak for Axis Financial Transactions.

Absence of effective legislation and enforcement has created in Argentina an ideal environment for the setting up of financial institutions--particularly holding companies--which can cloak Axis operations and provide a refuge for Axis assets. There are numerous Argentine holding companies disclosed in TFR-300 reports which can readily cloak Axis assets. After closely watching the account of one such Argentine holding company, believed to be concealing funds for a blocked national, we discovered that the funds in the account, amounting to over $1,000,000 did in fact belong to a Swiss national on the Proclaimed List acting for the Axis.

(f) Commercial and Payment Agreements with Axis Countries.

Argentina has been contributing to the economy of Axis Europe by the export of strategic materials through the European neutrals. For example, skins and hides have been shipped from Argentina to Portugal, doubtless intended for re-export to the Axis powers as Portugal is normally an exporter of skins and hides. The Argentine Government has concluded various financial and commercial agreements which have brought her into closer cooperation with Axis Europe.

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(g) Argentina is the Fence for Looted Currency and Securities.

Despite the efforts that have been made to prevent Germany from realizing on the looted currency and securities seized in the invaded countries, the Axis has succeeded in realizing upon this stolen property by disposing of it through Argentina.

(h) The Proclaimed List and Cloaking.

Despatches received from American Missions indicate not only that the Argentine Government has refused to recognize our Proclaimed List policy, but also that Argentine facilities are being used to destroy the effectiveness of our Proclaimed List policy in other countries. The Argentine Government's failure to recognize our Proclaimed List makes it impossible for us to prevent delivery of shipments to persons in Argentina who are placed on the Proclaimed List after goods leave our shores. In many cases, the Germans have defeated the British and American Black List by reorganizing their companies into Argentine firms and the Argentine Government has, if anything, encouraged the practice.

(i) Argentina permits German nationals within its borders to finance Nazi subversive activities.

The following points are brought out in Despatch No. 12448 of October 19, 1943 from our Embassy in Argentina:

(i) The German Government, being a totalitarian state, expects financial and moral assistance from its nationals, wherever they may be located. Consequently, German business interests in Latin America have maintained a close relationship with the Fatherland by frequent and continuing exchanges of employees, executives, and correspondence with the home offices.

(ii) As is well known, the large German industrial companies such as I. G. Farben, Thyssen, and Siemens are controlled by the National Socialist Party in Germany, which uses their Latin American branches as a channel through which to exert influence in the Western Hemisphere.

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(iii) A large part of the financial burden for financing Axis subversive activities has been placed upon the German business community. All other American Republics have taken some form of action to eliminate similar communities from their own countries and the German community is now centered in Argentina. Mathematical support for this conclusion is provided by the fact that the German Embassy in one year spent approximately 5,200,000 pesos, of which amount only 800,000 pesos were received directly from Germany, the balance of 80 percent being contributed by German entities or nationals residing in Argentina.

(3) In view of Argentina's failure to take effective measures to observe her commitments for economic cooperation and in view of Ambassador Armour's statement on October 27, 1943 that "Mounting evidences show that the Government (Argentine) is rapidly passing from control to the promotion of such activities (i.e. financing totalitarian activities)", I want to strongly urge that Argentine assets should be frozen at once, thus according to Argentina the same treatment as that accorded the neutrals in Europe.

(4) At the suggestion of the President and with what we regarded as the tacit approval of the State Department, Treasury did arrange for an unofficial news story that this Government was considering the freezing of Argentine assets. In so doing, Treasury was not unmindful, as we presume the President and your Department were not unmindful, that this action would have financial repercussions in Argentina and that some flight of Argentine undercover assets might ensue. We felt, of course, that there would be full cooperation to obviate any adverse financial or economic effects proceeding from this action. Indeed, State Department did cooperate in halting the early transfers of Argentine funds, although it has more recently advised that we should not interfere with such transfers in other than very exceptional circumstances and has instructed the Treasury Department to release many of the transactions previously stopped.

(5) The current situation with respect to Argentine transfers of dollar assets that are not related to normal commercial transactions is as follows:

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Since the appearance of the stories in the press the following transactions, many or all of which are detrimental to our war effort, have occurred. Some of such transactions involve the flight of funds out of Argentine accounts to Uruguay, Panama and Sweden. Others involve the transfer of assets to the general account of the Central Bank where the ownership of such assets can no longer be traced.

On Wednesday, October 27, $460,000 was transferred from Argentine accounts to other countries, of which $230,000 was from the accounts of Banco de la Provincia and Banco de la Nacion. The same day $2,000,000 was transferred to the general account of the Central Bank from the accounts of other Argentine banks.

On Thursday, October 28, there was a flight from Argentine accounts of $485,000 and $4,250,000 was transferred to the Central Bank account. An additional nine million and a half would have been transferred to the Central Bank from the accounts of Provincia and Nacion were it not for Treasury's ad hoc action approved by State Department.

On Friday, October 29, no substantial transfers were effected in view of Treasury's action in holding up of transactions with the State Department's approval.

On Saturday, October 30, there was a flight of $402,000 from Argentina to the accounts of other countries and the transfer of $6,000,000 to the Argentine Central Bank.

On Monday, November 1, there was a flight of $3,808,000 out of Argentine accounts to the accounts of other countries, including Sweden, Uruguay and Panama. On the same day there was transferred $6,500,000 to the Argentine Central Bank. The transactions effected on Monday included certain of the transactions previously attempted to be effected the previous Friday and held until Monday, at which time the transactions were allowed to go forward at State Department's request.

In addition, and unrelated to the news story, the following shipments of gold have been made or are about to be made pursuant to plans of the Argentine Government going back several months. The first shipment of Central Bank gold back to Argentina ($1,250,000) is leaving November 2 or 3 on the Argentine boat "Parana" from New Orleans. The second shipment of $1,250,000 from New York for New Orleans Monday at 3:00 p.m.

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This shipment is scheduled to sail on November 5 on the Argentine vessel "Rio Atuel." The third shipment of $1,250,000 is scheduled to sail from New Orleans on November 10 on the "Rio Iguazu". This gold will be shipped from New York on November 5 or 6.

(6) From the fall of France in June 1940 until the freezing of Axis in June 1941, the Axis moved over $100,000,000 out of the U. S. and I have no doubt but that substantial Axis funds are cloaked in Argentine names. Accordingly, it is patent that among the Argentine assets now going undercover are enemy assets and we cannot act without your approval.

I recognize that freezing Argentine assets involves political as well as economic questions and that decision on the political aspects is clearly your responsibility. However, I sincerely hope that you will again review the Argentine situation and on economic warfare grounds, I again strongly recommend that Argentine assets be frozen.

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NOV 23 1943

MEMORANDUM

Ambassador Armour's first cable recommending the freezing of Argentina was received by the Treasury on Saturday afternoon, October 23, 1943. Since that time substantial Argentine transactions in dollar accounts have been observed by the Treasury Department. During the period from October 25, 1943, to November 20, 1943, inclusive, the following transfers of Argentine funds, apparently not of a normal commercial nature, were effected in our markets:

1. $9,695,000 was transferred from Argentine accounts to other countries, mostly to Uruguay, but also to other countries, such as Sweden, Panama, Mexico, Chile, Colombia, and Brazil.

2. $29,485,000 was transferred from Argentine accounts to the Argentine Central Bank.

The following shipments of gold, formerly held by the Federal Reserve Bank of New York for the account of the Argentine Central Bank, were made on Argentine vessels to the Argentine on the dates indicated:

$1,250,000	November 4
1,250,000	November 6
1,250,000	November 15
1,250,000	November 17
1,250,000	November 20
$6,250,000	Total shipped to date

We are informed by the Federal Reserve Bank of New York that the following shipments of $1,250,000 each of Central Bank gold are scheduled to be made on the boats and dates indicated:

$1,250,000	SS Lujon	November 29
1,250,000	SS Gualequay	November 30
1,250,000	SS Teuco	December 5
1,250,000	SS Gallejos	December 7
1,250,000	SS Chubut	December 9
$6,250,000	Total scheduled to be shipped	
$ 6,250,000	Already shipped	
6,250,000	Scheduled to be shipped	
$13,500,000	Efflux of Argentine gold by December 9	

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This telegram must be paraphrased before being communicated to anyone other than a Governmental agency.

Rec'd. 5:30
11/6/43

Buenos Aires
November 5, 1943
Rec'd. 5:56 p.m.

Secretary of State,
Washington.

U. S. URGENT

2620, November 5, 2 p.m.

Text of aide-memoire mentioned in my November 5, 1 p.m. number 2619, follows:

As requested by their Excellencies, the Ministers of Foreign Affairs and Worship and of Finance, The Ambassador of the United States of America telegraphed his Government on October 29 for additional details regarding the designation by the United States Treasury Department of the Banco de la Nacion Argentina and the Banco de la Provincia de Buenos Aires as special blocked nationals.

The Ambassador has now received a reply from his Government in which he is informed that the immediate reason for the action taken by the Treasury Department was the unusual movement of funds during the period October 25 to October 28 inclusive. During the first three days of that period, debits to the accounts of the two banks amounted to $4,184,000 as compared to $989,000 for the full week ending October 11. Of the three-day total, almost $1,000,000 was transferred to countries other than the United States. On October 28 transfer orders amounted to almost $10,000,000, at which time the Treasury Department, as a precautionary measure, blocked further operations.

While the foregoing explains the immediate reason for the action of the Treasury Department, the Ambassador understands that the fundamental causes are more far-reaching and disturbing. For almost two years the United States Treasury Department has been calling attention to operations carried on by these two institutions which had the effect

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of benefiting the Axis or Axis-occupied countries or nationals of such countries resident therein. Likewise, the Treasury has pointed out on many occasions that the institutions in question have granted credits and overdrafts to persons and firms whose activities are deemed to be inimical to the security and defense of the hemisphere. The Embassy, in accordance with the provisions of Resolution Eight of the Inter-American Conference on Systems of Economic and Financial Control held in Washington in 1942, brought those observations to the attention of the appropriate agencies of the Argentine Government.

During the course of the present year, informal conversations have been held, as the Ministry of Foreign Affairs is aware, between officers of the Embassy and those agencies. The latter have invariably taken the position that the remittances to Axis or Axis-occupied territory were made in accordance with the established policies of the Argentine Government. With respect to credits and overdrafts, the appropriate agencies, although courteously receiving the Embassy's observations, stated, presumably following directives of the Argentine Government, that they were unable to take corrective measures or alter existing policies.

The United States Treasury Department has maintained that even though the operations carried on by the Banco de la Nacion Argentina and the Banco de la Provincia de Buenos Aires were authorized or condoned by the Argentine authorities, this did not free those institutions from the responsibility of effecting such operations, since, in so far as the use of the financial facilities of the United States was concerned, the Treasury Department was obligated to apply its controls on the basis of the wartime financial regulations of the United States and the recommendations adopted at the Rio de Janeiro and Washington conferences. Accordingly, after more than one year of patient waiting, following the Inter-American Conference on Systems of Economic and Financial Control, the Treasury Department felt that the two banks in question had definitely elected to continue operations and transactions which had the effect of benefiting the Axis Powers and which were inimical

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to the security of the hemisphere. Therefore, it was decided that the institutions in question were not entitled to the free and unrestricted use of the financial facilities of the United States. Accordingly, the Treasury has taken action to require that specific licenses be obtained for further transactions by the two institutions, to the end that it may request and obtain information as to the nature of such operations in order to preclude the possibility of the financial facilities of the United States being used in contravention of the existing wartime financial controls and the recommendation of the above-mentioned conference.

/The/ Foreign Minister /is advised that this Government/ has not attempted to list in detail the /many/ transactions which /this/ Government considers inimical to hemispheric interests since the views of /this/ Government concerning such transactions have been made clear to the appropriate agencies of the Argentine Government. It is understood those agencies have access to the detailed records of the transactions to which reference has been made.

The Ambassador desires to make clear that the Treasury Department will, of course, be pleased to consider applications for specific licenses made on behalf of the above mentioned banks.

Buenos Aires November 5, 1943.

ARMOUR

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to the security of the hemisphere. Therefore, it was decided that the institutions in question were not entitled to the free and unrestricted use of the financial facilities of the United States. Accordingly, the Treasury has taken action to require that specific licenses be obtained for further transactions by the two institutions, to the end that it may request and obtain information as to the nature of such operations in order to preclude the possibility of the financial facilities of the United States being used in contravention of the existing wartime financial controls and the recommendation of the above-mentioned conference.

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Buenos Aires November 5, 1943.

ARMOUR

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PARAPHRASE OF TELEGRAM RECEIVED

FROM AMEMBASSY, BUENOS AIRES

TO SECRETARY OF STATE, WASHINGTON, D. C.

NUMBER 2530

DATE OCTOBER 27, 1943

The following is in reference to #1644 of October 24 from the Department and also Department's #1647, dated the 29th October.

It would seem that action along one of the three following lines is precipitated by what would appear to be an unfortunate leak reported in telegram #2526 of October 27 from the Embassy: (a) the immediate freezing of Argentina, (b) the issuance of an announcement which denies the press story and the following of a policy of inaction, or (c) neither the confirmation or denial by Washington of the United Press story, while reaction here is observed. Since this latter course would provide time for the liquidation of any Axis dollar assets cloaked via the Argentine, it is dangerous. In addition it is doubtful if the censor will release the United Press despatch so that it will be difficult to determine the true reaction. Since the following message covers the situation in all its aspects, no changes are being made even though it was prepared before the Embassy had knowledge of the United Press story.

The considered judgment of the Embassy with regard to the situation is represented as follows:

(first) Economic warfare was the immediate objective of the Embassy in making its recommendation for freezing. We have been convinced by recent events that the exercise of any control on the part of the Argentine Government over totalitarian activities or their financing has practically ceased. Mounting evidences show that the Government is rapidly passing from control to the promotion of such activities. Naturally, the extent of the effectiveness of the measures of the Treasury depends on the degree to which our Government desires its controls to be imposed. It is realized by the Department that of course the measures could be used to the extent of imposing an embargo

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on finances and merchandise. The following would be the minimum aims of the Embassy:

A beneficial ownership breakdown of assets held through local banks and financial institutions in the United States, through the use of the licensing procedure, and supervision of a large percentage of the international financial transactions of Argentina; the elimination on the part of generally licensed banks of credit to Axis firms; the certification by such banks that no transactions handled by them involved any direct or indirect Proclaimed List interest; and possibly a disclosure of funds held locally by such banks for European account.

(second) It was never believed by the Embassy that the extreme political effect mentioned by the Department could result from the measure recommended. The Mission hoped first to choose an appropriate moment to announce freezing in order that the measure would be interpreted as directed against the government and (not?) the people of Argentina. It must be remembered, in recognizing the super-sensitivity of the Argentines, that a strong and widespread feeling against the present government now exists within Argentina. Our thought was that proper action by the United States at this time, when the cumulative effect of the unpopular and totalitarian acts of the Government is at a peak, would receive the interpretation of an alignment with the Argentine people against a government already unpopular. There may or may not arise a better occasion. Although the foregoing does represent our considered judgment, it should be emphasized that it is merely a matter of opinion. The Embassy hoped that after the freezing was imposed our Government would be given an opportunity by the Argentine Government to disclose publicly the extent to which those firms which could be universally defined as inimical to the security of the Western Hemisphere were being aided and abetted by the previous and present government. On the basis that nothing should be done to strengthen the present government but that risks should be taken to weaken it, the Embassy predicates its recommendations. In these recommendations risk is inherent.

(third) So that Argentina and the American Republics may clearly understand the American point of view, it is the opinion of the Embassy that the publication of a statement by the President could not be prevented by even press censorship in this country. For this reason, it is respectfully suggested by the Embassy that the President consider issuing a statement along the following lines if

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freezing is decided upon:

(Paraphrased quote) It was proposed by the Treasury Department a year and a half ago that those financial controls applicable to neutral countries, under the provisions of Executive Order #8389, be extended to include Argentina. The effect of subjecting all commercial and financial transactions to prior license by the Treasury would have been produced by that action, if approved. There would have been, in other words, a recognition of the self proclaimed status of neutrality of Argentina, and the same treatment given neutral countries under the above mentioned order would have been accorded Argentina by the United States.

Since I had every confidence at that time that the Rio de Janeiro resolutions would be complied with by Argentina, I disapproved the proposal of the Treasury even though I recognized that I was in a sense giving countenance to a measure of discrimination against other neutral countries to which application of this measure had been made. For reasons of continental security and in view of recent events, however, such action has again been proposed by the Treasury. After a year and a half of keen disappointment waiting for Argentina to join her sister republics, my present reaction to the proposal of the Treasury is one of reluctant and sad agreement. I feel forced to approve the action. I feel in doing so that I must repeat that it is nothing more than a recognition of the oft-avowed position of neutrality taken by Argentina, a position which that country of course has every right to adopt, as a sovereign nation. (End paraphrased quote).

(fourth) The Department's statement regarding potential dangers is commented on as follows:

(a) The attitude of the British would not be a new one and as the major brunt of onus for economic warfare measures has been borne constantly by the United States, it should not be too greatly feared if there is a slight intensification. The British, however, might agree to announce simultaneously or shortly thereafter that developments in Argentina recently, including instructions to the press that they were no longer to publish the Statutory and Proclaimed Lists, made it necessary to intensify British controls in regard to shipments to Argentina

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from Great Britain and neutral countries.

(b) There is no doubt that attempts to impede the shipment of essential materials needed by the United Nations might be made by the Argentine Government. Nevertheless, as this country has as great a need of selling as the United Nations has of buying, such measures would lead to the elimination of the present government or would only be temporary. Other than temporary, the only real danger foreseen by the Embassy is that some export such as beryl, which in Argentina economy is unimportant, might be affected. However, on the basis of straight trading for essential materials, such as oilfield equipment, these questions could be worked out.

(c) It is believed that there would be a favorable reaction among the American Republics should the suggested statement be issued by the President.

(d) There might be withdrawn nonbelligerent rights.

(e) Welch and Wilcox, respectively of the National City and Boston Banks, were consulted confidentially. Due to the character of the present government, they feared dire results, possibly including prohibition of exports, intervention of American firms, and even deportation of Americans. These fears cannot be fully shared by the Embassy. If such reprisals should result from action taken on the basis of Argentina's neutrality, it would be such a definite alignment with the Axis that we would well be exposed to the criticism rather than the approval of the American Republics if we fail to recognize this and to accept the challenge implied by such a situation, since even at the present time, what the United Nations are fighting in other parts of the world is, in the opinion of the Embassy, represented by this government.

(fifth) The Mission does not wish to influence the Department into recommending action considered unwise by the Department. The Embassy desires to do no more than state its position. The Mission must express the opinion, however, that an opportune moment has come to make public the United States' attitude concerning the present Argentine government.

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(sixth) Therefore, the Mission would like to repeat its recommendation that an announcement be made of the amendment to Executive Order 8389. We believe further that no immediate provision for the issuance of Argentine general licenses should be made. Only after the Treasury has made a full study and only after the influence of repercussions produced in Argentina by this action can be calculated by the Embassy with reasonable certainty, should such licenses be given. The Treasury, naturally, may desire to allow small and unimportant transactions to continue undisturbed, to which no objection could be seen by the Embassy.

ARMOUR

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COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM AMEMBASSY, BUENOS AIRES

TO SECRETARY OF STATE, WASHINGTON, D. C.

NUMBER 2483

DATE OCTOBER 20, 1943

The following is in reference to telegram #1586 of October 12 from the Department.

It is the opinion of the Embassy that no useful purpose would be served by ad hoc blocking action or Proclaimed List action against Banco de la Nacion or Banco de la Provincia. Such action would be a step that would be ineffective, disturbing, and unwise. Whether or not the time has arrived to consider the general blocking of Argentina is the real question.

Evidence which is more than enough to justify this step is contained in the draft statement on the financial position of German companies in Argentina and the aid extended to them by the Government of Argentina. This statement was submitted as an enclosure to despatch #12448 of October 19 which was forwarded on the same date by courier. Careful consideration, however, on a broader basis than economic warfare, must be given any contemplated action. Bitter opposition to the present Argentine administration from influential and important sectors of the Argentine public, including elements in the armed services, has been brought about by the letter of the Secretary of August 30, together with other events. Rather than dispel this opposition through creating a "my country right or wrong" reaction, any further action on the part of the American Government must help to increase the opposition.

Despatch #12436 of October 19 fully described the thoughts of the Embassy with regard to procedure, but action may be advisable, since events are moving so rapidly, even before Washington receives the despatches under reference.

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Since we could have no further confidence with respect to the implementation of such control measures as now exist in Argentina, action on our part would be more than justified if Prebisch is forced out of the Central Bank, as appears to be inevitable, this occurrence being in addition to their resignations of the principal officials of the Ministry of Finance. It is the opinion of the Embassy that the Argentines would interpret blocking as directed against the Government and not against the people and that it would have their understanding generally. The Mission therefore recommends that Argentina be blocked if the bank is intervened or if Prebisch is forced to resign and that the following statement be issued by the Treasury Department. (Paraphrased quote) It was announced today by the Treasury Department that for reasons of continental security and in view of recent financial developments in Argentina, executive order #8389 as amended, had been amended further to include Argentina as a foreign country designated in such order, effective as of October of the year 1943. (End paraphrased quote)

Reference is made to continental solidarity for the express purpose of giving the opportunity for the Argentine Government to request reasons of the American Government and this request, in turn, could allow the material contained in despatch #12448 of October 19 to be used in much the same manner as the letter of August 30 from the Secretary. The information given in despatch #1226 of October 5 is fully substantiated by the material forwarded under cover of that despatch.

Since developments in the Central Bank case may be expected within the next forty-eight hours and also since the action recommended herein, to be timed properly, should be taken immediately following information from the Embassy that adverse changes have occurred in the Central Bank, the immediate consideration of the Department is requested. The Embassy respectfully urges that no action be taken until the Department is further advised by the Mission.

ARMOUR

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MEMORANDUM FOR THE PRESIDENT

ARGENTINE FREEZING

Developments since your decision of October 25 against a general freezing at this time of Argentine assets.

1. Secretary Hull has telegraphed his concurrence in the Department's position as stated to you contrary to blocking Argentina. A copy of this telegram is attached.

2. Ambassador Armour has cabled renewing his recommendation to block Argentina and stating that the Argentine government is progressing to assisting Axis activities and that while blocking involves risks, he is willing to recommend immediate blocking action. A copy of this cable is attached.

3. Transfers and attempted transfers of Argentine funds since October 25:

$1,000,000 transferred largely to Uruguay.

Yesterday the Argentine Central Bank ordered private banks to transfer their funds to it. As a result, attempted transfers of $29,500,000 were ordered from Argentine bank accounts in New York to Argentine Central Bank accounts at Federal. Of these $7,000,000 have been made; $9,500,000 have been definitely blocked; $13,000,000 are now pending. No serious disadvantage is discerned were such transactions to occur, except where individual accounts upon the evidence should be blocked.

Now pending:

Transfers of $250,000 to Uruguay; $1,000,000 to Swedish Riksbank. These transfers if accomplished would remove funds from United States control.

Department recommendations:

(a) That there should be no general blocking at this time for reasons previously given;

(b) If contrary decision is made, general blocking should be preceded by attempt to get British and some major American Republics to take collateral action.

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(c) Since transfers effected or pending from Argentina to foreign account total only $2,500,000 for the current week, take no action beyond existing ad hoc blocking, continuing present scrutiny of transactions to prevent sudden flight of capital.

Signed by Mr. Stettinius

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OCT 29, 1943

MEMORANDUM FOR THE PRESIDENT

Freezing Argentina

Mr. Stettinius advised me this afternoon that he was sending you a short memorandum regarding the freezing of Argentina and suggested that I do likewise. We in the Treasury think that Ambassador Armour's cable of October 27, again strongly urging the freezing of Argentina, is the best statement of the reasons for freezing. As the Ambassador states:

> "....The Mission must express the opinion, however, that an opportune moment has come to make public the United States' attitude concerning the present Argentine government. Therefore, the Mission would like to repeat its recommendation that an announcement be made of the amendment to Executive Order 8389 (freezing Argentina)."

A copy of this cable is attached.

For your information the Treasury Department, with the State Department's approval, has taken the following provisional action:

(a) Treasury has specially blocked the assets of the two largest banks in Argentina, who for over a year and with the Argentine Government's approval have been openly aiding the Axis. These banks were trying to transfer out of their names over $10,000,000 of assets before this Government could act.

(b) The Treasury has temporarily stopped transactions in Argentine accounts amounting to over $5,000,000 and involving the flight of funds from the Argentine or the transfer of substantial Argentine funds to new accounts where such funds could no longer be readily identified.

The Treasury has advance notice of additional transfers of a similar character within the next twenty-four hours amounting to $10,000,000. Moreover, the Argentine Central Bank has given standing instructions for the shipment of substantial amounts of its gold to Argentina on each Argentine ship henceforth leaving the United States.

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Should you decide to take action in this matter, the necessary papers are ready for your signature.

(Signed) D.W.Bell

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OCT 25 1943

MEMORANDUM FOR THE PRESIDENT:

Action Proposed by the Treasury:

Treasury proposes that Argentina be added to the 35 countries already subject to the freezing control. Essentially, these controls would follow the pattern already in effect with regard to Portugal, Spain, Sweden and Switzerland. This is in general the proposal made by Ambassador Armour. In view of the flexibility of these controls, additional exemptions or restrictions can be added as desirable.

Treasury Department's Position:

The Treasury, on economic warfare grounds, has repeatedly urged that the freezing control be extended to Argentina--as it has been to the neutral countries in Europe. Argentina is recognized as the base from which the Axis conducts its financial operations throughout the Western Hemisphere. On political grounds, the State Department and Ambassador Armour have consistently opposed freezing Argentina. However, last Wednesday, Ambassador Armour recommended the freezing of Argentina, stating in his cable:

> "The Secretary's letter of August 30, together with other events, has brought about bitter opposition to the present Argentine administration from important and influential sectors of the Argentine public, including elements in the armed services. Any further action on the part of the American Government must help to increase this opposition rather than dispel it through creating a 'my country right or wrong' reaction.... The Embassy believes that blocking would be interpreted in Argentina as directed against the Government and not against the people and would be generally understood."

The freezing of Argentina at this time is the natural follow-up to Secretary Hull's letter to Foreign Minister Storni on Lend-Lease and your criticism of the closing of the Jewish newspapers. Any delay in acting not only gives Argentina a chance to move substantial assets out of the United States but may afford the present pro-Axis government time to strengthen its

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position. Thus the present government might very well go through the motions of breaking with the Axis, which would have no real effect other than to bolster the Ramirez government. A dramatic step by us at this time should crystallize the opposition and might give Argentina a genuinely pro-Allied government.

State Department's Position:

I. The State Department continues to oppose this proposal, which you declined to approve last year, primarily because we believe it will retard, rather than hasten, a change of government. The Treasury's proposal, although suggested on economic warfare grounds, has as a major purpose the political objective of upsetting the present Argentine government. In the Department's judgment, contrary to the views of Ambassador Armour, it is more likely that blocking Argentina would strengthen the grip of the present government. Because of the sensitiveness of Argentines to outside pressure, the government undoubtedly would appeal to all Argentines to "defend" their country against United States invasion of Argentine sovereignty. Past experience with Argentina indicates that this type of flag-waving arouses popular patriotic fervor. We believe in this case the growing opposition to the government would be temporarily confused if not divided.

II. We consider the proposal would not directly attain important economic warfare objectives.

III. The proposal runs the risk of (a) frightening the other American republics, because they would figure that if the United States used strong-arm tactics against Argentina it might do the same to them; and (b) producing Argentine retaliatory action which might endanger United Nations procurement of such vitally needed materials as zinc, hides and foodstuffs and jeopardize the advantageous arrangements under which the Argentine merchant marine carries to the United States a minimum of 40,000 tons a month of cargo selected by us.

IV. The Argentine political pot is seething. The universities are now on strike and attempts are being made at this moment to organize a general strike with the specific objective of overthrowing the government. We recommend that Argentina be left to stew in its own juice at least until the present confused movements take form.

(Signed) Randolph Paul
(Signed) E. R. Stettinius, Jr.

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S E C R E T

PARAPHRASE OF TELEGRAM NO. 1769 OF OCTOBER 28 FROM SECRETARY HULL AT MOSCOW TO MR. STETTINIUS:

I am in accord with your stand and reasoning concerning the blocking of Argentine accounts, as stated in your telegram to me.

This message should have no distribution.

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PARAPHRASE OF TELEGRAM SENT

TO AMEMBASSY, MOSCOW

FROM SECRETARY OF STATE, WASHINGTON, D.C.

NUMBER 1644

DATE OCTOBER 24, 1943

For the Secretary.

The inclusion of Argentina among the list of blocked countries is again being proposed by the Treasury. Assets, bank accounts, and securities in the United States of Argentine residents, citizens, or entities will thus be blocked and financial communications and transactions with Argentina permitted only by license. General License 53 would be made applicable to Argentina by the Treasury, thus general licensing all transactions incident to commerce and all commercial transactions.

A blocking proposal has also been recommended by Ambassador Armour, but a general license of a somewhat different character is contained in this proposal.

There is a political objective in the proposals of both Ambassador Armour and the Treasury. This objective is not an economic warfare purpose, but rather the upsetting of the present Argentine Government.

We have given the proposal careful thought and think that the opposite effect will probably be produced by it, that is, that the Government will be strengthened and a change in Government will be postponed rather than hastened.

The supersensitivity of the Argentines to any suggestion of outside pressure is our reason. It is our opinion that blocking would be seized upon by the Government to be presented to the Argentine people as an invasion of Argentine sovereignty by the United States. The flag would be waved by the Government, and "all patriotic Argentines" would be urged to rally to "their country's defense" and to forget their internal differences.

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Furthermore, we do not believe that any important economic warfare objective would be attained by the proposal. Argentine private individuals, concerns, and banks will be unlikely to seek to withdraw any important assets from the United States, and no substantial effect on Axis activities in Argentina would result from our blocking here. Argentine blocking in addition

(first) would cause the friendly feeling in the other countries to be chilled because they would figure that if the United States used strong arm tactics of this character against Argentina, the same tactics would be used against them;

(second) probably would not have the support of the British, and action on our part would be unwise from both the immediate and long-term point of view without such support; and

(third) might cause retaliatory action which would

(a) endanger procurement by the United States of such vitally needed materials as beryl, edible oils, foodstuffs, hides, and zinc;

(b) jeopardize the advantageous shipping arrangements under which a minimum of forty thousand tons a month of cargo selected by us is carried to the United States by the Argentine Merchant Marine.

Therefore, we recommend that Argentina be left for the time being to stew in its own juice. Since the political pot is seething, it may boil over by itself.

Buenos Aires has also been sent this message.

Since I know of your interest in the subject, I am passing the foregoing on to you. I am taking the matter up with the President at the earliest moment in as much as it is being pressed vigorously by Treasury.

STETTINIUS
(ACTING)
(W-DM)

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COPY

11/12/43

MEMORANDUM FOR THE SECRETARY OF STATE

I am forwarding to you herewith for your consideration a copy of a letter from Congressman A. C. Schiffler suggesting that the Argentine gold in this country be frozen. There is also attached a reply to this letter which we propose to send, unless you perceive some objection.

As you have already been informed, Argentina is moving gold out of this country on each Argentine ship leaving the United States and by December 9 the total contemplated withdrawals will aggregate $10,000,000.

(s) H. Morgenthau, Jr.

Secretary of the Treasury.

Enclosures.

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My dear Mr. Schiffler:

Reference is made to your letter of November 8, 1943 suggesting that the Argentine gold in this country be frozen.

For your information the question of the freezing of Argentine assets in this country, including the gold held by the Argentine Central Bank and the other dollar assets held in this country by Argentina and her nationals, has been and still is the subject of careful consideration by the State and Treasury Departments.

Although there are cogent reasons for the freezing of Argentina on economic warfare grounds since Argentina is recognized as the base from which the Axis conducts its financial operations throughout the Western Hemisphere, you will appreciate that there are important political considerations involved in any such action by this Government. Since the evaluation of these political considerations is the responsibility of the State Department, I have referred your letter to the Secretary of State for his consideration.

I appreciate your interest in this matter and will keep you informed of any developments in connection therewith.

Very truly yours,

Secretary of the Treasury.

Hon. A. C. Schiffler

House of Representatives.

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COPY

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
Washington, D. C.

November 8, 1943

The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

My dear Mr. Morgenthau:-

I am intensely interested in winning the war, and also equally interested that nothing in this country that would be helpful to the Axis Powers reaches them.

In view of the attitude of Argentine towards the United Nations and its present efforts to remove its gold from this country, which will undoubtedly be used to aid the Axis Powers, I urge that such gold be frozen in the possession of its present custodians, in that it shall not in any manner be of aid to the Axis Powers and their war against the United Nations.

Most Respectfully Yours,

/s/ A. C. Schiffler

A. C. Schiffler, M.C.

S:L

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78TH CONGRESS
1ST SESSION

H. R. 3696

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 19, 1943

Mr. SCHIFFLER introduced the following bill; which was referred to the Committee on Interstate and Foreign Commerce

A BILL

To authorize the seizure of certain propery which is being used, or which is about to be used, to aid any nation at war with the United States, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That during the present war the President, the Secretary of
4 the Treasury, the Secretary of State, or any other officer of
5 the United States, whenever he deems it expedient or neces-
6 sary for the welfare of the United States or of any of the
7 United Nations, shall seize and take possession of any property
8 of any kind or character belonging to any government of any
9 nation (excluding the United Nations and other nations as-
10 sociated therewith), or belonging to any subject or citizen of

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1 any such nation (whether or not such subject or citizen be
2 domiciled in the United States or in any place under the
3 jurisdiction of the Government of the United States), that
4 may be found in the United States, or at any of the places
5 under the jurisdiction of the President or of any other officer
6 of the United States, whenever, in the judgment of such
7 officer, reasonable grounds exist to believe that such property
8 is being used or is about to be used to aid either directly or
9 indirectly any of the nations at war with the United States
10 and the United Nations.

11 SEC. 2. All property of every character seized and pos-
12 sessed under and by virtue of authority vested by this Act
13 shall be taken, held, and dealt with, for and during the
14 period of the present war, by the Alien Property Custodian
15 in accordance with the best interest of the Government of
16 the United States and in pursuance of the objectives and
17 purposes of the United States and of the United Nations in
18 the present war, and shall not be released to any such gov-
19 ernment, or subject or citizen thereof, until it is established
20 beyond reasonable doubt that such property or assets so
21 seized and possessed cannot become available to any of the
22 enemies, in the present war, of the United States and the
23 United Nations.

24 SEC. 3. This Act shall apply also in the case of the

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1 property or assets of any person or persons residing in any
2 of the now Axis-occupied countries of Europe or Asia and
3 who may be giving aid to our enemies.

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MEMORANDUM FOR THE FILE

November 19, 1943

Meeting in Mr. White's Office
November 19, 1943
2:15 P.M.

Present: Mr. White
Mr. Hsi
Mr. Soong
Mr. Friedman

Subject: China - 1941 Agreement; Exchange Rate

1941 Agreement

Mr. Hsi and Mr. Soong called at their request to discuss the 1941 Agreement. Mr. Hsi gave to Mr. White copy of cable from Dr. Kung, attached hereto, which indicated that Dr. Kung agreed to the termination of the 1941 Agreement and suggested that announcement be made simultaneously regarding termination. Mr. White indicated that he did not feel that the U. S. Treasury would want to make any announcement but that if the Chinese Government wished to make any announcement, it was a matter for their decision.

The Chinese representatives then pointed out that they had been discussing with the British the questions of the Sino-British Stabilization Agreement and the future status of the Stabilization Board. They indicated to Mr. White that the British had been opposed to the abolition of the Stabilization Board. Mr. White said that Treasury knew the British attitude when we had made our decision and that the question of the Stabilization Agreement between Great Britain and China was a matter of decision by the two governments involved. With regard to the Stabilization Board, it was up to the Chinese to determine whether or not it should continue in existence. If the Chinese wished to have an American member on the Board, it would be given consideration by the Treasury, but it was a matter to be decided by the Chinese Government.

The Chinese representatives requested that the Treasury not inform the British of the action being taken with regard to the U.S.-Chinese Stabilization Agreement until they had had an opportunity to cable Treasury's reaction to Dr. Kung's cable and also until they had received reply from Dr. Kung regarding British Treasury's attitude. The Chinese were assured that the Treasury would not discuss this matter with the British.

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The question of the obli ations of the Stabilization Board were discussed and the point was made that the Stabilization Board had sterling obligations amounting to at least £ 5 million. Some discussion was held regarding the possible sources from which the Chinese Government could obtain the needed sterling. The Chinese representatives agreed that before this sterling was obtained by the sale of U. S. dollars, the U. S. Treasury would be informed and the problem discussed with it. The Chinese representatives agreed that the U. S. Treasury had an interest in this matter since the U. S. dollars which would be used to purchase sterling would in effect be coming from American financial assistance to China. The question was raised as to the status of Chinese-British negotiations on the £ 50 million loan announced nearly two years ago. The Chinese representatives indicated that discussions were still going on.

Appreciation was expressed by the Chinese representatives for the attitude taken by the U. S. Treasury with regard to the 1941 Agreement and the status of the Stabilization Board.

Exchange Rate

Mr. White informed the Chinese representatives that the Treasury was thinking about raising with Dr. Kung the question of U. S. governmental expenditures in China. Mr. White pointed out that the U. S. Government was spending from US$15 to 20 million per month at the official rate of exchange and that because of the magnitude of the problem the U. S. Treasury could no longer refrain from taking up with Dr. Kung the necessity of some steps to offset the artificiality of the exchange rate. Some discussion was held regarding desirability of reducing the exchange rate and Mr. White said that in his opinion there was no question about the desirability of reducing the rate but that it was rather a question of timing. He indicated to the Chinese representatives that in his opinion, if the rate was reduced, it should be reduced to a level that could be maintained for the next five or ten years. He indicated that, whereas there might be some advantage to China during the immediate postwar years to have an over-valued exchange rate, at the same time, it was more important to China to achieve monetary stability as a basis for attracting the foreign capital which China would need. This could not be accomplished if there was the constant fear of future reduction in the exchange rate because the exchange rate was too high while any actual reduction in the postwar period might have serious disturbing effects on the monetary situation. People expected inflation and other monetary disturbances during war but not in normal times.

Mr. White indicated that there was increasing public and Congressional interest in the problem of U. S. expenditures in China at the artificially high rate of exchange and that the Treasury could no longer refrain from requesting China to take some steps to remedy the situation.

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Mr. White pointed out that this was in the best interests of China since it was in China's benefit to keep the good reputation and good will she enjoyed in the United States. Mr. White went on to say that many Americans felt that the Treasury was being fooled or even cheated and that it was the responsibility of the Treasury to take steps to have the situation changed. Some discussion was held regarding different techniques that might be used. It was agreed that the simplest way would be a reduction of the exchange rate or the granting of a special rate to the U. S. Government. Among the other suggestions discussed was the possibility of using U. S. dollar currency and the sale of gold for U. S. Government account. Mr. Hsi suggested the possibility of a Chinese Government loan to the United States to meet U. S. government expenditures, which loan would be repaid at a rate of exchange which would be fixed by China in the future when China felt that the time was propitious for reducing the exchange rate.

It was agreed by all that these discussions regarding this problem should be considered informal. The Chinese representatives requested Mr. White's permission to inform Dr. Kung that they had been discussing this problem with Mr. White. Mr. White indicated that he would have no objection to their so informing Dr. Kung. Mr. White indicated to the Chinese that the Treasury would take up the matter direct with Dr. Kung.

The Chinese representatives indicated that they appreciated the Treasury's position in this matter and the reasons why the Treasury would have to take steps to obtain some solution to the problem of the unwarrantedly high level U. S. government expenditures resulting from the exchange rate.

Mr. Soong indicated that according to latest information from Chungking, prices were not rising and attributed this to the gold sales which were beginning to take place.

I. S. Friedman

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COPY

INCOMING TELEGRAM

From His Excellency Dr. H. H. Kung Rec'd November 17, 1943

For Mr. Hsi Te-Mou Mr. T. L. Soong

Your telegram Number 24 received. With reference to paragraph One:

Since Treasury agree terminate 1941 Agreement please inform Secretary Morgenthau and Dr. White that we agree and express to them our appreciation of the Treasury's assistance and friendly attitude towards welfare of China. State that action to be taken in view of termination is receiving our careful consideration. Announcement in this regard should be made simultaneously.

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EAM
This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (SC-00)

Treasury Dept.
(Mr. White)

Mr Friedman

340

SECRET

CONFIDENTIAL
For security reasons the text of this message must be closely guarded.

November 20, 1943

3 p.m.

AMERICAN EMBASSY,

CHUNGKING.

1672

FROM THE SECRETARY OF THE TREASURY FOR ADLER.

You are requested to discuss with Dr. Kung the following urgent and secret matter:

1. You are instructed hereby to obtain a quotation from Dr. Kung on the price at which the Chinese Government would be willing to make CN$400 million per month available to the United States Government to meet United States military and civilian governmental expenditures. Expenditures of the United States Government in China are at present around United States $15 to 20 million per month. It is to be expected that the equivalent amount of Chinese national currency expenditures could be met at considerably less cost in United States dollars at the new price.

2. In your discussions of this price with Dr. Kung, you should emphasize the fact that the price at which gold is selling in Free China is about CN$8,000 to 10,000 per ounce which at the official rate of exchange is the equivalent of United States $400 to 500 per ounce.

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3. For this 400 million yuan per month the United States Treasury would be willing to pay either with (a) United States dollars, or (b) gold on earmark at the Federal Reserve Bank at New York, or (c) by having one-half of the shipments of gold currently being made to China for sale in China be for the account of the United States Government.

HULL
(TL)

FD:FL:mco
11/20/43

FE A.S. FA

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Treasury Department
Division of Monetary Research

Date Nov. 22, 1943 19

To: Secretary Morgenthau

The appended summary is from material on France sent to us by Mr. Wood, our man in Lisbon. I think you will be interested in reading it.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

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TREASURY DEPARTMENT

343

INTER OFFICE COMMUNICATION

DATE Nov. 20, 1943

TO Mr. White - **For your information.**

FROM Mr. Fisher A.J.F. WHO

Subject: Political Conditions in France in Mid-1943

The following points are included in a confidential report on conditions in France in August 1943, and should be considered as representing the opinions of one, albeit apparently well-informed, observer:

(1) The number of draft-dodgers from the labor-draft of the classes of 1940-42 was much greater than on the occasion of previous calls, and Vichy administration of the orders was lax. Nevertheless, at least 50 percent of those called have been deported.

(2) It is alleged that a true provisory French government established in Algiers and recognized as such by the Allies would have been able to introduce into metropolitan France a state of duality of power which would have rendered almost ineffective the Nazi system of persecution and exploitation.

(3) It is possible that a Doriot government may be imposed upon France at the last moment. This might result in a mass revolt of public officials against Vichy.

(4) While manifestations of hostility to German rule in France are more widespread and more vocal, such hostility has not passed beyond the verbal stage, and nothing like a mass uprising is to be expected. Active resistance is confined to small groups, chiefly in the mountainous regions, which engage in sabotage, espionage, and establishment of munitions depots.

(5) The intrigues in North Africa of certain middle class and reactionary French circles, have created in popular French opinion very serious doubts as to the sincerity of the war aims of the Allies, particularly those of the Americans. The belief is expressed that an attempt to impose, either on France or other liberated areas, regimes allied to Fascism will result in a swing toward Soviet Russia "who though it will not give them the democracy they hope for promises them at least social progress in a workers' republic."

Source: Pouch materials from Mr. Wood

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COPY NO. 12

OPTEL NO. 380

Information received up to 10 A.M. 20th Nov. 1943.

1. Mediterranean. Some troops reached Kastelorizo on 18th in small craft from Leros. 175 men have also landed in Turkey. Small craft were attempting during 19th/20th to withdraw balance of our garrison from Samos. 27 JU.88 unsuccessfully attacked one of H.M.S. cruisers and 2 French destroyers off Cyprus 19th.

2. MILITARY.

Italy. Weather continues to interfere with operations. Fighting patrols North of River Sangro have inflicted casualties on enemy.

Burma. In Arakan Japanese attack on our troops North East of Maungdaw was repulsed, in Chin Hills Japanese have not advanced in Haka Area (20 miles South of Falam).

3. AIR OPERATIONS.

Western Front. 18th/19th. 1553 tons dropped on Berlin and 785 tons on Mannheim.

19th. Escorted Fortresses (B17) dropped 245 tons on unidentified targets in West Germany and Holland. 48 Escorted Typhoon Bombers (1 missing) attacked 2 airfields in Northern France and Military objectives near Gris Nez. A Sunderland operating West of Bay of Biscay damaged three out of four JU 88.

19th/20th. Aircraft despatched Leverkusen 268 (5 missing and 3 crashed) Seamining 25, Duisberg 6, Rheinhause 2, Leaflets 17. At Leverkusen weather cloudy, results not estimated. 4 Enemy aircraft operated over South East England. Damage and casualties slight.

Greece and Crete. 18th/19th. 12 heavy Bombers (1 missing) laid Sea Mines at Candia and Khalkis (Greece).

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BRITISH MOST SECRET

OPTEL NO. 381

No. 12

Information received up to 10 A.M. 21st November, 1943.

1. NAVAL

One of H.M. Submarines torpedoed a tanker off TOULON on 12th. Two of H.M. Destroyers sank a landing craft and probable a lighter in the ADRIATIC on 19th. A Polish Submarine on patrol in the AEGEAN has sunk three schooners, one E-boat and one Caique, accounting for about 200 Germans in these operations.

2. MILITARY Italy 20th. 8th Indian Division captured ARCHI immediately south West of PESCARO. Active patrolling by Canadians. On 5th Army Front evidence that enemy is strengthening his defences by mining and field constructions.

3. AIR OPERATIONS Western Front 19th/20th. LEVERKUSEN. 612 tons dropped of which about two-thirds incendiary. Complete cloud conditions and marker bombs appeared widely scattered. Fairly heavy A/A fire but little fighter opposition.

20th. Total of 88 escorted Typhoons (one missing) in seven formations bombed military constructions near CAPE GRIS NEZ. Fighters over the BAY of BISCAY destroyed one JU 290 (four engine transport aircraft used for reconnaisance), one FW200 and two JU88.

20th/21st. Enemy aircraft operated as follows:-

SOUTH LONDON 4; SUSSEX Coast 6; ABERDEEN 1.

Mosquitoes destroyed two and damaged another. One bomb at BATTERSEA killed 4 persons.

Yugoslavia 18th. 38 Warhawks attacked the railway centre at KNIN and SINJ Airfield near SPLIT.

Greece 18th. 50 escorted Fortresses bombed ELEUSIS airfield destroying 10 grounded aircraft, one Fortress missing. Escorted Mitchells dropped 49 tons at LARISSA destroying two aircraft on the airfield.

1. NAVAL ADDENDUM

5th Escort Group escorting home an convoy made promising attack on U-boat off CAPE FINISTERRE 19th/20th.

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