77TH CONGRESS 2d Session } HOUSE { DOCUMENT No. 908

Revenue Act of 1942

QUESTIONS AND ANSWERS CONTAINING AN ANALYSIS

RELATIVE TO

PUBLIC LAW NO. 753, AN ACT TO PROVIDE REVENUE, AND FOR OTHER PURPOSES, APPROVED OCTOBER 21, 1942

UNITED STATES
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HOUSE RESOLUTION NO. 576

[SUBMITTED BY MR. REED, OF NEW YORK]

IN THE HOUSE OF REPRESENTATIVES,
December 15, 1942.

Resolved, That the manuscript prepared by Representative Daniel A. Reed containing an analysis of the Revenue Act of 1942 entitled "Questions and Answers on the Tax Bill", be printed as a House Document.

Attest:

SOUTH TRIMBLE,
Clerk.

ANALYSIS OF THE REVENUE ACT OF 1942

Questions and Answers on the Tax Bill

1. Question. How many major tax bills have been passed since the New Deal has been in control of the Government?

Answer. Fourteen. The pending bill will be the fifteenth, and it is the first tax bill since Pearl Harbor. Two of the other 14 were for the purpose of helping to finance our emergency defense program.

2. Question. What is the amount of the present Federal tax burden?

Answer. Existing tax laws will produce $18,000,000,000 in the current fiscal year, which began July 1. This figure includes approximately $1,000,000,000 of social-security pay-roll taxes.

3. Question. How much will the pending bill increase Federal taxes?

Answer. Estimates vary. According to the Treasury Department, the gross yield of the bill will be approximately $8,500,000,000. However, from this figure there must be deducted the post-war credits allowed under the bill to both individuals and corporations, amounting to approximately $1,700,000,000. (These credits are explained in questions 16 and 50.) The net revenue under the Treasury estimate would be in the neighborhood of $6,800,000,000.

4. Question. Are not the Treasury estimates of revenue generally on the conservative side?

Answer. Yes. The committee's own tax expert, Mr. Colin F. Stam, of the Joint Committee on Internal Revenue Taxation, estimates that the gross yield will be $9,700,000,000 and the net yield $7,900,000,000. The latter figure is $1,100,000,000 in excess of the Treasury estimate.

5. Question. What will be the total net Federal tax burden under the new bill?

Answer. From twenty-five to twenty-seven and one-half billion dollars annually.

6. Question. How does the proposed increase in the Federal tax compare with that in connection with World War No. 1?

Answer. The most revenue we collected under the World War revenue acts was approximately $6,000,000,000 annually. Thus the tax now contemplated will be more than four times as great.

7. Question. In addition to the Federal tax, will not the people have to pay heavy State and local taxes as well?

Answer. Yes; to the amount of $10,000,000,000 annually.

8. Question. What will the total tax be in this country with the enactment of the new bill?

Answer. It will amount to the staggering sum of thirty-five to thirty-seven and one-half billions annually, or one-third of the total national income.

9. Question. Will there not be a tremendous Federal deficit, even with the heavy increase in taxes which is proposed?

Answer. Yes; the Government proposes to spend $77,000,000,000 during the present fiscal year. Even with the increased revenue under the new bill—which, incidentally, will not be fully effective until the succeeding fiscal year—we will only be meeting one-third of our expenditures by taxation. The rest will necessarily have to be borrowed, thus adding still further to an already colossal national debt.

10. Question. To what extent is the tax bill retroactive?

Answer. The individual income tax and the corporation income and excess-profits taxes are retroactive to January 1, 1942. In other words, the returns which are filed next March 15 will be at the new rates. The Victory tax, however, does not become effective until January 1, 1943, and the same is true of the related withholding tax. Excise-tax increases will become effective November 1. A number of the relief provisions of the bill apply retroactively to past taxable years.

VICTORY TAX

11. Question. What is the so-called Victory tax?

Answer. It is a new type of individual income tax, which is imposed in addition to the regular income tax.

12. Question. What is the rate of tax?

Answer. Five percent of the income in excess of $12 per week, or $624 annually.

13. Question. Does the $624 exemption apply to both married and single persons?

Answer. Yes; allowance for the married status is provided under the post-war credit which is allowed, the amount being larger for married persons than for single persons.

14. Question. Does the 5-percent rate apply to the entire income if it is greater than $624 per annum?

Answer. No; only to the amount in excess of $624.

15. Question. Is allowance made for interest payments, charitable deductions, and so forth, as is the case under the regular income tax?

Answer. Not in the case of wages and salaries. These deductions are allowed if incurred in carrying on a trade or business. An individual who is in business can also deduct other business expenses. In other words, the tax applies to the gross income in the case of wages and salaries, and to the net income of the individual's trade or business.

16. Question. What is the post-war credit which is allowed in connection with the Victory tax?

Answer. Single persons are allowed a credit of 25 percent of the amount of their Victory tax, and married persons a credit of 40 percent, plus 2 percent for each dependent. In no case, however, can the credit exceed $500 in the case of a single person, $1,000 in the case of a married person, or $100 for each dependent.

17. Question. Does a person have to wait until after the war to get the post-war credit?

Answer. No; it may be used currently, at the option of the taxpayer, as a credit against the Victory tax for life-insurance premiums paid, for amounts paid on outstanding indebtedness as of September 1, 1942, or for amounts invested in War bonds. For example, if a married person's Victory tax amounted to $100, he could reduce his liability by 40 percent, or $40, if he had paid out that much or more during the year for life-insurance premiums, mortgage payments or War bond purchases. Thus his net Victory tax liability would be $60. However, if he chose, or if he had made no such payments during the year, he would pay the full amount of the Victory tax, and thereby become entitled to receive, after the cessation of hostilities, a post-war credit of $40. If only part of the Victory-tax credit is used currently, the balance is refundable after the war.

18. Question. How is the post-war credit payable?

Answer. It will be allowed as an offset against any taxes due from the taxpayer after the cessation of hostilities. Any balance will be refunded to the taxpayer immediately.

19. Question. Does the taxpayer have to file a separate return in connection with the Victory tax?

Answer. No; it will be computed on the regular income-tax return.

20. Question. How much will the Victory tax amount to at different wage levels?

Answer. The amount of the Victory tax, and the amount of the post-war credit, is shown in the following table for different levels of income, both in the case of single persons and married persons:

Victory tax—Amount of gross Victory tax, post-war credit, and net Victory tax

Income	Gross Victory tax	Post-war credit			Net Victory tax		
		Single person, no dependents	Married person, no dependents	Married person, 2 dependents	Single person, no dependents	Married person, no dependents	Married person, 2 dependents
$600							
$700	$3.80	$0.95	$1.52	$1.67	$2.85	$2.28	$2.13
$750	6.30	1.58	2.52	2.77	4.72	3.78	3.53
$800	8.80	2.20	3.52	3.87	6.60	5.28	4.93
$900	13.80	3.45	5.52	6.07	10.35	8.28	7.73
$1,000	18.80	4.70	7.52	8.27	14.10	11.28	10.53
$1,100	23.80	5.95	9.52	10.47	17.85	14.28	13.33
$1,200	28.80	7.20	11.52	12.67	21.60	17.28	16.13
$1,300	33.80	8.45	13.52	14.87	25.35	20.28	18.93
$1,400	38.80	9.70	15.52	17.07	29.10	23.28	21.73
$1,500	43.80	10.95	17.52	19.27	32.85	26.28	24.53
$1,600	48.80	12.20	19.52	21.47	36.60	29.28	27.33
$1,700	53.80	13.45	21.52	23.67	40.35	32.28	30.18
$1,800	58.80	14.70	23.52	25.87	44.10	35.28	32.93
$1,900	63.80	15.95	25.52	28.07	47.85	38.28	35.73
$2,000	68.80	17.20	27.52	30.27	51.60	41.28	38.53
$2,100	73.80	18.45	29.52	32.47	55.35	44.28	41.33
$2,200	78.80	19.70	31.52	34.67	59.10	47.28	44.13
$2,300	83.80	20.95	33.52	36.87	62.85	50.28	46.93
$2,400	88.80	22.20	35.52	39.07	66.60	53.28	49.73
$2,500	93.80	23.45	37.52	41.27	70.35	56.28	52.53
$3,000	118.80	29.70	47.52	52.27	89.10	71.28	66.53
$4,000	168.80	42.20	67.52	74.27	126.60	101.28	94.53
$5,000	218.80	54.70	87.52	96.27	164.10	131.28	122.53
$6,000	268.80	67.20	107.52	118.27	201.60	161.28	150.53
$7,000	318.80	79.70	127.52	140.27	239.10	191.28	178.53
$8,000	368.80	92.20	147.52	162.27	276.60	221.28	206.53
$9,000	418.80	104.70	167.52	184.27	314.10	251.28	234.53
$10,000	468.80	117.20	187.52	206.27	351.60	281.28	262.53
$15,000	718.80	179.70	287.52	316.27	539.10	431.28	402.53
$25,000	1,218.80	304.70	487.52	536.27	914.10	731.28	682.53
$50,000	2,468.80	500.00	967.52	1,086.27	1,968.80	1,481.28	1,382.53
$100,000	4,968.80	500.00	1,000.00	1,200.00	4,468.80	3,968.80	3,768.80
$500,000	24,968.80	500.00	1,000.00	1,200.00	24,468.80	23,968.80	23,768.80
$1,000,000	49,968.80	500.00	1,000.00	1,200.00	49,468.80	48,968.80	48,768.80
$5,000,000	249,968.80	500.00	1,000.00	1,200.00	249,468.80	248,968.80	248,768.80

WITHHOLDING TAX

21. Question. Does the 5-percent withholding tax, which will be collected from pay rolls, have any connection with the Victory tax?

Answer. Yes; inasmuch as it is first applied as an offset against the Victory tax and any balance against regular income tax.

22. Question. What is the nature of the withholding tax?

Answer. It is imposed upon wages and salaries of more than $12 per week, or $624 per annum, and is collected by each employer out of the employee's pay and turned over to the Government. The 5-percent rate applies only to the excess over $12 per week.

23. Question. Is the withholding rate the same for both married and single persons?

Answer. Yes.

24. Question. What is the purpose of the withholding tax?

Answer. In effect, it provides for a partial payment of each individual's tax liability out of current earnings.

25. Question. Is every wage earner and salaried person subject to the withholding tax?

Answer. No. The following services are exempted: (1) Service in the armed forces, (2) agricultural labor, (3) domestic service in a private home, (4) casual labor not in the course of the employer's regular trade or business, (5) service in the employ of nonresident, (6) service in the employ of a foreign government, and (7) service performed by an employee while outside the United States. All other employed persons are subject to withholding, including officers of corporations, employees of the Federal, State, and local governments, and Members of Congress.

26. Question. Does the fact that any person is not subject to the withholding tax give him any advantage?

Answer. No. The only thing is, he will not have paid any part of his tax liability during the year, and will therefore owe the full amount when he makes his return the following March 15.

27. Question. Are persons who are not "employees" under the law of master and servant subject to the withholding tax?

Answer. No. This means that any person occupying the status of an independent contractor is not deemed to be an employee.

28. Question. Does the employee receive any receipt showing the amount of taxes deducted from his wage or salary?

Answer. Yes. The employer is required to furnish each employee with such a receipt at the end of each year, or upon termination of his employment.

29. Question. What happens if the amount withheld from a person's wages exceeds his Victory tax liability at the end of the year?

Answer. Any excess is allowed as a credit against the regular income tax. If there is no liability for the regular income tax, then the excess is refunded to the taxpayer.

30. Question. Is the withholding tax allowed as a deduction in computing net income?

Answer. No; since it is taken as a direct credit against the Victory tax. Moreover, the Victory tax liability is not allowed as a deduction in computing net income under the regular income tax.

31. Question. Will not the collection of the withholding tax be burdensome on employers?

Answer. Undoubtedly. Every effort has been made, however, to minimize their burden as much as possible.

INDIVIDUAL INCOME TAX

32. Question. Were any changes made by the bill in the regular income tax as applied to individuals?

Answer. Yes; the exemptions were lowered and the rates increased.

33. Question. What are the new exemptions?

Answer. Five hundred dollars for single persons, $1,200 for married persons and heads of families, and $350 for each dependent. Members of the armed forces, except commissioned officers, are allowed an additional exemption of $250 in the case of single persons and $300 in the case of married persons.

34. Question. What is the amount of the normal income tax on individuals?

Answer. It is increased from 4 percent to 6 percent.

35. Question. What changes are made in the surtax rates?

Answer. They have been increased all along the line. The minimum rate is raised from 6 percent to 13 percent and the maximum from 77 percent to 82 percent. The maximum rate will apply to income in excess of $200,000. Under the present law, the maximum rate applies to income in excess of $5,000,000.

36. Question. Combining the normal tax and the surtax, what will be the total rate applicable to the first dollar of taxable income in excess of the personal exemption?

Answer. The total rate on the first dollar of taxable income will be 19 percent, as compared with 10 percent under existing law. Including the 5-percent Victory tax, the initial rate will be 24 percent.

37. Question. Is any change proposed in the present earned-income credit?

Answer. No. It may still be deducted in computing the normal tax, in an amount equal to 10 percent of the earned income.

38. Question. Are husbands and wives required to file a joint income-tax return, as proposed by the Treasury Department?

Answer. No. They may continue to file separate returns as at present. The Treasury recommendation in this regard was rejected by the committee.

39. Question. Will the short form of income-tax return be continued under the new bill?

Answer. Yes; where the gross income is not more than $3,000. Its use is optional with the taxpayer. The Victory tax may also be computed on the short form.

40. Question. Could you give some examples of how the proposed increases in tax will affect different taxpayers?

Answer. The following tables give this information:

Comparison of individual income tax and total tax on specified incomes (all income earned) under present law, House bill, and Senate Finance Committee bill

SINGLE PERSON

Gross income	Net income before exemptions [1]	Present law—Income tax	1942 tax bill				
			Regular income tax	Victory tax	Total income and Victory tax	Post-war credit	Net tax
$500	$450						
$600	540		$5.20		$5.20		$5.20
$700	630		20.92	$3.80	24.72	$0.95	23.77
$750	675		29.20	6.30	35.50	1.58	33.92
$800	720		37.48	8.80	46.28	2.20	44.08
$900	810	$3.60	54.04	13.80	67.84	3.45	64.39
$1,000	900	11.40	70.60	18.80	89.40	4.70	84.70
$1,100	990	20.04	87.16	23.80	110.96	5.95	105.01
$1,200	1,080	28.68	103.72	28.80	132.42	7.20	125.32
$1,300	1,170	37.32	120.28	33.80	154.08	8.45	145.63
$1,400	1,260	45.96	136.84	38.80	175.64	9.70	165.94
$1,500	1,350	54.60	153.40	43.80	197.20	10.95	186.25
$1,600	1,440	63.24	169.96	48.80	218.76	12.20	206.56
$1,700	1,530	71.88	186.53	53.80	240.32	13.45	226.87
$1,800	1,620	80.52	203.08	58.80	261.88	14.70	247.18
$1,900	1,710	89.16	219.64	63.80	283.44	15.95	267.49
$2,000	1,800	97.80	236.20	68.80	305.00	17.20	287.80
$2,100	1,890	106.44	252.76	73.80	326.56	18.45	308.11
$2,200	1,980	115.08	269.32	78.80	348.12	19.70	328.42
$2,300	2,070	123.72	285.88	83.80	369.68	20.95	348.73
$2,400	2,160	132.36	302.44	88.80	391.24	22.20	369.04
$2,500	2,250	141.00	319.00	93.80	412.80	23.45	389.35
$3,000	2,700	184.20	407.80	118.80	526.60	29.70	496.90
$4,000	3,600	296.10	600.40	168.80	769.20	42.20	727.00
$5,000	4,500	409.50	793.00	218.80	1,011.80	54.70	957.10
$6,000	5,400	548.90	1,021.60	268.80	1,290.40	67.20	1,223.20
$7,000	6,300	698.30	1,250.20	318.80	1,569.00	79.70	1,489.30
$8,000	7,200	865.70	1,506.80	368.80	1,875.60	92.20	1,783.40
$9,000	8,100	1,051.10	1,771.40	418.80	2,190.20	104.70	2,085.50
$10,000	9,000	1,246.50	2,056.00	468.80	2,524.80	117.20	2,407.60
$15,000	13,500	2,493.50	3,719.00	718.80	4,437.80	179.70	4,258.10
$20,000	18,000	4,111.50	5,791.00	968.80	6,759.80	242.20	6,517.60
$25,000	22,500	6,031.50	8,176.00	1,218.80	9,394.80	304.70	9,090.10
$30,000	27,000	8,191.50	10,801.00	1,468.80	12,269.80	367.20	11,902.60
$50,000	45,000	17,931.50	22,361.00	2,468.80	24,829.80	500.00	24,329.80
$60,000	54,000	23,306.50	28,676.00	2,968.80	31,644.80	500.00	31,144.80
$80,000	72,000	34,536.50	42,026.00	3,968.80	45,994.80	500.00	45,494.80
$100,000	90,000	46,421.50	56,351.00	4,968.80	61,319.80	500.00	60,819.80
$150,000	135,000	77,356.50	94,381.00	7,468.80	101,849.80	500.00	101,349.80
$250,000	225,000	140,441.50	172,616.00	12,468.80	185,084.80	500.00	184,584.80
$500,000	450,000	307,654.00	370,616.00	24,968.80	395,584.80	500.00	395,084.80
$750,000	675,000	480,396.50	568,616.00	37,468.80	606,084.80	500.00	605,584.80
$1,000,000	900,000	655,139.00	766,616.00	[2] 43,384.00	810,000.00	500.00	809,995.00
$2,000,000	1,800,000	1,365,131.50	1,558,616.00	[2] 61,384.00	1,620,000.00	500.00	1,619,995.00
$5,000,000	4,500,000	3,523,124.00	3,934,616.00	[2] 115,384.00	4,050,000.00	500.00	4,049,995.00

[1] 10 percent of gross allowed in lieu of deductions in arriving at net income.
[2] Adjusted so that total tax will not exceed 90 percent of net income.

Comparison of individual income tax and total tax on specified incomes (all income earned) under present law, House bill, and Senate Finance Committee bill—Con.

MARRIED PERSON—NO DEPENDENTS

Gross income	Net income before exemptions	Present law—income tax	1942 tax bill: Regular income tax	1942 tax bill: Victory tax	1942 tax bill: Total income and Victory tax	1942 tax bill: Post-war credit	1942 tax bill: Net tax
$500	[1] 450						
$600	540						
$700	630			$3.80	$3.80	$1.52	$2.28
$750	675			6.30	6.30	2.52	3.78
$800	720			3.80	8.80	3.52	5.28
$900	810			13.80	13.80	5.52	8.28
$1,000	900			18.80	18.80	7.52	11.28
$1,100	990			23.80	23.80	9.52	14.28
$1,200	1,080			28.80	28.80	11.52	17.28
$1,300	1,170			33.80	33.80	13.52	20.28
$1,400	1,260		$7.80	38.80	6.60	15.52	31.08
$1,500	1,350		20.40	43.80	64.20	17.52	46.68
$1,600	1,440		36.96	48.80	85.86	19.52	66.24
$1,700	1,530	$1.80	53.52	53.80	107.32	21.52	85.80
$1,800	1,620	7.20	70.08	58.80	128.88	23.52	105.36
$1,900	1,710	14.16	86.64	63.80	150.44	25.52	124.92
$2,000	1,800	22.80	103.20	68.80	172.00	27.52	144.48
$2,100	1,890	31.44	119.76	73.80	193.56	29.52	164.04
$2,200	1,980	40.08	136.32	78.80	215.12	31.52	183.60
$2,300	2,070	48.72	152.88	83.80	236.68	33.52	203.16
$2,400	2,160	57.36	169.44	88.80	258.24	35.53	222.72
$2,500	2,250	66.00	186.00	93.80	279.80	37.52	242.28
$3,000	2,700	109.20	268.80	118.80	387.60	47.52	340.08
$4,000	3,600	196.60	446.40	168.80	615.20	67.52	547.68
$5,000	4,500	312.00	639.00	218.80	857.80	87.52	770.28
$6,000	5,400	425.40	839.60	268.80	1,108.40	107.52	1,000.88
$7,000	6,300	570.80	1,068.20	318.80	1,387.00	127.52	1,259.48
$8,000	7,200	730.20	1,296.80	368.80	1,665.60	147.52	1,518.08
$9,000	8,100	893.60	1,561.40	418.80	1,980.20	167.52	1,812.68
$10,000	9,000	1,079.00	1,826.00	468.80	2,294.80	187.52	2,107.28
$15,000	13,500	2,346.00	3,425.00	718.80	4,143.80	287.52	3,856.28
$20,000	18,000	3,819.00	5,44[illegible]	968.80	6,416.80	387.52	6,029.28
$25,000	22,500	5,664.00	7,792.00	1,218.80	9,009.80	487.52	8,522.28
$30,000	27,000	7,824.00	10,380.00	1,468.80	11,848.80	587.52	11,261.28
$50,000	45,000	17,469.00	21,882.00	2,468.80	24,350.80	987.52	23,363.28
$60,000	54,000	22,849.00	28,172.00	2,968.80	31,140.80	1,000.00	30,140.80
$80,000	72,000	34,049.00	41,480.00	3,968.80	45,448.80	1,000.00	44,448.80
$100,000	90,000	46,919.00	55,784.00	4,968.80	60,752.80	1,000.00	59,752.80
$150,000	135,000	76,839.00	93,786.00	7,468.80	101,254.80	1,000.00	100,254.80
$250,000	225,000	139,909.00	172,000.00	12,468.80	184,468.80	1,000.00	183,468.80
$500,000	450,000	307,064.00	370,000.00	24,968.80	394,968.80	1,000.00	393,968.80
$750,000	675,000	479,819.00	568,000.00	37,468.80	605,468.80	1,000.00	604,468.80
$1,000,000	900,000	664,564.00	766,000.00	[2] 44,000.00	810,000.00	1,000.00	809,000.00
$2,000,000	1,800,000	1,364,589.00	1,558,000.00	[2] 62,000.00	1,620,000.00	1,000.00	1,619,000.00
$5,000,000	4,500,000	3,522,524.00	3,964,000.00	[2] 116,000.00	4,080,000.00	1,000.00	4,049,000.00

Comparison of individual income tax and total tax on specified incomes (all income earned) under present law, House bill, and Senate Finance Committee bill—Con.

MARRIED PERSON—2 DEPENDENTS

Gross income	Net income before exemptions	Present law—income tax	1942 tax bill				
			Regular income tax	Victory tax	Total income and Victory tax	Post-war credit	Net tax
$500	$450						
$600	540						
$700	630			$3.80	$3.80	$1.67	$2.13
$750	675			6.30	6.30	2.77	3.53
$800	720			8.80	8.80	3.87	4.93
$900	810			13.80	13.80	6.07	7.73
$1,000	900			18.80	18.80	8.27	10.53
$1,100	990			23.80	23.80	10.47	13.33
$1,200	1,080			28.80	28.80	12.67	16.13
$1,300	1,170			33.80	33.80	14.87	18.93
$1,400	1,260			38.80	38.80	17.07	21.73
$1,500	1,350			43.80	43.80	19.27	24.53
$1,600	1,440			48.80	48.80	21.47	27.33
$1,700	1,530			53.80	53.80	23.67	30.13
$1,800	1,620			58.80	58.80	25.87	32.93
$1,900	1,710			63.80	63.80	28.07	35.73
$2,000	1,800			68.80	68.80	30.27	38.53
$2,100	1,890			73.80	73.80	32.47	41.33
$2,200	1,980		$10.40	78.80	89.20	34.67	54.53
$2,300	2,070		22.10	83.80	105.90	36.87	69.03
$2,400	2,160		36.44	88.80	125.24	39.07	86.17
$2,500	2,250		53.00	93.80	146.80	41.27	105.53
$3,000	2,700	$29.20	135.80	118.80	254.60	52.27	202.33
$4,000	3,600	115.60	301.40	168.80	470.20	74.27	395.93
$5,000	4,500	208.00	485.00	218.80	703.80	96.27	607.53
$6,000	5,400	321.40	677.60	268.80	946.40	118.27	828.13
$7,000	6,300	434.80	886.20	318.80	1,205.00	140.27	1,064.73
$8,000	7,200	584.20	1,114.80	368.80	1,483.60	162.27	1,321.33
$9,000	8,100	733.60	1,351.40	418.80	1,770.20	184.27	1,585.93
$10,000	9,000	911.00	1,616.00	468.80	2,084.80	206.27	1,878.53
$15,000	13,500	2,014.00	3,147.00	718.80	3,865.80	316.27	3,549.53
$20,000	18,000	3,516.00	5,105.00	968.80	6,073.80	426.27	5,647.53
$25,000	22,500	5,334.00	7,406.00	1,218.80	8,624.80	536.27	8,088.53
$30,000	27,000	7,440.00	9,974.00	1,468.80	11,442.80	646.27	10,796.53
$50,000	45,000	17,043.00	21,413.00	2,468.80	23,881.80	1,086.27	22,795.53
$60,000	54,000	22,361.00	27,668.00	2,968.80	30,636.80	1,200.00	29,436.80
$80,000	72,000	33,535.00	40,934.00	3,968.80	44,902.80	1,200.00	43,702.80
$100,000	90,000	45,383.00	55,217.00	4,968.80	60,186.80	1,200.00	58,985.80
$150,000	135,000	76,287.00	93,191.00	7,468.80	100,659.80	1,200.00	99,459.80
$250,000	225,000	139,341.00	171,384.00	12,468.80	183,852.80	1,200.00	182,652.80
$500,000	450,000	306,476.00	369,384.00	24,968.80	394,352.80	1,200.00	393,152.80
$750,000	675,000	479,203.00	567,384.00	37,468.80	604,852.80	1,200.00	603,652.80
$1,000,000	900,000	653,930.00	765,384.00	[1] 44,616.00	810,000.00	1,200.00	808,800.00
$2,000,000	1,800,000	1,363,907.00	1,557,384.00	[1] 62,616.00	1,620,000.00	1,200.00	1,618,800.00
$5,000,000	4,500,000	3,521,884.00	3,933,384.00	116,616.00	4,050,000.00	1,200.00	4,048,800.00

41. Question. Was the provision of the House bill providing for current collection of a part of the regular income tax through withholding at the source included in the measure as finally passed?

Answer. No. This provision was superseded by the withholding tax imposed in connection with the Victory tax.

42. Question. Was not a provision included in the bill allowing taxpayers a deduction for extraordinary medical expenses?

Answer. Yes, but only in connection with the regular income tax. Where the expenditure for medical and dental costs exceeds 5 percent of the taxpayer's net income, he is allowed to deduct the excess amount in computing his income tax, but in no case can a single person take a deduction for more than $1,250, or a married person for more than $2,500. This provision is intended to extend relief to persons who are obliged to pay out an unusual amount during the year for medical and dental services. Ordinary expenditures for such purposes, which in the average case do not exceed 5 percent of net income, are not deductible.

43. Question. Do taxpayers still have to swear to their income-tax returns before a notary public or other official authorized to administer oaths?

Answer. No. This requirement is eliminated. However, any person signing a return does so subject to the full penalties of the law in the case of perjury.

CORPORATION INCOME TAX

44. Question. What taxes do corporations pay under the bill?

Answer. A normal income tax, a surtax, an excess-profits tax, a capital-stock tax, and a declared-value excess-profits tax which is imposed in connection with the capital-stock tax.

45. Question. How is the corporation income tax changed by the bill?

Answer. Corporations with net incomes of not more than $25,000 now pay a normal tax of 15, 17, and 19 percent, plus a surtax of 6 percent, making their combined rate 21, 23, and 25 percent. Under the bill, their normal tax is unchanged, but their surtax is increased to 10 percent, making their combined rate under the bill 25 percent on the first $5,000 of net income, 27 percent on the next $15,000, and 29 percent on the amount between $20,000 and $25,000.

Corporations with net incomes over $25,000 now pay a flat normal tax of 24 percent, and a surtax of 6 percent on the first $25,000 of their net income and 7 percent on the balance, making their combined rate 31 percent on that portion of their income over $25,000. Under the bill, their normal tax remains at 24 percent, but their surtax is increased to 16 percent, making their combined rate 40 percent.

In the case of corporations with net incomes of between $25,000 and $50,000, a so-called "notch" rate is provided to ease the sharp increase in tax between companies with less than $25,000 income and those with more than that amount.

46. Question. Will corporations which are on a fiscal-year basis have to pay the increased corporation rates beginning January 1, 1942, as provided in the House bill?

Answer. No. The bill as finally enacted adopts the Senate provision which does away with the retroactive provision of the House bill insofar as it applies to corporations with fiscal years ending between January 1 and June 30, and applies the increased rates only to that portion of a fiscal year ending after June 30. This provision applies also to individuals who are on a fiscal-year basis.

47. Question. Is any special treatment given to corporations which have net operating losses?

Answer. Yes Under existing law, they are allowed to carry forward any net operating loss for 2 years and apply it against future income. The new bill also allows them to carry the loss back 2 years, at their option. Thus corporations which make a profit this year, and suffer losses next year or the year after can reopen this year's return and set off the losses against the profits. The present provision allowing net losses to be carried forward 2 years provides relief in a period of rising profits. The 2-year-carry-back provision will provide relief in periods of declining profits. It is especially intended to afford relief to companies which normally would be paying out large sums for upkeep and maintenance expenses, which would be a legitimate deduction in computing their current net income, but which because of wartime restrictions they must refer until future years, when they may have no profits against which to take a deduction for maintenance outlays and other deferred costs.

EXCESS-PROFITS TAX

48. Question. What is the rate of tax on excess profits under the bill?

Answer. It is increased from a graduated scale of rates ranging from 35 to 60 percent to a flat tax of 90 percent.

49. Question. How are excess profits determined?

Answer. The same as under existing law. A corporation is allowed as a deduction a specific exemption of $5,000, plus either (1) 95 percent of its average earnings in the base period 1936 to 1939 inclusive, or (2) a percentage of its invested capital which decreases in amount as the amount of capital increases, as follows: 8 percent on the first $5,000,000 invested, 7 percent on the next $5,000,000, 6 percent on amounts between $10,000,000 and $200,000,000, and 5 percent on the portion of invested capital in excess of $200,000,000. Any profit which exceeds the exemption computed under either of the foregoing methods is regarded as an excess profit subject to the 90-percent rate.

50. Question. Is the excess-profits tax to be computed before the normal tax and the surtax, as under existing law?

Answer. Under the new bill the income is divided into normal profits and excess profits. On that portion of the income representing excess profits, the 90-percent rate applies. On that portion of the income representing normal profits, the normal tax and surtax applies. That portion of the excess profits which remains after the excess-profits tax is imposed is not subject to the normal tax and the surtax. In other words, 10 percent of the excess profits are tax-free, and at least 60 percent of the normal profits.

51. Question. What is the post-war credit provision applicable to corporations?

Answer. Corporations subject to excess-profits tax are allowed a post-war credit equal to 10 percent of the excess-profits tax.

52. Question. What form will the credit take?

Answer. Corporations will be issued non-interest-bearing, nonnegotiable Government bonds, which become payable after the war.

53. Question. Is not some provision made for using the post-war credit currently, at the option of the taxpaying corporation, where it makes payments on outstanding debts?

Answer. Yes; 40 percent of the amount paid on its outstanding debt during the year may be set off against its excess-profits-tax liability, up to the limit of the 10-percent post-war credit. In other words, if a corporation with an excess-profits-tax liability of $100,000 had paid a $20,000 debt during the year, it could deduct 40 percent, or $8,000, from its excess-profits tax. Since its post-war credit would amount to $10,000, it would still have $2,000 left, for which it would be issued bonds payable after the war.

54. Question. Is any relief provided for so-called hardship cases under the excess-profits tax?

Answer. Yes; the present relief provisions are liberalized and made retroactive to 1940.

CAPITAL-STOCK TAX

55. Question. What change is made in the capital-stock tax?

Answer. It is continued at the present rate of $1.25 for each $1,000 of declared value, but corporations are permitted to make an annual redeclaration of value instead of every 3 years, as at present.

56. Question. Is any change made in the related declared-value excess-profits tax?

Answer. No; it will continue to apply to profits in excess of 10 percent of the declared value of the capital stock. Its only purpose is to force corporations to declare a reasonable value on the capital stock for purposes of the capital-stock tax.

MUTUAL FIRE AND CASUALTY INSURANCE COMPANIES

57. Question. How are mutual fire and casualty insurance companies affected by the bill?

Answer. Under present law, they are completely exempt from corporation taxes. The bill makes subject to tax those companies which have more than $75,000 gross receipts from interest, dividends, rents, and premiums. Eighty percent of the companies have less than this amount of gross receipts, and therefore will continue to be exempt from tax. The tax formula applicable to taxable companies is that provided under the Senate bill, which is more favorable to the mutuals than the corresponding provisions of the House bill. In effect, it provides that the companies with more than $75,000 gross income and more than $3,000 of investment income shall be taxed either (1) on their investment income at the regular corporation rates, or (2) 1 percent on gross income (i. e., the gross amount received from interest, dividends, rents, and net premiums, minus dividends to policyholders, less tax-exempt interest), whichever method results in the higher tax. Special treatment is provided for reciprocal underwriters and interinsurers, which are not subject to tax unless their surtax net income from investments exceeds $50,000.

58. Question. Is the provision finally included in the bill more in the interest of persons insuring in mutual fire and casualty companies than the provision in the original House bill, about which so many letters and telegrams were received by Members of Congress?

Answer. Yes; since it is more beneficial to the mutual companies, it is also more beneficial to the policyholders.

PENSION TRUSTS

59. Question. Does the bill as finally enacted in any way jeopardize employees' pension systems which are provided by many corporations?

Answer. No. The Treasury proposal which might have had this effect was rejected by the Ways and Means Committee. While the bill as finally enacted makes some changes in the law in connection with pension trusts, they will not adversely affect most of the existing private-pension systems. Such changes as were made were merely for the purpose of preventing abuse and tax avoidance in this field.

CAPITAL GAINS AND LOSSES

60. Question. What changes are made by the bill in regard to the definition of long- and short-term capital gains and losses?

Answer. Under the bill, long-term capital assets are defined as those held for more than 6 months. Short-term capital assets are those held for 6 months or less. The holding period under the present law is 18 months.

61. Question. What is the difference in treatment as between long and short-term capital gains and losses?

Answer. Short-term capital gains and losses are taken into account in full in computing net income. Long-term gains and losses are only taken into account to the extent of 50 percent of the amount thereof, except in the case of corporations, which must report the full amount. The effective ceiling rate on net long-term gains is fixed at 25 percent, both in the case of individuals and corporations, but any net long-term gain must first be reduced by the amount of any net short-term loss. Long- and short-term capital net losses are deductible only to the extent of the long- and short-term capital net gains, except that in the case of individuals any excess of capital losses over capital gains may be deducted from ordinary income to the extent of $1,000 or the amount of the net income, whichever is smaller. Taxpayers are allowed to carry forward for 5 years any disallowed portion of their current capital net loss, which may be set off against future capital gains, and any excess deducted from ordinary income to the extent of $1,000 in each such year, or the amount of the net income, whichever is smaller.

ESTATE TAX

62. Question. Are the estate-tax rates increased by the bill?

Answer. No; but the exemption has been changed somewhat.

63. Question. What is the change in the estate-tax exemption?

Answer. At present there is a $40,000 general exemption, and in addition an exemption of up to $40,000 of life insurance payable to a named beneficiary. The committee has consolidated these two exemptions into a single exemption of $60,000, all or any part of which may be in insurance.

64. Question. What action was taken with respect to the Treasury proposal to limit the amount of tax-free gifts to religious, charitable, and educational institutions?

Answer. It was rejected. Anyone may continue to give or bequeath any amount to such institutions free of estate tax or gift tax.

65. Question. Was the same action taken with respect to the companion suggestion of the Treasury to subject such institutions to income tax on any activity carried on for profit which was not directly related to their exempt activities?

Answer. Yes; it was also rejected.

GIFT TAX

66. Question. What change was made in the gift tax?

Answer. The rates were not changed, but the exemptions were lowered. Each donor now has a lifetime exemption of $40,000 and there is a further exemption of the first $4,000 of gifts made to any number of different persons each year. The committee has reduced the lifetime exemption to $30,000, and has reduced the annual exclusion of gifts to any one person to $3,000 Donors may continue to give the latter amount tax free each year to as many different persons as they wish, without consuming the lifetime exemption of $30,000. Any excess over $3,000 to any person in any year is charged against the $30,000 exemption.

EXCISE TAXES

67. Question. By what amount was the tax on distilled spirits increased?

Answer. It is increased from $4 per proof gallon to $6 per proof gallon, effective November 1.

68. Question. Is a floor-stocks tax to be imposed on dealer's stocks on hand when the increased rate becomes effective?

Answer. Yes; in an amount equal to the $2 difference in tax.

69. Question. Was not a provision included in the bill providing for a lower rate of tax on alcohol not used for beverage purposes?

Answer. Yes; the bill includes the amendment adopted by the Senate, allowing for a reduced rate of tax in the case of alcohol used in the production of medicines, food products, flavoring extract, and so forth. Manufacturers of these articles must first pay the $6 per proof gallon tax, but upon proof that the alcohol was used for nonbeverage purposes they will be entitled to a rebate of $3.75 per proof gallon. In order to qualify for this rebate, manufacturers must first take out an annual license, for which the fee is $25 in the case of withdrawals of not more than 25-proof gallons, $50 in the case of withdrawals of not more than 50-proof gallons, and $100 for withdrawals in excess of 50-proof gallons. This particular section of the bill is generally referred to as the Tydings amendment.

70. Question. Is the tax on beer also increased by the bill?

Answer. It is increased from $6 per barrel of 31 gallons to $7. A floor-stocks tax is also imposed in connection with the beer tax, amounting to $1 per barrel applicable to stocks on hand on November 1.

71. Question. What increase is made in the tax on wines?

Answer. The tax on wines of up to 14 percent alcohol is increased from 8 cents to 10 cents per gallon; that on wines of between 14 and 21 percent alcohol is increased from 30 cents to 40 cents; and that on wines between 21 and 24 percent is increased from 65 cents to $1. The rate on sparkling wines is increased from 7 cents to 10 cents per half pint; on artificially carbonated wines from 3½ cents to 5 cents per half pint; and on liqueurs, and so forth, from 3½ cents to 5 cents per half pint. A floor-stocks tax, equal to the increase in rates, is also imposed in connection with the wine tax.

72. Question. Is the tax on cigarettes increased by the bill?

Answer. Yes; from 6½ cents per package to 7 cents.

73. Question. What change is made in the tax on cigars?

Answer. The following schedule is adopted, which provides slightly different classifications than under existing law and also increases the rates in each class, which now range from $2 to $13.50 per thousand:

Class	Made to retail at (cents)	Rate per M
A	Not more than 2.5 each	$2.50
B	More than 2.5 and not more than 4	3.00
C	More than 4 and not more than 6	4.00
D	More than 6 and not more than 8	7.00
E	More than 8 and not more than 15	10.00
F	More than 15 and not more than 20	15.00
G	More than 20	20.00

74. Question. Was any change made in the tax on telephone and telegraph messages?

Answer. Yes; the rate on telephone toll charges in excess of 24 cents is increased to a flat rate of 20 percent. The present 6-percent tax on local telephone bills is increased to 10 percent. The rate on telegraph messages is increased from 10 to 15 percent.

75. Question. Was the rate on passenger transportation increased?

Answer. The present 5-percent tax on passenger transportation was increased to 10 percent. The tax includes the cost of berths and seats as well as railroad fare.

76. Question. Is there any tax on transportation of freight?

Answer. The bill as enacted contains a new tax on transportation of freight, whether by rail, water, motor vehicle, or airplane. The rate is 3 percent of the charges, except that in the case of coal the rate is 4 cents per short ton.

77. Question. What change is made in the tax on photographic equipment and supplies?

Answer. The present rate of 10 percent is increased to 15 percent in the case of photographic film, plates, and sensitized paper, and to 25 percent in the case of cameras, lenses, and so forth.

78. Question. Are the Federal taxes on gasoline and lubricating oil increased by the bill?

Answer The Federal gasoline tax is not increased, but the tax on lubricating oil is increased from 4½ cents per gallon to 6 cents.

79. Question. Was the Senate amendment providing for a Federal tax on parimutuel betting retained in the bill as finally enacted?

Answer. No; it was eliminated in conference. The States [illegible] betting is legalized already collect a tax of this kind, and they [illegible] a Federal levy would encourage the placing of bets through [illegible] makers, thereby decreasing their own revenue from this source [illegible]

80. Question. Are any excise taxes repealed by the bill?

Answer. Yes; those on electric signs, rubber articles, comm[illegible] washing machines, and optical equipment.

81. Question. What is the change which is made in connection with the cabaret tax?

Answer. The existing law with respect to the cabaret tax is amended by subjecting to a 5-percent tax all amounts paid for admission, refreshment, service, or merchandise, at any roof garden, cabaret, or other similar place furnishing a public performance for profit, by or for any patron or guest who is entitled to be preseent during any portion of such performance. The term "roof garden, cabaret, or other similar place" is clarified, and a performance is to be regarded as being furnished for profit for the purpose of this tax even though the charge made for admission, refreshment, service, or merchandise is not increased by reason of the furnishing of the performance.

TAX-EXEMPT SECURITIES

82. Question. Does the new bill provide for the taxation of State and municipal bonds?

Answer. No; this Treasury proposal was not included in the bill.

SOCIAL SECURITY PAY ROLL TAX

83. Question. Did not the bill amend the Social Security Act so as to prevent the contemplated increase in pay-roll taxes from going into effect January 1 next?

Answer. Yes; under existing law, the present 1-percent pay-roll tax on employers and employees would automatically increase to 2 percent on each, beginning next January 1. Because the existing tax has already built up twice as large a reserve as is required under the provisions of the Social Security Act, the Senate voted to freeze the existing 1-percent rate for another year. This Senate amendment is included in the bill as finally enacted.

RENEGOTIATION OF WAR CONTRACTS

84. Question. What changes does the tax bill make in the law requiring the renegotiation of war contracts?

Answer. The changes are as follows:

First. Renegotiation is made applicable to the Treasury Department.

Second. The terms "subcontract" and "article," which are not defined in the present statute, are defined to mean, in the case of "subcontract," any purchase, order, or agreement to perform all or any part of the work, or to make or furnish any article required for the performance of another contract or subcontract, and, in the case of "article," as including any material, part, assembly, machinery, equipment, or other personal property.

Third. In the discretion of the Secretary of the Department concerned, the provision for the renegotiation of the contract price may fix the period for renegotiation, and may provide that renegotiation shall apply only to a portion of the contract or subcontract.

Fourth. The Secretary may renegotiate contracts or subcontracts as a group.

Fifth. In determining the excessiveness of profits, the Secretary shall recognize the properly applicable exclusions and deductions which the contractor or subcontractor is allowed under chapter 1 and chapter 2E of the code.

Sixth. The Secretary of the Department concerned is authorized to credit against excessive profits eliminated pursuant to this section the amount of Federal income and excess profits taxes paid or payable with respect to such profits.

Seventh. No renegotiation may be commenced more than 1 year after the close of the fiscal year of the contractor or subcontractor within which completion of the contract or subcontract occurs.

Eighth. Contracts and subcontracts for certain mineral or natural deposits, or timber, are exempted from renegotiation.

Ninth. The Secretary of the Department is authorized to exempt specified categories of contracts and of subcontracts.

85. Question. Are these changes in the interest of the contractor?

Answer. Yes; they are intended to make the law more certain. Of special importance is the change requiring renegotiation within 1 year after the completion of the contract, instead of within 3 years after the close of hostilities, as under the present law.

86. Question. Are any further changes in the renegotiation law contemplated?

Answer. Yes. The statement of the House conferees on that subject is as follows: 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.

FURTHER TAXES

87. Question. Is this the last tax bill which may be expected for the duration of the war?

Answer. The Secretary of the Treasury, even before the new bill was passed by Congress, proposed a further increase in taxes of six billions. It is very likely that Congress will begin consideration of another new tax bill early in 1943.

88. Question. Are there any substantial sources of revenue which remain untapped?

Answer. Taxes have reached the point now where it is difficult to raise taxes much further without stifling war production, driving business into bankruptcy, and drastically reducing the standard of living of our people. However, the tremendous expenditures being made for carrying on the war require that we raise the maximum amount of revenue possible, which, at best, will still leave a staggering amount to be financed by borrowing on the public credit. About the only place Congress can turn to raise any substantial amount of additional revenue is to the sales tax.

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