

March 3, 1936

[Tax Message]

FOR Speech File

March 3, 1936

Snell

K₀
S.T.G.
Will you have this
run off and ready to
be sent up at 12 o'clock?
JDP.

TO THE CONGRESS OF THE UNITED STATES:

On January third, 1936, in my annual budget message to the Congress, I pointed out that without the item for relief the budget was in balance. Since that time an important item of revenue has been eliminated through ^athe decision of the Supreme Court, and an additional annual charge has been placed on the Treasury through the enactment of the Adjusted Compensation Payment Act.

I said in my budget message: " * * * the many legislative Acts creating the machinery for recovery were all predicated on two interdependent beliefs. First, the measures would immediately cause a great increase in the annual expenditures of the Government - many of these expenditures, however, in the form of loans which would ultimately return to the Treasury. Second, as a result of the simultaneous attack on the many fronts I have indicated, the receipts of the Government would rise definitely and

sharply during the following few years, while greatly increased expenditure for the purposes stated, coupled with rising values and the stopping of losses would, over a period of years, diminish the need for work relief and thereby reduce Federal expenditures. The increase in revenues would ultimately meet and pass the declining cost of relief. ^PThis policy adopted in the spring of 1933 has been confirmed in actual practice by the Treasury figures of 1934, of 1935, and by the estimates for the fiscal years of 1936 and 1937. ^PThere is today no doubt of the fundamental soundness of the policy of 1933. If we proceed along the path we have followed and with the results attained up to the present time we shall continue our successful progress during the coming years."

If we are to maintain this clearcut and sound policy, it is incumbent upon us to make good to the Federal Treasury both the loss of revenue caused by the ^{Supreme} Court decision and the increase in expenses caused by the Adjusted Compensation Payment Act. I emphasize that adherence to consistent policy calls for such action.

To be specific: The Supreme Court decision adversely affected the budget in an amount of one billion and seventeen million dollars during the fiscal year 1956 and the fiscal year 1957. This figure is arrived at as follows:

Deficit to date (expenditures charge-able to processing taxes less process- ing taxes collected) in excess of that contemplated in the 1957 budget...\$ 281,000,000

Estimated expenditures to be made from supplemental appropriation approved in the Supplemental Appropriation Act, 1956..... 296,000,000

Estimated expenditures to be made under the Soil Conservation and Domestic Allotment Act..... 440,000,000

Total additional deficit 1956 and 1957, due to Supreme Court decision.....\$1,017,000,000

and adjusted for on program

For the purposes of clarity, I divide the present total additional revenue needs of the Government into the permanent and the temporary ones.

~~Permanent~~ ^Permanent Treasury income of five hundred million dollars is required to offset expenditures which will be made annually as a result of the Soil Conservation and Domestic Allotment Act recently enacted by the Congress and approved by me; and an additional sum recurring annually for ~~ten~~ ^{nine} years will be required to amortize the total cost of the Adjusted Compensation Payment Act.

The net effect of paying the Veterans' Bonus in 1956, instead of 1945, is to add an annual charge of one hundred ~~and~~ ^{and} twenty million dollars a year to the one hundred ~~sixty~~ ^{sixty} million dollars already in the budget.

We are called upon, therefore, to raise by some form of permanent taxation an annual amount of six hundred ~~and~~ ^{and} twenty million dollars. It may be said, truthfully and correctly, that five hundred million dollars of this amount represents substitute taxes in place of the old processing taxes, and that only one hundred ~~and~~ ^{and} twenty million dollars represents new taxes not hitherto levied.

~~_____~~

I leave, of course, to the discretion of the Congress the formulation of the appropriate taxes for the needed permanent revenue. I invite your

attention, however, to a form of tax which would accomplish an important tax reform, remove two major inequalities in our tax system, and stop "leaks" in present surtaxes.

Extended study of methods of improving present taxes on income from business warrants the consideration of changes to provide a fairer distribution of the tax load among all the beneficial owners of business profits whether derived from unincorporated enterprises or from incorporated businesses and whether distributed to the real owners as earned or withheld from them. The existing difference between corporate taxes and those imposed on owners of unincorporated businesses renders incorporation of small businesses difficult or impossible.

The accumulation of surplus in corporations controlled by taxpayers with large incomes is encouraged by the present freedom of undistributed corporate income from surtaxes. Since stockholders are the beneficial owners of both distributed and undistributed corporate income, the aim, as a matter of fundamental equity, should be to seek equality of tax burden on all corporate income whether distributed or withheld from the beneficial owners. As the law now stands our corporate taxes dip too deeply into the shares of corporate earnings going to stockholders who need the disbursement of dividends; while the shares

of stockholders who can afford to leave earnings undistributed escapes current surtaxes altogether.

This method of evading existing surtaxes constitutes a problem as old as the income tax law itself. Repeated attempts by the Congress to prevent this form of evasion have not been successful. The evil has been a growing one. It has now reached disturbing proportions from the standpoint of the inequality it represents and of its serious effect on the Federal revenue. Thus the Treasury estimates that, during the calendar year 1936, over four and one-half billion dollars of corporate income will be withheld from stockholders. If ~~it~~ were distributed, it would be added to the income of stockholders and there taxed as other personal income. ~~But~~, as matters now stand, it will be withheld from stockholders by those in control of these corporations. In one year alone, the Government ~~will be~~ ^{will be} deprived of revenues amounting to over one billion three hundred million dollars. ^A proper tax on corporate income (including dividends from other corporations), which is not distributed as earned, would correct ~~this~~ ^{the} serious inequality, if accompanied by a repeal of the present corporate income tax, the capital stock tax, the related excess profits tax and the present exemption of dividends from the normal tax on individual incomes. ~~The rate~~

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two-fold in our taxes on business profits

The rate

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~~graduated and~~ The rate on undistributed corporate income should be graduated and so fixed as to yield approximately the same revenue as would be yielded if corporate profits were distributed and taxed in the hands of stockholders.

Such a revision of our corporate taxes would effect great simplification in tax procedure, in corporate accounting, and in the understanding of the whole subject by the citizens of the nation. It would constitute distinct progress in tax reform.

The Treasury Department will be glad to submit its estimates to the Congress showing that this simplification and removal of inequalities can, without unfairness, be put into practice so as to yield the full amount of six hundred ^{and} twenty million dollars - the amount I have indicated above as being necessary.

Turning to the temporary revenue needs of the Government, there is the item of five hundred ^{and} ~~seventeen~~ ^{affects} million dollars, which ~~results~~ ^{and} principally ~~in~~ the current fiscal year. ~~From the Supreme Court decision affecting processing taxes.~~ This amount must in some way be restored to the Treasury, even though the process of restoration might be spread over

two years or three years.

In this case also, ^{the} ~~formulating~~ ^{on up} taxes lies wholly in the discretion of the Congress. I venture, however, to call your attention to two suggestions.

The first relates to the taxation of what may well be termed a windfall received by certain taxpayers who shifted to others the burden of processing taxes which were impounded and returned to them or which otherwise have remained unpaid. *In unequal position is that* ^{the vast number} of other taxpayers ^{who} did not resort to such court action and have paid their taxes to the Government. By far the greater part of the processing taxes was in the main either passed on to consumers or taken out of the price paid producers. The Congress recognized this fact last August and provided in Section 21(d) of the Agricultural Adjustment Act that, in the event of the invalidation of the processing taxes, only those processors who had borne the burden of these taxes should be permitted to receive refunds. The return of the impounded funds and failure to pay taxes that were passed on

result in unjust enrichment, contrary to the spirit of that enactment. A tax on the beneficiaries unfairly enriched by the return or nonpayment of this Federal excise would take a major part of this windfall income for the benefit of the public. Much of this revenue would accrue to the Treasury during the fiscal years 1936 and 1937.

The other suggestion relates to a temporary tax to yield the portion of five hundred and seventeen million dollars not covered by the windfall tax. Such a tax could be spread over two years or three years. An excise on the processing of certain agricultural products is worth considering. By increasing the number of commodities so taxed, by greatly lowering the rates of the old processing tax and by spreading the tax over two or three years, only a relatively light burden would be imposed on the producers, consumers or processors.

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On January third, 1936, in my annual budget message to the Congress, I pointed out that without the item for relief the budget was in balance. Since that time an important item of revenue has been eliminated through the decision of the Supreme Court, and an additional annual charge has been placed on the Treasury through the enactment of the Adjusted Compensation Payment Act.

I said in my budget message: " * * the many legislative Acts creating the machinery for recovery were all predicated on two interdependent beliefs. First, the measures would immediately cause a great increase in the annual expenditures of the Government - many of these expenditures, however, in the form of loans, which would ultimately return to the Treasury. Second, as a result of the simultaneous attack on the many fronts I have indicated, the receipts of the Government would rise definitely and

sharply during the following few years, while greatly increased expenditure for the purposes stated, coupled with rising values and the stopping of losses would, over a period of years, diminish the need for work relief and thereby reduce Federal expenditures. The increase in revenues would ultimately meet and pass the declining cost of relief. This policy adopted in the spring of 1933 has been confirmed in actual practice by the Treasury figures of 1934, of 1935, and by the estimates for the fiscal years of 1936 and 1937. There is today no doubt of the fundamental soundness of the policy of 1933. If we proceed along the path we have followed and with the results attained up to the present time we shall continue our successful progress during the coming years."

If we are to maintain this clearcut and sound policy, it is incumbent upon us to make good to the Federal Treasury both the loss of revenue caused by the ^{Supreme} Court decision and the increase in expenses caused by the Adjusted Compensation Payment Act. I emphasize that adherence to consistent policy calls for such action.

To be specific: The Supreme Court decision adversely affected the budget in an amount of one billion and seventeen million dollars during the fiscal year 1956 and the fiscal year 1957. This figure is arrived at as follows:

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	<hr/>
Total additional deficit 1956 and 1957, due to Supreme Court decisions	\$1,017,000,000

(and adjusted farm program

For the purposes of clarity, I divide the present total additional revenue needs of the Government into the permanent and the temporary ones.

New and permanent Treasury income of five hundred million dollars is required to effect expenditures which will be made annually as a result of the Soil Conservation and Domestic Allotment Act recently enacted by the Congress and approved by me; and an additional sum recurring annually for ^{17 1/2} ~~20~~ years will be required to amortize the total cost of the Adjusted Compensation Payment Act.

The net effect of paying the Veterans' Bonus in 1936, instead of 1945, is to add an annual charge of one hundred ⁹ twenty million dollars a year to the one hundred ⁴ sixty million dollars already in the budget.

We are called upon, therefore, to raise by some form of permanent taxation an annual amount of six hundred ⁴ twenty million dollars. It may be said, truthfully and correctly, that five hundred million dollars of this amount represents substitute taxes in place of the old processing taxes, and that only one hundred ⁴ twenty million dollars represents new taxes not hitherto levied.

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attention, however, to a form of tax which would accomplish an important tax reform, remove two major inequalities in our tax system, and stop "leaks" in present surtaxes.

Extended study of methods of improving present taxes on income from business warrants the consideration of changes to provide a fairer distribution of the tax load among all the beneficial owners of business profits whether derived from unincorporated enterprises or from incorporated businesses and whether distributed to the real owners as earned or withheld from them. The existing difference between corporate taxes and those imposed on owners of unincorporated businesses renders incorporation of small businesses difficult or impossible.

The accumulation of surplus in corporations controlled by taxpayers with large incomes is encouraged by the present freedom of undistributed corporate income from surtaxes. Since stockholders are the beneficial owners of both distributed and undistributed corporate income, the aim, as a matter of fundamental equity, should be to seek equality of tax burden on all corporate income whether distributed or withheld from the beneficial owners. As the law now stands our corporate taxes dip too deeply into the shares of corporate earnings going to stockholders who need the disbursement of dividends; while the shares

of stockholders who can afford to leave earnings undistributed escapes current surtaxes altogether.

This method of evading existing surtaxes constitutes a problem as old as the income tax law itself. Repeated attempts by the Congress to prevent this form of evasion have not been successful. The evil has been a growing one. It has now reached disturbing proportions from the standpoint of the inequality it represents and of its serious effect on the Federal revenue. Thus the Treasury estimates that, during the calendar year 1936, over four and one-half billion dollars of corporate income will be withheld from stockholders. If ~~it were~~ ^{the undistributed income} distributed, it would be added to the income of stockholders and there taxed as other personal income ^{is}. But, as matters now stand, it will be withheld from stockholders by those in control of these corporations. In one year alone, the Government will ~~be~~ ^{be} thus deprived of revenues amounting to over one billion three hundred million dollars. A proper tax on corporate income (including dividends from other corporations), which is not distributed as earned, would correct ~~the~~ ^{the} serious ^{twofold} inequality ^{in returns on business profits} if accompanied by a repeal of the present corporate income tax, the capital stock tax, the related excess profits tax and the present exemption of dividends from the normal tax on individual incomes.

The rate on undistributed corporate income should be so fixed as to yield approximately the same revenue as would be yielded if corporate profits were distributed and taxed in the hands of stockholders.

Such a revision of our corporate taxes would effect great simplification in tax procedure, in corporate accounting, and in the understanding of the whole subject by the citizens of the nation. It would constitute distinct progress in tax reform.

The Treasury Department will be glad to submit its estimates to the Congress showing that this simplification and removal of inequalities can, without unfairness, be put into practice so as to yield the full amount of six hundred twenty million dollars - the amount I have indicated above as being necessary.

Turning to the temporary revenue needs of the Government, there is the item of five hundred ^{seventeen} million dollars, which ^{affects} ~~is~~ principally ~~in~~ the current fiscal year, ~~from the Supreme Court decision affecting processing taxes~~. This amount must in some way be restored to the Treasury, even though the process of restoration might be spread over

two years or three years.

In this case also, ^{the} ^{and} formulating taxes lies wholly in the discretion of the Congress. I venture, however, to call your attention to two suggestions.

The first relates to the taxation of what may well be termed a windfall received by certain taxpayers who shifted to others the burden of processing taxes which were impounded and returned to them or which otherwise have remained unpaid. *In unequal position is that* ~~the~~ ^{the} ^{number} of other taxpayers did not resort to such court action and have paid their taxes to the Government. By far the greater part of the processing taxes was in the main either passed on to consumers or taken out of the price paid producers. The Congress recognized this fact last August and provided in Section 21(d) of the Agricultural Adjustment Act that, in the event of the invalidation of the processing taxes, only those processors who had borne the burden of these taxes should be permitted to receive refunds. The return of the impounded funds and failure to pay taxes that were passed on

result is unjust enrichment, contrary to the spirit of that enactment. A tax on the beneficiaries unfairly enriched by the return or nonpayment of this Federal excise would take a major part of this windfall income for the benefit of the public. Much of this revenue would accrue to the Treasury during the fiscal years 1936 and 1937.

The other suggestion relates to a temporary tax to yield the portion of five hundred and seventeen million dollars not covered by the windfall tax. Such a tax could be spread over two years or three years. An excise on the processing of certain agricultural products is worth considering. By increasing the number of commodities so taxed, by greatly lowering the rates of the old processing tax and by spreading the tax over two or three years, only a relatively light burden would be imposed on the producers, consumers or processors.

May I ~~also~~ more respectfully invite the attention of the Congress to ~~the~~ simple fact that the credit of the Government is at

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its highest; and that, with increasing business, sustained prices and consequent improved tax receipts, income and outgo approach each other. To maintain the growing strength of this structure must be our aim.

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3/3/36

TO THE CONGRESS OF THE UNITED STATES:

On January \_\_\_\_\_, 1936, in my annual budget message to the Congress I pointed out that without the item for relief the budget was in balance. Since that time an important item of revenue has been eliminated through the decision of the Supreme Court, and an additional annual charge has been placed on the Treasury through the enactment of the Soldiers' Bonus Act.

I said: "The many legislative Acts creating the machinery for recovery were all predicated on two interdependent beliefs. First, the measures would immediately cause a great increase in the annual expenditures of the Government - many of these expenditures, however, in the form of loans, which would ultimately return to the Treasury. Second, as a result of the simultaneous attack on the many fronts I have indicated, the receipts of the Government would rise definitely and

sharply during the following few years while greatly increased expenditure for the purposes stated, coupled with the rising values and the stopping of losses would, over a period of years, diminish the need for work relief and thereby reduce Federal expenditures. The increase in revenues would ultimately meet and pass the declining cost of relief. This policy, adopted in the spring of 1933, has been confirmed in actual practice by the Treasury figures of 1934, of 1935, and by the estimates for the fiscal years of 1936 and 1937. There is today no doubt of the fundamental soundness of the policy of 1933. If we proceed along the path we have followed, and with the results attained up to the present time, we shall continue our successful progress during the coming years."

If we are to maintain this clearcut and sound policy, it is incumbent upon us to make good to the Federal Treasury both the loss

of revenue caused by the Court decision and the increase in expenses caused by the Bonus Act. I emphasize that adherence to consistent policy calls for such action.

To be specific: The Supreme Court decision results in a loss of revenue which would have been collected except for the decision, to an amount of one billion and seventeen million dollars during the fiscal year 1936 and the fiscal year 1937. (This figure is arrived at as follows:

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For purposes of clarity I divide this into (A) five hundred million dollars new and permanent Treasury income to offset expenditures which will be made annually as a result of the Soil Conservation and Domestic Allotment Act, recently passed and signed by me.

In addition to this item of five hundred million dollars, which we may properly say calls for a permanent tax of at least an equal amount, another item must be considered. The net effect of paying the veterans' bonus in 1936, instead of in 1945, is to add an annual charge of one hundred twenty million dollars a year to the one hundred sixty million dollars already in the budget. This additional sum, recurring annually for nine years, will amortize the total cost of the Bonus payments.

We are called upon, therefore, to raise by some form of permanent taxation an annual amount of six hundred twenty million dollars. It may be said, truthfully and correctly, that of this five hundred million dollars represents substitute taxes in place of the old processing taxes, and that one hundred twenty million dollars represents new taxes not hitherto levied.

I leave, of course, to the discretion of the Congress the determination of the form which such taxes should take. I invite your

attention, however, to a form of tax which would accomplish an important tax reform, remove two major inequalities in our tax system, and stop "leaks" in present surtaxes.

Extended study of methods of improving present corporate taxes warrants the consideration of changes to provide fairer distribution of the tax load as between corporate profits withheld from stockholders and corporate profits distributed to them as earned. Existing corporate taxes render incorporation of small businesses difficult or impossible and encourage accumulation of surpluses in corporations owned or controlled by taxpayers with large incomes. Since stockholders are the beneficial owners of both distributed and undistributed corporate income, the aim, as a matter of fundamental equality, should be to seek equality of tax burden on corporate income, whether this income is distributed or withheld from stockholders. As the law now stands, our corporate taxes dip too deeply into the share of corporate earnings going to stockholders who need the disbursement of dividends; while the share

of stockholders who can afford to leave earnings undistributed escapes the surtaxes altogether. This method of evading surtaxes constitutes a problem as old as the income tax law itself. Repeated attempts by the Congress to prevent this form of evasion have not been successful. The evil has been a growing one. It has now reached disturbing proportions from the standpoint of inequality it represents and of its serious effect on the Federal revenue. Thus during the year 1936 some \_\_\_\_\_ dollars of corporate profits, which if distributed would have been added to the income of stockholders and their tax, as every personal income is, as matters now stand is being withheld from stockholders by those in control of these corporations. In one year alone, the Government is thus deprived of revenues amounting to over \_\_\_\_\_ dollars. A tax on corporate profits, which are not distributed as they are earned, would correct this serious inequality. Such a tax would yield approximately the same revenue as would be yielded if the corporate profits were distributed and taxed in the hands of stockholders.

Furthermore, great simplification in tax procedure, in corporate accounting, and in the understanding of the whole subject by the citizens of the Nation would result. This simplification would be arrived at by the repeal of the present corporate income tax, the capital tax, the related excess profits tax and the present exemption of dividends from the normal tax of individual incomes. This would constitute distinct progress in tax reform.

The Treasury Department will be glad to submit figures to the Congress showing that this simplification and removal of inequalities can, without unfairness, be put into practice so as to yield the full amount of six hundred twenty million dollars - the amount I have indicated above as being necessary.

There remains the item of five hundred seventeen million dollars, which results principally in the current 1936 fiscal year from the Supreme Court decision affecting processing taxes. This amount must in some way be restored to the Treasury, even though the process of

restoration might be spread over two years or three years.

In this case also the form of tax or taxes lies wholly in the discretion of the Congress. I venture, however, to call your attention to two suggestions.

The first relates to the redelivery of what may well be termed a windfall received by certain taxpayers, who, through court action, were able to have their taxes impounded and later returned to them. A vast number of other taxpayers did not resort to such court action and have paid their taxes to the Government. In the case of the uncollected taxes by far the greater part was in the main either passed on to consumers or taken out of the price paid producers. The Congress recognized this fact last August and provided in Section 21-B of the Agricultural Adjustment Act that in the event of the invalidation of the processing taxes only those processors who had borne the burden of these taxes should be permitted to receive refunds. The return of the impounded funds and failure to pay taxes that were passed on result in

unjust enrichment, contrary to the spirit of that enactment. A tax on the beneficiaries' unfairly enriched by the return or nonpayment of this Federal excise can well yield one hundred fifty million dollars. This revenue would accrue to the Treasury during the fiscal years 1936 and 1937.

The other suggestion relates to reimbursement of the Treasury by a temporary tax to yield approximately three hundred sixty-seven million dollars. Such a tax could be spread over two years or three years. An excise on the processing of certain agricultural products is worth considering. By increasing the number of commodities so taxed, by greatly lowering the rates of the old procession tax and by spreading the tax over two or three years, far less burden would be imposed on the producers, processors or consumers than under the old law.

May I once more respectfully invite the attention of the Congress to the simple fact that the credit of the Government is at

its highest, that with increasing business, sustained prices and in improved tax receipts from existing taxes income and outgo approach each other. To maintain the growing strength of this structure must be our aim.