

---

**Franklin D. Roosevelt — “The Great Communicator”**  
**The Master Speech Files, 1898, 1910-1945**

**Series 2: “ You have nothing to fear but fear itself:” FDR  
and the New Deal**

---

**File No. 1196**

**1939 January 19**

**Message to Congress - Income Tax**

THE WHITE HOUSE  
WASHINGTON

~~My dear Mr. Garson:~~

1938

In my message of April 25, I urged that the time had come when the Congress should exercise its constitutional power to tax income from whatever source derived. I urged that the time had come when private income should not be exempt <sup>either</sup> from Federal or State income tax simply because such private income is derived as interest from Federal, State or municipal obligations or because it is received as compensation for services rendered to the Federal, State or municipal governments. ~~I asserted that~~ <sup>A</sup> fair and effective progressive income tax and a huge perpetual reserve of tax-exempt bonds could not exist side by side. ~~I pointed out that~~ <sup>T</sup> those who earn their livelihood from government should bear the same tax burden as those who earn their livelihood in private employment. ~~I suggested~~ <sup>D</sup> that ~~the~~ tax immunities heretofore accorded to private income derived from government securities or government employment <sup>are</sup> ~~were~~ not inexorable requirements of the Constitution, but <sup>are</sup> ~~were~~ the result of judicial decision. I <sup>felt</sup> ~~asserted~~ that it is not unreasonable to hope that judicial decision would permit the elimination of these immunities.

Decisions of the Supreme Court rendered since my message, ~~of~~ <sup>as</sup> April 25, particularly the decision in the Port of New York Authority case, have made an important and constructive contribution to the elimination of these inequitable immunities.

It is obvious, however, that these inequities can not be satisfactorily corrected by judicial decisions alone. Without legislation to supplement them, many individuals and corporations will be subjected to tax liabilities for income received in past years which they mistakenly but in good faith believed to be tax-exempt. It is evident, for example, that employees of many state agencies as well as the holders of securities of public corporations believed that the income they received from such sources was tax-exempt, in view of the opinions of eminent counsel based upon earlier decisions of the Supreme Court. In the interest of equity and justice, therefore, immediate legislation is required to prevent recent judicial decisions from operating in such a retroactive fashion as to impose tax liability on these innocent employees and investors for salaries heretofore earned, or on income derived from securities heretofore issued.

In the light of those decisions there are, among the taxpayers of the Nation, inevitable uncertainties respecting their tax liabilities. There is uncertainty whether the salaries which they receive are not taxable under the existing provisions of the revenue acts; there is uncertainty whether the interest which they receive upon the obligations of governmental instrumentalities is similarly not taxable; and there is an uncertainty whether the salaries and interest which they have received for past years will create an unanticipated source of tax liabilities and penalties.

In view of the fact that the Bureau of Internal Revenue will have no choice but to enforce our income tax law as declared in the latest decisions of the Supreme Court, prompt legislation is necessary to safeguard against the inequities to which I have referred. The need, therefore, is for the prompt enactment of equitable rules, prospective in operation, which the Bureau can apply and taxpayers can observe without that mass of litigation which otherwise is to be anticipated. We are confronted with a situation which can be handled with fairness to all and with reasonable administrative convenience only through the cooperation of the Congress and the Courts.

Unless the Congress passes some legislation dealing with this situation prior to March 15th, I am informed by the Secretary of the Treasury that he will be obliged to collect back taxes for at least three years upon the employees of many state agencies and upon the security-holders of many state corporate instrumentalities, who mistakenly but in good faith believed they were tax-exempt. The assessment and collection of these taxes will doubtlessly in many cases produce great hardship.

(A)

Accordingly, I ~~renew~~ my recommendation for legislation at this session which will make private income from all government salaries hereafter earned and from all government securities hereafter issued subject to the general income tax laws of the Nation and of the several States. The Congress will need also to consider what tax

INSERT A

Accordingly, I recommend legislation to correct the existing inequitable situation, and at the same time to make private income from all government salaries hereafter earned and from all government securities hereafter issued subject to the general income tax laws of the Nation and of the several States. It is difficult for almost all citizens to understand why a constitutional provision permitting taxes on "income from whatever source derived" does not mean "from whatever source derived".

-----

treatment, from the Federal income tax, should be accorded the income derived from securities of governmental, corporate instrumentalities hitherto issued and to compensation for services hitherto rendered to the various types of public agencies.

Very truly yours,

The President.

Hon. John N. Gerner,

President of the United States Senate.

January , 1939

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis or intimation to be published or given out until the READING of the President's Message has begun in the Senate or the House of Representatives. Extreme care must therefore be exercised to avoid premature publication.

STEPHEN EARLY  
Secretary to the President

-----  
TO THE CONGRESS OF THE UNITED STATES:

In my message of April 25, 1938 I urged that the time had come when the Congress should exercise its constitutional power to tax income from whatever source derived. I urged that the time had come when private income should not be exempt either from Federal or State income tax simply because such private income is derived as interest from Federal, State or municipal obligations or because it is received as compensation for services rendered to the Federal, State or municipal governments.

A fair and effective progressive income tax and a huge perpetual reserve of tax-exempt bonds could not exist side by side. Those who earn their livelihood from government should bear the same tax burden as those who earn their livelihood in private employment.

The tax immunities heretofore accorded to private income derived from government securities or government employment are not inexorable requirements of the Constitution, but are the result of judicial decision. I repeat that it is not unreasonable to hope that judicial decision would permit the elimination of these immunities.

Decisions of the Supreme Court rendered since my message, particularly the decision in the Port of New York Authority case, have made an important and constructive contribution to the elimination of these inequitable immunities.

It is obvious, however, that these inequities can not be satisfactorily corrected by judicial decisions alone. Without legislation to supplement them, many individuals and corporations will be subjected to tax liabilities for income received in past years which they mistakenly but in good faith believed to be tax-exempt. It is evident, for example, that employees of many state agencies as well as the holders of securities of public corporations believed that the income they received from such sources was tax-exempt, in view of the opinions of eminent counsel based upon earlier decisions of the Supreme Court. In the interest of equity and justice, therefore, immediate legislation is required to prevent recent judicial decisions from operating in such a retroactive fashion as to impose tax liability on these innocent employees and investors for salaries heretofore earned, or on income derived from securities heretofore issued.

In the light of those decisions there are, among the taxpayers of the Nation, inevitable uncertainties respecting their tax liabilities. There is uncertainty whether the salaries which they receive are not taxable under the existing provisions of the revenue acts; there is uncertainty whether the interest which they receive upon the obligations of governmental instrumentalities is similarly not taxable; and there is an uncertainty whether the salaries and interest which they have received for past years will create an unanticipated source of tax liabilities and penalties.

In view of the fact that the Bureau of Internal Revenue will have no choice but to enforce our income tax law as declared in the latest decisions of the Supreme Court, prompt legislation is necessary to safeguard against the inequities to which I have referred. The need, therefore, is for the prompt enactment of equitable rules, prospective in operation, which the Bureau can apply and taxpayers can observe without that mass of litigation which otherwise is to be anticipated. We are confronted with a situation which can be handled with fairness to all and with reasonable administrative convenience only through the cooperation of the Congress and the Courts.

Unless the Congress passes some legislation dealing with this situation prior to March Fifteenth, I am informed by the Secretary of the Treasury that he will be obliged to collect back taxes for at least three years upon the employees of many state agencies and upon the security-holders of many state corporate instrumentalities, who mistakenly but in good faith believed they were tax-exempt. The assessment and collection of these taxes will doubtlessly in many cases produce great hardship.

Accordingly, I recommend legislation to correct the existing inequitable situation, and at the same time to make private income from all government salaries hereafter earned and from all government securities hereafter issued subject to the general income tax laws of the Nation and of the several States. It is difficult for almost all citizens to understand why a constitutional provision permitting taxes on "income from whatever source derived" does not mean "from whatever source derived".

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

January , 1939.



MESSAGE  
OF THE  
PRESIDENT OF THE                      January 19, 1939  
UNITED STATES

76th Congress

1st Session

1224

TO THE CONGRESS OF THE UNITED STATES:

In my message of April 25, 1938 I urged that the time had come when the Congress should exercise its constitutional power to tax income from whatever source derived. I urged that the time had come when private income should not be exempt either from Federal or State income tax simply because such private income is derived as interest from Federal, State or municipal obligations or because it is received as compensation for services rendered to the Federal, State or municipal governments.

A fair and effective progressive income tax and a huge perpetual reserve of tax-exempt bonds could not exist side by side. Those who earn their livelihood from government should bear the same tax burden as those who earn their livelihood in private employment.

The tax immunities heretofore accorded to private income derived from government securities or government employment are not inexorable requirements of the Constitution, but are the result of judicial decision. I repeat that it is not unreasonable to hope that judicial decision would permit the elimination of these immunities.

Decisions of the Supreme Court rendered since my message, particularly the decision in the Port of New York Authority case, have made an important and constructive contribution to the elimination of these inequitable immunities.

It is obvious, however, that these inequities can not be satisfactorily corrected by judicial decisions alone. Without legislation to supplement them, many individuals and corporations will be subjected to tax liabilities for income received in past years which they mistakenly but in good faith believed to be tax-exempt. It is evident, for example, that employees of many state agencies as well as the holders of securities of public corporations believed that the income they received from such sources was tax-exempt, in view of the opinions of eminent counsel based upon earlier decisions of the Supreme Court. In the interest of equity and justice, therefore, immediate legislation is required to prevent recent judicial decisions from operating in such a retroactive fashion as to impose tax liability on these innocent employees and investors for salaries heretofore earned, or on income derived from securities heretofore issued.

In the light of those decisions there are, among the taxpayers of the Nation, inevitable uncertainties respecting their tax liabilities. There is uncertainty whether the salaries which they receive are not taxable under the existing provisions of the revenue acts; there is uncertainty whether the interest which they receive upon the obligations of governmental instrumentalities is similarly not taxable; and there is an uncertainty whether the salaries and interest which they have received for past years will create an unanticipated source of tax liabilities and penalties.

In view of the fact that the Bureau of Internal Revenue will have no choice but to enforce our income tax law as declared in the latest decisions of the Supreme Court, prompt legislation is necessary to safeguard against the inequities to which I have referred. The need, therefore, is for the prompt enactment of equitable rules, prospective in operation, which the Bureau can apply and taxpayers can observe without that mass of litigation which otherwise is to be anticipated. We are confronted with a situation which can be handled with fairness to all and with reasonable administrative convenience only through the cooperation of the Congress and the Courts.

Unless the Congress passes some legislation dealing with this situation prior to March fifteenth, I am informed by the Secretary of the Treasury that he will be obliged to collect back taxes for at least three years upon the employees of many state agencies and upon the security-holders of many state corporate instrumentalities, who mistakenly but in good faith believed they were tax-exempt. The assessment and collection of these taxes will doubtlessly in many cases produce great hardship.

Accordingly, I recommend legislation to correct the existing inequitable situation, and at the same time to make private income from all government salaries hereafter earned and from all government securities hereafter issued subject to the general income tax laws of the Nation and of the several States. It is difficult for almost all citizens to understand why a constitutional provision permitting taxes on "income from whatever source derived" does not mean "from whatever source derived".

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE.

January 19, 1939.