

REPORTS
to the
Joint Committee on Internal
Revenue Taxation

Seventy-first Congress
Pursuant to
Section 1203 (b) (6), Revenue Act of 1926

Division of Investigation

Vol. 1—Part 7

Supplemental Report
on
Capital Gains and Losses

Printed for the examination and use of the Members of the Committee

NOTE.—These reports have been submitted to the committee and ordered printed for purposes of information, but no action has been taken by the committee upon them.



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1929

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LETTER OF TRANSMITTAL

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,
Washington, June 8, 1929.

To Members of the Joint Committee on Internal Revenue Taxation:

There is transmitted herewith a report entitled "Supplemental Report on Capital Gains and Losses," as prepared by our division of investigation.

The previous report on this subject was made in 1927 and this report was published in condensed form in the report of the joint committee dated November 15, 1927.

This supplemental report suggests a new plan for the computation of the tax on capital gains and also recommends a deduction of losses consistent with the tax on gains. It is requested that you give this new plan consideration.

Your comments and suggestions on this subject will be appreciated.

Very truly yours,

WILLIS C. HAWLEY,
Chairman Joint Committee on Internal Revenue Taxation.

LETTER OF SUBMITTAL

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,
Washington, November 26, 1928.

HON. WILLIS C. HAWLEY,
Chairman Joint Committee on Internal Revenue Taxation,
Washington, D. C.

MY DEAR CHAIRMAN: There is transmitted herewith a Supplemental Report on Capital Gains and Losses.

The original report on this subject was submitted to the joint committee about a year ago, but the report was negative in character, for it recommended not only that capital gains and losses should be taxed but also that they should be taxed under the existing 12½ per cent maximum method.

This first study did show, however, that the method was arbitrary, inequitable, and justifiable only on the ground of expediency until such time as a better method could be found.

The supplemental report now submitted represents an attempt to devise such a method, which will meet not only the test of being expedient but also be fair, equitable, and in conformity with the principles of our income tax.

It is believed that the fundamental difference between income from capital gains and ordinary income lies in the element of time of realization. Accordingly, the new method is based on the following principle:

The tax on a capital gain should approximate the tax which would have been paid if the gain had been realized in equal annual amounts over the period for which the asset was held.

While the proposed method will look complicated at first sight, an analysis will show that the computation on the return is slightly more simple than under the present method. Losses can also be treated in a manner consistent with the treatment of gains.

In any event, the new method has the merit of treating all taxpayers alike and not confining the principal benefit of the reduced tax on capital gains to less than 10,000 of our most wealthy class. Furthermore, the present method gives absolutely no relief to 98½ per cent of the 4,000,000 persons making income-tax returns, while the new method will give a consistent and reasonable relief to any taxpayer making a capital gain.

The publication of this report for public examination and analysis would appear proper in view of section 1203 (c) (5) of the revenue act of 1926 covering the issue of reports by the joint committee.

Very respectfully,

L. H. PARKER,
Chief Division of Investigation.

SUPPLEMENTAL REPORT ON CAPITAL GAINS AND LOSSES

FOREWORD

A study of the subject of capital gains and losses has already been made. This study, in condensed form, was published in the report of the Joint Committee on Internal Revenue Taxation, Volume I, dated November 15, 1927. The subject was treated on pages 40 to 48, inclusive, and certain statistics were given in the appendix, pages 85 and 86.

In the above-mentioned report three main questions were considered, as follows:

(a) Should capital gains and capital losses be eliminated entirely from the scope of the income tax?

(b) Should such gains and losses be included in net income for the calculation of the normal and surtax?

(c) Should the present policy of taxing capital gains at a flat rate and the corresponding treatment of capital losses as expressed in section 208 of the revenue act of 1926 be continued?

The matter presented in the report led to the conclusion that the first two questions should be answered in the negative. In regard to the third question, it was recommended that the present policy should be continued in the revenue act of 1928, but it was also plain from the discussion that this policy was not satisfactory and should be continued only up to such time as a better and more equitable method could be found.

The object of the supplemental report now being made is to present for examination and analysis a proposed method which it is believed is more just than the present one.

SYNOPSIS

This report and the results of the investigation made in connection therewith may be summarized as follows:

1. The present capital gain and loss provisions are inequitable and are based on no sound theory or principle. They can be defended only on the ground of expediency.

(a) The present provisions are of no benefit to 98½ per cent of our taxpayers, and are of substantial benefit to less than one-fourth of 1 per cent of them:

(b) They are of substantial benefit only to about 9,560 persons with net income in excess of \$100,000, out of a total number of 4,171,051 individuals making returns.

(c) The percentage relief from taxation provided by the provisions becomes greater as the net income becomes greater.

(d) These provisions give the same relief in the case of the sale of an asset held for 2 years as they do in the case of an asset held for 20 years.

(e) A large part of our tax on capital gains is derived from the taxation of appreciation in money value as distinct from actual value. In other words, a large tax is derived from these provisions merely because of the reduced purchasing power of the dollar.

2. The proper theory upon which capital gain and loss provisions should be based would appear to be as follows:

The tax on capital gains should approximate the tax which would have been paid if the gain had been realized in uniform annual amounts over the period during which the asset was held. In the same way, the reduction in tax due to capital losses should approximate the reduction in tax which would have resulted if the loss had been incurred uniformly over the period during which the asset was held.

(a) It follows from the above theory that capital gain and loss provisions should only apply to individuals as at present. The flat rate applicable to corporate income results in the same tax whether it is paid in one year or over the period during which the asset was held.

(b) Where a tax rate is so high as to prevent ordinary transactions for profit, the taxpayer loses the profit and the Government loses the tax. Therefore, capital gain and loss provisions should be practically modified so that transactions will not be prevented on account of an excessive tax rate. Statistics prove that such modification is expedient and results in increased annual revenue.

3. It appears that the following arbitrary method of taxing capital gains and crediting capital losses meets approximately the requirements just set forth:

In the case of the sale of an asset there shall be included in, or deducted from, the net income of the individual subject to normal and surtax—

- 100 per cent of the gain or loss if the asset has been held less than 2 years.
- 90 per cent of the gain or loss if the asset has been held 2 years but less than 3 years.
- 80 per cent of the gain or loss if the asset has been held 3 years but less than 4 years.
- 70 per cent of the gain or loss if the asset has been held 4 years but less than 5 years.
- 60 per cent of the gain or loss if the asset has been held 5 years but less than 7 years.
- 50 per cent of the gain or loss if the asset has been held 7 years but less than 10 years.
- 40 per cent of the gain or loss if the asset has been held 10 years but less than 15 years.
- 0 per cent of the gain or loss if the asset has been held 15 years or more.

(a) It appears that in the case of a gift or exchange where the basis of the new owner becomes the basis of the old owner, nevertheless the time for which the asset is held should be computed from the date of acquisition by the new owner. This is recommended in order to offset certain advantages of the new method, and also because it seems distinctly fair in view of the fact that there is no gift tax.

(b) The elimination of capital gains and losses from income-tax computations in the case of an asset held 15 years or more has several advantages. First, it would do away for the future with the necessity for all March 1, 1913, valuations for gain and loss computations. Second, it would eliminate a considerable amount of the tax now collected on account of the reduced purchasing power of the dollar. Third, it would prevent the charging off of certain worthless stock which should have been charged off long ago.

4. The loss or gain in revenue from the proposed method can not be accurately determined. Under present conditions it is believed the loss would not exceed \$7,500,000. On a gradually falling market the revenue would probably increase to that extent.

In any event, the proposed provision should tend to stabilize the revenue. That is, we should get more revenue in years of depression when it is needed and less in good years when the tax on ordinary income should be sufficient. From the standpoint of the Government the present period of high prices is an advantageous time to make the change.

DISCUSSION

The present capital gain and loss provisions.—The revenue act of 1928 provides, as did several prior acts, that—

If the taxpayer holds certain property for more than two years it becomes a capital asset and he may elect to treat the gain on its sale as ordinary income subject to normal and surtax or he may exclude the capital gain from his ordinary income and add to his tax thereon a tax of $12\frac{1}{2}$ per cent of such capital gain.

In the case of losses on the sale of capital assets, he must either deduct the loss from his ordinary net income or he must apply $12\frac{1}{2}$ per cent of such loss as a credit against the tax on his ordinary net income. This follows the same theory as in the case of capital gains, except that the method taken is not optional; that is, the method which will produce the largest tax must be used.

In the case of a number of capital gains and losses incurred in the same year the sum of the losses is offset against the sum of the gains to produce either a capital net gain or a capital net loss.

In examining the effect of the provisions briefly described above the first point which will be noticed is that unless a man has a net income of \$50,000 or over, in the case where the capital gain comprises the principal part of such income, the capital-gain provision will have no effect on the tax. Moreover, in the case of such capital gains the relief becomes greater as the net income becomes greater. This may be shown by the following simple table, assum-

ing a married man with no dependants and a \$3,500 salary with the capital gain indicated in the first column:

Capital gain	Tax without capital-gain provision	Tax with capital-gain provision	Reduction in tax by provision
\$10,000	\$309	\$309	<i>Per cent</i> None.
50,000	5,724	5,724	None.
60,000	7,734	7,500	3
70,000	9,964	8,750	12
80,000	12,229	10,000	19
100,000	17,134	12,500	27
500,000	117,134	62,500	46
1,000,000	242,134	125,000	48

In cases where the capital gain comprises only a small part of the income of the taxpayer some relief is afforded to persons with net incomes as low as \$30,000. To show this the following table is submitted, again assuming a married man with no dependents:

Net income, not including capital gain	Capital gain	Tax on capital gain without capital-gain provision	Tax on capital gain with capital-gain provision	Reduction in tax on capital gain
\$10,000	\$2,000	\$90	\$90	<i>Per cent</i> None.
30,000	2,000	260	250	4
40,000	2,000	320	250	22
50,000	2,000	360	250	31
80,000	2,000	480	250	48
100,000	2,000	500	250	50
1,000,000	2,000	500	250	50

It is plain from the above tables that the relief afforded by the capital-gain provision is not distributed in accordance with the principle of "ability to pay." In other words, while the Supreme Court of the United States has held that capital gains are properly a part of income, nevertheless the tax on same is imposed on an entirely different principle from the tax on ordinary income. It also appears that the following propositions are true:

(a) In the case where the capital gain comprises practically all of the taxpayer's income, the capital-gain provision gives no relief to persons with incomes less than approximately \$50,000, and the extent of the relief increases as the income becomes greater, approaching 50 per cent as a limit.

(b) In the case where the capital gain comprises only a small part of the taxpayer's income, the capital-gain provision gives no relief to persons with incomes less than approximately \$30,000, and the reduction in tax on the capital gain becomes greater as the income approaches \$100,000, at which point and beyond the reduction becomes 50 per cent.

In 1925 there were 68,317 taxpayers with net incomes of over \$30,000, out of a total number of individual returns of 4,171,951. Only slightly over 1½ per cent, therefore, of the total number of individuals making returns could possibly be benefited by the capital-

gain provision. In fact, the principal benefit goes to the 9,560 persons, or twenty-three one hundredths of 1 per cent, with net incomes of \$100,000 or over. These 9,560 persons received in 1925 a relief of approximately \$90,902,252 in tax, while all other taxpayers received a tax relief of only about \$13,586,640.

In regard to the capital-loss provision, it will be noticed that this has the reverse effect of the capital-gain provision. This is shown by the following simple table:

Net income, not deduct- ing capital loss	Capital loss	Tax reduc- tion on account of loss without capital-loss provision	Tax reduc- tion on account of loss with capital-loss provision	Reduction in tax credit
\$10,000	\$2,000	\$60	\$60	<i>Per cent</i> None.
30,000	2,000	260	250	4
40,000	2,000	300	250	17
50,000	2,000	360	250	31
80,000	2,000	460	250	46
100,000	2,000	480	250	48
1,000,000	2,000	500	250	50

From the above it will be observed that the capital-loss provision does not effect any change in the tax of individuals with net incomes less than about \$30,000, but effects an increase in tax on incomes above that amount, such increase becoming greater until a net income of about \$100,000 is reached.

At first sight it would appear, therefore, that the relief afforded the large taxpayers in the case of capital gains would be offset by the increased tax in the case of capital losses. Practically this does not appear to be the case. The following figures should be noted, based on 1925 statistics:

Classification of incomes ¹	Tax on capital net gains	Tax credit on capital net losses	Tax credit on losses to tax on gains
			<i>Per cent</i>
\$30,000 to \$50,000.....	\$3,622,227	\$955,581	26
\$50,000 to \$70,000.....	7,653,928	795,385	11
\$70,000 to \$100,000.....	10,494,886	1,010,294	10
\$100,000 to \$150,000.....	13,006,830	1,302,213	10
\$150,000 to \$250,000.....	15,017,009	1,247,142	8
\$250,000 to \$500,000.....	21,037,838	947,172	5
\$500,000 to \$1,000,000.....	17,170,899	679,548	4
\$1,000,000 and over.....	29,567,354	721,603	2
Total.....	117,570,971	7,658,938	-----

¹ In classifying net incomes, capital gains are included in net income, but capital losses are not deducted from net income.

It is obvious from the above figures that the persons with large incomes have a very much less percentage of losses to gains than is the case with persons with small incomes. It follows that the relief afforded to the large taxpayers by the capital-gain provision is not offset by the increased tax occasioned by the capital-loss provision.

In view of the above it seems fair to say that in general—

The capital gain and loss provisions are advantageous only to the taxpayers with net incomes in excess of \$30,000, and are principally advantageous to taxpayers with net incomes in excess of \$100,000.

While the principal inequities of these provisions have now been indicated there are some minor peculiarities which should be noted.

Suppose a man with a \$3,500 salary and a \$3,500 personal exemption has a capital loss of \$100,000 on the sale of a block of stock on December 31, 1928, and a capital gain of \$100,000 on the sale of another block of stock on January 1, 1929. His taxes for the two years will be as follows:

1928 -----	None.
1929 -----	\$12,500
Total -----	12,500

Suppose now the same man completed the two sales on December 31, 1928; that is, he realized the capital gain one day earlier, then his taxes for the two years will be as follows:

1928 -----	None.
1929 -----	None.
Total -----	None.

This result comes about through the provision of the law excluding capital losses from net losses. Stated in words, a net loss may be applied against a capital net gain of the succeeding two years, but a capital net loss can not be applied against the capital net gain or the ordinary income of the taxpayer for the succeeding two years. The individual with a small income will generally find himself taxed in full in the year in which he is fortunate enough to realize a capital gain, while in the year in which he suffers a capital loss he will get no reduction in tax, as he will have no income against which to charge the loss. This will not generally be the result in the case of persons of greater wealth, as they will have sufficient ordinary income against which to charge the loss.

The taxpayer often has it in his power under the capital gain and loss provisions to select when he will take his gains or losses in a way to produce the least tax. For instance, if a man has an unusually high income in a certain year taxable at high surtax rates, he may select this year to sell some nearly worthless stock which he has held for a long period, or he may sell stock on which he has a substantial loss and which is inactive, and then buy it back at the end of 30 days at the same price, having really taken only what may be termed "a paper loss."

It has already been stated that the Supreme Court of the United States has ruled that capital gains may properly be included in income for tax purposes. Nevertheless, it must be apparent that there are differences which exist in ordinary income and in income from capital gains. An economic discussion of our conception of income can not well be entered into here, but a hypothetical case will be presented which will make it plain that differences do exist in these two forms of income.

Suppose a man bought a house in 1914 for \$5,000. In 1928 he is obliged to move to another city and sells his house for \$10,000. He then buys a house in his new location for \$10,000 exactly similar to the one he sold. Although he ends this transaction in the same financial condition as at the beginning, he is subject to a tax on a capital gain of \$5,000. Even if he simply sells his house and realizes the cash, he finds under 1928 conditions that he can only buy with his \$10,000 just about the same amount of food, clothing, and other necessities as he could have bought in 1914 with his \$5,000.

It will be plain from a little thought on this matter that a large part of our capital gains are the result of the reduced purchasing power of our dollar. Whether these more or less fictitious gains are properly taxed is a serious question.

The proper principle for a capital gain and loss provision.—In spite of the above inequities, it has already been pointed out that it was concluded from a former report that there should be included in the revenue act capital gain and loss provisions.

The question then arises, if our present provisions are unfair, inequitable, and not in accordance with the principle of ability to pay, on what principle should capital gain and loss provisions be based?

After a careful study of this problem, it is believed that the following principle is a sound and proper theoretical basis for such provisions:

The tax on capital gains should approximate the tax which would have been paid if the gain had been realized in uniform annual amounts over the period during which the capital asset was held. In the same way, the reduction in tax due to capital losses should approximate the reduction in tax which would have resulted if the loss had been incurred uniformly over the period during which the asset was held.

Suppose a man invests \$100,000 in the stock of a domestic corporation which makes a profit of 10 per cent annually (after the payment of the corporation tax) on its capital and surplus. Suppose the man has a salary of \$3,500 and a personal exemption of \$3,500 and that the corporation does not distribute dividends but employs its profits in increasing its surplus and expanding its business. Now, suppose at the end of 10 years the man sells his stock at the book value. Then his total tax for the period, if there were no capital-gain provision, would be \$31,798. Under the present capital-gain provision his tax is \$19,922. If the dividends had been distributed his total tax for the period would have been \$2,392. In this particular case, therefore, the tax is increased about fifteen times over what it would have been if the gain had been realized annually as it accrued, provided capital gains were taxed at the usual normal and surtax rates. Even with the present capital-gain provision the tax is nine times what it would have been if the profit had been taken annually.

However, the above hypothetical case is not typical of the results in the case of other amounts of capital. To show the real situation concretely, it will be necessary to have recourse to the following table:

10-year investment in domestic stock earning 10 per cent annually on capital and surplus

[Married man with \$3,500 salary and \$3,500 personal exemption]

Original capital	Corporation earnings not distributed		Corporation earnings distributed
	Tax without capital-gain provision	Tax with capital-gain provision	Tax where profit is taken annually in dividends
\$5,000,000	\$1,984,312	\$996,089	\$1,380,825
1,000,000	390,570	199,218	221,900
500,000	191,352	99,609	79,983
250,000	91,743	48,805	22,077
100,000	31,978	19,922	2,392
50,000	12,224	9,961	192
10,000	769	769	0

An examination of the above table shows plainly that the result of the present capital-gain provision, shown in column 3, falls far short of giving the result shown in column 4, but which would appear proper from the theoretical principle already stated. For instance, the man with \$5,000,000 in capital has his tax reduced from \$1,984,312 to \$996,089, or nearly 50 per cent, instead of to \$1,380,825, or about 30 per cent, as would appear just. On the other hand, the man with \$10,000 in capital gets no reduction in his tax of \$769, although it would appear from the principle already set forth that he should pay no tax.

The next question that arises is, "Are there any practical considerations which should modify the theory that has been advanced as to proper capital gain and loss provisions"?

The former report on this subject showed plainly that there was one such practical consideration, namely, that a high tax on capital gains tended to prevent capital transactions. The tables given on page 43 of the report of the Joint Committee on Internal Revenue Taxation support by facts that "the very high surtax rates (of 1917 to 1921) forbade the taking of profits and encouraged the taking of losses." Furthermore, it was shown in that report that beginning in 1922 when the present capital-gain provision went into effect "a large increase in reported profits" was discernible.

In view of the above it is concluded that while proper capital gain and loss provisions should be consistent with the theory already stated, nevertheless the rates finally worked out on this basis should be proportionately modified so that capital transactions should not be discouraged. A high rate of tax by preventing such transactions really results in a loss of revenue to the Government. There appears to be no reason, however, why the modification of rates should not result in a consistent reduction in the tax on capital gains to all taxpayers, whether rich or poor.

Proposed new capital gain and loss method.—It is believed that a practical remedy for the inequities of the present capital gain and loss provisions will be found in the following method:

It is proposed to include in, or deduct from, income subject to both normal and surtax the following percentages of the gain or loss realized from the sale of an asset:

100 per cent of the gain or loss if the asset has been held less than 2 years.

90 per cent of the gain or loss if the asset has been held 2 years but less than 3 years.

80 per cent of the gain or loss if the asset has been held 3 years but less than 4 years.

70 per cent of the gain or loss if the asset has been held 4 years but less than 5 years.

60 per cent of the gain or loss if the asset has been held 5 years but less than 7 years.

50 per cent of the gain or loss if the asset has been held 7 years but less than 10 years.

40 per cent of the gain or loss if the asset has been held 10 years but less than 15 years.

0 per cent of the gain or loss if the asset has been held 15 years or more.

It should be noted that while the above method is arbitrary, it nevertheless has a basis on the theory which we have repeatedly mentioned in this report, because it takes into account on a graduated scale the element of time for which the asset has been held.

Comparison of present and proposed capital gain and loss methods.—It is obvious that the discussion of this subject has arrived at a point where more concrete facts must be presented. The few simple examples already given are insufficient to present a fair picture of the problem. Moreover, the determination of method becomes largely a mathematical problem difficult of descriptive treatment.

In order to place before the reader, first, the effects of the present capital-gain provision; second, the effect of our theory, already stated, as to the proper tax on capital gains; and, third, the effect of a proposed arbitrary method based on our new theory but modified by practical considerations, recourse will be had to a graphical representation of the problem in its simplest form. In other words, an attempt will be made to draw a picture of the present situation and the remedy which will be proposed.

On page 11 will be found such a picture. In the preparation of this chart six cases have been considered, as follows:

1. Capital gain of \$10,000 realized in from 1 to 15 years.
2. Capital gain of \$50,000 realized in from 1 to 15 years.
3. Capital gain of \$100,000 realized in from 1 to 15 years.
4. Capital gain of \$250,000 realized in from 1 to 15 years.
5. Capital gain of \$500,000 realized in from 1 to 15 years.
6. Capital gain of \$1,000,000 realized in from 1 to 15 years.

In all the above cases a married man has been assumed with a \$3,500 personal exemption and a \$3,500 salary. This assumption leaves the man subject to tax on the full amount of the capital gain shown in the six cases.

In each of the six cases four curves are shown, as follows:

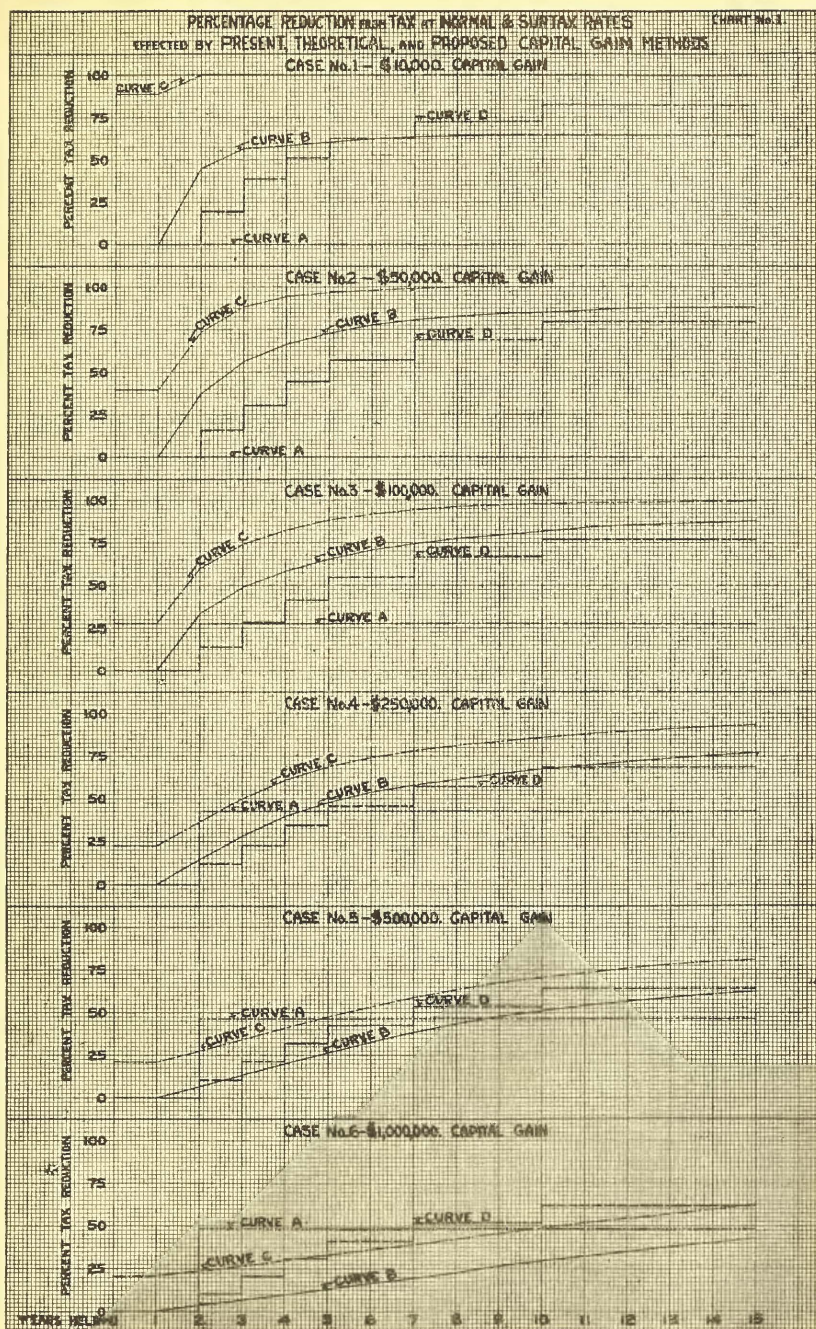
Curve A shows the percentage reduction in tax effected by our present capital-gain provision.

Curve B shows the percentage reduction in tax which would result if the gain had occurred ratably over the period during which the asset was held, and if such accrued gain was taxed annually. (In other words, this is our idea of a proper tax reduction based on theory alone.)

Curve C shows the percentage reduction in tax which would result if the gain was on the stock of domestic corporations and occurred ratably over the period during which the asset was held, and if such accrued gain was taxed annually as dividends. (In other words, this is our idea of a proper tax reduction in the case of the sale of domestic corporation stock, based on theory alone, where the increased value of the stock is due to accumulated surplus already taxed.)

Curve D shows the percentage reduction in tax which would result if the gain was taxed on an arbitrary method, based on our theory, already briefly described. (In other words, the curve represents the remedy proposed.)

The chart follows:



A consideration of the chart just presented will develop several important propositions.

First, consider curve A, which represents the percentage reduction in tax resulting from our present capital-gain provision. This curve shows as follows in the six different cases:

The man with a \$10,000 capital gain gets no relief in his tax whether the asset is held 1 day or 15 years. (Case 1.)

The man with a \$50,000 capital gain gets no relief in his tax whether the asset is held 1 day or 15 years. (Case 2.)

The man with a \$100,000 capital gain gets a tax reduction of 27 per cent after he has held the asset for more than 2 years. (Case 3.)

The man with a \$250,000 capital gain gets a tax reduction of 43 per cent after he has held the asset for more than 2 years. (Case 4.)

The man with a \$500,000 capital gain gets a tax reduction of 46 per cent after he has held the asset for more than 2 years. (Case 5.)

The man with a \$100,000 capital gain gets a tax reduction of 48 per cent after he has held the asset for more than 2 years. (Case 6.)

The above result does not look equitable upon its face, and a study of curves B and C (based on our theory of a proper reduction) confirms this opinion.

Second, therefore, consider curve B, which represents the percentage reduction in tax which would result if the capital gain on the sale of an asset (other than the stock of a domestic corporation whose increase in value is due to undistributed profits) should be taxed at an amount equal to the tax which would have been paid if the gain had been realized ratably over the period for which the asset was held. This curve shows as follows in the six different cases:

The man with a \$10,000 capital gain should have his taxes reduced, according to our theory, 45 per cent after 2 years, 57 per cent after 3 years, 59 per cent after 4 years, 61 per cent after 5 years, 63 per cent after 7 years, and 64 per cent from the eighth to the fifteenth year. (Case 1.)

The man with a \$50,000 capital gain should have his taxes reduced 38 per cent after 2 years, 56 per cent after 3 years, 66 per cent after 4 years, 73 per cent after 5 years, 81 per cent after 7 years, 85 per cent after 10 years, and 88 per cent after 15 years. (Case 2.)

The man with a \$100,000 capital gain should have his taxes reduced 33 per cent after 2 years, 49 per cent after 3 years, 58 per cent after 4 years, 65 per cent after 5 years, 75 per cent after 7 years, 82 per cent after 10 years, and 88 per cent after 15 years. (Case 3.)

The man with a \$250,000 capital gain should have his taxes reduced 14 per cent after 2 years, 28 per cent after 3 years, 39 per cent after 4 years, 48 per cent after 5 years, 58 per cent after 7 years, 67 per cent after 10 years, and 77 per cent after 15 years. (Case 4.)

The man with a \$500,000 capital gain should have his taxes reduced 7 per cent after 2 years, 13 per cent after 3 years, 20 per cent after 4 years, 27 per cent after 5 years, 38 per cent

after 7 years, 51 per cent after 10 years, and 63 per cent after 15 years. (Case 5.)

The man with a \$1,000,000 capital gain should have his taxes reduced 4 per cent after 2 years, 7 per cent after 3 years, 10 per cent after 4 years, 13 per cent after 5 years, 19 per cent after 7 years, 29 per cent after 10 years, and 43 per cent after 15 years. (Case 6.)

From the above it can be seen that the man with a \$50,000 capital gain seems to be the one deserving of the greatest relief from tax on capital gains. As a matter of fact, it has already been shown by curve A that such a man gets no relief. It has been shown at previous meetings of this committee that individuals with net incomes between \$50,000 and \$100,000 have received less normal and surtax rate reduction since the war years than any other class of taxpayers. It is significant that this same class is also most harshly treated in the matter of capital gains.

Third, consider curve C, which represents the percentage tax reduction which would be proper according to our new theory, in the case of the sale of the stock of a domestic corporation, where the increased value of such stock is entirely due to the accumulation of undistributed profits, which, of course, have been taxed to the corporation. While this may sound like a very special case, as a matter of fact statistics show that capital gains of this nature are very frequent, if not the most frequent. The curve shows as follows in the six different cases:

The man with a \$10,000 capital gain on such stock, according to our new theory, should get a tax reduction of 89 per cent the first year and 100 per cent after 2 years. (Case 1.)

The man with a \$50,000 capital gain should get a tax reduction of 39 per cent the first year, 73 per cent after 2 years, 88 per cent after 3 years, 94 per cent after 4 years, 97 per cent after 5 years, 99 per cent after 7 years, and 100 per cent after 8 years. (Case 2.)

The man with a \$100,000 capital gain should get a tax reduction of 28 per cent the first year, 60 per cent after 2 years, 74 per cent after 3 years, 82 per cent after 4 years, 88 per cent after 5 years, 95 per cent after 7 years, 98 per cent after 10 years, and 100 per cent after 15 years. (Case 3.)

The man with a \$250,000 capital gain should get a tax reduction of 22 per cent the first year, 36 per cent after 2 years, 50 per cent after 3 years, 61 per cent after 4 years, 68 per cent after 5 years, 78 per cent after 7 years, 86 per cent after 10 years, and 94 per cent after 15 years. (Case 4.)

The man with a \$500,000 capital gain should get a tax reduction of 21 per cent the first year, 28 per cent after 2 years, 34 per cent after 3 years, 41 per cent after 4 years, 47 per cent after 5 years, 58 per cent after 7 years, 71 per cent after 10 years, and 81 per cent after 15 years. (Case 5.)

The man with a \$1,000,000 capital gain should get a tax reduction of 20 per cent the first year, 24 per cent after 2 years, 27 per cent after 3 years, 30 per cent after 4 years, 33 per cent after 5 years, 39 per cent after 7 years, 49 per cent after 10 years, and 62 per cent after 15 years. (Case 6.)

Perhaps at this point a brief explanation should be made as to the kind of cases covered by curves B and C. Curve B applies to all cases where the capital gain is the result of appreciation. For instance, it covers cases where the profit arises from the sale of land, buildings and other physical assets, title to which is in the individual. It also covers cases where the profit arises from appreciation in value of bonds, mortgages, and other interest-bearing securities not taxed at the source. It covers the capital gain on the sale of the stock of domestic corporations only in the case where such gain is due to appreciation and not to the accumulation of surplus which has already been taxed. On the other hand, curve C is representative of cases where the capital gain arises from the sale of the stock of domestic corporations whose stock has increased in value entirely on account of the accumulation of undistributed profits which have been taxed to the corporation.

It seems well also to add two simple examples of curves B and C.

Suppose a man buys a bond on January 1, 1928, for \$100 and sells it on December 31, 1928, for \$106, just before the 6 per cent interest was paid. The gain in this case is evidently \$6 and is properly taxed in the same manner as the \$6 interest would have been taxed.

Now suppose, in order to illustrate curve C, that a man bought a share of stock on January 1, 1928, for \$100 and suppose he sold it on December 31, 1928, for \$106, just before a dividend of \$6 was paid. In this case, if we tax the \$6 as a profit at both normal and surtax rates, as is done under our present system, a much larger tax is secured than we would receive if the man had received the dividend first and sold the stock immediately thereafter. In this latter case the individual pays only the surtax on the \$6 dividend on the theory that the normal tax has been obtained from the corporation at the source. Inasmuch as our law is clearly based on the proposition that the corporation tax is not passed on to the consumer it is apparent that we should take account of the above distinction, especially as our researches have shown that at least 85 per cent of our capital gains arise from the sale of securities.

If we examine curve C on the chart and also the description of this curve already given, it can be seen that in all six cases the tax reduction on capital gains arising from the sale of the stock of domestic corporations is similar to the tax reduction which should result from the sale of other assets except that it is considerably larger in amount. In general, in the last four cases the theoretical tax reduction which should be allowable to gains on this class of assets is some 10 to 20 per cent more than the reduction which should be allowable on the gains from the sale of other assets.

Fourth, consider curve D, which represents the percentage tax reduction which would be effected by the proposed arbitrary method of taxing capital gains. It will be noted that curve D shows as follows, in the six different cases:

The man with a \$10,000 capital gain will get a tax reduction on assets held less than seven years, although somewhat less than he should get according to theoretical curve B. However, he gets a substantial reduction over the present method as he now gets no relief at all. On assets held more than seven years, he will get a

reduction slightly more than theoretical curve B, but less than theoretical curve C. (Case 1.)

The man with a \$50,000 capital gain will get slightly less tax reduction for all years than he should get under theoretical curve B, and substantially less than he should get under theoretical curve C. However, as the tax reduction by this arbitrary method increases gradually from about 16 per cent after 2 years to about 79 per cent after 15 years, it is apparent that he will secure a distinct advantage thereby, in view of the fact that under the present capital gain provision he gets absolutely no relief at all. It might further be noted that this arbitrary curve can not be brought closer to the theoretical curve without entirely throwing out of line the tax reduction allowable in the case of small capital gains and in the case of large capital gains. (Case 2.)

The man with a \$100,000 capital gain gets a tax reduction very similar to that secured by the man with a \$50,000 capital gain. In this case, however, our present capital-gain provision gives a relief of about 13 per cent after the second year. The proposed method gives a relief greater than this, except on the sale of assets held from two to three years. (Case 3.)

The man with a \$250,000 capital gain gets a tax reduction closely approximating that shown by theoretical curve B, but some 20 per cent below the reduction shown by theoretical curve C. The reduction he would secure, however, in comparison with the present reduction allowed by the capital-gain provision is less for the first five years and greater for the subsequent period. (Case 4.)

The man with a \$500,000 capital gain gets a relief from taxation approximating the average relief given by curves B and C. In comparison with the relief afforded by our present capital-gain provision, however, he gets less relief for the first seven years and a slightly greater relief after this date. (Case 5.)

The man with a \$1,000,000 capital gain gets a relief somewhat larger than that shown by theoretical curve B but closely approximating the relief which is shown by theoretical curve C. In comparison with the effect of our present capital-gain provision, it is seen that our arbitrary method would give considerably less relief on assets held for seven years and slightly greater relief on assets held for more than seven years. (Case 6.)

It must be apparent that the arbitrary method, just described and exemplified, is subject to adjustment. It should be noted, however, that under this simple method adjustments can not be made in one of the six cases already enumerated without making changes in the other five cases. It results that in selecting percentages and periods of time, a great deal of judgment must be used and the following propositions given due weight:

(a) The discouragement of business transactions by too great a tax on the resulting gain.

(b) The fact that losses are more nearly equal to gains in the case of persons with small incomes.

(c) The fact that in many instances losses can not be charged off by persons with small incomes on account of having no taxable income against which to charge the loss.

(d) The fact that nearly 85 per cent of the capital gains of persons with net incomes in excess of \$30,000 arises from the sale of securities.

The basic tax figures from which the percentages plotted on Chart No. 1 were computed will be found in Table I of the appendix of this report. A study of these actual figures should also help to clarify this subject.

While the proposed method seems fairly equitable and certainly much preferable to the present capital-gain provision, objection may be made to the determination of a new method from six cases, and also the point will undoubtedly be made that the chart does not take into account the advantage which may accrue to the taxpayer in having the use of the tax money to the end of the period in the case of capital gains, whereas if the tax was paid annually his working capital would be reduced by that amount.

In answer to the above it should be stated that investigation has been made of a wide range of cases of a much more complicated nature than the six cases already discussed, and it is possible to state that the six cases are fairly representative. Further, the theoretical value of the use of money is something not ordinarily taken into account in our tax law.

It does not seem advisable to confuse this report by a detailed description of the complete investigation and by a presentation of a mass of computations. It does seem proper to mention in substantiation of our statements, at least, one type of investigation that has been made.

If a man has a certain capital to invest, it seems clear that the proper measure of the effect of our tax system upon him is the net profit left at the completion of the investment after the payment of all taxes, working capital being assumed to be capable of earning a certain per cent per annum; in other words, compound interest is allowed on capital after payment of tax. The basic tax figures required in this phase of the investigation are shown in Table 2 of the appendix. The results will be summarized and described briefly here.

In all cases a man is assumed to have a \$3,500 salary and a personal exemption of \$3,500. He is also assumed to have an original capital of \$5,000,000, \$1,000,000, \$500,000, \$250,000, \$100,000, \$50,000 and \$10,000, respectively, in seven different cases. It has been assumed that such capital and the accumulation thereof earns 10 per cent per annum (even in the case of dividends it is assumed that the investment in a corporation pays 10 per cent net, after the corporation has paid its corporation tax).

In Table 2 will be found the profit before tax, the total tax, and the net profit after tax for 2, 4, 6, 8, and 10 year investments in the case of the different amounts of capital under five different conditions, namely:

Group 1 shows the above facts under the assumption that there are no capital-gain provisions and that all gain is realized and taxed at full normal and surtax rates at the end of the period.

Group 2 shows the same facts under the assumption that all gains are realized and taxed annually.

Group 3 shows the same facts under the assumption that all gains are realized and taxed annually as dividends.

Group 4 shows the same facts under the assumption that all gains are realized at the end of the period and are taxed under the present capital-gain provision.

Group 5 shows the same facts under the assumption that all gains are realized at the end of the period and are taxed under the proposed method already described.

A summary of the facts contained in Table 2, reduced to percentages for the sake of simplicity, will now be given:

Summary of Table 2—Percentage of profits after tax

1	2	3	4	5	6	7
Length of investment in years	With no taxes	With full normal and surtax, profits taxed at end of period	With full normal and surtax, profits taxed annually	With full surtax, profits taxed annually as dividends	With present capital-gain provision, profits taxed at end of period	With proposed method, profits taxed at end of period
Case No. 1—\$5,000,000 original capital						
2.....	21	16	16	17	18	16
4.....	46	35	34	37	41	38
6.....	77	58	55	60	68	66
8.....	114	86	80	87	100	100
10.....	159	120	108	118	139	143
Case No. 2—\$1,000,000 original capital						
2.....	21	17	17	18	18	17
4.....	46	36	37	39	41	39
6.....	77	59	60	64	68	66
8.....	114	87	87	93	100	101
10.....	159	120	117	127	139	144
Case No. 3—\$500,000 original capital						
2.....	21	17	18	19	18	18
4.....	46	36	40	42	41	40
6.....	77	59	65	69	68	67
8.....	114	87	94	100	100	102
10.....	159	121	127	137	139	145
Case No. 4—\$250,000 original capital						
2.....	21	19	19	20	19	19
4.....	46	38	42	44	41	41
6.....	77	61	69	73	68	69
8.....	114	89	101	107	100	103
10.....	159	123	133	147	139	147
Case No. 5—\$100,000 original capital						
2.....	21	20	20	21	20	20
4.....	46	41	45	46	41	44
6.....	77	66	73	76	68	72
8.....	114	94	108	113	100	107
10.....	159	127	143	156	139	151

Summary of Table 2—Percentage of profits after tax—Continued

1	2	3	4	5	6	7
Length of investment in years	With no taxes	With full normal and surtax, profits taxed at end of period	With full normal and surtax, profits taxed annually	With full surtax, profits taxed annually as dividends	With present capital-gain provision, profits taxed at end of period	With proposed method, profits taxed at end of period
Case No. 6—\$50,000 original capital						
2.....	21	20	21	21	20	20
4.....	46	43	45	46	43	45
6.....	77	70	75	77	70	74
8.....	114	100	111	114	100	110
10.....	159	135	154	159	139	154
Case No. 7—\$10,000 original capital						
2.....	21	21	21	21	21	21
4.....	46	46	46	46	46	46
6.....	77	75	76	77	75	76
8.....	114	110	113	114	110	113
10.....	159	152	157	159	152	158

An examination of the above summary shows as follows:

The man with an original capital of \$5,000,000 invested at 10 per cent will have remaining after payment of taxes a slightly less percentage of profit on investments up to eight years under the proposed method than he has under the present capital-gain provision. On the other hand, after eight years, he will have greater net profits. It is also noted by comparing the percentages in column 7 with those in columns 4 and 5 that this man has in all cases, except at the end of the second year, a greater net profit than should be allowable under our theory already described. (Case 1.)

The man with an original capital of \$1,000,000 will have left after the payment of taxes a slightly less profit under the proposed method than he has under the present method up to about a period of seven years. After seven years he will have a greater net profit. It can also be seen by comparing the percentages in column 7 with those in columns 4 and 5 that in all cases, except at the end of the second year, this man will have a slightly greater net profit than he should be allowed under our theory. (Case 2.)

The man with an original capital of \$500,000 will have left after the payment of taxes a slightly less net profit, than he has under the present method, for investments up to and including six years. After six years he will have a greater net profit under the proposed method than under the present method. It can also be observed from a comparison of column 7 with columns 4 and 5 that this man is equitably treated on the basis of our theory. (Case 3.)

The man with an original capital of \$250,000 has practically the same treatment under the proposed method as under the present method for the first six years, after this period, he is in

a more favorable position. A comparison of column 7 with columns 4 and 5 will show that in this case the proposed method almost coincides exactly with our theory. (Case 4.)

The man with an original capital of \$100,000 has a greater net profit under the proposed method than under the present method in all cases. Nevertheless, it can be seen that this man has a slightly less net profit in all cases than he should have under the results of our theory shown in columns 4 and 5. (Case 5.)

The man with an original capital of \$50,000 has a greater net profit under the proposed method than under the present method in all cases. In spite of this fact, it can be observed by comparing column 7 with columns 4 and 5 that this man has less net profit in all cases than he should be entitled to under our theory. (Case 6.)

The man with an original capital of \$10,000 has a greater net profit under the proposed method than under the present method. He does not get too great an advantage, however, is to be shown by a comparison of column 7 with columns 4 and 5. (Case 7.)

It would seem that the above calculations are sufficient to show that the proposed arbitrary method is more equitable than the present method and give results sufficiently close to those theoretically proper. It would appear unwise to further confuse this report with more mathematics.

Effect on the revenue.—The next important question to be met is:

What will be the effect on the revenue of taxing capital gains and crediting capital losses by the new method?

Unfortunately, there are at present no reliable statistics on capital gains and losses classified according to the time for which the asset was held. We do have, however, reliable figures on the total amount of profits and losses from the sale of capital assets. It has been possible, accordingly, to make a rough approximation of the effect of the proposed method on the revenue. The results of this approximation are as follows:

1. Estimated annual loss in revenue under present gradually increasing values	\$7, 500, 000
2. Estimated annual loss in revenue if values become practically stationary	None
3. Estimated annual gain in revenue under gradually decreasing values	7, 500,000

In any event, the effect of this new method should be to decrease the revenue slightly in years of great prosperity when the increased tax on ordinary income will furnish ample revenue, and to increase the revenue slightly in years of depression when the sudden decline in income will cause a falling off in the tax on ordinary income. In other words, the provision should have a stabilizing effect on the revenue.

Practicability of application.—An examination of the income-tax return required for individuals will make it clear that the above method is practical and even simpler than the present method.

On the second page of the return Schedule D can be eliminated entirely, all necessary data being carried in Schedule C. This latter schedule now has eight different columns. It will be necessary to add to this schedule three columns, as follows:

1. Time held.
2. Per cent taxable or deductible.

3. Amount taxable or deductible.

On the first page of the return items 49 and 50 can be eliminated.

As far as the return goes, it appears, therefore, that the net result is simplification rather than more complexity.

The elimination of capital gains and losses for tax purposes in the case of assets held 15 years or more.—It has been recommended that in the case of the sale of assets held for 15 years or more, no portion of the gain shall be included in income and no portion of the loss shall be deducted therefrom.

This feature of the method proposed has the following advantages:

(1) It eliminates for the future the necessity of all March 1, 1913, valuations for gain and loss computations, as 15 years from to-day brings us back to 1913 but subsequent to March 1 of that year.

(2) It eliminates in a large measure the present questionable tax on increased money values resulting from the decreased purchasing power of the dollar.

(3) It will not cause a great loss of revenue, as March 1, 1913, values have been generally high, as the bureau is without sufficient evidence to contest the taxpayers' sworn testimony on value.

If capital gain and loss transactions are looked on in a general way, it seems evident that there is a considerable difference between the gain or loss on long-term investments and on short-term investments. Short-term investments include practically all marginal transactions, which are certainly of a type which ought to be taxed in full on the gain. It would also appear that losses on these short-term investments should be deducted in full from net income. On the long-term investments, it seems that, on the sale of such assets, whether there be gain or loss, this fact has been more or less discounted over the period.

For instance, suppose a man invested \$1,000,000 in the stock of a mining company in 1908. In 1928, suppose the stock is sold for \$500,000. Dividends were not received until 1913, as the company was expanding and reinvesting its surplus in the business. From 1913 to 1918, \$2,000,000 in dividends were received by the investor, of which \$400,000 was ruled as tax free on account of being accumulated prior to March 1, 1913. Under our present law, the man is entitled to a \$100,000 loss. As a practical matter, he has made a good investment and would not consider that he had made a loss at all, if it was not drawn to his attention by the income tax law.

The substantial simplification that would result from the elimination of all March 1, 1913, valuations for gain and loss determinations makes this feature of the proposal worthy of careful consideration.

Offset which should be made.—To offset to a certain degree the advantages of the proposed method, it is suggested that the length of time for which an asset is held should be computed from the time of taking title in the case of a gift, regardless of the fact that the basis (in value) is the basis of the preceding owner. Under the present law, the period of time for which the asset is held includes the time it was held by the donor.

In view of the fact that there is no gift tax, it is believed that it would be proper on account of the advantages of the new method to compute the period of time from the date when the property was transferred to the donee. It would appear that this change should be made whether or not the method includes the complete elimination of capital gains and losses from tax computations after the fifteenth year.

It appears evident that the suggested method of taxing capital gains and crediting capital losses should not apply to corporations, since they pay a flat rate and not on graduated rates, thus making them clearly outside the relief due, under the theory that has been advanced.

CONCLUSION AND RECOMMENDATION

It is concluded in view of the above and other investigations conducted by this division that the present system of taxing capital gains and crediting capital losses is neither sound nor equitable. It appears that the present method is not based on any economic principle and can only be defended on the ground of expediency.

It is recommended in lieu of the present method that there be included in or deducted from net income subject to normal and surtax—

100 per cent of the gain or loss resulting from the sale of an asset which has been held less than 2 years.

90 per cent of the gain or loss resulting from the sale of an asset which has been held 2 years but less than 3 years.

80 per cent of the gain or loss resulting from the sale of an asset which has been held 3 years but less than 4 years.

70 per cent of the gain or loss resulting from the sale of an asset which has been held 4 years but less than 5 years.

60 per cent of the gain or loss resulting from the sale of an asset which has been held 5 years but less than 7 years.

50 per cent of the gain or loss resulting from the sale of an asset which has been held 7 years but less than 10 years.

40 per cent of the gain or loss resulting from the sale of an asset which has been held 10 years but less than 15 years.

0 per cent of the gain or loss resulting from the sale of an asset which has been held 15 years or more.

It is believed that the method proposed above, while arbitrary, is based on a sound theory and will give approximately equitable results. Moreover, it does not disregard the practical expediency of not discouraging capital-gain transactions by imposing too high a rate of tax.

The exclusion of capital gains and losses from the computations of taxable income in the case of the sale of assets held 15 years or more is recommended on the ground of simplification, although in general it would appear to be capable of defense on the grounds of justice.

Respectfully submitted.

L. H. PARKER,
Chief Division of Investigation.

NOVEMBER 26, 1928.

APPENDIX

TABLE 1.—Tax on individual with capital gains as shown, assuming married man with \$3,500 exemption and \$3,500 salary

	Years held														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Subdivision A—Capital gain of \$10,000															
Tax at normal and surtax rates.....	\$309	\$309	\$309	\$309	\$309	\$309	\$309	\$309	\$309	\$309	\$309	\$309	\$309	\$309	\$309
Tax under present capital-gain pro- vision.....	309	309	309	309	309	309	309	309	309	309	309	309	309	309	309
Tax if gain taxed annually.....	309	169	133	128	122	116	113	112	112	112	112	112	112	112	112
Tax if gain taxed annually as divi- dend.....	35	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax under proposed method.....	309	249	189	149	114	114	84	84	84	54	54	54	54	54	54
Subdivision B—Capital gain of \$50,000															
Tax at normal and surtax rates.....	\$5,724	\$5,724	\$5,724	\$5,724	\$5,724	\$5,724	\$5,724	\$5,724	\$5,724	\$5,724	\$5,724	\$5,724	\$5,724	\$5,724	\$5,724
Tax under present capital-gain pro- vision.....	5,724	5,724	5,724	5,724	5,724	5,724	5,724	5,724	5,724	5,724	5,724	5,724	5,724	5,724	5,724
Tax if gain taxed annually.....	5,724	3,569	2,508	1,918	1,547	1,256	1,086	975	910	844	767	713	677	671	666
Tax if gain taxed annually as divi- dend.....	3,450	1,520	685	320	175	110	45	0	0	0	0	0	0	0	0
Tax under proposed method.....	5,724	4,809	3,959	3,174	2,449	2,449	1,784	1,784	1,784	1,184	1,184	1,184	1,184	1,184	1,184
Subdivision C—Capital gain of \$100,000															
Tax at normal and surtax rates.....	\$17,134	\$17,134	\$17,134	\$17,134	\$17,134	\$17,134	\$17,134	\$17,134	\$17,134	\$17,134	\$17,134	\$17,134	\$17,134	\$17,134	\$17,134
Tax under present capital-gain pro- vision.....	17,134	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500
Tax if gain taxed annually.....	17,134	11,449	8,771	7,138	5,922	5,016	4,356	3,835	3,439	3,094	2,748	2,512	2,302	2,171	2,041
Tax if gain taxed annually as divi- dend.....	12,360	6,900	4,450	3,040	2,050	1,370	935	640	470	350	285	220	155	90	25
Tax under proposed method.....	17,134	14,699	12,299	9,964	7,734	7,734	5,724	5,724	5,724	3,959	3,959	3,959	3,959	3,959	3,959

Subdivision D—Capital gain of \$250,000

Tax at normal and surtax rates-----	\$54, 634	\$54, 634	\$54, 634	\$54, 634	\$54, 634	\$54, 634	\$54, 634	\$54, 634	\$54, 634	\$54, 634	\$54, 634	\$54, 634	\$54, 634
Tax under present capital-gain pro- vision-----	54, 634	31, 250	31, 250	31, 250	31, 250	31, 250	31, 250	31, 250	31, 250	31, 250	31, 250	31, 250	31, 250
Tax if gain taxed annually-----	54, 634	46, 769	39, 298	33, 118	28, 622	25, 460	22, 970	20, 995	19, 310	17, 844	16, 573	15, 352	14, 297
Tax if gain taxed annually as divi- dend-----	42, 360	34, 720	27, 475	21, 520	17, 250	14, 280	12, 050	10, 300	8, 840	7, 600	6, 555	5, 560	4, 730
Tax under proposed method-----	54, 634	48, 384	42, 204	35, 884	29, 634	29, 634	23, 384	23, 384	23, 384	17, 134	17, 134	17, 134	17, 134

Subdivision E—Capital gain of \$500,000

Tax at normal and surtax rates-----	\$117, 134	\$117, 134	\$117, 134	\$117, 134	\$117, 134	\$117, 134	\$117, 134	\$117, 134	\$117, 134	\$117, 134	\$117, 134	\$117, 134	\$117, 134
Tax under present capital-gain pro- vision-----	117, 134	62, 500	62, 500	62, 500	62, 500	62, 500	62, 500	62, 500	62, 500	62, 500	62, 500	62, 500	62, 500
Tax if gain taxed annually-----	117, 134	109, 269	101, 402	93, 538	85, 672	78, 596	72, 051	66, 235	61, 295	57, 244	53, 804	50, 853	48, 273
Tax if gain taxed annually as divi- dend-----	92, 360	84, 720	77, 080	69, 440	61, 800	54, 950	48, 631	43, 040	38, 326	34, 500	31, 286	28, 560	24, 100
Tax under proposed method-----	117, 134	104, 634	92, 134	79, 634	67, 134	67, 134	54, 634	54, 634	54, 634	42, 134	42, 134	42, 134	42, 134

Subdivision F—Capital gain of \$1,000,000

Tax at normal and surtax rates-----	\$242, 134	\$242, 134	\$242, 134	\$242, 134	\$242, 134	\$242, 134	\$242, 134	\$242, 134	\$242, 134	\$242, 134	\$242, 134	\$242, 134	\$242, 134
Tax under present capital-gain pro- vision-----	242, 134	125, 000	125, 000	125, 000	125, 000	125, 000	125, 000	125, 000	125, 000	125, 000	125, 000	125, 000	125, 000
Tax if gain taxed annually-----	242, 134	234, 269	226, 404	218, 538	210, 672	202, 804	194, 940	187, 075	179, 209	171, 344	164, 093	157, 192	150, 292
Tax if gain taxed annually as divi- dend-----	192, 360	184, 720	177, 081	169, 440	161, 800	154, 160	146, 520	138, 880	131, 240	123, 600	116, 575	109, 899	103, 224
Tax under proposed method-----	242, 134	217, 134	192, 134	167, 134	142, 134	142, 134	117, 134	117, 134	117, 134	92, 134	92, 134	92, 134	92, 134

TABLE 2.—*Net profit on investment by individual assuming 10 per cent profit per annum on capital and increase on capital, 1928 tax rates*
 [Married man with \$3,500 exemption and \$3,500 annual salary taken as a basis]

Original capital	Group 1 Assuming no capital-gain provisions, all gain realized at end of period			Group 2 No capital gain realized, profits taken annually			Group 3 No capital gain realized, profits taken annually in dividends			Group 4 With present capital-gain provision, all gain realized at end of period			Group 5 With proposed method, all gain realized at end of period		
	Total profit before tax	Total individual tax	Net profit after tax	Total profit before tax	Total individual tax	Net profit after tax	Total profit before tax	Total individual tax	Net profit after tax	Total profit before tax	Total individual tax	Net profit after tax	Total profit before tax	Total individual tax	Net profit after tax
Subdivision A—10-year investment															
\$5,000,000	\$7,968,710	\$1,984,312	\$5,984,398	\$7,117,038	\$1,700,603	\$5,416,435	\$7,286,128	\$1,380,825	\$5,905,303	\$7,968,710	\$996,089	\$6,972,621	\$7,968,710	\$789,005	\$7,179,705
1,000,000	1,593,742	390,570	1,203,172	1,458,204	285,894	1,172,310	1,491,504	221,900	1,269,604	1,593,742	199,218	1,394,524	1,593,742	151,509	1,442,233
500,000	796,871	191,352	605,519	747,396	111,977	635,419	763,747	79,984	683,763	796,871	99,609	697,262	796,871	71,821	725,050
250,000	398,436	91,743	306,693	382,352	37,879	344,773	390,139	22,019	368,120	398,436	49,805	348,631	398,436	31,978	366,458
100,000	159,374	31,978	127,396	156,302	7,813	148,489	158,721	2,392	156,329	159,374	19,922	139,452	159,374	8,554	150,820
50,000	79,687	12,224	67,463	78,893	2,088	76,805	79,654	0	79,654	79,687	9,961	69,726	79,687	2,712	76,975
10,000	15,937	2,769	13,168	15,858	180	15,678	15,939	0	15,939	15,937	769	15,168	15,937	126	15,811
Subdivision B—8-year investment															
5,000,000	\$5,717,945	\$1,421,621	\$4,296,324	\$5,248,843	\$1,249,286	\$3,999,557	\$5,343,493	\$1,007,578	\$4,335,915	\$5,717,945	\$714,743	\$5,003,202	\$5,717,945	\$706,878	\$5,011,067
1,000,000	1,143,589	278,032	865,557	1,070,295	204,648	865,647	1,088,843	156,648	932,195	1,143,589	142,949	1,000,640	1,143,589	135,083	1,008,506
500,000	571,795	135,083	436,712	534,668	77,276	458,392	554,721	53,459	501,262	571,795	71,474	500,321	571,795	63,089	508,186
250,000	285,897	67,609	218,288	277,504	25,487	192,717	281,759	13,904	267,855	285,897	35,737	250,160	285,897	27,872	258,025
100,000	114,359	20,724	93,635	112,798	5,033	107,765	114,078	1,267	112,821	114,359	14,295	100,064	114,359	7,142	107,217
50,000	57,180	7,142	50,038	56,777	1,302	55,475	57,170	82	57,088	57,180	7,142	50,038	57,180	2,252	54,928
10,000	11,436	1,405	10,031	11,394	125	11,269	11,437	0	11,437	11,436	405	11,031	11,436	106	11,330
Subdivision C—6-year investment															
5,000,000	\$3,857,805	\$956,586	\$2,901,219	\$3,635,058	\$861,571	\$2,773,487	\$3,680,722	\$690,304	\$2,990,418	\$3,857,805	\$482,226	\$3,375,579	\$3,857,805	\$570,805	\$3,287,000
1,000,000	771,561	185,025	586,536	737,450	137,168	600,282	746,351	103,430	642,921	771,561	96,445	675,116	771,561	107,869	663,692
500,000	385,781	88,580	297,201	373,905	49,854	324,051	378,290	33,274	344,946	385,781	48,223	337,558	385,781	50,002	335,779
250,000	192,890	40,357	152,533	189,113	16,137	172,977	191,112	8,297	182,875	192,890	24,111	168,779	192,890	21,068	171,822
100,000	77,156	11,617	65,539	76,471	3,050	73,415	77,062	607	76,455	77,156	6,645	70,511	77,156	5,042	72,114
50,000	38,578	3,732	34,846	38,400	781	37,619	38,577	26	38,551	38,578	3,732	34,846	38,578	1,377	37,201
10,000	7,716	718	7,558	7,696	81	7,615	7,716	0	7,716	7,716	178	7,538	7,716	73	7,643

Subdivision D—4-year investment

5,000,000	\$2,320,500	\$1,748,241	\$2,241,422	\$528,893	\$1,712,529	\$2,257,889	\$421,018	\$1,836,871	\$2,320,500	\$290,063	\$2,030,437	\$2,320,500	\$398,222	\$1,922,278
1,000,000	464,100	108,159	452,253	81,600	370,653	455,444	60,529	394,915	464,100	58,013	406,087	464,100	73,352	390,748
500,000	232,050	50,147	228,016	28,570	199,446	229,551	18,323	211,228	232,050	29,006	203,044	232,050	32,743	199,307
250,000	116,025	21,141	114,754	9,110	105,644	115,455	4,341	111,114	116,025	14,503	101,522	116,025	12,592	103,433
100,000	46,410	8,884	46,185	1,661	44,524	46,381	261	46,120	46,410	5,063	41,347	46,410	2,798	43,612
50,000	23,205	1,564	23,146	432	22,714	23,205	2	23,203	23,205	1,564	21,641	23,205	796	22,409
10,000	4,641	4,567	4,634	47	4,587	4,641	0	4,641	4,641	74	4,567	4,641	43	4,568

Subdivision E—2-year investment

5,000,000	\$1,050,000	\$795,366	\$1,038,287	\$243,840	\$794,447	\$1,040,764	\$192,873	\$847,891	\$1,050,000	\$131,250	\$918,750	\$1,050,000	\$228,384	\$821,616
1,000,000	210,000	44,634	208,287	36,340	171,947	208,764	26,473	182,291	210,000	26,250	183,750	210,000	39,384	170,616
500,000	105,000	18,384	104,428	12,309	92,119	104,655	7,573	97,082	105,000	13,125	91,875	105,000	15,779	89,221
250,000	52,500	6,199	52,322	3,870	48,452	52,424	1,714	50,710	52,500	6,199	46,301	52,500	5,214	47,286
100,000	21,000	1,299	20,969	681	20,288	20,997	85	20,912	21,000	1,299	19,701	21,000	1,063	19,937
50,000	10,500	339	10,492	183	10,309	10,500	0	10,500	10,500	339	10,161	10,500	276	10,224
10,000	2,100	2,074	2,099	20	2,079	2,100	0	2,100	2,100	26	2,074	2,100	23	2,077

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