

PRELIMINARY REPORT ON DEPLETION

REPORTS

to the

Joint Committee on Internal Revenue Taxation From Its Staff

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NOTE.—This report has been ordered printed for purposes of
information and discussion, but it has not yet been
considered or approved by the committee
or any member thereof



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LETTER OF TRANSMITTAL

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,
Washington, September 19, 1929.

To Members of the Joint Committee on Internal Revenue Taxation:

There is transmitted herewith a report entitled "Preliminary Report on Depletion," as prepared by our staff.

This preliminary report suggests two new methods for the determination of depletion allowances in the case of mines. It is requested that these methods receive your careful 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, September 17, 1929.

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

MY DEAR CHAIRMAN: There is submitted herewith a preliminary report on depletion.

In my opinion, the report is sufficient to establish, first, that the distribution of depletion allowances among the taxpayers in the mining and quarrying industry is inequitable; second, that in certain cases the allowances are excessive; and third, that the present system lacks certainty and is expensive to both Government and taxpayer.

The present depletion allowances depend in each case almost entirely upon certain factors and conditions which would appear to have very little, if any, relationship to the computation of a fair annual income at the present time. In fact, in proposing two new plans for the determination of depletion, the point of view has been taken that it is most important to have taxpayers similarly situated pay the same rate of tax so that they may compete with each other without disadvantage as far as Federal taxes are concerned. Under the present system some taxpayers pay high taxes and others are practically tax exempt.

The methods of percentage depletion proposed for consideration are not such a departure from the present system as would appear from a preliminary inspection. The analytic method of valuation now used in most important cases arrives at a value through the estimation of future expected profits. Depletion based on a percentage of the net income from the property merely uses actual figures instead of estimated figures.

While this report does not cover the subject completely, it is hoped that it will form a basis for discussion. Statistics which would appear helpful to those desiring to make a further study of this subject are included in the appendix. It is recommended that the report be published in order that it may be available for public examination and analysis.

Very respectfully,

L. H. PARKER, *Chief of Staff.*

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PRELIMINARY REPORT ON DEPLETION

FOREWORD

The valuation of all natural resources for depletion purposes has been required under every revenue act since 1916, with the exception of relatively few cases in which depletion is based on the cash actually paid for the property. The difficulties confronting the Bureau of Internal Revenue in the valuation of natural resources are almost insurmountable. Various causes may be assigned for this. In the first place, the methods of valuation adopted permit of wide discretion in individual judgment. The result is differences of opinion even with respect to the same properties. Many actual cases exist in which experienced engineers have differed in their reports on the same property by at least 400 per cent. In the second place, the date of valuation is so far removed from the date as of which the examination must be made that it is practically impossible to secure sufficient evidence to determine a correct valuation. In the third place, the turnover of personnel and the magnitude of the undertaking have added to the difficulties.

This report first considers the operation and effect of the depletion provisions of the existing law, with special reference to the resulting inequalities. A plan for percentage depletion which will eliminate, at least partially, the difficulties and inequities arising under the present system is next discussed. The subject is presented in as simple language as its technical nature will permit. The data necessary to support various statements and conclusions are in the appendix, together with other statistics which may be useful to those making further researches on this subject.

The primary purpose of the report is to form a basis for an intelligent discussion of the subject of depletion. It has been found impracticable to assemble sufficient data at this time to make a complete test of the soundness of the principles set forth. It is recommended that this preliminary report be printed for public examination and analysis so that taxpayers may have ample opportunity to analyze and apply these principles to their individual cases.

SYNOPSIS

1. NO CONSTITUTIONAL LIMITATION.

The Constitution does not require that the mine owner be given any allowance for depletion. The Supreme Court has held that this deduction is not one to which he is entitled as a matter of right, but is a concession made by Congress in recognition of the equity in such cases.

2. ACCOUNTING THEORY.

From an accounting standpoint, the proper basis for determining depletion is the cost of the property. This basis is not recommended because of the apparent hardships resulting from its application.

3. STATUTORY PROVISIONS.

The existing law provides for five different bases for determining depletion, namely: Cost; March 1, 1913, value; discovery value; 27½ per cent of gross income; and 50 per cent of net income.

4. METHODS OF VALUATION IN USE BY THE BUREAU.

The methods of valuation employed by the Bureau of Internal Revenue are as follows: (a) Comparative sales method, (b) prevailing royalty method, and (c) analytic appraisal method. As each of these methods is based upon different principles, it necessarily follows that the same results are not obtained.

5. DEFECTS IN THE PRESENT SYSTEM.

(a) *Administrative.*—The administrative defects under the present system are (1) lack of uniformity in computing depletion, due to the exercise of individual judgment; (2) lapse of time between the basic date and the examination of the return; (3) inability to secure sufficient evidence to establish a correct valuation; and (4) excessive expense to both Government and taxpayer.

(b) *Instability of revenue.*—Under the present system, the depletion deduction is allowed before arriving at net income. In lean years the present depletion allowances practically wipe out the tax of this industry, in spite of the fact that substantial dividends are paid. On the other hand, in prosperous years high taxes are collected. As a result, the revenue received from the industry as a whole is more unstable than in the case of the other industries. This appears undesirable from a practical revenue standpoint.

(c) *Inequitable results.*—There are many inequitable results in the present system. The different laws relating to depletion as applied to the different industries are not uniform. The oil and gas industry is allowed percentage depletion based upon gross income before the depletion deduction is computed. The effect of this allowance is to vary the deduction in proportion to the gross receipts from the sale of these products. Contrasted with this are the allowances based on a March 1, 1913, or a discovery value, in which cases the depletion varies with the quantity produced. Finally, in certain limiting cases, depletion is allowed on the basis of a percentage of the net income from the property. The valuation methods applied by both the Bureau of Internal Revenue and the taxpayer are not uniform and produce many inequalities between different industries. Valuations by the widely used analytic appraisal method depend largely on the peculiar conditions existing as of the basic date. These peculiar conditions appear to have little to do with an equitable tax on annual income. For example, taxpayers who make discoveries in periods of prosperity are allowed large deductions for depletion, whereas those who are so unfortunate as to make discoveries in years of depression are required throughout the life of the property to take a lower rate.

6. METHODS PROPOSED FOR CONSIDERATION.

Several methods for computing depletion are proposed for consideration. They are as follows: (a) Fixed rate per unit method, (b) percentage of gross income method, and (c) depletion based on percentage of net income, consisting of plans (1) and (2). Both the fixed rate per unit method and the percentage of gross income method involve a wide departure from the allowance authorized by existing law and appear to produce inequities in the case of certain industries. Plan No. (1) of the percentage of net income method is based upon a percentage of net income from the property and is similar to the method adopted by Canada. Plan No. (2) is based upon a percentage of net income adjusted so as to allocate a reasonable amount of such net income to plant investment. This last plan when applied to concrete cases appears to produce more equitable results than the first plan.

7. ADVANTAGES OF PERCENTAGE OF NET INCOME METHOD.

The percentage of net income method has many advantages. It will result in (a) elimination of discovery depletion, (b) simplification of administration, (c) partial elimination of March 1, 1913, valuations, (d) stability of revenue from this source, and (e) correction of inequities between different industries as well as between taxpayers in the same industry.

DISCUSSION

LEGAL CONCEPT OF DEPLETION.

The Constitution does not require that the mine owner be given any allowance for depletion. The Supreme Court has held that this deduction is not one to which he is entitled as a matter of right, but is a concession made by Congress in recognition of the equity in such cases. (*Stratton's Independence v. Howbert*, 231 U. S. 399; *Stanton v. Baltic Mining Co.*, 240 U. S. 103; and *Goldfield Consolidated Mines v. Scott*, 247 U. S. 126.)

In *U. S. v. Ludy* (274 U. S. 295) the Supreme Court reached the following conclusion as to the meaning of depletion:

The depletion charge permitted as a deduction from gross income in determining the taxable income of mines for any year represents the reduction in the mineral contents of the reserve from which the product is taken. The reserves are recognized as wasting assets. The depletion effected by operation is likened to the using up of raw material in making the product of a manufacturing establishment. As the cost of the raw material must be deducted from the gross income before the net income can be determined, so the estimated cost of the part of the reserve used up is allowed.

This case arose under the gain and loss provisions of the revenue act of 1916. While that act authorized a depletion allowance, it did not provide, in terms, that in computing the gain from the sale of the property a deduction should be made from the original cost on account of depletion. It was, therefore, necessary for the court in passing upon the question presented to consider the meaning of depletion. From the statement quoted above it is apparent that the legal concept of depletion is an amount set aside each year during the life of the property to recover the original cost of the mineral sold. In other words, cost and not discovery, or March 1, 1913, value is the test which the courts will apply in determining an annual depletion allowance in the absence of statutory provisions.

ACCOUNTING CONCEPTS OF DEPLETION.

There is no appreciable difference between the legal and the accounting concepts of depletion. It is a fundamental principle of accounting that no profit is realized from a sale unless all elements of the cost of the product are deducted. In the case of the sale of natural resources one of the important elements of cost is the price paid for the raw material. In accounting terminology this deduction for the cost of the raw material is called depletion. The usual accounting procedure is to set aside in a reserve an amount out of the sale of each unit of the product sufficient to equal the entire cost of the raw material when exhaustion of the mine or other natural resource takes place. For example, the unit of depletion for each ton of coal sold in the case of a mine containing 1,000,000 tons and costing \$100,000 is 10 cents per ton.

STATUTORY PROVISIONS.

(a) *Prior acts.*—The corporation excise tax law of 1909 failed to provide for any deduction on account of the depletion of mineral reserves. The resulting hardships to operators of mines induced Congress to make provision in the first income tax law for depletion. The revenue act of 1913 provided for a reasonable deduction for depletion in the case of mines (interpreted by the Bureau of Internal Revenue to include oil and gas wells). The amount of the deduction, however, was limited to 5 per cent of the gross value, at the mine, of the output for the year. The revenue act of 1916, in effect, adopted the provisions of the prior act except for a change in the limitation of the allowance. In lieu of the limitation prescribed in the prior act, a limitation based upon the market value in the mine of the mineral sold was substituted. The revenue act of 1918 broadened the scope of depletion to include other natural deposits and timber. The latter act placed no specific limitation on the amount of depletion allowable and further broadened the basis of depletion by providing for an allowance based upon cost, March 1, 1913, value if the property were acquired prior to March 1, 1913, and discovery value in the case of mines, oil and gas wells, if made subsequent to March 1, 1913. The revenue act of 1921 reenacted the provisions of the revenue act of 1918, but limited the amount of depletion on discovery value to the net income from the property. The revenue act of 1924 embodied the provisions of the last act, but further limited the amount of depletion on discovery value to only 50 per cent of the net income from the property.

(b) *Current act.*—The current law authorizing an allowance for depletion is the revenue act of 1928. The provisions of this act are the same as those contained in the revenue act of 1926. These provisions, in substance, are as follows:

1. In the case of timber and surface deposits depletion is allowable on cost or March 1, 1913, value. No discovery depletion is allowable.

2. In the case of mines depletion is allowable on cost, March 1, 1913, value, or fair market value on or about the date of discovery (if discovery is made after March 1, 1913). The discovery depletion, however, is limited to 50 per cent of the net income from the property (computed without allowance for depletion).

3. In the case of oil and gas wells depletion is allowable on cost, March 1, 1913, value, or, in lieu of either, 27½ per cent of the gross

income from the property. The amount in the last instance, however, is limited to 50 per cent of the net income from the property (computed without the depletion allowance).

4. For gain or loss on the sale of property, or for the computation of net loss carried forward to subsequent years, depletion is allowable on cost or March 1, 1913, value.

METHODS OF VALUATION IN USE BY THE BUREAU.

Three methods are employed by the Bureau of Internal Revenue in valuing properties for depletion: (1) Comparative sales method, (2) prevailing royalty method, and (3) analytic appraisal method.

Comparative sales method.—The comparative sales method consists of determining the fair market value of the property as of the basic date of valuation by reference to the average price paid for similar properties on or about that date. The following hypothetical example shows the practical application of this method:

A gravel deposit on March 1, 1913, contains 100,000 tons. A similar deposit containing 50,000 tons sold in January, 1913, for \$1,000, or at the rate of 2 cents per ton. Another deposit of similar character containing 100,000 tons sold in June, 1913, for \$2,500, or at the rate of 2½ cents per ton. The average price paid per ton in the two comparative cases is 2¼ cents. The March 1, 1913, value of the first-mentioned gravel deposit is, therefore, 2¼ cents times 100,000 tons, or \$2,250.

Prevailing royalty method.—Properties operated under lease contracts are often valued by determining the present worth of the savings indicated by the difference between the prevailing royalty rate and the actual royalty rate paid. The prevailing royalty rate is found by an examination of the rates paid in the case of leases of similar properties executed at or near the basic date of valuation. The following computation of an actual case makes clear the application of the principles involved in this method:

A coal lease calling for a royalty of 10 cents per ton was estimated to contain, as of March 1, 1913, 4,031,500 tons. It was estimated, also, that the average annual output would be 335,958½ tons. The predicted life of the property, therefore, was 12 years. Royalties paid on or about March 1, 1913, as evidenced by contracts on similar properties, provided for a rate of 17.9 cents per ton. The saving, therefore, under the terms of the lease is 7.9 cents per ton, or an annual saving of \$26,540.71 (.079 times 335,958½). The present worth of the annual savings of \$26,540.71 for 12 years, computed at 8 per cent is \$200,116.92. The depletion unit is, therefore, \$200,-116.92 (the present worth of the lease) divided by 4,031,500 (the estimated tonnage), or \$0.04966 per ton.

Analytic appraisal method.—This method, as the title suggests, is an analytic appraisal of the ore in the mine on the valuation date, and is based on the principle of finding the present worth of the future expected profits. In fact, the method is known, also, as the present worth method, as the future expected profits method, and as Hoskold's method. It is the method most frequently employed by the Bureau of Internal Revenue in the case of metals. Like the prevailing royalty method, the first step in valuing the properties is to estimate the number of units of mineral in the mine, and the second step is to estimate the average annual rate at which it will be removed.

Unlike the preceding method, however, the valuation does not follow mathematically from these two estimates. Other perplexing steps are required.

It is necessary, as the third step, to estimate the cost to mine the ore and to determine the percentage of metal recovery from the ore. Fourthly, the cost of adequate plants to be constructed during the life of the properties, must be estimated. Finally, the future selling price of the metal must be predicted from statistics of actual sale prices for a reasonable period prior to the valuation date and from the exercise of judgment as to the probable trend of prices in the future. The above difficult estimates having been made, the expected profit is determined by deducting from the estimated sale price of the mineral the estimated cost of production. This expected profit is now reduced to present worth by a special discount table, prepared by H. D. Hoskold, an engineer of international reputation on mine valuations. (See *Engineers Valuing Assistant*, by H. D. Hoskold.) In finding the value of the ore for depletion purposes, as a final step it is necessary to deduct from the present worth of the total expected profits the value of the present and future plants as of the basic date. The following example taken from the Bureau of Internal Revenue records will elucidate the practical application of this method:

A mining property on March 1, 1913, is estimated to contain 3,811,924 tons of ore, and the annual rate of extraction is estimated to be 254,128 tons, giving an expected life of 15 years to the mine. The ore is estimated to contain 15.734 pounds of copper per ton, resulting in a total content of recoverable copper of 59,976,212 pounds, the production cost of which is estimated to be 10 cents per pound. The average future selling price of copper is predicted to be 15.12 cents per pound. Therefore, the operating profit per pound is 5.12 cents. Multiplying this operating profit per pound by the total number of pounds of recoverable copper, the total expected profit is found to be \$3,070,782. By Hoskold's table, using an interest rate of 8 per cent and a sinking fund rate of 4 per cent, the present worth of this total profit is found to be \$1,575,474 as of March 1, 1913. To find the value of the ores only, the March 1, 1913, value of the plant, \$500,000, is subtracted from the present worth, leaving \$1,075,474 as the value of the ores. The rate per pound allowed for depletion is found, of course, by dividing the value of the ores (\$1,075,474) by the estimated amount of recoverable copper (59,976,212 pounds), resulting in a depletion rate of 1.793 cents per pound.

DEFECTS IN THE PRESENT SYSTEM.

(a) *Administrative difficulties.*—One of the principal administrative defects in the present system is the lack of uniformity and certainty in computing depletion. It is axiomatic that formulæ and methods involving different basic principles do not produce the same results. Each of the three methods of valuation in use by the Bureau of Internal Revenue involves basic principles not found in the other two methods. The application, therefore, of these methods must, of necessity, result in different values. The prevailing royalty method and the comparative sales method are peculiarly adaptable to the valuation of coal and other nonmetal mines, due to the fact that many such properties are leased on a royalty basis, or due to the fact that

there are readily available records of transactions involving the sales of similar properties. Accordingly, the valuation of these properties may be reasonably determined without the use of so many factors based upon judgment or mere speculation. The two last mentioned methods, however, are not adapted to the valuation of metal mines on account of the practical conditions existing in this branch of the industry. The analytic method generally employed by the bureau in the valuations of gold, silver, copper, lead, zinc, and other metal mines involves at least six important factors which are the subject of individual judgment. In many cases, reliable data from which the engineer may draw his conclusions in estimating these factors are not available. Conclusions in such cases must vary according to the experience and viewpoint of the individual. Reputable mining engineers admit that it is impossible to value a mine accurately as of a specific date by this method, due to the many speculative factors involved. These authorities are of the opinion that the best that can be done under such circumstances is to fix a minimum and maximum range within which an approximation of value may be made. The following table showing the separate valuation of 10 copper companies ranging from some of the smallest to some of the largest in the industry tends to confirm this statement and further shows the wide variation which may result from individual judgment:

Company	Valuations	
	First engineer	Second engineer
A.....	\$129, 276, 845	\$17, 783, 114
B.....	3, 123, 725	1, 355, 640
C.....	294, 582, 561	49, 142, 729
D.....	83, 743, 126	7, 902, 059
E.....	82, 448, 899	11, 252, 933
F.....	81, 165, 604	6, 921, 948
G.....	154, 756, 449	19, 386, 611
H.....	90, 306, 786	27, 664, 304
I.....	21, 551, 345	20, 989, 076
J.....	9, 582, 307	5, 578, 359
Total.....	950, 537, 647	167, 989, 773
Average.....	95, 053, 765	16, 798, 977
Variation..... per cent.....	566	100

Such wide differences as these in the valuation of properties afford fertile ground for disagreement between taxpayers and Government officers, resulting oftentimes in final allowances measured only by the degree of persistence of the taxpayer's representative.

The lack of uniformity in the results appears not to be confined to each subclassification of the industry. The following tables of statistics seem to indicate that the different methods of valuation

have been an important factor in the amount of depletion and resulting tax paid by each branch of the industry:

Relation of depletion to net income before depletion (corporations reporting net income only)

Classification	Ratio depletion to net income before depletion		
	1924	1925	1926
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
Mining and quarrying (total).....	41.8	32.6	31.5
Coal mining.....	20.0	13.6	15.7
Metal mining (subtotal).....	55.0	40.2	38.3
Copper mining.....	64.2		
Iron mining.....	77.6		
Lead and zinc.....	36.1		
Gold, silver, etc.....	35.2		
Oil and gas wells.....	53.1	35.7	36.5
Quarrying.....	6.0	3.4	5.5
Miscellaneous mining (subtotal).....	27.2	34.0	33.4
Clay, sand, and gravel.....	7.3		
All other mining.....	31.0		

Percentage of tax paid by certain subclassifications of the mining and quarrying industry to the total tax paid by the entire industry

Year	Coal mining	Metal mining	Oil and gas	Year	Coal mining	Metal mining	Oil and gas
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>		<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
1916.....	15	48	30	1922.....	50	7	15
1917.....	(1)	(1)	(1)	1923.....	50	11	15
1918.....	40	12	31	1924.....	20	11	38
1919.....	24	4	51	1925.....	10	24	61
1920.....	61	2	23	1926.....	19	20	43
1921.....	48	2	33				

¹ Not available.

Statistics for 1924 for all corporations

Classification	Gross sales	Net income before depletion	Depletion
Mining and quarrying (total).....	\$3, 966, 806, 164	\$278, 942, 680	\$345, 891, 881
Coal mining.....	1, 223, 432, 679	¹ 23, 356, 030	24, 508, 738
Copper mining.....	306, 789, 181	31, 914, 941	43, 839, 510
Iron mining.....	60, 376, 783	¹ 620, 983	4, 612, 763
Lead and zinc.....	76, 428, 219	11, 116, 645	4, 925, 190
Gold, silver, etc.....	26, 762, 921	¹ 1, 608, 486	4, 799, 313
Oil and gas wells.....	1, 714, 847, 623	197, 324, 678	221, 322, 433
Stone quarrying.....	114, 703, 696	11, 163, 575	1, 026, 748
Clay, sand, and gravel.....	89, 221, 663	10, 599, 536	1, 174, 739
All other mining.....	354, 243, 399	42, 408, 804	39, 682, 447

¹ Loss.

Another very important defect in the present system is the lapse of time between the basic date of valuation and the date of the examination of the return. The majority of the valuations must be made as of March 1, 1913. As more than 16 years have elapsed since March 1, 1913, the difficulties encountered in determining a correct valuation on that date are readily apparent. Records have either been

lost or destroyed, witnesses have died or moved away to other localities, and conditions in the particular industry have changed to such an extent due to the disturbances of the war that the engineers' accuracy of judgment can not be tested by present day standards. Furthermore, the memory and judgment of even competent witnesses are more or less blurred by the lapse of time and the changed conditions.

Still another defect is the expense which the present system inflicts both on the Government and the taxpayer. While the Government has maintained a large force of engineers for a period of more than 10 years, final values in many cases are still undetermined. Definite figures are not available, but it is believed that taxpayers have been put to ten times the expense borne by the Government. In many cases, small taxpayers are unable to secure adequate relief because they can not afford to employ the experts necessary to determine proper valuations.

(b) *Instability of revenue.*—Under the existing law, the depletion deduction is allowed before arriving at net income. This results in practically wiping out the tax of this industry during the lean years in spite of the fact that substantial dividends are paid. On the other hand, in prosperous years high taxes are collected. As a result, the revenue received from the industry as a whole is more unstable than in the case of other industries. For example, copper companies in 1921, which was a year of depression, reported a total tax of only \$11,913, whereas, in 1924, a prosperous year, they reported a tax of \$1,518,050, or a tax one hundred and twenty-seven times greater. On the other hand, the manufacturing industry reported in 1921, a year of depression also in that industry, a tax of \$65,376,304, and in 1924, a prosperous year, a tax of \$429,652,793, or approximately a tax only seven times greater. This situation appears undesirable from a practical revenue standpoint.

(c) *Inequitable results.*—One test of a satisfactory system of taxation is whether or not it imposes a uniform burden upon all industries. In the determination of this principle, a test may be made on the basis of whether the tax burden based upon profits not retained for the development of the enterprise is uniform. The following table, which discloses the percentage of tax paid by certain industries to the total dividends and Federal taxes paid, shows that mining and quarrying paid the lowest tax of any classification. The average for all industries is 18 per cent, whereas mining and quarrying paid only 12 per cent. Even transportation and other public utilities, a classification which admittedly distributes a very large portion of its profits as dividends, paid a percentage of tax in excess of mining and quarrying. While it is conceded that this is not the only test in determining the uniformity of tax burden, statistics show that mining companies are not retaining a substantial portion of the depletion reserves allowed under the revenue acts for the acquisition of new properties. This result refutes the commonly accepted idea that the depletion reserves allowed for income tax purposes are utilized for the purpose of acquiring new properties to take the place of those exhausted.

Percentage of income tax to profits not retained, i. e., to total of dividends and Federal income tax paid (all corporations for the 5-year period, 1922 to 1926, inclusive)

Classification	Per cent
A. Aggregate of all industries.....	18
B. Agriculture.....	21
C. Mining and quarrying.....	12
D. Manufacturing.....	19
E. Construction.....	23
F. Transportation and other public utilities.....	16
G. Trade.....	23
H. Public service, professional, amusements, hotels, etc.....	21
I. Finance, banking, insurance, real estate, holding companies, stock brokers.....	15

NOTE.—Detailed figures by years covering the above can be found in Appendix XIV.

The rate of profits taxes actually paid for the years 1917 to 1921 by the various industries, as shown by the following table, indicates that certain subclassifications of the mining and quarrying industry paid a rate of tax substantially below that of a majority of other industries. For example, copper mining for the years 1918 and 1919 paid a rate of 5.93 and .07, respectively, whereas agriculture paid rates of 15.57 and 12.93 for the same periods.

War and excess profits tax rate on net income

	1917	1918	1919	1920	1921
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
Aggregate of all industries.....	15.27	29.96	15.21	12.51	7.73
Agriculture.....	16.74	15.57	12.93	16.43	6.31
Mining and quarrying (subtotal).....	17.77	25.04	8.63	16.78	8.73
Coal mining.....		35.40	9.38	22.80	10.04
Copper mining.....		5.93	.07	.00	.32
Iron mining.....		24.23	7.63	10.35	.73
Lead and zinc.....		21.76	1.71	5.88	.80
Gold and silver.....		9.56	1.95	8.58	5.26
Oil and gas.....		25.15	10.69	10.92	8.91
Quarrying.....		19.48	11.49	7.92	6.99
Miscellaneous mining.....		19.66	5.51	10.97	6.13
Manufacturing.....	18.55	37.81	18.09	14.79	11.29
Construction.....	19.54	47.85	35.66	22.60	12.95
Transportation and public utilities.....	4.64	8.58	4.34	2.75	2.94
Trade.....	17.30	27.56	17.57	13.48	8.82
Public service, professional, etc.....	9.98	59.41	13.50	14.24	10.73
Finance, banking, etc.....	4.34	14.69	6.94	5.69	2.75

The low rate of tax paid by a substantial portion of the mining and quarrying industry appears to have resulted primarily from depletion allowances based upon values in excess of the cost of the properties. For example, existing revenue laws permit of valuations as of March 1, 1913, and as of the date of discovery. Valuations as of both of these dates are substantially in excess of cost, as a rule, whereas in other industries similar factors do not enter into the computation of taxable net income.

The inequities under the present system are not confined to the mining and quarrying industry as compared with other industries, but extend even to the various branches of the mining and quarrying industry itself. This statement is substantiated by the tables already given on page 8.

Some very interesting results are noted from a study of these tables. The first table shows that taxable net income is reduced by depletion on an average of 44.5 per cent in the case of metal mines,

and only 16.4 per cent in the case of coal mines. It also shows that the reduction in taxable net income in the case of oil and gas wells was 53 per cent in 1924, whereas in 1925 and 1926, after percentage depletion was put into effect, the relief to this industry was only 36 per cent.

The second table discloses certain very sudden shifts in tax burden. For the year 1916, the metal-mining industry paid 48 per cent of the tax, coal mining 15 per cent, and oil and gas 30 per cent. For the year 1918, the first year in which we have the application of valuation methods to the industries, metal mining paid only 12 per cent of the tax, whereas coal mining paid 40 per cent. For the year 1925, discovery depletion for oil and gas was eliminated from the revenue act and in lieu of this provision, percentage allowance was made. The percentage of tax borne by the oil and gas industry rose under the new provisions to 61 per cent, or almost double the percentage prevailing for the year 1924. For the total period of 10 years, beginning with 1916 and extending through the year 1926 (omitting 1917, figures for which are not available), coal companies paid 39 per cent of the total tax for the entire mining industry although it received only 30 per cent of the net income. During the same period, metal mines paid 10 per cent of the total tax and earned 18 per cent of the net income. The oil and gas industry paid 34 per cent of the total tax and received 34 per cent of the net income. These computations are based on net income after depletion. If, on the other hand, we should use the net income before depletion, the differences in percentage between the subclassifications would be much greater and the inequities more glaring.

The third table, which contains statistics for 1924 only, indicates the magnitude of the depletion allowances for all corporations. It shows that these allowances do not vary uniformly in proportion to the gross sales or to the net income before depletion. For example, in metal mining the ratio of depletion to gross sales is about 14 per cent, while in the case of coal mining the ratio is only 2 per cent.

One of the chief causes for this inequitable distribution appears to be a lack of uniform methods of valuation of mining properties. It has been shown that three methods of valuation are employed by the bureau—the comparative sales method, the prevailing royalty method, and the analytic appraisal method. These methods, being based on different principles, are productive of widely different results.

A second cause of discrimination is the discovery clause. This clause was first enacted in the revenue act of 1918. The hearings before the Ways and Means Committee under that act disclose the following reasons for its insertion:

(a) To relieve the prospector who had spent years of effort and all of his surplus money from some of the tax which would fall on him when he finally made a discovery. Under the very high tax rates proposed in the revenue bill of 1918, his profit from this source would be largely taken away from him in taxes. Furthermore, there was no way in which he could charge off the expenses of prior years against the profits finally realized.

(b) To stimulate the discovery of oil and minerals to meet the excessive demand created by the World War.

Both of these reasons are now inapplicable. The tax rates have been materially reduced since 1918 and there is no longer an excessive demand due to the World War or any other cause.

In enacting the discovery clause in the revenue act of 1918, Congress doubtless intended to grant relief chiefly to the individual prospector. This has not turned out to be the case. The greater part of the benefit from discovery depletion has gone to corporations having full opportunity to charge exploration expenses of years prior to discovery against their income. Furthermore, other classes of taxpayers, especially inventors, appear to be entitled to as favorable treatment as the prospector. In the case of discovery depletion, it is apparent that the extent to which the discovery value exceeds the cost represents tax-free income. In other words, taxpayers entitled to the benefits of this provision are given an advantage as to taxes over competitors who are not so fortunate in this respect. For example, the existing law allows discovery depletion only in the case of mines. Oil and gas wells and other natural deposits are not entitled to any relief from this source.

A third cause for the discrimination within the industry is the fact that the existing law provides for a percentage depletion to the oil and gas industry. The table heretofore submitted, in which comparison was made of the per cent of tax paid by the oil and gas industry for a period of 10 years with that paid by coal and metal mines, shows that in the year 1925, when discovery depletion to oil and gas was eliminated, a substantial increase in percentage of tax paid resulted.

The present system may result in gross inequities between individual taxpayers within the same branch of the mining industry. The following examples of actual cases illustrate how such situations may arise. Company No. 1, organized in 1904, is allowed depletion based on an analytic appraisal as of March 1, 1913. The unit rate of depletion as computed is 2.4 cents per pound; company No. 2, organized in 1912, paid cash for its properties, and since the date of acquisition was on or about March 1, 1913, cost was adopted, resulting in a unit rate of 1.2 cents per pound for depletion. The two companies occupy adjoining properties, they are competitors in the open market, and apparently are operating under similar conditions. The unit rate of depletion, however, for the one is double that of the other.

In a second case, a certain mining company purchased an ore body in 1912 for less than \$2,000,000. This property had previously been operated, but always at a loss. The company built a new plant which was not put into operation until 1915. Losses were sustained for all years prior to 1917, and up to the present time the earnings have never reached \$24,000,000 in any year. The bureau allowed a March 1, 1913, value on this property of approximately \$215,000,000, computed by the analytic appraisal method. In contrast to this finding by the bureau is the decision of the United States Board of Tax Appeals in the case of the Ford Motor Co. The board after finding that the company had earnings on March 1, 1913, of \$24,000,000, with a decided upward trend for the future, and that the company had a well-equipped plant, ample capital, and efficient management, allowed a value of March 1, 1913, of \$200,000,000, although the bureau had contended for a value on that date of only approximately \$70,000,000.

It must be concluded that the present system of depletion does not result in equity between taxpayers in the mining and quarrying

industry nor are the valuations obtained consistent with those allowed in the other industries.

METHODS PROPOSED FOR CONSIDERATION.

Inasmuch as the present system of depletion has been shown to be neither simple in its application nor equitable in its results, it is desirable to find a substitute for this system. Several methods have been proposed and considered, each one of which will be discussed.

(a) *Fixed rate per unit method.*—The first method proposed for consideration is the fixed rate per unit method. This method, as its name implies, consists of the allowance of a fixed amount per pound for the mineral sold. For example, assume that copper is worth 2 cents a pound in the ground, lead 1 cent a pound, coal 3 cents per ton, gravel 1 cent per ton—if a company sold 1,000,000 pounds of lead in the taxable year, its depletion allowance would be 1,000,000 pounds times 1 cent, or \$10,000. While this method has never been adopted in the United States, it nevertheless is applied by Canada in determining the depletion allowance for coal.

One of the chief objections to the fixed rate per unit method is the great changes that would follow from its application. The following table shows the various units of depletion per pound at present allowed in the case of copper:

\$0. 0232	\$0. 0050	\$0. 0027	\$0. 0211	\$0. 0465	\$0. 0243
. 0138	. 0099	. 0171	. 0233	. 0411	. 0129
. 0279	. 0040	. 0221	. 0058	. 0197	. 0320
. 0215	. 0244	. 0151	. 0291	. 0331	. 0119
. 0195	. 0199	. 0132	. 0264	. 0310	. 0122
. 0206	. 0042	. 0138	. 0179	. 0162	. 0367
. 03	. 0081	. 0360	. 0189	. 0217	. 0080
. 0148	. 0289	. 0373	. 0206	. 0407	
. 0047	. 0141	. 0776	. 0265	. 0551	
. 0191	. 0193	. 0843	. 0108	. 0272	

The mathematical average of the above depletion units is 0.0259. The highest depletion unit in the list is 0.0843 and the lowest is 0.0027. It is evident from the wide range in depletion units allowed under the present system that the new method would make a very great change in the depletion allowance in many cases if fixed depletion unit per pound is adopted. Furthermore, a depletion unit of 2½ cents per pound will in many instances completely wipe out the tax. To offset this, an arbitrary limitation would have to be imposed. Another difficulty in the method is the distribution of the depletion allowance between the lessor and the lessee in the case of leaseholds. A third criticism might be advanced on the ground that the allowance for depletion would bear no relation to the value of the ore, as a rich and valuable deposit would receive no greater depletion allowance than a low-grade deposit of practically no value.

(b) *Percentage of gross income method.*—The second method proposed for consideration is a form of percentage depletion and was proposed in a brief submitted to the Ways and Means Committee when it was considering the revenue bill of 1928. (See Exhibit XXX.) This proposal, showing the changes, is as follows:

PROPOSED AMENDMENT OF SECTION 204 (c)

[Changes shown in italics]

(c) The basis upon which depletion, exhaustion, wear and tear, and obsolescence are to be allowed in respect of any property shall be the same as is provided in

subdivision (a) or (b) for the purpose of determining the gain or loss upon the sale or other disposition of such property, except that:

(1) In the case of mines discovered by the taxpayer after February 28, 1913, the basis for depletion shall be the fair market value of the property at the date of discovery or within 30 days thereafter, if such mines were not acquired as the result of purchase of a proven tract or lease, and if the fair market value of the property is materially disproportionate to the cost. The depletion allowance based on discovery value provided in this paragraph shall not exceed 50 per centum of the net income of the taxpayer (computed without allowance for depletion) from the property upon which the discovery was made, except that in no case shall the depletion allowance be less than it would be if computed without reference to discovery value. Discoveries shall include minerals in commercial quantities contained within a vein or deposit discovered in an existing mine or mining tract by the taxpayer after February 28, 1913, if the vein or deposit thus discovered was not merely the uninterrupted extension of a continuing commercial vein or deposit already known to exist, and if the discovered minerals are of sufficient value and quantity that they could be separately mined and marketed at a profit. *This paragraph shall not apply to metal mines discovered after the effective date of this act.*

(2) *In the case of metal mines the allowance for depletion shall be 15 per centum of the gross income from the property during the taxable year, such allowance shall not exceed 50 per centum of the net income of the taxpayer (computed without allowance for depletion) from the property, except that in no case shall the depletion allowance be less than it would be if computed without reference to this paragraph.*

(3) In the case of oil and gas wells the allowance for depletion shall be 27½ per centum of the gross income from the property during the taxable year. Such allowance shall not exceed 50 per centum of the net income of the taxpayer (computed without allowance for depletion) from the property, except that in no case shall the depletion allowance be less than it would be if computed without reference to this paragraph.

A report based on similar principles was submitted by Alex. R. Shepherd, mining engineer for the joint committee. This report is made a part of the appendix as Exhibit XXXI.

The method proposed by the American Mining Congress does not seem to meet the requirements as to uniformity of tax burden which have been discussed in this report. The method consists in applying a rate of 15 per cent to the gross income from the property in determining depletion. The percentage is arrived at from the average of the depletion allowed on cost, March 1, 1913, or discovery value. As this method is only effective in increasing the tax in the case of future discoveries, an apparent reduction in revenue to the Government from mining properties would follow its adoption. From the standpoint of simplicity, the method also appears to be undesirable. It still retains March 1, 1913, value and eliminates discovery value only with respect to the future. It also allows the metal-mining industry a still greater advantage than that received under the existing law. Under the existing law depletion is allowed only up to an amount equal to the cost, March 1, 1913, value, or discovery value, as the case may be, whereas the proposed method places no limit on the total depletion allowances except the practical limit set up by the exhaustion of the mine.

(c) *Depletion based on percentage of net income.*—A third method which possesses considerable merit is to allow depletion based upon net income from the property. Such a method appears practicable in two forms. Plan No. 1 consists of a deduction for depletion based upon a percentage of the net income from the property. Plan No. 2 consists in allowing depletion based upon the net income from the property after a reasonable amount of the net income has been allocated to the plant investment.

It has already been pointed out that the most important valuations for depletion purposes are computed by the analytic appraisal method. This method requires an estimate to be made of the future profits of the mine. If it were possible to determine these future profits correctly, they would equal the net income from the property. The question at once arises: What is the use of estimating such profits if the actual profits can be used? In fact, it can be proven mathematically that depletion by a percentage of net income and depletion by the analytic appraisal method will be the same if the expected profit is correctly estimated in using the latter method. For instance, there follows the computation for depletion on three mines, each with a life of 15 years, with the usual risk and discount rates of 8 and 4 per cent.

	Mine No. 1	Mine No. 2	Mine No. 3
Annual operating profit (estimated)	\$200,000	\$150,000	\$100,000
Hoskold's present worth factor	7.69579446	7.69579446	7.69579446
Total value of future profits	\$1,539,159	\$1,154,369	\$769,579
Plant cost	500,000	1,000,000	1,500,000
Value of ores only	1,039,159	154,369	-----
Depletion allowed per annum	69,277	10,291	-----

The following table proves that by taking 51.3 per cent of the net income, after depreciation and after allocating the proper amount of profit to plant cost, the same annual depletion allowance will result.

	Mine No. 1	Mine No. 2	Mine No. 3
Net income before depreciation and depletion	\$200,000	\$150,000	\$100,000
Annual redemption fund for depreciation	24,971	49,941	74,911
Profit allocated to plant cost (8 per cent)	40,000	80,000	120,000
Balance of net income from ores	135,029	20,059	-----
Depletion (51.3 per cent)	69,270	10,290	-----

The above computations show that the analytic appraisal method and the percentage of net income method may be made to produce the same results.

If the life of the mine is different, the depletion factor of 51.3 per cent will change. For instance, for a 20-year life the factor will be 44 per cent; for a 25-year life, 38.5 per cent; for a 30-year life, 34.1 per cent; for a 35-year life, 30.5 per cent; and for a 40-year life, 27.6 per cent.

In addition, if the rates of 8 and 4 per cent are not correct the factor will change. For instance, if rates of 10 and 4 per cent are used the following percentage factors are found:

	Per cent
15-year life	44.5
20-year life	37.4
25-year life	32.3
30-year life	28.3
35-year life	25.2
40-year life	22.6

If oil and gas wells, which are already allowed depletion based on gross income, are not considered, March 1, 1913, values are the most important. As more than 15 years have elapsed since March 1, 1913,

no consideration need be given to factors based on a shorter life than 15 years. On the other hand, as a practical matter, the bureau engineers do not estimate the life of mines to be over 40 years, for the reason that if a long life is taken the depletion allowance become unreasonably low. (A mine with an infinite life would have no depletion by the analytic appraisal method.)

From the standpoint of simplicity, it is apparent that a single rate for depletion purposes is desirable. The risk rate most commonly used by the engineers of the bureau is 8 per cent with a sinking-fund rate of 4 per cent. The average percentage factor on properties with a life of from 15 to 40 years at these rates is 37.7. However, a risk rate of 8 per cent seems somewhat low for a speculative industry like mining. This is confirmed by the fact that the manufacturing industry for a number of years has averaged a profit of 9 per cent. The average percentage factor on properties with a life of from 15 to 40 years, and with a risk rate of 10 per cent and a sinking-fund rate of 4 per cent amounts to 31.7. It seems that a rate of $33\frac{1}{2}$ per cent, which is nearly midway between two averages given, is approximately correct, as it is desirable to take a rate easily applied mathematically. For the purpose of testing the practicability of percentage depletion, a rate of $33\frac{1}{2}$ per cent is used with plan No. 1. In the case of plan No. 2 it has been found by trial that a rate of 40 per cent for depletion with an adjustment in net income of 6 per cent of the plant investment, representing the amount of profit which should be allocated to such investment, will cause less variation in the results obtained under the present system.

In order to show the effect of plan No. 1 and plan No. 2, with these rates, as compared with that of the present method, the following hypothetical case is presented:

Case	Annual operating profit	Life of mine	First plant	Plant cost, second plant	Annual depletion		
					Present method	Plan No. 1	Plan No. 2
No. 1-----	\$200,000	20	\$500,000	None.	\$63,042	\$58,333	\$58,000
No. 2-----	200,000	40	500,000	\$500,000	40,052	58,333	58,000
No. 3-----	200,000	20	750,000	None.	50,542	54,167	47,000
No. 4-----	200,000	40	750,000	750,000	32,462	54,167	47,000
No. 5-----	200,000	20	1,000,000	None.	38,042	50,000	36,000
No. 6-----	200,000	40	1,000,000	1,000,000	24,871	50,000	36,000
Total annual depletion (6 mines)-----					249,011	325,000	282,000

The above figures show plainly that plan No. 2 gives results which are closer to the present method than plan No. 1. It appears that the variations between plan No. 2 and the present method are not so great as to render the new plan impractical, especially in view of the great uncertainty in obtaining uniform results under the present system. Moreover, plan No. 2 produces more satisfactory results from a practical standpoint than plan No. 1, for the reason that as the investment in plant increases with a constant profit, the depletion should decrease. If a mine will not pay 6 per cent on its plant investment, there is little, if any, value in its ores.

The following actual cases further illustrate the effect of plans Nos. 1 and 2 as compared with that of the present system:

Company A (copper mine)

Year	Depletion		
	Present method	Plan No. 1	Plan No. 2
1923.....	\$1,881,851	\$1,614,789	\$1,769,746
1924.....	1,761,399	1,072,329	1,116,986
1925.....	1,510,209	987,164	1,037,796
1926.....	1,610,600	1,247,651	1,313,240
1927.....	1,538,108	1,116,134	1,161,772
1928.....	1,442,808	1,168,641	1,235,077
6-year total.....	9,744,375	7,197,708	7,634,617
Average per cent increase or decrease.....		-26	-22

In the case of company A, the present method of depletion is based on the value as of March 1, 1913, found by the analytic appraisal method. While the reduction in depletion is fairly large under the new plans, it is believed reasonable as the March 1, 1913, value appears excessive. Moreover, the increase in tax for current years under the proposed plans will be offset by a decrease in tax when the March 1, 1913, value determined by the present method is exhausted. It is seen that plan No. 2 effects a smaller change than plan No. 1 in this case as in the hypothetical case preceding.

Company B (copper mine)

Year	Depletion		
	Present method	Plan No. 1	Plan No. 2
1923.....	\$765,578	\$752,363	\$542,836
1924.....	1,317,000	1,259,714	1,149,945
1925.....	1,427,000	1,641,001	1,470,945
1926.....	1,696,000	2,079,229	2,253,604
1927.....	1,502,413	1,737,295	1,844,754
1928.....	1,606,703	2,420,091	2,624,109
6-year total.....	8,314,694	9,889,693	9,885,258
Average per cent increase or decrease.....		+19	+19

In the case of company B the present depletion allowance is again arrived at through a March 1, 1913, valuation by the analytic appraisal method. It will be observed, however, that the depletion by the new plans is 19 per cent greater than that allowed under the present method. It is interesting in comparing company A with company B to observe that under the present method the depletion unit per pound of copper is 40 per cent greater in the first case than the second. It is obvious that plan No. 2, which decreases the allowance 22 per cent in the first case and increases it 19 per cent in the second will result in more nearly equalizing the 40 per cent difference in the present depletion unit.

Plan No. 2 again seems slightly preferable.

Company C (copper mine)

Year	Depletion		
	Present method	Plan No. 1	Plan No. 2
1923-----	\$1, 102, 220	\$734, 813	\$653, 776
1924-----	982, 391	654, 927	554, 214
1925-----	1, 220, 218	813, 479	740, 175
1926-----	1, 162, 978	775, 319	690, 382
1927-----	675, 208	450, 139	300, 166
1928-----	1, 313, 071	875, 381	810, 456
6-year total-----	6, 456, 086	4, 304, 058	3, 749, 169
Average per cent increase or decrease-----		-33	-42

The depletion allowance by the present method in the case of company C is based on an analytic appraisal as of the date of discovery during a war year when the price of copper was high. While the reduction in the depletion allowances by the proposed plans is large, it does not appear to be excessive, for the reason that the depletion allowance per pound is 150 per cent greater than in the case of company A. However, this reduction will be offset by the fact that the depletable value under the old method is nearly exhausted and that no depletion at all will be allowed after 3 or 4 years. Under the proposed plans, a reasonable allowance for depletion will be allowed for every year during which the mine is operated.

Company D (gold and silver mine)

Year	Depletion		
	Present method	Plan No. 1	Plan No. 2
1924-----	\$203, 035	\$220, 609	\$239, 312
1925-----	223, 189	245, 432	267, 830
1926-----	235, 000	182, 795	192, 553
1927-----	227, 200	95, 530	87, 836
1928-----	239, 400	146, 997	149, 596
5-year total-----	1, 127, 824	\$91, 363	937, 127
Average per cent increase or decrease-----		-21	-17

The case of company D illustrates the fluctuation in depletion which will result from the proposed methods when the net income from the property varies in spite of fairly uniform production. It is also interesting to compute the theoretical tax at 12 per cent on the net income from the property under the different methods. This is as follows:

Year	Tax		
	Present method	Plan No. 1	Plan No. 2
1924-----	\$55, 055	\$52, 947	\$50, 702
1925-----	61, 573	58, 904	56, 216
1926-----	37, 606	43, 871	42, 700
1927-----	7, 127	22, 927	23, 850
1928-----	24, 191	35, 279	34, 968
Total-----	185, 552	213, 928	208, 436

The above tax figures are significant in demonstrating how the new method tends to stabilize the revenue. Under the present method the annual tax varies from \$7,127 to \$61,573, whereas, under plan No. 2, the annual tax only varies from \$23,850 to \$56,216. This stabilization of the annual revenue is advantageous to the Government and of no disadvantage to the taxpayer. It may be argued that the increase in tax from \$7,127 to \$23,850 in 1927 is unjust, for the reason that the taxpayer will not be able to pay such increased tax. However, depletion is not a cash payment but only a paper deduction and in this case the company in 1927 paid \$400,000 in dividends to its stockholders. The tax resulting from the application of plan No. 2, totaling only 5 per cent of these dividends, is not excessive or burdensome.

Computations have been made in the case of lead, zinc, and iron mines which show that the proposed plans are adaptable to these mines at least as well as to copper, gold and silver mines. It is not thought necessary to summarize these computations, but it is deemed essential to apply the new plans to certain nonmetal mines to see whether they could be used in such cases.

Company E (coal mine)

Year	Depletion		
	Present method	Plan No. 1	Plan No. 2
1923.....	\$144,550	\$415,537	\$299,856
1924.....	151,428	282,139	169,653
1925.....	151,992	199,220	113,043
1926.....	166,900	374,145	359,659
1927.....	147,038	406,282	413,817
1928.....	187,369	360,063	359,064
6-year total.....	949,277	2,037,386	1,815,092
Average per cent increase or decrease.....		+115	+92

The case of company E appears to show rather large increases in the depletion allowances. However, it has already been pointed out that the coal industry seems to have been discriminated against in the matter of depletion. A comparison of the theoretical decrease in tax at 12 per cent in this case is as follows:

Year	Tax		
	Present method	Plan No. 1	Plan No. 2
1923.....	\$132,247	\$99,729	\$113,611
1924.....	83,399	67,714	81,213
1925.....	53,480	47,813	58,154
1926.....	114,664	89,795	91,533
1927.....	128,617	97,508	96,603
1928.....	107,138	86,415	86,535
6-year total.....	619,545	488,974	527,649
Average per cent increase or decrease.....		-21	-15

It is evident from the above that, while the change in depletion seems large, the resulting percentage reduction in tax may be reason-

able. Attention is also drawn to the fact that during the 6-year period Company E paid \$1,640,000 in dividends, so that a tax of \$527,649, or \$488,974, appears more reasonable than a tax of \$619,545. It is believed that the 15 per cent tax reduction resulting from plan No. 2 is warranted in view of the depressed condition of the coal industry and the small relief granted under the present depletion system.

Company F (sand and gravel)

Year	Depletion		
	Present method	Plan No. 1	Plan No. 2
1924.....	\$14,281	\$26,435	\$25,482
1925.....	29,288	61,039	67,944
2-year total.....	34,569	87,474	93,426
Average per cent increase or decrease.....		+153	+170

Neither plan No. 1 nor plan No. 2 appears applicable to non-metals taken from surface excavations. The principal reason for this is that the value of such a business arises chiefly from its plant investment and its efficiency of management rather than from the value of the product mined.

The following tables show the net effect of the proposed plans upon the various subclassifications of the mining industry. These computations also show a comparison of the results with those obtained under the existing law.

A. Coal-mining companies reporting net income

	1924	1925	1926
DEPLETION ALLOWANCES			
By present method.....	\$11,489,275	\$7,619,860	\$17,304,112
By plan No. 1.....	19,218,107	18,417,392	37,649,668
By plan No. 2.....	14,250,608	12,121,205	30,458,329
TAX			
By present method.....	5,554,238	5,587,086	10,646,874
By plan No. 1.....	4,588,134	4,183,507	7,900,224
By plan No. 2.....	5,209,071	5,001,912	8,871,055

B. Metal-mining companies reporting net income

	1924	1925	1926
DEPLETION ALLOWANCES			
By present method.....	\$33,007,523	\$42,918,515	\$55,124,019
By plan No. 1.....	21,747,084	35,984,383	48,633,885
By plan No. 2.....	20,030,603	34,633,660	46,212,227
TAX			
By present method.....	3,216,521	7,926,505	11,387,364
By plan No. 1.....	4,624,079	8,827,942	12,263,532
By plan No. 2.....	4,838,636	9,003,536	12,590,456

C. Oil and gas companies reporting net income

	1924	1925	1926
DEPLETION ALLOWANCES			
By present method.....	\$104,043,716	\$153,948,242	\$109,998,444
By plan No. 1.....	71,626,570	149,389,163	98,637,755
By plan No. 2.....	47,865,501	126,757,734	96,099,320
TAX			
By present method.....	10,673,772	33,685,551	24,848,525
By plan No. 1.....	14,725,915	34,278,011	26,382,218
By plan No. 2.....	17,696,049	37,220,097	26,724,906

From the above approximate figures for the coal industry, the metals industry, and the oil and gas industry, it is obvious that the new methods will make a substantial change in the distribution of depletion. It appears that the change is not too great to be acceptable, for it is believed that the distribution resulting from the present methods is inequitable. Furthermore, the changes made, at least by plan No. 2, approximately correct the present inequities.

The data in the appendix shows that the copper industry receives too much depletion, while the coal industry receives inadequate allowances. Plan No. 2 would correct these inequalities by allowing a greater deduction for coal and a less deduction to copper than the present system.

The increase in tax in the metals industry will probably fall principally on the copper industry, as shown by the following approximate computations for 1924, the only year available:

	Copper	Lead and zinc
DEPLETION, 1924		
By present method.....	\$22,529,386	\$4,579,219
By plan No. 1.....	13,761,283	4,104,970
By plan No. 2.....	12,822,291	3,789,481
TAX 1924		
By present method.....	1,519,850	980,650
By plan No. 1.....	2,615,863	1,039,931
By plan No. 2.....	2,733,237	1,079,367

The copper industry paid cash dividends of \$18,468,715 in 1924, while the lead and zinc industry paid cash dividends of only \$3,262,646. Under the present method the tax on the copper companies was only 8 per cent of the cash dividends, while in the case of the zinc companies it was 30 per cent. Under plan No. 2 the percentages would be 15 per cent for copper and 33 per cent for lead and zinc. It does not appear that the increased tax on copper companies called for by plan No. 2 would result in hardships, for the present price being in excess of that in 1924, the depletion allowances will be greater and the increase in tax less, than shown by the computations of this report.

ADVANTAGES OF DEPLETION BASED ON NET INCOME.

The principal advantages of the method of percentage depletion based on net income over the other methods considered are as follows:

(1) Percentage depletion has a relation to the value of the ore as does the present method, whereas the fixed rate method and gross income method have no relation to such value.

(2) The change in method will, therefore, be less disturbing in effect than other methods proposed.

(3) This method is simple in its application and eliminates the many factors of speculation and uncertainties entering into present methods of valuation.

(4) It requires but one computation for depletion whereas the gross income method with the 50 per cent limitation requires two computations; and

(5) It eliminates March 1, 1913, value, and discovery value, as a basis for percentage depletion.

(6) The method has proved to be practicable in the application of the Canadian income tax law. That country uses a method similar to plan No. 1 in the case of metal mines and a fixed rate per unit of products sold in the case of coal mines. The Canadian system for depletion allowances may be briefly described as follows:

1. Gold and silver mines, 50 per cent of the net income.
2. Copper, lead, and zinc mines, 25 per cent of the net income.
3. Oil and gas wells, 25 per cent of the net income.
4. Coal mines, 10 cents per ton.

It appears that Canada allows more depletion to gold, silver, and coal mines than this country. Less depletion is allowed, however, to copper, lead and zinc mines. The following excerpt, taken from a communication from a domestic taxpayer who also is allowed depletion under the Canadian laws, indicates his preference for the Canadian system:

Such a method of ascertaining the annual depletion allowance has apparently been so simple, equitable, and satisfactory to both the tax authorities and the taxpayers, that it has not been necessary for the Canadian Government to issue any general regulations or publish rulings in connection with its method of allowing depletion. I might add that we have found the Canadian system for the determination of the depletion allowance very satisfactory inasmuch as we have been able, in all cases, to make an accurate statement of the company's tax liability on the return itself. There have been a few adjustments in the tax liability as computed on the return filed, but they have been inconsequential.

CONCLUDING REMARKS

This report shows that the present system for determining depletion is neither simple in its application nor equitable in its results. The present system is not only inequitable between taxpayers in the same branch of the mining and quarrying industry, but the distribution between the different branches is unjust. For example, bituminous coal mine operators have not received the relief given other mine operators. The coal industry has been profitable only in a few years and is now in a condition as depressed as agriculture. The present system results in taking away from the bituminous coal industry a large proportion of its profits in taxes in the infrequent year of prosperity. It appears, therefore, that a substitute method is desirable.

This report proposes several substitute methods for discussion. While the report indicates a preference for plan No. 2, a method of percentage depletion based on the net income from the property, it is hoped that the other methods will also receive careful analysis. In order to limit the scope of the discussion to the determination of a sound general method, certain subsidiary propositions like net losses, distribution of depletion between lessor and lessee, etc., are not considered. If a sound method can be devised, the related minor problems can readily be solved.

It is believed that if any plan of computing depletion is adopted based on a percentage of net income from the property, that both March 1, 1913, depletion and discovery depletion should be eliminated if substantial simplification is to result. It should be added in this connection that the argument has been advanced that it will be exceedingly difficult to determine the net income from the property. This argument does not appear to be supported by actual facts. The existing law, namely, section 114 (b) (2) of the revenue act of 1928, requires such a determination by providing that the allowance for discovery value in the case of mines shall not exceed 50 per cent of the net income of the taxpayer from the property. Limitations of somewhat similar character are contained in the revenue acts of 1921, 1924, and 1926. During the many years that this requirement has been in the law, no complaint has been made that the net income from the property could not be determined. Furthermore, many operators of mining companies admit that the method of bookkeeping employed by mining companies will show the net income from this source without difficulty.

Sufficient data is not available for fully testing the operation and effect of the methods proposed. It is hoped that this report will stimulate such interest in the subject that the Bureau of Internal Revenue, as well as the taxpayers affected, will make a through test of these methods by applying them to actual conditions.

Respectfully submitted.

L. H. PARKER, *Chief of Staff.*

APPENDIX I

EXTRACTS FROM REVENUE ACT OF 1913 IN RE DEPLETION

Section II B of the revenue act of 1913 relating to individuals provides in part as follows:

That in computing net income for the purpose of the normal tax there shall be allowed as deductions: * * * sixth, a reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business, not to exceed, in the case of mines, 5 per centum of the gross value at the mine of the output for the year for which the computation is made, but no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made: *Provided*, That no deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property or estate.

Section II G (b) of the revenue act of 1913 relating to corporations provides in part as follows:

(b) Such net income shall be ascertained by deducting from the gross amount of the income of such corporation, joint-stock company or association, or insurance company, received within the year from all sources * * * (second) all losses actually sustained within the year and not compensated by insurance or otherwise, including a reasonable allowance for depreciation by use, wear and tear of property, if any; and in the case of mines a reasonable allowance for depletion of ores and all other natural deposits, not to exceed 5 per centum of the gross value at the mine of the output for the year for which the computation is made.

APPENDIX II

EXTRACTS FROM REVENUE ACT OF 1916 IN RE DEPLETION

Section 5 (a) of the revenue act of 1916 relating to individuals provides in part as follows:

That in computing net income in the case of a citizen or resident of the United States—

For the purpose of the tax there shall be allowed as deductions—

Eighth (a) In the case of oil and gas wells a reasonable allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof, which has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in the case of both (a) and (b) under the rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowances authorized in (a) and (b) shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made. No deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property or estate, and no deduction shall be made for any amount of expenses of restoring property or making good the exhaustion thereof for which an allowance is or has been made.

Section 12 (a) of the revenue act of 1916 relating to corporations provides in part as follows:

In the case of a corporation, joint-stock company or association, or insurance company, organized in the United States, such net income shall be ascertained by deducting from the gross amount of its income received within the year from all sources—

Second. All losses actually sustained and charged off within the year and not compensated by insurance or otherwise, including a reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business or trade; (a) in the case of oil and gas wells a reasonable allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof which has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowance authorized in (a) and (b) shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made.

APPENDIX III

EXTRACT FROM REVENUE ACT OF 1918 IN RE DEPLETION

Section 214 (a) of the revenue act of 1918 relating to individuals provides in part as follows:

That in computing net income there shall be allowed as deductions:

(10) In the case of mines, oil and gas wells, other natural deposits, and timber, a reasonable allowance for depletion and for depreciation of improvements, according to the peculiar conditions in each case, based upon cost including cost of development not otherwise deducted: *Provided*, That in the case of such properties acquired prior to March 1, 1913, the fair market value of the property (or the taxpayer's interest therein) on that date shall be taken in lieu of cost up to that date: *Provided further*, That in the case of mines, oil and gas wells, discovered by the taxpayer, on or after March 1, 1913, and not acquired as the result of purchase of a proven tract or lease, where the fair market value of the property is materially disproportionate to the cost, the depletion allowance shall be based upon the fair market value of the property at the date of the discovery, or within thirty days thereafter; such reasonable allowance in all the above cases to be made under rules and regulations to be prescribed by the commissioner with the approval of the Secretary. In the case of leases the deductions allowed by this paragraph shall be equitably apportioned between the lessor and lessee.

The above also applies to corporations. (See sec. 234 (a) (9).)

APPENDIX IV

EXTRACT FROM REVENUE ACT OF 1921 IN RE DEPLETION

Section 214 (a) of the revenue act of 1921 relating to individuals provides in part as follows:

That in computing net income there shall be allowed as deductions:

(10) In the case of mines, oil and gas wells, other natural deposits, and timber a reasonable allowance for depletion and for depreciation of improvements, according to the peculiar conditions in each case, based upon cost including cost of development not otherwise deducted: *Provided*, That in the case of such properties acquired prior to March 1, 1913, the fair market value of the property (or the taxpayer's interest therein) on that date shall be taken in lieu of cost up to that date: *Provided further*, That in the case of mines, oil and gas wells, discovered by the taxpayer, on or after March 1, 1913, and not acquired as the result of purchase of a proven tract or lease, where the fair market value of the property is materially disproportionate to the cost, the depletion allowance shall be based

upon the fair market value of the property at the date of the discovery, or within thirty days thereafter: *And provided further*, That such depletion allowance based on discovery value shall not exceed the net income, computed without allowance for depletion, from the property upon which the discovery is made, except where such net income so computed is less than the depletion allowance based on cost or fair market value as of March 1, 1913; such reasonable allowance in all the above cases to be made under rules and regulations to be prescribed by the commissioner, with the approval of the Secretary. In the case of leases the deductions allowed by this paragraph shall be equitably apportioned between the lessor and lessee.

The above also applies to corporations. (See sec. 234 (a) (9).)

APPENDIX V

EXTRACTS FROM REVENUE ACT OF 1924 IN RE DEPLETION

Section 204 (c) and section 214 (a) of the revenue act of 1924 relating to individuals provide in part as follows:

Sec. 204 (c). The basis upon which depletion, exhaustion, wear and tear, and obsolescence are to be allowed in respect of any property shall be the same as is provided in subdivision (a) or (b) for the purpose of determining the gain or loss upon the sale or other disposition of such property, except that in the case of mines, oil and gas wells, discovered by the taxpayer after February 28, 1913, and not acquired as the result of purchase of a proven tract or lease, where the fair market value of the property is materially disproportionate to the cost, the basis for depletion shall be the fair market value of the property at the date of discovery or within thirty days thereafter; but such depletion allowance based on discovery value shall not exceed 50 per centum of the net income (computed without allowance for depletion) from the property upon which the discovery was made, except that in no case shall the depletion allowance be less than it would be if computed without reference to discovery value.

Sec. 214 (a). In computing net income there shall be allowed as deductions:

(9) In the case of mines, oil and gas wells, other natural deposits and timber, a reasonable allowance for depletion and for depreciation of improvements, according to the peculiar conditions in each case; such reasonable allowance in all cases to be made under rules and regulations to be prescribed by the commissioner, with the approval of the Secretary. In the case of leases the deduction allowed by this paragraph shall be equitably apportioned between the lessor and lessee:

The above also applies to corporations. (See sec. 234 (a) (8).)

APPENDIX VI

EXTRACT FROM REVENUE ACT OF 1926 IN RE DEPLETION

Section 204 (c) of the revenue act of 1926 relating to individuals provides in part as follows:

The basis upon which depletion, exhaustion, wear and tear, and obsolescence are to be allowed in respect of any property shall be the same as is provided in subdivision (a) or (b) for the purpose of determining the gain or loss upon the sale or other disposition of such property, except that—

(1) In the case of mines discovered by the taxpayer after February 28, 1913, the basis for depletion shall be the fair market value of the property at the date of discovery or within thirty days thereafter, if such mines were not acquired as the result of purchase of a proven tract or lease, and if the fair market value of the property is materially disproportionate to the cost. The depletion allowance based on discovery value provided in this paragraph shall not exceed 50 per centum of the net income of the taxpayer (computed without allowance for depletion) from the property upon which the discovery was made, except that in no case shall the depletion allowance be less than it would be if computed without reference to discovery value. Discoveries shall include minerals in commercial quantities contained within a vein or deposit discovered in an existing mine or mining tract by the taxpayer after February 28, 1913, if the vein or deposit thus discov-

ered was not merely the uninterrupted extension of a continuing commercial vein or deposit already known to exist, and if the discovered minerals are of sufficient value and quantity that they could be separately mined and marketed at a profit.

(2) In the case of oil and gas wells the allowance for depletion shall be $27\frac{1}{2}$ per centum of the gross income from the property during the taxable year. Such allowance shall not exceed 50 per centum of the net income of the taxpayer (computed without allowance for depletion) from the property, except that in no case shall the depletion allowance be less than it would be if computed without reference to this paragraph.

The above also applies to corporations. (See sec. 234 (a) (8).)

APPENDIX VII

EXTRACTS FROM REVENUE ACT OF 1928 IN RE DEPLETION

Section 114 (b) and section 23 (1) (m) of the revenue act of 1928 relating to individuals and corporations provide in part as follows:

SEC. 114 (b). Basis for depletion—

(1) *General rule.*—The basis upon which depletion is to be allowed in respect of any property shall be the same as is provided in section 113 for the purpose of determining the gain or loss upon the sale or other disposition of such property, except as provided in paragraphs (2) and (3) of this subsection.

(2) *Discovery value in case of mines.*—In the case of mines discovered by the taxpayer after February 28, 1913, the basis for depletion shall be the fair market value of the property at the date of discovery or within thirty days thereafter, if such mines were not acquired as the result of purchase of a proven tract or lease, and if the fair market value of the property is materially disproportionate to the cost. The depletion allowance based on discovery value provided in this paragraph shall not exceed 50 per centum of the net income of the taxpayer (computed without allowance for depletion) from the property upon which the discovery was made, except that in no case shall the depletion allowance be less than it would be if computed without reference to discovery value. Discoveries shall include minerals in commercial quantities contained within a vein or deposit discovered in an existing mine or mining tract by the taxpayer after February 28, 1913, if the vein or deposit thus discovered was not merely the uninterrupted extension of a continuing commercial vein or deposit already known to exist, and if the discovered minerals are of sufficient value and quantity that they could be separately mined and marketed at a profit.

(3) *Percentage depletion for oil and gas wells.*—In the case of oil and gas wells the allowance for depletion shall be $27\frac{1}{2}$ per centum of the gross income from the property during the taxable year. Such allowance shall not exceed 50 per centum of the net income of the taxpayer (computed without allowance for depletion) from the property, except that in no case shall the depletion allowance be less than it would be if computed without reference to this paragraph.

SEC. 23. In computing net income there shall be allowed as deductions—

(1) *Depletion.*—In the case of mines, oil and gas wells, other natural deposits, and timber, a reasonable allowance for depletion and for depreciation of improvements, according to the peculiar conditions in each case; such reasonable allowance in all cases to be made under rules and regulations to be prescribed by the commissioner, with the approval of the Secretary. In the case of leases the deduction shall be equitably apportioned between the lessor and lessee. In the case of property held by one person for life with remainder to another person, the deduction shall be computed as if the life tenant were the absolute owner of the property and shall be allowed to the life tenant. In the case of property held in trust the allowable deduction shall be apportioned between the income beneficiaries and the trustee in accordance with the pertinent provisions of the instrument creating the trust, or, in the absence of such provisions, on the basis of the trust income allocable to each. (For percentage depletion in case of oil and gas wells, see sec. 114 (b) (3).)

(m) *Basis for depreciation and depletion.*—The basis upon which depletion, exhaustion, wear and tear, and obsolescence are to be allowed in respect of any property shall be as provided in section 114.

APPENDIX VIII

Gross and net income, deficit, and total tax

ALL CORPORATIONS IN MINING AND QUARRYING INDUSTRY

[Both those with net income and those with deficit]

Year	Gross income	Net income	Deficit	Total tax
1916-----	\$2,385,198,409	\$798,883,349	\$70,773,408	\$15,846,557
1917-----	3,914,539,417	948,416,612	63,902,570	212,365,019
1918-----	3,995,042,994	567,777,209	71,473,129	191,364,377
1919-----	4,667,648,366	432,623,701	180,953,669	75,081,512
1920-----	6,151,220,396	702,073,788	176,505,076	174,595,972
1921-----	3,888,876,460	185,133,923	414,488,951	31,969,216
1922-----	3,695,388,013	286,437,388	280,456,101	31,399,593
1923-----	5,862,999,298	283,565,648	334,253,838	30,777,039
1924-----	4,848,548,567	240,141,930	307,091,131	28,389,340
1925-----	4,924,846,631	453,599,744	209,956,530	55,048,690
1926-----	4,547,700,295	455,798,286	183,473,862	57,307,996

FOR CORPORATIONS IN SUBCLASSIFICATION: COAL-MINING INDUSTRY

1916-----	\$760,228,187	\$121,082,830	\$18,722,336	\$2,399,000
1918-----		180,100,595	8,825,418	76,961,211
1919-----		99,142,382	23,748,807	17,701,070
1920-----		353,615,466	7,642,323	107,047,862
1921-----		82,654,787	72,521,815	15,219,444
1922-----	1,457,672,278	147,074,098	34,465,137	15,632,647
1923-----	1,718,045,273	133,256,431	55,898,667	15,430,433
1924-----	1,397,559,603	46,017,219	93,881,987	5,554,238
1925-----	1,133,482,812	48,538,279	70,946,135	5,587,086
1926-----	1,633,623,683	92,649,967	54,935,602	10,646,874

FOR CORPORATIONS IN SUBCLASSIFICATION: METAL MINING INDUSTRY

1916-----	\$362,917,064	\$379,462,942	\$17,096,712	\$7,536,275
1918-----		106,410,664	18,083,421	23,695,121
1919-----		29,018,520	25,021,234	3,168,554
1920-----		22,572,654	42,051,660	3,599,936
1921-----		5,298,045	77,472,312	672,871
1922-----	554,581,818	21,105,269	50,698,260	2,118,958
1923-----	596,053,166	47,249,006	29,213,914	3,486,352
1924-----	606,537,005	26,987,175	44,361,834	3,216,521
1925-----	815,596,352	63,668,413	33,507,588	7,926,505
1926-----	1,120,860,830	88,789,715	33,323,833	11,387,364

FOR CORPORATIONS IN SUBCLASSIFICATION: OIL AND GAS INDUSTRY

1916-----	\$520,851,432	\$236,795,209	\$14,996,450	\$4,695,815
1918-----		176,476,742	14,093,604	59,919,814
1919-----		198,387,095	41,269,178	38,635,674
1920-----		205,634,716	51,906,371	40,367,664
1921-----		59,383,783	140,416,294	10,491,972
1922-----	656,067,674	39,933,465	89,849,027	4,821,332
1923-----	1,469,725,106	38,496,564	179,763,995	4,529,808
1924-----	2,163,787,868	91,462,118	115,639,873	10,673,772
1925-----	2,456,273,452	276,762,107	66,048,399	33,685,331
1926-----	1,189,899,225	191,060,322	69,681,253	24,848,525

APPENDIX IX

Percentage of tax paid by certain subclassifications of mining and quarrying industry to total tax paid by the entire mining and quarrying industry

Year	Coal mining	Metal mining	Oil and gas	Year	Coal mining	Metal mining	Oil and gas
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>		<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
1916.....	15	48	30	1922.....	50	7	15
1918.....	40	12	31	1923.....	50	11	15
1919.....	24	4	51	1924.....	20	11	38
1920.....	61	2	23	1925.....	10	14	61
1921.....	48	2	33	1926.....	19	20	43

Percentage net income to gross income

Year	Coal mining	Metal mining	Oil and gas	Year	Coal mining	Metal mining	Oil and gas
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>		<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
1916.....	16	44	45	1924.....	3	4	4
1922.....	10	4	6	1925.....	4	8	11
1923.....	8	8	3	1926.....	6	8	16

APPENDIX X

Depletion shown on corporation returns by years (corporations reporting net income and those reporting no net income)

Classification	1924	1925	1926
A. Total of all industries.....	\$503, 417, 537	\$472, 061, 777	\$570, 908, 764
B. Agriculture and related industries.....	9, 605, 400	11, 131, 522	12, 942, 648
C. Mining and quarrying (total).....	345, 891, 881	281, 465, 936	274, 620, 376
C-1. Coal mining.....	24, 508, 738	19, 289, 154	26, 804, 808
C-2. Metal mining.....	58, 176, 776	63, 717, 466	78, 582, 146
C-3. Oil and gas.....	221, 322, 433	178, 946, 060	138, 013, 646
C-4. Quarrying.....	1, 026, 748	1, 848, 712	3, 208, 902
C-5. Mining and quarrying miscellaneous.....	40, 857, 186	17, 664, 544	28, 010, 874
D. Manufacturing (total).....	118, 589, 570	143, 923, 248	248, 128, 782
D-1. Food products, beverages, and tobacco.....	493, 641	1, 244, 411	796, 849
D-2. Textiles and textile products.....	99, 129	7, 684, 819	3, 177, 606
D-3. Leather and leather products.....	11, 769	1, 309, 794	1, 133, 784
D-4. Rubber and rubber goods.....		46, 663	57, 425
D-5. Lumber and wood products.....	48, 340, 124	45, 287, 850	55, 947, 240
D-6. Paper, pulp, and products.....	1, 454, 628	1, 122, 886	967, 170
D-7. Printing and publishing.....	107, 499	852, 361	201, 188
D-8. Chemicals and allied substances.....	43, 628, 367	63, 027, 160	155, 468, 144
D-9. Stone, clay, and glass products.....	1, 943, 731	1, 983, 599	2, 359, 822
D-10. Metal products.....	21, 032, 646	20, 560, 046	27, 729, 297
D-11. Miscellaneous manufacturing.....	1, 478, 036	803, 665	290, 257
E. Construction.....	272, 733	657, 708	419, 045
F. Transportation and other public utilities.....	15, 138, 874	7, 831, 271	24, 338, 486
G. Trade.....	2, 351, 815	12, 974, 745	2, 362, 093
H. Service, professional, amusements, hotels.....	374, 933	971, 614	580, 094
I. Finance, banking, real estate, stock brokers.....	11, 182, 331	13, 105, 727	7, 494, 300
J. Miscellaneous (not classified).....			22, 940

APPENDIX XI

Relation of depletion taken by all corporations to aggregate fair value of corporate stock

Classification	Per cent depletion to aggregate fair value		
	1925	1926	2-year average
A. Total of all industries.....	0.59	0.61	0.60
B. Agriculture.....	0.82	1.16	.99
C. Mining and quarrying (total).....	3.62	3.99	3.81
C-1. Coal mining.....	1.03	1.35	1.19
C-2. Metal mining.....	4.73	5.63	5.18
C-3. Oil and gas.....	7.47	7.13	7.30
C-4. Quarrying.....	.63	.96	.80
C-5. Mining and quarrying miscellaneous.....	.94	2.25	1.60
D. Manufacturing (total).....	.53	.65	.59
D-1. Food products, beverages, and tobacco.....	.02	.02	.02
D-2. Textiles, and textile products.....	.18	.08	.13
D-3. Leather and leather products.....	.15	.15	.15
D-4. Rubber and rubber goods.....	.008	.009	.009
D-5. Lumber and wood products.....	2.11	2.46	2.29
D-6. Paper, pulp, and products.....	.11	.10	.11
D-7. Printing and publishing.....	.06	.02	.04
D-8. Chemicals and allied substances.....	1.44	2.40	1.92
D-9. Stone, clay, and glass products.....	.21	.23	.22
D-10. Metal products.....	.39	.21	.30
D-11. Miscellaneous manufacturing.....	.04	.02	.03
E. Construction.....	.08	.05	.07
F. Transportation and other public utilities.....	.05	.15	.10
G. Trade.....	.13	.02	.08
H. Services, professional, amusements, etc.....	.07	.04	.06
I. Finance, banking, etc.....	.08	.04	.06

APPENDIX XII

Per cent of aggregate fair value of corporate stock distributed in cash dividends

Classification	Ratio (per cent) cash dividends to fair value of stock		
	1923	1925	1926
A. Total of all industries.....	5½	6½	6¾
B. Agriculture.....	2¾	2¼	2½
C. Mining and quarrying (total).....	4	4¼	5½
C-1. Coal mining.....	-----	2¾	3¼
C-2. Metal mining.....	-----	4¾	7¼
C-3. Oil and gas.....	-----	7¾	8¾
C-4. Quarrying.....	-----	5¾	5½
C-5. Mining and quarrying miscellaneous.....	-----	1¾	4¼
D. Manufacturing (total).....	7½	8	6¾
D-1. Food products, beverages, and tobacco.....	6½	7½	6½
D-2. Textiles and textile products.....	13¾	4½	4½
D-3. Leather and leather products.....	3¾	4¾	4½
D-4. Rubber and rubber goods.....	3¼	5¾	6¾
D-5. Lumber and wood products.....	13½	3¾	5½
D-6. Paper, pulp, and products.....	6¾	6¾	5½
D-7. Printing and publishing.....	8½	6¾	10
D-8. Chemicals and allied substances.....	10½	11	8¾
D-9. Stone, clay, and glass products.....	6¾	8½	10½
D-10. Metal products.....	5¾	13¾	6¾
D-11. Miscellaneous manufacturing.....	6¾	6¾	6½
E. Construction.....	5½	9	6¾
F. Transportation and other public utilities.....	5½	6¾	7¾
G. Trade.....	4½	5½	5¼
H. Service, professional, amusements.....	6½	7½	8½
I. Finance, banking, etc.....	4	5¼	5¾

NOTE.—Aggregate fair value of capital stock taken from capital-stock returns, cash dividends from income-tax returns. The fair value of capital stock for period July 1, 1922, to June 30, 1923, is used with the dividends reported in the calendar year 1923, as being most representative. Corresponding periods are used in 1925 and 1926. The necessary information for the year 1924 is not available.

APPENDIX XII-A

Ratio of profit to aggregate fair value of corporate stock (all corporations)

Classification	Ratio (per cent) net profits to fair value of stock		
	1923	1925	1926
A. Total of all industries.....	10 $\frac{1}{8}$	11 $\frac{5}{8}$	10 $\frac{1}{4}$
B. Agriculture.....	3 $\frac{3}{8}$	15 $\frac{5}{8}$	21 $\frac{1}{2}$
C. Mining and quarrying (total).....	$\frac{1}{2}$	4 $\frac{1}{8}$	5 $\frac{1}{4}$
C-1. Coal mining.....		1 $\frac{3}{4}$	2 $\frac{3}{4}$
C-2. Metal mining.....		3 $\frac{3}{8}$	5 $\frac{5}{8}$
C-3. Oil and gas.....		10 $\frac{3}{8}$	8 $\frac{1}{2}$
C-4. Quarrying.....		11 $\frac{3}{8}$	10 $\frac{3}{4}$
C-5. Mining and quarrying, miscellaneous.....		$\frac{3}{8}$	3 $\frac{1}{4}$
D. Manufacturing (total).....	14	15 $\frac{3}{8}$	11 $\frac{1}{4}$
D-1. Food products, beverages, and tobacco.....	107 $\frac{5}{8}$	11	11
D-2. Textiles and textile products.....	31 $\frac{1}{8}$	7 $\frac{3}{8}$	3 $\frac{3}{8}$
D-3. Leather and leather products.....	3 $\frac{3}{8}$	6	6 $\frac{3}{8}$
D-4. Rubber and rubber goods.....	5 $\frac{1}{8}$	23	8 $\frac{1}{8}$
D-5. Lumber and wood products.....	29 $\frac{1}{4}$	71 $\frac{1}{2}$	5 $\frac{1}{8}$
D-6. Paper, pulp, and products.....	11 $\frac{1}{4}$	10 $\frac{3}{8}$	12 $\frac{1}{8}$
D-7. Printing and publishing.....	17 $\frac{1}{2}$	12	16 $\frac{3}{8}$
D-8. Chemicals and allied substances.....	12	16 $\frac{3}{8}$	14 $\frac{3}{8}$
D-9. Stone, clay, and glass products.....	197 $\frac{1}{8}$	181 $\frac{1}{8}$	18
D-10. Metal products.....	123 $\frac{1}{4}$	31 $\frac{3}{8}$	123 $\frac{1}{4}$
D-11. Miscellaneous manufacturing.....	131 $\frac{1}{2}$	101 $\frac{1}{8}$	10
E. Construction.....	99 $\frac{1}{8}$	16	14 $\frac{1}{8}$
F. Transportation and other public utilities.....	113 $\frac{1}{8}$	111 $\frac{1}{8}$	121 $\frac{1}{8}$
G. Trade.....	113 $\frac{1}{8}$	101 $\frac{1}{8}$	87 $\frac{1}{8}$
H. Service, professional, amusements.....	11 $\frac{1}{4}$	131 $\frac{1}{4}$	107 $\frac{1}{4}$
I. Finance, banking, etc.....	69 $\frac{1}{8}$	111 $\frac{1}{8}$	89 $\frac{1}{8}$

¹ Loss.

NOTE.—Aggregate fair value of capital stock taken from capital stock returns, net profits from income-tax returns. The fair value of capital stock for period July 1, 1922, to June 30, 1923, is used with net profit reported in the calendar year 1923, as being most representative. Corresponding periods are used in 1925 and 1926. The necessary information for the year 1924 is not available.

APPENDIX XIII

Relation of cash dividends distributed to net profits corporations reporting net income and those reporting no net income by industries and by years

[NOTE.—Net profits equal net income plus dividends received plus tax exempt interest]

Year	Net profits	Cash dividends distributed	Net profits distributed
<i>A. Aggregate of all industries</i>			
1922.....	\$5,967,199,344	\$3,436,715,104	<i>Per cent</i> 58
1923.....	7,634,263,443	4,169,117,678	55
1924.....	6,795,151,745	4,338,822,858	65
1925.....	9,316,382,776	5,189,474,507	56
1926.....	9,510,438,997	5,945,292,657	63
5-year total.....	39,223,436,305	23,079,422,804	59
<i>B. Agriculture</i>			
1922.....	11,246,587	27,402,854	244
1923.....	46,305,024	27,504,320	59
1924.....	7,194,047	27,864,441	387
1925.....	22,507,051	30,898,225	138
1926.....	23,158,595	32,332,726	140
5-year total.....	110,411,304	146,002,566	132
<i>C. Mining and quarrying</i>			
1922.....	101,143,864	223,051,836	221
1923.....	40,189,492	300,562,452	748
1924.....	—12,202,419	255,300,881	—
1925.....	320,808,325	335,141,993	104
1926.....	362,090,007	402,721,315	111
5-year total.....	824,231,688	1,516,778,477	187

Relation of cash dividends distributed to net profits corporations reporting net income and those reporting no net income by industries and by years—Continued

Year	Net profits	Cash dividends distributed	Net profits distributed
<i>C-1. Coal mining</i>			
1924	—\$38,493,027	\$54,472,849	<i>Per cent</i>
1925	—13,035,282	45,631,317	
1926	53,534,970	63,145,603	118
3-year total	2,006,661	163,249,769	8,135
<i>C-2. Metal mining</i>			
1924	—5,215,035	36,774,845	
1925	45,441,612	63,158,411	139
1926	75,606,807	101,968,407	135
3-year total	115,833,384	201,901,663	174
<i>C-3. Oil and gas</i>			
1924	3,011,930	112,862,235	3,747
1925	248,328,182	175,845,262	71
1926	156,213,754	168,298,874	108
3-year total	407,553,866	457,006,391	112
<i>C-4. Quarrying</i>			
1924	10,947,576	7,212,988	66
1925	33,324,458	16,410,563	49
1926	35,671,463	16,886,531	47
3-year total	79,943,497	40,510,082	51
<i>C-5. Miscellaneous mining</i>			
1924	17,546,137	43,977,944	250
1925	6,749,355	34,096,440	505
1926	41,063,013	52,421,900	128
3-year total	65,358,505	130,496,284	200
<i>D. Total manufacturing</i>			
1922	2,917,693,868	1,504,876,536	52
1923	3,903,498,261	2,005,940,149	51
1924	3,078,996,158	1,882,978,304	61
1925	4,108,602,583	2,223,795,585	54
1926	4,224,594,119	2,544,245,912	60
5-year total	18,233,384,989	10,161,836,486	56
<i>D-1. Food products, beverages, and tobacco</i>			
1922	332,550,701	181,830,855	55
1923	418,271,043	251,166,199	60
1924	473,009,429	273,156,386	58
1925	482,085,557	312,186,034	65
1926	558,706,380	327,177,875	59
5-year total	2,264,623,110	1,345,517,349	59
<i>D-2. Textiles and textile products</i>			
1922	476,330,521	198,157,261	42
1923	511,906,904	218,528,922	43
1924	148,240,037	182,950,416	123
1925	317,387,885	186,156,837	59
1926	139,085,235	185,259,611	133
5-year total	1,592,950,582	971,053,047	61
<i>D-3. Leather and leather products</i>			
1922	66,441,728	23,458,735	35
1923	39,027,839	36,165,904	93
1924	41,885,420	30,307,686	72
1925	49,430,449	38,758,333	78
1926	48,895,330	33,299,716	68
5-year total	245,680,766	161,990,374	66

Relation of cash dividends distributed to net profits corporations reporting net income and those reporting no net income by industries and by years—Continued

Year	Net profits	Cash dividends distributed	Net profits distributed
<i>D-4. Rubber and rubber goods</i>			
1922	\$18,579,311	\$11,172,492	60
1923	25,876,943	15,681,622	61
1924	42,834,293	16,009,289	37
1925	131,953,918	33,063,287	25
1926	49,245,571	41,342,876	84
5-year total	268,490,036	117,269,566	44
<i>D-5. Lumber and wood products</i>			
1922	167,494,066	86,598,875	52
1923	278,766,477	127,899,768	46
1924	132,344,026	105,173,349	79
1925	159,639,281	119,730,677	75
1926	116,810,166	124,290,906	106
5-year total	855,054,016	563,693,575	66
<i>D-6. Paper, pulp and products</i>			
1922	65,548,860	36,880,207	56
1923	100,044,902	60,266,979	60
1924	78,427,392	39,196,545	50
1925	104,050,743	64,335,372	62
1926	116,172,455	56,232,237	48
5-year total	464,244,352	256,911,340	55
<i>D-7. Printing and publishing</i>			
1922	170,951,717	72,980,702	43
1923	152,283,126	74,568,747	49
1924	168,318,745	80,981,379	48
1925	176,625,773	99,580,743	56
1926	202,809,887	121,923,189	60
5-year total	870,989,248	450,034,760	52
<i>D-8. Chemicals and allied substances</i>			
1922	488,362,545	296,511,901	61
1923	452,666,206	381,161,186	84
1924	500,828,416	342,244,221	68
1925	711,528,367	477,665,860	67
1926	927,180,894	544,316,700	59
5-year total	3,080,566,428	2,041,899,868	66
<i>D-9. Stone, clay, and glass products</i>			
1922	113,056,582	43,101,505	38
1923	178,186,561	59,829,607	34
1924	151,617,916	66,638,864	44
1925	169,209,086	79,073,157	47
1926	181,777,033	101,521,900	56
5-year total	793,847,178	350,165,033	44
<i>D-10. Metal and metal products</i>			
1922	693,326,178	394,111,754	57
1923	1,312,510,848	573,594,004	44
1924	1,167,292,616	658,784,177	56
1925	1,643,004,383	714,022,062	43
1926	1,709,524,083	889,852,317	52
5-year total	6,525,658,108	3,230,364,914	50
<i>D-11. Miscellaneous manufacturing industries</i>			
1922	325,051,659	160,072,249	49
1923	433,957,412	207,076,611	48
1924	174,197,868	87,535,992	50
1925	163,687,141	90,223,223	61
1926	174,387,085	119,028,585	68
5-year total	1,271,281,165	672,936,660	53

Relation of cash dividends distributed to net profits corporations reporting net income and those reporting no net income by industries and by years—Continued

Year	Net profits	Cash dividends distributed	Net profits distributed
<i>E. Construction</i>			
			<i>Per cent</i>
1922	\$46,439,971	\$37,577,344	81
1923	77,898,618	45,593,418	59
1924	97,936,584	37,984,831	39
1925	124,617,816	70,004,617	56
1926	124,167,944	55,296,998	45
5-year total	471,060,933	246,457,208	52
<i>F. Transportation and other public utilities</i>			
1922	1,063,410,152	649,701,113	61
1923	1,421,307,857	662,662,128	47
1924	1,440,250,875	925,007,570	64
1925	1,698,258,389	1,006,817,385	59
1926	2,077,908,513	1,276,685,380	61
5-year total	7,701,135,786	4,520,873,576	59
<i>G. Trade</i>			
1922	736,025,538	322,158,369	44
1923	882,655,109	393,902,947	40
1924	845,167,124	418,764,992	50
1925	1,045,425,895	506,373,789	48
1926	901,648,321	525,281,733	58
5-year total	4,510,921,987	2,166,481,830	48
<i>H. Public service, professional, amusements, hotels, etc.</i>			
1922	98,461,988	56,252,878	57
1923	140,165,376	76,915,729	55
1924	151,419,102	85,125,470	56
1925	191,811,212	107,851,777	56
1926	179,287,022	125,179,749	70
5-year total	761,144,700	451,325,603	59
<i>I. Finance, banking, insurance, real estate and holding companies, stock brokers, combinations, etc.</i>			
1922	993,043,419	615,627,353	62
1923	1,023,046,576	656,021,403	65
1924	1,186,463,606	705,718,068	60
1925	1,806,299,405	908,586,636	50
1926	1,620,059,425	978,594,055	60
5-year total	6,628,912,431	3,864,547,515	58
<i>J. Miscellaneous companies not classified</i>			
1922	-266,043	66,821	-----
1923	-802,870	15,132	-----
1924	-73,332	78,301	-----
1925	-1,947,900	4,500	-----
1926	-2,474,949	4,954,789	-----
5-year total	-5,565,094	5,119,543	-----

APPENDIX XIV

Percentage reduction in cash dividends distributed on account of the corporation income tax

[All corporations, both those reporting net income and those reporting no net income]

[NOTE.—It is assumed that if there had been no income tax, corporations would have distributed the amount deducted at the source as tax. This seems to be a fair assumption for purposes of discussion]

Year	Cash dividends	Income tax	Reduction in dividends by tax
<i>A. Aggregate of all industries</i>			<i>Per cent</i>
1922	\$3,436,715,104	\$783,776,268	19
1923	4,169,117,678	937,106,798	18
1924	4,338,822,858	881,549,546	17
1925	5,189,474,507	1,170,331,206	18
1926	5,945,292,657	1,229,797,243	17
5-year total	23,079,422,804	5,002,561,061	18
<i>B. Agriculture</i>			
1922	27,402,854	6,622,011	19
1923	27,504,320	9,790,743	26
1924	27,864,441	6,732,877	19
1925	30,898,225	8,603,812	22
1926	32,332,726	8,175,458	20
5-year total	146,002,566	39,924,901	21
<i>C. Mining and quarrying</i>			
1922	223,051,836	31,399,593	12
1923	300,562,452	30,777,039	9
1924	255,300,881	28,389,340	10
1925	335,141,993	55,049,260	14
1926	402,721,315	57,307,996	12
5-year total	1,516,778,477	202,923,228	12
<i>C-1. Coal mining</i>			
1924	54,472,849	5,554,238	9
1925	45,631,317	5,587,086	11
1926	63,145,603	10,646,874	14
3-year total	163,249,769	21,788,198	12
<i>C-2. Metal mining</i>			
1924	36,774,845	3,216,521	8
1925	63,158,411	7,926,505	11
1926	101,968,407	11,387,364	10
3-year total	201,901,663	22,530,390	10
<i>C-3. Oil and gas</i>			
1924	112,862,255	10,673,772	9
1925	175,845,262	33,685,331	16
1926	168,298,874	24,848,525	13
3-year total	457,006,391	69,207,628	13
<i>C-4. Quarrying</i>			
1924	7,212,988	1,678,617	19
1925	16,410,563	4,794,827	23
1926	16,886,531	5,637,999	25
3-year total	40,510,082	12,111,443	23
<i>C-5. Miscellaneous mining</i>			
1924	43,977,944	7,266,192	14
1925	34,096,440	3,054,941	8
1926	52,421,900	4,787,234	8
3-year total	130,496,284	15,108,367	10
<i>D. Total manufacturing</i>			
1922	1,504,876,536	389,775,530	21
1923	2,005,940,149	484,863,656	19
1924	1,882,978,304	429,652,793	19
1925	2,223,795,585	546,740,987	20
1926	2,544,245,912	584,507,493	19
5-year total	10,161,836,486	2,435,540,459	19

Percentage reduction in cash dividends distributed on account of the corporation income tax—Continued

Year	Cash dividends	Income tax	Reduction in dividends by tax
<i>D-1. Food products, beverages, and tobacco</i>			
			<i>Per cent</i>
1922	\$181,830,855	\$50,666,679	22
1923	251,166,199	55,646,300	18
1924	273,156,386	63,376,159	19
1925	312,186,034	66,586,899	18
1926	327,177,875	77,147,310	19
5-year total	1,345,517,349	313,423,347	19
<i>D-2. Textiles and textile products</i>			
1922	198,157,261	62,499,593	24
1923	218,528,922	65,435,092	23
1924	182,950,416	37,650,962	17
1925	186,156,837	48,814,565	21
1926	185,259,611	39,829,341	18
5-year total	971,053,047	254,229,553	21
<i>D-3. Leather and leather products</i>			
1922	23,458,735	10,414,297	31
1923	36,165,904	8,247,672	19
1924	30,307,686	8,036,845	21
1925	38,758,333	9,168,527	19
1926	33,299,716	9,357,909	22
5-year total	161,990,374	45,225,250	22
<i>D-4. Rubber and rubber goods</i>			
1922	11,172,492	2,285,832	17
1923	15,681,622	2,839,675	15
1924	16,009,289	5,661,977	26
1925	33,063,287	15,411,932	32
1926	41,342,876	4,866,739	11
5-year total	117,269,566	31,066,155	21
<i>D-5. Lumber and wood products</i>			
1922	86,598,875	22,699,427	21
1923	127,899,768	33,457,215	21
1924	105,173,349	21,090,098	17
1925	119,730,677	24,667,289	17
1926	124,290,906	21,906,671	15
5-year total	563,693,575	123,820,700	18
<i>D-6. Paper, pulp and products</i>			
1922	36,880,207	9,481,228	20
1923	60,266,979	12,232,699	17
1924	39,196,545	10,674,546	21
1925	64,335,372	14,003,824	18
1926	56,232,237	15,610,141	22
5-year total	256,911,340	62,002,438	19
<i>D-7. Printing and publishing</i>			
1922	72,980,702	21,744,873	23
1923	74,568,747	19,428,950	21
1924	80,981,379	20,802,013	20
1925	99,580,743	23,375,358	19
1926	121,923,189	25,857,691	17
5-year total	450,034,760	111,208,885	20
<i>D-8. Chemicals and allied substances</i>			
1922	296,511,901	54,056,120	15
1923	381,161,186	49,426,373	11
1924	342,244,221	56,649,624	14
1925	477,665,860	78,393,092	14
1926	544,316,700	102,963,663	16
5-year total	2,041,899,868	341,488,872	14
<i>D-9. Stone, clay, and glass products</i>			
1922	43,101,505	14,937,925	26
1923	59,829,607	22,113,441	27
1924	66,638,864	19,151,889	22
1925	79,073,157	22,852,708	22
1926	101,521,900	25,542,126	20
5-year total	350,165,033	104,598,089	23

Percentage reduction in cash dividends distributed on account of the corporation income tax—Continued

Year	Cash dividends	Income tax	Reduction in dividends by tax
<i>D-10. Metal and metal products</i>			
			<i>Per cent</i>
1922.....	\$394, 111, 754	\$98, 760, 109	20
1923.....	573, 594, 604	160, 770, 716	22
1924.....	658, 784, 177	162, 978, 504	20
1925.....	714, 022, 062	221, 972, 624	24
1926.....	889, 852, 317	237, 077, 170	21
5-year total.....	3, 230, 364, 914	881, 559, 123	21
<i>D-11. Miscellaneous manufacturing industry</i>			
1922.....	160, 072, 249	42, 229, 447	21
1923.....	207, 076, 611	55, 265, 523	21
1924.....	87, 535, 992	23, 580, 176	21
1925.....	99, 223, 223	21, 494, 169	18
1926.....	119, 028, 585	24, 348, 732	17
5-year total.....	672, 936, 660	166, 918, 047	20
<i>E. Construction</i>			
1922.....	37, 577, 344	9, 652, 388	20
1923.....	45, 593, 418	11, 438, 833	20
1924.....	37, 984, 831	13, 911, 675	27
1925.....	70, 004, 617	17, 580, 920	20
1926.....	55, 296, 998	19, 146, 036	26
5-year total.....	246, 457, 208	71, 729, 852	23
<i>F. Transportation and other public utilities</i>			
1922.....	649, 701, 113	119, 480, 757	16
1923.....	662, 662, 128	150, 998, 913	19
1924.....	925, 007, 570	148, 278, 140	14
1925.....	1, 006, 817, 385	186, 313, 840	16
1926.....	1, 276, 685, 380	228, 662, 641	15
5-year total.....	4, 520, 873, 576	833, 734, 291	16
<i>G. Trade</i>			
1922.....	322, 158, 369	107, 041, 608	25
1923.....	393, 902, 947	128, 536, 444	25
1924.....	418, 764, 992	120, 648, 795	22
1925.....	506, 373, 789	145, 349, 645	22
1926.....	525, 281, 733	140, 522, 646	21
5-year total.....	2, 166, 481, 830	642, 099, 138	23
<i>H. Public service, professional, amusements, hotels, etc.</i>			
1922.....	56, 252, 878	16, 262, 319	22
1923.....	76, 915, 729	20, 376, 820	21
1924.....	85, 125, 470	22, 130, 913	21
1925.....	107, 851, 777	28, 466, 993	21
1926.....	125, 179, 749	31, 040, 096	20
5-year total.....	451, 325, 603	118, 277, 150	21
<i>I. Finance, banking, insurance, real estate, and holding companies, stockbrokers</i>			
1922.....	615, 627, 353	103, 542, 062	14
1923.....	656, 021, 403	100, 324, 341	13
1924.....	705, 718, 068	111, 805, 013	14
1925.....	908, 586, 636	182, 225, 749	17
1926.....	978, 594, 055	160, 214, 776	14
5-year total.....	3, 864, 547, 515	658, 111, 941	15
<i>J. Miscellaneous companies not classified</i>			
1922.....	66, 821	-----	-----
1923.....	15, 132	-----	-----
1924.....	78, 301	-----	-----
1925.....	4, 500	-----	-----
1926.....	4, 954, 789	220, 101	-----
5-year total.....	5, 119, 543	220, 101	-----

APPENDIX XV

Relation of cash dividends to net profits of corporations reporting net income by industries and by years

(NOTE.—Net profits equal net income plus dividends received plus tax exempt interest)

Year	Net profits	Cash dividends distributed	Profits distributed
<i>A. Aggregate of all industries</i>			
1922	\$7,893,460,889	\$3,182,869,985	<i>Per cent</i> 40
1923	9,328,703,239	3,820,619,642	41
1924	8,692,153,052	3,994,990,754	46
1925	10,962,836,148	4,817,301,320	44
1926	11,314,853,631	5,530,210,586	49
5-year total	48,192,006,959	21,345,992,287	44
<i>B. Agriculture</i>			
1922	66,120,769	25,474,107	39
1923	94,563,625	24,589,425	26
1924	67,304,738	24,769,442	37
1925	79,942,752	26,731,485	33
1926	74,839,956	29,110,844	39
5-year total	382,771,840	130,675,303	34
<i>C. Mining and quarrying</i>			
1922	319,074,644	190,156,775	60
1923	320,093,701	225,268,432	70
1924	266,126,080	197,352,308	74
1925	514,472,241	304,681,577	59
1926	520,180,315	365,293,421	70
5-year total	1,939,946,981	1,282,752,513	66
<i>C-1. Coal mining</i>			
1924	50,439,740	38,403,258	76
1925	54,589,614	37,093,655	68
1926	105,403,234	57,346,184	54
3-year total	210,432,588	132,843,097	63
<i>C-2. Metal mining</i>			
1924	33,314,828	27,945,442	84
1925	73,345,024	48,358,543	66
1926	103,619,353	91,425,833	88
3-year total	210,279,205	167,729,818	80
<i>C-3. Oil and gas</i>			
1924	103,252,214	87,544,429	85
1925	308,998,663	170,838,189	55
1926	218,645,771	157,646,040	72
3-year total	630,896,648	416,028,658	66
<i>C-4. Quarrying</i>			
1924	14,830,893	7,037,715	47
1925	40,046,612	15,607,502	39
1926	46,215,480	16,617,460	36
3-year total	101,092,985	39,262,677	39
<i>C-5. Miscellaneous mining</i>			
1924	64,288,405	36,421,464	57
1925	37,492,328	32,783,688	87
1926	46,296,477	42,257,904	91
3-year total	148,077,210	111,463,056	75
<i>D. Total manufacturing</i>			
1922	3,703,217,489	1,425,630,591	38
1923	4,579,510,197	1,911,560,202	42
1924	3,867,253,971	1,779,124,702	46
1925	4,773,986,260	2,139,222,591	45
1926	4,963,087,639	2,432,981,459	49
5-year total	21,887,055,556	9,688,519,545	44

Relation of cash dividends to net profits of corporations reporting net income by industries and by years—Continued

Year	Net profits	Cash dividends distributed	Profits distributed
			<i>Per cent</i>
<i>D-1. Food products, beverages, and tobacco</i>			
1922.....	\$477, 272, 695	\$172, 188, 314	36
1923.....	540, 696, 828	242, 597, 986	45
1924.....	565, 728, 130	263, 809, 946	47
1925.....	571, 889, 806	297, 424, 857	52
1926.....	647, 874, 018	314, 446, 088	49
5-year total.....	2, 803, 461, 477	1, 290, 467, 191	46
<i>D-2. Textiles and textile products</i>			
1922.....	549, 380, 668	191, 103, 215	35
1923.....	581, 483, 919	205, 039, 340	35
1924.....	328, 738, 355	142, 713, 790	43
1925.....	429, 495, 378	169, 306, 552	39
1926.....	331, 152, 267	155, 983, 141	47
5-year total.....	2, 220, 250, 587	864, 146, 038	39
<i>D-3. Leather and leather products</i>			
1922.....	90, 618, 801	21, 689, 916	24
1923.....	74, 001, 252	32, 623, 523	44
1924.....	72, 670, 509	27, 327, 485	38
1925.....	77, 524, 077	25, 923, 756	33
1926.....	75, 347, 739	29, 806, 776	40
5-year total.....	390, 162, 378	137, 371, 456	35
<i>D-4. Rubber and rubber goods</i>			
1922.....	42, 659, 391	8, 193, 673	19
1923.....	47, 139, 761	13, 969, 136	30
1924.....	58, 127, 260	15, 279, 996	26
1925.....	145, 880, 385	32, 697, 645	22
1926.....	78, 870, 725	33, 138, 406	42
5-year total.....	372, 677, 522	103, 278, 856	28
<i>D-5. Lumber and wood products</i>			
1922.....	214, 610, 368	80, 625, 178	38
1923.....	310, 904, 791	124, 428, 455	40
1924.....	188, 094, 344	95, 955, 079	51
1925.....	210, 097, 909	112, 691, 908	54
1926.....	183, 072, 490	113, 119, 702	62
5-year total.....	1, 106, 779, 902	526, 820, 322	48
<i>D-6. Paper, pulp, and products</i>			
1922.....	87, 082, 575	34, 834, 558	40
1923.....	114, 439, 718	58, 731, 711	51
1924.....	96, 323, 229	37, 822, 960	39
1925.....	115, 876, 602	61, 811, 559	53
1926.....	129, 344, 230	54, 800, 423	42
5-year total.....	543, 066, 354	248, 001, 220	46
<i>D-7. Printing and publishing</i>			
1922.....	190, 933, 586	71, 117, 327	37
1923.....	174, 926, 444	72, 638, 790	42
1924.....	195, 176, 402	79, 623, 135	41
1925.....	205, 033, 277	98, 103, 123	48
1926.....	227, 036, 049	115, 306, 176	51
5-year total.....	993, 105, 758	436, 788, 551	44
<i>D-8. Chemicals and allied substances</i>			
1922.....	553, 107, 945	292, 065, 677	53
1923.....	544, 348, 906	342, 474, 589	68
1924.....	575, 040, 289	335, 972, 073	53
1925.....	792, 096, 884	472, 030, 899	60
1926.....	977, 605, 180	529, 661, 603	54
5-year total.....	3, 442, 199, 204	1, 972, 204, 841	57
<i>D-9. Stone, clay, and glass products</i>			
1922.....	129, 429, 290	41, 349, 491	32
1923.....	192, 336, 000	56, 332, 810	29
1924.....	169, 285, 395	63, 009, 376	37
1925.....	156, 902, 573	77, 077, 687	41
1926.....	203, 600, 536	99, 775, 132	49
5-year total.....	881, 553, 794	337, 544, 496	38

Relation of cash dividends to net profits of corporations reporting net income by industries and by years—Continued

Year	Net profits	Cash dividends distributed	Profits distributed
<i>D-10. Metals and metal products</i>			
1922	\$957, 425, 123	\$358, 192, 920	<i>Per cent</i> 37
1923	1, 487, 873, 254	561, 198, 842	38
1924	1, 407, 265, 218	634, 871, 940	45
1925	1, 839, 162, 142	695, 727, 284	38
1926	1, 895, 912, 900	872, 039, 082	46
5-year total	7, 587, 638, 637	3, 122, 030, 068	41
<i>D-11. Miscellaneous manufacturing industries</i>			
1922	410, 697, 047	154, 270, 322	38
1923	511, 359, 324	201, 525, 020	39
1924	210, 804, 840	82, 738, 913	39
1925	200, 027, 227	96, 427, 321	48
1926	218, 271, 505	114, 904, 930	53
5-year total	1, 551, 159, 943	649, 866, 506	42
<i>E. Construction</i>			
1922	97, 489, 012	30, 433, 312	31
1923	118, 762, 446	41, 287, 632	35
1924	138, 726, 892	34, 289, 210	25
1925	164, 784, 576	56, 509, 083	34
1926	175, 831, 360	51, 498, 507	29
5-year total	695, 594, 286	214, 017, 694	31
<i>F. Transportation and other public utilities</i>			
1922	1, 223, 483, 693	629, 205, 423	51
1923	1, 528, 566, 134	640, 921, 068	42
1924	1, 542, 743, 156	887, 452, 955	58
1925	1, 789, 466, 508	950, 601, 602	53
1926	2, 157, 975, 760	1, 203, 530, 672	56
5-year total	8, 242, 235, 251	4, 311, 711, 720	52
<i>G. Trade</i>			
1922	1, 044, 109, 775	298, 165, 896	29
1923	1, 241, 651, 306	378, 570, 410	30
1924	1, 133, 858, 417	393, 631, 998	35
1925	1, 322, 906, 173	472, 621, 013	36
1926	1, 219, 548, 035	487, 771, 854	40
5-year total	5, 962, 073, 711	2, 030, 761, 171	34
<i>H. Public service, professional, amusements, hotels, etc.</i>			
1922	156, 499, 508	53, 304, 345	34
1923	197, 011, 767	74, 020, 800	38
1924	215, 056, 200	80, 385, 240	37
1925	261, 862, 524	100, 280, 180	38
1926	279, 656, 545	118, 343, 238	42
5-year total	1, 110, 086, 544	426, 333, 803	38
<i>I. Finance, banking, insurance, real estate, holding companies, stock brokers, combinations, etc.</i>			
1922	1, 283, 462, 660	530, 499, 536	41
1923	1, 248, 544, 063	524, 401, 673	42
1924	1, 461, 083, 598	597, 983, 801	41
1925	2, 055, 415, 109	766, 653, 839	37
1926	1, 920, 495, 971	839, 776, 540	44
5-year total	7, 969, 001, 401	3, 259, 315, 389	41
<i>J. Miscellaneous companies not classified</i>			
1922	3, 339		
1923			
1924		1, 098	
1925			
1926	3, 238, 050	1, 904, 051	59
5-year total	3, 241, 389	1, 905, 149	59

APPENDIX XVI

Percentage reduction in cash dividends distributed on account of the corporation income tax (corporations reporting net income only)

[NOTE.—It is assumed that if there had been no income tax, corporations would have distributed the amount deducted at the source as tax. This seems a fair assumption for purposes of discussion]

Year	Cash dividends	Income tax	Reduction in dividends by tax
<i>A. Aggregate of all industries</i>			<i>Per cent</i>
1922	\$3, 182, 869, 985	\$783, 776, 268	20
1923	3, 820, 619, 642	937, 106, 798	20
1924	3, 994, 990, 754	881, 549, 546	18
1925	4, 817, 301, 320	1, 170, 331, 206	20
1926	5, 530, 210, 586	1, 229, 797, 243	18
5-year total	21, 315, 992, 287	5, 002, 561, 061	19
<i>B. Agriculture</i>			
1922	25, 474, 107	6, 622, 011	21
1923	24, 589, 425	9, 790, 743	28
1924	24, 769, 442	6, 732, 877	21
1925	26, 731, 485	8, 603, 812	24
1926	29, 110, 844	8, 175, 458	22
5-year total	130, 675, 303	39, 924, 901	21
<i>C. Mining and quarrying</i>			
1922	190, 156, 775	31, 399, 593	14
1923	225, 268, 432	30, 777, 039	12
1924	197, 352, 308	28, 389, 340	13
1925	304, 681, 577	55, 049, 260	15
1926	365, 293, 421	57, 307, 996	14
5 year total	1, 282, 752, 513	202, 923, 228	14
<i>C-1. Coal mining</i>			
1924	38, 403, 258	5, 554, 238	13
1925	37, 093, 655	5, 587, 086	13
1926	57, 346, 184	10, 646, 874	16
3-year total	132, 843, 097	21, 788, 198	14
<i>C-2. Metal mining</i>			
1924	27, 945, 442	3, 216, 521	10
1925	48, 358, 543	7, 926, 505	14
1926	91, 425, 833	11, 387, 364	11
3-year total	167, 729, 818	22, 530, 390	12
<i>C-3. Oil and gas</i>			
1924	87, 544, 429	10, 673, 772	11
1925	170, 838, 189	33, 685, 331	16
1926	157, 646, 040	24, 848, 525	14
3-year total	416, 028, 658	69, 207, 628	14
<i>C-4. Quarrying</i>			
1924	7, 037, 715	1, 678, 617	19
1925	15, 607, 502	4, 794, 827	24
1926	16, 617, 460	5, 637, 999	25
3-year total	39, 262, 677	12, 111, 443	23
<i>C-5. Miscellaneous mining</i>			
1924	36, 421, 464	7, 266, 192	17
1925	32, 783, 688	3, 054, 941	9
1926	42, 257, 904	4, 787, 234	10
3-year total	111, 463, 056	15, 108, 367	12
<i>D. Total manufacturing</i>			
1922	1, 425, 630, 591	339, 775, 530	21
1923	1, 911, 560, 202	484, 863, 656	20
1924	1, 779, 124, 702	429, 652, 793	19
1925	2, 139, 222, 591	546, 740, 987	20
1926	2, 432, 981, 459	584, 507, 493	19
5-year total	9, 688, 519, 545	2, 435, 540, 459	20

Percentage reduction in cash dividends distributed on account of the corporation income tax (corporations reporting net income only)—Continued

Year	Cash dividends	Income tax	Reduction in dividends by tax
<i>D-1. Food products, beverages and tobacco</i>			
			<i>Per cent</i>
1922.....	\$172, 188, 314	\$50, 666, 679	23
1923.....	242, 597, 986	55, 646, 300	19
1924.....	263, 809, 946	63, 376, 159	19
1925.....	297, 424, 857	66, 586, 899	18
1926.....	314, 446, 088	77, 147, 310	20
5-year total.....	1, 290, 467, 191	313, 423, 347	20
<i>D-2. Textiles and textile products</i>			
1922.....	191, 103, 215	62, 499, 593	25
1923.....	205, 039, 340	65, 435, 092	24
1924.....	142, 713, 790	37, 650, 962	21
1925.....	169, 306, 552	48, 814, 565	22
1926.....	155, 983, 141	39, 829, 341	20
5-year total.....	864, 146, 038	254, 229, 553	23
<i>D-3. Leather and leather products</i>			
1922.....	21, 689, 916	10, 414, 297	32
1923.....	32, 623, 523	8, 247, 672	20
1924.....	27, 327, 485	8, 036, 845	23
1925.....	25, 923, 756	9, 168, 527	26
1926.....	29, 806, 776	9, 357, 909	24
5-year total.....	137, 371, 456	45, 225, 250	25
<i>D-4. Rubber and rubber goods</i>			
1922.....	8, 193, 673	2, 285, 832	22
1923.....	13, 969, 136	2, 839, 675	17
1924.....	15, 279, 996	5, 661, 977	27
1925.....	32, 697, 645	15, 411, 932	32
1926.....	33, 138, 406	4, 866, 739	13
5-year total.....	103, 278, 856	31, 066, 155	23
<i>D-5. Lumber and wood products</i>			
1922.....	80, 625, 178	22, 699, 427	22
1923.....	124, 428, 455	33, 457, 215	21
1924.....	95, 955, 079	21, 090, 098	18
1925.....	112, 691, 908	24, 667, 289	18
1926.....	113, 119, 702	21, 906, 671	16
5-year total.....	526, 820, 322	123, 820, 700	19
<i>D-6. Paper, pulp, and products</i>			
1922.....	34, 834, 558	9, 481, 228	21
1923.....	58, 731, 711	12, 232, 699	17
1924.....	37, 822, 969	10, 674, 546	22
1925.....	61, 811, 559	14, 003, 824	18
1926.....	54, 800, 423	15, 610, 141	22
5-year total.....	248, 001, 220	62, 002, 438	20
<i>D-7. Printing and publishing</i>			
1922.....	71, 117, 327	21, 744, 873	23
1923.....	72, 638, 790	19, 428, 950	21
1924.....	79, 623, 135	20, 802, 013	21
1925.....	98, 103, 123	23, 375, 358	19
1926.....	115, 306, 176	25, 857, 691	18
5-year total.....	436, 788, 551	111, 208, 885	20
<i>D-8. Chemicals and allied substances</i>			
1922.....	292, 065, 671	54, 056, 120	16
1923.....	342, 474, 589	49, 426, 373	13
1924.....	335, 972, 073	56, 649, 624	14
1925.....	472, 030, 899	78, 393, 092	14
1926.....	529, 661, 603	102, 963, 663	16
5-year total.....	1, 972, 204, 841	341, 488, 872	15

Percentage reduction in cash dividends distributed on account of the corporation income tax (corporations reporting net income only)—Continued

Year	Cash dividends	Income tax	Reduction in dividends by tax
<i>D-9. Stone, clay, and glass products</i>			
1922	\$41,349,491	\$14,937,925	<i>Per cent</i> 27
1923	56,332,810	22,113,441	20
1924	63,009,376	19,151,889	23
1925	77,077,687	22,852,708	23
1926	99,775,132	25,542,126	20
5-year total	337,544,496	104,598,089	24
<i>D-10. Metals and metal products</i>			
1922	358,192,920	98,760,109	22
1923	561,198,842	160,770,716	22
1924	634,871,940	162,978,504	20
1925	695,727,284	221,972,624	24
1926	872,039,082	237,077,170	21
5-year total	3,122,030,068	881,559,123	22
<i>D-11. Miscellaneous manufacturing industries</i>			
1922	154,270,322	42,229,447	21
1923	201,525,020	55,265,523	22
1924	82,738,913	23,580,176	22
1925	96,427,321	21,494,169	18
1926	114,904,930	24,248,732	17
5-year total	649,866,506	166,918,047	20
<i>E. Construction</i>			
1922	30,433,312	9,652,388	24
1923	41,287,632	11,438,833	22
1924	34,289,210	13,911,675	29
1925	56,509,033	17,580,920	24
1926	51,498,507	19,146,036	27
5-year total	214,017,694	71,729,852	25
<i>F. Transportation and other public utilities</i>			
1922	629,205,423	119,480,757	16
1923	640,921,068	150,998,913	19
1924	887,452,955	148,278,140	14
1925	950,601,602	186,313,840	16
1926	1,203,530,672	228,662,641	16
5-year total	4,311,711,720	833,734,291	16
<i>G. Trade</i>			
1922	298,165,896	107,041,608	26
1923	378,570,410	128,536,444	25
1924	393,631,998	120,648,795	23
1925	472,621,013	145,349,645	24
1926	487,771,854	140,522,646	22
5-year total	2,030,761,171	642,099,138	24
<i>H. Public service, professional, amusements, hotels, etc.</i>			
1922	53,304,345	16,262,319	23
1923	74,020,800	20,376,829	22
1924	80,385,240	22,130,913	22
1925	100,280,150	28,466,993	22
1926	118,343,238	31,040,096	21
5-year total	426,333,803	118,277,150	22
<i>I. Finance, banking, real estate and holding companies, stock-brokers, etc.</i>			
1922	530,499,536	103,542,062	16
1923	524,401,673	100,324,341	16
1924	597,983,801	111,805,013	16
1925	766,653,839	182,225,749	19
1926	839,776,540	160,214,776	16
5-year total	3,259,315,389	656,111,941	17
<i>J. Miscellaneous companies not classified</i>			
1922			
1923			
1924	1,098		
1925			
1926	1,904,051	220,101	10
5-year total	1,905,149	220,101	20

APPENDIX XVII

Relation of cash dividends to net profits of corporations reporting net income by industries and by years

Classification	Per cent of net profits distributed		
	1924	1925	1926
A. Total of all industries.....	46	44	49
B. Agriculture.....	37	33	39
C. Mining and quarrying (total).....	74	59	70
C-1. Coal mining.....	76	68	54
C-2. Metal mining.....	84	66	88
C-3. Oil and gas.....	85	55	72
C-4. Quarrying.....	47	39	36
C-5. Mining and quarrying miscellaneous.....	57	87	91
D. Manufacturing (total).....	46	45	49
D-1. Food products, beverages and tobacco.....	47	52	49
D-2. Textiles and textile products.....	43	39	47
D-3. Leather and leather products.....	38	33	40
D-4. Rubber and rubber goods.....	26	22	42
D-5. Lumber and wood products.....	51	54	62
D-6. Paper, pulp and products.....	39	53	42
D-7. Printing and publishing.....	41	48	51
D-8. Chemicals and allied substances.....	58	60	54
D-9. Stone, clay and glass products.....	37	41	49
D-10. Metal products.....	45	38	46
D-11. Miscellaneous manufacturing.....	39	48	53
E. Construction.....	25	34	29
F. Transportation and other public utilities.....	58	53	56
G. Trade.....	35	36	40
H. Services, professional, amusements, etc.....	37	38	42
I. Finance, banking, real estate, stock brokers.....	41	37	44
J. Miscellaneous (not classified).....	-----	-----	59

APPENDIX XVIII

Percentage reduction in cash dividends distributed on account of the corporation income tax (corporations reporting net income only)

Classification	Per cent reduction in dividends by tax		
	1924	1925	1926
A. Total of all industries.....	18	20	18
B. Agriculture.....	21	24	22
C. Mining and quarrying (total).....	13	15	14
C-1. Coal mining.....	13	13	16
C-2. Metal mining.....	10	14	11
C-3. Oil and gas.....	11	16	14
C-4. Quarrying.....	19	24	25
C-5. Mining and quarrying miscellaneous.....	17	9	10
D. Manufacturing (total).....	19	20	19
D-1. Food products, beverages, and tobacco.....	19	18	20
D-2. Textiles and textile products.....	21	22	20
D-3. Leather and leather products.....	23	26	24
D-4. Rubber and rubber goods.....	27	32	13
D-5. Lumber and wood products.....	18	18	16
D-6. Paper, pulp, and products.....	22	18	22
D-7. Printing and publishing.....	21	19	18
D-8. Chemicals and allied substances.....	14	14	16
D-9. Stone, clay, and glass products.....	23	23	20
D-10. Metal products.....	20	24	21
D-11. Miscellaneous manufacturing.....	22	18	17
E. Construction.....	29	24	27
F. Transportation and other public utilities.....	14	16	16
G. Trade.....	23	24	22
H. Services, professional, amusements, etc.....	22	22	21
I. Finance, banking, real estate, stock brokers.....	16	19	16
J. Miscellaneous (not classified).....	-----	-----	10

APPENDIX XIX

Analysis of 1924 returns—Corporations reporting net income only—Relation of depletion to net income before depletion

Classification	Net income before depletion	Depletion	Per cent depletion to net income before depletion
A. Aggregate of all industries.....	\$7,888,425,207	\$301,772,915	3.8
B. Agriculture.....	70,991,447	6,761,637	9.5
C. Mining and quarrying (total).....	412,465,358	172,323,428	41.8
C-1. Coal mining.....	57,506,494	11,489,275	20.0
C-2. Metal mining (subtotal).....	59,994,698	33,007,523	55.0
C-2a. Copper mining.....	35,077,279	22,529,386	64.2
C-2b. Iron mining.....	3,751,275	2,910,287	77.6
C-2c. Lead and zinc mining.....	12,671,093	4,579,219	36.1
C-2d. Gold, silver, etc.....	8,495,051	2,988,631	35.2
C-3. Oil and gas.....	195,685,834	104,043,716	53.1
C-4. Quarrying.....	15,075,132	898,549	6.0
C-5. Miscellaneous mining (subtotal).....	84,203,200	22,884,365	27.2
C-5a. Clay, sand, and gravel.....	13,513,369	984,182	7.3
C-5b. All other mining.....	70,689,831	21,900,183	31.0
D. Manufacturing (total).....	3,692,649,555	96,974,667	2.6
D-1. Food products, beverages, and tobacco.....	537,270,954	418,533	.08
D-2. Textiles and textile products.....	316,957,318	29,539	.009
D-3. Leather and leather products.....	70,328,817	9,309	.01
D-4. Rubber and rubber goods.....	56,900,060		
D-5. Lumber and wood products.....	213,480,981	34,611,585	16.2
D-6. Paper, pulp, and products.....	272,981,182	1,437,493	.53
D-7. Printing and publishing.....	176,044,919	72,859	.04
D-8. Chemicals and allied substances.....	504,734,316	38,550,252	7.6
D-9. Stone, clay, and glass products.....	164,142,089	1,738,783	1.1
D-10. Metals and metal products.....	1,360,334,113	19,736,860	1.5
D-11. Miscellaneous manufacturing industries.....	198,344,702	369,454	.19
E. Construction.....	132,929,438	225,220	.17
F. Transportation and other public utilities.....	1,246,582,329	14,570,123	1.17
G. Trade.....	1,100,064,323	1,478,750	.13
H. Public service, professional, amusements, hotels, etc.....	202,379,774	214,739	.11
I. Finance, banking, insurance, combinations, etc.....	1,030,362,978	9,224,346	.90

APPENDIX XX

Analysis of 1925 returns—Corporations reporting net income only—Relation of depletion to net income before depletion

Classification	Net income before depletion	Depletion	Per cent depletion to net income before depletion
A. Aggregate of all industries.....	\$9,959,306,116	\$375,622,419	3.8
B. Agriculture.....	84,652,338	7,790,386	9.2
C. Mining and quarrying (total).....	672,835,026	219,235,282	32.6
C-1. Coal mining.....	56,158,139	7,619,860	13.55
C-2. Metal mining (subtotal).....	106,586,928	42,918,515	40.2
C-3. Oil and gas.....	430,710,349	153,948,242	35.7
C-4. Quarrying.....	40,048,205	1,371,146	3.4
C-5. Miscellaneous mining (subtotal).....	39,331,405	13,377,519	34.0
D. Manufacturing (total).....	4,506,731,512	123,374,163	2.7
D-1. Food products, beverages and tobacco.....	534,289,228	816,984	.15
D-2. Textiles and textile products.....	420,456,671	7,341,860	1.8
D-3. Leather and leather products.....	76,043,147	20,114	.03
D-4. Rubber and rubber goods.....	122,969,052	3,199	.003
D-5. Lumber and wood products.....	233,354,005	33,037,907	14.1
D-6. Paper, pulp and products.....	112,020,140	833,970	.74
D-7. Printing and publishing.....	191,604,476	695,524	.36
D-8. Chemicals and allied substances.....	681,981,187	58,703,716	8.6
D-9. Stone, clay and glass products.....	183,228,701	1,681,515	.92
D-10. Metals and metal products.....	1,776,261,997	19,508,860	1.10
D-11. Miscellaneous manufacturing industries.....	174,522,908	730,514	.42
E. Construction.....	156,982,544	491,836	.31
F. Transportation and other public utilities.....	1,475,959,470	7,266,696	.49
G. Trade.....	1,260,443,501	6,397,505	.51
H. Public service, professional, amusements, hotels, etc.....	246,562,656	136,421	.06
I. Finance, banking, insurance, combinations, etc.....	1,555,139,069	10,930,130	.70

APPENDIX XXI

Analysis of 1926 returns—Corporations reporting net income only—Relation of depletion to net income before depletion

Classification	Net income before depletion	Depletion	Per cent depletion to net income before depletion
A. Aggregate of all industries.....	\$10, 138, 109, 803	\$464, 706, 914	4.6
B. Agriculture.....	77, 445, 463	6, 633, 892	8.6
C. Mining and quarrying (total).....	665, 079, 122	209, 280, 836	31.5
C-1. Coal mining.....	109, 954, 079	17, 304, 112	15.7
C-2. Metal mining (subtotal).....	143, 913, 734	55, 124, 019	38.3
C-3. Oil and gas.....	301, 058, 322	109, 998, 444	36.5
C-4. Quarrying.....	46, 935, 718	2, 588, 236	5.5
C-5. Miscellaneous mining (subtotal).....	63, 216, 825	24, 266, 025	38.4
D. Manufacturing (total).....	4, 712, 313, 328	217, 523, 222	4.6
D-1. Food products, beverages, and tobacco.....	592, 937, 538	497, 366	.08
D-2. Textiles and textile products.....	317, 792, 409	3, 143, 092	.99
D-3. Leather and leather products.....	73, 882, 857	24, 183	.03
D-4. Rubber and rubber goods.....	37, 558, 402	57, 425	.15
D-5. Lumber and wood products.....	212, 732, 613	39, 760, 681	18.7
D-6. Paper, pulp, and products.....	121, 205, 795	746, 184	.62
D-7. Printing and publishing.....	203, 588, 677	81, 708	.04
D-8. Chemicals and allied substances.....	929, 357, 050	144, 201, 894	15.5
D-9. Stone, clay, and glass products.....	197, 326, 347	2, 160, 063	1.1
D-10. Metals and metal products.....	1, 830, 063, 255	26, 619, 210	1.5
D-11. Miscellaneous manufacturing industries.....	195, 868, 385	231, 416	.12
E. Construction.....	162, 903, 239	534, 236	.21
F. Transportation and other public utilities.....	1, 746, 401, 449	23, 002, 828	1.3
G. Trade.....	1, 167, 203, 567	1, 646, 005	.14
H. Public service, professional, amusements, hotels, etc.....	261, 267, 294	286, 042	.11
I. Finance, banking, insurance, combinations, etc.....	1, 342, 873, 848	5, 981, 004	.45
J. Miscellaneous.....	2, 622, 493	18, 789	.72

APPENDIX XXII

Per cent of net profits distributed in cash dividends by industries 5-year period 1922-1926 (both corporations reporting net income and those reporting no net income)

[Note.—Net profits equal net income plus dividends received plus tax exempt interest]

Classification:	Per cent
A. Total of all industries.....	59
B. Agriculture and related industries.....	132
C. Mining and quarrying (total).....	187
D. Manufacturing (total).....	56
D-1. Food products, beverage, and tobacco.....	59
D-2. Textiles and textile products.....	61
D-3. Leather and leather products.....	66
D-4. Rubber and rubber goods.....	44
D-5. Lumber and wood products.....	66
D-6. Paper, pulp, and products.....	55
D-7. Printing and publishing.....	52
D-8. Chemicals and allied substances.....	66
D-9. Stone, clay, and glass products.....	44
D-10. Metal products.....	50
D-11. Miscellaneous manufacturing.....	53
E. Construction.....	52
F. Transportation and other public utilities.....	59
G. Trade.....	48
H. Service, professional, amusements, hotels.....	59
I. Finance, banking, real estate, stockbrokers.....	58

APPENDIX XXIII

Relation of tax to net income before depreciation and depletion (corporations reporting net income only)

Classification	1922	1923	1924	1925	1926
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
A. Aggregate of all industries	8.69	8.82	8.85	9.50	9.61
B. Agriculture	7.64	8.13	7.42	7.91	8.33
C. Mining and quarrying (total)	6.18	5.57	5.03	6.34	7.03
C-1. Coal mining	7.42	7.81	7.21	6.90	7.25
C-2. Metal mining (subtotal)	4.38	3.23	4.28	6.19	6.53
C-2a. Copper mining	.40	1.42	3.43		
C-2b. Iron mining	15.55	3.86	1.71		
C-2c. Lead and zinc mining	1.56	6.58	6.32		
C-2d. Gold, silver, etc.	5.66	6.53	6.06		
C-3. Oil and gas	4.94	3.50	3.67	5.99	6.97
C-4. Quarrying	8.68	8.19	8.35	8.91	8.46
C-5. Miscellaneous mining (subtotal)	5.48	5.94	7.21	6.98	6.76
C-5a. Clay, sand, and gravel	7.53	7.77	7.66		
C-5b. All other mining	5.24	5.48	7.11		
D. Manufacturing (total)	8.63	8.88	8.82	9.66	9.80
D-1. Food products, beverages, and tobacco	9.09	8.59	9.14	9.72	10.28
D-2. Textiles and textile products	9.72	9.67	9.32	9.17	9.85
D-3. Leather and leather products	10.36	9.90	9.79	10.28	10.85
D-4. Rubber and rubber goods	4.33	4.40	7.14	10.46	8.43
D-5. Lumber and wood products	7.46	8.05	7.92	8.52	8.16
D-6. Paper, pulp and products	8.17	8.16	8.10	9.28	9.34
D-7. Printing and publishing	10.02	9.72	9.74	10.00	10.37
D-8. Chemicals and allied substances	7.46	7.92	8.33	8.69	8.39
D-9. Stone, clay, and glass products	8.90	9.41	9.12	9.82	10.02
D-10. Metal products	8.37	8.93	9.42	10.16	10.46
D-11. Miscellaneous manufacturing	9.36	9.82	9.75	10.07	10.37
E. Construction	8.33	8.12	8.44	9.00	9.39
F. Transportation and other public utilities	8.80	8.88	8.73	9.27	9.60
G. Trade	9.33	9.50	9.54	10.01	10.32
H. Services, professional, amusements	7.74	8.02	7.98	8.76	6.86
I. Finance, banking, real estate, brokers, combinations	9.55	9.60	9.54	10.70	10.58

APPENDIX XXIV

War and excess profits tax rate on net income by industries (corporations reporting net income only)

Classification	1917	1918	1919	1920	1921
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
A. Aggregate of all industries	15.27	29.96	15.21	12.51	7.73
B. Agriculture	16.74	15.57	12.93	16.43	6.31
C. Mining and quarrying (total)	17.77	25.04	8.63	16.78	8.73
C-1. Coal mining		35.40	9.38	22.90	10.04
C-2. Metal mining (subtotal)		11.97	1.94	7.51	3.69
C-2a. Copper mining		5.93	0.07	0	.32
C-2b. Iron mining		24.23	7.63	10.35	.73
C-2c. Lead and zinc mining		21.76	1.71	5.88	.80
C-2d. Gold, silver, etc.		9.56	1.95	8.58	5.26
C-3. Oil and gas		25.15	10.69	10.92	8.91
C-4. Quarrying		19.48	11.49	7.92	6.99
C-5. Miscellaneous mining		19.66	5.51	10.97	6.13
C-5a. Clay, sand and gravel		16.56	8.60	13.20	8.79
C-5b. All other mining		19.77	5.40	10.80	5.55
D. Manufacturing (total)	18.55	37.81	18.09	14.79	11.29
D-1. Food products, beverages and tobacco		31.20	16.33	14.34	12.18
D-2. Textiles and textile products		45.02	22.21	18.79	12.09
D-3. Leather and leather products		27.31	23.28	16.37	12.19
D-4. Rubber and rubber goods		23.35	15.19	5.36	7.20
D-5. Lumber and wood products		23.50	15.52	16.61	7.35
D-6. Paper, pulp and products		29.66	14.99	22.28	8.12
D-7. Printing and publishing		17.97	16.52	17.79	13.90
D-8. Chemicals and allied substances		33.06	16.29	13.67	9.66
D-9. Stone, clay and glass products		30.81	14.59	16.42	8.62
D-10. Metals and metal products		42.01	17.59	12.59	12.29
D-11. Miscellaneous manufacturing industries		33.04	17.80	12.45	8.42
E. Construction	19.54	47.85	35.66	22.60	12.95
F. Transportation and other public utilities	4.64	8.58	4.34	2.75	2.94
G. Trade	17.30	27.56	17.57	13.48	8.82
H. Public service, professional, amusements, etc.	9.98	59.41	13.50	14.24	10.73
I. Finance, banking, insurance, combinations, etc.	4.34	14.69	6.94	5.69	2.75
J. Miscellaneous	2.91	0	8.90	10.93	

APPENDIX XXV-A

Summary of mining and quarrying industry by subclassifications, 1922

CORPORATIONS REPORTING NET INCOME

Industry	Num- ber of returns	Gross sales	Cost of goods	Profits from sales	Other profits	Interest received	Dividends received	Miscellane- ous income	Total gross income	Compensa- tion of officers
Clay, sand, and gravel.....	431	\$48,729,461	\$24,980,752	\$23,748,709	\$8,707,759	\$711,850	\$98,761	\$1,554,568	\$94,791,647	\$3,024,738
Copper mining.....	11	3,049,357	1,856,138	1,194,219	12,874,076	523,568	9,278,978	2,211,621	16,803,484	72,144
Coal mining.....	2,464	1,013,027,382	731,476,351	281,551,032	139,517,460	32,061,109	7,828,745	18,057,701	480,406,280	25,340,536
Oil and gas.....	901	287,315,711	196,693,811	90,611,900	47,830,501	7,201,953	8,816,768	4,816,768	158,300,367	2,837,295
Iron mining.....	40	49,094,495	36,071,821	13,022,674	6,376,022	902,939	68,655	321,008	20,691,298	199,629
Lead and zinc.....	45	97,989,900	83,004,761	14,985,139	3,838,844	1,091,457	17,328	9,206,348	29,139,116	562,770
Gold, silver, and other precious metals.....	76	24,448,798	13,386,473	11,062,325	14,244,244	838,460	494,528	320,169	26,959,726	334,015
Stone quarrying.....	269	77,531,631	45,456,210	32,075,421	4,364,220	872,320	429,999	551,900	38,283,860	2,396,762
All other mining.....	1,893	280,776,582	182,400,282	98,386,300	100,051,468	24,200,296	6,086,263	12,541,674	241,255,411	6,038,583
Total mining.....	6,130	1,881,963,318	1,315,325,599	566,637,719	337,804,594	68,403,862	24,273,257	49,581,757	1,046,701,189	40,816,472

Industry	Interest paid	Taxes paid	Depreciation amortization and deple- tion	Miscellaneous deductions	Total deduc- tions	Net taxable income	Prior year loss	Excess profit tax	Dividends paid	
									Cash	Stock
Clay, sand, and gravel.....	\$777,309	\$566,025	\$4,646,879	\$16,431,740	\$25,456,691	\$9,334,956	\$378,886	\$835	\$1,051,900	-----
Copper mining.....	265,057	570,861	5,264,755	10,211,786	16,384,603	418,881	230,231	22,778	230,231	-----
Coal mining.....	22,093,835	22,470,228	63,655,967	199,855,612	333,597,508	147,074,098	20,171,360	3,254	15,629,893	-----
Oil and gas.....	2,621,750	5,400,211	57,695,419	49,871,727	118,366,402	39,933,465	833,096	71,536	4,749,796	-----
Iron mining.....	1,405,523	4,387,354	5,241,195	6,926,860	18,160,561	2,530,737	1,533,574	-----	120,864	-----
Lead and zinc.....	464,179	1,454,061	9,669,387	5,007,249	17,157,646	11,981,470	2,149,807	-----	1,223,842	-----
Gold, silver, and other pre- cious metals.....	126,109	1,216,637	7,095,449	12,013,335	20,785,545	6,174,181	111,630	-----	751,474	-----
Stone quarrying.....	1,288,231	993,178	4,265,221	17,091,474	26,034,866	12,558,994	4,383,015	1,343	1,434,733	-----
All other mining.....	7,144,358	9,040,200	64,233,900	98,048,268	184,379,979	56,730,066	4,388,590	1,787	6,336,058	-----
Total mining.....	36,162,351	46,098,755	221,728,172	415,458,051	700,263,801	286,230,159	30,230,159	78,755	\$119,156,775	\$147,375,366

APPENDIX XXV-B

Summary of mining and quarrying industry, by subclassifications, 1922

CORPORATIONS REPORTING NO NET INCOME

Industry	Num-ber of returns	Gross sales	Cost of goods	Profits from sales	Other profits	Interest received	Dividends received	Miscella-neous income	Total gross income	Compen-sation of officers
Clay, sand, and gravel.....	362	\$11,834,802	\$7,392,792	\$4,442,010	\$966,980	\$117,013	\$7,500	\$232,088	\$5,765,591	\$1,021,387
Copper mining.....	99	214,406,393	174,664,286	39,742,107	20,651,479	2,946,783	2,941,996	4,315,014	70,597,379	1,525,190
Coal mining.....	1,646	210,158,905	170,293,233	39,865,672	22,330,592	3,354,784	808,593	7,076,773	75,466,414	7,490,217
Oil and gas.....	1,651	215,351,031	114,021,542	101,329,489	58,957,600	5,139,251	4,331,501	17,994,113	187,051,954	4,354,609
Iron mining.....	54	15,747,320	14,015,860	1,731,460	186,833	5,222,418	14,407	759,500	2,914,620	190,173
Lead and zinc.....	72	5,545,107	4,670,351	874,756	2,151,593	160,809	-----	439,193	3,646,261	117,270
Gold, silver, and other precious metals.....	291	47,835,793	43,100,656	4,735,137	6,078,361	608,172	141,192	1,497,724	13,060,586	2,284,157
Stone quarrying.....	227	13,744,043	12,904,583	2,834,510	722,602	132,690	2,703	423,834	4,116,339	734,886
All other mining.....	6,561	304,684,636	166,828,680	137,855,930	48,028,934	8,682,641	51,393,555	16,914,068	262,875,148	5,887,879
Total mining.....	10,963	1,041,308,119	707,866,933	333,441,091	160,074,886	23,364,561	59,641,447	48,972,307	625,494,292	23,605,768

Industry	Interest paid	Taxes paid	Depreciation, amortization, and depletion	Miscella-neous deductions	Deficit	Total deductions	Dividends paid	
							Cash	Stock
Clay, sand, and gravel.....	\$25,960	\$104,328	\$1,687,180	\$4,666,960	\$2,300,224	\$8,065,814	-----	-----
Copper mining.....	8,451,514	6,913,769	40,253,970	46,585,842	33,132,906	103,730,285	-----	-----
Coal mining.....	10,319,620	4,863,510	22,657,250	66,600,954	36,465,137	111,931,551	-----	-----
Oil and gas.....	7,823,328	8,132,124	122,165,742	134,425,178	89,849,027	276,901,831	-----	-----
Iron mining.....	449,490	698,062	1,210,930	2,477,133	5,025,788	5,025,788	-----	-----
Lead and zinc.....	358,813	96,536	1,414,856	3,478,733	2,111,168	5,466,208	-----	-----
Gold, silver, and other precious metals.....	1,184,845	587,191	9,031,858	13,606,774	13,634,239	26,094,825	-----	-----
Stone quarrying.....	600,171	242,166	1,184,315	4,160,524	2,805,723	6,922,062	-----	-----
All other mining.....	14,901,108	16,171,433	128,625,207	195,627,251	98,337,730	361,211,979	-----	-----
Total mining.....	44,614,849	37,869,119	328,231,308	471,629,349	280,456,101	905,950,393	\$32,895,061	\$17,061,634

APPENDIX XXVI-A

Summary of mining and quarrying industry, by subclassifications, 1923

CORPORATIONS REPORTING NO NET INCOME

Industry	Num- ber of returns	Gross sales	Cost of goods	Profits from sales	Other profits	Interest, rents and royalties	Dividends received	Miscella- neous in- come	Total gross income	Compensa- tion of officers	Interest paid
Clay, sand and gravel.....	526	\$77,317,332	\$41,378,372	\$35,938,372	\$10,738,305	\$944,883	\$106,637	\$1,292,516	\$94,021,301	\$3,778,622	\$1,121,305
Copper mining.....	24	112,185,126	53,367,748	58,817,378	40,165,196	2,147,799	1,671,369	2,163,410	104,965,152	536,541	4,582,393
Coal mining.....	1,391	1,051,252,861	776,128,520	275,104,341	172,543,547	26,833,479	6,138,603	24,242,725	504,862,695	16,101,315	21,165,271
Oil and gas.....	2,154	433,298,884	265,201,888	168,096,996	84,315,634	12,408,470	5,561,447	17,623,225	289,005,671	4,749,890	9,648,495
Iron mining.....	44	77,922,649	56,485,174	21,437,475	7,905,629	5,313,442	225,818	35,471,093	35,471,093	263,921	950,154
Lead and zinc.....	57	82,279,663	58,482,019	23,797,644	3,491,970	1,193,216	671,080	217,270	29,373,180	573,084	302,030
Gold, silver, and other precious metals.....	82	22,620,313	13,249,086	9,371,227	9,367,092	675,006	221,121	73,474,494	93,108,940	421,201	380,627
Stone quarrying.....	329	70,311,556	48,208,814	28,102,742	6,302,394	511,614	512,182	510,419	35,689,351	2,575,254	1,072,616
All other mining.....	595	122,731,325	66,604,829	55,126,496	55,945,669	19,650,060	10,348,403	14,547,188	1,545,396,266	3,882,181	2,301,074
Total mining.....	5,175	2,055,899,709	1,379,106,450	676,793,259	390,375,336	69,680,575	25,456,660	134,659,976	2,687,143,649	32,882,099	41,523,965

Industry	Taxes paid	Deprecia- tion, amor- tization and depletion	Miscella- neous deduc- tions	Total deduc- tions	Net taxable income	Prior year loss	Income tax	Interest re- ceived on Govern- ment, State, and munic- ipal bonds	Dividends paid	
									Cash	Stock
Clay, sand, and gravel.....	\$705,240	\$6,498,414	\$23,261,633	\$35,365,214	\$13,656,087	\$533,718	\$1,566,179			
Copper mining.....	2,611,494	38,128,785	36,291,953	82,151,166	22,813,986	15,871,659	896,828			
Coal mining.....	25,833,363	64,934,552	244,271,763	371,606,264	133,256,431	10,012,844	15,430,433			
Oil and gas.....	9,040,533	91,084,611	135,985,578	250,509,107	38,496,564	2,777,982	4,593,808			
Iron mining.....	7,677,011	9,258,905	9,138,163	27,287,844	8,183,249	2,775,346	673,074			
Lead and zinc.....	1,410,155	9,549,965	7,620,194	18,654,828	10,718,652	123,348	1,319,863			
Gold, silver, and other precious metals.....	872,802	4,057,902	81,843,199	87,673,821	5,533,119	472,294	626,587			
Stone quarrying.....	861,836	4,731,589	13,137,786	24,578,581	11,560,770	491,392	1,333,856			
All other mining.....	5,237,638	41,530,527	37,463,553	1,469,321,423	39,346,790	3,022,106	4,436,411			
Total mining.....	54,240,592	268,874,040	590,413,802	2,367,040,948	283,565,648	36,080,619	30,777,039	\$11,071,393	\$225,205,432	\$15,612,717

APPENDIX XXVI—B

Summary of mining and quarrying industry by subclassifications, 1923

CORPORATIONS REPORTING NET INCOME

Industry	Num-ber of returns	Gross sales	Cost of goods	Profits from sales	Other profits	Interest, rents, and royalties	Dividends received	Miscellaneous income	Total gross income	Compensation of officers	Interest paid
Clay, sand, and gravel.....	355	\$8,755,496	\$5,489,717	\$3,265,779	\$928,776	\$72,404	\$5,520	\$701,916	\$5,034,916	\$818,813	\$582,783
Copper mining.....	128	55,117,717	40,788,258	14,329,459	28,557,913	1,698,481	1,677,743	1,343,759	47,007,355	583,319	1,442,357
Coal mining.....	2,481	375,943,748	327,521,844	53,421,904	40,280,540	9,301,069	1,035,304	10,493,397	114,532,214	12,837,379	12,837,030
Oil and gas.....	2,675	691,558,728	451,679,360	239,879,368	146,972,846	26,840,241	32,389,519	17,756,213	463,838,187	9,581,277	34,954,505
Iron mining.....	53	19,072,275	16,453,037	2,619,218	749,295	295,465	39,518	172,614	3,876,110	206,850	1,021,478
Lead and zinc.....	80	18,635,092	13,599,532	4,035,560	1,880,815	245,667	33,290	459,331	6,654,573	272,413	376,385
Gold, silver, and other precious metals.....	382	10,477,377	6,943,243	3,534,134	8,377,263	1,185,262	45,372	1,486,615	14,628,646	563,788	2,292,704
Stone quarrying.....	235	12,478,979	9,453,916	3,025,063	462,302	182,476	40,263	531,225	4,241,329	785,497	773,414
All other mining.....	6,944	594,163,121	419,019,855	175,143,266	30,647,449	9,909,728	16,386,331	7,478,587	1,529,211,002	3,990,409	31,419,957
Total mining.....	13,334	1,786,202,533	1,286,948,782	499,233,751	258,857,199	49,730,883	51,652,770	40,483,657	2,189,623,901	29,639,745	84,989,613

Industry	Taxes paid	Depreciation, amortization, and depletion	Miscellaneous deductions	Total deductions	Deficit	Interest received on Government, State, and municipal bonds	Dividends paid	
							Cash	Stock
Clay, sand, and gravel.....	\$129,472	\$1,198,051	\$5,123,481	\$7,852,600	\$2,818,115			
Copper mining.....	3,376,423	20,210,420	32,952,849	58,565,371	10,958,016			
Coal mining.....	6,181,068	32,785,429	106,500,975	170,430,881	55,898,667			
Oil and gas.....	13,738,622	235,021,262	350,286,416	643,602,182	179,703,995			
Iron mining.....	1,327,830	2,586,299	4,399,245	9,541,702	5,665,592			
Lead and zinc.....	234,382	2,513,215	5,923,222	9,319,617	2,665,044			
Gold, silver, and other precious metals.....	862,858	6,470,189	14,394,369	24,553,908	9,925,262			
Stone quarrying.....	203,223	1,154,259	4,148,954	7,065,347	2,824,018			
All other mining.....	18,934,950	95,139,861	102,162,646	1,538,596,502	9,385,500			
Total mining.....	45,005,828	397,078,985	625,862,157	2,469,528,110	279,904,209	\$2,696,859	\$75,294,020	\$26,367,719

APPENDIX XXVII-A

Summary of mining and quarrying industry by subclassifications—Corporation income tax returns for 1924

CORPORATIONS REPORTING NET INCOME

Industry	Number of returns	Gross sales	Cost of goods	Profits from sales	Other profits	Interest received	Rents and royalties	Dividends received	Miscellaneous income	Total gross income	Compensation of officers
Clay, sand, and gravel.....	512	\$72,388,430	\$39,450,586	\$32,937,844	\$9,559,731	\$382,989	\$545,077	\$450,470	\$2,073,481	\$45,949,592	\$3,935,051
Copper mining.....	25	83,796,479	36,339,453	47,457,026	33,502,572	915,474	733,514	1,697,191	1,999,365	88,305,142	543,540
Coal mining.....	830	646,888,090	478,500,576	168,337,514	46,286,319	5,126,677	8,892,517	1,389,297	8,729,039	238,761,363	7,941,111
Oil and gas.....	1,485	853,143,560	510,402,916	342,740,644	257,979,680	7,954,849	7,706,704	9,302,479	18,081,832	643,746,188	6,545,849
Iron mining.....	31	22,176,874	14,373,083	7,803,791	4,803,536	88,443	61,869	26,376	365,844	13,149,859	61,919
Lead and zinc.....	64	62,686,153	45,569,421	17,116,732	5,319,748	590,808	559,248	1,505,735	575,539	25,667,810	421,789
Gold, silver, etc.....	78	16,710,312	8,943,752	7,766,560	16,339,439	749,466	195,649	1,498,645	1,012,505	26,046,099	343,415
Stone quarrying.....	383	100,765,505	63,771,664	36,993,841	7,515,623	395,220	522,743	303,359	1,012,505	46,743,191	3,824,170
All other mining.....	1,475	196,895,020	121,634,152	75,260,868	32,177,985	3,538,121	22,531,097	1,957,381	6,980,151	142,465,603	3,447,239
Total mining and quarrying.....	4,893	2,055,450,423	1,319,035,603	736,414,820	415,484,533	19,742,047	41,748,418	17,130,983	40,294,096	1,270,814,847	27,064,083

Industry	Interest paid	Taxes paid	Depreciation	Depletion	Miscellaneous deductions	Total deductions	Net taxable income	Prior year loss	Income tax	Dividends	
										Cash	Stock
Clay, sand, and gravel.....	\$1,179,441	\$821,656	\$5,406,514	\$984,182	\$21,093,561	\$33,420,405	\$12,529,187	\$315,127	\$1,448,453	\$5,363,246	\$1,412,592
Copper mining.....	7,122,044	3,232,419	9,210,622	22,529,386	33,119,238	75,757,249	12,547,893	374,869	1,519,850	18,468,715	3,304,719
Coal mining.....	11,665,291	20,316,884	19,527,799	11,489,275	121,803,784	192,744,144	46,017,219	1,385,794	5,554,238	38,403,258	1,008,792
Oil and gas.....	17,148,726	28,145,964	95,215,959	104,043,716	301,004,756	552,104,070	91,642,118	5,117,769	10,673,772	87,544,429	2,207,325
Iron mining.....	141,005	3,747,004	1,193,633	2,910,287	4,255,223	12,308,871	8,840,988	148,228	84,578	1,536,269	20,799
Lead and zinc.....	234,726	1,025,640	2,841,268	4,579,219	8,496,354	8,091,874	211,799	211,799	980,650	3,262,646	20,799
Gold, silver, etc.....	92,971	1,025,219	1,919,883	2,988,531	14,166,860	20,539,679	5,000,320	421,278	631,443	4,677,812	928,993
Stone quarrying.....	1,971,580	1,263,855	3,035,412	898,549	32,506,068	32,506,068	14,176,383	314,251	1,678,011	7,037,715	83,719
All other mining.....	2,874,817	6,376,957	11,140,492	21,900,183	47,916,267	93,655,955	48,789,648	742,744	5,817,339	31,058,218	83,719
Total mining and quarrying.....	42,430,551	65,935,076	151,493,922	172,323,428	571,425,857	1,030,672,917	240,141,830	9,031,839	28,389,340	197,352,308	8,969,239

APPENDIX XXVII-B

Summary of mining and quarrying industry, by subclassifications—Corporation income tax returns for 1924

CORPORATIONS REPORTING NO NET INCOME

Industry	Number of returns	Gross sales	Cost of goods	Profits from sales	Other profits	Interest received	Rents and royalties	Dividends received	Miscellaneous income	Total gross income	Compensation of officers
Clay, sand, and gravel-----	447	\$16,883,283	\$10,911,378	\$5,921,855	\$1,211,734	\$31,340	\$131,802	\$48,704	\$687,236	\$8,012,671	\$1,185,405
Copper mining-----	83	222,992,702	175,836,374	47,156,328	30,409,068	1,245,571	577,762	4,344,370	1,005,050	84,742,149	1,148,786
Coal mining-----	2,686	576,544,589	502,222,633	74,321,956	56,069,450	5,523,015	14,658,199	2,622,444	23,420,967	178,025,081	14,805,659
Oil and gas-----	2,418	861,704,063	577,318,244	284,385,819	81,399,298	22,174,251	5,683,764	15,257,206	23,420,202	432,320,510	7,067,331
Iron mining-----	72	38,199,909	33,797,028	4,402,881	6,270,756	363,350	253,341	967,258	1,828,058	14,105,646	7,306,989
Lead and zinc-----	73	13,742,066	11,072,786	2,669,280	941,316	85,642	193,008	37,450	1,125,110	15,051,846	208,443
Gold, silver, etc-----	325	10,052,609	7,356,563	2,696,046	10,966,356	587,532	460,242	132,559	1,337,261	16,179,995	628,322
Stone quarrying-----	297	13,938,191	11,128,779	2,809,412	1,730,616	44,770	181,127	82,390	741,680	5,589,995	764,242
All other mining-----	7,150	157,348,379	126,143,286	31,205,093	16,214,775	1,346,106	3,701,204	2,014,861	4,401,465	58,883,504	3,573,503
Total mining and quarrying-----	13,560	1,911,355,741	1,455,787,071	455,568,670	205,213,339	31,401,577	25,870,449	25,497,282	59,360,029	802,911,346	29,688,680

Industry	Interest paid	Taxes paid	Depreciation	Depletion	Miscellaneous deductions	Total deductions	Deficit	Interest received on Government, State, and municipal bonds	Dividends	
									Cash	Stock
Clay, sand, and gravel-----	\$679,376	\$205,497	\$1,782,394	\$190,557	\$7,073,832	\$11,117,061	\$3,104,390	-----	\$236,333	\$1,830
Copper mining-----	12,095,506	6,556,668	12,822,985	21,310,124	55,280,542	109,214,611	24,472,462	-----	4,784,392	-----
Coal mining-----	24,056,919	14,689,189	42,075,741	13,019,463	163,260,047	271,907,018	93,881,987	-----	16,069,591	1,138,856
Oil and gas-----	48,234,507	19,418,432	78,744,351	117,278,717	277,217,045	547,960,383	115,639,873	-----	25,317,826	1,132,171
Iron mining-----	1,307,761	3,284,843	2,638,814	1,702,476	10,989,495	20,180,378	6,074,734	-----	2,892,401	-----
Lead and zinc-----	211,687	167,870	1,242,017	345,971	4,776,277	6,952,265	1,900,419	-----	583,000	-----
Gold, silver, etc-----	2,511,102	799,287	2,428,940	1,810,682	19,915,882	28,064,215	11,914,219	-----	559,610	-----
Stone quarrying-----	791,899	222,389	1,259,708	128,199	6,463,314	9,629,751	4,039,756	-----	175,273	1,000
All other mining-----	7,491,646	5,830,577	10,213,556	17,782,284	60,055,449	104,046,795	46,063,291	-----	7,320,147	118,649
Total mining and quarrying-----	97,380,403	51,124,752	153,298,306	173,568,453	605,031,833	1,110,002,477	307,091,131	\$3,265,350	57,948,573	2,392,506

APPENDIX XXVIII-A

Summary of mining and quarrying industry, by subclassifications—Corporation income tax returns for 1925

CORPORATIONS REPORTING NET INCOME

Industry	Number of returns	Gross sales	Cost of goods	Profits from sales	Dividends received	Miscellaneous income	Total gross	Interest paid	Depreciation
Coal mining.....	1, 102	\$562, 192, 857	\$426, 405, 604	\$135, 787, 253	\$3, 184, 111	\$102, 991, 778	\$241, 927, 142	\$15, 134, 036	\$24, 859, 162
Metal mining.....	417	291, 351, 940	187, 069, 204	104, 282, 736	7, 206, 905	123, 760, 378	235, 190, 019	2, 366, 220	21, 368, 998
Nonmetal mining.....	1, 942	1, 706, 936, 464	1, 114, 643, 825	652, 292, 639	30, 038, 939	436, 961, 037	1, 119, 312, 615	25, 457, 139	131, 273, 153
Quarrying.....	1, 006	217, 094, 680	128, 001, 437	89, 093, 243	1, 043, 602	26, 839, 841	116, 976, 686	3, 001, 819	13, 775, 138
Mining and quarrying n. p. d. ¹	124	74, 964, 276	55, 050, 390	19, 913, 886	1, 179, 610	12, 621, 761	33, 615, 257	1, 989, 462	2, 798, 250
Holders and lessors.....	897	-----	-----	-----	9, 834, 278	43, 880, 752	53, 215, 030	1, 320, 787	1, 659, 839
Total mining and quarrying.....	5, 488	2, 912, 540, 217	1, 911, 170, 460	1, 001, 369, 757	52, 471, 445	746, 395, 547	1, 800, 236, 749	49, 329, 463	195, 734, 590

Industry	Depletion	Miscellaneous deductions, including dividends	Total deductions	Net income	Prior year loss	Income tax	Interest received on Government, State, and municipal bonds	Dividends	Stock
								Cash	
Coal mining.....	\$7, 619, 800	\$145, 715, 805	\$193, 388, 863	\$48, 538, 279	\$5, 143, 447	\$5, 587, 086	\$2, 903, 224	\$37, 093, 655	\$329, 827
Metal mining.....	42, 918, 515	104, 867, 873	171, 521, 006	63, 068, 413	2, 316, 309	7, 926, 505	2, 469, 706	48, 353, 543	26, 909
Nonmetal mining.....	153, 948, 242	531, 871, 974	842, 550, 508	276, 762, 107	15, 324, 045	33, 085, 331	2, 177, 617	170, 838, 189	428, 604
Quarrying.....	1, 371, 146	60, 151, 474	78, 299, 627	38, 677, 059	787, 455	4, 794, 827	325, 951	15, 607, 502	1, 810, 726
Mining and quarrying n. p. d. ¹	4, 492, 031	14, 288, 023	23, 507, 766	10, 047, 491	669, 973	1, 207, 097	184, 276	6, 748, 128	3, 000
Holders and lessors.....	8, 885, 488	25, 442, 521	37, 308, 635	15, 906, 395	820, 843	1, 847, 844	340, 278	26, 035, 590	6, 426
Total mining and quarrying.....	219, 235, 282	882, 337, 670	1, 346, 637, 005	453, 599, 744	25, 062, 672	55, 048, 690	8, 401, 052	304, 681, 577	2, 605, 492

¹ Main business not precisely defined.

APPENDIX XXVIII-B

Summary of mining and quarrying industry by subclassifications—*Corporation income tax returns for 1925*

CORPORATIONS REPORTING NO NET INCOME

Industry	Number of returns	Gross sales	Cost of goods	Profits from sales	Dividends received	Miscellaneous income	Total gross	Interest paid
Coal mining-----	2,665	\$362,522,625	\$317,603,902	\$44,918,723	\$1,358,330	\$101,269,111	\$147,546,164	\$22,738,663
Metal mining-----	1,867	341,820,555	273,081,440	68,739,115	5,332,085	46,184,489	120,255,689	17,783,919
Nonmetal mining-----	3,160	141,698,384	94,177,641	47,520,743	5,179,085	75,439,590	128,139,371	8,968,893
Quarrying-----	488	22,837,953	16,172,805	6,665,178	26,432	9,412,228	10,103,808	1,462,145
Mining and quarrying, n. p. d. ¹ -----	569	85,084,899	61,900,839	23,183,960	82,802	5,291,178	28,537,940	2,311,008
Holders and lessors-----	4,476				1,521,948	8,377,725	9,899,673	1,492,569
Total mining and quarrying-----	13,675	933,964,446	762,936,727	191,027,719	13,500,655	245,974,321	430,502,695	54,759,197
Industry	Depreciation	Depletion	Miscellaneous deductions, including dividends	Total deductions	Deficit	Interest received on Government, State, and municipal bonds	Dividends	
							Cash	Stock
Coal mining-----	\$33,967,221	\$11,669,294	\$150,117,121	\$218,492,299	\$70,946,135	\$1,962,909	\$8,537,602	\$588,542
Metal mining-----	18,802,428	20,798,951	96,375,979	153,763,277	33,507,588	272,091	14,799,868	
Nonmetal mining-----	24,672,862	24,997,818	135,548,167	194,187,770	66,048,399	198,880	5,007,075	571,856
Quarrying-----	3,304,541	477,566	17,625,147	22,869,399	6,765,541	16,435	803,061	97,873
Mining and quarrying, n. p. d. ¹ -----	2,448,075	2,416,741	31,132,395	38,308,219	9,750,279	305,312	391,168	1,736
Holders and lessors-----	1,133,872	1,870,284	28,341,536	32,838,261	22,938,588	35,832	921,584	12,976
Total mining and quarrying-----	84,329,029	62,230,654	459,140,345	660,459,225	209,956,530	2,791,959	30,460,416	1,272,983

¹ Main business not precisely defined.

APPENDIX XXIX-A

Summary of mining and quarrying industry, by subclassifications—Corporation income tax returns for 1926

CORPORATIONS REPORTING NET INCOME

Industry	Number of returns	Gross sales	Cost of goods	Profits from sales	Gross profit from other operations	Interest received	Dividends received	Miscellaneous income	Total gross income ¹	Interest paid	Taxes paid other than income tax
Coal mining.....	1,349	\$947,418,020	\$715,269,127	\$232,148,893	\$71,688,974	\$6,402,067	\$8,635,281	\$29,768,512	\$348,643,727	\$19,542,730	\$25,183,779
Metal mining.....	1,883	603,634,636	406,665,463	196,969,173	81,935,372	6,001,928	10,575,878	7,284,911	302,766,662	7,989,248	15,551,145
Nonmetal mining ²	1,921	724,068,125	367,891,743	356,616,382	145,317,800	11,667,186	25,934,977	21,954,863	561,401,268	6,521,694	22,116,239
Quarrying ³	1,146	281,199,329	169,266,425	111,942,904	13,230,358	1,973,568	1,324,125	4,462,925	132,583,880	3,024,862	3,370,476
Mining and quarrying n. p. d. ⁴	1,207	136,674,901	73,944,663	60,730,238	41,990,663	1,957,138	6,383,469	16,407,377	127,478,825	4,763,360	4,781,155
Total mining and quarrying.....	6,006	2,693,435,011	1,735,027,421	958,407,590	354,163,227	27,401,287	53,063,670	79,878,588	1,472,914,362	43,841,894	71,002,794

Industry	Depreciation	Depletion	Miscellaneous deductions, including dividends	Total deductions	Net income	Prior year loss	Income tax	Interest received on Government, State, and municipal bonds	Taxes paid foreign countries	Dividends	Stock
										Cash	
Coal mining.....	\$36,803,180	\$17,304,112	\$157,159,950	\$255,993,760	\$82,649,967	\$12,712,382	\$10,646,874	\$4,117,986	\$980	\$57,346,184	\$8,822,860
Metal mining.....	30,371,087	55,124,019	104,941,448	213,976,947	88,780,715	3,859,369	11,387,364	4,256,760	3,227,317	91,425,823	-----
Nonmetal mining ²	55,694,963	169,998,444	170,129,006	370,450,946	191,690,322	5,217,403	24,848,525	1,650,472	883,020	157,646,040	4,488,073
Quarrying ³	19,725,408	2,588,236	57,477,356	88,186,398	44,347,482	1,279,509	5,637,999	343,873	64,963	16,017,460	4,346,700
Mining and quarrying n. p. d. ⁴	7,651,503	24,266,025	47,965,982	88,528,025	38,950,800	2,331,472	4,787,234	952,268	15,608	42,237,904	248,941
Total mining and quarrying.....	150,216,201	209,280,836	542,774,351	1,017,116,076	455,798,286	25,480,135	57,307,996	11,315,359	4,191,888	365,293,421	17,906,574

¹ Cost of goods not included.² Includes only oil and gas (drilling and producing).³ Includes holders and lessors of quarries.⁴ Main business not precisely defined. Includes salt mines and wells, also holders and lessors of mining property.

APPENDIX XXIX-B

Summary of mining and quarrying industry, by subclassifications—Corporation income tax returns for 1926

CORPORATIONS REPORTING NO NET INCOME

Industry	Number of returns	Gross sales	Cost of goods	Profits from sales	Gross profit from other operations	Interest received	Dividends received	Miscellaneous income	Total gross income ¹	Interest paid
Coal mining.....	2,330	\$511,044,743	\$417,436,132	\$93,608,611	\$98,593,977	\$2,870,360	\$1,279,162	\$25,922,587	\$152,274,697	\$19,684,401
Metal mining.....	1,847	370,556,760	296,885,038	73,671,722	24,290,741	2,403,455	5,069,502	9,108,247	114,543,667	17,332,266
Nonmetal mining ²	2,954	188,204,497	109,819,005	78,385,492	38,390,484	1,692,902	6,994,412	25,964,619	150,697,209	8,716,028
Quarrying ³	1,109	51,073,299	37,897,428	13,175,871	3,070,353	390,579	181,260	2,470,796	19,224,708	4,552,382
Mining and quarrying, n. p. d. ⁴	3,006	23,462,191	16,542,450	6,909,761	1,904,356	522,191	9,416,263	3,683,537	24,438,108	2,500,965
Total mining and quarrying.....	13,246	1,441,331,490	878,580,033	265,751,457	96,249,911	7,784,787	22,940,608	68,451,716	461,178,479	52,785,982

Industry	Taxes paid other than income tax	Depreciation	Depletion	Miscellaneous deductions, including dividends	Total deductions	Deficit	Interest received on Government, State, and municipal bonds	Taxes paid foreign countries	Dividends	
									Cash	Stock
Coal mining.....	\$14,463,463	\$26,375,480	\$9,500,696	\$137,186,259	\$207,210,299	\$54,935,602	\$1,788,176	-----	\$5,799,419	\$70,882
Metal mining.....	11,032,301	20,113,168	23,458,127	75,931,638	147,867,500	33,323,833	241,785	\$2,775	10,542,574	12,987
Nonmetal mining ²	4,691,283	28,064,094	28,015,202	150,891,855	220,378,462	69,681,263	254,824	4,338	10,652,834	658,931
Quarrying ³	809,997	4,817,600	620,666	19,163,557	29,964,202	10,739,404	14,118	-----	269,071	156,500
Mining and quarrying, n. p. d. ⁴	1,828,622	3,349,584	3,744,849	27,807,918	39,231,878	14,793,770	144,043	-----	10,163,996	732,290
Total mining and quarrying.....	32,825,666	82,719,926	65,339,540	410,981,227	644,652,341	183,473,862	2,442,946	7,113	37,427,894	1,621,590

¹ Cost of goods not included.² Includes only oil and gas (drilling and producing).³ Includes holders and lessors of quarries.⁴ Main business not precisely defined. Includes salt mines and wells, also holders and lessors of mining property.

APPENDIX XXX

IN THE MATTER OF THE HEARING BEFORE THE COMMITTEE ON WAYS AND MEANS OF THE UNITED STATES HOUSE OF REPRESENTATIVES, SEVENTIETH CONGRESS, FIRST SESSION, ON THE PROPOSED REVISION OF THE REVENUE ACT OF 1926

To the Honorable Members of the Committee on Ways and Means of the House of Representatives.

GENTLEMEN: At a hearing held on November 4, 1927, before you, permission was granted to the American Mining Congress, on behalf of the metal-mining industry, to file within 10 days from that date a brief in support of the amendment proposed to section 204, subdivision (c), of the revenue act of 1926.

Accordingly there is respectfully submitted herewith a summary of the developments leading up to the proposal of the amendment and a brief discussion of its merits.

DEVELOPMENTS LEADING UP TO THE SUBMISSION OF AMENDMENT PROPOSED
TO SECTION 204, SUBDIVISION (c)

The metal-mining industry, in compliance with the request of the Commissioner of Internal Revenue, has submitted data with respect to operations of the various metal mines in the United States and those owned by American taxpayers in foreign countries. The purpose was to assist the Treasury Department in the compilation of information desired by the Joint Committee on Internal Revenue Taxation for use in its study of the income-tax law as relates to mine-depletion allowances. It has been understood that the purpose of the study on the part of the committee was to determine whether it is practicable to apply to the mining industry a percentage-of-income basis similar to that now in effect in the oil and gas industry.

It is believed that the division of investigation of the joint committee has completed its study of the subject as far as the metal-mining industry is concerned and is now prepared to report on the merits of the proposed plan and to supply the information necessary to determine how it would, if adopted, affect the public revenue.

As a result of a concurrent study of the depletion question made by the metal-mining industry, the conclusion has been reached that the application of a percentage-of-income basis for the determination of the allowance for depletion in the case of metal mines is not only practicable but possesses certain important advantages from the standpoint of both the Government and the taxpayer.

It will be observed that the amendment proposed is a simple one which does not directly affect other provisions of the revenue act. Its adoption therefore will not make necessary any change in other portions of the act, nor will it in any way complicate other revisions which may be contemplated by Congress.

Briefly stated, the outstanding advantages of the amendment, which are discussed hereinafter, are that without materially affecting the public revenue it provides a simple, equitable, and definite method of computing the depletion allowance that permits of the prompt and final determination of the tax liability. It eliminates for the future the analytical appraisal of metal mines with attendant technical com-

plexities. It means a great saving of expense to the Government as well as the taxpayer. It removes all pretext for the objectionable recurring revaluations with which the industry has been confronted for years. It removes discrimination and gives to the smaller operator who can not now afford to spend the money necessary to establish proper value of his ore bodies and the corresponding depletion value of his unit of production, the reasonable allowance for depletion contemplated by the statute.

Provision for depletion as a deduction from income has been made in all of our income-tax laws and discovery depletion has been allowed specifically since 1918 and indirectly in the act of 1913. The deduction for depletion under the revenue act of 1916 was based upon either cost or the fair market value as of March 1, 1913. The revenue act of 1918 provided another basis, that of discovery value. With certain modifications these three bases have been carried down through the successive acts to date, the revenue act of 1926 at section 204 (c) providing that the basis for the determination of the reasonable allowance for depletion authorized in section 234 (a) (8) shall be cost, March 1, 1913, value, discovery value, and, in the case of oil and gas wells, a fixed percentage of gross income.

The provisions of existing and earlier revenue acts employing a basic-date method of valuation for the computation of depletion are and always have been based on sound economic principles, and for lack of any experience as to means and results, it would have been unwise, if not impracticable, to have employed any other method. Nonetheless, it always has been desirable to reach the same result by a shorter and simpler method. And now as a result of a practical experience of more than a decade in computing depletion on a valuation basis it has become possible to propose a definite rate of depletion for metal mines to govern in the future that will give assuredly a result fairly comparable to that obtained by valuation and without disturbing those valuations already agreed upon with the Treasury Department. Because of this experience the rate proposed has a background of statistical authority.

The following proposed amendment is the result of numerous conferences attended by those interested in the metal-mining industry and was unanimously approved by representatives of in excess of 75 per cent of the metal-mine production of the United States at a meeting held on November 1, 1927. It overcomes the numerous disadvantages of existing statute so far as metal mines are concerned.

PROPOSED AMENDMENT OF SECTION 204 (c)

[Changes shown in *italics*]

(c) The basis upon which depletion, exhaustion, wear and tear, and obsolescence are to be allowed in respect of any property shall be the same as is provided in subdivision (a) or (b) for the purpose of determining the gain or loss upon the sale or other disposition of such property, except that—

(1) In the case of mines discovered by the taxpayer after February 28, 1913, the basis for depletion shall be the fair market value of the property at the date of discovery or within 30 days thereafter, if such mines were not acquired as the result of purchase of a proven tract or lease, and if the fair market value of the property is materially disproportionate to the cost. The depletion allowance based on discovery value provided in this paragraph shall not exceed 50 per centum of the net income of the taxpayer (computed without allowance for depletion) from the property upon which the discovery was made, except that in no case shall the depletion allowance be less than it would be if computed

without reference to discovery value. Discoveries shall include minerals in commercial quantities contained within a vein or deposit discovered in an existing mine or mining tract by the taxpayer after February 28, 1913, if the vein or deposit thus discovered was not merely the uninterrupted extension of a continuing commercial vein or deposit already known to exist, and if the discovered minerals are of sufficient value and quantity that they could be separately mined and marketed at a profit. *This paragraph shall not apply to metal mines discovered after the effective date of this act.*

(2) *In the case of metal mines the allowance for depletion shall be 15 per centum of the gross income from the property during the taxable year, such allowance shall not exceed 50 per centum of the net income of the taxpayer (computed without allowance for depletion) from the property, except that in no case shall the depletion allowance be less than it would be if computed without reference to this paragraph.*

(3) *In the case of oil and gas wells the allowance for depletion shall be 27½ per centum of the gross income from the property during the taxable year. Such allowance shall not exceed 50 per centum of the net income of the taxpayer (computed without allowance for depletion) from the property, except that in no case shall the depletion allowance be less than it would be if computed without reference to this paragraph.*

The figure of 15 per cent, here proposed, represents, to the best of the information available to the industry, an actual average of depletion deductions which have been allowed by the Treasury Department under existing law during the past five years (1922 to 1926, inclusive) in each of the several branches of the metal-mining industry. From the information compiled by the industry in response to questionnaires it is believed that this figure will be substantiated by the studies of the division of investigation of the joint committee, which it is understood, is prepared to report on the subject. The percentage depletion allowance here proposed is thus merely the equivalent of the actual allowances under previous revenue acts.

ADVANTAGES OF PROPOSED AMENDMENT

The percentage-of-income basis contained in the proposed amendment has the following distinct advantages:

- (1) Definite assurance of prompt and final settlement of tax liability.
- (2) Simplification.
- (3) Economy of administration.
- (4) The removal of present uncertainties.
- (5) The avoidance of discrimination.

(1) *Definite assurance of prompt and final settlement of the tax liability.*—The percentage method of determining the depletion allowance affords a direct and simple means of ascertaining the allowable deduction. The taxpayer may know definitely his tax liability when the return is filed, a distinct advantage over the existing system under which delay and uncertainty have been the rule rather than the exception.

An early and final determination of the tax liability is desirable in all businesses. It is possibly more imperative in the metal-mining industry than in any other. Cases may be cited where the mine has been exhausted but the company has been unable to dissolve and close up its affairs or to make the distribution to which the stockholders are promptly entitled, because a final determination of its tax liability has been impossible of procurement in the Bureau of Internal Revenue. With some of the smaller partnerships the tax liability has not been known until years after the operation has ceased, and in

some instances not until after the whereabouts of some of the partners was unknown.

Under the proposed amendment both the Government and the taxpayer may readily compute the amount of tax due at the time the return is filed. The taxpayer may proceed with his financial commitments and the further development of his mines without the fear of large additional assessments. He would rather pay more tax, as he will in some cases under this system, and know that his obligation is fully and definitely discharged, than to pay less tax after long delay.

The proposed amendment provides a simple, definite method, easy of application, that permits the prompt and final determination of the tax liability.

(2) *Simplification*.—The phrase "gross income from the property" is used in existing statute, and if applied in accordance with the trade practice of the several branches of the mining industry, has a definite fixed meaning that is well understood. Fifteen per cent of the gross income from the property is accordingly an amount easily and definitely ascertainable. It affords in a simple, direct manner the amount of the allowable depletion deduction, and the prompt and final determination of net taxable income.

Under a valuation system we are confronted with the intricacies of the complex factors and calculations that are essential to valuation based upon analytical appraisals.

Valuations are required as of the basic date. This may mean as of March 1, 1913, the date of acquisition, where mineral properties are exchanged for stock, or the date of discovery, or within 30 days thereafter.

In such instances valuations have been made by an analytical appraisal method, the result of which is to reduce prospective earnings to present worth. An estimate of future earnings must first be made. These are based upon anticipated cost of production, future sales prices of metals, plant and equipment requirements, grade and tonnage of ore, life of the property, etc., all of which are largely matters of judgment and which vary widely in the opinions of different engineers. After anticipated earnings have been approximated, they must be reduced to present worth. Another complication arises in the determination of the risk rate applicable.

Therefore, although the valuation basis for computing depletion allowances is essentially sound, it is desirable to provide a short method in the interests of simplification.

The proposed amendment bases the deduction upon a percentage of gross income from the property, a measure that is simplicity itself—15 per cent of gross income.

(3) *Economy of administration*.—The preparation and audit of returns of income in the metal-mining industry have proven most expensive to both Government and taxpayer.

As to the Government, depletion based upon valuation has necessitated the maintenance of a corps of engineers and technical advisers at salaries which although too low for the service required are, so we are informed, materially in excess of the average paid in the Bureau of Internal Revenue.

The taxpayer has been forced to employ professional services in order that he may know his rights and have a degree of assurance that they are preserved.

The constant revamping and adjustment of valuations involve such difficulties that any kind of a definite and final adjudication has been impossible other than at Washington. Taxpayers from all parts of the United States, together with counsel and technical advisers, have been compelled to make repeated trips to Washington, to learn what their tax liability might be. This has resulted in enormous expense to both the Government and the industry.

The proposed amendment eliminates this cost for metal mines by providing a percentage-of-income basis for depletion, and in so doing obviates the necessity for future valuations.

(4) *The removal of present uncertainties.*—The countless adjustments of valuations, the numerous revaluations, and the length of time during which hundreds of mining company tax cases have remained unsettled are the best evidence of the constant existence of conditions which make for anything but certainty in the final determination of tax liability in the industry.

Under the present law cases have remained unsettled for many years on account of the difficulties involved in making the necessary valuations. Taxpayers have in some cases devoted the income of prior years to prospecting and attempting to develop new mines, and where their allowances for depletion have later been revised and additional taxes assessed it has brought them financial ruin. In many other cases large sums of money are held in reserve to meet such contingencies, whereas if the depletion questions could be settled with finality these would be released for needed development work. Such uncertainties and hazards should not be added to the already large speculative risks which the mining industry must assume.

The percentage method herein proposed removes effectually and for all time these most objectionable features.

(5) *The avoidance of discrimination.*—A group of taxpayers discriminated against at present embraces a large number of small operators who make discoveries, but who are without organizations skilled in the procedure to be followed in proving their discoveries. Such taxpayers are forced to employ expert assistance or else forego their rights under the law. Doubtless in many of these cases the expense involved in the employment of expert assistance would largely, if not entirely, offset the benefit derived from the establishment of discovery values. Under the percentage plan the small operator would in practice as well as in theory receive the same treatment as the large corporation, and without the expense and delays incident to the requirements of the Bureau of Internal Revenue in the administration of the present discovery provision.

The adoption of this plan would also remove the discrimination now existing against the mining industry as compared with the oil and gas industry.

GENERAL COMMENTS

It is quite generally understood that the percentage method of computing depletion has proven satisfactory to both Government and taxpayer in the Dominion of Canada.

From a careful survey of the data submitted, pursuant to requests of the Commissioner of Internal Revenue, to the Joint Committee on Internal Revenue Taxation, it is believed that the effect of the proposed amendment upon the Government revenue will not be adverse.

Since the percentage proposed is based upon an actual average of past allowances, it is believed that the total amount of tax paid by the industry will not be materially affected. Some reduction may be brought about through the granting of percentage depletion allowances to the many small operators who, because of the technicalities and difficulties in administration of the present discovery clause, have not been able to obtain their rights under the present law; but while the number of such operators is large, their aggregate depletion allowance would be comparatively small in amount and it is believed that such allowance would not be greater than they are entitled to under present discovery provisions in the law.

With respect to discoveries prior to the date of the act it is strongly felt that these should be retained. Depletion on such basis has in many cases been established at great expense to the taxpayer, has been recognized for a considerable number of years, and the taxpayer has adjusted his books and his entire financial structure and obligations in accordance therewith. To eliminate this basis would be manifestly unfair to him, would create confusion and difficulty, and since in these cases the basis has now been established and agreed upon, would not be in the interests of simplification. Prior discoveries were eliminated in the oil and gas provision, but the situation in that industry was quite different. A mine has in general a life of many years, as compared with only a very few years of flush production from an oil well. Prior discoveries in the case of oil and gas wells could, it is understood, be eliminated with comparatively little disturbance, and that of short duration, whereas in the case of mines with discovery allowances the effect would be much more radical and of longer duration. Many mines with claims pending would doubtless be willing to take advantage of the percentage system, even though the basis be less, in order to obtain prompt and final settlement; but for those who have established important discoveries, at great expense, and adjusted their entire business thereto, the compulsory elimination of this basis would be unjust. It would appear only fair to continue what has already been granted and thus avoid discrimination against this class of taxpayers. For the future, discovery may be eliminated upon the adoption of an adequate percentage basis.

It is understood from part 2 of volume 1, division of investigation, Reports of the Joint Committee on Internal Revenue Taxation, that percentage depletion in the oil and gas industries has proven satisfactory to the Government and has afforded a deduction that very closely approximates that formerly allowed under the valuation method. The proposed amendment will, it is confidently believed, afford equally satisfactory results in the metal-mining industry.

It is the general belief of the metal-mining industry that the amendment herewith proposed presents a simple, workable, businesslike method of meeting the situation, which is fair to the Government and to the taxpayer. It is respectfully urged that it be enacted into law at the forthcoming session of Congress.

Respectfully submitted.

THE AMERICAN MINING CONGRESS.
J. F. CALLBREATH, *Secretary*.

McKINLEY W. KRIEGH,
Chief Tax Division.

APPENDIX XXXI

SUMMARY REPORT ON DEPLETION OF METAL MINES

Mr. L. H. PARKER,
*Chief Division of Investigation,
Joint Committee on Internal Revenue Taxation.*

MY DEAR MR. PARKER: Several months have been spent in the study of this subject. It has resulted in definitely determining in dollars and cents the average depletion allowances per unit (pounds, tons, etc.,) for the minerals produced, to the taxpayers engaged in the metal mining industry.

Figures have also been assembled to show the relation between the average depletion allowances to gross and net income from the metal mining properties, on the basis of percentages, with the object of simplification in enacting future legislation on this subject.

The work has been accomplished in cooperation with officials of the Treasury Department and the taxpayers, who have furnished the necessary figures. The tabulations submitted represent approximately 75 per cent of the total production of the industries. It is thought that this percentage of production fully covers those taxpayers reporting net income to the Treasury Department.

From the information received, it appears that both the Bureau of Internal Revenue and the taxpayers are favorably inclined to the percentage basis for depletion allowances, in lieu of the existing discovery provisions, not because substantially greater or less depletion will be allowed but because of simplicity and certainty in tax determination.

It is believed that the substitution of the percentage basis, in lieu of the present discovery clause, will result in definite and prompt settlement of tax liability, in simplification, and in economy, both for the Treasury Department and the taxpayers and in elimination of uncertainty and discrimination which exists at present. This matter has been brought to the attention of the Committee on Ways and Means at its recent hearings by the American Mining Congress, representing 75 per cent of the metal-mining producers.

From long experience in the industry and knowledge of the actual functioning of the revenue legislation during the past seven years, I personally believe the proposed percentage basis for depletion allowances is sound and should not reduce the revenue derived by the Government from the metal-mining industries. It should, over a period of years, increase the revenue.

For brevity and simplification, the subjects have been segregated under the following headings:

- Part 1. Brief review of depletion and its relation to this industry to-day.
- Part 2. Summary and results in the study of percentage depletion.
- Part 3. Recommendations as to a reasonable rate for percentage depletion.
- Part 4. Effect of the proposed legislation on the present and future revenue to the Government.

Part 5. Remarks on the amendment to section 204 (c) as proposed in brief submitted by the American Mining Congress to the Committee on Ways and Means.

Part 6. Practical application of percentage depletion method to various classes of metal mines.

Detailed tabulations of the statistics are available in case they are desired.

Respectfully submitted.

ALEX. R. SHEPHERD,
Mining Engineer.

PART 1. BRIEF REVIEW ON THE SUBJECT OF DEPLETION AND ITS RELATION TO THIS INDUSTRY TO-DAY

The depletion allowance as a deduction to the taxpayers is the return to him of that portion of the established value of his property which has been exhausted in any particular year.

The value of metal mines and other natural resources has been recognized by Congress, and, established at the basic dates on which they were acquired, and under the various revenue laws the taxpayer is entitled to the return of the value of his property as exhausted from year to year.

The work in establishing the values of the taxpayer's natural resources has been a large undertaking and has cost both the Government and the taxpayers a great amount of time and money during the past six years.

Under the existing revenue laws there will always be the necessity of valuing mining properties, as new ore reserves are developed in the natural course of mining operations. This addition of new ore reserves is partially taken care of by the existing discovery regulations. However, practice has definitely proven that the discovery regulations are unsatisfactory and do not cover equitably the situation. The main objections are that they fail in equity to all, are costly, difficult to administer, and cause unnecessary delay in closing of the taxpayer's returns.

From the standpoint of Federal taxation for the future there is no valid reason for the continuation of the valuation of the taxpayer's individual developments of new ore reserves in the natural course of his mining operations. It should be of no interest to the Government from what hole in the ground the ores are from as long as it receives the right amount of tax from the taxpayers.

Less than one-tenth of the total number of taxpayers in the metal mining industries produce over 50 per cent of the total production and doubtless pay their proportion of the taxes to the Government. These large corporations operate many properties of their own and are completely equipped with treatment plants from one end of the country to the other. They further purchase, refine, and market the greater part of the metals produced by the other operators.

Mining is a continuing operation with the majority of the operators, and as one mine or ore body becomes exhausted, another must be found to take its place. In many instances ore deposits are only developed a few years in advance of their present operations, it being economically unsound to function otherwise. Some large mines have been yielding profits for over 20 years. This fact illus-

trates the inequity and futility of attempting to fix a value on such mines for taxation purposes at a given date.

The efficiency and resourcefulness of many operators engaged in metal mining, in developing economic improvements along mechanical and metallurgical lines are daily making additional low-grade ores available. These ores had no commercial value 10 to 20 years ago. The development of methods for making such ores of commercial value is just as important from an economic standpoint as the finding of new ore bodies. Further, they yield revenue to the Government the same as the other mines.

PART 2. SUMMARY OF THE RESULTS OF THE STUDY OF PERCENTAGE DEPLETION

Reports by the joint committee's staff and the Treasury Department, on the percentage basis for depletion which has been in force for over a year in the case of oil and gas, show that it has functioned satisfactorily both from economical and administrative viewpoints and without loss of revenue to the Government.

A careful study of this method as applied to metal mines indicates that the same results will be attained in practice as in the case of oil and gas.

The attached Table 1 is compiled from individual figures submitted by the metal-mining taxpayers and represents 75 per cent of the total American-owned production. It covers operations for the past five years (1922-1926), with gross sales (corresponding to gross income from the mining properties) of \$2,437,921,266, with depletion allowances of \$417,536,743 (which are based on cost, March 1, 1913, and discovery valuations).

The average depletion allowed for all metals is approximately 17 per cent of the gross sales for this period. This percentage expressed in cents per pound and per ton of metal on the basis of average depletion allowances is shown in Table 2.

In considering this table it should be borne in mind that these results are based on prices and expected profits which do not represent present-day conditions and what appeared to be a correct valuation in a particular case under certain conditions may be out of line with the facts to-day.

TABLE 1.—*Summary of the metal industries for a 5-year period (1922-1926), showing the gross sales (equivalent to the gross income from the property), and depletion allowed (on the basis of cost, March 1, 1913, and discovery valuations) for the different metals. This tabulation represents approximately 75 per cent of the total American-owned production*

	Gross receipts on basis of net smelter returns or equivalent	Depletion allowed	Depletion to net smelter returns or equivalent
			<i>Per cent</i>
Lead-zinc ores ¹	\$290, 625, 002	\$50, 026, 529	17. 21
Iron ores ²	670, 014, 899	118, 872, 541	17. 74
Coppers.....	1, 318, 794, 543	226, 930, 118	17. 21
Complex ores ³	109, 371, 077	13, 773, 497	12. 59
Gold and silver.....	44, 660, 098	7, 567, 224	16. 94
Miscellaneous metals.....	4, 455, 647	366, 834	8. 23
Total.....	2, 437, 921, 266	417, 536, 743	17. 127

¹ Includes Idaho and its silver values.

² Includes Lake Superior and Alabama ores.

³ Mixed lead, zinc, copper, silver, and gold.

TABLE 2.—*Summary of average depletion allowances (per pound, ton, etc.) to the various metals as established by past valuations (on the basis of cost, March 1, 1913, and discovery methods) and approximate percentage of production, with localities*

Metal	Location	Per cent of total production	Average depletion unit allowed	Class of ores
Iron ores	Lake Superior ranges	75	56.31 cents per ton	Average all grades and interests.
Copper	United States, Canada, and South America.	75	2.606 cents per pound	Do.
Lead	Southeast Missouri	30	0.7512 cent per pound	Lead ore only.
Do.	Utah, Colorado, and Nevada.	28	0.808 cent per pound	Complex ores. ¹
Do.	Idaho	20	1.112 cents per pound	Do.
Do.	Joplin District	16	\$4.29 per ton	Concentrates, ² zinc predominate.
Zinc	do	60	\$4.29 per ton	Concentrates, with lead.
Do.	Eastern	15	0.3529 cent per ton	Zinc ore only.

¹ Complex ores. The practice in most cases has been to establish the depletion allowance on the predominating metal, though there are other commercial recoverable metals included, such as zinc, silver, and, in some cases, gold and copper, arsenic, etc. The greater portion of the complex ores is sold direct to smelters and refineries either in the crude or partially refined form.

² This rate includes some rock tonnages. On the basis of a 60 per cent zinc-lead concentrate the depletion allowed approximates \$7.28 per ton; this is equivalent to six-tenths of 1 cent per pound of the combined lead and zinc metals.

No attempt has been made to ascertain separate average depletion units for gold and silver, as the major production is derived from the copper, lead, and zinc ores. However, the individual properties show approximately the same percentage to gross sales.

PART 3. RECOMMENDATIONS AS TO A REASONABLE RATE FOR PERCENTAGE DEPLETION

Table 1 shows that the metal-mining industry has received in depletion allowances an average deduction equivalent to about 17 per cent of the gross sales.

From the study of this subject it is believed that 15 per cent of the gross sales value with a 50 per cent limitation to net income, would be a reasonable rate to allow the metal-mining industry for the future. This reduction by 2 per cent of the actual figures shown in the summary is thought advisable to offset the continuing effect of the percentage depletion method.

The 15 per cent depletion allowance on gross sales is equivalent to a theoretical deduction of 30 per cent on net income. In actual operations the 30 per cent on net may vary 15 per cent above or below this figure, depending on the profits made by the particular operation.

Statistics of the Internal Revenue Department covering all metal mining for the year 1925 show depletion allowances to gross sales of 16.7 and 33 per cent to net income. From these figures and others in individual cases, it is thought probable that over a period of years (good and bad in the business sense), the greater part of the revenue to the Treasury Department will be derived from operations showing profits above this 15 per cent average to gross sales. Those falling below automatically are limited to 50 per cent of the net income.

The percentage plan fixes a limit to depletion allowances at both ends of the line. Taxpayers whose profits are small are justly treated by the 50 per cent limitation to net income. Taxpayers whose profits

are large are limited to 15 per cent of their gross sales which in many cases is less than the amount that they have gotten in the past. Further, the percentage basis follows the sales price which is just and the taxpayers will receive a more equitable depletion distribution of their wasting assets from year to year and in proportion to their income.

PART 4. EFFECT OF THE PROPOSED LEGISLATION ON THE PRESENT AND FUTURE REVENUE TO THE GOVERNMENT

Any attempt to state definitely what effect in dollars and cents the adoption of the percentage basis, in lieu of discovery in the case of metal mines, will have on the revenue to the Government, must at best be only an approximation.

There are many unknown factors, such as estimates of future metal prices, increase in production and consumption, profits, etc.

The most logical approach is to consider the average results from operations over the past five years. By adopting a 15 per cent basis we have discounted the actual results by approximately 11 per cent.

The tonnage brought into the depletion column by discoveries in the past has not been great when compared with the total production from the industries. This tonnage will increase in volume in the future as the reserves already valued are exhausted.

Due to geological conditions some of the metal industries are more vitally affected in developing new ore reserves than others. On the basis of the total production of the metals to-day, it is estimated that the proportion of new reserves (discovery ores) to the known ores on which values have been established is for:

	Per cent
Complex zinc ores.....	30 to 50
Complex lead ores.....	25 to 30
Iron ores.....	10
Copper ores.....	5
Gold and silver ores.....	10 to 20

There are two ways by which the percentage basis might increase the present depletion allowances within the next year or two.

(a) By ores which inequitably are allowed no depletion under existing regulations.

(b) By ores whose present allowance is less than the average as shown on the percentage basis.

From the standpoint of equity, both (a) and (b) are entitled to depletion.

A study of the available data indicates that the most these ores could increase the total depletion allowed is probably less than 5 per cent.

As a reduction of 11 per cent has already been shown and further as past allowed discoveries have exceeded the proposed percentage, it seems logical to predict that the adoption of the 15 per cent to gross sales for the percentage basis will show a slight increase in revenue to the Government from year to year.

PART 5. REMARKS ON THE AMENDMENT TO SECTION 204 (c) AS PROPOSED BY THE AMERICAN MINING CONGRESS, ON BEHALF OF THE METAL INDUSTRY TO THE COMMITTEE ON WAYS AND MEANS

It will be noted that the wording of the proposed amendment, section 204 (c) (2) is identical with the 1926 act of oil and gas. If it functioned in a similar manner all past allowed and claimed discovery depletion would automatically be superceded by the percentage basis, with the enactment of the amendment.

However, on page 9, paragraph 5, it is stated "With respect to discoveries prior to date of the act, it is strongly felt that these should be retained." The reasons given follow in the brief.

The question as to the advisability of attempting to keep the discovery depletion allowances (allowed and claimed) for the future—is one upon which there seems to be a division of opinion among the taxpayers.

Those who enjoy advantageous discovery depletion feel strongly that they should be allowed to keep same until exhausted—claiming that such an allowance is just as equitable and legal as a cost or March 1, 1913 basis valuation. Their arguments being set forth in the brief mentioned above, the question (if any), seems to be one of expediency or of policy and principle.

If discovery depletion as allowed and claimed to date should be retained, as requested by some, it would probably increase the present annual depletion deduction in a few of the industries around 5 per cent or \$200,000, which, at 13 per cent, would give \$26,000 less income to the bureau as far as it is possible to calculate.

In whatever manner it is decided to handle the matter, there are other questions which will need consideration and final determination.

It will be necessary to define what is meant by gross income from the property and to definitely indicate the point in accounting at which it is to be determined as well as other details. This can be done, either in the act, or interpreted in the regulations.

The consensus of opinion seems to be that the act should be written as simply as possible (as in the case of oil and gas) and the necessary definitions should be written into the regulations.

It is therefore suggested that the act should be written as follows:

Section 204 (c). (1) In the case of nonmetal mines and deposits discovered by the taxpayer after February 28, 1913, the basis for depletion shall be the fair market value of the property at the date of discovery or within 30 days thereafter, if such mines were not acquired as the result of purchase of a proven tract or lease, and if the fair market value of the property is materially disproportionate to the cost. The depletion allowance based on discovery value provided in this paragraph shall not exceed 50 per cent of the net income of the taxpayer (computed without allowance for depletion) from the property upon which the discovery was made, except that in no case shall the depletion allowance be less than it would be if computed without reference to discovery value. Discoveries shall include nonmetals in commercial quantities contained within a vein or deposit discovered in an existing mine or mining tract by the taxpayer after February 28, 1913, if the vein or deposit thus discovered was not merely the uninterrupted extension of a continuing commercial vein or deposit already known to exist, and if the discovered nonmetals are of sufficient value and quantity that they could be separately mined and marketed at a profit.

(2) *In the case of metal mines the allowance for depletion shall be 15 per cent of gross income from the property during the taxable year, such allowances shall not exceed 50 per cent of the net income of the taxpayer (computed without allowance for*

depletion) from the property, except that in no case shall the depletion allowance be less than it would be if computed without reference to this paragraph.

(3) In the case of oil and gas wells the allowance for depletion shall be 27½ per cent of the gross income from the property during the taxable year. Such allowance shall not exceed 50 per cent of the net income of the taxpayer (computed without allowance for depletion) from the property, except that in no case shall the depletion allowance be less than it would be if computed without reference to this paragraph.

PART 6. PRACTICAL APPLICATION OF PERCENTAGE DEPLETION METHOD TO VARIOUS CLASSES OF METAL MINES

In order that a better understanding may be had of the proposed plans for the determination of gross income from the property and net income, in reference to percentage depletion, a brief summary is given for each of the metals, showing the various metallurgical processes or steps through which they must pass from the crude mine ore to the marketable product.

The process of preparing copper, lead, zinc, silver, and gold for sale to a manufacturer usually entails five distinct operations.

1. Mining, or getting the metal-bearing rock out of the ground.
2. Concentrating, or separating the profitable portions of the run-of-the-mine rock from the unprofitable. This involves crushing, fine grinding, concentrating tables and in most cases to-day selective flotation of the remaining portion of the minerals in the rock. By these processes from 75 to 95 per cent of the valuable minerals are recovered from the crude ore and the bulk reduced from 10 to 30 tons of crude ore to 1 of concentrates. Five to twenty-five per cent of the metal remains in the crude ore and is lost or goes into the waste piles.

3. Smelting, or isolating the metallic constituents as impure bullion from the remainder as slag after melting the whole of the concentrate with appropriate fluxes in a suitable furnace.

4. Refining or separating the metals from each other.

5. Marketing the refined products.

There is a wide diversity in methods, practices, and application of these five operations depending on locality, metals, and expediency in many cases.

However, for the present purposes it is not such a difficult matter to group the methods and practices and to demonstrate the point at which the sales of the products take place. Generally speaking, all the metals are sold by the producers on the basis of the market quotation of the refined product.

In the case of the smaller operator, the product in most all cases is sold in the crude or semirefined (concentrate) state to smelter under contract or otherwise.

The smelting after weighing and sampling the ore or concentrate renders the seller a statement setting forth:

The gross metallic contents of the shipment.

Net metallic contents and market quotation.

Deduction for all costs, of freight, treatment, penalties, etc.

Net value in dollars and cents to seller (known as the net smelter returns) and a check in favor of seller for the product sold. Each ore shipment to the smelter is generally liquidated in the above manner.

Therefore, in the case of 90 per cent (in numbers) of the taxpayers their gross income from the property is the smelter return settlement, less royalty due lessors.

On the taxpayer's returns this figure forms the base for his (1) gross sales from trading, etc. His cost for fire treatment, losses in refining, freights and marketing have already been deducted. The remaining costs of mining, concentrating, overhead, interests, etc., are further to be deducted along the line. In actual practice, there appears to be some variation in reporting these credits and deductions, but undoubtedly the net results are the same in most cases.

In the case of the large mine operators with complete plants for concentrating, smelting, refining, and marketing, the practice in accounting from a tax-reporting standpoint is more or less the same as the smaller operator who sells to a smelter or its agent.

Most of them do custom work and therefore must keep accounts of the cost of refining ores from their own properties in a similar manner as is done with purchased ores. Therefore, the net smelter return basis can apply equally to their own operations.

They will receive a slight advantage over the smaller operator in that he pays whatever profits the larger operator charges for treating and marketing the product and may get slightly less recovery than is actually made. However, this is the case in all business transactions, and from a taxation standpoint we can only compute the tax on what a taxpayer actually receives for the products sold.

A thorough survey of the situation shows that the metals are sold on different bases in the refined, semirefined, and crude states. In order to clarify the matter, a brief review is herewith set forth for the different metals.

Copper.—The greater part of this metal is marketed in New York on the basis of the refined metal. The total mine production is around 2,500,000,000 pounds annually. Charts are available to show the sources and distribution of this metal which total approximately one-half of the value of all the metals produced.

There are about 40 leading producers of copper to-day. Of these, 12 companies produce 75 per cent of the entire production and of these 12, three corporations control 75 per cent of the output. In addition, they refine and market probably over 90 per cent of the total production of the United States, Canada and South America. It is, therefore, evident that their sales value must be computed on the basis of the refined metals, which also includes both gold and silver as by-products.

Lead and zinc.—The total mine production of lead to-day is around 2,000,000,000 pounds of refined metal annually. The total mine production of zinc to-day is around one and one-third billions pounds of refined metal.

Probably in over 70 per cent of this production the two metals are mined together (from complex ores), also with silver and a small amount of copper and gold in some localities, as by-products.

Practically all of the metals require fire treatment and are sold in the semirefined or concentrate basis to smelters or refineries, and while practices vary in localities the basis of receipts for the product sold correspond to the "net smelter settlement." This means that "gross income from the property" is definitely fixed at the mine or mill, as in the case of smelter settlement. While there are a few excep-

tions to this general state, there should be no difficulty in establishing the same mine or mill basis for them.

Gold and silver.—Approximately two-thirds of the total production of these metals is produced as a by-product, in copper, lead, and zinc mining. The remaining third is produced by mines which either produce both metals together or singly. In a few instances, pure bullion is produced at the property, in most instances the refining is done by smelters. In either case it is evident that their gross income from the property is logically based on the product sold or refined metal.

Iron ores.—Eighty per cent of the iron ore is produced from the Lake Superior regions. This ore has an established market price at lower Lake ports. For State taxation purposes, all accounts reflect the value of the ores f. o. b. cars at mine or property. Therefore, it is logical to peg "gross income from the property" f. o. b. cars at mine. The same basis is logical and practical in all other iron mines throughout the country.

Finally, it should be stated that this subject has had careful consideration for several months. Its details and difficulties have been thoroughly discussed with the taxpayers in the various industries and the bases established are thoroughly understood. All non-ferrous metal sales are based on or reflect the established New York quotations.

While the final drafting and proper phraseology of the definitions in the regulations must be made by those legally appointed and qualified for the work, the following tentative suggestion is proposed by the engineering section of the bureau, in order to cover the details involved.

For the purpose of this subdivision "the gross income from the property" shall be the competitive market receipts, or its equivalent, received from the sale of the crude, partially beneficiated or refined gold, silver, or copper, the product actually disposed of by the taxpayers to govern the method of computation of receipts in all cases, and in the case of all other metals, coal and oil and gas, the competitive market receipts, or its equivalent, received from the sale of the crude products, or concentrates on an f. o. b. mine, mill, or well basis.

The "net income of the taxpayer (computed without allowance for depletion) from the property" shall be determined by deducting all allowable expenses except depletion from "the gross income from the property" as defined above. In the case of leases "the lessor's income shall constitute the royalties and the lessee-operator's income shall constitute the gross receipts less the royalties."

PERCENTAGE DEPLETION

Basis: 15 per cent of gross sales with 50 per cent limitation to net income.

Example: Per pound of lead.

Operator's depletion schedule

Average market price for 5-year period	Estimated income per pound	Per cent of estimated income to market price	Average depletion allowed	Depletion percentage basis		
				Depletion 15 per cent of gross sales	Depletion 50 per cent of net income	Final allowance
	<i>Cents</i>	<i>Per cent</i>	<i>Cents</i>	<i>Cents</i>	<i>Cents</i>	
7.53 cents per pound-----	0. 753	10	0. 7945	-----	0. 3765	50 per cent limitation.
Do-----	1. 1295	15	-----	-----	. 5647	Do.
Do-----	1. 506	20	-----	-----	. 753	Do.
Do-----	1. 8825	25	-----	-----	. 9412	Do.
Do-----	2. 259	30	-----	1. 1295	1. 1295	15 per cent of sales price.
Do-----	2. 6355	35	-----	-----	-----	
Do-----	2. 912	40	-----	-----	-----	
Do-----	3. 765	50	-----	-----	-----	

The years 1922-1924 indicated average profit of 1.3583 cents per pound. These figures appear to be low. The industry is probably averaging over 2 cents per pound profit.

The average price of lead as of March 1, 1913, was estimated at 4.5 cents per pound with a profit of approximately from one-half to 1 cent per pound.

To-day the costs of production have increased probably 40 per cent over March 1, 1913, costs. The price has increased approximately 67 per cent over March 1, 1913.

Metallurgical recoveries have increased probably 20 per cent over March 1, 1913.

PERCENTAGE DEPLETION

Basis: 15 per cent of gross sales with 50 per cent limitation to net income.

Example: Ton of zinc concentrates (60 per cent). (Tri-State field.)

Operator's depletion schedule

Gross sales price at mill	Estimated income per ton	Per cent of estimated income sales price	Average depletion allowed	Depletion percentage basis		
				Depletion 15 per cent of gross sales	Depletion 50 per cent of net income	Final allowance
\$50 per ton-----	\$5. 00	10	\$7. 2838	-----	\$2. 50	50 per cent limitation.
Do-----	7. 50	15	-----	-----	3. 75	Do.
Do-----	10. 00	20	-----	-----	5. 00	Do.
Do-----	11. 75	25	-----	-----	5. 875	Do.
Do-----	15. 00	30	-----	\$7. 50	7. 50	15 per cent of gross sales.
Do-----	20. 00	40	-----	-----	-----	
Do-----	22. 50	45	-----	-----	-----	
Do-----	25. 00	50	-----	-----	-----	

The indicated profit (1922-1925) is from \$7 to \$10 per ton.

PERCENTAGE DEPLETION

Basis: 15 per cent of gross sales with 50 per cent limitation to net income

Example: Iron ore (Lake Superior ranges).

Operator's depletion schedule

Gross sales price f. o. b. cars at mine, 5-year average	Esti- mated income per ton	Per cent of esti- mated income to sales price	Average depletion allowed	Percentage depletion basis		
				Depletion 15 per cent of gross sales	Depletion 50 per cent of net income	Final allowance
\$2.68 per ton.....	\$0. 268	10	\$0. 4065	-----	\$0. 134	50 per cent of net income.
Do.....	. 402	15	-----	-----	. 201	Do.
Do.....	. 536	20	-----	-----	. 268	Do.
Do.....	. 67	25	-----	-----	. 335	Do.
Do.....	. 804	30	-----	\$0. 4065	. 402	15 per cent of gross sales.
Do.....	. 938	35	-----	-----	-----	Do.
Do.....	1. 072	40	-----	-----	-----	Do.
Do.....	1. 340	50	-----	-----	-----	Do.

Indicated net profit (1922-1925), 80 cents per ton.

There are innumerable grades of ore. Probably 95 per cent of the entire production is owned or contract-controlled by the smelting companies. The sales price at lower Lake ports is fixed annually by the first shipments sold at lower Lake ports.

The average profits as of March 1, 1913, were probably estimated around \$1 to \$1.50 per ton.

PERCENTAGE DEPLETION

Basis: 15 per cent of gross sales with a 50 per cent limitation to net income.

Example: Per pound of copper.

Operator's depletion schedule

Average market price for 5-year period	Esti- mated in- come per pound	Per cent of esti- mated in- come to market price	Average depletion allowed	Depletion percentage basis		
				Depletion 15 per cent of gross sales	Depletion 50 per cent of net income	Final allowance
14 cents per pound.....	<i>Cents</i> 0. 70	5	<i>Cents</i> 2. 606	<i>Cents</i> -----	<i>Cents</i> 0. 35	Limited to 50 per cent of net.
Do.....	1. 40	10	-----	-----	. 70	Do.
Do.....	2. 10	15	-----	-----	1. 05	Do.
Do.....	2. 80	20	-----	-----	1. 40	Do.
Do.....	3. 50	25	-----	-----	1. 75	Do.
Do.....	4. 20	30	-----	2. 10	2. 10	15 per cent of gross sales.
Do.....	4. 76	34	-----	-----	2. 38	Do.
Do.....	5. 60	40	-----	-----	2. 80	Do.
Do.....	6. 30	45	-----	-----	3. 15	Do.
Do.....	7. 00	50	-----	-----	3. 50	Do.

NOTE.—1923-24 statistical figures indicate a profit of from 4 to 6.5 cents per pound of copper for 25 corporations reporting net income.

Comparison of March 1, 1913, and 5-year period (1922-1926) sales price of the metals and their relation on the basis of percentage depletion to sales prices

Metals	Sales prices at Mar. 1, 1913	Sales prices 5-year average	Difference above or below Mar. 1, 1913
Copper.....per pound..	\$0. 15	\$0. 13733	8.4 per cent below.
Silver.....do.....	.65	.66	None.
Lead.....do.....	.045	.0753	67 per cent above.
Zinc.....do.....	.055	.06725	22 per cent above.
Iron ore.....per ton..	4. 35	4. 871	12 per cent above.

The average price for all commodities to-day is about 47 per cent above the pre-war prices. Hence, with the exception of lead, all the metals are below the commodity index price of to-day. If the metals were on the commodity price basis to-day, their respective sales prices would be:

Copper, 21.38 cents per pound.

Silver, 97.02 cents per ounce.

Lead, 6.02 cents per pound.

Zinc, 8.41 cents per pound.

Iron ore, \$6.575 per ton.

The conclusions reached in the case of the metals, with the exception of lead, are that the facilities for supplying these metals are in excess of the demand for same, as is the case of most other natural-resource industries. However, as there are enormous sums of money invested in the mines and in plants and equipment, the best equipped and the lower cost operations have been able to make fair profits despite adverse market conditions. In many instances these profits are due to unusual efficiency in organization and marketing ability, and the industries deserve credit for the results attained.

A further comparison is of interest as a check on the figures assembled for the 5-year period. On the basis of sales prices used in March 1, 1913, valuations and average unit established for the principal metals, we have the following:

Average depletion unit for pound of copper, 2.606 cents ÷ 15 cents gives 17.3 per cent of sales price.

Average depletion unit for pound of lead, 0.7512 cents ÷ 4.5 cents gives 16.7 per cent of sales price.

Average depletion unit for pound of zinc (Joplin), 0.84 cents ÷ 5.5 cents, gives 15.3 per cent of sales price.

Average depletion unit for ton of iron ore, 56.3 cents ÷ \$4.35, gives 13 per cent of sales price.

Statistical figures by the bureau compiled for the year 1925 for all the metal-mining industry fortify the conclusions reached that—

Depreciation deductions are 16.7 per cent of the income.

Depletion deductions are 33.5 per cent of the income.

Taxes paid for this year were approximately \$10,134,000.

While these statistical figures apply to the industry as a whole and include income from other sources as well as all deductions, pertinent or otherwise, they probably give a fair bird's-eye view of the situation.