CORPORATION TAX PROPOSALS

BY

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ON TAXATION

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Our position, which we will discuss, is that the maximum normal tax and surtax rate on corporation income should not total more than 40 percent. In support of this position we wish to emphasize the following:

1. Our peacetime normal rate was 18 percent. A rate of 40 percent is more than double the peacetime rate.

2. The peacetime normal rate in Canada was 15 percent. This has been raised to 40 percent except where the 100-percent excess-profits tax is higher than 10 percent of the net income. In such a case, the 10-percent tax does not apply, thereby making the normal rate only 30 percent. The reason for not increasing the rate in the 1942 law is explained by the Canadian Minister of Finance in his budget message as follows:

> I have given a good deal of consideration to various alternative means of increasing the excess-profits tax. I believe that the increase should affect the tax on excess profits rather than on profits that have not increased substantially over pre-war levels. Already the tax on profits that have not increased is heavy when we bear in mind that those profits when distributed as dividends are subject to all the personal income taxes in addition to the corporation taxes. This involves, in effect, a discrimination against income earned in the form of corporate profits as distinct from other types of income, such as interest. Some discrimination may be justified, but I believe we have already gone far enough in that direction. Consequently, I propose to increase the rate of tax on excess profits but not the flat rate of tax which applies to profits generally.

Furthermore, in Canada the Provinces have given up the income-tax field for the duration of the war.

3. The British peacetime normal rate was 25 percent and this has been raised to 50 percent. But dividends from British corporations are not subject to a further normal tax in the hands of the British shareholder. Moreover, the British surtax does not apply to incomes of individuals of less than $8,000, and the British shareholder will receive a refund of the normal tax if his income is less than his exemption, which is $320 for a single person, $560 for a married person, and $200 for each dependent. Under the House bill rates dividend income of individuals will be subject to a minimum normal and surtax rate of 19 percent. If we add this to the corporate rate of 40 percent, we have a total minimum burden of 49 percent in the first bracket.

Great Britain's 50-percent tax on corporations is regarded as the individual's normal tax and when the individual pays tax on his total income the 50-percent tax which has been paid by the corporation on his dividend income is deducted from the sum of the individual's tax; and if the individual owes no individual tax the whole 50-percent normal tax which the corporation paid will be handed back to him by the Government. For example:

If a corporation has a dividend of $100 for A, a widow, it would deduct 50-percent normal tax ($50) and 5-percent national defense tax ($5), sending her only $45; but if she as an individual had no other

income and had no individual income-tax liability, the Government in this case would send her the $50 normal tax which the corporation deducted, so that she would net $95 of the $100 which the corporation had for her before taxes. The Government does not send her the $5 national defense tax which the corporation deducted (nor any part of an excess-profits tax if the income was subject to the latter).

If the widow had, net, income of $10,000 her individual income-tax liability would be $4,824.50, of which $200 would be surtax. In this case, if the corporation had for A, the widow, $100 before tax, it would deduct, as in the first example, $50 normal tax and $5 national defense tax. The Government would deduct from her individual tax liability of $4,824.50, the $50 normal tax paid by the corporation, making her owe only $4,774.50. She would have paid surtax on the $100 dividend but that would be included in the $4,824.50 individual tax.

So that the 50 percent normal tax which the corporation deducts is simply collected for the individual and retained by the Government until there has been determined the amount of the individual's income tax as far as this dividend is concerned. Neither the national-defense tax, nor the excess-profits tax, which the corporation pays ever goes back to the individual and the individual is liable for the surtax on the whole of the dividend.

Moreover, in Great Britain, no State or local income taxes are imposed.

4. Not only do high normal and surtax rates affect the small investor, but they also seriously curtail the normal income received by charitable, religious, and educational institutions which is so necessary for them to carry on their activities. Many of our educational institutions have had their revenues severely curtailed through war activities.

5. While it may be that some individuals with income from nondividend sources could bear a drastic reduction in their dividend income, or, as Mr. Paul stated, forego their dividend income for the duration, this is not true in the case of those individuals who are forced to depend upon dividends for their entire maintenance. Many of our religious, charitable, or educational institutions could not survive if they had to forego dividends for the duration.

6. Too severe normal and surtax corporate rates will discriminate against equity financing and will force a great many corporations to attempt to raise capital either through bank loans or bonds.

7. The curtailment of dividends will not be any great burden upon the wealthy shareholder. If he is in the surtax bracket above $200,000, the Government will take 88 percent of every dollar of income above that amount. On the other hand, if he is in the lowest bracket, he will pay, under the Treasury proposal, a tax, even after the postwar credit is taken into account, equivalent to a tax on comparable income from noninvestment sources of nearly $50,000. In addition, many of our States impose corporation income taxes which also lessen the amount available for dividend distributions.

8. The Treasury proposes to levy corporate taxes at the following rates:

	Percent
Excess-profits tax	90
Normal tax	24
Surtax	31

Against this tax, there is allowed a post-war credit of 12 percent of the tax. Forty percent of a net debt repayment is to be allowed against this tax if not in excess of the post-war credit.

Many of the complaints which have been received with respect to corporations have been directed to the high surtax in the House bill. This proposal, in fact, increases the tax burden over the House bill even after taking into account the post-war credit.

This is shown by the following example:

Corporation A (No excess-profits tax)

TREASURY PROPOSAL

Normal and surtax, net income	$100, 000	
Normal tax (rate, 24 percent)	24, 000	
Surtax (rate, 31 percent)	31, 000	
Total normal and surtax	55, 000	
Less post-war credit, 12 percent of $55,000	6, 600	
Total tax after post-war credit		$48, 400
Effective rate on normal income after post-war credit	percent	48. 4

HOUSE BILL

Normal and surtax, net income	$100, 000	
Normal tax (rate, 24 percent)	24, 000	
Surtax (rate, 21 percent)	21, 000	
Total normal and surtax		45, 000
Increase proposed over House bill		3, 400
Effective rate on normal income	percent	45

It is true that the Treasury suggests certain alleviating provisions to offset these rates. But corporations in debt could not possibly receive any greater relief than the amount of the post-war credit. Moreover, the carry-back of losses will be of benefit only to those corporations which sustained net losses. Therefore, it is not believed that the alleviating provisions are sufficient to justify the increased burden in the surtax rate.

Post-War Credit

Our studies have convinced us of the necessity for a post-war credit. The following are some of the main reasons why a post-war credit is deemed essential:

(1) With a high corporate tax, it will give the taxpayer an immediate incentive to make the corporation more efficient in its operation and keep its costs down to a reasonable basis. One of the most dangerous features about too high an excess-profits tax is that it not only provides no incentive to make profits but is an added inducement to create losses. There has been a tendency in the past of some corporations to even scrap a part of their inventories or otherwise increase their

expenses so that their current income would not exceed their average earnings or invested-capital credit.

(2) It will allow more immediate revenue to the Government than could otherwise be secured under high rates. The Government will have the use of the amount of the post-war credit during the period of the war without interest.

(3) It will provide the corporation with a post-war reserve to enable it to undertake the task of rehabilitation and readjustment after the war.

(4) By having a tendency to hold down costs, it will offset somewhat the effect of an unduly high excess-profits tax upon inflation. Under a too severe excess-profits tax, it may be possible to justify many expenditures, which will be deductible for tax purposes.

(5) The fact that an excess-profits tax is of a temporary nature will create a tendency on the part of many employers to hold profits down during the war period through increased cost in the hope that subsequent rates may be somewhat reduced.

(6) Mr. Donald M. Nelson, Chairman of the War Production Board; Robert P. Patterson, Acting Secretary of War; James Forrestal, Under Secretary of the Navy; and Emory S. Land, Chairman, Maritime Commission, advocated a post-war credit where the excess-profits-tax rate took more than 80 percent of the additional profits. In this connection, Mr. Nelson said:

> I shall not venture to suggest appropriate rates for an excess-profits tax. I am inclined to believe, however, that in order not to endanger efficiency in the production of armaments and essential civilian commodities, the tax should not take more than about 80 percent of additional profits.
>
> If a higher rate is adopted notwithstanding its effects on efficiency, I should suggest that any amount which exceeds the 80-percent level be treated as a post-war credit, preferably in the form of a Government obligation with definite maturities. Such a procedure would both preserve the necessary incentive and provide assistance in post-war reconversion. Insofar as the latter factor is the controlling consideration, the credit might be made dependent on the taxpayer's showing that corresponding expenditures had been made or were needed to reestablish peacetime operations.
>
> Should the committee retain an excess-profits tax considerably in excess of 80 percent without post-war credit, I strongly urge thorough exploration of possible exemptions designed to encourage, through preferential tax treatment, increased efficiency in war production and savings in the use of scarce resources.

In objecting to a proposal of the Ways and Means Committee to impose a flat excess-profits tax of 94 percent, Acting Secretary of War Patterson said:

> * * * One of the most serious aspects of the reported proposals is the fact that in many cases they virtually eliminate such an incentive and thereby prevent the Government from getting the most for each dollar spent. The result will be that many contractors will cease to struggle to keep down costs, and thus one of the strongest barriers against inflation will be removed.
>
> If the suggestion which has been made should be acceptable, it might be designed to include a graduation of the reserve so that smaller companies would be benefited proportionately more than the larger companies which are better fitted to withstand the shock of post-war adjustment.

The same views were expressed by James Forrestal, Under Secretary of the Navy, in which he stated:

> The tentative excess-profit rate of 94 percent has become public informatioy only within the last month and resistance to additional contracts has alreadn

been encountered. Under the proposed law, the possible margin of profit, after taxes, is reduced to such small percentage that the desire of many manufacturers for additional business seems to be somewhat dulled. Furthermore, the danger of increased costs, waste, and spoilage of essential materials, is grave.

Chairman E. S. Land, of the Maritime Commission, expressed the same views when he said:

> A rate as high as 94 percent, while undoubtedly justified from the standpoint of the obviously sound policy of preventing the accumulation of war profits, leaves little or no margin for the purpose of incentive, particularly as a margin so small as 6 percent may shrink even to the vanishing point as a result of differences of accounting procedure, disallowances, etc. Furthermore, unless some provision by way of a post-war credit, or otherwise, is made for rehabilitation of plants which have been converted to war purposes, there is certain to be considerable hesitancy on the part of producers to go as far in meeting Government requirements as they might be otherwise justified in doing. The matter of some provision for servicing fixed and bank debts might also be appropriately considered in this connection.

While these representatives of departments charged with the responsibility of efficient and economical war production expressed a preference for a moderate increase in the normal corporate rate to a 94-percent excess-profits tax, it should be remembered that their field is war production which is primarily affected by the excess-profits tax.

In our opinion, post-war relief should be granted for the purpose of the surtax as well as the excess-profits tax. The surtax is an increased tax due to the war situation as well as the excess-profits tax. It is believed that corporations subject to this tax will need relief in the form of a post-war credit as well as corporations subject to the excess-profits tax. Therefore, it is proposed to extend post-war credit for surtax purposes but not for normal tax purposes. In this respect, the staff proposal differs from the Treasury proposal, which applies to the normal tax as well as the surtax.

Staff Proposal

Normal tax.—No change in existing law. This part of the proposal corresponds to the House bill and the Treasury proposal.

Surtax.—(*a*) In the case of small corporations with incomes below $25,000, levy a surtax rate of 10 percent. Under the present law, the surtax rate is 6 percent in the case of small corporations. Therefore, the surtax rate will be increased over existing law by 4 percentage points. This part of the proposal corresponds to the House bill and the Treasury proposal.

(*b*) In the case of corporations with incomes of more than $25,000, impose a surtax rate of 16 percent. The surtax rate under existing law is 7 percent in the case of such corporations. Therefore, this proposal will increase the surtax rate by 9 percentage points. Under the House bill, the surtax rate in the case of such corporations is 21 percent, an increase of 14 percentage points. This part of the proposal differs from the Treasury proposal, which imposes a surtax rate of 31 percent, and from the House bill, which imposes a surtax rate of 21 percent. The House increased the surtax rate over existing law by 14 percentage points and the Treasury by 24 percentage points. As already pointed out, the staff proposal increases the rate by 9 percentage points.

This would result in a maximum normal tax and surtax rate on corporation normal tax income of 40 percent, as compared with 55 percent under the Treasury proposal and 45 percent under the House bill.

(*c*) Adopt Treasury proposal of 80 percent over-all limit of normal, surtax, and excess-profits tax.

(*d*) Post-war credit: The staff proposal allows a post-war credit equal to 12 percent of the surtax and excess-profits tax. This part of the proposal differs from the House bill which allowed no post-war credit. It also differs from the Treasury proposal, which applies post-war credit relief to the normal as well as the surtax and excess-profits tax.

(*e*) Debt relief: The staff proposal allows a tax credit against the surtax and excess-profits tax equal to 20 percent of the debt repayment during the taxable year but not in excess of the post-war credit for such year. This will permit corporations to receive the benefit of their post-war credit currently when needed for the payment of debts. The amount of the credit will reduce the post-war credit.

(*f*) Subject to its effect upon the revenue, the staff is in favor of the carry-back of losses and unused excess-profits credit carry-over proposed by the Treasury. Of the two, the net loss carry-over is preferred, as it is believed that this will afford more relief where actually needed.

The following theoretical examples illustrate the effect of the House bill, the Treasury and staff proposals. In these examples, each company is assumed to have $10,000,000 of earnings in 1941 and the same in 1942 but with different excess-profits tax credits:

TABLE 1

CREDIT $1,000,000

Net income	1941 act	1942		
		House bill	Treasury proposal—90 percent excess-profits and 55 percent normal and surtax	Staff proposal—90 percent excess-profits and 40 percent normal and surtax
Before taxes	$10, 000, 000	$10, 000, 000	$10, 000, 000	$10, 000, 000
Tax	6, 794, 010	8, 550, 000	8, 650, 000	8, 500, 000
Limitation	----------	----------	8, 000, 000	8, 000, 000
Credit	----------	----------	960, 000	931, 200
Net tax	----------	----------	7, 040, 000	7, 068, 800
After taxes	3, 205, 990	1, 450, 000	2, 960, 000	2, 931, 200

CREDIT $5,000,000

Before taxes	$10, 000, 000	$10, 000, 000	$10, 000, 000	$10, 000, 000
Tax	5, 138, 010	6, 750, 000	7, 250, 000	6, 500, 000
Limitation	----------	----------	----------	----------
Credit	----------	----------	870, 000	636, 000
Net tax	----------	----------	6, 380, 000	5, 864, 000
After taxes	4, 861, 990	3, 250, 000	3, 620, 000	4, 136, 000

CREDIT $10,000,000

Before taxes	$10, 000, 000	$10, 000, 000	$10, 000, 000	$10, 000, 000
Tax	3, 099, 750	4, 500, 000	5, 500, 000	4, 000, 000
Limitation	----------	----------	----------	----------
Credit	----------	----------	660, 000	192, 000
Net tax	----------	----------	4, 840, 000	3, 808, 000
After taxes	6, 900, 250	5, 500, 000	5, 160, 000	6, 192, 000

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TABLE 2

Corporation taxes

	Existing law	House bill	Treasury proposal	Staff proposal
Normal tax:				
(1) Corporations with normal tax net income of not more than $25,000:	*Percent*	*Percent*	*Percent*	*Percent*
First $5,000	15	(1)	(1)	(1)
$5,000 to $20,000	17	--------	--------	--------
$20,000 to $25,000	19	--------	--------	--------
(2) Corporations with normal tax net income over $25,000, flat	24	(1)	(1)	(1)
Surtax:				
(1) Corporations with surtax net incomes of not more than $25,000:				
First $25,000	6	10	10	10
(2) Corporations with surtax net incomes over $25,000	7	21	31	16
Excess-profits tax rates:				
First $20,000	35	90	90	90
$20,000 to $50,000	40			
$50,000 to $100,000	45			
$100,000 to $250,000	50			
$250,000 to $500,000	55			
Over $500,000	60			
Excess-profits credit:				
(*a*) Invested-capital method:				
First $5,000,000 of invested capital	8	8	8	8
$5,000,000 to $10,000,000	7	7	7	7
$10,000,000 to $200,000,000	7	6	6	6
Over $200,000,000	7	5	5	5
(*b*) Income method: Portion of average earnings in base period	95	95	95	95
(*c*) Specific exemption	$5,000	$10,000	?	$5,000
Post-war credit	None	None	(2)	(3)

[1] No. change.
[2] 12 percent of total tax.
[3] 12 percent of surtax and excess-profits tax.

TABLE 3

Comparison of invested capital-credit allowance under present law and House bill

Invested capital	Present credit, 8 and 7 percent plus $5,000 specific	House bill credit, 8, 7, 6, and 5 percent plus $10,000 specific	Actual percent of invested capital		Amount of increase or reduction in credit under House bill	Percent increase or decrease under House bill
			Present law	House bill		
$500,000	$45,000	$50,000	9.000	10.000	$5,000	1.000
$1,000,000	85,000	90,000	8.500	9.000	5,000	.500
$2,000,000	165,000	170,000	8.250	8.500	5,000	.250
$3,000,000	245,000	250,000	8.167	8.333	5,000	.166
$4,000,000	325,000	330,000	8.125	8.250	5,000	.125
$5,000,000	405,000	410,000	8.100	8.200	5,000	.100
$7,500,000	580,000	585,000	7.733	7.800	5,000	.067
$10,000,000	755,000	760,000	7.550	7.600	5,000	.050
$25,000,000	1,805,000	1,660,000	7.220	6.640	−145,000	−.580
$50,000,000	3,555,000	3,160,000	7.110	6.320	−395,000	−.790
$100,000,000	7,055,000	6,160,000	7.055	6.160	−895,000	−.895
$200,000,000	14,055,000	12,160,000	7.027	6.080	−1,895,000	−.947
$300,000,000	21,055,000	17,160,000	7.018	5.720	−3,895,000	−1.298
$400,000,000	28,055,000	22,160,000	7.014	5.540	−5,895,000	−1.474
$500,000,000	35,055,000	27,160,000	7.011	5.432	−7,895,000	−1.579
$600,000,000	42,055,000	32,160,000	7.009	5.360	−9,895,000	−1.649
$800,000,000	56,055,000	42,160,000	7.007	5.270	−13,895,000	−1.737
$1,000,000,000	70,055,000	52,160,000	7.005	5.216	−17,895,000	−1.789
$1,500,000,000	105,055,000	77,160,000	7.004	5.144	−27,895,000	−1.860
$2,000,000,000	140,055,000	102,160,000	7.003	5.108	−37,895,000	−1.895
$2,500,000,000	175,055,000	127,160,000	7.002	5.086	−47,895,000	−1.916

TABLE 4

Showing tax on corporate net income under House bill of 45 percent and Treasury proposal of 55 percent with 12 percent post-war credit; and increase in net tax of the proposal over the House bill

Corporate net income	Corporation tax		Treasury post-war credit 12 percent	Treasury net tax	Increase in net tax over House bill
	House bill 45 percent	Treasury 55 percent			
$50,000	$22,500	$27,500	$3,300	$24,200	$1,700
$100,000	45,000	55,000	6,600	48,400	3,400
$150,000	67,500	82,500	9,900	72,600	5,100
$200,000	90,000	110,000	13,200	96,800	6,800
$250,000	112,500	137,500	16,500	121,000	8,500
$500,000	225,000	275,000	33,000	242,000	17,000
$750,000	337,500	412,500	49,500	363,000	25,500
$1,000,000	450,000	550,000	66,000	484,000	34,000
$5,000,000	2,250,000	2,750,000	330,000	2,420,000	170,000
$10,000,000	4,500,000	5,500,000	660,000	4,840,000	340,000
$20,000,000	9,000,000	11,000,000	1,320,000	9,680,000	680,000
$25,000,000	11,250,000	13,750,000	1,650,000	12,100,000	850,000
$50,000,000	22,500,000	27,500,000	3,300,000	24,200,000	1,700,000
$100,000,000	45,000,000	55,000,000	6,600,000	48,400,000	3,400,000
$200,000,000	90,000,000	110,000,000	13,200,000	96,800,000	6,800,000

TABLE 5

Showing corporation tax on individual share under House bill of 45 percent and Treasury proposal of 55 percent with 12 percent post-war credit, and increase in net tax of the proposal over the House bill

Gross dividend before corporate tax	Corporation tax		Treasury post-war credit, 12 percent	Treasury net tax	Increase in net tax over House bill
	House bill, 45 percent	Treasury, 55 percent			
$800	$360	$440	$52. 80	$387. 20	$27. 20
$900	405	495	59. 40	435. 60	30. 60
$1,000	450	550	66. 00	484. 00	34. 00
$1,100	495	605	72. 60	532. 40	37. 40
$1,200	540	660	79. 20	580. 80	40. 80
$1,500	675	825	99. 00	726. 00	51. 00
$1,600	720	880	105. 60	774. 40	54. 40
$2,000	900	1, 100	132. 00	968. 00	68. 00
$2,500	1, 125	1, 375	165. 00	1, 210. 00	85. 00
$3,000	1, 350	1, 650	198. 00	1, 452. 00	102. 00
$4,000	1, 800	2, 200	264. 00	1, 936. 00	136. 00
$5,000	2, 250	2, 750	330. 00	2, 420. 00	170. 00
$6,000	2, 700	3, 300	396. 00	2, 904. 00	204. 00
$8,000	3, 600	4, 400	528. 00	3, 872. 00	272. 00
$10,000	4, 500	5, 500	660. 00	4, 840. 00	340. 00
$12,500	5, 625	6, 875	825. 00	6, 050. 00	425. 00
$15,000	6, 750	8, 250	990. 00	7, 260. 00	510. 00
$20,000	9, 000	11, 000	1, 320. 00	9, 680. 00	680. 00
$25,000	11, 250	13, 750	1, 650. 00	12, 100. 00	850. 00
$50,000	22, 500	27, 500	3, 300. 00	24, 200. 00	1, 700. 00
$75,000	33, 750	41, 250	4, 950. 00	36, 300. 00	2, 550. 00
$100,000	45, 000	55, 000	6, 600. 00	48, 400. 00	3, 400. 00
$500,000	225, 000	275, 000	33, 000. 00	242, 000. 00	17, 000. 00
$1,000,000	450, 000	550, 000	66, 000. 00	484, 000. 00	34, 000. 00
$5,000,000	2, 250, 000	2, 750, 000	330, 000. 00	2, 420, 000. 00	170, 000. 00

TABLE 6

State corporation taxes based on net income

State	Nature of tax	Rate	Deduct Federal income tax?
Alabama	Net income tax	3 percent	Yes.
Arizona	do	First $1,000, 1 percent Next $1,000, 2 percent Next $1,000, 2.5 percent Next $1,000, 3 percent Next $1,000, 3.5 percent Next $1,000, 4.5 percent Above $6,000, 5 percent	Yes.
Arkansas	do	First $3,000, 1 percent Next $3,000, 2 percent Next $5,000, 3 percent Next $14,000, 4 percent Over $25,000, 5 percent	Yes.
California	Franchise tax measured by net income. Net income	4 percent (minimum tax $25). On income not included within measure of franchise tax, 4 percent.	No.
Colorado	Net income tax	4 percent	Yes.
Connecticut	Franchise tax measured by net income.	2 percent (not less than 1 mill of the sum of interest-bearing debt, capital stock, surplus, undivided profits and reserves, less deficit and stocks and securities; alternative minimum tax of $10; banks and other financial corporations, 2 percent).	No.
District of Columbia.	Net income tax	5 percent	Yes.
Georgia	do	5.5 percent but not less than 2 percent of base consisting of net income plus salaries paid to officers and to stockholders holding more than 5 percent of stock, less $10,000.	Yes.
Idaho	do	First $1,000, 1.5 percent Next $1,000, 3 percent Next $1,000, 4 percent Next $1,000, 5 percent Next $1,000, 6 percent Above $5,000, 8 percent	Yes.
Iowa	do	2 percent	Yes.
Kansas	do	do	Yes.
Kentucky	do	4 percent	Yes.
Louisiana	do	6 percent [1]	Yes.
Maryland	do	1.5 percent	No.
Massachusetts	Excise tax measured in part by net income.[2]	2.5 percent [3]	Yes.

[1] An additional tax of 5 percent on net income in excess of $5,000 derived from certain speculative transactions (sales of improved lands, leases of mineral lands, sales of mineral rights, etc.).

[2] Income tax is only part of total excise tax, remainder being based on value of untaxed tangible property or of corporate excess with a minimum tax equal to 0.05 percent of value of capital stock.

[3] A temporary additional tax of 10 percent on taxes assessed in 1941, 1942, and 1943 is imposed. In addition a surtax of 3 percent is imposed on taxes levied in 1942 and thereafter. Foreign corporations receive credit equal to 5 percent of dividends paid to inhabitants of State (credit not allowed since 1933).

State corporation taxes based on net income—Continued

State	Nature of tax	Rate	Deduct Federal income tax?
Minnesota	Privilege tax measured by net income except in case of corporation engaged exclusively in foreign or interstate commerce subject to net income tax.	6 percent [4]	Yes.
Mississippi	Net income tax	First $2,000, 3 percent Next $2,000, 4 percent Next $2,000, 5 percent Next $2,000, 6 percent Next $2,000, 7 percent Over $10,000, 8 percent	No.
Missouri	do	2 percent [5]	Yes.
Montana	License tax measured by net income.	3 percent (minimum tax, $5)	Yes.
New Mexico	Net income tax	2 percent	Yes.
New York	Privilege tax measured by net income.	4½ percent 6 percent, years beginning Nov. 1, 1936–42); minimum tax, $25; but not less than 1 mill per $1 of apportioned capital stock or not less than 4½ percent (6 percent, years beginning Nov. 1, 1936–42) of 30 percent of a base obtained as follows: (Entire net income plus compensation paid officers and holders of more than 5 percent of issued capital stock) minus ($5,000 plus net loss for the reported year).	No.
North Carolina	Net income tax	6 percent	No.
North Dakota	do	First $3,000, 3 percent Next $5,000, 4 percent Next $7,000, 5 percent Over $15,000, 6 percent	Yes.
Oklahoma	do	6 percent	No.
Oregon	Excise tax measured by net income.	8 percent (minimum tax of $10).	No.
Pennsylvania	Net income tax	7 percent	Yes.
South Carolina	do	4½ percent (minimum tax, 3 percent of entire net income plus salaries and compensation paid officers and stockholders owning in excess of 5 percent of issued capital stock minus $6,000 and deficit for year.	No.

[4] Tax credit computed by applying to the tax a fraction equal to 1/10 of the average ratio of corporation property and pay rolls in State to total property and pay rolls.

[5] In the event that this tax shall not equal any credit that may hereafter be allowed by the United States from the United States income tax, a tax equal to such deduction is levied in lieu of the 2-percent tax.

State corporation taxes based on net income—Continued

State	Nature of tax	Rate	Deduct Federal income tax?
South Dakota	Net income tax	First $3,000, 1 percent Next, $4,000, 2 percent Next $8,000, 3 percent Next, $25,000, 4 percent Next $100,000, 5 percent Over $140,000, 6 percent	Yes.
Tennessee	Excise tax measured by net income.	3.75 percent	Yes.
	Tax on income from stocks and bonds.	6 percent, 4 percent on income from stock of corporation with 75 percent of corporation property taxed in State.	
Utah	Franchise tax measured by net income.	3 percent or 0.05 percent of fair value of tangible property, whichever is greater; minimum tax, $10.	Yes.
Vermont	do	2 percent	Yes.
Virginia	Net income tax	3 percent	No.
Wisconsin	do	Normal tax: First $1,000, 2 percent. Next $1,000, 2.5 percent. Next $1,000, 3 percent. Next $1,000, 3.5 percent. Next $1,000, 4 percent. Next $1,000, 5 percent. Above $6,000, 6 percent. Surtax: Equal to normal tax less $75 divided by 6.	Yes.

Table 7

The examples below show the operation of the Canadian taxes on normal income, the excess-profits tax, and the post-war credit.

Example 1

Corporation A

1.	Net income		$116, 666. 00
2.	Excess-profits tax credit (standard profits)		100, 000. 00
3.	Excess of net income over excess-profits credit		16, 666. 00
	TAX		
4.	Normal tax, 18 percent of net income of $116,666		20, 999. 88
5.	Additional tax of 12 percent of net income of $116,666		13, 999. 92
6.	Total, 18 percent normal and 12 percent additional tax		34, 999. 80
7.	Excess-profits tax: Either:		
8.	(*a*) 100 percent of excess profits after deduction of 18 percent normal and 12 percent additional tax on net income subject to excess-profits tax; or		
9.	(*b*) 10 percent of net income, whichever is greater.		
10.	Computation under (*a*), line 8:		
11.	Excess profits, line 3	$16, 666. 00	
12.	Less 18 and 12 percent thereon	4, 999. 80	
13.	Amount subject to excess-profits tax, at 100-percent rate		11, 666. 20
14.	Excess-profits tax at 100-percent rate		11, 666. 20*
15.	Computation under (*b*): 10 percent of net income, $116,666		11, 666. 60*
16.	The alternative 10 percent is greater than, and therefore payable as alternative to, the 100-percent excess-profits tax.		
17.	Summary:		
18.	(*a*) 18 percent normal tax on net income	$20, 999. 88	
19.	(*b*) 12 percent additional on net income	13, 999. 92	
20.	10 percent alternative on net income	11, 666. 60	
21.	Total tax		46, 666. 40
	POST-WAR CREDIT		
22.	Tax computed at 100 percent of excess profits (to which post-war credit applies)		11, 666. 20
23.	Tax computed at 10 percent of total net income (in which case post-war credit does not apply)		11, 666. 60
24.	Amount subject to post-war credit		0

Example 2

Corporation B

1.	Net income		$116, 667. 00
2.	Excess-profits credit (standard profits)		100, 000. 00
3.	Excess of net income over excess-profits credit		16, 667. 00
	TAX		
4.	Normal tax, 18 percent of net income, line 1	$21, 000. 06	
5.	12 percent additional tax on net income, line 1	14, 000. 04	
6.	Total, 18 percent normal and 12 percent additional tax		35, 000. 10
7.	Excess-profits tax: Either:		
8.	(*a*) 100 percent of excess profits after deduction of 18 percent normal and 12 percent additional tax on net income subject to excess-profits tax; or		
9.	(*b*) 10 percent of net income whichever is greater.		
10.	Computation under (*a*), line 8:		
11.	Excess profits	$16, 667. 00	
12.	Less 18 and 12 percent thereon	5, 000. 00	
13.	Amount subject to excess-profits tax, at 100 percent		11, 666. 90
14.	Excess-profits tax, at 100-percent rate		11, 666. 90*
15.	Computation under (*b*): 10 percent of net income of $116,667		11, 666. 70*
16.	The 100-percent tax is greater than, and therefore payable as alternative to, the 10 percent of net income.		
17.	Summary:		
18.	18-percent normal tax on net income	$20, 000. 06	
19.	12-percent additional tax on net income	14, 000. 04	
20.	100-percent excess-profits tax	11, 666. 90	
21.	Total tax		46, 667. 00
	POST-WAR CREDIT		
22.	Tax computed at 100 percent of excess profits		11, 666. 90
23.	Tax computed at 10 percent of total net income		11, 666. 70
24.	Amount subject to post-war credit		. 20
25.	20 percent of $0.20		. 05

Since the 100-percent tax was operative, the amount subject to post-war credit is the difference in the tax computed at the 100-percent rate and the tax computed on the basis of the 10-percent alternative tax. This difference of $0.20 shown in line 24 is subject to post-war credit of 20 percent of the difference, i. e., 20 percent of the amount in excess of tax at the point where the 100-percent rate begins to operate.

The greatest amount any corporation can retain under the new rates is 70 percent of its base-period earnings. This can be demonstrated from example 1 above. Its net income is $116,666, its base-period earnings $100,000, and its tax as shown is $46,666. Its profits have increased exactly one-sixth, or 116.66⅔ percent of its base-period earnings. It retains 70 percent of such base-period earnings as shown below:

Net income	$166, 666
Tax	46, 666
Left after tax	70, 000
Base-period earnings	100, 000
Left after taxes	70, 000
Percent of base period earnings retained	70

In other words, in every case if the profits have *not* increased by more than one-sixth over the base-period earnings of the taxpayer, it can retain 70 percent of its base-period earnings under the rate structure.

However, this does not mean that, after giving effect to the post-war credit, a greater percentage cannot be retained. The example below shows that the net percentage of base-period earnings retained after credit for the post-war refund is 1,256 percent.

Example 3

CORPORATION C

Net income	$10, 000, 000
Excess-profits credit	100, 000
Excess profits	9, 900, 000

TAX

18 percent of net income	1, 800, 000
12 percent of net income	1, 200, 000
Total tax on net income	3, 000, 000
Excess-profits tax:	
Excess profits	9, 900, 000
Less 18 and 12 percent thereon	2, 970, 000
Amount subject to 100 percent excess-profits tax	6, 930, 000
Excess-profits tax, at 100 percent	6, 930, 000
Total tax now payable	9, 930, 000

PERCENTAGE RETAINED DURING WAR

Net income	10, 000, 000
Tax now payable	9, 930, 000
Left after tax	70, 000
Percentage of base period profits retained during war	70

NET EFFECT AFTER POST-WAR CREDIT

Excess-profits tax at 100, percent rate	6, 930, 000
10 percent of net income	1, 000, 000
Amount subject to post-war credit	5, 930, 000
Post-war credit at 20 percent of $5,930,000	1, 186, 000
Total tax payable in 1942	9, 930, 000
Less post-war credit	1, 186, 000
Net tax after post-war refund	8, 744, 000
Net effective rate after post-war refund, percent	87. 44

PERCENT OF BASE-PERIOD PROFITS RETAINED AFTER THE WAR

Net income 1942	10, 000, 000
Net tax payable after credit of post-war refund	8, 744, 000
Left after tax and post-war refund	1, 256, 000
Base-period earnings	100, 000
Percent of base-period earnings retained after credit for post-war refund	1, 256

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