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DIGEST OF TESTIMONY PRESENTED AND
STATEMENTS SUBMITTED TO
THE COMMITTEE ON WAYS AND MEANS
WITH RESPECT TO THE PRESIDENT'S
TAX RECOMMENDATIONS

PREPARED BY THE
STAFF OF THE JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION



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INTRODUCTION

During the period May 3-June 9, 1961, the Committee on Ways and Means held public hearings for the purpose of receiving testimony on the President's tax recommendations contained in his message transmitted to the Congress on April 20, 1961.

This pamphlet presents a brief digest of the testimony given and statements submitted and is divided into seven parts which represent the major topics considered. It should be noted that the printed hearings are not available at this time and, consequently, some testimony and statements may have been omitted. For detailed statements presented by witnesses, it is necessary to refer to the printed hearings.

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INVESTMENT TAX CREDIT AND ORDINARY INCOME ON SALE OF DEPRECIABLE BUSINESS PROPERTY

Aerospace Industries Association

Urges liberalized depreciation in lieu of the tax credit.

American Council on Education

Opposes recognition of gain on transfer of real property to charities.

American Electric Power System

Urges that the credit be made applicable to power companies.

American Machine Tool Distributors Association

Urges accelerated depreciation in lieu of tax credit.

American Meat Institute

Urges liberalized depreciation and is neutral on tax credit.

Arthur M. Arnold, tax counsel, Commerce and Industry Association of New York, Inc.

Suggests careful consideration of President's suggestions on an individual and not on a package basis.

Lincoln Arnold, chairman, Tax Committee, American Mining Congress

Urged more liberal depreciation treatment and, in particular, favors a system similar to the Canadian system with various rates for different classes of property. Also favors permitting taxpayers to deduct less than the permissible depreciation in years when it has less income. Believes that "salvage value" should be eliminated.

Alan J. B. Aronsohn, New York City

Opposed repeal of section 1231 on sale of real estate. Asserted that the Treasury had overstated the case on tax avoidance in this area. Moreover, if there is tax avoidance, the Treasury's solution is wrong. Felt that the proposed remedy would not hit real estate tax shelters and would stifle and distort the real estate market. In his view, capital gains abuses will arise so long as the Government provides overly generous depreciation allowances.

Associated Retail Bakers of America

Favors investment credit and Curtis-Ikard bills, H.R. 2 and H.R. 2003.

George P. Baker, professor, transportation, Harvard Graduate School of Business Administration, and president of Transportation Association of America

Opposes tax credit and expresses preference for more rapid depreciation. Also supports the suggestions made for water carriers similar to those made by Mr. Bergmann for railroads.

Frank E. Barnett, Association of American Railroads

Generally approved the investment credit but points out that it will not help those railroads in a really poor position. For this reason would prefer an approach such as that in Mr. Ikard's bills, H.R. 231 and H.R. 6666. (The former bill provides for a shortening of useful lives. The latter bill provides that a common carrier may deduct out of income a so-called construction reserve to be spent within 5 years for assets which will on acquisition have a zero basis.)

Joel Barlow, Chamber of Commerce of the United States of America

Opposes an investment credit and changes in capital gain treatment on dispositions of depreciable property. Believes that an initial allowance for depreciation would be more appropriate. Considers the credit too complex. Believes that it gives preferential treatment to one particular group of taxpayers, and considers the credit discriminatory. The likelihood of change, moreover, would cause it to have an unsettling influence. The credit might also delay appropriate depreciation reform. The credit might accentuate the severity of the economic cycle. Adoption of the credit would not warrant the withdrawal of capital gains treatment from the sale of depreciable assets.

States that the abuses there are today in the capital gain treatment of depreciable property stem from the unreasonably low depreciation rates. Indicates that his organization would be willing to accept ordinary income treatment if enacted at the same time as a significant depreciation reform. In answer to a question, indicated that he might perhaps consider an initial allowance of 20 percent such a reform.

Carl A. Beck, president, Charles Beck Machine Corp., King of Prussia, Pa.

Opposes the credit and suggests a depreciation reform and a cut in the corporate tax rate instead. Claims the credit will increase uneven acquisition of business assets, will penalize those who already have modernized their plant, makes no allowance for inflationary factors, is not given for modernization of present facilities, makes no special allowance for innovation, the one real source of growth, discourages planning, and encourages new loopholes and manipulation.

E. H. Bengtson on behalf of Copper & Brass Research Association

Spoke generally in favor of some incentive for capital investment but prefers a depreciation reform if possible. Suggests that if a credit is to be given, it be given at a flat 7-percent rate on all new expenditures for depreciable property and, further, that the credit not be limited to 30 percent of the income tax liability. Expressed no opinion on ordinary income treatment on sale of depreciable property.

Charles L. Bergmann, Transportation Association of America

Urges more liberal depreciation for railroads and use of much shorter lives. Notes that Interstate Commerce Commission supports this position. Supports H.R. 231 and H.R. 3179.

Supports legislation which would permit the deduction by railroads of contributions to a "construction reserve fund" to be used to purchase new equipment. The new equipment would, of course, have

a basis of zero since its cost would be fully deducted in advance. This proposal is embodied in a bill introduced by Mr. Ikard, H.R. 6666.

Brooklyn Chamber of Commerce

Opposes investment credit and opposes recognition of ordinary gain on sale of real property.

Travis Brown, counsel, the Associated General Contractors of America, Inc.

Suggests modification in tax credit.

E. J. Burke, Jr., president, National Association of Home Builders

Urged that capital gain treatment for sale of real estate be retained and that the tax credit also be made applicable to residential housing. Homebuilding is an essential and "multiplier" industry. Rental housing has in recent years been about 20 percent of the total homebuilding activity. Real estate is at a disadvantage in competition with other investments because it is less liquid. Taxing the gain on it as ordinary income will make it still less attractive as an investment so that it will be unable to raise sufficient amounts of capital.

John Clark, president, International Union of Mine, Mill & Smelter Workers

Opposes investment credit.

Henry J. Clay, on behalf of Hurd & Co., of New York City, mortgage specialists

Opposes the taxation of gain on sale of depreciable assets as ordinary income, being particularly interested in real estate. Believes that taxation in this manner would curb investment incentives, hamper our economic growth and contribute to further inflation.

John L. Connolly, on behalf of member State chambers of the Council of State Chambers of Commerce

Opposes the investment credit and urges depreciation reform instead.

Frank M. Cruger, president, National Small Business Men's Association

Opposes the tax credit and favors instead the Herlong-Baker bills, H.R. 2030 and H.R. 2031.

L. Berkley Davis, president, Electronic Industries Association

Supports recognition of ordinary gain on sale of depreciable assets.

Imrie de Vegh, New York City

Supports the investment credit. It is clear that our present industrial plant requires modernization. It is also clear that the United States spends a lower proportion of its gross national product on new machinery and equipment than any other great nation. Finally, it is clear that France, Germany, and the United Kingdom have a chronic labor shortage while there is large chronic unemployment in the United States and Canada. While tax policy can make only an indirect contribution to the unemployment problem, it can make a direct contribution to the modernization of plant. The tax credit is superior to accelerated depreciation for the reason that its impact

will be felt much more quickly and will yield a greater amount of additional investment per dollar cost in revenue. While the investment allowance means most to companies that are growing, this is desirable from a policy point of view. The credit will cost about \$1.7 million in revenue. A tax reduction costing the same amount to stimulate consumer purchasing power at the bottom would not make any appreciable dent in the unemployment situation. It should be noted that a deficit of \$12 billion 2 years ago did not restore full employment. Thus, a deficit of \$1 or \$2 billion could hardly do so. The investment credit will break the present logjam and get investment in capital equipment moving again. It should be passed without waiting for a more basic reform of the tax laws.

Morgan Doughton, president, U.S. Junior Chamber of Commerce

Opposes the proposed investment credit on the ground that it is, in part, a Government interference in the decision-making process. Believes that the tax system should not include special incentives but should be a program which furnishes release from barriers to capital formation and use. Favors the Herlong-Baker bills, H.R. 2030 and H.R. 2031, and comprehensive tax rate reform.

Charles R. Frederick, executive vice president, National Retail Farm Equipment Association

Favors the credit if it is extended to cover inventories and accounts receivable as well. The retailer performs a necessary function and also requires increased money for inventory in a period of expansion.

Robert B. Gaffney, public accountant, San Francisco, Calif.

Opposes investment credit.

Hon. Arthur J. Goldberg, Secretary of Labor

Is in favor of the investment credit believing it will lead to rapid improvement of plant. States that the administration's estimate that the credit would increase employment by 500,000 is conservative in his view.

Louis S. Goldberg, attorney, Sioux City, Iowa

Recommends study of section 337 in connection with administrations' proposal to recognize ordinary income on sale of depreciable assets.

Hon. Edward Gudeman, Under Secretary of Commerce

Supports the proposed investment credit on the grounds that it will add stimulation in those areas which will do the most good in furthering modernization and growth. Believes that credit is much more effective than accelerated depreciation in stimulating businessmen to purchase new equipment. Also supports the treatment of gains on the sale of depreciable assets as ordinary income to the extent of the former depreciation.

Halliburton Co.

Opposes investment credit on the ground that it is an additional gadget in the law.

Rev. William T. Hogan, S.J., director of industrial economics program, Fordham University

Favors the depreciation reform in H.R. 131 (adjustment accounting to price level) and H.R. 422 (rapid depreciation for new and used facilities) over the tax credit. States that he does not agree with the argument that depreciation reform would tend to strongly raise prices. Suggests that if the tax credit is to be adopted, the 30 percent of tax liability limitation should be eliminated and the credit should be at a flat amount on all acquisitions so as to permit marginal firms to also benefit. Suggests that the permanency of the credit should be assured if it is adopted to enable taxpayers to plan for at least 3 or 4 years.

Joel Hunter, president, Crucible Steel Co. of America

Would welcome the credit plan as a method of stimulating modernization. Favors a lower flat rate of credit and urges that there be a fairly long carryover in view of the long time required to install large facilities. Strenuously urges depreciation reform.

Illinois State Chamber of Commerce

Opposes tax credit and favors liberalized depreciation.

Independent Natural Gas Association of America

Opposes exclusion of utilities from investment credit.

William Jackman, president of Investors League, Inc.

Urges a special issue of nonnegotiable securities by the United States.

Benjamin A. Javits, president, United Shareholders of America

Opposes the investment credit and prefers depreciation reform. Particularly urged use of shorter lives and the permission of greater discretion to taxpayers.

Mark H. Johnson, Commerce and Industry Association of New York

Opposes ordinary income treatment on sale of real estate on grounds that depreciation is a measure of the cost and not of value. Strongly argues that this change would tend to "freeze" the ownership of real estate.

Arthur Kemp, professor of economics, Claremont Men's College, Claremont, Calif.

Strongly opposes the tax credit and states that the present requirement is greater freedom of capital to move and not "tax manipulation" to control the economy. Supports the Herlong-Baker bills, H.R. 2030 and H.R. 2031, and suggests that the committee consider them quickly.

D. S. Kennedy, chairman, Edison Electric Institute Special Tax Policy Committee

Opposes investment credit.

Henry Lavin, chairman, Government Affairs Committee, Electronic Representatives Association

Is in favor of the tax credit although he would also be in favor of the depreciation reform in H.R. 2 and H.R. 2003.

Daniel C. Lewis, on behalf of the Virginia Manufacturers Association

Opposes the investment credit and favors the Herlong-Baker bills, H.R. 2030 and H.R. 2031. Believes that the credit offers the possibility of a windfall to some taxpayers.

Harley L. Lutz, professor emeritus of public finance, Princeton University, and consultant in Government finance, National Association of Manufacturers

Opposes the tax credit on the ground that this is an additional control over business decisions.

Lybrand, Ross Bros. & Montgomery

Suggests various limitations on recognition of ordinary gain on sale of depreciable property.

William C. McCamant, director of trade and public relations, American Retail Federation

Approves the tax credit proposal but believes it should also be applied to inventory and receivables as under the Ikard-Curtis bills, H.R. 2 and H.R. 2003.

G. D. McEnroe, treasurer, Halliburton Co., Duncan, Okla.

Opposes investment credit.

Clyde McFarlin, United States Independent Telephone Association

Favors the tax credit but believes it should be extended to include telephone companies.

Clarence M. McMillan, executive secretary, National Candy Wholesalers Association, Inc., Washington, D.C.

Urges that investment credit be modified to give special credit for reinvestment of earnings.

Frederick T. Martson, treasurer, Lithographers & Printers National Association

Favored depreciation reform over the tax credit. Did not express any opinion as to recommendation of ordinary income treatment on sale of depreciable property.

H. Wayne Mason, CPA, Beckley, W. Va.

Opposes tax credit.

Leslie Mills, chairman, Committee on Federal Taxation, American Institute of Certified Public Accountants

The investment tax credit would provide a subsidy which would not be distributed equitably. Aside from equity considerations, the proposals are complicated, erratic in application, difficult to apply, and present so many problems of administration that they have no place in a tax structure already creaking from complexity.

Opposes ordinary income treatment for a sale of depreciable assets as proposed by administration, but suggests the subject should be further studied in connection with depreciation.

Minneapolis-Honeywell Regulator Co.

Opposes investment credit.

Professor Walter Mulbach, in behalf of the Small Business Tax Conference, and—

O. E. Capehart, chairman, Tax and Accounting Committee, Associated Equipment Distributors.

George W. Kauffman, in behalf of the National Association of Wholesalers.

Russell R. Mueller, executive vice president, National Retail Hardware Association.

Hugh T. Lindsay, in behalf of the Farm Equipment Wholesalers Association.

S. Dean Evans, Sr., and Alvin E. Olivers, in behalf of the Grain & Feed Dealers National Association.

Robert Friedman and Vincent Fochttman, in behalf of the Automotive Service Industry Association.

This group urged that the credit be adopted but that it also be extended to inventory and accounts receivable as provided in the Ikard-Curtis bills, H.R. 2 and H.R. 2003. (These bills provide for a deduction of a percentage of income as it is reinvested in receivables and inventory.) The group tried to develop the importance of distribution in addition to manufacturing to have a healthy and growing economy, pointing out that the entire productive process means nothing until the consumer's dollar is paid for the product.

Robert Nathan, on behalf of Americans for Democratic Action

Indicated that tax changes to increase consumer spending would be more helpful to the economy than an investment stimulus, because there is already overcapacity. If an investment incentive is adopted, favored the proposed credit over accelerated depreciation preferably limited to modernization expenditures replacing old assets.

National Legislative and Tax Committee of Smaller Business of America, Inc., Cleveland, Ohio

Supports the tax credit.

Oppose gain on sale of depreciable property.

National Machine Tool Builders' Association

Urges that credit be made a flat amount but would prefer depreciation reform.

New York Chamber of Commerce, Committee on Taxation

Opposes investment credit.

Supports recognition of ordinary income on gain on sale of depreciable property.

Frank V. Olds, chairman, Committee on Federal Taxation, Controllers Institute of America

Prefers depreciation reform to the tax credit. However, takes the position that if there should be a tax credit, it should be at a flat rate and should be on expenditures made after December 31, 1960, whether or not these expenditures were eligible for depreciation during 1961.

Donald L. Parker, Frazer & Torbet, certified public accountants

Opposes recognition of ordinary gain on sale of depreciable property.

Maurice E. Peloubet, certified public accountant, New York City

Opposes the suggested investment credit and favors depreciation reform, including allowance for price rise. Opposes the credit as a regulatory device.

Stated, however, that in his view the business community would prefer getting a flat rate credit to having no legislation at all.

Howard C. Peterson, chairman, Committee on Fiscal, Monetary and Debt Management Policies, Committee for Economic Development

Urged that the question of a possible tax reduction be carefully considered. Believes prompt action is necessary as to the extremely high individual rates. Opposes the graduated tax credit, stating liberalized depreciation is preferable.

Supports the treatment of gain on sale of depreciable assets as ordinary income.

Leslie K. Pollard, on behalf of the Wisconsin Manufacturers Association

Opposes the credit as a "subsidy" and favors instead the Herlong-Baker bills, H.R. 2030 and H.R. 2031. Believes the greatest growth will result if capital is freed to seek new profitable employment.

R. J. Price, executive vice president, Charles O. Ingmire, Inc.

Opposes the investment credit and favors depreciation reform. Also recommends various other more basic income tax reforms. Stated that the business community would prefer the credit to no legislation at all.

W. E. Roberts, secretary-treasurer, Carpenter Steel Co., and William D. Dickey, in behalf of Universal-Cyclops Steel Corp. and Carpenter Steel Co.

Opposes the investment credit stating that they would prefer no legislation at all to it. Supported more rapid depreciation and depreciation taking into account changes in the price level. Urged that the tax credit be made a flat rate if it is enacted. Argued that if credit is enacted and depreciation reform is discussed, many people about to invest in more facilities will wait a year to try to get the benefit of both statutes.

Morris Rosoff, counsel to Association of Steel Distributors, Inc. and National Federation of Independent Scrap Yard Dealers, Inc.

Urges that the tax credit be made available as to both new and used equipment and plant on the ground that otherwise the credit would be discriminatory against small business which is compelled to acquire used plant and equipment. Gave no estimate of the revenue cost of the extension suggested by him.

Ross, Landis & Paur, certified public accountants

Opposes recognition of ordinary gain on sale of depreciable property.

Rubber Manufacturers Association, Inc.

Opposes investment credit.

Stanley H. Ruttenberg, director of research, AFL-CIO

Opposes the investment tax credit. While a few industries are suffering from technological lack, for special reasons, the overall rate of capacity growth has slackened due to insufficient demand. Thus, the credit is neither necessary nor desirable. The bulk of the benefit will go to the largest corporations and not to the marginal ones which need financial assistance. Even the most generous subsidy cannot long stimulate private investment in the absence of an adequately rising demand.

Supports ordinary income treatment on the sale of depreciable assets. Urges strongly that real estate also be included.

Paul A. Samuelson, professor of economics, Massachusetts Institute of Technology

Urges adoption of the investment credit. The extremely rapid rate of depreciation in some foreign countries is, of course, "not depreciation" but a type of subsidy. If the legislature imitates these systems, it should do so with its eyes open and should, of course, provide for ordinary income at the end. The adoption of the credit will not prejudice a later study of depreciation. The complexity of the system suggested has been greatly exaggerated. The credit will be more effective in stimulating growth if it is made to apply only to the excess over depreciation. However, despite this, there may be policy reasons for adopting a flat credit instead.

Armund J. Schoen, chairman of the board of directors, American Automotive Leasing Association

Stated that the elimination of capital gain treatment on the sale of rental automobiles would seriously injure the industry. Stated that the industry (due to the short useful life of a rental automobile) cannot use any of the accelerated methods of depreciation. Suggests that the privilege of capital gain treatment be preserved in the case of assets held for too short a period to qualify for the investment credit. In the alternative, suggests a restricted credit available to industries which use short-lived assets.

Charles R. Sligh, Jr., executive vice president, National Association of Manufacturers

Opposes the tax credit as largely a regulatory device and believes that the need of the hour is that capital be freed from controls. Takes the position that an increased rate of profit will increase in more capital investment and greater growth. Supports H.R. 2030 and H.R. 2031.

Belford A. Small, vice president, Machinery Dealers National Association

Opposes tax credit plan on the ground that it will modernize a small segment of industry at the expense of the remainder and will tend to create technological unemployment. Calls attention to the fact that all companies together, large and small, generally buy both new and used machine tools in a ratio of about 2½ to 1. Thus, the company which has to buy mostly used equipment would be at a great disadvantage under the system. Also claims the plan would drive the small companies out of the market. In any case the plan would take a substantial period of time to have any real impact on

the economy. Suggests that the credit, if enacted, be made applicable both to new and used machinery.

Smaller Business of America, Inc., Cleveland, Ohio

Recommends that tax credit be extended to all property.

Opposes recognition of ordinary income on sale of depreciable assets.

Smaller Business Association of New England

Opposes investment credit.

Dan Throop Smith, professor of finance, Harvard Graduate School of Business Administration

Opposes the investment credit and strongly urges a reform of depreciation practices instead. Calls attention to the depreciation practices of other countries. Believes the credit discriminates against older industries which are not expanding although in such industries it may be even more important to maintain a modern competitive plant. Opposes the use of a total deduction under any name in excess of cost. Suggests that faster tax depreciation be conditioned on faster book depreciation.

Supports the suggestion that ordinary income be recognized on sale of depreciable assets and believes this reform should particularly be applicable to buildings.

Southern California Gas Co. represented by Miller & Chevalier

Urges liberalized depreciation.

Edmund A. Spencer, Spencer & Crowe, Chicago, Ill.

Discusses investment tax credit and ordinary gain on sale of depreciable property.

Philip Sporn, president, American Electric Power Co., Inc. (written statement for the record)

Believes utilities should also get the benefit of the capital investment credit since in this activity it would also stimulate marginal modernization projects and accelerated construction of more facilities.

Alexander L. Stott, comptroller, American Telephone & Telegraph Co.

Favors a depreciation system which makes allowances for the shrinking value of the dollar. Gave very low estimate of the revenue cost of such depreciation.

Richard H. Swesnik, chairman, subcommittee on Federal taxation, Realtors' Washington Committee, National Association of Real Estate Boards

Urged that the capital gain treatment for sale of real estate be retained without regard to what may be done on the sale of depreciable machinery and equipment. Argued that the gain on the sale of real estate is generally largely or wholly due to the increase in the value of land. Did not seem to be aware that under the Treasury proposal only the portion of the gain attributable to the building would be taxed as ordinary income to the extent of depreciation taken.

Tyre Taylor, general counsel, Southern States Industrial Council

Opposes the administration's investment tax proposal and urges depreciation reform instead. Expressed no opinion on recommendation of ordinary income on sale of depreciable property.

George Terborgh, research director, Machinery & Allied Products Institute

Expressed preference for an initial writeoff and faster depreciation over an investment credit, but suggests that if there is to be an investment credit, it should be a flat 7 percent unrelated to old depreciation deduction. Suggests that the limitation on fixed investment by industry is simply the supply of available capital funds. Since this supply will not be increased by the credit, it is hard to say how there will be any rapid growth in the size of the fixed plant and equipment.

Roger M. Wakeman, vice chairman, Committee on Taxation of the Manufacturers Association of the City of Bridgeport, Conn., Inc.

Opposes the credit and favors instead the Herlong-Baker bills, H.R. 2030 and H.R. 2031.

Western Union Telegraph Co.

Strongly urges that if the investment credit is adopted, it be made applicable to utilities as well as to other industries.

H. R. Winkle, financial vice president, Fiberglas Corp.

Urged modification in investment credit.

Paul V. Wolfe and Joseph H. Nolin, American Hotel Association

Urged that hotel property also be made eligible for the credit on the ground that the hotel business is an integral part of the business life of the country. Also urged that capital gain treatment on sale of business assets be retained. The elimination of this treatment would tend to dry up the sources of investment capital.

John F. Wood, chairman of the taxation committee, National Retail Merchants Association

Opposes recognition of ordinary gain on sale of depreciable property in advance of basic revision of code.

Joseph E. Workman, president, Latrobe Steel Co.

Argues in favor of depreciation reform and opposes the investment credit. Calls attention to more liberal depreciation policies of foreign countries.

FOREIGN INCOME

Warren S. Adams II, on behalf of the National Association of Manufacturers

The administration's proposals would at best only contribute moderately to the balance-of-payments problem. The benefit in this line, if any, is so slight that it does not outweigh the advantage of having large private U.S. investments abroad and does not justify a departure from basic tax concepts.

Donald C. Alexander, tax partner, Taft, Stettinius & Hollister

Opposes administration's recommendations on foreign income. These proposals, if adopted, will create tremendous administrative problems. Also believes there are grave constitutional doubts about the legality of some parts of the proposals.

Herbert Aller, in behalf of the International Alliance of Theatrical Stage Employees & Moving Picture Machine Operators

Endorsed the administration's recommendations and asked their adoption without modification. He is concerned with the production of motion pictures abroad by foreign corporations and the exemption provisions as they relate to movie stars who, for tax reasons, take up residence in a foreign country. In addition, individual stars create a revolving fund in a Swiss corporation which is not subject to U.S. tax. This practice is becoming more prevalent and immediate action seems necessary.

E. N. Altman, Maritime Trades Department, AFL-CIO, and Ray Murdock, Seafarers International Union

The most flagrant of all abuses is the operation of ships owned entirely by American citizens under foreign flags. It should be particularly noted that the shipping companies make no investment whatever in the foreign country and do not pay any income tax to the foreign country. (There are small registration and franchise taxes based on tonnage.) This abuse should be stopped.

Prof. Robert Anthoine, School of Law, Columbia University

Opposes administration's proposals believing that tax policy with respect to treatment of direct U.S. investment abroad should be determined without reference to the balance-of-payments position. The foreign investment has great long-range importance to the United States.

American Chamber of Commerce in France

Opposes taxation of undistributed foreign income.

Richard M. Armstrong Co., West Chester, Pa.

Opposes taxation of undistributed foreign income.

Harold D. Arneson, president and general manager, Abbott Laboratories International Co., for the Chicago Association of Commerce and Industry

Opposes the administration's suggestion. The large foreign investments make it more possible to export goods from the United States. To tax unremitted earnings would greatly harm American industry's competitive and development position in Western Europe, since foreign competitors can plow back their earnings without paying any tax on their unremitted earnings. The stockholders of a publicly held corporation would never permit the indefinite retention of foreign source earnings overseas in any case.

Lincoln Arnold, American Mining Congress

Opposes administration's proposal on taxation of foreign income. Proposal is designed to curb the growth and expansion of American enterprise in so-called developed countries. It would be a backward step in our efforts to develop the free-world economy. If, however, the proposals are adopted, foreign corporations engaged in mining should be entitled to the percentage depletion deduction (either through being permitted to elect to be treated as domestic corporations or through some other mechanism).

Associated General Contractors of America, Inc.

Opposes taxation of undistributed foreign income.

Association of the Bar of the City of New York, Committee on Foreign Law

Opposes taxation of undistributed foreign income.

Richard B. Barker, in behalf of the Chamber of Commerce of the Virgin Islands

Opposes the administration's suggestion that the exemption of estate tax on foreign real estate be repealed. That exemption is based on an opinion of the Attorney General given in 1918 and was put in the statute by Congress in 1934. There may be treaty problems in connection with a repeal of this exemption. Recommends that the exemption at least be kept as to underdeveloped countries (treatment similar to tax on foreign earning). The Virgin Islands hopes to develop by attracting retirees, and the administration's proposal would make retirement there much less attractive.

Prof. Roy Blough, Department of International Business, Columbia University

Agrees with the objectives stated by the administration but believes changes suggested are more radical than necessary. Would favor provision being made for American incorporation of foreign business corporations as provided in H.R. 5, last Congress. Suggests that postponement of tax be permitted but that interest be charged in one manner or another on the postponement.

Henry C. Boschen, in behalf of the Construction Industry International Committee

The proposals would adversely affect U.S. construction firms working abroad by increasing costs and impairing their ability to compete. He does not believe the elimination of the earned-income exemption in developed countries is fair, since even many of the

developed countries are less desirable places to live than others. Recommended that only unreasonable accumulations abroad be taxed.

George Boyd, Jr., counsel, American Paper & Pulp Association

Opposes administration's proposals on taxation of foreign income. There is no reason why a foreign corporation should be treated differently from a domestic one in this regard. The proposals would handicap foreign subsidiaries in competition with businesses owned by others in the foreign market.

Brooklyn Chamber of Commerce

Opposes taxation of undistributed foreign income.

P. N. Buckminster, assistant division general manager, Dodge Car & Truck division, Chrysler Corp.

Opposes administration's suggestion on taxation of foreign income. Points out that the market for automobiles and automotive equipment outside the United States will be larger than the U.S. market within a few years. American capital can only go after this market by maintaining manufacturing and marketing organizations outside the United States close to the growing markets. This effort would be severely handicapped by the proposed statute.

Robert J. Caverly, executive vice president of Hilton Hotel Corp. and Hilton Hotels International, Inc. (statement read by Sidney H. Willner, vice president, Hilton Hotels International, Inc.)

Opposes the taxation of undistributed income of foreign corporations. The administration suggests that deferral be continued in the case of manufacturing, transportation, and communication activities. Witness suggested that international hotel operations be put in the same class as these activities, since hotel operations do not seem to be in the nature of a "tax haven" device.

Chase Manhattan Bank

Opposes taxation of undistributed foreign income.

Chicago Bridge & Iron Co.

Opposes taxation of undistributed foreign income and opposes change in section 911.

E. G. Collado, director, Standard Oil Co. of New Jersey

In answer to the administration's charge that the present practice causes an outflow of dollars, the experience of Jersey Standard has been that the income receipts from foreign investments have exceeded the net outflow of investment capital by an average of \$300 million annually in recent years. (For 1956-60 the excess amounted to \$1.5 billion.) Foreign investment is essential to maintain the U.S. position in the world economically and to maintain the long-term balance-of-payments position.

John L. Connolly, on behalf of member State chambers of the Council of State Chambers of Commerce

Argued that the proposed Treasury recommendation is unconstitutional. Further argued that the gross-up is improper because it forces the taxpayer to include in income amounts never received.

G. K. Crowell, Kimberly Clark Corp.

Kimberly Clark has extensive foreign interests. It went abroad solely to make a profit. Of course, when an American corporation invests abroad, it must start bringing back dividend or other income within a reasonable time or the shareholders of the American company complain to the management. The paper business being at a much lower level in countries other than the United States, it is in these countries that the future possibility of growth exists, and it is, therefore, essential for a paper company to develop foreign markets to keep on growing.

John Curran, Government Relations Committee, National Machine Tool Builders' Association

Opposes administration's recommendations on taxation of foreign income. These proposals will not achieve the results desired by the administration. American foreign investments greatly help maintain the position and influence of the United States and give the free world dramatic examples of the vitality of our system.

L. Berkeley Davis, president, Electronic Industries Association

Opposes taxation of undistributed foreign income.

N. R. Danielian, president, International Economic Policy Association

Opposes administration's recommendations. Proposals would bring about a radical change in our traditional concepts in the manner and methods of taxing foreign source income. The proposals will not greatly improve the balance-of-payments situation even in the short run. The best way to improve the balance-of-payments situation is to expand exports and to sell more American services abroad. In addition, the investment from money invested abroad is an important source of foreign exchange. Accordingly, foreign investment should be encouraged and not discouraged.

Charles I. Derr, vice president, Machinery & Allied Products Institute

Foreign investment has improved this country's balance-of-payments position, not worsened it. An incorrect impression is given by the arbitrary selection of a single short period of time. It must be borne in mind that at the present time only a negligible portion of manufacturing investments abroad are in branch operations. The U.S. foreign trader must be compared with his competitor and not with domestic corporations in order to attain tax equity.

Ray R. Eppert, president, Burroughs Corp., and vice president Greater Detroit Board of Commerce

The administration's proposal would seriously weaken the American position in world markets. The U.S. position in the economic struggle with communism would also be greatly weakened. These measures would tend to diminish, not to increase, domestic employment. Described experience of taxpayer which from 1950 to the present time expanded the employment in the United States at a fast rate while it increased its investment abroad. Where there is a foreign expansion with retained earnings, this makes possible a large investment, although only a small amount of money is taken from the United States to begin. The expression should not be "tax haven" but rather "working capital haven" to describe the case where the capital accumulated is used in legitimate business enterprises.

J. P. Fox, vice president and treasurer, Ritter Co., Inc.

Ritter Co.'s experience shows that foreign investments produce dollar receipts in this country far in excess of the amount of dollars invested abroad. Further, foreign investments are made because of competitive, not tax, reasons such as lower labor costs, foreign import restrictions, and regional tariffs. Moreover, because of the high rates of some foreign taxes, there would be little, if any, increase in U.S. tax revenues. Adoption of the proposal would, on the other hand, produce endless complications, additional expense, two sets of books, etc.

Hans J. Frank, Strasser, Spiegelberg, Fried & Frank, New York City
Opposes taxation of undistributed foreign income.

William H. Franklin, financial vice president, Caterpillar Tractor Co.

The proposals would hurt U.S. balance of payments by reducing income from foreign investments. In the last 11 years income from foreign investments was more than \$20 billion, and exceeded outgo of new foreign investments by \$8 billion. Argued that foreign investments increase export sales, which are several times the amount of foreign investments. Exports directly attributable to foreign investments result from sales of components and other products for which a demand is created by manufacturing abroad. Therefore, a decrease in foreign investment would curtail exports by U.S. parent corporations whose production stimulates the economy at home.

H. S. Geneen, president, International Telephone & Telegraph Co.

Spoke in opposition to the administration's proposals on foreign income. I. T. & T. subsidiaries have remitted 50 percent of earnings except when foreign currency was blocked and have remitted \$215 million to the United States in the last 10 years. Proposals might also lead to retaliatory measures by foreign governments and tend to cause sale of stock of foreign-owned subsidiaries to foreigners. The Treasury proposals would not create more domestic investments and more domestic employment.

General Public Utilities Corp., New York, N.Y.

Opposes taxation of undistributed foreign income. Opposes changes in section 911.

Norman W. Gottlieb and John H. Sevier of H. Steele Y Cia., S.A. Mexico, D.F.

Oppose taxation of undistributed foreign income.

Hon. Edward Gudean, Under Secretary of Commerce

Supports the administration's program on the taxation of foreign income on the ground that this will remove an inducement to postpone indefinitely bringing back profits to the United States.

Supports the so-called gross-up and is in favor of eliminating the present tax exemption on earned income of individuals residing abroad to the extent suggested.

Eldridge Haynes, president, Business International

Contended that use of tax havens are not interest of United States since they are a low-priced way of getting large capital interest abroad.

Switzerland originally became tax haven for the benefit of its own citizens to enable them to accumulate capital.

H. J. Heinz II, accompanied by George Nebolsine, counsel, of Coudert Bros., and Albert E. Sawyer, of Albert E. Sawyer Co., accountants, on behalf of following companies:

American Machine & Foundry Co.
 Armco International Co.
 Cabot Corp.
 Continental Can Co.
 Corn Products Co.
 Eastman Kodak Co.
 General Electric Co.
 Goodyear International Corp.
 H.J. Heinz Co.
 Merck, Sharp & Dohme International
 Monsanto Chemical Co.
 Otis Elevator Co.
 Pfaudler Permutit Co.
 Pfizer International, Inc.
 Ritter Co., Inc.
 Taylor Instrument Cos.
 Texas Butadiene & Chemical Corp.
 Procter & Gamble Co.
 Union Carbide Corp.

Oppose the taxation of profits of foreign subsidiaries prior to distribution. Believes this an improper extension of the taxing jurisdiction of the United States. This is not justified except in the case of tax-evasion schemes. The true foreign investment of U.S. private enterprises abroad is a vital asset of the United States and has a beneficial effect on the U.S. economy. Many times the only way to go into a foreign market is through a foreign subsidiary.

William Riley Hinkle, president, American Chamber of Commerce of Venezuela

Opposes taxation of undistributed foreign income and opposes limitation of section 911.

Thomas L. Hughes, Caracas, Venezuela

Opposed change in section 911. The proposed tax legislation relating to taxation of U.S. citizens abroad does not take into account the disadvantageous practical consequences which would follow its enactment and the fact that most Americans consider it a sacrifice to live outside this country.

Joel Hunter, president, Crucible Steel Co. of America

Opposes the proposed taxation of undistributed foreign income on the ground that it would discourage investment abroad and would weaken the United States without strengthening our allies. Believes that it is not the answer to the foreign exchange problems.

Illinois State Chamber of Commerce

Opposes taxation of undistributed profits of foreign corporations.

International Milling Co.

Opposes taxation of undistributed foreign income.

I. Wayne Keller, Armstrong Cork Co.

Opposes President's recommendation on taxation of foreign source income. Calls attention to the fact that the balance of trade on foreign investments of his company is favorable. States that the program on foreign income would seriously injure U.S. industry investment abroad. Also states that his company does not ship any goods manufactured abroad into the United States.

L. E. Kust, general tax counsel, Westinghouse Electric Corp.

The Treasury's statements on balance of payments are not a complete measurement of the situation. The indirect benefits of foreign investment must be taken into account. Tax-haven abuses can be checked under existing law. The use of the newly required information return will facilitate this. Favors an approach similar to that in the Boggs bill. Described foreign operations of Westinghouse noting that the dollar inflow from foreign operations far exceed the dollar outflow. In conclusion, expressed belief that administration's proposals are unconstitutional and a violation of the now effective tax treaties.

R. J. Landolt, committee on Federal taxation, Controllers Institute of America

Stated that abuse occurs if a foreign corporation is without real substance. This abuse can be corrected by an implementation of section 482 of the code. However many tax-haven corporations carry out legitimate operations and they minimize foreign taxes to bring more money back to the United States. Also stressed the difficulties of proper record keeping and the importance of the foreign investment to the domestic economy.

Kenneth A. Lawder, treasurer, W. R. Grace & Co.

Opposes administration's proposals on taxation of foreign income. These proposals go far beyond eliminating abuses and adversely affect legitimate private investment abroad. Grace developed the sugar growing and refining in Peru and through its own research developed a successful process for the manufacturing of paper from bagasse, the waste fiber from sugarcane. Paper produced in this manner now supplies a large part of Peru's paper requirements. The paper operation has made possible a chemical plant and hydroelectric plant as well. It cannot be said that this series of enterprises exported jobs from the United States in any sense,

Also opposes "grossing up" in computing foreign tax credit.

Carroll F. Lewis, chairman, committee on taxation, Manufacturers Association of the City of Bridgeport, Conn.

Directed his statement to the elimination of tax deferral of subsidiary operations and to legitimate tax-haven corporations. Felt the proposals would penalize corporate taxpayers for having invested in successful foreign industrial enterprises from which they received "no constructive receipt" of dividend payments. That the "constructive receipt" principle is totally ignored in the new proposal and in the future might be extended to stockholders of domestic corporations.

In addition, he said there was no provision for past losses as the parent corporation would be taxed on its entire undistributed earnings in a particular year and that this is neither justified nor equitable.

W. H. Lukens, vice president, R. M. Hollingshead Corp., on behalf of regional export expansion committee (Philadelphia committee)

Opposes taxation of undistributed foreign income.

Neil McElroy, chairman of the board, Procter & Gamble Co.

Opposed plan to tax undistributed foreign earnings. The existing system has made substantial foreign investment with the use of a minimum of U.S. capital, maximum reinvestment of earnings abroad, and a maximum of foreign borrowing. Procter & Gamble has used a Swiss marketing subsidiary for foreign development and this has proved advantageous. The major competitor of Procter & Gamble (not owned by Americans) avails itself of tax-haven advantages in the same market. Present abuses should be corrected by better enforcement or by narrowly drawn legislation directed to specific practices.

G. D. McEnroe, treasurer, Halliburton Co., Duncan, Okla.

Opposes taxation of undistributed foreign income.

James J. Mahon, director, international practice, Lybrand, Ross Bros. & Montgomery

Opposes administration's proposal to tax undistributed foreign income. The situation in most foreign companies is not like that of foreign personal holding companies. The extreme departure from general taxing principles does not appear to be justified by the circumstances. There would be huge accounting and administrative difficulties in executing the proposal.

Leslie Mills, committee on Federal taxation, American Institute of Certified Public Accountants

Most foreign subsidiaries were started because the American parents could not operate in the foreign market. The Treasury's proposal assumes a degree of control over foreign subsidiaries which in fact does not exist. The administration would ignore the foreign entity by an analogy to foreign personal holding companies. But this analogy is unrealistic. The proposals would require extremely broad administrative discretion. For the above reasons the administration's proposals are opposed.

Minneapolis-Honeywell Regulator Co.

Opposes taxation of undistributed foreign income.

Albert H. Monacelli, member of law firm of Dunnington, Bartholow & Miller, New York City

In view of the long and consistent history of the exemption from estate, an abrupt change should apply only to subsequent investments tax of foreign real estate.

Monroe Auto Equipment Co.

Opposes proposed method of taxing foreign income.

J. D. A. Morrow, chairman, financial committee, Joy Manufacturing Co.

Opposes taxation of undistributed income of foreign corporations. Manufacturing abroad does not diminish U.S. jobs in those cases when manufacturing in the United States could not in any event meet the price required in the market served. The administration's suggestions will not increase the amount of foreign exchange but, on the contrary, tend to diminish it because of high American prices. Americans now manufacturing abroad will have to actually give up some of their markets rather than sell the American-produced article if onerous taxes are imposed on foreign manufacturing. (Joy Manufacturing Co. is the largest manufacturer of mining equipment in the world and has manufacturing plants in a number of foreign countries.)

Motion Picture Association of America, Inc., and the Motion Picture Export Association of America, Inc.

Opposes taxation of undistributed foreign income.

Erling D. Naess, Naess Shipping Co., Inc.

Opposes administration's proposals with regard to international shipping. Taxing these operations would make it impossible for the U.S.-owned companies to compete with the foreign-owned shipping.

Peter R. Nehemkis, Jr., Washington counsel, Whirlpool Corp., on behalf of Norbert A. Bogdan, Mario Capelli, Dudley T. Colton, Charles S. Dennison, A. W. Elwood, Antoine T. Knoppers, Paul R. Porter, J. Wilner Sundelson, and Frank X. White

Opposes the President's recommendation as to taxation of foreign source income but favors the special treatment suggested for underdeveloped countries. States that providing investment has an important role in increasing U.S. exports. States that taxing income prior to distribution puts American capital at a competitive disadvantage in other countries and would thus tend to curtail further development and expansion of foreign investments. Suggests that continued competitiveness of direct U.S. private investments is needed in view of the intensified Communist economic drive and the growth of national trade groupings.

Fred W. Peel, acting chairman, committee on taxation, U.S. Council of the International Chamber of Commerce

Opposes administration's recommendations to tax undistributed income of foreign subsidiaries and also opposes recommendation to tax foreign income of individuals. Even in the short run the administration's suggestions will not increase the flow of foreign exchange into the United States substantially.

Julian Phelps, Westfield N.J.

Opposes taxation of undistributed foreign income.

George B. Pidot, member, Shearman & Sterling, New York City (counsel for lending institutions on ship loans)

Proposals would create an unfavorable situation for foreign stockholders in foreign subsidiaries and for foreign registered ocean-going ships. Many of these ships are bound by charter parties entered into existing law. A change in law would work to the disadvantage of the American owners.

Robert C. Plumb, on behalf of the Manufacturing Chemists' Association

Claims that the use of Swiss affiliates to reduce European taxes eventually produces more, rather than less, U.S. tax revenue. It is unfair to disregard the corporate entity if the foreign subsidiary recognizes a profit but to recognize such entity if the subsidiary has a loss.

Also opposes the gross-up on the grounds that comparison of tax rates on pretaxed income of a foreign subsidiary where the U.S. tax rate is not appropriate because such comparison ignores the fact that income taxes are not the dominant taxes in many foreign countries.

John J. Powers, Jr., president, Pfizer International

Opposes taxation of undistributed foreign income.

O. Kenneth Pryor, executive partner, Price Waterhouse & Co., San Francisco office

Opposes the taxation of undistributed foreign income. The foreign corporations must retain some of their earnings in order to expand. Analysis shows that the portion retained by them has not been unreasonable in the past. At best, the administration is sacrificing a good future in foreign exchange for a doubtful short-term advantage. Few, if any, investments abroad are made primarily for tax considerations.

Witness also opposes elimination of section 911 on taxation of individuals working abroad. It is necessary to give special inducements to people to get them to work outside the United States.

Louis Putze, president, Controls Co. of America

Stated that to tax the income of foreign-based American-owned corporations would restrict their activities and provide an advantage to their foreign competitors. His company manufactures variety of heating, air-conditioning, aircraft, missile, and electronic controls, and it has 23 plants and 7 foreign subsidiaries including a Swiss corporation. He said that growth and development of his company has evolved over a period of years and that it is necessary to have technical and specialized personnel to handle its European business through its Swiss company. He enumerated numerous business reasons for selecting Switzerland, including the low taxes imposed on foreign income.

John E. Quinn, chairman, public affairs committee, National Constructors Association

Urged that if legislation is enacted to tax foreign income, appropriate provisions should be made for the construction industry taking into account the unique character of that industry. The construction industry working abroad is in no sense a "runaway shop." On the contrary, it goes after work which would otherwise go to the nationals of other countries. Thus, it cannot benefit the United States to make it harder for American capital to do construction abroad.

Ernest W. Redeke, comptroller, First National City Bank of New York

Opposes administration's proposal to tax undistributed foreign income and favors the approach of the Boggs bill (H.R. 5) in the last Congress.

Registered Canadian investment companies

Oppose taxation of undistributed income of foreign investment companies.

Prof. Raymond Rodgers, School of Business, New York University

Opposes administration's proposal on taxation of undistributed foreign income on grounds (1) it would adversely affect balance of payments in the short run as well as in the long run; (2) it would check further expansion in domestic investment; (3) it would diminish investment in less developed countries; (4) it would diminish American investment in developed countries because of the sharp reversal of policy; and (5) would further handicap Americans in foreign competition and give Russia new victories on the economic front.

Rubber Manufacturers Association, Inc.

Opposes taxation of undistributed foreign income.

Stanley Ruttenberg, director of research, AFL-CIO

Supports administration's recommendation for taxing undistributed income of foreign corporations. Supports "grossing up." Supports limitation of the section 911 exemption as proposed by administration.

Virgil Salera, head, division of business and economics, Alameda State College (California)

Opposes administration's proposals on taxation of foreign income. The longstanding practice upon which investors have relied should not be changed without serious considerations. Moreover, handicapping investment abroad will not increase investment at home. It is doubtful whether the administration's suggestion will substantially increase foreign exchange.

Robert R. Schorn, tax counsel, American Radiator & Standard Sanitary Corp.

Opposes the proposal to tax earning of foreign operating subsidiaries directly to the U.S. shareholders. Foreign investment decisions are prompted by marketing, not tax, considerations. Risks such as political unrest, expropriation, soft currencies, exchange restrictions, extreme social legislation, and runaway inflation demonstrate the need for present tax deferral, for a dollar earned abroad is not equivalent to a dollar earned in the United States. The administration proposal would create a competitive disadvantage since other developed countries offer preferred tax treatment to their foreign traders. The experience of American Standard illustrates that income from foreign investment exceeds that investment over the course of time.

Screen Actors Guild, Inc.

Opposes limitation of section 911.

Paul D. Seghers, president, Institute on United States Taxation of Foreign Income, and chairman, tax and legislative committee, international section, New York Board of Trade

Opposes the proposal to require U.S. stockholders to pay U.S. income taxes on foreign income which they may never receive on the

grounds that it would check the expansion of U.S.-owned industrial activity abroad, reduce the future earnings therefrom, reduce the volume of U.S. exports, and deter oversea expansion by U.S. companies. States that the "tax deferral" has been an incentive to foreign investment and that the proposal would remove the most effective incentive for oversea expansion (in force for more than 40 years) and damage the confidence of businessmen engaged in foreign trade in the U.S. Government.

Singer Manufacturing Co.

Opposes taxation of undistributed foreign income.

Charles R. Sligh, Jr., executive vice president, National Association of Manufacturers

Opposes the program to tax foreign income in advance of distribution.

Walter Slowinski, in behalf of the Chamber of Commerce of the United States

Opposes administration's recommendations with regard to foreign income and supports further liberalization of the law with regard to such income.

Dan Throop Smith, Graduate School of Business, Harvard University

Supports administration's recommendation that undistributed income of Canadian and other investment companies be taxed. Also supports administration's recommendation for "gross up" of foreign tax credit.

Opposes administration's proposal to tax undistributed income of all foreign corporations but suggests appropriate modifications in the law with respect to "tax haven" companies. Believes the idea that investment goes abroad to seek tax advantage is a misconception.

Smith Kline & French Overseas Co. (pharmaceuticals)

Opposes taxation of undistributed foreign income.

Edmund A. Spencer, Spencer & Crowe, Chicago, Ill.

Opposes taxation of undistributed foreign income and limitation of section 911.

Kenneth B. Sprague, vice president, American & Foreign Power Co.

Opposes the "gross up" in computing the foreign tax credit on the grounds that it will have an impact primarily in the less-developed countries, those areas which the United States is interested in developing.

Leon O. Stock, Peat, Marwick, Mitchell & Co.

Opposes the taxation of undistributed income of foreign corporations to the extent that there are shams and manipulation. This can be overcome by a vigorous application of the provisions of existing law, including sections 61, 482, and 367. In addition, use can be made of the information which section 6038 now requires taxpayers to furnish. Further indicated that he would be in favor of giving statutory authority to the Commissioner to treat a foreign corporation as a domestic corporation in those cases in which substantially all activity was in the United States and there was no business activity in the land of incorporation.

William S. Swingle and Joseph Brady, National Foreign Trade Council

Opposes administration's recommendations to tax undistributed foreign income. There is no evidence that in the long run the present practice results in an outflow of dollars over the years. The free flow of private capital ought not to be interfered with. The tax systems of other countries do not tax this type of "income."

Thomas N. Tarleau, in behalf of Willys Motors, Inc., and Diamond International Corp.

Opposes administration's recommendations to tax foreign income. Sometimes to go into a foreign market it is essential for an American corporation to form a foreign subsidiary to manufacture abroad. In these cases the American stockholders would be at a great disadvantage if the earnings attributable to them were taxed without a distribution. Furthermore, since foreign subsidiaries buy many parts, equipment, etc., in the United States, the U.S. export business is thereby increased.

Robert H. Tucker, secretary, Minnesota Mining & Manufacturing Co.

If the United States desires to implement its foreign-aid program by encouraging U.S. producers to go abroad and to expand foreign markets, the administration's present tax proposal would achieve just the opposite result. On the average, for every dollar invested abroad \$12 has been returned to the United States. The administration's proposal would, for example, nullify the effort of the Italian Government to strengthen southern Italy against communism by bringing in American and other foreign capital.

Frank X. White, president, American Machine & Foundry Co. International

American Machine's objective in investing abroad is to earn money for the stockholders and to return those earnings to the parents in the United States and distribute them to the stockholders as soon as possible. AMF uses a company based in Switzerland which owns 25 subsidiaries outside the United States and Canada. If all the money earned by the subsidiary had to pay the U.S. rate of income tax, the expansion program would be much slower.

John F. Wood, chairman of the Taxation Committee, National Retail Merchants Association

Supports elimination of tax deferral privilege for so-called tax-haven companies.

World Trade Center in New England, Inc.

Opposes taxation of undistributed foreign income.

WITHHOLDING OF TAX ON DIVIDENDS AND INTEREST AND TAX ADMINISTRATION (TAXPAYER ACCOUNT NUMBERS)

American Bankers Association

Discusses taxpayer account numbering system.

*Andrew J. Biemiller, director, Department of Legislation, AFL-CIO,
and Stanley Ruttenberg*

Supports withholding on interest and dividends. The Treasury plan will permit quick refunds in the case of low-income taxpayers.

Brooklyn Chamber of Commerce

Opposes withholding on interest and dividends.

*Edwin S. Cohen, counsel, National Association of Investment Cos.,
accompanied by Eugene F. Bogan and John L. Cooper, Massachu-
setts Investors Trust*

Opposes withholding on dividends and suggests instead that a greater effort be made to improve informational reporting with the aid of the taxpayer account number system.

*G. Edward Cooper, Philadelphia National Bank for the American
Bankers Association*

Concluded that no practical, workable withholding system had as yet been proposed. Favors further efforts along the line of the educational program; that the use of the information returns be fully implemented through electronic data processing and the use of a numbering system (though he had doubts as to the proposed numbering system); there should be increased efforts to collect the amount due and where punishment is meted out, more publicity should be given; and that revisions be made in the tax forms to question the taxpayer more as to his ownership of securities paying interest or dividends.

*Ralph D. Cowan, vice president and trust officer, First Security Bank
of Utah*

Calls attention to various problems in interest withholding.

L. Berkley Davis, president, Electronic Industries Association

Opposes withholding on dividends and interest.

G. Keith Funston, president, New York Stock Exchange

Opposes withholding on interest and dividends.

General Public Utilities Corp., New York, N.Y.

Opposes withholding on dividends.

Hon. Arthur J. Goldberg, Secretary of Labor

Favors adopting withholding on interest and dividends.

Hon. Edward Guleman, Under Secretary of Commerce

Supports withholding on interest and dividends.

Merwin K. Hart, president, National Economic Council

Opposes withholding of tax on dividends and interest on the grounds that this would place one more burden on both employers and the Government. Believes that this would be a substantial cost for banks and other payors.

Samuel H. Hellenbrand, director of taxes, New York Central Railroad

Opposes withholding on dividends paid to corporations which have deficits. Believes machinery should be provided to eliminate these taxpayers from the withholding system.

Illinois State Chamber of Commerce

Opposes withholding on dividends and interest.

William Jackman, president, Investor League, Inc.

Opposes withholding on dividends. Believes it will not be possible to work out an efficient method of quick refunds to individuals who owe no tax.

Benjamin A. Javits, president, United Shareholders of America

Opposes withholding on dividends and interest.

D. S. Kennedy, chairman, Edison Electric Institute Special Tax Policy Committee

Opposes withholding on dividends and interest.

R. J. Landolt, Controllers Institute of America

Opposes withholding on dividends and interest. Will work a hardship on nontaxable individuals who will fail to claim refunds. Collecting taxes is the function of Government and not of the business community.

Allen Lauterbach, general counsel, American Farm Bureau Federation

Opposes all withholding on dividends.

C. E. Loomis, president, Columbia Gas System, Inc.

Opposes withholding on dividends.

Harley L. Lutz, professor emeritus of public finance, Princeton University, and consultant in Government finance, National Association of Manufacturers

Opposes the withholding on dividends and interest on the ground that such withholding would impede savings and on the ground that it is not necessary. Claims the unreported "gap" is not as large as believed by the Treasury.

Clyde McFarlin, United States Independent Telephone Association

Opposes withholding on dividends on the basis of the burdensome bookkeeping involved.

Walter D. Manning, CPA, San Francisco, Calif.

Opposes withholding on dividends and interest.

L. Chester May, treasurer, American Telephone & Telegraph Co.

Expressed the view that the Treasury withholding proposal would result in hardship and inconvenience for many thousands of payees and unnecessary increases in cost to the Internal Revenue Service. He particularly objected to the fact that the administration's proposal for quarterly refunds was limited to cases where there was \$10 or more of withholding per quarter. He stated that this would preclude quarterly refunds for 1¼ million A.T. & T. shareholders. In lieu of quarterly refunds he suggested that tax-exempt organizations, and any individual taxpayer who does not expect to be liable for income tax in the coming year, should be permitted to file a certificate of exemption from withholding with the dividend payor which would be good until withdrawn or canceled in the case of tax-exempt organizations or for the current year only in the case of individuals. The payor would be required to supply the Service with the names of all organizations and individuals claiming such an exemption. The use of identifying account numbers for each taxpayer was a proposal which he considered would be costly and burdensome.

John Meck, American Council on Education

Calls attention to the special problems of withholding on interest and dividends paid to Governments and tax-exempt organizations. Withholding may have the effect of depriving them of needed working capital.

John Milliken, New York Clearing House Association

Opposes withholding on interest and dividends and calls attention to the unsuccessful Canadian attempt to withhold on this type of income undertaken in 1940.

Leslie Mills, chairman, committee on Federal taxation, American Institute of Certified Public Accountants

Opposes withholding on dividends and interest.

Minneapolis-Honeywell Regulator Co.

Opposes withholding on dividends and interest.

National Association of Mutual Savings Banks

Opposes withholding on dividends and interest.

New York Chamber of Commerce, committee on taxation

Supports use of taxpayer account numbering system.

Leonard E. Pasek, Kimberly-Clark Corp.

Opposes withholding on interest and dividends. The system proposed would not give the Commissioner any more information than he now has as to whose income was escaping tax.

Joseph A. Pechman, Washington, D.C.

Supports withholding on interest stating—

- (1) it is necessary;
- (2) it is not unduly burdensome to the withholding agent;
- (3) can be structured so as not to create hardship on low income taxpayer; and
- (4) excessive fraudulent claims for refund probably will not become a problem.

John Sadlik, vice president, Franklin National Bank, New York City

Supports withholding on interest, stating his bank could handle problem adequately.

Willis Satterthwaite, chairman, American Life Convention; and Gerhard A. Munch, chairman, Life Insurance Association of America

Opposes withholding on insurance company dividends to policyholders.

Paul L. Smith, the Manufacturers Association, City of Bridgeport, Connecticut, Inc.

Opposes withholding on interest and dividends and suggests extension of use of information returns.

Edmund A. Spencer, Spencer & Crowe, Chicago, Ill.

Opposes withholding on dividends and interest.

Howard J. Stoddard, president, Michigan National Bank, Lansing, Mich.

Supports withholding on interest. The staff of witness' bank believes that it will not place an onerous burden on banks.

L. Shirley Tark, executive officer, Main State Bank, Chicago, Ill.

Supports withholding on interest, agreeing with testimony given by John Sadlik of Franklin National Bank.

Tyre Taylor, general counsel, Southern States Industrial Council

Opposes withholding on interest and dividends on the ground of the supposed heavy cost to industry.

United States Savings & Loan League

Opposes withholding on interest.

John F. Wood, chairman of the taxation committee, National Retail Merchants Association

Opposes withholding on interest and dividends at the present time.

DIVIDEND CREDIT AND EXCLUSION

American Retail Federation

Strongly opposes the repeal of the dividend exclusion and dividend credit.

Lincoln Arnold, chairman, tax committee, American Mining Congress

Favors continuance of the dividend credit and exclusion on the ground that it furnishes only moderate relief to stockholders.

Brooklyn Chamber of Commerce

Opposes repeal of dividends received exclusion and credit.

John Dane, Jr., Chamber of Commerce of the United States of America

Opposes repeal of the dividend credit and exclusion on the ground that removing them will not increase taxpayer equity. States that the 4 percent figure is so low that it probably covers less than the proportion of the tax which is borne by the shareholders and, therefore, should be retained. Feels that the amount of revenue involved (\$450 million) is not a sufficient justification for the repeal.

L. Berkley Davis, president, Electronic Industries Association

Opposes repeal of the dividends received credit.

G. Keith Funston, president, New York Stock Exchange

Opposes the repeal of the dividend credit and exclusion. This repeal would tend to inhibit the achieving of the growth in the private economy which the administration wishes to stimulate. Most other countries tax dividend income more favorably than the United States. Within the past few years West Germany and Japan both have liberalized the relief from double taxation of shareholders. The partial relief granted in 1954 was one of the factors in causing the number of shareowners to more than double. In response to a question, Mr. Funston pointed out that if a corporation has \$100 income, pays \$52 corporate income tax, and distributes the entire \$48 remaining as dividends, the maximum credit which can result is only \$1.92 (4 percent \times \$48) out of the \$52 tax paid by the corporation. Thus, the credit at most assumes that only about \$2 (out of \$52) of the corporation's tax burden is borne by the shareholder.

General Public Utilities Corp., New York, N.Y.

Opposes repeal of the dividend credit and exclusion.

Hon. Arthur J. Goldberg, Secretary of Labor

Favors the repeal of the dividend credit and exclusion in view of the substantial savings it provides to high-bracket taxpayers.

Hon. Edward Gudemán, Under Secretary of Commerce

Supports the elimination of the dividend credit and exclusion stating that both devices do not tend to increase the cash flow available

to a corporation for new investment for plant and equipment. Also states that there is no reason for discriminating in favor of investment income as compared to income from salaries and wages.

Illinois State Chamber of Commerce

Opposes repeal of the dividend credit.

William Jackman, president, Investors League, Inc.

Opposes repeal of the \$50 dividend exclusion and the 4 percent dividend credit and urges that instead there should be an increase to a \$100 exclusion and a 10 percent dividend credit. Argues that corporate income is taxed once separately, and that, therefore, the credit is needed to insure an adequate supply of equity capital. Stresses the point that there has been an increase in the number of shareholders since the adoption of the credit.

Benjamin A. Javits, president, United Shareholders of America

Opposes repeal of the dividend credit and exclusion. Suggests that to increase revenue and stimulate the economy corporate tax be raised from 52 percent to 58 percent and "the additional tax on distributed dividends" be eliminated. Stresses the present need for substantial investment in plant and equipment for every worker, saying that on the average the cost is approximately \$11,000 per job.

D. S. Kennedy, chairman, Edison Electric Institute Special Tax Policy Committee

Opposes repeal of the dividend credit.

C. E. Loomis, president, Columbia Gas System, Inc.

Opposes repeal of dividends received credit.

Harley L. Lutz, professor emeritus of public finance, Princeton University, and consultant in Government finance, National Association of Manufacturers

Opposes repeal of the dividend credit and exclusion on the ground that it would deprive recipients of small dividend incomes of a significant measure of relief in relation to their individual taxes. Stresses the increase in number of stockholders from 1952 to the present time.

Edward T. McCormick, president, American Stock Exchange

Opposes repeal of dividends received credit.

G. D. McEnroe, treasurer, Halliburton Co., Duncan, Okla.

Opposes repeal of dividend credit and exclusion.

Clyde McFarlin, United States Independent Telephone Association

Opposes repeal of the dividend credit on the grounds that it would discourage the trend toward a "people's capitalism" of user-owned public service facilities.

Machinery & Allied Products Institute

Opposes repeal of dividend credit.

Benjamin Mahler, New York City

Opposes repeal of individual dividends received credit.

L. C. May, treasurer, American Telephone & Telegraph Co.

Opposes repeal of the dividend credit and exclusion. This company has over 2 million shareholders. About one person in every six

who has a common stock investment is a shareholder in it. About 40 percent of the company's shareholders hold less than 30 shares and receive less than \$100 a year. Since World War II the corporation has raised approximately \$15 billion in additional capital, about \$8.5 billion of which was raised through the sale of common stock. States that the need for increased capital formation and investment will continue in the years ahead and it is, therefore, essential not to discourage common stock investors.

Walter Maynard, Investment Bankers Association of America

Opposes repeal of the exclusion and credit on the ground that corporate income is taxed twice. Stresses the increase in number of shareholders since credit was adopted. Calls attention to the treatment of corporate income by various other countries, particularly Canada, which has a 20-percent dividend credit.

National Association of Investment Companies

Opposes repeal of dividends received credit.

National legislative and tax committee of Smaller Business of America, Inc., Cleveland, Ohio

Opposes repeal of dividends received credit.

New York Chamber of Commerce, committee on taxation

Opposes repeal of dividend credit and exclusion.

Frank L. Novaro, CPA, New Haven, Conn.

Favors repeal of dividends received credit and urges instead that dividends be made deductible to corporations.

Frank V. Olds, chairman, Committee on Federal Taxation, Controllers Institute of America

Opposes the repeal of the dividends credit and exclusion. The present relief should not be withdrawn until some more satisfactory method has been adopted.

Howard C. Petersen, chairman, Committee on Fiscal, Monetary and Debt Management Policies, Committee for Economic Development

Urges that the present dividends received credit be abolished and a system of "grossing up" a 5-percent credit be adopted instead. Suggests this be combined with a 20-percent withholding, so that there would be 20 percent withholding and 25 percent withholding credit. The shareholder would "gross up" to the extent of the full 25 percent. Under this system, if a corporation had \$100 income and paid \$52 tax, it would withhold \$9.60 of the remaining \$48 and distribute \$38.40 to the shareholder. The shareholder would include in income both the \$38.40 received and the \$12.80 credit against the tax (consisting of the \$9.60 withheld plus a \$3.20 credit). The shareholder's credit against his tax would, of course, be \$12.80. The amount included in the shareholder's income because of the distribution would be \$51.20.

Robert A. Podesta, governor of the Association of Stock Exchange Firms

Opposes repeal of the dividend credit and exclusion. Expresses belief that such repeal would trigger an immediate decline in investment incentive. States that it is due to legislative oversight that from

1936 to 1954 there was no special provision for dividends. Defends equity of the credit and states that it is hard to conceive any more convenient method for dealing with the double taxation problem. Argues that dividend income is the only income that is twice subjected to the same tax in the same jurisdiction. Believes credit has greatly aided equity investment since 1954.

Rubber Manufacturers Association, Inc.

Opposes repeal of dividend credit.

Stanley H. Ruttenberg, director of research, AFL-CIO

Supports repeal of the dividend credit and exclusion on the ground that all income should be treated alike and on the ground that they benefit primarily the wealthier taxpayers. States that only 14 percent of American families owned any stock whatever in publicly held corporations and that 6 percent of all families own 64 percent of all the stock held. Believes that dividend income should not be more favorably treated than earned income from wages and salaries. Rejects the argument that there is a "double tax."

Charles R. Sligh, Jr., executive vice president, National Association of Manufacturers

Opposes repeal of the dividend credit and exclusion on the ground that it will discourage common stock investment.

Smaller Business of America, Inc., Cleveland, Ohio

Opposes repeal of the dividend credit.

Dan Throop Smith, professor of finance, Harvard Graduate School of Business Administration

Opposes the repeal of the dividend credit. This repeal would mean that dividend income would be subject to unrelieved discriminatory double taxation. Calls attention to the fact that from 1913 to 1936 dividends were never subjected to the full burden of the individual income tax. The full double tax was imposed from 1936 to 1954. After consideration of many proposals the present moderate relief for shareholders was adopted in 1954. There is a strong need for equity capital since this is the form which underlies all other types of capital. The administration argument that the relief is more advantageous to the wealthy than to the poor taxpayer is disagreed with. The 4-percent credit means that the lowest-bracket taxpayer pays 16 percent instead of 20 percent, while the highest-bracket taxpayer pays 87 percent instead of 91 percent. At least this limited relief should not be eliminated.

Tyre Taylor, general counsel, Southern States Industrial Council

Opposes repeal of the \$50 dividend exclusion and the 4 percent individual dividends received credit on the ground that this would discourage investment in stock.

John F. Wood, chairman of the taxation committee, National Retail Merchants Association

Opposes the repeal of the dividends credit and exclusion.

Zenith Radio Corp.

Opposes repeal of dividends received credit.

BUSINESS EXPENSE ACCOUNTS

American Federation of Musicians, AFL-CIO

Opposes recommendations as to business and entertainment expenses.

American Watch Manufacturers Association, Inc.

Opposes limitation of business gifts to \$10.

Lincoln Arnold, chairman, tax committee, American Mining Congress

Disapproves the administration's suggestions on travel and entertainment expenses and favors enactment of H.R. 640 (permitting lobbying expenses).

Arthur Blaustein, New York City (restaurant man)

Supports recommendations on limitation of expense accounts.

Brooklyn Chamber of Commerce

Opposes limitation on entertainment expenses.

L. Berkley Davis, president, Electronic Industries Association

Supports limitation on business expenses.

Leo D. Fialkoff

Opposes all of the President's message.

Hon. Arthur J. Goldberg, Secretary of Labor

Favors the President's suggestions with regard to expense accounts, believing that the present situation contributes to the lack of confidence in the tax system.

Illinois State Chamber of Commerce

Opposes limitation on business expenses.

Wallace M. Jensen and Kirk Eads, on behalf of Chamber of Commerce of the United States of America

Oppose the administration's suggestion insisting that more careful administration on expense accounts might turn out to be sufficient. In addition, urge that lobbying expenses be made deductible.

Henry Lavin, chairman, Government affairs committee, Electronic Representatives Association

Does not oppose the elimination of certain types of entertainment and travel expenses but believes there should not be specific dollar limits. Is not opposed to stricter auditing of these expenses.

John Lesure and Paul Wolfe, on behalf of American Hotel Association

Oppose the administration's travel and entertainment suggestions. The enactment of these into law would seriously damage the hotel business which is very important to the economy of urban centers and employs a very large number of people.

Carroll F. Lewis, chairman, committee on taxation of the Manufacturers Association of the City of Bridgeport, Conn., Inc.

Opposes limitation of entertainment deduction.

C. D. McEnroe, treasurer, Halliburton Co., Duncan, Okla.

Opposes limitation on expense accounts.

Clyde McFarlin, United States Independent Telephone Association

Favors the President's proposal on business expense accounts.

Machinery and Allied Products Institute

Opposes limitation on entertainment expense deduction.

Ed. S. Miller, general president, Hotel & Restaurant Employees & Bartenders International Union

Opposes limitations on business expense deduction.

Leslie Mills, chairman, committee on Federal taxation, American Institute of Certified Public Accountants

Opposes limitation on entertainment expenses.

Minneapolis-Honeywell Regulator Co.

Opposes limitation on entertainment expenses.

National Association of Engine & Boat Manufacturers

Opposes limitation of entertainment expense deduction.

National Legislative and Tax Committee of Smaller Business of America, Inc., Cleveland, Ohio

Opposes change in law with respect to business expense accounts.

National Licensed Beverage Association

Opposes limitation on expense accounts deduction.

New York Chamber of Commerce, committee on taxation

Supports limitation on entertainment expense deductions.

George F. Newman, treasurer and counsel, Viking Pump Co., Cedar Falls, Iowa

Opposes the administration's proposals on expense accounts on the ground that the present statutory test of "ordinary and necessary" is sufficient.

Frank V. Olds, chairman, committee on Federal taxation, Controllers Institute of America

Opposes the administration's recommendations and urges more careful auditing instead.

Price Waterhouse & Co.

Opposes limitation on entertainment expense deductions.

Carl E. Rosenfeld, president, Walter W. Cribbins Co., Inc., San Francisco, Calif.

Opposes limitation on business gifts.

Rubber Manufacturers Association, Inc.

Opposes limitation on entertainment expenses.

Stanley H. Ruttenberg, director of research, AFL-CIO

Supports the administration's suggestions on travel and entertainment expenses. Job opportunities in the entertainment field ought

not to be dependent upon items which can be deducted on an expense account.

Vincent Sardi, Jr., and Thomas W. Power, on behalf of National Restaurant Association

Opposes the administration's recommendations on business expenses, suggesting that it would perhaps be preferable to eliminate or modify the Cohan rule by statute and to provide for more careful auditing. States that the administration's suggestions would seriously damage the restaurant business and the theater and entertainment business. Defends entertainment as the diplomacy of the business world.

David J. Schwartz and Richard Mullens, on behalf of Bureau of Salesmen's National Association

Opposes limitations on travel and entertainment expenses. The association represented by the witnesses consists of salesmen who are independent contractors working on a straight-commission basis. Their position requires them to give the appearance of prosperity in order to make sales. In addition, these salesmen have to sometimes get sample rooms in which they are not permitted to sleep because of hotel regulations.

J. S. Seidman, New York City

This witness, strongly supports the President's suggestion that entertainment expenses be limited. He does not believe this will seriously hurt the entertainment industry. In particular, he believes that action is necessary to preserve taxpayer morale at the present time.

Smaller Business of America, Inc., Cleveland, Ohio

Opposes limitation on entertainment deduction.

Edmund A. Spencer, Spencer & Crowe, Chicago, Ill.

Urges statutory definitions of travel, entertainment, and similar concepts.

Otto N. Starnes, vice president, creative division, Brown & Bigelow, St. Paul, Minn.

Opposes the administration's suggestion particularly with regard to business advertising gifts. This has been a recognized advertising medium for a long time and has proved effective.

M. B. Townsend, Jr., Jackson, Mich.

Opposes the administration's suggestion on travel and entertainment expenses.

Clarence L. Turner, member, State chambers of the Council of State Chambers of Commerce

Opposes reform on expense accounting, stating that existing law is adequate if auditing officers get more business and technical advice and if a more strenuous demand is made for adequate records.

Maxwell A. H. Wakely, Mount & Carter, certified public accountants

Opposed limitation on entertainment expense deduction.

John F. Wood, chairman of the taxation committee, National Retail Merchants Association

Opposes arbitrary limit on entertainment expenses.

FIRE AND CASUALTY INSURANCE COMPANIES AND COOPERATIVES

Thomas D. Allen

Supports taxation of cooperatives.

Charles Brannon, general counsel, National Farmers Union

Took the position that margins are not income to the cooperative because it holds them for the patrons and that allocations are not income to the patrons because they have not received anything having a fair market value. Also took the position that the so-called patronage refund is the return of the money spent by the farmer.

Homer L. Brinkley, executive vice president, National Council of Farmer Cooperatives

Supports recommended clarification of existing law to effectuate single income tax on net earnings of cooperatives. Opposes withholding on patronage refunds.

Brady Bryson, counsel, Joint Committee on Taxation of the Milk Industry Foundation and the International Association of Ice Cream Manufacturers

Expressed great doubt as to whether the Supreme Court would hold valid a statute taxing the conditional "patronage refund." Furthermore, there does not seem to be any good reason to transfer the tax burden from the cooperative which, in fact, produced and enjoys the income to the patron who receives nothing of value. Supports taxing the cooperative but permitting the deduction of distributions in cash. The witness' statement was endorsed by a large number of business associations and professional groups.

George J. Burger, vice president, National Federation of Independent Business

Supports the President's program and urges that farmers be taxed on the allocated refunds. Produced evidence that there is now strong sentiment for tightening up taxes on cooperatives, which evidence was gathered through a polling procedure.

Leonard Calhoun, Public Information Committee on the Cotton Industries

Believes the 1951 act can be amended to be made workable. Basically, this can be done by providing that the distributions must permit the farmer to demand payment. This would, of course, require changes in the charters of many cooperatives.

Arlindo S. Cate, attorney for National Committee for Insurance Taxation

Appeared in support of the Boggs-Baker bills, H.R. 6659 and 6660, representing one-half in number and 20 percent in premium volume of all stock fire and casualty companies. Strongly urged that stock companies, mutuals, and reciprocals all be taxed in the same manner.

Stressed the point that under the proposed method of taxation all three would be permitted to deduct return premiums and dividends to policyholders, so that in any case if a reciprocal or mutual operated at cost, it would have no underwriting income to tax. (Submitted lengthy technical memorandum.)

Hon. Clifford Davis of Tennessee, Member of Congress

Suggests that cooperatives be taxed like other corporations but that then shareholders be given full credit for the tax paid by the cooperative. For example the co-op has a \$100 net margin and pays \$30 on this and \$70 is distributed to the farmer. The farmer includes \$100 in income (\$70 plus \$30) and takes a credit against his income tax for the year of \$30. Has introduced H.R. 5775 embodying this concept.

L. J. Desmond, reciprocal inter-insurers Federal tax committee

Appeared in opposition to Boggs-Baker bills and argued that reciprocals are different from stock companies and different from mutuals and ought not to be taxed on their underwriting income for this reason. A principal argument was that any "profit" always belongs to subscribers. However, in answer to questions from committee members, it became clear that the accumulated surplus from operations belongs to the current subscribers and not to those who originally paid the money in.

Eastern Federation of Feed Merchants, Inc., Sherburne, N.Y.

Urges that tax exemption to farmers' cooperatives be eliminated or limited.

Charles Ellis, on behalf of the Independent Plant Food Manufacturers Association

Urged that cooperatives be fully taxed on profits made from manufacturing of fertilizer.

Frank Gallup, president, Agriculture Services of Grand Island, Nebr.

Asked for equal taxation of cooperatives insofar as the manufacture and distribution of fertilizer is involved.

Gilbert G. Giebink, on behalf of National Association of Manufacturers

Is in favor of the taxation of cooperatives and believes that the deduction should be allowed only for patronage distributions in cash. Under this suggestion, the cooperatives will still have a substantial tax advantage over other businesses. Called attention to the fact that a so-called refund is not a refund in any true sense, since no separate account is kept of the transaction with the patron. Also made the point that cooperatives can generally raise capital on more or less the same basis as private businesses.

Grain and Feed Dealers National Association

Urges more taxation of farmers' cooperatives.

Patrick B. Healy, assistant secretary, National Milk Producers Federation

Supports the President's method of taxation of cooperatives. Believes that one tax should be paid on cooperative income, that the tax should be paid by the farmers on the amounts allocated to them and by the cooperatives on amounts which are not allocated. Further believes that allocations should be treated in the same manner as cash.

Fred V. Heinkel, president, Missouri Farmers Association, Columbia, Mo.

Opposes withholding on dividends of farmers' cooperatives.

Edgar H. Holden and Arthur C. Kreutzer, on behalf of Liquefied Petroleum Gas Association

These witnesses represent the liquefied petroleum gas dealers (bottled gas). They urge that cooperatives be taxed. In addition, urged that taxation be extended to the REA cooperatives. The REA outfits are vigorous competitors engaging in true business for profits. Furthermore, they use aggressive merchandising techniques. There is no equity in subsidizing such competition.

Charles T. Houston, general manager, American Reciprocal Insurance Association

Urged the committee to exclude the underwriting income of so-called reciprocal insurance associations from income tax. (At the present time these entities pay no tax at all on underwriting income.) In answer to a question from the committee, he stated that in some cases the difference between a so-called deposit and the actual cost of the insurance is not returned to the depositor (insurer).

William Jackman, president, Investors League, Inc., New York

Favors taxation of cooperatives but believes it likely that the courts will continue to consider the conditional interest distributed to not be income.

Ambrose B. Kelly, general counsel, Associated Factory Mutual Fire Insurance Cos.

Appeared, representing the so-called factory mutuals in support of Mr. Ikard's bill, H.R. 4311. The factory mutuals take large deposits from the insurers and, therefore, have a large amount of investment income. Because of this they have always paid tax on investment income and have never been able to pay on the 1 percent on gross income. Thus, they have always paid more tax than stock companies in a similar situation would have paid. For this reason these companies desire to be taxed in substantially the same way as stock companies. They desire, however, to have the right to take the amount to be returned to an insurer into account only at the end of a 3- or 5-year insurance contract.

D. S. Kennedy, chairman, Edison Electric Institute Special Tax Policy Committee

Urged taxation of cooperatives.

Samuel J. Lanahan, on behalf of the Fair Tax Committee

Suggested a system of taxing cooperatives on some of their income in the same manner as a charitable exempt organization is taxed on its unrelated business income. Submitted a draft statute which would tax profits in excess of \$10,000 resulting from manufacturing, processing, or mining, together with sale of the articles produced at wholesale or retail.

Allen Lauterbach, general counsel, American Farm Bureau Federation

Believes that the cooperatives should only be allowed a deduction for distributions made in cash or a fixed legal obligation having a fair market value. All income not so deducted should be subjected to the ordinary corporate rate.

Garner M. Lester, president, National Tax Equality Association

Does not believe Congress should try to reenact the reinvestment theory of the 1951 act into present law. Believes that courts will continue to hold that the patronage dividend is not income. Suggests that if income is to be based on the consent of the farmers, this consent would have to be actual and not implied. Accordingly, favors a tax at the corporate level on cooperatives.

Appeared in support of the President's suggestion and H.R. 6659 and H.R. 6660. Stressed that the present situation is unfair from the point of view of competition.

G. D. McEnroe, treasurer, Halliburton Co., Duncan, Okla.

Supports increased taxation of cooperatives.

Clyde McFarlin, United States Independent Telephone Association

Believes cooperatives should be taxed in the same manner as other corporations.

Roy R. McLain, on behalf of Agricultural Council of California

Generally favors approach of 1951 law but believes farmers should be permitted to include allocations in income either at time allocation is made or time it is actually paid at farmers' option.

Hon. Charles S. Murphy, Under Secretary of Agriculture

Supports the President's tax proposals and states that the position of the Department of Agriculture is that only a single tax should be collected on the net income of a farmer, including that portion of his income which passes through a cooperative enterprise. Supports withholding on patronage dividends.

National Grange

Opposes limitation of present tax position of cooperatives.

National Legislative and Tax Committee of Smaller Business of America, Inc., Cleveland, Ohio

Urges limitation or elimination of the exemption of cooperatives.

National Rural Electric Cooperative Association

Opposes taxation of cooperatives.

New York Chamber of Commerce, committee on taxation

Supports President's recommendations on cooperatives.

Northwest Independent Dairies Association, Inc.

Supports taxation of cooperatives.

William B. Poinsett, III, chairman, committee on legislation and taxation of the National Association of Tobacco Distributors

Supports the President's program on cooperative taxation although believes Congress should go further.

Edwin J. Putzell, Jr., on behalf of the Manufacturing Chemists' Association

Urged that an "unrelated business income" concept be applied to cooperatives and that, accordingly, they be fully taxed on the income they produce by "manufacturing, processing, and mining." It is clear that such efforts are a great deal more than joint purchasing or selling activities.

Wilfrid E. Rumble, on behalf of National Federation of Grain Cooperatives, Land O'Lakes Creameries, Inc., Farmers Union Grain Terminal Association, and Farmers Union Central Exchange, Inc.

Supports the President's recommendation on the taxation of cooperatives, but suggests withholding be modified as to patronage dividends.

Smaller Business of America, Inc., Cleveland, Ohio

Supports President's message on cooperatives.

Bruno Schroeder, Horace Smith, and Wilmer Smith, on behalf of the Texas Federation of Cooperatives and the Plains Cooperative Oil Mill

Stated the cooperative position that: (1) it is permissible for a cooperative to become bound by contract to refund margins to its patrons on business done with them; (2) that in such cases at the same time the patron may be legally obligated to reinvest the refund in the capital of the cooperative; (3) that when this type of a relationship exists, the margins are not taxable income; and (4) that in such a case all the patronage refunds made to him in whatever form are taxable income in the year in which he receives evidence of these refunds or notices of allocation in the dollar amount of such refunds. Did not oppose withholding on cooperative refunds.

Robert H. Smith, president, Arkansas Rice Growers Cooperative Association

Took the position that money retained by the cooperatives should be taxed to them, but opposed withholding on cooperative dividends.

Tyre Taylor, general counsel, Southern States Industrial Council

Supports the administration's proposal with regard to the manner of taxing cooperatives.

H. L. Thompson, Jr., chairman, and Thomas A. Fernley, Jr., managing director, National Wholesale Hardware Association

Supports the President's program on taxation of cooperatives, but believes Congress should go further and adopt the Mason bill, H.R. 3550.

Jerry Voorhis, executive director, Cooperative League of the U.S.A.

Supports approach of 1951 law and the present proposal. Believes there should not be withholding on small amounts.

John C. White, Federal finance committee of the Council of State Chambers of Commerce

Urges taxation of cooperatives. Believes that patronage dividends should only be made deductible if paid in cash. Believes there is a good possibility that even with a statute distributions in indefinite obligations will be held not to be income.

John J. Wicker, Jr., counsel, Mutual Insurance Committee on Federal Taxation

Opposes the taxation of mutual insurance companies on the ground that the competitive position of the mutuals is not better than that of stock companies.

John F. Wood, chairman of the taxation committee, National Retail Merchants Association

Supports President's proposals with regard to cooperatives.

TAX RATE EXTENSION AND AVIATION FUEL

Joseph P. Adams, executive director and general counsel, Association of Local Transport Airlines

Opposes the extension of the existing tax on gasoline and urges in the alternative that should such an extension be enacted that the presently subsidized scheduled certificated airlines be exempted from its imposition.

Also opposes the jet fuel tax on the ground that the industry cannot afford additional taxes at present. States that since these lines must be subsidized the imposition of additional taxes on them merely results in Federal funds being paid to these carriers and then repaid to the United States.

Opposes extension of transportation tax.

George P. Baker, professor of transportation, Harvard Graduate School of Business Administration and president of Transportation Association of America

Stated that the travel excise tax has served to discourage the use of public means of travel to the increasing detriment of the carriers and the traveling public. Stated further that in view of the great concern of Government for preservation of public surface passenger transportation, it seems inconsistent to continue a penalty tax on a service which it wishes to maintain.

Hon. David E. Bell, Director, Bureau of the Budget

Stated that the President's recommendations to extend the present corporation income and excise tax rates should be adopted to keep the budget more nearly balanced.

Hon. Alan S. Boyd, Chairman, Civil Aeronautics Board

The Board recommends that the present 2-cent-a-gallon tax on aviation gasoline be extended to jet fuel and that the 10 percent tax on passenger travel be repealed. The Board supports in principle a program of user charges but believes that such charges should be at a level which takes into consideration the industry's ability to pay and should further be coordinated with the elimination of the special use transportation tax. For the calendar year 1960 the net income for the domestic operation of the 12 trunkline carriers was approximately \$1,200,000, including capital gains. If capital gains are excluded, the carriers would have showed a loss of \$10 million. For the year 1962 the proposed tax on aviation fuel is estimated at \$32 million. Thus, this might be sufficient to make the entire industry show a loss.

The Board believes that the continuation of the 10 percent excise tax on passenger transportation will aggravate the critical financial situation of the airlines and might necessitate the return to subsidies for one or more of the trunklines. (At the present time none of the 12 major trunklines are receiving any subsidy.) In recent years coach

traffic has increased while first-class travel has declined. It thus seems that it is unrealistic to expect the airlines to develop substantial additional revenues by increasing passenger fares.

Hon. Charles E. Chamberlain, Member of Congress (Michigan)

Opposes extension of the excise tax on automobiles, stressing the importance of the automotive industry as a consumer and as an employer. Urges that the tax be permitted to drop from 10 percent to 7 percent (as it would without any statute). This change would cost about \$400 million, but some of this may be recouped through an improvement in the economy.

T. H. Davis, president, Piedmont Airlines, Inc. (representing local service carriers)

Urges the repeal of the 10 percent tax on transportation of persons, the maintenance of the existing 2-cent-a-gallon tax on aviation gas at its present level, and the rejection of the proposed tax on jet fuel. States that local airlines are supported partly by subsidies and the subsidies appear to be increasing. For this reason it appears that additional direct and indirect tax burdens on the industry should not be imposed. States that the present amounts of transportation taxes paid adequately cover user costs.

Federal Aviation Agency (James T. Pyle, Deputy Administrator)

Submitted "A Study of User Charges for the Domestic Federal Airway System." Based on lengthy statistical analysis various conclusions are stated substantially as follows:

(1) The Federal airway system is a complex combination of facilities for the regulation and use of all aircraft which is provided, maintained and operated by the Federal Government.

(2) The annual cost of the system will be approximately \$431 million in 1962.

(3) Approximately 70 percent of the costs are assignable to civil users and 30 percent to military users.

(4) The most feasible of several methods of imposing charges on the airway users is a fuel gallonage tax levied on aviation gasoline and jet fuel consumed in domestic flight by civil aircraft.

(5) No useful purpose would be served by imposing a charge on military users.

(6) The present 2-cent-a-gallon tax on aviation gasoline should be considered as an airway user charge and, therefore, should not be diverted to the highway trust fund.

(7) The absence of any present tax on jet fuel is inequitable because aircraft using gasoline must bear a substantial tax.

(8) The President's recommendation to place a 2-cent tax per gallon on jet fuel, to retain the 2-cent tax per gallon on gasoline and to increase both taxes one-half cent per year until the allowable portion of the cost of the airways is substantially recovered is supported.

(9) The fuel taxes proposed as airway user charges would recover substantially less from domestic civil airway users than the costs allocable to them.

(10) Civil aviation has reached a level of economic maturity which justifies the establishment of a long-term program of user charges.

(11) and (12) From the statistics the Federal Aviation Agency believes that any rate increase which might be required to cover the

user charges would have no significant effect on the growth of further air transportation. If the entire cost of the additional fuel taxes had to be met by increased fares, the average passenger fares would have to be raised by no more than 1.05 percent in 1962 or 1.6 percent in 1963.

James C. Gross, assistant director, National Association of Travel Organizations

Opposes extension of the tax on transportation of persons on the ground that it will seriously impede travel by persons in low income brackets and dampen the American travel market for foreigners.

Edwin S. Hall, secretary, Freedom, Inc.

Proposes a flat rate (nonprogressive) income tax on all income without any exemptions. Opposes the administration's program.

Hon. Everett Hutchinson, Chairman, Interstate Commerce Commission

Opposes the President's recommendation to continue the transportation tax. Calls attention to the fact that this tax was originally enacted in order to discourage unnecessary wartime travel and, therefore, the primary reason for its existence ended a long time ago. Believes that the revenue loss by repealing the transportation tax might be made up in part by the improvement in the profitability of the transportation industry to perhaps as great an extent as 50 percent of the loss. Calls attention to the present unsatisfactory financial condition of the carriers.

Edwin C. Johnson on behalf of the National Conference for the Repeal of Taxes on Transportation

Submitted statements of the following opposing extension of the tax on transportation:

Clarence N. Sayen, president, Air Line Pilots Association International.

Alvin Shapiro, American Merchant Marine Institute, Inc.

Donald L. Manion, American Short Line Railroad Association.

Rocco C. Siciliano, American Society of Travel Agents, Inc.

John V. Lawrence, American Trucking Associations, Inc.

Frank E. Barnett, Association of American Railroads.

A. J. Hayes, president, International Association of Machinists, AFL-CIO.

A. W. Koehler, National Association of Motor Bus Owners.

Stephen F. Dunn, president, National Coal Association.

L. J. Dorr, National Industrial Traffic League.

W. P. Kennedy, president, Brotherhood of Railway Trainmen.

S. E. Kossman, chairman, committee on governmental relations, National Automobile Dealers Association

Recommends elimination or lessening of manufacturers' excise tax on automobiles.

Hon. Thomas J. Lane, Member of Congress (Massachusetts)

Opposes extension of the tax on telephone service, calling attention to the fact that the tax on long-distance calls was justified by the "emergency" of World War II and has now been in effect for 16 years.

Hon. Odin Langen, Member of Congress (Minnesota)

Favors elimination of tax on telephone service.

Harding L. Lawrence, executive vice president, Continental Airlines

Opposes the imposition of a jet fuel tax and recommends the removal of the transportation tax, stating that air traffic fares have appeared to have reached the marginal point, so that there is a great reluctance to increasing fares any further.

G. D. McEnroe, treasurer, Halliburton Co., Duncan, Okla.

Urges lessening of tax on gasoline, on cars and automotive parts.

Clyde McFarlin, United States Independent Telephone Association

States that the telephone excise tax burdens the subscriber by materially increasing the cost of the service rendered and thus curtails the use of that service. In addition, the administration of the collection of this tax increases the cost of the telephone service. Further states that no other household utility (water, gas, or electricity) is subject to an excise tax.

Also is opposed to extending the 52-percent corporate tax rate.

Henry B. Mann, executive vice president, Amalgamated Association of Street, Electric Railway & Motor Coach Employees of America, AFL-CIO

Urges elimination of tax on transportation of persons.

New York Chamber of Commerce, committee on taxation

Supports tax rate extension in full.

Arthur J. Packard, chairman of governmental affairs committee, American Hotel Association

Opposes extension of transportation tax on persons and communications tax.

G. Stewart Paul, vice president in charge of operations, Western Union Telegraph Co.

Opposes the extension of the excise tax on telegrams on the ground that the telegraph company is the only utility competing directly with the tax-free airmail service which is subject to an excise tax. States that the tax has been a major factor in bringing about a serious decline in telegraph volume and a number of employees.

Alexander L. Stott, comptroller, American Telephone & Telegraph Co.

Opposes extension of the 10 percent excise tax on telephone service on the ground that of the four essential household utilities, water, gas, electricity, and the telephone, only the telephone is subject to an excise tax. States that this is a consumer tax and further states that the regulatory agencies have consistently opposed it. Believes that repeal would stimulate the national economy substantially.

Stuart G. Tipton, president, Air Transport Association of America

Urged (1) that the 10-percent travel tax be repealed, and (2) that the proposed 2-cent-a-gallon tax on jet fuel not be adopted. States that the airlines are a financially stricken industry which on the average operates on an extremely narrow profit margin. Success in the

further growth and development of the industry requires that the airlines get out of their present financial plight. Believes that removal of the transportation tax would enhance the opportunities for airlines to stimulate additional travel through promotional fares. It would also enable the airlines to effect moderate fare increases while still reducing the overall costs. Rejection of the proposed jet fuel tax would also contribute toward airline growth and development. Does not believe that an increased fuel tax is justified at the present time as an "airway user charge, since the airlines and their passengers have paid in fuel taxes and travel taxes more than any reasonable user charge. (Statement includes charts, tables, and statistics.)

Harry A. Williams, managing director, Automobile Manufacturers Association, Inc.

Opposes the continuation of the excise taxes on automobiles and accessories.

Stressed the importance of motor vehicles, both to consumers and to the large number of workers in automobile manufacturing and related industries.

John F. Wood, chairman of the taxation committee, National Retail Merchants Association

Opposes extension of the tax on transportation.

