

Office file

REPORTS
OF THE
JOINT COMMITTEE ON INTERNAL
REVENUE TAXATION

SIXTY-NINTH CONGRESS

PURSUANT TO

SECTION 1203 (b) (6), REVENUE ACT OF 1926

DIVISION OF SIMPLIFICATION

VOL. 1—PART 1

PLAN OF PROCEDURE

Printed for the use of the Members of the Committee

NOTE.—This report has been submitted to the Chairman and ordered printed by him, but has not yet been approved by the full Committee



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON

1927

REPORTS

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

REPORT

1911

U.S. GOVERNMENT PRINTING OFFICE

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

MEMBERS:

SENATE

HOUSE OF REPRESENTATIVES

- REED SMOOT, Utah.
- JAMES E. WATSON, Indiana.
- DAVID A. REED, Pennsylvania.
- F. M. SIMMONS, North Carolina.
- ANDRIEUS A. JONES, New Mexico.

- WILLIAM R. GREEN, Iowa, *Chairman*.
- WILLIS C. HAWLEY, Oregon, *Vice Chairman*.
- ALLEN T. TREADWAY, Massachusetts.
- JOHN N. GARNER, Texas.
- JAMES W. COLLIER, Mississippi.

II



PLAN OF PROCEDURE

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,
Washington, March 31, 1927.

HON. WILLIAM R. GREEN,
*Chairman Joint Committee on Internal Revenue Taxation,
House of Representatives, Washington, D. C.*

DEAR JUDGE GREEN: In response to your request, I am submitting herewith for your consideration a proposed plan of procedure for the committee.

Speaking generally, the duties of the committee are to study the administration, operation, and effects of the Federal revenue laws, simplification measures, and to make reports to the Committee on Finance and the Committee on Ways and Means. The first step is to ascertain the relevant facts. In planning a course of procedure directed toward this end I have kept in mind the objects which the committee hopes to achieve, viz, to make the determination, assessment, and collection of the necessary Government revenue as expeditious, inexpensive, and convenient as possible, both from the standpoint of the taxpayer and the Government. Much progress will have been made if the committee can determine and remove the principal objections of both sides to the present laws and methods of administration. If even more can be done, so much the better. I think the first efforts of the committee, therefore, should be to determine just what provisions in the existing law and modes of administration are objectionable to taxpayers or to the Treasury Department. The second step should be to classify these objections for systematic analysis and study. Such a method of procedure will insure the committee against loss of time and effort. There is much in the existing revenue laws and practices which all would agree to possess merit.

I suggest that the committee first secure the facts from the viewpoint of taxpayers by mailing, as soon as practicable, appropriate letters requesting the submission in writing at an early date of specific criticisms and suggestions. Among others, such letters should be sent to the trade associations; national, State, and local chambers of commerce; boards of trade; economic associations and agencies; national, State, and local bar associations; societies and associations of accountants, well-known economists and students of taxation; members of the bar and others who have specialized in this practice; business schools; financial and economic journals; individual and corporate taxpayers; and perhaps to a selected group of business executives. Doubtless the press would give full publicity to such requests for criticisms and suggestions on revenue matters. The fact that a large part of the replies might not be of much ultimate helpfulness and that many would be written from considerations perhaps of self-interest should be recognized as necessarily involved in getting the viewpoint of taxpayers.

It will not be difficult to compile immediately a mailing list which should bring us the views of practically all lines of business on tax matters, and also the views of the best informed students of taxation and tax counsel. The answers should enable the committee to judge accurately the objectionable features in the law and also the degree and scope of the objections. It would then be in a position to study specific problems intelligently and to benefit by the practical suggestions offered, which would come in many cases from those who have actually participated in the matters discussed by them.

Conversely, I think the Treasury Department should be asked to compile and submit to the committee, in writing, as soon as it can detailed statements of its views, with recommendations for such changes in the law and administrative practices as it may see fit to suggest. Further, the department should be asked to prepare written statements of its views from time to time on matters under the consideration of the committee, as hereinafter outlined.

In most instances, I think the committee would benefit also by asking the department to express its views on the principal objections raised by taxpayers. I am sure we can obtain full cooperation from the Treasury. The committee should avail itself fully of the accumulated experience of the department.

The two divisions of the committee need not be idle pending receipt of the replies to its letters. Certain matters have so frequently been the subject of discussion that the committee may safely assume the necessity for their consideration and may proceed therewith at once. Among others may be listed the following:

1. *The interest provisions.*

In this field it should not be difficult to formulate principles. The work is likely to lie along lines of legal questions and certain administrative difficulties.

2. *The limitations provisions.*

The questions here are largely legal and should be taken up by the counsel at the earliest practicable date.

3. *Installment sales.*

A most vexatious problem from the standpoint of the Treasury and certain classes of taxpayers in recent years has been the taxation of installment sales, particularly with reference to double taxation. Careful inquiry should be made to ascertain whether the present system is satisfactory.

4. *Capital gains and losses.*

It is understood that there is doubt whether the revenue from capital gains and losses justifies the retention of this provision in the law. A comprehensive analysis of the facts is a prerequisite to any consideration of the problem.

5. *The Board of Tax Appeals.*

Speaking broadly, the board has undoubtedly given satisfaction to taxpayers. Certain questions relative to the volume of appeals, the capacity of the present organization to handle more expeditiously the large number of cases brought to it, the simplification of statutory provisions relating to the board, and other questions should be studied by the counsel.

6. *Reserves.*

Under the present law, certain taxpayers are permitted to deduct additions to reserves for bad debts. A few other reserves are recognized with reference to particular classes of taxpayers. It has been contended that certain kinds of reserves set up to meet future obligations should be deductible, though no payment is made and no legal liability incurred within the taxable year.

7. *An act or code of tax administration.*

The committee, I think, should consider the feasibility of drafting what may be called a "Code of Federal Tax Administration" apart from the revenue acts. If practicable, this field seems to offer interesting possibilities in the way of simplification.

8. *Earned income credit.*

This provision, designed to recognize the difference for tax purposes between earned income and investment income, has not been well understood by the public. Some change may be necessary.

9. *Reorganizations.*

The law is not so clear as it should be, and there are some other objections to the present provisions. The study of simplification and correction should be undertaken.

The counsel should study certain matters necessarily involved in achieving the general objects for which the committee is working, such as, to some extent, the administration of income taxes in the several States having income-tax laws, certain phases of the history of Federal tax administration, the legislative drafting methods and administrative practices in foreign countries having income-tax laws, and other matters.

Some bibliographies will be necessary. For example, one on the large amount of matter which has heretofore appeared in magazines and periodicals, professional and popular, with reference to Federal tax laws.

The answers to the committee's inquiries undoubtedly will be received in sufficient volume to permit classification and analysis before work on the foregoing matters has been completed. An agenda should be prepared at that time setting forth in detail the questions to be studied and, so far as practicable, the plans for carrying out the studies. New topics might be added from time to time as conditions may warrant.

In this connection consideration should be given to the practicability of organizing a group of qualified individuals to advise the committee with reference to topics deserving study, and to undertake, or assist in arranging for others similarly qualified to undertake, the study of certain selected topics.

It is felt that much may depend on the hearty cooperation of the Treasury Department. I have no doubt this can be attained to the fullest extent. In the interest of efficiency, both of the Treasury Department and the committee, I think it would be advisable, whenever specific information is desired from the Treasury, to submit a written request therefor, under the signature of the chairman, specifying the details desired, and to ask for a written reply under

the hand of a responsible Treasury officer. In this way direct responsibility will be imposed on the department for the accuracy of the information furnished, possibilities of friction obviated, and time and effort saved to all concerned.

The Division of Investigation, analyzing the detailed data thus obtained, should find itself able to make important recommendations and reports to the committee. Wherever practicable, it is suggested that the Division of Investigation submit its tentative reports in the first instance to the counsel for review, recommendation, and, where necessary, the drafting of tentative statutory provisions covering proposed changes.

I think it is essential to the success of the committee's efforts that its work be carried forward constructively, with the sole purpose or aim of making a better revenue system for the future.

Very truly yours,

CHARLES D. HAMEL,
General Counsel and Chief, Division of Simplification.

