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# WHY THE INCOME TAX IS BAD



EXCLUSIVE INTERVIEW  
with

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# Interview

with T. COLEMAN ANDREWS  
Former Commissioner of Internal Revenue

## WHY THE INCOME TAX IS BAD

A man who collected more than 180 billion dollars in taxes for the Government comes up with some pointed views on questions that many people are asking just now:

Must the American people go on forever with the income tax law?

Is it the only way the Government can find to raise the money it needs? Or would it be possible for the U. S. to wipe out the income

tax and find some new tax to take its place?  
T. Coleman Andrews, who resigned last year after 33 months as Commissioner of Internal Revenue, was interviewed in the conference room of U. S. News & World Report.

Here Mr. Andrews tells why he believes:

- That taxes are too high
- That the income tax now in law is neither fair nor necessary.

**Q** Mr. Andrews, is it feasible to do away with the income tax? Are there other ways to get income into the Federal Treasury besides taxing the individual?

**A** Of course there are. To say otherwise would be to say that we have lost the imagination and ingenuity that have made us leaders among the nations of the earth in so many other fields of human endeavor. Moreover, it would be to resign ourselves to slavery. For absolutism in one form or another is the inevitable end of "steeply graduated" taxes on income and inheritances, and absolutism in any form is slavery.

I am as confident as I ever was of anything in my life that a more just and equitable, and less complicated and expensive, primary source of revenue would be contrived if Congress created the kind of machinery for dealing with the problem that might be regarded as evidence of a sincere desire to find a solution.

In the absence of such machinery, we'll continue to penalize outstanding ability and success until the will to achieve has been destroyed throughout the nation and we've all been reduced to the aimless status of an indifferent conglomerate of bone, tissue and blood.

**Q** What do you have in mind, a gross income tax?

**A** I'm not going to discuss any particular type of taxation. All that those people want who have a vested interest in the income tax—and there are lots of them—

**Q** A vested interest? Do you mean tax lawyers?

**A** Now, let's not jump on any single group. There are a lot of people who have a vested interest in maintaining the status quo, and they'd like nothing better than for me to say: "Well, I'd do it this way."

Then they'd start up a great fuss over whether that particular plan made sense, and the idea of creating corrective machinery never would even get a hearing.

**Q** What approach do you favor?

you can contract it, all within the framework of routine legislative procedure and enactment.

But when it comes to getting rid of a form of tax and putting something in its place, you've got a different problem on your hands. And you haven't got a problem that can be solved at one or two sessions of Congress. Nor do you have a problem that any single Administration can handle. No Administration could be sure that it would be able to get a period of one term to get the answer, polish it up, and have it ready for adoption as legislation. In other words, it requires a period of long study and analysis.

What I'd like to see would be a commission appointed by Congress, without any deadline, without any instructions as to what to come up with—except one, and that is that the whole revenue system be thoroughly studied out and the income tax in particular be given a real going over. The idea that a substitute be found for it if it can be made generally understandable, fair and compatible with our ideals of freedom.

I don't think it can be made even generally understandable, let alone fair and compatible with our tradition of freedom, but I'm willing to await and abide by the verdict of a representative group as I have suggested, provided, of course, that the group is clearly honest and fair.

You see, unless that happens, we don't get anywhere. We get a conversation, and I'm not interested in that. I don't think other victims of this devouring evil are either. I know any way to get action except to get machinery set up through which action can be taken.

**Q** The income tax law must be written pretty well now. It raises annually about 52 billion dollars of revenue—

**A** I'm not saying that the income tax doesn't raise a lot of money, because it does. In fact, I think it can be said that it raises too much. But what I'm talking about is the

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## "It Hurts All Kinds of People" . . . Law Is Used "to Enforce Social Reforms" . . . "'Soak the Rich' Purpose Pre"

low. But it hits the people in the middle brackets even harder and is slowly but surely destroying the middle class.

**Q** It's hurting the single man—

**A** It's hurting all kinds of people, from top to bottom. Look at the progression. It runs from 20 per cent to 91 per cent, making a surtax that runs to 71 per cent.

Incidentally, the rates above 20 per cent raise only a sixth of the total amount of money derived from individuals. The area of the progression is from \$2,500 to the \$200,000 bracket. But, by the time the \$20,000 bracket is reached, half of the progression in rate has taken place.

The \$2,000 of taxable income from the \$20,000-to-\$22,000 bracket is taxed 56 per cent—20 per cent base rate, plus 36 per cent surtax. Thus, half of the progression in added rate is applied by the time only 10 per cent of the dollar area of progression is reached.

What this does is sharply illustrated by what happens to a person who correctly answers "the \$64,000 question." A married man with two children and *no other income* would have \$37,188 left after the tax collector takes his cut. A single person, not the head of a household and with *no other income*, would have \$27,808 left. To the extent that either recipient had other income, the tax collector does even worse, according to what bracket the recipient's total income—including the prize money—puts him in.

But hear this! I was talking with a man the other day who said his income was \$200,000 in 1954 and that, as a result of improved operating methods and increased sales effort, he got it up to \$300,000 in 1955. Then, lo and behold! he discovered to his dismay that he would have only \$3,750 left out of the additional \$100,000 after settling with the federal and State tax collectors.

"What's the use?" said he. What's the use, indeed! Now, I realize that there would not be any point in getting excited about this case from the purely subjective point of view, and I don't. But I do get excited about it from the standpoint of its iniquitousness as a matter of principle.

Our country's economic growth has been produced with the direct and indirect savings of the people, and those savings have come from the people who have had enough on the ball to do better than just earn a living.

If we keep on at the present rate of taxation, we will come eventually to the point where no one will have anything to invest and the "man on horseback" will be upon us. The Government will own everything, and we'll be forced to do the bidding of commissars imbued with the idea that they know better how to spend our money than we, and vested with the authority to do it.

**Q** Haven't you got to do all that, though, to raise revenue?

**A** No, not that alone—I disagree with that completely. We've done it for the whole 43 years of the income tax to enforce social reforms—to reduce everybody to the level



**T. Coleman Andrews** was U. S. Commissioner of Internal Revenue for the first 33 months of the Eisenhower Administration. He is 57, a CPA, and an expert on Government spending and accounting matters.

Mr. Andrews entered the accounting profession as a native Richmond, Va., in 1922. His auditing practices in both the Virginia and Federal governments have resulted in numerous publications.

Since leaving Washington, Mr. Andrews has become president of the American Fidelity Insurance Company. A Democrat, he has supported Mr. Eisenhower.

**Q** Shouldn't everybody have the same income? Franklin Roosevelt said nobody should have more than \$25,000—

**A** You know I don't subscribe to such a philosophy as that. I say everybody should have the right to make money honestly, with a minimum of taxes. I don't think anybody can be able to keep a much larger share of his income than he can at present, and everyone's right to expect to have in his possession of what he makes should be protected, especially by the Government.

**Q** That point you make about the purpose of the income tax is

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## Interview

### ... "I am convinced" the present tax leads "to dictatorship"

ness of that purpose. Go back to 1894. In that year an income tax was adopted which was part of the Tariff Act of 1894. That was declared unconstitutional about a year later.

That tax was deliberately, avowedly, and unashamedly enacted to get at the "rich" people. There wasn't any apology for it at all. On the contrary its proponent boasted that it was aimed at the rich and would hit only 85,000 out of 65 million people, which according to my arithmetic was about one eighth of 1 per cent of the population. And to this day the "soak the rich" purpose prevails. I heard it the other day in a committee hearing in Congress—the whole idea is to get at the rich. It was conceived in vengeance and it has been that way ever since. It has never been anything different.

**Q** Well, isn't that a way to do both?

**A** True, it's a revenue law. But I cannot accept the proposition that a revenue law ought to be used to penalize success.

**Q** Mr. Andrews, granting that the revenue laws are aimed at the rich, do you think they are consciously aimed at the middle class, too?

**A** Yes, I do. What do you think the inheritance tax and gift taxes were planned to do? All you've got to do is get the record. It tells you frankly what it's designed to do. It's designed to put every generation back to scratch.

**Q** Maybe that's a good thing; they can scratch to get ahead—

**A** I don't agree. The best incentive for those who haven't started scratching is the example of those who did and who achieved success by so doing.

### TAX LAW'S "INFIRMITY"—

**Q** You said a moment ago that it was your own view that this income tax could not be made to work. Did you mean this income tax, or any income tax?

**A** Well, I was talking about the present one. I am convinced that this law has reached the point of incurable infirmity, and I doubt that any full-scale income tax, rigidly enforced, can be made a primary source of a great nation's income without leading eventually to dictatorship, which I am convinced is happening under the present law.

**Q** But it is raising the money the country needs, isn't it?

**A** Yes, and I might remind you that an infirm boiler usually holds steam right up to the time when it blows up. You know, it amazes me that so many people seem to accept two assumptions about taxes and expenditures that I believe to be utterly fallacious and indefensible. One is that there is no substitute for the income tax; the other is that the present level of federal expenditures cannot be lowered.

These two assumptions are widely held, even in some pretty high places. If they were valid, we'd be gone goshings. I don't think they are valid. I do think that no public official or political leader—there's a difference, you know—and neither of the two political parties could possibly do the people of this country a greater disservice than to accept these assumptions as valid. After all, about one half of all the income taxes collected are paid by individuals, and better than five sixths of the part paid by individuals is paid by those individuals whose taxable income is under \$6,000.

It's time for somebody to begin thinking about the com-

**A** I'm not talking about where you'd cut it. I think everybody is overtaxed, but I think the middle class is especially discriminated against. And if the public-opinion mean anything at all, the very fact that they have almost overwhelming response in favor of a limitation per cent in taxes—not once but twice—indicates that people in the lower brackets don't think that success is punished and the people in the higher brackets discriminated against.

**Q** Let's assume that the amount of money raised for our Government doesn't change, that we need a large sum, that it's not a question of extravagance but necessity. Is there any other way of raising that same amount of money by any other method?

**A** I believe there is.

**Q** You really think we could raise the same amount of money?

**A** Certainly. We might even raise more.

**Q** So that your objection to it is not merely that a lot of money is producing extravagance, but that there's a better way to raise a sufficient amount of money even if we wanted to be extravagant?

**A** I think there is a simple way. I think there is a fairer way. I think there is a fairer way.

**Q** Why don't you think the income tax is fair?

**A** I don't think it's fair because of the manner in which it is applied. I don't think it's fair because I object to the people's right of property by the Government being taken in a discriminatory manner in which the graduated is unfair.

**Q** Do you believe in the principle of the capacity to pay?

**A** No, I do not.

**Q** You don't believe the man who makes more should pay more?

**A** I don't believe he ought to be penalized by being required to pay nearly 50 times more on only 10 times the income, and neither do his fellow citizens, according to public-opinion polls. I don't believe we ought to take from people just because they've earned it. I don't think we ought to use tax legislation to enforce social ends.

**Q** But isn't that the principle behind the income tax?

**A** Yes.

**Q** So your objection is largely to the principle of the capacity to pay?

**A** That's one of my objections.

### "CONFISCATING PROPERTY"—

**Q** Don't all taxes have to come out of income unless you're going to confiscate property? The only question is whether you use income itself as a measure of tax. If you don't, about all you can do is base it on transactions. Is that essentially a correct conclusion—if you don't use income as the method of measure, then transactions have to be used?

**A** Not necessarily. We're confiscating property now one of the reasons why I don't like the income tax.

As I said a while ago, every time we talk about taxes we get around to the idea of from each according to capacity and to each according to his needs. That's written into the Communist Manifesto. Maybe it's written into the Communist Manifesto. Maybe it's written into the Communist Manifesto. Maybe it's written into the Communist Manifesto.

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## HOW FEDERAL TAXES HAVE GONE UP

In 1940, just before World War II, federal taxes totaled \$4.9 billion, OR 6.7% OF NATIONAL INCOME



NOW, federal taxes total \$64.4 billion a year, OR 20% OF NATIONAL INCOME



**Q** Would you like to tax everybody equally?

**A** You mean at the same percentage?

**Q** The same amounts—

**A** Of course not. That would merely shift injustice from one class to another. I want to end the "soak the rich" business, because we don't soak the rich—we penalize outstanding ability and ultimately destroy ourselves.

We've been soaking the rich so long that there aren't any rich any more. But there are people with a lot of know-how, and instead of a tax climate that encourages achievement of one's full potentialities, we have one in which the reward for outstanding performance is forced down as performance goes up. Thus, instead of soaking the nonexistent rich, we penalize high performance and foul the spark plugs of our hopes for sustained and growing leadership. It doesn't make sense, does it?

**Q** So a man might just as well take a vacation—

**A** Yes, and a lot of them do. And if you don't think so, just go down to Florida and take a look around.

**Q** You mean relatively young men?

**A** I certainly do.

**Q** Do you think that there is a preference between the principle of taxing earned income versus unearned income?

**Do you think a distinction should be drawn?**

**A** You mean as between what you earn and what you get on your investments?

**Q** Yes—

takes \$12,000 to \$15,000 to equip one who can produce more. I've often heard people talk about other people who apparently were accomplished men or women whose money was a by-product of investment that created tools, that created work of some kind. Why should they be taxed?

There are only two ways in the world that things can be financed. One is through saving and investment through Government handouts. May the Lord have mercy on the latter.

**Q** But while the theory is that you soak the rich, they spend it freely—aren't you really soaking the rich? They won't have a chance to invest it?

**A** That's exactly what happens. And some people spend, too. Here's an illustration, an estate that illustrates a point:

Not too long ago a member of a well-known family died and left 70 million dollars. The "death duties" were 10 million dollars, according to newspaper reports. Whether the figures were right or not, but the amount, there were millions of dollars invested in enterprise that the Government took, and spending then prevailing, it was gone in a few hours.

**Q** For unproductive things?

**A** Well, you certainly can't call Government

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## Interview

### ... "I think a whole lot of finagling is going on"

and leave that field to the States. I don't think that would be good for everybody concerned.

**Q** Do you think it is possible, without very sizable reduction in Government spending, to make any major improvement in our taxes?

**A** Certainly. Moreover, Congress can reduce expenditures substantially any time it really wants to.

**Q** If you have to have this much money and you don't take the larger chunks from big incomes, you're going to have to take more from the smaller incomes, are you not?

**A** You've got to take it out of the stream in some way, of course, but I believe that there are ways to take it out that will distribute the load fairly and end the present discrimination against one class.

### WHAT CONSUMER PAYS—

**Q** But without reducing the tax, all you can do is shift the burden—

**A** That would not necessarily follow. Under some forms of taxes that have been proposed, there would be a shift from one industry to another. One category of business on its face might appear to pay more taxes than another, but actually it wouldn't. I recognize one thing clearly, and that is that the consumer pays practically all the taxes that are collected. The only taxes I know that the consumer does not pay are the estate and gift taxes, and I'm not sure but what it can be shown that he pays them.

**Q** Does he pay the income tax?

**A** He sure does. He pays the personal income tax as well as the corporate income tax.

**Q** Exactly how?

**A** That's simple. The take-home pay is what he's after. For instance, you're running a business—the income tax of everybody you employ is paid by you, and you include it in your cost of operations and shift it to your subscribers or advertisers. Whoever you sell your product to pays the income taxes of your employees. If your customer is a business, it passes along what it pays you, and so on until the consumer ultimately picks up the tab.

And so, when anybody talks about any part of the income tax not being paid by the consumer, he's just water-skiing.

**Q** Couldn't that be carried to the ultimate that everybody is paying everybody else's taxes?

**A** To a considerable degree that is true, but the important thing is how the burden of tax is made to fall in the first place.

**Q** Do you think the Government is permitting some people to escape the income tax?

**A** A lot of them are escaping it.

**Q** Do you mean evading it?

**A** No, I think a whole lot of finagling is going on. Moreover, there are a lot of people who are not paying their taxes because they don't understand the law. That's one of the problems: It's a question of complexity.

The average man today, no matter how much you try to explain the income tax, doesn't even understand the "short form 1040" and he wouldn't know how to start making out the "long form 1040." Perhaps you're saying, "Well, why not simplify the forms?" But you can't make the forms any simpler

**A** It sure does. That's a very simple tax, by the way, let me remind you, in reality a supplemental income tax.

I made a poll at a social gathering the other night, results indicated that more than half of the ladies who weren't paying the tax. And they weren't deducting.

I would be willing to wager that if the number of canvassers necessary for a complete canvass were employed to go door-to-door and knock on every door in the United States and ask about household servants, you would be appalled at the results you would find, and, of course, the poor canvassers and the Revenue Administration would be swamped with protests not only from the people but also from the ladies and gentlemen of the town who passed the law.

**Q** In a good many cases wouldn't the servants get the employer tried to deduct this tax?

**A** I'm pretty certain they would.

**Q** And isn't it true that a lot of items that are deductible by merchants aren't counted as receipts, not with the idea of being dishonest, but because the recipients don't have income?

**A** I think there's a great deal of that, but I don't think it adds up to a lot of dollars. But let me make a point when I say that, that I don't mean for anybody to get the idea that I think the Revenue Service is not doing its job efficiently, because, as a matter of fact, I think they're doing a swell job. At least, I thought they were when I was in the office and I know of no reason to assume they are not still doing it.

But time and time again we told Congress that we didn't have enough agents to examine all the returns that are filed and examined. And perhaps you'll remember that Congress cut off giving us 1,000 agents a year and we were reduced from about 7,300 agents to 15,000 or 16,000. I think it figured would have been enough to enable us to do a job as possible before the law of diminishing returns would make it unprofitable.

Well, strangely enough, when the control of the Revenue Service changed hands at the beginning of last year, someone suddenly decided that we had reached our "optimum level" of employment. I don't know what they've done there, but there they were, as I said in a recent article, with no verifiable evidence before them that we could raise the level to \$20 for every \$1 spent for new agents; yet they had reached the "optimum level" of employment.

### WHAT CONGRESS FEARS—

**Q** Why? Do you think they were afraid?

**A** I think Congress is more afraid of a firm enforcement of the tax law than they are of the loss of revenue. Maybe they think, as many other people do, that if they ever gave the Revenue Service enough money to enforce the revenue laws up to the hilt, the income tax would be repealed within a year.

**Q** Why is that?

**A** Because the people just wouldn't stand for it.

**Q** You mean they are avoiding taxes in some way?

**A** They're just not paying a lot of what's due. In the farm situation, for instance. The computation of the income tax is a very complicated thing for the simplest kind of operation. My blood pressure doesn't rise when I think of it, because a lot of

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## ... "A tax system is wrong" if too complicated

ought not to be one that the farmer can't comply with without having to employ expensive professional people to help him.

Any kind of a tax system that is as complicated as that is wrong. Any sort of a tax system is wrong when a member of Congress himself finds himself so unacquainted with a law that he has voted for over and over again that he has to resort to the business of getting a special law passed to relieve him of a deficiency that anyone else would have had to pay.

**Q** You mean he didn't pay some back taxes?

**A** He paid his taxes that he figured he owed, but he deducted something he shouldn't have deducted. He misunderstood it and got a special law passed to save him from the consequences of his error.

**Q** Was he caught in some technicality that he thought was unjust?

**A** There was nothing technical about it. It was a very simple thing. He just didn't understand the conditions under

which the deductions he claimed could be used to satisfy those conditions.

**Q** Does that happen very often?

**A** The Service is constantly setting up arguments against taxpayers. I don't know whether there have been other situations that were cured as to or not.

When you've got a law that is so difficult that a member of Congress has to resort to legislation to save himself from the normal working arm of the Administration, there's something wrong with that tax law.

**Q** You spoke of rigid enforcement being unjust. You say that, if we actually required the country to pay all the taxes they're obligated to pay under the law, they would almost rebel?

**A** I wouldn't apply that to the farmers at all.  
*(Continued on next page)*

### HERE ARE THE TAXES PEOPLE PAY IN U. S.



Out of the portion of taxable income\*  
that falls in these brackets

The Govern-  
ment takes,

FOR A SINGLE PERSON	FOR A MARRIED COUPLE	The Govern- ment takes,
Under \$2,000	Under \$4,000	20c out of
\$2,000-\$4,000	\$4,000-\$8,000	22c out of
\$6,000-\$8,000	\$12,000-\$16,000	30c out of
\$10,000-\$12,000	\$20,000-\$24,000	38c out of
\$14,000-\$16,000	\$28,000-\$32,000	47c out of
\$18,000-\$20,000	\$36,000-\$40,000	53c out of
\$26,000-\$32,000	\$52,000-\$64,000	62c out of
\$38,000-\$44,000	\$76,000-\$88,000	69c out of
\$50,000-\$60,000	\$100,000-\$120,000	75c out of
\$70,000-\$80,000	\$140,000-\$160,000	81c out of
\$100,000-\$150,000	\$200,000-\$300,000	89c out of
\$150,000-\$200,000	\$300,000-\$400,000	90c out of

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## Interview

### ... "Trouble" would follow "rigid enforcement of tax laws"

generally. If complete and rigid enforcement of the tax laws were attempted, I think we would have trouble.

I want it thoroughly understood, however, that I'm no Ponjadist. I don't believe in doing anything by rebellion. I don't believe in engendering disrespect for any law. Nor do I believe in teaching or advocating evasion. I believe in doing things according to law—by petition preferably, by ballots if necessary. I'm not advocating rebellion, and I don't mean that anything I have said or will say be so construed.

### "HOLES" IN TAX SYSTEM—

**Q** Mr. Andrews, don't you think that the great majority of people pay every dollar of taxes that they owe?

**A** They try to, I think, but there are some big holes in the system and, in order to get rigid and complete enforcement there would have to be such an army of functionaries running around the country that I just don't believe the people would stand for it.

**Q** Doesn't it breed contempt for all law to leave unenforceable laws on the books?

**A** It certainly does.

**Q** Doesn't that apply to some degree to income taxes, too?

**A** Yes. But one cannot help but wonder whether Congress ever intended that the gambling laws be enforced. It may be argued that, if they did, they would have given the Revenue Service men to do it with. Maybe the members of Congress feel as a lot of other people do, that it's wrong to use the revenue laws to punish offenders against other laws.

**Q** Couldn't you eliminate a lot of troubles with the income tax by simply reducing the steep surtax rates and getting more taxable income?

**A** It could, and has worked that way in the past. In a subcommittee hearing on the Reed-Dirksen bill the other day, it was argued that lower rates would increase taxable activity to such an extent that there would be a net gain in revenue.

**Q** How are people avoiding income taxes? What devices do they use? Are expense accounts the main ones?

**A** I have not personally prepared tax returns for others for more than three years, so it would be very difficult for me to answer a question like that categorically. I only know what people are telling me.

**Q** What are they telling you?

**A** Well, there are all kinds of tricks for getting expenses in that aren't deductible. I'm not so sure, though, that the amount of taxes lost because of this is great. The Revenue Service hasn't been able to do any "doorbell ringing," as they call it, since the first time we tried it with such good results in 1953. They don't have the people to do much of that any more.

**Q** Congress probably pulled back when that started—

**A** We never pulled back. We gave instructions to do it as often as possible. But getting on top of the terrific accumulation of delinquent taxes that we inherited left little time to do any canvassing for delinquent returns.

**Q** Is there an ideal tax system that can be devised which would remove the necessity for a horde of taxes and tax functionaries; that would permit the citizen to compute readily and quickly his taxes so that he wouldn't have to hire attorneys, consultants and accountants to help him; a tax

be devised. It seems utterly absurd to me to ask back in 1913 we found the one and only tax by which the Government can live. That just doesn't make sense three years ago, when the country had much more agricultural economy than now, we decided that a tax was the only thing we could live on.

In the meantime, the ingenuity of the people of this country in all the fields that make up American life—agriculture, industry, commerce, finance, anything you could think of—has achieved world leadership. And some people seem to believe that there isn't genius enough in this country to get right down to brass tacks and conceive and devise a better tax system than we were able to dig up 43 years ago. I just don't go along with that idea.

**Q** There aren't very many taxes or types of taxes that haven't been tried out either by the Federal Government or the States, are there?

**A** No, I don't suppose there are. But at the time we invented the electric light, there wasn't any form of lighting that hadn't been tried out, either. Yet we've found many different light sources since then.

There undoubtedly are tax methods that haven't been thought of. I think there are others that have been thought of that haven't been given a fair trial or even a hearing.

**Q** A few moments ago we asked whether you would support the income tax we now have or to any other form?

**A** I wouldn't say that I'm objecting to any particular form. That's the reason I have declined to say outright whether I support the income tax. When there has been a real objective discussion of this whole problem, I might very well be on the side of those who would want to retain some kind of income tax, but I assure you it would have to be extremely simple and easy to agree.

This annual chore of complexity that people are faced with is, in my opinion, almost as serious as the opposition to the tax itself. It certainly is a shameful waste of our talent.

### "SIMPLICITY" VS. "EQUITY"—

**Q** You mentioned that that complexity was the main trouble with the law, which is so complicated. Is it possible under present conditions for Congress to write those laws more simply?

**A** I don't think so.

**Q** That is one of the basic problems, is it not?

**A** One of the basic problems of the income tax is the conflict between both simplicity and equity at the same time. The more equity you want, the more complexity you need. The more equity you want, the greater the complexity becomes.

**Q** Would you explain that a little bit?

**A** Yes, I can. I'll give you two illustrations: The dividend credit is one. The present Administration put that through. As it is, it's an insignificant part of the total, but the original intention was to boost it 5 per cent annually, until it got up to be 20 per cent. But it didn't have much chance of going beyond the present level. What with talk on the Hill about taking away from the "dead boys" and giving to the "little fellows," and the "demagoguery" of the "rich,"

In order to provide for that one bit of equity...

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**Former IRS Commissioner Andrews article - page 9**

## ... "Few Congressmen really understand the income tax

**A** Because we had to provide a formula for calculation of the credit.

One other illustration is the retirement-income credit. That was changed, too, to make it more equitable. And what happened? The net result was another half-page formula.

Now, to go back to your question, if this Administration couldn't simplify the income tax law with all the talent that it assembled to help it, I don't believe that any Administration could.

In planning its operation on the income tax this Administration had a fine corps of experts in the Secretary's office; it had the finest people we had in our shop, the Revenue Service; it had the staff of the Ways and Means Committee of the House, the Finance Committee of the Senate, the Joint Committee of Internal Revenue Taxation of Congress; it also had representatives of the American Bar Association, the American Institute of Accountants, the Comptroller's Institute, and goodness knows how many more organizations.

It gathered together the finest group of technicians, practitioners, and business people that any Administration had ever assembled before for any purpose. What did it come up with? It achieved simplicity in the sense that the mechanical arrangement of the Code is better. It closed some loopholes. It accomplished more fairness and justice. But it still has a tax bill that is over 1,000 pages long and is so complicated that 18 months already have gone by and all the official interpretations—that is, the regulations based on the law—are not out yet.

### HOW LAW IS "EXPLAINED"—

**Q** And what is the importance of those regulations?

**A** The importance of those regulations is to explain the law to the people.

**Q** And to the staff of the Internal Revenue so that they may interpret the law in individual cases?

**A** So that they, too, will understand what Congress meant.

**Q** Do you mean that for 18 months the 1954 statute is uninterpreted?

**A** Not yet fully interpreted.

**Q** Does that mean that all interpretation is stopped?

**A** No. On the contrary, they are trying to get the regulations out, and they have been working hard at it ever since even before the law was passed and signed; but they are confronted with two problems. First, with the problem of deciding what Congress meant. Don't forget that there are many parts of the law in which Congress did not spell out its intention but instead empowered the Secretary or his delegate to say what was meant.

The Treasury has to find out what Congress meant as to each section. Perhaps you say, "That ought to be easy. Take the committee reports and you can easily tell what they mean." All right, I'll tell you about that.

The committee reports don't always mean a lot because some fellow will be assigned the task of writing a report and it becomes his job to tell what went on in the meeting and what Congress meant by the particular point they were considering. That's all to the good. But no committee report is any better than the understanding of the man assigned to write it. So these have good and bad points.

ing their conclusions in writing, and, believing it an easy task. So, they struggle with that one for a long time and then they write it down in writing after they have decided it.

**Q** Isn't there a third step that they have to take after listening to the protests of the Congressmen—this at all?

**A** I skipped that to make it simple. What they've decided what they think Congress should do is written down in black and white, is issued what the rule-making. It's a 30-day notice, published in the Federal Register, that is designed to give all who have an interest a chance to do so. Hearings on the objections are held. Then they come back and try to figure it out.

**Q** And they can't go up to Congress and ask for help—right about that interpretation—

**A** No. They wouldn't get much help there.

**Q** Is there any easy way still to explain what the law has to be so awfully complicated?

**A** Well, principally because the law is so complicated and income often is very difficult to ascertain. After World War II, a group of 25 to 30 economists, accountants and businessmen sat for four years on a long-term, "business income." This group never came to unanimous agreement.

Now you ask about getting help from Congress. I'm perfectly honest about this thing. I have I don't know how many times told Congress tell me frankly that they just don't have the time to give thorough consideration to a good deal of legislation before them for attention. I'm not going to neglect it, but some very important people have said that the Revenue Act.

There are few Congressmen who really understand the income tax law. This is as true of the men who have been important in your mind in the making of income tax law as it is of those who haven't. I've had some of them say to me they had to depend absolutely upon the staff members of the committees for advice as to what to do.

And, we might as well recognize it, our tax law is made by members of Congress, the elected representatives of the people, nor by the committees of Congress, nor by the leaders of the Senate and House, nor by the staff members of the tax committees. That's the way legislation, I suppose. But that's getting it all right from the people as you can, and in about the way you can think of—taxes.

I once said to a prominent member of one of the committees, "But that's tax legislation by staff members of Congress, not even by committees of Congress." He said, "I realize that, but I don't know what to do about it." My answer was, "Get a simple revenue law that everybody will understand it, you'll be in the good graces of the taxpayers will call you blessed."

### CONGRESS'S "RESPONSIBILITY"

**Q** But don't these staff members know more about the law than even the Congressmen?

**A** Maybe they do, but it is Congress's responsibility to pass upon it and understand it, and they don't understand it.

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**Former IRS Commissioner Andrews article - page 10**

## Interview

### ... "Tax law gives a lot of power that can be improperly used"

**Q** Don't the subcommittees work with them and have a pretty good understanding of the law, though the majority of the committee may not?

**A** That may have been true in the early days of the law, but it isn't now. When they began to discover that while the law was simple it was unjust, and they had to do something about it, they began to add on all kinds of fancy gimmicks, gadgets and thou-shalt-nots, until it now adds up to the point where it's so complicated that nobody can understand it. I say to you that any law that isn't understood even by the people who pass it, let alone by those subjected to it, shouldn't be imposed on the body politic.

Now we can come to the question you asked me—if I thought the Revenue Service tries to be fair to people.

### "POLICEMAN'S COMPLEX"—

**Q** No one in the Service as an individual, but the methods they now use—

**A** I can only speak for myself. I have a tremendously high respect for the people in the Service generally. Most of them are career people and those who get up into the high echelon generally are pretty high-minded persons. They will try to carry out any honest orders given to them. If you've got a program that is honest and that gives them some rein, they will do the best they can. But in every organization as big as that you are bound to have an occasional case of "policeman's complex." I didn't see too much of that when I was there; but I wouldn't claim for one minute that we were able to achieve perfection, because every now and then I'd find somebody taking a position in a situation that I thought was unfair and I did something about it.

Unfortunately, there are a lot of people in public office—and I'm not praising myself when I say this—who haven't got the guts to check unfairness because they're afraid somebody will investigate them for doing whatever is right, particularly for deciding anything against the Government. They're afraid of criticism. They don't like to be criticized. An honest official doesn't have to fear criticism; but many honest officials do.

What I am saying is that one of the answers to your question is that the income tax law gives a lot of power to those who have to administer it. It has to. But that's one objection I've got to it. Whenever an inspector in any business sees smoke he doesn't like to admit that there isn't some fire. Then things often begin to happen.

That power can be improperly used in other ways. Consider what happened to taxpayers for several years beginning in the early '40s. Additional revenue was needed, and, not wanting to increase taxes drastically, the Administration made a drive on depreciation. There was hardly a taxpayer who wasn't confronted with a reduction in his depreciation deductions year after year.

I had clients who would have a succession of agents come along and each one would reduce what the other one had reduced, until it finally got to a point where I would say, "Forget about the depreciation. Taxes are going up anyhow, and you'll save money by going along with this campaign of extortion."

Then there was the "blackjack" approach to force the taxpayer to consent to the opening of years closed to examination

would happen would be that the agent would go to the taxpayer and say, "I want you to give me a waiver for back years." The statute limit having expired for those years they couldn't be opened without the taxpayer's consent. The taxpayer usually had no choice but to give an extension of time because the agent was in position to put him to an expense even if he didn't have a valid basis for a deficiency assessment.

**Q** In other words, the year that was still open was a threat against him, unless he furnished a waiver permitted the Government to reopen years that had already closed?

**A** That's right.

**Q** Was that routine procedure?

**A** It seemed that way. Needless to say, I went in pretty burnt up about that practice and I didn't lose making my feelings about it clear. It seemed to me that the staff was pretty happy about the change of policy.

**Q** What do you think of the method that has been used whereby, when a business has closed its tax books, Congress comes along and passes a law that reopens the books? Do you think that's fair?

**A** No, I do not.

**Q** It has been done, hasn't it?

**A** I understand that it has been tried.

**Q** In other words, on many of these complicated cases that you're talking about that have to do with closing the books and reopening them, they go back years and change the law applicable to those years? So you have no certainty—

**A** One of the great objections to the present system is that it is almost impossible for taxpayers to get firm assurance as to where they stand taxwise. We improved this situation as much as we could. It can't be completely corrected without inordinate cost.

### ON REDUCING SPENDING—

**Q** Well, if you get 35 billion dollars from individual income taxes—which is 15 per cent of individual income—and you want to modify the gross income tax rate and to regrade the income tax so that you have a much higher rate of graduation you have to charge a much higher rate of gross income tax than the 15 per cent rate—

**A** If you're going to replace that income that is being taken out of the economy, that's true. But you're working on what I think is an utter and baseless premise, and that is that the present level of income tax cannot be relieved. I don't agree with that any more. I do with the proposition that we can't get along with the present income tax. As I've said before, Congress can reduce the income tax whenever it wants to.

Now, if you've got to raise 35 billion dollars on individual income tax, that might be the income of all individuals in the country, the decision you have to make is how you're going to apportion that among the various levels of income. I say that, if you have that, then there ought to be some kind of leveling out of the income tax. There ought to be some kind of leveling out of the terrific wallop that's given to the people between \$6,000 and \$20,000.

If anyone wants to see what has happened taxwise since World War II started in 1939, all he has to do is take his gross income for 1939, calculate and deduct his taxes from it, and get his net income after taxes; then take the

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**Former IRS Commissioner Andrews article - page 11**

## ... "You get penalized by being taxed on your success"

Or, do it this way: Calculate how much gross income would be required today to produce as much purchasing power after taxes as was left of his '39 income after he paid his taxes. No one should do this who has a weak heart, because the results will be shockingly startling.

People are kidding themselves. They don't have the buying power they used to have. A lot of the people living today don't know what the buying power of success was before we decided to use excessive income taxes to punish success and estate and gift taxes to force every generation to start from scratch.

**Q** You think the middle class is being whacked—the fellow who used to be able to get ahead in the world and save enough to retire on, he now can't do it—

**A** The fellow who demonstrates the greatest capacity for leadership—creates things, activity and employment—and contributes most to the growth of the economy and to improvement of our standard of living is the fellow who is getting the most kicking around.

## SOCIAL SECURITY: HANDOUT?—

**Q** But can't he look forward to Social Security to retire on?

**A** He can't do much on that. Besides, that kind of person would rather do his own providing for his retirement and not depend upon a handout, especially one from a system that is already bankrupt.

**Q** Eighteen hundred dollars isn't going to be very impressive to him anyway, is it?

**A** I don't think so. And that suggests another problem. You should see my mail from people who are on fixed incomes. They're really catching it. It burns me up to see the widow of a successful man robbed of most of her due by the estate tax and then reduced almost to poverty by progressively higher and higher income taxes and mounting inflation.

**Q** As a result of the income tax?

**A** Largely, yes. Of course, it must be remembered that high taxes come from big spending.

**Q** In what way does the income tax hurt the fixed-income widow?

**A** Because of inflation—the spending power of the dollar has gone down so terrifically and the taxes have gone up so high that she's caught in the jaws of a vise.

**Q** Is there a relationship between the income tax and the diminution of the purchasing power?

**A** Certainly. The higher income tax rates go the higher prices are and the less a fellow has left to pay the prices. There's a compound effect.

**Q** We come now to the question of deductions. Among the things that people don't understand, I'm sure, is the question of deductions. Do you think the present system of deductions is fair?

**A** No, I don't.

Let me give you an illustration. I think that a man ought to be able to deduct every kind of expense over which he has no control. The cost of sickness is a good illustration. Now, we've got a limitation on medical expenses. Why in the world we have it I don't know, for certainly no one is going to get sick if he can help it.

I say that, regardless of any other deductions, a man ought

**A** Yes. Another would be casualty loss deduction for casualty losses—some of them are meaningless. We had the devastation, with deductions for loss of trees, the like in hurricanes. The way the law was was hard to permit deduction of what amount of loss suffered.

Then I think it is wrong not to permit payments for personal services. For instance, a servant I think you ought to be permitted to deduct because the Government gets it two ways if you pay it, but you can't deduct it. The servant is a tax if it's above \$600. Now, that could be easily changed to you the deduction on everything above \$600 for a servant. I think that would be only fair.

**Q** Take, for instance, a fellow who drives a car for a company deduction. But if he goes on company business the company gets a deduction or he gets a deduction if he's related to business—unless he went to work for the company—

**A** That's right, but I don't see that one.

**Q** Commutation fare in New York for a person who lives in the suburbs—

**A** That's something that may be regarded as a deduction of the taxpayer. People who work in the city don't have to live in the country. Still, I don't think an argument can be made for that point of view.

If you happen to be a man who has a profession, there are a lot of expenses that you have that are purely to the position in life that your job requires to maintain; but the law says these are personal expenses, therefore, not deductible. And as you get progressively higher income taxes by being progressively taxed on your success, you get disallowed costs that arise out of your success.

For instance—coming back again to the question of deductions—suppose you had a level of income that would allow you to maintain a fairly nice home, not a pretentious one, a conservative, modest kind of a garden, and a car, and who washes your automobiles and does your own yard work for you and tries to keep your yard cut. You hire such a man, because you don't have time to do it, but you can't deduct his salary.

**Q** Don't you think if you have a son in college you can get more than a \$600 deduction?

**A** I do, provided he meets reasonable requirements, does good work there, and isn't there for the sake of appearance.

## DEDUCTIONS ARE "ARBITRARY"

**Q** Aren't those deductions an arbitrary thing that has been thought through—

**A** Certainly they're arbitrary.

**Q** Mr. Andrews, if we were to take care of all the equities and deductions wouldn't it cost more money? We have been talking about that could be a great boon to the Government?

**A** I doubt that. The things I've been talking about would add a terrific amount of annoyance but I don't think it would add up to a great loss of revenue.

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**Former IRS Commissioner Andrews article - page 12**



## Interview

### ... "There is a lot" of popular resentment to income tax

**Q** Mr. Andrews, do you think the corporation income tax should be abolished altogether?

**A** It should be studied, along with the tax on individuals. I would hope that it could be abolished, because it costs entirely too much to administer and the cost to the corporations of complying with it is pure waste that I am convinced can be eliminated. Moreover, the gap between the individual and the corporation is driving small business right into the maw of big business. At the present rate, we soon won't have anything but big business, and the situation will be just right for the final move to a completely socialistic government.

### A U.S. LOTTERY? NO—

**Q** A great many countries raise their money by lotteries. Have you any comment on that?

**A** Frankly, I guess I would be prejudiced on that. My whole background would revolt against raising public revenue that way. I am not a kill-joy, so I don't care if anybody wants to gamble; but I somehow just cannot bring myself to look favorably upon a lottery as a source of public revenue.

**Q** We haven't talked much about complexity as it relates to litigation. Have you any way of estimating the terrific cost of litigation due to the complexity of the income tax, and differences of opinion between the taxpayer and the Government? How much litigation is there?

**A** That would be hard to draw down to specific terms. But I think I can give you some idea. There are figures, of course, that can be supplied. The number of cases that actually go to litigation are remarkably small. Bear in mind that there are some 65 million tax returns filed every year.

My recollection of the last figures I saw on the number of cases that get to the point of adjudication in the courts—in the Tax Court, the Court of Claims or the district courts—is that they total less than 2,000 every year, maybe 1,500. I could be wrong, but I think that's correct.

The main problem that's involved is not in litigation but what happens before litigation begins. It often is long drawn out and extremely costly. The cost of cases to taxpayers sometimes exceed the tax involved. That's one of the very serious indictments against the income tax.

**Q** Well, now, apropos of these cases in litigation—is it fair to the taxpayers who have closed their returns, paid their taxes, for past years, suddenly to have the courts decide in the case of a taxpayer who kept his return open by litigation, an important issue which, had it been in effect—that interpretation—at the time he paid his taxes, he would have received the benefit? Is that fair?

**A** I don't think it is. But that usually works both ways; that is, sometimes there are decisions against a taxpayer, but the Government can't go back on other taxpayers who have become protected by the running of the statute. Nevertheless, I have always thought that a taxpayer should be made whole who pays taxes that are later found, in the outcome of a disputed issue, not to have been due.

As to our own rulings, we followed the policy of applying them prospectively; that is, if we found it necessary to reverse a previous ruling we did not work it retroactively.

**Q** That rule was abandoned at least by last year—

**A** No, it was the rule up to the time I resigned that changes in previous interpretations of the law were made

Sometimes, when the circumstances seemed to require it, the effective date was set ahead so that people would have a chance to get themselves squared away. That seemed a fair thing to do, and that was the policy we followed.

**Q** Coming to further amplification of the word "complexity," what is to be said on the subject of the different systems of accounting on which taxes are computed, in which the taxpayer and the Government differ? What authority on what's the proper way of accounting?

**A** The law says generally that the taxpayer's method of accounting shall not be disturbed if it is consistent with the law and correctly reflects the taxpayer's income.

But there often have been rather wide differences of opinion between the Revenue Service and taxpayers on this. For instance, many publishers account for their income on one basis but are required to pay income tax on another basis. Then you frequently find differences in the way in which regulatory authorities say books should be kept—Interstate Commerce Commission, for example, what the Revenue Service thinks is proper. An effort was made to correct such inconsistencies when the law was being developed, but it finally came to naught.

### "A TRAGIC SITUATION"—

**Q** What about the small or medium-sized taxpayer who has neither the time nor the money to take his case to Tax Court?

**A** I regard that as one of the more or less tragic situations caused by the income tax. The fellow who can't spend money for professional help shouldn't have to pay it. It ought to be possible to settle his case without expense. But, unfortunately, it can't always be done. That puts that kind of burden upon people who are trying to get ahead is a bad tax.

Let me give you another side of that. I had a letter from an 82-year-old lady the other day, complaining about having had to spend \$275 for expert help in preparing her return. She didn't have a lot of money, but she was a poor bookkeeper and the law was against her. She didn't like having to incur that expense and she didn't blame her.

The law is too complicated. Altogether too many people have to have professional help with their returns.

**Q** You have a lot of adjectives, I know, up your sleeve. I wonder if you have one or two that would describe the income tax? Would you say it was inequitable, or was it unfair?

**A** I think the most serious thing about this, frankly, is the ideological objection to it. I don't like my country dancing to the tune of slave-makers, and that's exactly what I think is happening.

**Q** Do you think there is popular resentment to it?

**A** My recent mail tells me that there is, and a lot of it.

**Q** You really are trying to describe why the income tax is a bad?

**A** That's right.

**Q** What amazes me is that you kept so quiet as an official while you had in your system this dynamic in this inequity of the income tax—

**A** That's very simple. My interest in the tax situation was for a long time purely academic.

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**Former IRS Commissioner Andrews article - page 13**

## ... On foundations: "The loss of taxable income is colossal"

about it or try to make new law. It would have been out of order for me to get into the Secretary's field of tax policy. If I had I should have been fired and probably would have been.

**Q** You couldn't have been very happy, then—

**A** I was happy as far as doing a challenging management job was concerned. I often wasn't happy about the way the law worked. I was constantly unhappy about what I saw the income tax doing to us.

### WHAT COMMISSIONER DOES—

**Q** Is that what built up your feeling about the income tax—what you saw in that job?

**A** It did to a large extent. It sharpened my resentment to the tax a great deal. But, as I have said, I wasn't expected to make tax law. Nor was I expected to unmake it. My job was to enforce the law, and that's exactly what I did to the best of my ability. Nobody asked my opinion about the income tax and I didn't express it.

When I got out I began to think about it from this point of view: Now, after all, you've seen it in operation; maybe you've got some obligation to say what you think. Quite a few people urged that point of view upon me. I finally consented to make a couple of speeches, and then I started putting my ideas down on paper, and the further I got into it the more convinced I became that something was amiss.

The idea that we could go along for 43 years with no study or research of any kind, contenting ourselves with just making the primary source of our revenue more and more complicated all the time, without trying to find out whether we had the right primary source—whether there was not something better—struck me as a bit shortsighted for a nation that research had done so much for. As I said to the head of one of our great industries one night recently, "Where would your company be if it hadn't conducted one moment's research in 43 years?"

That's the position the Government is in. We're dealing here with the lifeblood of the nation, and no research.

But there is one thing you haven't mentioned here today and I've been rather surprised that you haven't. There's a curious paradox in the income tax law that somebody mentions every now and then, but which nobody does anything about. I refer to the section that sterilizes so much of the income that is supposed to be the source of the revenue. Take, for instance, foundations. Look at the tremendous quantity of income-producing wealth that is being put out of the reach of the tax collector by the building up of these non-taxable entities. The loss of taxable income here is colossal and this loss is being steadily compounded.

Then, see all the money that's invested in business-type activities by Government. I'm told that the Government has an investment of 60 billion dollars in that type of activity. The Hoover Report says that there are 15 billions of it in 2,500 business activities in the Defense Department alone. Now, that sort of thing tends to grow and expand, and all such business activity is removed from the reach of the tax collector.

It's an astounding situation, and it's thoroughly inconsistent

**A** Well, I don't know about that, but helping any. Our economy is growing but what that is produced is being kept out of the hands of the collector by deliberate legislative action. There's a growing gap between the growth of the economy and the tax base. The people are bound to this absurdity is doing to them one of these things they do, look out. The people have to make their own know.

**Q** Are you talking now of the sterilization of income through its use by the Government in business of its own?

**A** I'm talking about sterilization of income through Government competition with the growth of foundations, or by any other means.

**Q** You're getting trusts and foundations—

**A** Our economy is growing and we're trying to finance our growth and our expenditures. Yet there is an ever-widening gap, because of the fact that we are dependent on a minority of income as a source of public revenue. It's a source of public revenue to minority pressures.

**Q** Are you saying if we have an income tax that we apply it more universally? In other words, do you mean the income of pension trusts and foundations?

**A** Yes, I'm saying that. One researcher has suggested the original income tax applied even to churches.

### TROUBLE FROM EXEMPTIONS

**Q** You don't advocate that?

**A** No. I'm just telling you that all income-producing activity that, as soon as the tax collector got going, the process of sterilization by yielding to one after another, and it has been going on steadily, a result there is a veritable army of people, businesses with a powerful vested interest in keeping their noses of the rest of us to the grindstone.

**Q** Does that apply to depletion allowances?

**A** Yes, it does. But don't take that to mean I'm arguing against depletion allowances. I'm just pointing out a form of taxation that Congress evidently maintains without such exemptions. Any exemption necessitates such extensive shift of burden that it's grossly unsuited to the nation's needs. They usually think it's wonderful and can't be blamed. They usually think it's wonderful and can't be blamed to preserve that preferred status, but it's a burden on the rest of us.

We're playing with dynamite, and I think it isn't done about it the result will be to destroy the freedom and wreck both that tradition and that freedom.

**Q** Do you see any immediate prospect of taking the study you propose?

**A** I don't know about that. I'd say they would get after them about it, and it looks to me like people are getting somewhat more than just a study.

But let no one underestimate the power of the Government. Our only hope for relief is in the greater power of the people. Sooner or later that power will be asserted.

## End of Article

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