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United States News ©

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IS A TURN IN BUSINESS COMING?

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WHY THE

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INCOME TAX

IS BAD



EXCLUSIVE INTERVIEW
with
T. COLEMAN ANDREWS

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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 recently 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?

A My idea is very simple. There's only one way in the world to change the tax laws. Congress has to do it. Now, you can change the present law—you can amend it, you can extend it,

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 taxation 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, because no Administration could be sure that it would be able within a period of one term to get the answer, polish it up, and get it ready for adoption as legislation. In other words, it's a question 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 that the income tax in particular be given a real going over, with the idea that a substitute be found for it if it cannot 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 such a group as I have suggested, provided, of course, that it is a clearly honest verdict.

You see, unless that happens, we don't get anywhere. All we get is conversation, and I'm not interested in that, and I don't think other victims of this devouring evil are. I don't 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—it's raising 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 shown that it raises too much. But what I'm talking about is the damage that it's doing. The minimum rate of 20 per cent takes a whale of a slug—\$400—out of a taxable income of \$2,000. I sure wouldn't want to pay that much if my income were that

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

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 lowest common denominator economically. I don't believe in using tax legislation to force social reforms upon the people or to punish sin.



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

Mr. Andrews entered the accounting field in his native Richmond, Va., in 1922. His surveys of auditing practices in both the Virginia and federal governments have resulted in numerous reforms.

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

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

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

Q That point you make about the purpose of income tax being to destroy the middle class—do you think it was conscious purpose, or was it a result?

A There was no question in the world about the conscious—
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... "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 common folks of this country. Congress can reduce expenditures whenever it really wants to.

Q For what groups—the middle class?

A I'm not talking about where you'd cut it. I think everybody is overtaxed, but I think the middle class is being especially discriminated against. And if the public-opinion polls mean anything at all, the very fact that they have had an almost overwhelming response in favor of a limitation of 25 per cent in taxes—not once but twice—indicates that the people in the lower brackets don't think that success should be punished and the people in the higher brackets discriminated against.

Q Let's assume that the amount of money raised or needed for our Government doesn't change, that we need the same 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 raising a lot of money is producing extravagance, but that there is 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 better 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 invasion of the people's right of property by the Government. I also think the discriminatory manner in which the rates are 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 more income, and neither do his fellow citizens, according to the public-opinion polls. I don't believe we ought to take it away 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 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, then, is whether you use income itself as a measure of tax liability. 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. That's one of the reasons why I don't like the income tax.

As I said a while ago, every time we talk about these taxes we get around to the idea of from each according to his capacity and to each according to his needs. That's socialism. It's written into the Communist Manifesto. Maybe we ought to see that every person who gets a tax return receives a copy of the Communist Manifesto with it so he can see what's happening to him.

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



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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—

A No, I do not. Why penalize investment? We're doing it now by penalizing success, and we're digging our own grave as a nation when we do.

Investment puts people to work. It buys machinery. It

takes \$12,000 to \$15,000 to equip one worker today so he can produce more. I've often heard people speak harshly about other people who apparently were accumulating a little money. The object of the criticism almost invariably was a thrifty man or woman whose money was being put into investment that created tools, that created production, that created work of some kind. Why should that be penalized?

There are only two ways in the world that business activities can be financed. One is through savings. The other is through Government handouts. May the Lord deliver us from the latter.

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

A That's exactly what happens. And something else happens, too. Here's an illustration, an estate tax case, but it illustrates a point:

Not too long ago a member of a well-known family died and left 70 million dollars. The "death duties" were 50 million dollars, according to newspaper reports. I don't know whether the figures were right or not, but, whatever the amount, there were millions of dollars invested in American enterprise that the Government took, and, at the rate of spending then prevailing, it was gone in a matter of a few hours.

Q For unproductive things?

A Well, you certainly can't call Government productive. It might be called necessary, provided it's kept within bounds. But it is not wealth-producing. Incidentally, the Reed-Dirksen resolution, now pending, would abolish estate and gift taxes

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... "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 than the law. Don't forget that.

Q Mr. Andrews, the Social Security tax on household servants presents quite a problem, too, doesn't it?

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

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

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

Q In a good many cases wouldn't the servants quit if 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 taken in by merchants aren't counted as receipts, not with the intention of being dishonest, but because the recipients don't know it is income?

A I think there's a great deal of that, but I doubt that it adds up to a lot of dollars. But let me make crystal-clear, 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 are doing a swell job. At least, I thought they were when I left there, and I know of no reason to assume they are not still doing so.

But time and time again we told Congress that there were not enough agents to examine all the returns that ought to be examined. And perhaps you'll remember that Congress started off giving us 1,000 agents a year and we were to have gone from about 7,300 agents to 15,000 or 16,000, which we figured would have been enough to enable us to do as good a job as possible before the law of diminishing returns would make it unprofitable.

Well, strangely enough, when the control of Congress 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 this year. But there they were, as I said in a recent article, with incontrovertible evidence before them that we could raise about \$10 to \$20 for every \$1 spent for new agents; yet they decided we had reached the "optimum level" of employment of agents.

WHAT CONGRESS FEARS—

Q Why? Do you think they were afraid?

A I think Congress is more afraid of a firm and rigid enforcement of the tax law than they are of the loss of revenue. Maybe they think, as many other people do, that if Congress ever gave the Revenue Service enough money to enforce the revenue laws up to the hilt, the income tax would have to 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. Take the farm situation, for instance. The computation of a farmer's tax is a very complicated thing for the simplest kind of farming operation. My blood pressure doesn't rise any over a farmer's not complying fully, because a lot of accounting is involved in making out a farm tax, and a farmer's job is to be a farmer, not a bookkeeper for the Government. The law

... "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 allowed. He failed to satisfy those conditions.

Q Does that happen very often?

A The Service is constantly setting up deficiency assessments against taxpayers. I don't know whether there have been other situations that were cured as that one was or not.

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

Q You spoke of rigid enforcement being unpopular. Would you say that, if we actually required the farmers of this 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 alone; I'd apply it
(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 Government
takes, in taxes

FOR A SINGLE PERSON		FOR A MARRIED COUPLE		The Government takes, in taxes
Under \$2,000	Under \$4,000	Under \$4,000	Under \$8,000	
\$2,000-\$4,000	\$4,000-\$8,000	\$6,000-\$8,000	\$12,000-\$16,000	20c out of each \$1
\$10,000-\$12,000	\$20,000-\$24,000	\$18,000-\$20,000	\$36,000-\$40,000	22c out of each \$1
\$14,000-\$16,000	\$28,000-\$32,000	\$26,000-\$32,000	\$52,000-\$64,000	30c out of each \$1
\$18,000-\$20,000	\$36,000-\$40,000	\$38,000-\$44,000	\$76,000-\$88,000	38c out of each \$1
\$26,000-\$32,000	\$52,000-\$64,000	\$50,000-\$60,000	\$100,000-\$120,000	47c out of each \$1
\$38,000-\$44,000	\$76,000-\$88,000	\$70,000-\$80,000	\$140,000-\$160,000	53c out of each \$1
\$50,000-\$60,000	\$100,000-\$120,000	\$100,000-\$150,000	\$200,000-\$300,000	62c out of each \$1
\$70,000-\$80,000	\$140,000-\$160,000	\$150,000-\$200,000	\$300,000-\$400,000	69c out of each \$1
\$100,000-\$150,000	\$200,000-\$300,000	Above \$200,000	Above \$400,000	75c out of each \$1
\$150,000-\$200,000	\$300,000-\$400,000			81c out of each \$1
Above \$200,000	Above \$400,000			89c out of each \$1
				90c out of each \$1
				91c out of each \$1

*Taxable income is the amount left after all deductions and exemptions.

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... "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 system that would give us all the revenue we need on a simplified basis? Is there such a thing?

A There isn't one in existence but I believe one could

be devised. It seems utterly absurd to me to assume that back in 1913 we found the one and only tax by which this Government can live. That just doesn't make sense. Forty-three years ago, when the country had much more of an agricultural economy than now, we decided that an income 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—science, industry, commerce, finance, anything you could mention—has achieved world leadership. And some people want us to believe that there isn't genius enough in this country to get right down to brass tacks and conceive and develop 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 Edison invented the electric light, there wasn't any form of light that hadn't been tried out, either. Yet we've found a lot of different light sources since then.

There undoubtedly are tax methods that haven't even 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 were objecting to the income tax we now have or to any income tax—

A I wouldn't say that I'm objecting to any income tax. That's the reason I have declined to say outright, "Abolish the income tax." When there has been a real objective study 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 for me to agree.

This annual chore of complexity that people are confronted with is, in my opinion, almost as serious as the oppressiveness of the tax itself. It certainly is a shameful waste of time and talent.

"SIMPLICITY" VS. "EQUITY"—

Q You mentioned that that complexity was the result of 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 to achieve both simplicity and equity at the same time. Thus far, no one has been able to do both. The more equity you get 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 credit. Of course, the original intention was to boost it 5 per cent annually, until it got up to be 20 per cent. But it doesn't seem to have much chance of going beyond the present 5 per cent, what with talk on the Hill about taking away from the "dividend boys" and giving to the "little fellows." More "soak the rich" demagoguery!

In order to provide for that one bit of equity, as small as it was, we had to take half of a page of the return to devote to the computation of it.

Q Why is this necessary?

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

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—aren't 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 boys read and wonder, "What did Congress mean?"

Then, after they decide what Congress meant or should have meant, they are confronted with the problem of express-

ing their conclusions in writing, and, believe me, that's no easy task. So, they struggle with that one for a while, getting it down in writing after they have decided what was meant.

Q Isn't there a third step that they have to go through—listening to the protests of the Congressmen: "We didn't mean this at all"?

A I skipped that to make it simple. What they do, once they've decided what they think Congress meant and get it down in black and white, is issue what they call notice of rule-making. It's a 30-day notice, published in the Federal Register, that is designed to give all who want to object a chance to do so. Hearings on the objections often are held. Then they come back and try to figure it out again.

Q And they can't go up to Congress and ask them if they're right about that interpretation—

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

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

A Well, principally because the law is based on income, and income often is very difficult to ascertain. Following World War II, a group of 25 to 30 economists, lawyers, accountants and businessmen sat for four years trying to define one term, "business income." This group never was able to come to unanimous agreement.

Now you ask about getting help from Congress. Let's be perfectly honest about this thing. I have had members of Congress tell me frankly that they just don't have time to give thorough consideration to a good deal of what comes before them for attention. I'm not going to name any names, but some very important people have said that to me about the Revenue Act.

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

And, we might as well recognize it, our tax laws are not made by members of Congress, the elected representatives of the people, nor by the committees of Congress, who are appointed by the leaders of the Senate and the House, but by the staff members of the tax committees. That's true of all legislation, I suppose. But that's getting it about as far away from the people as you can, and in about the most vital area you can think of—taxes.

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

CONGRESS'S "RESPONSIBILITY"—

Q But don't these staff members know more about it 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. Any law that is not understood by the people who pass and impose it upon the people ought not ever to be passed in the first place.

(Continued on next page)

... "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-shall-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 and deficiency assessment by the expiration of the statute of limitations.

They couldn't get around to everybody in time and what

would happen would be that the agent would go to the taxpayer and say, "I want you to give me a waiver for these 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 great 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 held as a threat against him, unless he furnished a waiver that permitted the Government to reopen years that had already been closed?

A That's right.

Q Was that routine procedure?

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

Q What do you think of the method that has long been used whereby, when a business has closed its taxable year, Congress comes along and passes a law that reopens a year. 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 matters that you're talking about that have to do with estates and other things, they go back years and change the laws 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 except at 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—in order to modify the gross income tax rate and to reduce the graduation you have to charge a much higher rate on any form of gross income tax than the 15 per cent rate—

A If you're going to replace that income that might be true. But you're working on what I think is an utterly fallacious premise, and that is that the present level of spending cannot be relieved. I don't agree with that any more than I do with the proposition that we can't get along without the income tax. As I've said before, Congress can reduce spending whenever it wants to.

Now, if you've got to raise 35 billion dollars on whatever might be the income of all individuals in the country, the only decision you have to make is how you're going to apply it to the various levels of income. I say that, if you have to do that, then there ought to be some kind of leveling out of this 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 '39 taxes from it, and get his net income after taxes; then take the same gross income, calculate and deduct taxes at current rates, and adjust the net after taxes for the drop in the purchasing power of the dollar since 1939; and finally compare the two results.

... "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 to be allowed to deduct those things over which he has no control. And goodness knows he has no control over sickness.

Q Are there other things?

A Yes. Another would be casualty losses. We now get a deduction for casualty losses—some of them. But some of them are meaningless. We had the devil of a time, for instance, with deductions for loss of trees, shrubs, flowers and the like in hurricanes. The way the law was written it usually was hard to permit deduction of what seemed to me the amount of loss suffered.

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

Q Take, for instance, a fellow who drives to work—it's no deduction. But if he goes on company business somewhere, the company gets a deduction or he gets a deduction; yet both are related to business—unless he went to work he wouldn't be in business—

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

Q Commutation fare in New York for all the people who live in the suburbs—

A That's something that may be regarded as being within the control of the taxpayer. People who work in New York don't have to live in the country. Still, I admit that a good argument can be made for that point of view.

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

For instance—coming back again to the question of servants—suppose you had a level of income that enabled you to maintain a fairly nice home, not a pretentious but a simple, conservative, modest kind of a garden, and you have a man who washes your automobiles and does your heavy cleaning for you and tries to keep your yard cut. You have to have such a man, because you don't have time to do things you hire him to do, but you can't deduct his salary.

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

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

DEDUCTIONS ARE "ARBITRARY"—

Q Aren't those deductions an arbitrary thing—they haven't been thought through—

A Certainly they're arbitrary.

Q Mr. Andrews, if we were to take care of all these inequities and deductions wouldn't it cost more than the money we have been talking about that could be saved on operation of Government?

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

Q And probably increase income—

A Experience says "Yes" to that.

(Continued on next page)

... "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 prospective when to have done otherwise would have been to cause unfairness.

Sometimes, when the circumstances seemed to require it, the effective date was set ahead so that people would get a chance to get themselves squared away. That seemed the 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 various systems of accounting on which taxes are computed with which the taxpayer and the Government differ? Who is the 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 and correctly reflects the taxpayer's income.

But there often have been rather wide differences of opinion between the Revenue Service and taxpayers as to this. For instance, many publishers account for subscription income on one basis but are required to pay income taxes on another basis. Then you frequently find differences between the way in which regulatory authorities say books shall be kept—Interstate Commerce Commission, for example—and what the Revenue Service thinks is proper. An effort was made to correct such inconsistencies when the 1954 Code 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 the 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 afford to spend money for professional help shouldn't have to spend it. It ought to be possible to settle his case without a lot of expense. But, unfortunately, it can't always be done. Any tax 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 bitterly about having had to spend \$275 for experts to assist her in preparing her return. She didn't have a lot of income, but she was a poor bookkeeper and the law was Greek to her. She didn't like having to incur that expense and I don'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 this income tax? Would you say it was inequitable, or what?

A I think the most serious thing about this income tax, frankly, is the ideological objection to it. I don't like to see my country dancing to the tune of slave-makers, which is 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 bad?

A That's right.

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

A That's very simple. My interest in the tax situation has been acute for a great many years, but when I was hired as Commissioner of Internal Revenue I was cast in a very restricted role. My job was to enforce the law, not philosophize

... 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 with the idea of using an income tax as the primary source of revenue. We're sterilizing the very source of our revenue.

Q Do you think the foundations some day may destroy the economy?

A Well, I don't know about that, but they sure aren't helping any. Our economy is growing but much of the income that is produced is being kept out of the hands of the tax collector by deliberate legislative action. There is an ever-widening gap between the growth of the economy and the growth of the tax base. The people are bound to get wise to what this absurdity is doing to them one of these days, and, when they do, look out. The people have to make up this loss, you know.

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

A I'm talking about sterilization of income, whether it be through Government competition with private business, growth of foundations, or by any other names.

Q You're getting trusts and foundations—

A Our economy is growing and we're dependent upon an income tax to finance our growth and our Government expenditures. Yet there is an ever-widening gap between the two, because of the fact that we are depressing the potentiality of income as a source of public revenue by surrender to minority pressures.

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

A Yes, I'm saying that. One researcher tells us that 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 was taxed, and that, as soon as the tax collector got going, Congress started the process of sterilization by yielding to one pressure group after another, and it has been going on steadily ever since. As a result there is a veritable army of people, organizations and businesses with a powerful vested interest in keeping the 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 that I am arguing against depletion allowances. I'm arguing against a form of taxation that Congress evidently thinks we can't maintain without such exemptions. Any tax system that necessitates such extensive shift of burden is unsound and grossly unsuited to the nation's needs. The exemptees naturally think it's wonderful and can't be blamed for wanting to preserve that preferred status, but it sure is rough on the rest of us.

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

Q Do you see any immediate prospect of Congress undertaking the study you propose?

A I don't know about that. I'd say they will if enough people get after them about it, and it looks to me like a lot of people are getting somewhat more than just mildly interested.

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

Could the U. S. get along without an income tax? If so, what kind of tax could be substituted, and what problems would it raise? See page 27. Congress leader's view, page 74.

A Congressional Leader Says—

"CUT THE RATES BUT DON'T KILL THE INCOME TAX"

Proposals to end the income tax find no favor with Representative Daniel A. Reed, top Republican on the House Ways and Means Committee. Trouble, he says, is not the tax but its high rates and complicated provisions.

Now, Mr. Reed suggests two remedies:

- Cut tax rates from top to bottom, with a ceiling, in high brackets, of 75 per cent.
- Simplify the law by knocking out as many of the "special exceptions" as possible.

Following is full text of a statement issued by Representative Daniel A. Reed, of New York, on May 6, 1956:

Some individuals today are advocating repeal of the federal income tax on the ground that it has become too complicated and too erratic in its application. In my opinion, this proposal is like trying to cure the patient by killing him. It is totally unrealistic to talk about abolishing the income tax.

The individual income tax is today producing about 31 billion dollars annually, close to one half of the general revenues of the Federal Government. The corporation income tax produces another 20 billion dollars. Thus, the income tax as a whole raises about 51 billion dollars annually. We have to face the plain fact that without this source of revenue our nation would have been crippled during critical years of its history.

Those who suggest abolition of the income tax have not offered any alternative source of revenue. I can only suppose that such an alternative would take the form of a general sales tax or some similar proposal. Primary reliance on such a method of taxation would impose unfair burdens on millions of Americans. Those least able to pay would be those hardest hit. Therefore, to be realistic, we must recognize that, so long as our Government requires billions for our security and other essential operations, the income tax is the only practical and fair method of raising most of this revenue.

This is not to say that there is not room for improvement in our income tax structure. Far from it. In 1954, the Republican 83d Congress enacted the new Internal Revenue Code of 1954, which I sponsored. That mammoth legislation, covering thousands of changes in the tax laws, corrected countless inequities which had accumulated over the years. Many loopholes which had been permitted to exist in the past were closed. Fairer treatment for millions of taxpayers was provided, including more generous medical deductions, more liberal treatment of dependents, the exemption of sickness and accident benefits, tax advantages for retirement income, and the deduction of child-care expenses of working mothers, to mention only a few.

It has been estimated that about 700,000 man-hours of work went into the development of that legislation. Experts from

all over the country lent their assistance. There is no question but that the present strength and vitality of our economy is due in no small part to the sounder tax rules which the new law contains. We were successful in developing greater simplicity and clarity in many areas which had confused taxpayers in the past.

The fact remains, and I would be the last to deny it, that the income tax is still complicated and still poses difficult problems for the average taxpayer. We must recognize that every time a new relief provision is enacted, whether for business or for the average individual, and no matter how meritorious, new complexities are created in the tax structure. This is inevitable. Each new amendment designed to promote greater equity in the system as a whole must take the form of an exception to the general rule. Thus, no matter how sound, no matter how fair, each new exception almost invariably creates a new complication.

Moreover, it must not be thought that these special relief provisions are simply for the benefit of the well-to-do. They are not. The most costly of them are primarily for the benefit of low-income taxpayers. The retirement income tax credit, the extra \$600 exemption for those aged 65 and over, and many others are examples of special relief provisions which mainly benefit those with small incomes.

Today, Congress is besieged with demands for further changes in the tax law, each designed to lessen the impact of the income tax in some particular area. I have received hundreds of such suggestions in my own office. They include increased deductions for child care, increased deductions for charitable contributions, larger deductions for dependents, bigger medical-expense deductions, the allowance of deductions for tuition and other educational expenses, the deduction of the transportation expenses of handicapped persons, the deduction of life insurance premiums, a deduction for the cost of repairing and maintaining a home, the exemption of pensions generally, the complete exemption of active-duty pay of members of the armed services, an additional exemption for the totally disabled, etc.

These are only a few of the many
(Continued on page 76)



—USNAWB Photo
REPRESENTATIVE REED

... "Excessive rates stifle initiative, encourage evasion"

examples which could be cited. There are countless more. Some involve a negligible loss of revenue. Some involve a potential revenue loss of hundreds of millions of dollars. With many of them, I am entirely sympathetic. However, each one, if enacted, would whittle down a little more the total income tax base, and would, thus, to that extent increase the burden of less fortunate taxpayers. Each one would add a new exception to the tax law. Each one would add a new complication to our already complex tax forms.

We would seem, therefore, to be faced with this dilemma: Shall we ignore these reasonable and just demands for fair treatment, or shall we adopt many of them and by so doing add further complexities to our already complicated tax law?

I submit that there is another alternative which would go a long way toward solving this problem.

After Top Tax: 9 Cents Left of \$1

I believe that the underlying cause of most demands for special relief is the excessive nature of our tax rates. Our lowest tax-bracket rate today is 20 per cent. Our highest is 91 per cent. Think of it! The Government takes over 90 cents out of every dollar earned in the top bracket. No wonder serious hardships arise and special relief becomes necessary.

I realize that some claim that the rates at the very top of the scale are largely fictitious because certain of these taxpayers can avoid the full impact of the rates by taking advantage of relief provisions. There is an element of truth in this argument. Some can avoid the full impact of the tax rates. However, the fact is that many others cannot. It seems to me that this very lack of uniformity in the incidence of the top rates is a compelling argument for their reduction to more reasonable levels.

I do not believe that the average American has any conception of how high our tax rates are. On March 18 of this year, George Gallup released the results of a nation-wide poll taken to determine what the public itself believes the proper tax rates should be. The results were startling.

The public set the proper tax level of a family of four with an income of \$5,000 at \$235. Actually, a family with that income today pays \$420 under our present tax rates, almost twice what the public thinks is fair.

The public set the tax level of a similar family with an income of \$10,000 at \$690, when in actuality that family pays \$1,372 under our present law, again about twice as much.

Finally, when the public was asked to fix the tax for a family of four with a \$50,000 income, it set the tax at \$7,125 instead of the \$18,294 which it actually is, almost three times as much.

It is these excessive rates which are the villain of the income tax problem. They stifle initiative. They encourage evasion. They breed disrespect for the tax system. They create severe individual hardships which in turn create the demand for special relief provisions.

This then is the real cause of our income tax difficulties. When the rates become too high, as they obviously have, special exceptions necessarily have to be adopted in order to soften their impact. At the same time, special restrictions have to be enacted in order to prevent the evasion and avoidance which excessive rates openly invite.

In my opinion, the present complexity of our income tax system is due almost exclusively to this cause. Those who seek to cure the problem by abolishing the income tax would pro-

vide a more worthwhile and constructive public service if they would recognize the true nature of the problem and develop appropriate remedies within the framework of the existing income tax system.

I propose this program as a first step toward a fairer and simpler income tax system, to be undertaken as soon as the budget permits:

First, the top bracket rate should be reduced to at least 75 per cent;

Second, all other bracket rates including the bottom should be graduated downward to conform to the new top rate; and

Third, the law should be simplified by the elimination of as many of the special exceptions as possible.

Certainly, it seems reasonable enough that any individual be permitted to keep at least one quarter of any income he receives. Moreover, this would not need to be a costly program. Substantial reduction in the progressive rates would have relatively little revenue effect because only a very minor portion of our total revenue today is derived from these high-bracket rates. However, I feel strongly that any such rate revision should be accompanied by a tax reduction benefiting those in the first bracket. Any tax-reduction program must help all of our taxpayers. Naturally, across-the-board relief of this kind is much more costly.

For example, of the approximately 31 billion dollars produced by the individual income tax, about 25 billion comes from the first-bracket rate of 20 per cent applicable to all taxpayers. This fact brings out two important points. First, it shows that the entire progressive element of our income tax—the portion of the rates above 20 per cent—produces only 6 billion dollars or 19 per cent of the total individual income tax revenue. Secondly, it shows that any reduction in the first bracket results inevitably in a substantial reduction in revenues.

No Big Cut in Sight Now

I point these facts out simply to indicate the revenue implications of the tax program I have proposed. I have no information at this time which would suggest that the budget will permit substantial tax reduction in the immediate future. However, I believe that preparatory work should be begun immediately to develop a constructive program of this type.

Excellent studies have been made recently of the economic impact of the income tax. It is time now that the tax committees of the Congress assume the obligation of developing a sound tax program. For this reason, I propose that the Joint Committee on Internal Revenue Taxation begin immediately to prepare studies and recommendations along the lines of my proposals.

In conclusion, I believe that the advantages of my program are tremendous. It would encourage individual initiative. It would lessen the demands for special treatment. It would simplify the tax laws. It would reduce evasion and avoidance. It would ease the compliance problems of the taxpayer. It would simplify the administrative problems of the Government. It would strengthen public confidence in the income tax.

It is a program that should recommend itself to every member of Congress, irrespective of party.

T. Coleman Andrews discusses inequalities in the income tax—page 62. Alternatives to that tax—page 27.