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JOINT COMMITTEE PRINT

FEDERAL TAX CHANGES AND ESTIMATED  
REVENUE LOSSES UNDER PRESENT LAW

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FOR THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

BY THE

COMMITTEE STAFF



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## LETTERS OF TRANSMITTAL

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NOVEMBER 10, 1952.

*To Members of the Joint Committee on the Economic Report:*

For the information of members of the Joint Committee on the Economic Report and others interested, there is transmitted herewith a factual report on "Federal Tax Changes and Estimated Revenue Losses Under Present Law," prepared by the committee staff.

JOSEPH C. O'MAHONEY,  
*Chairman, Joint Committee on the Economic Report.*

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NOVEMBER 7, 1952.

The Honorable JOSEPH C. O'MAHONEY,  
*Chairman, Joint Committee on the Economic Report,  
United States Senate, Washington, D. C.*

DEAR SENATOR O'MAHONEY: The committee staff has received a number of requests for information with respect to future tax changes provided for under present law. In response to these requests this memorandum was prepared, setting forth (1) the dates on which certain Federal tax changes are scheduled to take place under present tax law; (2) a brief description of each tax change; and (3) a summary of estimated revenue losses in connection with four major items—excess profits tax, corporate income tax, individual income tax, and excise taxes.

These materials, aside from the revenue estimates, were initially prepared by Raymond E. Manning, senior specialist, Legislative Reference Service, Library of Congress, and were reviewed by the General Counsel of the Treasury. The estimates of revenue losses were made by the Joint Economic Committee staff. The staff estimates the losses at \$8.5 billion in a full year and \$2.2 billion in collections in fiscal year 1954.

Respectfully submitted.

GROVER W. ENSLEY, *Staff Director.*

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# FEDERAL TAX CHANGES AND ESTIMATED REVENUE LOSSES UNDER PRESENT LAW

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## I. CHRONOLOGICAL LISTING OF FUTURE TAX CHANGES PROVIDED FOR UNDER PRESENT LAW

*January 1, 1953*

Temporary formula for taxing life insurance companies not applicable after 1952. (See II, item 6.)

Concession for replacing inventory involuntarily depleted during World War II expires. (See II, item 8.)

*February 16, 1953*

Exemption of copper from import duties and taxes expires. (See II, item 18.)

*March 31, 1953*

Exemption of zinc and lead from import taxes expires. (See II, item 8.)

*July 1, 1953*

Excess profits tax not applicable to taxable years commencing on and after July 1, 1953. (See II, item 4.)

Exemption of certain scrap metals from import duties and taxes expires. (See II, item 18.)

*November 1, 1953*

Increased rate of capital gains tax so far as applicable to individuals, trusts, and estates not applicable to taxable years commencing on and after November 1, 1953. (See II, item 5.)

*January 1, 1954*

Increased rate of tax on individuals not applicable to taxable years commencing on and after January 1, 1954. (See II, items 1-2.)

Exemption of income of servicemen in Korea terminates. (See II, item 7.)

Exemption of estates of servicemen killed in Korea terminates. (See II, item 20.)

Concession for late filing by China Trade Act corporations expires. (See II, item 10.)

Social security tax rises become effective. (See II, item 19.)

*April 1, 1954*

Increased rate of income tax on corporations not applicable to taxable years commencing on and after April 1, 1954. (See II, item 3.)

Increased rate of capital gains tax so far as applicable to corporations not applicable to taxable years commencing on and after April 1, 1954. (See II, item 5.)

Increased rates of tax on alcoholic beverages, automobiles, cigarettes, gasoline, and sporting goods terminate. (See II, items 12-16.)

*January 1, 1955*

Concession for exclusion of income from discharge of railroad debt expires. (See II, item 9.)

Exemption of "away from home" living expenses of Congressmen expires. (See II, item 11.)

January 1, 1956

Concession for replacing inventory involuntarily depleted during present emergency expires. (See II, item 8.)

July 1, 1957

Tax under Sugar Act expires. (See II, item 17.)

## II. DESCRIPTION OF FUTURE TAX CHANGES PROVIDED FOR UNDER PRESENT LAW

### A. INCOME TAX CHANGES

#### 1. Individual income tax rates [I. R. C., sec. 12 (b), (f), 108 (j), 400, 1622]

Section 101 of the Revenue Act of 1951 increased the surtax rates on individuals to range from 19.2 percent to 89 percent, replacing the then existing rates of 17 percent to 88 percent. The act made no change in the normal tax rate of 3 percent. The higher rates of surtax are applicable to the surtax net income of every individual (other than the head of a household, for which see item No. 2 below) for taxable years beginning after October 31, 1951, and before January 1, 1954. The old lower rates will be restored for taxable years beginning after December 31, 1953. The rates of tax—normal tax and surtax—under both schedules are as follows:

TABLE 1.—Combined marginal normal tax and surtax rates applicable to individuals for taxable years beginning after Oct. 31, 1951, and before Jan. 1, 1954; and for taxable years beginning after Dec. 31, 1953

Surtax net income brackets <sup>1</sup>	Years beginning before Jan. 1, 1954	Years beginning after Dec. 31, 1953	Surtax net income brackets <sup>1</sup>	Years beginning before Jan. 1, 1954	Years beginning after Dec. 31, 1953
	Percent	Percent		Percent	Percent
Not over \$2,000.....	22.2	20	\$26,000 to \$32,000.....	67	62
\$2,000 to \$4,000.....	24.6	22	\$32,000 to \$38,000.....	68	65
\$4,000 to \$6,000.....	29	26	\$38,000 to \$44,000.....	72	69
\$6,000 to \$8,000.....	34	30	\$44,000 to \$50,000.....	75	72
\$8,000 to \$10,000.....	38	34	\$50,000 to \$60,000.....	77	75
\$10,000 to \$12,000.....	42	38	\$60,000 to \$70,000.....	80	78
\$12,000 to \$14,000.....	48	43	\$70,000 to \$80,000.....	83	81
\$14,000 to \$16,000.....	53	47	\$80,000 to \$90,000.....	85	84
\$16,000 to \$18,000.....	56	50	\$90,000 to \$100,000.....	88	87
\$18,000 to \$20,000.....	59	53	\$100,000 to \$150,000.....	90	89
\$20,000 to \$22,000.....	62	56	\$150,000 to \$200,000.....	91	90
\$22,000 to \$26,000.....	66	59	Over \$200,000.....	92	91

<sup>1</sup> After deductions and exemptions. Assumes no income from interest on partially exempt Government bonds.

Individuals whose taxable year includes months beginning before and after December 31, 1953, are subject to the higher and lower rates on income for such year in proportion to the number of months falling into each period. In effect, an individual operating on a fiscal year ending June 30, 1954, and subject to a tax at a rate no higher than the first bracket would pay a rate of 21.1 percent.

The law further provides that the combined normal tax and surtax shall never exceed 88 percent of net income for taxable years beginning after October 31, 1951, and before January 1, 1954, and .87 percent for taxable years beginning after December 31, 1953.

2. *Head of household income tax rates [I. R. C., sec. 12 (c), (f)]*

Section 301 of the Revenue Act of 1951 adopted a new concept in tax rate schedules by providing a special set of rules applicable to individuals who, though not married, maintain a household for (a) their children or grandchildren, or (b) certain other relatives with incomes less than \$600 and who receive more than half of their support from the taxpayer. The rates are designed to give the heads of households approximately one-half of the benefits of income splitting now permitted to married couples.

The law as enacted in 1951 provided two sets of rates for individuals in this status, one applicable to taxable years beginning after October 31, 1951, and before January 1, 1954, and the other to taxable years beginning after December 31, 1953.

TABLE 2.—*Combined marginal normal tax and surtax rates applicable to heads of households for taxable years beginning after Oct. 31, 1951, and before Jan. 1, 1954; and for taxable years beginning after Dec. 31, 1953*

Surtax net income brackets <sup>1</sup>	Years beginning before Jan. 1, 1954	Years beginning after Dec. 31, 1953	Surtax net income brackets <sup>1</sup>	Years beginning before Jan. 1, 1954	Years beginning after Dec. 31, 1953
	Percent	Percent		Percent	Percent
Not over \$2,000.....	22.2	20	\$28,000 to \$32,000.....	60	54
\$2,000 to \$4,000.....	23.4	21	\$32,000 to \$38,000.....	63	58
\$4,000 to \$6,000.....	27	24	\$38,000 to \$44,000.....	66	62
\$6,000 to \$8,000.....	29	26	\$44,000 to \$50,000.....	71	66
\$8,000 to \$10,000.....	34	30	\$50,000 to \$60,000.....	72	68
\$10,000 to \$12,000.....	35	32	\$60,000 to \$70,000.....	73	71
\$12,000 to \$14,000.....	41	36	\$70,000 to \$80,000.....	77	74
\$14,000 to \$16,000.....	44	39	\$80,000 to \$90,000.....	79	76
\$16,000 to \$18,000.....	47	42	\$90,000 to \$100,000.....	81	80
\$18,000 to \$20,000.....	48	43	\$100,000 to \$150,000.....	85	83
\$20,000 to \$22,000.....	52	47	\$150,000 to \$200,000.....	88	87
\$22,000 to \$24,000.....	54	49	\$200,000 to \$300,000.....	91	90
\$24,000 to \$28,000.....	57	52	Over \$300,000.....	92	91

<sup>1</sup> After deductions and exemptions. Assumes no income from interest on partially exempt Government bonds.

Individual heads of households whose taxable year includes months beginning before and after December 31, 1953, are subject to the higher and lower rates on income for such year in proportion to the number of months falling into each period. In effect, the head of a household operating on a fiscal year ending June 30, 1954, and subject to a tax at a rate no higher than that of the first bracket, would pay a rate of 21.1 percent.

The maximum effective rate applicable to individuals also applies to heads of households, so that the combined normal tax and surtax shall not exceed 88 percent of net income for taxable years beginning after October 31, 1951, and before January 1, 1954, and 87 percent for taxable years beginning after December 31, 1953.

3. *Corporation Income Tax Rates [I. R. C., sec. 13 (b), 26 (b), (i), 108 (k), 207, 362, 421, 422]*

At the present time, and until March 31, 1954, corporations pay a normal tax of 30 percent and an additional surtax of 22 percent on that part of their income in excess of \$25,000. Beginning April 1, 1954, the 30 percent normal rate will drop to 25 percent; the surtax rate will remain unchanged. However, the foregoing simplified statement applies only to corporations whose fiscal year actually ends on March 31, 1954. Corporations whose taxable year includes months

beginning before and after March 31, 1954, are subject to the 30 percent rate and the 25 percent rate on income for such year in proportion to the number of days falling into each period. Thus a corporation whose fiscal year ends June 30, 1954, will pay a normal tax rate of approximately 28.75 percent while a corporation on a calendar year basis will pay a rate of approximately 26.25 percent. In these two cases the combined normal tax and surtax rates on income over \$25,000 will be approximately 50.75 percent and approximately 48.25 percent instead of the present 52 percent. Adjustments are made in several provisions of law with respect to rates and credit decreases in order to conform with the foregoing rate changes.

4. *Excess profits tax [I. R. C., sec. 430-474]*

An excess profits tax was adopted by the act of Congress approved January 3, 1951 (64 Stat. 1137). Numerous amendments were made by the Revenue Act of 1951, Public Law 183. The rate of tax on excess profits is 30 percent, but the total excess profits tax may not exceed 18 percent (there are other special ceiling rates for new corporations) of the so-called excess profits net income (i. e., income determined for excess profits tax purposes before deducting the excess profits credit and any unused excess profits credit carry-over). A corporation whose fiscal year ends June 30, 1953, will not have to pay any excess profits tax on profits thereafter. A corporation whose taxable year includes months beginning before and after June 30, 1953, is subject to such proportion of a tentative tax computed at the 30 percent rate as the number of days in its taxable year before July 1, 1953, bears to the number of days in its taxable year. Thus (ignoring ceiling rates) corporations on a calendar year basis will pay a 15 percent rate on excess profits for the year 1953. Corporations whose fiscal year ends March 31, 1954, will pay a rate of 7.5 percent.

5. *Capital gains tax rate [I. R. C., sec. 117 (c)]*

Sections 123 and 322 of the Revenue Act of 1951 raised the maximum effective rate on long-term capital gains from 25 percent to 26 percent. However, the higher rate shall not apply to gains in taxable years commencing after October 31, 1953, in the case of individuals, trusts, and estates and for taxable years commencing after March 31, 1954, in the case of corporations.

6. *Life insurance companies [I. R. C., sec. 201; Public Law 468, approved July 8, 1952]*

The temporary special formula for levying income taxes on life insurance companies for taxable years commencing in 1951 is continued for taxable years commencing in 1952.

7. *Income of Members of the Armed Forces in Korea [I. R. C., sec. 22 (b) (13), 154, 1621]*

Internal Revenue Code, section 22 (b) (13) exempts the pay of enlisted men and warrant officers for active service in combat zones, as well as the first \$200 per month paid to commissioned officers, and also the compensation paid to such persons while hospitalized as a result of wounds, disease, or injury incurred while serving in the combat zone. The provision applies only to service pay, injuries, etc., received prior to January 1, 1954.

Internal Revenue Code, section 154, provides for abatement of income taxes of individuals in the military service dying before January



1, 1954, while serving in the combat zone or as a result of wounds, disease, or injury incurred while so serving. The income taxes of the year of death and prior taxable years of service in the combat zone, as well as income taxes of other years which were unpaid at the date of death, are forgiven.

8. *Involuntary liquidation and replacement of inventory [I. R. C., sec. 22 (d) (6)]*

A taxpayer using the last-in first-out method of inventory has until the close of its taxable year ending prior to January 1, 1953, in which to make replacements of inventory involuntarily depleted during World War II, and until the close of its taxable year ending prior to January 1, 1956, to make replacements of inventory involuntarily depleted during the present emergency (i. e. after January 30, 1950, and prior to January 1, 1954.)

9. *Discharge of railroad debt [I. R. C., sec. 22 (b) (10)]*

Amounts of income attributable to the discharge of any indebtedness of a railroad corporation shall be excluded for income-tax purposes to the extent that such income is deemed to have been realized by a modification or cancellation of indebtedness pursuant to an order of the court in a receivership proceeding or a proceeding under section 77 of the National Bankruptcy Act. Under the law as amended by section 304 of the Revenue Act of 1951, this provision is not applicable to any discharge occurring in a taxable year beginning after December 31, 1954.

10. *Due date for returns by China Trade Act Corporations [I. R. C., sec. 3805]*

Because of the situation growing out of hostilities and unsettled conditions in the Far East, China Trade Act corporations are given until the end of 1953 to file income tax returns or make payments of tax for any taxable year beginning after December 31, 1948, and ending before October 1, 1953, in order to get a special tax benefit accorded such corporations, provided the Secretary of the Treasury deems such postponement reasonable under the circumstances.

11. *Living expenses of Congressmen [Public Law 471, approved July 9, 1952]*

For the two taxable years beginning before January 1, 1955, a Member of Congress is required to treat as his home, in determining deductible traveling expenses, his place of residence within the State, congressional district, Territory, or possession which he represents in Congress, subject to the limitation that amounts expended by such a Member within each such taxable year for living expenses shall not be deductible for income tax purposes in excess of \$3,000.

#### B. EXCISE TAX CHANGES

12. *Alcoholic beverages [I. R. C., sec. 1656, 2800, 3030, 3150]*

The tax on distilled spirits, which was raised from \$9 to \$10.50 per gallon by the Revenue Act of 1951, is to be reduced to \$9 per gallon on and after April 1, 1954. The draw-back on distilled spirits used for medicinal purposes, food products, flavoring extracts, etc., will be reduced simultaneously from \$9.50 to \$8 per gallon.

The tax on still wines containing 24 percent or less of alcohol, which was increased to range from 17 cents to \$2.25 per wine-gallon by the

Revenue Act of 1951, will be reduced to range from 15 cents to \$2 per wine-gallon on and after April 1, 1954.

The tax on sparkling wines and champagne, which was increased to 17 cents per half pint by the Revenue Act of 1951, will be reduced to 15 cents per half pint on and after April 1, 1954. The tax on artificially carbonated wine, as well as liqueurs, cordials, etc., which was increased to 12 cents per half pint by the Revenue Act of 1951, will be reduced to 10 cents per half pint on and after April 1, 1954.

The tax on fermented malt liquors, which was increased to \$9 per barrel by the Revenue Act of 1951, will be reduced to \$8 per barrel on and after April 1, 1954.

*13. Automobiles, trucks, and parts or accessories [I. R. C., sec. 3403]*

The taxes on manufacturers of automobiles, trucks, and parts and accessories, which were increased by the Revenue Act of 1951, will be reduced on and after April 1, 1954. The taxes are applied to the manufacturers' price as follows:

Item	Rate until Mar. 31, 1954	Rate on and after Apr. 1, 1954
	<i>Percent</i>	<i>Percent</i>
Trucks, busses, etc.....	8	5
Passenger cars, motorcycles, etc.....	10	7
Parts or accessories.....	8	5

*14. Cigarettes [I. R. C., sec. 2000]*

The tax on cigarettes, which was raised to \$4 per thousand (8 cents per standard pack) by the Revenue Act of 1951, is to be reduced to \$3.50 per thousand (7 cents per standard pack) on and after April 1, 1954.

*15. Gasoline [I. R. C., sec. 2450, 3412]*

The tax on gasoline, which was raised to 2 cents per gallon and the tax on Diesel fuel which was imposed at the rate of 2 cents per gallon by the Revenue Act of 1951, will both be reduced to 1.5 cents per gallon on and after April 1, 1954.

*16. Sporting Goods [I. R. C., sec. 3406]*

The tax on manufacturers of sporting goods, which was raised to 15 percent of the manufacturers' price by the Revenue Act of 1951, is to be reduced to 10 percent on and after April 1, 1954.

*17. Sugar [I. R. C., sec. 3508]*

The tax on sugar derives from legislation originally passed in 1934, under which payments are made to sugar growers who comply therewith. The rate of tax on sugar testing 92 degrees or better is 0.465 cents per pound plus 0.00875 cents per pound for each additional degree. The tax is scheduled to expire June 30, 1957.

*18. Import Taxes on Copper, Zinc, Lead, and certain Metal Scrap [Act of May 22, 1951, 65 Stat. 45; Acts of February 11, 1952, Public Law 257, Public Law 258; Act of July 14, 1952, Public Law 535]*

The import taxes on copper have been suspended through February 15, 1953, those on zinc and lead through March 31, 1953, and those on certain metal scrap through June 30, 1953.

C. SOCIAL SECURITY TAX CHANGES

19. *Rate of tax for old age security [I. R. C., sec. 480, 1400, 1410]*

The 1.5 percent tax on wages paid by employers and the 1.5 percent tax on wages received by employees are scheduled to rise automatically to 2 percent on January 1, 1954. Similarly the 2.25 percent tax on incomes from self-employment will rise to 3 percent. Additional increases in these taxes automatically take effect on January 1, 1960, January 1, 1965, and January 1, 1970.

D. DEATH TAX CHANGES

20. *Estate taxes on servicemen killed in Korea [I. R. C., sec. 939]*

The "additional estate tax" (for which no credit is given for State death taxes) is not to apply to the estate of a serviceman who is a citizen or resident of the United States killed in action while serving in a combat zone or who dies as a result of wounds or other injuries, or a disease, suffered while serving in a combat zone and while in line of duty by reason of a hazard to which he was subjected as an incident of such military service. The provision is effective with respect to deaths occurring after June 24, 1950, and before January 1, 1954.

III. SUMMARY OF REVENUE LOSSES IN FISCAL YEAR 1954 AND IN A FULL YEAR UNDER PRESENT LAW

While each of the scheduled tax changes has some revenue aspects, the Joint Economic Committee staff has undertaken to estimate the probable revenue losses in connection with only four major items—excess profits tax, corporate income tax, individual income tax, and excise taxes. In making these estimates the staff has assumed continued high levels of employment and productivity and an accompanying growth of the economy which would be expected to occur under such circumstances. This involves, in general, personal income payments which are moderately higher than present levels. It assumes a level of corporate profits before taxes at about the level of calendar 1952.

Estimates of the decreases in Federal revenue for fiscal year 1954 and in the tax liability for a full year arising from changes in the four categories are summarized as follows:

Tax category	Revenue effect in billions of dollars	
	Fiscal year 1954 collections	Full year liability
Excess profits.....	\$1.3	\$2.5
Corporations.....		2.0
Individuals.....	.8	3.0
Excises.....	.1	1.0
<b>Total.....</b>	<b>2.2</b>	<b>8.5</b>

Given the difficulties of forecasting income levels and the yields derived from them, it appears that if the tax increases provided in recent laws expire according to present statutes, the tax receipts of

the Federal Government will be reduced in a full year by approximately \$8.5 billion and in the fiscal year 1954 by approximately \$2.2 billion. The reduction in cash receipts from the public, however, will be somewhat lessened when the scheduled increases in the rate of tax for old-age security go into effect.

*Excess profits tax*

The excess profits tax will terminate as of July 1, 1953. The full year loss is based upon a preliminary estimate that this tax will yield about \$2.5 billion in revenue in calendar 1952. These estimated yields have not been fully verified since the tax has not been in operation for a sufficient length of time. The estimated decrease in fiscal 1954 collections takes into consideration the variations in corporate fiscal years.

*Corporate income tax*

The corporate income tax rates decline as of April 1, 1954. The 30 percent normal rate will decline to 25 percent, with the surtax rate unchanged. It was estimated that there would be little if any change in collections in fiscal 1954.

*Individual income tax*

The individual income tax rates are to be adjusted downward as of December 31, 1953, by returning to a lower combined normal tax and surtax rate range of 20 to 91 percent. The combined normal tax and surtax may not exceed 87 percent of net income for taxable years beginning after December 31, 1953. The estimated decrease in fiscal 1954 collections is based chiefly on the probable effect of the lower rates on withholding tax revenues during the last 4½ months of the fiscal year.

*Excise taxes*

Certain excise tax rates decline as of April 1, 1954. The principal items affected will be alcoholic beverages, automobiles and trucks, cigarettes, gasoline, and sporting goods.

