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# XATION OF INCOMES AND REPEAL RTAIN PROVISIONS RELATING TO TAXATION OF INTANGIBLE PERSONAL PROPERTY IN THE DISTRICT OF COLUMBIA

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LETTER

FROM THE

CHIEF OF THE
UNITED STATES BUREAU OF EFFICIENCY,

TO THE

CHAIRMAN OF THE
COMMITTEE ON THE DISTRICT OF COLUMBIA
UNITED STATES SENATE

TRANSMITTING

A REPORT ON H. R. 5821, AN ACT TO PROVIDE FOR THE TAXATION OF INCOMES AND TO REPEAL CERTAIN PROVISIONS RELATING TO TAXATION OF INTANGIBLE PERSONAL PROPERTY IN THE DISTRICT OF COLUMBIA

Printed for the use of the Committee on the District of Columbia

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Monograph

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# LETTER OF TRANSMITTAL

United States Bureau of Efficiency,
*Washington, May 23, 1932.*

Hon. Arthur Capper,
*Chairman Committee on the District of Columbia,*
*United States Senate, Washington, D. C.*

My Dear Senator: In compliance with the request contained in your letter of January 8, 1932, this bureau has made a study of the bill (H. R. 5821) to provide for the taxation of incomes and to repeal the provisions of law relating to the taxation of intangible personal property in the District of Columbia.

I am submitting with this letter a report dated May 10, 1932, discussing the feasibility of the proposed plan. The report recommends the adoption of an income tax in lieu of the present intangible tax, but suggests that the rates be fixed at 1 per cent on the first $10,000 of net income above the exemption; 2 per cent on the net income between $10,000 and $25,000; 3 per cent on the net income between $25,000 and $50,000; and 4 per cent on the net income over $50,000. The report also suggests for your consideration certain changes designed to make the law more equitable and to facilitate the administration of the tax.

The records of the assessor's office show that the intangible tax will yield approximately $2,547,000 for the year ending June 30, 1932. Officials of the District government anticipate a drop in revenues for the fiscal year 1933 from this tax (if continued) of between $350,000 and $400,000. If a change is made in the tax system, it is estimated that an income tax at the above-mentioned rates would yield for 1933 approximately the same revenues as might be expected from the intangible tax. Attention is invited to the fact that the net result in either case would reflect a decline in revenues which might conservatively be placed at $400,000.

The bureau believes that this deficiency should be made up by increased taxes on certain corporations that are now subject to the gross earnings or gross receipts taxes but would be exempted under the income tax law. This matter will be covered by a separate report on bill S. 4483, requested in your letter of April 27, 1932.

Very truly yours,

Herbert D. Brown, *Chief.*

# TAXATION OF INCOMES AND REPEAL OF CERTAIN PROVISIONS RELATING TO THE TAXATION OF INTANGIBLE PERSONAL PROPERTY IN THE DISTRICT OF COLUMBIA

## I. INTRODUCTION

The Select Committee on Fiscal Relations Between the United States and the District of Columbia appointed pursuant to House Resolution No. 285, Seventy-first Congress, submitted a report on December 15, 1931, accompanied by a bill, now H. R. 5821, to provide for the taxation of incomes, and to repeal certain provisions of law relating to the taxation of intangible personal property in the District of Columbia. The bill was passed by the House of Representatives on December 16, 1931.

The proposed tax is to be levied upon net incomes of individuals, trusts and estates, certain corporations, joint-stock companies, and other associations organized for profit. Corporations which pay taxes upon their gross earnings or gross receipts, including public utilities, national banks, savings banks, trust companies, and building and loan associations are exempted, as are also religious, scientific, benevolent, and educational organizations, not conducted for profit.

The bill, unlike the laws in most States having income taxes, prescribes the same rates for individuals and corporations. The tax is determined after deducting from gross income specific statutory allowances and exemptions. As used, the term "gross income" refers to profits from business, gains on dealings in real or personal property, compensation for services, and other forms of wealth flowing to a taxpayer that are not returns of capital. From the total gross income allowances are deductible for expenses of production, taxes, losses, depreciation, charitable contributions, and other necessary business expenses. Interest is deductible only if it arises from transactions from which taxable income may be realized. In a general way the bill follows the Federal law in arriving at net income, although there are certain exceptions hereinafter discussed.

Nonresidents are taxed upon net incomes received from property owned and from businesses, trades, professions, or occupations carried on in the District. Under section 1 (f) where a business is conducted partly within and partly without the District of Columbia, gross income means only that proportion derived from activities in the District. In such cases ascertainment of the pro rata part, usually a difficult matter, is left for regulations to be prescribed by the assessor.

The personal exemptions in the bill are $1,000 for an unmarried person, $2,500 for a married person living with husband or wife, and $300 for each minor child under 18 years of age or other dependent person actually supported by the taxpayer. If the husband and wife make separate returns, or have separate incomes, the exemption to each is limited to $1,000. Other untaxed income comprises: Dividends from national banks, United States pensions, inheritances, gifts, interest on obligations of the States and Federal Government, payments representing a return of insurance premiums, and payments of death claims (except to partnerships and corporations on the lives of officers).

On the net income determined after deducting allowances and exemptions, graduated taxes are to be levied at the rates of 1 per cent of the amount of net income not exceeding $2,000, 1½ per cent of the amount of net income in excess of $2,000 but not in excess of $5,000, 2 per cent of the amount of net income in excess of $5,000 but not in excess of $10,000, 2½ per cent of the amount of net income in excess of $10,000 but not in excess of $15,000, 3 per cent of the amount of net income in excess of $15,000 but not in excesss of $20,000, 3½ per cent of the amount of net income in excess of $20,000 but not in excess of $30,000, 4 per cent of the amount of net income in excess of $30,000 but not in excess of $50,000, and 5 per cent of the amount of net income in excess of $50,000.

*Income taxes payable under proposed district law*

| Net income | Rates, per cent | Taxes payable | Net income | Rates, per cent | Taxes payable |
|---|---|---|---|---|---|
| $1,000 | 1 | $10 | $100,000 | 1-5 | $4, 090 |
| $2,000 | 1 | 20 | $150,000 | 1-5 | 6, 590 |
| $3,000 | 1-1½ | 35 | $200,000 | 1-5 | 9, 090 |
| $4,000 | 1-1½ | 50 | $250,000 | 1-5 | 11, 590 |
| $5,000 | 1-1½ | 65 | $300,000 | 1-5 | 14, 090 |
| $6,000 | 1-2 | 85 | $350,000 | 1-5 | 16, 590 |
| $7,000 | 1-2 | 105 | $400,000 | 1-5 | 19, 090 |
| $8,000 | 1-2 | 125 | $450,000 | 1-5 | 21, 590 |
| $9,000 | 1-2 | 145 | $500,000 | 1-5 | 24, 090 |
| $10,000 | 1-2 | 165 | $600,000 | 1-5 | 29, 090 |
| $15,000 | 1-2½ | 290 | $700,000 | 1-5 | 34, 090 |
| $20,000 | 1-3 | 440 | $800,000 | 1-5 | 39, 090 |
| $25,000 | 1-3½ | 615 | $900,000 | 1-5 | 44, 090 |
| $30,000 | 1-3½ | 790 | $1,000,000 | 1-5 | 49, 090 |
| $35,000 | 1-4 | 990 | $1,500,000 | 1-5 | 74, 090 |
| $40,000 | 1-4 | 1, 190 | $2,000,000 | 1-5 | 99, 090 |
| $45,000 | 1-4 | 1, 390 | $3,000,000 | 1-5 | 149, 090 |
| $50,000 | 1-4 | 1, 590 | $5,000,000 | 1-5 | 249, 090 |
| $75,000 | 1-5 | 2, 840 | | | |

NOTE.—The taxable net income as used in this table is in excess of the personal exemption.

## II. DEVELOPMENT OF INCOME TAX

Income taxes in various forms have been employed for 300 years—perhaps longer. In the Middle Ages the tallage duty, though nominally a tax on demesne lands of the Crown, was usually determined by considerations of taxpaying ability, in that tradesmen, farmers, and others were listed according to their profits. However, up to the end of the eighteenth century the income tax was unimportant as to the amount of revenues produced. At that time France was the only nation realizing substantial receipts from this source. Of the other European countries, England and Prussia were among the first to introduce the tax as an integral part of their fiscal systems. In 1798 England adopted this method for raising money to carry on a war with France. Thereafter income tax laws were enacted and repealed several times, but since 1848 they have been continuously in use. The Prussian tax dates back to 1811 and like that in England has also undergone many changes. Spain, Italy, Belgium, Austria, Norway, Sweden—in fact almost every important European country—have adopted income taxes for their national or local governments. At present this form of taxation is in use in more than 50 countries.

Early in the nineteenth century some agitation arose in the United States for a national income tax, but not until 1862, as a result of the demands of the Civil War, was a tax levied, and then only on incomes of individuals. Defects of administration caused the law to be repealed 10 years later. In 1894 the tax was revived and made applicable to individuals and corporations, but the next year the act was declared unconstitutional by the United States Supreme Court in the case of Pollock *v.* Farmers Loan & Trust Co. (158 U. S. 601), on the ground that the tax was direct and must be apportioned to the States according to representation. In 1909, the Payne-Aldrich law was passed placing an excise tax on corporation incomes in excess of $5,000. About the same time Congress, believing the income tax desirable, proposed the sixteenth amendment, giving the Federal Government power to levy and collect taxes on incomes, without apportionment among the States. The amendment was adopted in 1913. That same year a new Federal income tax law was passed, which was followed successively by the revenue acts of 1916, 1917, 1918, 1921, 1924, 1926, and 1928. Each of these applied both to individuals and corporations. The revenue acts of 1917 and 1918 greatly increased the rates to finance expenses growing out of the World War. Beginning with the act of 1921 the succeeding acts effected reductions in rates, together with increased exemptions. Due to the exigencies of the present situation, the revenue bill for 1932 now before Congress proposes to increase the rates and lower exemptions. Since the adoption of the sixteenth amendment the importance of the Federal income tax has greatly increased, so that it is now firmly entrenched in our national fiscal system.

With respect to the States, although this form of tax goes back to the early days in the Colonies, the first noteworthy movement along this line started in 1840. Massachusetts was then the only State that had an income tax. During the next 10 years Pennsylvania, Maryland, Virginia, Alabama, Florida, and North Carolina passed similar laws. Most of these laws became ineffectual because of poor administration and evasion. This led to their repeal or nonenforcement. For 40 years following the Civil War income taxes made little gain. At the beginning of this century only five States—Massachusetts, North Carolina, South Carolina, Virginia, and Oklahoma—used the tax, and even in some of these its abandonment was considered. Within the next 10 years a viewpoint favorable to the income tax developed. The reasons leading to the change of attitude, as listed by the National Industrial Conference Board in State Income Taxes, Volume II, page 171, were:

> (1) To tap a new source of revenue; (2) to equalize the burden as between a property-owning class and a nonproperty-owning class possessing taxpaying ability; (3) to introduce into the tax system a more accurate method of ascertaining ability to pay taxes; (4) to reach intangible property which could not be successfully taxed under existing property tax laws; (5) to introduce conveniently a progressive element of taxation into rates of the tax system; (6) to tax national banks in compliance with section 5219 of the Revised Statutes of the United States; and (7) to reach the income of property which could not be taxed otherwise because impliedly prohibited by the Federal Constitution or expressly forbidden by the Federal law.

In 1911 Wisconsin passed a carefully drafted law designed to correct difficulties experienced by other States, particularly in respect to administration. The law proved successful. Undoubtedly the

Federal income tax, which was being introduced about the same time, and which required accurate methods of accounting for and reporting of income, made the task of State administration easier. Other States gradually followed, and in the past few years the movement has had a significant development, receiving added impetus by the increased costs of government. To-day income tax laws are in effect in nearly half of the States. At this point it may be of interest to consider the basis on which these taxes are levied.

*State income taxes—Basis of tax on individuals*

| State | Residents | Nonresidents |
|---|---|---|
| Arkansas | Entire net income | Net income from services, property, or business in State. |
| Delaware | do | Not taxed. |
| Georgia | do | Net income from property or business in State. |
| Idaho | do | Net income from services, property, or business in State. |
| Illinois | do | Net income from property, business, trade, profession, or occupation in State. |
| Massachusetts | do | Not taxed. |
| Mississippi | do | Net income from property, business, or occupation in State. |
| Missouri | do | Net income from sources within State. |
| New Hampshire | Interest and dividends | Not taxed. |
| New York | Entire net income | Net income from services, property, or business in State. |
| North Carolina | do | Net income earned within State. |
| North Dakota | do | Net income from sources within or attributable to the State. |
| Oklahoma | do | Net income from property or business in State. |
| Oregon | Net income from sources within State. | Net income from sources within State. |
| South Carolina | Entire net income | Do. |
| Tennessee | Interest and dividends | Not taxed. |
| Utah | Entire net income | Do. |
| Vermont | do | Do. |
| Virginia | do | Net income from business, trade, or profession in State. |
| Wisconsin | do | Net income from property or business in State. |
| Proposed for District | do | Net income from property, business, trade, profession, or occupation in District. |

*State income taxes—Basis of tax on corporations*

| State | Domestic | Foreign |
|---|---|---|
| Arkansas | Entire net income | Net income from sources within State. |
| California | Net income from sources within State | Do. |
| Connecticut | do | Do. |
| Georgia | do | Do. |
| Idaho | Net income from sources within or allocable to State. | Net income from sources within or allocable to State. |
| Massachusetts | Entire net income | Net income from sources within State. |
| Mississippi | do | Do. |
| Missouri | Net income from sources within State | Do. |
| Montana | do | Do. |
| New York | do | Do. |
| North Carolina | Entire net income | Do. |
| North Dakota | Net income from sources within State | Do. |
| Oklahoma | do | Do. |
| Oregon | do | Do. |
| South Carolina | do | Do. |
| Tennessee | do | Do. |
| Utah | do | Do. |
| Vermont | Net income from sources within or allocable to State. | Net income from sources within or allocable to State. |
| Virginia | Net income from sources within State | Net income from sources within State. |
| Wisconsin | do | Do. |
| Proposed for District | Entire net income | Net income from property, business, trade, profession, or occupation in District. |

## III. SUBSTITUTION OF INCOME TAX FOR INTANGIBLE PERSONAL PROPERTY TAX

The bill, in levying an income tax, would repeal the law providing for the present millage tax on intangible property. Acts of September 1, 1916 (39 Stat. 717); March 3, 1917 (39 Stat. 1046); June 29, 1922 (42 Stat. 669); and July 3, 1926 (44 Stat. 833). During the nineteenth century many States, to adjust the inequalities in the tax burdens, enacted laws classifying property and greatly extended the taxation of personalty. The earlier laws applied mostly to tangibles, but as the classification developed intangibles were also included. With the prospect of a new source of revenue, taxation of personal property became widespread. In its application the personal tax produces a fairly stable amount of revenue, a characteristic which has made it an important part of the established structure of taxation.

The tangible property tax, where rates have been reasonable, has met with only slight opposition, but the intangible property tax has been severely criticized almost from the beginning, and because of well-founded objections is slowly being replaced. It has been opposed as being in effect a type of double taxation on the ground that in an economic sense bonds, stocks and like evidences in property rights are not wealth but merely represent equities in tangible or real property already subjected to taxation. Most of the faults of the real property tax are present in the intangible tax—and in a more aggravated form. Too often the yield is lost sight of in assessments. Again ownership is not an accurate criterion for determining taxpaying ability, especially if taken without regard to any indebtedness incurred to purchase or carry the property. But the most serious objection is the flagrant evasion of the tax. In the majority of States appraisement is made by the individual owner. While intangible property can be easily concealed, the legislatures, nevertheless, have been hesitant to give assessors broad investigational powers. The ease with which understatements can be made, and the recognized difficulty in their detection, encourage a general disregard of the law.

A common method of reaching intangibles is to make arbitrary levies against persons reporting tangible property, a procedure defective at best, as it fails to disclose the tax dodger holding only intangibles. To minimize evasion, some States purposely make the rates relatively low in the hope that through additional property reported the revenues will in the end be augmented. Though an improvement, the plan is not an entire solution, since the listing of property necessarily remains with the taxpayer.

No satisfactory means are available for determining the extent of the evasion of intangible property tax in the District of Columbia. A comparative statement of taxes and assessments in 23 representative cities (ranging in population from 252,981 to 900,429), found on page 44 of the report of the select committee, shows that Washington has the second highest assessment valuation of personal property, being exceeded only by Baltimore, a city nearly twice its size. On intangible property Washington has the highest assessment valuation. These figures lead to the belief that the District of Columbia has, possibly, a more effective administration of the law than any of the other cities in the group. But this does not mean that a large proportion of the intangibles are taxed in the District.

As the aggregate value of personal property far exceeds that of real property, one might expect, taking into account the exemptions allowed in the District personal tax laws, which in the aggregate are relatively small, that the valuation of personality would approach that of realty, which is about $1,200,000,000; yet the assessed valuation of local personal property amounted to only $650,000,000. Much of the difference must have been made up of unreported intangible property, as it is much more difficult to locate for assessment purposes, and is more easily concealed. The value of intangibles in the District may be roughly checked through the Federal returns. Income from dividends and interest reported in individual returns by taxpayers in the District, exclusive of exempt interest on Liberty bonds and State obligations, etc., amounts to about $50,000,000 a year. On an assumed average earning of 5 per cent the investment would be a billion dollars, yet the intangible property assessment is ittle more than half this amount.

*Intangible assessments and tax, District of Columbia*

| Year | Assessed value | Rate per $1,000 | Tax | Year | Assessed value | Rate per $1,000 | Tax |
|---|---|---|---|---|---|---|---|
| 1918 | $296, 926, 463. 00 | $3. 00 | $890, 779. 39 | 1925 | $410, 106, 188. 00 | $5. 00 | $2, 050, 530. 94 |
| 1919 | 293, 506, 446. 00 | 3. 00 | 880, 519. 34 | 1926 | 437, 085, 808. 00 | 5. 00 | 2, 185, 429. 04 |
| 1920 | 323, 031, 283. 00 | 3. 00 | 969, 093. 85 | 1927 | 472, 585, 686. 00 | 5. 00 | 2, 362, 984. 43 |
| 1921 | 327, 282, 913. 00 | 3. 00 | 971, 848. 74 | 1928 | 495, 908, 396. 00 | 5. 00 | 2, 479, 541. 98 |
| 1922 | 335, 749, 820. 00 | 3. 00 | 1, 007, 249. 46 | 1929 | 524, 565, 056. 00 | 5. 00 | 2, 622, 825. 28 |
| 1923 | 365, 079, 090. 00 | 5. 00 | 1, 825, 395. 45 | 1930 | 545, 188, 144. 00 | 5. 00 | 2, 725, 940. 72 |
| 1924 | 379, 801, 290. 00 | 5. 00 | 1, 899, 006. 45 | 1931 | 548, 597, 274. 00 | 5. 00 | 2, 742, 986. 37 |

In the District of Columbia each individual liable for taxation of personal property, whether tangible or intangible, is required to file a sworn return with the assessor, on the basis of which the board of personal tax appraisers determines the assessment. If a person neglects or refuses to file a return, the assessor may compel him to file one. If a return is believed incorrect, the board is empowered to make an assessment from the best information available, and to add a penalty of 20 per cent where a return is not filed on time. In 1927 this bureau, in connection with other studies on the District government, ascertained from the assessor that approximately 20,000 persons liable for tax in 1926 failed to file returns. Two outstanding cases were cited of residents who failed to file returns but paid without protest the tax arbitrarily assessed each year.

CASE A

| Year ended June 30— | Arbitrary assessments (including penalty) | | Tax |
|---|---|---|---|
| | Tangible | Intangible | |
| 1922 | $72, 000 | $180, 000 | $1, 850. 40 |
| 1924 | 78, 000 | 480, 000 | 3, 336. 00 |
| 1925 | 78, 000 | 840, 000 | 5, 292. 00 |
| 1926 | 78, 000 | 1, 200, 000 | 7, 326. 00 |
| 1927 | 78, 000 | 2, 400, 000 | 13, 404. 00 |

CASE B

| | | | |
|---|---|---|---|
| 1918 | $2, 400 | $240, 000 | $756. 00 |
| 1919 | 2, 400 | 360, 000 | 1, 116. 00 |
| 1920 | 2, 400 | 1, 200, 000 | 3, 646. 80 |
| 1922 | 2, 400 | 2, 400, 000 | 7, 243. 68 |

In case A the taxpayer had consented to annual increases in assessments on intangible personal property from $180,000 in 1922 to $2,400,000 in 1927. His failure to protest against the 1927 assessment might indicate that even the amount fixed that year inadequately represented the fair value of his property. In case B the taxpayer permitted assessments on intangible property to be arbitrarily increased from $240,000 in 1918 to $2,400,000 in 1922. He filed a return the next year, probably fearing further increases. While these two cases are exceptional, they indicate the possibilities of evasion of the intangible tax.

Since 1929 local conditions have been improved by the enactment of a law recommended by the Bureau of Efficiency which provides that if any person neglects or refuses to file a return of personal property and the assessor certifies that in his opinion the best information obtainable does not afford a satisfactory basis for assessment, the board of commissioners may petition the Supreme Court of the District of Columbia for a mandamus against such person to compel the filing of a sworn return. (Act of February 8, 1929, 45 Stat. 1227.) The auditor for the District of Columbia in commenting on the finances for 1931, states that notwithstanding the market slump the levy on intangibles increased in 1931 because the commissioners were empowered to initiate mandamus proceedings against taxable persons who refused to file returns satisfactory to the assessor, and that during the past year it was unnecessary to take legal action after a number of persons were advised of the provision of the law. (Finances of the District of Columbia for the fiscal year 1931, p. 3.)

It is of interest to note in the table of intangible assessments shown in this section that collections have increased each year for the past 10 years, up to and including 1931.

But more important than illegal evasion is the legal avoidance of taxes. From a social viewpoint all individuals should share in the support of the Government in proportion to their respective abilities. In the District the opportunity exists for many persons with substantial incomes from professions or from investments in tax-exempt local stocks or Government bonds to escape virtually all direct taxes. As the bill, if enacted, will effect a more equitable distribution of the tax burden between property owners and nonproperty owners having ability to pay taxes, it is the opinion of this bureau that a decided improvement will be made in the District taxing system by the substitution of an income tax for the present tax on intangible property. The bureau is further influenced in its view by the general situation on property taxes. Heretofore the money raised in the District of Columbia to meet expenses has been obtained almost entirely from taxes on real and personal property. Last year the cash revenues of the District were $30,416,539, exclusive of the gasoline tax, or $32,157,461 if the gasoline tax is included. Of this amount general property taxes produced $27,286,319. These significant figures show an abnormal situation in which real and personal property are bearing a disproportionate part of the cost of the municipal government. Scarcely a tax authority can be found to uphold the property tax as the chief source of direct contribution—and yet in the District it constitutes 85 per cent of the total revenues.

## IV. SOURCES OF TAXABLE INCOME IN THE DISTRICT OF COLUMBIA

Income taxed under the Federal revenue act falls roughly into two classes: (1) Individual, including trusts and estates, and (2) corporation, including that of joint-stock companies and other associations organized for profit.

An analysis of the sources of individual incomes reported in Federal returns filed by residents of the District of Columbia for the 5-year period 1925 to 1929 is shown below.

*Sources of income—individual Federal income-tax returns filed by residents of the District of Columbia*

| | 1925 | 1926 | 1927 | 1928 | 1929 [1] | Average |
|---|---|---|---|---|---|---|
| SOURCES OF INCOME | | | | | | |
| Wages and salaries | $103, 617, 349 | $107, 733, 319 | $101, 094, 956 | $116, 291, 319 | $139, 577, 642 | $113, 662, 917. 00 |
| Business | 32, 988, 296 | 27, 116, 639 | 27, 256, 010 | 28, 498, 573 | 27, 945, 657 | 28, 761, 035. 00 |
| Partnership | 9, 669, 700 | 9, 433, 591 | 8, 262, 051 | 9, 504, 679 | 9, 470, 440 | 9, 268, 092. 20 |
| Profit from sale of real estate, stocks, bonds, etc | 14, 266, 002 | 10, 937, 080 | 13, 365, 035 | 21, 320, 732 | 16, 105, 846 | 15, 198, 939. 00 |
| Capital net gain | 6, 190, 320 | 5, 484, 851 | 8, 594, 762 | 9, 651, 578 | 13, 200, 366 | 8, 624, 375. 40 |
| Rents and royalties | 15, 244, 105 | 12, 059, 893 | 13, 207, 373 | 11, 630, 163 | 10, 527, 941 | 12, 533, 895. 00 |
| Interest on Government obligations (not exempt) | 225, 284 | 411, 537 | 470, 060 | 494, 872 | 483, 586 | 417, 067. 80 |
| Dividends on stock of domestic corporations | 24, 104, 182 | 29, 474, 579 | 32, 208, 341 | 30, 484, 026 | 34, 066, 299 | 30, 067, 485. 40 |
| Fiduciary income | 4, 727, 318 | 5, 366, 588 | 5, 090, 804 | 5, 466, 852 | 5, 806, 638 | 5, 291, 640. 00 |
| Interest and other income | 18, 058, 507 | 20, 385, 780 | 24, 498, 090 | 24, 324, 136 | 20, 496, 592 | 21, 552, 621. 00 |
| Total income | 229, 091, 063 | 228, 403, 857 | 234, 047, 482 | 257, 666, 930 | 277, 681, 007 | 245, 378, 067. 80 |
| DEDUCTIONS FROM INCOME | | | | | | |
| Net loss from sale of real estate, stocks, bonds, etc | ([2]) | 599, 472 | 1, 895, 706 | 918, 299 | 4, 898, 500 | 1, 662, 395. 40 |
| Contributions | 3, 432, 094 | 3, 593, 460 | 3, 485, 987 | 4, 002, 065 | 4, 274, 035 | 3, 757, 528. 20 |
| All other deductions | 25, 305, 270 | 26, 155, 157 | 29, 727, 747 | 25, 125, 960 | 26, 225, 774 | 26, 507, 981. 60 |
| Total deductions | 28, 737, 364 | 30, 348, 089 | 35, 109, 440 | 30, 046, 324 | 35, 398, 309 | 31, 927, 905. 20 |
| Net income | 200, 353, 699 | 198, 055, 768 | 198, 938, 042 | 227, 620, 606 | 242, 282, 698 | 213, 450, 162. 60 |

[1] Calendar year 1929 latest complete statistics published by bureau of internal revenue.
[2] Not reported separately for 1925.

The statistics of the Federal Government are based on the taxpayers' returns as filed, unaudited except for a preliminary examination to insure that the forms are filled out and properly executed. The income reported in the tables does not always represent precisely the amount on which settlement of the tax is finally made, for the reason that tax delinquencies or overpayments may be discovered after the figures have been taken from the original returns for the statistics of income. While the table is prepared on the basis of Federal tax returns filed in the District, the sources of income under the proposed bill will be fairly analogous, as the bill prescribes substantially the same procedure for determining net income.

The gross income reported by residents of the District for Federal tax purposes increased from $229,000,000 in 1925 to $277,000,000 in 1929, the average being $245,000,000. Nearly one-half of this amount was realized from the item of salaries and wages, in large part paid by the Federal Government. The next item of income, about 20 per cent, represented dividends and interest. Earnings from individual and partnership businesses accounted for 15 per cent; and profits from sales of capital assets, rents, royalties, and all other income made up the remaining 15 per cent. From the gross income there were deducted losses, interest, taxes, contributions, and other allowances totaling $32,000,000, leaving an average net income reported for the period of $213,000,000.

The incomes in the District for the next two or three years are more or less a matter of conjecture. Because of the lower exemptions in the District bill, additional taxes will be collected on incomes that are not reached now by the Federal Government, namely, those between $2,500 and $3,500 in the case of married persons, and between $1,000 and $1,500 for single persons. The taxable income of these two groups comprising between 10,000 and 15,000 persons, many of whom are Government workers, would be from $500 to $1,000 per return, the difference between the District exemption and the Federal exemption. Though small, this would provide some additional revenue. On the other hand, the drop in earnings because of the present business depression, particularly in the case of wealthy taxpayers, will decrease the net incomes subject to the higher tax rates, thereby substantially reducing the revenues until general conditions improve. A discussion of the effect on tax collections is taken up under the section of this report dealing with estimated revenues.

For corporations, the available statistics compiled by the Bureau of Internal Revenue show only the nature of the business in which the corporation is engaged. As these give an idea of the sources of income, a tabulation is presented on that basis for the five years 1925 to 1929.

*Net income reported on corporation Federal tax returns, District of Columbia*

| Nature of business | 1925 | 1926 | 1927 | 1928 | 1929 | Average |
|---|---|---|---|---|---|---|
| Agricultural industries | $121, 156. 00 | $68, 649. 00 | $72, 656. 00 | $44, 739. 00 | $47, 249. 00 | $70, 889. 80 |
| Mining and quarrying | 838, 398. 00 | 1, 443, 682. 00 | 758, 523. 00 | 463, 176. 00 | 630, 347. 00 | 826, 825. 20 |
| Manufacturing: | | | | | | |
| Food products, beverages and tobacco | 1, 329, 160. 00 | 778, 643. 00 | 693, 942. 00 | 657, 551. 00 | 1, 373, 297. 00 | 966, 518. 60 |
| Textiles and textile products | 122, 990. 00 | 124, 932. 00 | 128, 553. 00 | 90, 088. 00 | 122, 122. 00 | 117, 737. 00 |
| Leather and leather products | (1) | (1) | (1) | 1, 711. 00 | 3, 759. 00 | 1, 094. 00 |
| Lumber and wood products | (1) | 6, 815. 00 | (1) | 25, 478. 00 | 21, 047. 00 | 10, 668. 00 |
| Paper, pulp, and products | 187, 123. 00 | 199, 396. 00 | 239, 837. 00 | 271, 916. 00 | 319, 245. 00 | 243, 503. 40 |
| Printing and publishing | 1, 968. 165. 00 | 2, 155, 267. 00 | 2, 303, 213. 00 | 2, 069, 658. 00 | 1, 691, 137. 00 | 2, 037, 488. 00 |
| Chemicals and allied substances | 51, 598. 00 | 80, 508. 00 | 127, 612. 00 | 143, 592. 00 | 87, 689. 00 | 98, 199. 80 |
| Stone, clay, and glass products | 568, 467. 00 | 430, 007. 00 | 177, 923. 00 | 242, 424. 00 | 208, 385. 00 | 325, 441. 20 |
| Metal and metal products | 216, 792. 00 | 72, 992. 00 | 66, 534. 00 | 66, 935. 00 | 133, 148. 00 | 111, 280. 20 |
| Miscellaneous | 79, 165. 00 | 37, 450. 00 | 19, 652. 00 | 31, 266. 00 | 16, 430. 00 | 36, 792. 60 |
| Construction | 2, 048, 274. 00 | 1, 429, 860. 00 | 929, 503. 00 | 463, 176. 00 | 581, 333. 00 | 1, 090, 429. 20 |
| Transportation and public utilities | 38, 341, 413. 00 | 41, 440, 129. 00 | 33. 360, 511. 00 | 32, 378, 047. 00 | 30, 623, 455. 00 | 35, 228, 711. 00 |
| Trade | 7, 633, 358. 00 | 7, 380, 312. 00 | 6, 391. 709. 00 | 7, 706, 178. 00 | 6, 995, 507. 00 | 7, 221, 412. 80 |
| Service: Professional, amusements, hotels, etc | 2, 073, 008. 00 | 1, 854, 289. 00 | 1, 442, 068. 00 | 1, 399, 041. 00 | 1, 697, 733. 00 | 1, 693, 227. 80 |
| Finance [2] | 8, 887, 170. 00 | 8, 474, 021. 00 | 9, 113, 402. 00 | 9, 836, 736. 00 | 8, 351, 161. 00 | 8. 932, 498. 00 |
| Unclassified | 26, 992. 00 | 10, 523. 00 | 12, 691. 00 | 6, 692. 00 | 6, 200. 00 | 12, 619. 60 |
| Total net income | 64, 493, 229. 00 | 65, 987, 475. 00 | 55, 838, 329. 00 | 55, 898, 404. 00 | 52, 909, 244. 00 | 59, 025, 336. 20 |

[1] Includes banking, insurance, real estate holding companies, stock and bond brokers, etc.
[2] Included in miscellaneous manufacturing.

As contrasted with the incomes of individuals which showed a marked increase during the period, incomes of corporations decreased $11,500,000, of which $7,500,000 was attributable to a decline in the earnings of railroads and public utilities, and the other $4,000,000 mostly to construction companies, hotels, trading corporations, and printing and publishing companies. A continuation of the depression will tend to reduce further the incomes of corporations so that, for the net year or so, their taxes would constitute only a small part of the revenues under the proposed bill.

Because of the noncommercial character of Washington, corporations are less important here than in other cities of the same size in the United States. The total taxable income of all corporations in the District during the period 1925–1929 averaged $59,000,000 a year. Of this approximately 60 per cent was received by railroads and public utilities, 15 per cent by banks and financial institutions, 12 per cent by trading businesses, 7 per cent by manufacturers, and the remaining 6 per cent by all others. Of particular significance is the fact that a large part of the net income of the local corporations would not be subject to the District income tax, as such incomes are received by public utilities and financial institutions exempted under section 22, which reads as follows:

> All corporations within the District of Columbia which pay a tax upon their gross earnings or receipts shall be exempt from the provisions of this act.

## V. RELATION OF PROPOSED TAX ON INCOMES TO PRESENT TAXES ON GROSS EARNINGS AND GROSS RECEIPTS

A study of any tax involves the fundamental consideration: Who shall pay? As proposed in the pending bill, the tax will fall upon individuals, estates, trusts, and certain corporations. By section 22 just quoted, corporations now paying taxes on gross earnings or gross receipts will be exempted. Although these organizations are but a small percentage of the number of businesses in the District, their combined total income amounts to over one-third of the $59,000,000 local corporate income reported for Federal taxation during the period 1925 to 1929. More than another third, earned by railroads, would be taxable only as to a very small part of the income, representing the portion derived from business transacted in the District. Excluding these two groups, actually less than $15,000,000 is left to tax. Before exempting any particular businesses from the operation of the proposed law, manifestly the first step is to determine whether they now pay a fair share of the cost of government. The consideration becomes the more important as three other revenue measures for the District are before Congress: H. R. 5822 to provide an estate tax, H. R. 5823 to provide a motor fuel tax, and H. R. 5824 to provide, among other things, registration fees for motor vehicles. At the request of the Senate Committee on the District of Columbia, studies were made by this bureau on the bills, and reports were rendered on March 14 and 15, 1932.

The estimated additional revenues from the measures (other than the income tax) under the plan of the Select Committee and the plan of the bureau follow:

| Tax | Select committee plan | Bureau plan |
|---|---|---|
| Estate | $750,000 | $750,000 |
| Motor fuel (additional 2-cent levy) | 1,650,000 | 1,650,000 |
| Motor-vehicle registration | 2,900,000 | 467,000 |
| Total | 5,300,000 | 2,867,000 |
| Less: | | |
| Present registration $1 fee | 126,000 | 126,000 |
| Present personal property tax on automobiles | 440,000 | ---------- |
| Net addition | 4,734,000 | 2,741,000 |

From the foregoing it will be noted that there is a difference of $1,993,000 in the two plans. Whatever plan be adopted, these measures contemplate a substantial increase in taxes in the District of Columbia, and their consideration requires care to see that the burden is distributed equitably among the several classes.

The corporations exempt under the bill are now taxed under the following provisions of law:

Each national bank as the trustee for its stockholders, through its president or cashier, and all other incorporated banks, and trust companies, in the District of Columbia, through their presidents or cashiers, and all gas, electric-lighting, and telephone companies, through their proper officers, shall make affidavit to the board of personal-tax appraisers on or before the 1st day of August each year as to the amount of its or their gross earnings for the preceding year ending the 30th day of June, and shall pay to the collector of taxes of the District of Columbia per annum on such gross earnings as follows: Each national bank, and all other incorporated banks, and trust companies, respectively, 6 per centum; each gas company, 5 per centum; each electric lighting, and telephone company, 4 per centum. And in addition thereto the real estate owned by each national or other incorporated bank, and each trust, gas, electric lighting and telephone company in the District of Columbia shall be taxed as other real estate in said District: *Provided*, That street railroad companies shall continue to pay the four per centum per annum on their gross receipts and other taxes as provided by existing law. (Par. 5, act of July 1, 1902, 32 Stat. 619.)

That part of the proviso in paragraph five, section 6, relating to street railroads "shall be construed to mean that all street railroad companies shall pay four per centum per annum on their gross receipts within the District of Columbia and other taxes as provided by existing law."

* * * * * * *

All companies, incorporated or otherwise, who guarantee the fidelity of any individual or individuals, such as bonding companies, and all companies who furnish abstracts of titles to real property, or who insure real estate titles, shall pay to the collector of taxes of the District of Columbia 1½ per centum of their gross receipts in the District of Columbia.

* * * * * * *

That hereafter, beginning with the fiscal year commencing July 1, 1904, incorporated savings banks paying interest to their depositors shall, through their president or cashier, make report under oath to the board of personal tax appraisers on or before the 1st day of August in each year as to the amount of their gross earnings, less the amount paid as interest to their depositors for the preceding year ending June 30, and shall pay thereon to the collector of taxes of the District of Columbia 4 per centum per annum.

* * * * * * *

Building associations in the District of Columbia shall pay to the collector of taxes of the District of Columbia 2 per centum per annum on their entire gross earnings for the preceding year ending June 30. (Sec. 2, act of April 28, 1904, 33 Stat. 563.)

Every insurance company and association doing business in the District of Columbia * * * except mutual fire insurance companies, shall pay to the collector of taxes before March 1 of each year a sum equal to 1½ per centum of said premium receipts of the last preceding calendar year, in lieu of all other taxes, except taxes upon real estate and any license fees * * *. (Sec. 650, act of March 3, 1901, 31 Stat. 1291.)

Every corporation, joint-stock company, or association not exempt herein, transacting business in the District of Columbia, which collects premiums, dues or assessments from its members or from holders of its certificates or policies, and which provides for the payment of indemnity on account of sickness or accident, or a benefit in case of death, shall be known as "health, accident, and life insurance companies or associations." * * * Every such company or association shall pay to the collector of taxes for the District of Columbia a sum of money, as tax, equal to 1 per centum of all moneys received from members of policy or certificate holders within the District of Columbia. (Sec. 653, act of August 15, 1911, 37 Stat. 17.)

*Corporations taxed on basis of gross earnings and gross receipts, District of Columbia*

| Corporations | Statute reference | Basis of tax | Rate |
|---|---|---|---|
| Group 1. Financial institutions: | | | *Per cent* |
| National banks and other incorporated banks. | 32 Stat. 619 | Gross earnings | 6 |
| Trust companies | do | do | 6 |
| Incorporated savings banks | 33 Stat. 564 | Gross earnings, less interest paid to depositors. | 4 |
| Building and loan associations | do | Gross earnings | 2 |
| Life, health, and accident insurance companies. | 37 Stat. 16 | Net premium receipts | 1 |
| Insurance companies (except mutual fire insurance companies and companies transacting life, health, or accident insurance). | 31 Stat. 1291 | do | 1½ |
| Title insurance companies | 32 Stat. 619 | Gross receipts | 1½ |
| Bonding companies | 33 Stat. 564 | do | 1½ |
| Group 2. Public utilities: | | | |
| Electric-light companies | 32 Stat. 619 | Gross earnings | 4 |
| Telephone companies | do | do | 4 |
| Gas companies | do | do | 5 |
| Street-railway companies | 33 Stat. 564 | Gross receipts within District | 4 |

NOTE.—These taxes are in lieu of tangible and intangible personal property taxes, but not real property taxes. In addition thereto, the real estate owned by these corporations is taxed as other real estate in the District.

These corporations fall into two groups—financial institutions and public utilities.

*Financial institutions.*—National banks and trust companies pay a relatively high tax, 6 per cent on their gross earnings, compared with the average in the States. Statistics on bank expenses compiled by H. N. Stronck & Co., bank consultants, show that for the 10-year period, 1921 to 1930, the total taxes paid by all banks in the District of Columbia were 8.87 per cent of their gross earnings, against 5.90 per cent for the entire United States. Last year the Federal Reserve Bank of Richmond reported that member banks of the fifth Federal reserve district paid in taxes of all kinds about $5.60 on every $100 gross income, whereas in the District in some cases bank taxes exceeded $12. A survey of income tax laws made by the committee on taxation of the American Bankers Association, published in September, 1931, shows that of 20 States having corporation income taxes, 10 tax all banks, 3 tax only State banks, and 7 exempt all banks.

Incorporated savings banks pay a tax of 4 per cent on gross earnings after deducting interest on deposits. Their working capital is made up largely of savings accounts on which interest at 3 per cent is paid. Were not the deduction for interest allowed, the tax would be burdensome, and in some cases prohibitive. Owing to the narrow margin of profit any increase in tax would ultimately lead to the reduction of interest paid to depositors, or would weaken the banks' resources, either result being undesirable. Some of the banks less favorably situated might be forced out of business. Although the tax paid by savings banks is not as high as that on national banks and trust companies, nevertheless it averages about 7 per cent of their gross earnings—a figure higher than the average tax paid by all banks in the country. The majority of States having income taxes exempt savings banks.

The total taxes paid by banks in the District of Columbia for the fiscal year 1931, exclusive of real-estate taxes, amounted to $859,922.14

Building and loan associations have commonly come to be regarded as public benefactors. Primarily their purpose is to aid persons who otherwise would be unable to purchase homes. They also furnish a means for depositors of small amounts to earn a fair interest return on secured investments. Where a rate of 5 per cent is paid on deposits, and 6 per cent charged as interest on loans, but 1 per cent remains for a margin on which business is done. Accordingly a 2 per cent tax on mortgage interest received, without the privilege of deducting interest paid, amounts to 12 per cent of the net interest earned. The policy of the Federal Government and most of the States is to exempt this class of establishments from income taxes, if substantially all the business is confined to making loans to members. Taxes in the District, exclusive of real property taxes, assessed against building and loan associations for 1931 amounted to $79,264.06.

There may be some question whether section 22 of the bill, exempting corporations taxed on gross earnings or gross receipts, was intended to include insurance companies, which are taxed on premium receipts. Life, health, and accident insurance companies in the District of Columbia pay a tax of 1 per cent of their net premiums. Other insurance companies pay 1½ per cent. Some form of premium tax is found in most States, although there are many differences in rates, and in their application to particular classes of companies. Connecticut, Illinois, and Nebraska do not levy any premium tax on domestic companies. New Jersey follows this practice with respect only to domestic life-insurance companies. New York, Maryland, and Virginia tax part of their insurance companies at rates as low as 1 per cent. Alabama, Delaware, Georgia, Maine, and Utah levy taxes of 1½ per cent, which is the same rate as that in the District on other than life, health, and accident companies. The average is about 2 per cent, the rate in effect in 17 States. Only three States tax as high as 3 per cent—Indiana, Michigan, and Texas. Taxes collected from insurance companies in the District for 1931 amounted to $304,029.35.

Bonding and surety companies pay at the rate of 1½ per cent on their gross receipts. From a revenue standpoint, the collections from these companies are relatively unimportant. In most States the companies are included in the insurance code, being regulated and taxed as insurance companies. Last year 50 bonding and surety companies and 7 title companies paid taxes of $14,418.29 and $8,975.86, respectively.

On April 25, 1932, a bill was introduced in the Senate (S. 4483) providing, among other things, for the revision of taxes on bonding and title companies. The Senate bill proposes to tax these organizations on their real estate and tangible personal property within the District of Columbia, and in addition levy a franchise tax of 2 per cent upon their gross earnings. The chairman of the Senate Committee on the District of Columbia has asked this bureau to make a study of the bill. In compliance with the request a separate report will be submitted treating of the taxation of bonding and title companies. Inasmuch as their activities are analogous to those of insurance companies, the two groups will be included in the subsequent report.

Summarizing the situation, the financial corporations described above as paying gross earnings or gross receipts taxes might properly be exempted from the operation of the proposed income tax law, and their fair tax burden fixed by other forms of taxes.

*Public utilities.*—In contrast to the preceding group, this group comprises corporations that have obtained some special privilege from the municipal government enabling them to use the streets and public places for furtherance of their activities. Taxes on public utilities have undergone many changes. In the early years of the country's history, and up to the middle of the nineteenth century, these organizations in many cases not only were untaxed, but subsidized. Becoming financially successful about the time of the Civil War, they were looked upon as fit subjects for taxation, and laws passed bringing them under the general property tax. Later special statutes were enacted relating to public utilities, each State following a particular course, so that now a great variety of laws may be found on the subject. The National Tax Association in 1922 called attention to the great variety and confusion in the methods of taxing public utilities in the several States, and to the extreme difficulty in working out a rational plan for imposing taxes. The committee handling the matter stated that the most striking features of the existing taxation of public utility corporations were (1) the extraordinary variety in the methods followed by the several States, (2) the duplication and confusion from the decentralized taxation of property by the local jurisdictions, and (3) the lack of any guiding principle in the taxation of public utilities, and in the place of such taxes in the tax system as a whole. It found that there were as many varieties of public utility taxes as there were States, indeed more, as frequently the same State used different methods for different classes of utilities. Since then the situation has not improved. Misunderstandings have arisen because of the different taxes imposed under similar names, and the same taxes levied under different names.

It would be impracticable within the scope of this study to attempt a discussion of the methods employed, but the question invariably arises: How far should the Government go in obtaining contribution in the way of taxes from these enterprises? No one denies that the privileges they receive justify their taxation, but to what extent? Public utilities are operated not alone for profit to their owners, but for rendering service to the community. Taxes imposed upon them are passed along to their patrons so that by public regulation they are allowed a fair return on their capital. It seems fair and reasonable that the taxes of public utilities, as nearly as possible, should be on an equality as to amount with taxes on other kinds of property and businesses. Many students of taxation take the view that public utility taxes should be the same as those imposed on other property, and under the same rates and conditions. They contend there is no reason that a special tax policy must be applied to public service industries as distinguished from other businesses, and that a uniform treatment will accord the best results. Others take the view that equality can best be attained by separate classification and special treatment, in which neither uniformity of method nor rate is essential. In arriving at this conclusion they contend that the business is peculiar because of its highly technical character, that its activities can be viewed only as a whole and not in separate parts, and that as a regulated enterprise special taxes are essential to meet these conditions.

The select committee to investigate fiscal relations between the United States and the District of Columbia, on page 19 of its report, summarizes the situation in respect to taxation of public utilities:

> All the public utilities in the District are subject to specific taxation or franchise taxes. The tax is based on gross earnings or gross receipts and the rate varies according to the class of corporation.
>
> The rate on the gross earnings of gas companies is 5 per cent. Electric street-railway companies are taxed at the rate of 4 per cent on gross receipts. Electric light companies are taxed at 4 per cent on gross earnings. Telephone companies are taxed at 4 per cent on gross earnings.
>
> It will be noted that these rates of taxation are unequal and, therefore, violate the basic principle of equality in taxation. If the present system of taxing these utilities is to be continued, and the committee doubts its widsom, the law should be amended so as to provide uniformity in the rate of taxation.
>
> According to figures furnished the committee by the office of the District assessor, if these various utilities were taxed on an ad valorem basis of valuation the District would gain considerable revenue. These companies paid last year in taxes a total of $1,611,000. It is estimated by the District assessor's office that if they had been taxed at the same rate of taxation as imposed on other classes of tangible and intangible property they would have paid $2,500,000 or approximately $900,000 more than they paid under the present system. The present specific tax on gross earnings and gross receipts is in lieu of any ad valorem tax on tangible personal proeprty and the millage tax on intangible personal property.

The inclusion of public utilities under the proposed income tax law would increase the taxable corporation income in the District about $12,000,000, which at the rates prescribed in the bill would produce added revenues of $590,000.

The estimate of the assessor's office, on which the statement of the committee is based, is shown below:

*Comparative statement of amount of present tax on public utilities in District of Columbia and amount of tax that would be derived if real estate, tangible and intangible personal property tax were applied*

| | Total value, real estate and personal property | Valuation, real estate | Tax on real estate | Net value, tangible personal property | Tax, tangible personal property, $1.70 per $100 | Value, intangible personal property | Tax $0.50 per $100 intangible personal property | Total of tangible and intangible property | Present tax on gross earnings or gross receipts | Rate | Total tax paid under present law | Total tax that would have been paid under general property taxes |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Potomac Electric Power Co. | $50,079,268.00 | $4,975,826.00 | $84,589.04 | $45,103,442.00 | $766,758.51 | $1,613,304.00 | $8,066.52 | $774,825.03 | $339,156.16 | 4 | $423,745.20 | $859,414.07 |
| Washington Railway & Electric Co. | 19,175,034.00 | 1,535,570.00 | 26,104.69 | 17,639,464.00 | 299,870.88 | 3,257,726.00 | 16,288.63 | 316,159.51 | 265,240.76 | 4 | 291,345.45 | 342,264.20 |
| Washington Interurban R. R. Co. | [1] 34,810.00 | ---------- | ---------- | 34,810.00 | 591.77 | 2,346.00 | 11.73 | 603.50 | 1,529.62 | 4 | 1,529.62 | 603.50 |
| Capital Traction Co. | 25,978,795.00 | 2,513,958.00 | 42,737.28 | 23,464,837.00 | 398,902.22 | 477,734.00 | 2,373.67 | 401,275.89 | 162,715.65 | 4 | 205,452.93 | 444,013.17 |
| Chesapeake & Potomac Telephone Co. | 30,915,630.00 | 4,512,636.00 | 76,714.81 | 26,400,994.00 | 448,816.89 | 981,352.00 | 4,906.76 | 453,723.65 | 336,839.62 | 4 | 413,554.43 | 530,438.46 |
| Georgetown Gas Light Co. | 1,948,359.00 | 482,818.00 | 8,207.90 | 1,465,541.00 | 24,914.19 | 151,672.00 | 758.36 | 25,672.55 | 22,211.20 | 5 | 30,419.10 | 33,880.45 |
| Washington Gas Light Co. | 16,580,045.00 | 3,734,667.00 | 63,489.33 | 12,845,378.00 | 218,371.42 | 1,784,646.00 | 8,923.23 | 227,294.65 | 181,502.20 | 5 | 244,991.53 | 290,783.98 |
| Total | ---------- | ---------- | 301,843.05 | ---------- | 2,158,225.88 | ---------- | 41,328.90 | ---------- | 1,309,195.21 | ---- | 1,611,038.26 | 2,501,397.83 |

[1] All personal property.

The foregoing table indicates that this group of businesses is not paying as high taxes, according to their investment in property, as the average taxpayer in the District of Columbia. The question then arises as to whether or not they are paying taxes comparable with representative companies elsewhere. In order to determine this, a separate table has been compiled for each class of public service corporation in the group, showing the percentage of taxes paid (exclusive of Federal income taxes) to gross operating revenues. By this method the obstacles of divergent bases and rates can be overcome, and taxes brought to a similar footing.

For comparative purposes these corporations may be divided into four groups—street railway companies, telephone companies, electric power companies, and gas companies.

*Taxes paid by telephone company.*—The Chesapeake & Potomac Telephone Co. (of New York) which operates the only telephone system in the District, pays 4 per cent tax on its gross earnings, plus the real estate tax. The following table shows the taxes (other than Federal income taxes) of the local company and other representative class A telephone companies in the United States. The group of companies selected have annual operating revenues of one to fifty million dollars. Taxes of the local company were 4.74 per cent of its operating revenues against an average of 6.77 of the other representative companies. The latter figure is considered conservative as the Journal of Land and Public Utility Economics, Volume I, at page 53, shows that in 1922 the ratio of taxes to gross receipts for telephone companies was 7.14 per cent.

The Chesapeake & Potomac Telephone Co. taxes for 1930 amounted to $409,867. At the average rate they would have been $585,898, an increase of $176,031.

*Representative class A telephone companies of the United States, year ending December 31, 1930* [1]

| I. C. C. company No. | Company | Operating revenues | Taxes other than United States Government taxes | Per cent of taxes to operating revenues | Investment in fixed capital | Per cent of taxes to fixed capital |
|---|---|---|---|---|---|---|
| 4 | Associated Telephone Co. (Ltd.) | $2,545,131 | $163,001 | 6.40 | $12,288,963 | 1.33 |
| 5 | Bell Telephone Co. of Nevada | 1,041,883 | 132,170 | 12.69 | 6,159,609 | 2.15 |
| 9 | Carolina Telegraph & Telephone Co | 1,310,836 | 132,947 | 10.14 | 4,387,877 | 3.03 |
| 12 | Chesapeake & Potomac Telephone Co. of Baltimore City | 13,933,188 | 1,050,015 | 7.54 | 48,109,392 | 2.18 |
| 13 | Chesapeake & Potomac Telephone Co. of Virginia | 8,173,272 | 555,032 | 6.79 | 29,343,250 | 1.89 |
| 14 | Chesapeake & Potomac Telephone Co. of West Virginia | 6,150,273 | 385,242 | 6.26 | 23,364,122 | 1.65 |
| 15 | Cincinnati & Suburban Telephone Co | 10,515,300 | 698,931 | 6.65 | 38,191,613 | 1.83 |
| 20 | Dakota Central Telephone Co | 1,678,878 | 117,255 | 6.98 | 6,366,103 | 1.84 |
| 31 | Home Telegraph & Telephone Co. of Spokane (Wash.) | 1,704,626 | 139,522 | 8.18 | 7,769,403 | 1.80 |
| 38 | Indiana Bell Telephone Co | 13,417,509 | 1,152,293 | 8.58 | 45,236,356 | 2.55 |
| 53 | Lincoln Telegraph & Telephone Co | 3,228,857 | 155,652 | 4.82 | 12,735,130 | 1.22 |
| 59 | Michigan Bell Telephone Co | 41,502,997 | 3,709,516 | 8.70 | 174,635,060 | 2.12 |
| 63 | Mountain States Telegraph & Telephone Co | 22,972,845 | 1,600,245 | 6.97 | 89,086,611 | 1.80 |
| 64 | Mutual Telephone Co. (Honolulu, Hawaii) | 1,513,608 | 127,379 | 8.42 | 5,053,872 | 2.52 |
| 67 | New Jersey Bell Telephone Co | 49,870,453 | 3,421,072 | 6.86 | 181,875,179 | 1.88 |
| 73 | Northwestern Bell Telephone Co | 34,924,803 | 1,699,506 | 4.87 | 122,156,293 | 1.39 |
| 75 | Ohio Bell Telephone Co | 44,264,952 | 3,053,305 | 6.90 | 168,055,144 | 1.82 |
| 84 | Rochester Telephone Corporation | 5,348,709 | 219,106 | 4.10 | 18,467,022 | 1.19 |
| 89 | Southern California Telephone Co | 33,996,856 | 2,353,872 | 6.92 | 160,832,118 | 1.46 |
| 91 | Southern New England Telephone Co | 17,539,296 | 691,113 | 3.94 | 69,300,205 | 1.00 |
| 102 | Tri-State Telephone Co | 5,840,207 | 236,519 | 4.05 | 22,551,511 | 1.05 |
| 105 | United Telephone Co. (Abilene, Kans.) | 2,061,336 | 123,985 | 6.01 | 6,636,286 | 1.87 |
| 109 | West Coast Telephone Co | 1,487,290 | 154,431 | 10.38 | 7,858,110 | 1.97 |
| 111 | Wisconsin Telephone Co | 18,186,267 | 1,152,429 | 6.34 | 70,060,014 | 1.64 |
|  | Total class A companies | 343,229,372 | 23,224,538 | 6.77 | 1,330,519,243 | 1.75 |
| 11 | Chesapeake & Potomac Telephone Co. (New York), Washington, D. C | 8,654,334 | 409,867 | 4.74 | 30,779,864 | 1.33 |

[1] From statistics compiled by Interstate Commerce Commission.

*Taxes paid by gas companies.*—Manufactured gas used in the District of Columbia is distributed by the Washington Gas Light Co. or the Georgetown Gas Light Co., which are affiliated under one business control. Their taxes consist of 5 per cent of the gross earnings (operating revenue less cost of gas manufactured), plus the real estate tax. During the calendar year 1930, the Washington Gas Light Co. paid taxes (exclusive of Federal income taxes) amounting to $250,397 or 4.52 per cent of its operating revenues; the Georgetown Gas Light Co. $24,488 or 2.29 per cent, making their combined taxes $274,885, or an average of 4.16 per cent of the combined operating revenues. Some difficulty was experienced in making a comparison with gas companies in other localities. In the majority of instances where financial data were available, taxes were not shown separately, and in other cases the reports also covered operation of gas and electric plants combined in one statement—as, for example, the Consolidated Gas Co. of New York and Pacific Gas & Electric Co. of Los Angeles.

The following table shows the taxes paid and the percentages which they bear to operating revenues of all representative gas companies for which data were obtained during the survey.

*Manufactured gas companies, for the year ending December 31, 1930* [1]

| Company | Location | Operating revenue | Taxes including Federal income tax | Per cent taxes to operating revenue including Federal income taxes | Estimated Federal income taxes | Taxes excluding Federal income tax | Per cent taxes to operating revenue excluding Federal income taxes |
|---|---|---|---|---|---|---|---|
| Citizens Gas Co. of Indianapolis. | Indianapolis | $5, 528, 142 | $423, 601 | 7. 66 | $50, 030 | $373, 571 | 6. 76 |
| Detroit City Gas Co | Detroit | 18, 446, 059 | 2, 047, 372 | 11. 10 | 432, 647 | 1, 614, 725 | 8. 75 |
| Des Moines Gas Co | Des Moines | 1, 358, 599 | 219, 468 | 16. 15 | 47, 992 | 171, 476 | 12. 62 |
| Laclede Gas Light Co | St. Louis | 7, 976, 245 | 934, 282 | 11. 71 | 141, 080 | 793, 202 | 9. 94 |
| Peoples Gas Light Co | Chicago | 39, 880, 628 | 3, 806, 154 | 9. 54 | 981, 419 | 2, 824, 735 | 7. 08 |
| Milwaukee Gas Light Co. | Milwaukee | 6, 300, 560 | 1, 016, 367 | 16. 13 | 188, 387 | 827, 980 | 13. 14 |
| Los Angeles Gas Co | Los Angeles | 16, 655, 607 | 1, 729, 315 | 10. 38 | 400, 902 | 1, 328, 413 | 7. 98 |
| Brooklyn Union Gas Co. | Brooklyn | 25, 472, 253 | 2, 101, 889 | 8. 25 | 730, 191 | 1, 371, 698 | 5. 39 |
| Fall River Gas Works Co. | Fall River | 1, 000, 106 | 158, 609 | 15. 86 | 27, 319 | 131, 290 | 13. 13 |
| Total | | 122, 618, 199 | 12, 437, 057 | 10. 14 | 2, 999, 967 | 9, 437, 090 | 7. 70 |
| Georgetown Gas Light Co. | Washington, D. C. | 1, 070, 283 | 43, 379 | 4. 05 | 18, 891 | 24, 488 | 2. 29 |
| Washington Gas Light Co. | do | 5, 536, 207 | 327, 545 | 5. 92 | 77, 148 | 250, 397 | 4. 52 |
| Total Georgetown and Washington Gas Light Co.'s (combined). | | 6, 606, 490 | 370, 924 | 5. 61 | 96, 039 | 274, 885 | 4. 16 |

[1] Prepared from annual reports published in the standard statistics and from information furnished by the Public Utilities Commission of the District of Columbia.

The results show that the average taxes paid during 1930 by the nine companies listed were 7.70 per cent of their operating revenues. Although the number of companies is very limited, the average obtained is in line with that reported in Moody's Manual on Public Utilities for 1931, Page XLVI. The total operating revenues of all manufactured gas companies is there reported as $532,872,000 with taxes of $52,307,000. Deducting estimated Federal income taxes gives $37,856,818 for State and local taxes. This is 7.10 per cent of the operating revenues. If the local gas companies were assessed at the averaged rates shown by the table they would pay a combined total tax of $508,700, an increase of $233,815.

*Taxes paid by electric light and power companies.*—Electric light and power companies pay 4 per cent tax on gross receipts, in addition to the real-estate tax. As mentioned above, in many cases they are operated with gas companies and published reports combine the two activities. The following information has been secured on 17 companies considered as fairly representative:

*Electric power and light companies*

| Company | | Year ending | Operating revenues | Taxes (other than United States Federal income tax) | Per cent taxes to operating revenues |
|---|---|---|---|---|---|
| Broad River Power Co | South Carolina | Dec. 31, 1930 | $2,836,734 | $236,194 | 8.33 |
| Carolina Power & Light Co | do | do | 1,712,865 | 151,125 | 8.82 |
| Duke Power Co | do | do | 5,219,759 | 455,202 | 8.72 |
| South Carolina Power Co | do | do | 2,164,531 | 126,967 | 5.87 |
| Southern Public Utilities Co | do | do | 2,667,305 | 169,506 | 6.35 |
| Wisconsin Power & Light Co | Madison | Dec. 31, 1931 | 8,929,400 | 994,200 | 11.13 |
| Michigan Gas & Electric Co | Lansing | do | 626,332 | 51,453 | 8.21 |
| Kentucky Utilities Co | Louisville | do | 6,354,141 | 494,000 | 7.78 |
| Southern Ohio Public Service Co | Zanesville | Dec. 31, 1930 | 982,111 | 54,088 | 5.51 |
| Montana Power Co | Butte | Dec. 31, 1931 | 6,744,031 | 845,240 | 12.53 |
| Nebraska Power Co | Omaha | Dec. 31, 1928 | 5,330,170 | 487,939 | 9.15 |
| Portland Electric Power Co | Portland | Dec. 31, 1929 | 12,245,929 | 1,265,273 | 10.33 |
| Puget Sound Power & Light Co | Seattle | Dec. 31, 1931 | 12,519,906 | 891,535 | 7.12 |
| San Joaquin Light & Power Co | Fresno | do | 11,222,748 | 836,878 | 7.46 |
| Southern California Edison Co. (Ltd.). | Los Angeles | do | 40,154,417 | 3,203,356 | 7.98 |
| Cleveland Electric Illuminating Co. | Cleveland | Dec. 31, 1930 | 26,481,760 | 2,108,012 | 7.96 |
| Consolidated Gas & Electric Co | Baltimore | do | 28,582,423 | 1,931,695 | 6.76 |
| Total | | | 174,774,562 | 14,303,023 | 8.18 |
| Potomac Electric Power Co | Washington, D. C. | Dec. 31, 1931 | 10,857,476 | 453,278 | 4.17 |

Statistics prepared from annual reports on file with the Federal Power Commission, State utility commission publications, and information furnished by the Public Utilities Commission of the District of Columbia.

From this table it will be seen that the average tax paid amounted to 8.18 per cent of the operating revenues. The figure reasonably agrees with statistics in Public Utility Economics, by M. G. Glaeser, page 577, which shows 7.40 per cent as the ratio of taxes to gross receipts for electric light and power companies in 1922. This slight divergency might be expected considering the tendency toward increased taxation during the past decade. Against these averages, the Potomac Electric Power Co. paid 4.17 per cent, a ratio lower than that of any company listed in the table. The taxes paid by the Potomac Electfic Power Co. for 1931 amounted to $453,278. Based on the average shown in the table they would have been $888,142, or an increase of $434,864.

*Taxes paid by street railway companies.*—Street railway companies pay 4 per cent on gross receipts in the District, in addition to the real-estate tax. Also, some other incidental charges are made against these companies for traffic policemen at street railway intersections and paving costs (to be discussed in report on S. 4483). During the calendar year 1930 the principal electric railways in the United States paid taxes (other than Federal income taxes) amounting to 6.26 per cent of their operating revenues. In the District the ratios of the Capital Traction Co. and the Washington Railway & Electric Co. were 5.09 and 5.32 per cent, respectively, of their operating revenues. The ratio of the combined totals for the two companies was 5.23 per cent. Together they paid a total of $490,994. Had they been assessed at the average rate for the United States, their taxes would have been $588,120, representing an increase of $97,126, or approximately 20 per cent. The charges for traffic policemen and paving costs have not been included in this computation. A table showing the revenues and taxes of the principal electric railway companies of the United States follows:

*Principal electric railways of the United States, year ending December 31, 1930*

[Statistics from Transit Journal, April 1932]

| Company | Operating revenues | Taxes, including United States Government taxes | Percentage taxes to operating revenues | Estimated Federal taxes | Net State taxes | Percentage ordinary taxes to operating revenues |
|---|---|---|---|---|---|---|
| Boston Elevated Ry., Boston, Mass. | $32,510,721 | $1,686,950 | 5.19 | 0 | $1,686,950 | 5.19 |
| Brooklyn-Manhattan Transit Corporation, New York (fiscal year) | 60,700,981 | 4,001,505 | 6.59 | $115,830 | 3,885,675 | 6.40 |
| Brooklyn & Queens Transit Corporation, New York (fiscal year) | 23,589,180 | 1,389,323 | 5.89 | 349,574 | 1,039,749 | 4.40 |
| Chicago Motor Coach Co., Chicago, Ill | 5,806,178 | 471,708 | 8.12 | 74,061 | 397,647 | 6.85 |
| Chicago, North Shore & Milwaukee R. R., Chicago, Ill | 6,672,508 | 290,592 | 4.36 | 81,526 | 209,066 | 3.13 |
| Chicago Rapid Transit Co., Chicago, Ill | 19,624,045 | 1,860,092 | 9.48 | 28,345 | 1,831,747 | 9.33 |
| Chicago, South Shore & South Bend R. R., Chicago, Ill | 3,556,706 | 59,537 | 1.67 | 41,828 | 17,709 | .50 |
| Cincinnati Street Ry., Cincinnati, Ohio | 8,123,961 | 690,877 | 8.50 | 0 | 690,877 | 8.50 |
| Cleveland Ry., Cleveland, Ohio | 17,648,758 | 1,412,935 | 8.01 | 30,250 | 1,382,685 | 7.63 |
| Denver Tramway, Denver, Colo | 3,987,772 | 485,191 | 12.17 | 42,484 | 442,707 | 11.10 |
| Department of Street Rys., Detroit, Mich | 21,123,787 | 774,563 | 3.67 | 486,133 | 288,430 | 1.37 |
| Eastern Massachusetts Street Ry., Boston, Mass | 7,829,407 | 300,405 | 3.83 | 59,573 | 240,832 | 3.08 |
| Fonda, Johnstown & Gloversville Street Ry., Gloversville, N. Y | 922,123 | 57,640 | 7.31 | 0 | 57,640 | 7.31 |
| Fresno Traction Co., Fresno, Calif | 267,262 | 16,729 | 6.26 | 0 | 16,729 | 6.26 |
| Gary Ry., Gary, Ind | 1,166,212 | 48,295 | 4.14 | 9,230 | 39,065 | 3.35 |
| Honolulu Rapid Transit Co., Honolulu, Hawaii | 1,047,821 | 107,977 | 10.30 | 25,340 | 82,637 | 7.89 |
| Houston Electric Co., Houston, Tex | 3,092,815 | 265,345 | 8.58 | 71,517 | 193,828 | 6.27 |
| Illinois Terminal Co., Springfield, Ill | 7,490,935 | 364,323 | 4.86 | 197,876 | 166,447 | 2.22 |
| Kansas City Public Service Co., Kansas City, Mo | 8,360,425 | 481,698 | 5.76 | 44,750 | 436,948 | 5.23 |
| Long Island R. R., New York, N. Y | 39,596,434 | 3,453,370 | 8.72 | 820,546 | 2,632,824 | 6.65 |
| Louisville Ry., Louisville, Ky | 4,561,758 | 469,500 | 10.29 | 47,776 | 421,724 | 9.24 |
| New York Rys., New York, N. Y | 5,455,288 | 453,288 | 8.31 | 13,026 | 440,262 | 8.07 |
| New York State Rys., Rochester, N. Y | 7,607,404 | 531,884 | 6.99 | 0 | 531,884 | 6.99 |
| New York Transportation Co., New York, N. Y | 6,299,768 | 523,915 | 8.32 | 60,915 | 463,000 | 7.35 |
| New York, Westchester & Boston Ry., New York, N. Y | 2,485,395 | 272,554 | 10.97 | 0 | 272,554 | 10.9 |
| Northern Texas Traction Co., Fort Worth, Tex | 2,181,865 | 162,316 | 7.44 | 9,610 | 152,706 | 7.00 |
| Northwestern Pacific R. R., Sausalito, Calif | 5,555,563 | 432,754 | 7.79 | 0 | 432,754 | 7.79 |
| Omaha & Council Bluffs Street Ry., Omaha, Nebr | 3,242,929 | 358,641 | 11.06 | 0 | 358,641 | 11.06 |
| Petaluma & Santa Rosa R. R., Petaluma, Calif | 520,278 | 22,700 | 4.36 | 11,773 | 10,927 | 2.10 |
| Philadelphia Rapid Transit Co., Philadelphia, Pa | 52,034,691 | 2,862,397 | 5.50 | 381,574 | 2,480,823 | 4.77 |
| Public Service Coordinated Transportation, Newark, N. J | 38,990,913 | 2,728,675 | 7.00 | 0 | 2,728,675 | 7.00 |
| St. Louis Public Service Co., St. Louis, Mo | 18,705,380 | 1,826,123 | 9.76 | 69,490 | 1,756,633 | 9.39 |
| San Francisco Municipal Ry., San Francisco, Calif. (fiscal year) | 3,574,463 | 370,631 | 10.37 | 0 | 370,631 | 10.37 |
| Staten Island Rapid Transit Co., New York, N. Y | 2,448,959 | 207,492 | 8.47 | 40,654 | 166,838 | 6.81 |
| Third Avenue Ry., New York, N. Y. (fiscal year) | 17,618,580 | 1,155,440 | 6.56 | 0 | 1,155,440 | 6.56 |
| Twin City Rapid Transit Co., Minneapolis, Minn | 12,324,321 | 875,156 | 7.10 | 158,144 | 717,012 | 5.82 |
| Union Street Ry., New Bedford, Mass | 1,103,074 | 45,942 | 4.16 | 0 | 45,942 | 4.16 |
| United Electric Ry., Providence, R. I | 6,544,504 | 331,872 | 5.06 | 22,033 | 309,839 | 4.73 |

*Principal electric railways of the United States, year ending December 31, 1930*—Continued

[Statistics from Transit Journal, April 1932]

| Company | Operating revenues | Taxes, including United States Government taxes | Percentage taxes to operating revenues | Estimated Federal taxes | Net State taxes | Percentage ordinary taxes to operating revenues |
|---|---|---|---|---|---|---|
| United Rys. & Electric Co., Baltimore, Md | $16, 160, 513 | $1, 557, 004 | 9. 63 | $54, 637 | $1, 502, 367 | 9. 30 |
| Total | 480, 533, 677 | 33, 407, 339 | 6. 95 | 3, 348, 495 | 30, 058, 844 | 6. 26 |
| Capital Traction Co., Washington, D. C | 3, 836, 579 | 260, 309 | 6. 78 | 64, 925 | 195, 384 | 5. 09 |
| Washington Ry. & Electric Co., Washington, D. C | 5, 558, 304 | 332, 560 | 5. 98 | 36, 950 | 295, 610 | 5. 32 |
| Total | 9, 394, 883 | 592, 869 | 6. 31 | 101, 875 | 490, 994 | 5. 23 |

To tax public utilities in the District of Columbia at the average rates in other localities as shown in the foregoing tables, would produce additional revenue of $941,836. A table showing the computation follows:

| Public Utility | Ratio of taxes to operating revenues, District of Columbia | Amount of taxes paid in District of Columbia | Ratio of taxes to operating revenues, other localities | Amount of taxes based on ratio for other localities | Increase |
|---|---|---|---|---|---|
| | *Per cent* | | *Per cent* | | |
| Telephone companies | 4. 74 | $409, 867 | 6. 77 | $585, 898 | $176, 031 |
| Manufactured gas companies | 4. 16 | 274, 885 | 7. 70 | 508, 700 | 233, 815 |
| Electric light and power companies | 4. 17 | 453, 278 | 8. 18 | 888, 142 | 434, 864 |
| Electric railway companies | 5. 23 | 490, 994 | 6. 26 | 588, 120 | 97, 126 |
| Total | | 1, 629, 024 | | 2, 570, 860 | 941, 836 |

From the preceding table it is clearly shown that public utility corporations in the District are in a favored position as compared with representative companies in other localities. In order that the tax burden may be more equitably distributed in the District of Columbia, taxes of local public utilities should be made commensurate with those elsewhere.

The portion of the Senate bill (S. 4483) providing for a revision of the laws relating to public utilities proposes to tax their real and personal property in the same manner as other private property, and in addition to levy a tax of 2 per cent on gross earnings. Pursuant to the request of the Senate committee, this subject will be covered in a separate report treating of the taxes of public utilities including railroads, interurban electric lines, bus companies, and other classes of businesses transacted in the District. Pending submission of the report on this latter bill the bureau will withhold comment on section 22, which provides exemption of corporations paying gross earnings or gross receipts taxes.

## VI. RATE STRUCTURE

Rate plans in income tax laws applying to individuals are customarily based on the theory of ability to pay. That is, as a man's income increases it is assumed that he can more easily contribute at higher rates on the upper ranges of his income, and that the taking of even a minor part of a small income may cause a greater sacrifice than the taking of a considerable part of a large one. In making this distinction, incomes are divided into graduated blocks, usually in multiples of $1,000, and increasing rates are applied to the successive blocks. This method is prescribed in the pending bill. A somewhat different practice, occasionally found, is the making of a distinction between earned and unearned incomes, amounts realized from personal efforts being subjected to rates lower than those from holdings in securities. The reason advanced for low taxes on earned incomes is that a working person should be permitted to accumulate capital sufficient to support him when no longer able to follow an occupation. Massachusetts, New Hampshire, and Tennessee, have special provisions of law dealing with income from intangible property. Differentiation of sources of income, though theoretically desirable, leads to complications in the tax system, so that most States having income taxes are content to vary the rates according to size of income, but no two agree on the rates assigned to the respective brackets.

While the principle underlying the progression theory is economically sound, the graduation of tax rates has its limitations and must be considered with other tax phenomena. In those States that have income taxes, two distinct systems are operating at the same time, the Federal income tax and the State income tax. At present the Federal Government levies two classes of taxes on individuals, a normal tax and a surtax. The normal tax rates are 1½ per cent on the first $4,000 of net income, over the exemptions, 3 per cent on the next $4,000, and 5 per cent on the remainder; the surtax rates are 1 per cent on net incomes, without exemptions, beginning at $10,000, and increasing to 20 per cent on net incomes over $100,000. The revenue bill for 1932 now pending before Congress proposes to raise the normal tax rates to 2, 4, and 7 per cent, and the surtaxes so that they will range from 1 per cent on net incomes beginning at $6,000 to 40 per cent on net incomes of $100,000 and over. (H. R. 10236, 72d Cong., 1st sess., passed by House of Representatives April 1, 1932.) The heavy taxation by the Federal Government has virtually forced the States to adopt mildly progressive rates, as evidenced by the following table:

State income taxes—Rates (per cent) on individuals

| | 0 to $1,000 | $1,000 to $2,000 | $2,000 to $3,000 | $3,000 to $4,000 | $4,000 to $5,000 | $5,000 to $6,000 | $6,000 to $7,000 | $7,000 to $8,000 | $8,000 to $9,000 | $9,000 to $10,000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Arkansas | 1 | 1 | 1 | 2 | 2 | 2 | 3 | 3 | 3 | 3 |
| Delaware | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Georgia | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 2 |
| Idaho | 1 | 1 | 2 | 2 | 3 | 3 | 4 | 4 | 4 | 4 |
| Illinois | 1 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 4 |
| Massachusetts: | | | | | | | | | | |
| Income from professions, trades, businesses, and annuities | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ |
| Dealings in intangibles | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Income from intangibles | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Mississippi | 2½ | 2½ | 3½ | 3½ | 3½ | 4½ | 4½ | 4½ | 4½ | 4½ |
| Missouri | 1 | 1½ | 2 | 2½ | 2½ | 3 | 3 | 3½ | 3½ | 4 |
| New Hampshire: [1] Income from intangibles (1931) | 2 9/10 | 2 9/10 | 2 9/10 | 2 9/10 | 2 9/10 | 2 9/10 | 2 9/10 | 2 9/10 | 2 9/10 | 2 9/10 |
| New York [2] | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| North Carolina | 2 | 2 | 3 | 3 | 4 | 4 | 5 | 5 | 5½ | 5½ |
| North Dakota | 1 | 1 | 2 | 2 | 3 | 3 | 4 | 4 | 5 | 5 |
| Oklahoma | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Oregon: | | | | | | | | | | |
| Income other than from intangibles | 1 | 2 | 3 | 4 | 5 | 5 | 5 | 5 | 5 | 5 |
| Income from intangibles | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| South Carolina | 1 | 1 | 2 | 2 | 3 | 3 | 4 | 4 | 5 | 5 |
| Tennessee: Income from intangibles | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Utah | 1 | 1¼ | 1½ | 1¾ | 2 | 2½ | 3 | 3½ | 4 | 4 |
| Vermont: | | | | | | | | | | |
| Business income | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Income from intangibles | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Virginia | 1½ | 1½ | 1½ | 2½ | 2½ | 3 | 3 | 3 | 3 | 3 |
| Wisconsin [3] | 1 | 1¼ | 1½ | 2 | 2½ | 3 | 3½ | 4 | 4½ | 5 |
| Proposed for District | 1 | 1 | 1½ | 1½ | 1½ | 2 | 2 | 2 | 2 | 2 |

See footnotes at end of table.

*State income taxes—Rates (per cent) on individuals*—Continued

| | $10,000 to $11,000 | $11,000 to $12,000 | $12,000 to $15,000 | $15,000 to $16,000 | $16,000 to $20,000 | $20,000 to $25,000 | $25,000 to $30,000 | $30,000 to $50,000 | $50,000 to $100,000 | Over $100,000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Arkansas | 3 | 4 | 4 | 4 | 4 | 4 | 5 | 5 | 5 | 5 |
| Delaware | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Georgia | 3 | 3 | 3 | 4 | 4 | 5 | 5 | 5 | 5 | 5 |
| Idaho | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Illinois | 4 | 4 | 4 | 4 | 5 | 5 | 6 | 6 | 6 | 6 |
| Massachusetts: | | | | | | | | | | |
| Income from professions, trades, businesses, and annuities | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ |
| Dealings in intangibles | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Income from intangibles | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Mississippi | 4½ | 4½ | 4½ | 5½ | 5½ | 5½ | 5½ | 5½ | 5½ | 5½ |
| Missouri | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| New Hampshire: [1] Income from intangibles (1931) | 2 9/10 | 2 9/40 | 2 9/10 | 2 9/10 | 2 9/10 | 2 9/10 | 2 9/10 | 2 9/10 | 2 9/10 | 2 9/10 |
| New York [2] | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 3 |
| North Carolina | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| North Dakota | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Oklahoma | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 4 | 4 | 5 |
| Oregon: | | | | | | | | | | |
| Income other than from intangibles | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Income from intangibles | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| South Carolina | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Tennessee: Income from intangibles | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Utah | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Vermont: | | | | | | | | | | |
| Business income | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Income from intangibles | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Virginia | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Wisconsin [3] | 5½ | 6 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Proposed for District | 2½ | 2½ | 2½ | 3 | 3 | 3½ | 3½ | 4 | 5 | 5 |

[1] Rates fixed annually.

[2] 1932 rates shown; 1931 rates were 50 per cent higher.

[3] In addition to normal tax a surtax of ⅙ normal rates is levied on that part of income in excess of $3,000.

The table below shows the proposed District rates on the various blocks of individual incomes compared with the average in those States which have taxes determinable on substantially the same basis proposed in the District bill. On incomes up to $50,000 the District rates would be lower than the average, but above that amount they would be higher.

*Comparison of proposed District rates on individuals with average rates in States*

| Income blocks | District rates | Average rates in States [1] | Income blocks | District rates | Average rates in States [1] |
|---|---|---|---|---|---|
| | *Per cent* | *Per cent* | | *Per cent* | *Per cent* |
| Up to $2,000 | 1.00 | 1.38 | $15,000–$20,000 | 3.00 | 4.08 |
| $2,000–$5,000 | 1.50 | 2.18 | $20,000–$30,000 | 3.50 | 4.28 |
| $5,000–$10,000 | 2.00 | 3.17 | $30,000–$50,000 | 4.00 | 4.33 |
| $10,000–$15,000 | 2.50 | 3.88 | Over $50,000 | 5.00 | 4.42 |

[1] Exclusive of rates levied on income from intangibles in the following States: Massachusetts, New Hampshire, Oregon, Tennessee, and Vermont.

It is interesting to note that the rates of the States that are located nearest to the District of Columbia and that have income taxes are as follows:

| | Per cen |
|---|---|
| New York: | |
| Up to $10,000 | 1 |
| $10,000–$50,000 | 2 |
| Over $50,000 | 3 |
| Delaware: | |
| Up to $3,000 | 1 |
| $3,000–$10,000 | 2 |
| Over $10,000 | 3 |
| Virginia: | |
| Up to $3,000 | 1½ |
| $3,000–$5,000 | 2½ |
| Over $5,000 | 3 |
| Massachusetts: | |
| Professions, trades, businesses, and annuities | 1½ |
| Sale of intangible property | 3 |
| Dividends and interest | 6 |

A table of State income tax rates on corporations, and a schedule averaging the rates, according to blocks of income, follow. In most jurisdictions the rates on corporations are level. Due to this fact the average has a variation of less than 1 per cent when applied to the blocks of income specified in the pending bill, the lowest being 3.09 per cent and the highest 3.95 per cent. For incomes of less than $30,000 the District rates are lower, but for those of $30,000 and over they are higher, being more than 1 per cent greater on incomes over $50,000. Thus, comparatively the same situation is found for corporations as for individuals; that is, on small incomes the District rates are lower than the average of the States, but on the large incomes they are higher.

*State income taxes, rates per cent on corporations*

| State | Up to $1,000 | $1,000–$2,000 | $2,000–$3,000 | $3,000–$4,000 | $4,000–$5,000 | $5,000–$6,000 | $6,000–$7,000 | $7,000–$8,000 |
|---|---|---|---|---|---|---|---|---|
| Arkansas | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| California | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Connecticut | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Georgia | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Idaho | 1 | 1 | 2 | 2 | 3 | 3 | 4 | 4 |
| Massachusetts: | | | | | | | | |
| General business corporations | 2½ | 2½ | 2½ | 2½ | 2½ | 2½ | 2½ | 2½ |
| Corporations dealing in securities— | | | | | | | | |
| 1. Interest and dividends | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| 2. Business income | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ |
| 3. Sales of securities | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Mississippi | 2½ | 2½ | 3½ | 3½ | 3½ | 4½ | 4½ | 4½ |
| Missouri | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Montana | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| New York [1] | 4½ | 4½ | 4½ | 4½ | 4½ | 4½ | 4½ | 4½ |
| North Carolina | 5½ | 5½ | 5½ | 5½ | 5½ | 5½ | 5½ | 5½ |
| North Dakota | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Oklahoma | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Oregon | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| South Carolina | 4½ | 4½ | 4½ | 4½ | 4½ | 4½ | 4½ | 4½ |
| Tennessee | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Utah [2] | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Vermont | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Virginia | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Wisconsin [3] | 2 | 2½ | 3 | 3½ | 4 | 5 | 6 | 6 |
| Proposed for District | 1 | 1 | 1½ | 1½ | 1½ | 2 | 2 | 2 |

| State | $8,000–$9,000 | $9,000–$10,000 | $10,000–$15,000 | $15,000–$20,000 | $20,000–$30,000 | $30,000–$50,000 | $50,000–$100,000 | Over $100,000 |
|---|---|---|---|---|---|---|---|---|
| Arkansas | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| California | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Connecticut | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Georgia | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Idaho | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Massachusetts: | | | | | | | | |
| General business corporations | 2½ | 2½ | 2½ | 2½ | 2½ | 2½ | 2½ | 2½ |
| Corporations dealing in securities— | | | | | | | | |
| 1. Interest and dividends | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| 2. Business income | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ | 1½ |
| 3. Sales of securities | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Mississippi | 4½ | 4½ | 4½ | 5½ | 5½ | 5½ | 5½ | 5½ |
| Missouri | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Montana | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| New York [1] | 4½ | 4½ | 4½ | 4½ | 4½ | 4½ | 4½ | 4½ |
| North Carolina | 5½ | 5½ | 5½ | 5½ | 5½ | 5½ | 5½ | 5½ |
| North Dakota | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Oklahoma | 2 | 2 | 3 | 3 | 4 | 4 | 4 | 5 |
| Oregon | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| South Carolina | 4½ | 4½ | 4½ | 4½ | 4½ | 4½ | 4½ | 4½ |
| Tennessee | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Utah [2] | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Vermont | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Virginia | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Wisconsin [3] | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Proposed for District | 2 | 2 | 2½ | 3 | 3½ | 4 | 5 | 5 |

[1] Business corporations pay the largest amount of tax collectible under any of the following: (a) 4½ on net income. (b) One mill on every dollar of face value of issued stock with par value; on stock of no par value, one mill on every dollar of actual value, but not less than $5 value per share. (c) 4½ per cent of a base computed as follows: From entire net income plus salaries and other compensation paid to officers and/or stockholders owning in excess of 5 per cent of the issued capital stock, deduct $5,000 and any net loss for the taxable year. From amount thus obtained an exemption of 70 per cent is granted. (d) A minimum tax of $25.

[2] Minimum tax is one-twentieth of 1 per cent of fair value during taxable year of tangible property within Utah, but not less than $10.

[3] Surtax is one-sixth normal rates on excess of $3,000.

*Comparison of proposed District rates on corporations with average rates in States*

| Income blocks | Proposed District rates | Average rates in States [1] | Income blocks | Proposed District rates | Average rates in States [1] |
|---|---|---|---|---|---|
| | *Per cent* | *Per cent* | | *Per cent* | *Per cent* |
| Up to $2,000 | 1.00 | 3.09 | $15,000–$20,000 | 3.00 | 3.63 |
| $2,000–$5,000 | 1.50 | 3.27 | $20,000–$30,000 | 3.50 | 3.68 |
| $5,000–$10,000 | 2.00 | 3.51 | $30,000–$50,000 | 4.00 | 3.68 |
| $10,000–$15,000 | 2.50 | 3.58 | Over $50,000 | 5.00 | 3.95 |

[1] For Massachusetts income of general business corporations is included. The rates vary for the different types of corporate earnings.

Concurrently with the District measure for an income tax, Congress has under consideration the internal revenue bill for 1932, which contemplates substantial increases in the Federal taxes. The combined effect would necessitate considerable readjustment in the finances of local taxpayers at a time when it is important to prevent undue disturbance in the economic structure. As the District bill stands, less than 300 persons, with incomes over $50,000, would pay approximately $1,410,000 or nearly one-half of the estimated taxes. This same class would also be taxed heavily by the pending Federal revenue bill for 1932. With respect to corporations, the situation is analogous. On their incomes the proposed rates in the District bill are the same as on individuals, so that for amounts over $50,000 local corporations would be required to pay 5 per cent to the District and 12 per cent (13½ per cent as passed by the House of Representatives in the revenue bill for 1932) to the Federal Government. These payments would be in addition to other taxes on real property, tangible personal property, license fees, etc. During the present period of readjustment, it seems advisable to keep the rates for the proposed District income tax at a minimum consistent with reasonable revenues.

In 1931 the collections on intangible taxes amounted to $2,742,986. In 1932 they dropped, the tentative figure (which will be subject to little, if any, revision) is $2,547,042. Based on the average incomes during 1925 to 1929, considered as a representative normal period, the following rates for both individuals and corporations would more than replace the present intangible tax:

| Net income: | Rate, per cent |
|---|---|
| Under $10,000 | 1 |
| $10,000 to $25,000 | 2 |
| $25,000 to $50,000 | 3 |
| Over $50,000 | 4 |

Using the rates of 1 to 4 per cent on these blocks of income the estimated revenues would be in excess of $2,825,000. (See table on p. 74.) No precise maximum or minimum rates are demonstrable as constituting an equitable tax. Sound policy requires that final determination of the rates be governed by the amount of revenue needed, and the relative burden on taxpayers. With the Federal revenue act in force, the enactment of the proposed law will mean two taxes on incomes, one by the Federal Government and the other by the municipal government. The presence of other measures before Congress contemplating substantial increases in taxes in the District as heretofore discussed, together with the strong probability of a sharp revision upward in Federal rates, leads to the belief that consideration should be given to limiting the rates in the District at 1 to 4 per cent. With the exception of incomes taxed at the minimum rate of 1 per cent, the benefits of the reduction through general lowering of the respective rate brackets would be distributed among all classes of taxpayers in the District.

## VII. PERSONAL EXEMPTIONS

The personal exemptions in the bill, as heretofore stated, are $1,000 for a single person, $2,500 for a married person living with husband or wife, and $300 for each dependent.

Among the States now having income taxes, Delaware, Idaho, Illinois, Mississippi, Missouri, North Carolina, North Dakota, Utah, and Vermont allow as the exemption to a single person, $1,000; Oklahoma, $750; South Carolina, $1,200; Virginia, $1,250; Arkansas, Georgia, and Oregon, $1,500; Massachusetts, $2,000 (applying only to income from professions, employment, trade, or business); and New York, $2,500. In Tennessee no exemption is allowed and in New Hampshire only $200, but these States confine the tax to income from intangibles. Thus the exemption in the District bill, $1,000 for an unmarried person, is the most common.

To a married person living with husband or wife New Hampshire allows an exemption of $200; Oklahoma, $1,500; Delaware, Missouri, North Carolina, North Dakota, Utah, and Vermont, $2,000; South Carolina, $2,200; Arkansas, Idaho, Illinois, Massachusetts, Oregon, $2,500, which is the same as that in the District bill; Virginia, $2,800; Georgia and Mississippi, $3,500; and New York, $4,000.

Wisconsin allows no exemptions in computing taxable income, but grants a reduction in tax of $8 to a single person and $17.50 to a head of a family. The practical result of this method is to apply the exemption against the lowest block of income, whereas in the other States it is allowed, in effect, against the highest block. To illustrate, an unmarried person having a net income of $50,000 under the proposed District law would have a personal exemption of $1,000, making the amount of $19,000 in excess of $30,000 taxable at 4 per cent. The exemptions of $1,000 being equal to a reduction in tax of $40. Under the Wisconsin method the entire amount or $20,000 in excess of $30,000 would be taxed and a credit of only $8 granted.

Allowances for dependents generally run from $200 to $400, although there are some exceptions. In the States exemptions are somewhat less than in the Federal law. The 1928 revenue act, now in force, allows $1,500 for a single person and $3,500 for a head of a family or a married person living with husband or wife, and $400 for each dependent. In this connection it is interesting to note that the revenue bill of 1932 now before Congress contemplates reducing the exemptions for a single person to $1,000 and for a head of a family or a married person to $2,500, but leaves the credit for dependents at $400.

*State income tax—personal exemptions*

| State | Single individual | Married or head of family | Allowance for dependents |
|---|---|---|---|
| Arkansas | $1,500.00 | ,500.00 | $400.00 |
| Delaware | 1,000.00 | 2,000.00 | 200.00 |
| Georgia | 1,500.00 | 3,500.00 | 400.00 |
| Idaho | 1,000.00 | 2,500.00 | 300.00 |
| Illinois | 1,000.00 | 2,500.00 | 300.00 |
| Massachusetts | [1] 2,000.00 | [1] 2,500.00 | [1] 250.00 |
| Mississippi | 1,000.00 | 3,500.00 | 400.00 |
| Missouri | 1,000.00 | 2,000.00 | 200.00 |
| New Hampshire | [2] 200.00 | [2] 200.00 | [2] None. |
| New York | 2,500.00 | 4,000.00 | 400.00 |
| North Carolina | 1,000.00 | 2,000.00 | 200.00 |
| North Dakota | 1,000.00 | 2,000.00 | 300.00 |
| Okahoma | 750.00 | 1,500.00 | 750.00 |
| Oregon | 1,500.00 | 2,500.00 | 400.00 |
| South Carolina | 1,200.00 | 2,200.00 | 400.00 |
| Tennessee | [2] None. | [2] None. | [2] None. |
| Utah | 1,000.00 | 2,000.00 | 400.00 |
| Vermont | 1,000.00 | 2,000.00 | 250.00 |
| Virginia | 1,250.00 | 2,800.00 | 400.00 |
| Wisconsin | [3] 8.00 | [3] 17.50 | [3] 4.00 |
| Proposed for District | 1,000.00 | 2,500.00 | 300.00 |

[1] These exemptions apply to income from professions, employment, trade, or business. Exemptions vary for other classes of taxable income.

[2] Tax limited to income from intangibles.

[3] Exemptions are allowed in form of deductions from tax.

The determination of the personal exemptions involves sociological considerations. The relation of income to necessary living costs is fundamentally the controlling factor, but no formula can be laid down for amounts to be allowed to the different classes of taxpayers. At best the allowance is arbitrary. Incomes range from those of wage earners to those of persons of great wealth. To tax persons earning only a livelihood would be neither productive of any considerable revenue nor economically expedient. On the other hand, persons with small incomes in excess of the necessities of life should contribute something, not so much for the revenue but for the encouragement of civic interest in the Government. As incomes increase the tax rates should be progressively adjusted to produce a larger return. If an income tax is enacted for the District, it is not unreasonable, in the opinion of the bureau, to ask an unmarried individual to begin to pay a tax toward the support of the local government when his net income exceeds $1,000, or a married man where his net income exceeds $2,500 plus an exemption of $300 for each dependent. It is felt, however, that an unmarried person who is the head of a family should be allowed the same exemption as a married person, and a recommendation to this effect is made later in this report in connection with the discussion of section 9 of the pending bill.

## VIII. ESTIMATED REVENUES

The purpose of the proposed District income tax law as expressed by the House select committee on District fiscal relations is twofold; to substitute an income tax for the present tax on intangible property, and to produce additional revenue for the municipal government. Based on the 1931 figures, the repeal of the present intangibles law would reduce receipts from general property taxes nearly $2,750,000. In its report on page 18 the committee stated, if a reasonable income tax is adopted, the amount of revenue obtained would exceed that from the tax now imposed on intangibles by not less than $750,000. This would make the estimated receipts from the measure about $3,500,000.

The next matter for consideration is the source of this revenue. As proposed, the tax is on incomes of individuals (including fiduciaries) and corporations (including associations organized for profit). Contrary to the situation under the Federal law, the District would obtain the bulk of the revenue from individuals. A table is presented below compiled from statistics for the years 1925 to 1929 on individual Federal taxpayers in the District of Columbia, arranged by income groups. Most of the basic data for the table have been taken from the annual statistical reports of the United States Bureau of Internal Revenue.

*Estimated revenues from proposed income tax for District of Columbia based on average personal exemption of $2,000*

| Income blocks (compiled from Federal returns) [1] | Number of returns | Average net income each return | Average net income after exemption | Rates in bill 1 to 5 per cent | | Suggested ratio 1 to 5 per cent | |
|---|---|---|---|---|---|---|---|
| | | | | Average tax each return | Estimated revenues | Average tax each return | Estimated revenues |
| Under $1,000 [2] | 707 | $514.00 | | | | | |
| Do | 124 | 542.00 | | | | | |
| $1,000 to $2,000 [2] | 4,178 | 1,570.00 | | | | | |
| $1,000 to $2,000 | 8,355 | 1,761.00 | | | | | |
| $2,000 to $3,000 [2] | 2,687 | 2,451.00 | $451.00 | $4.51 | $12,118.37 | $4.51 | $12,118.37 |
| $2,000 to $3,000 | 6,170 | 2,427.00 | 427.00 | 4.27 | 26,345.90 | 4.27 | 26,345.90 |
| $3,000 to $4,000 [2] | 3,468 | 3,490.00 | 1,490.00 | 14.90 | 51,673,20 | 14.90 | 51,673.20 |
| $3,000 to $4,000 | 3,221 | 3,591.00 | 1,591.00 | 15.91 | 51,246.11 | 15.91 | 51,246.11 |
| $4,000 to $5,000 [2] | 1,217 | 4,351.00 | 2,351.00 | 25.27 | 30,753.59 | 23.51 | 28,611.67 |
| $4,000 to $5,000 | 4,020 | 4,533.00 | 2,533.00 | 28.00 | 112,560.00 | 25.33 | 101,826.60 |
| $5,000 to $6,000 [2] | 130 | 5,396.00 | 3,396.00 | 40.94 | 5,322.20 | 33.96 | 4,414.80 |
| $5,000 to $6,000 | 2,140 | 5,472.00 | 3,472.00 | 42.08 | 90,051.20 | 34.72 | 74,300.80 |
| $6,000 to $7,000 [2] | 52 | 6,437.00 | 4,437.00 | 56.56 | 2,941.12 | 44.37 | 2,307.24 |
| $6,000 to $7,000 | 1,350 | 6,452.00 | 4,452.00 | 56.78 | 76,653.06 | 44.52 | 60,102.00 |
| $7,000 to $8,000 [2] | 39 | 7,508.00 | 5,508.00 | 75.16 | 2,931.24 | 55.08 | 2,148.12 |
| $7,000 to $8,000 | 930 | 7,468.00 | 5,468.00 | 74.36 | 69,154.80 | 54.68 | 50,852.40 |
| $8,000 to $9,000 [2] | 25 | 8,610.00 | 6,610.00 | 97.20 | 2,430.00 | 66.10 | 1,652.50 |
| $8,000 to $9,000 | 667 | 8,464.00 | 6,464.00 | 94.28 | 62,884.76 | 64.64 | 43,114.88 |
| $9,000 to $10,000 [2] | 22 | 9,397.00 | 7,397.00 | 112.94 | 2,484.68 | 73.97 | 1,627.34 |
| $9,000 to $10,000 | 490 | 9,473.00 | 7,473.00 | 114.46 | 56,085.40 | 74.73 | 36,617.70 |
| $10,000 to $11,000 | 375 | 10,481.00 | 8,481.00 | 134.62 | 50,482.50 | 84.81 | 31,803.75 |
| $11,000 to $12,000 | 307 | 11,482.00 | 9,482.00 | 154.64 | 47,473.48 | 94.82 | 29,109.74 |
| $12,000 to $13,000 | 255 | 12,478.00 | 10,478.00 | 176.95 | 45,122.25 | 109.56 | 27,937.80 |
| $13,000 to $14,000 | 207 | 13,531.00 | 11,531.00 | 203.28 | 42,078.96 | 130.62 | 27,038.34 |
| $14,000 to $15,000 | 176 | 14,452.00 | 12,452.00 | 226.30 | 39,828.80 | 149.04 | 26,231.04 |
| $15,000 to $20,000 | 568 | 17,225.00 | 15,225.00 | 296.75 | 168,554.00 | 204.50 | 116,156.00 |
| $20,000 to $25,000 | 313 | 22,314.00 | 20,314.00 | 450.99 | 141,159.87 | 306.28 | 95,865.64 |
| $25,000 to $30,000 | 200 | 27,344.00 | 25,344.00 | 627.04 | 125,408.00 | 410.32 | 82,064.00 |
| $30,000 to $40,000 | 232 | 34,107.00 | 32,107.00 | 874.28 | 202,832.96 | 613.21 | 142,264.72 |
| $40,000 to $50,000 | 115 | 44,771.00 | 42,771.00 | 1,300.84 | 149,596.60 | 933.13 | 107,309.95 |
| $50,000 to $60,000 | 76 | 54,914.00 | 52,914.00 | 1,735.70 | 131,913.20 | 1,266.56 | 96,258.56 |
| $60,000 to $70,000 | 48 | 64,876.00 | 62,876.00 | 2,233.80 | 107,222.40 | 1,665.04 | 79,921.92 |
| $70,000 to $80,000 | 34 | 73,662.00 | 71,662.00 | 2,673.10 | 90,885.40 | 2,016.48 | 68,560.32 |
| $80,000 to $90,000 | 22 | 85,017.00 | 83.017.00 | 3,240.85 | 71,298.70 | 2,470.68 | 54,354.96 |
| $90,000 to $100,000 | 18 | 97,158.00 | 95,158.00 | 3,847.90 | 69,262.20 | 2,956.32 | 53,213.76 |
| $100,000 to $150,000 | 47 | 122,174.00 | 120,174.00 | 5,098.70 | 239,638.90 | 3,956.96 | 185,977.12 |
| $150,000 to $200,000 | 20 | 171,878.00 | 169,878.00 | 7,583.90 | 151,678.00 | 5,945.12 | 118,902.40 |
| $200,000 to $250,000 | 10 | 227,075.00 | 225,075.00 | 10,343.75 | 103,437.50 | 8,153.00 | 81,530.00 |
| $250,000 to $300,000 | 4 | 257,344.00 | 255,344.00 | 11,857.20 | 47,428.80 | 9,363.76 | 37,455.04 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| $300,000 to $400,000 | 9 | 336, 856. 00 | 334, 856. 00 | 15, 832. 80 | 142, 495. 20 | 12, 544. 24 | 112, 898. 16 |
| $400,000 to $500,000 | 5 | 440, 765. 00 | 438, 765. 00 | 21, 028. 25 | 105, 141. 25 | 16, 700. 60 | 83, 504. 00 |
| $500,000 and over | 5 | 619, 678. 00 | 617, 678. 00 | 29, 973. 90 | 149, 869. 50 | 23, 857. 12 | 119, 285. 60 |
| Additional returns for District of Columbia: [3] | | | | | | | |
| Nontaxable [4] | 5, 000 | | | | | | |
| Taxable | 10, 000 | | 1, 000. 00 | | 100, 000. 00 | | 100, 000. 00 |
| Total individual | 58, 038 | | | | 3, 178, 445. 04 | | 2, 426, 601. 45 |
| Corporations | 748 | ([5]) | | | 500, 000. 00 | | 400, 000. 00 |
| Total | 58, 786 | | | | 3, 678, 445. 04 | | 2, 826, 601. 45 |

[1] Data obtained from statistics of income (years 1925 to 1929, inclusive), Bureau of Internal Revenue.
[2] Classes nontaxable under the Federal Income Tax Law, as specified exemptions exceeded net income.
[3] Additional returns because of lower personal exemptions in the proposed district Income Tax Law.
[4] Returns nontaxable under proposed Income Tax law, specific exemptions exceeding net income.
[5] Data unavailable showing income of corporations according to income blocks.

The net incomes in the table are subject to certain compensating adjustments. The bill exempts from taxation dividends received from businesses in the District paying the proposed corporation income tax, and also from businesses now subject to the gross earnings or gross receipts tax. Individual net incomes shown in the table include such dividends and are to that extent overstated. The overstatement because of these dividends would be more than offset by taxes collected from nonresidents on incomes derived from sources within the District. (The pro rata incomes of this class of taxpayers were not reported by the Federal Government as applicable to the District, and so could not be included in the table.)

Net income in the above table means gross income less allowable deductions, but exclusive of the credit granted for personal exemptions. From these figures personal exemptions must be deducted to arrive at the net taxable incomes under the pending bill. In the District bill the general average of all exemptions for both single and married persons will be about $2,000. On the 43,000 Federal tax returns filed in the District the rates in the bill were applied to the amount in each income block in excess of the exemption and the result multiplied by the number of returns. In addition to the total Federal returns, it is estimated about 15,000 more returns would be filed under the District bill because of the lower exemptions. The net income in these additional returns will fall in the lowest bracket, subject to tax at 1 per cent. With $2,000 as the average personal exemption, the annual revenue from the individual tax at the rates prescribed in the bill would be $3,178,000, a figure conservative for normal times. If the rates ranging from 1 to 4 per cent are used, the yield on individual taxes would be a little over $2,426,000.

The average annual total net income for the years 1925 to 1929 of corporations taxable under the bill was $14,864,127, and the average number reporting taxable income was 748, making the average net income per corporation $19,870. Statistics are not available showing the gradation of corporation incomes in the District so that the portion subject to each rate is not definitely known. If incomes of these corporations were taxable at rates for the general average ($19,870, which would be the minimum) $326,000 would be realized; if at the maximum rate of 5 per cent, the amount would be about $743,000. Since the entire group would be taxable at neither minimum nor maximum rates, but somewhere between, it is estimated that the corporation taxes would normally produce about $500,000. Rates of 1 to 4 per cent would yield approximately $400,000.

Under the bill the total revenues would be $3,678,000 and under the alternative plan $2,826,000.

The income tax has at least one disadvantage, now being experienced by the Federal Government. In prosperous years large revenues are produced, but during lean years, when incomes are smaller, the revenues sharply decline. The figures in the table are based on an era of prosperity. Since 1929 taxes have fallen off, taking into consideration the country as a whole. The Bureau of Internal Revenue in its preliminary report on Statistics of Income for 1930 makes the following comments relative to Federal returns:

> The returns of individuals reporting income for 1930 filed to August 31, 1931, numbered 3,376,552, of which 1,946,675 were taxable and 1,429,877 nontaxable. The aggregate net income was $17,220,753,620 and the tax liability $473,689,563.

As compared with the returns filed for the previous year to August 31, 1930, the number for 1930 decreased by 574,705, or 14.54 per cent. The total net income shows a decrease of $7,073,856,119, or 29.12 per cent, and the tax liability decreased by $517,247,417, or 52.20 per cent (p. 2).

The number of corporation income-tax returns for 1930 filed to August 31, 1931, is 498,110, of which 214,412 show net income amounting to $5,627,312,995 and income tax of $618,246,431. Compared with the returns for 1929 filed to August 31, 1930, these figures show a decrease in net income of $4,633,994,146 and a decrease in tax of $428,739,406. In comparing the tax liability in the 1930 returns with the 1929 returns, attention is directed to the tax rate of 12 per cent for 1930, which for 1929 was temporarily reduced to 11 per cent by the joint resolution of Congress approved by the President on December 16, 1929 (p. 4).

The revenue potentiality of an income tax in the District can not be definitely ascertained until returns have been filed and examined. The question of an income base was given careful consideration, in which the average of the 5-year period 1925 to 1929 was selected as representative of a normal year. During that period individual incomes steadily increased, culminating, however, in 1929. At the same time there was a slight decrease in the incomes of corporations which would be taxable under the pending bill. Had the incomes for the single year 1929 been used as a basis, the estimated revenue would have been increased 10 per cent. As a conservative measure the lower figure was adopted. Because of the importance and stability of the Federal Government's activities in the District of Columbia the fluctuation in incomes here is less than in the States. Thus tax revenues will not be diminished because of the depression to the same extent as elsewhere, although some allowance for shrinkage should be made. Figures are not yet available as to incomes in the District for 1931. But, likely, incomes for 1932 will not exceed 75 per cent of the amount of the 5-year average 1925 to 1929 shown in the table. Deducting 25 per cent leaves the estimated receipts from income taxes under the rates proposed in the bill at $2,759,000, and at the modified rates suggested about $2,019,000.

This latter amount would be less than the tax received from intangible property this year, $2,547,042. The probable decrease in revenue might be considered an objection to an initial reduction in the rates contained in the bill. On the other hand, it may be stated first, that officials of the District government estimate the tax revenue from intangible property for the fiscal year 1933 will probably drop between $350,000 and $400,000, so that the probable net receipts from that tax will scarcely exceed the income tax revenue under the modified rates; second, that a permanent tax program should be based on normal times when the revenues from the reduced rates would exceed those derived from the present intangible tax; and third, that public utilities, not to be taxed under the bill, though now paying less than other classes of taxpayers in the District, might well be called upon to make additional contributions, the resultant amount being more than sufficient to offset the effect of reducing the rates in the pending bill.

A statement of income tax collections by States is presented, indicating the ratio of the tax to the total revenue receipts. The figures in the table are based principally on the preliminary report, Financial Statistics of States, 1930, published by the United States Bureau of the Census, though certain additions have been made for collections of income taxes in States not reported in that publication.

*Ratio of income taxes to total revenue receipts in States, 1930*

| State | Total revenue receipts | Income tax | Per cent of income tax to revenue receipts |
|---|---|---|---|
| Arkansas | $24,776,000 | $1,202,000 | 4.85 |
| California | 115,179,000 | [1] 4,648,000 | 4.04 |
| Connecticut | 38,921,000 | 2,984,000 | 7.67 |
| Delaware | 15,499,000 | 2,853,000 | 18.41 |
| Georgia | 35,638,000 | 627,000 | 1.76 |
| Idaho | 9,230,000 | [2] | ------------ |
| Illinois | 90,179,000 | [2] | ------------ |
| Massachusetts | 69,182,000 | 682.000 | .99 |
| Mississippi | 17,071,000 | 1,632,000 | 9.56 |
| Missouri | 50,749,000 | 4,609,000 | 9.08 |
| Montana | 13,135,000 | 441,000 | 3.36 |
| New Hampshire | 11,098,000 | 635,000 | 5.72 |
| New York | 296,509,000 | 40.246,000 | 13.57 |
| North Carolina | 46,574,000 | 7,257,000 | 15.58 |
| North Dakota | 17,697.000 | 481,000 | 2.72 |
| Oklahoma | 39,435,000 | 481,000 | 1.22 |
| Oregon | 30,369,000 | [1] 403,217 | 1.33 |
| South Carolina | 21,331,000 | 1,921,000 | 9.01 |
| Tennessee | 34,223,000 | 454,000 | 1.33 |
| Utah | 13,362,000 | [2] | ------------ |
| Vermont | 11,095,000 | [2] | ------------ |
| Virginia | 42,583,000 | 4,254,000 | 9.99 |
| Wisconsin | 61,094,000 | 9,831,000 | 16.09 |

[1] Taxes for 1928.
[2] Income tax laws passed subsequent to 1930.

The proposal of an income tax for the District of Columbia raises an interesting question as to the probability of persons changing their domiciles in order to avoid the tax, with the incidental loss of revenue. For purposes of discussion, the taxpaying public may be divided into three groups: Business firms, persons with incomes from professions and salaries, and persons deriving incomes from securities. While business corporations are influenced to some extent by tax ratios in communities, other factors such as good will, desirable locations for distribution, and demand for merchandise are the controlling considerations, so that probably a negligible number of corporations in the District would terminate their activities here solely because of an income tax law. As to professional and salaried persons who desire to continue their present occupations, changes in domicile are unlikely, because incomes earned within the District are taxable regardless of residence. The remaining class, or those persons whose principal income is from securities, would ultimately benefit through the substitution of an income tax for the existing intangible tax. If a change is made, the tax on their net income would not exceed 5 per cent. As compared with this is the present intangible tax of one-half of 1 per cent on the full value of property, which, for securities earning a 5 per cent return, is equivalent to 10 per cent tax on net income of persons having the larger incomes from this source. As Maryland imposes a tax on stock of foreign corporations, corporation bonds, and mortgages on property, at a rate of 45 cents on each $100 of value, her tax is equivalent to about 9 per cent. In Virginia a similar tax of 50 cents is levied on bonds, notes, and other securities, which, being the same rate as the intangible tax now in the District, is equivalent to 10 per cent of the net income.

In general, the experience of States has been that little, if any, shifting of population occurred as the result of adopting an income tax. For this reason the effect of changes of domicile has been ignored in the computation of estimated revenues.

## IX. ADMINISTRATION OF LAW

Successful administration of an income tax law requires specially trained personnel. Many questions of a technical nature arise in the determination of the tax liability, particularly in connection with the larger returns. The reporting of transactions follows accounting practice, so that a thorough knowledge of that subject in addition to a knowledge of the income tax law is essential to the proper audit of the returns and the examination of the taxpayer's books. The amount collected and the fairness of the administration of the law will depend largely upon the ability of employees engaged on the work. State laws usually place the administration in a central tax commission, or a commissioner, although in a few instances assessments are made by local officers under State supervision. In the several jurisdictions from which information was available the cost of collection varied from 1 to 4 per cent of the tax and even higher. The expense incurred is not necessarily a criterion of efficiency; in one case it may be attributable to unnecessary personnel or extravagances and in another to profitable intensive investigations.

For the District of Columbia, the bill would place the administration of the law in the office of the assessor, an arrangement which seems to be practicable, as that office could discharge the new function with less expense than any other unit of the present organization or one specially created for that purpose. Ready access to the property records would greatly assist in the verification of transactions in real and personal property and possibly lead to the discovery of unreported income.

It is understood that consideration is now being given by the assessor's office, if the proposed estate tax and income tax laws are passed, to a plan for dividing the personal tax division into two sections, one section to handle the present tangible property tax, and the other the gross earnings taxes and the proposed estate and income taxes. Salary cost of administering the income and estate tax laws is estimated at $54,280. Of this amount, $8,400 may be deducted for persons now employed on intangible personal taxes, who would be transferred to the new work. The net additional outlay for the administration of both income and inheritance tax for the District would be as follows:

*Personnel*

| | |
|---|---|
| 2 senior auditors (grade CAF–11, $3,800) experienced in accounting and familiar with income and inheritance tax laws, for determining the tax liability and handling protests from additional assessments before Board of Personnel Tax Appeals | $7, 600 |
| 3 assistant auditors (CAF–8, $2,900) to conduct investigations on more intricate returns under supervision of senior auditors | 8, 700 |
| 5 junior auditors (CAF–7, $2,600) to conduct investigations on less intricate returns under supervision of senior auditors | 13, 000 |
| 1 clerk (CAF–8, $2,900) to act as principal clerk of section for both income and inheritance taxes | 2, 900 |
| 5 clerks (CAF–4, $1,800) for filing returns, recording assessments, preparing notices, handling correspondence, etc | 9, 000 |

| | |
|---|---|
| 2 stenographers (CAF-4, $1,800) for typing assessment letters, notices, etc | $3, 600 |
| 1 messenger (Cu-2, $1,080) | 1, 080 |
| Total personnel cost | 45, 880 |
| Printing and office supplies | 3, 000 |
| Total annual cost | 48, 880 |

During the first year, in addition to the personnel cost, office equipment must be purchased. If the bill is enacted and made applicable to incomes earned after January 1, 1932, part of the funds will be needed shortly after July 1, 1932, for the purchase of equipment and for preliminary work prior to the time returns are filed.

## X. CHANGES RECOMMENDED IN PROPOSED LAW

The substantive provisions of the bill are in line with modern thought on income taxes. For some time there has been a demand for another source of revenue as a substitute for the intangible tax. This demand would be met satisfactorily by an income tax. If the bill is enacted into law, however, several beneficial changes could be made.

### 1. Additional Definitions

Section 1 contains several definitions (lettered a to f, inclusive) to aid in the interpretation of the law. In addition to those listed two others might be advantageously included:

(g) The term "paid" shall mean "paid or incurred" and "paid or accrued" and the term "received" shall mean "received or accrued," according to the method of accounting employed by the taxpayer.

(h) The term "resident" in its application to individuals shall mean any natural person domiciled in the District of Columbia, and any other natural person who maintains a permanent place of abode therein in which he or she spends in the aggregate more than seven months of the taxable year: *Provided*, That Cabinet officers and persons in the service of the United States Government elected for a definite term of office shall not be considered as residents of the District of Columbia for the purposes of this section.

The first of these definitions is recommended because most businesses keep their accounts on the accrual basis, and should be required to report income in accordance with the books.

The second suggestion is made to eliminate any uncertainty regarding persons to be taxed as residents of the District of Columbia.

### 2. Deduction for Interest Paid on Mortgage Indebtedness on Homes

In general, income tax laws allow interest paid during the taxable year to be deducted from gross income. Section 2 (a), which relates to deductions from gross income, places the following restriction on interest:

Sec. 2. The term "net income," as herein used, shall mean the gross income less the following deductions:

(*a*) All interest paid during the taxable year on indebtedness: *Provided*, That no interest shall be allowed as a deduction if paid on an indebtedness created for the purchase, maintenance, or improvement of property, or for the conduct of a business, unless the income from such property, or business, would be taxable under the provisions of this act.

From the foregoing it is not clear whether interest paid on indebtedness incurred in the purchase or improvement of a home is deductible. Presumably it is not, as in an economic sense income is not derived through the ownership of a home. Most States and the Federal Government recognize the salutory effects of encouraging home ownership, and therefore permit interest paid in financing homes to be deducted. Not to allow this expense in the District law would be an anomaly when the expense incurred to carry tax-exempt securities would be deductible as the section now stands. In the case of this latter type of transaction it is felt that the interest so paid out should not be deductible. To embody these changes, it is suggested that section 2 (a) be amended to read, as follows:

> SEC. 2. The term "net income" as herein used shall mean the gross income less the following deductions:
>
> (a) All interest paid during the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations or securities the interest upon which is exempt from taxation under this act.

### 3. ALLOWANCES FOR ESTIMATED LOSSES ON BAD DEBTS

Section 2 (e) of the bill dealing with deductions from incomes of individuals provides:

> SEC. 2. The term "net income" as herein used shall mean the gross income less the following deductions * * *. (e) All worthless debts charged off within the taxable year.

This provision follows the earlier Federal revenue acts, which required the taxpayer to write a claim out of his assets before a deduction would be allowed. Most businesses, as a conservative measure, set up reserves for bad debts, and in arriving at profit and loss the net addition to the reserve is deducted from gross earnings. Over a long period of years bad debts will equal the net additions to the reserve, but in any particular year the additions and write-offs may vary. Limitation of deduction to bad accounts actually charged off was annoying to the taxpayer and troublesome to the Bureau of Internal Revenue. Accordingly, the revenue act of 1921 permitted deductions to be claimed either on the basis of worthless debts charged off or on a reasonable addition to the reserve for bad debts. The practice has been followed in all succeeding Federal revenue acts. In view of the advantage of having the Federal and District laws uniform in this respect, it is suggested that the language of section 2 (e) be changed to read as follows:

> SEC. 2. The term "net income" as herein used, shall mean gross income less the following deductions:
>
> Debts ascertained to be worthless and charged off within the taxable year, or, in the discretion of the assessor, a reasonable addition to a reserve for bad debts; and when satisfied that a debt is recoverable only in part, the assessor may allow such debt to be charged off in part.

Five States follow the Federal act in this respect—Connecticut, California, Idaho, Oklahoma, and Utah.

Under section 3 relating to deductions from corporate income, paragraph (f) containing language identical with section 2 (e) should be changed in a similar manner.

### 4. Enumeration of Items Not Deductible

In a comprehensive income-tax law an almost endless list of subjects exists for which special provision should be made. For the most part the proposed law follows the Federal and State statutes in respect to the enumeration of items to be included in gross income, and items deductible therefrom. No mention is made of items that are not deductible, such as personal expenses, capital investments, rent and insurance on homes, and so forth. In reporting income the average taxpayer is inclined to claim all that is not specifically denied. For this reason provisions are found in the Federal and almost every State income-tax law specifically prohibiting these classes of items as deductions. To avoid any confusion in the filing of returns, especially as a new class of taxpayers is involved, it is recommended that the following paragraph, taken from the draft of the personal incóme-tax act prepared in 1921 for the National Tax Association by the committee in charge of formulating a model system of State and local taxes, be added in section 2 as paragraph (j):

*Items not deductible.*—In computing net income no deduction shall in any case be allowed in respect of—

(1) Personal, living, or family expenses.

(2) Any amount paid out for new buildings or for permanent improvements or betterments, made to increase the value of any property or estate.

(3) Any amount expended in restoring property for which an allowance is or has been made.

(4) Premiums paid on any life-insurance policy covering the life of any officer or employee or of any individual financially interested in any trade or business carried on by the taxpayer, when the taxpayer is directly or indirectly a bene ficiary under such policy.

### 5. Time Limit on Losses

Under the bill, when the price or value of property has decreased sufficiently, a taxpayer might find it to his advantage to sell such property shortly before the close of a taxable year and buy it back again after the beginning of the next year, and by this means get the benefit of an allowable deduction for income-tax purposes. This type of transaction is particularly feasible in the case of securities. In order to prevent the practice with its attendant loss of revenue, the Federal law contains a provision prohibiting a taxpayer (other than one in the trade or business of buying and selling securities) from claiming as a deduction any loss realized from a sale of securities which is shortly followed or has been recently preceded by a purchase of substantially identical property. The position of the Federal Government could be followed in the District law by extending sections 2 and 3 to cover the situation.

Sec. 2 (k). In the case of a loss claimed to have been sustained in any sale or other disposition of shares of stock or securities where it appears that within thirty days before or after the date of such sale or other disposition the taxpayer has acquired (otherwise than by bequest or inheritance) or has entered into a contract or option to acquire susbtantially identical property, and the property so acquired is held by the taxpayer for any period after such sale or other disposition, no deduction for the loss shall be allowed. If such acquisition or the contract or option to acquire is to the extent of part only of substantially identical property, then only a proportionate part of the loss shall be disallowed.

Sec. 3 (h). In the case of a loss claimed to have been sustained in any sale or other disposition of shares of stock or securities where it appears that within thirty days before or after the date of such sale or other disposition the taxpayer has acquired (otherwise than by bequest or inheritance) or has entered into a contract or option to acquire substantially identical property, and the property so acquired is held by the taxpayer for any period after such sale or other disposition, no deduction for the loss shall be allowed, unless the claim is made by a corporation regularly dealing in stocks and securities and with respect to a transaction made in the ordinary course of its business. If such acquisition or the contract or option to acquire is to the extent of part only of substantially identical property, then only a proportionate part of the loss shall be disallowed.

### 6. Use of Inventories in Determining Income

Section 4, which deals with the basis of computing net income, makes no reference to inventories. Where production, purchase, or sale of goods are involved, the increase or decrease in profit can not be accurately measured without the use of inventories. For taxpayers engaged in merchandising, trading profit is determined by deducting from gross sales the cost of goods sold, the latter being ascertained by adding to the value of the inventory on hand at the beginning of the year the cost of goods purchased or produced during the year, and deducting from the total the inventory on hand at the end of the year. It is also essential that inventories be taken in accordance with standard practices. To effect these changes, the following paragraph is suggested as an addition to section 4:

> Whenever in the opinion of the assessor the use of inventories is necessary in order to determine clearly the income of any taxpayer, inventories shall be taken by such taxpayer upon such basis as the assessor may prescribe as conforming as nearly as may be to the best accounting practice in the trade or business and as most clearly reflecting the income.

### 7. Computation of Gains and Losses

The manner of determining gain or loss on a transaction is disposed of in the bill merely by the general provision that gross income shall include profits from dealings in real and personal property. Questions arising in this connection are so important that adequate provision should be made. Some of the more troublesome matters involve the method of determining the value of property; proper adjustment for items chargeable to capital account; recognition of reduction in value because of exhaustion, wear and tear, obsolescence, and amortization; in the case of sales of stock, adjustment for distributions previously made; method of valuing property (other than money) received; and the basis for computing realized income on instalment sales. The present Federal revenue act drafted after years of experience contains several pages on these subjects. So much detail would perhaps unduly lengthen the District law. In order to make the law concise, and at the same time susceptible of practical administration, the situation can be covered by making the Federal law applicable to computations of gain or loss except where otherwise specified. This suggestion may be carried out by adding the following to section 5:

> In all cases involving the sale or other disposition of property gain or loss shall be determined in accordance with the procedure of the Federal revenue act in effect at the time the return is filed where not inconsistent with the provisions of this act.

## 8. Filing of Returns According to Business Year

Section 8 of the bill requires that all returns be filed during the month of March following the close of the taxable year. Such an arrangement would not be satisfactory for incomes computed on an annual basis other than a calendar year, as is permitted by section 4. If a taxpayer has a fiscal year ending April 30, under the bill he would have 11 months in which to file his return, whereas taxpayers on a calendar-year basis would have not to exceed 3 months. For this reason it would seem better to follow the Federal practice of requiring fiscal-year returns. Since March is the third month, taxpayers keeping their accounts on a fiscal-year basis ought to file returns during the third month after the close of their particular business year. This arrangement can be effected by adding a sentence at the end of section 8 as follows:

> Statements made on the basis of a fiscal year shall be filed during the third month following the close of the fiscal year: *Provided*, That in no case shall income earned prior to January 1, 1932, be taxed. The assessor shall make such rules and regulations as are necessary to carry this provision into effect.

If the above suggestion is adopted, the following sentence should be added to section 12 to make it conform to section 8 as revised.

> Except the balance of taxes payable on income for a fiscal year shall be paid during the ninth month following the close of the fiscal year.

## 9. Penalty for Delinquent Returns

The proposed bill contains no provision for penalties other than charging interest to taxpayers who are delinquent, or who fail to file returns. In administering an income tax law, taxing authorities should have some more effective means of compelling the filing of returns on time. The personal property tax for the District of Columbia now provides a penalty of 20 per cent and the Federal internal revenue act 25 per cent for delinquent returns. In both cases these penalties are added and collected in the same manner as the tax. The need for such provision can be met by adding the following language to section 8:

> If any person, subject to this act, shall fail to make and deliver a sworn return to the assessor's office within the time prescribed by law, a penalty of 20 per cent of the tax shall be added, except that when a return is filed after such time and it is shown that the failure to file was due to reasonable cause and not to willful neglect, no such addition shall be collected. Any penalty imposed shall be collected at the same time and in the same manner as a part of the tax, unless the tax has been paid before the discovery of the neglect, in which case the amount so added shall be collected in the same manner as the tax.

## 10. Increased Exemption for Head of Family

Section 9 (a), (b), and (c) provides that the following items shall be exempt from taxation under this act:

> (a) The income of a single person, or a married person not living with husband or wife, up to but not in excess of $1,000.
>
> (b) The income of a married person living with husband or wife up to but not in excess of $2,500: *Provided*, That if a husband and wife make separate returns or have separate incomes the exemption for each shall be $1,000.
>
> (c) Three hundred dollars for each dependent child under 18 years of age, and for each additional person who is actually supported by and entirely dependent upon the taxpayer for his support.

The foregoing provisions allow a personal exemption of only $1,000 to a single person who maintains a household and exercises family control over children or others, plus $300 for each dependent. The Federal income tax law and the laws in the States (with one exception) grant the same exemption to the head of a family as to married persons, on the theory that their costs of living are comparable. For this reason an exemption of $2,500 might appropriately be allowed in the case of a single person who is head of a family.

No mention is made in the bill as to what allowance is permitted when a change in status occurs. As a general rule, the credit for dependents is determined by the situation on the last day of the year, and where the marital status or the position as head of a family changes the personal exemptions are pro rated over the year. This practice seems equitable and worthy of adoption.

In order to effect the foregoing changes, it is suggested that sections 9 (a), (b), and (c) be amended to read as follows:

> The following items shall be exempt from taxation under this act:
>
> (*a*) The income of a single person or a married person not living with husband or wife, up to but not in excess of $1,000; the income of a married person living with husband or wife, or a single person who is the head of a family, up to but not in excess of $2,500: *Provided*, That if a husband and wife make separate returns or have separate incomes the exemption for each shall be $1,000; plus $300 for each dependent child under eighteen years of age, and for each additional person (other than husband or wife) who is actually supported by and entirely dependent upon the taxpayer for his support.
>
> (*b*) The credit for dependents shall be determined by the status of the taxpayer on the last day of his taxable year. The personal exemptions (other than those for dependents) allowed by subsection (*a*) of this section shall, in case the status of a taxpayer changes during his taxable year, be the sum of an amount which bears the same ratio to $1,000 as the number of months during which the taxpayer was single bears to 12 months, plus an amount which bears the same ratio to $2,500 as the number of months during which the taxpayer was a married person living with husband or wife, or was the head of a family, bears to 12 months. For the purposes of this paragraph a fractional part of a month shall be disregarded unless it amounts to more than half a month, in which case it shall be considered as a month.
>
> (*c*) In the case of an individual who dies during the taxable year, the personal exemption and the credit for dependents shall be determined by his status at the time of his death, and in such case full credits shall be allowed to the surviving spouse, if any, according to his or her status at the close of the taxable year.

## 11. Clarification of Persons Taxable

The present intangible property tax applies to every person maintaining a place of abode in the District of Columbia on January 1 of each year and for three months or more prior thereto, except Cabinet officers and persons in the service of the United States Government elected for a definite term of office (45 Stat. 1227). Exemption of these classes of persons is granted to avoid any duplicate taxation of their intangible property in the District, and in the States of their domicile. Under the bill the intangible tax would be superseded by an income tax, section 10 of which reads in part as follows, beginning on line 23, page 12:

> A like tax is hereby imposed and shall be levied, collected, and paid annually at the rate specified in this section upon and with respect to the entire net income as herein defined, except as otherwise herein provided, from all property owned and from every business, trade, profession, or occupation carried on in the District of Columbia by persons not residents of the District.

From the foregoing it is clear that salaries of persons working in the District, including employees in private enterprises, persons in the military and naval forces, and Federal employees would be taxed, though they may reside elsewhere. A question has arisen whether Congressmen and Cabinet officers, whose compensation is not subject to State income taxes, have occupations carried on in the District of Columbia, so as to render them liable for the District income taxes imposed upon nonresidents. As the bill now stands, the language in this section might require judicial interpretation. This uncertainty can be removed by adding either of the following provisos to section 10, according to the intent of Congress:

> *Provided*, That compensation received from the Federal Government by cabinet officers, judges of the courts of the United States, and persons elected for a definite term of office shall not be subject to tax under this act.
>
> or
>
> *Provided*, That all persons receiving compensation from the United States, whose principal office in connection therewith is in the District of Columbia, shall be taxed on such income. In the case of Presidents of the United States and judges of courts of the United States, taking office after the enactment of this act, the compensation received as such shall be included in gross income.

## 12. Reciprocity with States

The bill contains no provision for adjustment of credits for income taxes where the District and a State may tax the same income. In the absence of such provision, a nonresident having income from sources within the District might be taxed here, and again in the State of his domicile; and if each jurisdiction is in a position to enforce its tax, either through his property or person, a taxpayer might be compelled to pay both taxes. In order to eliminate this situation, it is suggested that an amendment be added to section 10 providing for reciprocity with States:

> Whenever a nonresident taxpayer of the District of Columbia has become liable to income tax to the State where he resides upon his net income for the taxable year, derived from sources within the District of Columbia and subject to taxation under this act, the assessor shall credit the amount of income tax payable by him under this act with such proportion of the tax so payable by him to the State where he resides, as his income subject to taxation under this act bears to his entire income upon which the tax so payable to such other State was imposed: *Provided*, That such credit shall be allowed only if the laws of said State (1) grant a substantially similar credit to residents of the District subject to income tax under such laws, or (2) impose a tax upon the personal income of its residents derived from sources within the District, and exempt from taxation the personal incomes of residents of the District. No credit shall be allowed against the amount of the tax on any income taxable under this act which is exempt from taxation under the laws of such other State.

This provision has been taken from section 363, chapter 691, of the New York personal income law of 1920.

## 13. Allowance for Net Losses of Former Years

Section 10 of the bill, beginning on line 5, page 13, reads as follows:

> The tax herein provided shall be first levied, collected, and paid in the year 1933 upon and with respect to the taxable income for the calendar year 1932.

Each year after the filing of the first sworn statement, a similar statement is required to be filed. Only a single calendar or fiscal year, as the case may be, is recognized for the determination of the tax. For a time the Federal income tax laws similarly treated each year as complete itself. In administering these laws officials came to realize that the limitation of the taxable period to a year was not entirely equitable. A corporation might have large earnings in one year that would be entirely wiped out by losses in the succeeding year, or vice versa, so that the net result would be a loss.

Under the revenue act of 1928 a taxpayer is allowed to recoup losses over two years. By this provision a deficit in one year may be carried over to the first, and if necessary, the second taxable year following, and may be claimed as an offset against income in those years before the tax rates are applied to the remaining balance. As this practice seems equitable, the following amendment is suggested for inclusion in the bill under section 5:

> If, for any taxable year, it appears upon the production of evidence satisfactory to the assessor that a taxpayer has sustained a net loss, the amount thereof shall be allowed as a deduction in computing the net income of the taxpayer for the succeeding taxable year, and if such net loss is in excess of such net income (computed without such deduction), the amount of such excess shall be allowed as a deduction in computing the net income for the next succeeding taxable year; the deduction in all cases to be made under regulations prescribed by the assessor.

In reporting the revenue bill for 1932, the Ways and Means Committee recommended that the net loss provision be confined to a deduction for the year immediately succeeding, cutting off the right to a deduction for a second year. The House of Representatives changed the recommendation so that until 1935 no deduction should be allowed for a loss of a prior year. In commenting on this action, Secretary of the Treasury Mills stated that for many years it has been recognized in the case of business enterprises that the treatment of each year as a unit without reference to what happened in other years works a hardship. He pointed out that if no recognition were given to losses for particular years, business enterprises would actually pay tax on more income than they had, because the income over a series of years reflects the combined effect of gains and losses for those years.

## 14. Nontaxability of Dividends from District Corporations

Section 9 (d) reads as follows:

> The following items shall be exempt from taxation under this act:
> Dividends received from national banks and mutual savings banks.

Apparently this provision would exempt dividends from national banks and mutual savings banks throughout the United States.

No reason is perceived why dividends on shares of stock of national banks or mutual savings banks in other jurisdictions should be exempt, nor why a distinction should be made between these banks and trust companies, incorporated savings banks, and building and loan associations. Accordingly, it is suggested that this section be changed to read as follows:

> Sec. 9. The following items shall be exempt from income taxation by this act * * *.
>
> (d) Dividends received from national banks, trust companies, mutual or incorporated savings banks, and building and loan associations in the District of Columbia.

## 15. Exclusion of Life Insurance from Gross Income

Section 9 (g) of the bill provides:

> The following items shall be exempt from taxation under this act: * * * (g) All insurance received by any person in payment of a death claim by any insurance company, fraternal-benefit society, or other insurer, except insurance paid to a corporation or to a partnership upon policies on the lives of its officers, partners, or employees: *Provided,* That interest on premiums paid to the insured or accumulated for him before the maturity of any insurance policy shall not be exempt from taxation.

The bill proposes to exempt the proceeds of life insurance paid on the death of the insured to individual beneficiaries and estates, but not insurance paid to corporations or partnerships upon the lives of officers, partners, or employees. All States exempt the proceeds of policies paid to individual beneficiaries and estates, but they are not uniform in respect to payments to partnerships and corporations. Arkansas, Missouri, North Carolina, North Dakota, Oklahoma, South Carolina, and Tennessee tax insurance receivable by business corporations, while the following States exempt this class of transactions: California, Connecticut, Georgia, Idaho, Mississippi, Oregon, Utah, Vermont, Virginia, and Washington. To this latter class may be added the Federal Government. (See revenue act of 1928, sec. 22.)

In recent years the tendency has been to permit taxpayers, whether individuals, partnerships, or corporations, to exclude such insurance from gross income, the exemption resting on the recognition that insurance is a desirable institution and should be encouraged by the States. Accordingly, it is suggested that amounts received under life-insurance policies be exempted whether the beneficiary is an individual or business firm.

Repayments to the insured are treated differently from death-claim payments to the beneficiaries. In most jurisdictions the amount received by the insured as a return of premiums during the term of his contract is exempted, but the excess is taxed in the year received. The course is dictated probably by the recognition that the return premiums constitute repayments of capital, and the excess represents earnings which like other forms of income should be taxed. As the bill is silent on the treatment of the proceeds of annuities or endowment insurance contracts, it is recommended that a separate provision be inserted providing for the exemption of amounts received equal to the total premiums paid, but taxing the excess. Giving effect to these recommendations section (g) would read as follows:

> Sec. 9. The following items shall be exempt from taxation under this act:
>
> (g) Amounts received under a life-insurance contract paid by reason of the death of the insured, whether in a single sum or in installments (but if such amounts are held by the insurer under an agreement to pay interest thereon, the interest payments shall be included in gross income). Amounts received (other than amounts paid by reason of the death of the insured and interest payments on such amounts) under a life-insurance endowment, or annuity contract, but if such amounts (when added to amounts received before the taxable year under such contract) exceed the aggregate premiums or consideration paid (whether or not paid during the taxable year) then the excess shall be included in gross income.

The foregoing language conforms to the relevant portions of the Federal revenue act of 1928, section 22.

## 16. Uniformity of Period for Payment of Taxes

Section 14 provides:

> If either of said tax installments shall not be paid within ten days after becoming due, the said tax shall be declared delinquent and there shall be imposed a penalty of 1 per centum a month upon the amount of the tax delinquent for the period of such delinquency.

The property tax laws in the District allow semiannual payments to be made during the entire months of September and March. As uniformity of collection periods is desirable from an administrative standpoint it is recommended that this section be changed to conform to the existing practice.

> If either of said installments shall not be paid upon becoming due, that part of the tax so payable shall be declared delinquent and there shall be imposed a penalty of 1 per centum a month thereon for the period of such delinquency.

## 17. Persons Required to File Returns

Section 8 provides as follows:

> Every person, as herein defined, shall, during the month of March, 1933, file with the assessor of the District of Columbia a sworn statement in such form as the said assessor shall prescribe, setting forth such facts and information relating to the gross and net income of the taxpayer as said assessor may require in order to fully carry out the provisions of this act. Each year, following the filing of the first sworn statement, a similar sworn statement shall be filed with the District assessor during the month of March.

Since the term "person" is defined by section 1 to "mean and include every individual," under this section every resident of the District of Columbia would be required to file a return, whether or not he had any net income. If the proposed law were to be literally followed, more than 400,000 persons would annually report through returns, though less than 60,000 would pay any tax. The scope of the requirement is too broad and would increase the cost of administering the law without serving any useful purpose. Experience of the Federal Government has shown that it is desirable to prescribe minimum gross and net incomes, below which returns are not required. In line with this practice, it is suggested that section 8 be changed to read in part as follows:

> (a) The following individuals, whether residents or nonresidents, having income subject to taxation under this act, shall each make under oath, a return stating specifically the items of his or her gross income, and the deductions and credits allowed by this act.
>
> (1) Every individual having a net income for the taxable year of $1,000 or over, if single, or if married and not living with husband or wife;
>
> (2) Every individual having a net incom for the taxable year of $2,500 or over, if married and living with husband or wife; and
>
> (3) Every individual having a gross income for the taxable year of $5,000 or over, regardless of the amount of his net income.
>
> (b) If the taxpayer is a minor or a person under legal disability, the return shall be made by the guardian, committee, duly authorized agent or other person charged with the care of the person or property of such taxpayer.
>
> (c) Every corporation, trust, or estate, joint-stock company, partnership, or association organized for profit (except those herein specifically exempted), shall make a return, stating specifically the items of its gross income and the deductions and credits allowed by this act. The return shall be sworn to by the president or other principal officer and by the treasurer or assistant treasurer.

## 18. Need for Statute of Limitations

Modern business conditions demand that liabilities and rights be definitely established with reasonable promptness. As the income tax recurs each year, an accumulation of undetermined assessments together with interest thereon might cause financial embarrassment to anyone called upon for additional taxes after a long period. Also when years have elapsed it is more difficult to ascertain facts so that a limit should be placed on stale claims. The beneficial effect of a statute of limitations applies to the Government as well as the taxpayer. Three years seems to be a reasonable period beyond which the Government should not assess additional taxes, nor the taxpayer claim refund for overpayment. Section 15 may be extended to cover this situation by adding:

> Except in the case of a willfully false or fraudulent return with intent to evade the tax, the amount of tax due under any return shall be determined by the assessor within three years after the return was made and no proceeding in court without assessment for the collection of such taxes shall be begun after the expiration of such period. In the case of a willfully false or fraudulent return or where no return has been filed the amount of tax due may be determined and collected at any time.
>
> If within three years after the payment of taxes it appears from the records of the assessor that moneys have been erroneously or illegally collected from any taxpayer or other person, pursuant to the provisions of this act, the assessor shall have power upon making a record of his reasons therefor in writing, to cause such moneys to be refunded.

## 19. Records of Income To Be Kept

As the income tax is predicated largely on the self-declaration plan tax assessors need a means of verifying returns. To secure this check, nearly all States have followed the Federal law requiring that records be kept that will properly reflect income. In order that the administration of the law may be complete in this respect, the following paragraph might be added in section 17:

> Every person liable to any tax imposed under this act, or for the collection thereof, shall keep such records, render under oath such statements, make such returns, and comply with such rules and regulations as the assessor may from time to time require.

## 20. Specification of Appeal Procedure

Section 18 treating of protests against assessments provides:

> Should any person upon whose income a tax has been imposed feel aggrieved or claim error in the amount of the tax, he shall be permitted to file a protest with the board of personal tax appeals of the District and request a hearing at such time and place as the said board may designate.
>
> Should it appear to said board that an error in computation of said tax has been made, or that an error was made in the return of the person taxed, said board shall immediately make such a readjustment as will correct such error, to the end that a correct amount of tax be imposed.

The bill contains no definite procedure as to the time and manner of taking appeals from assessments. Administration of the law could be facilitated by specific reference to these matters, as indicated in the following paragraph, which would be substituted for section 18.

> The board of personal tax appeals of the District of Columbia shall have power to hear and determine controversies arising in connection with taxes imposed under this act. Within 60 days after the notice of the determination of the tax liability shall have been mailed by the assessor (not countng Sunday as the

sixtieth day) the taxpayer may file a protest with said board, requesting a hearing: *Provided*, That the grounds of the appeal must be stated in the request. The board of personal tax appeals shall after affording a hearing to the taxpayer ascertain the correct tax, whether greater or less than the amount determined by the assessor. If the taxpayer is aggrieved by the decision of said board, he may thereafter appeal to the Supreme Court ofthe District of Columbia.

## 21. Adjustment of Credit for Intangible Taxes

Section 6 of the act of Congress approved February 18, 1929 (45 Stat. 1227), relating to personal tax requires that beginning July 1, 1930, returns on all personal property other than automobiles shall be made in the month of July in the fiscal year in which the assessment is levied, and the value of such property shall be made as of the first of that month. The proposed income tax law in section 8 stipulates that the new tax shall be first levied, collected, and paid in the year 1933 upon the taxable income of the calendar year 1932.

Section 24 of the bill, which deals with the repeal of the intangible law and substitution of the new income tax law therefor, reads as follows:

> The amendments made to section 6 of the District of Columbia appropriation act for the fiscal year ending June 30, 1903, approved June 1, 1902, by section 11 of the District of Columbia appropriation act for the fiscal year ending June 30, 1917, approved September 1, 1916, and by section 9 of the District of Columbia appropriation act for the fiscal year ending June 30, 1918, approved March 3, 1917, and all other provisions of law relating to the taxation of intangible personal property in the District of Columbia are hereby repealed as of January 1, 1933. *Amount paid in respect to the tax on intangible personal property for the period between July 1, 1932, and January 1, 1933, shall be credited against the income tax payable in 1933 and any excess shall be refunded.* (Italics supplied.)

Under this latter section the existing law relating to the taxation of personal property would be repealed as of January 1, 1933, and amounts paid as intangible personal property tax for the period between July 1, 1932 and January 1, 1933, would be credited against income tax payments in 1933. Should the bill be enacted prior to July 1, 1932 (the date from which assessments run for the fiscal year 1933), intangible personal property would be taxed during the transition from the present intangible tax law to the new income tax law as follows: Returns on intangibles for the half year would be due during July 1932, and one-half of the tax thereon would be payable the following September. Six months later—in March, 1933—income tax returns would be filed on incomes earned during the calendar year 1932. On these returns, persons who paid intangible taxes for the period July 1, 1932, to January 1, 1933, would be credited for such payments. This would mean that for the first year of the income tax law those persons who paid intangible tax applicable to and due for the preceding six months would be relieved of their income tax liability for 1933 to the extent that they paid intangible tax for a prior and different tax revenue period. The effect of this credit would be to permit this intangible property to go untaxed during the six months' period July 1 to December 31, 1932. This allowance would probably reduce the revenues of the District of Columbia for the fiscal year 1933 approximately $1,000,000. The bureau believes that no tax credit should be allowed for intangible taxes due and payable for any period prior to the effective date of the new income tax law, and that intangible tax for the fiscal year July 1, 1932 to June 30, 1933, should be

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one-half of the annual rate for a full year, to cover the period from July 1 to December 31, 1932. The following change is therefore suggested:

Sec. 24. The amendments made to section 6 of the District of Columbia appropriation act for the fiscal year ending June 30, 1903, approved June 1, 1902, by section 11 of the District of Columbia appropriation act for the fiscal year ending June 30, 1917, approved September 1, 1916, and by section 9 of the District of Columbia appropriation act for the fiscal year ending June 30, 1918, approved March 3, 1917, and all other provisions of law relating to the taxation of intangible personal property in the District of Columbia are hereby repealed as of January 1, 1933. The assessment made under this section on intangible personal property shall be at one-half the annual rate to cover only the period from July 1 to December 31, 1932. Such tax shall be payable in its entirety during the month of September, 1932, collected by the collector of taxes, and covered into the United States Treasury for credit to the District of Columbia in the manner as now provided by law.

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