

000 tariff taxes and most of our state and local taxes, save in a few states. Then where is the injustice of requiring the receivers of incomes over \$4,000 to equalize in some measure these tax burdens by contributing less than \$100,000,000 to the federal treasury?

The objection is also offered, in a tone of injured innocence, that the proposed tax would be sectional in its effects. This measure certainly is not sectional in its terms, and should it be sectional in effect it would be due to the fact that wealth has first made itself sectional. It would be monstrous to say that the receivers of great incomes which are drawn from every section of the country may segregate themselves and upon the plea of segregation or sectionalism successfully exempt their entire wealth from taxation. They should invoke the plea of segregation and not sectionalism.

The very nature and purpose of the income tax is fairly to reach and successfully cope with such conditions, for long experience everywhere has demonstrated that the only means of getting at the financial resources of the country in fair measure, and taxing classes of persons who would otherwise escape taxation or nearly so, is to levy a tax on incomes. To illustrate the importance of this tax, during the parliamentary debate of 1909, Mr. Lloyd George said:

"The income tax is in reality the center and sheet anchor of our financial system."

Mr. Gladstone characterizes it as an engine of gigantic power for great national purposes.

This tax in England now produces about two hundred millions of revenue annually, and according to universal testimony gives the taxpayer as little trouble as any form of taxation. The complaint of inquisitorialness has now almost completely disappeared.

I shall not consume the time of the committee upon the results of the operation of this tax in the various foreign countries, except to say that the masses everywhere have a deep-seated conviction that it is fair alike to every citizen and is the only effective method of equalizing tax burdens.

This tax, in addition to being fair, is productive and responsive to changes in rates, and is cheap of collection.

Mr. Moore. Will the gentleman yield?

Mr. Hull. Yes.

Mr. Moore. In paragraph B and paragraph C of section 2, the income-tax section, it would appear that a holder of municipal bonds or state bonds would be exempt from payment of tax.

Mr. Hull. If the gentleman will pardon me now, I will come to an analysis of the bill within a few moments.

Mr. Moore. Very well. I do not wish to interrupt the gentleman, but the point is very much inquired about, and I would like to have the gentleman explain it.

Mr. Hull. No honest taxpayer has anything to fear. The fact that difficulty in administering the proposed law is sometimes experienced is due to the persistent efforts of dishonest or evasive taxpayers to shirk and evade their proper share. No law that would effectually reach this class of taxpayers can be devised and successfully enforced without more or less difficulty in some instances. The administration of the present national and state tax laws is more inquisitorial and difficult if enforced.

Every good citizen should not only be willing to contribute according to ability to the needs of the government, but to this end should be willing to devote a brief time during some one day in the year, when necessary, to the making up of a list of his income for taxes. The government asks this of him in return for the many blessings and benefits he receives. It is gratifying to find during recent years the large number of our wealthiest citizens who heartily favor the proposed tax and cheerfully agree honestly to abide by its provisions; those who do not subscribe to this patriotic view may realize their shortsightedness. The intelligence of the American people has rapidly increased, until today the overwhelming majority of the masses in every section of the country, whether in the valleys or in the mountains, are keenly alive to existing financial, industrial, and social conditions, and realize fully the great disproportion of governmental burdens which rest upon them.

The masses leave their homes and families and imperil life and body to fight the battles of the country in time of war, and none realize better than they that by reason of discriminating laws and governmental policies they are required to support the government in chief measure in time of peace, and in addition con-

stantly to make unjust contributions to the favored class of their fellow citizens.

It is sometimes sought to prejudice persons against this tax by asserting that it is a tax upon thrift and industry. It may be replied that the tariff is a tax upon consumption, want, and even poverty and misery. (Applause on the democratic side.) In any event, the proposed tax is measured by net profits or gains, and is not imposed upon gross income nor capital nor other property. If a citizen has not been successful in his efforts to accumulate profits he is not required to pay the tax, but if he has prospered he is required to contribute to his government, not the scriptural tithe, but a small percentage of his net profits.

The proposed tax is the outgrowth of centuries of tax legislation throughout the world. Those who have been the victims of our intangible and invisible tariff taxes, with all their features of spoliation and plunder, without being able to know the extent thereof, should and will welcome the proposed tax; the receivers of large incomes and the owners of great wealth should prepare to accept it as a permanent tax, for, in my judgment, it has come to stay. (Applause on the democratic side.)

Responding to the manifest interests and desires of the American people and to the fiscal needs of the American government, the democrats of this house propose to incorporate, along with honest tariff revision, an income-tax provision permanently in our tax system, the effect of which will be to displace about \$70,000,000 derived from the most vicious portion of custom-house taxation, to the end that this country may in the future have justice in taxation, flexibility and stability of revenue, and economy in expenditures. This provision goes hand in hand with genuine tariff reform.

I desire now to give a brief outline of the pending measure. Instead of comprising 100 or more pages, containing in detail all the methods of administration, such as European and other laws present, this measure briefly but succinctly prescribes each essential rule and method with respect to the levy, assessment, and collection of the tax, and leaves to be embraced in the regulations to be prepared by the secretary of the treasury the manner and details of carrying out the provisions of the law. These regulations will make clear to the taxpayer the scope and application of each feature of the law with respect to every class of taxpayers and business.

It should be borne in mind that paragraphs A to G relate exclusively to the imposition and collection of the tax of individuals or persons, whereas paragraph G embraces corporations.

Paragraph A imposes a tax of 1 per cent per annum upon the annual net income of every individual over \$4,000, and a like tax upon every corporation or joint-stock company or association in the United States, no matter how created or organized, without exemption. In addition to this normal or basic tax of 1 per cent, which applies alike to all individuals and corporations, as aforesaid, a graduated additional tax is imposed upon the total annual net income of every individual derived from all sources, including corporate dividends, exceeding \$20,000. Instead of making this additional tax a flat rate, the same is graduated in its application to incomes from \$20,000 to \$100,000, thus leaving a flat rate of 3 per cent additional upon that portion of any income exceeding \$100,000. Paragraph B and those following, down to G, relate to the assessment and collection of the normal tax of 1 per cent imposed upon persons.

Mr. Mann. Mr. Chairman, would it interrupt the gentleman at all to ask him a question in reference to the proposition that he is now discussing, for information?

Mr. Hull. I will suggest to the gentleman whether it would not be best for me to conclude my attempt to analyze the bill, then I shall be glad, as best I can, to answer any question that may be asked.

Mr. Mann. This will be a very simple question.

Mr. Hull. Very well.

Mr. Mann. Suppose during the year a man holding a piece of real estate sells it, is there any attention paid to the amount of the proceeds of the sale, so far as his income is concerned, under the provisions of the bill? My recollection is it refers to profits.

Mr. Hull. Just a little later I will make a statement on that point.

Mr. Mann. I thank you.

Mr. Hull. Each individual to whom the additional and graduated tax will apply makes a personal return in every instance of his total

net income from all sources. He will compute it by taking his net income as computed for the purpose of the normal tax and substituting the exemption of \$20,000 for the normal tax exemption of \$4,000, and then adding, first, the amount of his net income upon which the normal tax was withheld and paid at the source by another for him; and, second, the amount of dividends or other net earnings received or receivable by him from corporate sources. No part of the additional tax imposed is collected at the source of the income. This method enables the government to reach all large incomes exceeding \$20,000 by assembling the same in the individual to whom it ultimately goes and taxing it as a whole.

The proposed law should be construed as similar laws have been construed by the courts with respect to the application of the tax, and that is that the income in question shall be the measure of the tax and not the specific fund out of which the tax is necessarily payable; the bill takes as the measure of the tax the net income of the preceding year. Paragraph B defines the net income of a taxable individual or person. In come as thus defined does not embrace capital or principal, but only such gains or profits as may be realized from rent, interest, salaries, trade, commerce, or sales of any kind of property, and so forth, or profits or gains derived from any other source.

It would be impossible here to undertake to explain the application of this provision of the bill to the innumerable transactions arising in this country. The rulings of the treasury department and the decisions of the courts of this country with respect to similar provisions of the old income-tax laws, and also the English rules of construction, all essential portions of which will be embraced in the treasury regulations, will make clear the distinction between taxable profits or income on the one hand and capital or principal on the other. The proceeds of life insurance policies paid on the death of the person insured are expressly exempted; likewise the return of any part of principal invested in insurance during life, as distinguished from the earnings upon same, would not be taxable.

Bequests, devises, and so forth, are not considered as taxable income; an inheritance tax applicable to them would naturally contain rather highly graduated rates, so that this tax would properly be contained in a separate enactment. The second division of paragraph B prescribes the deductions allowed in computing net income for the purpose of the normal tax. Most of these deduction clauses have heretofore been construed both by the treasury department and the courts. As to losses, these provisions primarily contemplate allowance for losses growing out of the trade or business from which the taxable income is derived, and generally termed trade losses, as distinguished from losses of capital or principal or losses incurred entirely apart from business transactions from which income is derived. A similar rule governs deductions for expenses. In thus computing net income the taxpayer does not embrace any portion upon which the tax is stopped at the source; but in all cases where taxable income arises from an annual business relationship, but does not exceed \$4,000, and so the tax is not withholdable at the source, the same must be embraced in a personal return, and also if such income is uncertain or irregular in the amounts or time of its accrual, and so is not derived from a business relationship extending through the year, it likewise shall be embraced in a personal return, and no tax would be withheld at the source. This latter would embrace all taxable profits or income derived from trades, professions, and other businesses embracing promiscuous transactions and the accrual of profits in uncertain amounts and at irregular times, as distinguished from business relationships running through the year and the fixed income therefrom. The amount received by the individual taxpayer from the net earnings of a corporation subject to like tax will not be embraced in his personal return of income for the purpose of the normal tax. The normal tax of 1 per cent that would otherwise accrue against the owners or stockholders of the corporation is paid for them by the corporation upon its net earnings.

Mr. Madden. Will the gentleman let me ask him a question?

Mr. Hull. Yes.

Mr. Madden. Suppose the gentleman himself had \$5,000 he wanted to invest, and did invest the \$5,000 in the bonds of some corporation, and that the tax was taken by the corporation from the interest coupons on these \$5,000 of bonds—suppose the gentleman had no other money in