

the world except the \$5,000. Would the company that issued the bonds that he had his money invested in be allowed to deduct the tax from the interest due on the coupons on these bonds?

Mr. Hull. The taxpayer, if he desired his \$4,000 exemption in that case—

Mr. Madden. But here is a case where there is only \$250 income.

Mr. Hull. I beg the gentleman's pardon. I thought he said \$5,000.

Mr. Madden. He has an investment of \$5,000 with an income of \$250, and that is all the investment he has in the world. How does the gentleman provide for the payment of tax on these coupons?

Mr. Hull. The corporation would withhold the tax, unless the bondholder should file his affidavit claiming his exemption, and if he should, unless the amount of interest exceed \$4,000, no tax would be withheld.

Mr. Madden. But suppose the gentleman did not have business knowledge that would enable him to understand all these things. Lots of poor widows and orphans already have such investments as I have described, and they do not understand the situation, and will not understand it, no matter what happens. What protection have they?

Mr. Hull. Well, I would say in reply to that that under existing conditions most of the present corporate bonds draw interest, which is represented by coupons. Those coupons are payable to bearer. They circulate promiscuously and pass currently all over the country in all kinds of trade and business. It is a question of whether the government will adopt the only possible way to reach the income derived from the interest on these bonds by providing that the tax shall be withheld at the source of payment, or whether it will abandon any purpose effectively to tax the income derived from the \$28,000,000,000 of corporate bonds on account of the fact that there may be a limited number who may not, as the gentleman from Illinois (Mr. Madden) suggests, understand, at least at the very beginning of the operation of this law, that they would be exempt entirely under \$4,000, provided they filed notice to that effect.

Mr. Mann. Does the gentleman yield for a question there?

Mr. Hull. Yes.

Mr. Mann. Suppose, for example, that a man has coupons in the course of a year to the amount of \$500 and that is his total income. At present, if he collects those coupons, payable to the bearer, he deposits them in a bank and gets credit for the amount. Now, under the scheme that is proposed, how would that operate?

Mr. Hull. It would operate this way, that the holder of corporate bonds can always have the benefit of his exemption of \$4,000 and his deduction; that is, the owner of the bonds can, provided he presents them or has them presented for collection himself. But if he trades them to other people and parts with title to the coupons, then that privilege would not lodge in the other persons, because such coupons would be capital and not income in the hands of other taxable owners.

Mr. Mann. Practically, then—I ask for information—under this proposition the owner of these coupons of small amounts could no longer deposit them in banks, but would have to send them by registered mail or by express to the headquarters of the company, with an affidavit stating that that was the amount of his income or that the income was less than \$4,000.

Mr. Hull. They could mail them directly to the headquarters of the company, and claim exemption, and receive full payment of the interest.

Mr. Mann. Would it be practicable under the bill to deposit them in a bank, with an affidavit as to the amount of income?

Mr. Hull. It would be practicable if the holder of the bonds retained ownership and did not part with them, as he would with any other negotiable instrument.

Mr. Mann. Of course he could not put them through the bank unless he parted with title to them.

Mr. Hull. He could for purposes of collection.

Mr. Mann. Even then he would have to assign his title to the bank, as a negotiable instrument. That was not worked out before under our law, but how does that work out under the English law?

Mr. Hull. Under the English law the corporations retain the tax on the interest and pay it to the government, and the taxpayer presents to the government any claim, either for deductions,

abatements, or for the \$800 exemption which exists over there, instead of the \$4,000 exemption here.

Mr. Mann. Of course there are a large number of people either holding a small amount of bonds or a small number of shares. Of course the shares would not make so much difference. But there are a large number of people who hold a small amount of coupon bonds now. I think the universal custom is that those are collected through the banks by deposit. Is there any way of making an arrangement by which that could still continue? It is a matter of very great convenience.

Mr. Hull. I would suggest to the gentleman that coupon bonds, issued by well-established business concerns, are exchanged generally in trade, and, of course, as the gentleman well knows, they pass current like any other negotiable instruments.

Mr. Mann. Certainly; but they could not under this plan where anybody desires to have an exemption.

Mr. Hull. Well, this plan, I will say to the gentleman, gives the taxpayer two or three opportunities to claim his exemption. In the first place, if the taxpayer receives the principal part of his income from a source at which it is proper to withhold the tax, he may present his claim for exemption—he would be required to present his claim for \$4,000 exemption there in order that it might accompany the bulk of his income, which would be large enough to permit the deduction of the \$4,000. Otherwise he can claim his exemption in his personal return of other income than that on which the tax is withheld. But if he desires several hundred dollars of deductions, for expenses, or indebtedness, or taxes paid, and has an amount of income from other sources which is larger than the amount of his deduction, he can make return to the collector of the district in which he resides. But if his income from sources other than that at which the tax is being withheld is smaller than the amount of his deductions, then he would naturally find it necessary to consolidate both his taxable income and his deductions so that they could go through one channel up to the office of the internal revenue commissioner as a whole. To that end he would file claim for deductions and return of his additional income, either with the district collector in the district in which his chief income was being returned, or, if he preferred he could file it with the person whose duty it is to make the return for him as to the bulk of his income.

Mr. Madden. If his income was less than \$3,500 he would not have to make any return at all, would he?

Mr. Hull. He would not.

Mr. Madden. But if he wanted to place himself within the deduction on the interest from his coupons, he would be required to make a statement under oath to the company whose bonds he held, would he not?

Mr. Hull. He would be required to file his application for the \$4,000 exemption. And I want to say to the gentleman and to the house that this is simplicity itself, compared to the English system on the same subject. They have thousands of applications for deductions and abatements and other modifications, either of the assessment or refund of the tax, that are constantly being shifted back and forth between the government and the taxpayer. This method, in my judgment, places the collection of the tax in the most expeditious form, and one that will do no injustice either to the taxpayer or to the issuer of the bonds.

Mr. Samuel W. Smith. Will the gentleman yield for a question?

Mr. Hull. Certainly.

Mr. Samuel W. Smith. While the bill provides that it shall apply to all citizens at home and abroad, it is true, is it not, that this bill does not apply to the president of the United States or to federal judges?

Mr. Hull. I will reach that in a very few minutes.

Mr. Burke of South Dakota. Before the gentleman proceeds with that, will he yield for one question?

Mr. Hull. Yes.

Mr. Burke of South Dakota. Taking the case cited by the gentleman from Illinois (Mr. Madden), where a person might own bonds to the amount of \$5,000, paying 5 per cent interest, which would be \$250, and suppose the interest is payable semi-annually, and that is the entire income of the person holding the bonds, would he have to claim the exemption each time that he presented the coupons for payment as they matured—that is, every six months—or is there a way provided by which, so far as such a per-

son is concerned, one exemption would be sufficient?

Mr. Hull. The \$4,000 exemption would cover both payments.

Mr. Moore. Will the gentleman consider my question now?

Mr. Hull. If the gentleman will pardon me one moment—

Mr. Moore. It bears on this question.

Mr. Hull. Just in that connection, first, in order to reach the income derived from our immense amount of corporate bonds, three methods might be adopted. In the first place, we could allow the corporation to pay the interest to the individual taxpayer entitled to it, and then depend upon him to make the personal returns, just as we depend upon taxpayers to make personal returns of their property in the states now under the state tax system. The result of that would be, as I have pointed out here, that they would return probably \$1 out of \$10, judging by the experience of the states; so that that method is as faulty as the state tax systems to which I have directed attention.

Another alternative would be to allow the corporation to withhold the interest only in cases where it exceeds \$4,000—that is, withhold the amount of the tax upon it; but when we undertake to carry this rule entirely through the bill in that respect—and we do that, except in this case and that of United States bonds—we are confronted with the fact that all or most of this interest is represented by coupons payable to bearer; so that the holder of \$100,000 of these coupons, when tax-paying time came around, could distribute them, if he desired, into sums of less than \$4,000 and send them through 25 different channels for collection; and by distributing and scattering them he could always measurably evade the tax. So that the only method of really getting at the tax with a minimum of inconvenience both to the government and the taxpayer is that proposed in the bill. Now, I will yield to the gentleman from Pennsylvania (Mr. Moore.)

Mr. Moore. Under the exemptions provided for in paragraphs B and C, is it not possible for a rich holder of bonds or stocks of an industrial nature to sell out and transfer his holdings to municipal or state or federal bonds, and thus escape the very object of the bill? I want to explain that that question has been brought up to me by some who have said this bill was easy, that it was full of loopholes, and that so far as some of the idle rich, so called, were concerned they could simply transfer their holdings from industrial stocks and bonds to municipal, state and national bonds.

Mr. Hull. In the first place, the whole amount of state and municipal bonds is two to three billion dollars, and \$750,000,000 of the municipal and state bonds are owned by small mutual savings banks. There are \$28,000,000,000 of corporate bonds.

Mr. Moore. I only called the gentleman's attention to the fact that a shrewd man might in that way evade the law, and if the test came they would simply transfer their holdings from industrials and other taxable stocks to municipal, federal and state bonds that would be exempt.

Mr. Hull. I thank the gentleman for his suggestion.

Mr. Tribble. Will the gentleman yield for a suggestion?

Mr. Hull. Yes.

Mr. Tribble. As an illustration, suppose application is made in a mutual insurance company for a prospective dividend which is paid afterwards. Suppose the applicant pays \$20 and at the end of the fiscal year \$12 is returned to him as a dividend. That assessment is made on the estimate as to the earnings of the company in the past years, and the company collects this \$12 out of the individual. It does not belong to the company but belongs to the individual. I would like for the gentleman to explain fully if that \$12 is taxed in this bill. It is claimed by the Southern Mutual Fire Insurance Co., which does business in my state, one of the most prosperous in the country, and which does that kind of business, that you tax them for the assessments they have collected out of the applicants.

Mr. Hull. There is no tax imposed on the policyholder. It is proposed to place a tax of 1 per cent on the net earnings of all insurance companies. But I will discuss that later on.

Mr. Tribble. I am not claiming that there is a tax imposed on the policyholder. There is a tax imposed on the company which collects an advanced payment out of the policyholder and returns to him at the end of the fiscal year that

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