

A Remarkable Income Tax Speech

In last week's Commoner the first installment of Representative Hull's (Tenn.) speech on the income tax was printed. This speech was delivered in the house of representatives April 26, 1913. The second installment follows:

Mr. Hull: Mr. Chairman, I feel that I would impose on the committee by consuming the time that it would be necessary to dispose—

Mr. Bartlett. Will the gentleman yield?

Mr. Hull. I will.

Mr. Bartlett. The gentleman was discussing the matter of income at the source. The gentleman will remember in the case of a bond issue of a corporation doing a commercial business, or a railroad, the bonds issued are not payable to any particular party, but payable to bearer, and the interest generally paid at the stated periods, say every six months, represented by coupons which are cut off at the interest-paying period. Now, you can not compel the railroad company or corporation to pay the income at the source of all the people who own these bonds. Now, the railroad company which issues the bonds, or the manufacturing company which issues them and puts them on the market, does not keep any list of those who own them. They pass from hand to hand like a dollar bill or a hundred dollar bill. In other words, they pass current. Now, how is the railroad or other obligators of the bond to know what person they are to take the income from? The coupon is cut off and carried by the owner of it to the bank and deposited, and these coupons are generally payable in New York, Chicago, or other places. How is the obligator in the bond or the government to determine whether that particular man has paid the tax or is due to pay the tax under this bill?

Mr. Hull. As I stated awhile ago, unless the actual owner of the bond presented the coupons for payment himself, or it should be done for him, the company would withhold the tax for the reason that so long as these negotiable instruments are in general circulation it is utterly impossible, as I think the gentleman from Georgia (Mr. Bartlett) will agree, to reach them for taxation in any other manner. These coupons are not taxable income, but capital, when they pass to new owners and from the bondholder.

Mr. Bartlett. Unless a man swears to a falsehood, you can reach him.

Mr. Hull. Well, I have pointed to the fact that if you depended on the individual taxpayers, as we do in the states, to get returns of our concealed personalty, it would amount to only about \$1 in \$10, as a rule.

Mr. Bartlett. Then there may be a case arising where the tax due upon one particular security will be two or three times paid. A man may pay it and present it to the bank, and it may pass from hand to hand, and each one of the persons to whom it passes may have paid it except the last one. The obligator of the bond will hold it at the source for the man who last presents it, whereas the government will get the honest man's return of it who makes the return and pays the tax on it; and if this last man is a dishonest man and tries to evade the tax, the government will get it from the source once and from the honest people every time. So that it looks to me as if it will depreciate the value of these securities very much on the market

—the manner the gentleman has suggested of collecting the tax at the source.

Mr. Hull. In my judgment, Mr. Chairman, this method is not only feasible, but it is the only feasible method of dealing with this situation as it relates to corporate indebtedness, and it is far more simple and far more expeditious than any other method in use in other countries. The corporation owning the bonds would only retain the tax once. The coupons are taxable income in the hands of the bondholder, but no subsequent purchaser could claim any exemption or deductions with respect to them, because they then become principal.

Mr. Cooper. Mr. Chairman, will the gentleman yield?

The Chairman. Does the gentleman from Tennessee yield to the gentleman from Wisconsin?

Mr. Hull. Yes.

Mr. Cooper. Perhaps the gentleman explained it when I was out, but I do not know. Why were not the Hawaiian Islands included—citizens of the Hawaiian Islands? The citizens of Porto Rico and the Philippine Islands are included, but not the citizens of the Hawaiian Islands.

Mr. Hull. In the first place they have an income tax of their own, and this bill simply extends the tax to the Philippine Islands and Porto Rico for their exclusive benefit and taxation. Of course, they become the beneficiaries of the revenue derived. This was done, as I understood, at the request of officials connected with the islands. The Hawaiian Islands, already having an income-tax law of their own, would naturally not want another one embraced in the bill.

Mr. Cooper. But there are a number of states of the union that have income-tax laws.

Mr. Hull. I know; but I understood the question applied to these insular possessions that do not occupy the category of states.

Mr. Madden. Would there be any difference in fact between a state and the insular possessions? If the citizens of a state pay an income tax as citizens of the state, and are then required to pay an income tax as citizens of the United States in addition, is that any different from the case of citizens of the Hawaiian Islands being obliged to pay an income tax in Hawaii and then to pay also an income tax as citizens of the United States?

Mr. Hull. I do not think that question arises in the bill.

Mr. Madden. It discriminates against the people of the states in favor of the people of Hawaii.

Mr. Hamilton of Michigan. Mr. Chairman, will the gentleman yield to me?

The Chairman. Does the gentleman yield?

Mr. Hull. I do.

Mr. Hamilton of Michigan. I simply wanted to state to the gentleman, in reply to the statement of the gentleman from Wisconsin (Mr. Cooper), who spoke of Hawaii as an insular possession, that Hawaii is a territory of the United States, and I suppose it would be treated on the same basis as the states of the union.

Mr. Sherley. Mr. Chairman, if the gentleman from Tennessee will permit—

The Chairman. Does the gentleman from Tennessee yield?

Mr. Hull. Certainly.

Mr. Sherley. I would like to ask the gentleman about another matter which might have been discussed during my absence. If that is so, I do not ask the gentleman to repeat it. But there is a provision requiring a lessee to make returns of tax

in all instances where the amount paid by the lessee would be in excess of \$4,000, as I recall it, and the lessor is entitled to an exemption only in case he has filed with the lessee a statement showing his entire income from all sources, and that shall be made a part of the return to be made by the lessee to the government. Now, if I am correct in my statement of what the law provides, I want to ask the gentleman what he has to say as to the disadvantage to the citizen of being thus compelled to make public, not to the government, but through the lessee, his entire private affairs touching his income, and so forth?

Mr. Hull. I tried to explain that at a former stage. But to use figures, so that there can be no misunderstanding about it, suppose a taxpayer receives an income of \$10,000 from a certain corporation. The tax is withheld by the corporation and paid to the government, or to be paid to the government after tax return and assessment. This taxpayer has \$3,000 of income derived from other scattering sources. He has \$2,500 of deductions, expenses of his business, interest on his indebtedness, and taxes paid to the state. He wants the benefit of those deductions. Now, he can do one of three things under those circumstances. He can file a return of his own with the district collector in the district where he resides, containing the \$3,000 income and the \$2,500 deduction, and that will be disposed of in the usual way. But if his deductions were \$3,000 and his income on which the tax was not withheld at the source was only \$2,500, then he would not have enough income from that source from which to subtract his deductions. So that he is obliged to consolidate them at some point between him and the internal revenue collector's office where the tax is assessed—consolidate it with his aggregate income. In that event he would send to the district collector, where the return was made for him by the corporation on the \$10,000. He need not go to the corporation. It is optional with him to send to the district collector the return of the \$3,000 deduction claimed and the \$2,500 income. Then the \$10,000 income would be returned for him to this same collector by the corporation, and they would merge in the office of the collector and go up together to the internal revenue commissioner's office, as I have said, with all the attendant facts and be assessed upon the whole facts.

Mr. Sherley. Let me see if I understand the gentleman. Suppose a man has an income from three pieces of property, and in each instance he gets \$5,000 income. It is the duty of the lessee to hold out the tax, is it not, and send it in to the collector?

Mr. Hull. Yes.

Mr. Sherley. The lessor gets his exemption of \$4,000 only in the event that he gives to the lessee information touching his entire income.

Mr. Hull. I beg the gentleman's pardon. That is not at all correct.

Mr. Sherley. That is what I want to find out.

Mr. Hull. The taxpayer is given the fullest discretion in making claims for deductions—to file the same either with the district collector or with the person who returns his tax, as he sees fit. The \$4,000 exemption alone would be claimed at the source.

Mr. Sherley. Let me ask you some questions. Suppose he does not give notice to the lessee at all. Is it made the duty of the lessee in each instance to hold out the tax and pay it to the government? Is that true?

Mr. Hull. After it reaches \$4,000 he would hold out the entire tax.

Mr. Sherley. I understand. Now, I have stated a simple case, where a man owns three pieces of property. He leases each of those three, and his income from each is \$5,000. Now, he does not give notice to the lessee. Is it not the duty of the lessee to hold out the tax of 1 per cent in each instance and pay it to the government?

Mr. Hull. Yes.

Mr. Sherley. That being so, how does the lessee get his exemption? Is there a provision whereby the government returns to him the excess tax that has been paid him by each lessee?

Mr. Hull. I will try to come to the gentleman's point.

Mr. Sherley. Can not the gentleman answer me directly?

Mr. Hull. I want to see whether I understand the gentleman's position. If the taxpayer receives an income from three or four sources—

Mr. Sherley. Let us take the case I have stated.

Mr. Hull. He receives \$5,000 from each source. Each of the other gentlemen is required to withhold the tax for the taxpayer. Now, unless he notifies one of them of his claim for exemption, neither one of the three would know which one should make the request for his exemption in withholding the tax. So that the taxpayer is required, if he desires the benefit of an exemption under those circumstances, to make his claim with some one of the three.

Mr. Sherley. Otherwise he would not get back the excess. Is that true?

Mr. Hull. That is true so far as the tax collected entirely at the source is concerned.

Mr. Sherley. All right. I want to present to the gentleman the situation. Suppose, instead of taking the man who has simply three pieces of property, take the great Astor estate, which is largely an estate invested in real estate. As I understand, in order to get the exemption, it would be necessary to give to one of the lessees from whom you are to get the claim of exemption the entire private history of your income.

Mr. Hull. I beg the gentleman's pardon; you do not give a history of anything. The exemption is \$4,000, and you merely file your claim for exemption, and that is all that there is involved.

Mr. Sherley. I think the gentleman will find that the section goes very much beyond that.

Mr. Hull. The person who is required to withhold the tax at the source—

Mr. Sherley. I will read the provision on page 142 of the bill.

It requires the person to—
"file with the person who is required to withhold and pay tax for him a true and correct return of his annual gains, profits, and income from all other sources, and also the deductions asked for, and the showing thus made shall then become a part of the return to be made in his behalf by the person required to withhold and pay the tax—"

Mr. Hull. Go on and read the balance of the sentence.

Mr. Sherley (continuing the reading):

"or such person may likewise make application for deductions to the collector of the district in which return is made or to be made for him."

But I ask the gentleman where there is a case in which the payments are all made at the source, the man in that instance must expose to some one of the source-paying persons or corporations his entire income.

Mr. Hull. I assure the gentleman that if I know anything at all about this language he is in error. He confuses deductions with exemptions. There is one statutory \$4,000 exemption that must be claimed of the person who withholds the tax at the