

# Who Will Pay the New Taxes?

## How the Government Will Raise \$8,000,000,000

(The Hon. Claude Kitchin, chairman of the House of Representatives committee on Ways and Means, prepared for the Forum, a careful analysis of the new war revenue taxes — clearly defining the government's attitude toward business and war profits. Congressman Kitchin's article is printed in full below.— Ed.)

The Administration, through the Secretary of the Treasury, announces that to properly finance the Government for the fiscal year ending June 30, 1919, it is necessary to raise by taxation, in addition to the amount now being raised under existing law, \$4,000,000,000, or a total taxation of \$8,000,000,000.

When one contemplates the enormous amount of bond issues which, without this larger tax levy, must become necessary and the immense burden which their annual interest charge alone would entail upon this and future generations and the danger of inflation of credits and rise of prices which large bond issues involve, the wisdom of the Administration's insistence upon such increased tax collection becomes at once apparent.

The closest estimate of Secretary McAdoo is that we shall have to expend for the war at least \$24,000,000,000. If, with a new revenue measure, we raise in all the desired \$8,000,000,000, we will have to issue for the finance requirements of the year \$16,000,000,000 of bonds.

We have already issued and sold \$10,000,000,000, totaling \$26,000,000,000, issued and to be issued, exclusive of \$2,000,000,000 of war saving certificates provided for.

The annual interest charge on these bonds, at the 4½ per cent rate, is \$1,105,000,000, requiring more than one-eighth of the contemplated amount of taxes each year to pay.

Should we make no further tax levy and content ourselves with the collections under existing laws, our bond issues by the end of the year would amount to \$30,000,000,000.

This would entail an annual interest charge, even if we can keep the interest rate at 4½ per cent, of \$1,275,000,000, and it would take more than one-fourth of the collections from taxes each year to pay it.

From this it is not difficult to conclude that not only is the Administration's determination to insist on such increased taxation economic wisdom but an economic necessity.

Eight billion dollars is twice as much as this country or any other nation in the world has ever attempted to raise by taxation in one year. It is nearly three times the total amount of collection from the taxes and bonds during the four years of the Civil War.

### HARDSHIPS IN TAXATION INEVITABLE

It goes without saying that to provide for the raising of this huge sum, Congress has a most difficult and appalling task. But the duty is clear, the responsibility is vast. The Constitution imposes the duty and responsibility of originating such revenue measure upon the House of Representatives, and, under the rules, they, in the first instance, are transferred to the Ways and Means Committee. The Committee has already assumed the responsibility and begun the first steps towards the performance of the duty and will go forward determinedly and as rapidly as possible. Protest and condemnation are inevitable, especially from those who have neither duty nor responsibility in the matter.

To frame any bill imposing high taxes which will have the approval of all the taxpayers is impossible, nor is it possible to write a bill without imposing hardships on many taxpayers or with inequalities and inequalities in many particular cases. There never has been and never will be a tax law perfectly equitable. Indeed, every law, civil or criminal, however clear and just its provisions may seem, works in its operations hardships and inequalities in cases that sometimes arise. It shall be the effort of the Committee and Congress to obviate as far as possible such inequalities and inequities. To aid us in the effort we have before us the experience of the operation and enforcement of the present revenue acts.

Instead of a bill additional to the two or three existing acts, the Committee proposes to embrace in one comprehensive bill all the tax legislation with respect to internal revenue, including the

income tax, excess of war profits tax, the estate tax and all other excise taxes. It may be said here, too, that no doubt in order to ease the payment of the colossal amount of taxes a reasonable installment plan will be provided for.

### WERE THE HUGE TAXES WILL FALL.

How shall we go about it to get the \$8,000,000,000? Congress and the country are in entire agreement with the president in the declaration in his revenue message that the big increase must come chiefly from incomes, excess of war profits and the luxuries. Wealth, therefore, must be taxed instead of poverty, luxuries instead of necessities. We shall have to retain the list, including the luxuries and semi-luxuries, subject to the excise tax of existing statutes and increase the rates in most, if not all, of them and shall have to add many articles to the excise tax list. After doing this, it is evident that the larger portion of the increase must be derived from incomes and excess of war profits. The requirement of such large increased revenues necessitates, of course, largely increased rates.

We should proceed along the concretely practical rather than the abstractly ideal line. What an ideal and happy situation would confront us if, as the boy at the front is devoting to his country his full capacity to fight, the business man, the money-maker, at home would make up his mind to devote to his country, during the war, his full capacity to make money, and be glad in the thought that, each morning as he begins his labor, the day should be a day of service to his country, ambitious in rivaling his competitor only in contributing a larger proportion to his Government for its support! But the longest war is too short a time to educate such a sentiment and effort into him. Nor is it practical or possible to force them into him by law.

All collections from business must come from profits. In exacting contributions from business we must recognize its fundamental incentive to effort, profits, its main ambition, more profits. We must not destroy either. We must keep in mind that business as it relates to the national revenues has two important and necessary functions to perform, first, to furnish the Government a large portion of its needed collections, second, to help the Government dispose of its Liberty Bonds at each new issue.

### THE GOVERNMENT — THE NEW PARTNER IN BUSINESS

Without profits it can perform neither, and if incentive and ambition of business be destroyed there will be no profits. We must take care that the goose that lays the golden egg be not killed or disabled. The egg just now is essential to the Government and the survival of the goose is essential to the egg. That is to say, in any scheme of large tax levies, the cupidity of business must be reckoned with and, after payment of all taxes, it must be left profits sufficient to preserve its incentive of aggressive efforts to continue its profit-making. It must continue to make efforts and to make profits because the Government must continue to have a part of those profits, and in all probability, in many cases, a large part.

Not only the Committee and Congress, but the Price Fixing Board should keep these considerations constantly in view. Otherwise, Congress might be forced to resort for the greater portion of its revenues to direct taxes on consumption. On the other hand, the war needs of the country demand that Congress require of business, corporate and individual, a partnership in its income and profits with the Government. It may be necessary in many cases for the Government to be the bigger sharer. Business, too, must be open and honest with its new partner, and should so control its cupidity and ambition as to cooperate with glad enthusiasm in all the aims and efforts of such partner.

To get rich quick out of the war, or during the war, will by the revenue necessities of the Government hereafter be a forbidden indulgence. Designed profiteering and "blood-money" making must cease. However, we should be careful not to construe all increase of incomes and profits since the war as profiteering and "blood money." Large inflation, or rather expansion, of credits and the big difference between supply and de-

mand have caused to be made immense profits. The man and the industry that had the supply inevitably made extraordinary profits. Perhaps, they will continue to make such profits but will not be able to appropriate so large a part to their own use. The big new partner will take a heavy hand in the appropriation to its own use.

While, no doubt, others have engaged in the deliberately planned and manipulated profiteering and "blood-money" making, the Government contractors and subcontractors will probably be found to be the chief offenders.

### WEALTH WILL NOT BE PENALIZED OR CONFISCATED

Wealth will not be penalized or confiscated, but it will understand, of course, that the Government must not be paralyzed by lack of funds. The taxpayer, however, big be he, can be sure that the Committee and Congress will not adopt in the making of a tax bill any such theory as taking for the Government all income in excess of any specified amount, now being agitated by quite a respectable few.

A comparison of the income tax returns of corporations and individuals for the years 1914 — the year the war began — 1916 and 1917 and the prodigious increase of incomes in 1917 over those of 1914 furnish us a sure starting point in the income and excess profits tax program. Corporate net incomes for the year 1914 amounted to \$3,940,000,000; individual net income amounted to \$4,000,000,000, a total income of \$7,940,000,000.

In 1916 corporate net incomes amounted to \$8,765,900,000; individual net incomes amounted to \$6,300,000,000, a total of \$15,065,900,000. This shows an increase of 1916 over 1914 in corporate incomes of \$4,825,900,000 and in individual incomes of \$2,300,000,000, or an increase in both of \$7,125,900,000. While for the calendar year 1917 the returns have not as yet been completely tabulated, it is estimated by the Treasury Department that corporate incomes will reach \$10,000,000,000 and individual incomes will reach \$7,000,000,000, or a total of both \$17,000,000,000. Thus there was an increase in 1917 over 1914 in corporate incomes of \$6,060,000,000, and individual incomes of \$3,000,000,000, an increase in both of \$9,060,000,000. Assuming that for the calendar year of 1918 the incomes, corporate and individual, will equal those of 1917, and they will, unless the Price Fixing Board materially interferes, and that we shall be compelled to raise from such incomes and profits \$6,000,000,000, it can be seen that, if proper adjustments are made, it can be done without destroying or seriously crippling business or confiscating incomes of corporations or individuals. After taking the \$6,000,000,000 — and that amount may not be necessary — there will still remain to the individual and corporation at least \$3,000,000,000 more income and profits than in 1914, or about 40 per cent more.

Whatever amount the Government must have from such incomes and profits, among the different problems are, how to make the proper adjustment, how many brackets in the graduation of the rates, what will the rates in each bracket be, what should the deductions be, how much exemption should be allowed, shall business or industry be placed in different groups, and a different exemption and rate apply to the several groups, etc. These are some of the intricacies and difficulties confronting the Ways and Means Committee and Congress. However high the rate, however large the amount the taxpayer, individual or corporate, must contribute, he should console himself with the thought that every dollar of it is to help his Government save his life in the death struggle now going on. All should realize that the time has come for every patriot to do, not his bit but his all for his country. The boy at the danger front in France is doing his all. Can we who remain at home in safety afford to do less?

Big business and its metropolitan newspaper mouthpieces are arguing very strenuously against the government's idea of what constitutes excess profits. The New York World says that the distinction should be kept clear in one's mind that excess profits strictly chargeable to the fact that there is a war on are to be distinguished from profits in excess of the normal 8 per cent and that are no larger than they were before the war. The government needs revenue and it needs a lot of it, and there isn't any good reason why an excess above a reasonable return on an investment shouldn't be taxed no matter whether it came from war contracts or in spite of there being a war.