

source in cases where one's taxes are paid at the source. His deductions for expenses, losses, and so forth, which the gentleman seems to have in mind, are left to the taxpayer to be claimed to the district collector, or, if he should prefer, through the person or corporation withholding his tax at the source of his income.

Mr. Sherley. Is provision made for the collector to return to the person the excess of tax which has been collected at its source?

Mr. Hull. No tax has been collected up to the time the gentleman seems to refer. This is only for the purpose of assessment, and, as I stated awhile ago, both items merge in the office of that collector. They go up to the office of the internal-revenue collector, who assesses the tax, computes the sum due, and then sends notice of amount due to those whose duty it is to pay the tax.

Mr. Sherley. The gentleman does not state what I understand to be the requirements of law. The law says that the lessee or corporation shall withhold and shall pay. Now they actually pay the tax to the government. What I want to know is whether there is any method whereby if a man does not desire to make a disclosure of his deductions he is entitled to a private individual—is there any method by which the government can repay to him the excess tax that has been collected at the source?

Mr. Hull. The gentleman's question assumes that the tax-payer is obliged to disclose something relating to his business to some other individual, which is entirely inaccurate. It is optional with him.

Mr. Sherley. All right. Suppose he does not do it to an individual, but does it to the government; the tax has all been paid at the source. What I want to know is what provision is there whereby the government, getting the information directly, can return the deductions, can repay the excess collected at the source?

Mr. Hull. In the first place, the tax has not been paid at all at this stage. This results merely in an assessment of the tax, a preliminary stage occurring some time before the tax would necessarily be paid. It relates to the determination of the amount of the tax.

Mr. Sherley. Then, am I correct in assuming that the gentleman implies that, these deductions coming to the knowledge of the government, it shall then be the duty of the government to inform the lessee in the particular case cited that the man is entitled to certain deductions?

Mr. Hull. To be sure; that is, in the sense that the government would notify him of the amount of the tax, which would show that deductions had been allowed.

Mr. Sherley. And that, therefore, he, the lessee, is to pay to the government only a certain proportion of the tax?

Mr. Hull. They would send back to the lessee, to take the gentleman's case, along with the statement of his own taxes, the amount of the assessment on the return he had made for this other person.

Mr. Sherley. But do they give to the lessee knowledge of deductions that the lessor is entitled to, so as to enable the lessee to pay a less tax than he would ordinarily pay for the lessor; and if so, where is the provision in the law for it?

Mr. Hull. I am sorry that I can not make myself clear to the gentleman.

Mr. Sherley. I do not want to embarrass the gentleman.

Mr. Hull. There is no embarrassment whatever.

Mr. Sherley. I am not asking for the purpose of trying to confuse the gentleman or tricking him, but this

matter has been discussed considerably in the press. It is a very important question in that unless provision is made by which the excess of tax can be refunded, or not collected at the source, an individual may have to disclose his entire private concerns to another individual.

Mr. Hull. The law, as the gentleman read it there, is as plainly in the alternative as it can be made.

Mr. Sherley. Yes; that is all right; but does not the man get penalized, in taking one alternative, by not getting his rebate?

Mr. Hull. The sole purpose of that provision is to give him his rebate or deduction. Otherwise the provision would not be there.

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

Mr. Hull. Yes.

Mr. Madden. I was wondering if there ought not to be some means by which the individual who receives the income should be permitted to pay his own tax in the case of property rent. Why should a lessee be authorized to pay taxes for you as a lessor?

Mr. Hull. That is, in effect, a practice even now in a great many states. The tax imposed upon individuals is also paid by some other person, as in the case of the tax on shares of banks for its shareholders. I believe that is the law in the gentleman's state.

Mr. Madden. Let me cite this case. I own a building in which there are 50 tenants. The income from that is, say, \$6,000 a year. I do not undertake to say what it is. How would the tenants in that case be authorized to pay the tax on the revenue that I was to receive from the building?

Mr. Hull. No person is to withhold the tax for another unless he owes that person exceeding \$4,000 arising from an annual transaction.

Mr. Madden. Owes him \$4,000; but the rule is that where a man leases a building or a piece of property he gets his income monthly, and it is not at all likely that any person leasing a building would owe \$4,000 at the end of any fiscal year.

Mr. Hull. Then a personal return would be made if the annual rental should be less than \$4,000. If the rent, based on a yearly contract, should in the aggregate amount to over \$4,000, even though payable at shorter periods, the lessor would begin to withhold the tax whenever the amount paid exceeds \$4,000.

Mr. Burke of South Dakota. Mr. Chairman, will the gentleman yield?

Mr. Hull. Certainly.

Mr. Burke of South Dakota. Mr. Chairman, I have received, and I presume every other member has received, more or less complaints—criticisms—of the bill so far as it affects insurance companies—life insurance companies, mutual fire insurance companies, and so far—and the criticisms are based, as I understand it, upon the provision in H. R. No. 10, and I understand that in the pending bill there have been some changes made. Will the gentleman state to what extent the bill as it is now before the house differs from the provision in the bill No. 10?

Mr. Hull. Mr. Chairman, I will oblige the gentleman as to this entire insurance controversy as best I can, although I feel I am imposing very much on the committee.

Mr. Burke of South Dakota. Mr. Chairman, the gentleman perhaps did not quite understand my question. I am laboring under the apprehension that the provision which the gentleman has just been discussing in the pending bill has been changed in some respect from what it is in house bill No. 10.

Mr. Hull. It proposes simply to impose a tax on the net earnings of insurance companies without permitting them to have deductions for

these dividends, which they declare annually to policy holders, in computing their net income, which is the construction that has been placed on this law by the government during the last few years.

Mr. Burke of South Dakota. I understand, but I will ask the gentleman again, is the pending bill the same in this respect as the bill H. R. 10? Has there been some change?

Mr. Hull. The only change is that we have attempted to make the language a little clearer, and the language is specific enough to prevent the companies from shifting these earnings from one category to another if they should be inclined to do so, and in that way escape the tax.

Mr. Burke of South Dakota. Whatever criticism has been made has been on the provision in H. R. 10. Now, the pending bill having modified that to some extent, I was desirous, if possible, to ascertain whether the change had met any of this criticism, so that the criticism no longer lies. In other words, I am anxious to know in just what respect the provision in the pending bill differs from the way the provision appears in H. R. 10.

Mr. Hull. I will say to the gentleman it is simply an issue whether the company shall pay the tax on their annual net earnings without making deductions as they have claimed heretofore in this controversy.

Mr. Hardy. Will the gentleman yield? In order that I may be able to write clearly, I want to see if I can write in condensed form. As I understand, the gentleman does not think this bill levies any tax on the proceeds on death payment of the policies?

Mr. Hull. That is expressly stated.

Mr. Hardy. And in no case it exempts no tax on death dividends and annuities. On that portion, the death dividends and annuities, the experts shall determine. So death receipts are placed on the same basis as other taxes?

Mr. Hull. There is no tax proposed, except on the net earnings of insurance companies—

Mr. Hardy. I understand that many insurance policies are in the nature of an investment, and if there is an earning, that earning is taxed.

Mr. Hull. That is true.

Mr. Tribble. Will the gentleman yield?

Mr. Hull. I will.

Mr. Tribble. I understand the gentleman to say this amount that is paid in case of an emergency by mutual fire insurance companies is returned to the policy holder, and is not taxed in this bill?

Mr. Hull. That is taken care of—

Mr. Tribble. In the present bill.

That is the point I wanted to know.

Mr. McKellar. As I understand, there is no distinction made between the so-called mutual companies and the profit-making insurance companies?

Mr. Hull. No. They are taxed on their net earnings.

Mr. Murray of Oklahoma. I do not understand that the question, either by the gentleman from South Dakota (Mr. Burke) or the gentleman from Texas (Mr. Hardy), disclosed fully what was sought to be brought out. My understanding was that the criticism of H. R. 10 before the caucus was that it seemed a tax was levied upon an insurance policy if paid during the life of the holder and upon the beneficiary of a policy, after death, and that in the caucus the language was straightened out so as to show clearly that no tax was levied upon the beneficiary of a policy or upon the amount paid, such as on a 20-year policy, but that the net earnings of the company or any other net earnings were continued

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