

[CONFIDENTIAL COMMITTEE PRINT]

# WITHHOLDING TAX

## HEARING

BEFORE A

*U.S. Congress*  
SUBCOMMITTEE OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE

SEVENTY-SEVENTH CONGRESS  
SECOND SESSION

ON

DATA RELATIVE TO WITHHOLDING PROVISIONS  
OF THE 1942 REVENUE ACT

AUGUST 21 AND 22, 1942

Printed for the use of the Committee on Finance



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Mr. HARDY. Well, if it were in effect only 1 year it would still apply in only 1 year.

Senator DANAHER. I was just trying to draw the curtain there.

Mr. HARDY. It seems to me the essential difference is that the withholding tax plan applies at the point of receipt of income, and this applies at the point of expenditure of income.

Senator CLARK. Of course, you withhold not only from taxpayers but nontaxpayers.

Mr. HARDY. Yes. To my mind that is the great argument in favor either of this plan or of a straight sales tax, that the income tax misses, and particularly the withholding feature misses a considerable fraction of consuming power in the country. I think this point is frequently overlooked and greatly underestimated, and that is the people who are living off capital rather than off current income. It is often assumed that that consists of just a few very rich people. It is not just a few very rich people. If you are very rich you can live off the income of your capital, but then there are people who have retired, who are living off of their lifetime savings, who may show an income of \$5,000 but who are spending several hundred thousands of dollars a year because they have saved a good many years to provide for their expenditures.

Then you have the people who are living off the proceeds of insurance policies, people who are unemployed but who are well enough fixed so they do not worry about it, about being unemployed, and that group is totally exempt under any such income-tax scheme, whether it is levied at the source or levied in the usual way. That does not make a great deal of difference under ordinary peacetime conditions, but it makes a great deal of difference when we consider groups that receive half the national income, because we are reaching the point where the curtailment of somebody's consumption has to be very marked. Whether we do it by taxation, or whether we postpone the power to consume is much less important than the importance of spreading it so that no considerable group is exempt from it. I think the great advantage of this plan and the ordinary sales-tax plan over the plan we use today is that there is nobody of consumptive ability that is exempt from it. Maybe you do want to exempt a certain amount of consumptive ability, namely, that at the very bottom. That is where my coupon plan was intended to meet the objection to the sales tax.

Senator DANAHER. Will you suspend for just a minute?

I want to hear this. Senator Barkley is calling me. I will be right back.

Mr. HARDY. Yes.

(Short intermission.)

Senator CLARK. All right, Doctor, you may proceed.

Mr. HARDY. To close the point I was making in regard to the advantage of assessing the tax or loan, whatever you use, assessing it on the basis of consumption, I point out that there are certain people living off of capital. You also have to account for the fact that there are a good many people who, in a given year, show losses, capital losses that wipe out their tax liability and who, nevertheless, may be maintaining their ordinary standards of living out of capital. I made some study of the incomes of people who report losses, and it would appear that on the average people who have negative in-

There is one extra step that I have not mentioned in the matter of making these returns. The getting of these returns into the withholding agencies each quarter is a new step. It is similar to the Social Security return, but there is the extra amount of money in the handling and processing of those returns that is a completely new addition, but once again that, too, is more of the same rather than the new operation, because it is the same process as they now go through in getting Social Security returns in, and they would have to do just a little more than that. But nowhere in this withholding process is there anything of a new kind with which the Bureau has not had a good deal of experience.

Throughout, it is a question of doing some more of the same type of thing.

I think that is all I have to say, unless you would like me to go into the Canadian situation at any length.

Senator CLARK. Are there any questions?

Senator DANAHER. I have only one other thought on that point.

In the event of withholding from the owner of stock and no taxes due ultimately, where does he get his refund?

Mr. FRIEDMAN. You thinking of a corporation or an individual?

Senator DANAHER. I am talking about an individual.

Mr. FRIEDMAN. An individual will file an income tax return, and that income tax return will constitute an automatic claim for refund.

If he wishes to, he may attach his receipts that he got from the corporation, he might attach his receipts to his income tax form. In that case, if his refund is less than \$50, the Bureau will pay it to him immediately on the evidence of the receipt. If his return is more than \$50, the Bureau will have to wait until it has checked his receipts with the receipts of the employer, or the corporation, the duplicate copy that they have gotten, and then they will pay the refund.

But the income tax return which he files is an automatic claim for refund. He does not have to do anything else. Now, if it was an obligor corporation, if it was a corporation and, therefore, exempt, it would take the credit on its corporate income tax return. If it had a tax due it would offset the credit against the tax. There would be no problem.

If it were a deficit corporation and had no tax due, that would be a claim for refund just as in the case of the individual.

Senator DANAHER. Thank you.

Mr. PAUL. Senator Clark, you suggested earlier in the morning that you would like to hear something about the Canadian practice.

Senator CLARK. Yes; we will hear you on that briefly, Mr. Friedman.

Mr. FRIEDMAN. The Canadian tax sounds a lot different from ours, in the way it is applied now, but as it works out in the machine and pay-roll information, it is the same thing. What the Canadians do is to levy a gross tax, with two exceptions.

That is, they have, let us say, 5 percent on the total wage. The first exception is that that gross tax does not apply to anybody whose income is below the exemption limit. For a single person, as I remember it—and this figure is from my memory—it is \$660, and for a married person it is \$1,200. If a man receives less than that, if his rate of pay is less than that, they withhold nothing. If his rate of pay is more than that, they withhold 5 percent of the gross amount.