MEMORANDUM ON TAXATION, 86TH CONGRESS, FIRST SESSION
By Eugene J. McCarthy, USS

In 1947, during the 80th Congress, a special tax study committee under the chairmanship of Roswell Magill was set up by the Ways and Means Committee and its chairman, Representative Harold Knutson. The special committee reported to the Ways and Means Committee on November 4, 1947. The report recommended approximately thirty changes in the income tax laws, and about fifteen in the estate and gift tax laws. Among the principal recommendations for change in the income tax law were the following:

1. Income splitting.
2. Liberalization of taxation of family trusts.
3. Exclusion of dividends from income for purposes of individual income taxes.
5. Shifting of the burden of proof to the Government in cases charging corporations with improperly accumulating surpluses.
6. Relaxation of the tax law regarding fringe benefits, such as stock purchase plans, employee pensions, etc.
7. Change in the treatment of deductions, permitting accrual methods.
8. Accelerated depreciation.
9. Liberalization of the tax laws applicable to firms doing overseas business through branches and subsidiaries.

In the field of estate and gift taxes the committee recommended among other things, the following:

1. Extension of time for which contemplation of death will be presumed to be non-operative in transfer of property.
2. Removal of inequities between community and non-community property states in regard to estate and gift taxes.

3. Elimination of premium payment test on life insurance in determining taxable estate tax base.

4. Exclusion from the estate and gift tax of interest of employees in qualified pension plans.

Serious objection to all these 1947 recommendations was made by Matthew Woll in a minority statement. Mr. Woll charged that the recommendations of the majority of the tax study committee "would wreck the effectiveness of the surtax on individuals almost as devastatingly as any surtax scale revisions that they might have contemplated." "Their purpose," he said, "seems to be to attain by indirect and complex methods the result of income tax cutting for the favored few which they do not dare recommend by an outright reduction in surtax rates. The recommendations of the majority regarding estate and gift tax amendments appear to be just as deliberately calculated to render existing laws ineffective and to still further reduce the revenue from estate and gift tax laws by sanctioning tax evasion."

Views similar to those expressed by Mr. Woll in 1947 were stated in the minority report signed by all Democratic members of the Ways and Means Committee at the time of the passage of H. R. 8300 in March of 1954.

The minority report especially objected

1. To the exclusion of dividends from income for tax purposes. (Mr. Boggs filed separate views on this one point in which he disagreed with the position taken by the rest of the Democratic members of the Committee.)

2. To the special tax treatment proposed for "so-called charitable trusts."
3. To accelerated depreciation.

4. To elimination of premium payment test for taxation of life insurance in the estate of the insured.

5. To excessive liberalization of laws regarding "special employee benefits."

6. To provisions relating to improperly accumulated surpluses.

7. To special privileges given to corporations engaged in foreign business.

Despite these objections and protests, the fact is that most of the major recommendations of the 1947 special committee have been adopted, either in whole or in part, and are today included in the tax law of the United States. Income splitting was provided in the 1948 Act. Family trusts were given special status in the 1954 Code. Dividend exemptions were included in the 1954 Code. Capital gains treatment was extended especially in the 1954 Act. Fringe benefits, improper accumulation of surpluses, accrued deductions, rapid depreciations, and special treatment of overseas income, were all treated favorably in the 1954 Code. Estate and gift tax recommendations of the special committee were honored in the 1950 amendments to the Code, as well as in the 1954 Code change.

As a result of these changes, as Mr. Woll predicted in 1947, surtax rates have effectively been reduced to a point where economists and tax lawyers state that there is scarcely any graduation in the individual income tax rates above the level of $50,000 annual income, and that the top rate paid on income, if all income is considered, is closer to 50% than to the 90% deplored by those who advocate changes in individual income tax rates.