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Chapter 1 : New Titles List

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Interest Equalization Tax Act of 6. Brief Summary of the Provisions of H. Summary of Recommendations for Revisions. Summary of Senate Amendments to H. Recommendations for Retail Taxes Page in Repeal of all four retail taxes: Senator from the State of Indiana.. Prochnow, president g Zenith Radio Corp. Wright, president h Ralph H. Snyder, executive vice president ; Z C. Zablocki, Representative in Congress from the State of Wisconsin Repeal of certain of the retail taxes: Morgan, counsel, Toilet Goods Association. Weigel, counsel, Proprietary Association.. Bobrow, vice president and tax counsel, J. McMillian, executive vice president, American National Association of Retail Merchants - c Furs: I 1 George J. Senator from the State of Rhode Island 3. Other recommendations for retail taxes: Morgan, counsel, Toilet Goods Association 6 Amend the luggage tax to exclude carrying cases designed for nontaxable purposes but susceptible of a secondary function which is taxable: Y c Reinstate an exemption from the jewelry tax for Indian handicraft: Morris, Representative in Congress from the State of New Mexico d Exempt inexpensive costume jewelry from the retail jewelry tax: Jehle, Washington representative and associate general counsel. Page in 1 Repeal should be retroactive: Chamberlain, Representative in Congress from the State of Michigan ii Amend section a 1 floor stock refunds to provide that "new automobile" shall mean an automobile, the equitable or legal title to which has never been transferred by a manufacturer, distributor, or dealer to an ultimate purchaser for his own use and not for resale: Dingell, Representative in Congress from the State of Michigan 6 Exempt school buses used for transportation of students of an educational institution H. Beers, executive vice president. Frank Motor Homes, Inc Auto parts and accessories: Industrywide Automotive Excise Tax Committee, : Auto parts and accessories " Continued Page in 1 6 Repeal the tax on rebuilt parts: Halfpenny, attorney, Industrywide Automotive Excise Tax Committee 2 Exempt from the tax on automobile parts portable baby seats and beds: Juvenile Products Manufacturing Association 3 Exempt glass cut to size by independent glass dealers. Counihan, counsel 4 Exempt auto seat covers: Recommendations for both gasoline and lubricating oils: Lambert, American Petroleum Institute 2. Worthington, executive director, Association of Petroleum Refiners 3. In section b , the definition of gasoline, strike the parenthetical phrase " including casinghead and natural gasoline ", and in section b , include casinghead, natural, and drip gasoline under special motor fuels: Oldham, Natural Gas Processors Association 4. McDonald, president, Association of Oilwell Servicing Contractors b Limit the tax on special motor fuel to fuel for use in a highway vehicle by deleting section b and placing special motor fuel in revised section a: Repeal the tax on mechanical pencils and pens: Exempt from the tax on pens and pencils specialty advertising costs: Tilden, Match Institute, Inc 2. Interpretations should be available by the effective date of an act and the future rulings should not be retroactive: Scarff, general manager, lamp division, General Electric Co. Peter Wilhousky, director of music. Mills, Electronic Industries Association. Wasilewski, executive vice president. National Association of Broadcasters c If H. Gard, executive vice president. Miller, New York, N. Y d John J. Selent, vice president X. Miller, managing director 2. Repeal tax on self-contained air conditioners: Wallace, gas water heater division. Gas Appliance Manufacturers Association b Ranges: Burke, domestic gas range division. Exempt certain items " Continued Page in c Household-type incinerators: Dutch Leonard, c J. Hanigan, president, Brunswick Corp. Franklin, president, Hanover Sports, Inc. Goldberg, chairman, executive committee, Bowling Proprietors Association of America 6 Table tennis balls: Julius Neiman, president, Norton Manufacturing Corp. Boehm, executive director fishing tackle only c William E. MacMullan, director e Dr. Prochnow, president c Zenith Radio Corp. Wright, president d William H. American Retail Federation 3. Grant an exemption to all organizations coming under sections a and c 3: National Social Welfare Assembly, Inc - 4. Grant an exemption to nonprofit hospitals: Donald Cordes, vice chairman. Exempt sales to the Federal Government: Gar Wood Industries, Inc. Definition of manufacturing shodd he added to the law: Provide definition of

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manufacturer and importer: Spencer, Federal Excise Tax Council 8. Amend section a definition of price to eliminate certain costs from the tax base in an industry where private-brand sales are "normal channel": Redesign form to include the reporting of the total sales with detail of all exemptions, credits and allowances due; to provide fine for failure to register under section Amend section b 2 so that the constructive sales price will be based on the lowest price to wholesale distributors rather than the highest: Recommendations for Documentary Stamp Taxes 1. Reduce the rate on the stock transfer tax from 4 cents to 3 cents and the bond transfer tax from 5 cents to 4 cents: Federal taxation committee, Investment Bankers Association of America 2. Grant daylight exemption for specialists and odd lot dealers: New York Stock Exchange. Page in a Exempt sales between dealers: Investment Bankers Association of America D. Recommendations for Facilities and Services I. Y d Kahl K. Cut the tax to 10 percent: United States Lawn Tennis Association 3. Piatt, chairman of the board. The exemption from admissions and the admissions tax in a 4 should be amplified: New York Athletic Club 8. Conservation activity should not be taxed: Exemption now granted swimming and skating facilities should be extended to cover all mutually owned park and recreational facilities: Clarify section so that bowling league members would not be liable for club dues tax: Y 6 To exempt live theater: National Association of the Legitimate Theatre, Inc. Lutz, executive director c Miscellaneous:

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Chapter 2 : Congressman Erik Paulsen : Press Releases

*This item: Hon. Thomas G. Shearman before Ways and Means Subcommittee on Internal Revenue Set up a giveaway
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In *Confessions of Guilt*, esteemed scholars George C. Leo tell the story of how, over the centuries, the law of interrogation has moved from indifference about extreme force to concern over the slightest pressure, and back again. The history of interrogation in the Anglo-American world, they reveal, has been a swinging pendulum rather than a gradual continuum of violence. Exploring a realist explanation of this pattern, Thomas and Leo demonstrate that the law of interrogation and the process of its enforcement are both inherently unstable and highly dependent on the perceived levels of threat felt by a society. Laws react to fear, they argue, and none more so than those that govern the treatment of suspected criminals. *At Liberty to Die* charts how the right of a competent, terminally ill person to die on his or her own terms with the help of a doctor has come deeply embroiled in debates about the relationship between religion, civil liberties, politics, and law in American life. Exploring both the legal rulings and the media frenzies that accompanied the Terry Sciavo case and others like it, Howard Ball contends that despite raging battles in all the states where right to die legislation has been proposed, the opposition to the right to die is intractable in its stance. Combining constitutional analysis, legal history, and current events, Ball surveys the constitutional arguments that have driven the right to die debate. American Bar Association, *Laughing at the gods*: Cambridge University Press, H88 Justin Crowe. Princeton University Press, *The American legal system for foreign lawyers*. R Kevin J. National human rights institutions: N Dan Simon. Harvard University Press, New York University Press, G59 *Death Penalty* Jamie L. Racial disparities in capital sentencing: Oxford University Press, John Cabot University Press, *The principles and practice of international commercial arbitration*. M65 *International Law Definitions for the law of the sea*: Martinus Nijhoff Publishers, Wolf Legal Publishers, U56 Andres Rigo Sureda. R54 Sonia E. *Development at the World Trade Organization*. R65 *Law and Economics* Robert D. *Electronic discovery for small cases*: E a *Universal service*: E *How do we fix our ailing food safety system?*: E a *Identity theft and tax fraud*: O e *Enhanced consumer financial protection after the financial crisis*: B39 m *Oversight of Dodd-Frank implementation*: B39 n *Blue Ribbon Commission report*: E55 *Examining the case for the California waiver*: B39 o *ESEA reauthorization*: F *Derivatives clearinghouses*: B b *ESEA reauthorization*: L27 g *Promoting global Internet freedom*: F s *Southern Kordofan*: F u *Stimulating the economy through trade*: E b *The semiannual monetary policy report to Congress*: B39 b *Nominations of Hon. Acton and Robert G. Taub to be commissioners, Postal Regulatory Commission, July 28*, H63 n *Federal Election Commission*: H b *Child deaths due to maltreatment*: W b *Medicare trustee report*:

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Chapter 3 : United States House Committee on Ways and Means | Revolvly

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Statement of the Hon. On a personal note, let me also thank you for your continued leadership and guidance. Chairman, I am pleased to report that we are gradually improving our performance across the board. As demonstrated by the filing season results, we are seeing further improvements in key areas, such as e-filing growth and telephone service. It is important to note that our most important judge of the IRS, the American public, has begun to respond to our efforts. As illustrated in the attached chart, two respected surveys show a strong turnaround in IRS public approval. The Roper Starch Surveys found our rating increased each of the past three years after an all time low in . It is not acceptable for the government agency that affects more Americans than any other to also be the lowest rated. Changing this was a mandate incorporated in the RRA 98, and we are beginning, and I stress beginning, to deliver on it. While the trend is positive, much more remains to be done. Chairman, the tax filing season has been smooth, with returns being processed on time, electronic filing increasing substantially and improved accessibility and accuracy of telephone service. It continues to demonstrate how we can build on positive trends in service to taxpayers, especially as our major technology and organizational initiatives take effect. We have encountered some confusion and a significant number of errors concerning the rate reduction credit, but we have been able to keep up with these and get taxpayers their refunds on time. Chairman, so far, we discovered 3. We are checking all returns to see that the Rate Reduction Credit line is handled properly and will notify taxpayers of any changes we make. We are also rejecting e-file returns that show the Advance Payment amount on this line, or that show a dependent claiming this credit, so that the taxpayer or return preparer may quickly fix the problem and transmit a corrected return. Although it is not directly related to the filing season, let me also note that we corrected a problem for taxpayers trying to obtain an Employer Identification Number EIN through our new toll-free service. This was a start-up glitch that was quickly resolved and we are now enjoying an 85 percent level of service success rate of taxpayers seeking assistance for toll-free EIN service. Since , e-filing increased by percent, and on-line filing grew by a staggering 1, percent. Clearly, the value taxpayers receive from all our e-programs is one reason behind the growth. Faster refunds, positive acknowledgement of receipt and fewer errors that require time consuming letters and telephone calls to correct are key benefits to taxpayers. The filing season statistics underscore that an increasing number of taxpayers are taking advantage of filing their returns, receiving their refunds or paying their taxes electronically. Through April 4, , almost 39 million individual taxpayers filed using one of the three e-file options; a Let me point out that the number of taxpayers e-filing from their home computers is up a very impressive 39 percent over last year. For the fiscal year, we set an aggressive goal of receiving 46 million returns electronically a 15 percent increase over last year, and I am pleased to say that we are on track to meet or exceed this goal. The following are some of the key filing season e-file statistics through April 4, except where noted. OnLine filing is running 40 percent ahead of last year and as of April 4, is already well over the total volume of 6. Overall, as of April 4, over 16 million taxpayers have chosen to file both their federal and state tax returns simultaneously in a single electronic transmission, up This year, 37 states and the District of Columbia are participating in the program. New for Individuals for the Filing Season In order to improve our ETA program and ease taxpayer burden, the IRS created a series of enhancements for the filing season and the remainder of the fiscal year. Adding 29 forms and schedules to allow for even greater taxpayer participation in the IRS e-file program. This meant we opened up e-file eligibility to over 99 percent of all taxpayers, potentially adding 38 million new e-filers. Continuing the Self-Select Personal Identification Number PIN Program that in enabled approximately nine million taxpayers to file paperless returns without having to submit paper signature jurats. Continuing the Extension of Time to File by Phone. Anyone who filed

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a tax return last year can request over the telephone as automatic extension of time to August 15, to file his or her tax returns. Individual Income Tax return, has details on required information and explains how to pay a balance by telephone. Continuing the Debt Indicator Program and providing the Debt Indicator on every acknowledgment report. This information will be provided for every electronically-filed return for customer service purposes or for approval of financial products. Expanding the electronic payment options available to taxpayers by accepting credit cards for payment of installment agreements and delinquent taxes. Releasing the initial series of Web-based services for practitioners including registration and application capabilities, requesting and receiving taxpayer transcripts on-line, submitting disclosure authorization requests electronically, verifying Taxpayer Identification Numbers, and getting personal assistance to resolve taxpayer problems. In addition to their annual income tax returns, businesses also have to file various employment tax returns and information returns. Businesses also make a lot of payments to the federal government, such as withholding and unemployment taxes. That is an enormous amount of paper and it does not include the millions of checks that accompany them. We want to eliminate this blizzard of paper and convert all of these transactions to fast, accurate, paper free electronic methods. In , the IRS continues to make progress serving the electronic tax administration needs of this important sector. Chairman, to promote business e-filing, we have placed advertisements in publications, including Fortune Magazine. Businesses can now file electronically both their and employment tax returns. Some businesses may even qualify to file using a telephone. We have also opened the door for a number of other key forms to be filed electronically, such as Form to report other income. We are particularly pleased that we can now offer electronic filing of Form , to report partnership income, and the K-1s that accompany them. We are also hard at work designing Form , Corporate Tax Return e-file program. Implementation is slated for a year from now. I mentioned that payments from businesses, especially payroll deposits and quarterly returns are the most common transactions businesses have with the IRS. It provides a convenient and secure method for paying all federal taxes through a secure web site. Let me stress that confidentiality and privacy of taxpayer information are our highest priorities. Spurring Further e-file Growth Mr. Of particular concern to both the GAO and IRS is why approximately 40 million individual income tax returns were prepared on computer but filed on paper in The IRS and the Administration are taking and proposing actions to address the problem. This year, we focused our e-file marketing campaign on taxpayers who prepare their returns by computer but file on paper, and taxpayers who use the services of tax professionals but file on paper. We also agree with GAO on the need to further survey these filers to determine why they did not file electronically and how we can overcome these barriers. In addition, the President proposed in his FY budget that the due date for returns filed and paid electronically be extended. In the end, this effort should come up with a better way to save time and money for both taxpayers and the government. In , it posted 2. For fiscal year through March 31, there were 1. I should note that in January, the IRS introduced a newly designed web site, aimed at making it easier for taxpayers to find the information they want on the web. Following our overall strategy of making the IRS customer-focused, the home page immediately provides taxpayers a way to find information based simply on whether you are an individual or business taxpayer. It is dedicated to the needs of this important taxpayer group who often confront more complex tax issues than those who have their taxes withheld by an employer. Our ultimate goal is to transform our web site from an information-only portal to a world-class transaction based gateway. However, some things have not changed. Anyone with Internet access can receive: Chairman, let me point to another benefit of our web site. It is an excellent tool for alerting taxpayers and the media to various fraudulent schemes, including the slavery reparations scam, being perpetrated upon them by unscrupulous promoters. It also lists the number for taxpayers to report suspected tax fraud activity. Beginning October 7, , IRS assistors are available 7 a. Monday through Friday local time. During the filing season January 2 through April 15, , assistor services are available on Saturdays from 9 a. IRS automated assistance systems continue to be available 24 hours a day, 7 days a week. Primarily because of increased calls concerning refunds and the rate reduction credit, the total volume of incoming calls on our toll-free lines for

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the fiscal year through March 30 has been up 13 percent over last year, totaling 77 million. Despite this substantial increase in the volume of calls, for the first half of the year through March 30, approximately 66 percent of taxpayers who wanted to talk to a customer service representative got through, compared to 68 percent last year. In the last four weeks, service improved further, with 74 percent of taxpayers getting through to customer service representatives. We have set a goal for the whole year of 71 percent. Of great interest to taxpayers, the average wait time for questions on tax law was 2.5 minutes. Wait time for calls on account questions was 4.5 minutes. Once connected, taxpayers must get prompt, accurate and courteous answers to their account and tax questions. Here too we have made substantial progress towards providing better service to taxpayers. The telephone correct response rates for tax law and tax account questions showed a marked improvement in FY 2002. They were up to 83 percent and 89 percent respectively as compared to 75 percent and 88 percent over the same period last year. Let me note too, that by September 24, 2001, we established a special telephone line for victims of the terrorist attacks and since then, we have provided over 90 percent level of service on this line. Chairman, to increase productivity and quality of service, we must give our employees the technology and tools they need to do their jobs at a high level. The first of the BSM projects, Customer Communications , was deployed in July 2001, which allows us to route calls more precisely to assistors with the necessary expertise. We must also give our assistors specialized knowledge so they can better answer taxpayer questions about a very complex, difficult and changing Tax Code. Our new technology will allow us to route calls more precisely to assistors with the necessary expertise. Practitioner Priority Service This new nationwide toll-free, accounts-related service for all tax practitioners is being rolled out in three phases at day intervals; the first was launched on January 2, 2002. Expected benefits for practitioners include improvements in overall consistency and quality of service; improved accessibility into the system and reduced wait times; and dealing with the employees who are specially trained to handle practitioner issues. Taxpayers can request up to three items per-call. The only cost to the taxpayer is the cost of the call. As of March 30, 2002, over 1.5 million calls have been made. As of March 30, 2002, the number stands at over 1.5 million. Filing Burden Reduction In addition to our many popular electronic programs, such as e-file, the IRS is also making other efforts to reduce the time and effort it takes taxpayers to file and pay their taxes.

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Chapter 4 : Tax History Project -- Full text -- Ways and Means Committee Report on Tax Avoidance

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Section 22 b 2 of the Revenue Act of provides for taxing annuities, but not until the total amounts received exceed the total amount paid for the annuity. Your subcommittee is of the opinion that the tax on annuity receipts to the extent that they represent income should not be postponed as permitted by present law. Such receipts are, as a matter of fact, part interest and part return of capital. Therefore, it is recommended that some amount representing the portion of the annuity receipts consisting of interest be made subject to the income tax. In order to facilitate administration, it is recommended that an arbitrary rule be adopted that 3 percent of the amount paid for the annuity shall be deemed to be interest. This rule is applied only to annuity contracts. It appears that under the present wording of the law deposits in banks are not treated as indebtedness incurred to purchase such securities. Therefore, a taxpayer carrying on the banking business may deduct all the interest paid on deposits even though such deposits are invested in tax-exempt securities. Your subcommittee believes that interest paid on deposits invested in tax-exempt securities should be disallowed as a deduction for income-tax purposes. A change in the wording of this section is, therefore, recommended to accomplish this result. These taxes constitute expenses or charges which are not incurred in the production of income, and liability for them attaches regardless of whether there is any income. They are, in fact, mere charges imposed upon the transfer of capital. Your subcommittee, therefore, recommends that such deductions be disallowed for income-tax purposes. Section 23 of existing law does not limit the deduction of losses from gambling transactions where such transactions are legal. Under the interpretation of the courts, illegal gambling losses can only be taken to the extent of the gains on such transactions. Your subcommittee recommends a similar limitation on losses from legalized gambling. Under the present practice, many taxpayers take deductions for gambling losses but fail to report gambling gains. This limitation will force taxpayers to report their gambling gains if they desire to deduct their gambling losses. Your subcommittee recommends that this provision be eliminated as surplusage. Your subcommittee is of the opinion that all dividends received from foreign corporations should be treated alike, regardless of whether such foreign corporation has income from sources within the United States. Accordingly, it is recommended that section 23 p 2 and section 25 a 2 be eliminated. The effect of this recommendation will be a to deny a deduction to a domestic corporation for all dividends received from foreign corporations, and b to deny to any individual receiving such dividends the exemption from normal tax. For instance, interest on State securities, salaries received by State employees, and income from leases of State school lands are exempt from the Federal income tax. It is obviously improper to allow any deduction for expenses incurred in the production or acquirement of such income. Accordingly, your subcommittee recommends that a provision be inserted in the law specifically denying deductions allocable to such classes of income. The term "family" is defined to include brothers and sisters, spouse, ancestors, and lineal descendants. Many instances have been brought to light where transactions have taken place for the sole purpose of taking a loss for income-tax purposes. It is believed that the recommendation of the subcommittee, if followed, will effectually close this opportunity for tax avoidance. Your subcommittee recommends adding to the first of these sections a provision requiring the income-tax return of a decedent to include amounts of income accrued up to the date of his death, regardless of the fact that he may have kept his books on the cash basis. In the case of the second of these sections, a provision should be added allowing deductions to be likewise accrued. Since the courts have held that income accrued by a decedent prior to his death is not income to the estate, it follows that unless such income is taxable to the decedent it will escape income tax altogether. For the same reason, unless expenses which accrued prior to death are allowed to the decedent, they cannot be used. The recommendation made by the subcommittee remedies these defects. The limit under

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former acts was 25 percent. Your subcommittee recommends that the percentage be changed to 30 percent, for it is believed that the present high limit results in an unreasonable postponement of tax in cases where such tax can well be paid. Section 45 of existing law gives authority to the Commissioner to allocate items of income or deductions between trades or businesses which are owned or controlled by the same interests, when necessary to prevent evasion of taxes. Your subcommittee recommends two minor changes in this section: These changes give the Commissioner somewhat greater latitude in applying this section. This section is cumbersome in language and has been rewritten for the purpose of uniformity and simplification. As rewritten, it corresponds to the more concise language used, in connection with requiring receipts for gift and estate-tax payments. This provision was inserted in the law apparently as a subsidy to encourage the development of new mines and oil wells. In the present state of overproduction there is no need to continue this subsidy, and your subcommittee recommends the elimination of the entire section. This section has been utilized to transfer losses from one person who has little income to another person with a large income. If he sells the property himself, the loss on the sale will not do him any good, due to the fact that he has no income against which to offset it. To prevent this, your subcommittee recommends that the donee be required to use as his basis for determining loss the cost to the donor or the market value of the property at the time of the gift, whichever is lower. The income tax law lays down a special rule for determining the basis for computing gain or loss upon the sale of such property. Your subcommittee sees no reason for adopting a special rule for this type of property. If such property passes under a general power of appointment exercised by will, its basis for gain or loss should be the same as that prescribed in the case of other property passing by bequest, devise, or inheritance. On the other hand, if the property passes under a power of appointment executed by deed without consideration and in contemplation of death, it represents a gift and should be subject to the same basis rule which applies to other gifts in contemplation of death. It is believed that an amendment to existing law should be made to accomplish this result. EN In all other cases, if the property was acquired by will or intestacy, the basis is the fair market value of the property at the time of distribution to the taxpayer. Included within the phrase "all other cases" is personal property acquired by general or residuary bequest. Thus, where a trustee acquires personal property by general bequest, the basis of the property, on a sale by him, is the value at the time of distribution to him. Oftentimes, the executor and trustee under a will are one and the same person. Thus, in the case of a general bequest of personal property, he is in a position to make use of one-basis of valuation or the other according to which will most benefit the estate. The trustee, of course, may use a later basis than the executor, and where it is desired to sell personal property subject to a trust during the period of administration, the executor-trustee may determine whether it would be most advantageous to sell as executor or as trustee. Where the personal property has increased in value in the hands of the executor, under a general bequest, the property may be distributed to the trustee, who may use the higher basis in computing gain or loss on the sale, thereby diminishing the taxable increment and greatly reducing or entirely avoiding the income tax. Section a 5 of the Revenue Act of is a reenactment of a similar provision contained in the act. The change in the act was made because there was some doubt as to the meaning of the term "date of acquisition," which was the term used under the Revenue Act of Since the act was passed, the Supreme Court has defined "the date of acquisition" to mean the date of death in the case of all property passing by bequest, devise, and inheritance, whether real or personal. Your subcommittee recommends that section a 5 of the Revenue Act of be changed to conform to the language contained in the Revenue Act of , so that a uniform basis rule may be required in the case of property passing at death, whether real or personal. This rule when applied to losses in some instances grants the taxpayer a loss when no loss has been actually sustained. Section c of the Revenue Act of treats a liquidating dividend as a sale of stock. This rule has serious objections, as it permits wealthy stockholders to escape surtax upon corporate earnings or profits distributed in the form of liquidating dividends. If the surplus is distributed as an ordinary dividend, it is subject to the surtax rates in the hands of the shareholder. In addition to permitting the wealthy shareholder to escape surtax, the present rule also discriminates against the small shareholder. If the corporation makes a distribution of surplus as an ordinary

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dividend, it is exempt from the normal tax. Accordingly, a small shareholder, not being in the surtax brackets, is materially affected by the form of the distribution. If the distribution is made in the form of a liquidating dividend, the exemption from normal tax does not apply. This does not seem fair when it is considered that liquidating dividends may represent earnings or profits which if distributed as an ordinary dividend would be exempt from normal tax. The present law thus makes the tax depend upon the form of the distribution. Your subcommittee recognizes that liquidating dividends do contain some of the elements of a sale in that the stockholder is relinquishing in whole or in part his investment in the corporation. On the other hand they also contain some of the elements of an ordinary dividend insofar as they represent a distribution of earnings or profits. Your subcommittee is of the opinion that the fairest method of treating liquidating dividends is to combine both the sale feature and the dividend feature. It is accordingly recommended that a liquidating dividend be treated as a sale of the stock, with the provision that the amount of gain to a shareholder shall be taxed as an ordinary dividend to the extent that it represents a distribution of earnings or profits, and as a gain from sale of property to the extent that it does not represent such a distribution. This will prevent the large shareholder from escaping the surtax on the earnings of the corporation and will also relieve the small shareholder from payment of the normal tax on liquidating distributions out of earnings or profits. The Board of Tax Appeals has construed the present law to exempt nonresident aliens and foreign corporations from Federal income tax on any interest paid by the United States, the territories, or the District of Columbia, on their obligations, tax refunds, or judgments. Obviously, Congress did not intend to make such income exempt from the Federal income tax. Accordingly, section a 1 has been amended to make it clear that such interest is taxable. Section 23 n imposes a percent limitation on charitable contributions in the general case in respect to the amount allowable in respect to net income. Your subcommittee is of the opinion that section should be eliminated. The tax is not required to be withheld at the source where the obligee files with the obligor a statement that he is not taxable under the income tax on account of his income being less than the amount of his personal exemption. The bondholder is entitled to a credit against his tax where there has been withheld a tax at the source on his account. Your subcommittee recommends that this system of withholding a tax on tax-free covenant bonds be entirely discontinued. The system originated in the act, where general withholding was employed to collect a large portion of the tax. The withholding policy has now been abandoned and the withholding on tax-free covenant bonds is an exception to the general rule. It is an administrative nuisance and requires the payment of many small refunds. Simplification and reduction in administrative expense can be secured by the elimination of this section. No loss in revenue will result from the change. Sections and of the Revenue Act of authorize the Commissioner to require returns or statements from corporations in respect to the dividends paid shareholders, and from brokers in respect to business transacted with customers. It is hoped that these information returns and statements will enable the Commissioner to prevent more effectively tax evasion. It has been brought to the attention of your subcommittee that if a widow receives an annual income from a trust in lieu of dower, the trust may deduct the payments to her from its net income and the widow will pay no income tax on the payments received. A similar situation has arisen in the case of annuities established by will. If the trustee is required to pay to the beneficiary a fixed sum each year, regardless of whether the trust has any income, all of the amounts received by the beneficiary are exempt from income tax, although in some years they are actually paid out of income. Your subcommittee recommends curing these defects in a reasonable manner by providing that the income of the estate or trust may be reduced by income paid to the beneficiaries only if such amounts are includable in the income of such beneficiaries. Insurance companies are on the cash receipts and disbursements basis and the Supreme Court has held that in such cases the word "accrued" means paid. Your subcommittee, therefore, recommends for the purpose of clarification that the words "or accrued" be eliminated from this section. The change will have no effect on the application of the deduction. A considerable number of such deficiency notices are mailed to prevent the running of the statute of limitation and are based on incomplete information.

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Chapter 5 : Committee on Ways and Means, Subcommittee on Oversight, Testimony

The subcommittee on internal revenue of the Committee on Ways and Means met at 2 p.m. Hon. Benton McMillin in the chair, for the purpose of hearing Mr. Thomas G. Shearman on the subject of raising revenue by an income tax.