

INCOME TAX.

LETTER

FROM THE

COMMISSIONER OF INTERNAL REVENUE,

ADDRESSED TO

HON. SAMUEL HOOPER, CHAIRMAN COMMITTEE OF WAYS AND MEANS,

Relative to the Income Tax.

JANUARY 26, 1871.—Referred to the Committee of Ways and Means and ordered to be printed.

TREASURY DEPARTMENT,
OFFICE OF INTERNAL REVENUE,
January 20, 1871.

SIR: In view of the very general discussion by the public at large of the income tax, and of the introduction in Congress of several measures looking to its repeal, and presuming that the formal consideration of the subject may shortly arise in your honorable committee, I deem it not improper briefly to express to the committee, through you, the conclusions which I have myself reached.

I regard the tax as the one of all others most obnoxious to the genius of our people, being inquisitorial in its nature, and dragging into public view an exposition of the most private pecuniary affairs of the citizen.

Such an unwilling exposition can only be compulsorily effected through a maintenance of the most expensive machinery; and both the nature of the tax and the means necessarily employed for its enforcement appear to be regarded by the better class of citizens with more and more disfavor from year to year.

It is furthermore most difficult of exact statement, especially in large business ramifications and where long periods of time are involved in extended commercial affairs.

There is some question as to its constitutionality, but as to that I express no opinion.

The amount derived from that source has, under the legislation already had, been greatly diminished; and I am so well satisfied that the evils more than counterbalance the benefits derived from its longer retention, that I recommend its unconditional repeal.

I have the honor to be, very respectfully, your obedient servant.

A. PLEASANTON,
Commissioner.

HON. SAMUEL HOOPER,
Chairman Committee of Ways and Means.

TREASURY DEPARTMENT,
OFFICE OF INTERNAL REVENUE,
Washington, January 25, 1871.

SIR: I have the honor to transmit herewith an approximate estimate of the annual receipts from income under act of July 14, 1870, based on the average returns of the last four years.

The number of persons assessed for income in each of the classes below named, as returned to this office by the assessors of the several collection districts, from 1867 to 1870, inclusive, is as follows:

Classes.	Number of persons assessed in—				Average number assessed.
	1867.	1868.	1869.	1870.	
1. Tax \$20 or less	101,219	100,558	107,097	112,424	105,550
2. Tax over \$20 and not over \$50	68,680	55,949	69,184	68,501	65,578
3. Tax over \$50 and not over \$100	40,899	38,957	41,100	40,584	40,409
4. Tax over \$100 and not over \$500	46,055	51,188	45,052	44,406	46,685
5. Tax over \$500	9,282	7,965	9,464	9,243	8,938
Total	266,135	254,617	272,843	*275,248	267,210

* Exclusive of the returns of the 11th district, New York, not yet received.

These returns are made under act of March 2, 1867, which provides that the amount of exemption shall be \$1,000.

The first two classes are entirely relieved from tax under act of July 14, 1870, by the raising of the exemption from \$1,000 to \$2,000. If we suppose the average tax of the first class to be fifteen dollars, and of the second class forty dollars per head, we have:

105,550 at \$15	\$1,583,250
65,578 at \$40	2,623,120
Total	<u>4,206,370</u>

—the aggregate tax lost in the first and second classes.

Each person in the three remaining classes will pay \$50 less per annum under \$2,000 exemption than under \$1,000 exemption. Then \$4,804,100 ($96,082 \times \$50 = \$4,804,100$) lost in the third, fourth, and fifth classes, added to \$4,206,370, gives \$9,010,470—the aggregate tax lost on incomes from individuals, (salary tax excepted,) by the change in the amount of exemption.

The aggregate income tax collected from individuals was:

In 1867, on the incomes of 1866	\$27,418,000
In 1868, on the incomes of 1867	23,390,000
In 1869, on the incomes of 1868	27,353,000
In 1870, on the incomes of 1869	26,150,000
Average	<u>26,077,750</u>

The tax collected on salaries was:

In 1867	\$1,029,992
In 1868	1,043,561
In 1869	501,963
In 1870	1,109,526
Average	<u>936,260</u>

This amount is thirty-five per cent. of \$26,077,750. Assuming that the loss on salaries of United States officers and employes is proportionate to that on incomes from other individuals, \$327,691 are lost from this source, ($\$936,260 \times .35 = \$327,691$.) This sum, added to \$9,010,470, gives \$9,338,161, the total loss on incomes from individuals by the raising of the exemption from \$1,000 to \$2,000. Deducting this amount from \$26,077,750, the average of the aggregate tax collected, we have \$16,739,589, and after reducing this one-half for the change in the rate of tax, there remains \$8,369,794 as the aggregate tax from individuals under act of July 14, 1870.

The aggregate five per cent. tax returned on the dividends and additions, to surplus funds of banks, railroad companies, &c., enumerated in section 120 and 122, act of June 30, 1864, was-

For 1867.....	\$7, 943, 797
For 1868.....	8, 384, 426
For 1869.....	9, 204, 824
For 1870.....	9, 551, 301
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Average.....	8, 771, 087
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One-half this sum, or \$4,385,543, would then be the aggregate tax from this source. This, added to \$8,369,794, gives, in round numbers, \$12,755,000 as the approximate receipts from incomes under act of July 14, 1870, based on the average returns of the last four years.

I am, however, of the opinion that, in consequence of the general prostration of business, the gradual appreciation of our paper currency, and other causes unnecessary to mention, the actual receipts for the coming year, if the tax is not repealed, will fall considerably short of the above estimate.

I would, therefore, for reasons stated at length in my letter of the 20th instant, again recommend the entire abolition of the income tax.

Very respectfully,

A. PLEASANTON,
Commissioner.

Hon. SAMUEL HOOPER,
Chairman Committee of Ways and Means.