

EXCESS PROFITS TAXATION

A COMPILATION OF

MATERIALS ON EXCESS PROFITS TAXATION

AND

A BIBLIOGRAPHY ON WAR PROFITS AND EXCESS PROFITS TAXES

TAX FOUNDATION, INC.

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FOREWORD

This compilation and bibliography are presented in the hope that they will contribute to a fuller understanding of a difficult and at times controversial subject. In selecting the materials included an effort was made to obtain a cross section of opinions and points of view. Attention is directed to the bibliography of periodical and special materials on war profits and excess profits taxation issued from 1916 to 1940. In the light of recent events, the body of literature developed as a result of our experience with those forms of taxation during and immediately after the War of 1914-1918 has assumed a new significance.

August 15, 1940

TAX FOUNDATION

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CURRENT PROPOSALS

As recently as June, it appeared that an excess profits tax bill might not be introduced before the opening of the next session of the Congress. On July 1, 1940, however, the President sent a message to the Congress requesting immediate preparation and enactment of a "steeply graduated excess profits tax." Members of the Ways and Means Committee and the staff of the Joint Committee on Internal Revenue Taxation, together with Treasury experts, began work on various phases of excess profits taxation soon thereafter, with a view to submitting a bill to the Congress at an early date.

The efforts of a special subcommittee of the Ways and Means Committee culminated in an announcement on August 6, that two plans for computing credits against net profits in determining the base for the excess profits tax had been agreed upon. The first credit consists of average earnings during the years 1936, 1937, 1938 and 1939 plus the fixed sum of \$5,000. It is provided that if the corporation acquires new capital in any taxable year, its credit can be increased by 8% of the new capital. If there is a reduction in capital in any year, the credit would be reduced by 6% of the amount of the reduction.

The second method provides a maximum excess profits credit of 10% on the invested capital and a minimum credit of not less than 6% on the first \$500,000 of invested capital, plus 4% on the remainder of the invested capital. Between those maximum and minimum limits, a corporation would be given a credit equal to its average rate of return during the 1936-1939 base period.

The rates for the excess profits tax are uniform, regardless of the credit selected in determining the tax base. The rates are as follows:

1. Net income not in excess of 10% of the excess profits tax.....25%
2. Net income in excess of 10% of the credit but not in excess of 20%....30%
3. Net income in excess of 20% of the credit.....40%

The choice of method of payment is limited to corporations with experience during each of the four years in the base period. A corporation which was in operation during only one, two or three years would have to pay on the relationship between earnings and invested capital. In determining the average earnings for the base period, deficit years cannot be excluded.

New corporations would be taxed on the basis of invested capital and would be allowed a credit amounting to a return of 10% on the first \$500,000 of invested capital and a return of 8% on the remainder of the invested capital.

Hearings on the proposed tax measure before the full Ways and Means Committee and the Senate Finance Committee began on August 9. It was announced on August 10 that it was hoped to have the legislation on the President's desk by August 17.

SOME ASPECTS OF THE PROFIT-TAX BILL¹

The proposed bill is a drastic tax measure; it is capable of a stifling effect upon industries not sustained by the national defense program. It is not a tax upon the "excess" of the rate of profits for the taxable year over the average rate for the basic period (1936-39), because the credit allowed under the alternative plan is limited to a maximum rate of 10 per cent of the invested capital; nor is it a tax upon the excess of income over a "normal" rate of profit on invested capital - unless 4 per cent has come to be regarded as a fair return on investments in capital stock of business corporations.

A limitation of 10 per cent upon "invested capital" - as this term has been heretofore employed for excess-profits tax purposes - disregards unrecorded capitalized good-will of established corporations. Inasmuch as only tangible assets, for tax purposes, receive full credit as invested capital, good-will, which has been built up through consistent earnings, and is reflected in the investment values of a corporation's securities, is left out of consideration. Therefore, unless credit is allowed for the actual rate of earnings of the basic period, the investment value of such good-will may be partly or wholly destroyed.

It is proposed that corporations in existence during the basic years, which either sustained losses or whose earnings were low, shall receive a credit of 6 per cent on the first \$500,000 of invested capital and 4 per cent on the remainder of invested capital. It is proposed that a newly formed corporation, however, will receive a credit of 10 per cent on the first \$500,000 of invested capital and 8 per cent on the remainder.

On the basis of these limitations an established corporation which has struggled through a depressed basic period without net earnings or with nominal earnings, as compared with a newly formed corporation with like capitalization and earnings for the taxable year, would be subjected, in the highest bracket of the tax, to a greater tax on its income by \$16,000 on each \$40,000 of net income and \$1,000,000 of invested capital.

Such a discrimination between corporations otherwise similarly situated would seriously affect the ability of the established corporation to compete with the newly formed corporation.

1. From Godfrey N. Nelson, "Drastic Aspects of Profit-Tax Bill," The New York Times, August 11, 1940.

THE EXCESS-PROFITS TAX¹

At first glance it might appear that the proposed tax scheme was less drastic than that adopted during the World War. It obviously exempts a larger number of small corporations; it is more liberal, in that it gives the taxpayer the choice between the two alternative formulas, and the range of assessments is considerably lower. On the other hand, whereas the World War mechanism recognized 8 per cent as a "normal" rate of return, the proposed law, it will be noted, is based on a 6 per cent rate, this to be reduced to 4 per cent in the case of investments beyond \$500,000. But the most important difference, perhaps, is not to be found in the rates of the excess-profits tax itself. It is to be found in the fact that whereas the normal corporation tax at the outbreak of the World War was only 1 per cent, the new taxes would be superimposed upon corporate income taxes today, which already average close to 21 per cent.

1. From an editorial in the New York Herald Tribune, August 8, 1940.

TAXATION AND NATIONAL DEFENSE¹

On the other hand, if taxes are advanced too rapidly or at the wrong points there is grave danger that not only will the expansion of the defense industries be impeded but - because of the check upon investment and consumption generally - production, employment and the national income may be frozen at the existing sub-normal levels. In such case all that will have been accomplished will be a shifting of production from peacetime to defense industries and a corresponding reduction in the standard of living.

Only within the past two months we have increased taxes to the extent of approximately a billion dollars a year, and it is conceded that additional taxation may be needed before we are through. But before subjecting industry and the people to new taxes at the risk of impairing efficiency and drying up the sources of capital, we ought to weigh carefully the possibilities that exist not only for increasing tax yields through an expansion of the national income, but also for effecting economies outside of the arms budget. For the past seven years the Federal Government has been spending billions of dollars for pump-priming and relief, justified on the ground that there were not jobs enough to go around and that but for these expenditures millions of people would starve. With so much work now urgently needing to be done for the defense program, it ought to be possible, as the program proceeds, to dispense with most of this "made" work, thus relieving the budget and making available additional funds for arms spending. But here again it is a question of the general policies pursued towards industry. If these are of a kind to encourage and stimulate industry it should be possible to make this shift. Otherwise we are likely to find ourselves saddled with a huge defense cost and a big relief bill besides.

The problem, in other words, is a broad one of making the economy strong as a whole, and of seeking the highest possible productivity of men and machines. Thus the total fund of wealth and income would be increased, and the proportionate burden of defense costs thereby diminished.

1. From The National City Bank Letter, The National City Bank, New York, N. Y., August, 1940, p.95.

HOLDING UP DEFENSE¹

It is an open secret that Army and Navy contracts are being held up by the unwillingness of manufacturers to make large capital outlays for new plants and special equipment required to execute national defense orders. The chief reason for their reluctance and the most formidable obstacle to progress at the moment is the failure of the Government to give satisfactory assurance that the cost of such outlays can be fully recovered by the time the emergency is over and the defense equipment is no longer needed.

Industrial concerns cannot afford to make extensive capital expenditures for defense purposes unless the Government makes adequate allowance for the amortization of such investment. In other words, the cost of special defense facilities must be deducted from profits subject to the income tax and prospective excess-profits taxes. The Administration has signified its willingness to be liberal in respect to amortization allowances. But too much is at stake for industry to risk relying upon promises alone. What is required is an immediate amendment of the tax laws liberalizing depreciation allowances as urged by the National Association of Manufacturers.

The N. A. M. does not oppose enactment of an excess-profits tax, realizing that the present emergency makes it necessary for the Government to raise more revenue. But it does object to the Administration's plan for deferring action on the amortization proposals until Congress is ready to vote on an excess-profits tax measure. Prompt action is required, as the N. A. M. states, to "remove a serious bottleneck now holding back progress in the defense program."

If Congress should follow the recommended order of procedure, it would not only act as a spur to the lagging defense industries; it would also give Congress more time to study the problems connected with the taxation of excess profits. As a result, there would be less danger of hasty enactment of an unsatisfactory type of excess-profits levy that would impose additional handicaps upon the successful carrying through of the defense program.

1. Editorial, Washington Post, August 6, 1940.

EXCESS-PROFIT TAX HINGES ON BUSINESS¹

Congressional contemporaneous reports upon the World War and post-war excess-profits taxes furnish the most reliable information obtainable on our experience with these taxes. In any application to present industrial conditions of the lessons learned from that experience, however, we must recognize the contrast between the industrial situations then and now existing.

In 1917 industrial prosperity prevailed throughout the country; both labor and capital were profitably employed; capital was plentiful and it flowed freely and without undue restraint or timidity; mutual respect between industry and the government inspired a mutual confidence. Business generally had attained such a velocity that almost any tax, however severe, could only have slackened the pace.

The business situation today is quite different. Not all industries are operating profitably and few at capacity; unemployment is still very large. While capital is plentiful, it is hesitant about assuming business risks; it prefers a nominal return from tax free securities to a better but uncertain return from taxable securities. For obvious reasons incentive to invest capital in productive enterprise has lacked enthusiasm. Conservation rather than expansion of capital has prevailed among investors.

Present business conditions do not appear to warrant the set-back which general business would be subjected if the excess profits tax were adopted. As early as December 6, 1918, less than a month after the Armistice, the Finance Committee of the Senate said of the excess profits tax: "Repressive taxes which in time of war are justified for the very reason that they diminish the demand for labor, capital and raw material, are for the very same reason obnoxious and undesirable in times of peace."

Thus it was recognized that the war-time excess profits tax was enacted with a view to diverting labor, capital and raw material from business into war activities. But our present situation is not comparable to the World War years. While the national defense program must proceed speedily, available employables should make it possible, in part by substitution for those already engaged, to permit of continued expansion of general business. And while the purpose of the tax is to raise revenue for the payment of a portion of the cost of the national defense program, the extent to which it may deter general business, and thereby reduce the revenues, and create more unemployment, should not be left out of consideration.

1. From an article by Godfrey L. Nelson in The New York Times, Sunday, Aug. 4, 1940

THE REVENUE ANGLE¹

Even though costs under the emergency program can be held at a minimum and public expenditures for other purposes can be reduced to some extent, the volume of expenditures to be financed will be extremely large. Any additions to or changes in the tax system that may be required should be based on several criteria. Every effort should be made to develop and maintain a tax system that is fair and non-discriminatory. The tax laws should be as simple as possible and the taxes imposed should be readily ascertainable.

Punitive taxes should be avoided. Under no circumstances should the emergency be an excuse for punitive taxation that tends to destroy the incentives that are essential to the operation of industry. There are inflationary tendencies in the punitive taxation of profits, for cost outlays to avoid such taxes would be encouraged. In no event should the efficiency of management be penalized and discouraged.

Additional federal revenues will have to be raised. At present there is a tendency to regard the proposed excess profits tax as a logical source of large additional revenues. The exactions that are planned are justified on almost every conceivable ground, including the theory that a graduated tax on profits of the type recently proposed would be effective as a medium of price control.

The analysis in this article suggests that any excess profits tax law that may be adopted should be drawn with extreme care. It should have as its objective the taxation of true increment profits. This would require exemptions of net income based on both past earning power and a minimum return on invested capital. The income tax structure rather than the excess profits tax should be the primary reliance for additional revenues based on income and profits. The revenues from the excess profits tax should be regarded merely as supplementary. Any other additions to the tax system should be carefully chosen with a view to maintaining both the incentive to lower costs and the motivating force of reasonable business profits.

1. From "National Defense: A Cooperative Effort," The Tax Review, Tax Foundation, Inc., New York, August, 1940, p. 23.

THE BASIS FOR AN EXCESS-PROFITS TAX¹

Latest developments in Washington suggest that Congress probably will use excellent judgment in its enactment of an excess-profits tax to be levied on corporations. What is needed, of course, is a tax which will not be so burdensome that it will interfere with the defense program and yet one which will prevent profiteering.

The chief difficulty in setting up such a tax is to determine the basis of the levy. Some had suggested that earnings in excess of a three-year average should be subject to recapture. Others held that profits over and above a fixed return on invested capital should be shared with the government in the form of taxes.

Both of these methods, while seemingly fair would be partially harmful. That is to say, no matter which method was adopted some corporations would be hit much harder than others. It will be appreciated that some companies normally earn a higher rate of return on invested capital than others. Likewise, some companies have done fairly well during the last three years, while others have found the going rather rough.

If average earnings were used as a basis of calculation those which, because of general business conditions, have made subnormal showings would be penalized. The steel companies, for instance, would fall into that category. That industry is recognized as a "prince or pauper" business.

If income on invested capital were selected as a starting point, concerns with normally high earning power would be hurt. The automobile companies would be among those seriously affected under such circumstances. That business is conceded to be quite risky, with earnings partly determined by the whims of the public, so they are conceded the necessity of "making hay while the sun shines."

1. From an article by Ralph Hendershot in the New York World-Telegram August 8, 1940.

THE VALUATION OF BUSINESS INVESTMENTS¹

Probably the most serious obstacle to the utilization of the excess profits tax as a normal peace-time revenue is the administrative problem of defining accurately the excess profits of business enterprises. The advantages of an excess profits tax are appealing and at first thought it may seem easy to determine the existence of excess profits. To avoid the necessity of evaluating business investments an excess profits tax may, as has sometimes been done, be based upon the excess of total profits in the taxable year over the total profits of a given base year or the average of total profits in two or more selected years. It is next to impossible, however, to find a normal year or period for this type of excess profits taxation which will not result in grave inequalities unless the tax is adjusted by the administration to the particular conditions of each establishment. Allowances must be made for capital additions and withdrawals, for business expansion and contraction. The total profits, of course, do not indicate the rate of profit return. It is highly significant that the present excess profits tax of England defines excess profits in relation to the value of the investment rather than in terms of prewar or standard total profits. The opinion prevailed in England after the World War that considerations of equity require a valuation of investments in order that the rates of return upon them may be discovered. Economists appear to be agreed that it is more logical to employ a tax based upon the rate of the return rather than a tax based upon the excess of profits over those in a given period.

The valuation of investments, however, is a colossal undertaking and it is questionable if such valuation is reasonably practicable. The valuation of public utilities for rate-making and the valuation of property for taxation suggest some of the crucial problems which would arise in valuation for excess profits taxation.

1. From A. G. Buehler, "The Taxation of Corporate Excess Profits in Peace and War Times." Law and Contemporary Problems. (School of Law, Duke University, Durham, N.C., Spring 1940.) Vol. VII, No. 2, p.300

EFFECTS OF EXCESS PROFITS TAXES¹

The most important consideration in planning an excess profits tax at the present time is the possibility that national defense production and re-employment of idle men may be discouraged.

As already noted, a tax which takes away no more than the amount of profits in excess of the amount which is economically necessary will not hamper investment or production. If the tax applies to all industries, and not only to those directly serving the government, it will not in itself discourage investment in the defense industries, since every alternative investment will be equally taxed. The danger is that investments of all kinds may be discouraged, if business men think the exemptions are so low and the rates so high that the prospective profits are not sufficient to offset the risk of investment. Perhaps of even greater importance than the level of exemptions and rates is the fear that the tax may actually take more than the earnings if statutory provisions or administrative rulings are too rigid to allow reasonable adjustments in particular cases.

Small companies may suffer more under an excess profits tax than large ones, since in general they are less adequately capitalized, and also because their earnings are more uncertain and a higher rate of profits may be economically justified. Small companies, too, must often rely on their own profits for expansion since they cannot reach the capital market as easily or under as favorable terms as larger and better established companies. This consideration is modified by recent governmental provisions for supplying capital to those concerns directly engaged in defense production. The burden on small companies could be lessened by using different schedules of rates for different sizes of corporations, somewhat as provided under the regular corporation income tax.

1. Willard D. Arant, Taxing Excess Profits, (The National Economy League, New York, August 9, 1940), p. 13.

EXCESS PROFITS TAX: A WARTIME MEASURE¹

The excess profits tax, at best, is suitable only as a war-time measure. If business is operating under great pressure for immediate production of materials, almost without regard to cost, the tax can be borne. This was the fact during the World War, but after the Armistice its productivity fell from a peak revenue of \$2,500,000,000 (for 1918), to \$335,000,000 (for 1921). According to the rate of diminishing returns in the interim, another year of it probably would have produced only a negligible amount of revenue.

Unless business operates under an artificial impetus, as in wartime, the tax is liable to have a restrictive and harmful influence upon business generally. It is likely to generate inflationary tendencies and to cause wasteful expenditures of profits. This it did during the World War and for three years thereafter, and its repeal no doubt contributed to the drastic commodity deflation which followed.

If the excess profits tax is merely sought now in order to restrict profits on government contracts, and if this is not accomplishable under present provisions of the Vinson act, this act might better be so amended as to save to the government by reduction of cost of defense facilities the greater portion of what might be realized from an excess profits tax. General business would not be thus disturbed. Moreover, the additional revenue to be derived from enhanced non-defense activities would more than make up for any difference in revenue, not to mention the benefits to be had by way of increased employment in the field of general business.

It is admitted that the excess profits tax has vast potential revenue producing qualities. But only war itself could justify our assumption of its unavoidable administrative inequalities.

1. Godfrey N. Nelson, "Difficulties in Tax on Excess Profits," New York Times, Sunday, July 7, 1940.

EXCESS PROFITS TAXES, 1933 TO 1940

The National Industrial Recovery Act approved June 16, 1933 provided for the imposition of three business taxes which were officially designated Re-employment and Relief Taxes. The three taxes added to the federal revenue system by this Act were (1) a corporation capital stock tax, (2) an excess profits tax applicable only to corporations and (3) an excise tax on corporate dividends.

The excess profits tax was levied at the rate of 5% on net income in excess of 12.5% of the adjusted declared value of the capital stock. For foreign corporations the base for the tax was the adjusted declared value of capital employed in the transaction of business in the United States. The tax was made applicable to profits for the income-tax taxable year ending after June 30, 1933. This tax was properly regarded as complementary to the capital stock tax. That is, if the value of the capital stock were declared at a low figure for the purpose of minimizing this tax, the excess profits tax would become applicable. Because of the complementary nature of the two taxes, in practice the combined taxes payable on account of the two levies depended upon the ability with which the capital stock valuation could be adjusted to earnings prior to the period in which the earnings accrued.

According to the provisions of the National Industrial Recovery Act, the excess profits tax was to become inapplicable in the taxable year following the taxable year in which the date of repeal of the Eighteenth Amendment occurred. The Revenue Act of 1934, however, provided for the continuation of this tax and the capital stock tax at the same rates as in the 1933 Act. The rate for the excess profits tax was changed by the Revenue Act of 1935 to 6% on net income in excess of 10% and not in excess of 15% of the adjusted declared value of the capital stock and 12% on net income in excess of 15% of adjusted declared value. The law was amended by the Revenue Act of 1936 to provide that the income tax should not be deductible in computing the excess profits tax. The rates provided by the 1935 Act were continued until 1940. The only change made by the Revenue Act of 1940 involved an increase of the tax payable by 10% of the excess profits tax as computed.

The excess profits tax applicable to corporations in recent years has not been important as a producer of revenue. According to data in Statistics of Income the largest total levy on account of excess profits was \$43,000,000 for 1937.

THE WORLD WAR AND POSTWAR FEDERAL TAXATION¹

Major wars inevitably and profoundly affect the finances of the participating nations for many years after hostilities cease. In the United States, for example, federal interest payments alone in the immediate postwar period exceeded total expenditures in the prewar years.² . . .

It is not possible to picture the composition of the tax system during the 1920's without the influence of the war. The rates for the income taxes would probably have been increased in any event to a level somewhat above those in the 1913 law, but there is no reason to believe that the rate on corporation incomes would have risen above 3½ or 4½ under peacetime conditions. The actual rate on corporation incomes under the Revenue Act of 1924 and the two following acts varied between 12½ and 13½. It appears that the war was responsible not only for the high rates applicable to corporations, but also for the practice of taxing corporate income at a rate well above the normal rate on individual income.

Wartime experience with certain excises was an influential reason for adopting taxes on the same commodities in 1932, when it was again found necessary to resort to such levies. The capital stock tax imposed by the National Industrial Recovery Act in 1933 was patterned after the wartime capital stock tax. Some precedent for the undistributed profits tax of 1936 is found in the Revenue Act of 1917.

The conclusion is inescapable that the federal tax system as now constituted, except for payroll taxes, is largely the result of wartime adjustments. We are now a heavily taxed nation in contrast to our situation in 1913. The raising of large additional revenues would be a far more difficult task than it was a quarter of a century ago.

1. From "Federal Taxation in the World War Period," Conference Board Economic Record, October 11, 1939.
2. Interest payments for 1923 amounted to \$1,056 million. Total expenditures for 1914 were \$735 million, including interest payments of \$23 million.

WARTIME TAXES ON PROFITS¹

The first of the war-tax measures was the excise on munitions manufacturers. This tax was enacted as a part of the Act of September 8, 1916. It imposed, in addition to the income tax on corporations, a tax of 12.5% of the net profits of manufacturers from the sale of firearms and munitions. The tax was also applicable to profits resulting from the manufacture of submarines. This tax was made retroactive to January 1, 1916.

The Act of March 3, 1917, which was designed for the purpose of providing revenues for a special preparedness fund imposed an excess profits tax at the rate of 8% on net incomes of corporations and partnerships in excess of 8% of the invested capital. In computing the tax an exemption of \$5,000 of net income was allowed.

The War Revenue Act of October 3, 1917 imposed a more complicated form of excess profits tax. A deduction was granted equal to the average rate of profit on invested capital in the period 1911 to 1913, but not less than 7% or more than 9%. The rates for this tax were as follows:

Net Profits Between	Rate
Deduction and 15%	20%
15% and 20%	25%
20% and 25%	35%
25% and 33%	45%
33% and above	60%

The above rates applied to partnerships and individuals, as well as corporations. The specific exemptions granted were \$3,000 for corporations and \$6,000 for partnerships and individuals. The rate for the munition manufacturers tax was reduced by this Act from 12.5% to 10% for 1917 and provision was made for its discontinuance thereafter.

The Revenue Act of 1918 provided for a combination of war profits and excess profits tax for the year 1918. The law provided that for 1918 the rates should be 30% on corporation profits of more than 8% and not more than 20% of invested capital, and 65% on profits in excess of 20% of invested capital. Under the war profits tax provision an additional tax was imposed equal to the sum, if any, by which 80% of the amount of net income in excess of the war profits credit exceeded the amount of the tax computed on the basis of the rates of 30% and 65% for the excess profits tax. For 1919 and later years the rates for the excess profits tax were 20% on corporation profits of more than 8% and not more than 20% of invested capital, and 40% on profits in excess of 20%. This tax was repealed effective January 1, 1922.

1. Adapted from the several revenue acts.

NATIONAL DEFENSE EXPENDITURES,
Fiscal Years 1928-1941

Source: Annual Reports of the Secretary of the Treasury
Computed by the Tax Foundation

Fiscal Year	National Defense Expenditures		National Defense Expenditures as a Percentage of	
	Amounts in Millions of Dollars	Per Capita in Dollars	Federal Expenditures	National Income
1928	626	5.22	22.4	0.8
1929	677	5.57	22.9	0.8
1930	702	5.70	22.3	0.9
1931	700	5.64	19.7	1.1
1932	702	5.62	15.8	1.5
1933	666	5.30	17.6	1.6
1934	540	4.26	9.1	1.2
1935	710	5.57	10.2	1.3
1936	912	7.10	10.6	1.5
1937	935	7.23	11.5a	1.4
1938	1,028	7.89	14.7a	1.5
1939	1,163	8.93	13.6a	1.8
1940	1,559	11.97	17.7a	2.2
1941b	5,000	38.40	40.0	6.3
1941b	3,600	27.65	32.4	4.5

- a. In computing the percentage for 1937 and later years, transfers to the old-age reserve account and the railroad retirement account were deducted from total federal expenditures.
- b. Estimated. In making the computations for 1941, the population estimate for 1938 was used, and it was assumed that the national income for the year ending June 30, 1941, will be \$80 billion. National defense expenditures for 1941 are estimated on a minimum-maximum basis.

TAXES, NET INCOME AND DIVIDENDS OF ALL ACTIVE
CORPORATIONS IN THE UNITED STATES¹
In Millions

Year	Net Income before Taxes ²	Federal Income Taxes	War & Excess Profits Taxes	Local State & misc. Taxes	Total Taxes	Net Income after Taxes ²	Divi- dends Paid ³
1916	\$9,109b	\$ 172	\$.....	\$1,000	\$1,172a	\$7,937b	c
1917	11,141b	504	1,639	1,041	3,183	7,958b	c
1918	8,646	653	2,506	828	3,987	4,659	c
1919	9,526	744	1,432	932	3,107	6,419	c
1920	7,292	637	989	1,198	2,823	4,469	c
1921	2,120	366	335	1,473	2,175	-55	c
1922	6,682	775	8	1,518	2,302	4,380	2,634
1923	8,399	937	.....	1,635	2,572	5,827	3,299
1924	7,550	882	.....	1,670	2,552	4,998	3,424
1925	9,915	1,170	.....	1,774a	2,944a	6,971	4,014
1926	9,882	1,230	.....	1,878	3,108	6,774	4,439
1927	9,025	1,131	.....	2,014	3,145	5,880	4,765
1928	10,953	1,184	.....	2,203	3,387	7,566	5,157
1929	11,499	1,193	.....	2,222	3,415	8,084	5,927
1930	4,375	712	.....	2,297	3,009	1,366	5,631
1931	-515	399	.....	2,231	2,630	-3,145	4,182
1932	-3,002	286	.....	2,087	2,373	-5,375	2,626
1933	168	416	7	2,124	2,547	-2,379	2,101
1934	2,920	588	8	2,162	2,758	162	2,672
1935	5,037	710	25	2,628	3,363	1,674	2,927
1936	8,052	1,169	22	2,958	4,149	3,903	4,702
1937	8,814	1,233	43	3,666	4,942	3,872	4,832
1938d	6,400	770	30	3,600	4,400	2,000	3,400

1. Compiled from Statistics of Income, Treasury Department.
2. Includes tax-exempt interest received, but excludes intercorporate dividends received.
3. Cash dividends on preferred and common stock. Excludes stock dividends and intercorporate dividends paid.
 - a. Partly estimated.
 - b. Statutory net income; excludes tax-exempt interest received.
 - c. Not reported.
 - d. Estimated.

Adapted from The National City Bank Letter, The National City Bank, New York, N. Y.,
August, 1940, p. 92.

EFFECTS OF TAX INCREASES¹

Source: Steinmetz, Henry D. "What War Taxes Mean to Investors"
The Magazine of Wall Street, July 13, 1940, pp.400-402

	<u>1936</u>	<u>1937</u>	<u>1938</u>	<u>1939</u>	<u>1940</u>
Cyclical Company					
Net before Federal Income Taxes				\$10,000,000	\$12,500,000
Federal Income Taxes				<u>1,800,000</u>	<u>2,612,500</u>
Net before Excess Profits Taxes	\$7,500,000	\$10,000,000	\$5,000,000	8,200,000	9,887,500
Excess Profits Taxes (Four-year average net - \$7,675,000)					<u>1,106,250</u>
Net after all taxes	7,500,000	10,000,000	5,000,000	8,200,000	8,781,250
Stable Company					
Net before Federal Income Taxes				10,000,000	10,500,000
Federal Income Taxes				<u>1,800,000</u>	<u>2,194,500</u>
Net before Excess Profits Taxes	8,000,000	8,500,000	7,500,000	8,200,000	8,305,500
Excess Profits Taxes (Four-year average net - \$8,050,000)					<u>127,500</u>
Net after all taxes	8,000,000	8,500,000	7,500,000	8,200,000	8,178,000
Growth Company					
Net before Federal Income Taxes				10,000,000	12,000,000
Federal Income Taxes				<u>1,800,000</u>	<u>2,508,000</u>
Net before Excess Profits Taxes	5,000,000	7,000,000	6,000,000	8,200,000	9,492,000
Excess Profits Taxes (Four-year average net - \$6,550,000)					<u>1,471,000</u>
Net after all taxes	5,000,000	7,000,000	6,000,000	8,200,000	8,021,000

1. In the hypothetical cases, "Federal Income Taxes" for 1940 give effect to the increase in the tax rate from 18 to 19 per cent and to imposition of the 10 per cent super-tax. "Excess Profits Taxes" are computed at an arbitrarily assumed rate of 50 per cent of profits in excess of average annual net after taxes over the preceding four years.

Note: This table shows the varying effects the excess profits tax will have if the levy is based upon average earnings over a recent period of years.

Table Showing 7,899 Representative Corporations Classified According to Amount of Invested Capital and Ratio of Net Income to Invested Capital During the Taxable Year 1917.

Source: Quarterly Journal of Economics, "The Excess Profit Tax," May, 1921, pp. 944-67

Corporations having Invested Capital of	Ratio of Net Income to Invested Capital												
	Less than 20% (Tax less than 12.25% of net income)			20% to 40% (Tax from 12.25 to 31% of net income)			40% to 60% (Tax from 30 to 40.67% of net income)			60% and over (Tax over 40% of net income)			Total
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	
Less than \$20,000	54	5.1	383	35.9	299	28.1	329	30.9	1055	100			
\$20,000 to \$100,000	1671	46.1	1514	41.7	318	8.8	124	3.4	3627	100			
\$100,000 to \$500,000	1576	65.0	640	26.4	143	5.9	65	2.7	2424	100			
\$500,000 to \$5,000,000	518	69.9	171	23.1	40	5.4	12	1.6	741	100			
\$5,000,000 and over	36	85.7	6	14.3	0	0	0	0	42	100			
Total	3855		2714		800		530		7899				

EXCESS-PROFITS TAXES OF TWELVE COAL COMPANIES

Source: Hearings, Ways and Means Committee, 65th Congress
Revenue Act of 1918, p. 31

	Invested Capital, Taxable Year	Net In- come for Taxable Year	Excess Profits Tax	Ratio of Tax to Income Per Cent
Larger companies				
W1	\$30,864,696	\$2,154,233	a	--
W2	10,200,747	5,564,657	\$2,114,104	37.98
W3	120,785,010	13,685,997	1,005,739	7.35
W4	6,608,168	3,154,491	1,125,547	35.68
W5	2,250,959	813,838	226,591	27.84
W6	9,625,189	1,280,478	66,742	5.57
Smaller companies				
W7	29,824	54,148	28,324	52.31
W8	6,553	29,039	15,309	52.69
W9	4,692	35,978	19,562	54.37
W10	14,287	63,301	35,345	55.87
W11	97,137	186,720	99,970	53.54
W12	65,514	211,833	18,833	56.03

a. No tax

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