

MELLON PREDICTS \$55,000,000 DEFICIT

Tells Senate Committee House Tax Measure Will Cut Re- venues \$450,000,000.

HITS SURTAX SCHEDULE

Also Opposes Taxes on Estates and Gifts and Tax Publicity Provisions.

Special to The New York Times.

WASHINGTON, March 12.—A loss of \$450,000,000 in revenue would ensue if the tax revision bill is passed as it stands, Secretary Mellon informed the Senate Finance Committee today.

Appearing with Under Secretary Garrard B. Winston, Mr. Mellon compared this figure with an estimated surplus of \$395,000,000 for the fiscal year 1925, adding that, unless there was some change in the surtax rates from the present schedules, the surplus would be still less in 1926.

The Secretary reiterated his contention that a 25 per cent. maximum surtax would stimulate business and yield more revenue, while the Longworth 37½ per cent. rate would do nothing of the kind. He criticized the inheritance, estate and gift taxes placed in the bill through House amendments, and also condemned the opening of income tax returns to Congressional publicity. The changes in defining earned income were not wise, he said. He called attention to the fact that revenues from excise or nuisance taxes would not equal the reduction of these taxes proposed in the bill now before the Senate.

Statement of Secretary Mellon.

Secretary Mellon's statement to the Senate Finance Committee follows:

"Tax reduction must depend in the first instance on the probable revenue of the Government for the years when the reduction is to take effect. It is estimated that the bill in the form in which it passed the House of Representatives, after giving effect to any increase in revenue through additional taxation and through changes which hinder avoidance of income tax, will mean a loss in revenue of some \$450,000,000.

"The estimated surplus for the fiscal year 1925, which will feel the first effects of this tax reduction, is \$395,000,000. This figure is based upon a reduction in ordinary expenditures from approximately \$3,300,000,000 actual in 1923 to \$3,050,000,000 estimate in 1924, and \$2,815,000,000 estimated in 1925. This reduction in expenditures will require persistent effort and great economy. If extraordinary liabilities are incurred by the Government, then it is obvious that the surplus of \$395,000,000 cannot be relied upon.

"While the exact figures of expenditures and receipts for years subsequent to 1925 have not been worked out, it is the belief of the Treasury that, assuming that there is no substantial correction of surtax rates, the surplus in 1926 will be less than in 1925, and still further decreases may be expected in the years following.

"It must be clear, therefore, that in your consideration of tax reduction you must bear in mind, first, that the absolute loss of revenue based on income estimated on present rates should not be greater than your available surplus; and, second, that your plan of taxation should be sound in its essential features and not destroy the source of revenue.

"On the bill as it passed the House of Representatives and is now before your committee I have the following comments to make:

"1. The loss of revenue will be \$450,000,000. There will be no stimulation to revenue-producing transactions, because there is no material reduction in surtaxes. If this bill should become a law, a deficit would inevitably arise, and it would be necessary to find other means of raising revenue.

Explains Surtax Situation.

"2. Surtaxes. My reasons for believing that a scientifically graduated surtax rate with a maximum of 25 per cent. will both stimulate business and yield ultimately more revenue to the Government have been so frequently stated that I need not repeat them here. In the bill as it left the House there is reduction, but no reform in taxation. The surtax rates start at 1½ per cent. at \$10,000, reach 38 per cent. at \$100,000 and 37½ per cent. at \$200,000. If the rates had been properly scaled in the 1921 act, it might be possible to make an intelligent percentage reduction, but the bill simply continues the defect in the present law and penalizes principally middle incomes.

"Here, with unscientific tax rates, the burden is borne by the man of initiative attempting to make money—not by wealth in existence. It is my opinion that the 25 per cent. scale down of surtaxes will have no material bearing on releasing capital, but, on the contrary, the flight of capital will continue. Particularly is this true since Congress has refused to recommend a constitutional amendment to prevent further issuance of tax-exempt securities. As an example, under the proposed rates a business has to pay 8 per cent. to equal in net return a 4½ per cent. municipal based on the proposed rates. This is too wide a margin.

"3. The definition of earned income has been extended to include, in cases where the income is the result of the use of capital in connection with personal services an amount representing a reasonable salary for the personal services rendered. The department for the years of excess profits taxes experienced the greatest administrative difficulties in determining what was a reasonable salary in cases of closely owned corporations. The present definition means that in every case where there is any personal service whatsoever the department must determine what is a reasonable salary for those particular services.

"This would bring up for determination by the department several hundred thousands separate cases each year, and you can easily understand the difficulties the department will have in administering such a law. I believe that with the provision that all incomes under \$5,000 shall be considered earned, substantial justice will be done and the administration of the law should not be complicated by enlarging the definition. There is, of course, absolutely no reason for a \$20,000 limitation on earned income. If the distinction between unearned income and earned income is good, it is good in every bracket. If the tax on unearned incomes in excess of \$20,000 is at the proper rate, then the same rate is too high for earned incomes.

Opposes Publicity of Returns.

"Publicity of Returns—So far as I know in all other nations having income tax laws the privacy of returns is respected. In every State in the United States, privacy of returns is guaranteed by law. There is one exception—Wisconsin, where the privacy provision of the act has been repealed. But I am informed that the validity of the law has been attacked, and the lower court has ruled against the law. The provision in the present bill removes this privacy so far as certain committees of Congress are concerned. This would not be objectionable if the returns were submitted to the committees only in executive session and mention of the returns on the floor of Congress and the publication thereof in the Congressional Record prevented. But there is no privacy if the returns are discussed in open committee or on the floor and publication of such returns made under privilege.

"5. Estate Taxes—Without other than a discussion on the floor of the House, and with no hearing before a committee, there was incorporated in the Revenue bill an increase in inheritance taxes from a maximum of 25 per cent. to a

maximum of 40 per cent. In my opinion such legislation is most unwise. The right of the Federal Government to tax inheritances is based upon no specific constitutional power, but upon the theory of an excise tax. They have heretofore been used only as war taxes and should be provided for such use.

Speaks for State Rights.

"Inheritance taxes are properly sources of revenue for the States. They are a material element in a State budget; they are a comparatively small element in the Federal budget. To deprive the States of this source of revenue—properly their own—is to compel the States to increase taxes and to resort to their principal source of income which is levies on land. The far-reaching economic effect of high inheritance taxes is not properly understood. These taxes are a levy upon capital. There is no requirement in our law, as there is in the English law, that the proceeds from estate taxes shall go into capital improvements of the Government.

"In other words, capital is being destroyed for current operating expenses and the cumulative effect of such destruction cannot help but be harmful to the country. Again estates have to be liquidated to the extent necessary to provide for taxes, and the forced sale of property and securities tends to bring down not only the value of such property and securities but values everywhere. The ultimate effect of this is to bring down the very values upon which the tax is levied and ultimately to destroy the productivity of the tax, both to the State and to the Federal Government.

"The provision that State inheritance taxes may be credited to the Federal tax to the extent of 25 per cent. is in effect a partial payment by the Government to the States of the inheritance tax collected by the Government, and works a discrimination between States having different rates of tax.

"6. Tax on gifts. This tax also is a tax on capital, the proceeds of which do not go into capital, and, therefore, work a dissatisfaction of the total capital of the country. Any annual tax on gifts is susceptible of evasion by spreading the gifts over a period of years. It will mean practically nothing by way of revenue to the Government. It will be extremely difficult to detect and enforce. It has a most peculiar coincidence, unlike any other tax that I know of—the one who gives pays the tax, and not the one who receives.

"7. Miscellaneous taxes. The reduction of these taxes depends entirely upon the available revenue of the Government. Since this revenue is unequal to the proposed reduction, some modification in these respects should be made."

Secretary Mellon will appear again tomorrow.

In reply to questions by Senator Smoot on how the net reduction of \$1,072,250,610.83, on the public debt, during the calendar year 1923, was made up, Mr. Winston explained that \$472,064,291.10 of this was used from the regular sinking fund and payments on the foreign debts and retirements chargeable to ordinary receipts; \$387,332,259.23 was surplus above the items mentioned, and \$212,954,060 was from the net balance in the general fund.

In an effort to ascertain how accurate were the figures of Joseph S. McCoy, the Treasury actuary, Senator Smoot asked how the actual receipts for the fiscal year of 1922 compared with Mr. McCoy's estimate of \$4,096,000,000, and was told that the receipts reached \$4,103,741,927.

For that fiscal year Mr. McCoy estimated customs revenue receipts at \$275,000,000, but they were actually \$357,000,000; his estimate for internal revenue receipts was \$2,110,000,000, the subsequent collections reaching \$2,086,918,465.

Will Investigate Revenue Bureau.

The Senate today passed a resolution by Senator Couzens authorizing an investigation into the Internal Revenue Bureau of the Treasury Department. Senator Cummins, President pro tempore, was empowered to appoint two Democrats and three Republicans. They are to report findings and make recommendations for "corrective legislation."

Senator Cummins named Senators Couzens, Ernst of Kentucky and Watson of Indiana, Republicans, and King of Utah and Jones of New Mexico, Democrats. All except Senator Couzens are members of the Finance Committee.

The resolution was originally introduced Feb. 16, but after being reported twice was sent back each time to the Committee on Contingent Expenses for amendments. It was finally reported yesterday, with nothing left of the Couzens preamble, which had stated that through improper organization or gross inefficiency the bureau was handicapped by a system whereby the Government lost millions of dollars, taxpayers were oppressed and "corruption or the opportunity for corruption" existed. Another sentence of the eliminated preamble read:

"It is claimed that numerous tax attorneys, agents, specialists, advisers and lobbyists in the employ of claimants for refunds and exemptions, some of whom it is claimed pretend to have influence, are carrying on negotiations" with officers of the bureau regarding these claims.