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FEDERAL TAX POLICY IN THE 1960's*

STANLEY S. SURREY**

THE years beginning with 1961 have witnessed intense activity in the field of tax policy. Each year has found the Congress engaged in the consideration of major tax legislation, and revenue measures of wide scope and important policy import have resulted. Paramount among these are the Revenue Act of 1962, adding the investment tax credit and initiating tax reform activity; the Revenue Act of 1964, providing major income tax reduction and initiating a new role for fiscal policy; the Interest Equalization Tax in 1964, linking tax policy with balance of payments considerations through a novel tax measure; the Excise Tax Reduction Act of 1965, reforming the excise tax structure through the repeal of most of the selective excise taxes; and recently the Tax Adjustment Act of 1966, containing desirable structural changes yielding current increased revenues to shift fiscal policy from stimulus to restraint. Accompanying this legislative activity, there have also been important policy changes brought about through administrative measures, such as the revision in depreciation tax policy.

A major revenue measure is a complex production, imposing great strains on all who participate in the process, be they in the Executive branch, the Congress, or the private groups directly affected or concerned. Given the arduous nature of the task, such measures are not lightly embarked upon. What then are the developments or causes that have brought in the first half of the decade this sustained high level of activity in the tax field? Are these factors likely to produce a similar emphasis on activity in tax matters in the second part of this decade?

PRINCIPAL FACTORS CAUSING A HIGH LEVEL OF TAX ACTIVITY

1. *Tax Policy and Economic Policy—Growth and Stability*

The decade of the 1950's saw tax policy applied in a traditional manner. In the early 1950's, tax policy was called upon to provide the revenues for the Korean War. When that conflict passed, wartime taxes were scaled back in 1954 but still left at a high level, and the Code subjected to many technical changes. Tax activity thereafter practically ceased. The economic policy was one of responding to recurring cycles of recession and recovery, with expenditure increases the weapon used to end the downslides.

But in 1961 the Kennedy Administration swung the country to a positive economic approach, and set it to the affirmative task of increasing our rate of economic growth. While resort to expenditure policy lingered on, the first steps were taken to use the tax system in an affirmative manner to spur economic

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growth. The investment tax credit, designed to encourage investment through an increase in the rate of return on investment in machinery and equipment and also in cash flow, was introduced in 1961 and adopted in 1962. A skeptical business community hesitated over acceptance of the credit but came to understand and endorse its purpose, that of providing in the tax system a solid support for investment in machinery and equipment and through this to increase our productivity and growth.

As a companion measure, the Treasury Department in 1962 revised its treatment of depreciation to liberalize both depreciable lives and the overall approach to the determination of the depreciation deduction, while still retaining the view that the main function of depreciation is to measure net income over time. Within that standard, however, these changes, with improvements added in 1965, moved far towards eliminating the restrictive and disputatious approach that characterized the prior administration of the depreciation deduction.

The Revenue Act of 1964, with its large tax reduction at a time when the budget was in deficit, marked a watershed in tax policy history. The measure was based upon the economists' firmly held view that a tax reduction to spur demand and investment would provide a stimulus to economic activity. The way to budget balance was through this economic stimulus, though it meant a continuation of budget deficits for the near future. The debates over this measure, the involvement of the business community in first accepting the economic thesis and then advocating it, and the final acceptance by the Congress swung the country over to the "new economics"—a phrase that brought wry comment from many academic economists long used to teaching this viewpoint in their classrooms. Fiscal policy was freed from the rigid demands of budget balancing, though a fiscally prudent President, watched by a wary Congress, would still quite properly maintain firm expenditure control and progress toward a balanced budget. The Excise Tax Reduction Act of 1965 followed the new economics of tax reduction, with the almost universal desire to be rid of the war and depression-born special excise levies providing an added spur to continued acceptance of a temporary budget deficit as the path to higher economic levels.

As the Gross National Product rose, and the unemployment rate fell, the economists were able to offer proof that their fiscal policies were valid. The tax reductions had been sufficiently bold and large to offset the fiscal drag of the income tax structure and, with their multiplier effect, to move actual GNP much closer to our potential. The economy was becoming powerful enough to provide the fiscal support for the far-ranging and ambitious Great Society programs of the Johnson Administration. The role of fiscal policy therefore appeared to be settling down to achieving the right mix and timing of tax reduction and expenditure increases in a budget attuned to the Great Society goals. Some economists were even looking forward to a policy of an automatic sharing of federal revenues with state and local governments.

Abruptly all this was upset by the costs of the Vietnam war. A sharply

FEDERAL TAX POLICY IN THE 1960's

rising defense budget superimposed on the rapidly expanding private economy suddenly accelerated the rate of economic activity. The unemployment rate began to drop more rapidly than previously expected. Economists suddenly found themselves faced with a situation for which the state of their professional knowledge supplied them with broad policy guidance but not precise operating instructions. The task now was to see whether unemployment could be brought below its interim goal of 4 percent without endangering reasonable price stability. Economic knowledge regarding the variable factors involved—the relationship between unemployment levels and price stability, the level of investment activity that was appropriate and sustainable, the manner and time span in which investment decisions can be affected by fiscal policy—has not yet been fully developed. Nor has the art of even short-range economic forecasting.

But still broad economic guidance is at hand, and this guidance emphasizes the role of tax policy. For when fiscal restraint is needed—however difficult it may be to make the decisions on timing and extent—it is clear that a tax increase can be effective to restrain both consumption and investment. This resort to tax policy as a short-range economic stabilizer is of a different order from the use of tax policy in the tax reduction measures of 1964 and 1965. Those measures gave a new shape to the tax structure, and the change was intended to be permanent—as far as “permanency” can have meaning in the tax field. But economists have regarded tax policy when used as a stabilizing device to require a highly flexible approach involving quick action designed to be only temporary in its effect. Indeed, because of this emphasis on flexibility and speed they have sought procedural devices to achieve these characteristics, such as a delegation of authority to the President to raise or lower tax rates subject to Congressional disapproval. As a consequence, they had given less thought to the substantive content of the actual tax changes or to how the problem of determining when action is appropriate, especially on the increase side, will be met. The Administration, convinced that Congress is not at all likely to delegate this power, has acted on the view that the substantive content of the tax measures and their timing are the important factors. Given proper decisions on these matters and a Presidential recommendation, it believes that the Congress will act responsibly and promptly.

The recent Tax Adjustment Act of 1966, while geared to reducing a budget deficit caused by Vietnam expenditures, clearly had tones of fiscal restraint for anti-inflationary purposes. Its substantive content blended the adoption of desirable structural changes—graduated and improved tax withholding procedures for individual wages and salaries, currency in corporate income tax payments and in self-employment social security tax payments—with the one-shot revenue increases resulting from the “doubling-up” in tax collections in the transitional period as these structural improvements were made. These structural changes, by increasing the currency of tax payment in relation to the earning of income and profits, make the income tax very sensitive to changing economic

conditions. It is thus a more efficient automatic stabilizer, and also a very responsive tool for flexible tax policy. The Act also adjusted the fiscal impact of excise tax reform to the economic situation by deferring previously scheduled rate reductions in the two major excise taxes, new automobiles and telephone service, which had been already chosen by Congress for only gradual reductions. The swiftness of the Congressional response—involving only two months at the beginning of a session, when starting-up tasks and holiday periods reduce available legislative days—is welcome evidence of Congressional realization of the advantages that a flexible tax policy offers.

The recent hearings of the Joint Economic Committee, through its Subcommittee on Fiscal Policy, on tax flexibility also have advanced our knowledge in this area.

Looking then at the first half of this decade, one clear cause of the activity in the tax field has been the growing recognition and acceptance of the affirmative use of tax policy to realize economic objectives. The goals involved have been those of reduced unemployment, economic growth, and reasonable price stability. These goals are ever present. Hence we can expect that the second part of this decade is likely to continue to involve an emphasis on tax matters for the same reasons, as tax policy plays a growing role in our overall economic policy.

2. *Tax Revision and Reform*

The previous tax history had seen a series of tax changes that aggravated the serious concern over the increasing inequities of the income tax structure and the narrowing of the base of that tax. This concern developed into a wide-ranging examination of the income tax structure in hearings held by the House Ways and Means Committee in 1959. The Kennedy Administration, in the President's Tax Message in 1961¹ initiated an intention to improve the tax structure along the lines of equity and efficiency. As indicated by the espousal of the investment credit, it recognized that in certain circumstances a tax provision may be an efficient tool to achieve a particular objective, such as expanded outlays on machinery and equipment, that in turn promotes economic growth. On the other hand, the viewpoint was clearly set forth that many existing tax policies, such as lax rules on the deductibility of travel and entertainment expenses, the virtual tax exemption of mutual savings institutions, and the opportunities for establishing foreign tax havens, could not be defended since the claimed nonrevenue objectives were vastly disproportionate to the revenue cost and the tax preferences fostered.

Reform proposals were made in 1961 and again in 1963, and the struggles over these proposals made the path of the Revenue Acts of 1962 and 1964 long and difficult. Inevitably some proposals failed to survive the journey. Yet many were enacted, sometimes in the form proposed, more often in the shape of a compromise solution. Among these changes were repeal of the dividend

1. 107 Cong. Rec. 6466 (1961).

credit, limitations on abuse of the deduction for travel and entertainment expenses, restrictions on the use of employee stock options, broad elimination of abuses in the area of foreign income, removal of capital gain advantages on the sale of depreciable personal property and some restrictions in the case of real property, current taxation of the income of cooperatives, partial taxation of the income of savings and loan associations, taxation of mutual insurance companies, tightening of the personal holding company provisions, elimination of capital gain treatment for the interest element in deferred payments, adequate reporting of information on dividend and interest income (but unfortunately not collection at the source), some inroads on the use of multiple corporation surtax exemptions, tightening of the sick pay exclusion, and some limitation on the previous exemption of group life insurance premiums paid by the employer. The statistics are revealing: In the years from 1940 to 1961, only 600 million dollars was raised from revenue-raising reforms, only 200 million dollars since 1953. Since 1961, over 1.7 billion dollars has been raised.

Nor was tax revision activity limited to revenue-raising reform measures and the elimination of tax preferences. The recent Revenue Acts have contained a number of recommended revisions which were designed to eliminate unfairness to the taxpayers involved. These include the adoption of the minimum standard deduction as a sort of vanishing exemption to assist lower bracket taxpayers, the adoption of an averaging system for suddenly increased incomes, the elimination of consolidated returns tax, and a deduction for moving expenses. In total these reforms amounted to over 500 million dollars.

These changes can all be classified as structural revisions or reforms, and many are significant in scope. In a larger way, the tax reduction of the 1964 Act was a major reform of the tax structure, and the lower tax rates, especially in the upper brackets, will have an effect on tax planning and tax motivated activities. There is a lessened pressure to follow tax favored routes when income received in a regular way—salaries, bonuses, dividends, interest, business income—is taxed at least 20 percent less heavily than before. Also, the excise tax repeals of 1965 were a major reform of our excise tax system, leaving it largely free of selective taxes other than the sumptuary and regulatory taxes, and other than user charges for the Highway Trust Fund and commercial aviation.

3. International Aspects of Taxation and the Balance of Payments

The year 1961 marked the beginning of a concentrated attack on our balance of payments problems, an attack that has continued ever since. The ramifications of the efforts to subdue our balance of payments difficulties have now spread to almost every aspect of government and the private sector. Given the leadership of the Treasury Department in these efforts, it is hardly surprising that the tax field was early influenced by them. Thus, balance of payments considerations were mixed with tax equity aspects in a wide-ranging effort in

1961 and 1962 to eliminate tax preferences in the treatment of foreign income and thereby remove inducements to invest abroad rather than at home. The goal was a tax system which as far as possible was neutral in its treatment of foreign income, except where other policy considerations required that some tax advantages be accorded to activities in less developed countries. Numerous changes resulted: the elimination of serious tax haven abuses, the tightening of the foreign tax credit provisions, a marked restriction on the previous exemption of income earned abroad by U.S. citizens residing abroad, the end of the exemption of foreign real property from the estate tax, the removal of tax inducements to use foreign (primarily Canadian) investment companies, the elimination of tax avoidance through foreign trusts.

These were all permanent changes that were justified on traditional tax grounds alone, and the balance of payments picture was relevant only as a spur to their adoption since their effects fitted our balance of payments goals. The Interest Equalization Tax, introduced in 1963, was of a different character—a pioneering use of the tax system to restrict foreign borrowing by temporarily making it more costly through having to bear a new and specially tailored tax applied to that borrowing, which tax was the equivalent of an additional one percent annual interest charge. The Act applied to American investment in foreign stock and debt issues, both new and outstanding. In keeping with policy goals, it excepted export transactions, direct investment, investment in countries denominated as less developed by the President and certain countries, again denominated by the President, where application of the tax would threaten to imperil the stability of the international monetary system. In practice, this last exception has meant exemption for new Canadian issues and 100 million dollars annually for new Japanese debt issues.

This Act has been successful in the goals sought to be accomplished by it, and within the areas it covers there has been only negligible foreign borrowing in the United States since its enactment. It thus embodies a new tax device, capable of being made flexible in its adaptability to changing balance of payments considerations, which we and other governments can add to the varied weapons needed to deal with those considerations. The Interest Equalization Tax is particularly well adapted to this role of a tax measure having a nonrevenue objective. One of the historical responses of a country having balance of payments difficulties has been an increase in domestic interest rates. This increase is supposed to discourage foreign borrowers and to make domestic lending more attractive. An obvious drawback to the traditional remedy is the fact that higher domestic interest rates would suppress domestic activity as well as improve the balance of payments. The Interest Equalization Tax was designed to carry out the valuable part of the traditional remedy for a balance of payments problem, namely, increasing the cost of borrowing in the United States to foreign borrowers but to achieve this result through a tax device that affected only the cost to the foreign borrowers. It thus applied the remedy without thereby creating

general credit tightness in the United States and increasing interest rates for domestic borrowers. This tax is an illustration of the point that taxes can be intelligently chosen to serve nonrevenue objectives, but when this is done the decision must be made with care. We must, so to speak, drive a hard bargain to be sure that the nonrevenue objective is worth the candle and that the tax means chosen are efficiently directed to that objective.

Balance of payments considerations have also led to a wide-ranging examination of the United States tax treatment of foreigners who invest in the United States. The initial impetus was the Fowler Task Force Report in 1964 which called attention to certain aspects of that treatment which may be acting as obstacles to a higher rate of foreign investment in the United States. The result is pending legislation making numerous technical changes in the income and estate tax treatment of foreigners. The changes are designed to revise restrictive provisions having no justification in tax policy and also to eliminate existing tax preferences to foreigners which likewise have no support on tax grounds. The measure is the first major overhaul of this area of our tax law.

These legislative efforts to modernize our tax laws relating to international aspects, unparalleled in our tax history, have been supplemented by extensive activity in tax treaty negotiations, in revision of administrative rules and procedures, and in our participation in the activities of the Organization for Economic Cooperations and Development (OECD) Fiscal Committee. The Treasury is now engaged in the wide-ranging task of adopting regulations and rules designed to provide as much guidance as possible to the administration of the important provisions of our tax law affecting international transactions, especially those provisions where considerable discretion is vested in the Treasury and Internal Revenue Service.

These principally are section 482 of the Internal Revenue Code, relating to adjustments in inter-company accounts to reflect a proper division of income between the United States activities and the foreign activities of an enterprise, and section 367, requiring a ruling that tax avoidance is not involved where a United States taxpayer seeks to apply certain beneficial provisions of our law to his foreign activities. In these efforts the United States is undertaking a pioneering role that is likely to lead to increased exploration of these matters by the tax administrations of other countries.

The United States is also engaged in an intensive revision of its double taxation treaties with developed countries to modernize their provisions, and in an increasing range of negotiations to bring about tax treaty relationships with less developed countries for the first time. Such treaties have a supporting role in strengthening investment, trade, and educational relationships (the last through provisions specially structured to ease tax burdens on visiting professors, students, and trainees) between the United States and the other treaty countries. Finally, the United States through its participation in the OECD Fiscal Committee is seeking to obtain international consideration of the many

tax problems that are emerging today. Thus we have been interested in the international examination of tax haven problems, the relationship of the tax systems of developed countries to those of less developed countries, and the development of a set of rules, similar in concept to the OECD model tax treaties,² for the allocation of income and expenses between the different components of enterprises with international business activities. We also believe that this Committee can serve as a useful forum to discuss major tax changes occurring in the systems of the various member countries, so that evolving tax concepts can be better understood and the knowledge gained applied to our problems.

POSSIBLE PATHS OF FUTURE DEVELOPMENT

This review of the factors that caused a high degree of tax activity in the first part of the 1960's—affirmative use of tax policy for economic growth and stability, the need for revision and reform of the tax structure, and the importance of international tax relationships—indicates that the same factors are as likely to exert an influence in the second part of the decade. We should, therefore, expect that tax activity to continue at a high level in the years just ahead. Indeed, there are ideas and concerns now emerging in various ways and places that could add to these factors and even accelerate the pace, or shift it to new areas.

It is difficult and rarely profitable to predict very far ahead in the tax field. One can at best only sketch the possible paths of new developments within a horizon that is quite limited. These developments do not necessarily portend culmination in legislative activity, for many of the proposals and ideas in the tax field that are carefully researched and examined, and then subjected to public scrutiny, do not survive to the stage of serious legislative consideration. And many of those reaching that stage will, in the end, turn out not to have the consensus support required for successful legislative approval. Hence, the following discussion of possible paths of future developments is offered in the light of these cautions—and the further caution that enumeration here by no means implies either approval or disapproval of the various items mentioned. Nor is the discussion intended to be exhaustive or the order of mention significant.

1. *Estate and Gift Tax Revision—Capital Gains*

The income tax and the excise taxes have had their fair share of examination, and indeed the legislative activity up to now has concentrated on these areas. During this period, however, extensive studies of the estate and gift taxes have been underway on the economic side by the Brookings Institution

2. See, e.g., O.E.C.D., Draft Double Taxation Convention on Income and Capital 35 (1963).

and on the legal side by the American Law Institute. The Treasury Department has cooperated in these studies and followed them carefully, and is now engaged, so to speak, in a study of these studies to consider whether revision of these taxes is appropriate and the nature of that revision. These existing studies have covered all facets of the taxes, their rate and exemption patterns, their technical structure and their interrelationships. The Treasury is also considering the relationships of these taxes to the capital gains tax and the rates of income tax in the upper brackets, since the taxpayers involved in the estate and gift taxes are also those primarily affected by these aspects of the income tax. In addition, the treatment of capital gains at death, an area which the Treasury believes is in need of revision to limit the present escape from income tax of appreciated property transferred by inheritance, is also involved in this overall study.

2. *Taxes and Poverty*

The concentrated attack against poverty being waged under the Great Society Programs is necessarily focusing attention and study on the impact of the tax system on those at the poverty level. As far as the Federal system goes, the adoption in the 1964 Act of the minimum standard deduction (involving an exemption level of 900 dollars for a single person, 1,600 dollars for a married couple, and 3,000 dollars for a married couple and two children) and the splitting of the former first bracket of 4,000 dollars for a married couple into four 1,000 dollar brackets with a starting rate of 14 percent, have done much to remove the income tax from those in the shadow of poverty. The elimination in 1965 of many of the special Federal excise taxes has also helped to lessen the tax burden on these individuals. But more should be done, and, when tax reduction again becomes fiscally appropriate, primary consideration should be given to reducing the burden of the tax at poverty levels.

A few statistics, quoted from a previous discussion of this subject, may illuminate the policy issues involved:

As incomes increased in past years for the population as a whole, the nature of our tax structure over those years—relatively fixed rates and exemption levels—increased the tax burden on lower income taxpayers, as they moved from a non-taxable status to a taxable status, from the lowest bracket rate to a higher rate.

Even our massive income tax reduction in the last two years has only set this process back about five years.

And even with such reduction, over the past 15 years an examination of effective tax rates (the percentage of overall income actually paid in tax) shows:

- a family earning half the national average income (\$2,200 in 1950, \$4,000 today) went from an effective tax rate of zero to almost 4 percent;
- a family earning the national average income went from an effective tax rate of 6½ percent to 9 percent;

- a family earning double the national average income stayed roughly the same;
- higher income families either held their own or realized reductions, often substantial, in their effective tax rates as increased incomes were offset by increased deductions or a greater proportion of capital gains.

Indeed, the spread of effective tax rates is greatest for higher income taxpayers, varying from zero to around 66 percent. Correspondingly, the average effective rate for very high income taxpayers is much lower than is generally realized. For instance, all taxpayers who in 1962 reported adjusted gross incomes of more than a million dollars would—at present tax table rates—pay an average effective rate of only 26 percent of their overall income (including capital gain income in full). Furthermore, only nine percent of those taxpayers would have effective rates of over 50 percent on overall income under present tax table rates.

All this reinforces President Johnson's view that the next tax reduction should focus on the lower income groups.³

3. *Tax Simplification*

President Johnson in his 1966 Economic Report stated: “. . . improvement of our tax system is a continuing need which will concern this Administration and which deserves the support of all Americans One major goal must be simplification of the tax law.”⁴ The difficulties of achieving tax simplification are many, varied, and deeply ingrained in our present tax structure. Indeed, they are matched only by the desire, long standing and constantly repeated, of so many voices to achieve some progress towards simplification. In the years ahead, serious attention is likely, therefore, to be given to this subject. Thus, in addition to President Johnson, Congressional leaders in the tax field have addressed themselves to the task. Chairman Mills, in a recent article in *Nation's Business*,⁵ called for greater emphasis on simplifying the tax laws and provided specific suggestions which indicated the many facets of the task. Stating that improved administration was one of the roads to tax simplification, he pointed for examples to the treatment of tax liens, the direct filing of tax returns at regional offices, and an improved rule to determine which parent should receive a dependency exemption when there has been a divorce—an issue involved in a very high proportion of disputes at the administrative level. Legislation dealing with these matters is now moving through the Congress. Next he called attention to substantive provisions in which the computations and detail appear unnecessarily complex and out of proportion to the substantive refinements thereby obtained in the development of the provisions.

3. Remarks of Stanley S. Surrey, Assistant Secretary of the Treasury, at the Financial Analysts Federation Conference, Washington, D. C., October 5, 1965, Treasury Press Release, at 12-14.

4. 112 Cong. Rec. 1266, 1270 (daily ed. Jan. 27, 1966).

5. Mills, *Good News For Taxpayers*, *Nation's Business*, Dec. 1965, p. 50.

Here he used as examples the retirement income credit, which takes an entire page on the tax return, the averaging provision, and the sick pay exclusion. Then, in an area of much wider significance, that of personal deductions (*e.g.*, the deductions for interest, taxes, charitable contributions, medical expenses and casualty losses), he stated alternative plans whereby the serious complexities involved in the present itemization of these deductions would be reduced.

One plan would increase the standard deduction—this plan would lose revenue and maintain income tax rates at present levels. A second plan would reduce tax rates by about 10 percent, or perhaps more in the upper brackets, for those willing to forego the standard deduction or itemized deductions. This plan, being optional, would also lose revenue. A third plan would reduce the rates by 10 percent, and even more in the upper ranges, and then allow no standard deduction and itemized deductions only above a 10 percent of adjusted gross income level. This plan could be aimed at achieving a revenue balance, or only as little loss as would be needed to make finer adjustments among the different taxpayers involved in the restructuring.

Chairman Long, of the Senate Finance Committee, is also interested in tax simplification and, indeed, his approach, like that of Mr. Mills, recognizes the complications now involved in our system of personal deductions. Senator Long's proposal goes beyond these deductions, and would provide substantially lower effective tax rates for those who optionally forego all tax preferences, including most of the personal deductions but also extending to such matters as tax-exempt interest, capital gains, and depletion. Essentially such a proposal and the deduction proposals of Mr. Mills involve alternative ways of measuring taxable income that are broader than the present law, in the belief that these income alternatives will prove less complex than our existing refinements. At the same time, being broader, they offer trade-off possibilities in the reduction of tax rates without serious revenue loss.

The achievement of tax simplification requires a high measure of sheer ingenuity mixed with an intelligent weighing of what is valuable complexity proper to achieve needed fairness and what is expendable refinement and detail. We must recognize that society is willing to tolerate considerable tax complexity in the areas where lawyers are needed anyway—corporate organizations and reorganizations, partnerships, trusts and the like. But society can properly demand solutions to the complexities that now seriously complicate the tax system for the average taxpayer—the retirement income credit, the itemized deductions, and similar matters. Where simplification is possible without pain to the taxpayers involved, and without serious loss of revenue, it will obviously be adopted as soon as the solution is perceived. The hard cases are where some monetary cost to the taxpayers is involved in the simplification solution. But we can only achieve simplification in the hard cases if we are willing to abandon those refinements of equity or incentive that are disproportionate to the complexities involved.

4. *Tax Equity and Special Tax Preferences—Cost Effectiveness Analysis*

President Johnson, in his 1966 Economic Report calling for improvement of our tax system, stressed two additional themes—equity and the review of special tax preferences:

Another aim must be a more equitable distribution of the tax load. The great variation of tax liability among persons with equivalent income or wealth must be reduced. Further, when tax reduction once again becomes feasible, particular attention must be given to relief of those at or near poverty levels of income.

Finally, we must review special tax preferences. In a fully employed economy, special tax benefits to stimulate some activities or investments mean that we will have less of other activities. Benefits that the Government extends through direct expenditures are periodically reviewed and often altered in the budget-appropriation process, but too little attention is given to reviewing particular tax benefits. These benefits, like all other activities of Government, must stand up to the tests of efficiency and fairness.

These words emphasize that structural tax revision and reform must be a continuing ingredient of our tax legislation. Indeed, the determination from time to time of how the balance among these three factors—equity, special tax incentives or preferences, and simplification—should be struck will decide the nature of our tax system. If we stress special tax preferences and through them the use of the tax system to accomplish on a wide scale benefits for particular taxpayers or various nontax goals, then the price must be paid through a lessening in the equitable distribution of the tax load and in increased complexity. If we push simplification too far at the expense of fairness, then also the equity of the tax system suffers. But if we push the demands of equity to refinement after refinement, then complexity triumphs. And if we discard each and every tax preference, then certain needed values in our society can be lost.

These interlocking pulls and counterpulls and the constant need to seek the right balance make the task of tax reform difficult. But the President's words underline that the goal can be clearly perceived and there are standards against which the present provisions can be tested. One is that of achieving a greater degree of horizontal tax equity than we have today: "great variations of tax liability among persons with equivalent income or wealth must be reduced." The other is that special tax preferences must—just as direct governmental expenditures—justify their current existence: "Tax benefits . . . like all other activities of Government, must stand up to the test of efficiency and fairness."

The first standard, that of horizontal tax equity, is a familiar one to economists and indeed to legislators though perhaps not in that terminology. For it is essentially the concept of elementary fairness in taxation—why should

this taxpayer be treated better—or worse—than the rest of the public. It is the first and basic barrier that proposals for tax preferences face when pressed on the Congress, and it is the barrier which most cannot surmount. The concept of tax equity may be subtle, indefinite, flexible and seen differently by different viewers, but it is nevertheless a concept that all who participate in the tax legislative process initially resort to, instinctively or expressly, to see whether each new proposal must either bear a high burden of proof or is presumptively acceptable.

The second standard, that of "efficiency," while also familiar to economists, receives a new cast when coupled with the considerations applied to the review of direct budgetary expenditures. In recent years developments in cost effectiveness analysis and similar analytical tools are making it possible to identify more clearly the goals of expenditure programs and then to measure with steadily increasing precision the efficiency of the programs in accomplishing those goals. But this approach has not hitherto been applied to tax legislation. Yet taxes foregone because of a desire to benefit a particular activity or to induce certain activities are in a real sense monies spent. Indeed, in nearly every such situation an alternative to the tax approach is a direct expenditure of funds not involving the tax system. Cost effectiveness will enable us to appraise the efficiency of the tax approach as compared with the expenditure approach.

The need for this hard-headed appraisal is evident as those seeking certain goals keep turning constantly to the tax system as the vehicle for their ends. Thus tax credits are sought for college education, anti-pollution machinery, manpower training, underground transmission lines, state income taxes, and a variety of other objectives. Their sponsors never seek to test the link between the tax credit and the objective, but rely instead on the appeal of tax credits and the social worth of the objectives. Yet that link nearly always will not stand the application of a rigorous cost effectiveness analysis, and it will generally be found that the tax credit is wasteful and inefficient when compared with equal or fewer dollars spent through a direct expenditure or other nontax program. The tax benefits will be misdirected by going to taxpayers who do not need them and by being withheld from those whose low incomes or losses keep them from being taxpayers at all and hence able to profit from the credits.

Nor should this cost effectiveness analysis be applied only to test new tax proposals. Large sums are "spent" under our present tax system, through its existing preferences, to accomplish certain social or economic objectives. While recognizing of course that cost effectiveness may not always be the proper or necessary method of evaluating a tax provision, it can nevertheless be helpful to apply that method to these existing preferences to improve our understanding of their effect and operation.

5. *Tax Administration—Compliance and Collection Procedures—Statistical Data*

Tax administration can also benefit from cost effectiveness analysis and similar approaches. We are making great strides in applying automatic data processing to the paper work processes, routine examinations, and data gathering of tax collection. We will thus be in a position to survey carefully the degree of existing compliance in various income areas and then, where needed, devise improved methods to increase compliance. We can appraise the effectiveness of present information reporting procedures applicable to the different ways in which income is earned or received, and consider how these procedures can be improved or supplemented by automatic collection at source mechanisms. For clearly, in a society as automated as ours is becoming, there is every reason, based on fairness to those who comply, to ensure that the legislative decisions by the Congress on how the tax burden should be allocated in our society are not distorted or thwarted by weaknesses in the tax collection process.

Through various structural changes we have largely shifted our tax collection to a current basis, using graduated withholding for wages and salaries and estimated payments for nonwage income and corporate income. The task now is to refine these procedures of current collection. Thus we must, as we gain experience with graduated withholding and the new additional allowance system for taxpayers with large itemized deductions introduced by the 1966 Act, see if there are ways further to reduce overwithholding, or, in the small degree to which it may still exist, underwithholding. We must examine our declaration of estimated tax system to ascertain if it is functioning effectively, and to consider the effect of reducing the 100,000 dollar tax level at which current payment starts for corporations—after all, proprietorships are on a current basis for their income tax over 40 dollars.

Of course a move to simplification in the substantive measurement of taxable income and a lessening of tax preferences, with their complicating options and departures from the regular patterns, would greatly ease compliance problems. It would also give the Internal Revenue Service the opportunity to make far more rapid progress in conquering the problems involved in structuring tax returns for mass use by millions of taxpayers.

The tax system is a vast gatherer of statistical data, which are largely maintained in Statistics of Income published by the Internal Revenue Service. Developments in statistical techniques and in automatic data processing combine to require careful examination of this statistical activity. We need to appraise the information that should be sought on tax returns, to consider what statistical data should be obtained, analyzed, and published by the Service in the light of its own needs and the overall reporting requirements placed on the private sector by government, to determine how these data can be used to guide us both in the administration of the tax system and in evaluating existing substantive provisions or new proposals, and to consider how the data and informa-

tion gained can be used by government and others to increase knowledge in non-tax fields.

6. *Tax-Exempt Organizations and Activities*

In recent years there has been a determined effort carefully to survey the various organizations accorded a tax-exempt status under the income tax, either directly as tax-exempt organizations or indirectly through special technical rules governing the determination of their taxable income. The objective of the survey is to ascertain whether that status is still justified under modern economic and social conditions and high tax rates and, if so, whether the grant of the status is being abused or otherwise requires modification. This effort has produced significant changes: the methods of taxing life insurance companies and casualty insurance companies have been revised, the treatment of co-operatives has been altered to obtain a current tax either from the cooperative or the patron, and the savings and loan associations have been subjected to partial income taxation. But the field is a wide one and further changes appear appropriate.

One phase of the inquiry concerns business activities which are not being fully taxed. This escape from full taxation may result from the technical rules governing the determination of their net income, as in the case of financial institutions. Sometimes these rules are traceable to the mutual character of the organization, sometimes to the particular business procedures involved. As experience is gained under these technical rules, they must be re-examined to see if their effect is to yield a lower rate of tax on these institutions than on other businesses. If so, since business activity and competitive effects are involved, the burden of showing a continued justification for the existing rules falls upon the financial institutions.

In other instances, the business activity may not be fully taxed because it is operated by an organization granted a tax-exempt status on account of its functions apart from the business activities. While the income tax now reaches the "unrelated business income" of some tax-exempt organizations, such as educational or charitable organizations, there are weaknesses in the areas covered by the "unrelated business income" rules and there are many types of exempt organizations and their businesses to which these rules do not extend. Again, since activities competing with fully taxed businesses are involved, the burden of sustaining the continued exemption should fall on the organizations involved.

Another phase relates to those institutions having a tax-exempt status because of the value to society of their basic activities, where the manner of performance of those activities has come to be questioned by society. An example here is the private foundation, and the issue is broadly summed up in President Johnson's recommendation that Congress "deal with abuses of tax-

exempt private foundations." Perhaps I can summarize the matter as seen by the Treasury in these words taken from a previous address to the Section of Taxation of the New York State Bar Association:

We are all well aware that private foundations have been under a cloud for many years, despite the fundamental and strong attachment Americans hold for private philanthropy. Of all the areas in which that philanthropy can be exercised—in private educational institutions, in religion, in community programs—basically only the area of the private foundation stands suspect. And that is because a substantial number of private foundations have not been able to separate their philanthropy from activities and relationships that have nothing to do with philanthropy. Prominent among these aspects are their involvement in business relationships and their maintenance of arrangements and transactions which give the appearance and often the actuality of continuing financial benefits to their donors and trustees.

I doubt there is anyone who looks upon these matters as positive benefits to philanthropy or society. I have not found a responsible foundation trustee who, finding a foundation with a diversified investment portfolio, would switch that portfolio into the ownership of a business corporation or a minority interest in a family corporation or unimproved land or only non-dividend-paying growth stocks. The present involvement of foundations in these investments and activities is thus only an accommodation to their donors, be it a reflection of the donor's past activities or as a response to a present desire of the donor. But the involvement is hardly an inherent philanthropic virtue.

Our task is not to perpetuate these involvements of private foundations, but to seek ways in which foundation philanthropy can be freed from them—ways whereby the private foundation can shed the activities which the donor's financial history before its organization or his present financial concerns have thrust upon it.

Nor should we look only at foundation involvements with the financial affairs of their donors. Again, I have not found any responsible trustee who has not recognized the need to maintain a balance between the influence of those donors desirous of playing a role in the philanthropic spending of the funds which used to be theirs—but legally are no longer their private concern—and the claims of society that philanthropic funds be controlled by trustees with a fiduciary regard and a degree of detachment and outlook that is not submerged in submissiveness to the donors.

The Treasury Department in its Report to the Congress on Private Foundations addressed itself to these difficult problems and made specific recommendations. I urge your careful study of these recommendations. For here also legal ingenuity should be equal to the task of removing the present clouds that hang over the private foundations. And indeed tax lawyers have a real responsibility in this regard. The proliferation of the private foundation is in large part the handiwork of the tax bar, in its use of tax provisions designed to foster general philanthropy as a tool for family and business planning. Society can properly call upon us to recognize the wider concerns involved and

to fashion our handiwork into a genuinely philanthropic instrument not tainted by the present defects and abuses.⁶

Another somewhat different example of a tax-exempt institution whose present-day effects and operation have come into question is the private pension plan. Essentially, the statutory rules governing the development of private pension plans, set forth as qualifications for eligibility for special tax treatment, have not changed since 1942. As a consequence, basic problems in the private pension field such as the vesting of pension benefits, the funding of benefits, the portability of benefits, the coverage of employees and the integration of these plans with the Social Security system are governed today by concepts and patterns developed a quarter of a century ago. Pension plans then were just beginning to flourish and economic conditions and institutions were different. The President's Cabinet Committee on Private Pension Plans has raised serious questions about the suitability of the existing rules in the light of present-day conditions. These questions deserve serious consideration.

7. The Scholars and Possible New Areas

It is the task and duty of scholars constantly to be generating new ideas for society to consider or reject. It is also their role carefully to research and analyze new ideas that may have been advanced elsewhere, so that society can be better prepared to judge those ideas. While the tax field should be no exception, and basically it is not, still I doubt that this field receives its fair share of scholarly attention. Indeed, but for the work of a few research institutions, notably the Brookings Institution and the National Bureau of Economic Research, and a handful of academics, the scholarly attention seems rather thin. Yet there are some tax areas now being explored by the scholars and one should take note of these as forming a research stockpile out of which there may emerge new matters for public consideration.

a. Corporate Taxation—and the Value Added Tax

The scholars have always paid attention to the corporate tax and its place in a federal tax system. But their attention has not yet produced clear directions for the legislator, and the consequence has been shifting legislative approaches both here and abroad. At present the United States has a corporate tax separate from the individual income tax on dividends, except for the 100 dollar dividend exclusion. The United Kingdom, which formerly integrated its corporate tax with the individual income tax by allowing shareholders a credit against tax, on a grossed-up basis, for the corporate tax, shifted in 1965 to the complete separation of corporate tax and individual income tax. France and West Germany, however, have moved from separate treatment to a semi-integrated

6. Remarks of Stanley S. Surrey, Assistant Secretary of the Treasury, before the Section of Taxation, New York State Bar Association, February 3, 1966, Treasury Press Release, February 2, 1966, at 10-11.

approach but with differing techniques, France using a shareholder grossed-up credit for half the corporate tax and West Germany a lower corporate rate on distributed profits. Canada presently has a semi-integrated system through a shareholder tax credit, without grossing-up, for 20 percent of dividends received, but presumably this approach is under examination by the Royal Commission now surveying the Canadian tax system.

With all this diversity, we may expect that the scholars will consider they have a task set for them to offer fresh guidance or criteria to legislators. The status quo of course has strong claims in the United States—a system which collects over one and one-half billion dollars from General Motors, and about five billion dollars from ten corporations, is certainly efficient in this sense and is thus not easily displaced by any rival approach that disperses the tax collection and complicates the task of administration. Thus any approach which looks more to the shareholder for the tax on corporate profits must devise a more efficient system of collecting the tax on dividends than we possess today. Moreover, the tax on corporate profits must be considered in the context of our present lower rates for capital gains taxation, since the great part of capital gains traces back to accumulated corporate profits.

The scholars in this area are, with varying degrees of enthusiasm and also varying limits to their perspective (a few do not see the relationship to the capital gains tax), considering the value added tax as a competitor to the corporate tax, or perhaps as a companion. In part this research stems from the movement in Europe toward the value added tax as the preferred form of national sales tax to replace their present varieties of that tax, such as turnover taxes, and, parenthetically, not as a substitute for their corporate taxes. This research will undoubtedly be helpful in increasing American understanding of the value added tax—its issues and problems, its relationship to our present system, its advantages and disadvantages in relation to the corporate tax and to other forms of sales taxation, its economic impact and ultimate incidence.

Another area that the scholars appear to be considering, and this may be more in the domain of the lawyers, is the desirability of revising and broadening the so-called "Subchapter S" method of taxing corporations. Under this method, by following complex rules and paths the shareholders of closely held corporations can elect to eliminate the corporate tax if they include the corporate profits in their individual income as presumed dividends.

Both of these new areas of inquiry, along with the more traditional lines of research respecting corporate tax integration and "double taxation" of shareholders, may help shape the possible paths of future public debate in the corporate field and perhaps also, in view of the value added tax, of sales taxation generally.

In the Treasury we are devoting attention to the matter of business investment in plant and equipment and the effects of tax rules upon such investment. We are trying—and we hope others will also do so—to learn more about

the factors—cash flow, rate of return, foreseeable demand, and so on—that influence that investment and the conditions, including tax policy, that will enable us to maintain a rate of investment appropriate to our economic goals. We are also seeking to learn more about our depreciation system, especially the guidelines and the reserve ratio test, and are here using a complex computer study of the effects of varying depreciation rates and lives against the manifold patterns of asset holdings, replacements and retirements that our businesses exhibit.

b. *Treatment of the Poor—The Negative Income Tax*

Scholars interested in the income maintenance and welfare activities of Government have rather recently begun to explore in a systematic way the possibilities offered by the individual income tax structure. Their research has recently been given added emphasis by the Report of the President's Commission on Automation, composed of leaders in business and labor and expert economists, which recommended:

. . . that Congress go beyond a reform of the present structure and examine wholly new approaches to the problem of income maintenance. In particular, we suggest that Congress give serious study to a "minimum income allowance" or a "negative income tax" program. Such a program, if found feasible, should be designed to approach by stages the goal of eliminating the need for means test public assistance programs by providing a floor of adequate minimum incomes. A minimum income allowance would complete the symmetry of our tax system, under which tax payments are related to income, family size, medical, and other costs, by acknowledging the continuity beyond zero tax rates. It seems anomalous to us that a family of five now pays the same tax—zero—whether its total income is \$500 or \$3,500.⁷

The 1966 Report of the Council of Economic Advisers also recommended research in this area:

Increasing concern about these problems [of poverty] is producing a variety of new income-maintenance proposals. One approach would make public assistance coverage more comprehensive and assure all recipients more adequate benefit levels. Another approach is the institution of uniformly determined payments to families based only on the amount by which their incomes fall short of minimum subsistence levels. Such a system could be integrated with the existing income tax system. This plan is now receiving intensive study by many scholars. It could be administered on a universal basis for all the poor and would be the most direct approach to reducing poverty. In future years, these and other proposals deserve further exploration.⁸

The negative income tax—and the research might well encompass the search for a more descriptive phrase—would seem essentially a device to

7. *Technology and the American Economy*, Rep. of the U. S. National Commission on Technology, Automation, and Economic Progress 63-64 (1966).

8. 1966 Ann. Rep. of the Council of Economic Advisers, Econ. Rep. of the President 23,115 (1966).

channel Government funds to those in poverty status. As such it is not a tax matter. Yet, since the device uses standards set by the income tax to measure the poverty level and since it views the income tax structure as a continuum—with payments *to* people whose incomes are below the level of personal exemptions and minimum standard deductions, at rates that are uniform or graduated downwards as their income approaches that level, and payments *from* people at graduated rates whose incomes are above that level—it has lent itself to consideration by tax scholars. Some of them are accordingly working on the technical structure of a negative income tax and its operative mechanics. Others—and this would seem the more difficult task—keeping in mind that essentially an expenditure is involved, are attempting to determine the criteria which should govern the desirability of resorting to this approach to meet the problems of poverty as compared with the more traditional income maintenance and welfare assistance approaches. As they see the research, it is not the question of whether X billion dollars should be expended by the Federal Government through a negative income tax but rather whether, if the Federal Government decides to expend sums to assist the poor, should X billion dollars of that total be spent through the negative income tax or through other ways. The pertinence of this aspect of the research is heightened by the fact that the House Ways and Means Committee has jurisdiction to consider both the tax system and many of the welfare programs of the Federal Government.

c. *Financing of Social Security and Unemployment Benefits;
Tax Relief for the Aged*

Our Social Security system has grown rapidly and with that growth have come higher and higher payroll taxes. The rate is now 3.85 percent each for employers and employees on wages up to 6,600 dollars, and will be 4.85 percent by 1973. To this must be added rates of 0.35 percent now and 0.80 percent by 1987 for Medicare. Furthermore, Federal tax law results in rates of 0.4 percent to 3.1 percent on employers, on wages up to 3,000 dollars, for the unemployment tax, and an increase is presently under legislative consideration.

This rise in payroll taxes has caused some scholars to cast new glances at the financing of these programs. Little attention has been paid up to now to these payroll taxes and their economic effect. Scholars know that in immediate impact they are regressive. Yet should that regressivity be regarded as balanced by the fact that the funds so obtained are contributed to a system producing pensions for those who are taxed—to what extent can and should the incidence of tax and the incidence of benefits be related? Indeed, the labor unions supported the efforts of the Treasury and the Health, Education and Welfare Department to include tips in the wages subject to Social Security tax, and Congress in 1965 took this approach to tips as far as the employee's tax and Social Security benefits are concerned, along with the inclusion of tips in wages subject to income tax withholding. Further, scholars are aware

that a tax on payrolls has some effect on productivity and employment, but precisely what effect is not clear. The war on poverty has of course stimulated some of this research since among the Federal taxes the payroll tax is the largest of those paid by the poor. The recent Congressional resort to general revenue financing for half of the Medicare insurance program for those over 65 and for the transitional coverage under Social Security of persons over 72 not presently covered, and the recommendation by the Administration that part of the cost of a proposed new program of benefits for extended unemployment be financed by general revenues, have also contributed to new interest in the question of the extent to which Social Security benefits, as presently constituted or if increased, should be financed from general revenues.

Related to these issues is the present system of taxing the aged under the income tax, or rather of according tax benefits to the aged. This system involves many facets—an extra 600 dollar personal exemption and 100 dollar minimum standard deduction, the exclusion from gross income of Social Security and Railroad Retirement benefits, and a retirement income credit applicable to private pensions, dividends, interest and like income but not to earned income (the credit is reduced where earned income is present). Largely these special tax provisions benefit the better-off aged. Of the estimated 18.5 million persons 65 or older, about 40 percent receive no monetary benefit at all from these provisions, since they would be nontaxable under the normal rules even if Social Security and Railroad Retirement benefits were included in gross income. Only about 20 percent of the total aged use the extra personal exemption in full, and the remaining 80 percent lose some or all of its benefit because of their otherwise low taxable incomes. As to the 60 percent who benefit in some degree from these provisions, only one-quarter of the benefit goes to the aged whose income (adjusted gross income plus their Social Security and Railroad Retirement benefits) is less than 3,000 dollars; about one-half goes to the aged whose income is below 5,000 dollars. Besides being complex, erratic and to a considerable extent misdirected, these provisions involve a large sum—their total revenue cost is 2 billion dollars. The question that scholars must consider, in their studies regarding income maintenance plans and especially where the aged are concerned, is whether this expenditure of 2 billion dollars through these tax relief provisions is an efficient use of Federal funds. Granted the objective of improving the income situation of the aged, are there better ways of using these funds?

d. *The Federal Tax System and State and Local Government—Tax Sharing and Tax Credits—Also State Taxation of Interstate Activities*

The recent series of tax reductions at the Federal level and the attention given to the built-in large annual increase in Federal revenues that a growing economy provides have led some to consider ways whereby Federal revenue could be used to assist State and local governments in some direct, automatic way. Initially, this has led to the presentation of ideas developed earlier. One

approach so suggested is that of tax sharing with the States, whereby an amount determined by a fixed percentage of the Federal individual income tax base (taxable income) would be channeled to the various States each year via prescribed distribution formulae. This approach, which is essentially a recommendation for an added expenditure by the Federal Government, quite naturally invites comparison with the other ways whereby Federal funds are and may be directed to State and local governments or expended for activities, such as education and health, traditionally supported by those governments. Another approach, recommended by the Advisory Committee on Intergovernmental Relations, but with the Secretary of the Treasury pointedly not voting, would grant a credit against Federal tax, in lieu of the present deduction, for State income taxes paid in an attempt to induce the States to make further use of income taxes.⁹ This approach raises issues of effectiveness—will the loss of Federal revenue through the credit achieve the intended result or simply be wasted through tax reductions accorded for the existing State taxes—and selectivity—would the public approve the singling out of one type of State tax for this preferred status.

These ideas have been considered before and generally have been found wanting. The present fiscal situation at the Federal level certainly precludes even consideration of their adoption at this time. Consequently, those scholars interested in the subject of Federal-state relations have an opportunity to re-examine the problems and issues in the tax field to see if improvements in the present patterns are desirable. One aspect is that of further coordination and cooperation in the administration of taxes imposed by both the Federal Government and the States, such as the individual income tax. The Advisory Commission on Intergovernmental Relations has recently made recommendations in this respect. Another aspect now under consideration by the Congress is that of the taxation by the States of interstate activities, through their income taxes and their sales and use taxes. This consideration involves the extent to which Federal statutory rules and Federal administration may be necessary or helpful in solving the admitted difficulties now being faced by both the States and the companies with interstate businesses.

8. *User Charges*

A number of existing Federal excise taxes are designed as user charges for the purpose of raising funds for specific expenditure purposes. The most important example is that of the group of taxes—the gasoline tax, the taxes on truck sales, truck parts, and truck use, the tread rubber tax and the diesel fuel tax—earmarked for the Highway Trust Fund, totalling 4.4 billion dollars in fiscal 1967. Another example is the 5 percent passenger tax on aviation

9. Advisory Commission on Intergovernmental Relations, *Federal-State Coordination of Personal Income Taxes 18-19* (1965).

FEDERAL TAX POLICY IN THE 1960's

travel, which goes into the general revenues but is imposed to meet a part of the Federal expenditures for assistance to commercial aviation.

The President has recommended that this system of user charges be expanded, so that as far as possible the groups specifically benefited by Federal expenditures should contribute the funds for those expenditures. Thus, he has recommended increases in the Highway Trust Fund taxes to meet increased highway costs, a temporary increase in the aviation passenger tax and a tax on aviation freight, a tax on fuels used by civilian aviation as a partial offset to expenditures for airports, navigational facilities, etc., a tax on fuel used by vessels using the inland waterways as a partial offset to expenditures for those waterways, and the transfer of 1 percentage point of the tax on passenger automobiles to the Highway Trust Fund to meet expenditures for highway beautification and highway safety. The principle underlying these user taxes or charges seems clear enough, and indeed many in our transportation industry accept that principle, inland waterway users and partisans of general aviation apparently being the exceptions. There are, of course, within that principle, disputes as to the allocation of the benefits from the Federal expenditures and the type of user charge that is appropriate and consistent with that allocation. This user charge approach is likely to be an important factor in legislative activity in the Federal excise tax field.

CONCLUSION

This review of the principal factors causing the high level of tax activity in the past few years and likely to continue their thrust, and the discussion of the possible paths of future development, combine to underscore the wide sweep of tax policy issues. Sometimes these issues involve wholly new problems that emerge as business and social conditions change and as society's goals take new directions. Sometimes these issues relate to renewed efforts to solve problems that have proven intractable in the past, either because the previously offered solutions were not more appealing than the status quo or because political forces or lobbying pressures blocked the revisions sought. Sometimes the issues reflect the continuous task of shaping fiscal policy to economic conditions changing with the ebb and flow of domestic economic forces or shifts in our international relationships. Moreover, the issues range over a wide scale, running from those receiving nationwide attention and debate on to those that concern a single industry or area and on down to those that may concern only a few taxpayers. Whether wide-ranging or narrow, whether new or old, whether fiscal or technical, most of the issues generally present substantive questions that are controversial and difficult of resolution and technical details that require thorough analysis and careful structuring.

The maintenance of a proper tax structure and the responsible handling of tax policy issues are thus a continuous challenge to any nation. Success in these tasks can well be a test of the successful functioning of democratic

government. The United States need not yield to any country in comparisons of tax structure or tax administration. Yet it will require the cooperative efforts of all of us with professional skills related to these tasks to assist society in understanding the tax issues that it faces and in finding the solutions vital to our continued growth as a Great Society. The years ahead in this decade—and in the decades after it—will present us with the hard tasks and splendid opportunities that lie in issues of tax policy.