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The excise-tax changes made by your committee's bill become effective on the first day of the first month which begins more than 10 days after the date of enactment of the bill. Your committee's bill also provides that the excise-rate increases are to expire on December 31, 1953. No termination date was provided for the excise-tax increases made by the House bill, but the same provision applied with respect to the time when the excise-tax changes were first to become effective. Assuming that November 1 is the effective date for these changes, it is estimated that your committee's bill will increase excise-tax revenues by $823 million in the fiscal year 1952 (this includes the floor stock taxes), raising total receipts for 1952 from excises to $9,383 million. With this same assumption, the House bill would increase excise collections in 1952 by $811 million, raising total excise receipts in 1952 to $9,371 million.

A. Alcoholic Beverages

The additional revenue estimated to be derived from the taxes on alcoholic beverages in a full year of operation is distributed among the various excises under both the House bill and your committee's bill as follows:

[In millions]

	House bill	Committee bill
Distilled spirits (including increased draw-back)	$168	$168
Beer	68	68
Wines	8	8
Occupational taxes on dealers in liquor	8	8
Total	252	252

1. *Distilled spirits*

Section 441 of your committee's bill increases the tax on distilled spirits imposed by sections 1650 and 2800 of the Internal Revenue Code from $9 to $10.50 per proof gallon. This is the same increase as is made by the House bill. The increase of $1.50 per proof gallon amounts to about 26 cents a fifth on the ordinary type of whisky bottled at about 85 proof. Under present law the $9 per gallon tax on distilled spirits averages about 40 percent of the retail price per bottle, including tax. The tax imposed by both your committee's and the House bills would raise this figure to about 43 percent. This assumes the addition in full of the tax to current prices, but no price mark-up on the tax.

During World War II and the immediate postwar years consumption of distilled spirits climbed almost continuously in spite of higher liquor taxes and prices, reaching a peak consumption in 1946 when consumers purchased more than 230 million wine gallons of distilled spirits for which they spent $5 billion, or 3 percent of their total disposable income. High income levels and the inability of consumers to purchase scarce durable goods probably were the most important factors in accounting for this high consumption level. Although consumption of liquor declined during the postwar years, since the outbreak of hostilities in Korea it has again been increasing, and the 1950 consumption of 190 million wine gallons was higher than in any prior

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years except 1945 and 1946. The acceleration of the defense program presents the likelihood that income levels again will rise and that consumers again will have to cut down their purchases of durable goods. Your committee believes that, under the conditions described above, it does not appear the increase provided by the bill will seriously affect the consumption level of liquor. Thus, it is not believed that the tax increase provided here will have much effect on the industry.

From the standpoint of the consumer it is not believed that this tax increase will prove to be particularly burdensome, since the limited data available suggest that up to income levels of $5,000 this tax bears about equally on the various income levels.

Your committee carefully reviewed the increase in the tax on distilled spirits with reference to the problem of bootlegging. It found that even under present tax rates there is a substantial financial incentive to engage in illicit operations of this type, which had been held at a relatively low level only as a result of enforcement measures. However, any increased financial incentive for illicit operations resulting from the tax increase provided by your committee's bill is likely to be more than offset by a tightening of the labor supply available for these operations and by higher incomes on the part of consumers, which will decrease the importance of the price differential between tax-paid and non-tax-paid liquor. Nevertheless, it was recognized that too large an increase in the tax on distilled spirits might well result in a sizable increase in illicit operations.

At the present time, although the general tax rate on distilled spirits is $9 a proof gallon, a draw-back of $6 per proof gallon is provided for distilled spirits used for medicines, medicinal preparations, food products, flavors, leaving a net tax of $3 per proof gallon in such cases. Draw-backs are used rather than reducing the rate of tax, because a lower rate might result in distilled spirits being diverted to beverage purposes on which the higher rate of tax should be paid. Using these medicines and nonbeverage food products as a source of revenue, however, appears to be in contradicition to the policy generally followed of not imposing excise taxes on medicines or food. In part this principle is recognized under present law by providing a draw-back of all but $3 of the tax per proof gallon. Both your committee's and the House bills recognize this principle in full by increasing these draw-backs so that a net tax of only $1 per proof gallon, sufficient to cover administrative costs, is finally paid. With the tax rate of $10.50 per proof gallon this is accomplished in section 452 of the bill providing in section 3250 of the code a draw-back of $9.50 per proof gallon.

It is estimated that in a full year of operation the changes made in the tax on distilled spirits by both your committee's and the House bill will increase revenues by $168 million.

2. Beer

Section 443 of the bill increases the tax imposed on fermented malt liquor, or beer, by sections 3150 and 1650 of the code by $1 per barrel, or from the $8 per barrel provided by present law to $9 per barrel. This represents the same increase as is made by the House bill. This is an increase in tax of 12½ percent as contrasted to an increase of 16⅔ percent provided in the case of distilled spirits. Under present law the tax on beer represents about 15 percent of the average retail

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price and under both your committee's and the House bills this is increased to between 16 and 17 percent. In the case of a 12-ounce bottle of beer the tax increase represents an increase of about one-third of 1 cent.

The increase provided for beer is smaller than that provided for distilled spirits because your committee believes that beer to a greater extent is consumed by the lower income groups and, therefore, that an increase in this tax generally is more burdensome than the tax on distilled spirits.

With the present high income and consumption levels it appears probable that much, if not all, of the tax increase provided for beer can be shifted by the industry to the consumer without seriously affecting the current level of consumption. Thus it is not anticipated that this tax increase will have any important effect on the industry.

In a full year of operations it is estimated that the $1 per barrel increase in the tax on beer will raise revenues by about $68 million.

3. Wines

Section 442 of the bill amends sections 3030 and 1650 of the code to provide for the same increase in the tax on wines as in the case of beer, namely, an increase of approximately 12½ percent. Thus, in the case of still wines, including vermouth, the tax per gallon would be—

(*a*) increased from 15 to 17 cents where the alcoholic content of the wine is not more than 14 percent,

(*b*) increased from 60 to 67 cents where the alcoholic content of the wine is over 14 percent but not over 21 percent; and

(*c*) increased from $2 to $2.25 where the alcoholic content of the wine is over 21 percent but not over 24 percent.[14]

In the case of sparkling wines, liqueurs, and cordials the tax per half pint would be:

(*a*) increased from 15 to 17 cents in the case of champagne or sparkling wines; and

(*b*) increased from 10 to 12 cents in the case of liqueurs, cordials, and artificially carbonated wines.

These are the same increases as are provided by the House bill.

Most of the wine consumption in the United States today is represented by the first two categories of still wines. Natural, or table, wines with an alcoholic content not over 14 percent and including such wines as sauterne, claret, and burgundy represent about one-quarter of the total consumption. Sweet or dessert wines with an alcoholic content between 14 and 21 percent and including such wines as port, sherry, tokay, and muscatel represent approximately three-fourths of the total consumption in the United States today. These wines are fortified with brandy or alcohol before the natural fermentation is completed. Sparkling wines account for most of the small remaining consumption in the United States today and in large part represent imports.

In terms of retail price the tax under present law represents about 4 percent of the retail price, including tax, in the case of table wines, and would be increased by about one-half of 1 percent under both your committee's and the House bills. The tax on sweet wines under present law represents about 15 percent of the retail price and under both bills this percentage would be increased by slightly more than 1 per-

[14] Wines with alcoholic content in excess of 24 percent are subject to the tax on distilled spirits.

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centage point. The tax on sparkling wines represents about 25 percent of the retail price under present law and under both bills this would be increased to about 26½ percent. Thus the rate of tax under the bills will continue to be graduated in accordance with alcoholic content.

Your committee deemed it appropriate to make only a moderate increase in the case of the taxes on wines because of the importance of wines to the grape-growing industry. Between one-third and one-half of the total grape crop is customarily absorbed by wine. The demand for wine, therefore, also has an important effect on the prices which can be obtained by producers for raisins and fresh grapes, the two other important uses of grapes. Moreover, in view of the fact that it has been necessary for the Department of Agriculture at times since the end of World War II to support the price of raisins, it would appear inappropriate for your committee to make a substantial increase in the tax on wine which might have the effect of requiring further price supports. In addition it should be pointed out that wine consumption in the United States relative to consumption of other forms of alcoholic beverages is relatively low when compared to relationships generally established abroad. Moreover, the wine industry is one of the few industries which has been classified under the excess-profits tax as a depressed industry.

The effect of both your committee's bill and the House bill in the case of the taxes on wines is to raise revenues by an estimated $8 million in a year in which the increase is fully effective.

4. Occupational taxes on dealers in liquor

Retail dealers in liquor other than those dealing exclusively in wine and beer are required under section 3250 of the code to pay a special annual occupational tax of $27.50. Section 451 of the bill raises this occupational tax to $50 a year. This is the same increase as is made by the House bill. Under present law the low tax has made it impractical from an administrative standpoint for the Bureau of Internal Revenue to verify the names and addresses of persons paying this special occupational tax. Attention has been called to many cases where incorrect names and addresses have been given with the probable intention of avoiding detection by State and local liquor authorities. Your committee believes it feasible for the Bureau of Internal Revenue to establish a verification system for all payees of this tax and it is the intention of your committee that the Bureau of Internal Revenue do so. Severe penalties for fraudulent returns are already provided under existing law. It is estimated that this provision will increase collections by $7 million in a full year of operation.

Section 451 of your committee's bill also increases the occupational taxes on wholesale dealers in liquors and wholesale dealers in malt liquors. Section 3250 (a) (1) of the code imposes a special occupational tax of $110 on wholesale dealers in liquors. This includes wholesale dealers in wines, as well as wholesale dealers in distilled spirits. Both your committee's bill and the House bill raises this tax to $200. Section 3250 (d) of the code provides an occupational tax of $55 for wholesale dealers in malt liquor. This tax is raised to $100 by both bills. It is estimated that in a full year of operation the increase in these occupational taxes on wholesale dealers in liquors and malt liquors will raise revenues by $1 million annually.

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B. Tobacco Products

The changes made in the excise taxes on tobacco are distributed between small ("standard" and "king" sized) cigarettes and snuff, fine-cut, scrap, plug and twist chewing tobacco as follows:

[In millions]

	House bill	Committee bill
Small cigarettes ("standard" and "king" sized)	$177	$177
Snuff and fine-cut, scrap, plug, and twist chewing tobacco	0	—10
Total	177	167

No changes are made in the present taxes on cigars and smoking tobacco.

1. Small cigarettes

In the case of small cigarettes, section 421 of your committee's bill increases the tax provided by section 2000 of the code from $3.50 per thousand to $4 per thousand. This is the same increase as is made by the House bill. In effect, this raises the tax on the ordinary package of 20 cigarettes from 7 cents to 8 cents. The present tax on cigarettes represents about 34 percent of the retail price including tax. The increase would raise this to about 37 percent.

The increase provided by both bills is as large as the combined increases made in this tax during and just before World War II. In view of the importance of the sales of tobacco to a large number of farmers in the country, this is as large an increase in this tax as your committee believes it is appropriate to make.

It is estimated that in a full year of operation this action will increase revenues by $177 million a year.

2. Snuff and fine-cut, scrap, plug, and twist chewing tobacco

In the case of snuff and fine-cut, scrap, plug, and twist chewing tobacco, section 423 of your committee's bill reduces the tax from 18 cents per pound to 10 cents per pound. In the case of smoking tobacco the tax remains at 18 cents per pound. No such reduction was provided in the House bill. Your committee believes that this reduction is desirable because the declining demand for snuff and chewing tobacco has worked hardships on the manufacturers, and also on the farmers raising these particular types of tobacco. Moreover, these tobacco products are used primarily by the lower income groups and, therefore, the present tax is believed to be highly regressive.

It is estimated that in a full year of operation this action by your committee will decrease revenues by about $10 million a year.

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C. Manufacturers' Excises

The additional revenue it is estimated will be derived from manufacturers' excises is distributed among the various excises as follows:

[In millions]

	House bill	Committee bill
Gasoline, and diesel fuel used by highway vehicles	$220	$210
Passenger cars, motorcycles and house trailers	196	189
Automobile trucks, busses, and truck trailers	61	61
Automotive parts and accessories	56	56
Tires on toys, etc	−1	−1
Electric, gas, and oil appliances	18	69
Navigation receivers sold to the U. S. Government	None	None
Refrigeration equipment	0	Negligible
Sporting goods	Negligible	Negligible
Photographic apparatus and film	−23	−5
Electrical energy	−104	−104
Fountain pens, ball-point pens, and mechanical pencils	24	12
Cigarette, cigar, and pipe lighters	0	1
Total	447	488

1. Gasoline and diesel fuel

Section 479 of the bill provides for a one-half cent increase in the gasoline tax, raising the Federal gasoline tax, provided by section 3412 of the code, from 1½ to 2 cents per gallon. This is the same increase as is provided by the House bill. Since the tax on gasoline is a specific and not an ad valorem tax, the percentage relationship of the tax to the retail price will vary with the variation in the price of gasoline. Thus, although in 1950 the tax was 6 percent of the retail price, including tax, in 1940 it was 8½ percent of the retail price. This is accounted for by the rise in the average price of gasoline in the past 10 years. The average price in 1939, for example, was 13.3 cents per gallon before the State tax, while in 1950 the average price was 20 cents per gallon. The action by your committee, which would result in a tax equal to about 8 percent of the retail price of gasoline including tax, does not quite restore the relationship existing in 1940.

The consumption of gasoline has shown one of the most consistent patterns of increase over the last few decades. The production of gasoline in 1940, for example, amounted to 615 million barrels and in 1950 this had increased to 1,024 million barrels. The domestic demand for gasoline has grown at an average annual rate of 7 percent since the end of War War II and appears to be increasing somewhat more rapidly now. The 1950 demand for gasoline was 9 percent in excess of the demand for 1949 and the Bureau of Mines has estimated that the demand in 1951 will be 9½ percent in excess of the demand in 1950. This substantial increase can, of course, in large part be accounted for by the increased numbers of passenger automobiles and trucks on the road. For example, registration of automobiles and trucks in the period 1945 to 1950 increased over 50 percent. Under these conditions it appears probable that an increase in the gasoline tax of the size provided by this bill can readily be passed on to the consumers of gasoline. This appears especially likely in view of the fact that, in the case of gasoline, demand does not change much with variations in price.

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Despite this strong demand, the increase in the gasoline tax is limited to a half cent per gallon. Payments for gasoline represent costs of doing business in the case of gasoline consumed by trucks and in the case of an important segment of the gasoline used in passenger cars. In addition to this, your committee recognizes that the gasoline tax represents an important source of revenue to the States. The usual State tax ranges from 4 to 5 cents per gallon but eight States have a 7 cents per gallon tax and one has a tax of 9 cents per gallon. Too substantial an increase in the gasoline tax by the Federal Government might affect the use of this revenue source by the States.

The House bill adds a new section 2450 to the code imposing a tax of 2 cents per gallon on diesel fuel for diesel-powered highway vehicles. The tax is imposed on the retailer selling the diesel fuel for highway use and also on persons using the diesel fuel in highway vehicles if no tax was collected from the retailer.

Your committee, although recognizing that the failure to tax diesel fuel used on highways on the same basis as gasoline is discriminatory against vehicles power by gasoline, does not include this provision in its bill. As provided by the House bill, the tax would be very difficult to collect. The retailer selling diesel fuel for highway use also sells the same fuel for fuel-oil furnaces in homes. Moreover, experience with this tax at the State level has also indicated a considerable amount of evasion where the tax is collected from the persons using the fuel oil in the highway vehicles, the second alternative collection method provided by the House bill. Because of these difficulties in the administration of this tax, your committee believes that it is desirable to postpone the consideration of this problem until it is possible to give it further study.

As a result of not imposing this tax on diesel fuel, the estimated revenue which it is anticipated will be collected in a full year of operation from the gasoline tax is $210 million instead of the $220 million estimated for the House bill.

2. Passenger cars and motorcycles

Section 471 of the bill increases the tax, provided by section 3403 of the code, on passenger cars and motorcycles from 7 to 10 percent of the manufacturers' price. However, your committee's bill removes the tax on house trailers. The increase provided for passenger automobiles and motorcycles is the same as that provided by the House bill, but the House bill left the tax at 7 percent in the case of house trailers instead of removing it. The present tax on passenger cars on the average represents 5 percent of the retail price, including tax. The increase provided by this bill will raise this to somewhat over 7 percent.

The demand for new passenger cars has continued at a very high level since the end of World War II not only because of the backlog of demand from the war period when new cars were not available, but also because high income levels have made the purchase of cars possible to many persons not formerly able to buy them. The unit output in 1950, for example, represented 232 percent of the output in 1939. Moreover, the value of the 1950 output was $8.8 billion, or about five times the value of the output in 1939.

Despite the recent temporary decline in the sales of passenger cars, it appears that the demand for them in the year 1951 as a whole will be

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at a very high level. However, it appears probable that the supply of automobiles available will be cut because of their substantial use of critical materials. Twenty percent of the total steel output, for example, has been going to the production of automobiles. Steel allocations for automobiles were reduced in the second and third quarters of 1951 and at the present time shortages of copper and stainless steel are affecting automobile production. The output of passenger cars in calendar 1951 will probably be approximately the 1949 level which was slightly over 5 million, and is expected to be substantially above the annual production in the 10 years prior to World War II.

Under these conditions it appears probable that an increase in tax of the size proposed by your committee can readily be passed forward to the consumer without any cut in the effective demand for new passenger cars. Since the tax is not imposed on second-hand cars, which in large measure represent the purchases made by the lower-income groups, it appears probable that the tax increase made by the bill will not bear heavily on these groups.

However, your committee recognizes that cars represent a necessity to a large segment of the population under present conditions and, therefore, deemed it inappropriate to increase the rate above 10 percent on the manufacturer's price, the rate applying in the case of most manufacturers' excises. Moreover, the purchase of a car represents a larger outlay on the part of the consumer than is true in the case of most other durable consumption items, with the result that the amount of the tax payment in these cases is larger than in the purchase of other durable goods and, therefore, likely to be considered more burdensome.

Your committee's bill removes the tax on house trailers because it recognizes that, during periods of emergency such as the present, the bulk of these house trailers are used for housing by defense workers, military personnel and others rather than as a means of transportation.

It is estimated that in a full year of operation this provision of the bill will increase revenues by $189 million.

3. Automobile trucks, busses, and truck trailers

Section 471 of the bill also increases the tax on automobile trucks, busses, and truck trailers, provided by section 3403 of the code, from 5 to 8 percent of the manufacturer's price. This increase is the same as that provided by the House bill.

Since, as previously noted, the tax on passenger cars is increased to 10 percent, this maintains the traditionally lower tax for the types of automotive transportation especially designed for business. Your committee believes that it is desirable to retain a lower tax on trucks and related types of automotive transportation because it recognizes that these represent operating costs to businesses. A high rate of tax in such cases would be likely to be passed on in the price of commodities generally. However, it is believed that the moderate increase provided by the bill is desirable on much the same grounds as the increase provided in the case of passenger automobiles: namely, the anticipated high demand for this type of automotive transportation coupled with the likelihood of a curtailment in the supply available.

It is estimated that in a full year of operation this provision will increase revenues by $61 million.

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4. Automotive parts and accessories

Section 471 of the bill also increases the tax on automotive parts and accessories, provided by section 3403 of the code, from 5 to 8 percent of the manufacturer's price. This increase is the same as that provided by the House bill. Since the tax on automotive trucks, busses, and truck trailers likewise is raised to 8 percent, this will retain a uniform rate of tax for these two types of items, as is provided by present law. Even though new cars are taxed at 10 percent, the parts and accessories for them, when not purchased with the car, are included in the base of this 8-percent tax, because in many cases the parts for passenger cars and trucks are interchangeable. Morevoer, it is also believed desirable to impose a lower rate of tax on parts and accessories for passenger cars than on the new cars themselves, because the bulk of the parts and accessories are purchased by owners of old or second-hand cars who are largely in the lower-income groups.

With respect to reconditioned or rebuilt parts, where such sales are subject to the parts and accessories tax under present law, section 471 of both your committee's bill and section 481 of the House bill provide an amendment which excludes from the tax base the fair market value of any like part traded in for a reconditioned or rebuilt part. Where an automotive part is not performing satisfactorily and the car owner cannot afford a new one, he has the choice of either having the old one reconditioned, usually in a local shop, or of trading in the old part on a similar one which already has been reconditioned. The first of these alternatives, having the old part reconditioned, is not subject to the tax on automotive parts and accessories s nce there is no transfer of title. However, this alternative is not widely availed of because the car owner is not able to use his car during the reconditioning period. Under the second alternative, trading in the old part on a similar one which already has been reconditioned, there is a transfer of title and therefore such sales are subject to tax. The amount subject to tax in these cases is the charge to the car owner, plus the fair market value of the part he trades in. This not only presents the difficult administrative problem of determining the fair market value of the old part, but also is inequitable since trading in the old part is a substitute for repairing the car owner's old part. Only the value added in this case could be considered as new manufacturing, since in effect the car owner already owned the portion of the reconditioned part representing the value of the old part. To tax him on the fair market value of the part he turns in is to tax him on something he already owns. The exclusion of the value of the trade-in, as provided by your committee's amendment, removes this inequity. This also removes the difficult administrative problem of determining the fair market value of the old part, since the tax base will be limited to the cash payment required.

Section 471 of your committee's bill, like the House bill, also amends section 3443 of the code to provide for a credit or refund of the tax on automotive parts and accessories where the parts or accessories are used or resold for the repair or replacement of farm equipment parts. However, this crediting or refunding device is not made available in the case of spark plugs, storage batteries, leaf springs, coils, timers, and tire chains.

An exemption is already provided by existing regulations for automotive parts and accessories sold to manufacturers for use on new

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farm equipment with the exception of the items specifically listed above. The provision, therefore, merely applies the same policy to sales of repair or replacement parts, making use, in this case, of a crediting or refunding procedure. This appears desirable because it is not believed that Congress ever intended to subject farm tractors and equipment generally to this tax. With the exception of the specific items noted above on which the tax will still apply, it is believed that these credits or refunds will present no serious administrative problems.

It is estimated that the rate increase in the tax on automotive parts and accessories, taken together with the changes in the base of the tax, will increase revenues in a full year of operation by $56 million.

5. Tires on toys, etc.

Section 471 of the bill also makes a minor revision in the 5-cent-per-pound manufacturers' tax on tires. Section 3400 of the code is amended to exclude from this tax tires which are not more than 20 inches in diameter and one and three-fourths of an inch in cross section if the tires are of all-rubber construction. The bill also excludes tires with internal wire fasteners, irrespective of size. This exemption is the same as that provided by the House bill.

Under present law, the tax on tires is applicable to all tires regardless of the use for which they are intended. Consequently, it applies in the case of tires for baby buggies, lawn mowers, children's tricycles, scooters, coaster wagons, etc. Since the manufacturer's price on tires of these types is generally low, the 5-cent-per-pound tire tax may account for as much as 25 to 50 percent of the price of the tires. Thus, the tax on the tires of these toys, etc., appears unreasonably high in terms of ad valorem rates. Moreover, it is not believed that it is a primary purpose of the tax on tires to collect revenue with respect to articles of these types.

It is estimated that in a full year of operation this change will result in a revenue loss of approximately $1 million a year.

6. Electric, gas, and oil appliances

Section 475 of the bill expands the base of the 10 percent manufacturers' tax on electric, gas, and oil appliances provided by section 3406 of the code to include the following household types of items not subject to tax under present law:

1. Electric vacuum cleaners.
2. Electric washing machines.
3. Electric garbage disposal units.
4. Exhaust blowers.
5. Electric belt-driven fans.
6. Electric or gas clothes driers.
6. Electric door-chimes.
8. Electric dehumidifiers.
9. Electric dishwashers.
10. Electric floor polishers and waxers.
11. Electric food choppers and grinders.
12. Electric hedge trimmers.
13. Electric ice cream freezers.
14. Electric mangles.
15. Electric motion- or still-picture projectors.
16. Electric pants pressers.
17. Power lawn mowers.
18. Electric sheets and spreads.

It also deletes electric heating pads, industrial-type direct motor-driven fans and electric heaters of the blower type from the items presently subject to tax. The House bill did not impose a tax on electric vacuum cleaners, electric washing machines, or electric garbage disposal units, but did impose a tax on electric shavers. The House bill also did not delete industrial-type direct motor-driven fans from the base of the present tax.

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Of the items added to the base of the tax, by far the most important in terms of revenue are the electric washing machines and vacuum cleaners. Of the remaining items, power lawnmowers, electric dishwashers, and electric and gas clothes driers are the most important revenue producers.

The tax under present law applies to—

1. Electric, gas, and oil water heaters.
2. Electric, gas, and oil appliances for cooking or warming food or beverages for consumption on the premises.
3. Electric direct motor-driven fans and air circulators.
4. Electric flatirons.
5. Electric air heaters (but not furnaces).
6. Electric immersion heaters.
7. Electric heating pads and blankets.
8. Electric mixers, whippers, and juicers.

The items added to the base of this tax by your committee are directly or indirectly competitive with many of the items now in the base of the tax. An example of direct competition exists in the case of the household-type direct motor-driven fans subject to tax under present law and the household-type belt-driven fans which are presently free of tax. Vacuum cleaners, washing machines, and garbage disposal units were added by your committee because these are electrical appliances of wide usage which are at least indirectly competitive with a large number of the items already subject to the appliance tax or made so by the House bill. However, your committee did not deem it appropriate to raise the rate of this tax in view of the fact that a number of items in its base are generally considered to be necessities.

As in the case of passenger cars, it is anticipated that with the current high income levels the demand for electric appliances will remain strong, while the supply available is likely to decline somewhat as a result of the shift of critical materials from civilian products to products needed for the defense effort. The steel used in electric appliances, for example, has been cut back by 30 percent for the third quarter of 1951. In view of these factors, it appears unlikely that expanding the base of this tax to include the new items listed above will have any appreciable effect upon the sales of the electric appliances industry.

From the standpoint of the consumer also, this tax does not appear to be very burdensome. The data available indicate that this tax tends to bear less heavily on the lower-income groups than most other excise taxes now imposed. Moreover, this 10-percent manufacturers' tax, when expressed as a percentage of the retail price of the electric, gas, and oil appliances, including tax, represents only about a 6-percent tax.

Electric heating pads were removed from the base of the tax on electric, gas, and oil appliances because these pads are extensively used for medical purposes, and your committee does not believe that such items are proper subjects for excise taxes. Electric shavers, although included in the House bill, are excluded from your committee's bill because they are competitive with safety razors and blades and straight razors which are not subject to excise tax. Industrial-type direct motor-driven fans are excluded from the base of the tax both because they are business cost items and because they are competitive with industrial-type belt-driven fans which are not subject to excise tax.

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Under present law where the manufacturer sells an electric, gas, or oil appliance at retail, on consignment, or at less than the fair market price, the Commissioner is required to determine the competitive fair market price. In the case of one of the new items added to the base of this tax, vacuum cleaners, another type of selling arrangement is followed whereby the manufacturer negotiates the sale on behalf of the retailer. Since the price charged in such cases does not represent a fair price for purposes of a tax base, the Commissioner, under your committee's bill, is required to determine such a price where these selling arrangements are used in the same manner as where the manufacturer sells at retail or on a consignment basis.

It is estimated that in a full year of operation the new items added to the base of the electric-, gas-, and oil-appliances tax will increase revenues by about $71 million a year, while the exclusion of electric heating pads, industrial-type direct motor-driven fans and electric heaters of the blower type will reduce revenues by $2 million annually.

7. Navigation receivers sold to the United States Government

Section 472 of the bill makes a minor revision in the base of the 10-percent manufacturers' excise tax on radio receiving sets, television receiving sets, etc., imposed by section 3404 of the code. "A communication, detection, or navigation receiver of the type used in commercial, military, or marine installations," is exempted from this tax under your committee's bill if sold to the United States for its exclusive use. This change is the same as that provided by the House bill. This exemption is granted to remove compliance problems. No revenue is, of course, involved, since the tax in these cases today is ultimately paid by the United States Government.

8. Refrigeration equipment

Under present law, a 10-percent manufacturers' tax is imposed on household type mechanical refrigerators, quick-freeze units, and refrigerating and freezing apparatus. In the case of refrigerating and freezing apparatus, present law provides that the tax does not apply in the case of sales of refrigerator components to manufacturers of refrigerators, quick-freeze units or refrigerating or cooling apparatus. This latter provision prevents the double imposition of the refrigerator tax where sales are made from one manufacturer to another. However, in many cases refrigerating apparatus is sold first to a wholesaler or jobber, who in turn sells the apparatus to a manufacturer. Under present law, a double imposition of the refrigerator tax occurs in such cases unless the wholesaler is specifically registered with the Bureau of Internal Revenue as a vendee of articles for resale to manufacturers. Moreover, registration is limited to wholesalers who resell to manufacturers of taxable end products. Your committee believes that the present tax treatment discriminates against wholesalers and that this tax interferes with the normal channels of distribution. For these reasons, your committee provides in section 473 of the bill that, under regulations prescribed by the Secretary, the tax on refrigerating and freezing apparatus is not to apply to sales of refrigerator components to wholesalers or jobbers where the components are intended for resale to manufacturers or producers of refrigeration and freezing equipment, if the components are actually resold in this manner. This is accomplished by amending section 3405 (b) of the code. No similar provision is contained in the House bill.

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It is estimated that the revenue effect of this provision of your committee's bill will be negligible.

9. Sporting goods

Section 474 of the bill makes two changes in the 10-percent manufacturers' tax imposed on sporting goods by section 3406 of the code.

Under present law this tax covers virtually all types of sporting equipment although toy or children-sized items are exempted from this tax in the case of certain types of sporting equipment. Also, a number of articles subject to the sporting goods tax are used largely as a part of school and college athletic programs. Sale for use in the public schools are exempt (as purchases by subdivisions of State governments) so that the net revenue from taxing these articles is quite small, although the administration of the exemption imposes a considerable burden on the sporting goods dealers. Moreover, the nonexempt sales of many of the taxed articles are made largely to private schools, which has been objected to on the grounds that it is discriminatory treatment. For these reasons, the first action of your committee with respect to the sporting goods tax is to remove from the application of the tax specific types of articles which are used predominantly for school sports and by children. This is the same as was provided in the case of the House bill with the following exceptions: your committee's bill exempts baseballs and baseball equipment while the House bill taxed them, and your committee's bill taxes cricket balls and bats, lacrosse equipment, skates, and snow toboggans and sleds while the House bill exempts these items.

The second action of your committee is to raise the rate of tax from 10 percent to 15 percent of the manufacturer's price with respect to the items remaining in the tax base, except fishing equipment. In this case your committee left the rate at 10 percent since the receipts from this source are not available for general expenditures. The rate increase from 10 to 15 percent provided by your committee is the same as that provided by the House bill with the exception that the House bill also raised the tax on fishing equipment to 15 percent. Under present law the tax is about 6 percent of the retail price including tax and under both bills will be between 10 percent and 11 percent of the retail price.

It is estimated that these two actions taken together will not have any effect on revenue collections, since it is believed that the additional revenue which will be derived from the higher rate of tax on the items remaining in the base will be approximately equal to the revenue lost with respect to the items which are excluded from the base.

10. Photographic apparatus and film

Section 3406 of the code imposes a 25-percent tax on sales at the manufacturers' level of photographic apparatus, which is defined as including cameras weighing 4 pounds or less, lenses, photographic apparatus and equipment, and any apparatus or equipment designed especially for photographic purposes. A 15-percent manufacturers' tax is also imposed on photographic films (except X-ray films), photographic plates, and sensitized paper. Under present law, the tax on film is about 9 percent, and tax on equipment is about 13 percent, of the retail price.

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Section 476 of your committee's bill reduces the tax on photographic apparatus from 25 to 15 percent of the manufacturer's price. No change is made in the 15-percent tax now applying to film or in the items included in the bases of either of these taxes. Thus, under your committee's bill, the tax on film and equipment will be between about 8 and 9 percent of the retail price of these items.

The House bill decreases the 25-percent tax on photographic apparatus to 20 percent and increases the 15-percent tax on film to 20 percent. The House bill also revises the bases of these taxes so that they are imposed only on film, cameras, and lenses which, insofar as is administratively possible, do not represent a cost of doing business. In the case of the House bill, the tax on both film and equipment would represent a tax of between 11 and 12 percent of the retail price.

Although your committee's bill provides a 15 percent rate of tax for film and photographic equipment rather than the 20 percent provided by the House bill, the revenue loss under your committee's bill is much smaller because the business cost items are not deleted from the bases of these taxes. Your committee believes that in view of present revenue requirements it is not desirable to reduce the revenue obtained from the photographic taxes by as much as would be necessary in order to remove all of these business cost items from tax.

It is estimated that the combined effect of your committee's action with respect to these taxes is to reduce revenues in a full year of operation by $5 million. The changes provided by the House bill would reduce revenues by $23 million annually.

Your committee's bill also makes an additional minor amendment to the photographic tax providing that the tax on color positive print film is not to be in excess of the tax on black and white positive print film. This change is made to eliminate a discriminatory competitive problem. In some cases under present law colored film is subject to the photographic tax because the coloring is added to the film by the photographic manufacturer. This results in a relatively large tax base. In other cases the coloring is added to the film after it leaves the hands of the photographic manufacturer with the result that the tax base in this case is relatively small. Your committee's bill removes this discrimination by placing no higher tax on color film than on black and white film.

In the case of photoflash bulbs, the House bill provides floor stock refunds. That is, wholesalers, retailers and others having inventories of photoflash bulbs intended for sale on the date the revision in the tax becomes effective would be credited, or would receive a refund, with respect to the tax paid on their inventories of photoflash bulbs. No such floor stock refund is provided in the case of your committee's bill. Under the House bill, the tax on these photoflash bulbs was decreased from 25 percent to zero. Under your committee's bill, the tax is decreased from 25 to 15 percent. Your committee believes that this smaller decrease in tax substantially decreases the hardship which would arise in the absence of a floor stock refund on these photoflash bulbs. This, combined with the administrative problems involved in making floor stock refunds, accounts for the absence of this provision in your committee's bill.

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11. Electrical energy

Section 3411 of the code imposes upon vendors of electrical energy sold to domestic or commercial consumers a tax equal to 3⅓ percent of the price charged. Section 478 of the bill repeals this tax. This tax is also repealed by the House bill.

A tax on electrical energy is not believed to be a desirable part of the excise-tax revenue system for several reasons. First, the tax is believed to be one of the more burdensome of the excise taxes with respect to the lower-income groups, since amounts paid by consumers for electrical energy tend to vary relatively little with variations in income. Thus, the electrical-energy tax paid by the higher-income groups does not generally represent as large a percentage of their income as is true of the lower-income groups. Second, power companies have found it difficult and burdensome to determine which customers are domestic or commercial consumers, and therefore taxable, and which are industrial consumers, and therefore exempt. This has presented a particularly difficult problem in the case of businesses engaged in both commercial and industrial activities. Third, the tax under existing law does not apply to publicly owned electric power plants or to systems owned and operated by cooperative or nonprofit corporations engaged in rural electrification. Thus, since there is general agreement that this tax is passed on to the consumers, the present tax treatment has the effect of imposing a tax on persons purchasing electrical energy from private utilities, while imposing no tax on persons purchasing electrical energy from municipalities, the Federal Government, or REA cooperatives. To impose the tax on some consumers and not on others is believed discriminatory, and since your committee believed that it was not desirable to extend this tax to municipalities, the Federal Government, or REA cooperatives, the bill repeals this tax.

It is estimated that in a full year of operation the repeal of this 3⅓-percent electrical-energy tax will reduce revenues by $104 million annually.

12. Fountain pens, ball-point pens, and mechanical pencils

Section 477 of your committee's bill adds a new section 3408 to the code imposing a 10-percent manufacturers' tax on fountain pens, ball-point pens, and mechanical pencils. The House bill also added this tax but provided a 20-percent rate. At the present time some pens and pencils are subject to the 20-percent retail tax on jewelry and related items where they have nonessential parts which are ornamented with precious metals. To prevent double taxation, these pens and pencils are not included in the base of the new manufacturers' tax.

Consideration was given to extending the tax on jewelry and related items to all fountain pens, ball-point pens, and mechanical pencils, but this was discarded because the inexpensive types of such items are frequently sold in stores which are not accustomed to the collection of the jewelry tax. Moreover, your committee lowered the rate of tax provided by the House bill to 10 percent since an important segment of the cheaper pens and pencils are purchased by school children.

It is estimated that in a full year of operation this action by your committee will increase revenues by $12 million annually The House provision would have increased revenues by $24 million a year.

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13. Cigarettes, cigars, and pipe lighters

Section 477 of your committee's bill imposes a manufacturer's tax on all mechanical lighters for cigarettes, cigars, and pipes which are not now taxed as jewelry. The manufacturer's tax on mechanical lighters is imposed at a 10-percent rate, the general rate at which most manufacturers' taxes are imposed. The House bill provided a 20-percent tax at the retail level for these mechanical lighters. In view of the large number of retail outlets selling mechanical lighters, your committee believes that it is more desirable to impose this tax at the manufacturer's level.

It is estimated that in a full year of operation this action by your committee's bill will increase revenues by nearly $1 million a year. It is estimated that the provision in the House bill would increase revenues by about $2 million in a full year of operation.

D. Retail Excises

The revenue effect of the bill in a full year of operation with respect to retail taxes is as follows:

[In millions]

	House bill	Committee bill
Cigarette, cigar, and pipe lighters	$2	$0
Toilet preparations	−7	−7
Total	−5	−7

1. Cigarette, cigar, and pipe lighters

The House bill extends the 20-percent tax on jewelry and related items to cover all mechanical lighters for cigarettes, cigars, and pipes. Your committee's bill applies a manufacturers' tax to all mechanical lighters for cigarettes, cigars, and pipes not now taxed as jewelry and for that reason the discussion of the tax is included above with the manufacturers' excises.

2. Toilet preparations

Section 431 of your committee's bill makes two changes in the 20 percent retail tax on toilet preparations imposed by section 2402 of the code. These are the same changes as are made by the House bill.

The first of these changes exempts from this tax baby oils, powders, lotions, and other toilet articles unless they are advertised or sold as being usable by adults. Your committee believes that these items fall within the category of necessities and should not be subject to tax.

The second change exempts toilet preparations purchased by barber shops and beauty parlors for use in these establishments. Under present law these items are subject to tax at the time they are purchased by the barber shop or beauty parlor. However, toilet preparations purchased by a barber shop or beauty parlor for resale to customers are not taxable until sold to the ultimate user. To distinguish the purchases for resale made by the barber shop or beauty parlor from the purchases for their own use, the establishment is required to file a certificate, if no tax is paid at the time of purchase, indicating that the items will not be used in the establishment. Such certificates

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are not presently required in the case of tax-paid purchases for use in the establishment. This difference in treatment has resulted in considerable confusion among the barber shop and beauty parlor operators. Moreover, the taxing of the items used in the establishment itself represents the taxing of business cost items. The bill eliminates these problems by repealing the tax on toilet preparations purchased by barber shops, beauty parlors, and similar establishments if intended for use in such establishments. It is also intended by the adoption of this amendment to eliminate the requirement of exemption certificates in connection with sales of cosmetics to barbershops and beauty parlors either for professional use therein or for resale once the businesses have established their nontaxable status as barber shops or beauty parlors.

It is estimated that in a full year of operation the exclusions from the base of the tax on toilet preparations made by this bill will reduce revenues by $7 million annually.

E. Transportation and Communication Excises

The revenue effect of the House bill and your committee's bill in a full year of operation on the transportation and communication excises is distributed among the various taxes as follows:

[In millions]

	House bill	Committee bill
Domestic telegraph, cable, and radio messages	−$8	−$14
Long-distance telephone charges	0	Negligible
Transportation of persons	Negligible	Negligible
Transportation of property	3	Negligible
Total	−5	−14

1. Domestic telegraph, cable, and radio messages

Sections 1650 and 3465 of the code impose a 25-percent tax on amounts paid for domestic telegraph, cable, or radio dispatches of messages. Section 481 of your committee's bill reduces tne tax on domestic telegraph, cable, or radio messages to 15 percent, instead of to the 20 percent provided by the House bill.

Since World War II, telegraph service in the United States generally has been carried on at a deficit. In the forepart of this year, the service was operated at a profit, but wage adjustments which have recently been made have again placed telegraph service in a deficit position. By reducing this tax on telegraph service, your committee anticipates that it will be possible to decrease the amount paid for telegraph messages, and that as a result the volume of business done will be increased and the profit position of the industry improved. Telegraph service not only is essential to the civilian economy but also is essential to national security. The 15-percent rate of tax provided by your committee's bill for domestic telegraph, cable, and radio dispatches is the same rate of tax as now applies to the major portion of the business done by those corporations which were the chief competitors of corporations rendering telegraph service.

In a full year of operation it is anticipated that reducing the tax on domestic telegraph, cable, and radio messages from 25 to

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15 percent of the charge will reduce revenues by $14 million, as contrasted to a loss of $8 million if the rate were reduced to only 20 percent as provided by the House bill. In the long run, however, it is believed that much of the loss may be offset by an increased volume of telegraph business.

2. Long-distance telephone calls to or from members of the Armed Forces in combat areas

Section 482 of your committee's bill provides that the 25-percent tax on long-distance telephone calls is not to apply to calls from combat zones initiated by members of the Armed Forces. It has been brought to your committee's attention that the tax in these cases frequently comprises a very sizable amount. It believes that this tax should be removed in view of the morale significance of such communications. The House bill contains no similar provision.

The revenue loss from this amendment will be negligible.

3. Transportation of persons

Your committee's bill makes two changes in the 15-percent tax on amounts paid for the transportation of persons provided by sections 1650 and 3469 of the code. One of these exempts certain fishing trips from the tax on the transportation of persons. This provision is the same as that contained in the House bill. Under present law amounts paid for transportation in boats where the transportation takes place for the sole purpose of fishing from the boat have been held to be taxable under these sections. In the case of fishing-boat activities, it is customary for the operators of such boats to make a lump-sum charge for a fishing trip, including not only the charge for the transportation, but also charges for such services as the use of fishing tackle, a supply of bait, food served on the boat, etc. The necessity of breaking down this lump-sum charge to determine the proportion of the total which represents the taxable charge for transportation has been a difficult problem both for the fishing-boat operators and the Bureau of Internal Revenue. Moreover, although fishing trips are technically defined as transportation, they are not generally considered so by laymen. As a result the tax on fishing trips has brought numerous complaints from sportsmen and has also created troublesome collection and compliance problems for the Government. Section 483 of the bill exempts from the tax on the transportation of persons amounts paid for transportation by boat for the purpose of fishing from such boat.

The second change made by your committee in the tax on the transportation of persons excludes from the application of the tax amounts paid in the case of certain types of transportation by vessels. This provision is not contained in the House bill. In 1947 the tax on the transportation of persons was amended to exclude, from the application of the tax, amounts paid for transportation outside of the northern portion of the Western Hemisphere. However, amounts paid for transportation partially within United States, Canada or Mexico, and partially outside of the northern portion of the Western Hemisphere, were continued under the tax with respect to that part of the transportation "which is from any port or station within the United States, Canada, or Mexico to any other port or station within the United States, Canada, or Mexico." This has tended to discriminate against certain American, Canadian, and Mexican ports where vessels, if it were not for this tax, would make intermediate stops for servicing

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and refueling, but presently do not do so because this would increase the portion of the travel charge on which their passengers would have to pay tax. For example, under present law a vessel leaving New York for London is unlikely to stop at Boston for servicing or refueling, since to do so would subject a part of the tickets purchased by their passengers to the transportation tax. For that reason section 484 of your committee's bill provides that in the case of transportation by vessels making intermediate stops at ports in United States, Canada, or Mexico on voyages between United States and a port outside of the northern portion of the Western Hemisphere, the charge for the transportation between the intermediate stop and the port in the United States, where the transportation begins or ends, will not be subject to the transportation tax, if the vessels are not authorized to discharge or take on passengers at the intermediate stops.

It is believed that the revenue loss from these changes in the tax on the transportation of persons will be negligible.

4. Transportation of property

Under present law section 3475 of the code imposes a 3-percent tax on amounts paid for the transportation of property (in the case of coal the tax is 4 cents per short ton). In the case of building contractors, hauling dirt, rocks and other excavation material to some designated place the Bureau of Internal Revenue has held that a charge is being made for the transportation of property and, therefore, that such hauls are subject to tax. (Where excavation material has been removed without designating the place it is to be taken, no tax has been applied, since the Bureau has considered this to be merely the payment for removal of waste rather than a charge for the transportation of property.) However, since March 13, 1951, the Bureau of Internal Revenue has followed the rule laid down by the Third Circuit Court of Appeals in *Edward H. Ellis & Sons, Inc.*, v. *United States* that where excavation material has been hauled from one point on a construction project to another point on the same project, no transportation tax is due. However, tax still is imposed where the excavation material is taken off the construction project to some designated place, even though such place is adjacent to, or near the construction project. Your committee believes that the imposition of the tax in such cases, while no tax is imposed if the excavation material is not removed from the site of the construction project, represents too fine a line of distinction to be drawn. For that reason section 485 of your committee's bill exempts from this tax charges made for the use of motor vehicles by contractors for the movement of earth, rock, or other excavated material from a construction project to an adjacent area. No such exemption is provided by the House bill.

Your committee did not, however, accept the change made in the tax on the transportation of property by the House bill. The House bill extends the 3-percent tax on the transportation of property to the "fair charge" where shippers are transporting their own oil and in other cases where the amount paid for the transportation of oil is less than a fair charge. The tax on the transportation of property at present applies solely where property is transported for a charge. The House amendment would represent an exception to this rule, and your committee sees no more reason why a tax should be imposed where

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shippers are transporting their own oil than where an individual is transporting his own property by truck. Since such a general extension of the tax on the transportation of property is not administratively feasible, your committee believes that it would be undesirable to select the isolated case of the transportation of oil by owners for the imposition of a tax.

It is believed that your committee's amendment with respect to the hauling of excavation material will have a negligible effect on revenues. However, since your committee's bill does not contain the provision of the House bill imposing the transportation tax where shippers are transporting their own oil, it is estimated that revenue from the tax on the transportation of property will be about $3 million less per year than under the House bill, although there is no loss under your committee's bill as compared with present law.

F. Excises on Amusements or Recreation

It is estimated that the changes made in the excises on amusements and recreation under the House bill and under your committee's bill will result in a net loss in revenue in a full year of operation as follows:

[In millions]

	House bill	Committee bill
General admissions	−$22	−$18
Cabaret	Negligible	Negligible
Occupational tax on bowling alleys and billiard and pool tables	1	0
Total	−21	−18

1. General admissions

Sections 1650 and 1700 of the code impose a tax of 1 cent for each 5 cents or major fraction thereof charged for admission. Both the House bill and your committee's bill make two changes in the application of this tax.

Both your committee's bill and the House bill provide exemptions from the admissions tax where the proceeds inure to certain types of organizations. The exemptions provided by your committee's bill are, however, more restrictive. Section 402 of your committee's bill exempts from this tax admissions where all the proceeds inure to—

1. Churches or conventions of churches.
2. Educational organizations if such organizations normally maintain regular faculties and curricula and normally have regularly organized bodies of pupils or students in attendance at the places where their educational activities are regularly carried on.
3. Charitable organizations if such organizations are supported in whole or in part by funds contributed by the United States or any State or political subdivision thereof, or are primarily supported by contributions of the general public.
4. Societies or organizations conducted for the sole purpose of maintaining symphony orchestras or operas and receiving substantial support from voluntary contributions.
5. National Guard organizations.
6. Reserve officers' organizations.

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7. Veterans' organizations.

8. Police or fire departments, pension or retirement funds set up for the benefit of their members and funds set up for the benefit of the heirs of members.

However, in the case of any of the above types of organizations, admissions are not exempt if they are to—

1. Motion-picture exhibitions.

2. Wrestling and boxing matches.

3. Carnivals, rodeos, or circuses where professionals participate for compensation.

4. Athletic contests unless the proceeds inure exclusively to the benefit of elementary or secondary schools.

Your committee's bill also exempts general admissions to nonprofit agriculture fairs, admissions to concerts conducted by nonprofit civic associations, admissions to swimming pools and other places providing facilities for physical exercise operated by a governmental unit, admissions to a home or garden which is temporarily opened to the general public as a part of a program conducted by a society or organization to permit the inspection of historical homes and gardens if no part of the proceeds inures to the benefit of any private person, and admissions to historical sites, houses, and shrines, and associated museums if operated by an organization for the preservation of such place and if no proceeds inure to any private person.

The exemptions as described above are similar to the exemptions provided in the House bill and the exemptions provided prior to the passage of the Revenue Act of 1941. However, they are more restrictive than either of these other two sets of exemptions in order to remove administrative problems, and also in an attempt to limit the benefit of the exemption to activities which it appears appropriate for the Government to encourage. Most of the activities to which these exemptions are applicable are a part of the legitimate functions of organizations or institutions which frequently are Government-supported or have been accorded tax exemption on their own income. Because it appears inconsistent to tax admissions to activities which are directly related to the legitimate functions of these organizations or institutions, your committee reinstates these exemptions, limited as provided above. However, your committee has attempted to continue the tax in those cases where the organizations are carrying on activities which are in direct competition with ordinary taxable businesses as is true, for example, in the case of motion picture exhibitions and certain types of carnivals, rodeos or circuses. It is estimated that these exemptions will result in a revenue loss of approximately $12 million in a full year of operation. It is estimated that the exemptions provided by the House bill would decrease revenues by $16 million.

The second change in the admissions tax, made by section 401 of this bill, deals with the amount paid for admission. This change is the same as that made by the House bill. Under present law a person admitted free or at reduced rates is required to pay the same amount of tax as a person who is charged the regular admission price, unless he is an employee, a municipal officer on official business, a child under 12, or (if admission is free) a hospitalized serviceman or veteran Your committee believes that requiring a person to pay a tax based on a larger admission price than the amount actually charged him is contrary to the general principal of an ad valorem tax. More-

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over, it does not appear that the administration of the tax is facilitated by taxing free admissions at the established price, and it represents a source of irritation to the public. Section 401 of your committee's bill, therefore, exempts free admissions from tax and bases the tax on amounts actually paid where persons are admitted at reduced rates.

It is estimated that the revenue loss from this change in the base on which the admissions tax is paid will amount to $6 million in a full year of operation.

2. Cabarets

Section 404 of your committee's bill relates to the application of the 20-percent tax on cabarets to ballrooms and dancing halls. Some courts have construed the cabaret tax to apply in the case of ballrooms and dancing halls merely because it was possible to purchase incidental refreshments, services or merchandise in such places. Both your committee's bill and the House bill amend section 1700 (e) of the code to provide that the cabaret tax shall not apply in such cases. It is estimated that the revenue effect of this provision will be negligible.

3. Bowling alleys and billiard and pool tables

Section 3268 of the Internal Revenue Code imposes a special occupational tax on bowling alleys, billiard or pool tables of $20 per year per alley or table. The House bill raises this tax from $20 to $25, but your committee's bill retains the tax of $20 provided by existing law.

It is estimated that the House provision would have increased revenues by $1 million annually. Your committee's action will not change the revenues derived from this source under existing law.

G. Excises on Gambling

The additional revenue estimated to be derived from the taxes on gambling in a full year of operation is distributed among the various excises as follows:

[In millions]

	House bill	Committee bill
Occupational tax on coin-operated gaming devices	$7	$7
Tax on wagers Occupational tax on the business of accepting wagers	400	400
Total	407	407

With respect to the estimate of $400 million from the two wagering taxes, since this is a field of taxation with which the Federal Government has had no previous experience and because there is uncertainty as to the actual amount of the tax base, the committee recognizes that it is difficult to estimate too closely the actual revenue which these new taxes will yield.

Section 461 of your committee's bill adds a new chapter 27A to the code which imposes a 10-percent excise tax upon wagers of certain types, principally those placed with bookmakers and lottery operators, and a $50 per year occupational tax both upon persons engaged in accepting such wagers and upon persons who receive wagers for the

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persons so engaged. This is the same as the provision contained in the House bill.

Commercialized gambling holds the unique position of being a multi-billion-dollar, Nation-wide business that has remained comparatively free from taxation by either State or Federal Governments. This relative immunity from taxation has persisted in spite of the fact that wagering has many characteristics which make it particularly suitable as a subject for taxation. Your committee is convinced that the continuance of this immunity is inconsistent with the present need for increased revenue, especially at a time when many consumer items of a seminecessity nature are being called upon to bear new or additional tax burdens.

The committee recognizes that, while Federal law imposes no general prohibition upon gambling, various forms of wagering are illegal under the laws of most States. As a result, proposals for a Federal tax on wagering are sometimes criticized as in effect sanctioning the carrying on of gambling activities in violation of such laws. The committee does not share this view. Since its inception, the Federal income tax has applied without distinction to income from illegal as well as legal sources, and it has never been generally supposed that such application carried with it any implied authorization to carry on illegal activities. Moreover, in the field of excise taxes the tax on coin-operated gambling devices has been applied without regard to whether or not the operation of a particular machine is in violation of State or local law. The present bill conforms to this pattern and imposes tax without regard to the legality or illegality of the particular wager.

The bill specifically provides that payment of either the tax on wagers or the occupational tax shall not serve to exempt any person from any penalties provided under either State or Federal law with respect to engaging in the taxed activities.

1. Tax on wagers

The wagering tax which both your committee's bill and the House bill imposes is placed upon wagers, without regard to the outcome of individual bets. This method of taxation is comparable to State taxation of pari-mutuel pools and is particularly appropriate with respect to wagering with bookmakers and in lotteries, especially of the type commonly known as the numbers game. The tax is limited (1) to wagers on sports events or contests placed with a person engaged in the business of accepting such wagers, (2) to wagers placed in a wagering pool which involves a sports event or contest, if the pool is conducted for profit, and (3) to wagers placed in a lottery conducted for profit. It is believed that wagering transactions of these types make up by far the largest proportion of the total gambling business.

While betting on horse races probably represents the largest single category of gambling activity, other than in lotteries, the tax will extend to wagers on any other sport, such as prizefights, basketball, baseball, or football, including sports exhibitions and trials. Moreover, the event wagered upon need not be a sports activity but can be any type of contest, such as an election or the outcome of primaries and nominating conventions.

Wagers on sports events or contests, to be taxable, must be placed with a person engaged in the business of accepting such wagers. The

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purpose of this requirement is to exclude from tax the purely "social" or "friendly" type of bet. A person is considered to be in the business of accepting wagers if he is engaged as a principal who, in accepting wagers, does so on his own account. The principals in such transactions are commonly referred to as "bookmakers," although it is not intended that any technical definition of "bookmaker," such as the maintenance of a handbook or other device for the recording of wagers, be required. It is intended that a wager be considered as "placed" with a principal when it has been placed with another person acting for him. Persons who receive bets for principals are sometimes known as "bookmakers' agents" or as "runners." It is not intended that to be "engaged in the business of accepting such wagers" a person must be either so engaged to the exclusion of all other activities or even primarily so engaged. Thus, for example, an individual may be primarily engaged as a salesman, and also, for the purposes of this tax, be engaged in the business of accepting wagers.

As previously stated, wagers placed in a wagering pool with respect to a sports event or a contest are taxable if the pool is conducted for profit. The requirement that the pool be operated for profit is designed to eliminate from the tax base those pools which are occasionally organized among friends or other associates, all of the contributions being distributed to the winner or winners. A pool would be considered as being operated for profit, if, for example, a person appropriated to himself a percentage of the amount contributed to the pool or required a fee for the privilege of contributing to the pool.

As in the case of bookmaking transactions, a wager will be considered as "placed" in a pool or in a lottery whether placed directly with the person who conducts the pool or lottery or with another person acting for such a person.

A contribution to a lottery will be considered a taxable wager only if the lottery is conducted for profit, as is the case with respect to wagering pools. Although the bill does not contain an all-inclusive definition of the term "lottery," in general the term is intended to mean any scheme for the distribution of property by chance among persons who have paid or have agreed to pay a valuable consideration for the chance, whether called a lottery, raffle, gift enterprise, or some other name. The bill specifically provides that the term includes "policy" or the so-called numbers game and similar types of wagering. Policy, or its various derivatives, is usually a scheme wherein a player selects a number, several numbers, or a series of numbers and pays or agrees to pay a certain amount in consideration of which the person to whom the money is paid engages to pay a prize if the number or numbers selected by the player appear or are published in combinations which constitute a winning combination. (Conceivably the use of letters or other symbols could be substituted for numbers, but this would not alter the fundamental nature of the game as a lottery.) The winning numbers in policy are usually based upon some regularly published series of numbers such as weekly sales reports of a stock exchange or commodity exchange, United States Treasury balance reports, or the winning horses of a series of previously numbered horse races. The above description is not intended to be restrictive as your committee is well aware of the possibility that existing methods of play may be changed in an effort to escape the tax which the bill imposes.

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Because the term "lottery" is intended to be broadly construed in order to limit the opportunities for avoidance, your committee has specifically excluded from the term certain types of gambling games which might otherwise come within its technical meaning although perhaps not commonly so considered. Thus, both bills exclude from the term "lottery" any game of a type in which the wagers are usually placed, the winner or winners are usually determined, and the distribution of prizes or other property is usually made, in the presence of all persons placing wagers in the game. Among those games which are within the scope of the exclusion would be card games such as draw poker, stud poker, and blackjack, roulette games, dice games such as craps, bingo, and keno games, and the gambling wheels frequently encountered at country fairs and charity bazaars. On the other hand, punchboards would not normally be excluded under this definition.

Your committee has excluded the above types of gambling not because of any belief that they are not suitable subjects for taxation. However, the method of taxation provided, while particularly appropriate to bookmaking and to policy operation, does not appear readily adaptable to these other forms of gambling. For example, there are obvious practical difficulties in ascertaining the gross amount of wagers made in the course of a dice game and other games in which there is direct and continuous player participation. Moreover, with respect to card games it is frequently difficult to ascertain who, if anybody, is the person operating the game and what his tax liability should be. In some cases, a person may operate the bank directly. In other cases, he may take a percentage of, or impose a flat charge on, each pot or may simply levy a charge for the use of facilities such as a room. Moreover, many of these types of games are frequently engaged in on a friendly or social basis rather than professionally. A differentiation for tax purposes between friendly and professional games would create serious statutory and administrative problems. It is not expected that this problem will exist to any serious extent in the areas within which the bill does impose tax. For example, nonprofessional betting on horse races is probably insignificant in amount. Furthermore, while wagering games of the type excluded from the tax may represent important aspects of commercialized gambling in certain localities, they constitute a relatively small proportion of the total wagering transactions in the United States. Moreover, only a portion of such professional games are in fact carried on in gambling casinos or other permanent establishments which might conceivably be indentifiable for tax purposes. It appears that a substantial and perhaps predominant part of such activities are in the nature of "floating" games. That is, the operators of a game will establish themselves in a locality, often in a hotel room, for a period of time as short as 1 or 2 days, and then move on to another locality. The transiency of such activities is not characteristic of the wagering operations upon which the bill does impose tax. Bookmakers and policy operators both depend upon an established clientele, which requires a certain permanency of location. In any event, your committee believes that the tax provided will cover at least 90 percent of total commercial wagering.

Both bills provide specifically that the tax shall not apply with respect to wagers placed in pari-mutuel wagering enterprises licensed

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under State law. Such wagering is presently subject to substantial State and, in some instances, local taxation, and to superimpose a Federal tax upon these transactions would only serve to maintain the existing advantage which bookmakers enjoy over pari-mutuel betting by reason of their immunity from pari-mutuel taxes.

Also excluded from the tax are wagers placed in coin-operated devices with respect to which an occupational tax is imposed by section 3267 of the code. Your committee believes that, for administrative reasons, the method of taxation which is presently applied with respect to such machines is preferable to an extension of the wagering tax into this area.

The bills provide that, for the purposes of the tax, the term "lottery" does not include any drawing conducted by organizations exempt from tax under section 101 of the code where no part of the net proceeds derived from such drawing inures to the benefit of any private shareholder or individual. It is, of course, contemplated that the regulations will require the expenses of such a drawing, such as salaries paid to the actual operators, to be reasonable in amount if the exemption is to be allowed. Furthermore, any agreement to pay as compensation a percentage of the amounts contributed would be a clear indication that the drawing is not within the exempt category.

Liability for the wagering tax is placed upon the person who is engaged in the business of accepting wagers or who conducts the pool or lottery. Thus, the tax is to be collected from the bookmaker proper or from the person who conducts the pool or lottery as the principal. Monthly returns of tax are required.

A credit is provided in the case of so-called lay-off money. Bookmakers and policy operators generally attempt to balance one bet against another. A perfect mathematical booking of any race would insure a profit regardless of the ultimate outcome. However, horse-race bookmakers today seldom set their own odds but pay off winning bets upon the basis of the actual pari-mutuel pay-off at the track concerned. Furthermore, policy operators normally pay off on the basis of fixed odds, such as 700 to 1, which remain constant from day to day, although lower odds may be maintained with respect to certain heavily played numbers. Because they are unable to vary the odds in accordance with amounts wagered, bookmakers and policy operators sometimes find that they have accepted a greater amount of wagers upon a certain horse or number than they are willing to carry on their own account. In order to avoid the risk inherent in accepting such disproportionate amounts of wagers, the bookmaker or policy operator "lays off" a portion of his bets with another bookmaker or policy operator. In such cases it is the person with whom the bet is laid off who bears the actual risk of the wager even though it is the person with whom the bet was originally placed that the bettor looks to for his winnings or to whom he pays his losses. It is provided with respect to such laid-off wagers that the bookmaker or policy operator who originally accepts the wager shall be liable for the 10-percent tax upon it but may claim a credit or refund for the amount of the tax if the bet is laid off with another person who also is liable to the wagering tax. Thus, if a bookmaker accepts a $100 wager and lays off $60 of the wager with another bookmaker, he is taxable upon the $100 wager but may claim a credit or refund of tax with respect to the $60 laid off. In this manner, multiple

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taxation of the same wager is avoided. While certain "tracing" difficulties may be anticipated as a result of this provision, it is believed that the credit procedure will facilitate tax enforcement by making available to the collection agencies information of large bookmaking operations which might not otherwise be readily obtainable. It is contemplated that the regulations will require the maintenance of records which will insure that the person with whom the wager is laid off is identifiable as a person also subject to the wagering tax.

The credit will be allowable only with respect to amounts laid off with persons also liable to the tax on wagers. As a result of this limitation, no credit will be allowable with respect to amounts known in betting parlance as "come-back" money. Come-back money is essentially a wager which a bookmaker lays off at a track rather than with another bookmaker, and, as previously noted, wagers placed in State-licensed pari-mutuel enterprises will not be taxable. Come-back money serves the same purpose as a lay-off proper (that is, it provides the bookmaker with a "hedge") and, if made in large amounts, may have the additional effect of depressing the odds on the particular horse or horses wagered upon. The tax consequences of a combined lay-off and come-back transaction are illustrated by the following example: A bettor places a $1,000 wager with bookmaker A on horse X; A holds $100 of the wager and lays off $900 with bookmaker B; B holds $200 of the $900 and bets the remaining $700 at the track on the horse X. Bookmaker A is taxable with respect to the entire $1,000 wager but is allowed a credit with respect to the tax on the $900 laid off; B is taxable on the entire $900 and is allowed no credit for the $700 he bets at the track. Thus, cumulative tax liabilities arise of $190 (10 percent of $1,900, the aggregate amount of wagers and lay-offs) but a credit is allowable in the amount of $90 (10 percent of $900, the amount laid off), leaving a net tax of $100, or 10 percent of the original $1,000 wager.

A wager is intended, of course, to be the amount risked by the person placing the bet rather than the amount which he stands to win. Thus, if a person bets $5 against a bookmaker's $7 with respect to the outcome of a prize fight, the wager, for the purpose of the tax, is $5.

It is provided that the amount subject to tax will include not only the wager proper but also any charge incident to the placing of the wager. An example of such an additional charge which is to be included in the taxable amount would be so-called "insurance" money paid bookmakers. Horse-race bookmakers normally place an arbitrary ceiling on the odds upon which they are willing to base their pay-offs, such as, for example, 20 to 1 for win bets, 8 to 1 for place bets, and 4 to 1 for show bets. These ceilings are maintained irrespective of the actual pari-mutuel odds. Bookmakers may sometimes be willing to guarantee the bettor a pay-off based on the actual track odds, no matter how great, in consideration of a small additional charge paid by the bettor, usually 10 percent of the bet. This additional charge is known as insurance. Another example of an amount which would be included as part of a taxable wager would be a charge made by a lottery operator for the privilege of contributing to the pool or bank. On the other hand, the bills specifically provide that the taxable amount shall not include an amount equal to the tax if it has been collected as a separate charge from the bettor. This exclusion conforms to the pattern of the other excises and will avoid the difficult administrative problems involved in collecting a tax on a tax.

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The bills contain provisions designed to prevent avoidance of the tax through transfer of wagering activities to points outside of the United States.

Any person who willfully fails to pay the tax provided or to make a return or to keep required records (including a daily record of the gross amount of wagers received) is made liable to criminal penalties (in addition to the civil penalties) of up to 1 year's imprisonment and a fine up to $10,000. Furthermore, a willful attempt to evade or defeat the tax will be a felony punishable by up to 5 years' imprisonment and up to $10,000 fine.

2. Occupational tax

In addition to the tax on wagers described above, both your committee's bill and the House bill impose an occupational tax of $50 per year upon any person liable to the tax on wagers and upon any person engaged in receiving wagers for or on behalf of such a person.

The committee conceives of the occupational tax as an integral part of any plan for the taxation of wagers and as essential to the collection and enforcement of such a tax. Enforcement of a tax on wagers frequently will necessitate the tracing of transactions through complex business relationships, thus requiring the identification of the various steps involved. For this reason, the bills provide that a person who pays the occupational tax must, as part of his registration, identify those persons who are engaged in receiving wagers for or on his behalf, and, in addition, identify the persons on whose behalf he is engaged in receiving wagers.

In general, the provisions of the occupational tax follow the pattern of the other occupational taxes imposed under the code and require registration, posting of special tax stamp by the taxpayers, the maintenance by the collector of a list of taxpayers for public inspection, etc.

Special penalties are imposed for failure to pay the tax or to post or exhibit the stamp. Furthermore, the penalties already described with respect to the tax on wagers will also apply to willful failures to pay the occupational tax. It should also be pointed out that, under the general provisions of section 1001 of Title 18 of the United States Code, any false or fictitious statement made knowingly with respect to the payment of the occupational tax, such as the giving of a false name or address, is subject to a fine of not more than $10,000 or imprisonment of not more than 5 years, or both.

Past experience indicates that the size of tax collections is directly related to adequacy of enforcement. Your committee believes, with respect to the wagering tax and the occupational tax on the acceptance of wagers, energetic enforcement measures during the period immediately following the introduction of these taxes to be particularly important. Your committee realizes, of course, that the introduction of any new taxes, such as those just described, which depend upon hitherto untapped sources of revenue, inevitably add to the administrative burden of the Bureau of Internal Revenue. Therefore, the Bureau should review the need for any additional administrative requirements in the light of actual experience with the enforcement of these taxes.

3. Coin-operated gaming devices

Section 3267 (a) of the code provides an occupational tax of $150 per year in the case of coin-operated gaming devices. Section 453 of the bill raises this to $250 per year. This is the same change as is

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provided by the House bill. It is believed that the imposition of a tax on wagering generally, from which coin-operated gaming devices are specifically exempted, requires an increase in this tax to provide equality of treatment. It is estimated that in a full year of operation this will increase revenues by $7 million annually.

H. Floor Stock Taxes and Refunds

Both floor stock taxes and floor stock refunds are imposed or granted one time only: a tax when an increase in rates occurs and a refund when a decrease in rates occurs. They are imposed or granted with respect to inventories of items which are beyond the point at which an excise tax ordinarily is imposed at the time the increase or decrease in rates occurs. They are used only in the case of taxes imposed at the manufacturers' level, since only in these cases are there any inventories of items held by persons other than consumers which have not been affected by recent changes in the excise rates. Floor stock taxes and refunds have traditionally been imposed in the case of alcoholic beverages and occasionally with respect to other products.

Floor stock taxes have been imposed for three primary reasons: (1) To prevent wholesalers and retailers from avoiding a tax increase by stocking up on items before a tax increase or new tax becomes effective, (2) to make the increase or new tax effective on items produced at an earlier date and thus increase revenues in the initial year of imposition, and (3) to prevent competitive discrimination in cases where some wholesalers and retailers have large stocks of items where the new or additional tax has not been imposed and others do not. In the case of floor stock refunds the primary reason for their provision is to prevent discrimination which would exist where some retailers and wholesalers have large tax-paid inventories, while their competitors do not. This is particularly important where the tax rate decreases are large and where, through various business arrangements, manufacturers are selling directly to consumers. However, in imposing floor stock taxes or granting floor stock refunds it is also necessary to consider the large amount of work which these taxes or refunds entail both for the taxpayer and the Government. The processing of floor stock returns is an extensive task and their application at both the wholesale and the retail levels affects hundreds of thousands of dealers. Because of these administrative considerations your committee's bill limits floor stock taxes refunds to those cases where there appears to be a strong need for them.

Under both the House bill and your committee's bill floor stock taxes are imposed with respect to the increases in the tax on distilled spirits, beer, wine, and cigarettes. In the case of gasoline a floor stock tax is also imposed but only with respect to stocks of gasoline held by retailers other than at their retail establishments and with respect to wholesalers. The rates of tax under these floor stock taxes are the same as the increases in tax provided for these items. It is anticipated that in the fiscal year 1952 these floor stock taxes will increase collections in that year, but only that year, by $120 million. Of this total, $98 million is accounted for by the floor stock taxes on alcoholic beverages, and the bulk of this is expected to be collected from distilled spirits since inventories are largest in this case. About $22 million is expected to be collected from the floor stock tax on cigarettes, but only a nominal amount from the floor stock tax on gasoline. In the

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latter case the floor stock tax is imposed, not with the expectation of receiving large revenues from it, but to give assurance that substantial revenues will not be lost by an unusually large transfer of title to gasoline prior to the effective date of the tax increase.

Consideration was also given to the imposition of floor stock taxes in the case of other manufacturers' excises. However, no action was taken with respect to them largely because the items are likely to be in relatively short supply when the excise taxes become effective, making it difficult for dealers to avoid tax by increasing their inventories prior to the effective date of the tax increase. Also, the large number of retailers and items involved in many cases make the imposition of the tax impractical in view of the size of the rate increases or the rates of the new taxes.

Your committee's bill also provides for floor stock refunds at the time of the termination, January 1, 1954, of the excise increases made by this bill. The refunds are to be limited to the items on which floor stock taxes are imposed at the effective date of the increase; that is, they are limited to distilled spirits, beer, wine, and cigarettes and to stocks of gasoline held by retailers at other than their retail establishments. The refunds are to be granted only with respect to the increases imposed by this bill, and only if the owner of the inventories can show that for 3 months after the reduction date the prices charged for the items reflect the tax decreases made.

X. TAX TREATMENT OF ILLEGAL ACTIVITIES

Several amendments have been proposed to the committee which would affect the tax treatment of gamblers and other persons who receive income from illegal sources. In summary, these amendments would—

(*a*) Disallow as a deduction from gross income any expenses incurred in illegal wagering and any losses resulting from illegal wagering;

(*b*) Require the keeping of more detailed records by wagering houses;

(*c*) Require the keeping of taxpayers' records for 7 years; and

(*d*) Require all individuals with a gross income during the current or five preceding taxable years in excess of $2,500 from illegal activities to file a net worth statement.

Your committee believes that additional time is necessary for detailed study of these suggestions and therefore believes that action on them should not be taken at this time. The committee is fully aware of the importance of a strict enforcement of the income tax laws in this area.

(The detailed discussion of the technical provisions of the bill will be printed separately and will appear as a supplemental report.)

CHANGES IN EXISTING LAW

In the opinion of the committee, it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of subsection (4) of rule XXIX of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill, as reported).

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