

Double depreciation writeoffs of new buildings are wonderful if you are lucky enough to be a real estate investor—or an outrage, if you are an average citizen. These tax-free cash-returns adds up to great fortunes. After the major writeoffs are taken, in 7 or 8 years, the building is sold and the top tax rate on the profit is 25 percent.

Yet this is not the end. The new owner of the used building writes off the price he paid for it at $1\frac{1}{2}$ times the average rate. The process goes on and on and the public pays the price in inflated land costs, high rents, and lost revenue to the Federal Government.

Fortune magazine once described a typical real estate situation, involving a Manhattan skyscraper. On a $\$2\frac{1}{2}$ million investment, the happy investor made $\$3.3$ million in after-tax profit after only 5 years.

In his book on Federal taxes, Philip Stern reports the following developments in 1960:

Eight New York real estate corporations amassed a total of $\$18,766,200$ in cash available for distribution to their shareholders. They paid not one penny of income tax.

When this $\$18,766,200$ was distributed, few of their shareholders paid even a penny of income tax on it.

Despite this cash accumulation of nearly $\$19$ million, these eight companies were able to report to Internal Revenue losses, for tax purposes, totalling $\$3,186,269$.

I shall not go on with any more of such details, Mr. Chairman. You are considering a temporary war tax. This is not the time for structural tax reform, with detailed consideration of each loophole. In this connection, we were glad to learn that the administration intends to present its proposals on tax loopholes later this year.

However, Mr. Chairman, we believe that this is the right time—when you are considering a war tax—to include some degree of Federal taxation on the great amounts of cash-returns that are now excluded from income reported for tax purposes.

Major categories of such excluded income are: half of capital gains, income from tax exempt State and local bonds, and depletion allowances. These excluded categories of income add up to something like $\$13$ to $\$14$ billion for individuals and families and to about $\$9$ to $\$10$ billion for corporations.

To permit such huge categories of income to go untaxed while the Government is imposing a special war tax, would be utterly unfair and inequitable.

Therefore, Mr. Chairman, we suggest that once a figure is determined for the surtax rate, that a tax of that exact figure be imposed on excluded income in these three categories, after a generous deduction.

On the personal income side, we propose that the taxpayer list his income from these three categories, deduct a generous $\$10,000$ and apply the same tax rate as the surtax on the remainder, if any.

With a deduction of $\$10,000$ per tax return, moderate-income taxpayers would be exempted from the tax on excluded income. Moreover, the tax rate would be much lower than the regular tax rates. Yet a significant portion of excluded income would be subjected to some taxation and additional Federal revenue would be raised at a time when it is needed.

On the corporate side, we recommend a similar listing of those categories of excluded income, a very generous deduction of $\$25,000$ and application of the same tax rate as the surtax to the remainder.