The deduction of as much as $25,000 would exclude small corporations, and most medium-sized corporations, as well, from this tax. However, it would subject the excluded income of weathier corporations to a low tax rate—much lower than the 48 percent on reported income. At least part of the revenue potential of excluded income would be tapped.

This proposal seems to us to be simple, clear, and direct. It is not structural reform of the detailed problems in our tax system. But it would raise additional revenue, as part of a war tax, by applying a degree of taxation to the large sums that are now excluded from the income tax.

On personal income, such taxation, at a 6-percent rate, could raise approximately $350 million. An 8-percent rate could raise about $475 million and a 10-percent rate, something in the neighborhood of $600 million.

As for corporate income, a 12-percent tax rate on excluded income, along these lines, could bring about $800 million of additional revenue and a 20-percent rate, approximately $1.3 billion.

Approximate revenue potential of taxing excluded income:

- Personal income tax:
  - 6 percent, $350 million.
  - 8 percent, $475 million.
  - 10 percent, $600 million.
- Corporate income tax:
  - 12 percent, $800 million.
  - 15 percent, $975 million.
  - 16 percent, $1.1 billion.
  - 20 percent, $1.3 billion.

These estimates, Mr. Chairman, are not precise. However, they roughly indicate the substantial amount of revenue that could be raised by placing a small tax, after a generous deduction, on these categories of excluded income. It seems to us that taxation of excluded income should be an integral part of a temporary war tax, if it is to be fair and equitable.

In addition, Mr. Chairman, we urge you to give careful consideration to a substantial increase in the 25-percent maximum tax rate on capital gains. This special rate is unfair—particularly when the Congress is adopting a temporary tax increase to raise additional Federal revenue to help finance a war.

In conclusion, let me repeat, we are firmly convinced that a temporary war tax is needed. Such tax increase, however, must be fully keyed to the principle of ability to pay.

I have tried, Mr. Chairman, to give you, as briefly and carefully as I can, a number of fair and equitable methods to achieve the President's objective of raising additional revenue. These alternatives to the administration's proposals are also practical and sound. They would raise from about $8 billion to approximately $13.4 billion of additional Federal revenue over the course of a year. (See apps. IV, V, and VI for detail.)