IS A TURN
BUSINESS COM-

WHY THE
INCOME TAX
IS BAD

EXCLUSIVE INTER-
with
see page 2
WHY THE INCOME TAX IS BAD

A man who collected more than 180 billion dollars in taxes for the Government comes up with some pointed views on questions that many people are asking just now.

Must the American people go on forever with the income tax law?

Is it the only way the Government can find to raise the money it needs? Or would it be possible for the U.S. to wipe out the income tax and find some new tax to take its place?

T. Coleman Andrews, who retired rest after 33 months as Commissioner of Internal Revenue, was interviewed in the conference room of U.S. News & World Report.

Here Mr. Andrews tells why he believes:

- That taxes are too high.
- That the income tax now in law is neither fair nor necessary.
- That if Congress created the kind of machinery for dealing with the problem that might be regarded as evidence of a sincere desire to find a solution.

In the absence of such machinery, we will continue to penalize outstanding ability and success until the will to achieve has been destroyed throughout the nation and we've all been reduced to the aimless status of an indifferent conglomerate of bone, tissue and blood.

Q Mr. Andrews, is it feasible to do away with the income tax? Are there other ways to get income into the Federal Treasury besides taxing the individual?

A Of course there are. To say otherwise would be to say that we have lost the imagination and ingenuity that have made us leaders among the nations of the earth in so many other fields of human endeavor. Moreover, it would be to resign ourselves to slavery. For absolutism in one form or another is the inevitable end of “steeply graduated” taxes on income and inheritances, and absolutism in any form is slavery.

I am as confident as I ever was of anything in my life that a tax more just and equitable, and less complicated and expensive, primary source of revenue would be contrived if Congress created the kind of machinery for dealing with the problem that might be regarded as evidence of a sincere desire to find a solution.

In the absence of such machinery, we will continue to penalize outstanding ability and success until the will to achieve has been destroyed throughout the nation and we've all been reduced to the aimless status of an indifferent conglomerate of bone, tissue and blood.

Q What do you have in mind, a gross income tax?

A I'm not going to discuss any particular type of taxation.

Q A vested interest? Do you mean tax lawyers?

A Now, let's not jump on any single group. There are a lot of people who have a vested interest in maintaining the status quo, and they'd like nothing better than for me to say: "Well, I'll do it this way."

Then they'd start a great fuss over whether that particular plan made sense, and the idea of creating corrective machinery never would even get a hearing.

Q What approach do you favor?

A I think the income tax law must be written pretty well, and then you can contract it all within the framework of constitutional procedure and enactment.

But when it comes to getting rid of a form of tax that's putting something in its place, you've got a different ball game. And you haven't got a problem that's been solved at one or two sessions of Congress. Nor do I see any problem that any individual can handle. So Administration could be sure that it would be able to get the job done by period of one term to get the answer, polish it up and get it ready for adoption as legislation. In other words, it's a question of long study and analysis.

Q What'd you like to see be a commission appointed by Congress, without any deadline, without any instructions, to what is now coming up with--except one, that is--and that is, that the whole revenue system be thoroughly studied out and the income tax in particular be given a real going over the idea that a substitute be found for it if it is made generally understandable, fair and compatible with our ideas of freedom.

I don't think it can be made even generally understandable, but I'm willing to await and abide by the verdict of the group as I have suggested, provided, of course, it's a clearly honest verdict.

You see, unless that happens, we don't have any way we know of to go about it. And I'm not interested in that._

Q The income tax law must be written pretty well and a tax is raised too much. But what I'm talking about is the way it's raised. I think it's too much, because it doesn't raise the right money, because it does. In fact, I think it can be raised too much and it raises too much. But what I'm talking about is the way it's raised._

A I'm not saying that the income tax doesn't raise the right money, because it does. In fact, I think it can be raised too much. But what I'm talking about is the way it's raised. I think it's too much and it raises too much. But what I'm talking about is the way it's raised._

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Former IRS Commissioner Andrews article - page 3
"It Hurts All Kinds of People" ... Law Is Used "to Enforce Social Reforms" ... "Soak the Rich" Purpose Predates Low. But it hits the people in the middle brackets even harder, and is slowly but surely destroying the middle class.

Q: It's hurting the single man—
A: It's hurting all kinds of people, from top to bottom. Look at the progression. It runs from 30 per cent to 91 per cent, making a surtax that runs to 71 per cent.

Incidentally, the rates above 20 per cent raise only a sixth of the total amount of money derived from individuals. The area of the progression is from $2,500 to the $200,000 bracket. But, by the time the $20,000 bracket is reached, half of the progression in rate has taken place.

The $2,000 of taxable income from the $20,000-to-$22,000 bracket is taxed 56 per cent—20 per cent base rate, plus 36 per cent surtax. Thus, half of the progression in added rate is applied by the time only 10 per cent of the dollar area of progression is reached.

What this does is sharply illustrated by what happens to a person who correctly answers "the $64,000 question." A married man with two children and no other income would have $37,188 left after the tax collector takes his cut. A single person, not the head of a household and with no other income, would have $27,808 left. To the extent that either recipient had other income, the tax collector does even worse, according to what bracket the recipient's total income—excluding the prize money—puts him in.

But hear that I was talking with a man the other day who said his income was $200,000 in 1954 and that, as a result of improved operating methods and increased sales effort, he got it up to $300,000 in 1955. Then, lo and behold! He discovered to his dismay that he would have only $3,750 left out of the additional $100,000 after settling with the federal and state tax collectors.

"What's the use?" said he. "What's the use, indeed? Now, I realize that there would not be any point in getting excited about this case from the purely subjective point of view, and I don't. But I do get excited about it from the standpoint of its iniquitousness as a matter of principle.

Our country's economic growth has been produced with the direct and indirect savings of the people, and those savings have come from the people who have had enough on the ball to do better than just earn a living.

If we keep on at the present rate of taxation, we will come eventually to the point where no one will have anything to invest and the "man on horseback" will be upon us. The Government will own everything, and we'll be forced to do the bidding of commissaries imbued with the idea that they know better how to spend our money than we, and vested with the authority to do it.

Q: Haven't you got to do all that, though, to raise revenue?
A: No, not that alone—I disagree with that completely. We've done it for the whole 43 years of the income tax to enforce social reforms to reduce gambling, to the dream.

T. Coleman Andrews was U.S. Com- Internal Revenue for the first 33 mo. Eisenhower Administration. He is 57, a Government spending and accounting re.

Mr. Andrews entered the accounting native Richmond, Va., in 1922. His auditing practices in both the Virginia and governments have resulted in numerous Si. Since leaving Washington, Mr. Andrews have come president of the American Fidelity Insurance Company. A Democrat, he Mr. Eisenhower.

Q Shouldn't everybody have the same in- Franklin Roosevelt said nobody should have $25,000—
A: You know I don't subscribe to such a re- gency as that. I say everybody should mak honest, with a minimum of taxes. It be able to keep a much larger share of his can at present, and everyone's right to expect in his possession of what he makes should especially by the Government.

Q That point you make about the purp!
see page 4
Interview

... "I am convinced" the present tax leads "to dictatorship"...

ness of that purpose. Go back to 1894. In that year an income tax was adopted which was part of the Tariff Act of 1894. That was declared unconstitutional about a year later.

That tax was deliberately, avowedly, and unashamedly enacted to get at the "rich" people. There wasn't any apology for it at all. On the contrary its proponents boasted that it was aimed at the rich and would hit only 85,000 out of 65 million people, which according to my arithmetic was about one eighth of 1 per cent of the population. And to this day the "soak the rich" purpose prevails. I heard it the other day in a committee hearing in Congress—the whole idea is to get at the rich. It was conceived in vengeance and it has been that way ever since. It has never been anything different.

Q Well, isn't that a way to do both?
A True, it's a revenue law. But I cannot accept the proposition that a revenue law ought to be used to penalize success.

Q Mr. Andrews, granting that the revenue laws are aimed at the rich, do you think they are conscientiously aimed at the middle class, too?
A Yes, I do. What do you think the inheritance tax and gift taxes were planned to do? All you've got to do is get the record. It tells you frankly what it's designed to do. It's designed to put every generation back to scratch.

Q Maybe that's a good thing; they can scratch to get ahead—
A I don't agree. The best incentive for those who haven't started scratching is the example of those who did and who achieved success by so doing.

TAX LAW'S "INFIRMITY"—

Q You said a moment ago that it was your own view that this income tax could not be made to work. Did you mean this income tax, or any income tax?
A Well, I was talking about the present one. I am convinced that this law has reached the point of incurable infirmity, and I doubt that any full-scale income tax, rigidly enforced, can be made a primary source of a great nation's income without leading eventually to dictatorship, which I am convinced is happening under the present law.

Q But it is raising the money the country needs, isn't it?
A Yes, and I might remind you that an infirm boiler usually holds steam right up to the time it blows up. You know, it amazes me that so many people seem to accept two assumptions about taxes and expenditures that I believe to be utterly fallacious and indefensible. One is that there is no substitute for the income tax; the other is that the present level of federal expenditures cannot be lowered.

These two assumptions are widely held, even in some pretty high places. If they were valid, we'd be gone gushings. I don't think they are valid. I do think that no public official or political leader—there's a difference, you know—and neither of the two political parties could possibly do the people of this country a greater disservice than to accept these assumptions as valid. After all, about one half of all the income taxes collected are paid by individuals, and better than five sixths of the part paid by individuals is paid by these individuals whose taxable income is under $6,000.

It's time for somebody to begin thinking about the consequences.
HOW FEDERAL TAXES HAVE GONE UP

In 1940, just before World War II, federal taxes totaled $4.9 billion, or 6.7% of national income.

NOW, federal taxes total $64.4 billion a year, or 20% of national income.

Q Would you like to tax everybody equally?
A You mean at the same percentage?
Q The same amounts?
A Of course not. That would merely shift the burden from one class to another. I want to end the "soak the rich" business, because we don't soak the rich—we penalize outstanding ability and ultimately destroy ourselves.

We've been soaking the rich so long that there aren't any rich any more. But there are people with a lot of know-how, and instead of a tax climate that encourages achievement, we have one in which the rewards for outstanding performance are forced down as performance goes up. Thus, instead of soaking the nonexistent rich, we penalize high performance and foul the spark plugs of our hopes for sustained and growing leadership. It doesn't make sense, does it?

Q So a man might just as well take a vacation?
A Yes, and a lot of them do. And if you don't think so, just go down to Florida and take a look around.
Q You mean relatively young men?
A I certainly do.
Q Do you think that there is a preference between the principle of taxed earned income versus unearned income? Do you think a distinction should be drawn?
A You mean as between what you earn and what you get on your investments?
Q Yes—

It takes $12,000 to $15,000 to equip one workman to produce more. I've often heard people talking about other people who apparently were spending their money. The object of the criticism is the tens of millions of dollars spent on research, the hard work of some kind. Why should there be two ways in the world that the same thing can be financed? One is through saving and the other is through Government handouts. May the Lord bless the latter.

Q But while the theory is that you soak the rich, they spend it freely—are you really saying they don't have a chance to invest it?
A That's exactly what happens. And sometimes it does. And sometimes it doesn't. There's an illustration, an estate is worth a lot of money.

Not too long ago a member of a well-known and left 70 million dollars. The "death duties" were $10 million. According to newspaper reports, the amount, there were millions of dollars invested by the Government and, spending the prevailing, was gone in a few hours.

Q For unproductive things?
A Well, you certainly can't call Government spending entirely productive. It's easy to see what the result of that was. Yes—
see page 6

Former IRS Commissioner Andrews article - page 6
Interview

... "I think a whole lot of finagling is going on"

and leave that field to the States. I don't think that would be
good for everybody concerned.

Q: Do you think it is possible, without very sizable reduction
in Government spending, to make any major improve-
ment in our taxes?

A: Certainly. Moreover, Congress can reduce expenditures
substantially any time it really wants to.

Q: If you have to make this much money and you don't
take the larger chunks from big incomes, you're going to
have to take more from the smaller incomes, are you not?

A: You've got to take it out of the stream in some way, of
course, but I believe that there are ways to take it out that
will distribute the load fairly and end the present discrimina-
tion against one class.

WHAT CONSUMER PAYS—

Q: But without reducing the tax, all you can do is shift the
burden—

A: That would not necessarily follow. Under some forms of
taxes that have been proposed, there would be a shift from
one industry to another. One category of business on its face
might appear to pay more taxes than another, but actually it
wouldn't. I recognize one thing clearly, and that is that the
consumer pays practically all the taxes that are collected.
The only taxes I know that the consumer does not pay are
the estate and gift taxes, and I'm not sure but what it can be
shown that he pays them.

Q: Does he pay the income tax?

A: He does pay the personal income tax as well
as the corporate income tax.

Q: Exactly how?

A: That's simple. The take-home pay is what he's after.
For instance, you're running a business—the income tax of
everybody you employ is paid by you, and you include it in
your cost of operations and shift it to your subscribers or
advertisers. Whoever you sell your product pays the in-
come taxes of your employees. If your customer is a busi-
ness, it passes along what it pays you, and so on until the
consumer ultimately picks up the tab.

And so, when anybody talks about any part of the income
tax not being paid by the consumer, he's just water-skimming.

Q: Couldn't that be carried to the ultimate that every-
body is paying everybody else's taxes?

A: To a considerable degree that is true, but the impor-
tant thing is how the burden of tax is made to fall in the first
place.

Q: Do you think the Government is permitting some people
to escape the income tax?

A: A lot of them are escaping it.

Q: Do you mean evading it?

A: No. I think a whole lot of finagling is going on. More-
over, there are a lot of people who are not paying their
taxes because they don't understand the law. That's one of
the problems: It's a question of complexity.

The average man today, no matter how much he tries to
explain the income tax, doesn't even understand the "short
form 1040" and he wouldn't know how to start making out
the "long form 1040." Perhaps you're saying, "Well, why not
make the forms simpler?" But you can't make the forms any simpler
A: It sure does. That's a very simple tax, be the way
let me remind you, in reality a supplemental income
I made a poll at a social gathering the other night
results indicated that more than half of the ladies quizzed
were not paying the tax. And they weren't deducting.

I would be willing to wager that if the number of
necessity for a complete canvass were employed to go
and knock on every door in the United States and
find out about household servants, you would be appalled at
what you would find, and, of course, the poor canvassers and
administration would be swamped with protests not only
from the people but also from the ladies and gentlemen
who passed the law.

Q: In a good many cases wouldn't the servants of
employer tried to deduct this tax?

A: I'm pretty certain they would.

Q: And isn't it true that a lot of items that are
by merchants aren't counted as receipts, not with the
of being dishonest, but because the recipients don't
income?

A: I think there's a great deal of that, but I don't
it adds up to a lot of dollars. But let me make cry
when I say that, that I don't mean for anybody to
idea that I think the Revenue Service is not doing
efficiently, because, as a matter of fact, I think they're
awful job. At least, I thought they were when I last
and I know of no reason to assume they are not still
But time and time again we told Congress that it
not enough agents to exhaust all the returns that were
examined. And perhaps you'll remember that Congress
off giving us 1,000 agents a year and we were to
from about 7,300 agents to 15,000 or 16,000,
livered would have been enough to enable us to do
job as possible before the law of diminishing returns
make it unprofitable.

Well, strangely enough, when the control of
changed hands at the beginning of last year, some
ly decided that we had reached our "optimum" employment.
I don't know what they've done since then they
as I said in a recent article, with document evidence before them that we could raise
$20 for every $1 spent for new agents; yet they
had reached the "optimum level" of employment.

WHAT CONGRESS FEARS—

Q: Why? Do you think they were afraid?

A: I think Congress is more afraid of a farm
foreclosure of the tax law than they are of the loss
Maybe they think, as many other people do, that
ever gave the Revenue Service enough money to
revenue laws up to the hilt, the income tax would
repealed within a year.

Q: Why is that?

A: Because the people just wouldn't stand for it.
Former IRS Commissioner Andrews article - page 7
"A tax system is wrong" if too complicated

ought not to be one that the farmer can't comply with without having to employ expensive professional people to help him.

Any kind of a tax system that is as complicated as that is wrong. Any sort of a tax system is wrong when a member of Congress himself finds himself so unacquainted with a law that he has voted for, over and over again, that he has to resort to the business of getting a special law passed to relieve him of a deficiency that anyone else would have had to pay.

Q: You mean he didn't pay some back taxes?
A: He paid the taxes that he figured he owed, but he deducted something he shouldn't have deducted. He misunderstood it and got a special law passed to save him from the consequences of his error.

Q: Was he caught in some technicality that he thought was unjust?
A: There was nothing technical about it. It was a very simple thing. He just didn't understand the conditions under which the deductions he claimed could be allowed.

Q: Does that happen very often?
A: The Service is constantly setting up Kemms against taxpayers. I don't know whether there has been other situations that were cured or not.

When you've got a law that is so difficult that a member of Congress has to resort to the Internal Revenue Service to save himself from the normal working arm of the Administration, there's something wrong with that tax law.

Q: You spoke of rigid enforcement being unjust. You say that, if we actually required the country to pay all the taxes they're obligated to pay, they would almost rebel?
A: I wouldn't apply that to the farmers any more.

(Continued on next page)

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**HERE ARE THE TAXES PEOPLE PAY IN U.S.**

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The Government takes, in various forms:

- **20c out of $1.00**
- **22c out of $1.00**
- **30c out of $1.00**
- **38c out of $1.00**
- **47c out of $1.00**
- **53c out of $1.00**
- **57c out of $1.00**
- **62c out of $1.00**
- **69c out of $1.00**
- **75c out of $1.00**
- **81c out of $1.00**
- **89c out of $1.00**
- **90c out of $1.00**

Out of the portion of taxable income that falls in these brackets.
Interview

... “Trouble” would follow “rigid enforcement of the tax laws”

generally. If complete and rigid enforcement of the tax laws were attempted, I think we would have trouble.

I want it thoroughly understood, however, that I’m no Poujadist. I don’t believe in doing anything by rebellion. I don’t believe in engendering disrespect for any law. Nor do I believe in teaching or advocating evasion. I believe in doing things according to law—by petition preferably, by ballots if necessary. I’m not advocating rebellion, and I don’t mean that anything I have said or will say be so construed.

“HOLES” IN TAX SYSTEM—

Q Mr. Andrews, don’t you think that the great majority of people pay every dollar of taxes that they owe?

A They try to, I think, but there are some big holes in the system and, in order to get rigid and complete enforcement there would have to be such an army of functionaries running around the country that I just don’t believe the people would stand for it.

Q Doesn’t it breed contempt for all law to leave unenforceable laws on the books?

A It certainly does.

Q Doesn’t that apply to some degree to income taxes, too?

A Yes. But one cannot help but wonder whether Congress expected that the gambling laws would be enforced. It may be argued that, if they did, they would have given the Revenue Service men to do it with. Maybe the members of Congress feel as a lot of other people do, that it’s wrong to use the revenue laws to punish offenders against other laws.

Q Couldn’t you eliminate a lot of troubles with the income tax by simply reducing the steep surtax rates and making more taxable income?

A It could, and has worked that way in the past. In a subcommittee hearing on the Reed-Durksen bill the other day, it was argued that lower rates would increase taxable activity to such an extent that there would be a net gain in revenue.

Q How are people avoiding income taxes? What devices do they use? Are expense accounts the main ones?

A I have not personally prepared tax returns for others for more than three years, so it would be very difficult for me to answer a question like that categorically. I only know what people are telling me.

Q What are they telling you?

A Well, there are all kinds of tricks for getting expenses in that aren’t deductible. I’m not so sure, though, that the amount of taxes lost because of this is great. The Revenue Service hasn’t been able to do any “doorbell ringing,” as they call it, since the first time we tried it with such good results in 1933. They don’t have the people to do much of that any more.

Q Congress probably pulled back when that started—

A We never pulled back. We gave instructions to do it as often as possible. But getting on top of the terrific accumulation of delinquent taxes that we inherited left little time to do any canvassing for delinquent returns.

Q Is there an ideal tax system that can be devised which would remove the necessity for a horde of taxes and tax functionaries; that would permit the citizen to compute readily and quickly his taxes so that he wouldn’t have to hire attorneys, consultants and accountants to help him; a tax which is just to the man who makes the income? Before 1913 there was such a tax. Back in 1913 we found the one and only tax by which the Federal Government can live. That just doesn’t make sense. Three years ago, when the country had much more agricultural economy than now, we decided that a tax was the only thing we could live on.

In the meantime, the ingenuity of the people to try in all the fields that make up American life—industry, commerce, finance, anything you could think of—has achieved world leadership. And some people believe that there isn’t genius enough in this country to get right down to brass tacks and to see that we have a better tax system than we were able to dig up 43 years ago. I just don’t go along with that idea.

Q There aren’t many taxes or types of taxes that have been tried out either by the Federal Government or the States, are there?

A No, I don’t suppose there are. But at the time we invented the electric light, there wasn’t any kind of tax that hadn’t been tried out, either. Yet we’ve found that different light sources since then.

There undoubtedly are tax methods that haven’t been thought of. I think there are others that have been of that haven’t been given a fair trial or even a look.

Q A few months ago we asked you what you thought of the income tax we now have or to any income tax.

A I wouldn’t say that I’m objecting to any income tax. That’s the reason I have declined to say outright what I think of the income tax. When there has been a real objection to this whole problem, I might very well be on the side of those who would want to retain some kind of it, but I assure you it would have to be extremely simple to agree.

This annual chore of complexity that people are made to do with it, in my opinion, almost as serious as the opposition of the tax itself. It certainly is a shameful waste of talent.

“SIMPLICITY” VS. “EQUITY”—

Q You mentioned that that complexity was the thing that was so complicated. Is it possible under existing conditions for Congress to write those laws more simply?

A I don’t think so.

Q That is one of the basic problems, is it not?

A One of the basic problems of the income tax is both simplicity and equity at the same time. No one has been able to do both. The more equity you want, the greater the complexity becomes.

Q Would you explain that a little bit?

A Yes, I can. I’ll give you two illustrations:

The dividend credit is one. The presentAdministration put that through. As it is, it’s an insignificant amount. But by a change of course, the original intention was to boost it to 5 percent, until it got up to 20 percent. But it has not been successful, and what with talk on the Hill about taking away dividends from the “dead boys” and giving to the “little fellows,” the “rich” demagoguery!

In order to provide for that one bit of equity, on the other hand, the relief to the farmers, it has had the effect of being a large cut in the income tax for farmers. Yet the income tax is a tax on productivity, not on income. If you have a one-man farmer doing good production, you should not tax him at a higher rate than a giant corporation doing the same kind of work. It is a tax on productivity, not on income.
see page 9

Former IRS Commissioner Andrews article - page 9
... "Few Congressmen really understand the income tax"

A Because we had to provide a formula for calculation of the credit.

One other illustration is the retirement-income credit. That was changed, too, to make it more equitable. And what happened? The net result was another half-page formula.

Now, to go back to your question, if this Administration couldn't simplify the income tax law with all the talent that it assembled to help it, I don't believe that any Administration could.

In planning its operation on the income tax this Administration had a fine corps of experts in the Secretary's office; it had the finest people; we had in our staff, the Revenue Service; it had the staff of the Ways and Means Committee of the House, the Finance Committee of the Senate, the Joint Committee of Internal Revenue Taxation of Congress; it also had representatives of the American Bar Association, the American Institute of Accountants, the Comptroller's Institute, and goodness knows how many more organizations.

It gathered together the finest group of technicians, practitioners, and business people that any Administration had ever assembled before for any purpose. What did it come up with? It achieved simplicity in the sense that the mechanical arrangement of the Code is better. It closed some loopholes. It accomplished more fairness and justice. But it still has a tax bill that is over 1,000 pages long and so complicated that 18 months already have gone by and all the official interpretations—that is, the regulations based on the law—aren't out yet.

**HOW LAW IS "EXPLAINED"—**

Q And what is the importance of those regulations?
A The importance of those regulations is to explain the law to the people.

Q And to the staff of the Internal Revenue so that they may interpret the law in individual cases?
A So that they, too, will understand what Congress meant.

Q Do you mean that for 18 months the 1934 statute is unexplained?
A Not yet fully interpreted.

Q Does that mean that all interpretation is stopped?
A No. On the contrary, they are trying to get the regulations out, and they have been working hard at it ever since the law was passed and signed, but they are confronted with two problems. First, with the problem of deciding what Congress meant. Don't forget that there are many parts of the law in which Congress did not spell out its intention but instead empowered the Secretary or his delegate to say what was meant.

The Treasury has to find out what Congress meant as to each section. Perhaps you say, "That ought to be easy. Take the committee reports and you can easily tell what they mean." All right, I'll tell you about that.

The committee reports don't always mean a lot because some fellow will be assigned the task of writing a report and it becomes his job to tell what went on in the meeting and what Congress meant by the particular point they were considering. That's all to the good. But no committee report is any better than the understanding of the man assigned to write it. So there has to be a good deal of "what did the guys mean?"

Q Isn't there a third step that they have to go through in listening to the protests of the Congressmen?
A Yes. There are three steps: first, the Secretary's office; second, the Treasury; and third, Congress itself. Then they come back and try to figure it out.

Q And they can't go up to Congress and ask for a straight answer about that interpretation?
A No. They wouldn't get much help there.

Q Is there any easy way still to explain what the law has to be so awfully complicated?
A Well, principally because the law is broad and income often is very difficult to assess. World War II, a group of 25 to 30 economic forecasters and businessmen sat for four years, one term, "business income." This group never came to unanimous agreement.

Now you ask about getting help from Congress. I perfectly honest about this thing. I have to tell Congressmen frankly that they just don't give thorough consideration to a good deal before them for attention. I'm not going to make any excuse for people, but some very important people have said that the Revenue Act of 1934, Section 119, is incomprehensible.

There are few Congressmen who really understand income tax law. This is as true of the men who are important in your mind in the making of income tax law as it is of those who haven't. I've had some cases where they had to depend absolutely upon the committees for advice as to what to do.

And, we might as well recognize it, our tax laws are made by committees of Congress. The elected representatives of the people, nor by the committees of Congress appointed by the leaders of the Senate and House, nor by the staff members of the tax committees. I suppose that's getting it about from the people as you can, and in about three of every 10, you can think of—taxes.

I once said to a prominent member of one of these committees, "But that's tax legislation by staff men in Congress, not even by committees of Congress." He said, "I realize that, but I don't know what else to do it." My answer was, "Get a simple revenue code, everybody will understand it, you'll be in the hands of the taxpayers will call you blessed."

**CONGRESS'S "RESPONSIBILITY"**

Q But don't these staff members know more about this than even the Congressmen?
A Maybe they do, but it is Congress's responsibility to listen to it and understand it, and they don't understand it.
see page 10

Former IRS Commissioner Andrews article - page 10
... “Tax law gives a lot of power that can be improperly used.”

Q Don't the subcommittees work with them and have a pretty good understanding of the law, though the majority of the committee may not?

A That may have been true in the early days of the law, but it isn't now. When they began to discover that while the law was simple it was unjust, and they had to do something about it, they began to add on all kinds of fancy gimmicks, gadgets and then-shall-not, until it now adds up to the point where it's so complicated that nobody can understand it. I say to you that any law that isn't understood even by the people who pass it, let alone by those subjected to it, shouldn't be imposed on the body politic.

Now we can come to the question you asked me—if I thought the Revenue Service tries to be fair to people.

“POLICEMAN’S COMPLEX”—

Q No one in the Service as an individual, but the methods they now use—

A I can only speak for myself. I have a tremendously high respect for the people in the Service generally. Most of them are career people and those who get up into the high echelon generally are pretty high-minded persons. They will try to carry out any honest orders given to them. If you've got a program that is honest and that gives them some rein, they will do the best they can. But in every organization as big as that you are bound to have an occasional case of “policeman's complex.” I didn't see too much of that when I was there; but I wouldn't claim for one minute that we were able to achieve perfection, because every now and then I'd find somebody taking a position in a situation that I thought was unfair and I did something about it.

Unfortunately, there are a lot of people in public office—and I'm not praising myself when I say this—who haven't got the guts to check unfairness because they're afraid somebody will investigate them for doing whatever is right, particularly for deciding anything against the Government. They're afraid of criticism. They don't like to be criticized. An honest official doesn't have to fear criticism; but many honest officials do.

Well, I am saying that one of the answers to your question is that the income tax law gives a lot of power to those who have to administer it. It has to. But that's one objection I've got to it. Whenever an inspector in any business sees smoke he doesn't like to admit that there isn't some fire. Then things often begin to happen.

That power can be improperly used in other ways. Consider what happened to taxpayers for several years beginning in the early '40s. Additional revenue was needed, and, not wanting to increase taxes drastically, the Administration made a drive on depreciation. There was hardly a taxpayer who wasn't confronted with a reduction in his depreciation deductions year after year.

I had clients who would have a succession of agents come along and each one would reduce what the other one had reduced, until it finally got to a point where I would say, “Forget about the depreciation. Taxes are going up anyhow, and you'll save money by going along with this campaign of extortation.”

Then there was the “blackjack” approach to force the taxpayer to consent to the opening of years closed to examination. Would happen would be that the agent would go to the taxpayer and say, “I want you to give me a waiver going back years.” The statute limit having expired for those years, they couldn't be opened without the taxpayer's consent; the taxpayer usually had no choice but to give him the consent, because the agent in position to put him too expensive even if he didn't have a valid basis for a reassessment.

Q In other words, the year that was still open was a threat against him, unless he furnished a waiver permitting the Government to reopen years that had already closed?

A That's right.

Q Was that routine procedure?

A It seemed that way. Needless to say, I went in pretty bunt up about that practice and I didn't lose making my feelings about it clear. It seemed to me stuff was pretty happy about the change of policy.

Q What do you think of the method that has been used whereby, when a business has closed its tax accounts, Congress comes along and passes a law that reopen?

A No, I do not.

Q It has been done, hasn't it?

A I understand that it has been tried.

Q In other words, on many of these complicated issues you're talking about that have to do with estate planning, real estate, business affairs, they go back years and change the applicable to those years? So you have no certainty—

A One of the great objections to the present system is it is almost impossible for taxpayers to get firm assurance as to where they stand, taxwise. We improved this situation as much as we could. It can't be completely corrected; it inordinate cost.

ON REDUCING SPENDING—

Q Well, if you get 35 billion dollars from individual income taxes—which is 15 per cent of individual income in order to modify the gross income tax rate and to regraduation you have to charge a much higher rate form of gross income tax than the 15 per cent rate—

A If you're going to replace that income that is true. But you're working on what I think is an utter nonsense premise, and that is that the present level of deficit cannot be relieved. I don't agree with that any more; I do with the proposition that we can't get along without income tax. As I've said before, Congress can reduce the deficit whenever it wants to.

Now, if you've got to raise 35 billion dollars on what might be the income of all individuals in the country, the decision you have to make is how you're going to approach the various levels of income. I say that, if you have that, then there ought to be some kind of leveling of a terrific wallop that's given to the people between $6,000 and $20,000.

If anyone wants to see what has happened taxes, World War II started in 1939, all he has to do is look at his gross income for 1939, calculate and deduct his taxes from it, and get his net income after taxes; then take that net income and calculate the taxes for 1940, and get his net income after taxes; then take that net income and calculate the taxes for 1941, and get his net income after taxes; then take that net income and calculate the taxes for 1942, and get his net income after taxes; then take that net income and calculate the taxes for 1943, and get his net income after taxes; then take that net income and calculate the taxes for 1944, and get his net income after taxes; then take that net income and calculate the taxes for 1945, and get his net income after taxes; then take that net income and calculate the taxes for 1946, and get his net income after taxes; then take that net income and calculate the taxes for 1947, and get his net income after taxes; then take that net income and calculate the taxes for 1948, and get his net income after taxes; then take that net income and calculate the taxes for 1949, and get his net income after taxes; then take that net income and calculate the taxes for 1950, and get his net income after taxes; then take that net income and calculate the taxes for 1951, and get his net income after taxes; then take that net income and calculate the taxes for 1952, and get his net income after taxes; then take that net income and calculate the taxes for 1953, and get his net income after taxes; then take that net income and calculate the taxes for 1954, and get his net income after taxes; then take that net income and calculate the taxes for 1955, and get his net income after taxes; then take that net income and calculate the taxes for 1956, and get his net income after taxes; then take that net income and calculate the taxes for 1957, and get his net income after taxes; then take that net income and calculate the taxes for 1958, and get his net income after taxes; then take that net income and calculate the taxes for 1959, and get his net income after taxes; then take that net income and calculate the taxes for 1960, and get his net income after taxes; then take that net income and calculate the taxes for 1961, and get his net income after taxes; then take that net income and calculate the taxes for 1962, and get his net income after taxes; then take that net income and calculate the taxes for 1963, and get his net income after taxes; then take that net income and calculate the taxes for 1964, and get his net income after taxes; then take that net income and calculate the taxes for 1965, and get his net income after taxes; then take that net income and calculate the taxes for 1966, and get his net income after taxes; then take that net income and calculate the taxes for 1967, and get his net income after taxes; then take that net income and calculate the taxes for 1968, and get his net income after taxes; then take that net income and calculate the taxes for 1969, and get his net income after taxes; then take that net income and calculate the taxes for 1970, and get his net income after taxes; then take that net income and calculate the taxes for 1971, and get his net income after taxes; then take that net income and calculate the taxes for 1972, and get his net income after taxes; then take that net income and calculate the taxes for 1973, and get his net income after taxes; then take that net income and calculate the taxes for 1974, and get his net income after taxes; then take that net income and calculate the taxes for 1975, and get his net income after taxes; then take that net income and calculate the taxes for 1976, and get his net income after taxes; then take that net income and calculate the taxes for 1977, and get his net income after taxes; then take that net income and calculate the taxes for 1978, and get his net income after taxes; then take that net income and calculate the taxes for 1979, and get his net income after taxes; then take that net income and calculate the taxes for 1980, and get his net income after taxes.
..."You get penalized by being taxed on your success!"

Or, do it this way: Calculate how much gross income would be required today to produce as much purchasing power after taxes as was left of his '39 income after he paid his taxes. No one should do this who has a weak heart, because the results will be shockingly startling.

People are kidding themselves. They don't have the buying power they used to have. A lot of the people living today don't know what the buying power of success was before we decided to use excessive income taxes to punish success and estate and gift taxes to force every generation to start from scratch.

Q You think the middle class is being whacked—the fellow who used to be able to get ahead in the world and save enough to retire on, he now can't do it—
A The fellow who demonstrates the greatest capacity for leadership—creates things, activity and employment—and contributes most to the growth of the economy and to improvement of our standard of living is the fellow who is getting the most killing around.

SOCIAL SECURITY: HANDOUT?

Q But can't he look forward to Social Security to retire on?
A He can't do much on that. Besides, that kind of person would rather do his own providing for his retirement and not depend upon a handout, especially one from a system that is already bankrupt.

Q Eighteen hundred dollars isn't going to be very impressive to him anyway, is it?
A I don't think so. And that suggests another problem. You should see my mail from people who are on fixed incomes. They're really catching it. It burns me up to see the widow of a successful man robbed of most of her due by the estate tax and then reduced almost to poverty by progressively higher and higher income taxes and mounting inflation.

Q As a result of the income tax?
A Largely, yes. Of course, it must be remembered that high taxes come from big spending.

Q In what way does the income tax hurt the fixed-income widow?
A Because of inflation—the spending power of the dollar has gone down so terribly and the taxes have gone up so high that she's caught in the jaws of a vise.

Q Is there a relationship between the income tax and the diminution of the purchasing power?
A Certainly. The higher income tax rates go the higher prices are and the less a fellow has left to pay the prices. There's a compound effect.

Q We come now to the question of deductions. Among the things that people don't understand, I'm sure, is the question of deductions. Do you think the present system of deductions is fair?
A No, I don't.

A Yes. Another would be casualty loss deduction for casualty losses—some of them are meaningful. We had the devil with deductions for loss of trees, and the like in hurricanes. The way the law was we had to permit deduction of what amount of loss suffered.

Then I think it is wrong not to permit payments for personal services. For instance, a servant I think ought to be permitted because the Government gets it two ways if it does it, but you can't deduct it. The servant is paid in it above $400. Now, that could be easily, you the deduction on everything above $400 for a servant. I think that would be only fair.

Q Take, for instance, a fellow who has deductions. But he goes on company, but the company gets a deduction or he gets a deduction and they are related to business—unless he went to be in business—
A That's right, but I don't see that one.
Q Commutation fare in New York for instance, a fellow who lives in the suburbs—
A That's something that may be regarded as in the control of the taxpayer. People who work don't have to live in the country. Still, I think an argument can be made for that point of view.

Q If you happen to be a man who has a job and there are a lot of expenses that you have that are purely to the position in life that you have to maintain; but the law says these are personal, therefore, not deductible. And as you get progressively taxed on your success, it is your success, disallowed costs that arise out of your success.

For instance—coming back again to the question—suppose you had a level of income that you maintain a fairly nice house, not a pretentious, highly conservative, modest kind of a garden, and who washes your automobiles and does your cleaning for you and tries to keep your yard cut. Such a man, because you don't have time, hire him to do, but you can't deduct his salary?

Q Don't you think if you have a son in college you get more than a $600 deduction?
A I do, provided he meets reasonable requirements, does good work there, and isn't there of appearance.

DEDUCTIONS ARE "ARBITRARY"

Q Aren't those deductions arbitrary they have been thought through—
A Certainly they're arbitrary.
Q Mr. Andrews, if we were to take care what equities and deductions wouldn't it cost more, we have been talking about that could be a question of Government?
A I doubt that. The things I've been talking about are a terrific amount of annoyances—but I don't think it would add up to a great loss of revenue.
Former IRS Commissioner Andrews article - page 12
Interview

..."There is a lot" of popular resentment to income tax

Q Mr. Andrews, do you think the corporation income tax should be abolished altogether?

A It should be studied, along with the tax on individuals. I would hope that it could be abolished, because it costs too much to administer and the cost to the corporations of complying with it is pure waste that I am convinced can be eliminated. Moreover, the gap between the individual and the corporation is driving small business right into the maw of big business. At the present rate, we soon won't have anything but big business, and the situation will be just right for the final move to a completely socialist government.

A U.S. LOTTERY? NO--

Q A great many countries raise their money by lotteries. Have you any comment on that?

A Frankly, I think I would be prejudiced on that. My whole background would revolt against raising public revenue that way; I am not a killjoy, so I don't care if anybody wants to gamble, but I somehow just cannot bring myself to look favorably upon a lottery as a source of public revenue.

Q We haven't talked much about complexity as it relates to litigation. Have you any way of estimating the terrific cost of litigation due to the complexity of the income tax, and differences of opinion between the taxpayer and the Government? How much litigation is there?

A That would be hard to draw down to specific terms. But I think you can give me some idea. There are figures, of course, that can be supplied. The number of cases that actually go to litigation are remarkably small. Bear in mind that there are approximately 65 million tax returns filed every year.

Q My recollection of the last figures I saw on the number of cases that get to the point of adjudication in the courts--the Tax Court, the Court of Claims, or the district courts--is that they total less than 2,000 every year, maybe 1,500. I could be wrong, but I think that's correct.

A The main problem is that's not in litigation but what happens before litigation begins. It is in a way drawn out and extremely costly. The cost of cases to taxpayers sometimes exceeds the tax involved. That's one of the very serious indicators against the income tax.

Q Well, now, apropos of these cases in litigation--is it fair to the taxpayers who have closed their returns, paid their taxes, for past years, suddenly to have the courts decide in the case of a taxpayer who kept his return open by litigation, an important issue which, had it been in effect--that interpretation--at the time he paid his taxes, he would have received the benefit? Is that fair?

A I don't think it is. But that usually works both ways; that is, sometimes there are decisions against a taxpayer, but the Government can't go back on other taxpayers who have become protected by the running of the statute. Nevertheless, I have always thought that a taxpayer should be made whole who pays taxes that are later found, in the outcome of a disputed issue, not to have been due.

Q As to our own rulings, we followed the policy of applying them prospectively; that is, if we found it necessary to reverse a previous ruling, we did not work it retroactively.

A That rule was abandoned at least by last year.

Q No, it was the rule up to the time I resigned that changes in revenue interpretations of the law were made

Sometimes, when the circumstances seemed to justify the effective date was set ahead so that people would have a chance to get themselves squared away. That is a fair thing to do, and that was the policy we followed.

Q Coming to further amplification of the complexity, what is to be said on the subject of the systems of accounting on which taxes are computed? Which the taxpayer and the Government differ? What authority on what's the proper way of accounting?

A The law says generally that the taxpayer's record-keeping shall not be disturbed if it is consistent with the books. The way it reflects the taxpayer's income.

Q But there have been rather widespread differences of opinion between the Revenue Service and taxpayers on this. For instance, many publishers record income on one basis but are required to pay income on another basis. Then you frequently find differences in the way in which regulatory authorities say books are kept--Interstate Commerce Commission, for example--what the Revenue Service thinks is proper. Are there any adjustments made to correct such inconsistencies when the law was being developed, but it finally came to naught?

"A TRAGIC SITUATION"--

Q What about the small or medium-sized taxpayer who has neither the time nor the money to take his case to Tax Court?

A I regard that as one of the more or less tragic situations caused by the income tax. The fellow who can't spend money for professional help shouldn't have it. It ought to be possible to settle his case without expense. But, unfortunately, it can't always be done that way. It puts that kind of burden upon people who are not able to get ahead is a bad tax.

Q Let me give you another side of that. I had an incident some time ago, I think, that illustrates the problem of a 62-year-old lady the other day, completely out of work, had to sell her personal motor home to pay $275 for a car to work in preparing her return. There is the most pitiful incident but she was a poor bookkeeper and the law was against her. She didn't like having to incur that expense as a tax.

A The law is too complicated. Altogether too much time is required to have professional help with their returns.

Q You have a lot of objections, I know, up and down the road, wonder if you have one or two? What would describe income tax? Would you say it was inequitable, or what?

A I think the most serious thing about this, from my point of view, is the ideological objection to it. I don't like the idea of my country dancing to the tune of slave-makers, whatever it is, exactly what I think is happening.

Q Do you think there is popular resentment to it? A My recent mail tells me that there is, and a lot.

Q You really are trying to describe why the income tax is so unpopular?

A That's right.

Q What amazes me is that you kept so quiet and so official while you had in your system this dynamic in this inequity of the income tax?

A That's very simple. My interest in the tax situation has been devoted to the administration of the tax.
Former IRS Commissioner Andrews article - page 13
On foundations: "The loss of taxable income is colossal..."

about it or try to make new law. It would have been out
of order for me to get into the Secretary's field of tax policy.

Q You couldn't have been very happy, then—
A I was happy as far as doing a challenging management
job was concerned. I often wasn't happy about the way the
law worked. I was constantly unhappy about what I saw the
income tax doing to us.

WHAT COMMISSIONER DOES—

Q Is that what built up your feeling about the income tax
what you saw in that job?
A It did to a large extent. It sharpened my resentment to
the tax a great deal. But, as I have said, I wasn't expected to
make tax law. Nor was I expected to remake it. My job was
to enforce the law, and that's exactly what I did to the best
of my ability. Nobody asked my opinion about the income
tax and I didn't express it.

When I got out I began to think about it from this point
of view. Now, after all, you've seen it in operation; maybe
you've got some obligation to say what you think. Quite a few
people urged that point of view upon me. I finally consented
to make a couple of speeches, and then I started putting
my ideas down on paper, and the further I got into it the
more convinced I became that something was amiss.

The idea that we could go along for 43 years with no
study or research of any kind, contenting ourselves with just
making the primary source of our revenue more and more
complicated all the time, without trying to find out whether
we had the right primary source—whether there was not
something better—struck me as a bit shortsighted for a na-
tion that research had done so much for. As I said to the
head of one of our great industries one night recently, "Where
would your company be if it hadn't conducted one moment's
research in 43 years?"

That's the position the Government is in. We're dealing
here with the lifeblood of the nation, and no research.

But there is one thing you haven't mentioned here today
and I've been rather surprised that you haven't. There's a
curious paradox in the income tax law that somebody
mentions every now and then, but which nobody does any-
thing about. I refer to the section that sterilizes so much of the
income that is supposed to be the source of the revenue.
Take, for instance, foundations. Look at the tremendous
quantity of income-producing wealth that is being put out of
the reach of the tax collector by the building up of these non-
taxable entities. The loss of taxable income here is colossal
and this loss is being steadily compounded.

Then, see all the money that's invested in business-type
activities by Government. I'm told that the Government
has an investment of 60 million dollars in that type of activity.
The Hoover Report says that there are 15 million of it in
2,500 business activities in the Defense Department alone.
Now, that sort of thing tends to grow and expand, and all
such business activity is removed from the reach of the
tax collector.

It's an astonishing situation, and it's thoroughly inconsistent

A Well, I don't know about that, but... helping any. Our economy is growing but not
that's produced is being kept out of the hand
lector by deliberate legislative action. There
ing gap between the growth of the economy
and the tax base. The people are bound to
this absurdity is doing to them one of these
day, look out. The people have to make
know.

Q Are you talking now of the sterilization
through its use by the Government in busi-

A I'm talking about sterilization of income
through Government competition with their
growth of foundations, or by any other means.

Q You're getting trusts and foundations
A Our economy is growing and we're
income tax to finance our growth and
expenditures. Yet there is an ever-widening
two, because of the fact that we are deplo-
ying a large percentage of our revenue to
minority pressures.

Q Are you saying if we have an income
tax, apply it more universally? In other words,
the income of pension trusts and foundations?

A Yes, I'm saying that. One researcher
original income tax applied even to church

TROUBLE FROM EXEMPTIONS-

Q You don't advocate that?
A No. I'm just telling you that all income
that, as soon as the tax collector got going
the process of sterilization by yielding to one
after another, and it has been going on since
result there is a veritable army of people,
businesses with a powerful vested interest
ness of the rest of us to the grindstone.

Q Does that apply to depletion allowance?
A Yes, it does. But don't take that to
arguing against depletion allowances. I'm
form of taxation that Congress evidently
maintain without such exemptions. Any
necessitates such extensive shift of burden
broadly unsuited to the nation's needs. The
tially think it's wonderful and can't be held
to preserve that preferred status, but it is to
the rest of us.

We're playing with dynamite, and I think
isn't done about it the result will be to de-
of freedom and blunt both that tradition and

Q Do you see any immediate prospect of
taking the study you propose?
A I don't know about that. I'd say they
will get after them about it, and it looks to
people are getting somewhat more than just

But let no one underestimate the power
Our only hope for relief is in the greater pro
Sooner or later that power will be asserted.

End of Article