SENATE'S TAX PLAN CALLED EXCESSIVE

Penalizes Concerns Paying Dividends From Earnings, Says G. N. Nelson.

SALES LEVY ADVOCATED

Program Also Criticized as Uneconomic and Unfair by Dr. J. J. Klein.

By GODFREY N. NELSON.

Senator Harrison's tax program, approved on Monday by the Senate Finance Committee, was prepared, it would seem, with the view of penalizing the few remaining corporations that are fortunate enough to be able to pay dividends out of current earnings. Legally, the surplus of a corporation is regarded as belonging to its stockholders, so that whether a tax be levied against the corporation upon its earnings or against the stockholder upon dividends received therefrom, the tax in effect is imposed upon the stockholder's interest in the earnings.

On this premise it is interesting to note the variety of taxes to which such earnings are subjected. A New York corporation, for example, is required to pay a franchise tax to the State of New York of 4½ per cent of its net income from practically all sources, and a Federal corporation tax of 13¾ per cent, thus making a total tax assessment against the corporation upon its earnings of 18¼ per cent. A stockholder, residing in New York State, whose annual income exceeds $100,000, under the present law, pays upon dividends a surtax of from 48 to 55 per cent; in addition to this he pays to the State of New York upon such income an income tax of 6 per cent, and a gross income tax of 1 per cent. It is now proposed that the stockholder shall pay to the Federal Government an additional 5 per cent tax upon corporate dividends, thus making his aggregate taxes on such dividends from 60 to 67 per cent.

Other Payments Imposed.

Summarizing the foregoing stated taxes applicable to the corporation and to the stockholder, we find that the corporate distributed income, inclusive of the proposed 5 per cent tax, aggregates a total tax of 78¼ per cent. It is also proposed that the corporation shall pay a tax of 5 per cent upon its earnings in excess of 12½ per cent of the declared value of its capital stock, thus making a total tax of 83¼ per cent.

Assuming, in the instant case, that the corporation is engaged in the sale of merchandise at retail in New York State, it would then also be subject to the New York State sales tax of 1 per cent. The sales tax upon a turnover of $1,000,000 is $10,000. If the corporation earns 10 per cent of its sales, the sales tax would amount to 10 per cent of its net earnings. Thus the net income of the corporation becomes subject to a tax of 10 per cent upon its net earnings, thereby making the total taxes enumerated above equal to 93¼ per cent of the net earnings of the corporation.

The foregoing calculations do not take into account real estate and other property taxes, excise and license taxes, and the various new levies now under consideration by the City of New York. Nor do they take cognizance of the Federal undistributed surplus tax which imposes a penalty tax of 50 per cent upon unlawful accumulation of surplus.

Productivity Uncertain.

Theorizing upon the productivity of the proposed additional taxes upon dividends and upon the so-called excess profits is the sheerest kind of guesswork. According to good authority, the proposed measures will fall far short of realizing the amounts expected of them. But apart from this consideration, the margin of corporate earnings left to the recipients of dividends after all the present levies have taken their toll is but a thin reward for the employment of capital and for the administrative efforts expended.

It would seem the part of wisdom for the Senate Finance Committee to make one more and final effort to get the adoption of a sales tax. The opposition to it has been gradually subdued; perhaps one more vote will "put it across."