CO*OPERATIVE LEAGUE BROADCAST--Recorded April 13, 1953
(Senator Humphrey interviewed by Wally Campbell of Co-op League)

CAMPBELL: It is a great pleasure to have as our guest today the Honorable Hubert Humphrey, Senator from Minnesota. During the past five years the Senator has made a record for himself in the U.S. Senate in the fields of labor and education, foreign affairs, and general domestic policy. Perhaps most important of all has been his contribution in the field of taxation and fiscal policy. He led a brilliant, though losing, battle in behalf of a more equitable tax bill at the last session of the Congress, and will undoubtedly be in the forefront when the next tax bill is written.

Today we would like the Senator to bring to you his opinion of what the real loopholes are in our present tax structure.

HUMPHREY: Wally, before we get into the matter of taxation I would like to say how happy I am to appear on a program presented by the Cooperative League of the USA.

The cooperative movement is essential to the health of the American economy. My own State of Minnesota has more cooperatives and more members of cooperatives than any other State in the Union. We are proud of this achievement, because we now have one-half million people in our State familiar with business problems and familiar with the responsibilities they have toward making their cooperative self-help enterprises successful. Minnesota is a rich State and cooperative members in every corner of our State who own shares in their marketing and purchasing cooperatives have helped make it so. The cooperative provides further a practical study in true democracy.

CAMPBELL: Before we get into the real tax loopholes, perhaps we should talk briefly about a highly-publicized, alleged loophole in the tax structure that effects our co-ops directly. The so-called National Tax Equality Association has been spending half-a-million dollars a year to try to convince the public that cooperatives don't pay taxes. Senator, I wonder if you would care to comment on that?

HUMPHREY: Cooperatives in this country are now required to pay, and do pay, every tax that any other business pays. Cooperatives pay property taxes, sales taxes, school taxes, county assessments, State and county license taxes, vehicle taxes, social security taxes, Federal income taxes, and a lot of other taxes. They pay their taxes under the same laws as competing or other businesses pay them. In fact, in many middle western towns the cooperative pays more taxes than any other business.

CAMPBELL: Senator Humphrey, I wonder if you could tell us why this impression of tax exemption has gotten abroad in the land?

Humphrey: For more than a quarter century Congress has had a policy of encouraging farmers to form cooperatives. In the tax bill of 1951 Congress practically wiped out any tax exemption which had been allowed, even to specially regulated farm co-ops. Farmer cooperatives must now pay full corporation income tax on all their net margins which are not paid or allocated to patrons -- just as all other cooperatives have always had to do. It can now be said that not a cent of money passing through the hands of any cooperative which would be taxable against any other business goes untaxed.

CAMPBELL: Thank you very much, Senator. That gives our audience a concise picture of tha tax situation as it effects the co-ops. Now, might we turn our attention to the real tax loopholes. What, in your opinion, Senator, is the general attitude of the American people toward our tax legislation?

HUMPHREY: The citizens of this country are willing to pay for their defense so long as the tax burden is distributed fairly and in accordance with ability to pay. The fact is, however, that practically every major tax bill passed during the past decade has raised taxes on the many and, at the same time, has granted millions of dollars in tax loopholes to the few.

We should approach the problems of taxation on the basis of a simple principle: our tax system should be strong enough tomeet our commitments and it should distribute the burden fairly among the people. The Revenue Act of 1951, which was passed in October 1951, does not meet this simple test. It did not raise enough revenue to balance the budget and therefore invites inflation through deficit financing. Moreover, the increases in the tax bill were distributed unfairly.

CAMPBELL: I remember during the debate over the last tax bill you clarified for us laymen on tax matters this question of "what is a tax loophole?" Will you outline that again for our audience today.

HUMPHREY: While the rank and file of taxpayers are asked to make substantially greater contributions for the defense effort, a chosen few take advantage of glaring loopholes in the tax laws. It violates every test of equal sacrifice to compel a man in the street to pay higher excise and income taxes when the rich become even richer through the failure to eliminate from the Internal Revenue Code the clauses favoring a wealthy few. Senator Paul H. Douglas, in the Senate debate on the 1951 tax bill, quoted a passage from President Roosevelt's veto of the 1943 tax bill to illustrate the significance of these loopholes:

"It has been suggested by some that I should give my approval to this bill on the ground that having asked the Congress for a loaf of bread to take care of this war for the sake of this and succeeding generations, I should be content with a small piece of crust. I might have done so if I had not noted that the small piece of crust contained so many extraneous and inedible materials."

The "extraneous and inedible materials" which President Roosevelt found so difficult to accept ten years ago also got the 1951 tax bill rejected once by the House of Representatives, and signed with great reluctance by a President faced with a milti-billion-dollar deficit.

These "materials" are the so-called "tax loopholes," provisions which give special tax treatment to particular groups. They go under such names as "family partnerships," "income-splitting," "corporate spinoffs," "percentage depletion," and "collapsible corporations." They are little known to the average taxpayer, who is unable to avail himself of their advantages, and who is unaware that the burden of the hundreds of millions of dollars in revenue that slip through the loopholes is shifted squarely onto his back, either in the form of higher taxes, or in the form of inflationary price increases.

What are the most important loopholes?

First, the unbelieably generous depletion provisions at the present levels of national income hand the oil and mining interests about $750 million each year. In 1950, President Truman called this loophole the most glaring in the tax laws. Congress did nothing about it. Now, with tax rates on lower income groups higher, this loophole is even more intolerable.

Second, the income-splitting provisions enacted by the 80th Congress confer unwarranted tax benefits on the well-to-do. People in the lowest tax brackets gain nothing from this provision. At the $500,000 level, it reduced taxes of a married person by about $25,000. Such large tax reductions to the higher income classes are indefensible. This loophole costs the Treasury an estimated $2.5 billion.

Third, at the same time that wage earners are paying every last cent of their taxes because it is withheld from their pay envelopes, billions of dollars of interest and dividends are evading taxes. The best way to prevent this is to withhold the tax from interest and dividends just as we do on wages and salaries.

A withholding provision adopted by the House, which the Senate refused to accept, would have provided an additional $300 million in revenue.

Fourth, the estate and gift taxes are in a pitiful state. It is unbelievable that, in a country as wealthy as ours, these taxes raise no more than three-quarters of a billion dollars. In 1950, the Secretary of the Treasury presented a plan to the Congress for tightening up these taxes but nothing was done. The estate and gift taxes should be made to contribute substantially more than they do now. The amendments which were proposed would have added $600 million to the Federal revenues.

Fifth, the preferential treatment of capital gains enables individuals and corporations to evade millions in taxes annually. The Treasury has recommended higher rates and a longer holding period before gains can qualify for the preferential treatment but these recommendations were not adopted by Congress. The Treasury proposals would have made the capital gains tax far less of an opportunity for tax avoidance by high income taxpayers and would have raised $400 million a year.

Sixth, the opportunities for evasion by wealthy taxpayers through the device of fictitious family partnerships have been enlarged. Infant children can now be made partners in a business undertaking even if their only contribution is capital received by gift from the father-owner. The Treasury estimates that this provision costs the government $100 million a year. The 1951 law provides that a person is to be recognized as a partner if he owns a capital interest in a partnership whether or not this capital interest was acquired by purchase or gift from any other person. Thus, a gift of a family partnership interest is to be respected regardless of the motives which actuated the transfer.

These six items alone add up to more than $4.5 billion. Thus, a determined effort to close loopholes could have yielded much-needed revenue. More important, it could have lessened the tax burden on the lower income groups.

CAMPBELL: If we have time, Senator, let's go into one or two of these most important loopholes. Which do you feel is the most important of all those you have outlined?

HUMPHREY: (section on depletion, p. 12)

CAMPBELL: What can be done to stop tax favoritism?

HUMPHREY: The only answer is that we must all become more tax conscious. It is not enough to grumble about high taxes and pay them. We must educate ourselves and others to be able to follow technical tax legislation. Labor and farm leaders must make every effort to keep their membership as up to date with tax developments as they are with developments in labor and farm legislation. Only when the millions of families in all income groups begin to understand that loopholes affect their own pocketbooks -- only then will we be making progress toward the goal of distributing the tax burden fairly. When the voters of this country know the facts, it won't be long before their representatives in Congress will vote the right way.