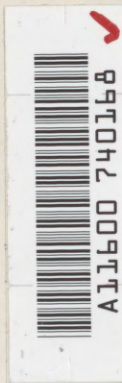


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FREE USE OF MAILS FOR INTERNAL REVENUE SERVICE
DIVIDEND AND INTEREST INFORMATION ON RETURNS
AND STATEMENTS

GOVERNMENT
Storage



HEARING
BEFORE THE
COMMITTEE ON POSTAL RATES
OF THE
COMMITTEE ON
OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES
EIGHTY-NINTH CONGRESS

FIRST SESSION

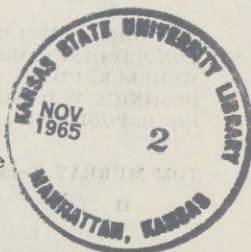
ON

H.R. 9058 and similar bills

BILLS TO AMEND CHAPTER 57 OF TITLE 39, UNITED
STATES CODE, SO AS TO AUTHORIZE THE FREE USE OF
THE MAILS IN MAKING REPORTS REQUIRED BY LAW OF
CERTAIN PAYMENTS TO OTHERS

SEPTEMBER 1, 1965

Printed for the use of the
Committee on Post Office and Civil Service



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1965

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FREE USE OF MAILS FOR INTERNAL REVENUE SERVICE DIVIDEND AND INTEREST INFORMATION ON RETURNS AND STATEMENTS

WEDNESDAY, SEPTEMBER 1, 1965

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON POSTAL RATES OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 215, Cannon House Office Building, Hon. Arnold Olsen of Montana (acting chairman of the subcommittee) presiding.

Mr. OLSEN. The subcommittee will come to order.

The Subcommittee on Postal Rates is holding hearings today to consider legislation authorizing certain tax information returns and statements to be sent to the Internal Revenue Service through the U.S. mail without payment of postage.

There are four similar bills pending before the subcommittee: H.R. 141, sponsored by Mr. Pucinski; H.R. 1652, sponsored by Mr. Bow; H.R. 4849, sponsored by Mr. Fascell; and H.R. 9058, sponsored by Mr. Pool, a member of our subcommittee.

The information returns and statements are those required by three sections of the Internal Revenue Code, title 26, United States Code: Section 6042, relating to dividends; section 6044, relating to corporation patronage dividends; and section 6049, relating to interest. This legislation requires that such returns be treated as penalty mail, which is entitled to transmission through the U.S. mails without payment of any postage.

The legislation also provides that the Internal Revenue Service shall transfer to the Post Office Department as postal revenues the equivalent amount of postage as determined by the Postmaster General for these tax information returns and statements.

I would like to have placed in the record at this point H.R. 9058, sponsored by Mr. Pool, and the reports from the Post Office Department and the Treasury Department.

(H.R. 9058 and the reports referred to follow:)

[H.R. 9058, 89th Cong., 1st sess.]

A BILL To amend chapter 57 of title 39, United States Code, so as to authorize the free use of the mails in making reports required by law of certain payments to others

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 4152(a) of title 39 of the United States Code (relating to penalty mail) is amended by adding at the end thereof the following new subparagraph:

"(6) mail containing only returns or statements transmitted for the purpose of complying with the requirements of section 6042, 6044, or section 6049 of the Internal Revenue Code of 1954."

SEC. 2. Section 4153 of title 39 of the United States Code (relating to endorsements on penalty covers) is amended by striking out "paragraphs (1) (E), (2), and (3)" and inserting "paragraphs (1) (E), (2), (3), and (6)".

SEC. 3. Section 4156 of title 39 of the United States Code (relating to reimbursement for penalty mail service) is amended as follows:

(1) by striking out "(b) and (c)" in subsection (a) and inserting in lieu thereof "(b), (c), and (d)"; and

(2) by adding at the end thereof the following new subsection:

"(d) The Internal Revenue Service shall transfer to the Post Office Department as postal revenues out of any appropriation made to it for that purpose the equivalent amount of postage, as determined by the Postmaster General, for penalty mailings under paragraph (6) of subsection (a) of section 4152 of this title."

TREASURY DEPARTMENT,
Washington, D.C., May 25, 1965.

HON. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service,
House of Representatives.

DEAR MR. CHAIRMAN: You have requested the views of this Department on H.R. 141, introduced by Mr. Pucinski, H.R. 1652, introduced by Mr. Bow, and H.R. 4849, introduced by Mr. Fascell. These bills, which are identical, would amend title 39 of the United States Code to authorize the free use of the mails for persons filing certain tax information returns and statements.

These bills provide that section 4152(a), chapter 57, title 39, United States Code, be amended by adding a new subparagraph to provide that mail containing only returns or statements transmitted for the purpose of complying with the requirements of section 6042 (relating to information returns and statements with respect to dividends), section 6044 (relating to information returns and statements with respect to cooperative corporation patronage dividends), or section 6049 (relating to information returns and statements with respect to interest) shall be treated as "penalty mail" and shall thus be entitled to be sent in the mails without payment of postage. These bills also provide that the Internal Revenue Service shall transfer to the Post Office Department as postal revenues the equivalent amount of postage as determined by the Postmaster General for these tax information returns and statements.

As you know, the information return requirements which existed by statute and regulation prior to the Revenue Act of 1962 provided, generally speaking, that information returns on form 1099 be filed by dividend payers who paid dividends of \$10 or more to another person in a year and by interest payers who paid interest of \$600 or more to another person in a year. A Form 1087 was required to be filed by a nominee where dividends were paid to him and then transferred by him to his principal. There were also information returns required in certain other cases which are not material here. Under the law as it existed prior to the Revenue Act of 1962, copies of these information returns were not required to be sent to the individual to whom interest and dividends were paid.

With respect to the volume of returns under the law as it existed prior to the Revenue Act of 1962, about 120 million information returns were filed during the fiscal year ending June 30, 1963. About 110 million of these returns were forms 1099 reporting dividend payments, about 3 million were forms 1099 reporting interest payments, and about 7 million were other information returns, largely forms 1087.

When the administration originally proposed the withholding of tax on interest and dividends to deal with the widespread failure to report and pay tax on this income, that proposal contemplated a system of withholding under which statements for each individual did not have to be furnished either to the Internal Revenue Service or to the individuals themselves. The payer would simply withhold at the same flat rate in every case and return the total amounts withheld for all payees to the Government on one form. Since the same rate applied to all taxpayers, they could determine the amount of tax which had been withheld by "grossing up" the amount received. The Treasury believed that this system would be less costly than the present system of information returns.

Payers of interest and dividends objected to this proposal and indicated that, as an alternative, the present system of information returns was preferable. This system was adopted in the Revenue Act of 1962 on a trial basis to see if this program would be effective to close the revenue gap in the interest and dividend area.

The significant changes in our information reporting requirements which were made in the Revenue Act of 1962 were to abandon the \$600 reporting level for interest and require that the payers file information returns if \$10 or more in interest was paid, and to require that copies of returns made for interest and dividend payments be sent to the taxpayer. These copies are usually referred to as information statements.

It has been estimated that approximately 114 million information returns and 109 million information statements will result for 1964 from the current statutory requirements with respect to information reporting on interest, dividend, and miscellaneous payments. Of the estimated 114 million returns, about 44 million are expected to reflect dividend payments, about 65 million interest payments, and about 5 million are miscellaneous information returns, largely forms 1087. The drop in dividend information returns from 110 million filed in the fiscal year ending June 30, 1963, to 44 million which it is estimated will be filed for payments made for the year 1964 results from a change in procedure. Previously, dividend payers could submit separate forms 1099 for each quarterly dividend payment to a person whereas now they must file one form 1099 for each person reflecting all dividends paid for the full year. Although the reduced number of dividend information returns results from this change rather than from any change made in the Revenue Act of 1962, this change will greatly reduce the number of dividend information statements which must be sent.

The argument urged in support of the bill is that the costs of complying with the present information reporting requirements are significant and that as changes in the reporting system were made primarily to benefit the Government, the Government should bear a portion of the additional costs involved. However, this argument apparently ignores the fact that the Government is already bearing a substantial portion of the increased costs of complying with our present information requirements. The costs of preparing information returns and statements are ordinary and necessary business expenses and are deductible in computing the income taxes of payers of interest and dividends. For taxpayers subject to both the corporate normal and surtax, the Government in effect is bearing slightly less than half of the costs of preparing and mailing information returns and statements, including costs of postage. For taxpayers subject only to the corporate normal tax, the Government is bearing more than 20 percent of these costs.

There are many areas in which private institutions aid the Government in the collection of taxes. Without this help, our self-assessment tax system could not operate. For example, all employers for years have been required to withhold tax from their employees' wages and to furnish both the employee and the Internal Revenue Service with an accurate statement of the total wages and withholding for the year. For the fiscal year ending June 30, 1964, approximately 108 million W-2 forms were filed with the Government and a similar number mailed or delivered to individuals. Thus, the tax law has for years required that information returns of various types be filed with the Federal Government. Yet, to our knowledge it has not been suggested until the 1962 changes that it would be appropriate for the Government to bear a portion of the costs involved beyond that portion which it bears indirectly. Such a suggestion seems inconsistent with the self-assessment system.

These bills would set a most unfortunate precedent since they imply that taxpayers may not be called upon to assist their Government unless they are directly compensated in part for their expenses. Although these bills are limited to providing free mailing for certain tax information returns and statements, if they are adopted they could have more far-reaching effects. For example, their adoption could lead to the conclusion that the Government should pay the postage on the 108 million W-2 forms which are filed with the Government annually, and on the 108 million such forms delivered to individuals.

Even in its presently limited form, the cost to the Government of the proposal contained in these bills would be significant. The mailing cost of 114 million information statements at 5 cents each would be \$5,700,000, and this yearly cost may increase as our population grows. The returns which are filed with the Internal Revenue Service are customarily filed in bulk so that it is difficult to estimate the postage costs with respect to such returns. However, these bills may result in an increase in cost over the present cost to dividend and interest payers. It is anticipated that additional costs will be incurred in attempting to determine the approximate amount of postage which must be transferred to the Post Office Department each year to compensate for the handling of these bulk shipments. Second, a comparatively recent survey showed that only about 25 percent of the information returns which were sent to the service were mailed.

and that about 75 percent were delivered by commercial truck. Presumably, this means that trucking these returns to the Internal Revenue Service was more economical or more convenient, or both, than mailing them. However, adoption of these bills would encourage dividend and interest payers to mail their information returns to the Service. This may increase the present burden on the Post Office Department. It is not clear what effect section 4159 of title 39 will have on bulk mailings of information returns. Section 4159 in part authorizes the Postmaster General to refuse to accept "official matter for shipment by mail" when in his judgment it may be shipped by other means at less expense.

In view of the history of the adoption of the present information system, the fact that the Government is already bearing a significant portion of the cost of the dividend and information system, and that H.R. 141, H.R. 1642, and H.R. 4849 would establish an expensive and unfortunate precedent, the Treasury Department is opposed to their enactment.

The Bureau of the Budget has advised the Treasury Department that there is no objection from the standpoint of the administration's program to the presentation of this report.

Sincerely yours,

STANLEY S. SURREY, *Assistant Secretary.*

MEMORANDUM

Subject: Additional figures on information returns obtained subsequent to the filing of the Treasury Department report of May 25, 1965, on H.R. 141, H.R. 1652, and H.R. 4849.

In the Treasury Department's report of May 25, 1965, on identical bills which would amend the United States Code to authorize the free use of the mails for persons filing certain tax information returns and statements, the Treasury Department presented figures on the number of information returns which it was estimated would result for 1964. The Treasury Department has obtained later figures which it presents for the consideration of the committee at this time:

Approximately 125 million information returns and 117 million information statements have been filed during the fiscal year ending June 30, 1965, from the current statutory requirements with respect to information reporting on interest, dividends, and miscellaneous payments. Of the approximately 125 million returns, about 47 million reflect dividend payments, about 70 million are interest payments, and about 8 million are miscellaneous information returns.

OFFICE OF THE POSTMASTER GENERAL,
Washington, D.C., July 19, 1965.

Hon. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your request for a report on H.R. 9058 "To amend chapter 57 of title 39, United States Code, so as to authorize the free use of the mails in making reports required by law of certain payments to others."

The bill would extend the penalty mail provisions (39 U.S.C. 4152) to certain returns or statements submitted by banks, corporations, etc., to the Internal Revenue Service and to payees covered by such statements. The returns or statements relate to payments made, such as interest or dividends, and are those required by 26 U.S.C. 6042, 6044, and 6049.

The Department is opposed to the enactment of this legislation. It is not believed that the general public should be burdened with the postal costs for these mailings. Such free use of the mails would discriminate against individuals and organizations required to furnish tax information which does not come within the purview of the bill.

Enactment of this legislation would surely raise demands for like privileges for all mailings of correspondence and returns respecting income tax, social security tax, and similar matter. Further, this legislation could lead to free mail privileges for all correspondence directed to the Federal Government.

The Bureau of the Budget in advising with respect to our April 30, 1965 report to your committee on the identical bills H.R. 141 and H.R. 4849, stated that from the standpoint of the administration's program there was no objection to the submission of that report to the committee.

Sincerely yours,

JOHN A. GRONOUSKI, *Postmaster General.*

Mr. OLSEN. We will first hear from our colleague, Mr. Pool, the author of H.R. 9058.

**STATEMENT OF HON. JOE POOL, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF TEXAS**

Mr. POOL. First of all, I want to thank our distinguished chairman of this subcommittee for calling these hearings. I am deeply appreciative of this opportunity to have an open discussion of my bill, H.R. 9058. I personally think this bill is in the interest of the public and will aid thousands of small businesses. I also think that this bill, for the sake of fairness and equity, should be enacted into law.

What this bill would do is to have the Treasury Department pick up the tab for a part of the cost of collecting tax information which is extremely beneficial to the Treasury Department and the general public. It would permit the free use of mails for the purpose of supplying information on interest and dividend payments required by 26 U.S.C. 6042, 6044, and 6049. This is the law which, for practical purposes, was enacted in the Revenue Act of 1962. The Treasury Department has estimated that since the enactment of this law, the Federal Government has collected billions of additional tax dollars. I believe that the latest estimate is that an additional income of \$500 million per annum is reported from those receiving interest and dividends because of the filing of these form 1099 information returns.

Now the cost of the mailings of these returns is estimated at between \$3 and \$4 million per year. Whether or not this estimate is precise or exact is not important. The point is that for a few million dollars per year, apparently being paid by individuals and corporations, the Government is collecting approximately \$500 million in additional revenues. Certainly the expenditure of a few million dollars is justified when you collect such vast additional revenue.

Now who benefits from the filing of these information returns? The beneficiaries are the U.S. Treasury, the Federal Government, and therefore, directly or indirectly, the citizens of the United States.

The major cost of these returns is in the form of labor and the time it takes to compute the information required and to transfer this information to the form 1099. This cost is borne by the private individuals and companies who have to send in these returns. It seems to me that the least the Federal Government could do is pay for the postage cost of mailing these returns to the individual taxpayer and to the Treasury Department.

Unlike other areas where tax information is required and the sender of the information receives some benefit, the requirement for submitting form 1099 stands out singularly different from most, if not all, other requirements. Those individuals or companies which have to send in forms 1099, in addition, have to send in all the other tax information required of every taxpayer; yet they have to pay the cost of this tremendous additional burden from which no direct benefit is derived.

I would also like to point out that certain Census Bureau mail can be mailed free to the Department of Commerce, even though the people sending in this information derive benefits from it in the form of free Government statistical information. Yet in the case of these

forms 1099, they do not get any information or benefit and still have to pay the cost of the mailing.

Once more, I would like to thank the chairman for calling hearings on this bill, and say that I welcome the opportunity to hear testimony regarding this proposal.

Mr. OLSEN. Thank you, Mr. Pool. I think your observations are very well taken.

Our first witness from the Post Office Department is Mr. Eugene B. Crowe, Deputy Assistant Postmaster General and Controller, Bureau of Finance. Mr. Crowe, will you introduce the gentleman with you, please?

STATEMENT OF HON. EUGENE B. CROWE, DEPUTY ASSISTANT POSTMASTER GENERAL AND CONTROLLER, BUREAU OF FINANCE; ACCOMPANIED BY ARTHUR EDEN, DIRECTOR, OFFICE OF POSTAL ECONOMICS, POST OFFICE DEPARTMENT

Mr. CROWE. Yes, Mr. Chairman. Mr. Arthur Eden, Director of the Office of Postal Economics, is with me this morning.

Mr. OLSEN. We are certainly pleased to have you gentlemen here this morning. We know you are authorities on this subject and we will be glad to have your views.

Mr. CROWE. Mr. Chairman and members of the subcommittee, I am pleased to have this opportunity to expand on the Department's views concerning H.R. 9058 and similar bills.

As stated in the Postmaster General's letter to this committee on July 19, 1965, the Department is opposed to the enactment of H.R. 9058.

The Treasury Department would pay the Post Office Department an amount equal to the postage for the mailing of tax information returns and statements as required under sections 6042, 6044, and 6049 of the Internal Revenue Code. However, we are expected to evaluate and represent the views of all taxpayers and the Federal Government in matters affecting postal rates. In that capacity we must point out that enactment of the bill would add another weight to the sizable burden now carried by all taxpayers on behalf of free and reduced-rate mails. Currently, the gap between revenues and costs on those mails is more than \$300 million yearly, to which must be added \$200 million of other public service costs already being paid for by the taxpayers.

Although enactment of H.R. 9058 would not add to public service costs, per se, since the postal service would be reimbursed by the Treasury Department, the effect on the Federal budget and on the taxpayers would be precisely the same—an added cost on top of some \$500 million in public service costs borne by the general taxpayer.

The subsidized cost of free and reduced-rate mails has grown rapidly. Each year brings new proposals and new laws which lengthen the list of postage exceptions and add to the taxpayers' financial burden. Nearly all of these requests for special postage treatment are for worthy causes or for meritorious objectives. But each proposal is discriminatory since it seeks to relieve some mailers of their postage costs while others continue to pay. Similarly, H.R. 9058 would permit free mailings of Internal Revenue forms 1099 while we

continue to require postage on W-2 forms and other tax information returns filed with the Government.

The Treasury Department estimated that enactment of H.R. 9058, or similar bills would cost the Government \$5,700,000 yearly for just those information statements mailed to payees. And that cost would increase as our population grows. In addition, there are the numerous returns filed with the Internal Revenue Service, in bulk, by banks, corporations and other payers of dividends and interest. About a fourth of these bulk returns are mailed and the remainder is delivered by commercial truck. If H.R. 9058 were enacted it would encourage dividend and interest payers to mail all their information returns free to the IRS rather than to pay for trucking costs. This would increase the financial burden on the Federal Government far in excess of the estimated \$5,700,000.

We noted the position taken by the Treasury Department on May 25, 1965, on bills identical with H.R. 9058. The Treasury Department stated that:

These bills would set a most unfortunate precedent since they imply that taxpayers may not be called upon to assist their Government unless they are directly compensated in part for their expenses. Although these bills are limited to providing free mailing for certain tax information returns and statements, if they are adopted they could have more far reaching effects. For example, their adoption could lead to the conclusion that the Government should pay the postage on the 108 million W-2 forms which are filed with the Government annually, and on the 108 million such forms delivered to individuals.

Should H.R. 9058 be enacted, it would surely raise new demands for postage privileges for all returns of income tax, Social Security tax, and similar matter. Moreover, it could lead to free mail privileges for all correspondence addressed to the Federal Government. Quite apart from our concern over the discriminatory aspects of the bill and its threat of higher cost to the general taxpayer, it poses some difficult, if not unworkable, administrative arrangements. Because the bill would provide free postage for mailings of form 1099 to individuals as well as to the Internal Revenue Service, the use of penalty envelopes could not be controlled. For mailings to Internal Revenue Service, we would have a nearly automatic guarantee against improper use of penalty envelopes. But for mailings of sealed envelopes to non-Government addressees, the Post Office could never ascertain whether these envelopes were being limited to the dispatch of forms 1099. Enactment of the proposed legislation could open the door to counterfeiting of penalty envelopes or to misuse of official envelopes for unauthorized purposes.

Mr. Chairman, we strongly advise against adoption of H.R. 9058 and similar bills. We cannot sanction the granting of postage-free privileges to one of many returns and forms which are mailed pursuant to the administration of government. We cannot endorse still another substantial increase in postal service costs to be borne by taxpayers rather than by users of the mail. We are apprehensive that enactment would be followed, justifiably, by numerous requests for similar postage privileges. And finally, we believe enactment of H.R. 9058 would bring many operational difficulties and misuses of free mailing privileges.

Mr. OLSEN. Thank you very much for your statement. I will turn you over to my very able colleague, Mr. Pool.

Mr. POOL. Thank you, Mr. Chairman.

Mr. Crowe, I will start out by saying it appears you are defending the general public against my bill. Who do you think benefits from the filing of the form 1099's?

Mr. CROWE. I think the form 1099 is an important document in the transaction of business, and I think in that sense both the organization using it and the individual receiving the dividends and other payments are benefited by its use; and finally, I think the Federal Government is indeed benefited.

Mr. POOL. You did not say anything about the taxpayers and they are the people who benefit more than anyone else because it brings in taxes and it runs the Government for the benefit of the taxpayers, so it would seem to me your argument does not have much merit there. The Treasury Department estimates it has collected an additional \$500 million in taxes because of these returns, and I think you estimate the cost of mailing the returns is between \$4 and \$5 million. I think it is a pretty good bargain for the Government to spend \$4 or \$5 million and get \$500 million back. Do you have any comment on that?

Mr. CROWE. Yes, sir. Our interest in the application of postal rates is on the basis of equity to all of the users of the mails and, hopefully, with no special privileges to any particular group.

Mr. POOL. All right. Before they passed the legislation requiring the filing of the form 1099's on interest and dividend payments, the Government was taking in \$500 million less money a year. This legislation was passed and it made no provision for postage for these returns people are required to send out. That cost comes out of their pockets. Do you think it is fair for the Government to receive \$500 million a year extra because of this requirement and not pay the cost of mailing these returns, which is an estimated cost of \$4 or \$5 million a year?

Mr. CROWE. I think as to the taxes, the Department of the Treasury should speak to that.

Mr. POOL. You have been citing the Department of the Treasury. I started to ask if you were standing behind the Treasury Department.

Mr. CROWE. Our interest is the application of postal rates on an equitable basis to all the people.

Mr. POOL. You were defending the general public a while ago against my bill. You opened the subject and that is why I am pursuing it.

Mr. CROWE. Yes, sir. In the nature of the effect of postage rates on the public, indeed I feel I am defending them against the bill.

Mr. POOL. You say this bill would discriminate against individuals and organizations that do not come within the purview of this bill?

Mr. CROWE. Yes.

Mr. POOL. In this particular case these people receive no benefit from the information. They are helping the Treasury Department collect the taxes. In the case of the W-2 forms, that is a personal relationship between the employer and employee, so you can say they do receive some benefit because it is a personal relationship between the employer and the employee, but in this case those who have to send these statements in get no benefit whatever except they are helping the general public by showing where these dividend and interest payments went. Not only that, but the people required to file the form 1099's are spending more money on the preparation of these forms and no pro-

vision was made for that when this legislation requiring the filing of the forms was passed. In my bill I am not asking that they be reimbursed for this cost of preparing the forms; I am just asking for the postage.

Mr. CROWE. It is my understanding that the individual who fills out form 1099 or any other form for the preparation of his income tax return is benefiting the Government in the same sense and applying labor in the same sense—

Mr. POOL. I am not introducing the bill to cover all these things. You say if we pass this bill we will have other demands for the franking privilege. If the demands are fair, Congress probably will pass legislation granting relief and if they are not fair Congress will probably turn them down. But all I am trying to get back under this bill is postage for these forms on interest and dividend payments. I do not think it is fair not to reimburse these people for sending these forms out. I understand you are trying to keep your budget down and you are not worrying about this problem.

I have another bill I have introduced under which the Government would set up a five-man tax commission independent of the Internal Revenue Service, with 15-year terms to interpret the laws of Congress, and it has the same purpose as here, fairness to the public. You have the money coming in as a result of the filing of these returns and you do not want to lose any of it, but it is not fair.

Mr. OLSEN. I will have to help the witness a little bit.

Mr. POOL. All right.

Mr. OLSEN. I think there is a difference here that ought to be looked at. I serve on the Committee on Public Works as well as this committee, and over there they are contemplating building some power projects. We have the issue of public power versus private power. The private power people say they collect taxes for the Federal Government. The difference is that the private power people, in addition to the taxes they collect, are guaranteed a profit and the expenses of collecting the taxes. Mr. Pool's situation is that these people making returns on interest and dividend payments are not given any consideration. They are not paid the expense of making these returns. That is what Mr. Pool does not like and I see his point. Once again, private power companies go through the regulatory agencies of the State and say, "Here is what it costs to operate, here is our investment, and we have to get that and all our taxes and then we have to have a profit on our investment." But the savings and loan associations or a bank or a corporation making these returns containing this information for the Internal Revenue Service are not being paid for doing this. This is the complaint, and Mr. Pool is trying to relieve some of that burden. They still will be burdened with the cost of preparing the returns. As I understand, your Department is sincerely fearful of opening this door?

Mr. CROWE. Yes, sir.

Mr. OLSEN. But this is the difference.

Mr. POOL. I thank you for that statement. I want to point out that in various States they even go so far as to pay people to help collect taxes.

Mr. Chairman, I have a lot of other questions but I will not take the whole time of the committee on this witness here. So, unless you have something else you want to add to the discussion, Mr. Crowe, I have enjoyed kicking this around with you and realize you have to

take the position you do, but I think way down deep you are on my side of this thing.

Mr. OLSEN. But there is a genuine distinction, is there not, between what your opinion would be on those returns made to the Internal Revenue Service on dividends and interest, and what your opinion is about mail sent to the payee of dividends and interest?

Mr. CROWE. As I understand it, the information statements which are submitted to the Internal Revenue Service are collected and submitted in bulk and identification of those should be relatively simple based on the bulk of the item and on the address, and I believe there would be no difficulty in the Post Office in recognizing those.

Mr. OLSEN. As a matter of fact, a lot of those returns, even the small banks in Butte, Mont., they can make reports and give the information by telephone. It is on electronic tape and put on the telephone and comes to IRS here. Maybe somebody could verify that later.

Mr. POOL. On whether they are misusing the mail, I believe in World War II—and I think at the present time we permit members of the armed services overseas to send mail without postage. I do not think anybody is worrying about that.

Mr. CROWE. It would be a tremendous administrative problem where the business mails the individual forms to the receiver of the dividends or of the interest.

Mr. POOL. I am sure they could explain it to the corporation or bank and I do not think you would have a problem there.

Mr. CROWE. We believe the problem would be severe.

Mr. POOL. They will not write love notes to some of their customers.

Mr. OLSEN. What is your experience about that kind of violation? Do you have some real factual information that will support your opinion?

Mr. CROWE. I do not have any with me, sir. We could ask Mr. Montague, who is in charge of our inspection service to supply some examples regarding the misuses of the free mail privilege, if they exist, or the counterfeiting of postage.

Mr. POOL. Do not include Congressmen.

Mr. CROWE. I said, sir, if they exist; and the counterfeiting of postage. I believe we use the term in my statement of counterfeiting of postage.

Mr. OLSEN. That is the same field. I think we should have that information. You will describe it, will you not, so that we will know the distinction?

Mr. CROWE. Yes, sir.

Mr. OLSEN. Please furnish that for the record and it will be inserted at this point.

Mr. CROWE. Yes, sir.

(The information requested follows:)

POST OFFICE DEPARTMENT,
BUREAU OF FINANCE AND ADMINISTRATION,
Washington, D.C., September 3, 1965.

HON. JAMES H. MORRISON,
*Chairman, Subcommittee on Postal Rates,
House Post Office and Civil Service Committee,
House of Representatives, Washington, D.C.*

DEAR CONGRESSMAN: On September 1, I appeared before your subcommittee for the purpose of presenting the Department's views on H.R. 9058 and similar

bills. In my statement I referred to operational difficulties that would arise if the proposed legislation were enacted.

In response to a request by Congressman Olsen, I am submitting the attached memorandum addressed to me by Mr. Henry B. Montague, Chief Postal Inspector. His memorandum cites past misuses of penalty mail envelopes when control over these was loosened by executive agencies. It also confirms my apprehension that general availability of penalty envelopes for mailings of Form 1099 would vastly multiply improper uses of these envelopes.

Sincerely yours,

EUGENE B. CROWE,
Deputy Assistant Postmaster General.

MEMORANDUM

SEPTEMBER 2, 1965.

From: Mr. Montague.

To: Mr. Crowe, room 5202.

In response to your request, I am submitting comments on operational problems that are implicit in H.R. 9058 and similar Bills to permit free mailings of Internal Revenue Forms 1099.

From the standpoint of the Inspection Service, the comments on page 3 of your statement, of possible improper use of penalty (or postage and fees paid) envelopes are of direct concern to us. The Inspection Service investigates all irregularities involving improper use of official envelopes. The number of instances in the past has not been large. That is probably due to the close control maintained by Government agencies, and to awareness on the part of Government employees of the penalty provisions of the law. There have been individual instances from time to time of improper use of an envelope by a Government employee, but investigation has usually developed that the cause was due to misunderstanding and not to willful violation. A number of Federal Agencies, particularly the military and the Government Printing Office, supply official envelopes to civilian contractors for use in connection with Government contracts. We have received occasional reports of alleged violations but these have been found to be either without substantial basis, or else attributable to individual employees of the contractors. In one recent case the employee of an envelope company in Baltimore, printing official envelopes for the Interior Department, misused some envelopes for propaganda purposes. No instances have come to our attention of the counterfeiting of official postage free envelopes.

However, if this proposed bill were enacted and postage free envelopes were made available to banks, corporations, and other payers of dividends and interest for mailings to non-Government addresses, we believe that it would be most difficult if not impossible to maintain any satisfactory degree of control to insure proper use. We are convinced that the number of violations would increase greatly, and there would be an additional burden on our Service to investigate abuses, and on the Department of Justice to prosecute violations. There would be a greater temptation on the part of professional counterfeiters or unscrupulous printing firms to enter what could be a profitable field. The counterfeiting of envelopes would be much simpler proposition than the counterfeiting of other Government paper such as currency, bonds, or stamps.

H. B. MONTAGUE.

Mr. OLSEN. Mr. Pool, do you have any further questions?

Mr. POOL. Not at this time.

Mr. CROWE. Mr. Chairman, if I could be excused, I have another meeting, but I will leave Mr. Eden here if there are further questions.

Mr. OLSEN. That is splendid. Thank you.

Our next witness is Mr. John Y. Taggart, attorney adviser, Office of Tax Legislative Counsel, Department of the Treasury. He is accompanied by Mr. Thomas G. Vitez of the Planning and Research Division, Internal Revenue Service. We are glad to have you gentlemen here and you may proceed with your statement.

STATEMENT OF JOHN Y. TAGGART, ATTORNEY ADVISER, OFFICE OF TAX LEGISLATIVE COUNSEL, DEPARTMENT OF THE TREASURY; ACCOMPANIED BY THOMAS G. VITEZ, PLANNING AND RESEARCH DIVISION, INTERNAL REVENUE SERVICE

Mr. TAGGART. Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear before you to present the Treasury Department's views on H.R. 141, H.R. 1652, H.R. 4849, and H.R. 9058, identical bills to amend title 39 of the United States Code to authorize the free use of the mails for persons filing certain tax information returns with the Internal Revenue Service, and mailing tax information statements to taxpayers.

The proposed legislation would treat mail containing certain information returns and information statements as penalty mail. Thus they would be entitled to be sent through the mail without payment of postage by the sender. The Internal Revenue Service would then pay the Post Office Department the appropriate amount of postage. The statements and returns which would be entitled to this special treatment would be those relating to interest, and those relating to dividends, including patronage dividends.

At this point Mr. Morrison (chairman of the subcommittee) arrived and presided during the remainder of the session.)

Mr. TAGGART. I was pointing out that a tax information return is a document filed with the Internal Revenue Service, whereas a tax information statement is a copy of an information return which is given to a taxpayer so he will know the amount of income which has been reported to the Internal Revenue Service on his behalf. A tax information return (and statement to the taxpayer) is required when a payer of interest or dividends pays \$10 or more during a year to a person.

As the Treasury Department's report, which I believe you have in front of you, indicates, the Department does not recommend the enactment of the proposed legislation, and for several reasons is opposed to authorizing the free use of the mails for persons filing tax information returns and statements.

I would like briefly to explain our objections to this proposal, but first I think it may be helpful, particularly in view of some of the previous discussions, to outline the background of the reporting procedure itself.

The call for legislation of this type stems, as Mr. Pool pointed out, from the changes in the tax information system made in the Revenue Act of 1962, which became effective in January of 1963. Prior to 1963 statements were required by payers of dividends where they paid over \$10 a year to a person. However, in the case of interest, returns were required only where payments of \$600 or more were made during the year to a person. In neither case, interest or dividends, was a copy of the return required to be sent to the taxpayer.

Then in 1962, because of the failure of recipients of dividends and interest—particularly interest—to fully report that income the Treasury Department proposed a system of withhold where a percentage of each payment would be withheld and turned over to the Internal Revenue Service. We think this would have been simpler because there would have been only one return and the total amount could be lumped and there would be no necessity for information statements

to go to the payees because they could easily compute the amount. However, the payers objected to the Treasury Department's proposal and indicated that an expansion of the information system would be preferable to withholding. At that time it was not suggested that it would be appropriate for the Government to pay the postage costs of the expanded information system.

In any event, the expanded withholding system was adopted and the \$600 floor in the case of interest was reduced to \$10, the same as dividends, and copies of the returns were required to be sent to the taxpayers.

With that background, I would like to return to the proposed legislation because the Treasury Department feels that the adoption of this proposal would set a far-reaching precedent, both in the tax field and in all Government activities.

We feel if this legislation were enacted it would be hard to deny similar treatment to the filers of the 108 million W-2 forms sent to the Government.

Mr. MORRISON. That is far reaching, but was it not far reaching when they put this expensive burden on these people to send these reports out?

Mr. TAGGART. I was trying to suggest that the Treasury Department does not feel that was such a far-reaching step that was taken in 1962.

Mr. MORRISON. It is just a matter of opinion.

Mr. TAGGART. Yes, sir; that is perhaps true.

Mr. MORRISON. They are doing your work for you at an additional cost and one of the ways of relieving this burden is to work it out so they get the postage paid, whether by your Department or some other agency of the Government. This burden was put on them. I think if somebody asks them to do their work it is bad enough. I think we have gone too far when the people on whom the burden is placed cannot be repaid for out-of-pocket expenses for postage.

Mr. POOL. Mr. Chairman, will you yield?

Mr. MORRISON. Yes.

Mr. POOL. It seems to me if this legislation is passed, the Government itself, the different departments of the Government, will be careful before they require people to do more of these things. They will be more cautious in requiring these things.

Mr. MORRISON. Yes. When they have to pay the bill they will take that into consideration.

Mr. TAGGART. May I respond to you observations, please?

Mr. MORRISON. Yes.

Mr. TAGGART. Let me take Mr. Pool's comment first. I would like to point out the Treasury Department did not urge the information system we have. Our suggestion in 1962 was for a withholding system.

Mr. POOL. Do you mean you opposed the bill in 1962?

Mr. TAGGART. No; we did not oppose it. We took it because we could not get anything else, but our preference was for a withholding system that was much simpler and required fewer pieces of paper.

I would like to point out also that the Government does pay a substantial portion of the cost of these information statements. The cost of preparing the statements, typing them, and mailing them is deductible as a business expense and so reduces the taxes paid.

Mr. POOL. You pay 52 percent and the corporation pays 48 percent?

Mr. TAGGART. That is right, but that is not only the postage cost which you are trying to get for the payers, but also—

Mr. POOL. Suppose they do not make a profit? Who pays then? They pay 100 percent then, do they not?

Mr. TAGGART. They would pay 100 percent but we do have provisions for loss carrybacks and loss carryforward. It is 2 years back and 5 years forward, or 7 years. But if they are not making a profit for that long I am not sure they will be around.

Mr. POOL. If you continue to pass this kind of legislation a lot of them will not be around.

Mr. TAGGART. While it is true some additional burdens were put on in 1962, there were a great many information returns required prior to 1962. For example, the payers of dividends were required to make precisely the same type of information returns to the Internal Revenue Service prior to 1962 as after 1962. The primary change was that payers of interest were required to make an information return on payments of interest of \$10 or more during a year to a person instead of \$600 or more, as prior to 1962, plus the requirement that copies of interest or dividend payment statements be sent to the taxpayer.

Mr. MORRISON. I did not quite understand. You say the savings and loan associations are paid for this expense? Does the Treasury Department pay them or is it an indirect payment?

Mr. TAGGART. It is an indirect payment.

Mr. MORRISON. By reducing their income tax?

Mr. TAGGART. The costs of preparing these statements and returns, including postage, are deductible as an expense and it has the effect of reducing the tax liabilities of the payers of interest or dividends. It is about 50 percent if they pay the corporate surtax and 20 percent if they pay the normal corporate tax.

Mr. MORRISON. On the other hand, if this burden were not put on them they could save 100 percent, depending on how much profit they made?

Mr. POOL. If they made a profit.

Mr. MORRISON. If they did not make a profit, perhaps they were in an area like Texarkana where they are moving a lot of postal employees and homes are a drug on the market and you cannot sell a home for what it is worth. They are going through a very difficult situation down there. I know those savings and loan associations will probably take a severe loss. And they would stand the whole cost of this, would they not?

Mr. TAGGART. Yes.

Mr. MORRISON. There is nothing in your regulations whereby they would be treated specially?

Mr. TAGGART. No. They would have to have losses for a period of 7 years before they stand the whole cost.

I would like to point out something else when we are talking about the cost and who benefits. The real reason the Treasury Department in 1962 made the withholding proposal was that the recipients of interest and dividends—particularly interest—were not reporting the income they received for tax purposes. We felt this was unfair because it placed a burden on people who were reporting. I look on the information system as really being an extension of our self-

assessment system. Most savings and loan associations are mutual companies owned by the depositors, so their costs are really the cost of their depositors reporting to the Federal Government the interest they receive. It is hard for me to see why, if I file my tax return, the Government should give me a nickel to mail it, although I would be afraid, if this bill were enacted, this is the kind of argument that would be urged.

Mr. MORRISON. On the other hand, when the Agriculture Department sends for information they put a penalty self-addressed envelope with the request and the man who sends the information back does not have to spend a nickel for postage. That is information the Agriculture Department wants from him, the same as the information you want from a savings and loan association.

Mr. POOL. And the agricultural report is a direct benefit to the farmer whereas in this case the savings and loan association does not get a nickel of benefit out of it.

Mr. MORRISON. The Agriculture Department sends thousands and thousands of letters enclosing self-addressed penalty envelopes and all the man has to do is put in the information and send it back. It does not cost him anything.

Mr. TAGGART. I think this illustrates the fears the Treasury Department has. You are right, there is a very persuasive case to be made that if we pick up the postage for form 1099 we should pick it up for W-2's and for people who file personal and corporate returns.

Mr. MORRISON. I think they would be very grateful.

Mr. TAGGART. I have no doubt they would be, Mr. Chairman.

Mr. MORRISON. Actually what you are doing is putting an additional tax on savings and loan associations for that postage and whatever the cost of that work is. Not only that, but I think someone testified before Congress some years ago that savings and loan associations were not paying enough taxes. Someone singled out the savings and loan associations and did not any other institutions.

Mr. TAGGART. This was done because it was felt the savings and loan associations, in relation to other financial institutions, were paying less taxes and that the burden should be equalized. It was not necessary to change the taxes on the banks but it was only necessary to bring the taxes of savings and loan associations up to the same level.

Mr. MORRISON. There is no doubt that banks, in effect, are in indirect competition with these savings and loan associations and perhaps they have a more powerful voice. I remember some time ago Wright Patman introduced a bill to let savings and loan associations come into some of the fields the bankers thought were theirs and theirs only, and from what he told me he got quite a response in the negative. It was very pronounced and very powerful against it. It just looks like these people have been singled out and, with the help of some of the banking fraternity, have had taxes placed on them and have been given this additional burden to furnish this information. On the other hand, when tax reductions are made they do not single out the savings and loan associations, they are made for everybody. But when they put an extra tax on, they single them out. You say this is an expense, but in effect it is the same thing as a tax. It will certainly cut down their profit.

Mr. TAGGART. I would like to say a word about singling them out. In this instance it seems the savings and loan associations and the

banks were being treated in the 1962 act the way the payers of dividends were treated prior to 1962, because they were required to make a report if they were paying \$10 or more during a year to a person. What was done was to put the savings and loan associations on an equal basis with what was being done by other taxpayers and not give them a special and unique and different tax treatment.

Mr. MORRISON. What it amounts to is the finger is put on them to give that information at their own expense.

Mr. TAGGART. Just as was done for years on payers of dividends.

Mr. MORRISON. The fact the payers of dividends have to do that is no reason they should not be included in this bill.

Mr. TAGGART. They would be included under this bill.

Mr. MORRISON. There is no reason why they should not be able to have this postage paid. This postage is only a small part of the cost. I do not know how relative it is, but there is an additional cost put on all these people to do this work.

Mr. POOL. Mr. Chairman, as I stated before you came in, the cost of mailing these returns is about \$4 or \$5 million a year and the extra revenue to the Government brought in by reason of these returns is about \$500 million a year. The Government makes that much more income.

Mr. MORRISON. Do you not think that is a pretty good swap?

Mr. POOL. Do you contest that figure of \$500 million additional income?

Mr. TAGGART. I am not sure. We are making studies to get some figures for the Finance Committee and the Ways and Means Committee and it is a little too soon to say.

Mr. POOL. If you get \$500 million more from the mailing of these statements, surely that is a substantial benefit?

Mr. TAGGART. I am sure we have benefited from it.

Mr. POOL. For the Government to make \$500 million at a cost of \$4 or \$5 million is a pretty good bargain for the Government.

Mr. MORRISON. The point that has not been explained is why the Government should not bear the cost of something that has been of benefit to them when other Government agencies that get information pay the postage. To me it is not the amount of mailing you do, it is the principle. If the Government agency wants this information to collect taxes, why should they object to paying postage on it? I do not think anyone would argue that everyone should pay a tax, but a question of fairness is involved. For an individual a 5-cent stamp does not amount to very much, but it certainly adds up to a lot to some of these people.

Mr. TAGGART. If I may respond, it is really a decision for Congress as to whether the Treasury Department reimburses these people. What I am trying to do is point out that I think you have to look, not just at the bill which is pending before you, but at the bills that will be coming up next year, because the arguments you are making so eloquently for this bill are precisely the arguments we think can be made for the other bills. S we are not talking about a cost of \$4 or \$5 or \$ 6 million to send the information to taxpayers and another \$4 or \$5 million to send returns to the Internal Revenue Service, but we are really talking about sending all tax returns to the Treasury Department and perhaps sending all mail to the Government at Government expense.

Mr. POOL. Don't you send return forms out to the taxpayers under the penalty?

Mr. TAGGART. Yes, we do.

Mr. POOL. Why don't you figure a way to make them pay for that if you want it all on one side? Actually, the trouble with the Government, as I see it, is that they do not worry about the small taxpayers back home. They just worry about balancing the budget and the weak get clipped and the strong don't. I certainly believe in being fair and when people have equity on their side I will be for that. I think that is the only fair way a Congressman can look at it.

Mr. TAGGART. I think, Mr. Chairman, in questions and answers, I have covered the points that I wanted to make in discussing these bills with you this morning.

Mr. MORRISON. You certainly have done an excellent job. I think you are most knowledgeable and from your standpoint for the Department you certainly have presented their case.

Mr. TAGGART. Thank you, Mr. Chairman. I will remain in case there are any questions that come up later.

Mr. MORRISON. The next witness is Mr. C. R. Mitchell, chairman of the legislative committee, U.S. Savings & Loan League, and president of the First Federal Savings & Loan Bank, Kansas City, Mo. He is accompanied by Mr. Stephen Slipher and Mr. Charles Borsom.

STATEMENT OF C. R. MITCHELL, CHAIRMAN, LEGISLATIVE COMMITTEE, U.S. SAVINGS & LOAN LEAGUE, AND PRESIDENT, FIRST FEDERAL SAVINGS & LOAN BANK, KANSAS CITY, MO.; ACCOMPANIED BY STEPHEN SLIPHER, STAFF VICE PRESIDENT, AND CHARLES BORSOM, MANAGER, ACCOUNTING DIVISION

Mr. MITCHELL. Thank you, Mr. Chairman. My name is C. R. Mitchell and I appear here today as chairman of the legislative committee of the U.S. Savings & Loan League.

The U.S. Savings & Loan League is a nationwide trade organization with 5,100 members, including federally chartered and State chartered, insured and uninsured associations. Its principal officers are John W. Stadtler, president, Washington, D.C.; C. A. Duncan, vice president, Nevada, Mo.; Norman Strunk, executive vice president, Chicago, Ill.; C. R. Mitchell, legislative committee chairman, Kansas City, Mo.; and Stephen Slipher, legislative director, Washington, D.C. The league's Washington office is at 812 Pennsylvania Building, Washington, D.C.

I am accompanied by Stephen Slipher, the league's legislative director, and Charles Borsom, manager of the accounting division of the league's affiliate, the American Savings & Loan Institute. The league's membership includes both State and Federal savings and loan associations who represent about 97 percent of the assets of the business. I am also president of the First Federal Savings & Loan Association of Kansas City, Mo.

The U.S. Savings & Loan League endorses H.R. 9058 by Representative Pool. This bill would reduce, but not eliminate, the expenses incurred by thousands of American businesses in helping the Federal Government collect income tax on interest and dividend payments. For convenience, I will hereafter use the word "interest" to cover both "interest and dividends."

A few years ago the administration became convinced that a good deal of interest was not being reported on income tax returns.

Mr. POOL. Could I interrupt right here? When the savings and loan associations pay out payments to their association members, is that considered interest or dividends?

Mr. MITCHELL. For the purpose of taxes it is interest. It is treated the same as interest.

Mr. POOL. From the legal standpoint it is dividends?

Mr. MITCHELL. That is right.

In 1962, after hearings and debate, the Congress enacted a broad new program of interest reporting. This law requires the payers of interest to report the amount of interest to the investor on a prescribed form known as 1099. This report must be filed wherever the total interest payment equals \$10 for the year. A copy of this form must also be filed with the Internal Revenue Service. A companion law further required all payers of interest to contact every saver or investor requesting a taxpayer identification number—social security number.

The combination of these requirements greatly improved the collection of taxes on interest because (1) the taxpayer who is notified in writing of the amount of the interest is much less likely to overlook it; (2) the taxpayer is aware of the fact that his interest has been reported to the Internal Revenue Service for possible checking; and (3) the use of taxpayer numbers enables the IRS to electronically spot discrepancies between interest reported by the payer and the payee—this procedure is operating in some regions and eventually will be nationwide.

Although the law has been in operation only 2 calendar years, the Internal Revenue Service has announced a \$2 billion increase in the amount of interest reported by taxpayers and attributes this to the new information return system.

While the Federal Government and taxpayers in general receive the great benefits of this reporting system, almost all of the costs are absorbed by relatively few taxpayers.

Mr. POOL. Could I ask you here, it seems to me the report was \$3 billion increase and they cut it down \$1 billion there on account of the growth of the country and things like that; am I correct on that?

Mr. MITCHELL. Yes, sir.

Mr. POOL. Thank you.

Mr. MITCHELL. Naturally the question comes up as to whether or not the Federal Government should pay the postage for this tax collecting service without paying it for all others. We feel that two clear-cut distinctions can be drawn. Ordinary tax responsibilities all relate to the taxpayer's own business or his own employees. Interest reporting on the other hand relates to customers and the general public. Secondly, ordinary tax responsibilities involve very nominal costs—interest reporting involves very substantial costs.

Let's compare the tax "duties" of a financial institution such as a savings and loan association with that of an ordinary business such as a clothing store. We will assume that each has 20 employees which is about average for the savings and loan business.

Both the savings and loan and the clothing store must handle withholding tax on each payday, send the employee an annual report on amounts withheld, and send the Government a quarterly report.

Both, of course, must file their own corporate income tax and social security reports. American businesses, like American citizens, should be willing to perform certain modest services for the Federal Government without compensation. For these routine reports the total mailing cost, is perhaps \$10. Furthermore, all of these costs relate to reports about the company or its own employees.

But where the ordinary business tax chore ends, the savings and loans are just beginning. The average association has about 7,500 savers, 70 percent of whom receive interest in excess of \$10. For each of these 5,000, the association must: (1) Total up the two semiannual interest payments or the four quarterly interest payments to determine the total interest for the year; (2) enter the annual interest along with the saver's name and address on the prescribed form; (3) enter the taxpayer's identification number and the association tax number; (4) mail the report to the saver; and (5) mail a copy of the report to the Internal Revenue Service.

The postage alone amounts to \$250 or \$300. The clerical work and preparations cost an average of 10 cents or another \$500—companies specializing in doing these reports on a mass basis charge between 8 and 12 cents per mailing. The forms and envelopes cost another fraction of a cent. Also, there is a great deal of return mail to be handled, changes in address to be made and the inevitable inquiries from savers as to the meaning of the report, its accuracy, et cetera. All such activities involve employee time which, of course, is cost.

The average savings and loan association thus has spent about \$1,000 to help the Federal Government collect taxes on interest. This contrasts with \$10 or \$20 that the average other business spends. The enormity of the job is evidenced by the fact that over 10 million of these interest information reports are filed annually by the various payers. No other single group of taxpayers files even a fraction of this number of returns.

Note that these reports do not relate to the employees of a savings and loan but to the savings account holders.

The work we do in reporting interest to savers is more comparable to the work of the merchant in collecting sales tax for the State. The State does not ask the merchant to make the collection gratis, but pays an amount to compensate the merchant for the collection.

Of course this bill does not pay savings and loans or any other business a cent toward the expense of helping collect taxes. It simply says that in filing the interest reports there will be no postage costs. If the Internal Revenue Service itself had the information and sent interest reports to the savers, it would not pay postage.

It should be noted that under this bill the IRS would pay the Post Office Department the amount of its costs under the bill so the Post Office operations would not be financially affected by this bill.

In summary, the law has singled out the interest payers of the Nation as the only group which must make extensive reports on its customers as contrasted to reports on its employees. It has been given tax duties 50 to 100 times more expensive than any other group. We believe that it is only fair and equitable that the Government pay some of the costs—postage—of these compulsory reports.

Mr. MORRISON. Mr. Pool?

Mr. POOL. That is a very fine statement. I appreciate your support of the bill. There is one thing I overlooked when the Post Office Department witness was here a while ago.

We were talking about precedents. I think even the Post Office Department has a precedent when the Congress authorized the payment of lower rates for bulk mail which is presorted mail. They are talking about precedents. That is a precedent when they are going to rebate some money for presorting mail. I do not see anything wrong with our problem here as far as precedents go.

Precedents are just what we make them anyhow. I do not have anything to add to your statement. We kicked this thing around pretty good.

MR. MORRISON. I want to join my colleague, Mr. Pool, and say the gentleman has made a very excellent statement. I think it is very clear and very concise and certainly gives the position of the savings and loan associations.

When this was being brought about, did the savings and loan associations ask or make any request or did they bring this matter up as to costs on the postage?

MR. SLIPHER. If I may respond to that. The dividend and interest reporting was added to the bill on the Senate side. It was a tax measure handled by the Finance Committee which does not have jurisdiction over postal matters. It would not have been germane to the tax bill to discuss or try to add anything on postage.

Very soon after the bill became law and we began to get experience with the volume of it and began to see it worked well for the Government, we felt then it was time to open the question of postage. It just was not under the same committee jurisdiction as taxes.

MR. MORRISON. You all were not invited or had an opportunity to testify as to whether it would cost you?

MR. SLIPHER. It never was actually the subject of hearings. We supported and still support the idea of interest reporting. We go along with it. Even though it is a burden we have to agree it is bringing in more revenue. At that time we supported it. We still are willing to pay two-thirds of the cost.

As I say, shortly after it went into effect we did feel we ought to open this question of whether the postage part should be borne by the Government.

MR. MORRISON. Any further questions?

MR. POOL. No. I appreciate all of you appearing.

MR. MITCHELL. Thank you.

MR. MORRISON. We want to thank you gentlemen.

Without objection the statements of Congressman Bow, Congressman Fascell, Congressman Horton, the American Bankers Association, the National League of Insured Savings Associations, the Association of Stock Exchange Firms, and the Baton Rouge, La., Savings & Loan Association will be placed in the record at this point.

(The statements follow:)

PREPARED STATEMENT OF CONGRESSMAN FRANK T. BOW OF OHIO

Mr. Chairman, I regret that pressing duties in the Appropriations Committee makes it impossible for me to appear personally in behalf of H.R. 1652 and similar bills that would authorize the free use of the mails in making certain reports required by the Internal Revenue Service.

My district, and I feel certain every congressional district, has many banking firms upon whom an enormous burden was placed by the amendments to the Internal Revenue Code which require that banks report interest paid on savings accounts. A typical savings and loan institution in my district spent over \$8,000 in preparing and mailing the first 29,000 such reports required by the law. This

is an additional burden on the banking institution which is of benefit only to the United States. It serves no useful purpose to the bank or its customers. It is a convenience solely for our Government.

The burden of Federal Government reports is a very serious one for the small banks especially.

I believe it is only just and proper that the Internal Revenue Service should pay at least a part of the cost for preparing and mailing these reports. The most simple and equitable solution is to permit the IRS to assume postage costs.

Your careful consideration will be appreciated.

NEW YORK, N.Y., August 31, 1965.

CHARLES E. JOHNSON,
Staff Director, Post Office and Civil Service Committee, U.S. House of Representatives, Cannon House Office Building, Washington, D.C.:

We have just been informed that your committee will hold hearings tomorrow, September 1, on H.R. 9058. Unfortunately we do not have time to prepare testimony on this legislation. The position of this association was stated in our letter of July 1 to Congressman Pool. A similar letter was reprinted in Thursday's Congressional Record by Senator Hartke. See Record for August 26 at page 21199.

This association, as the trade organization for some 600 member firms of the New York Stock Exchange, wholeheartedly supports H.R. 9058 and we request that you make this telegram part of your record for tomorrow's hearings.

JAMES H. LYNCH, Jr.,
*Assistant General Counsel,
Association of Stock Exchange Firms.*

PREPARED STATEMENT OF CONGRESSMAN DANTE B. FASCELL OF FLORIDA

Mr. Chairman, I appreciate this opportunity to speak before your committee in behalf of H.R. 4849, a bill to authorize the free use of the mails in making reports required by law of certain payments to others. I introduced this bill on February 11, 1965.

The purpose of this bill should be clearly evident: It is an attempt to lift from the shoulders of businesses part of the burden of helping of Federal Government to collect taxes owed to it. The bill provides that mail containing information from form 1099 of the Internal Revenue Service can be sent free by the companies required to submit this information. However, so that the Post Office Department would not lose revenue, a second provision requires the Internal Revenue Service to transfer to the Post Office Department revenue that is equivalent to the amount that would normally be received from such mailings.

Under the Revenue Act of 1962 each small business, bank, savings institution or other corporation that pays \$10 or more in dividends or interest annually to an individual must report this payment to the Internal Revenue Service. The cost to these companies due to personnel, hours spent, stationery used, and mailing is very great. Yet, these companies do not gain any direct benefit from the cost they incur. Of course, they derive benefits as do all Americans from the increased revenue accumulated by the Treasury that enables the Government to finance the Great Society program. But they, not all Americans, are paying for the accounting, in a large part, of this increased revenue and are making its accumulation possible.

Thus this bill would mean that part of this cost, that of mailing the information to the Government, would be shared by all taxpayers.

According to Postmaster General Gronouski, his Department is opposed to the bill because it exempts one group of taxpayers from mailing costs without exempting all. The logic of this argument would be then that all taxpayers should receive free postage in mailing in tax information. And certainly this would be impractical.

I disagree though that this exemption is arbitrary. The information required on form 1099 does not pertain to the income or finances of the companies involved, but rather to those who derive income from the companies. This is clearly a different case than one in which a taxpayer reports about his own income.

The Treasury Department has filed a statement which contends that this bill would set a dangerous precedent, that in the future this bill may lead to legis-

lation requiring the Government to pay for the cost of mailing employees withholding forms. I personally believe that some form of this legislation would not be unreasonable either, but I do not think that my bill would necessarily foreshadow a future bill on W-2 forms.

The first results of the Revenue Act of 1962 seem to be good—dividends and interest payments hitherto unreported are being noticed by tax collectors on current returns. The system is apparently past the experimental stage and that means it will stay in force. As our economy grows the expense incurred by companies will be permanent and increasing in thus helping the Government to collect taxes. I am convinced that payment for this tax collecting job should be shared to a greater extent by the Treasury Department. And it should be so provided by Congress now, before another year passes and companies have to again spend millions in mailing these forms.

PREPARED STATEMENT OF THE NATIONAL LEAGUE OF INSURED SAVINGS ASSOCIATIONS

The National League of Insured Savings Associations is a nationwide trade association whose members are savings and loan associations having accounts insured by the Federal Savings and Loan Insurance Corporation.

On behalf of the National League, we wish to endorse H. R. 9058 and companion bills H. R. 141, H. R. 1652, and H. R. 4849 and urge prompt enactment of the proposed legislation represented by those bills. Upon becoming law, such legislation would enable member savings and loan associations of the National League to transmit as penalty mail the returns and written statements required by section 6049 of the Internal Revenue Code of 1954. Section 6049(b)(1)(C) defines as interest for the purposes of subsections (a)(1) and (2) of section 6049 amounts paid by savings and loan associations in respect of deposits, investment certificates, or withdrawable or repurchasable shares.

Subsection (a)(1) of section 6049 makes it mandatory for each such association that makes payments of interest aggregating \$10 or more to any person during a calendar year to make a return according to forms or regulations prescribed by the Secretary of the Treasury or his delegate, setting forth the aggregate amount of such payments and the name and address of the person to whom paid. Subsection (a)(2) of section 6049 requires that each such association making payments of interest aggregating less than \$10 to any person during a calendar year make a similar return when required by the Secretary of the Treasury or his delegate.

Subsection (c) of section 6049 requires every such association making a return under subsection (a)(1) of that section to furnish to each person whose name appears in the return a written statement showing the name and address of the association making the return and the aggregate amount of payments to the person as shown on such return. The written statement so required must be furnished to the payee on or before January 31 of the year following the calendar year for which the return was made. No written statement is required to be furnished to the payee if the aggregate amount of payments to him as shown on the return is less than \$10.

Under the circumstances noted in the provisions of section 6049 recited above, the furnishing of returns and written statements is made mandatory by law. Prior to enactment of section 6049, it was not common practice for savings and loan associations to provide savings account holders with any written statement of dividends or interest paid on such accounts during the year. Such amounts were normally brought to the attention of the account holder by posting in the passbook evidencing the account.

The legislative history of section 6049 demonstrates that its provisions were included in the law primarily as an aid to the Internal Revenue Service in receiving specific information about taxable income.

The proposed legislation that is the subject of this hearing by the subcommittee recognizes that fact and would permit transmittal as penalty mail of returns and statements for which provision is made in section 6049. In view of the numerous accounts involved, it can be readily realized that the cost of transmitting such material as postage paid mail is considerable, even though allowance is made for the fact that not all savings accounts result in payments of interest aggregating \$10 or more during the calendar year and therefore are not the subject of any mandatory statement to the payee.

The preparation of the necessary returns and statements entails a considerable expense to the savings and loan associations involved. Enactment of the proposed legislation would help to reduce that overall cost by shifting the cost of postage for such material to the Internal Revenue Service, which is the principal beneficiary of the mailings. The proposed legislation should be promptly enacted.

WILLIAM F. MCKENNA, *General Counsel.*

BATON ROUGE SAVINGS & LOAN ASSOCIATION,
Baton Rouge, La., September 1, 1965.

Re free mail of 1099's.

Representative JAMES H. MORRISON,
*Congressman of United States,
House of Representatives, Washington, D.C.*

DEAR REPRESENTATIVE MORRISON: It is our understanding that you are the subcommittee chairman of Representative Pool's bill, H.R. 9058, concerning free use of mails in meeting form 1099 requirements.

We sincerely request and urge that you vote for the passage of this bill.

The savings and loan industry in our State, in fact, nationwide, has made a concerted effort to encourage shareholders to report the dividends for income tax purposes. The efforts which our industry has set forth have been costly. In addition, the extracting of necessary data from our records and the preparation of the forms has proven to be a most expensive item. It seems that it would be in order for the Government to give us some financial relief by passage of this bill. Securing social security numbers, extrating data, preparation and mailing of form 1099's cost approximately \$2,500 for an association our size. This would save our association approximately \$550 this year in postage alone, and it is logical to assume that normal growth of our association will make this item more costly each year.

We sincerely request your assistance.

Yours truly,

DAVID O. STANLEY,
Assistant Vice President and Secretary.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., September 2, 1965.

Mr. WILLIS J. ALMEKINDER,
*President, First Federal Savings & Loan Association,
Rochester, N.Y.*

DEAR WILLIS: Bill Dwyer told me of your call earlier today and your expression of interest in H.R. 9058, a bill to authorize free use of the mails to report dividend and interest payments as required for income tax purposes. As you correctly comprehend this proposal, it provides that the Internal Revenue Service, since it is the Federal agency requiring these reports, would reimburse the Post Office for the cost of such free use of the mails.

This bill has been referred to the House Post Office and Civil Service Committee and in turn to its Postal Rates Subcommittee. The subcommittee held a hearing on the measure yesterday. It is likely that the bill will be considered further in executive session next week and a decision made at that time as to whether to report it for further legislative consideration.

I understand that your institution mails some 60,000 of these Internal Revenue Service forms each year and that the total cost of this operation to you is around \$8,000, of which \$3,000 is for first-class postage. In view of this costly burden on a constituent organization, you can be assured of my sympathy for Congressman Pool's bill and my hope for its prompt congressional enactment.

By copy of this letter to Hon. James H. Morrison, chairman of the Postal Rates Subcommittee, I am manifesting my interest in the subject bill and furnishing him with an example of the deserved relief its passage would provide an association in my congressional district.

With warmest personal regards, I am

Sincerely,

FRANK HORTON, *Member of Congress.*

THE AMERICAN BANKERS ASSOCIATION,
Washington, D.C., October 1, 1965.

HON. JAMES H. MORRISON,
*Chairman, Subcommittee on Postal Rates,
House Post Office and Civil Service Committee, Washington, D.C.*

DEAR MR. MORRISON: The American Bankers Association desires to take this opportunity to file with your subcommittee an expression of its views and comments on H.R. 9058, and other related bills, which would authorize free use of the U.S. mail by payers of interest and dividends in making tax information returns on such payments as required by 26 U.S.C. 6042, 6044, and 6049. It would be appreciated if this letter were made a part of the record of the hearings held on this bill.

Prior to enactment of the 1962 Revenue Act, payers of dividends were required to file with the Internal Revenue Service tax information returns (form 1099) on persons to whom they paid dividends of \$10 or more during the year. Payers of interest were only required to file tax information returns on those persons to whom they paid interest of \$600 or more during the year. Neither payer was required to furnish the individual payees with a copy of such information return.

Under the above-described law, there was a widespread failure by the recipients of interest and dividend payments, particularly interest, to report to the Service such payments as income received. This failure to report income was largely due to the fact that the Service had no effective way, under the then existing law, to determine the amount of interest paid to persons who received less than \$600 since payers of interest were not required to file information returns with respect to these interest payments.

The Revenue Act of 1962 substantially amends the law with respect to the filing of information returns by requiring payers of dividends and interest to file such returns on payees to whom they paid \$10 or more in dividends or interest during the year, and also requires such payers to furnish the individual payees with copies of such information returns stating the amounts of dividends or interest paid to them during the year. The new reporting requirements, which became operative in January 1963 are directly responsible for a substantial increase in tax revenues to the Federal Government. The Treasury Department has estimated that the new regulations have resulted in the reporting of an additional \$2 billion of interest income and in the collection of an additional \$500 million in tax revenues annually.

While the Federal Government has enjoyed this increase in tax revenues with very little increase in expense or workload, banks, in their capacity as interest payers, have experienced a substantial increase in expenses as a direct result of compliance with the new reporting requirements. Banks must now perform additional accounting operations as well as other tasks, such as the purchase of additional envelopes and the labor costs involved in placing the form 1099 in these envelopes, which have increased the overall operating expenses of banks. It is generally estimated that the average cost of producing a form 1099 return is from 5 to 7½ cents per item, and this does not include the postage necessary to mail such returns to the individual payees and the Internal Revenue Service. The expense incurred by a bank required to prepare 100,000 of such forms ranges from \$10,000 to \$13,000, which includes the 5-cent stamp necessary to mail the payee his copy, but does not include the cost of transporting the forms to the Internal Revenue.

Although the banking industry recognizes the importance of such information returns and gladly lends its full cooperation to the Federal Government in the preparation of such returns, we feel that it is unfair to require banks, who derive no benefits therefrom, to bear the entire expense; that is, the cost of preparing as well as mailing, incurred in complying with the new information return reporting requirements.

In view of the fact that the Treasury Department is experiencing increased tax revenues of approximately \$500 million a year which are directly attributable to the new information return requirements, and the fact that the postage costs in connection with these returns are estimated to be approximately \$6 million, we believe that it would be more equitable and fair to banks and other payers of interest and dividends, to permit such payers to transmit these returns to the Internal Revenue through the U.S. mail without the payment of postage as proposed in H.R. 9058. This would relieve banks from a portion of the expenses presently incurred in complying with the information return requirements. The U.S. Post Office Department would not suffer a loss in postage revenue since the Internal Revenue Service is required by this proposal to reimburse the Post

Office Department for all such returns transmitted through the U.S. mail. The expenditure by the Internal Revenue of the approximated \$6 million in postage costs would appear to be well justified in view of the additional \$500 million in tax revenues being returned to the U.S. Treasury as a direct result of the information return reporting requirements.

The American Bankers Association supports H.R. 9058 and strongly urges its prompt enactment.

Sincerely yours,

CHARLES R. McNEILL, *Director.*

Mr. MORRISON. The committee will stand adjourned until further call of the Chair. Thank you.

(Whereupon, at 11:15 a.m., the subcommittee adjourned subject to the call of the Chair.)

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