

# "COLLECTION AT THE SOURCE" CALLED INTOLERABLE BURDEN

NO one individual and no single article can do full justice to the income tax which has become engrained upon our revenue system as the result of the adoption of the Sixteenth Amendment to the Federal Constitution and the enactment of the revenue law of 1913. Thousands and hundreds of thousands of hapless citizens have been struggling with its intricate problems for months past without reaching a satisfactory solution, and many of its mysteries bid fair to remain uninterpreted and a source of perplexity for years to come.

The statute was loosely drawn and stands forth as a masterpiece of incompetency and confusion, and it is safe to say that the popularity of tax gatherers, who were ranked with publicans and sinners in Bible days, has not been enhanced by the operation of the law. But an exception should be made with a numerous company of involuntary collectors, created by the plan of gathering the tax at the source. This scheme imposes onerous burdens on "guardians, trustees, executors, administrators, agents, receivers, conservators and all persons, corporations or associations acting in any fiduciary capacity."

It would not have been so difficult, perhaps, to collect the tax at the source if the provisions of the law were clearer, but the obscurity of the phrasing has created an obfuscation puzzling to every one, from the Attorney-General down to the humblest citizen, who has been struggling recently with form 1040. Thousands upon thousands of questions have arisen not expressly covered by the regulations. Banks, trust companies and private banking firms and newspapers by the score have been forced to establish information bureaus in an effort to construe the endless puzzles.

Collectors of Internal Revenue have differed widely in their interpretations of various of the problems, and in numerous instances they have found it necessary to pass upon intricate questions which can only be determined by a judicial construction of the act itself. With individual returns, with which the revenue officers have recently been engaged, the situation has been that of confusion worst confounded and has resulted in an extension of the date for filing the returns by one day, practically an unheard of thing in a Government statute. Aside from these features the Commissioner of Internal Revenue has revised his rulings on numerous instances, and decisions rendered one day have been rescinded the next.

It is impossible to give any adequate idea of the situation created by the income tax law among some of the large corporations which have been collecting the tax at the source, but some of the more striking features are set forth in the accompanying article. With many of the more important banking institutions and railway and industrial corporations it has been necessary to organize special departments and employ additional clerks and increase expenses to aid in gathering the revenue for the Government.

Though the cost of collecting the tax imposed few additional burdens upon the Federal Government, it has added materially to the cost of the involuntary tax gatherers. With the larger financial institutions the work is a continuous performance, for deductions at the source apply to interest payment maturing almost daily. Slowly of course the situation will adjust itself, but many of the earlier collections at the source were from persons exempt under the law. This has added greatly to the expenses of the corporations and to the annoyances of individuals without increasing the public revenues.

Corporations, trust companies and banks have travelled now for four months with "collections at the source," as provided for in the income tax law. The mountain has labored and brought forth a mouse.

The labor and the cost have been great, the result tiny. The size of the tax that has been collected "at the source"—though returns thus far are not official and can only be based on estimates from the experience of a few—is indicated to be so small as to demonstrate the mountainous labors that stand as a background against it to be a monument of folly.

To the big business men of the country, who are charged in the conduct of their own business with the duty, desire and ability to produce results in proportion to the amount of work put in, "collection at the source" in its results is an inexcusable waste that is unpardonable in a modern world of efficiency. It cannot be condoned, in their opinion, in a Government whose watchword to big business through its Department of Commerce has been "Be efficient, and you will not feel the tariff reductions."

Unless the method of income tax collection is changed to do away with "collection at the source," or so radically modified that its insufferable burden is lightened, business and financial leaders hold that the Administration must stand convicted of insincerity in its programme of efficiency for the business of the country.

The smoke of battle of the second engagement in the income tax struggle reached its thickest yesterday, with the expiration of the regular time for filing personal returns for 1913. There will now be opportunity for examining something of the results of four months working of the law, particularly in the feature of collection at the source.

The SUN has been privileged to watch a number of corporations at work through their coupon departments "collecting at the source." Summarizing some of the results learned are as follows:

1. Cost of collection in dollars has been abnormal. It has varied widely. The cheapest found was in the case of a corporation not a bank or trust company. There it required \$1 in expenditure of the corporation's money to collect \$3 in tax for the Government to the middle of February.

In the case of big financial institutions, particularly trust companies and private bankers, the estimated cost is very high. Among the lowest relative cost found was the expenditure of \$1 of corporation money for \$1.50 of tax collected for the first two months of the year. In some cases it was estimated that for the first month of the tax it cost big paying agents of corporations, the trust companies, banks, &c., ten times as much as the amount of the tax collected.

Some of the specific figures were an expenditure of \$4,500 to collect \$14,800, where legal expenses, overhead charges,

&c., were not figured in, and \$12,000 to collect \$18,000 where legal expenses, proportion of overhead charges, &c., were counted, in addition to increases to staff, overtime, &c.

2. The amount of the tax collected at the source in proportion to the interest paid out is small. The amount of the interest payments on which the tax is deducted at the source ranges from about one-seventh to one-tenth of the total interest paid in the case of paying agents. Where the debtor corporation is itself concerned the proportion of its interest on which it has to withhold the tax is somewhat larger, one-fourth to one-third of the total in the case of a corporation representative of the standard large corporations of the country.

Thus in the case of trust companies, private bankers and other paying agents specific instances of these proportions are the withholding of a tax of \$4,700 on \$470,000 out of \$7,000,000 of interest paid; or \$18,000 tax withheld on \$1,800,000 out of \$11,700,000 total interest paid. In the case of corporations an instance is afforded of a tax paid in the country of about \$3,400 withheld on \$340,000 out of \$1,200,000 total interest.

The proportion of tax withheld by a corporation is greater than in the case of a paying agent, as the corporation pays the tax for its bondholders on its tax exempt bonds, whereas paying agents do not.

In both cases, however, the point is clear. The normal 1 per cent. tax at the source is withheld on only a small part of a corporation's indebtedness because many of its bondholders are exempt from the tax on the principal scores of smallness of income or of being non-resident aliens.

The total amount of the tax the Government may get from collection at the source on bond interest is wholly a conjecture. Assuming, however, that the annual amount of bond interest paid in the country is between \$1,400,000,000 and \$1,600,000,000 the Government may receive from \$4,000,000 to \$7,500,000 from this source. This estimate is only a crude approximation.

3. The office staffs of corporations have had to be increased one-half again, doubled, trebled and quadrupled to handle the new work.

4. The time occupied by coupon departments in paying interest on corporation debt has been multiplied four times over that required before the income tax went into effect. In some departments of the new accounting made necessary it takes twenty times as long to conduct operations as formerly. In most of the big paying agency offices and the large corporations the office staffs, in spite of the increase of force, have had to work steadily for months until 10 and 11 o'clock at night and sometimes until 2 o'clock in the morning. If it were not for the time spent after regular working hours it is said in a number of offices where the staff has been already doubled that it would require a force two or three times

## Many Complain of Tremendous Cost and Labor Imposed Upon Financial Institutions by Income Tax Law—Unless Unjust System Is Modified or Abolished Administration Will Suffer, Say Many

greater to handle the immense labor brought by "collection at the source."

5. Two practical results of the great amount of work imposed are already showing. The increased cost of handling the work of corporations as a paying agent is resulting in plans for higher charges upon these corporations by the paying agent for their services.

The vastness of the work is causing delay in paying interest to bondholders unless they take care to send in their coupons for payment long in advance of the paying date.

6. While there is still little inclination and no direct movement of pronounced determination on the part of corporations to have the troublesome "collection at the source" abolished or modified the protest statement which is being filed with most corporation returns of tax shows the definite trend of thought to have the measure changed. It is undoubted that sooner or later, if the measure is not broadly changed, the corporations will demand compensation from the Government for the vast labor they are now doing in its behalf. The corporation protest against collection at the source holds it unlawful as a violation of the Fifth Amendment to the Constitution, which reads: "Nor shall private property be taken for public use without just compensation."

But mere statement of figures will never give a picture of the heavy burden to corporations "collection at the source" has become. Recital of the new steps made necessary in the paying of their debts by corporations may help to show it.

Payment of millions of dollars each month was a fairly simple thing before the income tax. The responsibilities on the part of a paying agent were confined to ascertaining:

1. That the debtor corporation had sufficient funds on hand to meet the payment of coupons.
2. That the coupons presented were payable at the agency.
3. That the coupons were authentic and bore correct due dates.
4. Counting and checking coupons.

Enter now the income tax with its certificate of ownership and all the troubles of the ages to accountants are unloosed. These are some of the new duties now imposed by the examination of these certificates and the deducting of the tax:

- To examine:
1. Whether the correct form of certificate is used.
  2. Name and address of owner.
  3. Amount of bonds correctly stated.
  4. Denomination of bonds correctly stated.
  5. Name of the company.
  6. Name of the issue.
  7. Date of interest maturity and amount of interest matured.
  8. Exemption claimed or not claimed.
  9. Amount of exemption.
  10. Total exemption to which one is entitled.
  11. Date of certificate.
  12. How signed, and if signed by agent or attorney to see that the "satisfied" stamp appears on the same.
  13. Indorsement of the first collecting agency.

But come on an excursion through the coupon departments of some of the big industrial and railway corporations and the trust companies and paying agents. Then you will appreciate the situation. Stand first inside the coupon window on a big paying day when, as on January 1, over \$250,000,000 in interest and dividends was paid out. Before the little brass bars in front of the coupon teller and you, before 9 o'clock in the morning, is lined up a string of boys. They come bearing gifts like the Greeks, but the coupon teller must beware. They bring them from the banks to the paying agencies, shoe boxes full of them, arms loaded down with envelopes bulging with coupons and their death dealing certificates.

Your heart sinks when you realize that these masses and masses of small, closely printed certificates with the attached smaller coupons must each be inspected as minutely as you would study a check or some intricate legal paper that means many dollars to you. But the coupon teller faints not. He straightway tackles this seemingly overwhelming job. In the first twenty days of January one paying agent in New York handled 125,000 of these difficult certificates.

"Collection at the source" is now fairly started with the receipt of the coupons and certificates. "It has turned my office, a hard work-

ing staff, diligent and wholesome," said the treasurer of one large corporation, "into a sweat shop. It has demoralized and demoralized my staff. And we see no remedy for it but the abolition of this unjust system."

The shelves inside the coupon cages are now piled high with batches of coupons and attached certificates. The clerks are counting and examining them. First they must see that the coupon and its description on the certificate agree. Your clerk, who recognizes the coupon immediately from its color and knows its amount by looking in the accustomed place for it, must, on the contrary, hunt through the certificate to find where the writer and owner of it has listed the amount of the coupon.

He may find this item in the upper left hand corner. It may be in the very center of the coupon. Or he may hunt and hunt through the certificate several times before he finds it carefully tucked away over on the extreme left hand side, effectually ambushed behind uselessly written words, erasures, &c. With a sigh of relief and the air of a discoverer he draws a pencil circle around the figure to make it stand out to the next man that has to examine it.

A minute may have passed in this operation. But finding the amount of the coupons is the least trouble in examining the certificates. Your clerk in the home corporation office must find out if the owner claims exemption or not.

Realize, gentle reader, that there are over thirty different kinds of certificates in general use, all in deadly legal language, whose meaning is as intricate as the windings of a cavern, whose legibility is further confused by scratches of pens and the scrawling penmanship of 125,000 different authors in an equal number of certificates. There is no one place on the face of the certificate where the quick eyed counter may know that he will see certain information.

He must look through the entire certificate. He must do it marvelously quickly, and because quickly he often has to glance through it several times before he can find whether the owner is exempt or not. Even after he has discovered a statement in the certificate under which he thinks exemption may be claimed he has to lose time reasoning about it. It may be a new or rare kind of certificate to him, a substitute certificate, for instance, by a paying agent for a client, and it may not be at once apparent that the client is a non-resident alien and is therefore exempt. Your patient teller may have to stop his examination, consult the law himself or go over to the table of his superior and ask for advice.

He has consumed a vast amount of time already in comparing certificates and coupons and he has not even begun to count coupons. Those who presented the coupons are waiting for their payment checks, and if they are the usual lot of bank runners and brokers' messengers they are shouting out at you and the teller through the cage window to "hustle it up" and otherwise making themselves merry and the room a babel of noise.

"That boy over there," he says, pointing to a bright faced lad whose fingers are now fairly dancing through a batch of 1,000 or more coupons with lightning speed, "is our most rapid counter. Before the days of collection at the source he had little trouble in counting 1,000 coupons in ten minutes. He timed himself the other day with the certificates and the same number of coupons."

"It took him three hours and twenty minutes, or just twenty times as long." But collection at the source has only begun.

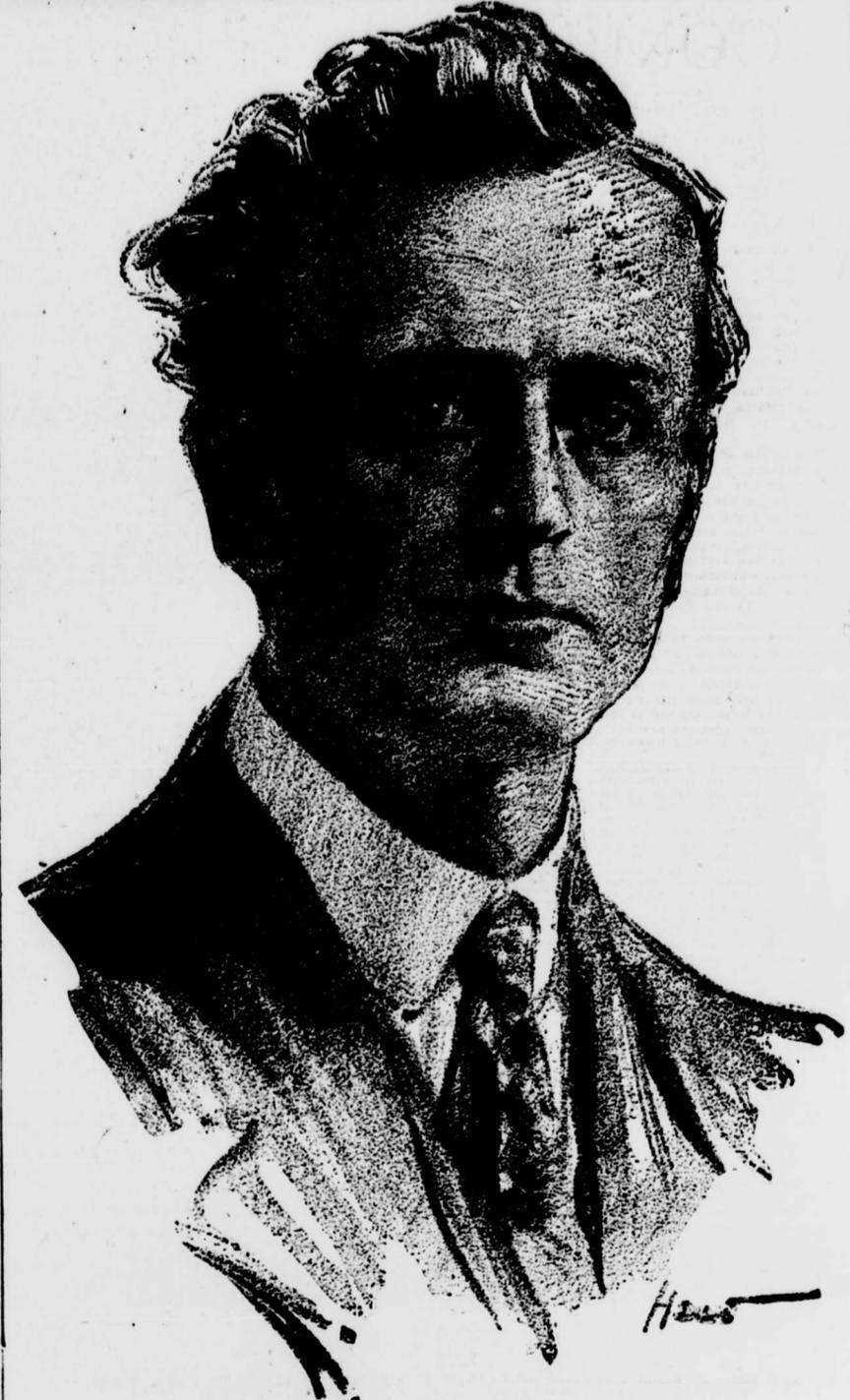
In the trust companies this trying comparison of coupon and certificate is double checked; that is, another teller goes through the same wearisome count again to prove the first count and compare. One counting is relied on for the coupons, for they are comparatively easy to count. But if a certificate on which no exemption is claimed is recorded by the teller as exempt or vice versa the accounts of the owner and the paying agent will not agree and the paying agent may be out.

In the comparison of the certificates there is endless trouble at first through errors by owners in making them out. If the paying agents could not accept them these certificates would have to be returned, sometimes mailed to San Francisco, sometimes to Europe, and endless delay, wearisome correspondence and discouraging vexation to the customer would result. The trouble of errors has decreased in the four months of practice, but the field for errors is so large that they constantly recur.

We are still the side of our coupon receiver at the window of the corporation. He has separated his coupons from his certificates in two piles. He has made out a statement of the amount of coupons presented by each person at the window, the various bond issues they represent, the amount of the exemption claimed and the non-exemption and the tax to be withheld. This goes over to the man writing checks for interest, who in this corporation keeps a book with columns for total amount of checks paid, the figures for the amount of coupons claimed and those for non-exemptions, on which the corporation must withhold the tax or pay itself if the bonds are guaranteed tax free.

And this cash book must tally with the slips made out by the receiver of coupons at the end of the day. Else there is trouble.

You wander through vaults and closets of steel filing cabinets, whose drawers are packed and overflowing with certificates, certificates endless in bulk, terrifying in their amassed detail. They are a lot that have gone one through the entire mill and have come back, all to be counted once more, a final reckoning. For if the corporation makes mistakes in not withholding or overwithholding it has in its final monthly return to the Government its



Representative Cordell Hull of Tennessee.

held liable under the law. And a certificate bristles as a porcupine with opportunities of misinterpretation and mistake.

You come then to the absolutely new department that collection at the source has necessitated in every large corporation and financial institution. It is a separate room in most cases from the other departments.

There are rows of small typewriter tables, with rows of typists seated at them. Certificates, certificates, certificates fill the room where the typists and their machines do not.

The girls are making out the monthly list returns of the corporation. They transfer from the certificates to these long typewritten lists the check number stamped on the back of the certificate for identification purposes. Turning over the certificate, the work of examining it and of poring over its muddled statements must be intently repeated.

Laboriously they study out the written names signed to the certificates, the addresses, whether signers are the owners or their agents. These must be typed in the returns in full detail. Then they must state the amounts of the income, the amount of exemption claimed, the amount on which the corporation must withhold the tax and the amount of the tax. Some corporations have their individual return blanks, in which they require the typists to set down the clause of the income tax law under which the certificate maker claims his exemption.

Each typist must be a student of the law and know how to classify the character of the exemption. In addition to being students of the law they must also be lawyers at times. And all the time they must be handwriting experts.

Take a look at this multiple handwriting of nearly all the investing nations of the world. A flock of certificates from the Netherlands is in charge of the girl near the window. The top one in its intricate pen lines looks more like a futurist design than a legal document to satisfy our new tax regulations. You may puzzle over it for five minutes and finally decide that it spells something like "Androvicus Hendrik Jan Van Houptenhauptklipf." That's as near as you can get, when "v's" look like "r's" and "p's" like "k's" and "f's" like "j's" and "j's" like anything from a "G" to an "X," "Y," or "Z," in a cramped and tiny, painstaking hand that appears designed to worry income tax typists.

Some corporations whose bonds are largely held abroad have had to employ several foreign accountants trained in European languages to assist in the deciphering of the certificates. "The form of the certificate is one defect of this collection at the source requirement that could be easily and simply remedied," the men in charge of this department tell you. "If the Revenue Department would only get up a form for the many kinds of certificates that would be in the shape of a business piece of paper we would be greatly helped."

"Take that batch of certificates bound by an elastic band. With a bunch of checks or coupons it would be possible to run rapidly through the bunch to check the face amounts noted by slipping back one corner. Why could not

the Government draw up a form in which every certificate would be stamped plainly to catch the eye and in the same place with the words 'exempt' or 'non-exempt,' and also in another place, the same on all the certificates, the amount of the interest noted, and so on.

"In other words, through the use of colors and regular positions for certain essentials on the certificate that we now have to hunt for in the making up of the forms of certificates our work could be measurably simplified."

In this department, after the typists have made their monthly sheets, and the limit of one day's work per typist is about three of these closely written long sheets, containing about thirty-five names each, the sheets must be checked again by the heads of the department.

These finished sheets then have to tally with the sheets of the original receivers of the coupons at the window we left not long ago. It is a month, sometimes two, before this comparison can be ready. And in the meantime many mistakes or differences in notation of the certificates have been discovered as they passed through many hands, so that though totals may agree classifications are far apart and necessarily so. It may be found that a certificate for the Missouri Pacific coupon bond has found its way into the New York Central office or that another for an Interborough coupon has travelled its way uncaught until the last count into the Steel Corporation's counting rooms. Certificates often fall to describe whether a bond is a collateral trust, a convertible or a first mortgage issue, and this ties up tallies again.

Finally, after the best corrections possible, the list is ready for forwarding to the Government—a much changed list from the original classification made out the first day the coupons were received two months before.

In one office visited six typists and two supervisors had to be installed to handle the work of this special department. In one of the greatest corporations in New York twenty-five new typists have done this work are insufficient to handle it. In another corporation the ordinary staff of one in the coupon department before the income tax law has been increased to nineteen and they are forced to work nights in order to clear up the work in any sort of time.

In one large financial institution the force has been practically doubled. In another it is four times as big in the first half of the month as it was before income tax times.

"I have been home to dinner six nights in two months," said one of the chief clerks in the coupon department of a corporation, "and I estimate that most of the men in our department have averaged until 10 o'clock at night for the last two months working on this thing."

This is not a temporary condition, say the corporation men, but promises to be a steady grind unless relief is granted. The work does not cease after the middle of the month. It hardly lets up. As soon as one payment is made preparations must begin for the next. Then floods of corrections, objections and changes come in about the previous payment that maintains a steady flow of work throughout the month.

"The Government" says that the monthly returns must be in on the

twentieth of the month following the payment," said an officer of one corporation. "We shall be lucky to have ours ready a month later than that. We would have to trouble our already doubled force to keep up with the stiff pace that the Government has set."

The trust companies and other paying agents have other troubles of their own. They must make out their monthly returns for each corporation in the form of individually sets, and their cares are multiplied by the number of corporations whose business they handle.

There is one man who stands out as the preeminent enemy of the income tax. It is the chief clerk of the coupon department, who lives in Jersey and sees his home town nowadays, except on Sundays, only by moon or electric light or by the morning star as he is rushing back to "collection at the source."

Here is a list of a few of the mistakes owners of coupons commit and for which certificates are returned and payment of coupons delayed:

- No certificate presented.
- Wrong form of certificate used.
- Owner's name not stated.
- Owner's address incomplete.
- Name of debtor company and description of bonds missing.
- Deductions neither claimed nor disclaimed.
- Amount of deductions claimed if any should be amount of coupons.
- Total exemption not indicated.
- Not signed or dated.
- Stamp or date of first collecting agency missing.
- First collecting agency stamp.
- Satisfied as to the identity and responsibility of agent.
- We do not pay.
- Not due.
- "I do not see how 'information at the source' instead of 'collection at the source' will simplify our work to any great extent," said the head of the interest and dividend paying department of one of the large corporations. "The only remedy for this intolerable amount of useless work, in my opinion, is to abolish this system of taxation in which the debtor is made the source."

"Information at the source" is largely advocated by the representatives of paying agents, who feel that though it may not relieve the paying corporation of much of its burden, it will decrease the amount of work upon the paying agent in the matter of deductions made on bonds that are not guaranteed tax free. It is the endless trouble about accounting for deductions of tax made amounting from 1 cent to 20 cents, and rarely more than \$5, that forms a large part of their burden.

The attitude of the corporations and financial institutions toward "collection at the source" has been one of earnest cooperation with the Internal Revenue Department to carry out all details of the law and the regulations with the utmost despatch. Despite their declared position that the measure is highly inequitable, unjust and unconstitutional, the corporations have taken special care to show the Government that so long as the law remains unchanged it will be complied with to the fullest extent and with a distinct spirit of helpfulness.

This attitude has obtained right through every department of the income tax and with almost all who have been affected by it, individuals and corporations alike. Banks, trust compa-

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PREPARING TO PAY THEIR INCOME TAX.

Charles M. Anderson, Collector of Internal Revenue for Second District of New York.