

Tax Policy during the Great Depression

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A “New” New Deal?



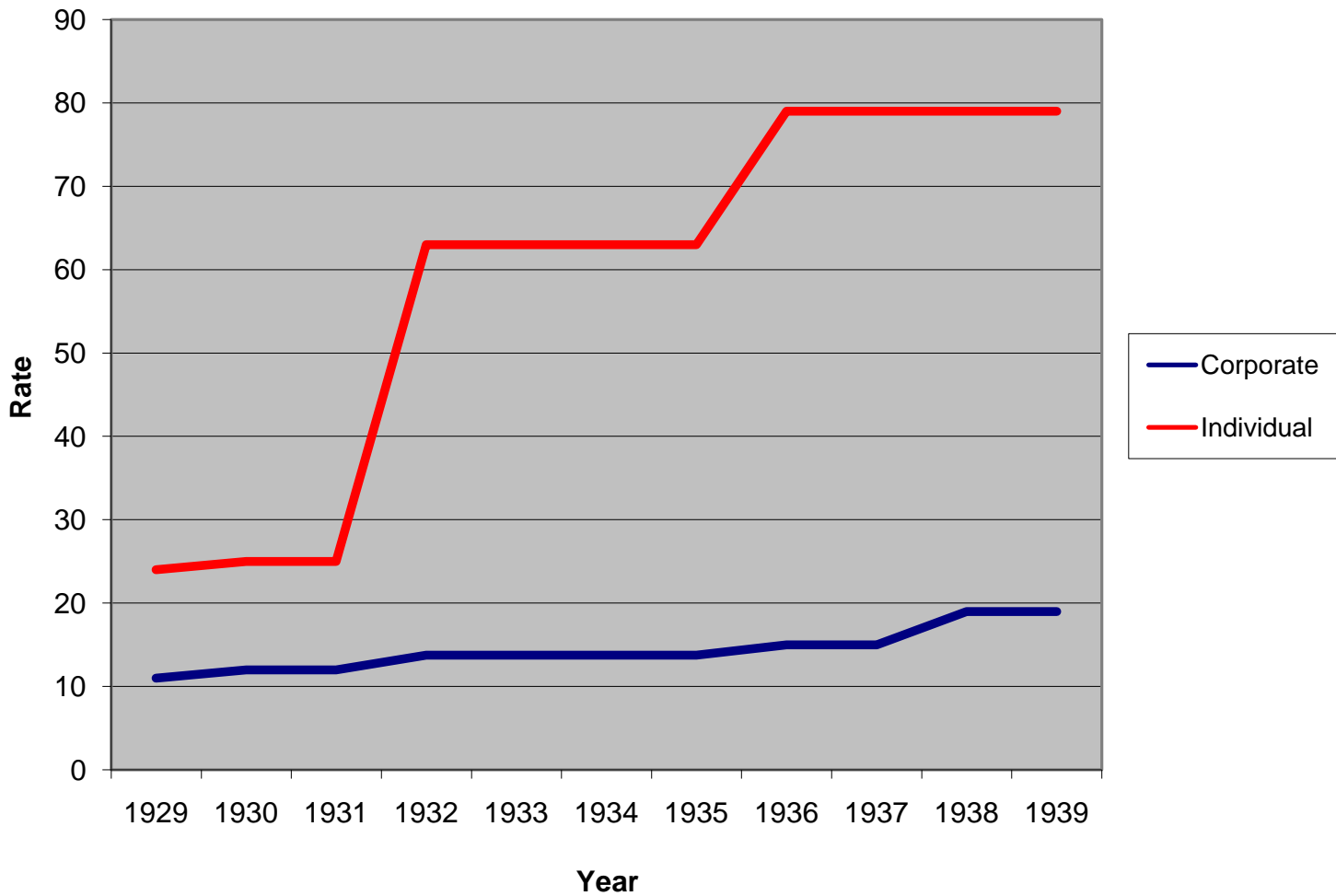
What was tax policy during the “old” New Deal?



Progressive Tax Increases

- Revenue Act of 1932 (Hoover)
 - Top rate increased from 25% to 63%
 - Corporate rate increased from 12% to 13.75%
 - Estate tax rate more than doubled from 20% to 45% and gift tax reintroduced.
- Nat'l Industrial Recovery Act of 1933:
 - Capital stock tax (1/10 of 1%)
 - Excess profits tax (5% on profits in excess of 12.5% of capital stock)
 - Dividends tax (5%, withheld by corporations)
- Revenue Act of 1935: Top rate increased to 79%

Individual and Corporate Tax Rates, 1929-1939



Tax Avoidance

- 1933: Pecora Hearings before the Senate Committee on Banking and Currency
- December 1933: House Ways and Means Subcommittee Report on Prevention of Tax Avoidance
- Nat'l Industrial Recover Act of 1933: Repealed carryforward of deductions for net operating losses and short-term capital losses
- Revenue Act of 1934: Personal holding companies
- Revenue Act of 1937: Congress targeted loopholes such as incorporated yachts and offshore corporations and tightened restrictions on personal holding companies

Symbolic?

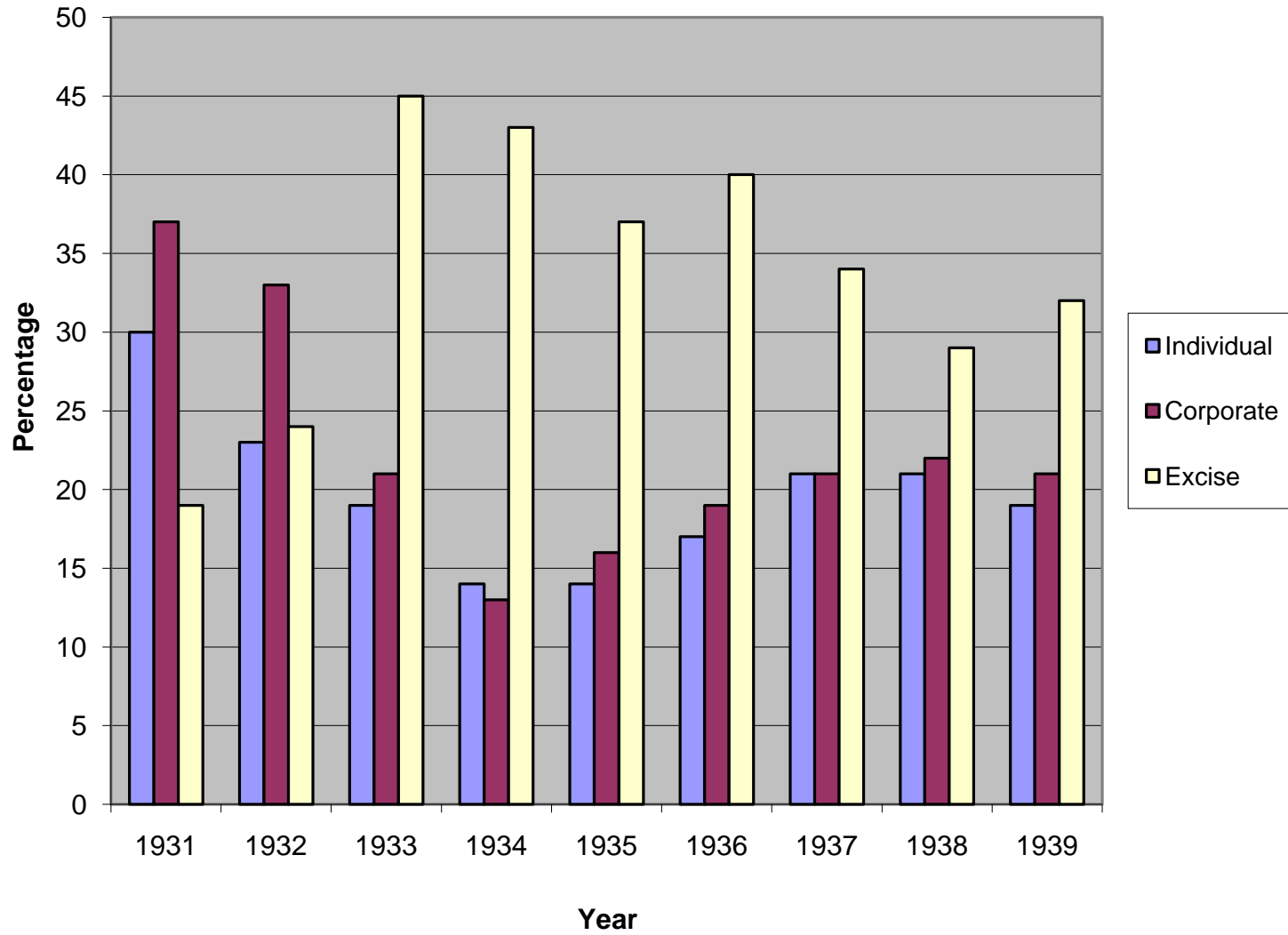
Two federal tax systems between 1933 and 1939: “One a revenue workhouse, the other a symbolic showpiece” (Leff)

Regressive Taxes

Sales and excise taxes were the “workhorses” for revenue generation

- Alcohol after the repeal of prohibition
- Electricity
- Tobacco
- Motor vehicles
- Gasoline
- Agricultural Adjustment Act Processing Taxes

Internal Revenues, 1931-1939



More than Mere Symbolism?

- Was the goal redistribution?
- “Velocity” of money
- Major opposition from business
 - Uncertainty
 - Disruption

Taxes to Regulate Corporate Governance

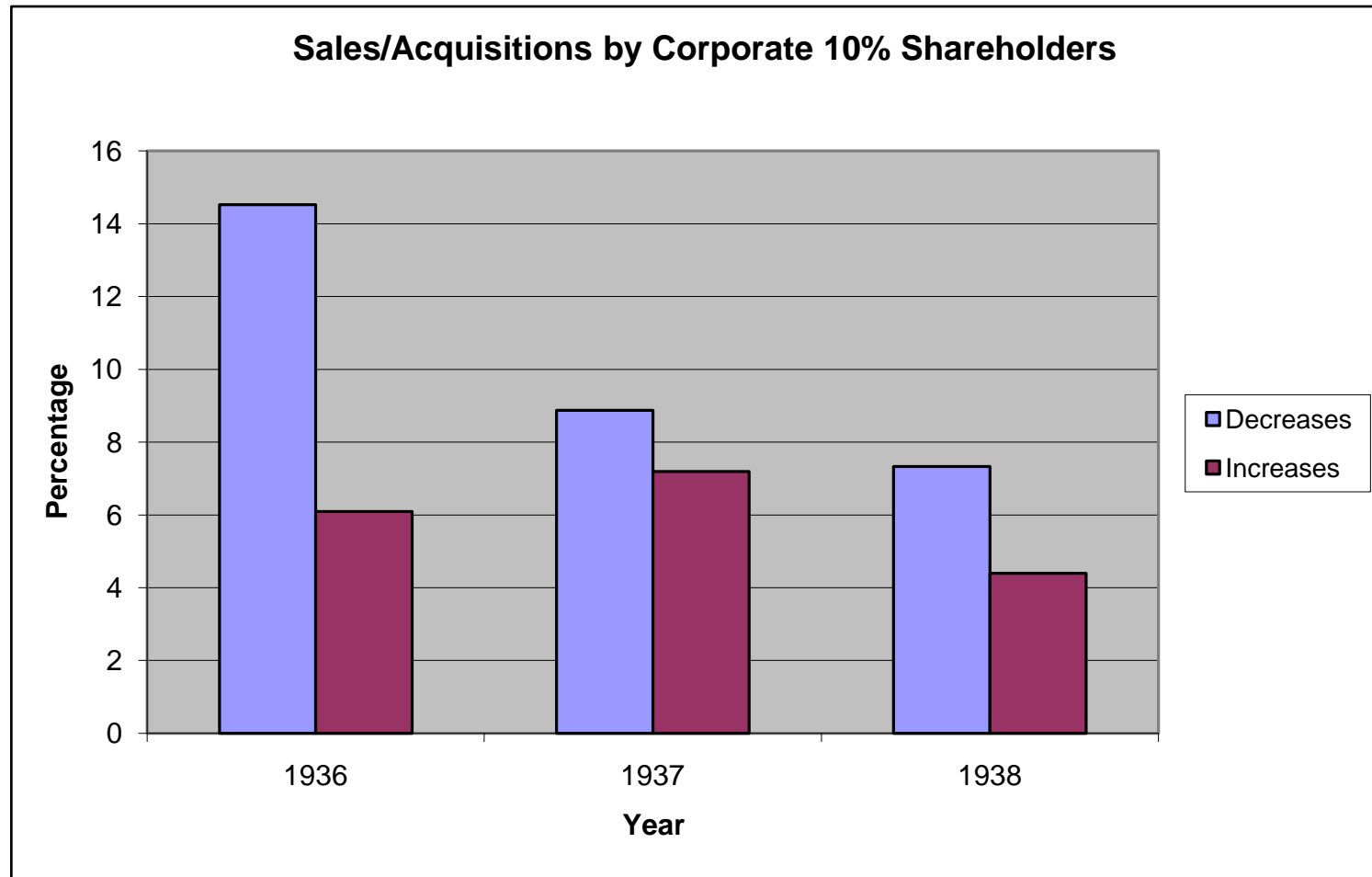
- Consolidated Returns
 - 1932: $\frac{3}{4}\%$ tax
 - 1933: 1% tax
 - 1934: 2% tax for railroads and abolished for all other industries
- Mergers and Acquisitions (1934)
 - limit tax-free reorganizations
 - repealed tax-free treatment for spin-offs

- Graduated Marginal rates (1935)
 - 8% on the first \$2,000
 - 15% over \$40,000
- Intercorporate dividends
 - 1935: Exclusion reduced from 100% to 90%
 - 1936: Reduced to 85%
- Undistributed Profits Tax (1936)
 - Top rate of 27% on undistributed net income in excess of 60%
 - Repeal of the dividend exemption = first time corporate income subject to full double taxation

Tax Effect on Inter-Corporate Holdings

- Twentieth Century Fund (1937)
 - Tax cited in elimination of 7 holding companies
 - Tax savings apparent in 24 others
- Morck (2005)

Did Tax Cause Corporate Shareholders to Sell?



Separating Tax Effects from the Public Utility Holding Company Act (1935)

