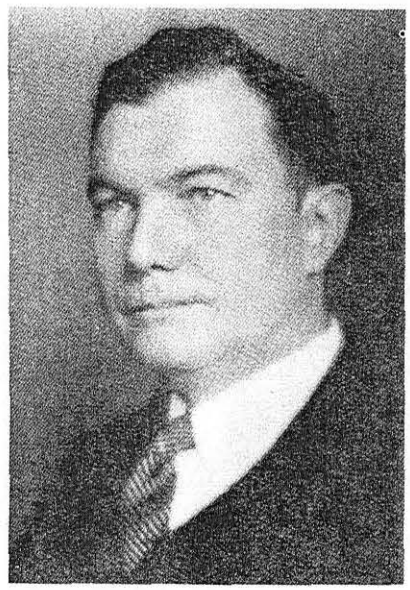
Problems of the Federal Tax Bar

By Robert H. Jackson *

THE American Bar Association's Committee on Taxation wisely has called those lawyers engaged in tax practice to meet and consider their common problems. In addition to difficulties which vex the general profession, tax practice presents some of its own. Need for a clearing house for the exchange of views, and a voice to speak for the tax bar is so apparent that I hope you may perfect at least a preliminary organization and perhaps a section for the purpose.

If you choose to so organize, we invite you to go at once to work on behalf of the tax bar. The Treasury Department is considering complete revision of regulations governing enrollment and disbarment. It would welcome creation of a representative professional group whose criticisms and suggestions it could weight and consider. We therefore invite you to name a committee to take up at once consideration of a new code to govern the Treasury Bar and at once to demonstrate the usefulness of collective effort as a measure of self interest and also one of public service.



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Announcement is being made today of the appointment by Secretary Morgenthau, of a new Committee on Enrollment and Disbarment. It will consist of Mr. Walter Wheeler Cook, Mr. Irwin Gilruth and Mr. Lawrence Becker. Mr. Cook has a unique position with the profession as the guide, philosopher and friend of the many lawyers who have come under his influence as an instructor. Mr. Gilruth brings to the committee the viewpoint of the active practitioner, and Judge Becker, a former judge in Indiana, a former Solicitor for the Treasury, and more recently the prosecutor of disciplinary cases before the Enrollment Board, brings an intimate knowledge of the problems of the department. The high character of this board should be taken by tax practitioners as notice from Secretary Morgenthau that disciplinary matters will have vigorous, but judicious, treatment, that accused members of the tax bar must stand on the merits of their conduct, not on the influence of their friends.

At this somewhat experimental meeting it would be well to consider our professional problems with a perspective that covers years, rather than this day alone. I can be more helpful by raising questions than in attempting answers. To that end I offer a number of inquiries that sooner or later will have to be answered. The answers may be of consequence to you in your professional life.

* Assistant General Counsel of the U. S. Treasury Department. Address before the Tax Conference held at the American Bar Association Meeting in Milwaukee, Wisconsin, on Tuesday, August 28, 1934.

Shall There Be a Federal Departmental Bar or Will Each Department Continue to Maintain Separate Enrollment and Practice Rules?

THE present policy is so chaotic, confusing and costly from the viewpoint of the government and so vexatious and burdensome to practitioners that I cannot give it a long expectancy of life, in spite of the well known inertia of the Federal machine.

The Department of State, the Department of Justice, the Department of Agriculture have no regulations governing enrollment and no restrictions upon those who may practice before them. The Treasury Department has elaborate regulations governing enrollment, conduct and disbarment, admits lawyers, accountants and agents to practice and maintains an Enrollment Committee and a prosecuting officer to present complaints. Enrollment with the Treasury Department permits practice in the Department only, and does not authorize an appearance before the Board of Tax Appeals, so that two enrollments are required to conduct a case before the Bureau and before the Board of Tax Appeals.

The Board of Tax Appeals has a separate enrollment system and admits both lawyers and certified public accountants to its practice. It does not maintain any disciplinary organization.

In spite of close relationship between bureau practice and board practice, there is no coordination between the two enrollments, an attorney may be disbarred before one and still practice before the other, nor are the investigations made by one department available to the other.

The Department of the Interior has rather comprehensive regulations governing the recognition of agents and attorneys. It maintains no special committee on enrollment and disbarment but charges may be preferred by the Secretary and heard before a subordinate designated for the purpose, who returns the record with findings of fact and recommendations to the Secretary for action.

The Federal Trade Commission has rules of practice and procedure but no regulations governing admission to practice. Attorneys appear without formal recognition unless their qualifications to practice are questioned.

The Department of Commerce has an elaborate code governing admission to practice before the Patent Office.

The United States Veterans' Administration has regulations governing recognition and disbarment of attorneys and agents. Charges of misconduct are

preferred by the Administrator and final action is apparently taken by the Administrator himself.

The Interstate Commerce Commission has rules governing admission to practice of both attorneys and agents. It has set up no machinery for enforcement and the rules themselves are rather general in character. It is significant, however, that there exists an "Association of Practitioners before the Interstate Commerce Commission" with headquarters in Washington, which claims some 1500 practitioners and which has adopted a code of ethics that is more detailed and imposes higher standards upon its members than does the code of ethics of the American Bar Association. It may be that detailed rules and enforcement machinery are not found necessary because the profession itself is organized and vigilant. I am not informed whether there is a relationship between the two, but it is safe to say that generally, the more the profession is regulated from within, the less regulation it needs from without.

At the present time each department goes about enrollment in a different way, some regarding it as a mere formality and others making careful local investigation of applicants. Information of one department is not availed of by any other, and notice of disbarment of a practitioner would only come to another department by accident or by a new complaint. The Departments themselves have made no joint effort to coordinate such policies or activities. There is no established channel for the exchange of information between them.

Each department has the same need to see that those who represent others shall be identified, reliable, and possess a character fitting to a position of trust and a general competency equal to the task assumed. Except for technical qualifications, and no department really tests those, the requirements should not differ as between them.

It is probable that congressional enactment, if default of administrative action continues, will bring about a consolidation of enrollment activities of the several departments. The bar should concern itself with a problem so vital, not in the usual spirit of antagonism, but in a cooperative mood. The present duplication of systems is not economical nor effective. Enforcement of discipline is either omitted entirely, or judgments are rendered by the same officers who prefer the charges. The bar and the government have common grounds for dissatisfaction with the present method of departmental enrollment and should make its improvement a common cause.

Should Enrollment Be Indeterminate or for a Fixed Period?

A PERMANENT enrollment carries names upon its lists long after their possessors are dead or out of practice. Admission to the bar for life in a local jurisdiction is a different matter than in a national jurisdiction. Enrollment for not longer than five years would give better information and control, and would assure a current membership roll. The usual motives to observe approved standards of professional conduct would be strengthened by the prospect of submitting application for renewal of the professional privilege and of having one's standards reviewed.

What Faith and Credit Should the Federal Authority Give to Membership in a State Bar?

UNFORTUNATELY mere admission to a state bar is not always a strong assurance of either character or competency. The several states differ widely in requirements for admission. If Federal authority were to seek uniformity, there would be difficulty in reconciling the conflicting standards of the several communities.

Is uniformity of education necessary or desirable, or should each locality judge the equipment necessary to represent it? If one attains standards satisfactory to his own neighbors, should he not be entitled to recognition as their legal representative in Washington?

Tests of character imposed by local law are also variable. The fundamental principles of organization of the bar itself differ in the several commonwealths. We have outstanding examples of an all-inclusive statutory organization with great powers in the bar itself over admission and discipline. Elsewhere bar associations are voluntary groups and membership somewhat on a club basis. The vigor and consistency with which discipline is administered varies in different localities. The most constant and energetic disciplinary effort is made by the bar associations of the larger cities, doubtless because the need is most imperative there. State bar associations are usually without the implements and often without the will to be real governing professional bodies.

There are those who feel that admission to practice before the courts of their state, should be sufficient warrant for recognition by the administrative departments, as it is usually the warrant for admission without further examination to the Federal courts, including the Supreme Court. It might be answered that the lawyers' methods, equipment, duties and responsibilities before the administrative departments of the central government are so different as to require a separate inquiry into his qualifications. Events, however, have already made their own terms with theories. The existing condition is a flock of Federal bars: they threaten to multiply; they are creatures of chance; their requirements result from the individual convictions of the department head who happened at some time to concern himself with the matter. Shall this development be left to evolution, or shall its intelligent direction be assumed? Shall a system be created or a chaos of systems be continued? Shall such a system impose uniform standards? Or no standards? Or minimum tolerable standards? Or adopt as its own the standards it finds in each locality?

What Should Be Done with Respect to the Contingent Fee?

ANOTHER problem of government departmental regulation of professional conduct is the contingent fee. This problem is present wherever there is law practice. The universal character of the problem is some evidence that the contingent fee is a necessary concession to claimants who need representation but do not have or do not wish to jeopardize any other asset than the claim involved. That the

abuse of the contingent fee is almost as extensive as its use indicates the necessity and delicacy of its regulation.

Few who are familiar with the necessities of humble people would advocate the abolition or prohibition of the contingent fee. It is equally certain that few who have observed the effect of the contingent fee would look with favor upon a law practice or accountancy practice based entirely on contingent fees. The contingent fee when resorted to by the attorney as a means of procuring professional employment or of enlarging his fees, destroys that sense of detachment and professional perspective which is the greatest assurance that a lawyer will present his client's case with fairness. A partner in a claim is no longer a professional representative. The contingent fee has led to the presentation of unjustifiable claims against the government, and it has led to grossly extortionate charges for the performance of purely formal matters. Its advocates can point to just claims that would have been abandoned had not the contingent fee made prosecution possible, and its opponents can point to perjury, extortion and general professional degeneracy as its products.

The bar cannot permanently evade some effort to control the contingent fee. What will the answer be?

What Regulations Will Reach the Lawyer Who Attempts to Use His Political Influence or Personal Relations, or Former Official Position with the Department, to Promote His Business?

MY OFFICIAL life is long enough to make my testimony interested, and not long enough to make it well informed, but your own experience I am confident will confirm the observation that very few cases relatively are helped by political or personal influence. Tactics which indicate a resort to political pressure arouse the resentment of honest officials and put even weak and unfaithful ones on their guard. The country at large does not understand that a former office holder is held in the same esteem in Washington as yesterday's newspaper.

However ineffective claims or appearances of influence may be in obtaining decisions of the government, they are unquestionably persuasive in obtaining business. Taxpayers and even members of the bar sometimes employ as counsel men who once held positions of influence but who are already discredited by their efforts to "cash in" on their friendships or political connections. Aside from a tendency to discredit the service, the "influence lawyer" presents a problem of unfair competition which the bar should aid in suppressing.

What Responsibility Should Regulations Impose Upon the Lawyer Who Presents a Case to a Government Department?

BETWEEN practice in a local tribunal, and practice before a department of the central government, there are differences in temptation and in opportunity to mislead. In near-at-home practice one's representations are readily tested by neighborhood knowledge, testimony is subjected to informed and interested cross examination, and a contestant is alert to expose deceit or overstatement. Before the Departments the test of local knowledge is wanting, and the investigations which must serve as its substitute are often casual and feeble. Hearings are usually *ex parte* and no interested competitor sits ready to expose errors or omissions. The opportunity to mislead by half truths is tempting. Perhaps that is why men cautious in ordinary affairs, seem reckless in their representations to the government, and it may account for the tendency of officialdom to become suspicious and exacting.

The tendency therefore in Federal departments is in the direction of increasing the responsibility of attorneys for the statements which they make or sponsor. Lawyers must assume large responsibilities for the accuracy of letters, briefs and affidavits. No attorney can in all instances verify the information that he must use nor make all statements upon personal knowledge. A lawyer's name upon a document should, however, imply his certification that he does not know of any inaccuracy, falsity or omission, that he has been diligent in searching for all relevant information and that the evidence submitted comes from sources which he believes reliable. If it shall appear that the document is reckless or false, is it too much to place upon the attorney the burden of satisfying the Enrollment Board that he was not a party to the falsity? It is true that this is a reversal of the usual rule of burden of proof but it does not seem to me an unreasonable burden to place upon the bar.

Everyone who advises a taxpayer in the preparation of his tax return must now be named in the return. Responsibility for tax advice will be fixed at the time the return is made. It cannot later be shifted to a lawyer who has obligingly died. This is one step in the direction of fixing the responsibility of those engaged in tax practice for the results of their work.

What Cooperation in Discipline Will a Committee on Enrollment and Disbarment Receive from the Bar?

NO GOVERNMENT department desires to be constantly spying upon those it recognizes as attorneys, nor can a spy system be effective.

Those who know best the unethical lawyers are the lawyers themselves. They know by general reputation, and they know specific instances of misconduct.

While I have a school boy's prejudice against a tattle tale, I can see no way discipline can be enforced upon the bar except by the cooperation of the bar itself. It must impart information as to the identity of fellow tax practitioners whose methods warrant investigation. It must call attention to specific acts that violate professional obligations. If the tax bar regards the fumigation of its household as its own job in which it can invoke the aid of the Treasury, the effort to place tax practice upon a higher plane will be successful. If, however, the bar as a whole regards the right to be crooked as a priceless possession to be defended by hostility to all regulation and governance, the inevitable result will be that as a whole it will face a vexatious degree of

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ART. 28. Scope of tax.—*The tax imposed under section* 605 *of the Revenue Act of* 1932 *is applicable to the sale by the manufacturer of certain articles classified as follows:*

(1) All articles commonly or commercially known as jewelry, whether real or imitation;

(2) Pearls, precious and semiprecious stones, and imitations thereof;

(3) All other articles made of, *or* ornamented, mounted, or fitted with, precious metals or imitations thereof or ivory; and

(4) Articles specifically mentioned in the Act, such as watches, clocks, parts for watches or *clocks,* opera glasses, lorgnettes, marine glasses, field glasses, and binoculars.

During the period June 21, 1932, *to May* 10, 1934 *(both dates inclusive), the tax attaches to the full selling price of any of the foregoing articles where the price is* $3 *or more, except that parts for watches or clocks are taxable only when sold for more than* 9 *cents each.*

Effective on and after May 11, 1934, *the tax attaches to the full selling price of any of the foregoing articles, including parts for watches or clocks, where the price is* $25 *or more.*

In any case where the sale is taxable, the tax attaches to the entire price and not to the amount by which such price exceeds 9 *cents,* $3, *or* $25, *as the case may be.*

The assembling of two or more of the articles specified in the law is a further manufacturing process and the person who assembles such articles into other taxable articles is a producer and liable for the tax on the sale of the assembled articles.

ART. 29. Jewelry.—Jewelry in general includes articles designed to be worn on the person or apparel for the purpose of adornment and which in accordance with custom or ordinary usage are worn so as to be displayed, such as rings, chains, brooches, bracelets, cuff buttons, necklaces, earrings, beads, etc. The tax attaches to such articles, *when sold during the period June* 21, 1932, *to May* 10, 1934 *(both dates inclusive), for* $3 *or more, or when sold on or after May* 11, 1934, *for* $25 *or more,* regardless of the substance of which made and without reference to their utilitarian value or purpose. The term "jewelry" ordinarily does not include articles designed to be carried in the hand or hung over the arm, such as canes, bags, and purses. Likewise, many things designed to be carried in the hand or worn concealed about the person, such as vanity cases, mesh bags, cigarette cases, eyeglass cases, and pencils, do not fall within the category of jewelry, as defined, *hereinbefore.* However, such articles *sold during the period June* 21, 1932, *to May* 10, 1934 *(both dates inclusive), for* $3 *or more, or on or after May* 11, 1934, *for* $25 *or more,* are taxable under section 605 when made of, or ornamented, mounted, or fitted with, precious metals or imitations thereof or ivory. It is immaterial under the Act whether the jewelry is real or imitation.

ART. 30. Pearls, precious and semiprecious stones, and imitations thereof.—*When sold during the period June* 21, 1932, *to May* 10, 1934 *(both dates inclusive), for* $3 *or more, or when sold on or after May* 11, 1934, *for* $25 *or more,* the tax attaches to the sale by the manufacturer of all pearls and precious or semiprecious stones, whether real or imitation, whether cut or uncut, whether drilled, mounted, or matched, whether temporarily or permanently strung, and whether with or without clasps. Beads are subject to the tax as jewelry if the beads are strung ready for use. The sale of loose beads is not subject to the tax unless such beads are pearls, precious or semiprecious stones, or imitations thereof, but a person who strings loose beads into a necklace, for example, is liable as the producer of the necklace.

Articles carved or made from precious or semiprecious stones or imitations thereof, such as ash trays, lighters, book ends, etc., are taxable.

ART. 31. Articles other than jewelry, made of, or ornamented, mounted, or fitted with, precious metals or imitations thereof or ivory.—The term "precious metals" includes platinum, gold, silver, and other metals of similar or greater value. The term "imitations thereof" includes platings (except in the case of silver-plated ware) and alloys of such metals.

Silver-plated ware which is ornamented, mounted, or fitted with precious metals or imitations thereof other than silver-plate, is subject to tax.

Examples of articles which become subject to the tax when ornamented, mounted, or fitted with precious metals or imitations thereof, are umbrellas, purses, walking sticks, fountain pens, cigarette lighters, and shoe buckles.

ART. 32. Watches and clocks.—The sale by the manufacturer of a watch or clock is taxable regardless of the substance of which made. *During the period from June* 21, 1932, *to May* 10, 1934 *(both dates, inclusive), watches and clocks sold by the manufacturer for* $3 *or more, and* parts for watches or clocks (including cases, movements, mechanisms, etc.) sold for more than 9 cents each, *were* subject to the tax. *Watches or clocks, and parts therefor, sold on or after May* 11, 1934, *are subject to the tax only when sold for* $25 *or more.*

ART. 33. Opera glasses, lorgnettes, marine glasses, field glasses, and binoculars.—These articles are specifically subject to the tax. However, the enumeration is deemed to include only portable instruments. Accordingly, marine glasses, field glasses, and similar optical instruments which by reason of their size or weight are ordinarily mounted upon tripods or other bases, are not subject to the tax.

ART. 34. Application of the tax.—By specific *provisions of the law, as amended,* the tax does not attach to

(1) *Articles specifically exempted by enumeration in the statute, including surgical instruments, silver-plated ware, frames or mountings for spectacles or eyeglasses, and articles used for religious purposes.*

(2) *Articles sold on or after May* 11, 1934, *for less than* $25, *and articles sold prior to such date for less than* $3 *(except parts for watches or clocks sold prior to such date for more than* 9 *cents).*

(3) *Articles sold directly to a registered manufacturer for further manufacture of taxable articles or to a registered vendee for resale to a registered manufacturer for the further manufacture of taxable articles.*

Among the articles or parts of articles coming within the scope of section 605 *which may be purchased tax free for further manufacture by a manufacturer or producer who complies with the registration provisions set forth in Article* 7, *as amended, are* (1) *all mountings made of, or ornamented, mounted, or fitted with, precious metals or imitations thereof or ivory;* (2) *pearls, precious and semi-precious stones, and imitations thereof, whether uncut or cut and ready for use but not mounted;* (3) *watch cases, watch movements or mechanisms, parts for watches and clocks, etc., and* (4) *other similar incomplete or unfinished articles subject to tax under section* 605.

The phrase "articles used for religious purposes" means articles of *the* description *which might be included in the taxing provisions of the Act* but which are commonly used in religious *devotions. An* article commonly used for nonreligious purposes may be sold tax free *only* if purchased from the manufacturer for use exclusively for religious purposes.

ART. 35. Rate of tax.—The tax is payable by the manufacturer at the rate of 10 per cent of the sale price as outlined in Articles 8 to 15, inclusive, *and in Article* 28.

[Signed by Guy T. Helvering, Commissioner of Internal Revenue, and approved July 24, 1934, by T. J. Coolidge, Acting Secretary of the Treasury.]

Beer Barrel Tax Stamps

The rules for treating beer barrels and affixing stamps thereto are amended by Treasury Decision 4457, XIII-32-6947 (p. 26), to read as follows:

1. The following procedure for treating beer barrels and affixing tax stamps thereto is hereby prescribed, and supersedes the provisions of Regulations # 6, revised July, 1918, and Regulations # 9, approved March 30, 1933:

2. The surface of the head of each wooden barrel for a distance of at least five inches from the spigot hole therein must be thoroughly treated with a water-proofing material which renders the surface impervious to moisture and will afford a smooth dry surface for affixing tax stamps. Any material that will impregnate the pores and render the surface water-proof may be used.

3. Tax stamps must be secured to the packages of fermented liquor in such manner that they cannot be removed without intentional effort for that purpose. The stamps must be treated and affixed, in the case of wooden containers, as follows:

(a) Dissolve one pound of chloride of sodium (common salt) in two gallons of cold water; spread this over the backs of the sheets of stamps with a broad thin brush, and then dry them. They are now ready to be affixed.

(b) In applying the stamps to the cask, first take liquid silicate of soda (waterglass) of medium density; rub it well into the irregularities of the surface of the wood with a brush, and apply the stamp *quickly* while the wood is quite wet.

(c) When the stamp is dry, a second coating of the silicate must be spread over the face of the stamp; and if the barrels are to be exposed to the action of the weather, or to be stored in damp places for considerable periods, the stamp must be secured by four tacks, to prevent its peeling off.

4. Where tax stamps are affixed to metal containers a non-water soluble adhesive must be used.

[Signed by Guy T. Helvering, Commissioner of Internal Revenue, and approved August 2, 1934, by T. J. Coolidge, Acting Secretary of the Treasury.]

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regulation really needful only for its relatively few rascals.

In regulating the Treasury Bar, which consists not only of lawyers but also of accountants and agents, there will be three purposes in mind.

1. To protect the revenues of the United States against fraud and waste.

2. To protect taxpayers against dishonest or tricky advisors who lead them into trouble and controversy.

3. To protect honorable lawyers who give faithful advice to their clients against the unfair competition of slickers whose stock in trade is fraudulent practice or false claims of influence.

Much of the professional misconduct which disturbs the Treasury should be equally disturbing to the honorable members of the legal profession. Lawyers whose practice has been based upon their ability and character have seen their clients lured away by claims or appearances of political or personal influence. Lawyers who give conservative and upright advice have seen their clients weaned away by soliciting lawyers who claimed to have safe schemes to outwit the Treasury by taking long changes.

Taxation is a problem of great importance today and of increasing importance in the years to come. The Treasury can have substantial aid in the administration of the tax laws from an intelligent, high

minded, reliable bar, though it be zealous in the advocacy of taxpayers rights. It can have no greater obstruction than those who by clever devices that border upon fraud or by claims of the use of improper influence, bring tax administration into contempt and disrepute.

In the belief that a more effective organization of the tax bar would be a contribution to good tax administration as well as to the welfare of the profession, I am privileged on behalf of the present administration of the Treasury, to commend the efforts of your committee and invite you to early conference with the new enrollment board as to the regulations best designed to keep both government and taxpayer representation on a creditable professional plane.

Rulings of the Bureau of Internal Revenue

Income Tax

Dividend Payments—Returns of Information.—Section 148 of the Revenue Act of 1934 provides that every corporation subject to income tax shall, when required by the Commissioner, render a correct return, duly verified under oath, of its payments of dividends, stating the name and address of each shareholder, the number of shares owned by him, and the amount of dividends paid to him. In accordance with that section of the Act, returns of information in respect of dividend payments shall be rendered for the calendar year 1934 and each calendar year thereafter as follows:

(a) Except as provided in paragraph (b) below, every domestic corporation or foreign corporation engaged in business in the United States or having an office or place of business or a fiscal or paying agent in the United States, not specifically exempt from taxation, making payments of dividends and distributions out of its earnings or profits accumulated since February 28, 1913 (not including stock dividends or distributions in liquidation) to any shareholder who is an individual (citizen, resident, or nonresident alien), a fiduciary or a partnership, amounting to $300.00 or more during the calendar year, shall render an information return on Forms 1096 and 1099 for the calendar year 1934 and each calendar year thereafter. A separate Form 1099 must be prepared for each shareholder, upon which will be shown the name and address of the shareholder to whom such payment was made, and the amount paid. These forms, accompanied by letter of transmittal on Form 1096 showing the number of Forms 1099 filed therewith, shall be forwarded to the Commissioner of Internal Revenue, Sorting Section, Washington, D. C., on or before February 15 of the following year.

(b) In cases of distributions which are made from a depletion or depreciation reserve, or which for any other reason are deemed by the corporation to be nontaxable or partly nontaxable to its shareholders, the corporation will first fill in the information on the reverse side of Form 1096 and forward this form to the Commissioner of Internal Revenue, Sorting Section, Washington, D. C., not later than February 1 of the following year. Upon receipt of this information the Commissioner will determine and advise the corporation by letter whether any portion of such distribution is subject to tax. The corporation after receiving this letter will then properly prepare for each shareholder a Form 1099, which shall be forwarded with Form 1096 to the Commissioner of Internal Revenue, Sorting Section, Washington, D. C., not later than thirty days after such letter is received.

In any case where it is impossible to file the return within the time herein prescribed, the corporation may, upon a showing of such fact, obtain a reasonable extension of time for filing the return. The request for the extension of time must be forwarded to the Commissioner of Internal Revenue, Rules and Regulations Section, Washington, D. C., on or before the date prescribed for filing the return.

[Signed by Guy T. Helvering, Commissioner of Internal Revenue, and approved August 3, 1934, by L. W. Robert, Jr., Acting Secretary of the Treasury.]—T. D. 4459, XIII-33-6964 (p. 8).

Iowa Property Relief Tax, Deduction for.—Tax imposed by division IV of the Iowa property relief act is deductible as a tax by the vendor, upon whom it is imposed.—I. T. 2802, XIII-33-6949 (p. 2).

Interest, Taxable.—Discount received at maturity by the holder of bank acceptances and interest on a time note issued by the Secretary of Agriculture under Section 4 of the Agricultural Adjustment Act (48 Stat., 31) represent interest on obligations of the United States. Although such interest is required to be included in gross income, the amount thereof may be credited against the net income of a corporation under Section 26 of the Revenue Act of 1932.

Gain on the sale of such acceptances is taxable as ordinary income. Recommended that I. T. 2725 (C. B. XII-2, 29) be modified accordingly.—G. C. M. 13320, XIII-33-6951 (p. 14).