

THE COMMISSIONER OF INTERNAL REVENUE



1965 ANNUAL REPORT

Reference
Do Not Remove

Commissioner of
Internal Revenue

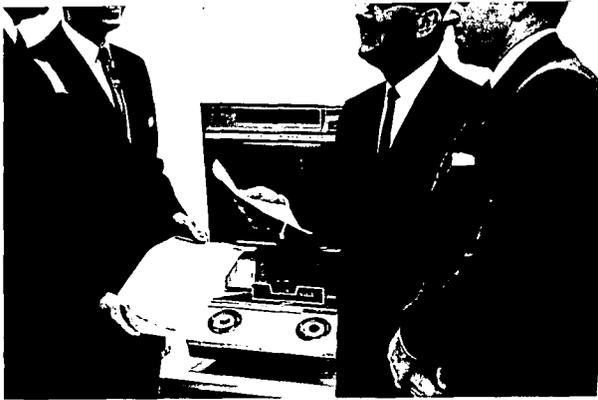


1965 ANNUAL REPORT

for the fiscal year ended June 30, 1965

Publication No. 55

INTERNAL REVENUE SERVICE
U.S. TREASURY DEPARTMENT



"To Keep Government Service Alert and Proud"

—President Johnson

President Johnson presenting incentive awards to Internal Revenue Service employees (left to right): Richard N. Folt, Murray H. Hendel, Joe L. Finch, Fred Dubitsky, Ward E. Holland accepting an award; observing at the extreme left is Douglas Dillon, then Secretary of the Treasury.

TRANSMITTAL

HON. HENRY H. FOWLER,
Secretary of the Treasury,
Washington, D.C.

WASHINGTON, D.C., 20224.

DEAR MR. SECRETARY:

Achievements reflected in the attached annual report of the Internal Revenue Service for the fiscal year 1965 testify to the unremitting pursuit of excellence by a dedicated work force. Much of the progress occurred under the able leadership of Deputy Commissioner Harding during his tenure as Acting Commissioner throughout the first 6 months of the year.

Operating statistics only partially reveal the Service's accomplishments. Nonetheless they are impressive. A comparison of 1964 and 1965 data reveals that: Gross collections soared to \$114.4 billion despite a tax reduction—more than \$2 billion above last year's all-time record; returns filed increased 2.4 million; 100,000 more delinquent returns were secured and the total amount collected from this source was \$6 million higher; disposals of taxpayer appeals increased about 2,000 cases; and additional taxes and penalties recommended by examining officers reached \$2.7 billion, or \$179 million greater than last year's record sum.

Vigorous enforcement of the tax laws continued unabated throughout the year with particular emphasis on the Organized Crime Drive and its objective of bringing to justice racketeers and tax evaders. Several of the more notorious racketeers were prosecuted and the additional taxes and penalties assessed against tax law violators far exceeded amounts levied in past years.

The Management Improvement Program was revitalized and set a pattern of increased personal involvement in carrying out its principles, policies, and aim. Savings of \$17.1 million realized through improving operations surpassed by 47 percent the record-breaking \$11.6 million reported in 1963. Of particular significance was the variety of the improvements. These ranged from systems and procedural changes to those involving better selection and utilization of personnel, reorganizations, modification of training programs, and improved service to taxpayers.

Close attention was also given to elevating the performance level of frontline and intermediate supervision—areas that I consider as vital to efficient tax administration as our highly successful executive development program. Action taken involved establishing specialized supervisory training programs for incumbents, initiating plans to identify and reassign incumbents lacking supervisory talent, and devising procedures to insure selecting and training applicants with known ability or potential for assuming managerial responsibilities.

A milestone was reached on January 1, 1965, when the business master file under the Service's automatic data processing system became operational nationwide. The Southeast Service Center, Chamblee, Ga., and the Mid-Atlantic Service Center at Philadelphia are fully processing individual returns and by 1967 all seven service centers will become part of a complete

Notes: All yearly data are on a fiscal year basis, unless otherwise specified. For example, data headed "1965" pertain to the fiscal year ended June 30, 1965, and "July 1" inventory items under this heading reflect inventories as of July 1, 1964.

In many tables and charts, figures have been rounded and may not add to the totals which are based on unrounded figures.

TRANSMITTAL—Continued

and unified nationwide system. The benefits of mass document processing—such as rapid identification of nonfilers, prevention of duplicate refunds, complete verification of estimated tax credits, and identification of taxpayers who underpay their estimated taxes—now being performed by a few service centers—will then be fully realized.

Finally, may I say that the mainstream of our efforts has been and will continue to be directed towards strengthening and improving our self-assessment tax system, so peculiarly American and so increasingly a model to the rest of the world.



SHELDON S. COHEN,
Commissioner of Internal Revenue.

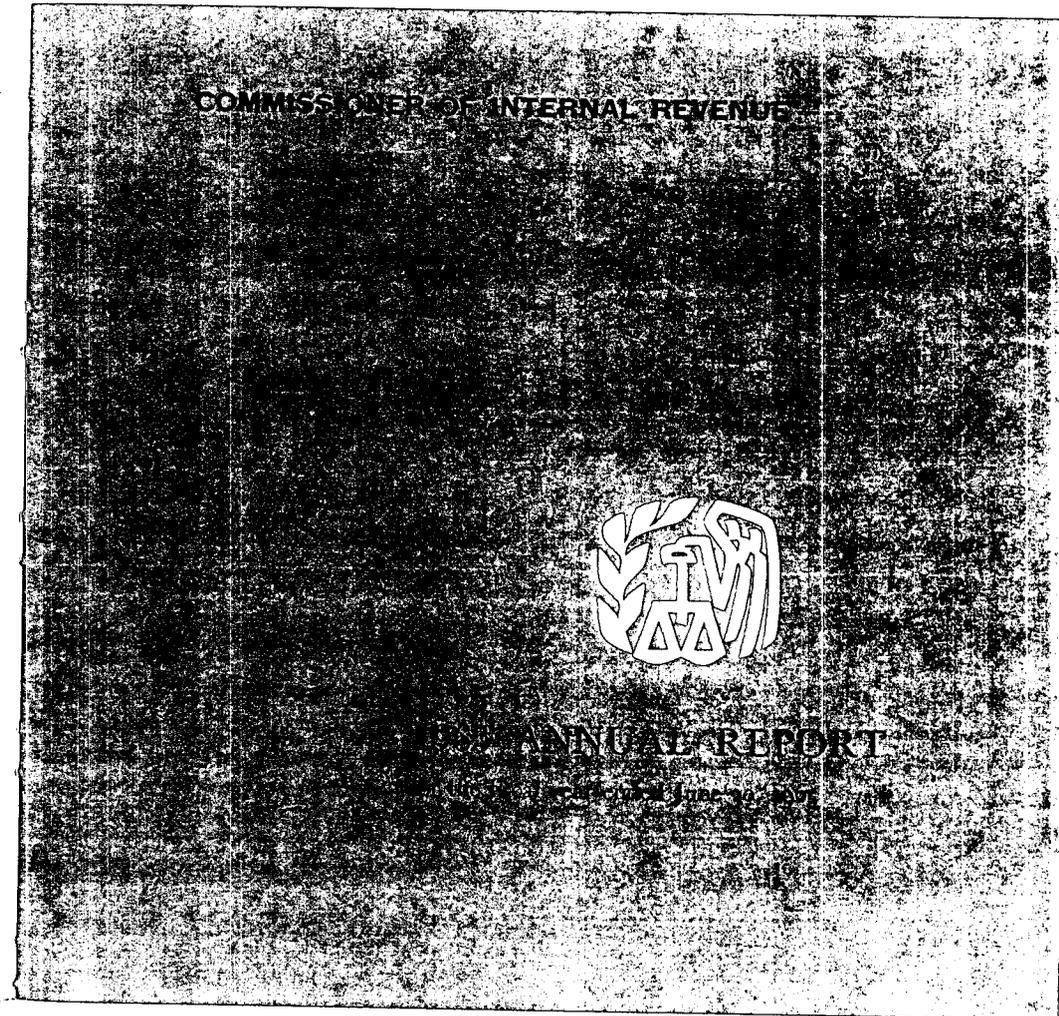
TABLE OF CONTENTS

	Page
Letter of Transmittal.....	v
Summary of 1965 Annual Report.....	xi
Commissioners of IRS.....	xvii
Principal Officers of the Internal Revenue Service.....	xviii
Maps of Internal Revenue Regions and Districts.....	xxii
Charts of Internal Revenue Service Organization.....	xxiv
 REPORT ON OPERATIONS	
Chapter 1—Interpretation and Communication of Tax Law to Taxpayers.....	2
Chapter 2—Internal Revenue Collections, Refunds, and Returns Filed.....	8
Chapter 3—Automatic Data Processing.....	13
Chapter 4—Enforcement Activities.....	20
Chapter 5—Supervision of the Alcohol and Tobacco Industries.....	40
Chapter 6—Legislative and Legal Activities.....	43
Chapter 7—International Activities.....	49
Chapter 8—Planning Activities.....	53
Chapter 9—Management Activities.....	60
 APPENDIX	
Trend charts.....	96
Statistical tables.....	105
 INDEX	
.....	133

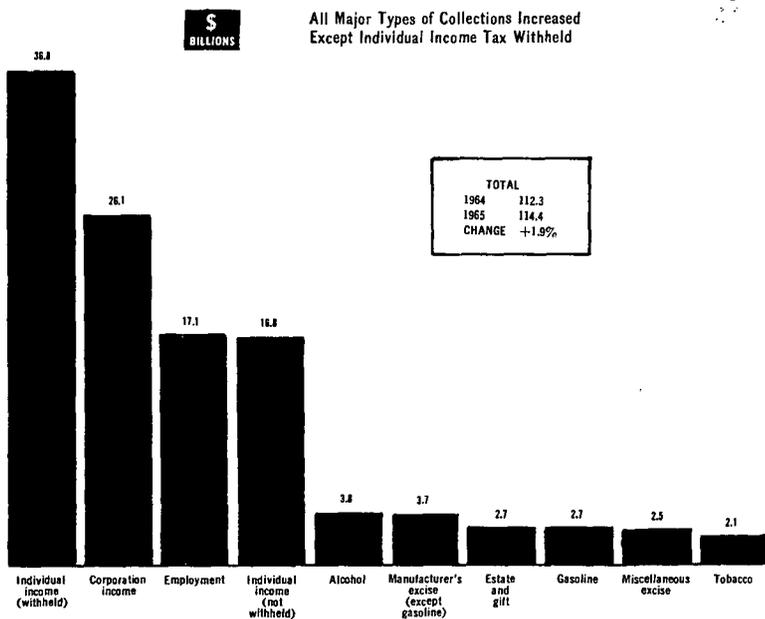
Summary

Mission of the Service

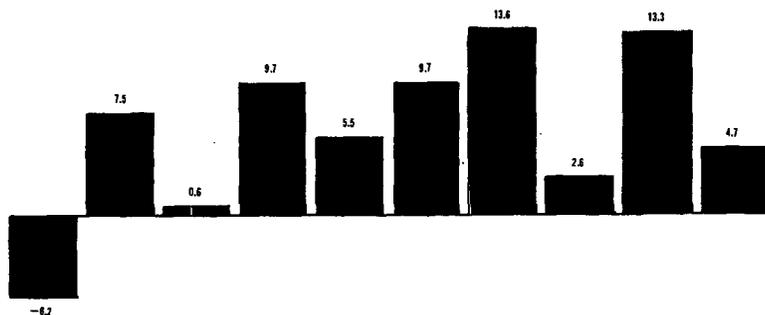
The mission of the Service is to encourage and achieve the highest possible degree of voluntary compliance with the tax laws and regulations and to maintain the highest degree of public confidence in the integrity and efficiency of the Service. This includes communicating the requirements of the law to the public, determining the extent of compliance and causes of noncompliance, and doing all things needful to a proper enforcement of the law.



GROSS COLLECTIONS IN 1965 BY MAJOR CATEGORY



% CHANGE FROM 1964

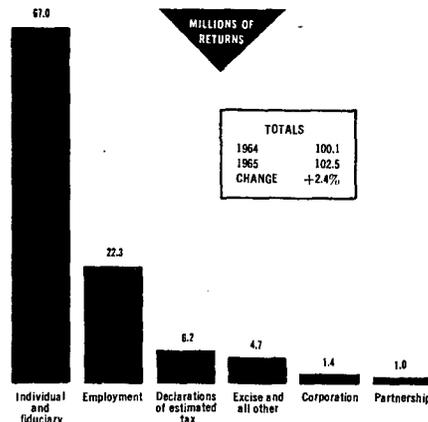


Summary

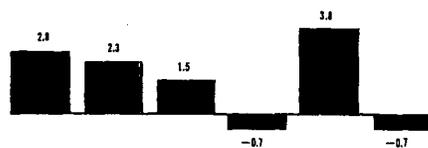
ALL BUT ONE MAJOR CATEGORY OF TAX CONTRIBUTED TO RECORD COLLECTIONS

Collections reached a record high of \$114.4 billion, 2 percent above 1964 collections, despite individual and corporation tax rate reductions effective during the year. The increase in corporation tax payments was \$1.8 billion—attributable to the requirements accelerating the payment of estimated tax and higher corporate earnings. All other major categories of taxes except individual income taxes withheld also showed increases. These were led by individual income taxes not withheld, which registered a gain of \$1.5 billion. Together these increases more than offset the decline of \$2.4 billion in individual income taxes withheld occasioned by the tax rate reduction.

ALL MAJOR TYPES OF RETURNS INCREASED EXCEPT PARTNERSHIP AND EXCISE



% CHANGE FROM 1964



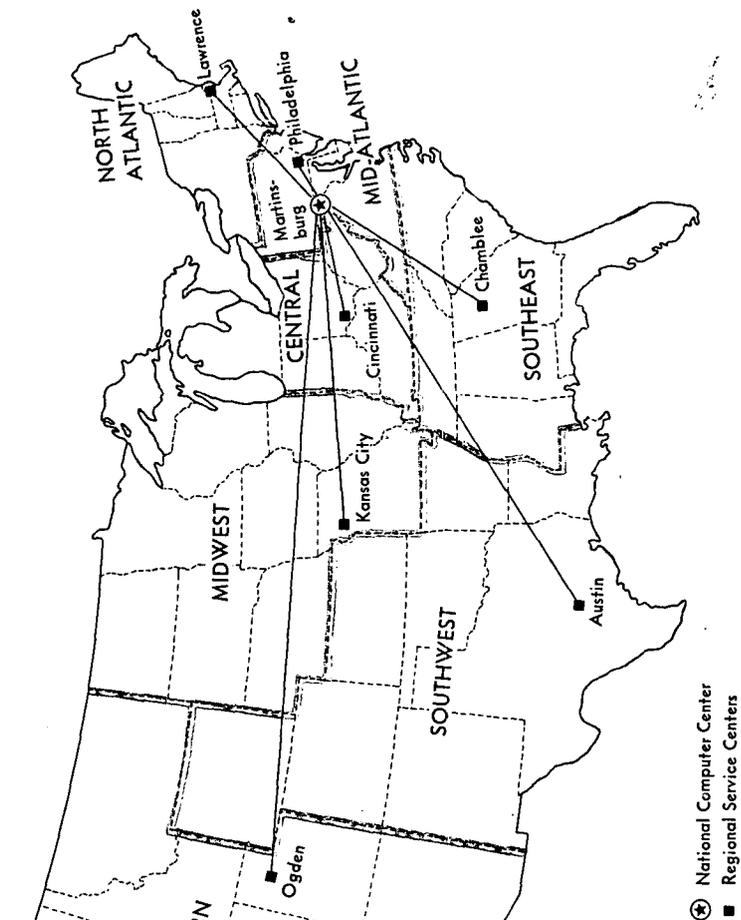
REFUNDS DECLINED IN NUMBER AND AMOUNT

The number of refunds issued dropped from 42 million to 40 million and the \$6 billion refunded was \$1 billion less than the 1964 amount. For taxable years beginning in 1964, the Revenue Act of 1964 provided for a greater rate of reduction in the tax withheld than in the tax rate. As a result, many individual taxpayers normally filing overpayment returns found that they were liable for a small balance of tax due in 1965. The second-stage decrease in tax rates, effective for taxable years beginning after December 31, 1964, will return withholding to its normal pattern.

NUMBER OF RETURNS FILED INCREASED

A growing economy and an expanding population resulted in the filing of 102.5 million tax returns—an all-time high and an increase of 2.4 million over 1964. In addition, the Service received about 340 million related documents, such as wage and tax statements, Forms W-2, and information returns, Forms 1099.

Nationwide Automatic Data Processing Master File System



⊛ National Computer Center
 ■ Regional Service Centers

AUTOMATIC DATA PROCESSING OPERATIONS EXTENDED

On January 1, 1965, handling of business tax returns through the automatic data processing (ADP) system became national in scope. Two regions, Southeast and Mid-Atlantic, are now processing individual tax returns by ADP methods. The master file for all individual taxpayers will be complete by 1967.

In a pilot study, individual income taxpayers in the Southeast Region eligible for a refund were given the option of filing their returns directly with the Southeast Service Center. The majority of taxpayers claiming refunds, over 4 million, took advantage of this option. The processing of returns filed directly with the service center proved to be more economical than when filed with district offices. The option will be continued in the Southeast Region and extended to the Mid-Atlantic Region in 1966.

When fully operational, many benefits will accrue from the new ADP system. Among these advantages are that the system will identify nonfilers, halt duplicate refunds, make complete verification of estimated tax credits, and facilitate identification of taxpayers who underpay their estimated tax.

The system has, in fact, already illustrated its worth in these and other areas of operations. For example in the Southeast Region alone, partial results for 1965 show that 14,000 individual income tax returns were secured as a result of pursuing delinquency leads generated by ADP. These returns were about equally divided between balance due and refundables. Over \$600,000 in additional taxes was reported, and over \$500,000 was claimed for refund.

MATHEMATICAL ERRORS CORRECTED TO BOTH TAXPAYERS' AND GOVERNMENT'S BENEFIT

The mathematical verification of 62.9 million tax returns disclosed 3.9 million errors in computation of tax, an increase of 49 percent over last year. The tax increase resulting from mathematical verification was \$194 million, while the tax decrease was \$94 million—a net tax recovery of \$100 million. This net yield was less than 8 percent above the 1964 yield principally because 75 percent of the additional errors detected involved returns in which the taxpayer overstated his tax liability. In detecting and correcting these errors it was found that

the primary cause for the overstatements of tax liability was that taxpayers were not taking advantage of their right to use the standard deduction providing them the greatest tax advantage. This was probably due to the minimum standard deduction being available for the first time with respect to 1964 returns.

AUDIT PROGRAM PLACED MORE EMPHASIS ON COMPLEX RETURNS

The examination of 3.5 million returns for correctness in reporting tax liability resulted in the recommendation of \$2.7 billion in additional tax and penalties. This amount was \$179 million above the record set in 1964. The number examined was 4 percent less as a consequence of a change in the examination program that placed greater emphasis on more complex and therefore more time-consuming returns.

In the course of auditing returns, examining officers also uncovered overpayment by taxpayers in the amount of \$145 million, or \$2 million more than the 1964 total. In addition, taxpayer claims examined and closed by the audit divisions resulted in over-assessments of \$192 million—an increase of \$15 million from 1964.

A substantial number of the returns examined resulted in no change in tax, thereby confirming the validity of the taxpayers' reported liability. Of the total returns examined 1.3 million, or 38 percent, were no change. In 1964, no change returns constituted 37 percent of the total examined.

The returns of 12,406 organizations with tax exempt privileges were examined to determine if any changes in their operations occurred that would affect eligibility for exempt status under the provisions of the Internal Revenue Code. This was 21 percent more than were examined in 1964. Additional tax and penalties recommended totaled \$36.7 million, of which \$33.8 million was attributable to the revocation of the exempt status of 123 organizations.

RISE IN BOTH RECEIPT AND DISPOSAL OF APPEALED CASES

Disagreement by the taxpayer as to the findings in tax cases led to a 21-percent rise in the number of cases transferred to appellate divisions for further consideration. This additional workload was par-

tially offset by a 9-percent increase in the number of case disposals.

FRAUD PROGRAM CONCENTRATED ON ORGANIZED CRIME DRIVE

Major racketeers and their operations continued to receive major attention from special agents. As a result, some of the most notorious racketeers were brought to trial.

The 3,643 full-scale fraud investigations completed in 1965 were slightly lower than 1964 completions. There was, however, an increase in the percentage of investigations in which prosecution was recommended. The enforcement effort in the wagering tax fraud area was directed toward more substantial cases of greater strategic importance and fewer prosecution recommendations resulted.

NEW APPROACHES USED IN ALCOHOL TAX ACTIVITIES

In one of the Southern States unremitting pressure on illicit distillers by an enlarged investigative force resulted in the virtual elimination of commercial violators. Extension of "Operation Dry-Up" to additional Southern States is planned. Enforcement of the laws against illicit activities consumed about 80 percent of all investigative time.

Introduction of more advanced procedures for regulating the legal alcoholic beverage industry effected significant reductions in on-premises supervision despite expanding industry activity.

DELINQUENT ACCOUNTS DECLINED—EMPHASIS PLACED ON SECURING DELINQUENT RETURNS

Taxpayer delinquent accounts arising in 1965 totaled 2.4 million, nearly 650,000 less than in 1964. The decline was largely attributable to the initiation of a new "followup notice" procedure that eliminated the need for further enforcement action on some accounts and will defer such action on the remainder until early in the next fiscal year. Yet the \$1.6 billion value of new accounts in 1965 was \$88 million above the 1964 figure because of a few that were extraordinarily large. Fewer new accounts

brought the inventory to an all-time low of 530,000 accounts by June 30, 1965—almost 45 percent below the June 30, 1964 inventory.

Over 2.8 million delinquent accounts worth \$1.5 billion were closed. This was a drop of 235,000 accounts from the number closed in 1964 but the value was \$78 million higher.

The lower volume of new delinquent accounts permitted some redeployment of resources from this area to the delinquent returns program. In 1965 the Service secured 1.2 million delinquent returns that involved \$281 million in additional tax, penalties, and interest. In comparison, the number secured in 1964 was 1.1 million and the amount was \$275 million.

MANAGEMENT IMPROVEMENT SAVINGS REACHED NEW HIGH

The Service devoted considerable effort to finding ways and means of promoting economy through improved utilization of resources. Record savings of \$17.1 million from management improvements were achieved during the year. Particularly noteworthy were: (1) the purchase rather than the lease of ADP equipment; (2) merger of the New York and Northeast Regions; (3) a 7-percent reduction in the number of forms and form letters; and (4) revised procedures for the collection of delinquent accounts. Also, 25 individual management improvement and cost reduction actions, resulted in savings in excess of \$100,000 each.

EQUAL EMPLOYMENT OPPORTUNITY PROGRAM

The Service continued to place strong emphasis on the Equal Employment Opportunity Program and excellent progress was achieved in improving the position of minority group employees. Minority group persons were placed in areas and job categories which heretofore were not occupied by them. Changes are most noticeable in the upper grades which require highly technical or managerial skill. The best example of progress was the appointment of two minority group members to the 1965 Executive Selection and Development Program which is the route to the highest executive positions of the Service.

TELEPHONE ASSISTANCE

1964	14,439,157
1965	16,225,954
CHANGE	UP 12.4%



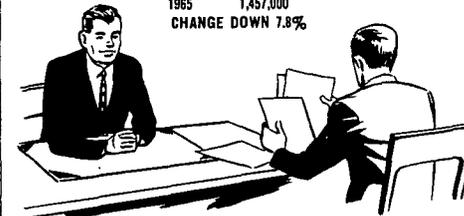
WALK-IN INQUIRIES

1964	6,968,918
1965	7,416,117
CHANGE	UP 6.4%



PREPARATION OF RETURNS AND OTHER FORMS FOR TAXPAYER

1964	1,580,403
1965	1,457,000
CHANGE	DOWN 7.8%



YEAR-ROUND TAXPAYER ASSISTANCE PROGRAM EXPANDED

Greater emphasis was given the year-round Taxpayer Assistance Program by providing additional locations where taxpayers could seek and receive competent advice, by conducting training programs to improve the quality of assistance rendered, and by stressing the responsibility of the Service's taxpayer assistants to respond promptly and courteously to requests from taxpayers. Operating the program throughout the year made it possible to furnish more help to a greater number of taxpayers and give assistance much earlier than in prior years.

In 1965 a total of 25.1 million taxpayers received

some type of assistance, an increase of 2.1 million over the number assisted in 1964. Assistance by telephone was furnished to 16.2 million taxpayers—an increase of 12 percent. Use of this medium has proved very satisfactory. It provides service at a minimum of inconvenience to the taxpayer and has the added advantage of being the most economical form of assistance to him and to the Service. In addition, the inquiries of 7.4 million walk-in taxpayers were handled by the taxpayer assistance staff—6 percent more than were handled in 1964. Direct assistance in the preparation of tax returns was extended to 1.5 million taxpayers—an 8 percent decrease from 1964 in the number requiring such help.

COMMISSIONERS OF INTERNAL REVENUE

Office of Commissioner of Internal Revenue created by act of Congress, July 1, 1862.

Annual Reports Reflect 103 Years of Service

From Past Reports—

Income tax laws, authorized by the 16th Constitutional Amendment, were enacted October 3, 1913. Much work had to be done by November 1, 1913, when the provision for "withholding at the source" became operative.—1914 Report.

* * *

The Prohibition Unit was created to enforce the National Prohibition Act, approved October 28, 1919. This law, known as the Volstead Act, prohibited the manufacture, sale, and use of intoxicating beverages.—1920 Report.

* * *

Social Security Tax Division created to administer taxes imposed under Title VIII of the Social Security Act, approved August 14, 1935.—1936 Report.

* * *

The withholding tax rate was raised from 5 to 20 percent (on income minus exemptions) and estimated tax payments were required of those not subject to withholding by the Current Tax Payment Act of 1943.—1943 Report.

* * *

Major revisions in the basic structure of the Service were effected under a plan approved by Congress in March 1952. Resulting changes included: (1) Abolition of offices of collectors and eventual creation of 9 regions and 64 districts. (2) Selection and appointment of key personnel through established Civil Service channels.—1953 Report.

* * *

Results of studies initiated in 1959 led to approval of a proposal that the Service develop and install nationwide an automatic data processing system.—1959 Report.

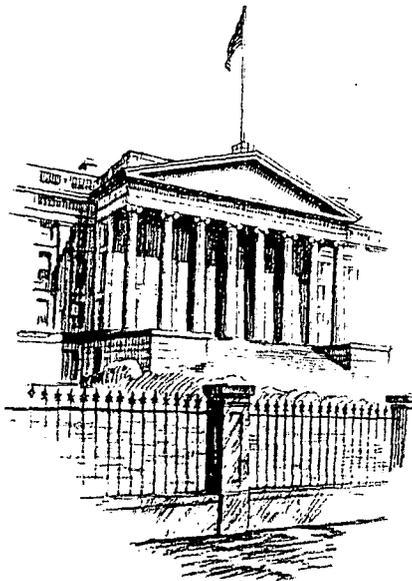
* * *

Format of Individual Income Tax Return, Form 1040, underwent major revision including the objective of reducing it to a 2-page form.—1962 Report.

Name	State	From	To
George S. Boutwell	Massachusetts	July 17, 1862	Mar. 4, 1863
Joseph J. Lewis	Pennsylvania	Mar. 18, 1863	June 30, 1865
William Orton	New York	July 1, 1865	Oct. 31, 1865
Edward A. Rollins	New Hampshire	Nov. 1, 1865	Mar. 10, 1869
Columbus Delano	Ohio	Mar. 11, 1869	Oct. 31, 1870
Alfred Pleasonton	New York	Jan. 3, 1871	Aug. 8, 1871
John W. Douglass	Pennsylvania	Aug. 9, 1871	May 14, 1875
Daniel D. Pratt	Indiana	May 15, 1875	July 31, 1876
Green B. Raum	Illinois	Aug. 2, 1876	Apr. 30, 1883
Walter Evans	Kentucky	May 21, 1883	Mar. 19, 1885
Joseph S. Miller	West Virginia	Mar. 20, 1885	Mar. 20, 1889
John W. Mason	do.	Mar. 21, 1889	Apr. 18, 1893
Joseph S. Miller	do.	Apr. 19, 1893	Nov. 26, 1896
W. St. John Forman	Illinois	Nov. 27, 1896	Dec. 31, 1897
Nathan B. Scott	West Virginia	Jan. 1, 1898	Feb. 28, 1899
George W. Wilson	Ohio	Mar. 1, 1899	Nov. 27, 1900
John W. Yerkes	Kentucky	Dec. 20, 1900	Apr. 30, 1907
John G. Capers	South Carolina	June 5, 1907	Aug. 31, 1909
Royal E. Cabell	Virginia	Sept. 1, 1909	Apr. 27, 1913
William H. Osborn	North Carolina	Apr. 28, 1913	Sept. 25, 1917
Daniel C. Roper	South Carolina	Sept. 26, 1917	Mar. 31, 1920
William M. Williams	Alabama	Apr. 1, 1920	Apr. 11, 1921
David H. Blair	North Carolina	May 27, 1921	May 31, 1929
Robert H. Lucas	Kentucky	June 1, 1929	Aug. 15, 1930
David Burnet	Ohio	Aug. 20, 1930	May 15, 1933
Guy T. Helvering	Kansas	June 6, 1933	Oct. 8, 1943
Robert E. Hannegan	Missouri	Oct. 9, 1943	Jan. 22, 1944
Joseph D. Nunan, Jr.	New York	Mar. 1, 1944	June 30, 1947
George J. Schoeneman	Rhode Island	July 1, 1947	July 31, 1951
John B. Dunlap	Texas	Aug. 1, 1951	Nov. 18, 1952
T. Coleman Andrews	Virginia	Feb. 4, 1953	Oct. 31, 1955
Russell C. Harrington	Rhode Island	Dec. 5, 1955	Sept. 30, 1958
Dana Latham	California	Nov. 5, 1958	Jan. 20, 1961
Mortimer M. Caplin	Virginia	Feb. 7, 1961	July 10, 1964
Sheldon S. Cohen	Maryland	Jan. 25, 1965	

In addition, the following were Acting Commissioners during periods of time when there was no Commissioner holding the office: John W. Douglass, of Pennsylvania, from Nov. 1, 1870, to Jan. 2, 1871; Henry C. Rogers, of Pennsylvania, from May 1 to May 10, 1883, and from May 1 to June 4, 1907; John J. Knox, of Minnesota, from May 11 to May 20, 1883; Robert Williams, Jr., of Ohio, from Nov. 28 to Dec. 19, 1900; Millard F. West, of Kentucky, from Apr. 12 to May 26, 1921; H. F. Mires, of Washington,

from Aug. 16 to Aug. 19, 1930; Pressly R. Baldridge, of Iowa, from May 16 to June 5, 1933; Harold N. Graves, of Illinois, from Jan. 23 to Feb. 29, 1944; John S. Graham, of North Carolina, from Nov. 19, 1952, to Jan. 19, 1953; Justin F. Winkle, of New York, from Jan. 20 to Feb. 3, 1953; O. Gordon Delk, of Virginia, from Nov. 1 to Dec. 4, 1955, and from Oct. 1 to Nov. 4, 1958; Charles I. Fox, of Utah, from Jan. 21 to Feb. 6, 1961; and Bertrand M. Harding, of Texas, from July 11, 1964 to Jan. 24, 1965.



PRINCIPAL OFFICERS OF THE INTERNAL REVENUE SERVICE

As of June 30, 1965

NATIONAL OFFICERS

OFFICE OF THE COMMISSIONER

Commissioner..... Sheldon S. Cohen
 Deputy Commissioner..... Bertrand M. Harding
 Assistant to the Commissioner... Edwin M. Perkins
 Assistant to the Commissioner... Thomas D. Terry
 Assistant to the Deputy
 Commissioner..... Albert W. Brisbin
 Director, Foreign Tax Assistance
 Staff..... L. Harold Moss

ADMINISTRATION

Assistant Commissioner..... Edward F. Preston
 Executive Assistant..... Donald C. Dawkins
 Director, Program Staff..... Julius H. Lauderdale
 Division Directors:
 Facilities Management... R. Bruce McNair
 Fiscal Management... Gray W. Hume, Jr.
 Personnel..... Albert J. Schaffer
 Public Information... Joseph S. Rosapepe
 Training..... George T. Reeves, Jr.

COMPLIANCE

Assistant Commissioner..... Donald W. Bacon
 Executive Assistant..... Singleton B. Wolfe
 Division Directors:
 Alcohol and Tobacco Tax... Harold A. Serr
 Appellate..... Arthur H. Klotz
 Audit..... Henry J. Donnelly, Jr.
 Collection..... Harold E. Snyder
 Intelligence..... H. Alan Long
 Office of International
 Operations..... Clarence I. Fox, Jr.

DATA PROCESSING

Assistant Commissioner..... Robert L. Jack
 Executive Assistant..... Garrett DeMots
 Division Directors:
 Operations..... Clinton L. Walsh
 IRS Data Center, Detroit,
 Mich..... William C. Palmer
 National Computer Center,
 Martinsburg, W. Va... John E. Stewart
 Reports..... Harry K. Dellinger
 Systems..... Donald G. Elsberry

INSPECTION

Assistant Commissioner... Vernon D. Acree, Jr.
 Executive Assistant... Fred G. Robinette
 Division Directors:
 Internal Audit..... Francis I. Geibel
 Internal Security..... William A. Kolar

PLANNING AND RESEARCH

Assistant Commissioner... William H. Smith
 Division Directors:
 Plans and Policy..... James R. Turner
 Research..... Richard W. Nelson
 Statistics..... Vito Natrella
 Systems Development,
 Lancelot W. Armstrong

TECHNICAL

Assistant Commissioner... Harold T. Swartz
 Executive Assistant... Charles G. Keebler
 Technical Advisor... Arthur Singer
 Division Directors:
 Income Tax..... John W. S. Littleton
 Exempt Organizations and Pension
 Trust..... Richard J. Stakem
 Miscellaneous
 Tax..... (Acting) Linder Hamblen
 Technical Publications and
 Services..... August F. Pohlig

OFFICE OF CHIEF COUNSEL

Chief Counsel..... Mitchell Rogovin
 Deputy Chief Counsel..... Lester R. Uretz
 Chairman, Policy and Research
 Committee..... Herman T. Reiling
 Executive Assistant to the Chief
 Counsel..... Thomas McP. Davis
 Special Assistant to the Chief
 Counsel..... Arthur B. White
 Special Assistant to the Chief
 Counsel..... Lester Stein
 Special Assistant to the Chief
 Counsel..... Samuel R. McClurd
 Staff Assistant to the Chief
 Counsel..... Ray E. Williamson

Principal Officers of the Internal Revenue Service—Continued

NATIONAL OFFICERS—Continued

Technical Advisor to the Chief
 Counsel..... Robert B. Jacoby
 Division Directors:
 Interpretative..... Richard M. Hahn
 Joint Committee..... W. Dean Mathis
 Legislation and
 Regulations..... Charles R. Simpson
 Operations and Planning... William P. Crewe
 Associate Chief Counsel
 (Litigation)..... Ruby P. Hertzog

Executive Assistant to the Associate Chief
 Counsel..... E. Riley Campbell
 Technical Advisor to the Associate Chief
 Counsel..... Paul E. Treusch
 Division Directors:
 Alcohol and Tobacco Tax
 Legal..... Robert B. Ritter
 Collection Litigation... J. Walter Feigenbaum
 Enforcement..... William F. McAleer
 Refund Litigation..... James F. Dring
 Tax Court..... John T. Rogers

REGIONAL AND DISTRICT OFFICERS

CENTRAL REGION

All Regional Offices at 550 Main Street, Cincinnati, Ohio, 45202 unless a different address is indicated

Regional Commissioner..... Ernest H. Vaughn
 Assistant Regional Commissioners:
 Administration..... F. Dean McCrory
 Alcohol and Tobacco Tax... Henry R. Peterson
 Appellate..... G. Waldron Snyder
 Audit..... Michael A. DeGuire
 Collection..... William J. Grabo
 Intelligence..... Harold B. Holt

District Directors:
 Cincinnati, Ohio, 45202... Paul A. Schuster
 Cleveland, Ohio, 44113... Frank S. Torbett, Jr.
 Detroit, Mich., 48226... Ambrose M. Stoepler
 Indianapolis, Ind., 46204... James E. Daly
 Louisville, Ky., 40202... Gilbert C. Hooks
 Parkersburg, W. Va., 26102... Hugh D. Jones
 Director, Central Service Center, Cincinnati, Ohio,
 45202..... Everett L. Meek
 Regional Counsel..... Clarence E. Price
 Regional Inspector..... Gordon M. Anderson

MID-ATLANTIC REGION

All Regional Offices at 2 Penn Center Plaza, Philadelphia, Pa., 19102 unless a different address is indicated

Regional Commissioner Dean J. Barron
 Assistant Regional Commissioners:
 Administration Robert D. McDowell
 Alcohol and Tobacco Tax Louis DeCarlo
 Appellate William E. Steynen
 Audit Joseph M. Shotz
 Collection William F. Culliney
 Data Processing Edward J. Manning
 Intelligence Daniel L. Tucker

District Directors:
 Baltimore, Md., 21202 Irving Machiz
 Newark, N.J., 07102... Edward J. Fitzgerald,
 Jr.
 Philadelphia, Pa., 19108 .. Kenneth O. Hook
 Pittsburgh, Pa., 15222 John H. Bingler
 Richmond, Va., 23240 James P. Boyle
 Wilmington, Del., 19802 .. James H. Kennedy
 Director, Philadelphia Service Center,
 Philadelphia, Pa., 19154 Anthony L. Carrea
 Regional Counsel Cecil H. Haas
 Regional Inspector, Bankers Securities Building,
 Walnut and Juniper Sts., Philadelphia, Pa.,
 19107 Earl L. Fuoss

Principal Officers of the Internal Revenue Service—Continued**REGIONAL AND DISTRICT OFFICERS—Continued****MIDWEST REGION**

All Regional Offices at 35 East Wacker Drive, Chicago, Ill., 60601 unless a different address is indicated

Regional Commissioner----- Homer O. Croasmun
 Assistant Regional Commissioners:
 Administration----- William F. Sullivan
 Alcohol and Tobacco Tax
 William A. Collawn
 Appellate----- Wallace T. Morris
 Audit----- John W. Baudendistel
 Collection----- Edwin P. Trainor
 Intelligence----- William B. Mayes

District Directors:
 Aberdeen, S. Dak., 57401 -- William C. Welsh
 Chicago, Ill., 60602 ---- Eugene C. Coyle, Jr.

District Directors—Continued
 Des Moines, Iowa, 50309 -- Ernest W. Bacon
 Fargo, N. Dak., 58102 ---- Martin L. Webb
 Milwaukee, Wis., 53202 -- Walter S. Stumpf
 Omaha, Nebr., 68102 ---- Richard P. Vinal
 St. Louis, Mo., 63101 -- Edwin O. Bookwalter
 St. Paul, Minn., 55101 -- George O. Lethert
 Springfield, Ill., 62704 -- Jay G. Philpott

Director, Midwest Service Center, Kansas City, Mo., 64131----- Arnold S. Dreyer
 Regional Counsel----- Frank C. Conley
 Regional Inspector----- William A. Costello

NORTH-ATLANTIC REGION

All Regional Offices at 90 Church Street, New York, N.Y., 10007 unless a different address is indicated

Regional Commissioner----- Harold R. All
 Assistant Regional Commissioners:
 Administration----- Arthur J. Collinson
 Alcohol and Tobacco Tax-- Edward J. Fox
 Appellate----- Ellis L. Zacker
 Audit----- Alfred L. Whinston
 Collection----- Elmer H. Klinsman
 Data Processing----- J. Orville Tuescher
 Intelligence----- Ralph U. Berry

District Directors:
 Albany, N.Y., 12210---- William E. Williams
 Augusta, Maine, 04330-- Whitney L. Wheeler
 Boston, Mass., 02115---- Alvin M. Kelley
 Brooklyn, N.Y., 11201-- Thomas E. Scanlon

District Directors—Continued
 Buffalo, N.Y., 14202----- John E. Foley
 Burlington, Vt., 05402----- Fulton D. Fields
 Hartford, Conn., 06115-- Joseph J. Conley, Jr.
 Manhattan, N.Y., 10007-- Charles A. Church
 Portsmouth, N.H., 03801-- Charles W. Emlert
 Providence, R.I., 02907---- Ellis R. Rogers

Director, North-Atlantic Service Center, Lawrence, Mass., 01841----- Thomas J. Gilfillan
 Regional Counsel, 30 Church St., New York, N.Y., 10007----- Marvin E. Hagen
 Regional Inspector, 50 Church St., New York, N.Y., 10007----- Sidney M. Wolk

SOUTHEAST REGION

All Regional Offices at 275 Peachtree Street, N.E., Atlanta, Ga., 30303 unless a different address is indicated

Regional Commissioner----- William J. Bookholt
 Assistant Regional Commissioners:
 Administration----- Burton M. Graham
 Alcohol and Tobacco
 Tax----- F. Dale McClanahan
 Appellate----- Vance N. Bates
 Audit----- Harold B. Bindseil
 Collection----- William H. Loeb
 Data Processing----- Wayne S. Kegerreis
 Intelligence----- Allen T. Hollinrake

District Directors:
 Atlanta, Ga., 30303----- Aubrey C. Ross

District Directors—Continued
 Birmingham, Ala.,
 35203----- Andrew J. O'Donnell, Jr.
 Columbia, S.C., 29201-- Harold M. McLeod
 Greensboro, N.C., 27401----- John E. Wall
 Jackson, Miss., 39202-- James G. Martin, Jr.
 Jacksonville, Fla., 32202-- Frank S. Schmidt
 Nashville, Tenn., 37203-- James A. O'Hara

Director, Southeast Service Center, Chamblee, Ga., 30005----- William H. Weaver
 Regional Counsel----- Henry C. Stockell, Jr.
 Regional Inspector----- Vacant

Principal Officers of the Internal Revenue Service—Continued**REGIONAL AND DISTRICT OFFICERS—Continued****SOUTHWEST REGION**

All Regional Offices at 1114 Commerce Street, Dallas, Tex., 75202 unless a different address is indicated

Regional Commissioner----- B. Frank White
 Assistant Regional Commissioners:
 Administration----- Vacant
 Alcohol and Tobacco
 Tax----- Harold S. Caplinger
 Appellate----- Tom F. Reese
 Audit----- Lawrence M. Stewart
 Collection----- Alfred N. Kay
 Intelligence----- William E. Beloate, Jr.

District Directors:
 Albuquerque, N. Mex.,
 87101----- Donald T. Hartley
 Austin, Tex., 78701 ---- Robert L. Phinney
 Cheyenne, Wyo., 82001 -- Arthur A. Kennedy

District Directors—Continued
 Dallas, Tex., 75201 ----- Ellis Campbell, Jr.
 Denver, Colo., 80202 ----- V. Lee Phillips
 Little Rock, Ark., 72203 -- Fred W. Johnson
 New Orleans, La., 70130 ---- Chester A. Usry
 Oklahoma City, Okla.,
 73102 ----- Clyde L. Bickerstaff
 Wichita, Kans., 67202---- Harry F. Scribner

Director, Southwest Service Center,
 Austin, Tex., 78741 ----- Ervin B. Osborn
 Regional Counsel, 1025 Elm St.,
 Dallas, Tex., 75202 ----- J. Marvin Kelley
 Regional Inspector, 1511 Bryan St.,
 Dallas, Tex., 75201 ----- David O. Lowry, Jr.

WESTERN REGION

All Regional Offices at 870 Market Street, San Francisco, Calif., 94102 unless a different address is indicated

Regional Commissioner----- Harold Hawkins
 Assistant Regional Commissioners:
 Administration----- Homer C. Gant
 Alcohol and Tobacco Tax ---- Isham Railey
 Appellate----- Gardiner B. Willmarth
 Audit----- Raymond F. Harless
 Collection----- Charles D. Moran
 Data Processing----- Frederick W. Bearman
 Intelligence----- Herman F. Kuehl

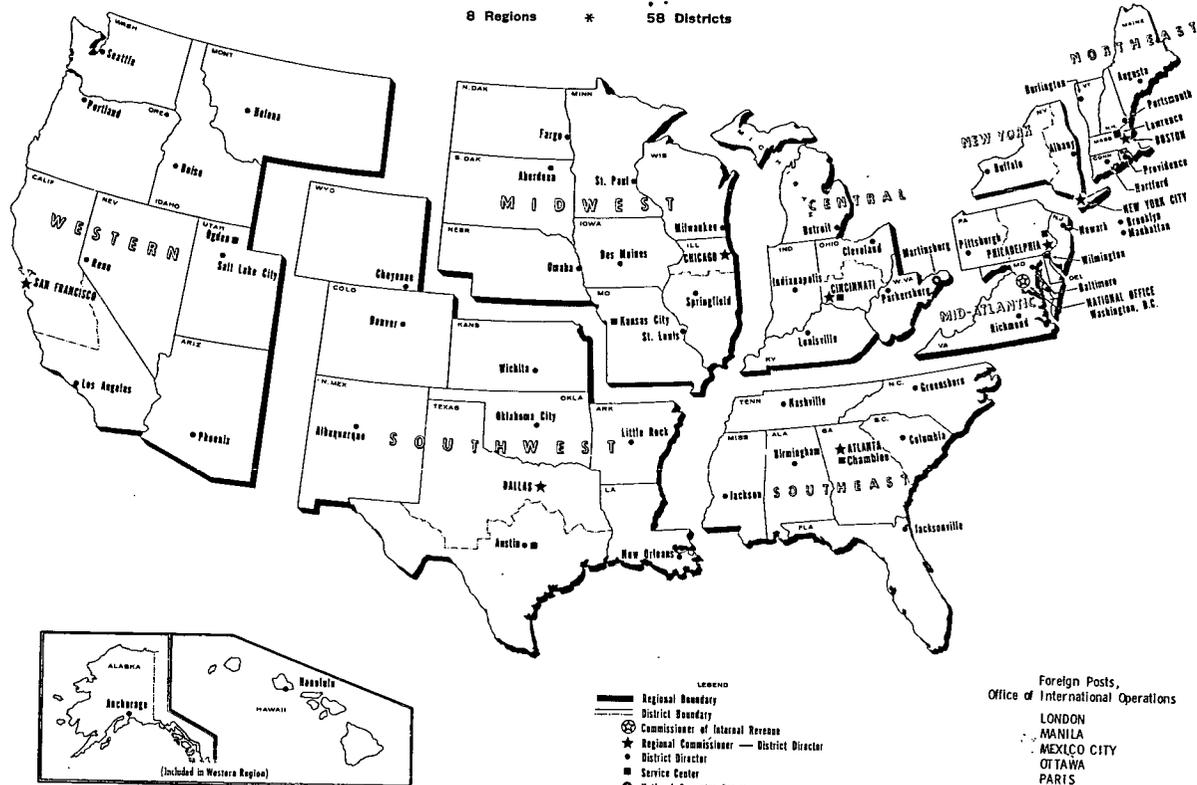
District Directors:
 Anchorage, Alaska, 99501 -- Lewis J. Conrad
 Boise, Idaho, 83701 ----- Calvin E. Wright
 Helena, Mont., 59601 ----- Frank J. Healy
 Honolulu, Hawaii, 96813 ---- Evan S. Lloyd
 Los Angeles, Calif., 90012 -- Robert A. Riddell

District Directors—Continued
 Phoenix, Ariz.,
 85025 ----- George D. Patterson, Jr.
 Portland, Oreg., 97232---- Arthur G. Erickson
 Reno, Nev., 89502 ----- Dalmon Davis
 Salt Lake City, Utah, 84110 -- Roland V. Wise
 San Francisco, Calif.,
 94102 ----- Joseph M. Cullen
 Seattle, Wash., 98121 ----- Neal S. Warren

Director, Western Service Center, Ogden,
 Utah, 84401 ----- Robert H. Terry
 Regional Counsel, 447 Sutter St.,
 San Francisco, Calif., 94108 -- Melvin L. Sears
 Regional Inspector, 1076 Mission St.,
 San Francisco, Calif., 94103 ---- Henry A. Feltz

Internal Revenue Service

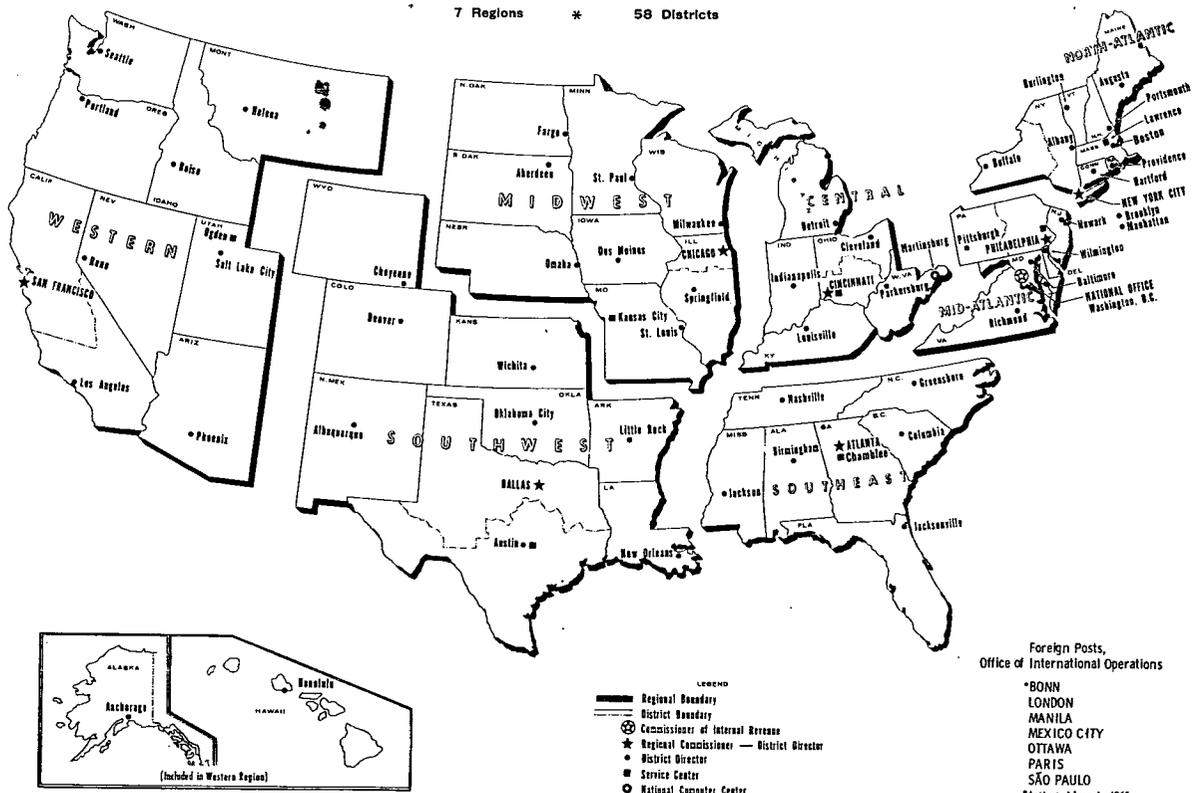
8 Regions * 58 Districts



Organization through December 31, 1964

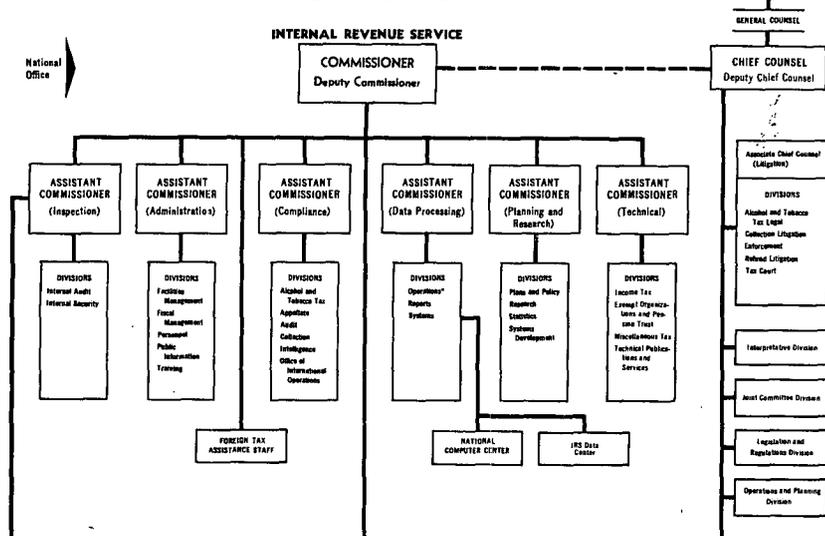
Internal Revenue Service

7 Regions * 58 Districts

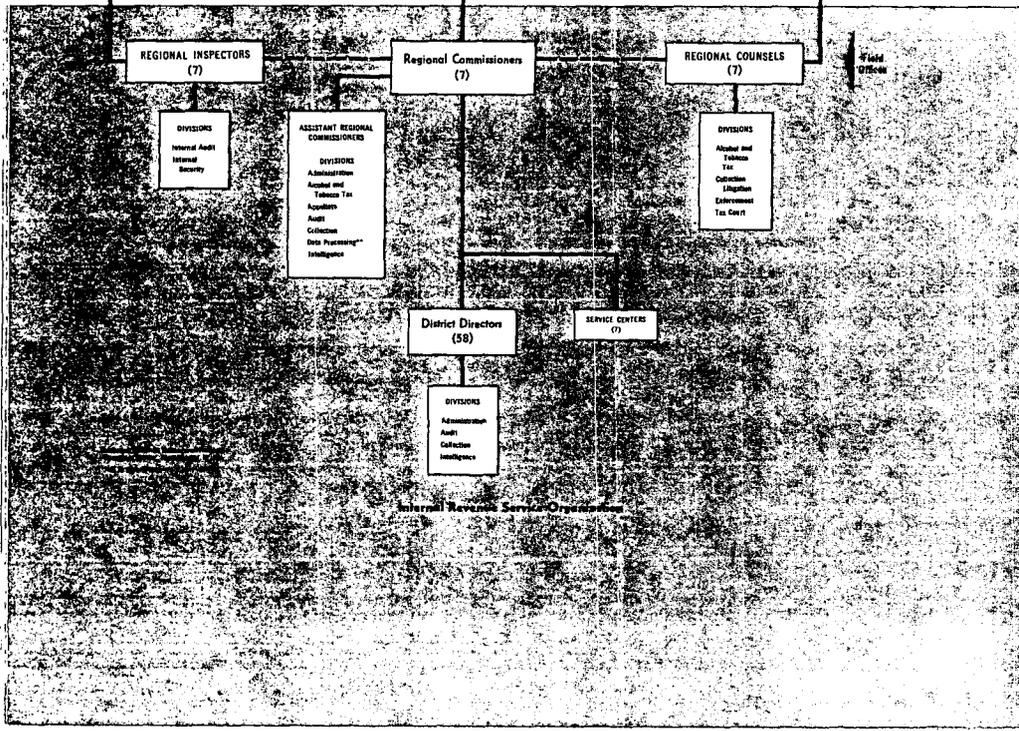


Organization effective January 1, 1965 (See page 63)

INTERNAL REVENUE SERVICE



Report on Operations



COMPARATIVE HIGHLIGHTS

	Millions		Percent change
	1964	1965	
Total Revenue	\$112,260.3	\$114,435.0	1.9
Excise	42.2	39.9	-5.1
Income	67,205.1	\$6,068.6	-15.8
Gifts	300.1	102.5	-2.7
Other	3.6	3.5	-4.1
Total Expenditures	\$2,205.6	\$2,629.9	5.0
Net Increase	\$1,322.2	\$1,312.9	-0.7
Operating Expenses	\$1,075.0	\$1,095.5	1.9
Net Operating Income	\$247.2	\$217.4	-12.1

Interpretation and Communication of Tax Law to Taxpayers

Chapter 1

INTRODUCTION

A well-informed taxpaying public is essential to voluntary compliance, the foundation of our unique self-assessment system. Therefore, the Service strives to foster voluntary compliance by making every effort to apprise taxpayers fully of their rights and obligations and by establishing to the maximum extent possible administrative practices and procedures for the convenience of taxpayers. Programs directed toward the accomplishment of these objectives include: publication of numerous tax guides covering a wide variety of separate tax situations; dissemination of information through news media by a broad public information program; providing direct personal taxpayer assistance in local offices; and the preparation and distribution of educational materials, tax forms and instructions, regulations, and rulings.

TAXPAYER PUBLICATIONS PROVIDE A MEANS FOR SELF-ASSISTANCE

Although detailed instructions are furnished with most tax return forms, the Service provides taxpayers with a further means of self-help in complying with the tax laws through a variety of special publications. An effective method for fostering voluntary compliance through a better informed public, these publications are written in nontechnical language and give information and guidance on practically all aspects of Federal taxation. Some are sold at a nominal cost but most are distributed free.

Revisions of the tax laws necessitated the development of several new taxpayer publications (bringing the total of those issued during the year to 68) as well as the expansion of many that have been issued regularly over the past several years. For example, the 1965 edition of *Your Federal Income Tax* contained a new chapter giving a detailed and comprehensive explanation of income averaging. A description and list of publications appear on pages 82, 83, and 84.

PUBLIC SERVED BY ACTIVE INFORMATION PROGRAM

Laws, Procedures Change: Taxpayers Informed

Major changes in the tax law and in administrative procedures led to a step-up in the volume and variety of information supplied to mass communications media during 1965. The Revenue Act of 1964, the Interest Equalization Tax Act of 1964, and the Excise Tax Reduction Act of 1965 (see p. 46) called for a coordinated public information program to inform individual and business taxpayers of their rights and responsibilities under the new laws.

The further extension of the automatic data processing system required special information programs to familiarize taxpayers with the system. Information programs on automatic data processing emphasized as a special feature an optional filing procedure available to individual taxpayers in the Southeast Region. Taxpayers were told through newspaper, television, and radio publicity that they could speed up their refunds by sending their returns direct to the service center at Chamblee, Ga., instead of to their district offices. The response was very substantial (see p. 15).

Articles, Films Explain Changes in Law

The changes resulting from the 1964 tax reduction law were emphasized in all materials distributed through the public information program to mass media during the income tax filing season. Issuances included news releases, magazine features, television and movie films, radio scripts and spot announcements. In addition, exhibits, displays and related items were prepared to augment filing season communication.

Several new programs were initiated in the National Office to make information materials more helpful and meaningful to taxpayers. Certain areas of frequent taxpayer error were emphasized in materials prepared for newspapers, magazines, radio, and television.

Eight Hundred Newspapers Use Tax Column

Most significant of the new techniques was the adoption of a newspaper question and answer column series to present tax information. This column was based on questions most often asked by taxpayers about the new law and other filing requirements.

Over 800 daily and weekly newspapers printed

the column twice a week between January and April. After the April 15 filing deadline, the frequency of the column was reduced to once a week and some 450 newspapers continued to run it for their readers.

Public information seminars were held for Service personnel in a number of districts before the filing season. These were helpful in improving information programs in the field since most of the personnel involved handle public information on a part-time or seasonal basis.

Media Inquiries Serviced

The National Office serviced about 34,000 requests for information from mass media representatives and other interested organizations during the year. Full cooperation was given to help assure accurate, complete coverage of tax information. Fact sheets were prepared for uniform, in depth coverage of significant matters.

The National Office issued 123 general news releases and 139 technical information releases during the year. In addition, the National Office prepared 310 items that field offices could adapt for use in local information programs. These included newspaper releases, radio announcements and scripts, and other information and news features.

Millions See Tax Films

To reach the mass audiences who watch television, the National Office prepared films for distribution to local stations. Seventeen films were in the form of 10-, 20-, and 60-second spot announcements covering the more important tax filing requirements. A 28-minute film, "Your Federal Income Tax," gave taxpayers a line-by-line explanation of individual income tax forms.

Over 500 television stations used the films as a public service. Three other documentary films—produced in prior years—were made available for showing to civic and other community groups.

Besides these films from the National Office, many live television programs on taxes were arranged by regional and district offices. These ranged from interviews with Service officials to panel discussions on the 1964 tax law and question and answer sessions. Over 275 public service hours were provided by television stations for these local productions.

Four 5-minute films were also prepared for showing on closed-circuit television at the New York World's Fair.

The National Office distributed a number of radio scripts for use by local offices. These, and locally-produced programs, were broadcast for a total of over 1,500 public service hours of radio time.

In 1965, for the first time, a series of 5-minute radio interview shows were taped and distributed to the field for placement with local stations.

The National Office also distributed taped radio shows in Spanish for use in areas of the country with large Spanish-speaking populations.

TAXPAYER EDUCATIONAL SERVICES WIDENED

Taxpayer educational assistance has been enlarged in most regions and now includes such activities as: Taxpayer assistance institutes, tax clinics, adult taxpayer education materials, educational television, farmers' tax education activities, professional and specialty group activities, ADP-taxpayer education, tax seminars, meetings with tax practitioners, small business tax problems, taxpayer education for aliens, and taxpayer assistance for Indians. Experience has indicated that, through a comparatively small investment of time and money, compliance understanding can be greatly increased through use of the cooperative services of, for example, the university extension services, the American Institute of Certified Public Accountants, and State public education departments.

The Teaching Taxes Program, aimed primarily at high school students, continues to grow. Nearly 3.5 million pupils participated this year.

TAXPAYER ASSISTANCE PROGRAM BROADENED

Over 25 Million Taxpayers Assisted

It is the policy of the Service to provide taxpayers with advice and assistance in fulfilling their Federal tax obligations.

The Taxpayer Assistance Program is a major factor in the development and extension of effective voluntary compliance. The program is designed to provide, on a year-round basis, the type and degree of assistance that will make it possible for taxpayers to fulfill their tax obligations with a minimum of inconvenience, and to provide this assistance by the most efficient and economical means possible.

Nationwide, more than 25 million taxpayers received assistance during the year. This is about 2 million more than last year. Of the total taxpayers assisted, 16.2 million were through telephone con-

tacts, an increase of 12.4 percent. Since telephone service is an effective method of providing assistance, as well as the least expensive for both the taxpayer and the Government, taxpayers were encouraged to obtain information by telephoning rather than by making a personal office visit.

For those 9 million taxpayers visiting Service offices, continued emphasis was given to the self-help method in which taxpayers themselves prepared the major part of their tax returns or forms.

To furnish this assistance required an expenditure of 1,298 man-years, an increase of 73 over last year. However, in line with the effort to reduce costs, the participation of higher-graded technical personnel in the assistance program has been substantially reduced without sacrificing the quality of assistance rendered. This has been accomplished by use of special training programs.

Taxpayer Assistor Positions Established

Since the institution of a new and broadened year-round Taxpayer Assistance Program 364 full-time taxpayer assistor positions have been authorized in 275 local offices throughout the Nation. It is further planned that taxpayer assistor positions will be made available to staff many more local offices on an itinerant basis.

The full-time taxpayer assistor position was established for the primary purpose of providing the public with quality assistance. Each assistor received specialized training that equips him to explain Federal tax obligations, and assist taxpayers in preparing their returns.

Further improvements in the Taxpayer Assistance Program are anticipated as a result of plans at the national level to test new concepts in the use of communication facilities, office furniture and space, assistance techniques, and filing period staffing requirements.

TAX RETURN FORMS PROGRAM ACTIVITY INCREASED BY NEW LEGISLATION

Due to the enactment of the Revenue Act of 1964 and the Excise Tax Reduction Act of 1965, wholesale revisions of tax returns and related instructions were made necessary. Reduction of the income tax rates alone required the revision of the tax rate tables of all income tax returns, both individual and corporation. The Excise Tax Reduction Act of 1965

INTERPRETATION AND COMMUNICATION OF TAX LAW TO TAXPAYERS

caused the elimination of one excise tax form and required the revision of several others.

In all, over 250 forms, instructions, and documents were revised or reviewed. Some of the more significant changes are indicated below:

Form 1040, U.S. Individual Income Tax Return, was rearranged so that it is now possible for an additional 4 million taxpayers who have interest and dividend income to complete their returns on a single sheet. Space provided on the new single sheet return makes it unnecessary for these taxpayers to file a separate "Schedule B" to account for dividends and interest. With the revised form it is estimated that 22 million of the 48 million 1040 filers now are able to complete their tax accounting to the Government on a 1-page return.

A significant addition to the face of the return and to the instructions makes provision for the new standard deduction established by the 1964 tax law. Other revisions take into account higher ceilings on charitable contributions and the retirement income credit, benefits for persons 65 and over on medical expenses and on sales of their residences, and extended deductions for moving expenses. Also provided for are the changes in the sick pay exclusion and the deduction for taxes paid, an increase in the dividends received credit, and an averaging system to moderate the effects of large annual increases in income.

Form 1120, U.S. Corporation Income Tax Return, as revised, now accommodates both calendar and fiscal year taxpayers. A Fiscal Year Schedule was added to Form 1120 and Form 1120 FY was discontinued.

Form 2119, Statement Concerning Sale or Exchange of Personal Residence, was redesigned in order to reflect the special provision available to taxpayers 65 and over on the sale or exchange of their residences.

Form 2106, Statement of Employee Business Expenses, was revised to incorporate an optional method for computing the automobile expense deduction. The optional method provides a flat rate per mile for automobiles used for business purposes.

Form 843, Claim, was revised by adding a schedule for the computation of the income tax refund requested by the taxpayer.

Five new forms were required to implement the Interest Equalization Tax Act. These and other new forms necessitated by legislative changes are listed on page 85.

TECHNICAL INTERPRETATIONS ARE COMMUNICATED TO TAXPAYERS IN A VARIETY OF WAYS

It is the practice of the Service to answer inquiries of individuals and organizations as to their status for tax purposes and the tax effects of their acts or transactions. One of the functions of the National Office is to issue rulings in such matters. Rulings are written statements issued to a taxpayer which interpret or apply the tax laws to a specific set of facts.

During the year, 31,255 requests from taxpayers for rulings and 3,090 requests from field offices of the Service for technical advice were processed. At the close of the year, 5,922 requests for rulings and technical advice were on hand, not including a relatively small number relating to alcohol and tobacco taxes.

In addition to the processing of requests for rulings and technical advice, 6,892 formal and informal technical conferences were held with taxpayers and their representatives.

An analysis of the rulings and technical advice requests processed, by subject matter, follows:

Requests for tax rulings and technical advice processed

Subject	Total	Taxpayers' requests	Field requests
Total.....	34,345	31,255	3,090
Income taxes.....	26,169	24,838	1,331
Employment and self-employment taxes.....	1,112	1,011	101
Estate and gift taxes.....	627	504	123
Alcohol and tobacco taxes.....	4,166	3,147	1,019
Other excise taxes.....	1,691	1,258	433
Engineering questions (depreciation, etc.).....	580	497	83

DETERMINATION LETTERS ARE ISSUED IN THE FIELD

Determination letters are issued by district directors in response to inquiries by individuals and organizations relating to exemption from taxation. In these letters relevant principles and precedents already announced by the National Office are applied to the particular facts involved.

Many determination letters are issued to authorize tax-exempt status for trust funds established under employee benefit plans. Information on this activity during 1965 is shown in the following table:

Determination letters issued on employee benefit plans

Item	Profit-sharing plans	Pension or annuity plans	Stock bonus plans
Determination letters issued with respect to—			
1. Initial qualification of plans:			
a. Plans approved.....	5,523	7,072	13
Participating employees.....	205,756	588,452	20,116
b. Plans disapproved.....	84	88	—
2. Termination of plans.....	510	471	3
Cases closed without issuance of determination letter.....	556	537	3

The tax benefits of employee pension and profit-sharing plans were extended to self-employed persons in 1963. Determinations issued during 1965 with respect to these plans are set forth in the following table:

Determinations issued on benefit plans for self-employed persons

Item	Profit-sharing plans	Pension plans	Bond purchase plans
Determinations issued with respect to—			
1. Initial qualifications of plans:			
a. Plans approved.....	3,083	5,290	796
Participating employees.....	4,661	8,360	977
b. Plans disapproved.....	20	53	15
2. Termination of plans.....	2	2	11
Cases closed without issuance of determinations.....	151	312	100

District offices issue determination letters to organizations seeking to establish exemption from Federal income taxes under provisions of the Internal Revenue Code which authorize a tax-exempt status for qualifying charitable, religious, educational, and other nonprofit organizations. During 1965, requests of this type resulted in 11,929 determination letters of approval and 717 of disapproval while 1,668 cases were closed without issuance of a determination letter.

Under established procedures taxpayers may appeal adverse field determinations relating to pension trust and profit-sharing plans. During the year 68 appeals were considered by the National Office. Of these, 34 appeals were decided in favor of the taxpayer, 31 were adverse to the taxpayer, and 3 were partially in favor of the taxpayer.

Revenue Rulings, Revenue Procedures, and Announcements Are Published in the Internal Revenue Bulletin

As part of the continuing program of publishing all substantive rulings and all internal procedures affecting the rights or duties of taxpayers, 321 Revenue Rulings and 45 Revenue Procedures were published in the weekly *Internal Revenue Bulletin* as follows:

Revenue Rulings and Revenue Procedures published

Type	Number
Total.....	366
Administrative.....	42
Alcohol and tobacco taxes.....	42
Employment taxes.....	3
Estate and gift taxes.....	2
Excise taxes.....	95
Income tax.....	181
Self-employment tax.....	1

The more significant Revenue Rulings and Procedures are summarized on page 86.

The Revenue Rulings relating to income tax included 24 which dealt with the exempt or nonexempt status of certain described organizations. This represented a significant increase over the number of such rulings published in prior years and was a result of the extensive program instituted in 1963 to improve administration and compliance in the exempt organizations area.

The *Bulletin* is also used to announce the issuance of proposed regulations relating to internal revenue matters and, periodically, to announce those decisions of the Tax Court of the United States in which the Commissioner does, or does not, acquiesce. In addition, 127 announcements of general interest were published during the year. Twelve listed the names of organizations to which contributions are no longer deductible under section 170 of the Code, and six announced tax administration agreements with the States of Maine, Michigan, North Dakota, Pennsylvania, South Carolina, and South Dakota. Five listed disaster areas in which losses qualify for the special tax treatment under section 165 (h) of the Code. Other significant announcements of general interest are described on page 87.

Advance Notice of Technical Changes Given to Alcohol and Tobacco Industries

Several Revenue Rulings and Revenue Procedures relating to alcohol and tobacco tax matters were published during the year. To insure timely dissemination of important technical information to members of the liquor and tobacco industries, six Industry Circulars announcing the substance of these Revenue Rulings and Revenue Procedures were issued in advance of publication in the *Bulletin*. In addition, three Industry Circulars, described on page 88, were issued calling the attention of the affected industries to the more significant operational changes resulting from enactment of Public Law 89-44.

REGULATIONS PUBLISHED IN THE FEDERAL REGISTER

Increased activity in the regulations program occurred during 1965. Eighty-five final regulations and 61 notices of proposed rulemaking were published in the Federal Register. In addition, 13 Executive orders were published. During the previous year 85 final regulations, 39 notices of proposed rulemaking, and 2 Executive orders were published.

Fifteen of the final regulations and nine notices of proposed rulemaking related to the Revenue Act

of 1964. Fourteen final regulations and six notices related to the Revenue Act of 1962. Several final regulations resulted from other Revenue Acts while others were written pursuant to administrative decisions. Three notices and eight final regulations were in connection with alcohol and tobacco tax administration.

Some of the more significant Treasury Decisions in which regulations were prescribed are described briefly on pages 85 and 86.

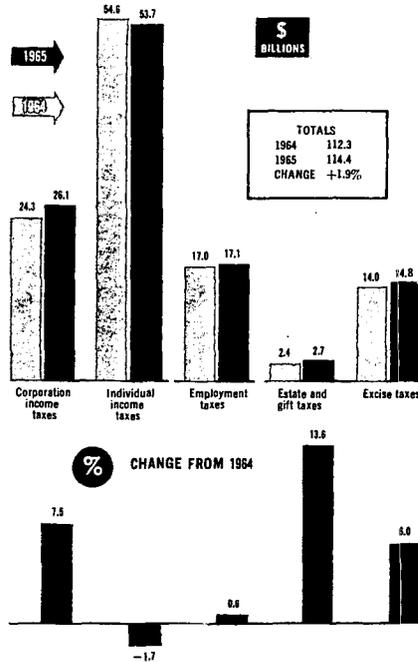
Chapter 2

Internal Revenue Collections, Refunds, and Returns Filed

RECORD \$114.4 BILLION COLLECTED

Despite substantial reductions in individual and corporation tax rates that prevailed throughout the year, gross collections in 1965 increased \$2.2 billion over 1964 and set an all-time record of \$114.4 billion. Administrative budget funds constitute over 75 percent of collections. These are the Government's general funds, used to finance the bulk of such Federal expenses as defense, space, public debt interest, and agriculture programs. Trust funds and

ALL MAJOR TYPES OF COLLECTIONS INCREASED EXCEPT INDIVIDUAL INCOME TAXES



amounts to be refunded account for the remaining revenues. The Internal Revenue Service makes continuing collections for these trust funds which are reserved by the Treasury Department for later payments on long-term commitments. For example, taxes collected from certain employees and employers are used to finance social security payments;

Federal gasoline taxes are applied to the interstate highway-building program as payments from the Highway Trust Fund. Other trust funds finance fish and wildlife preservation, inland waterways improvement, and various other special programs.

Gross collections for 1965 are shown in the table below by class of tax and compared with 1964:

Gross internal revenue collections
 (In thousands of dollars. For details see table 3, p. 114)

Source	Percent of 1965 collections	1964	1965	Increase or decrease	
				Amount	Percent
Grand total ¹	100.0	112,260,257	114,434,634	2,174,377	1.9
Income taxes, total.....	69.7	78,891,218	79,792,016	900,799	1.1
Corporation.....	22.8	24,300,863	26,131,334	1,830,470	7.5
Individual, total.....	46.9	54,590,354	53,660,683	-929,672	-1.7
Withheld by employers ²	32.2	39,258,881	36,840,394	-2,418,487	-6.2
Other ³	14.7	15,331,473	16,820,288	1,488,815	9.7
Employment taxes, total.....	14.9	17,002,504	17,104,306	101,802	.6
Old-age and disability insurance, total.....	13.8	15,557,783	15,846,073	288,290	1.9
Federal insurance contributions.....	12.9	14,571,187	14,815,855	244,668	1.7
Self-employment insurance contributions.....	.9	986,596	1,030,218	43,522	4.4
Unemployment insurance.....	.5	850,858	622,499	-228,359	-26.8
Railroad retirement.....	.6	593,864	635,734	41,871	7.1
Estate and gift taxes.....	2.4	2,416,303	2,745,532	329,229	13.6
Excise taxes, total.....	12.9	13,950,232	14,792,779	842,547	6.0
Alcohol.....	3.3	3,577,499	3,772,638	195,139	5.5
Tobacco.....	1.9	2,052,545	2,148,594	96,049	4.7
Other.....	7.8	8,320,188	8,871,547	551,359	6.6

¹ Collections are adjusted to exclude amounts transferred to the Government of Guam. For details see table 1, p. 105 and footnote 5, p. 116.
² Estimated.—Collections of individual income tax withheld are not reported separately from old-age and disability insurance taxes on wages and salaries. Similarly, collections of individual income tax not withheld are not reported separately from old-age and disability insurance taxes on self-employment income. The amount of old-age

and disability insurance tax collections shown is based on estimates made by the Secretary of the Treasury pursuant to the provisions of sec. 201(a) of the Social Security Act as amended, and includes all old-age and disability insurance taxes. The estimates shown for the 2 classes of individual income taxes were derived by subtracting the old-age and disability insurance tax estimates from the combined totals reported.

Pattern of Collections Altered by Income Tax Cut

Individual income tax collections dropped nearly \$1 billion between 1964 and 1965 to the total of \$53.7 billion. The amount withheld from wages fell \$2.4 billion because of the decrease in withholding tax rates. However, the increase in total collections confirmed the predictions expressed in the Revenue Act of 1964: "... the tax reduction provided by this Act, through stimulation of the economy, will, after a brief transitional period, raise (rather than lower) revenues. ..." Fiscal year 1965 was in the heart of that transitional period.

Corporation income taxes more than offset the decline in individual tax collections by increasing about \$1.8 billion in 1965. While the proportion of annual tax prepaid through estimated payments increased pursuant to the Revenue Act, the overall annual rate itself decreased. Accordingly, it seems

evident that gains in economic activity and revenue, confidently forecast at the time of the tax reduction, were already occurring with regard to the business community.

Changes in withholding and payments on income taxes during 1965 are shown in the following comparison with 1964:

Income tax collections for 1964 and 1965

(Thousands of dollars)

	1964	1965	Change	
			Amount	Percent
Individual—Withheld.....	39,258,881	36,840,394	-2,418,487	-6.2
Individual—Other than withheld.....	15,331,473	16,820,288	+1,488,815	+9.7
Total.....	54,590,354	53,660,683	-929,672	-1.7
Corporation.....	24,300,863	26,131,334	+1,830,470	+7.5
Total individual and corporation.....	78,891,218	79,792,016	+900,799	+1.1

Employment Taxes Reflect Increased Wages

Collections of employment taxes in 1965 generally showed increasingly healthy employment conditions. Only one decrease occurred (caused by a rate reduction in the unemployment insurance tax) in contrast to significant rises in Federal insurance contributions, self-employment insurance contributions, and railroad retirement taxes.

Effects of Excise Tax Cuts Not Apparent in 1965

Late in 1965 Federal legislation reduced or re-

pealed many different kinds of excise taxes (see page 46). The results of this reduction were not reflected in collections during 1965. Even though some excises are unaffected by the law, the changes should have profound effects next year, as excise taxes currently amount to about 13 percent of gross tax collections. The impact on collections will continue over an extended period of time as the new law provides for phased reduction of some tax rates over the next several years. For 1965, however, the \$14.8 billion collected represented a healthy increase of over 6 percent from 1964.

ADMINISTRATIVE BUDGET RECEIPTS

Source of Budget Dollar—1965

Total Receipts 93.1 billion



“Administrative budget receipts” represents the amount of total collections of the Federal Government available to finance the many operations and programs included in the annual budget. To arrive at administrative budget receipts, gross internal revenue collections, customs duties, and receipts from

miscellaneous sources are reduced by transfers to trust fund accounts, refund of collections, and inter-fund transfers. The following table reflects the source of gross collections, deductions, and administrative budget receipts:

INTERNAL REVENUE COLLECTIONS, REFUNDS, AND RETURNS FILED

Gross collections, deductions, and administrative budget receipts

(In thousands of dollars)

Source	Gross collections	Trust fund transfers	Refunds	Interfund transactions	Administrative budget receipts
Individual income taxes:					
Withheld.....	36,840,394				
Other.....	16,820,288				
Total.....	53,660,683		4,869,050		48,791,633
Corporation income taxes.....	26,131,334		670,389		25,460,945
Excise taxes:					
Highway trust funds.....	3,807,190	3,683,691	123,499		
Other.....	10,985,589		95,423		10,886,166
Total.....	14,792,779	3,683,691	222,922		10,886,166
Employment taxes:					
Old-age and disability insurance.....	15,846,073	15,654,383	191,690		
Railroad retirement.....	635,734	635,555	179		
Unemployment insurance.....	622,499	614,920	7,579		
Total.....	17,104,306	16,904,857	199,449		
Estate and gift taxes.....	2,745,532		29,369		2,716,164
Total internal revenue.....	114,434,634	20,588,548	5,991,177		87,854,908
Adjusted to conform with "Statement of Receipts and Expenditures of the U.S. Government".....		23,220			23,220
Adjusted total internal revenue.....	114,434,634	20,565,328	5,991,177		87,880,129
Customs.....	1,477,549		35,205		1,442,344
Miscellaneous receipts.....	4,622,352		3,162	869,865	3,749,325
Total.....	120,534,534	20,565,328	6,029,544	869,865	93,071,797

OVERPAYMENT REFUNDS DECLINED

Lower withholding tax rates resulted in less withholding and consequently, fewer individual income tax refunds were paid in 1965. The number fell from 40 million to 38 million, while all other kinds of tax refunds held constant for both years at about 2 million.

The lower withholding tax rates resulted in a reduction in the number of taxpayers whose taxes

were over withheld and consequently, the \$6.1 billion refunded in 1965 was more than \$1.1 billion below the 1964 figure. Interest paid on these refunds declined correspondingly, by \$11 million or 13 percent. The average refund check for all kinds of tax, overpayment and interest included, was \$152.03 compared to \$170.82 in 1964.

Refunds issued during the past 2 years are classified and compared by type of tax in the following table:

Internal revenue refunds, including interest

(For refunds by region and district, see table 5, p. 118)

Type of tax	Number		Amount refunded (Principal and interest—thousand dollars)		Amount of interest included (thousand dollars)	
	1964	1965	1964	1965	1964	1965
Total refunds of internal revenue ¹	42,166,709	39,316,251	7,203,078	6,958,596	88,502	77,419
Corporation income taxes.....	119,766	122,376	658,229	714,879	58,487	44,490
Individual income and employment taxes, total ²	40,682,373	38,440,692	6,088,691	5,097,226	24,801	28,728
Excessive prepayment (income tax) ³	39,700,892	37,345,272	5,886,385	4,855,851	10,068	10,870
Other income tax and old-age and disability insurance ⁴	946,552	1,049,652	196,939	223,435	14,629	17,676
Railroad retirement.....	146	195	367	189	(*)	9
Unemployment insurance.....	34,981	45,573	4,780	7,751	104	172
Estate tax.....	5,535	6,813	24,733	30,962	2,693	3,309
Gift tax.....	657	791	729	1,941	65	226
Excise taxes, total.....	1,363,978	1,345,579	220,696	223,587	1,056	666
Alcohol taxes ⁵	9,015	12,045	78,907	83,796		4
Tobacco taxes.....	1,141	1,039	4,075	6,728		
Manufacturers and retailers excise taxes, total.....	1,332,710	1,312,262	129,109	126,463	(*)	135
Gasoline used on farms.....	1,305,855	1,279,777	103,814	101,071		305
Gasoline nonhighway.....	24,400	28,211	21,822	22,429		
Other.....	2,355	4,574	3,473	2,864	135	305
All other excise taxes ⁶	21,111	20,233	8,605	6,601	893	357

¹ Revised.
² Figures have not been reduced to reflect reimbursements from the Federal Old-Age and Survivors and Federal Disability Insurance Trust Funds amounting to \$191,690,000 in 1965 and \$165,800,000 in 1964; from the Highway Trust Fund amounting to \$123,498,000 in 1965 and \$126,637,000 in 1964; and from the Unemployment Trust Fund amounting to \$7,609,000 in 1965 and \$4,291,000 in 1964.
³ Net of 58,817 undeliverable checks totaling \$4,165,000 in 1965 and 64,870 undeliverable checks totaling \$3,636,000 in 1964.

⁴ Includes refunds "not otherwise classified."
⁵ Includes drawbacks and stamps redemptions.
⁶ Includes narcotics, silver, wagering (excise and stamps), capital stock, and other excise tax refunds.
^{*} Less than \$500.

TAX RETURNS FILED INCREASED

Americans filed more tax returns in 1965 than in any prior year, as would be expected from our growing population and expanding economy. The total of all types of tax returns filed was 102.5 million. This was an increase of 2.4 million over the 100.1 million filed in 1964. Returns filed during 1964 and 1965 are categorized and compared in the table below:

Number of returns filed, by principal type of return
(Figures in thousands. For details, see table 6, p. 119)

Type of return	1964	1965
Grand total	100,066	102,485
Income tax, total	74,193	76,113
Individual and fiduciary, total	65,154	66,952
Individual-citizens and resident aliens, total	64,201	65,932
Forms 1040	46,536	48,158
Forms 1040A	17,665	17,774
All other individual and fiduciary	953	1,020
Declarations of estimated tax, total	6,104	6,197
Individual	6,077	6,166
Corporation	27	31
Partnerships	984	977
Corporation	1,367	1,420
Other	584	568
Employment tax, total	21,753	22,258
Employers' Form 941	15,331	15,483
Employers' Form 942 (household employees)	4,429	4,592
Employers' Form 943 (agricultural employees)	658	651
Railroad retirement, Forms CT-1, CT-2	21	22
Unemployment insurance, Form 940	1,315	1,510
Estate tax	87	94
Gift tax	107	122
Excise tax, total	3,925	3,899
Occupational tax	1,323	1,262
Form 720 (retailers, manufacturers, etc.)	2,287	2,289
Alcohol	23	23
Tobacco	11	10
Highway use tax	233	249
Other	47	66

Taxpayers' Requests for Filing Extensions

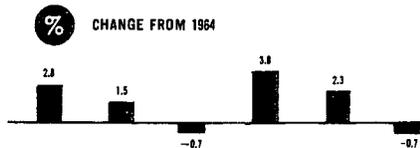
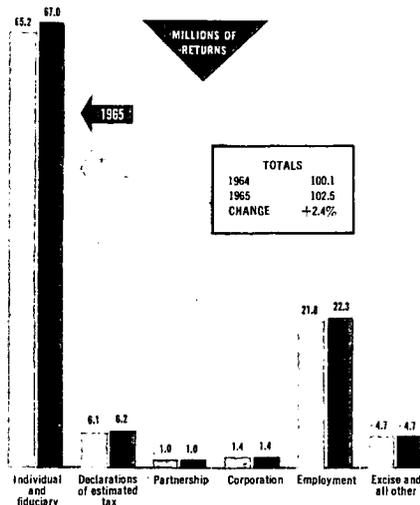
Almost one-half million individual taxpayers requested the Service to postpone their filing deadlines. Two-thirds of these requests provided valid reasons for granting the request. This approval relieved taxpayers of late filing penalties, but did not

relieve them of interest charges. In relation to the number of returns filed, postponements granted declined 12.5 percent compared to the previous year.

Information Documents Amplify Tax Data

About 340 million information documents were filed with the Service during the year. Almost two-thirds were employers' statements of wages paid and the remainder reported payments of dividends, interest, and various other items.

ALL MAJOR TYPES OF RETURNS INCREASED EXCEPT PARTNERSHIP AND EXCISE



Chapter 3

Automatic Data Processing

ALL BUSINESS TAX RETURNS AUTOMATED

In 1965, just 4 years after implementation began with a pilot operation in the Southeast Region, the Service's integrated automatic data processing (ADP) system became operational nationwide with respect to business returns. Under the integrated system, data is taken from tax returns and converted to magnetic tape on high-speed computers at seven Internal Revenue Service Centers. These tapes are then forwarded to the National Computer Center at Martinsburg, W. Va. where the data on them is entered on a master file. The master file is in two major segments, the Business Master File (BMF) and the Individual Master File (IMF).

INDIVIDUAL TAX RETURNS AUTOMATED IN TWO REGIONS

The service centers for two regions (Southeast and Mid-Atlantic) are successfully processing individual returns as well as business returns under the new system. The centers for the other Internal Revenue Regions (Central, Southwest, Western, Midwest, and North-Atlantic) will begin individual returns processing in 1966 and 1967. Thereafter, data from the Federal tax returns of all of the Nation's taxpayers, business and individual alike, will be recorded on the master file. In a very real sense, however, all taxpayers will be under ADP beginning on January 1, 1966, since all taxpayer transactions after December 31, 1965, will be shown on returns filed in 1967 and subsequent processing years.

DATA CENTER HANDLES NON-ADP MASTER FILE PROCESSING

Operating independently of the basic ADP system will be an IRS Data Center at Detroit, Mich. Beginning January 1, 1966, the Data Center will relieve the service centers of all data processing activities not directly related to the ADP master file.

WHY ADP?

During the last 30 years, and more particularly since the beginning of World War II, the national tax collecting job has grown at an unprecedented rate. The vast increase in economic activity, coupled with the enactment of increasingly comprehensive tax legislation, resulted in the Service's fundamental operating problem: that of attempting to carry on effectively its assigned returns processing and enforcement activities while the workload was increasing more rapidly than the resources for handling the job.

For example, the Service had roughly 12,000 employees in 1930. Although this number has now grown to something over 60,000 employees, the ratio of returns per employee during this period increased from about 500 to nearly 2,000. In other words, the volume of work increased about four times as rapidly as the work force. This, moreover, does not take into account increases in the various types of information reports and other documents handled.

During the past several years, the Service has followed two basic courses in its approach to resolving this workload problem: (a) increasing the efficiency of work performance, and (b) eliminating low priority operations. Although a number of procedural improvements have proven worthwhile, only the adoption of mechanized processes has given promise of more than limited relief to the Service's fundamental problem.

AN ADP SYSTEM EVOLVES

The first true step toward mechanization in the Internal Revenue Service occurred in 1948. This year marked the beginning of the installation of punched card equipment in the larger offices. Since this laborsaving equipment required a large-scale operation, the Service began testing the centralization of returns processing in 1955. An Internal Revenue Service Center was established on a test basis at Kansas City, Mo., followed by one in Lawrence, Mass., in 1956, and another in Ogden, Utah, in 1957.

This program of centralized processing, which began so modestly with just over 1 million returns, increased at the rate of about 10 million returns annually over the next 5 years. By 1961 the three centers were processing the bulk of the Nation's individual income tax returns and also doing other work which was susceptible to mass processing.

These other operations included the sorting and handling of over 330 million information reports on wages, dividends, interest, etc., and the addressing and mailing of approximately 140 carloads of tax return forms.

During the period from 1955 to 1961 the Service gradually updated its equipment and transformed what had started as a punched card system to one which utilized magnetic tape and the latest high-speed computers. This course, primarily that of machine substitution for manual processes, could not solve the Service's long-range processing problem. It was clear that a system was needed which would permit the performance of functions which were not possible or economically feasible with conventional manual or machine processing. This need formed the basis of the development of the ADP plan, which has been characterized as a natural, though dramatic, step forward in the Service's mechanization program. The ADP plan, featuring a master taxpayer file, a taxpayer numbering system and increased centralization of processing, contemplated the utilization of the special characteristics of modern electronic data processing equipment not only to aid in strengthening enforcement and revenue producing operation, but to provide more direct benefits to the taxpayer.

Centralization does not extend to activities such as taxpayer assistance, audit, and collection. These operations and others requiring frequent taxpayer contact will continue to be performed locally. In fact, by being relieved of the routine paper handling functions, local offices should be in a position to devote more time and attention to their duties in these areas of operations.

IMPLEMENTATION IN FULL SWING**In the Southeast Region**

The Southeast Region was selected for the pilot installation of the system, and service center operations began in Atlanta on January 1, 1962. After successfully processing business returns for the district offices in the Southeast Region in 1962, the center undertook the more voluminous task of processing individual returns in 1963. From the beginning it was apparent that a really efficient and economical regional operation would be dependent upon returns being filed directly with the service centers. After 3 years experience in processing business returns, and 2 in processing individual returns, the Southeast

Service Center was ready to test the direct filing plan. Beginning January 1, 1965, taxpayers in the Southeast Region were given the option of filing their individual income tax returns directly with the center if they were to receive a refund. About 4.3 million taxpayers in the seven-State area exercised this option. This test proved that mail opening and other preliminary processing operations can be performed more economically at the centers. Savings of nearly \$50,000 were realized and taxpayers received their refunds a few days earlier. The option will be continued in the Southeast Region and extended to the Mid-Atlantic Region in 1966.

In the Mid-Atlantic Region

The service center for the Mid-Atlantic Region, capitalizing on the experience gained in the pilot installation, began processing business returns under the new system in January 1963, and was phased into individual return processing on January 1, 1965. Taxpayers in the Mid-Atlantic Region will be given the option of filing refundable income returns directly with the service center in the 1966 filing period.

In Other Regions

Service centers for the Central and Southwest Regions began processing business returns on January 1, 1964. The centers for the Western, North-Atlantic, and Midwest Regions began processing these returns on January 1, 1965, thus completing installation of the system for business returns nationwide. The Central and Southwest Service Centers will begin processing individual returns January 1, 1966, with the North-Atlantic and Midwest Service Centers following in 1967. The Western Service Center is scheduled to begin processing 35 percent of the total volume of individual returns for the Western Region in 1966, with the remaining 65 percent, from the Los Angeles and San Francisco Districts, following in 1967. Similarly, the Central Service Center will process all individual returns with the exception of those from the Detroit District in 1966. Detroit will be included in 1967.

ADP PROVIDES MANY BENEFITS**ADP Benefits Taxpayers**

The system, although aimed at enabling the Service to keep pace with its ever expanding workload and to do a more complete job in the enforcement

area, also provides advantages to the taxpayer. The centralized file, updated periodically with the filing of new returns, enables the Service to keep abreast of the current address of each taxpayer. Thus, undelivered refund checks may be made available to taxpayers who have moved without leaving a forwarding address. Also, through positive identification of taxpayers by name and identifying number, they may be certain that their payments are credited to their accounts and not to those of taxpayers with similar names. Incorporating the results of prior audits and other transactions obviates the necessity for making repetitive request for the same information from the taxpayer. For example, an exemption once substantiated should not be questioned in the next filing period. Most important, however, is the assurance to the conscientious taxpayer that the overall tax burden is fairly distributed through the facility which the system provides for identifying those few who would evade their obligations.

ADP Identifies Taxpayers Who Don't File Their Returns

Under ADP, the delinquency check is performed by comparing the recorded returns filed against the filing requirements in each taxpayer's account in the master file. For businesses, the system is little more productive than the manual procedure previously employed since the business population is small and manual delinquency checking was not altogether impractical. Computer checking has proven, however, to be faster, easier, and somewhat more comprehensive. Results of the BMF check for 1965 are as follows:

Number of notices of nonreceipt issued.....	1,011,366
Number of delinquent return investigation notices issued.....	583,749
Number of delinquent returns secured.....	396,915
Dollar value of returns secured.....	\$83,289,000

The full potential of the system for detecting failures on the part of individuals to file will not be realized until the system is fully installed. A delinquency check by computer process however, was made in the Southeast Region in 1964. Results to date show that 14,000 delinquent returns were secured. The total tax shown on these returns was \$2.2 million, of which \$2.1 million was prepaid through payments of estimated tax and withholding of income tax at the source on wages. The returns procured were about equally divided between balance due and refundables. Over \$600,000 in additional taxes was reported and over \$500,000 was claimed for refund.

Automatic Data Processing in the IRS



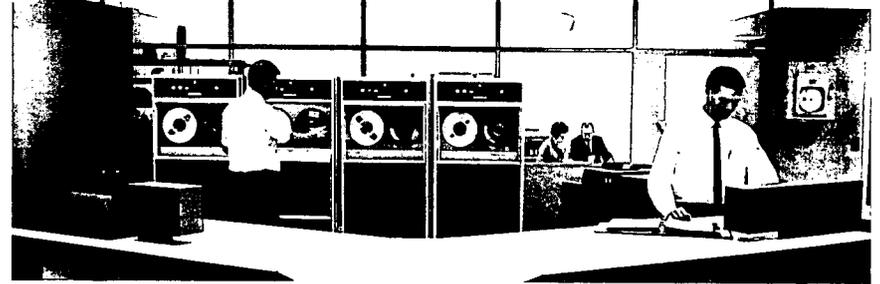
SERVICE CENTER EMPLOYEES SORTING AND ROUTING MAIL. Most tax returns and related documents come from district offices to service centers for processing. This picture shows the initial step in such processing—the mail opening and sorting operation.



TAX EXAMINERS REVIEWING RETURNS TO BE PROCESSED. To insure prompt and accurate processing of returns by computer, Tax Examiners review them before transcription of data into punched cards.



DATA ON RETURNS BEING PUNCHED INTO CARDS. Identification information and data from returns and related documents must be put into machine-readable form. Here one can see a typical service center keypunching operation during the returns-filing season.



COMPUTER CONVERTS DATA FROM CARDS TO TAPES. Computers at the service centers convert tax information from punched cards to magnetic tape, essential for high speed processing required by IRS workload.

TAPES FROM COMPUTER CENTER PRODUCE PRINTOUTS IN THE SERVICE CENTER. Service centers are involved at both ends of the stream of information from and to taxpayers. With such equipment as high speed printers, data which has been processed on magnetic tape can be converted to readable form, and subsequently communicated to taxpayers and tax administrators.



HUB OF THE SYSTEM IS LARGE COMPUTERS AT THE NATIONAL COMPUTER CENTER. The complexities of modern tax administration require equally complex machinery. In one centralized facility, each taxpayer's account is maintained, up-dated, and a variety of transactions involving it generated.



Consequently both the Government and taxpayer benefit. Some 80,000 cases involving persons apparently liable for filing remain to be completed through followup action by enforcement personnel.

Extended Mathematical Verification Produces Increased Revenue

The full potential of verifying the mathematical accuracy of returns is being realized for all business returns and for the individual returns of taxpayers in the Southeast and Mid-Atlantic Regions. These returns were mathematically verified to some extent prior to ADP, but the new system provides the facility for doing a much more comprehensive job, particularly of Forms 1040. In general, it could be said that under the old system only the computation of tax liability was verified on Forms 1040. It has been conservatively estimated that a net additional revenue yield of \$9.5 million was realized from the expanded mathematical verification of these returns in the Southeast and Mid-Atlantic Regions in 1965.

Computers Check on Outstanding Accounts Before Refunding

Operations in Atlanta since 1962 have illustrated that the system is effectively identifying outstanding accounts prior to refund. Reports covering 1965 indicate that 149,786 overpayments (including undelivered refund checks)—aggregating approximately \$22.9 million—were offset against other tax liabilities against the same taxpayers. With the extension of the Individual Master File to the Mid-Atlantic Region in 1965, the offset operation will also be effective with respect to individual returns filed in this Region in 1966.

New System Halts Duplicate Refunds

On the potential of the system for detecting and preventing duplicate refunds, 139,000 of duplicate filing cases were found during the processing of individual income tax returns in the Southeast and Mid-Atlantic Regions in 1965. While a number of these were instances where the taxpayer had filed an amended return, others represented filing errors on the part of taxpayers. A small number represented attempts to take advantage of the Government. The important thing, however, is that the computers automatically reject subsequent returns and identify them for investigation prior to making any refund, thereby avoiding costly recovery action. Under the old system a manual matching of index

cards was made long after the refunding operation was over and costly procedures to recover the refunds erroneously allowed had to be instituted.

The ADP master file system will not be fully effective in preventing duplicate refunds until after the Individual Master File is complete, embracing all filers in the Nation. In the interim, multiple-refund cases are being detected through use of a National Identity File, which is a tape file of individual taxpayers established during the course of processing returns filed in regions not yet fully under ADP.

A check of the National Identity File during 1965 identified nearly 221,000 returns where initial review indicated two or more were filed by the same taxpayer. Almost \$3.4 million was realized from 109,243 cases of multiple filing as compared to \$2.7 million from 103,477 cases during 1964. The majority of these cases result from taxpayer error caused by misunderstanding of filing requirements.

Maximum Use of Dividend, Interest, and Wage Reports is in Offing

Approximately 340 million information reports are received each year from individual taxpayers and from savings institutions, businesses, and employers reporting payments of interest, dividends, wages, etc., to investors and wage earners. These documents have been of rather limited use to the Service in the past because of their sheer volume and the time it takes to make a manual match of data appearing on them with the figures reported by taxpayers on their returns. Introduction of computers, coupled with the tax account number and master file operation, offers processing capabilities not previously available. In the Southeast Region tests are being conducted to derive information and experience for obtaining maximum value from these documents. Not only has the test been productive from a revenue standpoint, the results will also serve as a basis for making informed judgments on procedures that should be followed and potential yield estimates.

ADP Makes Complete Verification of Estimated Tax Credits

The facility of the system for doing a better and more complete job of assigned tasks is illustrated by the fact that all credits for payments of estimated tax claimed by individuals in the Southeast Region on their 1963 income tax returns, and by individuals in the Southeast and Mid-Atlantic Regions on their 1964 income tax returns were verified in the returns processing operation. Heretofore such verification

was made by manual methods and, of necessity, on a sample basis.

About \$11.4 million in revenue were produced as a result of verification during 1965.

The ADP system also facilitated the identification of taxpayers in the Southeast Region who underpaid their estimated taxes. Approximately \$1.5 million in additional charges for failure to make adequate and timely payments of estimated taxes were assessed in 1965. This program is being extended to taxpayers in the Mid-Atlantic Region in 1966.

ADP Brings About Increase in Voluntary Compliance

Because of the difficulty of determining motivation in cases of disclosure, the amount of revenue realized from taxpayers whose fears of being caught by the system have resulted in the filing of delinquent and amended returns cannot be accurately measured. However, since January 1, 1962, a total of \$5.2 million in previously unreported taxes has been realized from taxpayers who have specifically indicated that they were filing delinquent and amended returns because of fear of detection by the ADP system.

INNOVATIONS SAVE MONEY

Numerous operational improvements were initiated in the ADP area throughout the year which brought about substantial savings and increased efficiency. Briefly, these included: (1) A new system which transfers data directly from magnetic tape to microfilm at speeds 15 times faster than printing on paper; (2) a two-part "piggyback" mailing label affixed to individual and corporate return forms for

taxpayers to place on returns to be filed; (3) a computerized tape library system which permits better utilization of existing tape inventories by releasing for reuse all tapes upon expiration of the prescribed retention period; (4) key punching whole dollars only and discontinuing key verification of certain Forms 1040 and 1120 tax returns data; and (5) purchase instead of lease of several computers and support equipment. A full description of these and other management improvements may be found in chapter 9, Management Activities.

SOME VITAL STATISTICS ON ADP

With the addition of the Mid-Atlantic Region, the Individual Master File now contains approximately 18 million accounts. During the year, some 19 million returns and estimated tax declarations were posted to these accounts. These totals for the Southeast and Mid-Atlantic Regions represent approximately 26.4 percent of individual income tax returns and declarations filed nationwide.

The Business Master File, with the addition of accounts for the Western, North-Atlantic and Midwest Regions, now contains over 5 million taxpayer accounts for Forms 941, 720, CT-1, 1120, and 940 filers. In the first half of the year, when only four regions were on the BMF, nearly 4,200,000 returns and declarations of estimated tax were posted to the file. Over 8,450,000 returns were posted during the second half for a total of 12,650,000. This total can be expected to grow as more types of returns and documents are brought within the scope of ADP processing.

Chapter 4

Enforcement Activities

INTRODUCTION

Through enforcement activities the Service seeks to assure that all taxpayers pay their just share—no more and no less than the law requires. The taxpayer's confidence that the Service is indeed enforcing the tax laws in a fair and even-handed manner is essential to voluntary compliance, the foundation of our self-assessment system. Consequently, a substantial portion of the resources available for the administration of the tax laws is expended on activities such as the examination of returns, correction of errors in tax liability on returns voluntarily filed, investigation of tax fraud, collection of delinquent accounts and securing of delinquent returns, and enforcement of the laws relating to firearms, alcohol, and tobacco products. The Service also administers a taxpayer appeals system, processes legal cases involving criminal prosecution and civil litigation, and conducts a Federal-State information exchange program.

FEWER RETURNS MATHEMATICALLY VERIFIED BUT YIELD INCREASED

Almost 63 Million Returns Verified

During 1965, 62.9 million individual income tax returns filed on Forms 1040 and 1040A were mathematically verified, a decrease from the previous year of half a million returns, or 0.9 percent. Due to accelerated processing during January-June 1964, only 7.8 million returns remained to be processed during July-December 1964, compared to 10.5 million returns which remained to be processed during the corresponding period in the prior year.

A 2.2-million increase in returns verified was recorded for the second half of this fiscal year over the same period last year. This increase is due in part to a 2.7-percent increase in the number of returns filed, and in part to the implementation of ADP processing of individual income tax returns in a second service center. Effective January 1, 1965, the

1964 tax year returns filed by taxpayers in the Mid-Atlantic Region were processed under the ADP system at the service center in Philadelphia. This center, along with the Southeast Service Center (in its third year under the Individual Master File), accounted for 15.1 million, or 24 percent of the total number of returns verified during the year. The significance of mathematical verification under ADP procedures is recognized in the additional net yield accruing from this operation, primarily for Forms 1040. (See ch. 3, p. 18 for a more complete discussion of mathematical verification under ADP.) Of the returns verified by ADP this year, 10.4 million were Forms 1040. The potential yield from verification of these returns is \$26.9 million (\$2.59 per return) compared with \$17.5 million (\$1.68 per return) if the verification had been accomplished under non-ADP procedures.

Net Yield Was \$99.9 Million

The net yield represents the potential additional revenue accruing to the Government as the result of

the mathematical verification process. It can be defined as the difference between the amount of taxpayer errors resulting in increased revenue and the amount of taxpayer errors resulting in decreased revenue. This year 3.9 million taxpayer errors were discovered during the verification process, an increase of 49 percent over last year, while the \$99.9 million in net yield exceeded last year by only 7.6 percent. The increase in errors is due primarily to the failure of individual taxpayers to take advantage of the standard deduction providing them the greatest tax advantage. This may be because the minimum standard deduction was available for the first time with respect to 1964 returns. Of the additional 1.3 million errors uncovered by mathematical verification this year, 25 percent represent returns in which the taxpayer undercomputed his tax liability (increase error), and 75 percent represent returns in which the taxpayer overcomputed his tax liability (decrease error). The amount of net yield resulting from mathematical verification of Forms 1040 and 1040A is indicated in the table below:

Individual income tax returns mathematically verified

Item	Total		Form 1040		Form 1040A	
	1964	1965	1964	1965	1964	1965
	thousands					
Number of returns verified.....	63,414	62,879	46,610	47,174	16,804	15,705
Number of returns on which changes were made..... do.....	2,588	3,856	1,882	2,412	706	1,444
Returns with increase:						
Number..... do.....	1,666	1,980	1,216	1,456	450	524
Amount..... thousand dollars.....	165,501	194,086	127,473	149,809	38,028	44,277
Returns with decrease:						
Number..... do.....	922	1,876	666	956	256	920
Amount..... thousand dollars.....	72,639	94,194	51,355	61,138	21,283	33,056
Net yield:						
Total..... do.....	92,862	99,892	76,118	88,671	16,745	11,221
Average per return verified..... dollars.....	1.46	1.59	1.63	1.88	1.00	0.71

SUCCESSFUL AUDIT PROGRAM CARRIED OUT

Careful Returns Selection is Basic

Selection of those returns most in need of examination is fundamental to a successful audit program. Selection is basically the visual scanning and identification of returns reflecting the greatest tax error potential. These error characteristics, also known as selection criteria, have been determined largely through experience and scientific sampling studies.

Selection for audit is made from all types of returns to insure adequate examination coverage in each tax area. From the 68.6 million individual, corporation, estate, and gift tax returns filed, approximately 21.9 million were classified in 1965, and

3.0 million of these returns were selected for examination.

As ADP is extended to more regions, it is anticipated that much of this work will be programmed for and performed by computers. In the prerefund audit program, which is designed to screen out returns which do not appear to justify refunds claimed, computer assistance in selection of returns for examination was used in 1965 in the Southeast and Mid-Atlantic Regions.

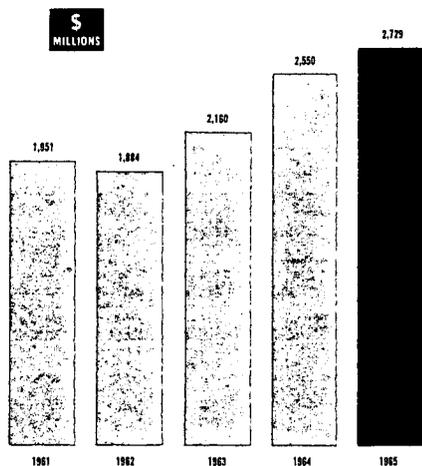
Continued Emphasis Placed on Quality Audits and Improved Techniques

An integral factor in the field examination program in fiscal year 1965 was continuation of the

emphasis on qualitative concepts initiated in previous years. Because of the steadily increasing number of higher income individual returns and more complex corporation returns filed, a greater proportion of the field audit manpower had to be allocated to the examination of these more difficult and complex returns. Although the result was an increase in examination time per return, it was accompanied by the largest amount of additional tax and penalties recommended in any fiscal year.

Considerable effort was directed to improving examination techniques used on returns of the relatively few very large corporations. The Service continued to improve and expedite examination of these returns. A technique employed to a greater extent was the assignment of a team of experienced revenue agents to the examination of large complex corporations.

ADDITIONAL TAX AND PENALTIES RECOMMENDED
Reflects three year rising trend in total



Additional Tax and Penalties Recommended Increased

District audit divisions recommended \$2,729 million in additional tax and penalties for returns examined in 1965. This was an increase of \$179 million over the previous record dollar recommendations of \$2,550 million in 1964. Gains of \$149 million and \$47 million occurred in the individual and corporation tax areas, respectively. The estate, gift, excise, and employment tax areas showed a net decline of \$15.9 million.

Public Law 88-563, Interest Equalization Tax, approved September 1964 imposed an excise tax on the acquisition by American citizens of certain foreign securities from a foreign person. Prompt enforcement efforts were initiated by the Service, and during the year \$2.1 million in additional tax and penalties were recommended for interest equalization tax returns examined.

Average additional tax and penalties recommended per examined field audit return rose 9 percent; from \$3,014 in 1964 to \$3,288 in 1965. Field audit average additional tax and penalties recommended per examined individual and fiduciary return rose 26 percent and the corporation average recommendation per return rose 3 percent.

Number of Examinations Decreased

The 3.5 million returns examined during the year represented a decrease of 4.1 percent from 1964. The majority of this decrease occurred in returns examined by office audit techniques—correspondence or office interview. This decrease in office audits was planned with a view to achieving a more balanced program and provided for a shift from the examination of low income nonbusiness returns to the examination of higher income nonbusiness returns and small business returns. The number of examinations by type of return was as follows:

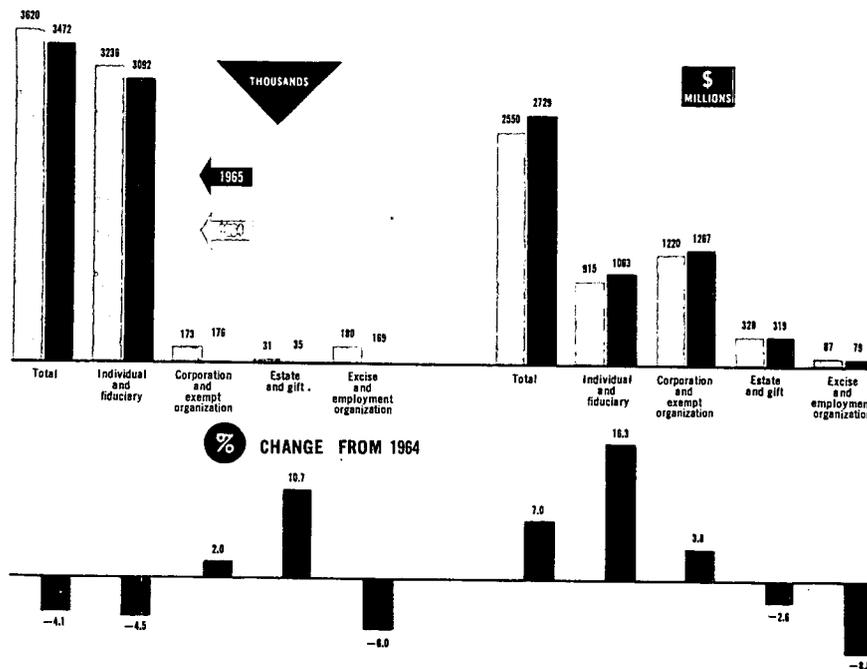
Number of tax returns examined
(Figures in thousands)

Type of return	Total		Field audit		Office audit	
	1964	1965	1964	1965	1964	1965
Grand total.....	3,620	3,472	762	1,756	2,858	2,716
Income tax, total.....	3,409	3,268	586	584	2,823	2,684
Corporation.....	163	164	161	162	2	2
Individual and fiduciary.....	3,236	3,092	416	410	2,820	2,682
Exempt organization.....	10	12	10	12	(1)	(1)
Estate and gift tax.....	31	35	29	32	3	3
Excise and employment tax.....	180	169	147	140	33	29

¹ Less than 500.
² Includes 623 interest equalization tax returns examined.

NUMBER OF TAX RETURNS AND ADDITIONAL TAX AND PENALTIES RECOMMENDED

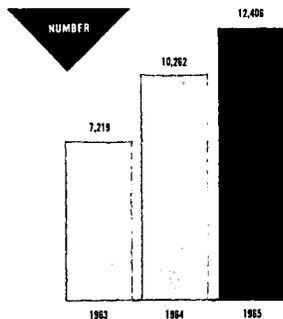
Examinations declined due to planned shift to more complex returns—amount recommended increased



No Change Rate Relatively Stable

Not all returns examined result in the recommendation of additional tax by the examiner. For some returns, examination results in the determination that the taxpayer has overstated his tax liability. For a substantial number of returns no change in the reported tax liability is recommended by the examiner. During the year 1.3 million, or 38 percent, of the returns examined required no adjustment in tax liability. A slightly smaller number and percentage (37 percent) of examined returns resulted in no change in 1964.

RIISING TREND IN EXAMINATION OF EXEMPT ORGANIZATION RETURNS



Exempt Organizations Given Continuing Emphasis

There are at present several hundred thousand tax

exempt organizations with probably over one-half million additional subsidiary organizations.

The Service in recent years expanded its exempt organization audit program, developed specialized training programs, and instituted studies into tax abuses in this area. Data processing techniques are also being applied to improve compliance and to provide a master file of exempt organizations.

During the year, there were 12,406 exempt organization returns examined, an increase of 2,144 over last year. Additional tax and penalties recommended totaled \$36.7 million of which \$33.8 million was attributable to the revocation of the exempt status of 123 organizations. In the prior year, recommendations totaled \$13.9 million with \$11.3 million attributable to the revocation of the exempt status of 316 organizations.

Claims for Refund

District audit divisions completed action on 388,133 claims for refund of taxes. The total amount claimed was \$392.1 million of which \$192.1 million was allowed and \$200.0 million disallowed. In addition, 5,022 claims with an amount claimed of \$92.0 million were unagreed and forwarded to appellate divisions for further consideration.

Of the total number of claims, 83.5 percent involved individual and fiduciary tax returns. Of the total amount claimed, 54.8 percent was from corporation returns and 29.9 percent from individual and fiduciary. The following table shows a detailed comparison of the number and amounts involved during the past 2 years.

Claims for refund disposed of by district audit divisions, fiscal years, 1964 and 1965

Class of tax	Closed by audit divisions							
	Number		Amount (thousand dollars)					
			Claimed by taxpayer		Allowed		Disallowed	
	1964	1965	1964	1965	1964	1965	1964	1965
Total	375,288	388,133	495,077	392,100	177,165	192,132	317,911	199,967
Individual income	311,636	325,987	115,083	134,024	79,845	93,080	35,238	40,944
Corporation income	31,256	28,933	331,169	215,505	79,028	83,880	232,140	131,625
Estate	1,908	1,760	22,691	18,352	6,944	6,504	16,147	11,748
Gift	243	339	872	1,540	255	408	617	1,132
Excise	16,669	14,465	21,008	18,836	8,965	6,108	12,043	12,727
Employment	13,876	16,649	4,254	3,843	2,528	2,052	1,726	1,791

Claims for refund disposed of by district audit divisions, fiscal years, 1964 and 1965—Continued

Class of tax	Protested—transferred to appellate divisions							
	Number		Amount (thousand dollars)					
			Claimed by taxpayer		Recommended by audit divisions			
	1964	1965	1964	1965	Allowed		Disallowed	
Total	4,397	5,022	149,501	91,990	3,512	7,180	145,989	84,810
Individual income	1,981	2,314	10,042	10,668	566	905	9,476	9,763
Corporation income	1,201	1,391	134,539	49,631	2,722	6,125	131,817	43,506
Estate	90	137	3,035	4,678	134	76	2,801	4,602
Gift	38	34	263	1,277	14	29	245	1,246
Excise	744	753	1,388	25,184	44	29	1,344	25,135
Employment	343	393	234	572	32	16	202	556

Many Overassessments Are Disclosed Upon Audit

District audit personnel determined that a total of \$145 million in taxes had been over reported by taxpayers exclusive of amounts determined to be allowable on the basis of claims for refund. Corporation income tax accounted for 58.2 percent of the overassessments. The following table shows the amount of overassessments recommended by major type of tax:

Overassessments of tax exclusive of claims for refund

Type of tax	Amount recommended (thousand dollars)	
	1964	1965
Total	142,564	144,577
Individual and fiduciary income	50,510	47,052
Corporation income	80,834	84,133
Estate	9,731	11,145
Gift	327	604
Excise	866	1,221
Employment	296	422

District Office Conference Procedures Revised

The Service has long been alert to its responsibility to provide meaningful procedures that will permit resolution of disputed issues at the earliest possible time. Procedures for informal conferences at the district office level were established in 1952. In 1956, the position of Conference Coordinator was established in each district office. Further revisions were instituted in 1960 when taxpayers were offered a conference with an independent conferee. Finally, an exhaustive study of the informal conference activity resulted in recommendations which were implemented in 1965.

Under the new conference procedures, the examining officer prepares a full report for study by a Review Staff prior to the issuance of a conference

invitation to the taxpayer. Except under unusual circumstances, the examining officer is not present at the conference. The taxpayer may still resort to other established avenues of appeal if resolution cannot be achieved at the district level.

APPEALS PROVIDED FOR BY FORMAL PROCEDURES

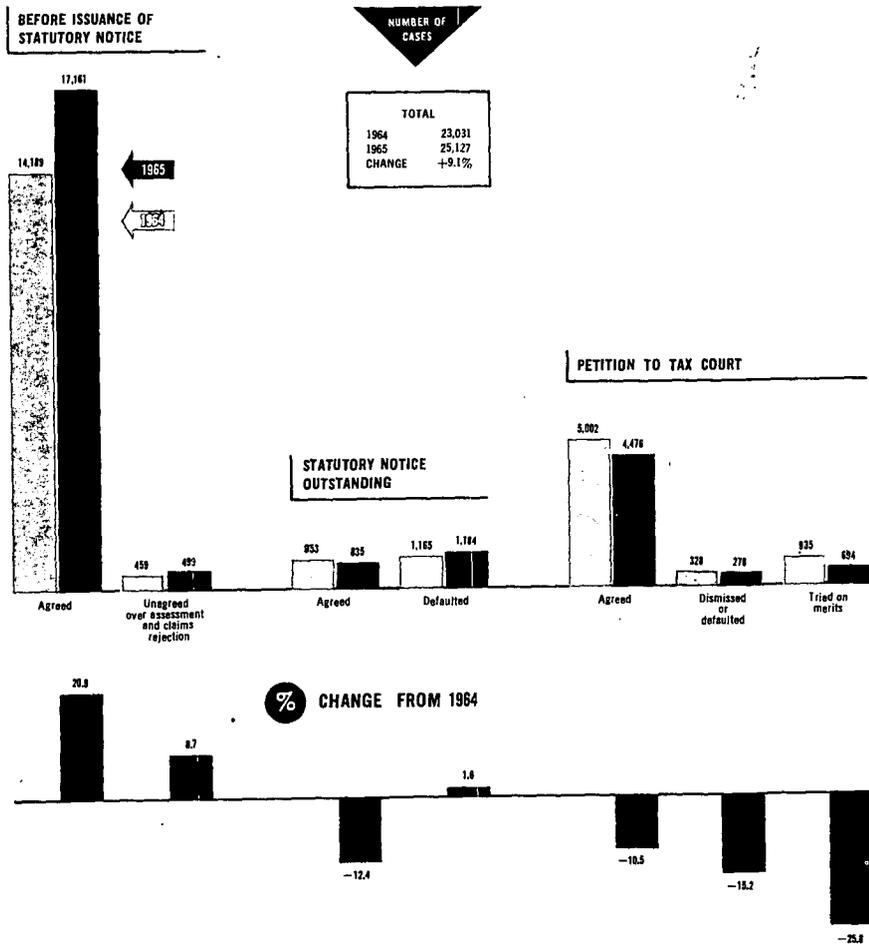
Taxpayer May Obtain Independent Administrative Review

The primary purpose of the appeals procedure is to provide a taxpayer with the opportunity to obtain promptly an independent administrative review of his case when he does not agree with a proposed adjustment to his tax liability.

The appeals function operates at both district and regional levels. The audit divisions of the district directors' offices and the appellate divisions of the regional commissioners' offices handle appeals on overassessments as well as deficiencies involving all internal revenue taxes except those on alcohol, tobacco, firearms, narcotics, and wagering.

A taxpayer who does not agree with the findings of the examining officer may file a protest and request a conference in the audit division of the district director's office. In the event an agreement is not reached at the district level, he may ask that the appellate division of the regional office consider his case. If an agreement cannot be reached at the appellate division level on a proposed deficiency in income, estate, or gift tax, the taxpayer may file a petition with the Tax Court of the United States for a redetermination of his tax liability. Conference opportunities are available in appellate divisions even after a case has been docketed in the Tax Court.

APPEALS—(Income, Estate, and Gift Tax Cases) METHOD OF DISPOSAL



Option of Seeking Relief Through the Courts May Be Exercised

If a taxpayer desires to take his case to a U.S. District Court or the U.S. Court of Claims rather than to the Tax Court he can pay the deficiency and within 2 years from the date of payment file a claim for refund of the amount in dispute. Upon notice of disallowance by the Service of the claim, or 6 months after the claim is filed, he may then file suit with either a U.S. District Court or the Court of Claims.

Rise in Workload

The number of case referrals from audit divisions to appellate divisions was 21 percent higher than in 1964. This increase in appeals was partially offset by a 9-percent rise in the number of case dispositions, resulting principally from more effective use of manpower. While the number of cases on hand June 30, 1965, was 24 percent above a year ago the inventory remains in a current condition. Anticipated further increases in effective use of manpower and planned staffing adjustments in those areas with the heaviest workloads are expected to permit the continued timely handling of the larger caseload.

Pre-90-Day Cases Processed in 1965 Increased

When a taxpayer does not agree to a proposed determination of tax liability shown in a preliminary notice, commonly called a "30-day letter," he may file a protest and request a conference. If agreement is not reached at the district level he may request that his case be transferred to the appellate divisions. These cases are referred to by appellate divisions as "pre-90-day cases." The processing of these cases by the appellate divisions during 1964 and 1965 is summarized below. (Additional details are shown in table 15, page 126).

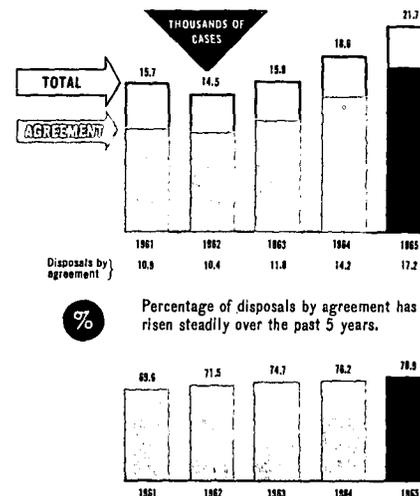
Status	Number of cases	
	1964	1965
Pending July 1	12,653	15,531
Received	21,494	26,301
Disposed of, total	18,616	21,737
By agreement	14,189	17,161
Unagreed overassessment and claim rejections	459	499
By issuance of statutory notices—transferred to 90-day status	3,968	4,077
Pending June 30	15,531	20,095

The number of pre-90-day cases on hand June 30, 1965, was higher than a year ago, reflecting the effect of the greater volume of referrals from audit divisions.

In 1965, 2,972 more cases were closed by agreement than in 1964, a rise of 20.9 percent. A 5-year trend toward more and greater percentages of closings by agreement is illustrated by the following chart.

TOTAL PRE-90-DAY CASE DISPOSALS
(Income, Estate, and Gift Taxes)

Three year rising trend in cases closed by agreement and total disposals



Increase in Agreements at Pre-90-Day Level
Decreased 90-Day Workload

When agreement cannot be reached after issuance of a preliminary notice involving a proposed deficiency, at the district level or in appellate division, a statutory notice of deficiency is issued. Such a notice is commonly called a "90-day letter," because the taxpayer is allowed 90 days from the date of the letter to petition the Tax Court of the United States. The following table shows the results of processing 90-day cases in the appellate divisions. (For additional information, see table 16, page 126.)

90-day cases (Statutory notices issued)		Docketed cases (Petitioned to the Tax Court)			
Status	Number of cases		Status	Number of cases	
	1964	1965		1964	1965
Pending July 1.....	1,159	1,390	Pending July 1.....	8,631	7,980
Received, total.....	4,377	4,378	Received, total.....	5,614	6,852
Statutory notices issued by appellate divisions ¹	3,785	3,921	Petitions filed in response to—		
Statutory notices issued by district directors and received during 90-day period.....	592	457	District directors' statutory notices.....	3,767	4,493
Disposed of, total.....	4,146	4,469	Appellate divisions' statutory notices ¹	1,847	2,359
By agreement.....	953	835	Disposed of, total.....	6,265	5,448
By taxpayer default.....	1,165	1,184	By stipulated agreement ²	5,002	4,476
By petition to the Tax Court—transferred to docketed status.....	2,028	2,450	By dismissal by the Tax Court or taxpayer default.....	328	278
Pending June 30.....	1,390	1,299	Tried before the Tax Court on the merits.....	935	694
			Pending June 30.....	7,980	9,384

¹ Difference from preceding table is caused by cases being combined or split for purpose of issuing the statutory notice.

² Difference from number shown as petitioned in preceding table is caused by excluding district directors' statutory notices considered by Appellate in 90-day status.
³ Difference from the number shown in the preceding tables and in table 19, p. 127, is due to cutoff dates in respective reporting systems.

The number of 90-day case disposals was higher than in the previous year and the number of such disposals involving cases petitioned to the Tax Court also was somewhat larger.

Cases Petitioned to the Tax Court Increased

The Tax Court of the United States is an independent agency of the Government and has no connection with the Internal Revenue Service. A taxpayer who does not agree with a deficiency determined by the Service in a case involving income, estate, or gift taxes, may file a petition with the Tax Court asking for a redetermination of his tax liability. The Service refers to these cases as "petitioned" or "docketed."

A taxpayer may discuss with the Service the possibilities of settling his case even after it is docketed in the Tax Court. The Service encourages the taxpayers to take advantage of an early conference in docketed cases. Settlement negotiations by appellate divisions in these cases may be conducted at any time before the case is called for trial by the Tax Court. The Regional Counsel may be represented in these negotiations since settlement of docketed cases requires his concurrence.

The number of docketed cases on hand June 30, 1965, was somewhat higher than a year ago, principally because of an increase in the number of cases petitioned.

The following table shows the processing of docketed cases. (For additional information see table 17, page 127.)

Disposals Balance Receipts in Excise and Employment Tax Appeals

The number of excise and employment tax cases on hand June 30, 1965, was 1,153 or 1 case lower than the same date last year. There were 1,825 cases received and 1,826 dispositions.

Overassessments Reported to Joint Committee Increased

A total of 540 cases involving overassessments or \$333.3 million was reported to the Joint Committee on Internal Revenue Taxation in accordance with section 6405 of the Internal Revenue Code of 1954 which requires reports to the Committee of all refunds and credits of income, war profits, excess profits, estate, or gift tax in excess of \$100,000. During the preceding year, 512 cases involving \$296.5 million were reported.

ABOUT 1.2 MILLION DELINQUENT RETURNS SECURED

During the year the Service secured 1.2 million delinquent returns representing \$281.3 million in unreported tax, interest, and penalties. The bulk, approximately 1.1 million returns representing \$220.2 million of unreported tax, interest, and penalties, was secured through the established delinquent returns program. The remainder was secured by district audit divisions incidental to the examination of returns.

Manpower Shifted to Returns Compliance Work

During the past few years, it has been possible to give more attention and emphasis to conducting delinquency investigations (generated primarily from a check of records of previously filed returns). This year, however, it was also possible to deploy a significant number of additional resources to returns compliance activity, which includes special programs designed to locate nonfilers not as yet on Service records. These activities were possible because of the success achieved in reducing taxpayer delinquent account inventories significantly, combined with a stable or declining level of new delinquent account issuances. Thus, manpower previously assigned to enforcement actions on new delinquent account issuances and those on hand has been available for deployment to delinquency investigation and returns compliance activity. These increased efforts were instrumental in causing a rise of 8.7 percent in delinquent returns secured and 1.1 percent in amount over the 1.0 million delinquent returns and \$217.9 million assessed last year through the established delinquent returns program.

In addition, special nationwide and locally developed surveys and tests, including a saturation type canvass undertaken as part of this year's activity, will continue for at least a portion of next year. Guidance was furnished field offices for adaptation in the context of local geographic, population density, and taxpayer characteristics.

The voluntary compliance effect of this effort, although not precisely measurable, is known to be substantial. However, these programs resulted in securing 486,000 returns accounting for \$96 million in additional tax, penalty, and interest. Additionally, a greater number of cases than heretofore were referred to audit and intelligence activities for further investigation.

TAX FRAUD INVESTIGATIONS CONCENTRATED ON ORGANIZED CRIME

The investigation of the tax affairs of major racketeers by special agents, as a part of the Government's drive on organized crime, continued to receive top priority in the fraud investigation program. As a result, the Service again this year succeeded in helping to bring before the courts many of the country's most powerful and notorious racketeers.

Investigations involving racketeers require more manpower per case than other fraud investigations.

This fact, along with the absence of any increase in special agent personnel, resulted in a decline in the number of full-scale investigations completed and prosecution recommendations.

More detailed information on investigations by special agents is given in the following table:

Tax fraud investigations		
Type	1964	1965
Full-scale investigations, total.....	* 3,796	3,643
Prosecution recommended, total.....	* 2,391	2,382
Fraud.....	1,032	1,216
Wagering.....	* 1,257	1,088
Coin-operated gaming devices.....	38	26
Miscellaneous.....	64	52
Prosecution not recommended, total.....	1,405	1,261
Preliminary investigations, total.....	9,846	10,520
Fraud and miscellaneous.....	7,956	8,786
Wagering and coin-operated gaming devices.....	1,890	1,734

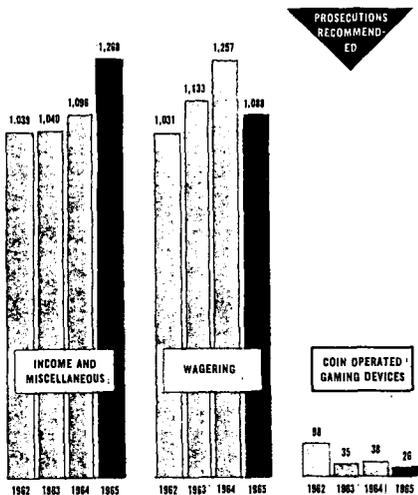
* Revised.

Although there was an increase in income and miscellaneous tax fraud prosecution recommendations in 1965, this increase was substantially offset by the decrease in wagering prosecution recommendations. This decline, after a 3-year upward trend (see chart on following page), is partially due to the fact that only two nationwide coordinated raids were conducted in 1965, as compared to three such raids made in previous years. But to a greater extent it is due to the wagering tax enforcement effort being directed toward more substantial cases of greater strategic importance. That there is merit in the shift in emphasis in the wagering tax enforcement program is demonstrated by the seizure of \$861,000 in currency and other property valued at \$326,000, the aggregate amount constituting a 16-percent increase over the preceding year. Some of the more significant wagering tax raids were made at Mount Vernon, N.Y.; Cleveland, Ohio; the Pentagon and Navy Annex, Arlington, Va.; and the Navy Building, Washington, D.C. In these raids 68 persons were arrested and six automobiles and \$430,000 in currency were seized.

Fraud Investigations Foster Voluntary Compliance

Although there was an increase this year in investigations completed (total of full-scale and preliminary), the results of the work of special agents is not measured solely by the number of criminal cases investigated or prosecutions recommended. Of paramount importance is the increase in voluntary compliance by the taxpaying public resulting from the

IN 1965 INCOME TAX* FRAUD AND MISCELLANEOUS CASES CONTINUE TO RISE WHILE WAGERING AND COIN-OPERATED GAMING DEVICE CASES DECLINED



*Includes income, Estate, Gift, and Excise taxes other than Wagering, Coin Operated Gaming Devices, Alcohol, Tobacco, and Firearms taxes.

impact of these investigations and subsequent successful prosecution of violators. Honest taxpayers, who comprise the vast majority, thus are reassured and potential tax fraud perpetrators receive a deterrent warning. Therefore, in a relentless effort to further the improvement of voluntary compliance, the tax fraud investigation program is directed toward the identification, investigation, and prosecution of tax fraud cases in all sections of the country, in all strata of society, and involving all types of taxes.

During the year several persons prominent in public life were convicted of criminal tax law violations. Also convicted were a number of notorious racketeers including James Plumeri and Charles Lo Cicero, New York, N.Y.; Clarence Williams, Detroit, Mich.; Ned Bakes, Chicago, Ill.; Morris "Snag" Klein, Kansas City, Mo.; and Sam Cohen, Las Vegas, Nev.

Technological Advances and Administrative Improvements Increase Effectiveness

Information that a taxpayer has filed more than one claim for refund of taxes paid is now available through the computerized processing of returns. This information is being used to detect and investigate the multiple filing by taxpayers of false claims for refund. Several taxpayers were prosecuted and convicted in 1965 for filing false refund claims.

A case classification system has been developed and is now in use which provides for a more accurate evaluation of the complexity of tax fraud cases prior to assignment to special agents for investigation. This will permit more effective utilization of manpower since the assignment of cases for investigation can now be made largely on the basis of the complexity of the case and the experience of the special agent.

One of the major factors in the continuing success of the Service's enforcement of the criminal tax statutes has been the highly selective recruitment of special agents and the intensive training that has been given to those recruited since 1959. Only after completion of a 5-week course at the Treasury Law Enforcement School, a 5-week course in basic income tax law, a 7-week special agents basic training course, and a period of on-the-job training does the new appointee assume the full duties of a special agent. In addition, all experienced special agents are given refresher and selected on-the-job training, as needed, on a continuing basis.

MORE CASES INVOLVING CRIMINAL PROSECUTION RECEIVED

Total additional taxes and penalties of \$147.6 million were involved in cases received in the Chief Counsel's Office with recommendations of criminal prosecution. This was an increase of \$34.1 million over the prior year.

An analysis of criminal tax cases of all types (other than wagering-occupational tax cases handled at the district level) flowing from the Assistant Regional Commissioners (Intelligence) through the office of the Chief Counsel to the Department of Justice follows:

ENFORCEMENT ACTIVITIES

Receipt and disposal of criminal cases in Chief Counsel's Office

Status	1964	1965
Pending July 1 ¹	2,956	2,104
Received, total	1,493	1,507
With recommendations for prosecution	1,377	1,393
With requests for opinion, etc.	116	114
Disposed of, total	2,345	1,275
Prosecution not warranted	106	120
Department of Justice declined	64	82
Prosecutions	1,919	853
Opinions delivered	90	72
All other closings	166	148
Pending June 30 ¹	2,104	2,336

¹ Includes cases awaiting action in Department of Justice exclusive of wagering tax cases referred by Intelligence Division.
² Difference in quantity of prosecutions in 1965 as compared to 1964 due to the closing of 708 wagering tax cases which were referred directly by Intelligence Division, and were included in the 1964 statistics.

Additional understanding of the magnitude of the legal workload in criminal cases and the accomplishment of Service attorneys during the past 2 years can be gained through examination of the following table:

Tax and penalty and number of tax years involved in criminal fraud case disposals

(Exclusive of wagering and coin-operated gambling device cases)

Disposition	Tax years		Tax and penalty	
	1964	1965	1964	1965
Totals	3,849	3,801	\$63,278,143	\$122,231,399
Prosecutions	2,988	2,909	46,267,135	72,108,603
All other closings ¹	861	892	17,011,008	50,122,796

¹ Includes cases declined by Department of Justice.

A total of 994 income tax and miscellaneous criminal cases, with prosecution recommendations involving 1,005 prospective defendants, were forwarded to the Department of Justice. This was an increase of 5.0 percent in the volume of referrals over the prior year. In 1965, indictments in such cases were up 21.2 percent and the total disposal of cases in those categories in the district courts increased 2.3 percent.

In income and miscellaneous, and wagering tax criminal cases, 1,251 defendants pleaded guilty or nolo contendere, 200 were convicted after trial, 86 were acquitted, and cases against 195 were dismissed.

A comparison of indictments and court actions for the last 2 years follows:

Results of criminal action in tax fraud cases

Action	Number of defendants	
	1964	1965
Total		
Indictments and informations	1,577	1,919
Disposals, total	1,807	1,732
Plea, guilty or nolo contendere	1,314	1,251
Convicted after trial	224	200
Acquitted	81	86
Not-prosessed or dismissed	188	195
Income and miscellaneous cases¹		
Indictments and informations	679	823
Disposals, total	772	790
Plea, guilty or nolo contendere	543	572
Convicted after trial	121	73
Acquitted	40	50
Not-prosessed or dismissed	168	95
Wagering tax cases		
Indictments and informations	898	1,096
Disposals, total	1,035	942
Plea, guilty or nolo contendere	771	679
Convicted after trial	103	127
Acquitted	41	35
Not-prosessed or dismissed	120	100

¹ Includes cases dismissed for the following reasons: 10 because of death of principal defendant, 13 because of serious illness, and 56 because principal defendant had pleaded guilty or had been convicted in a related case.
² Includes income, estate, gift, and excise taxes other than wagering, alcohol, tobacco, and firearms taxes.

Both Indictments and Disposals in Alcohol, Tobacco, and Firearms Cases Decreased

As the result of actions taken against violators of the laws relating to alcohol, tobacco, and firearms taxes, a total of 3,774 cases involving 6,097 defendants were reported to U.S. attorneys for prosecution. This reflects the decrease in the number of arrests for illicit distillery operations. (See p. 38 for more detail.) The number of indictments and disposals for the last 2 years are shown in the following table:

Results of criminal action in alcohol, tobacco, and firearms cases

Action	Number of defendants	
	1964	1965
Indictments and informations	5,598	4,870
Disposals, total	5,646	5,021
Plea, guilty or nolo contendere	4,108	3,596
Convicted after trial	668	564
Acquitted	298	220
Not-prosessed or dismissed	572	541

TAXPAYER DELINQUENT ACCOUNTS PROGRAM REFLECTS CHANGING PATTERN

Volume of Accounts Issued and Closed Declined—Amounts Rose

Service activity in the delinquent accounts area was greatly influenced by several situations which combined to make this a significant year. In the first instance, only 2.4 million new delinquent accounts were issued. Although this was a sizeable drop of 21 percent from last year, the amount of delinquent tax involved, \$1,551 million was \$88 million more, due to a few unusually large accounts. The significant decline in the number of delinquent accounts issued, however, was caused mainly by three factors: (1) A new procedure which altered the issuance pattern so that accounts previously issued in June will, starting in 1965, be issued in July; (2) increased activity at the service centers in June 1964 which has caused, over and above the normal June level, a larger number of new delinquent accounts to be issued in last year's workload, thereby reducing this year's by a comparable number; and (3) intensified enforcement efforts which have had a salutary effect by reducing the number of new delinquent accounts.

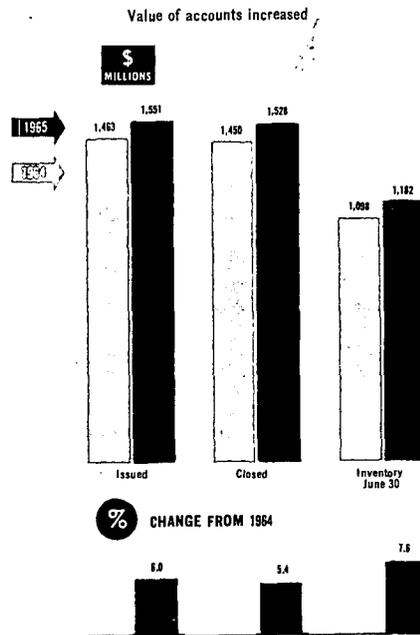
Over 2.8 million delinquent accounts were closed during 1965. This was a drop of some 235,000 delinquent accounts below the number closed in 1964. To a large extent, the fall-off was the direct result of the changes which occurred in the issuances pattern described earlier. Even so, however, the \$1.5 billion value of delinquent accounts closed in 1965 was \$78 million greater than the amount of delinquent accounts closed in 1964.

Overdue Trust Fund Collections Declined

Additional evidence of enforcement results can be found in the trust fund program. For several years, the Service has made immediate contacts to collect withholding and similar trust fund taxes from employers and excise taxpayers who have failed to pay the tax when due. For the first time since the program was started, activity in this area declined, thereby indicating a greater compliance with tax obligations. The total of 148,000 notices on trust fund and dishonored check accounts was 57,000 fewer than in 1964. Of this number, 104,000, or 70

percent were closed while in notice status. The amount collected was \$217 million.

TAXPAYER DELINQUENT ACCOUNTS



Number of Accounts in Inventory Decreased Almost 45 Percent

Of equal importance and significance to any other single accomplishment in the delinquent accounts program have been the sharp inroads made in reducing the size of the inventory. Here, the drop in new delinquent accounts issued enabled the Service to concentrate greater resources on reducing inventories. These nationwide efforts, plus the new issuances pattern described above, resulted in the national inventory declining to an historic all-time low of 530,000 accounts, almost 45 percent fewer than last year's. However, because a few of those issued involved unusually large amounts, total delinquent taxes in the accounts pending at the close of the year aggregated \$1,182 million, \$84 million more than last year.

ENFORCEMENT ACTIVITIES

Progress Made Toward Utilization of ADP

Throughout the year much effort was directed toward the fullest possible utilization of data processing equipment in delinquent accounts activities. A major result has been the establishment of additional mechanized functions in the issuance of delinquent account notices to taxpayers. The benefits to be derived from the revised procedures will be found in workload and staff reductions in account servicing activities.

Other program changes of a similar nature are presently in progress. Total enforcement effectiveness will therefore be served since advances of this type allow greater manpower diversion for the purpose of attaining broader coverage in compliance work.

The delinquent accounts activity (including activity related to the accelerated collection of trust fund taxes and dishonored checks while in notice status) is shown in the following table:

Taxpayer delinquent accounts

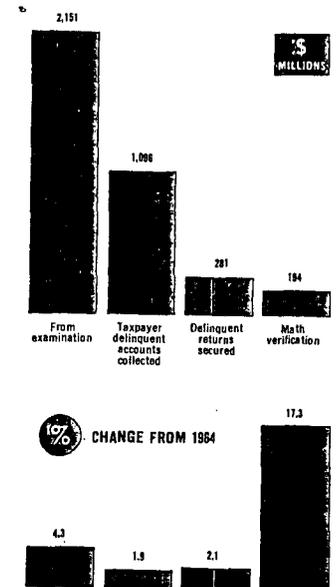
Status	Number (thousands)		Amount (thousand dollars)	
	1964	1965	1964	1965
Issued	3,065	2,417	1,462,561	1,551,041
Closed, total	3,077	2,843	1,445,988	1,528,183
By type of action:				
Collected	2,537	2,341	1,030,262	1,034,734
Additional collections			44,726	60,804
Other disposals ¹	541	501	375,000	432,645
Pending June 30, total	956	530	1,098,447	1,182,110
Accelerated collection of trust fund taxes: ²				
Received	205	148	397,931	313,082
Collected	124	104	247,182	217,371

¹ Includes disposals due to uncollectibility and erroneous and duplicate assessments.
² Includes collections of dishonored checks.

SUMMARY OF ADDITIONAL TAXES FROM DIRECT ENFORCEMENT

While practically all American taxpayers voluntarily report and pay their correct taxes, it is nevertheless essential for the Service to maintain direct enforcement programs to insure that all taxpayers receive equitable treatment and pay their just share of tax. The amount of tax, penalties, and interest assessed as a result of these programs reached a new high of \$2.6 billion, an increase of \$124.3 million over last year.

ADDITIONAL TAX FROM DIRECT ENFORCEMENT INCREASED IN ALL AREAS



Additional assessments resulting from examination of tax returns totaled \$2.2 billion, an increase of \$89.2 million over 1964. These assessments are not comparable with tax increases on returns examined during the current year as they represent tax liability finally determined upon examination or after appeals action or court decision. Administrative appeals or litigation may delay settlement of a case for a year or more and consequently the results should not be viewed as a measure of current year audit operations.

Additional tax resulting from mathematical verification of individual income tax returns totaled \$194.1 million or \$28.6 million more than last year while tax, penalties, and interest on delinquent returns secured during the year increased \$5.8 million over 1964.

The following table shows the additional tax, penalties, and interest, by source:

Tax, penalties, and interest resulting from direct enforcement
 [In thousands of dollars]

Item	1964	1965
Additional tax, penalties, and interest assessed, total.....	* 2,505,642	2,629,925
From examination of tax returns, total.....	2,062,008	2,151,187
Income tax, total.....	1,750,555	1,866,230
Corporation.....	901,864	1,001,565
Individual and fiduciary:		
Prerefund audit.....	123,799	107,583
Regular audit.....	724,892	757,083
Estate and gift tax.....	268,499	224,617
Employment tax (including withheld income tax).....	7,639	9,639
Excise tax.....	35,313	50,701
From mathematical verification of income tax returns.....	165,501	194,086
From National Identity File.....	* 2,654	3,374
From delinquent returns secured, total.....	275,480	* 281,278
By district collection divisions.....	217,860	220,152
By district audit divisions.....	57,620	* 61,126
Cisims disallowed.....	445,556	278,795
By district audit divisions.....	317,911	199,967
By regional appellate divisions.....	127,645	78,828
Delinquent taxes collected.....	1,322,170	1,312,909
Delinquent accounts.....	1,074,988	1,095,538
Trust fund taxes.....	247,182	217,371

* Revised.
 † Includes 111 returns with additional tax and penalties of \$2,030,558 (interest equalization tax).

WORK FLOW IN THE SERVICE AND COURTS

It is not possible for the Service to completely process the millions of tax returns during the fiscal year in which they are filed. The time required for processing varies from a few days or weeks for the simpler returns to several years for the most complex, especially when fraud or appeals and litigation are involved. Consequently the work of the Service does not flow through a complete cycle during any one year. However, a comparison can be made of the volume processed at each administrative level of the Service and in the courts by analyzing the workload for any given year. In evaluating the work flow, it is necessary to recognize that the unit count at the point of receipt and in the audit divisions is on a return basis while in the appellate divisions, intelligence divisions, and the courts the work unit is the case which may involve one or more returns. The major administrative burden is on the processing of income, estate, and gift tax returns, especially at the appellate and court levels. Therefore, the following tabulations, beyond the returns filed and

internal revenue collections levels, are confined to these types of returns.

Work flow in the Internal Revenue Service and the courts, fiscal years 1964 and 1965

Item	1964	1965
	Returns	
Tax returns filed, total.....	100,056,188	102,484,632
Individual income.....	65,154,491	66,952,231
Corporation income.....	1,367,030	1,415,566
Estate and gift.....	194,511	215,568
Employment.....	21,753,220	22,258,107
Excise.....	3,925,001	3,898,418
Other income.....	7,671,565	7,740,742
INCOME, ESTATE, AND GIFT TAXES		
Number of returns examined.....	3,440,192	3,290,467
Returns with adjustments proposed by audit divisions.....	2,381,058	2,249,149
Disposed of by audit divisions: Agreed, paid, or defaulted.....	2,108,138	1,956,446
Civil cases		
Cases		
Total received in appellate divisions.....	* 21,503	26,602
Disposed of by appellate divisions: Agreed, paid, or defaulted.....	16,766	19,679
Courts of original jurisdiction:		
Tax Court:		
Total petitioned to Tax Court.....	5,690	6,842
Dismissed.....	346	284
Settled by stipulation.....	4,947	4,635
Settled by Tax Court decision.....	867	825
Decided by Tax Court but appealed.....	349	368
District courts and Court of Claims:		
Total filed in district courts and Court of Claims.....	1,494	1,477
Settled in district courts and Court of Claims.....	308	782
Decided by district courts and Court of Claims.....	488	566
Courts of appeals:		
Settled by courts of appeals decision.....	520	381
Favorable to Government.....	344	267
Favorable to taxpayers.....	139	79
Modified.....	37	35
Decided by courts of appeals but reviewed by Supreme Court.....	3	22
Supreme Court: Settled by Supreme Court decision.....	4	22
Fraud cases ¹		
Received for full-scale investigation in intelligence divisions.....	2,241	2,307
Disposed of by intelligence divisions:		
Prosecution recommended.....	1,032	1,232
Prosecution not recommended.....	1,165	1,043
Disposed of by Office of Chief Counsel:		
Prosecution not warranted, including cases declined by the Department of Justice.....	170	202
Prosecutions.....	1,919	853

* Revised.
 † Includes excise tax cases.

Amounts of revenue involved at each level of the tax system, fiscal years 1964 and 1965

Item	[Millions of dollars]	
	1964	1965
Internal revenue collections, total.....	112,260	114,435
Individual income taxes, total.....	54,590	53,661
Withholding.....	39,259	36,840
Other.....	15,331	16,820
Corporation income taxes.....	24,391	26,131
Estate and gift taxes.....	2,416	2,746
Employment taxes.....	17,003	17,104
Excise taxes.....	13,950	14,793

ENFORCEMENT ACTIVITIES
Amounts of revenue involved at each level of the tax system, fiscal years 1964 and 1965—Continued

Item	[Millions of dollars]	
	1964	1965
INCOME, ESTATE, AND GIFT TAXES		
Civil cases		
Additional tax and penalties in cases disposed of in audit divisions by agreement, payment, or default.....	1,273	1,269
Additional tax and penalties in cases disposed of in appellate divisions by agreement, payment, or default.....	208	195
Additional tax and penalties determined by settlement in Tax Court.....	105	90
Additional tax and penalties determined by Tax Court decision:		
Dismissed.....	3	3
Decision on merits.....	25	23
Additional tax and penalties in cases decided by Supreme Court and courts of appeals.....	17	15
Amount refunded to taxpayers as a result of refund suits.....	45	37
Fraud cases ¹		
Deficiencies and penalties in cases disposed of in intelligence divisions:		
Prosecution recommended.....	46	72
Prosecution not warranted and cases declined by Department of Justice.....	17	50

¹ Includes excise taxes.

OFFERS IN COMPROMISE INCREASED

The compromise provisions of the tax laws provide a means through which taxpayers can finally dispose of outstanding tax assessments when it is determined that the taxpayer cannot pay the full amount of the liability, interest and penalties, or when it is concluded that there is substantial doubt as to the amount of the liability.

An active and closely controlled program was again carried out in the compromise area during 1965. The following table gives detailed information on the compromise activity:

COLLECTION LITIGATION LEGAL SERVICES REQUIRED BY FIELD OPERATIONS

Although collection litigation legal services are performed at both the national and regional levels, most of the work is done at the regional level. Attorneys who provide these services are primarily concerned with legal work generated by the operations of the district directors' offices. In general, the services include providing legal opinions in noncourt matters and work in connection with court proceedings.

Statistics Show Some Increase in Casework Performed

The legal work performed during the year continued at the same general level of activity reached in 1964 with comparatively minor increases in both receipts and disposals. There were 12,493 cases received during 1965, 11,987 during 1964. The number of cases disposed of during the year was 12,456 compared with 11,762 in 1964. The inventory of pending cases at the end of the year was 5,091, an increase of 37 over the 5,054 cases pending

Offer in compromise disposals

Type of tax or penalty	Number		Amount (thousand dollars)			
	1964	1965	Liabilities		Offers	
			1964	1965	1964	1965
Offers accepted, total.....	10,584	11,094	44,493	28,667	10,121	7,590
Income, estate, and gift taxes.....	890	1,068	29,317	15,261	6,383	3,941
Employment and withholding taxes.....	908	956	6,514	7,705	2,015	2,275
Alcohol taxes.....	97	78	466	445	192	104
Other excise taxes.....	179	222	6,438	3,714	1,025	716
Delinquency penalties on all taxes.....	2,818	2,204	1,557	1,542	329	313
Specific penalties.....	5,692	6,566	.....	.....	177	240
Offers rejected or withdrawn, total.....	4,370	4,485	73,559	65,631	11,678	11,870
Income, estate, and gift taxes.....	1,711	1,763	51,589	46,628	7,887	8,313
Employment and withholding taxes.....	1,328	1,279	11,564	11,079	2,432	2,558
Alcohol taxes.....	77	85	526	379	69	54
Other excise taxes.....	360	276	9,065	6,771	1,095	783
Delinquency penalties on all taxes.....	849	1,056	815	775	181	159
Specific penalties.....	45	26	.....	.....	14	4

scene of moonshine activity. To cope with these problems with greater success, the perfection of cases against violators posing the greatest threat to the revenue and the development of evidence to withstand the tests of trial action were given particular emphasis.

The soundness of this approach was reflected in the increasingly receptive attitude of U.S. attorneys toward such cases, and the more severe sentences imposed by the courts. Federal judges are frequently expressing their impatience with liquor law violators in open court. This stiffening attitude is reflected in the length of prison sentences which averaged 449 days in 1965 compared to 403 days in 1964, an increase of approximately 11 percent. This increase is significant, but more encouraging is the result of trial actions in conspiracy and other major cases in which sentences increased from an average of 584 days in 1964 to 1,165 days (more than 3 years) in 1965.

"Operation Dry-Up" Showed Great Promise

Results of an experimental program initiated 3 years ago in a Southern State may point the way to elimination of large-scale illicit distilling operations in the Southern part of the country where violations in 14 States accounted for 96.7 percent of the mash seized, 82.0 percent of all seized vehicles, and 87.5 percent of the arrests in 1965. This experiment, known as "Operation Dry-Up", was keyed, basically, to unremitting pressure on the violator by an enlarged investigative force. Tied in with this concentration of manpower was an all-out effort to secure the active support of enforcement officers and prosecutors at all levels—local, State, and Federal—and to arouse the public to take a firm stand against illicit liquor violators and to take an active part in suppressing their criminal endeavors. The program was further supported by extensive use of radio, television, and other news media to bring public attention to the health hazards involved in drinking moonshine whiskey produced with crude apparatus, often under the filthiest of conditions. The success of this approach is demonstrated by the almost complete elimination of the commercial violator in this State, where illicit operations in terms of average capacity per distillery, are now the smallest of all the Southeastern States. The program will be extended to another Southern State in 1966 in an effort to destroy the large-scale operations.

Eighty Percent of Enforcement Manpower Engaged in War on Moonshine

Manpower directly involved with illicit liquor activities required about four-fifths of all investigative time. The remainder of the investigative effort was expended on general enforcement programs, including firearms, liquor dealers, and tobacco investigations as well as investigations requested by the Attorney General and assignments to the Intelligence Division in connection with the drive on organized crime.

Seizures and arrests resulting from this investigative work in 1965 are compared with results of the prior year's work in the following table:

Item	1964	1965
Seizures:		
Distilleries.....number.....	4,748	5,160
Sills at distilleries.....do.....	6,837	7,432
Nonmash distilled spirits.....gallons.....	148,021	156,544
Mash.....do.....	3,123,783	3,537,881
Vehicles.....number.....	2,258	2,089
Property (appraised value).....dollars.....	2,433,503	2,486,193
Arrests.....number.....	8,198	7,426

¹ Includes 1 arrest for tobacco violations and 254 arrests for firearms violations in 1965 compared with 1 and 300, respectively, in 1964.

Note.—Includes seizures and arrests in cases adopted, as well as originated, by the Internal Revenue Service.

The 1965 increase in the seizure of illegal distilleries and the decrease in arrests were largely the result of saturation-type raids carried out periodically in an effort to measure the volume of illicit liquor operations in selected areas of the Southeast Region. In conducting these raids the cardinal objective of arresting violators at the scene of their operations was subordinated to the more immediate objective of locating and promptly destroying illicit distilling equipment.

Law Enforcement Strengthened Through Chemical Analysis and Research

The development of court acceptable chemical and physical test methods for alcoholic beverages, narcotics, flavors, tobacco, and foods containing alcohol received increased attention in 1965. Many of the newly developed test procedures have gained national and international recognition among regulatory chemists, and have generally been accorded a preferred status in court testimony. This work was carried on in cooperation with chemists from other Federal, State, city, and industry laboratories

through the agency of the Association of Official Agricultural Chemists.

Research has led to the use of thin-layer chromatography as a routine laboratory practice in the identification of narcotic substances. This new technique was developed to confirm or verify color and crystallization tests which in the past have often proven inconclusive. Service chemists have written and published a paper on the solvents system used in this chromatographic identification. It is anticipated that further research in this field will extend thin-layer chromatography to other analytical problems, such as the development of a solvent system for the separation and identification of barbiturates. A system for assaying opium by thin-layer chromatography in combination with ultra-violet spectrophotometry is another likely development.

Gas chromatography is being used successfully to resolve many difficult analytical problems hitherto considered too complex for practical solution. Since its importance as a law enforcement tool is now well established its use in the examination of enforcement, as well as permissive, samples will increase.

The successful application of neutron activation analysis to specific items of physical evidence encountered in Treasury law enforcement work led to further expansion of space and equipment to carry out this work. The number of samples subjected to neutron analysis more than doubled from 1964.

Service laboratories analyzed 8,769 samples of illicit spirits and 5,088 samples of narcotic drugs in 1965. During the preceding year, 9,316 illicit spirits samples and 6,334 narcotics samples were analyzed. For statistics on laboratory work required by the Service's regulatory function, see page 42.

FIREARMS ACTIVITY APPROXIMATED 1964 LEVELS

Investigations of violations of the National and Federal Firearms Acts in 1965 resulted in the perfection of 394 criminal cases, 254 arrests, and the seizure of 94 vehicles and 4,050 firearms. During 1964 these investigations resulted in the perfection of 373 criminal cases, 300 arrests, and the seizure of 94 vehicles and 3,567 firearms. See page 45 for information on the Service's legislative assistance work in the firearms area.

Chapter 5

Supervision of the Alcohol and Tobacco Industries

ADMINISTRATIVE CONTROLS EASED— MAJOR REGULATORY STUDY UNDERWAY

Public Will Benefit From Simplified Reporting

The Service conducted a comprehensive reappraisal of forms and reports that it requires from the regulated industries in connection with the administration of the liquor, tobacco, and firearms laws. As a result, 17 public-use forms were simplified and the filing frequency was reduced for 14 others. Tangible benefits to the public will approach \$450,000 in 1966 when the full effect of the simplifications and improvements will be felt.

Agreement With Italy Simplified Export Requirements

An agreement has been reached and procedures established whereby the Italian Government will accept American exports of distilled spirits without a chemical analysis of each shipment of each brand received from the United States. Although Italian Customs requires a chemical analysis of this type by its laboratory, this requirement has been waived in favor of a certificate of analysis issued by a chemist or laboratory certified by the Service as competent to perform the analysis under specified analytical procedures.

Committee Set Up To Reappraise Labeling and Advertising Regulations

In June 1965 a Distilled Spirits Standards and Labeling Survey Committee was established to reappraise the regulations issued pursuant to the Federal Alcohol Administration Act, as set forth in 27 CFR, Part 5, Labeling and Advertising of Distilled Spirits. The general function of the committee will be to examine, analyze, and evaluate the provisions of the regulations with particular attention directed to standards of identity, and to recommend a program to fulfill the purposes and objectives of the Federal Alcohol Administration Act consistent with present day production and trade practices, as well

as consumer understandings. Industry members, State control authorities, other Federal or State agencies, consumer organizations, and others concerned will be invited to express their views and suggestions for the consideration of the Committee.

CENTRALIZED ACTIONS RELATED TO INDUSTRY OPERATIONS

Label Applications Approved

Under the provisions of the Federal Alcohol Administration Act, 47,454 applications for label approval, and exemption from label approval, were processed by the National Office during the year. The decrease in this activity from the 50,805 applications processed in 1964 was brought about by changes liberalizing procedural requirements for importers and bottlers of imported distilled spirits. A single label application can now be filed to indicate the various degrees of proof at which a given product will be marketed, and, under certain circumstances, one application may be submitted to cover more than one set of labels.

Advertising Reviewed

The Federal Alcohol Administration Act, as a means of supplementing controls over the labeling of alcoholic beverages, imposes certain regulatory requirements in the field of advertising. To assure compliance with these requirements, advertisements in 19,176 issues of newspapers and magazines were examined and 4,673 radio and television commercials were reviewed by the National Office. Although approval of advertising is not required prior to publication or dissemination, advance review of individual advertisements or projected advertising campaigns were made in 918 instances at the request of the alcoholic beverage industry.

Permits Issued, Formulas Processed

In the National Office, 33 permits to use tax-free spirits and 15 permits to use specially denatured spirits were issued to Government agencies. The National Office processed 925 formulas for rectified products and 198 formulas for wine.

ON-PREMISES SUPERVISION WORKLOAD INCREASED, COST REDUCTION CONTINUED

Cost reduction through more effective manpower utilization again played a dominant role in the pro-

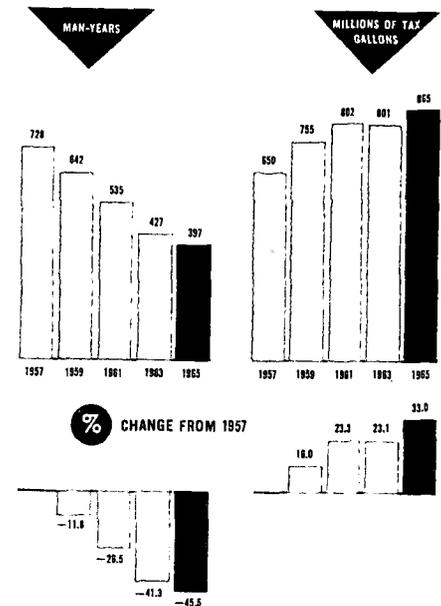
gram for on-premises supervision. As a result, on-premises inspector staffing at the close of the year was below the target figure for the first time since the inception 10 years ago of a comprehensive program to modernize long-outdated concepts for regulatory control of plant operations. The reductions were accomplished despite a generally upward trend in the factors which historically have governed on-premises staffing.

To illustrate, at distilled spirits plants requiring on-premises supervision, since 1957, production of distilled spirits has increased substantially, tax-free withdrawals—principally for the arts and industries—have accelerated, taxpaid withdrawals generally have climbed, and stocks in bonded storage have mounted. During the same time, on-rolls strength has dropped from slightly more than 800 on-premises officers to 420 at the end of 1965.

These reductions in the face of accelerating industry activity were accomplished by a continuing

GOVERNMENT SUPERVISION AT DISTILLED SPIRITS PLANTS

Manpower applied to on-premises supervision decreases while plant production rises



program of analysis and modernization of on-premises supervisory requirements. The first full harvest of this effort was realized in 1965 when the number of on-premises officers not only dipped below the reduced staffing goal, but continued to give adequate security to a revenue potential which has reached an all-time high. The preceding chart depicts the steady increase in distilled spirits production since 1957 and the reverse trend in supervision requirements resulting from the Service's simplifications in plant control concepts.

Distilled spirits plants requiring on-premises supervision produced 865.2 million tax gallons of distilled spirits during 1965. Tax-free withdrawals of spirits amounted to 630.3 million tax gallons of which 581.6 million tax gallons were denatured. Distilled spirits in bonded storage at the close of the year totaled 1,061.6 million tax gallons. More than 92.9 million proof gallons of rectified products were produced during the year. Distilled spirits bottled during 1965 totaled 244.5 million wine gallons.

EFFORTS TO IMPROVE TECHNIQUES IN THE INSPECTION OF ESTABLISHMENTS CONTINUED

The most significant development in this area was the expansion of the program to identify taxpayer behavior patterns and industry trends from monthly industry operations reports. This program, which is implemented by inspectors and other technical employees acting as a team, is designed to give early warning of significant variations from normal industry activities. It is expected to be especially useful in measuring taxpayer compliance and self-assessment at revenue-producing plants.

During the year a total of 30,552 inspections were completed compared to 31,538 in 1964. This de-

crease represented a planned reduction to offset the additional time required for more comprehensive evaluations of proprietors' operations under the audit-type approach which was installed only a few years ago. Breweries and wineries subject to inspection produced 108.0 million barrels (of 31 gallons each) of beer, 203.6 million gallons of still and effervescent wines, 5.1 million gallons of vermouth, and 16.0 million gallons of special natural wines other than vermouth. Tobacco products factories, also subject to inspection, produced 8.4 billion large cigars, 437.7 million small cigars, 42,520 large cigarettes, 563.2 billion small cigarettes, and 169.4 million pounds of manufactured tobacco (including smoking and chewing tobacco, and snuff).

THOUSANDS OF SAMPLES SUBJECTED TO CHEMICAL ANALYSIS

The national and regional laboratories analyzed a total of 38,589 samples in 1965. The number analyzed during the preceding year was 40,559. The majority of these analyses were generated by regulatory work but some were required by enforcement work in the Service and other Treasury Department Bureaus (see p. 39.)

In the National Office laboratory, 2,452 new formulas for the use of taxpaid (nonbeverage) alcohol in foods, flavors, and medicines were approved and 724 samples were examined. Comparative statistics for 1964 are 2,655 formulas approved and 647 samples examined. Manufacturers using specially denatured alcohol submitted 4,682 formulas, 4,834 samples, and 12,485 labels for approval this year. Last year 4,876 formulas, 4,187 samples, and 8,754 labels were submitted.

Chapter 6

Legal and Legislative Activities

The legal and legislative work of the Service, performed by the Service's legal staff, includes technical, litigation, and litigation advisory services. In the technical area the legal staff contributes greatly to the Treasury Department's legislative program (see p. 45). Representing the Commissioner in trying and helping to settle cases docketed in the Tax Court of the United States constitute the litigation services rendered. The legal staff also furnishes advice relating to refund litigation, collection litigation, criminal enforcement, alcohol and tobacco tax, and firearms matters. Criminal prosecution cases, civil litigation cases, legal services in collection litigation, and workflow of cases in the Service and the courts are shown under Chapter 4, Enforcement Activities. Detailed statistics on legal activities are shown in tables 18-26 on p. 127. The most important court actions are reported in the Appendix beginning on page 87.

CASELOAD RECEIPTS ROSE, DISPOSALS DECLINED

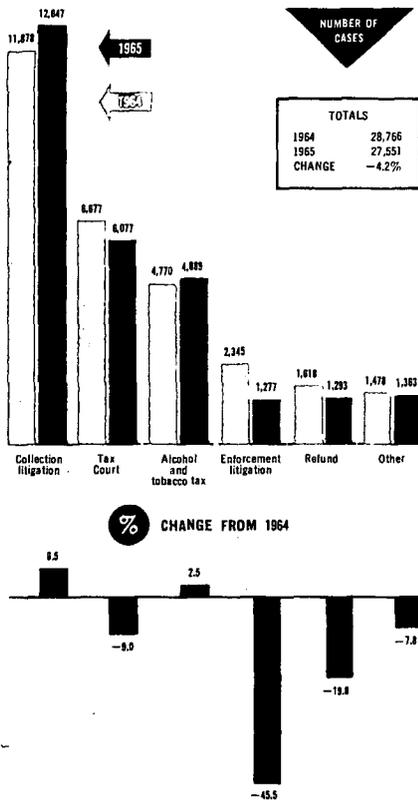
Caseload receipts in the Chief Counsel's Office during 1965 were 29,100, up 1,463 cases from the 27,637 received in 1964. The disposals of total caseload were 27,551, a decrease of 1,215 from the 28,766 disposed of in 1964. At the end of the year the pending total caseload was 22,848, an increase of 1,543.

GREATER PROPORTION OF CASES WON IN CIVIL LITIGATION BEFORE HIGHER COURTS

The Government won 16 and lost 6 of the 22 civil tax cases decided by the Supreme Court in 1965. During 1964 the Court sustained the Government in five such cases and decided against the Government in two cases. The Government also won, in whole or in part, 302 of the 381 civil tax cases decided by courts of appeal (exclusive of collection litigation and alcohol and tobacco tax legal matters), compared with 381 of the 520 such cases decided in

CASE DISPOSALS BY OFFICE OF CHIEF COUNSEL

Disposals declined in all areas except Collection Litigation and Alcohol and Tobacco Tax



Trial court cases won, lost, or partially won by the Government

Action	Tax Court		Court of Claims		District Courts	
	1964	1965	1964	1965	1964	1965
Won.....	272	235	14	40	227	215
Lost.....	100	84	15	13	180	145
Partially won.....	143	179	7	15	45	45
Percent won or partially won.....	81	83	58	81	60	64

LITIGATION IN THE COURTS SAVES GOVERNMENT \$256.7 MILLION

Actions for redetermination of proposed deficiencies in the Tax Court are handled by the seven Regional Counsels while those for refunds of taxes and penalties are handled at the National Office level. At the end of the year, \$1.5 billion were involved in liabilities for taxes and penalties being contested by taxpayers.

In the trial or settlement of cases in the Tax Court, \$161.3 million was successfully defended as proposed deficiency assessments, and \$95.5 million was successfully defended in refund suits in the Court of Claims and the Federal district courts, for a total of \$256.7 million of revenue saved for the Government (see table below).

Status	Total	Tax Court		Refund litigation
		Deficiencies	Over-payments	
Pending July 1.....	1,431,297	952,182	79,000	400,115
Received.....	383,092	457,615	28,875	96,602
Disposed of.....	560,181	376,935	50,573	132,673
Pending June 30.....	1,454,208	1,032,862	57,302	364,044
Amount saved.....	256,705	116,957	44,294	95,454

* Revised to give effect to change in reporting methods.

TORT CLAIMS CONTINUED TO INCREASE

The number of claims for damages resulting from negligence of Service employees acting within the scope of their employment still continues to increase. Claims in an amount of \$2,500 or less may be determined by the agency involved. During the past year, 201 such administrative claims were disposed of by the Service (as compared with 143 last year and 99 the preceding year). Thirty-one tort suits for judicial determination were instituted during the year.

SERVICE PROVIDES ASSISTANCE ON REVENUE LEGISLATION

Variety of Functions Performed

The principal activities performed by the Service with respect to legislation during 1965 were related to the Interest Equalization Tax Act and the Excise Tax Reduction Act of 1965. In addition, the Service engaged in study and research and furnished assistance with respect to other revenue measures which were enacted by the Congress or are still pending. The regular and recurring functions performed by the Service in connection with the Treasury Department's legislative program, reports on bills, drafting of legislation, and other technical work were continued.

Significant Organizational Improvements Introduced into Legislative Advisory Program

For a number of years it has been the practice of the Service to accumulate and to submit annually to the Assistant Secretary for Tax Policy a substantial number of suggestions for consideration in the formulation of the Treasury Department's legislative program. These suggestions dealt principally with administrative problems, tax loopholes, and tax inequities, and were gathered mostly from field offices through the Technical Coordination Program. This year, in the interest of broadening participation in the consideration of recommendations to be presented to the Treasury Department, assuring high-level evaluation within the Service, and selecting only the most important administrative, technical, and other changes, a Committee for Legislative Recommendations was established. The Committee is also responsible for developing the best possible means of obtaining suggestions and preparing the Service's recommendations for the Department's tax legislative program. It is composed of executive-level representatives of each Assistant Commissioner and the Chief Counsel.

In accordance with the desire to restrict suggestions from the Service to only the most important ones, there were submitted this year only 15 items for consideration in the formulation of the Department's legislative program. One of these suggestions, relating to farmers' gasoline tax refund claims, was the basis for section 809 of the Excise Tax Reduction Act of 1965. Another of these suggestions relates to the proposal to require direct filing of income tax returns with service centers, and that

suggestion was included in a recommendation transmitted to the Congress by the Secretary of the Treasury.

Concern With Firearms Control Increased

In his message to Congress on law enforcement and the administration of justice, the President recommended the enactment of Federal controls over the shipment of firearms in interstate and foreign commerce designed to enable the States to control more effectively the firearms traffic within their own borders under their own police power. Draft legislation to carry out the President's recommendation was prepared by the Service in coordination with other interested agencies and submitted to the Congress by the Secretary of the Treasury. This legislative proposal, in large part, results from the Service's efforts to bring about a realistic and effective revision of the Federal Firearms Act. For several years the Service has maintained a close liaison with the Subcommittee on Juvenile Delinquency of the Senate Judiciary Committee in its study of the distribution of firearms to minors and has assisted in the drafting and consideration of proposals to control and severely limit the sale of firearms in interstate commerce to juveniles. Thus, the Service was prepared to come forward with comprehensive legislative proposals designed to effectuate the President's recommendation.

This legislation was introduced in the Senate as S. 1591 and S. 1592 and in the House of Representatives as H.R. 6628 and H.R. 6629. Hearings were held on the proposed legislation by the Subcommittee to Investigate Juvenile Delinquency of the Senate Judiciary Committee at which the Secretary, the Under Secretary, and the Commissioner appeared in support of the legislation.

Direct Legislative Assistance on Important Acts Provided

By far the two most important acts involving tax legislation passed this year were the Interest Equalization Tax Act, approved September 2, 1964, and the Excise Tax Reduction Act of 1965, approved June 21, 1965. Representatives of the Service participated in all major phases of the development of these two Acts. This participation included preparing necessary background material, attending public hearings and Congressional Committee meetings, and rendering technical assistance in drafting the legislation. Similar activity was directed toward other enacted and pending bills.

In addition to activity on enacted and pending bills, assistance was furnished to the Office of the Secretary of the Treasury by the preparation of information reports, technical reports, drafts of bills, and accompanying technical explanations, and other data relating to legislative matters. Included were a number of formal reports on Congressional bills which dealt with proposals to amend the Internal Revenue Code and other legislative matters, including private relief bills.

Several Means Employed to Implement Legislation

Whenever new tax legislation is enacted, the Service implements the legislation by a variety of means. Examples are the issuance of new and amendatory regulations, revisions of tax return forms and instructions, issuance of News or Technical Information Releases calling attention to and explaining the provisions of the new laws, the revision of Service publications, and the issuance of special instructions on procedures to field offices.

Much Accomplished in Implementation of New Acts

The Service is already well on its way toward implementing the tax legislation enacted during the year. In the case of the Interest Equalization Tax Act, several technical information releases explaining the Act and a series of temporary regulations providing administrative and procedural rules have been issued. The Service also participated in the development of four Executive Orders which were promulgated under the authority of the Act.

Implementation of the Excise Tax Reduction Act of 1965 required unusual procedures. There were a number of actions which retailers, manufacturers, etc., were required to take in preparation for, and immediately upon approval of, the Act with regard to such things as records for inventory and possible claims for refunds. To meet the needs of such taxpayers, the Service issued a series of technical information releases prior to the approval of the Act which gave guidelines as to what would be required of taxpayers should approval occur.

SIGNIFICANT LEGISLATION ENACTED

Congress enacted a number of public laws relating to tax matters, some of the more important of which are listed below:

Public Law 88-484, relating to collapsible corporations and personal holding companies.

Public Law 88-539, relating to the exportation of imported distilled spirits and revolving credit sales.

Public Law 88-563, the Interest Equalization Tax Act, relating to a tax on long-term debt obligations and equity securities of foreign issuers which are acquired by U.S. persons.

Public Law 88-570, relating to the release of liability under certain bonds and nonrecognition of gain on repossessed real estate.

Public Law 88-571, relating to taxation of life insurance companies, the depletion rate on beryllium ores, and a 10-year corporate carryover of expropriation losses.

Public Law 89-44, the Excise Tax Reduction Act of 1965, relating to changes in certain excise and miscellaneous taxes and also to miscellaneous other changes in the Internal Revenue Code of 1954.

The Excise Tax Reduction Act of 1965 embodied the recommendations for the reduction and repeal of certain excise taxes made by President Johnson in his message to Congress on May 17, 1965. The excise taxes existing prior to the 1965 Act were, for the most part, initially levied as emergency revenue-raising measures at the time of the Korean war, World War II, or the depression of the 1930's. The 1965 Act represented a comprehensive overhaul of the Federal excise tax structure. Among other things, the 1965 Act provided for the repeal of the manufacturer's excise tax on refrigerators, freezers, self-contained air-conditioning units, electric, gas and oil appliances, radios, television sets, phonographs, phonograph records, musical instruments, sporting goods (except fishing equipment), photographic equipment, and business machines and for the reduction of the excise tax on passenger automobiles. Present or future repeal was also provided for a number of other miscellaneous taxes; for example, those relating to communications, admissions, club dues, playing cards, and coin-operated amusement devices.

Another category of excise taxes affected by the Act were those on alcohol and tobacco. Its principal effect was to make permanent the temporary rate increases first imposed in 1951. The major other change in this area was the elimination of the 10-cents-per-pound excise tax on manufactured tobacco, effective January 1, 1966. Consequently, statutory provisions for the supervision and control of those who handle and ship tobacco materials will be eliminated also.

Two Important Pieces of Legislation Were Pending

Among the tax bills awaiting action by the Congress at the end of the year were the following two bills which had already been passed by the House:

H.R. 4260, to permit corporations to qualify as real estate investment trusts.

H.R. 6675, Social Security Amendments of 1965.

SMALL DECREASE IN LEGAL STAFF

As of June 30, 1965, the Chief Counsel's Office employed 1,256 persons, with attorneys numbering

622 and nonattorney employees 634. This figure represented a decrease of 20 employees from the preceding year. The attorneys were assigned to the National Office and regions as follows:

<i>Office</i>	<i>Number of attorneys</i>
National Office.....	245
Central Region.....	44
Mid-Atlantic Region.....	56
Midwest Region.....	54
North-Atlantic Region.....	74
Southeast Region.....	43
Southwest Region.....	41
Western Region.....	65

International Activities

Chapter 7

INTRODUCTION

The overseas affairs of the Service divide into three broad areas. The largest in terms of Service resources expended is the administration of the tax laws as they apply to U.S. citizens living abroad, nonresident alien recipients of income from U.S. sources, and resident foreign corporations. Another involves participation in the negotiation of tax conventions with foreign countries and the preparation of regulations under these pacts. In addition, the Service furnishes technical assistance to developing countries to help them strengthen and modernize their tax systems.

FOREIGN TAX ASSISTANCE PROGRAM DEVELOPMENT CONTINUED

The Service's foreign tax assistance program, activated in 1963, is designed to meet requests for technical assistance in tax administration from developing countries of the free world. To insure effective coordination both within the Service and among other agencies, the Foreign Tax Assistance Staff, which administers the program, operates as an integral part of the Commissioner's Office.

Generally, the program has been divided into program areas, defined in terms of both function and type of tax. Areas of major concentration include audit, collection, training, and taxpayer relations. In certain countries, due to special conditions, fraud investigation and data processing are also being emphasized.

Under the direction of the Staff, the program continued to expand in 1965. Additionally, considerable progress has been made in refining the program based on experience to date.

More Tax Modernization Teams Established

During the past year, long-range tax modernization teams were established in eight more countries;

INTERNATIONAL ACTIVITIES

Bolivia, Brazil, Costa Rica, Dominican Republic, India, Panama, Paraguay, and Uruguay. There are 17 such teams now active overseas. In prior years, teams were established in Chile, Colombia, Ecuador, El Salvador, Guatemala, South Korea, Nicaragua, Peru, and the Republic of the Philippines.

Fifty-one long-term advisors are assigned to these teams. An additional 33 short-term advisors were detailed abroad this year for special 60- to 90-day projects. Surveys of tax administration needs were completed in the Dominican Republic, Jamaica, Panama, and the East African Common Services Organization (Kenya, Tanganyika, and Uganda).

Many Foreign Visitors Received

On the domestic side of the program, 319 foreign officials and students from 54 countries visited the Service this year, including the chief tax officers from Brazil, France, Nicaragua, and Uruguay. Most visitors received specialized orientation or training in National Office and field operations.

Conference Held on Tax Administration in Latin America

In May 1965, a regional conference on tax administration in Latin America was held in Miami under the joint sponsorship of the Service and the Agency for International Development. The conference operated as a forum for the identification and analysis of problems, and potential solutions found in the Latin American countries. The results of the conference are being used to develop a more coherent and systematic approach to administrative improvement in that region of the world.

Spanish Used in New Training Programs for Latin American Officials

Despite the brief duration of the program, it has become increasingly clear that one of the most urgent needs in the developing countries is trained personnel. Two pilot programs were introduced this year, a course for audit supervisors from Spanish-speaking Latin American countries held at the Albuquerque District Office, and Mobile Training Teams. The Albuquerque course was taught entirely in Spanish by Service personnel fluent in that language. This innovation in AID-sponsored training, permitted the selection of participants solely

on the basis of their abilities in tax administration. The Mobile Training Teams, which traveled from country to country in Latin America, were equipped to teach audit subjects ranging from basic accounting to advanced audit techniques depending on the pre-existing capacity of host country trainees. Both pilot programs were successful.

The newest aspect of the training program, the International Tax Administration Training Series (INTAX), will become operational in fiscal year 1966. It will encompass a scheduled series of courses for upper level administration officials from Latin America in overall tax administration supervision, audit, collection, taxpayer relations, training, data processing, and fraud investigation. These courses will be given at the new National Training Center, and will be taught in Spanish. Later, INTAX will be broadened to cover other geographic areas and other subjects. Training of foreign technicians will continue in the host countries, using both local training programs and the Mobile Training Teams.

The Foreign Tax Assistance Program is conducted in collaboration with the Agency for International Development, Department of State.

SEVERAL TAX CONVENTIONS NEGOTIATED

Discussions took place in Washington with three countries and abroad with seven countries with a view to the conclusion of four new income tax conventions, five protocols supplementing those already in existence, and one tax convention replacing an existing one. The texts of such agreements were in various stages of development at the close of the year.

On July 29, 1964, the Senate gave its consent to the ratification of two protocols supplementing the income tax convention with Japan, supplementary protocol to the Swedish income tax convention, a protocol supplementing the income tax convention with the Netherlands as it relates to the Netherlands-Antilles, and an income tax convention with the Grand Duchy of Luxembourg.

There was an exchange of the instruments of ratification of the protocols with Japan on September 2, 1964, and May 6, 1965, the protocol with Sweden on September 11, 1964, the protocol to the income tax convention with the Netherlands as it relates to the Netherlands-Antilles on September 28,

1964, and the income tax convention with the Grand Duchy of Luxembourg on December 22, 1964.

A supplementary protocol to the income tax convention with Belgium was signed on May 21, 1965, and income tax conventions with the Philippines, Thailand, and Israel were signed on October 10, 1964, March 1, 1965, and June 29, 1965, respectively.

EXPANSION OF COMPLIANCE AND ASSISTANCE SERVICES HIGHLIGHTED INTERNATIONAL OPERATIONS

Broad Program Conducted

The international operations of the Service include administering the tax laws as they apply to U.S. citizens living abroad, nonresident alien recipients of income from U.S. sources, and foreign corporations. The promotion of voluntary compliance is of primary importance in these operations. In addition, the Service, through its Office of International Operations, acts as the Government's competent authority under the many tax conventions between the United States and other countries.

Nearly 455,000 Returns Filed

An indicator of the magnitude of the Service's international operations is the number of returns filed with the Office of International Operations. A total of 454,717 returns were filed with the Office during the year, an increase of 7,279 over the preceding year. Added to the full range of audit and collection activity are many special problems not usually encountered in domestic returns. This results from the complexity of the laws pertaining to international taxation and to the special treatment of income under the respective tax treaties which no doubt accounts for the higher error rate on returns examined. From the 22,104 jurisdictional returns examined the deficiencies and penalties amounted to \$57.9 million which is an average of \$2,619 for each return examined. There were 18,753 Taxpayer Delinquent Accounts collected for a total of \$6.4 million.

Workload at Foreign Posts Increased

During the past year activities relating to U.S. taxpayers abroad increased materially, necessitating an increase in the staffs of Revenue Service Repre-

sentatives at the posts in Ottawa and Sao Paulo and the authorization of additional posts at Bonn, Rome, and Tokyo. The post at Bonn was activated in June 1965 and arrangements were completed to activate the Rome post early in fiscal year 1966. In addition to the performance of their regular audit, collection, and fraud investigation functions, the foreign posts also furnished 261 collateral information reports at the request of various districts and National Office components. A total of 207 such reports were furnished during 1964.

Over 45,000 Overseas Taxpayers Assisted

To complement the work of the foreign posts in the area of taxpayer assistance the Service again conducted the annual Overseas Assistance and Education Program. Participating in the program were 26 specially chosen and highly trained agents. These agents traveled in excess of 130,000 miles, visiting 118 cities in 56 countries. Assistance was rendered to 45,131 taxpayers through personal and telephone contact and through correspondence. In addition, the agents conducted 14 schools for military tax instructors assigned to assist armed forces personnel abroad in the preparation of their tax returns.

Identification of Taxpayers Required Special Program

In order to insure compliance in the international area, the Service is developing programs for identifying U.S. persons who may be liable for U.S. taxes. Under one program initiated pursuant to the Revenue Act of 1962 the names of approximately 14,000 U.S. persons who hold at least a 5-percent interest in some 26,000 foreign corporations have been identified and furnished to the districts. From these identity lists the districts can check whether such persons have income from foreign corporations or are liable for tax under subpart F and subpart G of the Internal Revenue Code.

Another identification program, developed this year, is concerned with U.S. taxpayers residing abroad. The primary aim of the program is to identify U.S. citizens who have been residing abroad or who intend to reside abroad for at least 6 months. Pursuant to an agreement reached with the Department of State, citizens of the United States applying

for a passport, a passport renewal, or registration at any U.S. embassy or consulate will be requested to complete an information form for the Internal Revenue Service. The applicant will not be denied the passport or registration if he refuses to complete the form. However, his name and foreign address will be noted on the form by the embassy or consulate official. The information on the form will be utilized in the National Identity File for checking possible delinquencies.

Economic Advisory Group Aided Auditors

As in past years the economists of the Office of International Operations, section 482 Advisory Group initiated and completed several industrywide studies intended to establish pricing guidelines and provide other economic data for utilization by Service personnel auditing cases involving allocations under section 482 of the Internal Revenue Code. In addition to the industrywide studies, this group gave expert advice when called upon by the field to aid in the preparation of cases to be litigated in the courts. In a significant case involving intercompany pricing, one member of the group appeared in court as an expert witness.

Double Taxation Mitigated

To provide relief from double taxation resulting from adjustments recommended under the coordinated examination program referred to below, the Service has issued Revenue Procedure 64-54. Revenue Procedure 64-54 authorizes a U.S. taxpayer to apply for relief for tax years beginning prior to January 1, 1963, if there has been economic double taxation or undue hardship due to income tax adjustments. During the final quarter of 1965 the Office of International Operations began consideration of several such requests.

Competent Authority Exercised

In his role as Competent Authority, the Director of the Office of International Operations continued to be responsible for administering certain provisions of the several tax conventions. This role includes the exchange of information on an automatic and special request basis and the consultation with foreign tax authorities concerning the disposition of

cases involving double taxation. Consultations on six cases were held during the year.

Coordinated Examination Program Completed

In addition to the above functions, the Office of International Operations completed during the year a special, temporary role in the international enforcement program. This role resulted from the tremendous postwar growth in the volume and complexity of international business transactions. To enable the Service to cope with the situation, specialists in the Office of International Operations when requested by the districts, participated in a program of coordinated examinations in domestic cases involving complex international transactions. District agents were recruited and trained by the Office of International Operations to handle these cases. The specialized training of these agents has now been completed and they were returned to their respective district offices on March 28, 1965.

During the year, prior to the return of these agents to the districts, the Office of International Operations accepted for coordinated examination 228 of the 550 cases referred to it. Recommendations of \$95.3 million in additional tax were made and 200 cases were closed out of the 228 accepted for coordinated examination. During the existence of this program, 1,442 cases were accepted and 953 of these cases have been closed. The income adjustments recommended in these 953 cases totaled \$768.5 million, resulting in tax deficiency adjustments of \$386.7 million, an average of almost \$406,000 per case.

Some Statistics of Income Paid to Nonresident Aliens

Approximately 12,000 of the returns filed with the Office of International Operations were Forms 1042, the form used by withholding agents to report tax withheld at the source on certain income paid to nonresident alien individuals or foreign firms not doing business in the United States. Tabulations of income data on the Forms 1042 filed for calendar year 1963 revealed that \$727.8 million of income from U.S. sources was paid to nonresident alien individuals, foreign corporations, and other foreign entities. This includes the income paid to residents of the 21 countries in which the tax was reduced under income tax conventions effective for 1963. The in-

come paid in 1963 was an increase of \$88.5 million over the 1962 payments and is a record high.

Of the \$727.8 million paid in 1963, \$473.3 million, more than half the total, represented payments of dividends from U.S. industry. Interest paid to foreign residents was \$147.1 million. The combined total of \$620.4 million in dividends and interest paid on foreign investment in the United States is 85 percent of all U.S. income paid to nonresident aliens and foreign business entities.

From the total income paid in calendar year 1963 to nonresident aliens and foreign entities, \$103.6 million in tax was withheld at the source. This includes \$12.7 million additional U.S. tax withheld by withholding agents in the foreign countries and remitted to the United States where it was determined in the treaty countries that the ultimate recipients of the income did not qualify for reduced rates. The following table is an analysis of tax withheld from payments to nonresident alien entities.

Tax withheld from payments to nonresident alien entities of treaty and nontreaty countries, calendar year 1963

Country	Number of information documents	Thousand dollars		
		Tax withheld by domestic withholding agents	Tax from foreign governments or withholding agents	Total
Total	436,106	90,904	12,692	103,596
Treaty Countries:				
Australia	2,592	251		251
Austria	822	61		61
Belgium	9,413	1,885	115	2,000
Canada	156,649	20,843	943	21,786
Denmark	1,429	120		120
France	314	19		19
Germany	36,390	3,178	7	3,185
Greece	3,508	1,468		1,468
Honduras	2,188	176		176
Ireland	499	28		28
Italy	2,985	319		319
Japan	5,577	636		636
Netherlands	1,511	405		405
Netherlands-Antilles	5,040	4,863	111	4,974
New Zealand	2,634	2,044	9	2,047
Norway	645	47		47
Pakistan	3,838	187		187
Sweden	198	21		21
Switzerland	3,188	398		398
Union of South Africa	29,474	17,945	11,222	29,167
United Kingdom and overseas territories	720	227		227
Nontreaty countries by Form 1042S	45,436	22,070	291	22,361
Treaty and nontreaty countries by coupon bond information documents	70,091	12,512		12,512
	44,967	1,201		1,201

Chapter 8

Planning Activities

MANAGEMENT OF THE SERVICE REQUIRES COMPREHENSIVE PLANNING, RESEARCH, AND DEVELOPMENT

The size of the Internal Revenue Service and the complexity of its mission make thorough planning a prerequisite for effective management. Planning activities are centered on the formulation of the Long-Range Plan, a comprehensive master plan for the entire Service.

It is axiomatic that planners cannot plan in a vacuum. In the Service, plans are based on facts and forecasts arrived at through an extensive and penetrating multiphase research effort. Statistical reporting (required by statute and serving many purposes not related to planning in the Service) and measurement of taxpayer compliance are two of the most important research programs. Basic to all planning efforts is the annual review of the Service's resources and goals in connection with the updating of the Long-Range Plan.

The Service, like any large organization, must systematize its work in order to cope with it in an efficient manner. An integral part of research and planning is the refinement of existing systems and the development of new ones.

BOTH LONG-RANGE AND SHORT-RANGE PLANS ARE FORMULATED

Long-Range Plan An Essential Tool

A Long-Range Plan for the Internal Revenue Service is an essential management and planning tool for establishing goals, forecasting future needs, and assuring that current programs are designed to meet established goals. The prime objective of the Plan is to maintain a low-cost Federal tax administration system by maintaining and extending high levels of voluntary compliance with tax administration requirements. The achievement of this objective requires the continuous evaluation of every phase of Service operations in order to forecast basic growth needs and to identify opportunities for improvements in taxpayer compliance and in the utilization of re-

sources. The needs and opportunities thus identified are carefully reviewed in terms of available alternatives, overriding priorities, and practical resource limitations. Upon passing these tests, they provide the basis for the operational goals and the program guidelines in the Long-Range Plan.

Forecasts Indicate Continuing Increase in Returns Filed

The most important workload indicator used by long-range planners is the forecast of tax returns filing. The volume of returns filed in recent years has been steadily increasing and the outlook for continued growth in the Nation's population, labor force, and economy indicates further substantial gains in the number of returns. The number filed during the calendar year 1964 was approximately 100 million, representing an increase of 12 million returns during the last 10 years. Projections recently prepared for long-range planning purposes indicate that the number of returns filed will reach 111 million by 1970 and will exceed 121 million by 1975. The accompanying table shows the national projections for selected types of returns.

Selected types of returns filed in 1964 and projected for calendar years 1965, 1970, and 1975
(Thousands)

Type of return	Actual 1964 ¹	Projected		
		1965	1970	1975
Total returns	100,370	102,035	111,223	121,479
Individual, total	64,460	65,995	73,008	79,783
AGI under \$10,000*	56,489	57,121	58,912	59,884
AGI \$10,000 and over	7,971	8,874	14,096	19,900
Corporation, total	1,396	1,467	1,837	2,215
Form 1120, total	1,235	1,240	1,482	1,722
Assets under \$50,000*	549	549	644	758
Assets \$50,000 under \$1,000,000	619	625	762	898
Assets \$1,000,000 or more	58	67	76	86
Form 1120-S	144	167	277	398
Form 1122	17	60	78	96
Employment	21,910	22,378	24,497	26,680
All others*	12,604	12,194	11,881	12,800

¹ Data by size class are estimated.
² In addition to Forms 1040 and 1040A, includes Forms 1040C, B, NB, NBe, PR, and SS.
³ Includes Forms 1120 with assets not reported.
⁴ Includes individual declarations, corporation declarations, partnership, estate, gift, exempt organization, special occupation, fiduciary, and excise tax returns, and Forms 7004 and tentative 1120L and M and 1042.

Short-Range Operational Planning Based on Long-Range Plan

Planning for the near and current years is based on the portions of the Long-Range Plan which can realistically be attained in such periods. Budget requests for the coming year are based directly upon the Plan. After enactment of congressional appro-

priations, appropriate adjustments are made and resources are allocated to the various activities of the Service as part of the Financial Plan.

Current goals, workloads, and performance measurements in the principal activities are provided by detailed work planning and control systems and by integrated reporting requirements.

CURRENT RESEARCH PROGRAM COVERS A BROAD SPECTRUM OF SERVICE ACTIVITIES

Much Research a Response to Current Developments

Contemporary developments, both internal and external, played major roles in shaping the direction of research activities during the year. Proposed changes in the excise tax laws, administrative problems resulting from the 1964 changes in the Revenue Code, administrative difficulties arising out of the increased scope of data processing, the Service's emphasis on improving operations and compliance, the acceleration of interest in Service statistics and activities by congressional committees, academic institutions, other Government agencies, and State and local governments, all necessitated research responses in the form of studies and various analyses.

Proposed Legislation Also Necessitated Research

As in prior years, special studies of the administrative effects of proposed legislative changes accounted for a substantial part of research time and resources. Prominent among these studies were: (1) an estimation of administrative costs related to various excise taxes, (2) an analysis of dividend exclusions reported on joint income tax returns, (3) a study of the income characteristics of stockholders of small corporations, and (4) a survey of various selected characteristics of tax exempt organizations. Research personnel also actively participated in the deliberations of four legislative study groups.

Studies of Noncompliance Conducted

Research efforts directed toward determining the extent of noncompliance covered a wide area of the Service's responsibilities. Among the more significant noncompliance studies were: (1) nationwide samples to determine the degree of taxpayer compliance in reporting interest from Series E and H bonds, and the comparability of other interest income and dividends as shown on tax returns with the amounts given on information returns; (2) a study based on a sample of filers of information re-

turns to determine the degree of compliance by payees in supplying valid taxpayer identification numbers to payers for use on information returns; and (3) participation in studies on the feasibility of extending the information reporting system to additional governmental payments.

With a view to increasing compliance by improving administrative procedures, the research staff (1) re-examined the advantages and disadvantages of alternative plans of graduated withholding of taxes; (2) developed alternative formats and methods for extending the use of optional tax tables; (3) tested and refined procedures to assure taxpayer compliance in reporting wages, dividends and interest by utilizing the capabilities of electronic equipment; and (4) submitted proposals for improving the system of withholding on payments made to nonresident aliens.

Measurement of Taxpayer Compliance Already Producing Tangible Results

To obtain data in problem areas to permit more effective development of the Long-Range Plan, and to meet the demands for a long-range research program which would complement and further the objectives of the Long-Range Plan and other tax administration requirements, the Service has developed and implemented a Taxpayer Compliance Measurement Program (TCMP). TCMP is gathering new data in three distinct phases (Delinquent Accounts—Phase I; Delinquent Returns—Phase II; and Returns Filed—Phase III). At this juncture, the foundations of all three phases have been laid; outputs from 1963 Phase I and II programs have been tabulated and partially analyzed; and plans for the 1966 operations of Phases II and III are in the process of development.

Tangible results have already been obtained from 1963 Phase I tabulations. TCMP data indicated that a significant portion of the payment delinquencies referred to local offices for collection were closed by correspondence. Accordingly, a new procedure was inaugurated in early 1965 providing for the expanded use of automatic data processing in the mailing of followup notices and in related processing operations on these accounts. This procedure relieves the local offices of a substantial clerical operation and is anticipated to reduce delinquent account issuances by about 500,000 annually.

Similarly, useful data were obtained from the 1963 Phase II survey of nonfarm businesses in the Southeast Region. The data indicate that one out

of every nine taxpayers in this region was delinquent for either 1962 tax or information returns as of the survey date. However, these results also indicate that the dollar amount of delinquency not already disclosed by existing enforcement programs is relatively small and consists mainly of individual income and employment taxes. A special compliance program for 1965, based on the survey findings, has been installed.

In anticipation of the availability of data from Phase III in July 1966, the Service has also started a new research project to use mathematical techniques to develop an effective ADP procedure for selecting from the 65 million individual returns filed annually those most urgently in need of examination. If present expectations are realized, the ADP selection would increase the effectiveness of a given size audit staff by: (1) reducing the proportion of examined cases resulting in no tax change; (2) increasing the average tax change resulting from audit; and (3) substantially reducing the manual returns classification requirements.

Expected short-run operational benefits from TCMP can be summarized as: (1) establishing the extent of potential cost reduction from revised collection programs based on greater use of data processing procedures and lesser use of enforcement manpower; (2) determination of the level of adequacy of the Business Master File as a delinquent returns check; (3) disclosure of pockets of delinquent returns noncompliance for systematic follow-through by enforcement personnel, educational programs and other indicated tax administration methods; and (4) development of an effective ADP selection procedure for some 65 million individual returns filed annually. In addition to the efficiency expectations outlined above, TCMP will help greatly to clarify overall tax administration needs by providing new data indicating the sizes of the various kinds of tax-return-filing delinquency problems among farm and nonfarm business taxpayers, and the tax error problems of individual income taxpayers.

Over a longer period, TCMP will indicate whether the current levels and methods of tax administration are reducing, increasing, or maintaining the willingness and ability of taxpayers to comply with the Federal tax laws.

Organizational Studies Promoted Operational Effectiveness

A series of studies directed toward the more eco-

nomical and effective organization of field offices culminated this year in the consolidation of the former Northeast and New York Regions into the present North-Atlantic Region. For more information on this and other improvements resulting from organizational studies, see page 63.

Statistical Reporting Provides Data for Government and Non-Government Research

By drawing on the data furnished in tax returns, the Internal Revenue Service continued during 1965 to prepare, at relatively low cost, statistics for use in analyzing the operation of the Federal tax system for both revenue estimating and tax research purposes. As a useful byproduct of the tax reporting process, these statistics provide a financial profile of taxpayers and also supply financial and economic data used in the preparation of the National Income and Product Accounts and in research conducted by other Government agencies, businesses, private research organizations, and universities. The data are published in the Statistics of Income series as required by section 6108 of the 1954 Internal Revenue Code. A

list of these reports published during the year may be found on page 92.

The 1962 Individual Income Tax Return Report presents new information relating to contributions by type of recipient, itemized deductions as a percent of adjusted gross income, size of investment credit, and itemized deductions and types of exemptions by States. A supplemental report was issued presenting State and metropolitan area data for 1959, 1960, and 1961. Of particular interest in the report for 1963 individual income tax returns is the increased reporting of dividends and interest over previous calendar years, both in number of returns and amount. There were 6.6 million more returns with interest from savings accounts and other sources, a growth of 45 percent over the preceding year, while the amount reported rose \$2 billion or 29 percent. Approximately 1.6 million more returns showed dividends in 1963 than in 1962, an increase of 20 percent, with the amount of dividends increasing over \$800 million or 7 percent.

The following table presents, for a 5-year period, some of the overall summary information contained in the Statistics of Income reports for individual taxpayers.

Individual income tax returns: Number of returns, sources of income, and itemized deductions

	Income year				
	1959	1960	1961	1962	1963
(Thousands)					
A. Number of returns					
All individual returns, total.....	60,271	61,028	61,499	62,712	63,943
Taxable.....	47,497	48,061	48,583	50,092	51,323
Nontaxable.....	12,774	12,967	12,917	12,620	12,620
Returns with itemized deductions, total.....	22,510	24,083	25,262	26,451	28,154
Taxable.....	20,761	22,185	23,258	24,351	25,828
Nontaxable.....	1,749	1,898	2,004	2,100	2,326
Returns with standard deductions, total ¹	37,761	36,945	36,238	36,261	35,789
Taxable.....	26,736	25,876	25,325	25,741	25,495
Nontaxable ¹	11,026	11,069	10,913	10,520	10,294
(Million dollars)					
B. Sources of income					
Adjusted gross income, total.....	305,095	315,466	329,861	348,701	358,778
Salaries and wages.....	247,370	257,918	266,902	283,373	299,443
Business, farm, and profession.....	21,431	21,072	22,630	23,925	23,872
Dividends in adjusted gross income ²	5,356	9,330	9,890	10,640	11,452
Interest received ³	4,395	5,057	5,683	7,155	9,212
Partnership.....	9,563	8,966	8,949	9,344	9,313
Capital gains.....	6,274	5,300	7,621	5,771	6,449
Other income.....	6,704	7,524	8,187	8,491	9,037
(Million dollars)					
C. Itemized deductions					
Itemized deductions, total.....	32,017	35,313	38,391	41,661	46,053
Taxes.....		10,526		13,045	
Interest paid.....		8,416		10,274	
Contributions.....		6,150		7,516	
Medical and dental expense.....		5,219		6,079	
Other deductions.....	Not tabulated.	4,402	Not tabulated.	4,747	Not tabulated.

Note.—Returns classified as taxable are those reporting income tax after credits. certain Form 1040 returns with less than \$200 of dividends or interest were also excluded.

¹ Includes returns with no adjusted gross income.

² Excludes dividends and interest reported on Form 1040A and in addition for 1961.

³ Reduced by self-employment pension deduction of \$19,483,000.

The U.S. Business Tax Return Report for 1962 presents for the first time statistics on the extent individuals engaged, in farming depend on income from various other sources. The 3.3 million individuals engaged in farming in 1962 also had income of \$6.9 billion from wages and salaries, more than twice the amount they reported for net farm income. Other new statistics include data on inventory valuation methods, the investment credit, and receipts-to-inventory ratios.

The 1962 Corporation Income Tax Return Report presents the first complete statistics on the investment credit allowed under the Revenue Act of 1962. These data show that 40 percent of the corporations that reported an income tax also claimed an investment credit. The credit totaled \$833.7 million and was based on purchases of depreciable property in excess of \$22 billion. Also new in this report is information on gains and losses from the sales of section 1231 property and on inventory valuation methods.

Models of Taxpaying Populations Are Proving Useful

The Service has been making increased use of Statistics of Income tax models for tax research. A new model based on a sample comprised of 100,000 individual income tax returns for 1962 was developed to provide fast and reliable estimates of the revenue effect of changes in tax laws and their administration. This model, consisting of a magnetic tape file of the sampled returns and a computer program capable of simulating the probable result of a wide variety of possible changes in tax law, was used in the development of proposals for graduated withholding on salaries and wages. A model based on individual income tax returns for 1964 is being designed to provide more up-to-date base data and more flexible manipulation and tabulation possibilities.

During 1965, the Service for the first time made available for sale copies of its tax model tape files. The tape file for the 1962 individual income tax return model can be purchased for approximately \$300 by research workers in other Government and non-Government organizations. Each record in the file contains 60 items of information which will enable the user to compute the tax and most of the income, deduction, exemption, and tax credit details for the individual taxpayer, but all identifying data as to the specific taxpayer have been removed. This

permits the Service to make data available for statistical purposes while at the same time protecting the confidentiality of the tax returns.

Special Studies Conducted

Under the terms of sections 7515 and 7809 of the Internal Revenue Code as amended by Public Law 87-870, the Service continued to undertake special studies on a reimbursable basis. During the year, 13 projects were completed, with the estimated cost of the projects ranging from \$200 to \$17,000. The major users have been other Federal Government agencies, State and local government agencies, universities, private individuals, companies, and research organizations. In addition, 72 requests for material from the Source Book of Statistics of Income were filled, consisting of approximately 1,400 photostats or microfilm prints and 44 rolls of microfilm.

Committee on Statistics Has Advised on Users Needs

The Treasury-Internal Revenue Service Committee on Statistics was established in 1962 to advise Service officials as to the current needs for tax data of the principal users of Statistics of Income. It also provided technical advice and guidance regarding the standards of quality and timeliness which should be maintained in producing Statistics of Income. In accordance with the provisions of Executive Order 11007, the Committee was continued for a 2-year period beginning July 1, 1963, and terminated on June 30, 1965. The names and affiliations of the members of the Committee, composed of recognized scholars and principal users of the Statistics of Income publications, are listed in the 1964 Annual Report.

The group met twice during the year. At each meeting the statistical program was carefully reviewed and proposed changes and recommendations regarding selected courses of action were evaluated. The group offered advice on how the data published might be of greater use and also suggested new types of information that might be tabulated. Considerable time was devoted to a discussion of how the available money and resources could be used to best advantage in a program that would meet the basic needs of all users of Statistics of Income data. The Statistics Division presented the results of an intensive review it had made of its program for producing Statistics of Income and of the plan it had developed for the remainder of the decade. Major innova-

tions scheduled include the cycling of topics and increased use of tax model tape files.

SYSTEMS DEVELOPMENT PRODUCES OPERATIONAL IMPROVEMENTS

Systems development effort continued to be directed toward achieving four broad objectives: (1) Reducing costs and increasing efficiency of computer configurations in place or scheduled for installation in regional service centers and the National Computer Center; (2) reducing costs and increasing efficiency in input preparation operations in regional service centers; (3) improving and developing information systems for program managers responsible for the coordination and control of the Service's resources; and (4) developing a future ADP systems concept to take advantage of expanding technological advances in the data processing field.

Major Attention Given to Four Projects in 1965

(1) Service center and computer center equipment.—Two projects were completed which resulted in a major change in service center computer equipment and the selection of equipment to supplement the computers presently installed in the National Computer Center. In each case, specifications were issued to equipment suppliers, proposals were evaluated, and equipment was selected in a relatively short period of time.

In the case of the service centers, a decision was made to replace IBM 1401 computers with Honeywell H-200's. Additional computer center equipment required to handle the master file workload volumes estimated for the 1967-70 period was selected as a result of the evaluation of proposals submitted by suppliers in October 1964. For more details, see page 13.

(2) Input Preparation.—This project is designed to develop improved techniques for converting information from the form in which it is received to a form acceptable for computer processing. Reduction of the cost of the present method of key punching, key verifying, and converting to tape by computer is the primary objective. For purposes of this study, inputs are considered under two distinct categories: (a) those which may be received by the Service in machine language or which may be converted to machine language without human transcription; and (b) those which require human tran-

scription as an intermediate step to conversion to machine language.

(a) Machine-language Inputs.—Economically feasible operating programs for handling this category of input documents are expected to be established within a relatively short period of time. For example, a pilot magnetic tape reporting was undertaken in fiscal 1965 under which a small number of payers submitted 1964 Forms W-2 and 1099 information on a magnetic tape on an experimental basis. Analysis and evaluation of these tape reports is expected to result in the establishment of an operational magnetic tape reporting program beginning with 1965 payment information to be filed in calendar year 1966.

In addition, several types of high-volume input documents handled each year by the Service lend themselves to direct conversion to machine language through the use of optical character recognition devices. A number of test projects initiated in 1965 and continuing into 1966 are expected to establish the practicability of this approach.

(b) Inputs requiring transcription.—Input documents which require human transcription prior to conversion to computer language because of complexities of content or format are principally income tax returns and other documents not suitable for magnetic tape reporting or direct optical scanning. Various transcription devices are being tested, or are scheduled for testing, as possible substitutes for the conventional key punching approach now used.

(3) Information Systems Projects.—During the year considerable progress was made in furthering the development of information systems which will satisfy some long-felt needs of management, research, and professional personnel. Development work moved forward in a number of activities, ranging from the highly complex legal and quasi-legal areas to the nonlegal administrative areas responsible for the management of personnel, payroll, and the IR-Manual activities of the Service. Selected projects partially completed or well advanced in planning during 1965 are:

(a) Legal information retrieval system.—A system designed to assist Service attorneys in coordinating their pending cases to insure that consistent positions are being taken on similar issues, is currently operating in the Chief Counsel offices. Considerable progress was made in

improving the research capability of the system and in providing for the production of useful management reports not heretofore available.

(b) Personnel and payroll systems.—A group representing the systems development, personnel, payroll, and reports management functions was activated during 1965 to develop a system, or systems, to eliminate to the extent possible the duplication of data common to both the personnel and payroll operations and to reduce manual work involved in maintaining required employee records. One important objective is to develop a system which will permit easy access to information useful to management in such areas as promotion, recruitment, reassignment, and training.

(c) IR-Manual index.—This project, initiated during 1965, is designed to provide an efficient indexing system which will facilitate complete and rapid access to the material contained in the Internal Revenue Service Manual. Under test is the key-word-in-context technique (KWIC) which produces an alphabetical in-

dex of key subject words and provides for the complete identification of Manual locations of subject matter being searched.

(4) Future ADP systems concept.—Expanding technological developments in the field of ADP, which offer major improvements in the field of data bank storage, along with recent developments in the high-speed communication field, suggest that research studies are needed to determine the potential utilization of these newer developments and techniques in the Service's data processing and other functional areas. These technologies could offer the means for developing a more fully integrated ADP system capable of satisfying needs not met by the existing system. The collection and enforcement activities, in particular, could benefit from such system flexibility. Development of the specific definition and scope of this project was started in 1965. Work on the project will begin during 1966 and continue over a considerable period of time, with 1968 being the target date for a comprehensive report and recommendation for a conceptually new ADP system.

Chapter 9

Management Activities

RECORD HIGH SAVINGS FROM MANAGEMENT IMPROVEMENTS

Service executives strongly endorsed the President's Cost Reduction Program and set a pattern of increased personal involvement in carrying out its principles, policies, and aim. This personal involvement of top officials in the management process fosters a management climate which encourages creativity and innovation, and highlights the theme that personal stewardship of public funds and excellence in the public service are expected of all Service officials and employees.

During the year, the Service compiled its most impressive record of progress in improving its administrative operations and reducing costs. Recurring, one-time, and incentive awards savings from cost reduction and management improvement efforts and activities totaled \$17.1 million, an increase of 47 percent over the previous high total of \$11.6 million reported in 1963.

Cost Reduction Actions Increased

Much of the savings realized resulted from completion of 25 individual management improvement and cost reduction actions, each of which produced, or will produce annual savings in excess of \$100,000. This constitutes a significant increase over the 11 comparable actions completed during 1964.

Several representative examples of the most significant management improvement accomplishments effected by the Service are described below:

Major Systems and Procedural Changes Conserve Resources

The following major systems and procedural changes illustrate the depth and wide range of actions taken to effect optimum utilization of resources.

Microfilm Replaces Paper.—A new system which transfers data directly from magnetic tape to microfilm at speeds 15 times faster than printing on paper has been adopted for production of final printed outputs, such as indices and settlement registers for

use in district offices and service centers. The small volume of microfilm contrasts sharply with the great volume of paper outputs previously necessary. Not only are savings in print time and space being realized, but data is more readily available, and easier and faster to look up. Through the utilization of high speed microfilm readers especially developed for this purpose, any specific taxpayer data desired can be made available in from 2 to 2½ minutes. In 1964 the system was tested in the Southeast Region and found acceptable. Beginning January 1, 1965, taxpayer directories, returns and documents indexes, and settlement registers were provided on microfilm for master file taxpayers in the Southeast and Mid-Atlantic Regions. On July 1, 1965, the system will be in use in all district offices. Savings in manpower (4 man-years), space, paper, and computer printout time are estimated at \$298,700 annually beginning in 1966.

Preaddressed Labels Expedite Processing.—A two-part "piggyback" mailing label is being affixed to individual and corporation income tax returns. Both parts, one on top of the other, bear the taxpayer's name, address, and identifying number as shown by the Master File. If the taxpayer does not use the tax form sent to him, he is asked to remove the top label and affix it to the return which he does file. Compliance with this request expedites processing under the ADP system and contributes toward further economies.

Improved Library Cuts Tape Inventory.—A computerized tape library system has been devised and installed to meet increasing demands for magnetic tape as the ADP Master File system is extended to more regions and districts. This permits better utilization of magnetic tape inventories by promptly releasing for reuse all tapes upon expiration of the prescribed retention period. Purchases of additional tapes estimated at \$303,000 were deferred because of the improved utilization of existing tape inventories.

Simplified Key Punching Saves Time.—Substantial savings were realized by key punching whole dollars only and dropping key verification of certain Form 1040 and 1120 tax return data not used in settlement of the taxpayer liability. Further cost reductions were obtained by application of the variable length (in lieu of fixed) field input technique to business type master file returns.

The productivity increase reflected by this change is translated into 136 man-years and \$542,800 in

savings during 1965, and 161 man-years and \$643,200 for 1966 and subsequent years.

Purchases of ADP Equipment Save \$1,900,000.—Advantages to the Government in purchasing computer equipment were demonstrated by the Lease-Purchase Study of November 1963. Accordingly, the three computers at the North-Atlantic, Midwest, and Western Service Centers and the two large-scale computers and support equipment at the National Computer Center were purchased in 1964. Depreciated purchase cost was equal to approximately 2 years' rentals.

Bids were requested from manufacturers for equipment to replace leased equipment (scheduled for purchase) to do the ADP service centers' processing job. The proposal which was accepted provides nonrecurring savings estimated at \$1 million over the next 3 years. Because the multiprocessing capabilities of the selected computer require fewer computer systems to meet operating needs, it now seems likely that \$700,000 additional savings will be realized by 1967.

A lease-purchase study in 1964 also revealed that purchase of collators, sorters, and interpreters, with maintenance under contract, would clearly result in savings. The purchase of other key-driven equipment also would be economically advantageous provided the Service performed its own maintenance. Expected annual savings are \$166,000 on the purchase of 14 collators, 9 sorters, and 7 interpreters. As a test, 108 key-driven machines also were purchased and are being maintained in the Southeast Service Center. Annual savings of \$50,000 are anticipated.

Followup Notice and Revised Collection Procedures.—During fiscal year 1965, Service Centers began issuing a machine generated "followup" notice on individual income tax accounts. The followup notice replaces the notice previously issued manually by district offices. This form and other procedures developed in fiscal year 1965 will save 128 man-years and \$587,000 in 1966 and ensuing years.

Processing of Large Refund Cases Simplified.—Section 6405 of the Internal Revenue Code of 1954 requires reports to the Joint Committee on Internal Revenue Taxation of all refunds and credits of income, war profits, excess profits, estate, or gift tax exceeding \$100,000. Effective July 1, 1965, procedures for handling these cases will be substantially simplified. Reviews will be reduced and special detailed documentation eliminated.

Benefits include a dramatic reduction in review time, substantial curtailment of elapsed time in the disposition of cases (4 to 6 months), and the savings of interest to the Government estimated at \$2.0 million annually.

Because of the heavy backlog of cases in process, full annualized savings of 69 man-years and \$841,000 will not accrue until 1967. Savings for 1966 are estimated at 35 man-years and \$400,000.

Decentralized Departmental Printing of Tax Forms.—In 1964 authority was obtained from the Joint Committee on Printing to decentralize reprints on tax forms in those regions serviced by the Government Printing Office (GPO) field plant. This year authority was granted for decentralized commercial procurement in those regions not serviced by a GPO field plant.

With this authority providing a means for obtaining emergency supplies of tax forms, other refinements in estimation of requirements were made, resulting in estimated annual savings of \$350,000.

Emphasis on Management of Manpower Resources Continues

During the year, many actions taken by the Service were directed toward improvements designed to enhance the utilization of its most important and costly resource—manpower. Described below are a few examples of the many accomplishments which are concerned primarily with “manpower management.”

Position Management Handbook.—A handbook on manpower utilization and control (Position Management) was developed and issued on June 25, 1965. This handbook contains principles and objectives of a position management and control system.

Career Programs.—Career programs were developed and implemented for the appellate, intelligence, audit, and delinquent accounts and returns (collection) functions. These programs are patterned after the Executive Selection and Development Program and, like that program, are key elements in the Service's continuing effort to build a professional staff second to none.

Survey to Evaluate Utilization of Alcohol and Tobacco Tax Enforcement Manpower.—A manpower survey was completed which involved a comprehensive appraisal and assessment of the enforcement branch organization and operations in each region to determine what reassignments, realignments, and organizational changes could be made at regional,

branch, and post-of-duty levels to achieve more effective and efficient utilization of investigative manpower, or to maintain or even accelerate present enforcement programs with fewer investigative personnel. Implementation of survey recommendations resulted in a net reduction of 35 man-years in enforcement manpower valued at \$260,000.

Revision of Revenue Officer Trainee Program.—The classroom training portion of the Revenue Officer Training Program was revised extensively during the early part of the year, including the development and publication of new, improved training materials. The new course, reduced in length, is designed to enable trainees to work independently on relatively simple income tax cases as early as possible, in recognition of effective learning principles, effective manpower utilization techniques, and revenue officer job classification factors. Total annual estimated recurring savings of 28 man-years and \$223,000 are anticipated as a result of this improvement.

Establishment of Taxpayer Assistor Positions in Local Offices.—Staffing of 206 selected local offices with 271 full-time taxpayer assistors (GS-5 and GS-7) was undertaken to provide year-round assistance to taxpayers, thereby releasing revenue agents and revenue offices (GS-9 and GS-11) for enforcement work. Estimated annual savings of \$250,000 are based on lower salaries of taxpayer assistors.

Reconnaissance Manpower Study.—The firm of Hendrick and Company, Management Consultants, was engaged to conduct a 2-week reconnaissance study of a large district office (Boston) to determine if their unique fact-finding and analysis techniques of payroll reduction and control could be profitably applied to the Service. The firm concluded that the Internal Revenue Service had such a well designed and lean organization structure, effective work controls, and exceptionally good ratios of nonsupervisory to supervisory personnel that a full-scale study would not be profitable.

Organization Structures Streamlined for Improved Operational Effectiveness

Several major organizational changes were made to improve operations and increase efficiency. Among other benefits, most improvements resulted in supervisory and other overhead positions being diverted to direct enforcement work, thereby reducing requirements for additional manpower to meet increasing workloads.

Following are some of the most significant organizational changes:

Consolidation of New York and Northeast Regions.—Effective January 4, 1965, the New York and Northeast Regions were consolidated into a single region—the North-Atlantic Region—with headquarters in New York City. The purpose of this consolidation was to bring about a better balance between the various regions and to reduce overhead supervisory expenses.

Savings in 1966 are estimated at 92 man-years and \$893,000. When fully implemented in 1967, it is anticipated that savings of 115 man-years and \$1,150,000 will be realized.

Consolidation of Office Collection Force (OCF) Organizations.—Consolidating OCF organizations in large metropolitan areas permitted centralization of nontechnical functions and released supervisory Revenue Officers for direct enforcement work. Savings of 19.6 man-years and \$136,000 were realized.

Technical Divisions Reorganized.—The structure of the Technical organization in the National Office was realigned by type of tax rather than by function. The new organization, to be fully implemented in July 1965, is aimed at more effective utilization of manpower and improved service to taxpayers.

Chief Counsel's Office Reorganized.—During the year, the Office of the Chief Counsel added the position of Deputy Chief Counsel. The Deputy Chief Counsel will assist the Chief Counsel in planning and directing policies and programs.

A new division was formed to establish a more efficient organization for the administrative and nontax legal functions of the Chief Counsel's Office. The division is known as the Operations and Planning Division.

As indicated on page 61, during the year the Service adopted a procedure for expediting the flow of Joint Committee cases. As a result, the Joint Committee Division of the Chief Counsel's Office will eventually be disbanded. Over the years the Division has earned a fine reputation within the Service, but the newly devised procedure makes a legal review in every case unnecessary.

Status Analysis and Cost Reductions Highlight Reports Program

Commissioner Briefed on Status of Major Programs.—In carrying out its status analysis function, the National Office Reports Division now provides the Commissioner and his top staff with quarterly briefings on the status of major programs. These

briefings reflect analyses arrived at independently by the Reports Division, but which are developed according to analytic criteria jointly conceived with operating divisions.

Reporting Costs Cut.—Since the Reports Program was established 5 years ago, reporting requirements have declined 42 percent in number and 17 percent in costs. This decline, which is net of added requirements for new and expanded programs, is attributable to:

Streamlining reporting systems to cut data gathering, transmission, and compilation costs.

Meeting regional and district requirements for management information through vertically integrated reporting systems developed at the National Office level.

Outright discontinuance of nonessential reporting.

UTILIZATION OF HUMAN RESOURCES HIGHLIGHTS PERSONNEL PROGRAM

The personnel program of the Service continued to emphasize assistance to managers in achieving full utilization of human resources, and accomplishment of program objectives by efficient and economical use of manpower. One major step was development of an improved position management and control system, designed to coordinate manpower cost reduction efforts of line managers at every level with those of support staff organizations, including personnel. Additional highlights of the 1965 program included the 10th anniversary of the highly successful Executive Development Program; the first substantive collective bargaining agreement negotiated between the Service and an employee organization; attitude surveys decentralized to the regions and conducted in nine different districts; outstanding gains in the suggestions and awards program, signaling increased recognition of employee contributions to good management; and further progress in the recruitment and redeployment problems associated with the continuing conversion from manual processing and revenue accounting methods to automatic data processing.

IRS Adjusts Its Workforce to Organizational Changes

The increased tempo of organizational change within the Service over the past several years has resulted in the development of a staff redeployment

program with the dual objective of maximum manpower utilization and minimum adverse impact on employees. This program has been successfully applied in the continuing conversion to data processing and in the recent regional consolidations and district mergers.

The redeployment program is based on a determination to retain and utilize the skills and abilities of experienced personnel, and a firm commitment to plan and conduct necessary organizational changes so as to do everything possible to avoid adverse effects on employees. The key elements in the program are: (1) Personnel plans to identify and utilize affected employees are made an integral part of the initial planning of organizational change; scheduling changes allows the lead time required for effecting personnel adjustments; (2) full advance information is given employees and employee groups regarding the changes, to insure support and cooperation in making adjustments; (3) intensive placement and training programs are developed, designed to open up new employment opportunities for affected employees; (4) special personnel procedures and techniques are developed jointly with the Civil Service Commission, to provide maximum flexibility.

The major application of the redeployment program has been in the reassignment of personnel affected by the data processing conversion. In these efforts the Service thus far has accomplished a reduction of some 5,200 district positions in data processing and revenue accounting work, without resort to involuntary separations, transfers, or grade reductions. The program has also been highly successful in providing new assignments for personnel affected by the 1965 consolidation of the Northeast and New York Regions, and by the 1964 regional consolidation and district mergers.

Executive Selection and Development: A Decade of Progress

This year the Service marked the 10th anniversary of its Executive Selection and Development Program. The program was established in 1955 to satisfy a growing need for the identification and development of people who possessed the leadership talents and management abilities required for successful performance in key executive positions. In addition, the program was considered the foundation of an effort to build a strong and effective career system for the Revenue Service.

During the past decade, the Executive Selection and Development Program has progressed to the point where it now represents the route to the Service's top level executive positions, and is the means through which the Service seeks to assure itself a staff of first-rate career executives. Among the program's 120 graduates, for example, are 34 Assistant District Directors, 33 District Directors, 7 Assistant Service Center Directors, 3 Service Center Directors, 20 Assistant Regional Commissioners, and 11 National Office executives.

Selection and Development Programs Extended to All Leadership Levels

In the coming decade, continuing economic and technological changes will add new dimensions to the size and complexity of the Service's operations, and its management problems and goals will necessarily become more difficult and challenging. As a result, the Service's need for competent management and leadership at the supervisory and managerial levels will be greater than it has ever been.

It is in this climate that the Service is moving ahead to establish more comprehensive and systematic programs for the careful selection and development of supervisory and managerial personnel. A program for the alcohol and tobacco tax function has been in effect for over a year and programs for the appellate and intelligence functions recently began operating. As the year closed, moreover, each regional commissioner was vigorously engaged in the development of programs for supervisors and managers in the audit and delinquent accounts and returns functions. These regional programs will begin operating during the coming year.

Employee-Management Relations Strengthened

The Service continued its efforts toward productive and meaningful relations with employees and employee organizations under the spirit and intent of Executive Order 10988. Efforts have centered on maintaining the focal point of employee-management relations at the local level, where employees are most directly involved.

During the year, the number of employees in units exclusively represented by employee organizations increased by 1,787. At the end of the year, more than 20,000 employees in 40 offices were in units exclusively represented by 3 employee organizations.

The Newark District and Chapter 60, National Association of Internal Revenue Employees negoti-

ated a collective bargaining agreement covering all employees of the district except management officials, technical employees in the Personnel and Training Branches, and investigative personnel in the Intelligence Division.

This is the first substantive agreement negotiated in the Service. Aside from basic provisions, taken mainly from the Executive Order, the Agreement contains substantive provisions on the scope of negotiations, grievances and adverse actions, supplemental agreements, use of employee representatives, and establishment of fact-finding and employee-management cooperation committees.

Arbitrators submitted advisory decisions in two hearings involving unit determinations in the Service. (1) Arbitrator Robert O. Boyd upheld the Service's position that a separate unit of revenue agents was not appropriate for purposes of exclusive recognition in the Los Angeles District Office. (2) Arbitrator Francis J. Robertson upheld the Service's position that Servicewide units, covering all eligible employees, were not appropriate for purposes of exclusive recognition.

A training course was conducted in five centralized field locations to acquaint negotiating teams in local offices with the background, regulations, skills and techniques necessary to successful, productive negotiations.

The Employees Speak: Attitude Surveys in Nine Districts

A continuing program of attitude surveys enabled employees to transmit their ideas and opinions directly to management, for use in improving operation of the Service and its personnel programs and practices.

The Survey program was decentralized to the regions, which conducted surveys in nine districts (over 5,200 respondents). Although there were exceptions in certain districts, divisions, or occupational groups, employees generally reported satisfaction with the work they perform, their coworkers, their immediate supervisors, district management, the benefits program, and the training they received. Plans are being formulated to correct varying degrees of dissatisfaction with promotions, communications, and physical working conditions.

Incentive Awards Program Reaches All-Time High

During 1965 outstanding progress was made in fulfilling President Johnson's expressed hope for a stronger Incentive Awards Program throughout the Federal Government. With an across-the-board increase of more than 50 percent in suggestions received, adopted, and in estimated savings, fiscal year 1965 set an all-time Service high for suggestion program results. At the same time, there were noteworthy increases in the numbers of honor and performance awards presented for services of an exceptional nature.

The highlight of the year's program was the Civil Service Commission's 10th Anniversary Awards Ceremony on December 4, 1964, at which President Johnson honored 30 top cost-cutters in the Federal Service. Among these were five Service employees who comprised a task force which was credited with saving over \$900,000 annually.

New Ideas and Accomplishments in Recruiting

A new program was initiated to develop a more reliable employment source for hiring the thousands of temporary clerks who are needed each year during the peak load income tax filing season. The program includes the stimulation of interest in such employment by an intensive recruiting campaign, giving a Civil Service examination designed particularly for this purpose, and making selections for appointment on a strict competitive basis. Substantial improvements were shown by the result from a test of the program in 18 district offices.

In addition to giving the Service a more reliable source of qualified people for this work, the program also made it possible to hire a significantly greater number of temporary workers at the GS-1 level. This program will be extended to all offices next year.

In service center recruiting, the Service has again effectively demonstrated its capacity to recruit, train, and make productive large numbers of employees within a minimum length of time. The Philadelphia Service Center accomplished this major recruiting and productive placement achievement by hiring approximately 1,700 employees in about 2 months, as part of the massive buildup for processing individual income tax returns.

Man-years realized during each of the past 2 years and employees on the rolls at the close of 1964 and 1965 are shown in the following table:

Location and type	Personnel summary			
	Man-years realized		Number on rolls at close of year	
	1964	1965	1964	1965
Service, total.....	61,059	62,098	59,357	60,360
Permanent.....	57,020	57,444	56,594	56,345
Temporary.....	4,039	4,654	2,763	4,015
National Office.....	3,719	3,881	3,611	3,614
Field service, total.....	57,340	58,217	55,746	56,746
Data processing, total.....	16,577	17,563	15,446	16,426
Collection, total.....	10,250	10,298	10,234	10,015
Revenue officers.....	6,396	6,383	6,244	6,201
Other.....	3,817	3,905	3,990	3,814
Audit, total.....	20,015	19,854	19,781	19,686
Revenue agents.....	12,586	12,450	12,365	12,178
Office auditors and tax technicians.....	3,147	3,126	3,081	3,018
Other.....	4,282	4,278	4,335	4,490
Intelligence, total.....	2,320	2,325	2,318	2,336
Special agents.....	1,718	1,722	1,714	1,712
Other.....	603	603	604	624
Alcohol and tobacco tax, total.....	2,779	2,709	2,737	2,665
Investigators.....	983	943	970	930
Inspectors.....	450	459	453	456
Storesmen/gaugers.....	461	435	443	420
Other.....	886	872	891	859
Appellate, total.....	1,434	1,492	1,462	1,533
Technical advisors.....	638	664	648	677
Auditors.....	145	151	148	153
Other.....	650	677	666	703
Administration.....	2,565	2,630	2,418	2,704
Regional Counsel.....	744	742	747	751
Regional Inspection.....	592	605	602	630

* Revised to reflect transfer of National Computer Center from National Office to Field, and 9900 Activity Payroll Operations in Service Center from Data Processing to Administration for reporting purposes.

† Includes terminal leave man-years for entire Service.

‡ Includes Office of International Operations.

§ Includes overseas employees hired locally (3 in 1964 and 4 in 1965).

The Non-Discrimination Program Moves Ahead

The Revenue Service continued to place special emphasis upon the nondiscrimination program—the employment of minority group members, women, the physically handicapped, and the mentally retarded.

Progress for Minority Groups

Strong emphasis continued to be placed on the Equal Employment Opportunity Program. A plan was inaugurated to facilitate the relocation of Negro employees, in selected northern offices, who wished to accept positions at offices located in the Southeast Region or in the Austin, Dallas, Little Rock, New Orleans, and Oklahoma City Districts of the Southwest Region. As an initial effort, Negro employees occupying certain positions in the Brooklyn, Chicago,

Cleveland, Detroit, Manhattan, Newark, and Philadelphia District Offices were personally contacted to determine their interest in relocating in the South.

A pilot seminar was planned for early fiscal year 1966 in Arkansas. This seminar, designated as the prototype for others to follow in various parts of the United States, aims to strengthen supervisory knowledge of Equal Employment policy and program requirements at national and local levels and to assist supervisors in identifying and fulfilling their personal obligations in carrying out the program.

Field and National Office officials met on May 13 and 14, 1965, at Gaithersburg, Md., in a "first" for the Service—an Equal Employment Opportunity Workshop. Problems were identified and agreement reached on plans for the forthcoming year, including designation of Equal Opportunity Coordinators in a number of Service offices. Each coordinator will stimulate and oversee positive program activities in his area.

Additionally, the Service broadened and improved its contacts with organized minority groups and community leaders, whose help has been found essential to a successful equal opportunity program. The active program in recruiting at predominantly Negro colleges was continued and emphasized.

Further breakthroughs were made in the employment of minority group persons in areas and job categories which heretofore were not occupied by them. Progress in this direction has been excellent.

There are no longer any Southern districts in which minority group persons do not hold professional jobs in the Service. In fact, statistics from this part of the Nation reveal a steady rise in numbers employed over the past 2 years, as well as an increase in number of locations where they are employed. Minority group employees are being assigned to posts of duty other than the district office or the "headquarters" office in these States. The same applies to all other parts of the country in that there is increasingly widespread movement of minority group employees away from the district offices to posts of duty.

Progress in equal employment can be effectively measured by improvement in the categories of employment held by minority group members. The changes are most noticeable in jobs at the GS-11 level and above which require highly technical skill, managerial skill, or both.

The greatest single example of progress was the appointment of two minority group members to the 1965 Executive Selection and Development Pro-

gram. It is from these candidates that the highest executive positions of the Service are filled, such as assistant district directors and assistant regional commissioners. During the last few years some lesser but also very important advances have been the assignment of minority group employees, both male and female, to such positions as assistant division director (GS-15), staff assistant (GS-15), regional analyst, management analyst (GS-13 and 14), systems analyst (GS-13), internal revenue agent (GS-13), group supervisor (GS-12), and other high grade positions.

The Service is proud of the fact that the appointments listed above, plus many others too numerous to list, have all been made without any alteration in qualification standards to favor the minority group candidate. The Service is simply offering equal opportunity—the minority group individuals are proving that they can do the job.

Utilizing the Handicapped

The Service continued to employ many handicapped persons, the mentally restored, the deaf, the blind, and the mentally retarded. Others on the rolls included amputees, the physically deformed, controlled diabetics, those with organic heart disease, and some with history of epilepsy. The positions occupied by handicapped employees ranged from GS-1 clerk for those with very limited qualifications through GS-17 for a highly qualified blind division director.

Since August 3, 1964, the Service has hired 60 mentally retarded persons in 25 different geographic locations. It was found that the mentally retarded employees perform repetitive tasks very successfully, tasks that others may view as dull and unrewarding.

The Service employed deaf persons in substantial numbers, particularly at the Philadelphia Service Center. Plans also call for appointing, early in fiscal 1966, enough deaf persons at the Southwest Service Center (Austin, Tex.) to staff a complete unit in the office.

Five blind employees were at work in Washington. Two of them joined the Service late in the year as computer-programming trainees and are enrolled at the Medical Computing Center of the University of Cincinnati in a course designed specifically for the blind. The Center uses special Braille equipment to teach computer techniques, and has found that the sharpened tactile sensitivity of the blind makes them especially apt for learning and performing this type of work. Another served as GS-17, Direc-

tor of the Legislation and Regulations Division, in the Office of the Chief Counsel. The other two are Clerk, Dictating Machine Operators, GS-4.

Another dramatic program was started—employment of the mentally restored at the North-Atlantic Service Center, Lawrence, Mass. This began in October 1964 when the Center arranged a visit with officials of the Bedford, Mass., Veterans Hospital. As a result of this meeting, 21 mentally restored veterans passed a civil service examination, and 18 were selected for appointment. These employees perform routine duties in the processing of tax returns.

IN-SERVICE TRAINING MADE NOTEWORTHY PROGRESS

Supervisory and Management Development Programs Stressed

In the conviction that those training programs aimed at developing better management are the most productive in improving service to the public and maintaining high standards of personal integrity, the supervisory and management development program was both broadened and deepened. It was deepened by enlarging the number of incumbent supervisors and managers to be provided training, and by adding laboratory-type sessions, case study material and other improved techniques to the general supervisory and managerial training courses. Also, a university research group was engaged to make a thorough study of the organization development program of the Southwest Region.

Management training was broadened in three major respects: Early identification and training of potential first-line supervisors and managers; strengthening training of supervisors of processing operations; and separate programs focusing on problems of supervision in individual functions. For example, in a new course in delinquent accounts and returns the supervisor-trainees study day-to-day problems involved in assigning and reviewing the work of revenue officer groups, in providing coaching leadership, and in conducting field office visits of appraisal and assistance.

New ground was broken in preparing and launching managerial training tailored for the particular needs of the Offices of the Chief Counsel and Regional Counsel. Approximately 50 headquarters and field attorney-managers participated in 1965 executive seminars and supervisory leadership institutes.

The Training Center Experiment Progresses

In accordance with previous decisions, work proceeded on three experimental centers: The National Training Center and the Central and Western Regional Training Centers. The National Training Center officially opened in June 1965, and the Central Regional Training Center was readied to receive its first trainees early in 1966. This center, located in Detroit will serve the 5 States comprising the Central Region. The Western Region Center, located at San Francisco with a branch at Van Nuys, Calif., completed its second year of operation under closely controlled evaluation conditions. Initial evaluation reports have been quite favorable.

Operational Training Expanded and Improved

Changes in tax laws, techniques for their administration, and the continuing effort of the Service to assure that its employees reach the highest possible level of skill in administering and interpreting the laws and in dealing with taxpayers requires that operational training programs be re-examined, modified, and broadened to meet these challenges. Some of the more significant actions taken in these areas were:

Alcohol and Tobacco Tax.—Two new programs were initiated in the alcohol and tobacco tax area: firearms training for investigators, and orientation training for inspectors in automatic data processing equipment and records. The latter course became necessary because of the rapid growth in the industrial use of such equipment in recent years.

Appellate.—Two experimental programs were introduced for the benefit of employees who hear administrative appeals. The first is a 3-day course for conferees in communication theory and practice as they relate to taxpayer conferences. In the second program, conferees are encouraged to attend night law school classes which will add to their understanding of legal issues involved in their cases.

Collection.—An extensive revision of the Revenue Officer Trainee Program was completed, shortening the classroom portion and emphasizing in a workshop approach, activities which incorporate job fundamentals—interviewing and investigative techniques, taxpayer relations, and integrity aspects. Preclassroom on-the-job training was included and a closer relationship established between classroom activities and associated periods of on-the-job training.

Other new courses were established: A taxpayer

assistant program to improve and standardize the training of full-time assistants and a program for Office Collection Force interviewers and process reviewers which provides the flexibility required by the varied backgrounds of this group.

Automatic Data Processing.—The first year of Service-wide operations and the introduction of Individual Master File processing into the Mid-Atlantic Region necessitated a comprehensive procedures training effort, involving thousands of employees in district offices and service centers. Since service centers must perform their processing operations by utilizing a great many new, seasonal personnel, the need to train these employees quickly to perform at high production with a low error rate is paramount to the successful operation of the data processing system. To speed the process, a film, "Introduction to Service Center Operations," was developed.

Designated regional instructors and coaches met at the Southwest Service Center to study the experiences of regions having full service center operation. Centralized instructor training in microfilm reader installation and operation was also conducted.

Audit.—The principal new programs in the audit area were (1) training district office revenue agents in the examination of returns which report international transactions, since this function was transferred to district offices from the Office of International Operations; (2) orienting audit personnel on the effects that the ADP system of the Service and taxpayer use of ADP will have on audit procedures; and (3) development of specialists in the examination of exempt organization returns.

Intelligence.—As a result of careful surveys of alternative course possibilities it was decided the unique needs of special agents for indoctrination in the characteristics and capabilities of different types of automatic data processing equipment could best be met by having potential regional instructors attend the Army school at Ft. Benjamin Harrison. With this foundation these men will thereafter conduct the necessary district office training.

With the guidance of a management training consultant, top intelligence officials, National Office and regional, participated in a 3-day seminar in the application of management principles to intelligence operations. The results were so beneficial, follow-up sessions are being planned for 1966.

Inspection.—For the first time supervisors from both the internal audit and internal security functions were provided the benefits of interregional and

interdivisional training. The aim of the program is to increase the effectiveness of investigations requiring the use of joint resources.

Service Seeks Better Writing

While enrollments in the two "Effective Revenue Writing" correspondence courses set new records, progress continued on the "Writing Improvement" course needed for Servicewide use. This course was substantially completed and, in June 1965, a workshop was held for regional instructors, thus laying a foundation for full-scale field use in 1966.

In the National Office there was concentrated training for those who write and review Rulings. Eighty professionals were included in writing improvement classes. The results were such that the Assistant Commissioner (Technical) has requested similar training for 250 other employees.

Training by Correspondence Improved

Conversion to mechanical grading of the four most popular courses in tax law and accounting was completed and the correspondence course staff was reduced. Course completion rates remain high, averaging about 75 percent of all enrollments. Those who take correspondence courses must now take monitored final examinations before they can receive full administrative credit. Ninety percent of those taking monitored examinations during the year passed.

BOTH NATIONAL OFFICE AND FIELD EMPLOYEES BENEFIT FROM INTERNAL TECHNICAL DEVELOPMENT, GUIDANCE, AND COORDINATION**Technical Coordination Program Encourages Exchange of Technical Information Between National Office and Field Offices**

The Technical Coordination Program serves as a medium for the exchange of information and recommendations by and between the National and Field Offices in regard to tax abuses, inequities, and administrative problems arising in the interpretation of the tax laws and other matters which are proper for consideration by the National Office in connection with the clarification of Service positions, amendment of regulations or legislative recommendations.

Technical coordination reports are used by the field offices to report such matters to the National Office. At the beginning of the year, 1,190 of these

Reports were in the National Office for evaluation. During the year, 932 reports were received and 1,909 reports disposed of. One hundred and thirteen of the reports disposed of were referred to the Office of the Chief Counsel for consideration in the legislative program and 28 for consideration of amendment of the tax regulations.

Field Surveys Serve Many Purposes

"Field Surveys" is the term applied to the systematic gathering of information from the field offices in connection with the development of legislation, regulations, Revenue Rulings, publications, public-use forms and the like. They may also be conducted in connection with requests by the Department of Justice concerning review by the Supreme Court of conflicting court decisions or they may include gathering of illustrative materials for use by Service or Treasury Department officials in their appearances before committees of Congress. At the beginning of the year 20 surveys were in progress. Twenty-three surveys were initiated during the year of which nine were requested by Treasury Department officials. Appropriate information was furnished to the requesting offices in connection with 28 surveys which were completed during the year.

Some of the more important surveys related to: tax-exempt foundations and pension trusts, savings and loan associations and savings banks, business activity of fraternal beneficiary societies, revision of major tax forms, and computation of bad debt reserves by banks under Mimeograph 6209.

Field Conferences Provide Two-Way Communication

Two series of field conferences are conducted each year to provide for consultation and mutual exchange of advice and information between field and National Office technical personnel. Problems arising in the application of rulings and regulations and other technical matters are discussed. One series is usually held in the spring on income tax matters, the other in the fall on specialized tax areas. Conferences are held in all regions each year.

Tax Briefs for Revenue Agents and Office Auditors Has Proven Valuable

Tax Briefs is issued every 4 weeks to revenue agents and office auditors in the field and to technical personnel in the National Office. It serves as a convenient medium for keeping Service personnel

who are engaged in technical work abreast of the latest technical developments with a minimum of time. It permits them to readily identify those matters which affect their particular areas of work and lessens the necessity for reading commercial letters and similar technical publications. It reports currently, in digest form, selected court decisions, published rulings, and other technical developments. All important favorable court decisions are reported as well as important adverse decisions of the Tax Court when acquiescence or nonacquiescence is announced. Also, important adverse decisions of other courts may be included with a cautionary statement regarding the Commissioner's position.

Annual Technical Review Institute Provides Continuing Education on Tax Law.—A series of tax articles discussing the more important developments in Federal taxation are provided for use in refresher course Institutes conducted in Service field offices for revenue agents and other technical personnel.

Material for the 1964 Institutes consisted of three parts. Part 1 covered provisions of the Revenue Act of 1964 applicable primarily to noncorporate taxpayers; Part 2 covered the other provisions of the 1964 Act; and Part 3 covered important court decisions, regulations, and rulings published during fiscal year ended June 30, 1964.

IMPROVEMENTS AND ECONOMIES PRODUCED BY BETTER FACILITIES MANAGEMENT

Space Improved in 182 Locations

The Service continued its concerted effort to provide a professional and satisfying working environment for its employees. Sixty-two offices were moved into new or renovated quarters. Space standards and occupancy guides have been developed which will go far toward improving space utilization while also improving the appearance and efficiency of field offices.

These accomplishments reflect the success of the drive of the past several years to get Internal Revenue Service regional and district headquarters offices into good quarters. Although there are still a few major field offices in unsatisfactory space, in almost all of these cases, firm plans have been made for improvement. More attention is also being directed toward smaller field offices. The following table reflects the increased emphasis on improving smaller field offices.

New or renovated space occupied in 1965		
District office headquarters	Major local offices	Other local offices
Fargo Honolulu New Orleans Pittsburgh Reno Wilmington	Bethlehem, Pa. Chattanooga, Tenn. Houston, Tex. Knoxville, Tenn. Macon, Ga. Minneapolis, Minn. Rochester, N.Y. Santa Anna, Calif. Tampa, Fla.	47 locations

In addition to these 62 locations, alterations and improvements were made in 120 other offices.

Acquisition of new space for the Wilmington District Office headquarters was a particularly gratifying accomplishment culminating several years work to end unsatisfactory conditions there. Renovation of the Wichita District Office headquarters, another space problem of long standing, will be completed in 1966. Projected new Federal Buildings in Chicago, Des Moines, Detroit, and Indianapolis will bring relief to the unsatisfactory space conditions of major offices in those cities within the next 2 or 3 years.

Reconstruction of the Midwest Service Center building in Kansas City was completed. This is the fourth completed service center plant. Construction of service centers at Andover, Mass.; Covington, Ky.; and Ogden, Utah, will begin soon. Final design work is being completed on the IRS Data Center and Regional Training Center in Detroit, Mich.

As an additional step toward overall improvement of Service space in the field, special seminars were conducted to orient space technicians in new space design and layout techniques developed jointly by the Service and General Services Administration. Application of these new concepts will go a long way toward improvement in utilization and appearance of both existing and newly acquired Service office space.

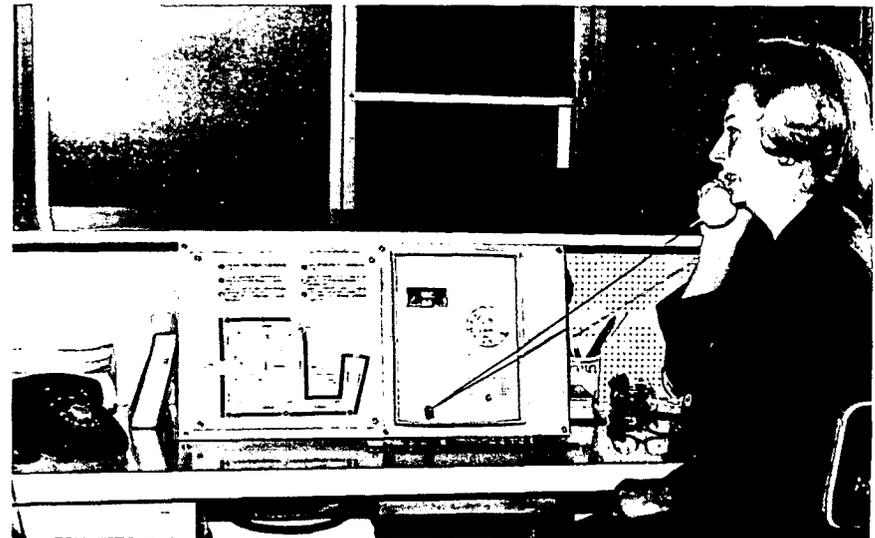
Furniture and Equipment Improvements Give Taxpayers Privacy

The Service continued its effort to improve efficiency and afford taxpayers adequate privacy for discussing personal tax problems. Seventeen major offices were refurbished under the furniture replacement program this year in an intensive effort to eliminate as many as possible of the remaining problem areas. This replacement program has also permitted refurbishing smaller offices with serviceable furniture.



After entering IRS National Office Building, a visitor may use the new telephone information service to quickly obtain directions to a specific room.

Switchboard of the new telephone information service contains a map of the corridors of the IRS National Building with positions of the booths indicated by light buttons. Flashing light aids IRS employee in locating position of a visitor asking for directions.





An office in the IRS Building, Washington, D.C., before modernization.

A similar office after air-conditioning and modernization, with new furniture, scientific spacing and lighting system, and acoustical tile ceiling.



By continued use of consolidated procurement techniques and evaluation of common-use office machines available on Federal Supply Schedules, the Service saved \$200,000 annually, or approximately 10 percent of the office machine expenditure. Installation of dictating machines in appellate and counsel offices has materially increased efficiency and reduced clerical support required. Savings over the past 2 years amount to \$250,000.

Tax Returns Increase—Records Holdings Decrease

In spite of the fact that over 2 million more tax returns of all types were filed this year and more papers were produced as a result of automatic data processing operations, steady progress was made toward reducing and improving paperwork. This was made possible by (1) systematically disposing of and retiring records to the federal records centers; (2) developing and issuing new and revised records retention instructions in addition to reviewing indefinite and long-term retention schedules; (3) simplifying correspondence procedures and standardizing forms and form letters by improving their appearance and content; (4) establishing and installing cost-saving and uniform systems for filing and maintaining records; and (5) participating in programs to reduce expenditures by curtailing the purchase of filing equipment in accordance with the President's moratorium on procurement of new correspondence filing cabinets.

By applying effective controls over creation of records and systematic disposition of inactive records, Service wide records retirement and disposal activities resulted in removal of 244,724 cubic feet of records and release for reuse of space and equipment valued at \$1.0 million. Records holdings and disposition activities are shown in the following table:

Records holdings and disposition activities

Status	Volume of records (cubic feet)	
	1964	1965
On hand July 1.....	583,687	603,021
Disposals.....	230,538	244,724
Destroyed.....	90,042	119,458
Retired to Federal Records Center.....	140,496	125,266
On hand June 30.....	603,021	599,342

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Total Service forms and form letters were reduced by 1,417 or 7.7 percent this year. National Office prescribed forms decreased by 8.4 percent, regional standardized forms decreased by 13.2 percent, and district prescribed forms decreased by 11.0 percent. However, service center prescribed forms increased by 39.5 percent. A comprehensive study is under way to standardize and reduce service center forms to the maximum extent possible. The summary result of this year's forms management activities is shown in the following table:

Forms and form letters

Prescribed by	Opening inventory	Newly developed	Eliminated	Closing inventory	Net change
Total.....	18,305	2,838	4,255	16,888	-1,417
National Office (used at headquarters and nationwide).....	5,271	787	1,232	4,826	-445
Regional offices (used by regional headquarters components or 2 or more district offices).....	9,379	833	2,067	8,145	-1,234
District offices (used by local districts and their subordinate offices).....	2,341	396	653	2,084	-257
Service centers.....	1,314	822	303	1,833	519

Travel Costs Reduced

The Service is continuing to reduce mileage cost of automobile travel. This year, \$535,000 was saved by leasing 1,500 cars from the General Services Administration. Leased vehicles cost 7 cents per mile compared to 10 cents per mile the Service pays when an employee uses his own automobile. A sliding rate of reimbursements tied to the rental rate of GSA cars is being developed for employees who choose to use their own cars.

Communications Studied to Modernize Systems

An intensified program for the management of communications was begun on September 1, 1964. This program will take full advantage of improved equipment and techniques and technological advances and new concepts for transmission and processing of data. Particular attention will be focused on communication problems growing out of conversion to automatic data processing.

The matter is particularly timely since the Service telecommunication costs reflect a sharply rising trend over the past several years. The increase became even more pronounced in 1965 when such costs reached \$6.6 million, 22.8 percent above 1964. These costs are primarily attributable to recurring charges for telephone service and equipment.

FISCAL MANAGEMENT ACTIVITIES INCREASED

Most of Additional Budgeted Funds Applied to Personal Services

Combined appropriations for the Internal Revenue Service in 1965 totaled \$598.4, an increase of \$46.4 over the 1964 appropriation. The additional funds were used primarily to finance the objectives of the Long-Range Plan; to provide for increased cost of current staff maintenance, including pay act increases enacted by the Congress; and for purchase of ADP equipment required for the master file system.

The cost of operating the Service (exclusive of reimbursable programs) during the year was \$595.0 million compared with \$548.5 million in 1964. This is an increase of \$46.6 million in actual cost financed by funds appropriated by Congress. Of this increase in overall cost of operation, about \$42.4 million was for personal services—\$30.0 million represents

higher pay costs due to pay increases effective in January and July 1964, and the remainder reflects the cost of the additional 1,000 man-years and general maintenance costs for the carry-forward staffing. The remaining \$4.1 million consists primarily of an increase of \$4.7 million in ADP equipment purchases (\$9.5 million in 1965 compared to \$4.8 million in 1964), and an offsetting decrease of about \$1.5 million in funding of housing requirements. Of the 62,461 planned man-years (exclusive of reimbursable programs), 61,963 or 99.2 percent were actually realized. This is an increase of 1,002 over the 60,961 realized in 1964, and is related mainly to the conversion to the ADP master file system. The charts on the following page reflect the distribution of each dollar obligated in 1965—by function and object of expenditure:

The distribution of obligations in fiscal years 1964 and 1965 is shown in the following table: (For more detail by appropriation by activity see table 28, p. 131.)

Obligations incurred by Internal Revenue Service
(In thousands of dollars)

Activity	Total		Personnel compensation and benefits		Other	
	1964	1965	1964	1965	1964	1965
Total.....	549,692	597,387	479,055	522,490	70,637	74,897
Appropriated funds, total.....	548,482	595,047	478,154	520,607	70,328	74,440
Rulings, technical planning and special technical services.....	8,590	9,765	7,803	8,136	787	1,067
Collection of revenue.....	223,691	246,160	184,550	204,184	39,141	41,976
Audit of tax returns.....	207,281	215,922	187,056	201,120	15,225	14,802
Tax fraud and special investigations.....	29,289	31,235	25,057	27,029	4,232	4,206
Alcohol and tobacco tax regulatory work.....	33,239	34,773	27,578	28,980	5,661	5,793
Taxpayer conferences and appeals.....	18,462	20,823	17,387	19,585	1,075	1,238
Legal services.....	13,199	14,630	12,250	13,543	949	1,087
Inspection.....	8,304	9,004	6,929	7,734	1,375	1,270
Statistical reporting.....	4,640	5,728	3,897	4,840	743	1,888
Executive direction.....	5,287	7,507	5,647	6,394	1,140	1,113
Reimbursements, total.....	1,210	2,340	901	1,883	309	457

Service Reimbursed for Help to Other Agencies

During 1965 about \$2.3 million were received for services provided other agencies, an increase of about \$1 million over 1964. Costs to the Service for providing these services (provided at cost, therefore consistent with amount received) are in addition to costs shown above that are applicable to the appropriation enacted by Congress. A total of 135 man-years was realized in providing these services. These are special services performed chiefly for other Federal agencies and for Puerto Rico, various States, and others. The primary increase in 1965 resulted from the continuation and expansion of programs implemented in 1964 for tax advisory services to foreign

countries in technical assistance programs of the Agency for International Development. Most of this effort was directed to Central and South American nations within the Alliance for Progress.

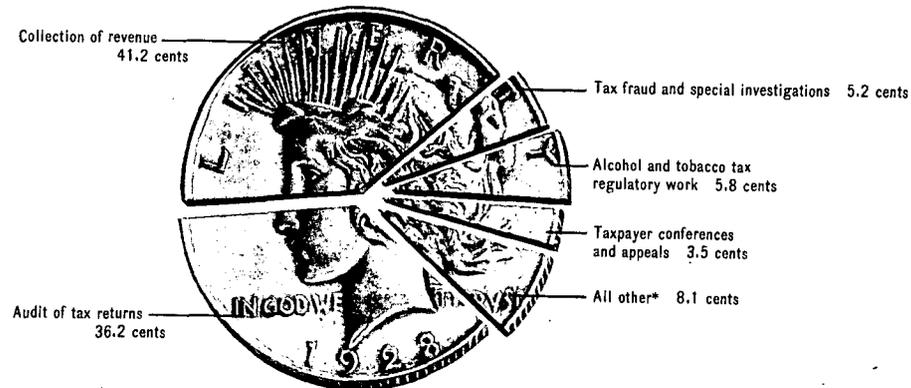
Savings Accumulated From Available Funds

During the year the Service was able to accumulate about \$5.7 million savings from available funds, while substantially carrying out program levels provided by the Financial Plan. Significant factors in the accumulation of the savings are described in the Management Activities Section of this report.

From these savings the Service was able to reduce its supplemental appropriation requests for funds

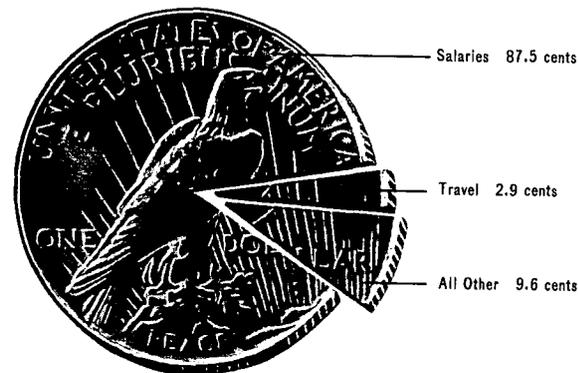
MANAGEMENT ACTIVITIES

OBLIGATIONS BY ACTIVITY



*Includes rulings, technical planning, and special technical services, 1.7; legal services, 2.4; inspection, 1.5; statistical reporting, 1.0; executive direction, 1.5.

OBLIGATIONS BY OBJECT OF EXPENDITURE



to finance the Pay Act Increase by \$2.3 million, in addition to the mandatory absorption of 10 percent of the total cost of the 1964 Act. The remainder of the savings was returned to the general fund of the Treasury.

Orderly Reporting Identifies Merger Savings

The merger of the Northeast-New York Regions into the North-Atlantic Region was implemented without major fiscal problems. Experience gained during the 1964 realignment of field offices facilitated orderly reporting and accounting of merged resources and savings resulting from the merger.

Services Automatic Data Processing Handles Payroll of Other Treasury Offices

As a further step in implementing the Secretary's decision to automate the department payrolls through the Service's automatic data processing facilities, the payroll operations for the Savings Bonds Division in the Office of the Secretary and the Coast Guard Headquarters in Washington were converted to the automated payroll system.

New Handbook on Travel Regulation Aids Travelers and Supervisors

The Service's travel regulations were completely rewritten and published in Handbook form. The new Handbook provides travelers and supervisors with clearer and more usable instructions for directing and performing official travel and preparation and review of reimbursement vouchers.

AIM OF INSPECTION ACTIVITIES IS TO GUARD INTEGRITY OF THE SERVICE

"The Price of Integrity Is Eternal Vigilance"

In President Johnson's first meeting with top officials of the Service at the White House in February 1964 he stated that taxpayers "have a right under our democratic system to be treated reasonably and they have every reason to expect from the men of the Internal Revenue Service total integrity, and integrity in tax administration is something we take for granted, but the price of integrity is eternal vigilance."

Inspection Maintains Vigilance

Inspection's mission is to maintain constant vigi-

lance in its role as an independent fact-finding body reporting directly to the Commissioner. The activity is headed by an Assistant Commissioner and encompasses the internal audit and internal security functions. Major investigations, such as those involving fraud on the revenue, are subject to close interfunctional coordination. The organization consists of a National Office Inspection Staff and seven Regional Inspector Offices under the direct supervision of the Assistant Commissioner (Inspection).

Internal Audit Provides a Protective and Constructive Service to Management

Internal auditing is an integral part of the Service's management control system. The program provides for an annual independent review and appraisal of Service operations as a protective and constructive service to the Commissioner and all other levels of management. This broad program covers all field organizations and activities of the Service and includes a determination of whether the policies, practices, procedures and controls adequately protect the revenue and are being efficiently and effectively carried out. Although internal auditors have no responsibility for correcting operating deficiencies, they do have the responsibility for reporting and evaluating the corrective actions taken by operating officials, and for making suggestions for improvement where appropriate. These evaluations and suggestions have assisted in substantially improving the procedures and controls necessary for an effective and efficient Service.

Additional audit responsibilities have resulted from the Service's adoption of automatic data processing. To effectively evaluate the electronic processing of tax data, each processing program must be reviewed as it is carried out. In order to accomplish this, resident auditors have been stationed at each service center to maintain day-to-day contact with fast-changing conditions and to test the accuracy of transactions while source documents and output data can be conveniently matched. This constant field contact is complemented by continuing liaison with the National Office, permitting data processing officials to promptly consider the systems or procedural flaws disclosed by internal audit as well as the recommendations for improvement. This has proved to be an effective method for meeting internal auditing responsibilities in the ADP area.

Program Emphasis on Collection and Enforcement

Internal Audit's continuing goal is to bring into proper focus those conditions that require corrective action as well as those activities that have been conducted effectively and efficiently. Program emphasis is on the examination of those organizational segments which are most closely connected with the collection of the tax revenues and the enforcement of the tax laws. Particular stress is placed on identification of potential integrity problems. Approximately 75 percent of the direct internal audit staff time was spent on the data processing, collection, audit, intelligence, and alcohol and tobacco tax functions. An additional 23 percent was spent on integrity matters.

Results Contribute to Maintenance of a More Effective Organization

Action taken by management officials to correct conditions reported as a result of internal audit examinations continued to represent a very impressive contribution to the maintenance of an effective Internal Revenue Service. Some of the actions taken are susceptible of measurement in terms of additional revenues collected or savings effected. A conservative estimate of the results of these actions during 1965 totals more than \$30 million. Included are such items as management's action on specific tax cases, interest and penalties not properly assessed, and accelerated collection actions.

Internal Security Programs Strive To Assure Employee Integrity

Successful administration of the voluntary self-assessment system of taxation depends to a large extent on the integrity and good faith of the American people, which in turn is based on their confidence in the integrity and impartiality of the officers and employees of the Service. To aid management in maintaining this public confidence, internal security investigators provide management with timely, factual, objective information on any matter that represents a potential threat to the integrity standards of the Service.

Preventive Maintenance Practiced

All persons appointed to positions involving taxpayer contact, handling of money, and other key jobs in the Service are the subject of thorough back-

ground investigations. These investigations constitute one of the basic steps in the Service's preventive maintenance program to assure integrity.

Breach of Integrity Investigations of Major Importance

Of major importance is the program for detecting and investigating breaches of integrity on the part of employees acting independently or in collusion with others. These investigations range from administrative misconduct to violations of the Federal laws. Of equal importance are the investigations based on actual or suspected attempts by taxpayers or their representatives to bribe employees of the Service to influence their actions in tax examinations, tax collections, or other tax matters pending before the Service.

Service Assists Other Government Organizations With Internal Audit, Internal Security Work

Internal security inspectors were called upon to furnish assistance to the Secret Service in numerous assignments involving protection of the President. Internal Revenue also assumed from the Secret Service responsibility for conducting many personnel investigations for other Treasury bureaus so that more Secret Service manpower could be concentrated on protection of the President. Another new program initiated during the year was a special investigative program for the Office of the Comptroller of the Currency involving about 1,200 investigations. Several of these investigations were made during the year.

The Service also occasionally lends assistance in internal audit work to other Government bodies. This year the committee established by the Treasury Department to audit the Exchange Stabilization Fund was chaired by a Service employee. The importance of this assignment is indicated by the Fund's purpose—to maintain the stability of the U.S. dollar in the world currency market.

Another internal audit assistance assignment, one that has continued over the past few years, involves supervising the development and installation of a modern tax system for the Virgin Islands, at the request of the territorial Governor. Adoption of the recommendations made has enabled their Tax Division to make substantial improvements in its operations and has substantially increased revenues. For example, tax collections in 1964 totaled \$14 million

compared with \$9.4 million in 1963 and \$8.9 million in 1962, a 60-percent increase over 1962.

Statistics Show Rise in Investigations Completed

Internal security investigations of all types completed during the year totaled 8,825, a 7-percent increase over the prior year. In addition, police checks were made on 6,510 employees considered for short-term temporary appointments, compared with 5,075 such checks the prior year.

A tabulation of the types of investigations completed during the last two years and the resulting disciplinary actions follows:

Investigations and disciplinary actions		
Type of investigation and action	1964	1965
Total investigations closed.....	8,221	8,825
Personnel investigations		
Number of cases closed, total.....	6,928	6,162
Character and security investigations.....	3,354	2,674
Conduct investigations.....	698	742
Special inquiries.....	2,876	2,746
Actions taken by Service management officials as a result of personnel investigations		
Disciplinary actions, total.....	791	797
Separations, total ¹		
	271	340
Bribery, extortion or collusion.....	40	62
Embezzlement or theft of Government funds or property.....	15	15
Failure of employee to pay proper tax.....	14	21
Falsification or distortion of Government reports, records, etc.....	121	130
Unauthorized outside activity.....	9	10
Failure to discharge duties properly.....	2	11
Refusal to cooperate.....	3	2
Divulgence of confidential information.....	1	3
Acceptance of fees or gratuities.....	7	8
Personal and other misconduct.....	59	78
Suspensions from duty and pay.....	53	35
Reprimands, warnings, reassignments, transfers, or demotions.....	467	422
Nondisciplinary actions.....	6,137	5,365
Other investigations		
Number of cases closed, total.....	1,293	2,663
Applications for admission to practice before the Internal Revenue Service.....	498	662
Charges against enrollees.....	119	137
Federal tort claims.....	230	220
Attempted bribery.....	55	78
Discrimination.....	5	—
Investigations for other Treasury bureaus.....	306	1,566

¹ Includes resignations, retirements, or other separations while employees were under investigation or before administrative decision was made on disciplinary action where investigation disclosed derogatory information.

Joint Integrity Program Has Proved Effective in Ferreting Out Corruption

A concerted drive to ferret out corruption in the Service was initiated by Inspection in 1961 as a result of continuing complaints and rumors that some Service employees, tax practitioners and others were conspiring to defraud the internal revenue. During the past 4 years a series of special investiga-

tions, involving the coordinated efforts of both internal audit and internal security functions, have been conducted. In numerous cases, assistance was rendered by agents from the audit and intelligence divisions. These investigations have revealed a number of schemes by persons within and outside the Service to defraud the Government of millions of dollars in tax revenues through bribery and other corrupt means.

Since 1961 nearly 300 persons have been arrested or indicted for bribery and other crimes involving corruption of tax administration. These prosecutions are evenly divided between employees or former employees of the Service and persons outside the Service. Over 50 of the persons against whom prosecutions have been initiated were individuals outside the Service who tried to bribe honest Service employees who immediately reported these attempts to Inspection. Guilty pleas or convictions of 135 persons have been obtained in the past 4 years for conspiracy and other crimes calculated to defraud the internal revenue. Prosecution actions were pending against another 150 persons at the end of the year.

Remedial Action Has Been Swift

In addition to separating employees involved in these schemes and initiating prosecutive action against them and the nonemployees involved, various remedial measures have been taken. They include strengthening of supervision, tightening of internal controls and safeguards, and an aggressive program of alerting Service managers to recognize indicators of integrity breakdowns. Inspection is vigorously continuing the program, established the preceding year, whereby any indicators of breakdowns in integrity involving actual or potential frauds on the revenue, committed through collusion between Service employees and non-Service people, are investigated jointly by internal auditors and internal security inspectors under the personal direction of the Regional Inspector.

SIX GENERAL ACCOUNTING OFFICE REPORTS ISSUED

Under the provisions of the Budget and Accounting Act of 1921 (31 U.S.C. 53) and the Accounting and Auditing Act of 1950 (31 U.S.C. 67), the General Accounting Office reviews Service operations and reports its findings to the Congress, to the Secretary

of the Treasury, or to appropriate Service officials depending upon the relative significance of the findings.

Six reports on Internal Revenue Service operations were issued during 1965. One report was issued to the Congress of the United States and covered excessive interest costs incurred on certain income tax refunds. These costs are primarily attributable to an existing provision of the Internal Revenue Code (26 U.S.C. 6611(e)) and the General Accounting Office recommended that this provision be amended. The Assistant Secretary of the Treasury for Tax Policy agrees with the principal recommendation and has initiated action seeking the necessary legislative change. The other five reports concerned payroll and other selected administrative operations at various field offices. Corrective actions on these matters have been taken by responsible officials.

NEW ADVISORY GROUP APPOINTED

In keeping with the practice of periodically changing the membership, the Commissioner appointed a new Advisory Group in April 1965. The Group's purpose is to provide constructive criticism of the Service's policies, procedures, and programs and suggest ways in which the Service can improve its operations. The Advisory Group appointed March 1964 and shown in the 1964 Annual Report met on October 1-2, 1964, and December 17-18, 1964. The newly appointed group met twice this year: April 29-30, 1965, and June 14-15, 1965. The members of the new group are as follows:

Mr. Richard H. Austin
Richard H. Austin & Co.
Detroit, Mich.

Mr. Mortimer M. Caplin
Caplin, Battle & Harris
Washington, D.C.

Mr. Nathaniel Goldfinger
AFL-CIO
Washington, D.C.

Mr. Bruce Greenfield
Bankers Securities Corp.
Wyncote, Pa.

Prof. Vance N. Kirby
Northwestern University Law School
Chicago, Ill.

Miss Nina Miglionico
Attorney
Birmingham, Ala.

Mr. Ream V. Miller
Shell Oil Co.
New York, N.Y.

Mr. Raphael Sherfy
Turner, Major, Markham and Sherfy
Washington, D.C.

Mr. Sam. G. Winstead
Jackson, Walker, Winstead, Cantwell & Miller
Dallas, Tex.

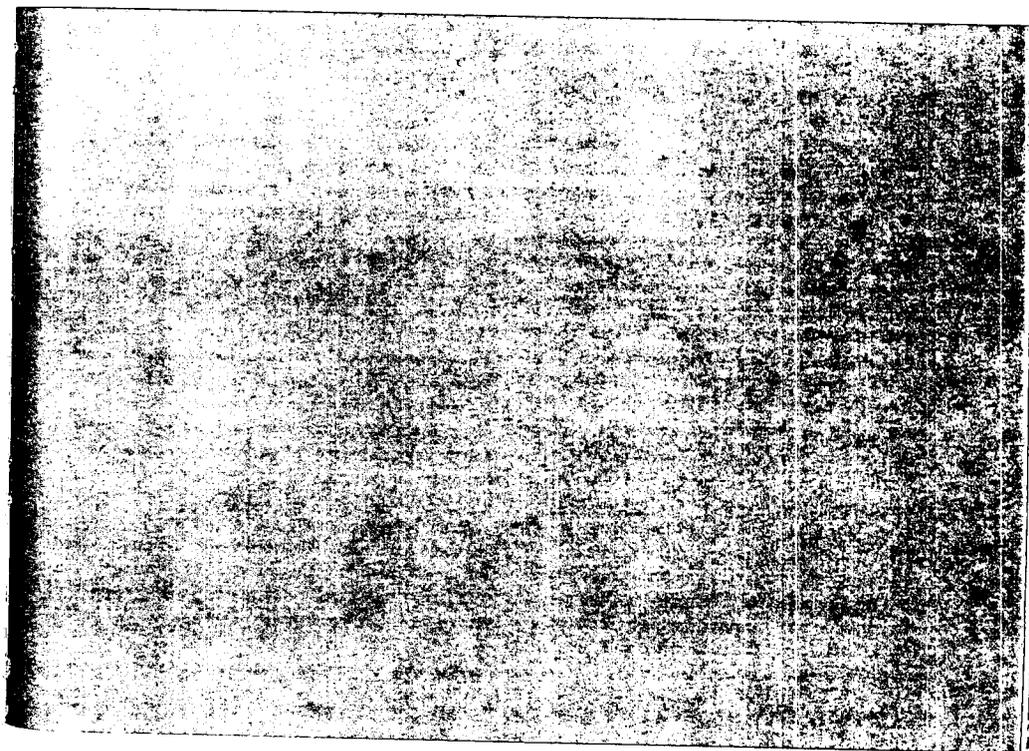
Mr. Robert E. Witschey
Witschey, Harman and White
Charleston, W. Va.

Mr. Peter Yosinoff
Public Accountant
Providence, R.I.

Mr. Andrew B. Young
Stradler, Ronon, Stevens & Young
Philadelphia, Pa.

Mr. Hilbert P. Zarky
Mitchell, Silberberg & Knupp
Los Angeles, Calif.

Appendix



Appendix

TAXPAYER PUBLICATIONS

Your Federal Income Tax, Publication No. 17, is written for individual taxpayers. Because of the numerous provisions of the Revenue Act of 1964 which affect individuals, and current Revenue Rulings, Revenue Procedures, Regulations and court decisions, which were incorporated in its 1965 edition, new typography was used and the booklet's format was changed. The booklet was printed in 160 pages and contained 50 percent more text than the 1964 edition. In addition to covering problems common to the average taxpayer, the 1965 edition contains simplified explanations of the more complex problems which even the average taxpayer will occasionally encounter. A new chapter on income averaging, for instance, which contains simplified explanations and a comprehensive example, appears in the 1965 edition. The volume of new rules, caused by the Revenue Act of 1964 and other current developments, required the use of a rapid finding list with key words and phrases to help the reader locate new items in the booklet. A filled-in sample of the individual return appears in the front of the book. All parts of the return are keyed to page numbers in the booklet where detailed explanations and examples can be found. The 1965 edition was sold for 50 cents a copy by the Government Printing Office and local Internal Revenue Service offices. This book was the best seller among Government publications this year, with over 1,250,000 copies sold. In addition, 100,000 copies were used in the Teaching Taxes Program, the Taxpayer's Assistance Program, and in various training programs.

Teaching Taxes, Publications No. 19, 21, 22, and 27 include a teacher's manual and a student's workbook for use in conducting high school and college classes in the preparation of Form 1040A and Form 1040 and a teacher's manual and a student's workbook for an additional course in the preparation of farm returns. The teacher's manuals contain step-by-step explanations and illustrations for the preparation of returns of imaginary taxpayers who have the more common types of income and expenses.

The student's workbooks contain sample problems followed by blank forms for the students to use in preparing the necessary returns. Both the teacher's manual and the student's handbook for the general course also contain a brief history of taxes in the United States and a discussion of the Federal budget.

Alcohol and Tobacco, Summary Statistics, Publication 67, released each year, usually in February, presents comprehensive statistical data relating to the alcohol and tobacco industries.

The publication contains 94 statistical tables summarizing pertinent phases of the distilled spirits, beer, wine, and tobacco industries by States and by months, an introduction defining principal terms, and an index. Comparisons are made with the previous fiscal year and historical data are shown for the years 1934 to date. Tables show such details as the number of establishments, materials used, production, taxable and tax-free withdrawals, stocks, imports, rectification, bottling, enforcement activities, and internal revenue collections from alcohol and tobacco taxes.

Recent issues can be obtained from the U.S. Government Printing Office, Washington, D.C., 20402, at 50 cents per copy.

The Farmer's Tax Guide, Publication No. 225, is a 64-page booklet which explains the tax problems of farmers. This booklet features a list of Important Dates to Remember devised especially for farmers, to help them keep track of their tax obligations throughout the year. It discusses income, employment, and self-employment taxes and contains numerous examples illustrating the rules. An illustrated sample farm return, with the schedules farmers might normally use, is included at the beginning of the booklet, with complete explanations for each entry. Also illustrated are sample farm records and depreciation records. A total of 1,250,000 copies of the *Farmer's Tax Guide* were distributed through Internal Revenue Service offices and agricultural extension agents of the Department of Agriculture.

Tax Guide for Small Business, Publication No. 334, is written especially for sole proprietorships, partnerships, and corporations. This booklet, like *Your Federal Income Tax*, is an important segment

of the Commissioner's program for more effective taxpayers' assistance and education. Income taxes, excise taxes, and employment taxes are explained in plain language and numerous examples are used to illustrate the application of the laws. A Check List, of particular interest to new businessmen, shows at a glance the taxes for which different kinds of business organizations and business activities may be liable and what the business should do about them. A Tax Calendar for 1965 is also provided to assist businessmen in keeping track of when various things should be done during the year with respect to all their Federal taxes. As in the case of *Your Federal Income Tax*, changes in format were made which included the use of 3-column pages and a new, smaller style of type, and the size of the booklet was increased from 144 to 160 pages, in order to explain the many important provisions of the new law contained in the Revenue Act of 1964, and changes brought about by regulations, Revenue Rulings and Procedures, and court decisions, which affect the businessman. This 160-page booklet is sold to the public for 50 cents a copy through the same outlets as *Your Federal Income Tax*. This year, 300,000 copies were sold and 70,000 copies were printed for internal use by the Service.

Tobacco Tax Guide, Publication No. 464, is a compilation of basic reference materials to assist manufacturers of tobacco products and others concerned to comply with Federal tobacco tax laws and regulations. This compilation, including a subscription to changes, may be purchased for \$3.50 from the Government Printing Office, Washington, D.C., 20402.

Highway and Motor Fuel Tax Pamphlets explain the latest rules in regard to the various Federal motor vehicle and fuel taxes. There are three such pamphlets:

Farmer's Gasoline Tax Refund, Publication No. 308.

Federal Use Tax on Highway Motor Vehicles, Publication No. 349.

Federal Gasoline Tax Refund for Nonhighway and Transit Users, Publication No. 378.

NEW FREE TAXPAYER INFORMATION DOCUMENTS

How to Apply for Exemption for Your Organization, Document No. 5551. At the request of field offices, this pamphlet has been published to provide instructions to any organization eligible for tax-

exempt status as to the proper procedures for establishing such status. The pamphlet contains general instructions for all organizations covering items such as the proper method of applying for a ruling or determination letter, including the forms to use and the information required. In addition, it provides special instructions needed by various kinds of organizations such as cemetery companies, mutual irrigation and telephone companies, credit unions, and many others.

Highlights of 1964 Tax Changes, Document No. 5552. This document was added to the list of free taxpayer information pamphlets this year because of the many changes brought about by the Revenue Act of 1964, new regulations, Revenue Rulings and Procedures, and court decisions. The pamphlet briefly describes each important change and refers to the number and title of the Document where the change in tax law, procedure, etc., is explained in detail.

Income Averaging, Document No. 5553. The provision of the Revenue Act of 1964 which allows any individual having an unusually large amount of income in one year to average it over several years, and thus to use a lower tax bracket in computing his tax, is fully explained and illustrated. A comprehensive example and sample filled-in Schedule G, the form to be used by taxpayers who average their income, is included as a part of this pamphlet.

Sales and Other Dispositions of Depreciable Property, Document No. 5554. This pamphlet explains the extent to which a sale or any other disposition of personal or real depreciable property may be subject to tax on ordinary gain as the result of certain depreciation claimed on the property.

Tax Benefits for Older Americans, Document No. 5569. This pamphlet was published through the joint efforts of the President's Council on Aging and the Internal Revenue Service. It explains the special provisions of the income tax laws applicable to older Americans, and tells how tax dollars can be saved, especially by those who are retired and living on a fixed pension or annuity or by those who have incurred the more costly medical bills so often sustained by older persons.

Information Reporting Requirements of Sponsors of Contests or Sporting Events, Document No. 5572. This pamphlet was published at the request of field offices because of the apparent lack of knowledge on the part of many such sponsors, especially organizations such as civic and business leagues, social clubs, religious and charitable organizations, etc.,

as to their liability for reporting prizes and awards given. It explains under what conditions the Information Return Forms 1096 and 1099 are required to be filed by sponsors of contests or sporting events and when and where these forms must be filed. Illustrated Forms 1096 and 1099 are also included in the pamphlet.

Income Tax Deductions for U.S. Government Civilian Employees Stationed Abroad, Document No. 5583. This pamphlet explains to Government employees stationed overseas which of the special allowances they receive are or are not taxable; what expenses they incur as overseas employees may or may not be deducted; and what records they must keep to substantiate information on their tax returns.

U.S. Tax Guide for Aliens, Document No. 5589. The alien is told how to determine whether his status is that of a resident alien or a nonresident alien, and the requirements in each case are explained in detail in this document. Also explained are the reporting of trade or business income by the nonresident alien; the availability of tax-treaty benefits; special rules for nonresident alien seamen; the requirements concerning withholding of income tax and social security from wages; special exemptions in the case of employees of foreign governments and international organizations, diplomats, and consulate officers and employees; the necessity of a "sailing permit;" and the proper manner of filing annual returns and claiming refunds.

Retirement Plans for Self-Employed Individuals, Document No. 5592. Public Law 87-792, The Self-Employed Individuals Tax Retirement Act of 1962, which is effective for years after December 31, 1962, was enacted to enable self-employed individuals to be covered by qualified tax benefit plans which had previously been available only to employees. This pamphlet defines the master, prototype and bond purchase plans which cover self-employed individuals, and explains the general and special rules for these plans.

Forty-nine other taxpayer information documents and publications were distributed free to taxpayers. These publications range in size from 1 to 24 pages. Distribution of the various documents ranged from 1,000 to 110,000 copies. Each publication contains detailed explanations of the laws applicable to a particular problem area. Objectives of this program are to expedite and increase the effectiveness of the Taxpayer Assistance Program, and to minimize the necessity for individual assistance to tax-

payers by Service personnel. The materials are used as inserts by the National Office and by field offices in replies to requests from taxpayers and are available upon request in local offices. They are also used as supporting statements for adjustments made in revenue agents' reports. These publications and documents are:

Title	Publication Number
Tax Guide for U.S. Citizens Abroad.....	54
A Guide to Federal Estate and Gift Taxation.....	448
Travel, Entertainment, and Gift Expenses.....	463
Document Number	
Personal Exemptions and Dependents.....	5013
Employee Expenses, Educational Expenses.....	5014
Sick Pay.....	5016
Selling Your Home.....	5017
Retirement Income and Credit.....	5018
Medical and Dental Expenses.....	5020
What Is Income.....	5045
Tax Calendar and Check List for 1964.....	5046
Self-Employment Tax.....	5047
Sales and Exchanges of Assets.....	5048
Depreciation, Investment Credit, Amortization, Depletion.....	5050
Business Expenses.....	5051
Child Care.....	5052
Contributions.....	5053
Retailers Excise Tax.....	5054
Manufacturers Excise Tax.....	5055
Excise Tax on Communications.....	5056
Occupational Stamp Taxes.....	5057
Tax on Admissions and Dues.....	5059
Rents and Royalties Income.....	5060
Losses From Operating a Business.....	5062
Interest Deductions.....	5074
Taxes.....	5075
Filing Your Tax Return.....	5107
Installment and Deferred-Payment Sales.....	5108
Alimony.....	5109
"Page 2" Deductions.....	5110
Estimated Tax and Tax Withholding.....	5111
Casualties, Storms, Floods, Hurricanes, Other Disasters, and Thefts.....	5174
Accounting Periods and Methods.....	5175
Bad Debts.....	5176
Withholding From Wages by Employer.....	5177
Repairs and Improvements.....	5178
Partnerships.....	5179
Corporations.....	5180
Sale of a Business.....	5181
Community Property.....	5192
If Your Return Is Examined.....	5202
Documentary Stamp Taxes.....	5286
Condemnations of Private Property for Public.....	5383
Decedents.....	5446
Tax Tips for Homeowners.....	5447
Investment Income and Expenses.....	5448
Cost or Other Basis of Assets.....	5516
Foreign Tax Credit for U.S. Citizens and Resident Aliens.....	5517
Importance of Adequate Records and a Guide to Information Available for Preparing Federal Tax Returns.....	5518

NEW TAX FORMS ISSUED

The following new forms with filing instructions were issued during the year:

Form No.	Title
1040—	Income Averaging (Schedule G)
3903	Moving Expense Adjustment
3920	Tax Computation Schedule for Component Members of Controlled Corporate Group
Interest Equalization Tax Act Forms:	
3953	U.S. Commercial Bank Weekly Information Report
3954	U.S. Commercial Bank Monthly Information Report
3964	Weekly Information Return With Respect to Foreign Commercial Banking Subsidiaries
3969	Notice of Acquisition of Original or New Japanese Debt Obligation
3973	Receipt of Part 1 of Notice of Acquisition of Original or New Japanese Debt Obligation

SELECTED REGULATIONS PUBLISHED

Revenue Act of 1964

Treasury Decision 6758, published September 10, 1964, relating to the allocation of certain foreign traveling expenses.

Treasury Decision 6761, published September 29, 1964, relating to limitation on medicines and drugs.

Treasury Decision 6768, published November 4, 1964, relating to acceleration of corporate estimated tax.

Treasury Decision 6770, published November 17, 1964, relating to sick pay exclusion.

Treasury Decision 6772, published November 24, 1964, relating to timing of deductions in certain cases where asserted liabilities are contested.

Treasury Decision 6773, published November 24, 1964, relating to bank loan insurance.

Treasury Decision 6777, published December 16, 1964, relating to dividend credit and exclusion.

Treasury Decision 6778, published December 17, 1964, relating to child care.

Treasury Decision 6780, published December 22, 1964, relating to denial of deduction for certain State and local taxes.

Treasury Decision 6786, published December 29, 1964, relating to casualty losses.

Treasury Decision 6791, published January 6, 1965, relating to retirement income credit.

Treasury Decision 6792, published January 15,

1965, relating to minimum standard deduction and related provisions.

Treasury Decision 6796, published February 2, 1965, relating to moving expenses.

Treasury Decision 6828, published June 17, 1965, relating to capital loss carryovers for taxpayers other than corporations.

Revenue Act of 1962

Treasury Decision 6752, published September 9, 1964, relating to amount of distributions of property by certain foreign corporations.

Treasury Decision 6754, published September 9, 1964, relating to consolidated export trade corporations.

Treasury Decision 6755, published September 9, 1964, relating to income of export trade corporations.

Treasury Decision 6759, published September 25, 1964, relating to receipt of minimum distributions.

Treasury Decision 6764, published October 27, 1964, relating to earnings and profits.

Treasury Decision 6765, published November 3, 1964, relating to sales and exchanges of patents, etc., to certain foreign corporations.

Treasury Decision 6766, published October 31, 1964, relating to definition of domestic building and loan associations.

Treasury Decision 6775, published December 2, 1964, relating to definition of U.S. person.

Treasury Decision 6779, published December 22, 1964, relating to gain from certain sales or exchanges of stock in certain foreign corporations.

Treasury Decision 6781, published December 23, 1964, relating to insurance of U.S. risks.

Treasury Decision 6784, published December 24, 1964, relating to rents or royalties derived in the active conduct of a trade or business.

Treasury Decision 6794, published January 26, 1965, relating to expenditures by farmers for clearing land.

Treasury Decision 6795, published January 29, 1965, relating to amounts included in income; subpart F income; definition of controlled foreign corporations; and exclusion of previously taxed earnings.

Treasury Decision 6798, published February 4, 1965, relating to foreign investment companies.

Treasury Decision 6805, published March 9, 1965, relating to domestic corporations receiving dividends from foreign corporations.

Treasury Decision 6814, published April 7, 1965, relating to foreclosure on property securing loans.

Treasury Decision 6819, published April 20, 1965, relating to appearances, etc., with respect to legislation.

Treasury Decision 6824, published May 11, 1965, relating to records and accounts of U.S. shareholders.

Other Significant Regulations

Treasury Decision 6745, published July 9, 1964, relating to meals and lodging furnished for the convenience of the employer.

Treasury Decision 6783, published December 24, 1964, relating to employee annuities and miscellaneous amendments.

Treasury Decision 6797, published February 3, 1965, relating to rules for the tax classification of professional service corporations.

Treasury Decision 6806, published March 5, 1965, relating to collapsible corporations.

Alcohol, Tobacco, and Firearms Regulations

Treasury Decision 6749 amended regulations in 26 CFR Parts 186 and 201 to provide for the adoption by a successor of a predecessor's approved formulas, to provide for the alternate use of a portion of a distilled spirits plant premises for making customs gauge or as a Class 6 customs manufacturing bonded warehouse, to permit production gauges to be made by average fill methods, and to make a number of other liberalizing changes.

Treasury Decision 6762 amended regulations in 26 CFR Parts 175 and 201 to eliminate the requirement for the words "Federal Law Forbids Sale or Reuse of This Bottle" to be marked on liquor bottles, to include less than one-half pint containers in the definition of liquor bottles but to exempt such containers from indicia requirements, to permit liquor bottles to be used for display purposes without alteration, and to make other liberalizing changes.

Treasury Decision 6769 implemented Public Law 88-653 which authorized the use of volatile fruit-flavor concentrate in wine, and the transfer of such concentrate from volatile fruit-flavor concentrate plants to bonded wine cellars.

Treasury Decision 6799 amended regulations in 27 CFR Part 5 to prohibit the use of the wording "Bourbon" in the type designation of any whiskey or whiskey-based distilled spirits not produced in the United States.

Treasury Decision 6803 amended the regulations in 26 CFR Part 275 to provide procedures under which domestically produced tobacco products exported from and returned unchanged to the United States may be released from customs custody, without payment of that part of the duty attributable to the internal revenue tax, for delivery to the factory of a manufacturer of tobacco products under the bond of such manufacturer.

SIGNIFICANT REVENUE RULINGS AND PROCEDURES

Where a taxpayer's method of accounting is changed to use inventories and his inventory on December 31, 1953, exceeds his opening inventory for the year of the change, there is no adjustment to income under section 481(a) of the Code (Rev. Rul. 64-191, C.B. 1964-2, 132).

Amounts paid or incurred in satisfaction of treble damage claims under section 4 of the Clayton Act and attorney's fees and other expenses directly related to the maintenance of defenses against such claims, except amounts paid or incurred in satisfaction of or directly related to damage claims of the United States under section 4A of the Clayton Act or the Federal False Claims Act, are deductible as ordinary and necessary business expenses (Rev. Rul. 64-224, C.B. 1964-2, 52) (T.I.R. 615, 7-24-64).

For purposes of certain excise tax exemptions, the term "nonprofit educational organization" includes a Sunday school, Bible school, or similar school which meets the statutory requirements relating to faculty, curriculum, and enrolled student body (Rev. Rul. 64-276, C.B. 1964-2, 399).

Crop shares or livestock received as rent by a decedent (who had employed the cash method of accounting) prior to his death and owned by him at the time of his death, as well as crop shares or livestock which he had a right to receive as rent at the time of his death for economic activities occurring before his death, constitute income in respect of a decedent which is reportable in the year in which the crop shares or livestock are sold or otherwise disposed of (Rev. Rul. 64-289, C.B. 1964-2, 173).

Unless requested to do so, a winemaker is not required to take a complete actual inventory of the wine on storage in his wine cellar to report an identifiable operating loss, such as filtration loss (Rev. Rul. 64-299, C.B. 1964-2, 574).

A decedent creates only one estate for Federal income tax purposes even though he leaves two valid wills, one disposing of property located in the United States and the other disposing of property located in a foreign country (Rev. Rul. 64-307, C.B. 1964-2, 163).

The value of a survivor's annuity does not qualify for the marital deduction if upon the decedent's death any portion of his contributions is payable to anyone other than the surviving spouse or her estate (Rev. Rul. 64-310, C.B. 1964-2, 342).

In determining the applicability of the communications tax, a musical program service transmitted wholly or in part by wire or cable comes within the definition of "wire and equipment service" even though it may be used in the conduct of a trade or business (Rev. Rul. 64-321, C.B. 1964-2, 444).

Where an insurance policy is purchased under a so-called "split dollar" arrangement the employee must include in his income the value of the insurance protection in excess of the portions, if any, of premiums provided by him and no deduction shall be allowed to the employer for premium payments made (Rev. Rul. 64-328, C.B. 1964-2, 11) (T.I.R. 659, 11-27-64).

Saline minerals extracted from the waters of the Great Salt Lake are not subject to the allowance for depletion (Rev. Rul. 65-7, I.R.B. 1965-2, 6).

Expenses incurred in obtaining and filing semi-annual reports required by the Securities and Exchange Commission in connection with an employee stock option are deductible as ordinary and necessary business expenses (Rev. Rul. 65-13, I.R.B. 1965-4, 10).

Payments in kind (or cash in lieu thereof) received under the cotton equalization program must be included as items of other income in the tax return of an accrual-basis taxpayer in the year in which the applications for payment-in-kind certificates are approved by the Commodity Credit Corporation (Rev. Rul. 65-17, I.R.B. 1965-4, 32) (T.I.R. 674, 1-4-65).

In computing the ad valorem manufacturers and retailers excise taxes for purposes of assessment and collection, the total price charged by the vendor for a taxable article is deemed to include an amount equal to the tax (Rev. Rul. 65-41, I.R.B. 1965-9, 29).

The proceeds of a life insurance policy which could not have been acquired except in combination with a nonrefund annuity contract purchased for a premium equal to the face amount of the insurance

contract are not excludable under section 101(a) of the Code (Rev. Rul. 65-57, I.R.B. 1965-11, 7).

The manufacturers excise tax on tread rubber applies to the sale or use by a recapper or retreader of a "rubber ribbon" which is produced by a special extrusion process for recapping or retreading tires of the type used on highway vehicles (Rev. Rul. 65-75, I.R.B. 1965-12, 11).

A revised method is provided for computing annual additions to reserves for bad debts by banks for taxable years ending after December 31, 1964 (Rev. Rul. 65-92, I.R.B. 1965-14, 8) (T.I.R. 707, 3-15-65).

The manufacturers excise tax on gasoline applies to "natural gasoline" obtained as a residual by-product in the processing of natural gas to produce liquefied petroleum gases (Rev. Rul. 65-132, I.R.B. 1965-21, 16).

The procedures for processing requests regarding the qualification of pension and profit-sharing plans were brought up to date (Rev. Proc. 64-30, C.B. 1964-2, 944).

Areas of the Code in which the Service generally will not issue advance rulings or determination letters because of the inherently factual nature of the problems involved were set forth in an up-to-date, section-by-section list (Rev. Proc. 64-31, C.B. 1964-2, 947).

An optional procedure is added to the guidelines relative to acceptable sampling procedure for complying with the special rules under section 1.453-2 (d) of the regulations covering sales of personal property under a revolving credit type plan (Rev. Proc. 65-5, I.R.B. 1965-9, 45) (T.I.R. 685, 1-28-65).

The provisions of Revenue Procedure 62-21 and its related documents (Depreciation Guidelines and Rules, Publication No. 456, Revised August 1964) are supplemented to include three liberalizing measures and some limitations on depreciation calculation techniques (Rev. Proc. 65-13, I.R.B. 1965-20, 3) (T.I.R. 727, 5-7-65).

SIGNIFICANT ANNOUNCEMENTS

The Service discusses the new section 170(f) of the Code relating to transfers of future interests in tangible personal property in payment of charitable contributions (Announcement 64-77, I.R.B. 1964-28, 29) (T.I.R. 604, 6-12-64).

The Excise Tax Rate Extension Act of 1964 postpones until July 1, 1965, the termination of the taxes on general telephone service and transporta-

tion of persons by air, and the reduction in rates on certain motor vehicle articles, distilled spirits, beer, wine, and cigarettes (Announcement 64-78, I.R.B. 1964-30, 19) (T.I.R. 608, 7-1-64).

Revenue Procedure 64-21 is amplified to provide for the use of the single composite basis by electric and gas utility companies who filed returns prior to May 11, 1964, with respect to a year when Revenue Procedure 62-21 is applied (Special Announcement, I.R.B. 1964-33, 29) (T.I.R. 616, 8-3-64).

Taxpayers may now secure their tax account (social security) numbers from any local office of the Social Security Administration or Internal Revenue Service (Announcement 64-87, I.R.B. 1964-34, 59).

The Service discusses the filing of consents by corporations excepted from the "collapsible corporation provisions" under section 341(f) of the Code (Announcement 64-103, I.R.B. 1964-41, 81) (T.I.R. 621, 8-31-64).

Individuals who accept wagers for profit or on behalf of other persons are reminded that they must register and pay taxes imposed by the wagering tax laws (Announcement 64-111, I.R.B. 1964-44, 68) (T.I.R. 636, 10-5-64).

For social security and unemployment insurance purposes, the definition of "wages" is amended to exclude remuneration paid for moving expenses which qualify as an income tax deduction under section 217 of the Code (Announcement 64-117, I.R.B. 1964-47, 85) (T.I.R. 653, 11-5-64).

Detailed statements should be submitted in lieu of Forms 3646, Computation of Amount Includible by Shareholder of Controlled Foreign Corporation (Announcement 64-122, I.R.B. 1964-50, 99) (T.I.R. 651, 11-5-64).

Recipients of dividends and interest should ordinarily report on their tax returns the amount of interest or dividends shown on the annual statements they receive from the paying organizations (Announcement 65-5, I.R.B. 1965-3, 59).

Temporary rules have been issued for determining whether charitable contributions to certain organizations qualify for deductions to the extent of 30 percent of the donor's adjusted gross income (Announcement 65-9, I.R.B. 1965-4, 49) (T.I.R. 667, 12-21-64).

One edition of the Bulletin is devoted to an index to administrative and procedural matters which have been published in the Bulletin since 1952 (Announcement 65-12, I.R.B. 1965-7, 4).

A brief summary of the various records required to be retained for Federal tax purposes has been published in the Federal Register as the current Guide to Record Retention Requirements (Announcement 65-27, I.R.B. 1965-14, 21).

Special instructions dealing with the interest equalization tax, as it applies to certain commercial bank loans made to foreigners, may be obtained from offices of the District Directors of Internal Revenue (Announcement 65-43, I.R.B. 1965-22, 33) (T.I.R. 722, 4-22-65).

The current revision of the Cumulative List of Exempt Organizations, Publication No. 78, is available on a subscription basis from the Superintendent of Documents (Announcement 65-44, I.R.B. 1965-23, 26).

The review procedures for cases which are required to be reported to the Joint Committee on Internal Revenue Taxation have been revised (Announcement 65-47, I.R.B. 1965-24, 28) (T.I.R. 728, 5-19-65).

Certain substantiation will be required with respect to any excise taxes that may become refundable as a result of retroactive repeal under H.R. 8371 (Announcement 65-48, I.R.B. 1965-24, 26) (T.I.R. 730, 5-28-65).

ALCOHOL AND TOBACCO INDUSTRY CIRCULARS

Industry Circular No. 65-15 (June 23, 1965) advising manufacturers of tobacco products of the amendment of the definitions of "cigar" and "cigarette" by Public Law 89-44 and of the procedure to be followed when reconstituted tobacco is to be used as a wrapper for rolls of tobacco.

Industry Circular 65-16 (June 24, 1965) advising proprietors of distilled spirits plants of the amendments to Chapter 51, I.R.C., by Public Law 89-44 which removed the requirement that distilled spirits must be returned to the bonded premises of a distilled spirits plant within 6 months of their withdrawal in order to be eligible for allowance of credit or refund of the tax and which authorized the return of taxpaid spirits to the bonded premises of the distilled spirits plant for immediate destruction.

Industry Circular 65-17 (June 24, 1965) advising proprietors of bonded wine cellars of the amendment of section 5041(a), I.R.C., by Public Law 89-44 which increased the permissible carbon dioxide content of still wine from 0.256 to 0.277 grams per 100 milliliters of wine.

SUPREME COURT DECISIONS

Civil Cases

In *Commissioner v. Est. of Marshall Noel*, 380 U.S. 678, the Court reversed the Third Circuit's decision which had held that insurance proceeds paid to a beneficiary by reason of accidental death were not includable in the gross estate of the decedent. The case involved insurance paid to a wife by reason of her husband's death in a plane crash. In reaching its decision the Court attached great importance to the consistent administrative construction of the statute for more than 30 years.

Paragon Jewel Coal Co., Inc. v. Commissioner, 380 U.S. 624, presented the Court with the opportunity for clarification of its prior opinion in *Parsons v. Smith*, (1959) 359 U.S. 215, relating to the allowance for depletion of coal mined for a lessee of coal lands by contract miners. The Government supported the lessee's claim to the entire depletion deduction, and the Court sustained their contention that the contract miners had no economic interest entitling them to depletion. The Court rejected the argument that the right to mine a particular area to exhaustion for an agreed price for each ton of coal delivered to the lessee constitutes an economic interest. The miners claim that they acquired an economic interest in the coal by reason of their expenditures for equipment and in preparing for production of coal, was also rejected. It is hoped that this opinion will end a vexatious issue which has engendered much litigation, particularly in the Fourth Circuit.

In *Commissioner v. Clay B. Brown*, 380 U.S. 563, it was held that a transfer of a lumber business to an exempt organization for a specific sum payable only out of the future earnings from operation of the business constituted a sale, thus entitling the sellers to report the gain as capital gain. The Court held that the phrase "sale or exchange" in section 1222(3)¹ should be given its ordinary, rather than a restricted, meaning. The Court rejected the Government's argument that there was no sale because there was no risk shifting from seller to buyer, inasmuch as the purchase price was payable solely from earnings of the business. Other tax aspects of such bootstrap sales are still pending in the lower courts.

Argument in the pending case, *Fribourg Navigation Co. v. Commissioner*, certiorari granted, 379

¹ All sectional citations refer to the Internal Revenue Code of 1954 unless otherwise indicated.

U.S. 998, has been deferred until the next term of court. The issue involves the disallowance by the Service of a claimed depreciation deduction for the year in which the property was sold for an amount in excess of its adjusted basis at the beginning of the year.

In *United States v. Atlas Life Insurance Company*, 381 U.S. 233, the Supreme Court reversed the Court of Appeals for the Tenth Circuit and held that the Government had properly applied a statutory formula under the Life Insurance Company Income Tax Act of 1959. The Court of Appeals had concluded that this formula, as applied by the Government, had the effect of imposing a tax on the receipt of tax-exempt municipal and State bond interest. The Supreme Court held that there is no statutory or constitutional barrier to the application of the formula provided in Section 804 to arrive at the taxable investment income of a life insurance company. It held that such formula does not result in the direct taxation of tax-exempt income but merely charges exempt income with a fair share of the burdens properly allocable to it.

On the same day the Court decided *Waterman Steamship Corporation v. United States*, 85 S. Ct. 1389, upholding the decision of the Court of Appeals for the Fifth Circuit in favor of the Government, and overruling a prior decision of the Court of Claims in *Socony Mobil Oil Company v. United States*, 287 F. 2d 910. The decision involved the proper determination of the tax basis of ships purchased from the Government during World War II where there was a subsequent reduction of price and a refund under the Merchant Ship Sales Act of 1946. The Court's decision in favor of a lower basis affects a number of shipping companies.

On May 3, 1965, the Court decided the cases of *United States v. Midland-Ross Corporation*, 381 U.S. 54, and *Dixon v. United States*, 381 U.S. 68, each of which involved the question of whether certain gains on the sale of notes issued at a discount should be treated as capital gains or ordinary income under the Internal Revenue Code of 1939. These decisions resolved a conflict between the appellate courts. The Supreme Court held that the gains in question represented the equivalent of interest and should be taxed as ordinary income. In the *Dixon* case the Court also rejected a contention that it was an abuse of discretion for the Commissioner to tax the gains as ordinary income because of his prior published acquiescence in a Tax Court decision involving similar facts.

On November 23, 1964, the Court decided the cases of *United States v. Powell*, 379 U.S. 48 and *Ryan v. United States*, 379 U.S. 61 in favor of the United States, reversing the Court of Appeals for the Third Circuit in the *Powell* case and affirming the Court of Appeals for the Sixth Circuit in the *Ryan* case. The Court held that the Commissioner is not required to make a showing of probable cause to suspect fraud in order to obtain judicial enforcement of a summons to produce taxpayers' records for years for which further assessment is barred by the statute of limitations in the absence of fraud. The Court rejected a contrary interpretation of the applicable Code provisions because it might seriously impede investigations the Commissioner thinks warranted, and because the legislative history of section 7605(b) (prohibiting "unnecessary" examinations) indicates that no severe restriction was intended by Congress. The Court did not absolutely preclude judicial inquiry into the underlying reasons for the examination, but stated that such an inquiry is justified only when the taxpayer shows that enforcement of the summons would constitute an abuse of the court's process.

In *United States v. First National City Bank*, 379 U.S. 378, the Government had contended that the U.S. District Court had jurisdiction to issue an injunction *pendente lite* to prohibit the First National City Bank from disposing of deposits held in a foreign branch of the bank in the name of Omar, S. A. The Court of Appeals for the Second Circuit reversed the District Court. The reversal of the Second Circuit by the Court was based on the narrow procedural ground that a preliminary injunction could be granted by a Federal court against a third party under the court's jurisdiction, with respect to property of a taxpayer situated outside of the court's territorial jurisdiction, but under the control of the third party, where reasonable expectation of obtaining personal service over the tax debtor exists. The Government contended that the injunction was proper, even though personal service had not been made on the taxpayer and secondly, that deposits held in a foreign branch bank are subject to a foreclosure of lien action when the main bank is within the jurisdiction of the U.S. District Court. The latter question was not answered by the Supreme Court. The Court held that it was probable that the Government could perfect jurisdiction over Omar pursuant to the terms of the New York Statute (Long Arm Statute) providing for service of process on nonresidents who transacted business

within the state. Hence, the injunction was proper.

On January 18, 1965, the Court granted the Government's petition for writ of certiorari to review the decision of the Court of Appeals for the Sixth Circuit in the case of *United States v. Speers (In re Kurtz Roofing Co., Bankrupt)*, 335 F. 2d 311 (1964). The question presented is whether a trustee in bankruptcy is a "judgment creditor" within the meaning of section 6323. The Sixth Circuit held, in effect, that by virtue of his powers under section 70c of the Bankruptcy Act, a trustee in bankruptcy was a "judgment creditor" within the meaning of section 6323 of the 1954 Code, and that therefore the liens of the United States for Federal taxes are invalid as against him since no notice of Federal tax lien was filed prior to the filing of the petition in bankruptcy.

The Court, on March 15, 1965, also granted a taxpayer-bankrupt's petition for a writ of certiorari in a case in which the United States is not a party. *Segal v. Rochelle, Jr.*, 336 F. 2d 298 (1964). The Fifth Circuit has held that refunds resulting from the carryback of losses incurred during the year of bankruptcy were assets of the trustee in bankruptcy rather than of the bankrupt. Although the United States is not concerned in this case as a litigant, the decision of the Court will have substantial effect with respect to the collection of taxes from bankrupt taxpayers.

In the alcohol and tobacco tax field, the Court declined to review the decision of the Court of Customs and Patents Appeals upholding the validity of computing the distilled spirits tax on each proof gallon, or wine gallon if below proof as applied to imported spirits. *China Liquor Distributing Company v. United States*, 52 C.C.P.A. 1,343 F. 2d 1005—(1964); cert. denied, 380 U.S. 962 (1965). This is the latest of a line of decisions rejecting the contentions, made by importers of under-proof bottled spirits, that this method of computing the distilled spirits Federal excise tax violates the General Agreement on Tariffs and Trade.

Criminal Cases

In the case of *Sansone v. United States*, 380 U.S. 343, the Supreme Court ruled on the problem of jury trial instructions in criminal revenue cases which would allow a jury to convict of a lesser offense (for example, a misdemeanor) than a felony charged in an indictment. Sansone had been convicted of the felony of willful attempted income tax evasion under section 7201. He contended that

the jury should have been given instructions which would have permitted them to find him guilty of lesser offenses, namely, of either having willfully failed to pay tax in violation of section 7203 or having willfully filed a false return in violation of section 7207. Sansone conceded and the evidence established that his return substantially understated income and tax as alleged in the indictment and hence was false. Thus, only the question of willfulness was to be determined by the jury. The Court ruled that whether one offense is included within another must be established by comparison of the elements of the several crimes as disclosed by statutory definitions, indictment allegations, and the proof adduced in court. If the lesser offense contains some but not all of the elements of the greater offense charged it is included in the greater offense. However, even if the greater offense charged includes one or more lesser offenses the jury should only be given an instruction as to the lesser included offense if there is some rational view of the evidence on which the jury might acquit of the greater offense and convict of the lesser offense. The Court held that, while under some circumstances the lesser included offense instructions would have been appropriate, in the instant case there was no disputed issue of fact except willfulness, and there was no rational view of the evidence on which the jury might have acquitted of the evasion charge and convicted on either of the lesser offenses. Sansone was either guilty of the felony or not guilty of any of the three offenses. The Court noted also that the crime of willful attempted evasion is complete when a false return is filed, it being no defense as a matter of law that a taxpayer when he filed the return may have intended to report his true income and pay the understated tax at a later time.

In *Jaben v. United States*, 381 U.S. 214, the Supreme Court upheld the legal sufficiency to toll the running of the criminal statute of limitations of the type of complaint which the Department of Justice has customarily used for a number of years in income tax evasion cases. The decision resolved in the Government's favor a conflict between the Eighth Circuit's decision in *Jaben* and that of the Ninth Circuit in *United States v. Greenberg*, 320 F. 2d 467. The form of complaint sustained as sufficient to support a finding of probable cause was based on the affiant agent's statement of his investigation and the pertinent details discovered by him.

In *U.S. v. Gainey*, 380 U.S. 63, the Court reversed the decision of the Court of Appeals for the

Fifth Circuit, sub nom *Barrett, et al. v. United States*, 322 F. 2d 292, declaring unconstitutional the statutory presumption (Section 5601(b)) that evidence of defendant's unexplained presence at an illicit still would be deemed sufficient to authorize a conviction of possessing an unregistered still and of carrying on the business of distiller without having given bond. The Court found it necessary to consider only the presumption contained in section 5601(b)(2) which relates to the offense of carrying on the business of a distiller without having given bond. Thus, the Court did not pass on the constitutional validity of the presumption which permits conviction of the crime of possession of an unregistered still on proof of the defendant's unexplained presence at the still site.

The silence of the Court as to the latter of these two presumptions has already been construed differently in the circuits where the issue has arisen. In the Fourth and Sixth Circuits, the decision in *Gainey* has been interpreted as upholding the validity of section 5601(b)(1). *Wagoner v. U.S.*, 346 F. 2d 995, C.A. 4, decided June 4, 1965; *United States v. Sutton*, C.A. 6, decided June 18, 1965, unpublished. The First Circuit, however, in *Pugliese v. United States*, 343 F. 2d 837, decided April 13, 1965, construed the failure of the Court in *Gainey* to pass on this presumption as an implied declaration of its invalidity.

While *Gainey* was pending before the Supreme Court, the Court of Appeals for the Second Circuit, in a case involving the presumption relating to the possession of an unregistered still and the similar presumption in section 5601(b)(4) which relates to the unlawful production of distilled spirits, declared both presumptions invalid, relying on the decision of the Fifth Circuit in *Gainey*. *United States v. Romano*, 330 F. 2d 566. Certiorari has been granted on the Government's petition in *Romano* (380 U.S. 941) and the case is now pending argument. Thus, the conflict as to the validity of the section 5601(b)(1) presumption may shortly be resolved by the Court.

In *United States v. Ventresca*, 380 U.S. 102, the Court reversed the Court of Appeals for the First Circuit which had declared invalid a search warrant based on an affidavit which did not specify what information, urged in support of "probable cause", was derived from personal observations of the affiant, an alcohol and tobacco tax investigator, and what information was furnished to the affiant by other investigators assigned to the investigation. The

Supreme Court stated that the Court of Appeals had given the affidavit "an unduly technical and restrictive reading."

The use of illegally obtained evidence in proceedings to forfeit property was barred in *One 1958 Plymouth v. Pennsylvania*, 380 U.S. 693, decided April 29, 1965, a case involving the seizure by State officers, without probable cause, of an automobile transporting into Pennsylvania liquor on which the State tax had not been paid. While the United States was not a party in this case, the decision is applicable to seizures for forfeiture under the internal revenue laws and will probably have significant effect in the future on the Service's liquor, wagering, and firearms cases.

The Supreme Court denied certiorari in all 13 alcohol and tobacco tax criminal cases where the defendants were the petitioners. Certiorari was denied in the one forfeiture case (involving coin-operated gaming devices) where the claimant was the petitioner. The Court, however, granted the only petition for certiorari filed by the Government in an alcohol and tobacco tax case.

Actions of Lower Court

In *Commissioner v. Lyon Tyler Matthew* (C.A. 5), 335 F. 2d 231, it was held that taxpayers were not bona fide residents of a foreign country and could not become such because of the terms of a treaty between the United Kingdom and the United States. The decision should be applicable to several thousand missile range workers stationed in the Bahamas and elsewhere, and will prevent the loss of substantial annual revenue.

A significant assignment of income device was nipped in *Van Zandt v. Commissioner* (C.A. 5), 341 F. 2d 440, which involved a trust and leaseback of business property by a doctor. He created a trust for 10 years and 2 months in favor of his children, transferred his offices and equipment to the trust and leased it back. The Court disallowed the claimed rental deduction because the transaction lacked any business purpose.

In *Commissioners v. C. Leo Fender, et al.*, (C.A. 9), 338 F. 2d 924, stockholders released their claims for accrued but unpaid salaries. The Government contended in the alternative that either the corporation realized income upon cancellation of the debts, or the stockholder-employees realized income upon receipt of additional stock as consideration for relinquishment of their claims. Although the pro

rata equities of the stockholders had not changed, the Court of Appeals nevertheless held that they were in receipt of income. This reversed the Tax Court decision where the Government had lost both sides of the transaction.

The Court of Appeals for the Second Circuit *en banc* overruled a prior opinion of long standing and held that legal expenses incurred by a securities dealer in the unsuccessful defense of indictments for violations of the Securities Act were deductible as business expenses. The Court declined to follow precedent in other circuits as well as its own prior decision that allowance of the deduction would frustrate the public policy declared by the statute. *Tellier v. Commissioner* (C.A. 2), 342 F. 2d 690.

In *Eber Brothers Wine and Liquor Corporation v. United States*, 337 F. 2d 624 (Ct. Cl. 1965), cert. den. March 29, 1965, the Court of Claims resolved a novel and significant constitutional question affecting the validity of legislation and the veto powers of the President. The specific question was whether a presidential veto of a private tax relief bill was timely when the bill was vetoed more than 10 days (excluding Sundays) after it was delivered to the White House but within 10 days after the President returned from abroad. The court upheld the veto.

In the case of *United States v. Shurbet*, 15 AFTR 2d 1149 (June 7, 1965), the Court of Appeals for the Fifth Circuit has allowed a Texas farmer to compute cost depletion on underground water extracted for use in farming. This novel decision has been the subject of wide publicity and affects many thousands of farmers in Texas. A decision whether to apply for certiorari has not yet been reached by the Government.

The case of *Tillotson v. Boughner*, 333 F. 2d 515 (7th Cir. 1964), is one in which an attorney transmitted a check to the Service for over \$215,000 and refused to divulge the identity of his client. The Court of Appeals affirmed the District Court order in holding that the Internal Revenue Service had the authority to issue a summons to an attorney in support of an investigation to ascertain the correct tax liability of an unknown taxpayer upon whose behalf the attorney transmitted a check to the Service even though such an investigation could conclude with a recommendation for criminal prosecution.

After the U.S. Supreme Court denied the attorney's petition for a writ of certiorari from the Seventh Circuit decision sustaining the validity of the summons, the attorney still refused to divulge the identity of his client, raising for the first time attor-

ney-client privilege. The United States moved for a contempt citation. The District Court ordered the attorney to answer the questions, holding that the attorney could not now raise the attorney-client privilege because it had been waived and additionally because questions concerning the identity of a client are not subject to the privilege. The attorney again refused to disclose the identity of the taxpayer. Thereafter, the district court held him in contempt and fined him \$100 per day until he purged himself of his contempt. The attorney appealed and the Seventh Circuit granted the attorney's motion to stay execution of the \$100 a day fine until reviewed conditioned upon posting of a \$5,000 surety bond.

In the case of *United States v. Franklin National Bank*, 342 F. 2d 5 (2d Cir. 1965), the Court of Appeals reversed the District Court and held that the Service is not required to notify a taxpayer when it issues a summons to a third party to produce books and records belonging to the third party. The Court reasoned that under such circumstances the taxpayer has no standing to object to the summons in an enforcement action, and therefore, there is no need to give him notice at the earlier stage of the examination before the "hearing officer." The Court reserved opinion on whether notification to the taxpayer would be required on a factual situation more clearly within the reach of the holding in *Reisman v. Caplin*, 375 U.S. 440 (1964), *i.e.*, where the documents in the hands of the third party belong to the taxpayer or involve the work product of the taxpayer's attorneys.

The Courts of Appeals for the Second, Third, and Fourth Circuits have held that a taxpayer cannot test the merits of his Federal tax liability in a suit to quiet title to real or personal property on which the United States has a lien. In *Falik v. United States*, 343 F. 2d 38 (2d Cir. 1965), the taxpayer instituted suit to quiet title to certain real property encumbered by Federal tax liens. The taxpayer contended that the assessments were illegal because she was not a responsible officer of the corporation and hence not liable for the failure to pay over the withholding taxes. Jurisdiction was based upon the provisions of 28 U.S.C. 1340 and 28 U.S.C. 2410. The Second Circuit reversed the District Court and held that a Federal district court does not have jurisdiction under 28 U.S.C. 2410 to determine the merits of the tax liability in a suit to quiet title instituted by the taxpayer. The Court noted the legislative history of the waiver of the Government's sovereign immunity in 28 U.S.C. 2410

and concluded that section 2410 did not establish any new remedy for taxpayers to litigate their liability or authorize any departure from the anti-injunction provisions of the Internal Revenue Code or the Federal tax exception in the Federal Declaratory Judgments Act.

The Third and Fourth Circuits, by per curiam decisions, reached similar conclusions in *Quinn v. Hook*, 341 F. 2d 920 (3d Cir. 1965) and *Broadwell v. United States*, 343 F. 2d 470 (4th Cir. 1965).

In *McGuire v. United States* the Court of Appeals for the Sixth Circuit affirmed a conviction for income tax evasion, overruling the contention of McGuire that the money taxed as income had been embezzled by him in 1955 and 1956, and therefore, he could not be found to have had the requisite intent to evade in view of the 1961 decision in the case of *James v. United States*, 366 U.S. 213. McGuire, who was superintendent of the county school board, caused the board to order its treasurer to make payments out of official funds for ostensibly legal but in fact fictitious obligations, which he contrived to pocket. The appellate court distinguished the facts from those in *Commissioner v. Wilcox*, 327 U.S. 404, holding that McGuire was not an embezzler but a manipulator who procured funds by fraud and deceit, and, therefore, could be found to have had the requisite criminal intent to evade his taxes. McGuire's application for certiorari is now pending with the Supreme Court.

A recent decision of the U.S. District Court for the District of Columbia upholding the 30-year-old regulation prohibiting, as misleading to the consumer, labeling age claims for neutral spirits, contained in the Distilled Spirits Labeling Regulations (27 CFR 5.39(c) and 5.39(d)(5)) has been affirmed in a per curiam decision of the Court of Appeals for the District of Columbia Circuit (*Joseph E. Seagram & Sons, Inc. v. Dillon, et al.*, 344 F. 2d 497). However, the decision was affirmed without prejudice to the right of Seagram to re-submit its label to the Secretary with a proffer of the evidence which it deems sufficient to establish the facts requiring or justifying approval. The Court also stated that the judgment would not bar a later civil action to enjoin, annul, or suspend any action of the Secretary taken thereafter upon the label as resubmitted.

Since the wording of the per curiam opinion, although in form an affirmation, has the practical effect of virtually nullifying the decision of the District Court upholding the regulatory provision, the

Government petitioned for a rehearing by the same panel of the Court of Appeals. Certain distilling companies who had intervened in support of the regulation, petitioned for a rehearing by the full court. Both petitions were, however, denied.

Significant decisions in criminal cases were handed down involving the following issues:

(1) Possession of jars customarily used in illegal whiskey business by defendant who tried to conceal the jars and who chose an indirect route of travel was sufficient to support conviction for possession of property intended for use in violation of internal revenue laws relating to liquor. *United States v. Denton*, 336 F. 2d 785 (6th Cir.).

(2) A search without a warrant of open fields adjacent to defendant's house is not illegal. *United States v. Hassel*, 336 F. 2d 684 (6th Cir.), cert. denied 380, U.S. 965.

(3) Operation of sham liquor club by a country club not licensed to sell liquor at retail resulted in violations of the Internal Revenue Code and the Federal Alcohol Administration Act by a country club and various individuals. *United States v. Mirror Lake Golf and Country Club, et al.*, 232 F. Supp. 167 (W.D. Mo.).

(4) Where evidence showed defendant possessed certain liquor invoices, his failure to produce them for inspection by agents was a violation of

section 5603(b)(5), Internal Revenue Code. *Michaels Enterprises, Inc. v. United States*, 340 F. 2d 1 (8th Cir.) cert. denied 380 U.S. 954.

STATISTICS OF INCOME REPORTS PUBLISHED

Individual Income Tax Returns, 1963 Preliminary (23 pp., 15 cents).

Individual Income Tax Returns, 1962 Preliminary (23 pp., 20 cents).

Individual Income Tax Returns, 1962 (214 pp., \$1.50).

State and Metropolitan Area Data for Individual Income Tax Returns, 1959, 1960, and 1961, Supplemental Report (82 pp., 55 cents).

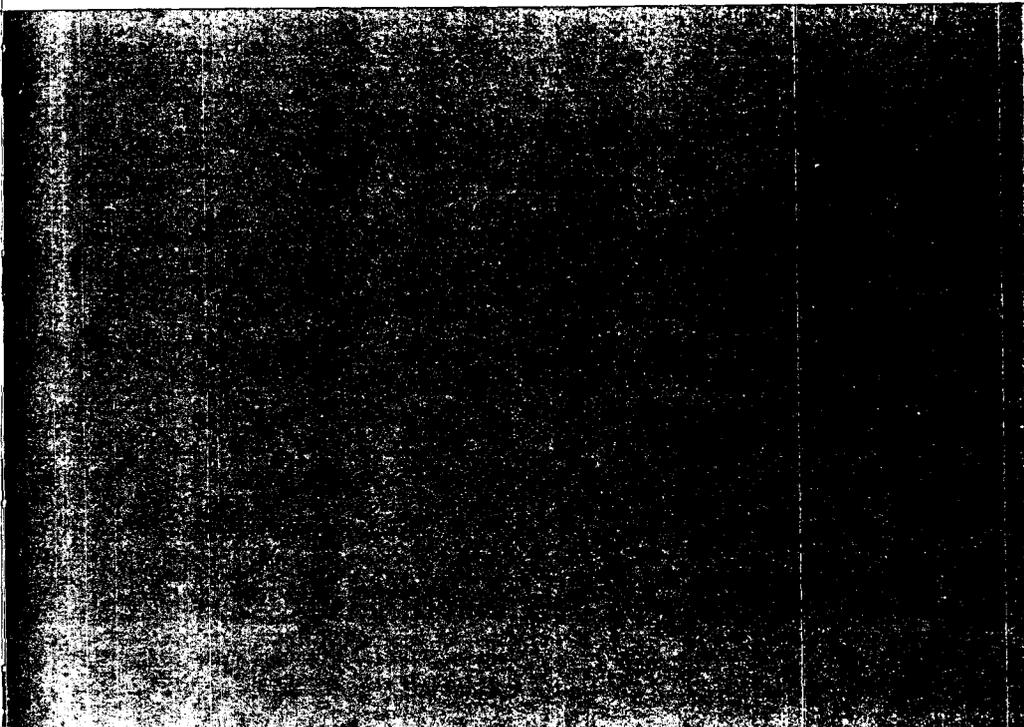
Corporation Income Tax Returns with Accounting Periods Ended July 1962-June 1963, Preliminary (29 pp., 25 cents).

Corporation Income Tax Returns with Accounting Periods Ended July 1961-June 1962 (362 pp., \$2).

U.S. Business Tax Returns with Accounting Periods Ended July 1962-June 1963, Preliminary (35 pp., 25 cents).

Statistics of Income publications may be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C., 20402.

Trend Charts

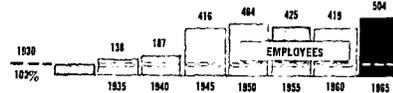
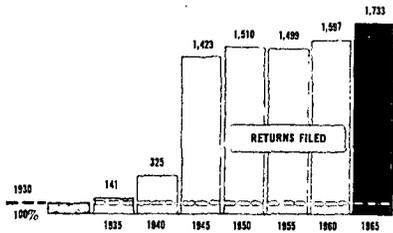


% SIGNIFICANT INDICATORS OF GROWTH

NUMBER

In 1965 compared with 1930—

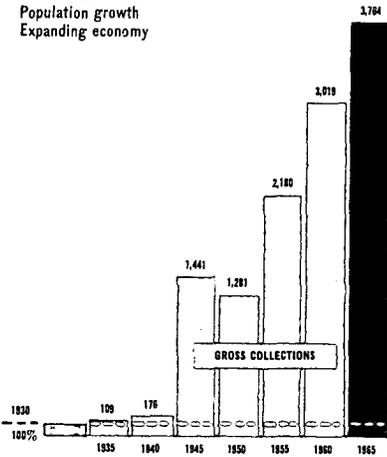
Over 17 times as many tax returns
Processed by little more than 5
times as many employees
Bringing in over 37 times as much
in collections



AMOUNT

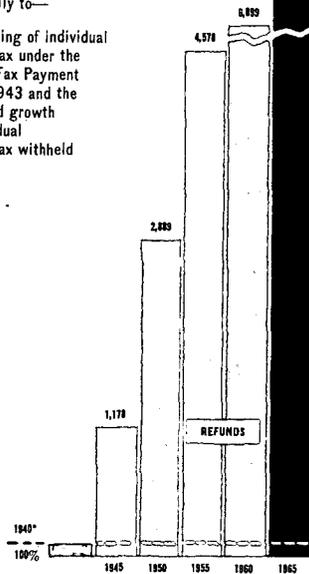
Increase in collections and returns
filed influenced by—

- Broadening of tax base
- Continuation of wartime increase
in excise tax
- Increase in social security
tax rates
- Population growth
- Expanding economy



Increase in refunds
due primarily to—

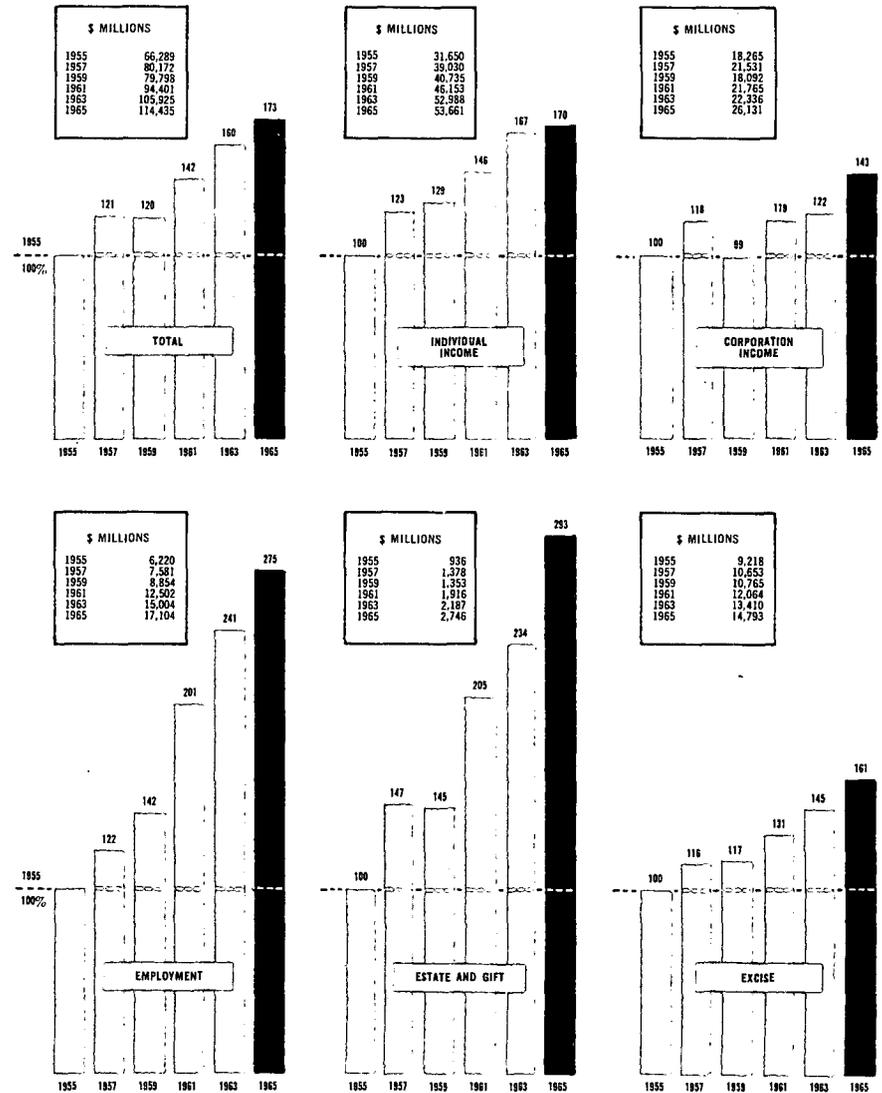
- Withholding of individual
income tax under the
Current Tax Payment
Act of 1943 and the
continued growth
of individual
income tax withheld



*Data for 1930-1935 unavailable, 1940 used as base year.

ALL MAJOR TYPES OF TAX COLLECTIONS CONTINUED UPWARD SINCE 1959

%



TAXPAYER DELINQUENT ACCOUNTS

%

Issued and pending patterns declined sharply in 1965 due to follow-up notice procedure. Amounts continue to reflect increase in 1965.

IN 1965 FEWER RETURNS WERE EXAMINED WHILE ADDITIONAL TAX AND PENALTIES RECOMMENDED CONTINUED TO INCREASE

%

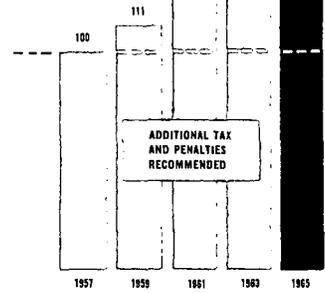
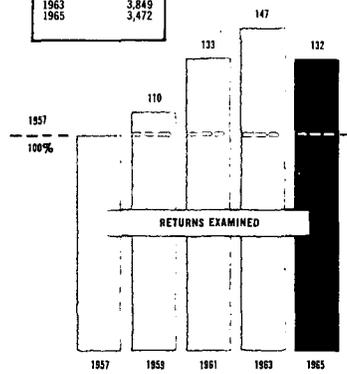
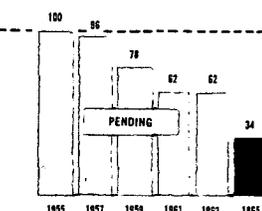
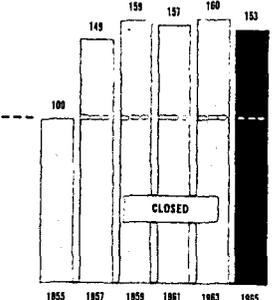
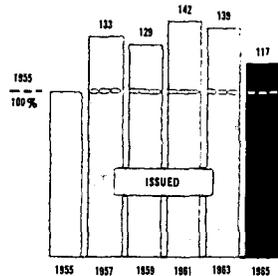
THOUSANDS	
1955	2,064
1957	2,744
1959	2,656
1961	2,531
1963	2,379
1965	2,417

THOUSANDS	
1955	1,857
1957	2,782
1959	2,960
1961	2,913
1963	2,967
1965	2,843

THOUSANDS	
1955	1,549
1957	1,488
1959	1,202
1961	960
1963	968
1965	530

NUMBER	
1957	2,624
1959	2,891
1961	3,488
1963	3,249
1965	3,472

AMOUNT (MILLIONS)	
1957	1,557
1959	1,735
1961	1,951
1963	2,160
1965	2,729



\$ MILLIONS	
1955	600
1957	1,299
1959	1,196
1961	1,474
1963	1,475
1965	1,551

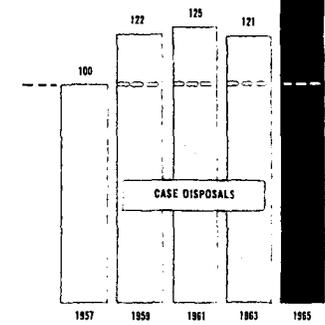
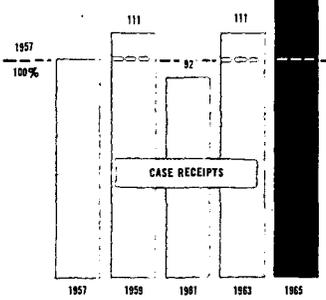
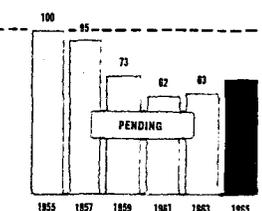
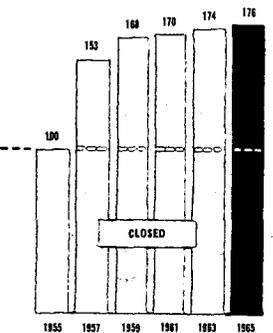
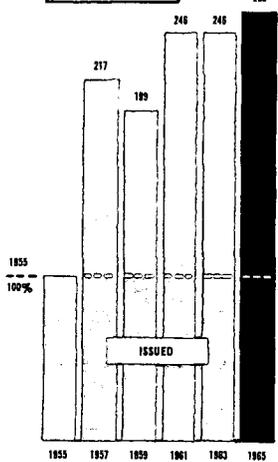
\$ MILLIONS	
1955	866
1957	1,321
1959	1,456
1961	1,470
1963	1,510
1965	1,528

\$ MILLIONS	
1955	1,650
1957	1,561
1959	1,206
1961	1,023
1963	1,041
1965	1,182

NUMBER	
1957	19,361
1959	21,502
1961	17,856
1963	21,433
1965	31,004

NUMBER	
1957	16,295
1959	19,789
1961	20,298
1963	19,760
1965	25,127

RECEIPTS AND DISPOSALS OF APPEALED INCOME, ESTATE, AND GIFT TAX EXAMINED CASES INCREASED SHARPLY IN 1965

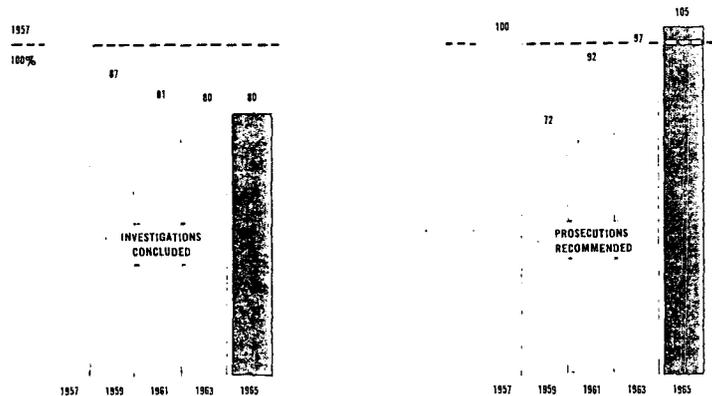


INTELLIGENCE INVESTIGATIONS COMPLETED LEVELED OFF WHILE
PROSECUTIONS RECOMMENDED CONTINUED TO INCREASE

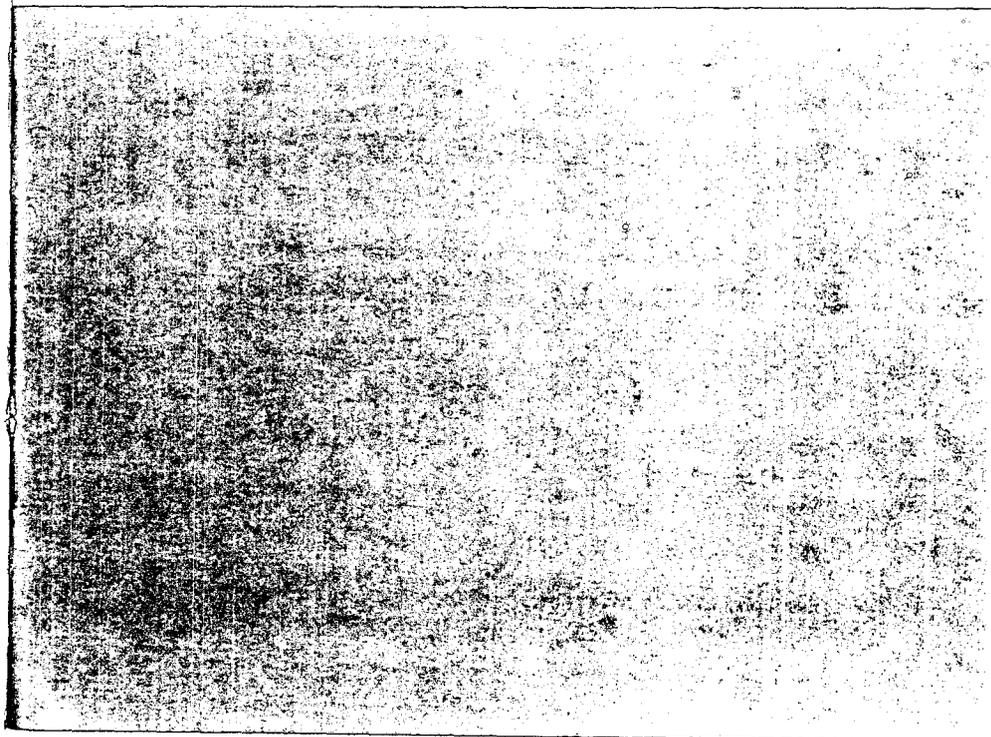


NUMBER	
1957	4,538
1959	3,969
1961	3,677
1963	3,648
1965	3,643

NUMBER	
1957	2,271
1959	1,640
1961	2,096
1963	2,208
1965	2,382



Statistical Tables



STATISTICAL TABLES

COLLECTIONS, REFUNDS, AND RETURNS FILED

Table	Page
1. Internal revenue collections by sources and by internal revenue regions, districts, States and other areas	105
2. Internal revenue collections by sources and by quarters	113
3. Internal revenue collections by sources	114
4. Internal revenue collections by principal sources, fiscal years 1940-65	116
5. Internal revenue refunds including interest	118
6. Number of returns filed by internal revenue regions, districts, States, and other areas	119
7. Internal revenue tax on manufactured products from Puerto Rico	120

ALCOHOL AND TOBACCO TAXES

8. Establishments qualified to engage in the production, distribution, storage, or use of alcohol and alcoholic liquors	120
9. Establishments qualified to engage in the production or exportation of tobacco products ..	120
10. Permits relating to distilled spirits under chapter 51, IR Code	120
11. Permits for operations relating to alcoholic beverages under the Federal Alcohol Administration Act	121
12. Permits relating to tobacco under chapter 52, IR Code	121
13. Label activity under Federal Alcohol Administration Act	121

STAMP TAXES

14. Number of occupational tax stamps issued, by class of tax and by internal revenue regions, districts, and States	122
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CASES RECEIVING APPELLATE CONSIDERATION OR IN LITIGATION

Appellate Division

15. Receipts and disposition of protested income, profits, estate, and gift tax cases prior to issuance of statutory notice (pre-90-day cases)	126
16. Receipts and disposition of protested income, profits, estate, and gift tax cases in which statutory notices were outstanding (90-day cases)	126
17. Receipts and disposition of income, profits, estate, and gift tax cases petitioned to the Tax Court (docketed cases)	127

Office of the Chief Counsel

18. Processing of income, profits, estate, and gift tax cases in the Tax Court	127
19. Results obtained in income, profits, estate, and gift tax cases disposed of in the Tax Court ..	127
20. Receipt and disposal of Tax Court cases in courts of appeals and in Supreme Court	128
21. Receipt and disposal of suits filed by taxpayers in Federal courts and actions by the United States for recovery of erroneous refunds	128
22. Decisions of courts of appeals and Supreme Court in civil tax cases	129
23. Receipt and disposal of collections, injunction, summons, and disclosure cases	129
24. Receipt and disposal of insolvency and debtor proceedings	129
25. Receipt and disposal of miscellaneous court cases, lien cases not in court, noncourt collection litigation cases, and appeal cases	129
26. Caseload report	129

Notes: All yearly data are on a fiscal year basis, unless otherwise specified. For example, data headed "1965" pertain to the fiscal year ended June 30, 1965, and "July 1" inventory items under this heading reflect inventories as of July 1, 1964.

In many tables and charts, figures have been rounded and may not add to the totals which are based on unrounded figures.

Internal revenue districts are listed in this section by the names of headquarters cities. Each district is identical with the boundaries of the State in which the headquarters city is located except for the States recapitulated at the bottom of tables 1, 5, 6, and 14. A map of the districts appears on page xxiii.

Table	Page
27. Obligations incurred by the Internal Revenue Service.....	130
28. Obligations incurred by the Internal Revenue Service, by activity.....	131
29. Quantity and cost statistics for printing.....	132

Table 1.—Internal revenue collections by sources and by internal revenue regions, districts, States, and other areas
(In thousands of dollars. See table 3, p. 114, for tax rates and further breakdown of national totals by sources)

Internal revenue regions, districts, States, and other areas ¹ (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Total internal revenue collections	Corporation income tax ²	Individual income and employment taxes				
			Total	Income tax not withheld and self- employment tax ^{3,4}	Income tax withheld and old-age and disability insurance ^{5,6}	Railroad ⁷ retirement ⁸	Unemploy- ment insurance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
United States, total	314,434,634	26,323,334	70,764,989	17,850,606	81,656,249	635,724	622,489
North-Atlantic region	25,873,821	8,053,472	14,480,483	3,668,840	10,824,621	89,823	548,519
Albany..... (See (c) below)	1,042,811	274,464	719,951	131,730	579,279	1,942	7,000
Augusta..... (Maine)	262,519	43,911	196,858	59,877	132,800	2,441	1,739
Boston..... (Massachusetts)	3,115,332	887,092	2,107,775	563,915	1,523,649	3,304	26,907
Brooklyn..... (See (c) below)	2,100,731	257,284	1,628,343	612,606	998,569	4,313	12,855
Buffalo..... (See (c) below)	1,976,552	547,133	1,182,235	319,107	852,325	94	10,710
Burlington..... (Vermont)	111,543	16,495	86,297	27,121	57,792	799	976
Hartford..... (Connecticut)	1,903,340	401,763	1,238,137	387,549	833,576	7,516	9,496
Manhattan..... (See (c) below)	14,157,235	5,693,382	6,812,886	6,812,886	1,445,350	5,235,090	60,365
Parsmouth..... (New Hampshire)	228,077	37,663	178,945	50,385	126,963	37	1,560
Providence..... (Rhode Island)	92,285	92,285	328,978	81,200	244,668	11	3,096
Mid-Atlantic region	16,198,793	3,324,839	10,478,827	2,607,878	7,841,482	138,904	96,587
Baltimore..... (Maryland and D.C.)	2,712,372	323,064	2,012,381	454,896	1,505,542	41,771	10,173
Newark..... (New Jersey)	3,756,970	867,522	2,437,397	710,127	1,622,674	5,251	29,345
Philadelphia..... (See (e) below)	4,125,567	731,016	2,782,998	646,143	2,050,319	53,649	22,887
Pittsburgh..... (See (e) below)	2,759,315	569,179	1,804,623	342,118	1,437,979	7,770	16,757
Richmond..... (Virginia)	1,742,990	273,203	982,597	282,795	677,056	30,461	7,684
Wilmington..... (Delaware)	1,091,584	565,955	442,830	171,795	267,311	3	3,720
Southeast region	8,880,434	1,634,678	6,302,832	1,616,980	4,685,327	19,287	45,837
Atlanta..... (Georgia)	1,478,351	310,362	976,643	247,865	717,659	2,708	8,411
Birmingham..... (Alabama)	1,740,620	133,924	955,754	157,792	395,656	3,459	4,847
Columbia..... (South Carolina)	531,643	108,778	387,224	107,697	275,568	91	3,859
Greensboro..... (North Carolina)	2,842,950	535,109	969,874	254,966	703,997	659	10,182
Jackson..... (Mississippi)	1,336,217	41,388	767,679	92,017	173,819	377	2,343
Jacksonville..... (Florida)	1,875,434	306,978	1,384,656	521,756	852,495	10,825	9,569
Nashville..... (Tennessee)	1,055,239	199,128	770,756	234,868	536,013	1,257	6,618
Central region	20,880,088	8,388,622	16,434,983	2,989,620	7,879,896	62,284	183,291
Cincinnati..... (See (d) below)	2,903,032	616,996	1,440,301	345,432	1,092,316	11	11,628
Cleveland..... (See (d) below)	4,520,066	1,079,032	2,800,304	516,307	2,225,291	38,192	20,514
Detroit..... (Michigan)	9,195,677	2,970,632	3,637,600	784,576	2,798,381	7,572	47,070
Indianapolis..... (Indiana)	2,545,700	431,902	1,699,427	373,437	1,309,392	651	15,787
Louisville..... (Kentucky)	1,921,912	195,873	556,636	181,223	356,562	14,650	4,192
Parkersburg..... (West Virginia)	394,621	61,187	300,697	88,645	207,959	54	4,039
Midwest region	16,961,948	3,989,862	10,777,682	2,678,988	7,620,242	181,168	92,887
Aberdeen..... (South Dakota)	142,686	17,950	114,788	45,424	68,646	7	217
Chicago..... (See (b) below)	7,351,397	1,857,037	4,601,756	998,729	3,469,764	92,207	41,056
Des Moines..... (Iowa)	861,899	176,882	630,117	243,283	382,178	531	4,125
Fargo..... (North Dakota)	127,017	10,747	109,272	47,280	61,337	20	636
Milwaukee..... (Wisconsin)	1,982,315	463,239	1,266,341	313,234	942,464	328	10,316
Omaha..... (Nebraska)	618,657	108,487	444,120	136,594	277,308	27,180	3,038
St. Louis..... (Missouri)	2,651,458	629,148	1,675,549	373,821	1,250,818	37,169	13,741
St. Paul..... (Minnesota)	1,782,895	428,983	1,198,203	267,314	884,140	32,939	13,810
Springfield..... (See (b) below)	1,373,657	287,129	736,912	247,415	483,587	761	5,119
Southwest region	9,860,319	1,479,972	6,327,627	1,606,948	4,178,288	69,864	42,888
Albuquerque..... (New Mexico)	237,417	24,598	196,518	55,948	139,247	6	1,317
Austin..... (See (f) below)	2,481,825	401,268	1,401,425	485,114	898,887	6,534	10,890
Chevyenne..... (Wyoming)	97,790	7,424	76,466	32,621	43,410	3	432
Dallas..... (See (f) below)	1,852,853	385,648	1,303,893	436,454	847,620	9,390	10,460
Denver..... (Colorado)	1,322,904	133,456	1,051,734	157,312	885,037	5,136	4,249
Little Rock..... (Arkansas)	352,998	46,568	272,556	103,679	166,420	180	2,277
New Orleans..... (Louisiana)	974,866	184,165	703,549	226,322	471,482	739	5,007
Oklahoma City..... (Oklahoma)	1,021,963	183,948	581,317	176,804	399,689	178	4,638
Wichita..... (Kansas)	717,503	132,496	540,169	186,718	321,587	28,749	3,114
Western region	14,239,833	2,227,883	10,994,488	2,664,789	7,597,970	80,888	99,288
Anchorage..... (Alaska)	83,480	5,797	74,858	17,638	56,599	.....	631
Boise..... (Idaho)	214,141	39,646	163,267	45,957	115,667	277	1,365
Helena..... (Montana)	180,188	28,783	142,077	53,292	87,550	.....	1,852
Honolulu..... (Hawaii)	290,164	59,039	219,717	54,972	163,162	162	1,422
Los Angeles..... (See (a) below)	5,936,642	935,874	4,370,081	1,257,805	3,062,134	939	49,203
Phoenix..... (Arizona)	427,140	40,725	336,311	116,890	216,880	125	2,416
Portland..... (Oregon)	766,526	126,611	585,529	174,394	404,217	.....	2,645
Reno..... (Nevada)	220,977	35,061	165,887	52,796	111,882	.....	1,208
Salt Lake City..... (Utah)	306,748	52,264	232,155	52,828	176,877	962	1,488
San Francisco..... (See (a) below)	4,506,599	708,719	3,053,876	863,147	2,117,087	44,466	29,176
Seattle..... (Washington)	1,307,006	211,339	960,765	267,069	685,726	719	7,251
Office of International Operations	406,884	52,484	289,431	178,387	109,889	818	2,848
Puerto Rico.....	114,092	246	56,056	4,690	58,950	.....	2,416
Other.....	282,772	52,238	223,355	171,677	50,750	.....	815
Undistributed:							
Depository receipts.....	2,525,083	.....	2,580,293	.....	2,539,339	40,954	.....
Transferred to Government of Guam.....	4,055	.....	4,055	.....	4,055	.....	.....
Withheld taxes of Federal employees.....	6,536	.....	6,536	.....	6,536	.....	.....
Totals for States not shown above							
(a) California.....	10,443,242	1,644,593	7,423,957	2,120,952	5,179,220	45,405	78,380
(b) Illinois.....	8,725,054	2,154,166	5,338,668	1,246,144	3,953,351	92,998	46,174
(c) New York.....	19,277,329	6,774,262	10,343,416	2,508,793	7,665,263	66,714	102,946
(d) Ohio.....	6,823,098	1,696,028	4,240,825	1,096,739	3,307,507	39,116	32,143
(e) Pennsylvania.....	6,884,882	1,300,195	4,587,622	888,261	3,498,298	61,418	39,645
(f) Texas.....	4,334,678	786,916	2,705,318	921,537	1,746,507	15,924	21,350

See footnotes on p. 116.

Table 1.—Internal revenue collections by sources and by internal revenue regions, districts, States, and other areas—Continued
 (In thousands of dollars. See table 3, p. 114, for tax rates and further breakdown of national totals by sources)

Internal revenue regions, districts, States, and other areas ¹	Excise taxes, total (sum of columns 11, 28, 31, 34, 42, 47, and 67)	Alcohol taxes								
		Total	Distilled spirits taxes							
			Total	Imported (collected by Customs)	Domestic ²	Rectification ³	Occupational ⁴	Other ⁵		
(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	
United States, total	2,454,332	291,202	14,792,779	2,772,638	2,748,256	658,578	2,341,515	24,628	14,649	651
North-Atlantic region	874,589	2,078,818	846,129	321,827	321,827	321,827	2,137	2,137	2,828	64
Albany (See (c) below)	25,462	871	22,064	9,533	1,849	1,561	(*)	282	6	5
Augusta (Maine)	14,317	593	6,841	1,923	1,608	1,350	21	26	6	6
Boston (Massachusetts)	88,818	8,062	223,587	99,136	86,360	20,077	64,919	841	500	22
Brooklyn (See (c) below)	94,818	6,241	114,185	65,573	3,904	144	485	19	2	19
Buffalo (See (c) below)	64,316	5,012	177,856	67,682	32,703	32,132	1	(*)	568	2
Burlington (Vermont)	3,996	140	4,615	2,710	2,636	2,629	63,314	265	28	4
Hartford (Connecticut)	89,458	8,711	173,747	74,173	71,819	7,959	48,930	842	424	4
Manhattan (See (c) below)	264,391	55,733	1,328,843	209,402	188,342	138,141	16	33	17	2
Portsmouth (New Hampshire)	6,878	392	4,199	768	725	176	15	33	(*)	2
Providence (Rhode Island)	28,034	873	21,513	14,183	2,283	1,644	629	7	2,497	197
Mid-Atlantic region	415,208	1,839,822	698,496	423,831	83,132	423,642	6,423	2,387	10	10
Baltimore (Maryland and D.C.)	65,898	5,704	305,325	219,367	190,084	21,035	164,803	3,805	372	20
Newark (New Jersey)	92,395	6,274	358,881	200,629	182,949	417	121,618	896	29	29
Philadelphia (See (c) below)	110,615	12,650	488,283	156,314	107,394	21,499	84,111	1,188	584	12
Pittsburgh (See (c) below)	42,793	2,416	340,304	81,235	57,232	9,198	46,489	1,013	487	45
Richmond (Virginia)	36,016	2,211	432,964	9,007	1,320	4,621	(*)	(*)	18	18
Wilmington (Delaware)	67,491	12,046	4,162	53	53	53	5,978	51	91	2
Southeast region	197,931	28,412	1,493,583	69,445	43,809	23,962	37,661	48	634	487
Atlanta (Georgia)	21,893	3,155	166,278	9,687	3,865	1,780	1,894	13	92	85
Birmingham (Alabama)	17,166	1,017	22,760	1,411	1,251	1,175	49	38	29	29
Columbia (South Carolina)	11,313	4,463	19,865	1,205	872	754	.....	.....	60	58
Greensboro (North Carolina)	9,742	1,305,588	1,673	1,372	1,084	49	.....	.....	25	215
Jackson (Mississippi)	9,948	901	13,294	472	125	34	.....	.....	18	18
Jacksonville (Florida)	89,458	1,894	105,462	40,119	19,071	17,006	1,704	31	280	18
Nashville (Tennessee)	21,615	3,404	60,337	15,329	15,213	1,202	13,931	.....	47	32
Central region	229,890	39,402	4,839,638	1,207,687	1,099,877	132,229	958,988	9,345	2,439	98
Cincinnati (See (d) below)	36,564	5,044	202,127	138,831	124,496	122,811	1,357	323	.....	.....
Cleveland (See (d) below)	57,098	10,293	573,339	39,517	21,852	16,927	4,232	85	698	11
Detroit (Michigan)	62,373	10,236	2,514,886	152,638	114,169	96,995	15,952	278	912	31
Indianapolis (Indiana)	32,148	6,299	379,515	285,624	263,566	5,330	252,229	5,671	716	18
Louisville (Kentucky)	26,448	4,225	1,141,530	588,349	573,415	12,975	558,537	1,747	138	18
Parkersburg (West Virginia)	12,508	1,596	18,633	2,708	2,280	2,235	.....	.....	30	15
Midwest region	284,362	34,784	1,807,592	694,884	383,922	49,393	327,264	4,847	2,300	44
Abilene (South Dakota)	3,003	115	6,525	39	39	39	.....	.....	63	.....
Chicago (See (b) below)	110,505	17,020	755,079	126,334	98,330	36,057	60,929	452	883	8
Des Moines (Iowa)	20,829	2,004	33,067	2,059	1,623	1,483	.....	.....	140	(*)
Fargo (North Dakota)	2,181	239	4,539	286	103	103	.....	.....	3	.....
Milwaukee (Wisconsin)	37,344	3,302	212,089	129,191	3,181	2,343	1	5	833	(*)
Omaha (Nebraska)	12,596	904	52,549	8,205	117	117	113	.....	135	3
St. Louis (Missouri)	50,953	4,098	301,710	104,740	21,444	7,022	13,543	613	375	21
St. Paul (Minnesota)	27,333	7,333	122,427	44,476	8,220	3,859	3,992	191	176	2
Springfield (See (b) below)	27,798	2,730	319,089	275,718	250,839	247,315	3,287	228	22	9
Southeast region	287,637	28,427	1,229,648	137,718	99,272	28,298	8,676	2	1,646	83
Albuquerque (New Mexico)	902	661	9,738	81	86	86	.....	.....	83	3
Austin (See (f) below)	56,465	8,950	613,717	44,923	11,200	10,999	62	(*)	135	4
Cheyenne (Wyoming)	2,680	290	10,929	43	35	35	.....	.....	80	(*)
Dallas (See (c) below)	59,387	6,821	97,223	430	242	160	.....	.....	80	6
Denver (Colorado)	14,203	1,828	121,683	35,536	2,130	1,965	.....	.....	165	2
Little Rock (Arkansas)	9,367	1,176	23,330	406	96	96	.....	.....	40	18
New Orleans (Louisiana)	20,880	1,643	64,629	34,506	15,839	7,332	7,826	1	382	9
Oklahoma City (Oklahoma)	20,274	2,546	253,878	893	893	893	.....	.....	65	18
Wichita (Kansas)	18,498	1,712	24,629	899	793	793	.....	.....	81	(*)
Western region	434,438	237,6	1,229,648	497,778	271,942	77,908	189,823	4,648	2,474	88
Anchorage (Alaska)	6	2	2,882	159	155	155	.....	.....	46	.....
Boise (Idaho)	5,354	367	5,507	77	30	30	.....	.....	30	(*)
Helena (Montana)	4,428	335	4,616	1,220	87	87	.....	.....	85	.....
Honolulu (Hawaii)	5,385	584	11,435	2,850	1,920	1,797	48	1	74	(*)
Los Angeles (See (a) below)	168,112	22,855	439,721	125,797	78,082	35,622	41,367	220	863	11
Phoenix (Arizona)	39,443	1,534	9,128	1,333	181	181	.....	.....	172	1
Portland (Oregon)	25,352	664	28,370	7,000	4,091	1,448	2,561	.....	94	.....
Reno (Nevada)	5,649	562	13,818	91	86	86	.....	.....	86	.....
Salt Lake City (Utah)	3,640	307	18,382	2,289	7	7	.....	.....	86	(*)
San Francisco (See (a) below)	141,584	14,015	588,405	245,028	170,845	24,177	144,628	1,328	683	20
Seattle (Washington)	25,247	1,975	107,680	51,674	16,456	14,799	1,319	.....	332	7
Office of International Operations	15,839	704	48,748	38,890	36,797	2	35,815	878	.....	(*)
Puerto Rico	.....	.....	47,778	36,797	2	2	.....	.....	.....	(*)
Other	15,919	692	.....	.....	.....	.....	.....	.....	.....	(*)
Undistributed:	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Depository receipts ⁶	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Transferred to Government of Guam	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Withheld taxes of Federal employees	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Totals for States not shown above										
(a) California	309,695	36,870	1,028,126	370,825	248,927	59,799	185,995	1,547	1,555	30
(b) Illinois	136,302	19,750	1,074,168	402,052	349,169	36,057	308,245	3,739	1,110	18
(c) New York	448,847	67,896	1,842,947	352,720	225,797	170,272	33,748	986	1,799	32
(d) Ohio	95,662	15,337	773,466	178,347	145,448	145,448	1,442	1,021	15	15
(e) Pennsylvania	153,408	15,066	828,591	237,549	164,626	30,697	130,600	2,202	1,071	56
(f) Texas	115,733	15,771	710,940	45,353	11,443	10,999	222	(*)	215	6

See footnotes on p. 116.

Table 1.—Internal revenue collections by sources and by internal revenue regions, districts, States, and other areas—Continued
 (In thousands of dollars. See table 3, p. 114, for tax rates and further breakdown of national totals by sources)

Internal revenue regions, districts, States, and other areas ¹	Alcohol taxes—Continued							
	Wines, cordials, etc., taxes			Beer taxes				
	Total	Imported (collected by Customs)	Domestic	Occupational taxes ¹¹	Total	Imported (collected by Customs)	Domestic ¹²	Occupational taxes ¹³
(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	
United States, total	112,438	9,644	106,529	2,283	919,848	5,469	909,488	4,589
North-Atlantic region	22,780	4,677	17,889	184	120,378	1,210	120,941	1,822
Albany (See (c) below)	428	1	428	1	7,575	1	7,481	94
Augusta (Maine)	235	1	234	.....	13	.....	13	67
Boston (Massachusetts)	1,091	440	644	.....	11,685	195	11,536	14
Brooklyn (See (c) below)	2,562	.....	2,562	.....	59,108	.....	58,788	322
Buffalo (See (c) below)	10,915	112	10,798	5	24,074	739	23,068	207
Burlington (Vermont)	49	(*)	49	.....	18	.....	18	4
Hartford (Connecticut)	1,368	117	1,249	1	854	18	797	79
Manhattan (See (c) below)	5,994	4,152	1,806	36	15,267	2,321	12,756	190
Portsmouth (New Hampshire)	.....	.....	.....	.....	.....	.....	.....	.....
Providence (Rhode Island)	151	55	95	(*)	10,444	22	11,617	7
Mid-Atlantic region	12,433	829	13,400	228	170,683	289	169,897	438
Baltimore (Maryland and D.C.)	1,046	422	593	31	28,236	152	27,983	62
Newark (New Jersey)	6,664	6,664	.....	(*)	71,216	139	71,186	30
Philadelphia (See (c) below)	3,122	343	2,778	(*)	45,992	158	45,836	125
Pittsburgh (See (c) below)	5	4	1	1	23,958	(*)	23,880	118
Richmond (Virginia)	1,593	35	1,364	194	1,435	20	1,312	103
Wilmington (Delaware)	.....	.....	.....	.....	.....	.....	.....	.....
Southeast region	2,492	458	1,458	677	25,841	222	24,466	655
Atlanta (Georgia)	532	37	458	422	5,290			

Table 1.—Internal revenue collections by sources and by internal revenue regions, districts, States, and other areas—Continued
(In thousands of dollars. See table 3, p. 114, for tax rates and further breakdown of national totals by sources)

Internal revenue regions, districts, States, and other areas ¹	Tobacco taxes				Stamp taxes on documents and other instruments ²			
	Total (26)	Cigarettes ³ (27)	Cigars ⁴ (28)	Manufactured tobacco ⁵ (29)	Other ⁶ (30)	Total (31)	Sales by postmasters (32)	Sales by district directors (33)
United States, total	2,548,834	2,063,635	60,823	18,734	1,260	188,289	84,212	132,677
North-Atlantic region	874	58	439	76	421	79,838	8,294	74,431
Albany (See (c) below)	34		34			209		209
Augusta (Maine)	218			(*)	1	229	218	11
Boston (Massachusetts)	18		8	8	2	4,362	1,258	3,004
Brooklyn (See (c) below)	10	(*)				1,000		1,000
Buffalo (See (c) below)	36		1	24	11	1,044		1,044
Burlington (Vermont)	(*)		232		(*)	133	102	30
Hartford (Connecticut)	638	58	132	41	406	4,236	1,045	3,191
Portsmouth (New Hampshire)	(*)		(*)			68,031	2,132	65,899
Providence (Rhode Island)	(*)		(*)			228	173	55
Mid-Atlantic region	458,085	384,788	11,107	3,142	48	18,385	2,176	109
Baltimore (Maryland and D.C.)	30				29	2,407	1,319	1,087
Newark (New Jersey)	2,638	5	1,922	716	16	3,395	2,399	996
Philadelphia (See (c) below)	26,872	4	26,470	397	2	3,395	1,524	1,871
Pittsburgh (See (a) below)	998			(*)	(*)	671		671
Richmond (Virginia)	388,527	384,779	1,718	2,028	2	1,941	1,733	202
Wilmington (Delaware)						1,844	206	1,639
Southeast region	1,272,454	1,281,643	14,680	6,282	457	29,946	7,733	22,214
Atlanta (Georgia)	600		597		4	1,871	1,389	482
Birmingham (Alabama)	1,580	(*)			(*)	921	735	186
Columbia (South Carolina)	2,014	(*)				614	472	142
Greensboro (North Carolina)	1,256,957	1,251,601	(*)	4,788	568	1,378	1,323	55
Jackson (Mississippi)	9,967	64	9,887	(*)		488	383	105
Jacksonville (Florida)	1,537	3	1,464		70	2,239	2,302	937
Nashville (Tennessee)	444,317	433,179	8,915	5,184	29	1,435	1,128	307
Central region	644,317	433,179	8,915	5,184	29	16,158	5,248	10,910
Cincinnati (See (d) below)	133		114		19	7,929	1,802	6,127
Cleveland (See (d) below)	2,478		1,802	654	22	5,522	1,522	4,000
Detroit (Michigan)	1,193		533	655	5	3,795	2,204	1,591
Indianapolis (Indiana)	788		788		(*)	1,474	1,033	441
Louisville (Kentucky)	438,566	433,179	2,437	3,050	1	4,401	480	3,921
Parkersburg (West Virginia)	1,058	(*)	242	817	1	441	313	128
Midwest region	2,184	1,880	48	2,018	23	23,785	7,040	16,745
Aberdeen (South Dakota)	1,770				10	12,956	1,021	11,935
Chicago (See (b) below)	1,104		9	1,151		171	162	15
Des Moines (Iowa)	(*)		(*)	(*)		165	148	17
Fargo (North Dakota)	(*)		(*)	(*)		2,868	1,523	1,345
Milwaukee (Wisconsin)	57		33	14	9	1,238	597	641
Omaha (Nebraska)	854		1	852	(*)	2,809	1,546	1,263
St. Louis (Missouri)	(*)	(*)	(*)	(*)	9	2,975	767	2,207
Springfield (See (b) below)	(*)	(*)	(*)	(*)	4	76		76
Southwest region	1,987	2	1,000	(*)	4	13,887	6,327	6,188
Albuquerque (New Mexico)	(*)		(*)	(*)		373	226	146
Austin (See (f) below)	104		99	(*)	4	2,670	1,433	1,237
Chattanooga (See (f) below)	(*)		(*)	(*)		162	139	23
Dallas (See (f) below)	(*)		(*)	(*)		4,056	2,301	1,755
Denver (Colorado)	(*)		(*)	(*)		1,236	821	415
Little Rock (Arkansas)	(*)		(*)	(*)		521	597	165
New Orleans (Louisiana)	902	(*)	902	(*)	(*)	1,757	1,132	625
Oklahoma City (Oklahoma)	(*)		(*)	(*)		1,268	760	508
Wichita (Kansas)	(*)		(*)	(*)		765	592	173
Western region	343	3	27	34	79	28,223	18,377	13,148
Anchorage (Alaska)	(*)		(*)	(*)		105	84	21
Boise (Idaho)	(*)		(*)	(*)		253	215	38
Helena (Montana)	(*)		(*)	(*)		257	237	20
Honolulu (Hawaii)	13	(*)			13	408	19	389
Los Angeles (See (b) below)	69	1	22	6	40	7,778	7,778	
Phoenix (Arizona)	(*)		(*)	(*)		885	274	611
Portland (Oregon)	(*)		(*)	(*)		1,091	893	198
Reno (Nevada)	(*)		(*)	(*)		465	288	178
Salt Lake City (Utah)	52	1	4	28	18	14,912	12,585	2,327
San Francisco (See (a) below)	8	(*)			8	2,020	675	1,345
Seattle (Washington)	8,331		8,331	(*)		89		89
Other	8,331		8,331	(*)		99	99	
Office of International Operations								
Depository receipts ¹								
Transferred to Government of Guam								
Withheld taxes of Federal employees								
Totals for States not shown above								
(a) California	121	2	27	33	58	22,690	12,585	10,104
(b) Illinois	1,170		9	1,151	19	13,071	1,697	11,374
(c) New York	719	58	178	66	418	70,283	2,032	68,251
(d) Ohio	2,511		1,916	673	22	9,451	1,802	7,649
(e) Pennsylvania	27,170	4	27,467	397	7	5,857	4,284	1,573
(f) Texas	104	1	99	(*)	4	6,426	2,301	4,125

See footnotes on p. 116.

Table 1.—Internal revenue collections by sources and by internal revenue regions, districts, States, and other areas—Continued
(In thousands of dollars. See table 3, p. 114, for tax rates and further breakdowns of national totals by sources)

Internal revenue regions, districts, States, and other areas ¹	Manufacturers' excise taxes							
	Total (34)	Gasoline (35)	Lubricating oil, etc. (36)	Tires (wholly or in part of rubber), inner tubes and tread rubber (37)	Motor vehicles, chassis, bodies, parts, and accessories (38)	Radio and television sets, phonographs, components, etc. (39)	Refrigerators, freezers, air-conditioners, etc.; electric, gas, and oil appliances (40)	Other ² (41)
United States, total	6,418,145	2,687,133	76,695	448,467	2,545,028	221,789	156,970	289,782
North-Atlantic region	694,489	694,467	18,406	87,677	26,504	79,218	18,223	148,858
Albany (See (c) below)	4,282	1,339	3	6	1,411	1,205	23	306
Augusta (Maine)	1,942	1,596		89	69	(*)		186
Boston (Massachusetts)	29,031	11,526		129	105	2,653	4,481	11,138
Brooklyn (See (c) below)	26,646	2,318		67	2,487	6,996	4,612	5,712
Buffalo (See (c) below)	84,045	10,158		41	7,799	3,338	21,359	38,382
Burlington (Vermont)	439					(*)		44
Hartford (Connecticut)	63,831	6,306		11	28,084	6,306	2,967	20,412
Manhattan (See (c) below)	678,720	468,443	16,155	58,109	15,761	49,546	2,565	67,880
Portsmouth (New Hampshire)	249					16		249
Providence (Rhode Island)	1,741				332		8	640
Mid-Atlantic region	578,286	386,799	13,833	24,283	93,649	21,499	16,844	22,188
Baltimore (Maryland and D.C.)	88,892	13,966	157	19,892	446	3,244	82	1,070
Newark (New Jersey)	108,610	16,918	822	899	73,015	6,183	1,434	9,311
Philadelphia (See (c) below)	188,781	155,963	3,802	1,546	10,976	8,199	6,230	2,044
Pittsburgh (See (c) below)	234,046	193,910	8,751	1,912	7,386	3,822	9,020	9,196
Richmond (Virginia)	7,483	5,597	99	7	1,206	1,206	41	480
Wilmington (Delaware)	483	385	(*)		7			77
Southwest region	83,448	49,024	632	1,458	9,327	6,143	6,428	4,893
Albuquerque (Georgia)	12,229	8,159	60	1,284	1,769	7	58	592
Birmingham (Alabama)	7,059	3,325	5	1,903	15	21	731	233
Columbia (South Carolina)	7,003	6,027	152	16	134	4	333	336
Greensboro (North Carolina)	16,550	15,415	10	30	1,617	24	817	669
Jackson (Mississippi)	4,862	1,772	(*)	77	412		62	412
Jacksonville (Florida)	10,277	7,196	113	11	1,744	262	80	819
Nashville (Tennessee)	23,914	7,130	144	246	1,957	7,827	5,328	1,482
Central region	2,922,114	2,874,397	6,827	294,428	2,874,328	19,847	78,318	42,999
Cincinnati (See (d) below)	25,716	3,831	92	135	9,075	254	3,968	3,422
Cleveland (See (d) below)	466,269	83,426	1,924	294,205	54,411	886	8,696	22,722
Detroit (Michigan)	2,281,053	2,918	315	232	2,191,719	41,812	41,812	8,400
Indianapolis (Indiana)	49,789	18,590	195	17,285	5,616	3,663	3,663	3,663
Louisville (Kentucky)	97,978	2,638	14	1,278	14	1,278	14	1,278
Parkersburg (West Virginia)	7,395	7,395	112	26	290	(*)	35	8
Midwest region	678,897	410,452	9,843	1,881	100,827	86,396	34,238	35,822
Aberdeen (South Dakota)	171	3,500	4	(*)	1			2
Chicago (See (b) below)	465,773	267,833	7,220	700	67,261	17,354	17,697	26,707
Des Moines (Iowa)	17,495	10,196	84	186	2,214	1,052	7,957	957
Fargo (North Dakota)	1,279	26	(*)		749	(*)		52
Milwaukee (Wisconsin)	48,964	26,363	262	56	13,508	56	6,563	2,156
Omaha (Nebraska)	5,543	4,426	222	1	554	21	314	6
St. Louis (Missouri)	56,369	43,138	1,049	915	7,295	278	2,452	1,244
St. Paul (Minnesota)	49,565	35,085	952	116	7,372	1,588	637	3,817
Springfield (See (b) below)	29,046	16,663	33		1,430	5,050	3,781	82
Southwest region	884,813	823,374	22,468	18,893	2,929	2,929	2,929	4,407
Albuquerque (New Mexico)	4,779	4,724	8	45	1	(*)		

Table 1.—Internal revenue collections by sources and by Internal revenue regions, districts, States, and other areas—Continued
 (In thousands of dollars. See table 3, p. 114, for tax rates and further breakdown of national totals by sources)

Internal revenue regions, districts, States, and other areas (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Retailers' excise taxes					Miscellaneous excise taxes			
	Total	Luggage, etc.	Jewelry, etc.	Furs	Toilet preparations	Total	Admissions		
							Theaters, concerts, athletic contests, etc. 14	Roof gardens, cabarets, etc.	Club dues and initiation fees
(42)	(43)	(44)	(45)	(46)	(47)	(48)	(49)	(50)	
United States, total	513,183	51,398	204,672	51,390	196,833	1,756,951	51,968	43,623	79,671
North-Atlantic region	153,831	26,998	48,828	10,238	64,731	484,678	20,462	7,883	17,225
Albany (See (c) below)	2,295	1,000	1,307	48	799	5,348	48	510	823
Augusta (Maine)	1,038	546	448	300	1,763	93	155	168	168
Boston (Massachusetts)	18,348	2,873	7,628	998	6,848	72,612	1,910	1,045	2,499
Brooklyn (See (c) below)	9,387	1,666	3,690	715	3,355	11,133	4,295	1,006	2,653
Buffalo (See (c) below)	10,543	1,385	3,843	343	2,772	14,413	837	915	1,904
Burlington (Vermont)	414	59	249	15	90	891	62	37	104
Hartford (Connecticut)	7,874	1,775	2,536	439	4,126	22,755	474	382	2,189
Manhattan (See (c) below)	38,197	18,412	27,259	7,438	47,322	272,338	11,858	3,277	6,308
Portsmouth (New Hampshire)	723	100	386	29	208	1,723	256	38	65
Providence (Rhode Island)	2,522	374	1,133	148	866	1,652	342	218	429
Mid-Atlantic region	154,426	18,724	38,548	4,734	24,286	187,968	6,488	11,898	22,427
Baltimore (Maryland and D.C.)	12,778	1,760	6,312	794	3,912	30,165	2,667	4,468	5,925
Newark (New Jersey)	12,911	1,826	4,696	1,263	4,326	54,944	1,767	1,844	2,742
Philadelphia (See (c) below)	15,206	1,992	5,712	1,432	4,068	72,830	1,793	744	2,897
Pittsburgh (See (c) below)	6,419	1,203	3,847	826	2,523	19,067	1,914	297	1,932
Richmond (Virginia)	6,135	887	2,757	286	2,206	18,902	264	118	1,570
Wilmington (Delaware)	7,752	125	339	34	255	1,347	369	41	345
Southwest region	42,386	6,724	18,548	1,544	11,288	37,338	3,588	4,484	6,384
Atlanta (Georgia)	8,359	1,523	3,674	510	2,852	146,062	561	511	1,071
Birmingham (Alabama)	4,183	568	1,976	183	1,457	6,144	83	164	769
Columbia (South Carolina)	2,514	337	1,034	82	1,061	4,097	169	122	438
Greensboro (North Carolina)	1,017	1,361	209	202	1,615	153	317	83	1,252
Jackson (Mississippi)	2,058	325	876	78	779	2,729	28	69	378
Jacksonville (Florida)	11,503	1,768	5,048	364	4,324	26,959	1,902	2,885	2,391
Nashville (Tennessee)	6,100	1,198	2,493	223	1,882	8,761	1,163	179	1,379
Central region	86,822	8,285	24,387	3,182	20,798	179,474	4,430	4,868	10,478
Cincinnati (See (d) below)	12,142	2,212	4,859	456	4,615	17,232	574	702	1,125
Cleveland (See (d) below)	10,885	1,786	5,386	4,022	5,507	983	1,125	2,616	3,388
Detroit (Michigan)	9,320	2,974	7,451	1,423	7,471	36,527	1,595	1,847	3,388
Indianapolis (Indiana)	8,512	1,007	4,437	454	2,614	31,968	453	602	1,326
Louisville (Kentucky)	5,517	517	1,669	134	1,170	10,632	589	327	842
Parkersburg (West Virginia)	2,194	298	877	88	737	1,100	492	100	1,000
Midwest region	16,613	1,633	82,752	6,425	6,637	125,111	6,315	11,617	11,617
Aberdeen (South Dakota)	842	82	355	31	324	2,049	49	86	122
Chicago (See (f) below)	38,352	7,772	14,723	3,813	12,337	109,353	2,759	2,323	4,653
Des Moines (Iowa)	3,652	481	1,773	107	1,227	8,835	118	697	1,031
Fargo (North Dakota)	718	90	347	30	251	1,308	11	75	58
Milwaukee (Wisconsin)	5,256	799	2,537	532	1,988	8,085	405	851	1,059
Omaha (Nebraska)	2,584	343	983	123	1,351	35,366	193	236	326
St. Louis (Missouri)	18,761	5,472	6,069	1,091	5,629	118,319	836	767	1,803
St. Paul (Minnesota)	9,081	1,393	4,322	491	2,875	16,281	673	992	1,375
Springfield (See (d) below)	3,941	381	1,603	145	1,213	10,863	156	545	1,379
Southwest region	49,188	6,888	25,133	1,943	16,258	153,931	3,479	9,231	9,231
Albuquerque (New Mexico)	1,292	130	515	33	614	3,137	117	433	248
Austin (See (f) below)	11,571	1,645	5,464	456	4,106	91,869	420	564	2,158
Cheyenne (Wyoming)	495	53	252	13	176	1,646	4	92	71
Dallas (See (f) below)	17,539	1,518	11,369	664	3,988	74,377	503	361	888
Denver (Colorado)	3,139	382	1,487	205	1,065	56,940	369	294	888
Little Rock (Arkansas)	2,408	335	965	66	1,042	4,469	116	134	422
New Orleans (Louisiana)	5,993	826	2,278	262	2,226	14,138	222	668	1,045
Oklahoma City (Oklahoma)	4,158	603	1,554	136	1,766	9,611	124	36	904
Wichita (Kansas)	2,903	373	1,148	106	1,273	7,747	74	197	1,041
Western region	77,457	8,788	31,968	4,613	11,622	308,790	9,688	13,245	11,644
Anchorage (Alaska)	1,425	31	233	47	123	1,865	26	141	16
Boise (Idaho)	1,081	110	412	23	518	2,122	21	196	98
Helena (Montana)	908	99	403	41	355	1,038	13	173	118
Honolulu (Hawaii)	1,977	323	1,063	27	957	5,811	179	949	1,999
Los Angeles (See (a) below)	35,568	4,948	14,299	2,355	13,966	61,737	6,226	3,578	5,167
Phoenix (Arizona)	2,342	286	1,064	58	534	1,125	260	522	634
Portland (Oregon)	3,477	443	1,431	100	1,503	6,572	226	891	1,200
Reno (Nevada)	1,190	113	382	53	432	1,606	14	3,065	1,028
Salt Lake City (Utah)	2,340	238	716	64	1,320	9,553	109	109	325
San Francisco (See (a) below)	22,123	2,469	9,136	1,047	9,470	168,926	2,174	2,809	3,561
Seattle (Washington)	6,018	737	2,587	196	2,498	34,435	359	714	1,022
Office of International Operations	8	(*)	8	(*)	8	8,822	(*)	(*)	(*)
Puerto Rico	1	(*)	1	(*)	1	832	(*)	(*)	(*)
Other	1	(*)	1	(*)	1	(*)	(*)	(*)	(*)
Depository receipts 1									
Transferred to Government of Guam									
Withheld taxes of Federal employees									
Totals for States not shown above									
(a) California	57,691	7,417	23,435	3,402	23,436	230,664	8,399	6,488	8,728
(b) Illinois	41,693	6,152	16,326	3,958	13,257	120,849	2,935	2,800	6,003
(c) New York	120,673	21,772	36,047	6,561	54,293	303,341	17,443	5,709	11,681
(d) Ohio	23,267	3,498	9,616	1,053	8,616	70,759	1,527	4,928	4,928
(e) Pennsylvania	21,623	3,195	9,059	1,778	7,591	91,891	2,214	1,061	4,829
(f) Texas	29,210	3,163	16,834	1,120	8,054	56,236	923	925	4,608

See footnotes on p. 116.

Table 1.—Internal revenue collections by sources and by internal revenue regions, districts, States, and other areas—Continued
 (In thousands of dollars. See table 3, p. 114, for tax rates and further breakdown of national totals by sources)

Internal revenue regions, districts, States, and other areas (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Miscellaneous excise taxes—Continued							
	Toll tele- phone service, wire and equip- ment service	Wire mileage	General telephone service	Transporta- tion of persons 17	Use of safe deposit boxes	Cocnut and other vegeta- ble oils processed	Sugar	Diesel and special motor oils
United States, total	435,632	24,425	620,630	125,890	7,480	29	97,109	182,188
North-Atlantic region	94,404	10,898	123,188	46,446	1,640	1	37,023	14,714
Albany (See (c) below)	800	81	776	(*)	67	(*)	(*)	652
Augusta (Maine)	163	45	119	(*)	30	(*)	(*)	377
Boston (Massachusetts)	22,384	376	33,476	2,166	262	(*)	2,674	1,538
Brooklyn (See (c) below)	28	9	154	(*)	4	(*)	(*)	516
Buffalo (See (c) below)	2,213	80	3,498	70	171	(*)	4	1,340
Burlington (Vermont)	86	26	55	(*)	24	(*)	(*)	225
Hartford (Connecticut)	7,255	772	8,761	74	135	(*)	1	995
Manhattan (See (c) below)	63,360	9,134	76,416	43,130	654	(*)	34,140	12,709
Portsmouth (New Hampshire)	65	27	65	(*)	23	(*)	(*)	23
Providence (Rhode Island)	(*)	32	4	(*)	23	(*)	(*)	120
Mid-Atlantic region	48,493	3,985	77,685	774	1,025	3	6,383	18,389
Baltimore (Maryland and D.C.)	5,302	247	7,162	147	35	(*)	1,635	1,635
Newark (New Jersey)	18,724	217	21,525	25	28	(*)	3,098	28
Philadelphia (See (c) below)	17,877	808	33,678	311	918	(*)	5,313	4,328
Pittsburgh (See (c) below)	1,927	58	3,368	(*)	182	(*)	182	7,919
Richmond (Virginia)	4,563	104	8,053	(*)	31	(*)	1	2,189
Wilmington (Delaware)	(*)	1	1	(*)	2	(*)	(*)	134
Southwest region	62,223	4,128	86,898	18,999	25	(*)	6,389	10,025
Atlanta (Georgia)	52,187	1,041	11,331	1,217	76	(*)	4,461	1,774
Birmingham (Alabama)	491	97	777	(*)	63	(*)	1	1,183
Columbia (South Carolina)	420	58	510	(*)	28	(*)	(*)	904
Greensboro (North Carolina)	3,634	171	5,029	(*)	73	(*)	49	1,564
Jackson (Mississippi)	90	11	135	(*)	31	(*)	(*)	811
Jacksonville (Florida)	4,631	2,700	1,854	4,608	235	(*)	550	1,767
Nashville (Tennessee)	65	874	1,127	59	76	(*)	3	2,165
Central region	41,891	1,603	73,813	434	125	10	1,488	16,644
Cincinnati (See (d) below)	3,410	191	6,459	4	85	(*)	1	1,372
Cleveland (See (d) below)	15,490	547	20,915	27	214	(*)	6,459	2,216
Detroit (Michigan)	11,934	269	27,322	47	292	(*)		

Table 1.—Internal revenue collections by sources and by internal revenue regions, districts, States, and other areas—Continued
 (In thousands of dollars. See table 3, p. 114, for tax rates and further breakdown of national totals by sources)

Internal revenue regions, districts, States, and other areas (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Miscellaneous excise taxes—Continued								
	Narcotics and marihuana, including occupational taxes	Coin-operated amusement devices	Coin-operated gaming devices	Bowling alleys, pool tables, etc.	Wagering taxes		Use tax on highway motor vehicles	Other ¹¹	Unclassified excise taxes
					Occupational	Wagers			
(59)	(60)	(61)	(62)	(63)	(64)	(65)	(66)	(67)	
United States, total	1,866	4,383	16,018	4,778	603	4,068	102,028	14,923	-32,159
North-Atlantic region	649	1,022	783	70	945	12,923	10,382	2,233	32
Albany (See (c) below).....	65	50	4	4	18	784	164	5	3
Augusta (Maine).....	20	23	4	22	1	496	5	80	82
Boston (Massachusetts).....	20	93	81	160	17	32	2,525	1,153	436
Brooklyn (See (c) below).....	131	131	132	132	5	42	1,990	244	82
Buffalo (See (c) below).....	38	182	(*)	179	7	64	1,881	90	8
Burlington (Vermont).....	1	5	1	8	1	1	186	71	9
Hartford (Connecticut).....	12	58	1	8	89	67	1,297	227	99
Manhattan (See (c) below).....	264	70	(*)	52	6	88	2,736	8,207	1,418
Portsmouth (New Hampshire).....	2	12	9	14	13	622	222	10	64
Providence (See (c) below).....	272	642	2,067	28	12	348	11	11	64
Mid-Atlantic region	447	1,721	1,117	11	65	13,779	729	9,881	-13,667
Baltimore (Maryland and D.C.).....	15	99	1,721	11	65	1,592	100	1,716	2,419
Newark (New Jersey).....	154	155	65	144	13	3,379	211	25,100	4,127
Philadelphia (See (c) below).....	68	182	52	9	34	4,413	143	3,339	3,832
Pittsburgh (See (c) below).....	13	132	140	135	20	138	2,455	227	1,461
Richmond (Virginia).....	19	65	89	9	3	1,588	23	340	868
Wilmington (Delaware).....	8	3	5	6	3	343	30	8,183	12,651
Southeast region	70	326	2,019	403	81	429	11,878	299	-12,651
Atlanta (Georgia).....	10	44	370	5	3	56	1,770	10	1,461
Birmingham (Alabama).....	9	34	7	15	69	1,393	28	2,419	3,885
Columbia (South Carolina).....	7	34	564	29	45	1,393	28	3,135	3,762
Greensboro (North Carolina).....	12	45	32	80	35	14	2,832	12	3,135
Jackson (Mississippi).....	5	5	41	10	236	2,725	141	3,339	4,427
Jacksonville (Florida).....	17	91	18	4	110	4	110	12	3,762
Nashville (Tennessee).....	12	48	624	60	7	111	1,494	12	2,787
Central region	133	656	1,844	883	102	1,850	18,726	779	2,787
Cincinnati (See (d) below).....	18	97	200	110	5	167	1,914	65	84
Cleveland (See (d) below).....	28	174	73	246	17	211	4,096	70	839
Detroit (Michigan).....	33	170	9	298	17	110	4,908	436	251
Indianapolis (Indiana).....	44	94	217	177	37	677	3,095	191	1,851
Louisville (Kentucky).....	8	62	528	68	12	215	1,033	10	1,385
Parkersburg (West Virginia).....	5	60	416	34	15	171	680	1	44
Midwest region	135	964	878	438	45	418	16,827	660	1,139
Aberdeen (South Dakota).....	17	130	13	1	3	503	15	3	17
Chicago (See (b) below).....	38	210	121	195	12	140	4,399	367	472
Des Moines (Iowa).....	7	65	5	1,624	1	7	1,624	12	55
Fargo (North Dakota).....	16	2	5	23	14	13	224	13	23
Milwaukee (Wisconsin).....	9	190	169	2	2	3	2,512	53	23
Omaha (Nebraska).....	12	33	38	45	4	74	1,057	83	112
St. Louis (Missouri).....	47	159	141	142	12	84	2,980	60	359
Springfield (Minnesota).....	11	129	121	82	8	47	1,303	29	43
Southwest region	96	473	1,888	826	87	442	14,806	789	783
Albuquerque (New Mexico).....	4	20	9	24	1	391	10	57	9
Austin (See (f) below).....	36	121	36	115	24	129	3,356	391	19,554
Cheyenne (Wyoming).....	1	11	72	11	5	6	334	3	1,668
Dallas (See (f) below).....	23	80	53	94	20	26	3,837	145	1,826
Denver (Colorado).....	7	40	53	2	3	3	1,583	59	191
Little Rock (Arkansas).....	4	38	246	24	5	65	1,007	3	820
New Orleans (Louisiana).....	9	37	715	47	21	150	1,113	44	1,612
Oklahoma City (Oklahoma).....	8	31	62	98	7	42	1,595	88	-23,606
Wichita (Kansas).....	6	45	189	60	2	18	1,391	16	70
Western region	127	712	7,254	673	172	1,789	17,388	1,833	1,847
Anchorage (Alaska).....	1	1	83	36	6	36	6	6	9
Boise (Idaho).....	3	16	17	20	2	560	72	45	9
Helena (Montana).....	1	31	30	35	20	34	462	8	5
Honolulu (Hawaii).....	2	30	98	27	3	402	102	5	11
Los Angeles (See (a) below).....	59	206	35	251	3	67	4,960	459	330
Phoenix (Arizona).....	6	42	96	29	1	26	586	25	156
Portland (Oregon).....	7	45	263	53	2	1,706	25	36	76
Reno (Nevada).....	2	19	5,694	8	5	958	700	47	21
Salt Lake City (Utah).....	3	16	203	21	34	88	572	12	18
San Francisco (See (a) below).....	28	224	10	142	3	38	6,316	293	619
Seattle (Washington).....	15	74	702	70	99	455	1,555	280	47
Office of International Operations	(*)	(*)	(*)	(*)	(*)	(*)	318	286	(*)
Puerto Rico	(*)	(*)	(*)	(*)	(*)	(*)	116	264	(*)
Undistributed:									
Depository receipts.....									
Transferred to Government of Guam.....									-55,210
Withheld taxes of Federal employees.....									
Totals for States not shown above									
(a) California.....	88	430	44	404	6	105	11,276	754	949
(b) Illinois.....	44	296	350	277	20	187	5,703	396	515
(c) New York.....	466	432	1	432	22	211	1,862	8,705	1,866
(d) Ohio.....	46	270	274	357	21	377	6,010	139	-754
(e) Pennsylvania.....	81	314	192	289	29	172	6,867	374	20,973
(f) Texas.....	59	201	36	209	44	155	7,192	536	21,421

See footnotes on p. 116.

Table 2.—Internal revenue collections by sources and by quarter
 (In thousands of dollars)

Source of revenue	Quarter ended—			
	Sept. 30, 1964 (1)	Dec. 31, 1964 (2)	March 31, 1965 (3)	June 30, 1965 (4)
Grand total	24,890,478	21,854,323	30,768,931	36,920,901
Corporation income tax ¹	5,015,301	4,973,380	7,838,248	8,304,405
Individual income and employment taxes, total.....	15,549,780	12,637,986	18,665,239	23,911,984
Income tax not withheld and self-employment tax ²	2,795,009	1,810,608	4,539,810	9,775,079
Income tax withheld and old-age and disability insurance ³	12,591,637	11,674,803	13,356,776	14,023,973
Retained retirement ⁴	158,459	148,581	161,077	167,617
Unemployment insurance.....	4,615	3,993	604,576	9,315
Estate tax.....	594,658	556,134	666,770	636,769
Gift tax.....	9,433	9,777	36,831	235,159
Excise taxes, total.....	3,721,307	3,677,945	3,561,843	3,832,564
Alcohol taxes, total.....	914,717	1,081,579	814,284	962,558
Distilled spirits ⁵	625,028	837,442	589,826	687,960
Wines, cordials, etc. ⁶	27,195	32,405	26,194	26,642
Beer ⁷	262,494	211,732	198,264	247,456
Tobacco taxes, total ⁸	540,069	552,903	503,039	552,583
Cigarettes.....	519,798	531,171	486,174	532,553
Cigars.....	15,656	17,131	12,630	15,505
Other.....	4,616	4,600	4,235	4,525
Stamp taxes on documents, other instruments, and playing cards, total.....	43,744	47,485	47,826	47,233
Issues and transfers of bonds of indebtedness or capital stock, foreign insurance policies, and deeds of conveyance:				
Sales by postmasters.....	13,659	17,063	11,263	12,227
Sales by district directors.....	27,854	27,988	34,114	33,890
Playing cards, silver bullion transfers.....	2,130	2,434	2,449	1,117
Manufacturers' excise taxes, total.....	1,665,521	1,470,306	1,597,205	1,685,113
Gasoline.....	682,661	720,135	659,125	625,214
Lubricating oil, etc.....	20,217	20,341	18,264	17,273
Tires (wholly or in part of rubber), inner tubes, and tread rubber.....	117,939	106,376	100,292	115,259
Motor vehicles, chassis, bodies, parts, and accessories.....	688,124	462,071	649,965	755,826
Radio and television sets, phonographs, components, etc. ⁹	41,794	58,068	55,561	66,346
Refrigerators, freezers, air-conditioners, etc., electric, gas, and oil appliances.....	42,942	35,147	34,177	45,105
Other ¹⁰	62,243	67,969	78,881	60,069
Retailers' excise taxes, total.....	116,645	110,759	171,816	113,961
Luggage, etc.....	19,454	18,360	29,909	13,663
Jewelry, etc.....	47,222	41,562	72,032	43,756
Furs.....	3,885	5,631	15,237	6,537
Toilet preparations.....	45,984	45,207	54,638	50,005
Miscellaneous excise taxes, total.....	547,074	404,641	412,373	421,964
Admissions:				
Theaters, concerts, athletic contests, etc. ¹¹	13,501	15,591	11,383	11,403
Roof gardens, cabarets, etc. ¹²	10,710	11,537	11,053	10,322
Club dues and initiation fees.....	22,492	17,111	17,535	22,533
Toll telephone service, telegraph, cable, radio, etc.; wire mileage service, wire and equipment service.....	135,899	101,415	101,304	119,439
General telephone service.....	186,037	135,452	157,924	141,468
Transportation of persons ¹³	33,845	31,074	29,553	31,418
Use of safe deposit boxes.....	1,793	1,771	1,760	2,156
Coconut and other vegetable oils processed.....	5	5	5	7
Sugar.....	23,892	28,458	25,592	19,157
Diesel and special motor fuels.....	43,223	37,188	34,619	37,158
Narcotics and marihuana, including occupational taxes.....	2,318	356	161	352
Coin-operated amusement and gaming devices.....	13,758	1,062	852	3,709
Bowling alleys, pool tables, etc. ¹⁴	3,464	549	350	416
Wagering taxes:				

Table 3.—Internal revenue collections by sources, fiscal years 1964 and 1965
(In thousands of dollars)

Source of revenue	Fiscal year	
	1964 (1)	1965 (2)
Grand total, all sources	112,260,257	114,434,634
Corporation income taxes, total ^a	24,300,853	26,131,334
Regular	24,228,959	26,128,635
Exempt organization business income tax	1,904	2,699
Individual income and employment taxes, total	71,592,859	70,764,989
Income tax not withheld and self-employment tax ^b	16,318,069	17,850,506
Income tax withheld and old-age and disability insurance, total ^c	53,830,068	51,656,249
Received with returns	54,253,082	49,116,910
Undistributed depository receipts ^d	-423,014	2,539,339
Railroad retirement, total	593,864	635,734
Railroad employment compensation tax; employers' tax 7½ percent, employees' tax 7½ percent; both imposed on taxable portion of wages:		
Received with returns	580,285	594,755
Undistributed depository receipts	13,546	40,954
Railroad employees' representative tax, 14½ percent on taxable portion of wages	22	25
Unemployment insurance, employers of 4 or more persons taxed 3.1 percent on taxable portion of wages, effective January 1, 1964 (for calendar year 1963, 3.35); credit allowed up to 50 percent of tax for contributions to State unemployment funds	850,858	622,499
Estate tax, graduated rates from 3 percent on first \$5,000 of net estate in excess of \$50,000 exemption to 77 percent on portion over \$10,000,000; credit allowed for State death taxes	2,110,992	2,454,332
Gift tax, graduated rates from 2½ percent on first \$5,000 of net gifts in excess of \$30,000 exemption to 57½ percent on portion over \$10,000,000; \$3,000 annual exclusion for each donee	305,312	291,201
Excise taxes, total	13,950,232	14,792,779
Alcohol taxes, total	3,577,499	3,772,638
Distilled spirits taxes, total	2,575,320	2,740,256
Imported (collected by Customs, rates same as domestic):		
Domestic, \$10.50 per proof gallon or wine gallon when below proof ^e	504,824	558,576
Rectification, 30 cents per proof gallon ^f	2,029,570	2,141,315
Occupational taxes:		
Nonbeverage manufacturers of spirits, \$25, \$50, \$100 per year	87	81
Rectifiers:		
Less than 20,000 proof gallons, \$110 per year	23	8
20,000 proof gallons or more, \$220 per year	27	21
Retail dealers in liquor or medicinal spirits, \$54 per year	13,377	13,857
Wholesale liquor dealers, \$25 per year	750	676
Manufacturers of stills, \$35 per year	5	5
Seizures, penalties, etc.	1,202	885
Stills or condensers manufactured, \$22 each	6	5
Wines, cordials, etc., taxes, total	110,242	112,436
Imported (collected by Customs, rates same as domestic):		
Domestic (still wines, 17 cents, 67 cents, \$2.25 per wine gallon; sparkling wines, \$3.40; artificially carbonated wines, \$2.40; liquors, cordials, \$1.32)	9,039	9,644
Occupational taxes:		
Retail dealers in wines or in wines and beer, \$54 per year	2,280	2,096
Wholesale dealers in wines or in wines and beer, \$25 per year	183	187
Beer taxes, total	891,936	919,946
Imported (collected by Customs, rates same as domestic):		
Domestic, \$3 per barrel of 31 gallons ^g	5,320	5,869
Occupational taxes:		
Brewers:		
Less than 500 barrels, \$55 per year	(*)	1
500 barrels or more, \$110 per year	20	26
Retail dealers in beer, \$24 per year (includes limited retail dealers in wines or beer, \$2.20 per month)	3,437	3,628
Wholesale dealers in beer, \$123 per year	919	934
Tobacco taxes, total	2,052,545	2,148,594
Cigarettes, total	1,976,675	2,069,695
Class A (small), \$4 per thousand	1,976,675	2,069,695
Class B (large), \$6.40 per thousand ^h	(*)	(*)
Prepayments	(*)	(*)
Cigars, total	56,309	60,923
Large cigars, classified by intended retail prices, total ⁱ :		
Class A (Retailing at not over 2½ cents each), \$2.50 per thousand	55,658	60,547
Class B (Over 2½ cents, not over 4 cents each), \$3 per thousand	72	528
Class C (Over 4 cents, not over 6 cents each), \$4 per thousand	13,224	14,572
Class D (Over 6 cents, not over 8 cents each), \$7 per thousand	6,321	6,723
Class E (Over 8 cents, not over 15 cents each), \$10 per thousand	27,080	29,343
Class F (Over 15 cents, not over 20 cents each), \$15 per thousand	3,513	4,320
Class G (Over 20 cents each), \$20 per thousand	3,004	3,400
Small cigars, 75 cents per thousand	649	330
Prepayments	1	46
Tobacco materials, tobacco products, and cigarette papers and tubes (Customs) ^j	13,373	605
Manufactured tobacco, 10 cents per pound ^k	17,444	16,716
Cigarette papers and tubes, papers ½ cent per 50; tubes 1 cent per 50	745	654
Tobacco materials—Violations, sec. 5731, Internal Revenue Code of 1954	(*)	1

See footnotes on p. 116.

Table 3.—Internal revenue collections by sources, fiscal years 1964 and 1965—Continued
(In thousands of dollars)

Source of revenue	Fiscal year	
	1964 (1)	1965 (2)
Excise taxes, total—Continued		
Stamp taxes on documents, other instruments, and playing cards, total	171,614	186,289
Issues and transfers of bonds of indebtedness or capital stock, foreign insurance policies, and deeds of conveyance: ^m		
Sales by postmasters	51,565	54,212
Sales by district directors	111,115	123,947
Playing cards, 13 cents per pack ⁿ	8,891	8,128
Silver bullion transfers, 50 percent of profit; repealed, effective June 5, 1963	43	2
Manufacturers' excise taxes, total	6,020,543	6,418,145
Gasoline, 4 cents per gallon	2,618,370	2,687,135
Lubricating oil, etc., 6 cents per gallon; cutting oil, 3 cents per gallon	76,316	76,095
Tires (wholly or in part of rubber, inner tubes, and tread rubber):		
Tires, highway type, 10 cents per pound, other, 5 cents per pound, except laminated tires (other than type used on high speed vehicles), 1 cent per pound	366,478	391,588
Inner tubes, 10 cents per pound	22,219	24,584
Tread rubber, 5 cents per pound	22,786	24,295
Motor vehicles, chassis, bodies, parts, and accessories:		
Passenger automobiles, chassis, bodies, etc., 10 percent ^o	1,745,969	1,887,691
Trucks and buses, chassis, bodies, etc., 10 percent	350,945	425,361
Parts and accessories for automobiles, trucks, etc., 8 percent	228,762	252,974
Radio and television sets, phonographs, components, etc., 10 percent ^p	197,595	221,769
Refrigerators, freezers, air-conditioners, etc., 5 percent; self-contained air-conditioning units, 10 percent ^q	62,799	75,987
Electric, gas, and oil appliances, 5 percent ^r	73,376	60,983
Pistols and revolvers, 10 percent	1,837	2,206
Photograph records, 10 percent ^s	25,098	26,692
Musical instruments, 10 percent ^t	21,148	25,810
Sporting goods (other than fishing rods, creels, etc.), 10 percent ^u	20,633	21,317
Fishing rods, creels, etc., 10 percent ^v	7,342	7,373
Business and store machines, 10 percent ^w	10,867	14,626
Cameras, lenses, film, etc., 10 percent; household type projectors, 5 percent ^x	29,580	35,025
Electric light bulbs and tubes, 10 percent ^y	41,511	42,754
Firearms (other than pistols and revolvers), shells, and cartridges, 11 percent	17,455	20,201
Mechanical pencils, pens, 10 percent; lighters 10 cents per lighter (\$1 or more); 10 percent (less than \$1) ^z	9,299	9,468
Matches, 2 cents per thousand (but not to exceed 10 percent of selling price); fancy wooden or colored stems, 5¼ cents per thousand ^{aa}	4,359	4,440
Retailers' excise taxes, total ^{ab}	475,013	513,181
Luggage, etc., 10 percent	76,704	81,366
Jewelry, etc., 10 percent	183,437	204,377
Furs, 10 percent	30,016	31,390
Toilet preparations, 10 percent	176,857	195,833
Miscellaneous excise taxes, total	1,546,631	1,786,051
Admissions taxes, total	88,079	95,591
Theaters, concerts, athletic contests, etc.:		
Admissions, 1 cent for each 10 cents or major fraction thereof of the amount paid in excess of \$1 ^{ac}	45,889	50,531
Ticket brokers' sales, 10 percent of amounts in excess of box office price ^{ad}	480	596
Leases of boxes or seats, 10 percent of the amount for which similar accommodations are sold ^{ae}	480	517
Admissions sold by proprietors in excess of established price, 50 percent of such excess	158	223
Roof gardens, cabarets, etc., 10 percent of total paid for admissions, services, etc.	41,026	43,623
Club dues and initiation fees, 20 percent (if dues or fees are in excess of \$10 per year)	75,120	79,671
Toll telephone service, telegraph, cable, radio, etc., 10 percent ^{af}	360,330	433,632
Wire mileage service, 10 percent; wire and equipment service, 8 percent	19,278	24,425
General telephone service, 10 percent	530,588	620,880
Transportation of:		
Oil by pipeline, 4½ percent; repealed, effective Aug. 1, 1958	10	34
Persons, 10 percent; repealed, effective Nov. 16, 1962, except on air transportation which was reduced to 5 percent	106,062	125,890
Property, 3 percent of amount paid, except coal which is 4 cents per ton; repealed, effective Aug. 1, 1958	277	215
Use of safe deposit boxes, 10 percent	7,423	7,480
Coconut and other vegetable oils processed, 2 cents per pound; repealed, effective Aug. 31, 1963	14	29
Sugar, approximately ½ cent per pound	95,411	97,109
Diesel and special motor fuels, 4 cents per gallon (in some instances 2 cents per gallon)	128,078	152,188
Narcotics and marihuana, total ^{ag}	1,282	1,366
Narcotics:		
Marihuana	1,187	1,289
Other	95	77
Coin-operated amusement devices, \$10 per device, per year	5,215	4,383
Coin-operated gaming devices, \$250 per device, per year	17,548	15,018
Bowling alleys, pool tables, etc., \$20 per alley or table, per year	5,606	4,778
Wagering taxes:		
Occupational tax, \$50 per year	617	603
Wagers, 10 percent of amount wagered	5,439	6,066
Use tax on highway motor vehicles weighing over 26,000 pounds, \$3.00 per 1,000 pounds per year (installment privileges permitted)	100,199	102,038
Adulterated butter and filled cheese (imported and domestic), process or renovated butter and imported oleomargarine ^{ah}	3	3
Firearms transfer and occupational taxes ^{ai}	50	75
Interest equalization, effective Sept. 2, 1964, P.L. 88-563		14,597
Unclassified excise taxes:		
Unapplied collections	13,828	23,090
Undistributed depository receipts	92,558	55,210

See footnotes on p. 116.

Table 4.—Internal revenue collections by principal sources, fiscal years 1940 through 1965
(In thousands of dollars)

Footnotes for tables 1-4—Continued

Fiscal year ended June 30	Total internal revenue collections	Income and profits taxes			Employment taxes ¹	Estate and gift taxes	Alcohol taxes ²	Tobacco taxes ³	Manufacturers' excise taxes	All other taxes
		Total	Corporation income and profits taxes ⁴	Individual income taxes ⁵						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
1940	5,340,452	2,129,609	1,147,592	982,017	833,521	360,071	624,253	608,518	447,088	337,392
1941	7,370,108	3,471,124	2,053,469	1,417,655	925,656	407,058	820,056	659,071	617,373	430,564
1942	13,047,869	8,006,884	4,744,083	3,262,800	1,185,362	432,540	1,048,517	780,982	771,902	621,682
1943	22,371,386	16,298,888	9,668,956	6,629,932	1,438,705	447,496	1,423,646	923,857	504,746	1,274,048
1944	40,121,760	33,027,802	14,766,796	16,261,005	1,738,372	511,210	1,618,775	988,483	503,462	1,733,655
1945	43,800,388	35,061,526	16,027,213	19,034,313	1,779,177	643,055	2,309,866	932,145	782,511	2,282,108
1946	40,672,097	31,258,138	12,553,602	18,704,536	1,700,828	676,832	2,526,165	1,165,518	922,671	2,421,944
1947	39,106,386	29,019,756	9,676,452	19,343,287	2,054,365	779,291	2,474,182	1,237,768	1,425,260	2,147,184
1948	41,864,542	31,172,191	10,174,410	20,997,781	2,301,342	899,345	2,255,327	1,300,280	1,649,234	2,206,823
1949	40,463,125	29,605,491	11,553,669	18,051,822	2,476,113	796,538	2,210,607	1,321,875	1,771,533	2,280,969
1950	38,957,132	28,007,659	10,854,351	17,153,308	2,644,575	706,227	2,219,202	1,328,464	1,836,055	2,214,951
1951	50,445,686	37,394,879	14,387,569	22,997,309	3,627,479	729,730	2,546,808	1,380,396	2,383,677	2,392,719
1952	65,006,586	50,741,017	21,466,910	29,274,107	4,464,264	833,147	2,540,120	1,565,162	2,348,943	2,507,933
1953	69,686,535	54,130,732	21,594,515	32,536,217	4,718,403	891,284	2,780,925	1,654,911	2,862,788	2,647,492
1954	69,919,991	54,360,014	21,546,322	32,813,691	5,107,623	935,121	2,783,012	1,580,229	2,689,133	2,464,859
1955	66,288,692	49,914,826	18,264,720	31,650,106	6,219,665	936,267	2,742,840	1,571,213	2,885,016	2,018,866
1956	75,117,649	56,636,164	21,298,522	35,337,642	7,295,784	1,171,237	2,920,574	1,613,497	3,456,013	2,019,380
1957	80,171,971	60,560,425	21,530,653	39,029,772	7,860,522	1,377,999	2,973,195	1,674,500	3,761,925	2,243,656
1958	79,978,476	59,101,874	20,533,316	38,566,559	8,644,389	1,410,925	2,946,461	1,734,021	3,374,135	2,166,575
1959	79,797,973	58,826,254	18,091,509	40,734,744	8,853,744	1,352,982	3,002,096	1,806,816	3,958,789	1,997,282
1960	91,774,803	67,125,126	22,179,414	44,945,711	11,158,589	1,626,348	3,193,714	1,931,504	4,735,129	2,004,394
1961	94,401,086	67,917,941	21,764,940	46,153,001	12,502,451	1,916,392	3,212,801	1,991,117	4,896,802	1,964,812
1962	99,440,839	71,845,305	21,295,711	50,649,594	12,708,171	2,035,187	3,341,282	2,025,796	5,120,340	2,264,817
1963	105,926,298	75,323,714	22,335,134	52,987,581	15,004,486	2,187,457	3,441,656	2,079,237	5,510,309	2,278,536
1964	112,260,257	78,891,218	24,300,863	54,590,354	17,002,504	2,416,303	3,577,499	2,052,545	6,020,543	2,259,645
1965	114,434,634	79,792,016	26,131,334	53,660,683	17,104,306	2,745,532	3,772,638	2,148,594	6,418,145	2,453,402

See footnotes below.

Footnotes for tables 1-4

Note.—Calendar year figures, by regions, districts, States, and other areas, for selected types of taxes, may be obtained from the Public Information Division, Internal Revenue Service, Washington, D.C., 20224. Floor stocks taxes are reported separately only during the periods in which the collections are of significant amounts. Relatively small amounts collected in subsequent periods are merged with the amounts shown for the related class of tax.

*Less than \$500.

†Revised.

¹ The receipts in the various States do not indicate the Federal tax burden of each, since in many instances, taxes are collected in one State from residents of another State. For example, withholding taxes reported by employers located near State lines may include substantial amounts withheld from salaries of employees who reside in neighboring States.

² Includes tax on unrelated business income of exempt organizations.

³ Collections of individual income tax not withheld include old-age and disability insurance taxes on self-employment income. Similarly, the collections of income tax withheld are reported in combined amount with old-age and disability insurance taxes on salaries and wages. Estimated separate national totals for individual income tax and for old-age and disability insurance taxes are shown in the text table on p. 9 and are used in obtaining national totals for individual income taxes and employment taxes in table 4. Amounts of old-age and disability insurance tax collections, classified by States, are compiled by the Social Security Administration as a by-product of its wage and income record-keeping operations and are published periodically in the Social Security Bulletin.

⁴ Effective for taxable years beginning after 1960, self-employment tax and taxes imposed by the Federal Insurance Contributions Act are applicable with respect to Guam and

American Samoa. Amounts of such taxes collected in Guam and American Samoa are combined with similar taxes reported for Office of International Operations—Other.

⁵ Beginning with fiscal year 1957, the United States total is adjusted to exclude withheld individual income taxes transferred to the Government of Guam in accordance with the provisions of Public Law 630, approved August 1, 1950 (64 Stat. 392). This adjustment amounted to \$4,054,704.41 for 1965.

⁶ Includes railroad employment compensation tax and tax on railroad employee representatives.

⁷ Tax payments made to banks, under the depository receipts system, are included in internal revenue collections for the period in which the depository receipts are issued. However, such payments are not classified by internal revenue districts (nor by tax subclasses to which excise tax payments relate) until the depository receipts are received in the internal revenue offices with tax returns. Accordingly, the items shown as "Undistributed depository receipts" represent the amount of depository receipts issued, less the amount of depository receipts received with returns and distributed by district and tax class.

⁸ Amounts of taxes collected on Puerto Rican products coming into the United States are covered into the Treasury of Puerto Rico under provisions of sec. 7652(a)(3) of the Internal Revenue Code of 1954. Such amounts are included in overall collections results (tables 1 through 4), beginning with 1955, and are shown separately in table 7.

⁹ Includes occupational tax on manufacturers of stills, rectifiers, wholesale liquor dealers, retail dealers in liquor or medicinal spirits, and nonbeverage manufacturers of spirits.

¹⁰ Includes seizures, penalties, etc., and tax on stills or condensers manufactured.

¹¹ Includes occupational taxes on wholesale and retail dealers in wines or in wines and beer.

¹² Includes occupational taxes on brewers and wholesale and retail beer dealers.

¹³ Includes taxes on cigarette papers and tubes, court fines, penalties, and taxes on leaf tobacco sold or removed in violation of sec. 5731, Internal Revenue Code.

¹⁴ Includes stamp taxes on issues and transfers of bonds of indebtedness or capital stock, foreign insurance policies, and deeds of conveyance, playing cards, and silver bullion.

¹⁵ Includes taxes on pistols and revolvers; phonograph records; musical instruments; sporting goods; fishing rods, creels, etc.; business and store machines; cameras, lenses, film, and projectors; electric light bulbs, and tubes; firearms, shells, and cartridges; mechanical pencils, pens, and lighters; and matches.

¹⁶ Includes taxes on ticket brokers' sales, on leases of boxes or seats, and on admissions sold by proprietors in excess of established prices, as well as general admissions tax.

¹⁷ Transportation of persons; Rate 10 percent; repealed, effective November 16, 1962, except on air transportation which was reduced to 5 percent.

¹⁸ Includes taxes on interest equalization; adulterated butter and filled cheese (imported and domestic); process or renovated butter and imported oleomargarine; narcotics and marihuana; coconut and other vegetable oils processed (repealed, effective August 31, 1963); transportation of property and oil by pipeline (repealed, effective August 1, 1958); firearms transfer; and occupational taxes.

¹⁹ Corporation income tax rates: Effective January 1, 1965, first \$25,000 of net income, normal tax of 22 percent; net income in excess of \$25,000, combined normal and surtax of 48 percent. Normal tax and surtax also apply to net income derived from certain exempt organizations from unrelated trade or business. Calendar year 1964, rates were 22 percent and 50 percent, respectively. Prior to January 1, 1964, rates were 30 percent and 52 percent, respectively.

²⁰ Rates of tax are as follows:
Individual income tax: Effective January 1, 1965, graduated rates from 14 percent on taxable income not over \$500 to 70 percent on amounts of taxable income over \$200,000. Calendar year 1964, rates were 16 percent and 77 percent, respectively. Prior to January 1, 1964, rates were 20 percent and 91 percent, respectively.

Old-age and disability insurance taxes on self-employment taxable income, 5.4 percent for taxable years 1964 and 1965.

²¹ Rates of tax are as follows:
Income tax withheld: Effective March 4, 1964, 14 percent of wages in excess of exemptions. Prior to the effective date, taxes were withheld at the rate of 18 percent.

Old-age and disability insurance taxes on salaries and wages: Employers' and employees' tax each 3½ percent effective January 1, 1963, both imposed on taxable portion of wages.

²² Collected by Customs beginning October 1, 1961, as authorized by Part 275.62 of Title 26, Code of Federal Regulations.

²³ Issues of stock: 10 cents per \$100 or major fraction thereof of actual value, except that such rate shall be 4 cents per \$100 if issued after April 8, 1960, by a corporation which qualifies as a regulated investment company or a real estate investment trust. Issues of bonds: 11 cents per \$100 face value. Transfers of stock: 4 cents per \$100 or major fraction thereof of actual value; transfers of bonds, 5 cents per \$100 face value. Foreign insurance policies: 1 cent or 4 cents per \$1 of premium. Deeds of conveyance: \$100 to \$500, 55 cents; each additional \$500 or fraction thereof, 55 cents.

²⁴ Repealed, effective June 22, 1965.

²⁵ Rate 10 percent through May 14, 1965; 7 percent from May 15, 1965 through December 31, 1965.

²⁶ Air conditioners, repealed, effective May 15, 1965. Refrigerators and freezers, repealed, effective June 22, 1965.

²⁷ Sales of light bulbs for incorporation in articles upon which the manufacturers' tax was repealed, effective June 22, 1965 (e.g., refrigerators), will be free of tax on and after such date.

²⁸ In the case of certain racetracks, the following rates apply:

Admissions: 1 cent for each 5 cents of amount paid.
Ticket brokers' sales: 20 percent of excess charges.
Leases of boxes or seats: 20 percent.

²⁹ Narcotics, 1 cent per ounce; narcotics order blanks, \$1 per hundred. Marihuana, \$1 per ounce; marihuana order blanks, 2 cents each. Amounts shown also include occupational taxes levied on manufacturers, dealers, and practitioners. For classes and rates of occupational taxes see table 14.

³⁰ Adulterated butter: 10 cents per pound. Process or renovated butter: ½ cent per pound. Domestic filled cheese: 1 cent per pound. Imported filled cheese: 8 cents per pound. Imported adulterated butter and oleomargarine: 15 cents per pound. Occupational taxes are levied on manufacturers or dealers in these products and are included in the amounts shown.

³¹ Transfers of machineguns, short-barreled firearms, silencers, etc., \$200 each; certain guns with combination shotgun and rifle barrels, and other special types of firearms, \$5 each. Occupational taxes are levied on manufacturers, importers, or dealers in firearms and are included in the amounts shown.

Table 5.—Internal revenue refunds including interest
(In thousands of dollars)

Internal revenue regions, districts, States, and other areas (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Total (1)	Corporation income (2)	Individual income and employment taxes		Estate (5)	Gift (6)	Excise (7)
			Excessive pre- payments (3)	Other (4)			
United States, total¹	1,068,636	714,879	1,485,851	221,375	30,962	1,941	223,847
North-Atlantic region	1,090,963	238,992	782,853	13,848	4,326	277	29,762
Albany (See (c) below)	56,106	47,197	887	4	57		5
Albany (Maine)	28,024	3,681	22,968	106	2		310
Boston (Massachusetts)	185,551	22,381	153,947	4,796	695	25	3,703
Boston (New Jersey)	220,250	174,606	184,648	4,046	1,354	3	5,690
Buffalo (See (c) below)	139,378	12,705	116,995	10,318	116		5,059
Burlington (Vermont)	10,240	1,399	8,152	138	100		268
Hartford (Connecticut)	97,165	12,436	76,029	14,338	789	24	4,733
Manhattan (See (c) below)	303,433	146,275	130,273	10,338	4,173	47	8,327
Portsmouth (New Hampshire)	21,966	2,852	17,466	867	67		715
Providence (Rhode Island)	28,648	2,897	24,883	670	101		96
Mid-Atlantic region	828,624	379,879	483,707	1,879	4,833	76	85,897
Baltimore (Maryland and D.C.)	145,146	11,944	116,833	5,627	1,002	34	9,706
Newark (New Jersey)	227,577	21,778	180,897	10,819	1,315	17	12,660
Philadelphia (See (c) below)	204,125	17,734	174,620	6,724	512	12	7,118
Pittsburgh (See (c) below)	128,367	11,218	110,521	3,403	2,002		1,224
Richmond (Virginia)	102,809	3,935	89,865	4,061	107	12	4,823
Wilmington (Delaware)	18,527	5,963	11,495	736	14	11	301
Southeast region	846,886	34,813	817,342	18,783	5,787	15	18,838
Atlanta (Georgia)	98,587	5,136	85,826	2,847	6		4,577
Birmingham (Alabama)	64,759	4,390	57,623	1,706	110		808
Columbia (South Carolina)	47,671	1,990	40,556	4,005	2,061	839	6,112
Greensboro (North Carolina)	94,575	6,063	77,937	3,513	729		6,812
Jackson (Mississippi)	34,718	1,775	30,210	1,069	66		1,599
Jacksonville (Florida)	151,567	10,573	130,097	6,606	2,732	15	8,655
Nashville (Tennessee)	74,676	4,884	65,093	5,751	20		2,471
Central region	813,778	71,794	685,196	23,848	3,221	202	21,351
Cincinnati (See (d) below)	117,977	11,799	97,299	3,340	534	24	4,994
Cleveland (See (d) below)	206,743	27,440	188,320	4,843	435	74	3,677
Detroit (Michigan)	249,763	19,983	211,613	7,240	1,244	113	9,561
Indianapolis (Indiana)	136,252	7,676	115,758	3,438	449	14	3,871
Louisville (Kentucky)	65,111	3,326	57,967	4,174	138		3,671
Parkersburg (West Virginia)	37,332	1,953	34,248	612	217		2,309
Midwest region	818,132	138,221	680,335	13,647	2,694	60	67,239
Aberdeen (South Dakota)	27,154	1,277	24,174	1,568	36		17
Chicago (See (d) below)	304,258	60,388	224,563	9,285	508	6	4,223
Des Moines (Iowa)	74,936	5,649	54,920	3,350	175	3	10,844
Fargo (North Dakota)	105,640	591	105,957	847	310		4,371
Milwaukee (Wisconsin)	126,844	27,184	90,446	3,848	310		5,742
Omaha (Nebraska)	40,115	2,116	30,894	2,940	129	17	4,011
St. Louis (Missouri)	144,777	24,371	108,429	6,975	553	20	11,442
St. Paul (Minnesota)	114,783	11,294	90,465	4,113	250		8,655
Springfield (See (d) below)	74,860	3,427	60,002	2,372	180	4	8,871
Southwest region	621,208	62,834	604,896	46,697	2,782	216	19,188
Albuquerque (New Mexico)	27,447	1,277	24,174	1,568	36		17
Austin (See (f) below)	144,912	16,852	115,911	8,137	635		3,361
Cheney (Wyoming)	10,592	609	8,461	815	24		2,681
Dallas (See (f) below)	125,483	12,833	96,823	12,452	469	96	3,811
Denver (Colorado)	68,870	5,905	57,800	4,058	193	2	2,111
Little Rock (Arkansas)	35,977	1,355	32,007	1,175	58		1,172
New Orleans (Louisiana)	76,610	5,404	66,349	2,796	889	1	1,172
Oklahoma City (Oklahoma)	15,398	5,375	53,541	5,852	230		1,076
Wichita (Kansas)	62,917	3,025	49,830	4,042	248	56	5,715
Western region	1,193,636	110,782	1,012,984	47,834	2,984	176	18,878
Anchorage (Alaska)	12,477	1,298	9,278	1,671	40		320
Boise (Idaho)	22,081	2,858	16,317	1,293	60		1,572
Helena (Montana)	19,644	895	16,255	1,001	67		1,436
Honolulu (Hawaii)	27,658	3,267	23,347	753	54		4
Los Angeles (See (a) below)	541,136	54,675	463,174	18,074	1,071	50	3,892
Phoenix (Arizona)	52,156	4,800	44,161	2,442	250		1,061
Portland (Oregon)	59,359	3,792	50,411	3,917	348		1,171
Reno (Nevada)	20,391	1,304	17,730	1,143	42		1,171
Salt Lake City (Utah)	33,629	1,458	30,613	1,144	44		1,370
San Francisco (See (a) below)	295,274	25,627	254,054	10,906	807	125	7,756
Seattle (Washington)	105,641	10,589	87,646	5,490	250		1,560
Office of International Operations	3,630	1,082	10,848	4,943	337		23
Puerto Rico	3,630	4	5,265	352			15
Other	30,703	1,078	25,583	337			1,483
Bureau of Customs	1,489						1,489

Totals for States not shown above

(a) California	840,410	80,502	717,228	28,980	1,878	175	11,648
(b) Illinois	379,118	63,814	284,565	11,657	1,088	13	17,981
(c) New York	190,348	479,107	23,184	6,466	1,223	23	19,939
(d) Ohio	38,239	685,611	8,182	667	34		8,663
(e) Pennsylvania	332,562	282,615	10,127	2,515	111		8,342
(f) Texas	271,395	29,684	212,734	20,589	1,104	113	7,171

¹ Includes drawbacks and stamp redemptions.
² Figures have not been reduced to reflect reimbursements from the Federal Old-Age and Survivors and Federal Disability Insurance Trust Funds amounting to \$19,630,000 in 1965 and \$165,800,000 in 1964; from the Highway Trust Fund amounting to \$123,492,000 in 1965 and \$126,837,000 in 1964; and from the Unemployment Trust Fund amounting to \$7,629,000 in 1965 and \$4,291,000 in 1964.
 Net of \$8,817 undeliverable checks totaling \$4,165,000. Less than \$500.

Table 6.—Number of returns filed, by internal revenue regions, districts, States, and other areas

Internal revenue regions, districts, States, and other areas (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Total (1)	Individual income tax ¹ (2)	Corporation income tax (3)	Partnership (4)	Declaration of estimated tax and all other income taxes (5)	Employment taxes (6)	Estate tax (7)	Gift tax (8)	Excise taxes (9)
North-Atlantic region	17,833,043	12,019,482	398,479	137,638	1,867,822	3,747,145	14,006	29,698	685,616
Albany (See (c) below)	1,055,083	714,348	15,306	8,607	73,340	73,340	18,000	25,628	45,667
Albany (Maine)	541,354	344,974	7,003	3,213	38,724	121,211	479	588	25,162
Boston (Massachusetts)	3,090,807	2,036,162	56,114	14,980	287,576	585,747	2,793	4,668	93,327
Brooklyn (See (c) below)	3,775,773	2,532,882	89,601	32,904	373,719	723,719	4,019	104,464	129,107
Buffalo (See (c) below)	2,296,548	1,524,918	28,855	19,380	165,166	446,356	3,293	2,773	323,101
Burlington (Vermont)	228,560	136,221	3,251	2,001	16,018	57,594	195	239	11,041
Hartford (Connecticut)	1,661,843	1,050,848	27,339	13,113	128,223	328,654	1,938	3,072	59,448
Manhattan (See (c) below)	3,986,711	2,087,151	138,943	38,200	485,950	1,094,132	3,775	154	107,292
Portsmouth (New Hampshire)	389,996	253,921	5,999	2,479	29,630	82,911	395	1,072	14,507
Providence (Rhode Island)	303,313	217,727	11,510	1,500	101,744	131,390	539	1,074	24,403
Mid-Atlantic region	15,133,860	10,002,652	200,196	118,634	1,483,227	3,548,347	1,821	2,537	602,285
Baltimore (Maryland and D.C.)	2,620,185	1,745,687	31,996	16,764	182,328	548,347	1,921	859	80,285
Newark (New Jersey)	3,973,253	2,627,729	75,167	33,268	314,312	797,168	4,332	5,216	114,133
Philadelphia (See (c) below)	3,943,376	2,607,981	41,432	20,728	246,312	617,662	3,765	146,166	146,166
Pittsburgh (See (c) below)	2,272,723	1,541,120	19,407	21,245	159,794	442,684	1,725	2,058	84,690
Richmond (Virginia)	2,115,913	1,403,668	22,489	15,151	127,418	471,157	1,529	1,290	72,418
Wilmington (Delaware)	286,410	176,674	3,523	2,000	17,874	50,502	50	82	8,443
Southwest region	12,442,127	7,828,647	159,818	104,620	682,187	1,188,234	6,011	1,186	278,532
Albany (Georgia)	2,620,185	1,745,687	31,996	16,764	182,328	548,347	1,921	859	80,285
Birmingham (Alabama)	1,398,596	1,296,905	22,390	15,469	98,217	257,727	1,087	2,170	63,140
Columbia (South Carolina)	1,075,247	678,654	11,285	7,270	50,429	282,000	672	1,405	53,378
Jackson (North Carolina)	2,304,855	1,475,823	27,825	20,155	122,448	568,554	1,324	2,409	86,316
Jacksonville (Florida)	3,037,843	1,843,857	60,643	25,063	221,431	767,243	3,882	5,414	110,297
Nashville (Tennessee)	1,790,775	1,148,946	16,360	20,340	87,181	400,523	963	1,561	74,901
Central region	2,027,105	9,398,050	154,967	129,784	979,424	2,810,391	10,244	13,286	848,402
Cincinnati (See (d) below)	2,104,084	1,394,027	21,992	15,589	177,810	421,533	1,881	4,933	69,490
Cleveland (See (d) below)	3,154,594	2,099,831	43,415	23,499	225,583	627,884	2,334	4,108	128,611
Detroit (Michigan)	4,097,673	2,807,412	42						

Table 7.—Internal revenue tax collected in Puerto Rico on manufactured products coming into the United States, by objects of taxation

Objects of taxation	[In thousands of dollars]	
	1964	1965
Total	45,153	45,100
Distilled spirits	38,310	35,788
Distilled spirits, rectification tax	872	979
Wine	(*)	(*)
Beer	14	2
Cigars, large:		(*)
Class A		(*)
Class B	588	580
Class C	110	4
Class D	3,453	5,860
Class E	1,677	1,749
Class F	118	137
Cigars, small		
Cigarettes, large		
Cigarettes, small		
Manufactured tobacco (chewing, smoking, and snuff)	(*)	(*)

*Less than \$500.
 Note.—Amounts of taxes collected in Puerto Rico on tobacco and liquor manufactures coming into the United States are covered into the Treasury of Puerto Rico under the provisions of section 7652(a)(3) of the Internal Revenue Code of 1954. Such amounts are included in overall collections results (tables 1 through 4), beginning with 1955.

Table 8.—Establishments qualified to engage in the production, distribution, storage, or use of alcohol and alcoholic liquors

Class of establishment	As of June 30—	
	1964	1965
Distilled spirits plants:		
Plants (net number)	355	352
Facilities:		
Production	176	172
Warehousing	267	276
Bottling in bond	60	61
Denaturing	48	50
Taxpaid bottling	148	147
Rectifying	128	130
Denatured and tax-free products (dealers, users, etc.):		
Dealers in specially denatured alcohol and denatured rum	43	44
Users of specially denatured alcohol and denatured rum	3,680	3,690
Reprocessors, rebottlers, etc., of specially denatured alcohol articles	1,104	1,062
Users of tax-free alcohol	7,484	7,483
Beer: Breweries	199	191
Wines:		
Bonded wine cellars	438	435
Taxpaid wine bottling houses	99	93
Vinegar: Vinegar factories using vaporizing process	3	3
Beverage dealers:		
Importers	1,657	1,691
Wholesale dealers in liquors	3,713	3,686
Wholesale dealers in beer	7,077	6,862
Retail dealers in liquors	277,655	274,979
Retail dealers in beer	145,165	139,987
Other:		
Manufacturers of nonbeverage products (drawback)	881	874
Fruit-flavor concentrate plants	47	46
Bottle manufacturers	109	107

Table 9.—Establishments qualified to handle tobacco materials; or to engage in the production or exportation of tobacco products and cigarette papers and tubes

Class of establishment	As of June 30—	
	1964	1965
Manufacturers of tobacco products	480	458
Manufacturers of cigarette papers and tubes	4	4
Dealers in tobacco materials	2,062	1,972
Tobacco export warehouses	147	148

Table 10.—Permits relating to distilled spirits under chapter 51, Internal Revenue Code, 1954

Status	Total	Section 5271, I.R. Code				
		Section 5171, I.R. Code	Section 5271, I.R. Code			
	(1)	(2)	(3)	(4)	(5)	(6)
In effect July 1, 1964, issued	11,410	203	43	3,655	25	7,484
Terminated, total	602	15	4	304	2	277
Revoked	2			2		
Otherwise terminated	600	15	4	302	2	277
In effect June 30, 1965, amended	11,425	209	44	3,664	25	7,483

Table 11.—Permits for operations relating to alcoholic beverages under the Federal Alcohol Administration Act

Status	Grand total	Distilled spirits plants ¹				Wine producers and blenders	Wine blenders	Importers	Wholesalers
		Total ²	Distillers	Warehousing and bottling	Rectifiers				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
In effect July 1, 1964, issued	13,516	445	189	212	151	372	52	1,857	10,790
Terminated, total	1,644	66	20	34	18	30	3	222	1,075
Revoked	14								1,317
Otherwise terminated	1,630	66	20	34	18	30	3	219	1,306
In effect June 30, 1965, amended	13,276	419	186	205	153	366	52	1,891	10,548

¹ Excludes permits for Customs manufacturing bonded warehouses since such establishments are not required to qualify as distilled spirits plants.
² Column (2) does not represent the sum of (3), (4), and (5) since one permit may cover more than one activity.

Table 12.—Permits relating to tobacco, under chapter 52, Internal Revenue Code, 1954

Status	Total	Manufacturers of tobacco products	Export warehouse proprietors
In effect July 1, 1964, issued	627	480	147
Terminated, total	99	56	43
Revoked	1	1	
Otherwise terminated	98	55	43
In effect June 30, 1965, amended	606	458	148

Table 13.—Label activity under Federal Alcohol Administration Act

Type of label	Applications acted upon			
	Total	Certificates issued		Disapproved
		Approvals	Exemptions	
Grand total	47,454	45,662	283	1,509
Distilled spirits, total	19,352	18,678	15	659
Domestic	17,302	16,811	15	476
Imported	2,050	1,867		183
Wines, total	26,533	25,465	268	800
Domestic	7,314	6,938	268	108
Imported	19,219	18,527		692
Malt beverages, total	1,569	1,519		50
Domestic	1,070	1,050		20
Imported	499	469		30

Table 14.—Number of occupational tax stamps issued, covering fiscal year 1965, or portion thereof, by class of tax and by internal revenue regions, districts, and States

Internal revenue regions, districts, and States (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Total number of occupational tax stamps issued	Distilled spirits									
		Rectifiers				Retail dealers			Manufacturers of nonbeverage products		
		Manu- facturers of stills, \$55	Less than 20,000 proof gallons, \$110	20,000 proof gallons or more, \$220	Whole- sale dealers, \$255	Retail dealers, \$54	At large, \$54	Medic- inal spirits, \$54	Not exceed- ing 25 gallons, \$25	Not exceed- ing 50 gallons, \$50	More than 50 gallons, \$100
United States, total	1,203,844	158	35	96	2,780	347,183	498	1,258	78	62	761
North-Atlantic region	187,794	26	6	13	317	45,873	30	627	17	9	198
Albany (See (c) below)	16,981	11	1	1	10	4,827	11	.....	.....	.....	2
Augusta (Maine)	6,303	.....	2	1	.....	.....	.....	.....	.....	.....	.....
Boston (Massachusetts)	28,404	4	1	5	109	7,700	.....	624	3	2	46
Brooklyn (See (c) below)	39,595	2	.....	3	37	8,327	8	.....	1	3	18
Buffalo (See (c) below)	36,991	8	.....	.....	26	9,438	.....	2	1	2	18
Burlington (Vermont)	3,111	.....	.....	3	34	4,982	1	.....	1	.....	10
Hartford (Connecticut)	18,759	1	.....	1	78	7,178	.....	.....	6	2	43
Manhattan (See (c) below)	37,074	1	.....	1	7	1,570	.....	.....	.....	.....	6
Portsmouth (New Hampshire)	4,691	.....	.....	.....	20	1,661	.....	.....	2	.....	6
Providence (Rhode Island)	5,556	1	.....	.....	188	60,622	88	11	1	8	182
Mid-Atlantic region	171,238	69	8	21	189	40,622	88	11	1	8	182
Baltimore (Maryland and D.C.)	30,818	55	6	4	32	5,827	64	4	2	2	73
Newark (New Jersey)	40,505	1	.....	.....	72	13,459	5	.....	4	2	4
Philadelphia (See (e) below)	46,909	8	1	7	44	11,553	2	.....	2	4	52
Pittsburgh (See (e) below)	30,784	3	.....	1	2	8,606	.....	4	.....	1	9
Richmond (Virginia)	19,852	3	.....	.....	5	819	15	.....	.....	.....	45
Wilmington (Delaware)	2,328	.....	.....	1	231	9,338	.....	1	1	1	11
Southeast region	116,824	3	1	1	31	1,403	3	1	1	1	3
Atlanta (Georgia)	14,221	.....	.....	1	6	1,537	.....	.....	.....	.....	6
Birmingham (Alabama)	9,961	.....	.....	.....	14	915	.....	.....	.....	.....	3
Columbia (South Carolina)	13,618	.....	.....	.....	56	168	.....	.....	.....	.....	19
Greensboro (North Carolina)	18,338	.....	.....	.....	28	1,258	.....	.....	.....	.....	3
Jackson (Mississippi)	12,004	.....	.....	.....	62	4,358	.....	.....	.....	.....	19
Jacksonville (Florida)	30,275	3	.....	.....	30	700	46	17	10	6	24
Nashville (Tennessee)	18,099	18	6	26	588	88,662	21	.....	4	3	84
Central region	174,928	18	8	26	129	5,085	46	17	10	6	23
Cincinnati (See (d) below)	23,943	3	1	2	194	10,036	.....	.....	5	1	14
Cleveland (See (d) below)	40,635	3	2	2	134	15,544	6	13	1	1	26
Detroit (Michigan)	55,596	2	.....	.....	20	5,466	.....	.....	.....	.....	16
Indianapolis (Indiana)	25,303	.....	.....	.....	75	5,072	.....	.....	.....	.....	15
Louisville (Kentucky)	15,911	2	1	13	90	1,980	19	.....	.....	.....	1
Parkersburg (West Virginia)	13,499	1	.....	.....	3	551	.....	.....	.....	.....	1
Midwest region	226,378	9	3	11	415	49,238	289	182	16	10	152
Aberdeen (South Dakota)	5,962	.....	.....	.....	18	980	.....	.....	.....	.....	74
Chicago (See (b) below)	50,620	1	.....	4	131	15,568	15	7	6	6	6
Des Moines (Iowa)	18,978	.....	.....	.....	3	2,489	4	8	1	.....	.....
Fargo (North Dakota)	4,228	.....	.....	.....	11	1,055	.....	.....	.....	.....	.....
Milwaukee (Wisconsin)	46,403	1	.....	.....	84	13,228	.....	292	1	1	10
Omaha (Nebraska)	9,998	.....	.....	.....	17	2,887	59	.....	4	1	4
St. Louis (Missouri)	29,859	4	1	3	56	6,089	184	4	4	2	35
St. Paul (Minnesota)	25,142	4	.....	.....	17	2,887	6	34	1	3	15
Springfield (See (b) below)	19,185	.....	.....	.....	75	5,072	.....	.....	.....	.....	.....
Southeast region	144,380	22	1	1	223	17,064	60	190	8	20	27
Albuquerque (New Mexico)	4,949	.....	.....	.....	29	1,388	.....	.....	.....	.....	10
Austin (See (f) below)	42,393	9	.....	.....	31	2,195	.....	.....	.....	.....	1
Chayenne (Wyoming)	3,006	.....	.....	.....	.....	715	.....	.....	.....	.....	.....
Dallas (See (f) below)	19,152	11	.....	.....	29	1,662	2	2	1	11	6
Denver (Colorado)	12,444	.....	.....	.....	17	2,830	48	185	.....	.....	.....
Little Rock (Arkansas)	9,424	.....	.....	.....	8	867	.....	.....	.....	.....	2
New Orleans (Louisiana)	24,541	1	.....	.....	58	5,315	.....	.....	.....	.....	3
Oklahoma City (Oklahoma)	14,276	.....	.....	.....	18	936	.....	.....	.....	.....	.....
Wichita (Kansas)	14,005	18	8	22	798	46,398	17	36	17	6	101
Western region	188,984	14	7	21	468	31,362	15	15	11	3	92
Anchorage (Alaska)	2,128	.....	.....	.....	14	722	.....	.....	.....	.....	.....
Boise (Idaho)	5,377	.....	.....	.....	1	591	.....	.....	.....	.....	.....
Helena (Montana)	6,670	.....	.....	.....	30	1,153	.....	.....	.....	.....	.....
Honolulu (Hawaii)	4,173	.....	.....	.....	228	16,855	.....	.....	.....	.....	.....
Los Angeles (See (a) below)	59,609	2	6	.....	65	2,721	.....	.....	.....	.....	46
Phoenix (Arizona)	10,059	.....	.....	.....	59	1,286	.....	.....	.....	.....	.....
Portland (Oregon)	14,309	.....	.....	.....	24	1,315	.....	35	.....	.....	4
Reno (Nevada)	5,098	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Salt Lake City (Utah)	5,877	.....	.....	.....	240	14,507	.....	.....	.....	.....	46
San Francisco (See (a) below)	52,683	16	4	15	136	5,341	.....	.....	.....	.....	2
Seattle (Washington)	22,941	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Totals for States not shown above	112,302	16	6	21	468	31,362	15	15	11	3	92
(a) California	69,805	5	1	5	206	20,640	15	15	7	6	82
(b) Illinois	130,641	22	1	5	151	29,790	29	3	10	9	123
(c) New York	64,578	11	1	8	32	15,121	21	3	9	4	37
(d) Ohio	61,583	1	.....	.....	46	20,359	2	6	2	4	61
(e) Pennsylvania	61,545	20	1	1	60	3,857	2	3	2	11	10
(f) Texas	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

Table 14.—Number of occupational tax stamps issued, covering fiscal year 1965, or portion thereof, by class of tax and by internal revenue regions, districts, and States—Continued

Internal revenue regions, districts, and States (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Wines					Beer			
	Wholesale dealers		Retail dealers			Brewers	Wholesale dealers	Retail dealers	Temporary dealers in liquor
	Wines, \$255	Wines and beer, \$255	Wines, \$54	Wines and beer, \$54	500 barrels or more, \$110	dealers, \$123	at large, \$24	at large, \$24	liquor (wines or beer), \$2.20 per month
	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
United States, total	115	831	201	37,742	184	7,487	541,824	188	4,788
North-Atlantic region	47	29	12	1,184	20	618	30,788	42	1,081
Albany (See (c) below)	1	.....	.....	14	2	84	3,106	5	101
Augusta (Maine)	.....	.....	.....	.....	.....	.....	.....	.....	.....
Boston (Massachusetts)	.....	2	.....	116	5	27	127	.....	165
Brooklyn (See (c) below)	.....	.....	.....	2	.....	258	7,850	37	10
Buffalo (See (c) below)	5	.....	.....	10	6	210	6,495	.....	53
Burlington (Vermont)	.....	25	.....	911	.....	3	170	.....	.....
Hartford (Connecticut)	.....	.....	.....	9	1	47	2,451	.....	199
Manhattan (See (c) below)	34	1	10	74	1	28	1,617	.....	51
Portsmouth (New Hampshire)	.....	.....	.....	.....	.....	12	32	.....	.....
Providence (Rhode Island)	.....	.....	.....	.....	.....	2,080	6,808	107	549
Mid-Atlantic region	13	81	1	4,948	33	97	1,965	31	1,864
Baltimore (Maryland and D.C.)	.....	.....	.....	561	3	156	334	74	649
Philadelphia (See (c) below)	5	2	.....	.....	6	940	1,254	.....	13
Pittsburgh (See (e) below)	2	.....	.....	1	16	820	3,418	.....	.....
Richmond (Virginia)	3	46	.....	3,479	2	79	4,071	.....	2
Wilmington (Delaware)	.....	.....	.....	.....	.....	7	100	.....	50
Southeast region	12	148	127	9,399	5	484	23,898	2	87
Atlanta (Georgia)	.....	17	26	788	1	59	1,544	.....	2
Birmingham (New Jersey)	3	30	.....	1,446	.....	70	2,700	.....	1
Columbia (North Carolina)	7	37	98	2,211	.....	79	3,418	.....	18
Greensboro (North Carolina)	.....	.....	.....	2	.....	65	4,433	.....	.....
Jackson (Mississippi)	2	.....	.....	113	.....	30	3,205	.....	8
Jacksonville (Florida)	.....	62	2	4,841	4	111	3,922	.....	3
Nashville (Tennessee)	.....	.....	.....	.....	.....	70	4,468	.....	25
Central region	20	134	22	12,212	22	742	7,821	2	802
Cincinnati (See (d) below)	.....	14	.....	2,602	4	64	593	1	218
Cleveland (See (d) below)	4	.....	.....	4,019	4	92	444	.....	.....
Detroit (Michigan)	11	106	9	3,159	5	130	150	.....	230

Table 14.—Number of occupational tax stamps issued, covering fiscal year 1965, or portion thereof, by class of tax and by Internal revenue regions, districts, and States—Continued

Internal revenue regions, districts, and States (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Narcotics					Marihuana					
	Manufacturers, importers, and compounds of opium, etc., \$24	Wholesale dealers, \$12	Retail dealers, \$3	Practitioners, \$1	Dealers in untaxed preparations, \$1	Manufacturers, etc., \$1	Dealers, \$3	Producers and millers, \$1	Practitioners, \$1	Laboratories, \$1	
	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)
United States, total	127	992	54,257	510,718	1,489	406	8	6	1	55	18
North-Atlantic region	21	134	9,843	65,997	867	97	1			14	6
Albany..... (See (c) below)	1	7	275	1,135	62	1					
Augusta..... (Maine)	1	5	253	1,445	1						
Boston..... (Massachusetts)	4	31	2,913	11,884	14	24				6	4
Brooklyn..... (See (c) below)	7	7	2,534	14,983	89	7				3	
Buffalo..... (See (c) below)	1	17	1,216	6,374	218	11					
Burlington..... (Vermont)	2	106	702								1
Hartford..... (Connecticut)	11	143	6,329	14	14	30				4	1
Manhattan..... (See (c) below)	6	28	1,831	16,909	138	3	1			1	
Portsmouth..... (New Hampshire)	1	3	160	994							
Providence..... (Rhode Island)	1	6	312	4,617						4	2
Mid-Atlantic region	33	187	10,744	44,748	233	85	1			4	2
Baltimore..... (Maryland and D.C.)	2	29	1,093	7,772	5	9				2	
Newark..... (New Jersey)	10	27	2,400	10,831	36	36				2	2
Philadelphia..... (See (c) below)	16	29	2,494	13,586	57	27	1			2	
Pittsburgh..... (See (e) below)	1	10	1,312	6,532	13	8					
Richmond..... (Virginia)	4	7	10	917	5,318	168	6				
Wilmington..... (Delaware)	4	7	125	101						1	1
Southwest region	6	142	7,794	31,547	183	33				1	1
Atlanta..... (Georgia)	37	1,148	4,852	11	2	2					
Birmingham..... (Alabama)	12	962	5,352	10	4						
Columbia..... (South Carolina)	1	10	547	2	2						
Greensboro..... (North Carolina)	1	15	1,082	5,139	112	9					
Jackson..... (Mississippi)	9	513	2,128	15							
Jacksonville..... (Florida)	1	1,741	8,392								
Nashville..... (Tennessee)	4	32	1,111	4,800	24	9					
Central region	22	182	7,420	29,888	343	82				14	8
Cincinnati..... (See (d) below)	7	28	1,116	5,036	26	13				3	
Cleveland..... (See (d) below)	4	33	370	31	14	4				9	
Detroit..... (Michigan)	8	51	2,233	12,577	49	11	1				
Indianapolis..... (Indiana)	5	27	1,297	5,996	28	11				1	1
Louisville..... (Kentucky)	1	14	823	3,543	9					1	1
Parkersburg..... (West Virginia)	1	9	372	2,066						2	2
Midwest region	24	188	6,252	43,931	143	47	2	2	1	23	2
Aberdeen..... (South Dakota)	5	37	2,467	12,298	34	15	4			3	
Chicago..... (Iowa)	26	798	3,823		25	4				1	
Des Moines..... (Iowa)	4	3	200	727							
Fargo..... (North Dakota)	1	3	152	629	4	2	1			17	1
Minneapolis..... (Wisconsin)	4	18	1,152	6,229	4	4					
Omaha..... (Nebraska)	1	10	487	2,315	4	4	2			1	1
St. Louis..... (Missouri)	10	26	1,261	6,918	47	13					
St. Paul..... (Minnesota)	2	19	986	5,390	4	3					
Springfield..... (See (b) below)	2	16	659	3,102	22	6					
Southwest region	3	129	7,888	32,667	69	19				1	1
Albuquerque..... (New Mexico)	3	32	1,100		6	3					
Austin..... (See (f) below)	24	1,599	7,694	17	3						
Cheyenne..... (Wyoming)	3	129	445		21	3					
Dallas..... (See (f) below)	2	30	1,412	6,872	6	1					
Denver..... (Colorado)	20	692	3,827		4	1					
Little Rock..... (Arkansas)	6	595	2,139		4	1					
New Orleans..... (Louisiana)	19	1,015	4,353		2	6					
Oklahoma City..... (Oklahoma)	14	870	3,462		10	1					
Wichita..... (Kansas)	1	10	711	2,735	3					1	4
Western region	15	160	7,721	54,656	163	78	1			1	4
Anchorage..... (Alaska)	2	231	952		2	1					
Boise..... (Idaho)	4	250	1,015		2	1					
Helena..... (Montana)	1	8	99	1,004	21	2					
Honolulu..... (Hawaii)	10	38	2,676	22,382	46	33					2
Los Angeles..... (See (a) below)	8	9	452	2,423	1	3					
Phoenix..... (Arizona)	3	19	589	3,551	1	3					
Portland..... (Oregon)	9	10	284	1,507						1	
Reno..... (Nevada)	1	35	1,831	15,873	20	19					
Salt Lake City..... (Utah)	1	25	1,023	5,191	3	6					
San Francisco..... (See (a) below)	1										
Seattle..... (Washington)	1										
Totals for States not shown above											
(a) California.....	11	73	4,607	38,255	66	52	1			1	3
(b) Illinois.....	7	53	3,126	15,400	56	27				7	1
(c) New York.....	15	76	6,156	40,404	507	54	1			12	2
(d) Ohio.....	11	61	2,685	15,418	57	27		2			
(e) Pennsylvania.....	17	39	3,806	20,118	70	35	1				
(f) Texas.....	2	54	3,011	14,566	38	6					

Table 14.—Number of occupational tax stamps issued, covering fiscal year 1965, or portion thereof, by class of tax and by Internal revenue regions, districts, and States—Continued

Internal revenue regions, districts, and States (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	National Firearms Act					Coin-operated devices, billiard, pool, and bowling alley premises			Adulterated, process of renovated butter, and filled cheese	Wagering
	Manufacturers or importers	Pawn-brokers, Class 3, \$300	Dealers other than pawn-brokers, Class 4, \$200	Dealers, Class 5, \$10	Billiard or pool room and bowling alley premises, \$20 per table or alley	Amusement devices, \$10 per device	Gaming devices, \$250 per device			
	Class 1, \$500	Class 2, \$25	Class 3, \$300	Class 4, \$200	Class 5, \$10	(37)	(38)	(39)	(40)	(41)
United States, total	22	3	2	84	82	59,829	291,927	27,488	48	7,284
North-Atlantic region	8	1	1	7	6	4,993	34,290	260	1	283
Albany..... (See (c) below)	1	1			3	235	274	15		21
Augusta..... (Maine)	1				3	861	4,503	208	1	50
Boston..... (Massachusetts)	1				3	522	4,796			
Brooklyn..... (See (c) below)	1				1	1,337				54
Buffalo..... (See (c) below)	1				1	124	507			
Burlington..... (Vermont)	3				1	734	3,313	23		7
Hartford..... (Connecticut)	3				1	340	1,200			2
Manhattan..... (See (c) below)	1				6	155	904	14		
Portsmouth..... (New Hampshire)	1				1	8,837	45,406	4,688		448
Providence..... (Rhode Island)	4	2			13	1,530	7,244	3,559		119
Mid-Atlantic region	4	2	18	13	13	8,837	45,406	4,688		448
Baltimore..... (Maryland and D.C.)	1	1			8	1,660	10,529	70		70
Newark..... (New Jersey)	1				1	2,595	13,893	132		180
Philadelphia..... (See (c) below)	1				4	1,719	10,357	424		160
Pittsburgh..... (See (e) below)	1				1	999	4,193	369		34
Richmond..... (Virginia)	2				2	466	2,746			37
Wilmington..... (Delaware)	3				2	4,941	23,498	5,792	10	433
Southwest region	3	1	1	2	23	4,941	23,498	5,792	10	433
Atlanta..... (Georgia)	1				3	363	3,001	635		40
Birmingham..... (Alabama)	1				2	337	1,943		1	32
Columbia..... (South Carolina)	1				5	459	2,460	1,662		38
Greensboro..... (North Carolina)	1				5	1,026	5,758	56		44
Jackson..... (Mississippi)	1				1	283	2,939	1,216		110
Jacksonville..... (Florida)	1				6	798	5,785	45		84
Nashville..... (Tennessee)	1				3	275	3,983	2,129		9
Central region	2	1	1	1	15	13,024	47,408	4,949	13	1,292
Cincinnati..... (See (d) below)	1				2	2,016	6,154	657	8	49
Cleveland..... (See (d) below)	1				1	3,117	17,077	179	14	92
Detroit..... (Michigan)	1				2	6,425	14,467	19	2	149
Indianapolis..... (Indiana)	1				2	1,190	6,985	956		527
Louisville..... (Kentucky)	1				1	700	4,286	1,843		180
Parkersburg..... (West Virginia)	1				1	1,276	6,406	1,296		283
Midwest region	1	11	4	2	11	16,394	63,937	2,812	8	314
Aberdeen..... (South Dakota)	1				2	354	3,811	342		15
Chicago..... (See (b) below)	1				2	3,255	15,176	362		64
Des Moines..... (Iowa)	1				2	2,100	5,360	5		9
Fargo..... (North Dakota)	1				1	378	1,470	12		27
Minneapolis..... (Wisconsin)	1				1	4,866	14,989			44

Table 15.—Appellate Division receipts and dispositions of protested income, profits, estate, and gift tax cases prior to issuance of statutory notice of deficiency (pre-90-day cases)

Status	Number of cases (1)	Amount stated in revenue agent's report (thousand dollars)		
		Deficiency in tax (2)	Penalty (3)	Overassessment (4)
Pending July 1.....	15,531	1,084,093	37,845	192,292
Received.....	26,301	977,274	38,836	95,208
Disposed of, total.....	21,737	666,774	33,779	63,404
By agreement.....	17,161	486,247	17,916	50,992
Unagreed overassessments and claim rejections.....	499	403	39	2,423
By issuance of statutory notices—transferred to 90-day status.....	4,077	180,124	15,825	9,989
Pending June 30.....	20,695	1,394,593	42,902	224,096

B. Results obtained in dispositions

Method	Number of cases (1)	Appellate determination (thousand dollars)		
		Deficiency in tax (2)	Penalty (3)	Overassessment (4)
Disposed of, total.....	21,737	345,463	19,740	55,342
By agreement.....	17,161	160,243	4,833	53,051
Unagreed overassessments and claim rejections.....	499	202	40	1,510
By issuance of statutory notices—transferred to 90-day status.....	4,077	185,018	14,868	781

Table 16.—Appellate Division receipts and dispositions of protested income, profits, estate, and gift tax cases in which statutory notices of deficiency were outstanding (90-day cases)

Status	Number of cases (1)	Amount stated in statutory notice (thousand dollars)		
		Deficiency in tax (2)	Penalty (3)	Overassessment (4)
Pending July 1.....	1,390	71,449	2,844	277
Received, total.....	4,378	235,078	16,896	1,323
Statutory notices issued by Appellate Division.....	3,921	185,356	14,919	745
Statutory notices issued by district directors and received during 90-day period.....	457	49,722	1,977	579
Disposed of, total.....	4,469	249,651	9,834	1,343
By agreement.....	835	13,837	127	134
By taxpayer default.....	1,184	18,201	980	65
By petition to the Tax Court—transferred to docketed status.....	2,450	217,613	8,731	1,144
Pending June 30.....	1,299	56,876	9,906	257

¹ Difference from table 15—transferred to 90-day status—is caused by cases being combined or split for the purpose of issuing the statutory notice, cases in transit, etc.

B. Results obtained in dispositions

Method	Number of cases (1)	Appellate determination (thousand dollars)		
		Deficiency in tax (2)	Penalty (3)	Overassessment (4)
Disposed of, total.....	4,469	245,977	9,770	1,422
By agreement.....	835	10,163	58	212
By taxpayer default.....	1,184	18,201	980	65
By petition to the Tax Court—transferred to docketed status.....	2,450	217,613	8,731	1,144

Table 17.—Appellate Division receipts and dispositions of income, profits, estate, and gift tax cases petitioned to the Tax Court (docketed cases)

Status	Number of cases (1)	Amount stated in statutory notice (thousand dollars)		
		Deficiency in tax (2)	Penalty (3)	Overassessment (4)
Pending July 1.....	7,980	844,308	95,708	2,105
Received, total.....	6,852	492,072	47,570	3,034
Petitions filed in response to— District directors' statutory notices.....	4,493	319,109	40,558	2,500
Appellate Division's statutory notices.....	2,359	172,963	7,012	534
Disposed of, total.....	5,448	337,790	23,133	1,302
By stipulated agreement.....	4,476	296,697	20,610	1,187
By dismissal by the Tax Court or taxpayer default.....	278	3,555	502	7
Tried before the Tax Court on the merits.....	694	37,539	2,021	108
Pending June 30.....	9,384	998,590	120,145	3,837

¹ Difference from table 16—transferred to docketed status—is caused by excluding district directors' statutory notices considered by Appellate in 90-day status, cases in transit, etc.

B. Results obtained in dispositions

Method	Number of cases (1)	Appellate determination (thousand dollars)		
		Deficiency in tax (2)	Penalty (3)	Overassessment (4)
Disposed of, total.....	5,448	122,497	12,175	5,272
By stipulated agreement.....	4,476	81,509	9,652	5,157
By dismissal by the Tax Court or taxpayer default.....	278	3,450	501	7
Tried before the Tax Court on the merits.....	694	37,539	2,021	108

¹ Represents amounts petitioned. Results as to decisions rendered by Tax Court during the year are shown in table 19.

Table 18.—Office of Chief Counsel—Processing of income, profits, estate, and gift tax cases in the Tax Court

Status	Number of cases (1)	Amount in dispute (thousand dollars)		
		Deficiency		Overpayment (4)
		Tax (2)	Penalty (3)	
Pending July 1.....	9,478	849,316	120,866	79,000
Filed or reopened.....	6,842	421,168	36,447	28,875
Disposed of.....	5,744	350,111	26,824	50,873
Pending June 30.....	10,576	920,373	112,469	57,302

¹ For analysis of disposals, see table 19.

Table 19.—Office of Chief Counsel—Results obtained in income, profits, estate, and gift tax cases disposed of in the Tax Court

Basis of closing	Number (1)	Amount in dispute		Amount approved		Percent saved or recovered	
		Deficiency and penalty (2)	Over-payment (3)	Deficiency and penalty (4)	Over-payment (5)	Deficiency and penalty (6)	Over-payment (7)
Total.....	5,744	376,934	50,573	116,957	6,279	31.0	87.6
Dismissed.....	284	3,542	4	3,477	(*)	98.2	94.1
Decision on merits.....	825	64,846	7,210	23,276	2,109	35.9	70.7
Agreed settlement.....	4,635	308,547	43,359	90,204	4,170	29.2	90.4

*Less than \$500.

Table 20.—Office of Chief Counsel—Receipt and disposal of Tax Court cases in courts of appeals and in Supreme Court

Status	In courts of appeals					In Supreme Court				
	Number of cases	Amount in dispute (thousand dollars)		Amount approved (thousand dollars)		Number of cases	Amount in dispute (thousand dollars)		Amount approved (thousand dollars)	
		Deficiency and penalty (1)	Over-payment (2)	Deficiency and penalty (4)	Over-payment (5)		Deficiency and penalty (7)	Over-payment (8)	Deficiency and penalty (9)	Over-payment (10)
Pending July 1, total.....	430	43,872	283		6	138	(1)			
Appealed by Commissioner.....	54	6,505	27		6	138	(1)			
Appealed by taxpayers.....	364	29,423	252							
Appealed by both.....	12	7,944	9							
Appealed, total.....	368	24,522	30,767		10	209				
By Commissioner.....	79	5,213	30,531		8	55				
By taxpayers.....	263	17,278	20		2	154				
By both.....	26	2,032	198							
Disposed of, total.....	335	22,788	30,764	14,824	210	7	152	(1)	14	(1)
Favorable to Commissioner.....	174	10,732	198	10,719	198	1	14		14	(1)
Favorable to taxpayers.....	83	5,741	17	1,358	12	6	138	(1)		
Modified.....	13	2,075		1,735						
Satilled.....	16	3,470	30,543							
Dismissed.....	49	770	6							
Pending June 30, total.....	463	45,606	286		9	195				
Appealed by Commissioner.....	80	7,522	11		7	41				
Appealed by taxpayers.....	349	28,694	70		2	154				
Appealed by both.....	34	9,391	205							

¹ Less than \$500.

Table 21.—Office of Chief Counsel—Receipt and disposal of suits filed by taxpayers in Federal courts and actions by the United States for recovery of erroneous refunds

Status	Total (1)	Refund suits (other than alcohol, tobacco and firearms taxes) ¹		Perpetuation of testimony and damage actions (4)	Erroneous refunds (5)
		Court of claims (2)	District courts (3)		
Pending July 1:					
Cases..... number.....	3,145	463	2,652	6	24
Amount in dispute..... thousand dollars.....	400,115	216,861	181,362	45	1,847
Received during year:					
Cases..... number.....	1,488	163	1,314	3	8
Amount in dispute..... thousand dollars.....	96,602	35,528	60,381		693
Disposed of during year:					
Cases..... number.....	1,298	116	1,166	9	7
Amount in dispute..... thousand dollars.....	132,673	52,376	78,559	45	1,693
Refunded during year:					
Amount..... thousand dollars.....	37,219	7,496	29,711	12	
Percent of amount disposed of.....	28.05	14.31	37.82	26.67	
Pending June 30:					
Cases..... number.....	3,335	510	2,900		25
Amount in dispute..... thousand dollars.....	364,044	200,013	163,184		847

¹ Revised to give effect to change in reporting methods.

² The number of cases disposed of does not agree with the number of cases in which decisions were rendered by these courts during the year, due to settlement by stipulation, dismissals, and time required for retrial, recomputation of tax, etc. In the Court of Claims the number of decisions was 68, of which 40 were for the Government, 13 against the Government, and 15 partly for and partly against the Government. In the district courts 405 decisions were rendered, of which 215 were for the Government, 145 against the Government, and 45 partly for and partly against the Government. For decisions by the courts of appeals and Supreme Court, see table 22.

Table 22.—Office of Chief Counsel—Decisions of courts of appeals and Supreme Court in civil tax cases

Court	Total (1)	For the Government (2)	Against the Government (3)	Partly for and partly against the Government (4)
By courts of appeals, total.....	381	267	79	35
Originally tried in—				
Tax Court.....	241	177	40	24
District courts.....	140	90	39	11
By Supreme Court, total.....	22	16	6	
Originally tried in—				
Tax Court.....	15	9	6	
District courts.....	7	7		
Court of Claims.....				

¹ Includes 3 collection litigation cases.

Note.—Except for Supreme Court cases, the cases covered by tables 24 and 25 are not included.

Table 23.—Office of Chief Counsel—Receipt and disposal of collection, injunction, summons, and disclosure cases

Status	Number of cases
Pending July 1.....	1,704
Received.....	3,048
Total.....	4,752
Disposed of.....	2,843
Pending June 30.....	1,909

Note.—This table includes cases handled at national and regional levels which are under consideration for suit or are in suit in Federal and State courts. It does not include cases relating to alcohol, tobacco, and firearms taxes, nor to insolvency and debtor proceedings (Table 24), nor to appeal and other cases which are included in table 25.

Table 24.—Office of Chief Counsel—Receipt and disposal of insolvency and debtor proceedings

Status	Total (1)	Reorganization proceedings (2)	Bankruptcy and receivership proceedings (3)	Miscellaneous insolvency proceedings (4)
Received.....	3,326	1,398	1,222	706
Total.....	5,396	2,442	1,821	1,133
Disposed of.....	3,403	1,457	1,271	675
Pending June 30.....	1,993	985	550	458

¹ Proceedings instituted under the following section or chapters of the Bankruptcy Act: Sec. 77 (railroad reorganizations) and chs. X (Corporate reorganizations), XI (arrangements as to unsecured indebtedness), XII (real property arrangements), and XIII (wage earners' plans), which involve tax claims and other rights and interests of the United States.

² Bankruptcy liquidation proceedings and Federal or State receivership proceedings which involve tax claims of the United States.

³ Proceedings relating to corporate dissolutions, insolvent banks, assignments for the benefit of creditors, or administration of estates of decedents, which involve tax claims of the United States.

Note.—Includes cases handled at national and regional levels.

Table 25.—Office of Chief Counsel—Receipt and disposal of miscellaneous court cases, lien cases not in court, non-court collection litigation cases, and appeal cases

Status	Total (1)	Miscellaneous court cases (2)	Lien cases not in court (3)	Noncourt collection litigation cases (4)	Appeal cases (5)
Received.....	6,119	773	1,945	3,201	196
Total.....	7,399	1,120	2,055	3,851	373
Disposed of.....	6,210	810	1,969	3,216	215
Pending June 30.....	1,189	310	86	635	158

¹ Includes suits for foreclosure by mortgagees or other secured creditors, and suits to quiet title to which the United States is made a party.

² Primarily applications for discharge of property from tax liens.

³ Primarily memorandums on collection litigation matters from regional counsel to district directors which are not related to court proceedings or lien cases.

⁴ Includes cases in Federal and State appellate courts relating to insolvency and debtor proceedings, lien cases in court, collection, summons, and injunction cases.

Note.—Includes cases handled at national and regional levels.

Table 26.—Office of Chief Counsel—Caseload report

Activity	Pending July 1 (1)	Receipts (2)	Disposals (3)	Pending June 30 (4)
Total.....	21,299	29,100	27,551	22,848
Administration.....	197	110	111	196
Alcohol and Tobacco Tax.....	575	4,829	4,859	515
National Office.....	439	1,150	1,175	114
Field.....	136	3,679	3,714	401
Collection Litigation.....	5,054	12,684	12,647	5,091
National Office.....	306	511	520	297
Field.....	4,748	12,173	12,127	4,794
Enforcement.....	2,104	1,509	1,277	2,336
National Office.....	74	81	76	79
Field.....	2,030	1,428	1,201	2,257
Interpretative Division.....	208	708	664	252
Joint Committee Division.....	102	561	588	75
Refund Litigation Division.....	3,145	1,488	1,298	3,335
Tax Court.....	9,914	7,211	6,077	11,048
National Office.....	436	378	342	472
Field.....	9,478	6,833	5,735	10,576

¹ Revised.

² Includes 191 transferred cases.

³ Nondocketed cases not included.

Table 27.—Obligations incurred by the Internal Revenue Service
(In thousands of dollars)

Internal revenue office, district, or region	Total	Personnel compensation and benefits	Travel	Equipment	Other
	(1)	(2)	(3)	(4)	(5)
A. National Office and regional totals (including district directors' offices and service centers)					
Total Internal Revenue Service ¹	597,387	522,482	17,494	16,724	140,687
National Office	75,151	39,858	2,112	11,805	21,376
North-Atlantic	97,468	91,696	1,723	718	3,331
Mid-Atlantic	75,971	71,005	1,683	762	2,521
Southeast	57,389	51,923	2,286	386	2,802
Central	65,009	60,560	1,945	558	1,946
Midwest	75,391	69,901	2,137	757	2,596
Southwest	54,122	49,398	2,115	504	2,117
Western	76,561	69,623	2,313	1,155	3,468
Regional counsel	8,410	7,935	142	54	279
Regional inspection	7,285	6,264	84	54	157
Office of International Operations	4,649	4,127	205	25	92
B. Regional commissioners' offices (excluding district directors' offices and service centers)					
North-Atlantic	11,489	10,459	267	92	671
Mid-Atlantic	10,415	9,869	301	135	521
Southeast	10,439	8,654	577	74	1,134
Central	10,253	9,325	287	71	570
Midwest	8,562	7,551	348	112	451
Southwest	5,700	5,079	231	61	329
Western	8,087	7,366	305	79	337
C. Regional costs undistributed					
North-Atlantic	985	709	219	3	54
Mid-Atlantic	597	418	141	1	38
Southeast	625	281	269	1	75
Central	646	385	204	1	36
Midwest	899	582	270	6	41
Southwest	568	302	242	1	23
Western	724	348	305	1	71
D. District directors' offices and service centers					
North-Atlantic:					
Albany	3,750	3,543	108	11	88
Augusta	1,881	1,735	71	39	36
Boston	11,919	11,180	214	243	282
Brooklyn	15,114	14,496	134	31	453
Buffalo	9,034	8,582	249	22	181
Burlington	972	892	44	7	29
Hartford	6,559	6,235	136	33	155
Manhattan	26,212	25,393	173	35	611
Portsmouth	1,274	1,186	44	6	38
Providence	2,168	2,068	38	8	54
Puerto Rico	126	119	5	2	2
North-Atlantic Service Center	5,985	5,102	22	185	676
Mid-Atlantic:					
Baltimore	10,294	9,897	143	26	228
Newark	14,826	14,108	224	151	343
Philadelphia	14,629	14,070	269	28	262
Pittsburgh	8,750	8,390	186	10	164
Richmond	6,499	5,977	338	18	166
Wilmington	1,697	1,605	41	19	32
Mid-Atlantic Service Center	8,263	7,170	41	378	674
Southeast:					
Atlanta	6,119	5,714	216	39	150
Birmingham	4,286	3,989	146	28	121
Columbia	2,903	2,701	104	20	78
Columbus	6,749	6,273	270	59	147
Greensboro	2,572	2,370	126	17	59
Jackson	10,498	9,830	353	34	271
Jacksonville	5,506	5,099	189	45	173
Nashville	7,711	7,013	33	71	594
Southeast Service Center					
Central:					
Cincinnati	7,779	7,406	200	14	159
Cleveland	12,277	11,605	311	124	237
Detroit	15,157	14,448	334	73	302
Indianapolis	8,056	7,624	235	57	140
Louisville	5,080	4,710	211	49	110
Parkerson	2,999	2,778	133	5	6
Central Regional Training Center	7				83
Central Service Center	2,689	2,279	30	96	284

See footnotes at end of table.

Table 27.—Obligations incurred by the Internal Revenue Service—Continued
(In thousands of dollars)

Internal revenue office, district, or region	Total	Personnel compensation and benefits	Travel	Equipment	Other
	(1)	(2)	(3)	(4)	(5)
D. District directors' offices and service centers—Continued					
Midwest:					
Aberdeen	1,448	1,323	85	3	37
Chicago	20,035	19,178	241	120	496
Des Moines	5,063	4,745	169	8	100
Fargo	1,313	1,180	69	3	31
Minneapolis	6,922	6,546	190	17	169
Omaha	3,168	2,994	96	15	83
St. Louis	9,406	8,987	275	14	221
Springfield	6,576	6,252	168	23	142
Midwest Service Center	5,515	5,142	205	42	126
Southwest:	6,502	5,420	20	363	699
Albuquerque	2,138	1,901	99	14	124
Austin	10,050	9,337	338	22	333
Cheyenne	1,119	1,003	60	3	53
Dallas	9,786	9,147	347	22	270
Denver	4,486	4,074	114	29	189
Little Rock	2,886	2,580	167	27	102
New Orleans	5,553	5,251	147	16	139
Oklahoma City	4,785	4,416	158	54	157
Wichita	6,562	4,135	159	68	120
Southwest Service Center	2,669	2,153	53	187	276
Western:					
Anchorage	852	744	67	5	36
Boise	1,539	1,407	60	18	54
Helena	1,747	1,588	92	19	48
Honolulu	1,759	1,604	40	33	82
Los Angeles	22,499	20,818	490	431	750
Phoenix	3,051	2,849	95	13	94
Portland	4,387	4,044	115	106	122
Reno	1,963	1,668	87	66	142
Salt Lake City	1,939	1,789	45	43	57
San Francisco	15,026	14,060	348	43	575
Seattle	6,325	5,935	174	16	200
Western Regional Training Center	166	159	3	2	2
Western Service Center	6,496	5,245	87	276	888

¹ Includes \$2.3 million financed from reimbursements.

² Does not include \$27,000 rental transfer to General Services Administration.

Table 28.—Obligations incurred by Internal Revenue Service, by appropriation and activity
(In thousands of dollars)

Appropriation by Activity	Total		Personnel compensation and benefits		Other	
	1964	1965	1964	1965	1964	1965
	Total obligations	549,632	597,387	479,055	522,490	70,637	74,897
Appropriated funds, total	548,482	595,047	478,154	520,607	70,328	74,440
Salaries and expenses:						
Total	15,091	16,511	12,576	14,128	2,515	2,383
Executive direction	6,787	7,507	5,647	6,394	1,140	1,113
Internal audit and security	8,304	9,004	6,929	7,734	1,375	1,270
Revenue accounting and processing:						
Total	134,761	151,339	105,079	117,823	29,682	33,516
Districts' manual operations	84,148	84,251	71,558	71,959	12,590	12,252
Service center automated operations	45,973	61,360	29,624	41,884	16,349	19,376
Statistical reporting	4,640	5,728	3,897	3,840	743	1,888
Compliance:						
Total	398,630	427,197	360,499	388,636	38,131	38,541
Audit of tax returns	202,281	215,922	187,056	201,120	15,225	14,802
Collection of delinquent accounts and securing delinquent returns	93,570	100,549	83,368	90,201	10,202	10,348
Tax fraud and special investigations	29,289	31,235	25,057	27,029	4,232	4,206
Alcohol and tobacco tax regulatory work	33,239	34,773	27,578	28,980	5,661	5,793
Taxpayer conference and appeals	18,462	20,823	17,387	19,585	1,075	1,238
Rulings, technical planning, and special technical services	8,590	9,265	7,803	8,198	787	1,067
Legal services	13,199	14,630	12,250	13,543	949	1,067
Reimbursements, total	1,210	2,340	901	1,883	309	457

Note.—Amounts shown do not include appropriation transfer to GSA for rent of space amounting to \$1,493,000 in 1964; \$27,000 in 1965.

Table 29.—Quantity and Cost Statistics for Printing

Class of work	1964			1965		
	Quantity (thousands)		Cost (thousand dollars)	Quantity (thousands)		Cost (thousand dollars)
	Items or sets (1)	Packages (2)	(3)	Items or sets (4)	Packages (5)	(6)
Total			9,654			9,436
Packages of tax returns and instructions for major mailings to taxpayer, total	441,489	72,359	1,258	464,720	76,574	1,521
Package 1 (Form 1040 and instructions—20 pages)	55,136	18,379	255	47,296	15,762	287
Package 2 (Form 1040, Schedules B, D, 1040ES, and instructions—32 pages)	148,442	18,555	410	185,640	23,205	546
Package 3 (Form 1040, Schedules B, C, D, 1040ES, and instructions—40 pages)	67,589	6,144	200	73,304	6,664	245
Package 4 (Form 1040, Schedules B, D, F, 1040ES, and instructions—40 pages)	33,049	3,004	104	35,860	3,260	119
Package 5 (Form 1065, Schedule D, and instructions—16 pages)	5,356	1,072	18	5,135	1,027	17
Package 6 (Form 1120, Schedule D, Form 3458, and instructions—24 pages)	6,123	1,225	29	7,920	1,320	29
Package 7 (Form 1042A, instructions, and return envelope)	54,124	19,500	132	41,610	20,805	171
Employment tax package—Pub. 393 (Forms 7018, 941a, W-2, W-4, and Pub. 213—28 pages)	71,668	4,480	110	67,965	4,531	107
Other tax returns, instructions, public-use forms, and pamphlets	1,510,585		4,094	1,161,874		4,012
Administrative forms and pamphlets	501,513		3,010	682,125		2,392
Field printing	113,079		415	148,000		544
Excise tax stamps	1,976,798		877	2,152,311		967

* Revised.

INDEX

- A**
- Acts:
- Revenue—1964, 85
 - Excise Tax Reduction Act—1965, 45, 46
 - Interest Equalization Tax Act—1964, 46
- Administrative budget receipts, 10
- Advisory group, 79
- Alcohol and tobacco tax:
- Authorization of Industry Operations, 40, 41
- Charts on, 41
- Chemical analysis and research, 38
- Committee, labeling and advertising regulations, 40
- Court decisions, 90, 92
- Enforcement activity, 36
- Establishments:
- Inspection of, 42
 - Qualified, 42, 120
- Industry circulars, 88
- Label activity, 41, 121
- Operation Dry-up, 38
- Regulations, 86
- Seizures and arrests, 38
- Simplified reporting, 40
- Supervision on-premises, 41
- Statistics on, 9, 38, 106–108, 113, 114, 120, 121
- Announcements, 87
- Annual technical review institute, 70
- Appeals:
- Appellate Division, 25
 - Charts on, 27, 99
 - Processing of, 27
 - Statistics on, 27, 28, 126, 127
- Appendix, 82
- Assessments, additional. (See Taxes)
- Assistance:
- Foreign tax, 48
 - Taxpayers, 4
 - Overseas, 50
 - Legislative, 45
- Attitude survey, 65
- Automatic data processing:
- Benefits to taxpayers, 15
 - Data center, 13
 - Identification of taxpayers, 15
 - Savings on ADP Equipment, 61
 - Service centers, 13
 - Training, 68
 - Vital Statistics, 19
- B**
- Briefs, tax, 69
- Budget, administrative receipts, 10
- Bulletin, Internal Revenue, 6, 87
- Business Master File, 15
- C**
- Career programs, 62
- Chart, organizational, xxiv
- Charts, trend, 95
- Chief Counsel, Office of:
- Analysis of cases flowing through, 34
 - Cases involving criminal prosecution, 30
 - Disposal of cases by, 44, 127–129
 - Reorganization, 63
- Civil litigation, 43
- Claims. (See specific item)
- Collection litigation legal services, 35
- Collections:
- Alcohol taxes, 9, 106, 113, 114, 116, 120, 121
 - Corporation income taxes, 9, 105, 113, 114, 116
 - Disability and old-age insurance, 9, 105, 113, 114
 - Employment taxes, 9, 105, 113, 114, 116
 - Estate and gift taxes, 9, 106, 113, 114, 116
 - Excise taxes, 9, 106, 113, 114, 116
 - Individual income taxes, 9, 105, 113, 116
 - Old-age and disability insurance, 9, 105, 113, 114, 116
 - Other, 9, 112, 113, 115, 116
 - Railroad retirement, 9, 105, 113, 114
 - Stamp taxes, 107, 108, 113, 114
 - Statistics on, 9, 105, 113, 114
 - Tobacco taxes, 9, 108, 113, 114, 116, 121
 - Unemployment insurance, 9, 105, 113, 114
 - Withholding taxes, 9, 105, 113, 114
- Commissioner:
- Contest of suits, 89, 92
- Commissioners of Internal Revenue, xvii
- Compromise, offers in, 35
- Conference:
- Procedures, 25
 - Tax administration, 49
- Cooperation, Federal-State, 36
- Conventions, tax (See Tax conventions)
- Coordination and cooperation with bureaus and agencies, 77
- Corporation income taxes:
- Additional assessments, 34
 - Claims for refunds, 24
 - Collections, 9, 105, 113, 114, 116
 - Refunds, 11, 118
 - Returns:
 - Examined, 23
 - Filed, 12, 119
- Statistics on, 9, 105, 113, 114, 116
- Court(s):
- Circuit courts of appeals, 92
 - Of Claims, 44, 92
 - Supreme, of the United States, 89
 - The Tax, of the United States, 44
 - United States District, 44
- Criminal prosecution:
- Analysis of cases, 30
 - Cases, disposal of, 40
 - Results of, 30
 - Supreme Court decision in, 89, 90
 - Current research program, 54
- D**
- Data center, 13
- Delinquent accounts:
- Disposals, 32
 - Statistics on, 33, 34
- Delinquent returns and delinquency investigations:
- Additional tax from, 28, 34
 - Analysis of, 28, 29
 - Statistics on, 34
- Determination letters:
- Employee benefit plans, 6
 - Exempt organizations, 6
 - Pension trust plans, 6
 - Self-employed persons benefit plans, 6
 - Statistics on, 6
- Disability insurance taxes:
- Collections, 9, 105, 113, 114
 - Refunds, 11, 118
- Disciplinary actions, 78
- Dividends and interest, 18, 55
- Documents, 84
- E**
- Employee benefit plans, determinations letters on, 6
- Employment taxes:
- Additional assessments resulting from examination, 22
 - Appellate Division processing of, 27
 - Claims for refunds, 24
 - Collections, 9, 105, 113, 114, 116
 - Refunds of, 11, 118
 - Returns:
 - Examined, 23
 - Filed, 12, 119
- Enforcement activities:
- Additional tax from, 33
 - Alcohol and tobacco tax enforcement, 36
 - Appeals, 25
 - Claims disallowed, 34
 - Delinquent accounts, 32
 - Delinquent returns, 28
 - Examination program, 21
 - Firearms program, 39
 - Mathematical verification, 20
 - Offers in compromise, 35
 - Tax fraud investigations, 29
- Estate tax:
- Additional assessments, 33
 - Claims for refunds, 24
 - Collections, 9, 106, 113, 114, 116
 - Refunds of, 11, 118

Estate tax—Continued
Returns:
Examined, 23
Filed, 12, 119
Estimated tax, declarations of:
Corporation, 12
Individual, 12
Processed by service centers, 19
Examination, additional assessments from, 34
Examination program:
Claims for refund, 24
Classification and selection of returns, 21
Overassessments of tax, 25
Returns examined, number of, 22
Tax recommended, additional, 22
Excise taxes:
Additional assessments, 34
Appellate Division processing of, 28
Collections, 9, 106, 113, 114, 116
Refunds of, 11, 118
Returns filed, 12, 119
Exempt organizations, determination letters on, 6

F
Facilities management:
Communications program, 73
Property and supply management program, 73
Records and paperwork, 73
Space, 70
Statistics on, 73
Travel Costs, 73
Federal-State cooperation, 36
File:
Business Master File, 19
Individual Master File, 18, 19
National Identity File, 18
Field offices, reduction of, 63
Firearms program, 39, 45
Fiscal management:
Cost of operations, 74
Statistics on, 74, 130, 131
Foreign tax assistance staff, 48
Foreign tax officials, assistance to, 49
Forms:
Cost of printing, 132
New:
3903, 85
3920, 85
3953, 85
3954, 85
3964, 85
3969, 85
3973, 85
Revised, 5
Forms and forms letters, 73
Tax return program, 4
Fraud investigations, tax, 29

G
Gasoline taxes:
Collections, 109, 113, 115
Refunds, 11
General Accounting Office Reports, 78

Gift taxes:
Additional assessments, 34
Claims for refunds, 24
Collections, 9, 106, 113, 114, 116
Refunds of, 11, 118
Returns filed, 12, 119

H
Honors, President Johnson's presentations, iii
House Rulings, 45

I
Incentive awards program, 65
Income tax(es):
Additional, from enforcement, 33
All returns, 9, 105, 113, 114, 116
Corporation, 9, 105, 113, 114, 116
Individual, 9, 105, 113, 114, 116
Processing of protested cases, 27
Identity File, National, 18
Indictments, 31
Individual income taxes:
Additional assessments, 33
Appellate Division processing of, 27
Claims for refunds, 24
Collections, 9, 105, 113, 114, 116
Mathematical verification of, 20
Refunds of, 11, 118
Returns:
Classification and examination of, 21
Filed, 12, 119
Processed in service centers, 13
Individual Master File, 18
Information returns, number received, 18
Institute, annual technical review, 70
Inspection activities:
Internal audit, 76
Internal security, 77
Investigations, 78
Joint Integrity Program, 78
Statistics on, 78
Intelligence Division:
Statistics on, 29
Tax fraud investigations, 29
Interest allowed on refunds, 31
Interest equalization tax, 46
Internal technical development and guidance, 69
International Operations:
Activities of, 48
Foreign posts of, 50
Income growth, statistics on, 51
Withheld taxes, 52
Interpretation and communication of tax laws to taxpayers, 2
Investigations:
Delinquency, 28-29
Disciplinary actions, 78
Personnel, 78
Prosecutions recommended, 30-31
Statistics on, 29, 78
Tax fraud, 29-30
Wagering and coin-operated gaming devices, 29

J
Joint Committee on Internal Revenue
Taxation, 28
Joint integrity program, 78

L
Laboratories:
Research, 38-39
Testing, 39, 42
Legal activities, 43-47
Legislative activities, 43-47
Litigation, appeals and civil, results of, 43-44
Long-range planning, 53, 54

M
Major management improvements, 60
Management activities, 60-79
Management improvement program, 60
Maps of Internal Revenue regions and districts, xii
Mathematical verification:
Additional tax from, xiii, 20-21
Statistics on, 21
Microfilm reader-printer, ii
Microfilm, use of, 60-61

N
National Computer Center, 58, 61
National Identity File, 18
Non-ADP Master File processing, 13
Noncompliance studies, 54-55
Nondiscrimination program, xiv, 66-67

O
Obligations incurred, Internal Revenue Service, 74, 130-131
Occupational taxes:
Collections, 106, 107, 112, 113, 114, 115
Number of stamps issued by class of tax, 122-125
Returns filed, 12
Offers in compromise, 35
Officers, principal, Internal Revenue Service, xviii-xxi
Old-age insurance taxes:
Collections, 9, 105, 113, 114
Refunds of, 11, 118
Operation Dry-up, 38
Operational planning, short-range, 54
Organizational planning, 55-56
Other collections, 9, 112, 113
Overassessments, 25
Overassessments reported to Joint Committee, 28

P
Pension trust plans, 6
Personnel:
Attitude surveys, 65
Chief Counsel, 47
Employee-management relations, 64
Equal employment program, 66
Executive selection program, 64

Personnel—Continued
Handicapped, use of, 67
Incentive awards, 65
Investigations, 78
Nondiscrimination program, 66
Recruitment, 65
Staffing and redeployment, 63-64
Statistics on, 66
Utilization of manpower, 63
Planning activities, 53-59
Principal officers of Internal Revenue Service, xviii-xxi
Programs:
Career, 68
Equal employment opportunity, 66
Executive selection and development, 64
Foreign tax assistance, 48
Incentive awards, 65
Joint integrity, 78
Legislative advisory, 43
Nondiscrimination, 66-67
President's cost reduction, 60
Reports, 63
Research, 54
Special identification, 50
Tax return forms, 4
Taxpayer assistance, 4
Taxpayer compliance measurement, 55
Taxpayer publications, 2
Teaching taxes, 4
Protested cases, statistics on, 27, 28
Public information program:
Films, radio, and television, 3
News releases, 3
Other, 3
Publications, taxpayer:
Alcohol and Tobacco, Summary Statistics, 82
Farmer's Tax Guide, 82
Highlights of 1964 Tax Changes, 83
Highway and Motor Fuel Tax Pamphlets, 83
How to Apply for Exemption for Your Organization, 83
Income Averaging, 83
Income Tax Deductions for U.S. Government Civilian Employees Stationed Abroad, 84
Information Reporting Requirements of Sponsors of Contests or Sporting Events, 83
Miscellaneous publications and documents, 84
Retirement Plans for Self-employed Individuals, 84
Sales and Other Dispositions of Depreciable Property, 83
Tax Benefits for Older Americans, 83
Tax Guide for Small Business, 82
Teaching Taxes, 82
Tobacco Tax Guide, 83
U.S. Tax Guide for Aliens, 84
Your Federal Income Tax, 82
Puerto Rico, 120

R
Railroad retirement taxes:
Collections, 9, 105, 113, 114
Refunds of, 11
Returns filed, 12
Receipt and processing of returns, 12
Receipts (See Collections)
Records holdings, 73
Recruitment, 65
Returns:
Claims for, 24
Duplicate, 18
Excessive prepayments, 11
Statistics on, 11, 118
Regulations:
Alcohol and tobacco taxes, 86
Amended, 86
Excise tax, 4-5
Hearings on, 7
New, 7
Releases, News and Technical, 3
Reorganizations:
Chief Counsel, 63
Consolidation of New York and North-East Regions, 63
Technical Divisions, 63
Reports, General Accounting Office, 78
Reports program, 63
Requests:
Extension for filing, 12
Technical advice, 5
Revenue rulings, analysis of, 5
Research program, 54
Resources utilization, 63
Returns filed:
Classification and selection of, 21
Decrease in, 12
Examination of, 22
Number examined, 12
Processed in service centers, 15
Projections, 54
Statistics on, 12, 119
Verification, 20
Revenue rulings and procedures:
Analysis of, 6
Published, 6, 86

S
Self-employed persons benefit plans, determination letters on, 6
Service centers, 13
Short-range operational planning, 54
Stamp taxes, statistics of, 122
Statistical reporting, 56
Statistics, comparative highlights, xii
Statistics of income releases, 94
Summary, xi
Supervision of the alcohol and tobacco industries, 40
Supreme Court decisions:
Civil cases, 89
Criminal cases, 90
Other court actions, 92
Systems development, 58

T
Tape library, 61
Tax briefs, 69
Tax conventions, 49
Tax Court, The (See also Appeals)
Disposals of cases, 28, 128
Tax laws, interpretations and communication of, 2
Tax(es):
Additional:
From delinquent returns secured, 34
From enforcement, 34
From examination, 34
From mathematical verification, 34
From National Identity File, 34
Alcohol, 9, 106, 113, 114, 116, 120, 121
Corporation income, 9, 105, 113, 114, 116
Disability insurance, 9, 105, 113, 114
Employment, 9, 105, 113, 114, 116
Estate, 9, 106, 113, 114, 116
Excise, 9, 106, 113, 114, 116
Gasoline and motor fuels, 9, 109, 113, 115
Gift, 9, 106, 113, 114, 116
Individual income, 9, 105, 113, 114, 116
Old-age insurance, 9, 105, 113, 114, 116
Other, 9, 112, 113, 115, 116
Railroad retirement, 9, 105, 113, 114
Stamp, 107, 108, 113, 114
Tobacco, 9, 108, 113, 114, 116, 121
Unemployment, 9, 105, 113, 114
Withholding, 9, 105, 113, 114
Taxpayer assistance program, 4
Taxpayer assistant positions, 4
Taxpayer compliance measurement program, 55
Taxpayer publications. (See Publications)
Tax rulings:
Request for, 5
Statistics on, 5
Teaching taxes program, 4
Technical information releases, 3
Tobacco (tax(es)):
Arrests, 38
Collection, 9, 108, 113, 114, 116, 121
Refunds of, 11
Results of criminal action, 31
Returns filed, 12
Seizures, 38
Statistics on, 9, 11, 31, 38, 108, 113, 114, 116, 121
Tort claims, 44
Training:
ADP program, 68
Centers, 68
Experimental center, 68
Foreign tax assistance, 49

INDEX

Training—Continued
Operational, 68
State tax assistance, 36
Supervisory and management, 67
Treasury Decisions, 85
Treasury-Internal Revenue Service
Committee on Statistics, 57
Trend charts, 96
Trust fund transfers, statistics on, 11

U

Unemployment insurance taxes:
Collections, 9, 105, 113, 114
Refunds of, 11, 118
Returns filed, 12, 119

V

Verification, mathematical, result of,
18, 20

W

Wagering tax cases, results of criminal
action, 31
Wines, taxes collected, 107, 120, 121
Withholding taxes, by employer, 9,
105, 113, 114
Work flow in the Service and courts, 34

