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ANNUAL
REPORT
1966

THE COMMISSIONER OF INTERNAL REVENUE

COMMISSIONER OF INTERNAL REVENUE



1966 ANNUAL REPORT

for the fiscal year ended June 30, 1966

Publication No. 55

INTERNAL REVENUE SERVICE • U.S. TREASURY DEPARTMENT



President Johnson and Commissioner of Internal Revenue Sheldon S. Cohen congratulate newly appointed Chief Counsel Lester R. Uretz (left). The Chief Counsel is the top legal authority in the Internal Revenue Service.

Former Deputy Commissioner Bertrand M. Harding (left), selected by President Johnson for the position of Deputy Director, Office of Economic Opportunity, receiving farewell congratulations from Secretary of the Treasury Henry H. Fowler.



Notes: All yearly data are on a fiscal year basis, unless otherwise specified. For example, data headed "1966" pertain to the fiscal year ended June 30, 1966, and "July 1" inventory items under this heading reflect inventories as of July 1, 1965.

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

TRANSMITTAL

Hon. HENRY H. FOWLER,
Secretary of the Treasury,
Washington, D.C. 20220.

WASHINGTON, D.C. 20224.

DEAR MR. SECRETARY:

The attached annual report of the Internal Revenue Service for fiscal year 1966 reflects the continued growth of Service accomplishments and of our national economy. A record number of returns was processed, and a new record of \$128.9 billion was collected, with only a minor increase in the number of persons employed by the Service. I view this not solely as an indication of the capability and dedication of our staff, but also as a tribute to the overwhelming majority of American taxpayers who file their returns timely, and conscientiously compute and pay their taxes.

Throughout my first full year in office, I stressed improving tax administration, believing as I do that managerial improvements will result in enduring benefits to the taxpayer and to the Government. Our central effort has been directed towards strengthening voluntary compliance by cultivating better taxpayer relations through improved service to the public. Improvements, covered in detail throughout this report, took many forms, of which the following are illustrative: A centralized telephone service was initiated to provide direct assistance to taxpayers located in outlying areas; some of our offices were operated on nights and Saturdays for the convenience of the public; our program to provide better quarters in which to conduct public business was accelerated, with emphasis on insuring privacy during discussions between taxpayers and Service personnel; forms and form letters were simplified; quicker and simplified responses to letter inquiries from taxpayers were emphasized; and more cases were adjudicated at the lowest appeal level. Above all, we have stressed the need for displaying courtesy, tact, and a spirit of understanding in all contacts with the public.

Allied with these actions are many of an internal nature that benefit taxpayers. To name a few, there was a substantial increase in employee suggestions and related monetary savings; the quality of Service personnel received emphasis through observance of high recruitment standards, more specialized training programs, and improving the methods for selecting and the techniques of training people in key supervisory and managerial positions; better manpower utilization was achieved through introduction of cost-cutting techniques in the collection of past-due accounts; and the substitution of specially trained taxpayer assistants in lieu of higher-graded technical personnel helped to achieve economy without sacrificing quality.

The conversion to automatic data processing of individual income tax returns has continued on schedule. Business master file processing became operational nationwide on January 1, 1965. Three of our seven service centers are now fully processing individual tax returns, while two additional service centers are processing returns for all but one state within their region. The two regional service centers not currently processing individual returns, as well as the two states presently not covered in other regions, will be brought under the system on January 1, 1967,

TRANSMITTAL—Continued

completing the conversion. We look forward to 1967 with enthusiasm for the increased benefits this ingenious and versatile tool will provide in speed, completeness, and uniform treatment for all.

I am confident that after reading this report you will agree that 1966 was, indeed, a year of progress for the Internal Revenue Service, and that credit for this should be shared by many.



SHELDON S. COHEN,
Commissioner of Internal Revenue.

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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.

Report on Operations

	MILLIONS		PERCENT CHANGE
	1965	1966	
Gross collections	\$114,434.6	\$128,880.0	12.6
Refunds:			
Number	39.9	45.1	13.0
Amount	\$6,068.6	\$7,314.6	20.5
Returns filed	102.5	104.1	1.5
Returns examined	3.5	3.5	0.2
Additional tax from enforcement	\$2,629.9	\$2,862.8	8.9
Delinquent taxes collected, total	\$1,312.9	\$1,309.7	-0.2
Delinquent accounts	\$1,095.5	\$1,114.5	1.7
Accelerated collections of underpaid liabilities and dishonored checks	\$217.4	\$195.2	-10.2

INFORMING AND ASSISTING TAXPAYERS

Chapter 1

INTRODUCTION

The American system of taxation places primary responsibility on the taxpayer to determine his tax liability. Under this self-assessment system the taxpayer must become acquainted with those sections of tax laws, rules and regulations necessary to the fulfillment of his tax obligations. The Internal Revenue Service assists the individual in understanding his rights and responsibilities through a continuing program of taxpayer service. Under this program the Service publishes regulations, rulings, and tax guides covering specific tax situations, releases information through mass communication media, maintains convenient offices throughout the country staffed with tax experts who are available to answer questions, provides tax materials and speakers to schools and other groups, and distributes tax forms and instructions to the millions of American taxpayers.

PLAIN LANGUAGE PUBLICATIONS PROVIDE HELP IN FILING TAX RETURNS

The Service publishes many booklets and pamphlets explaining the tax laws in nontechnical language. All the information that most taxpayers need to file tax returns is arranged in an easy-to-use format and examples are used freely to clarify the narrative material. Some, like *Your Federal Income Tax*, cover a very broad range and have become well known over a period of years. Others deal more specifically with subjects like casualty losses, child care, medical expenses, and income averaging. A few of the smaller publications are reprints of chapters from the larger booklets but most of them either relate to material that is not appropriate for the booklets or give more detailed information about material that was curtailed in the booklets because of space limitations or limited applicability.

Two new publications, Document No. 5640, *Reporting Your Tips for Federal Tax Purposes*, and Document No. 5642, *New Withholding System*, were developed and published to provide assistance in complying with new provisions in the tax laws.

Also, a special purpose publication was developed for use by Taxpayer Assistors in answering inquiries about the Tax Adjustment Act of 1966. A few documents relating to excise taxes were discontinued this year because many of those taxes were repealed.

Descriptions of selected publications, together with a list of all others, start on page 90.

KEEPING THE PUBLIC INFORMED

Service to the Public Improved

In keeping with the Presidential program to improve the Federal Government's services to the public, the public information program focused nationwide effort on reaching the highest attainable standards of "fast, efficient, and courteous service."

The most important area open for the improvement of service to the public lies in the field of communications, especially since the American system of taxation is rooted in the principles of self-assessment and voluntary compliance. These in turn demand public knowledge and understanding of tax laws and procedural requirements. The public information program is aimed at meeting these public needs adequately and promptly.

To emphasize the importance of high standards of individual integrity and courtesy to the public, the Commissioner had a film made of his talk on these subjects to employees of the Baltimore District Office. Prints were distributed to other district offices, so that employees throughout the Service would have an opportunity to see the Commissioner deliver this message. This film plus the coverage of these topics in the Commissioner's monthly letter to all employees laid the groundwork for the expanded courtesy and service program.

A formal program was established to give official recognition in the form of special awards for excellence in improving communications and services to the public. Under this new program, district directors, service center directors, regional commissioners, and National Office division directors can present certificates of appreciation to employees for such contributions.

Changing Tax Requirements Publicized

A major challenge in the continuing effort to keep the public informed was the Tax Adjustment Act of 1966, with its rapid enactment and early effective date, and its impact on the millions of employees

subject to tax withholding. The quiet success of this huge operation testified to the thoroughness of the explanatory material and instructions provided almost overnight to approximately 4 million employers and 70 million employees, both directly and through mass media. Similarly, affected public sectors were provided complete information in advance on semi-monthly depositing of employee withheld taxes, use of "piggyback" address labels, and direct mailing of refund returns to regional service centers.

Use of Mass Media

To gear the total information program as closely as possible to changing needs, a new procedure was instituted calling for weekly notice to the National Office of the trends of taxpayer inquiries during the filing period. As new needs were ascertained prompt action was taken to supply the required information through newspapers, radio, or television, in order to reduce the volume of individual requests.

The popularity of the Service's question-and-answer column series, providing information on the most commonly asked questions, continued to grow. During the filing period it was regularly published in some 845 daily newspapers (44 percent of all dailies) and more than 1,300 weekly papers. Publication outside the filing period also continued to expand.

As aids to news sources, two new series of informational releases were inaugurated: Fact sheets (which provide the facts on matters of public inquiry, but which do not call for general news releases), and ADP taxpayer information materials (which provide basic guides, release outlines, radio spot announcements and the like for regional adaptation in accordance with local requirements).

A new poster, emphasizing the importance of careful preparation of income tax returns, was displayed nationwide during the filing period. In January, with the cooperation of the U.S. Post Office, the poster was shown on the sides of some 50,000 mailtrucks. During March and April the poster was exhibited on more than 2,000 billboards with the cooperation of the National Outdoor Advertising Association.

On April 5 the Columbia Broadcasting System ran a network audience-participation program, the "National Income Tax Test", with the advice and assistance of the Service. The show made a substantial contribution to public knowledge of the citizen's tax rights and obligations.

The National Office issued 177 technical and 66 general news releases, and provided field offices with 330 informational materials for local adaptation and use. These included such items as news releases, feature stories, and radio scripts and spot announcements. In all, information was supplied in response to about 40,000 inquiries from mass media and other sources.

Radio and television stations were provided with a variety of informational packages during the year. Wide exposure was obtained during the filing period of a dozen color TV spot announcements providing helpful hints on return preparation. Another set of twelve 4-to-5-minute radio tapes offered advice on matters of general taxpayer interest. Altogether taxpayers receiving return and refund advice and assistance through broadcasting facilities were numbered in the tens of millions.

Previews and Preventatives

Throughout the year the main thrust of the information program was "prevention," that is, planning and taking advance action to prevent gaps or misunderstandings in public knowledge of the laws, regulations, and procedural requirements for which the Internal Revenue Service has administrative responsibility. For example, before the 1966 filing period, tax practitioners throughout the country were sent information on modifications in tax forms and other Service changes which would affect their operations. They were also provided narrative definitions of all codes used on service center taxpayer notices, so they could help widen taxpayer understanding of ADP procedures.

Active Steps Taken To Improve Service to Taxpayers and To Promote Voluntary Compliance

During the year taxpayer educational conferences were conducted in each of the regions to introduce the new tax payment procedures to the distilled spirits industry. As a result, the transition from the old to the new system in 1966 was made with a minimum of confusion and misunderstanding.

One of the concomitant and most beneficial features of the new emphasis on the Firearms Records Inspection Program (see p. 39) was the assistance rendered the public in keeping accurate records, thus avoiding technical violations of the National Firearms Act and Federal Firearms Act through lack of knowledge.

A YEAR OF INNOVATION IN TAXPAYER ASSISTANCE

Nearly 26 Million Taxpayers Assisted

More taxpayers voluntarily sought and received assistance than ever before. Nationwide, nearly 26 million taxpayers received assistance during 1966. This was over 650,000 (2.6 percent) more than last year. Of the total taxpayers assisted, 16.6 million were through telephone contact, an increase of nearly 400,000 (2.4 percent), and 9.1 million taxpayers visited Service offices, an increase of nearly 300,000 (3.0 percent).

Taxpayers assisted

Type	1965	1966	Percent Change
Total taxpayers assisted.....	25,099,071	25,755,437	2.6
Telephone assistance.....	16,225,354	16,615,369	2.4
Assistance to office visitors.....	8,873,117	9,140,068	3.0

New Telephone Concept Holds Promise of Still Better Service to Public

The Service has encouraged taxpayers to obtain information by telephoning rather than by making a personal visit to district offices, since this has proven to be an effective and economical method of providing assistance. Obviously, however, use of the telephone depends in large measure upon the possibility of telephoning Service personnel at local rates, an important consideration to taxpayers located at a distance from Service offices.

Tests being conducted hold promise, if costs prove reasonable, that a new telephone concept will improve assistance operations and open up new areas to telephone contact. This concept is known as Centiphone, a centralized telephone service that enables a taxpayer to make a toll-free call to the district office even though he might be located some distance away. Three pilot installations were established: Santa Ana-Los Angeles; Little Rock, covering seven cities in Arkansas; and Washington, D.C.-Baltimore. From a manpower resources standpoint Centiphone will permit reduction of costly work interruptions of high-grade technicians in subordinate Service offices, since telephone calls normally made to them for taxpayer assistance will be automatically directed to the Centiphone Service headquarters.

Extended Office Hours Tried

This year an experiment was conducted to determine the nature and scope of assistance the public requires during evening and Saturday hours. If the results of this experiment indicate that taxpayer demand for service is substantial during these hours, arrangements will be made to extend taxpayer assistance service to meet these requirements.

Physical Facilities To Be Improved

Large numbers of taxpayers visiting Service offices during January 1 to April 15 have made it difficult to provide adequate space and furniture without incurring a degree of inefficient utilization during the rest of the year. A study encompassing the results of a test of furniture designed for taxpayer convenience but with a multiplicity of uses has been completed. On a test basis, the furniture design has proven itself attractive and comfortable with adequate space allocated to taxpayer assistance activities without incurring nonusage during low-traffic periods. The furniture design will be tested further to obtain a broader evaluation of its applicability under varying conditions and circumstances prior to introducing it on a national basis.

Taxpayer Assistor Specialists Provided Year Round

In an effort to bring assistance not only during the filing period but also year round to taxpayers far away from Service headquarters, the Service has placed 448 full-time specially trained assistants in 435 offices. This represents an increase over last year of 84 full-time assistants and 160 more offices, and thus provides much better service to taxpayers in rural areas.

In addition, the Service employs specially trained temporary employees to furnish taxpayer assistance during filing periods. This not only provides more assistants at a time when public need is greatest, but it also frees highly specialized technical personnel to fulfill their primary enforcement mission.

IMPROVEMENTS MADE IN TAX RETURN FORMS AND FORM LETTERS

Emphasis has continued on improving the appearance and comprehensibility of tax return forms, while maintaining the technical accuracy required by complex tax laws. As in the past, comments and

suggestions from practitioner groups such as the American Bar Association and the American Institute of Certified Public Accountants, as well as Service employees and the general public, have been carefully considered in developing and revising forms. In addition, a private firm was engaged this year to review some tax return forms and form letters and to suggest ways of improving their appearance and design.

In a further effort to improve form letters, a group of Government experts was asked to examine this program. As a result of this study, a special section has been established to review new and revised form letters to improve their content, tone, and appearance. In connection with this program, nearly 500 new or revised form letters were reviewed during the year.

To further assist individual tax return filers, the Service designed tables showing State sales taxes and gasoline tax rates for inclusion in the instructions for Form 1040. Also, by combining tax computation tables, the number of tables in the instructions for Form 1040 were reduced from five used the preceding year to three.

Many tax return forms have been designed to enable the Service to make the best use of collateral information in certifying items of income, deductions and credits shown on returns and to advance processing of returns for optical scanning. These advances in processing will also be beneficial to the public.

Two new forms issued this year are of special interest:

Form 3646—Income From Controlled Foreign Corporation. Many meetings with outside organizations were held in the course of the development of this form to insure that the form would provide the required information with the least possible effort on the part of the filer.

Form 4067—U.S. Annual Information Return. This form was designed for use in summarizing information from Form 3921—Exercise of a Qualified or Restricted Stock Option, and Form 3922—Transfer of Stock Acquired by Certain Options, and transmitting copies of these forms to the Service.

TECHNICAL INTERPRETATIONS ARE ISSUED TO TAXPAYERS AND FIELD OFFICES

One of the functions of the National Office is to issue private letter rulings in response to inquiries

from individuals and organizations on tax consequences of proposed transactions. The National Office also encourages field offices to request technical advice where needed in connection with the application of the tax laws to particular taxpayers.

During the year, 27,672 requests for private letter rulings and 3,149 requests for technical advice were answered. These requests are classified by tax category and subject matter in the table below.

Requests for tax rulings and technical advice processed

Subject	Total	Taxpayers' requests	Field requests
Total	30,821	27,672	3,149
Accounting methods	3,572	3,572	
Accounting periods	9,096	9,096	
Actuarial matters	161	73	88
Administrative provisions	189	124	65
Alcohol and tobacco taxes	4,335	3,210	1,125
Earnings and profits	810	810	
Employment and self-employment taxes	667	590	77
Engineering questions (depreciation, etc.)	252	171	81
Estate and gift taxes	532	402	130
Exempt organizations	2,708	2,391	317
Other excise taxes	1,356	1,110	246
Other income tax matters	6,606	4,784	1,822
Pension trusts	637	439	198

DETERMINATION LETTERS ARE ISSUED ON PENSION PLANS AND TAX EXEMPT ORGANIZATIONS

District directors issue determination letters to employers on the tax qualification of pension, profit-sharing, stock bonus, annuity, and bond purchase plans, and on the status for exemption from tax of related trusts. Such letters are based on published principles and precedents which are applied to the facts in the cases considered.

During fiscal year 1966, 15,515 plans covering 1,143,482 employees, exclusive of self-employed individuals, were held qualified. Data as to this activity appear 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	6,911	8,590	14
Participating employees	471,819	643,347	28,316
b. Plans disapproved	150	102	
2. Termination of plans	554	580	3
Cases closed without issuance of determination letter	629	745	3

In addition to the foregoing, 7,231 plans which include self-employed individuals, covering 11,526

participants, were held qualified. The details appear 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 qualification of plans:			
a. Plans approved	2,249	4,672	310
Participating employees	3,659	7,523	344
b. Plans disapproved	3	44	2
2. Termination of plans	3	11	3
Cases closed without issuance of determinations	91	269	29

Adverse determinations may be appealed to the National Office. During the year 62 cases were appealed, resulting in 34 decided in favor of the taxpayer, 26 against the taxpayer, and 2 partially in favor of the taxpayer.

District offices issued 14,330 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 nonprofit organizations including those engaged in charitable, religious, and educational activities. Of the total determination letters issued, 13,445 were letters of approval and 885 of disapproval. In addition, 1,972 cases were closed without issuance of a determination letter.

WEEKLY BULLETIN INFORMS TAXPAYERS

The *Internal Revenue Bulletin* is the authoritative instrument of the Commissioner for announcing official rulings and procedures of the Service and for publishing tax legislation and related committee reports, Treasury Decisions, Executive Orders, tax conventions, court decisions, and other items considered to be of general interest. The *Bulletin* is published weekly and may be obtained by the public on a subscription basis from the Superintendent of Documents, U.S. Government Printing Office. Its contents are consolidated semiannually into a permanent, indexed *Cumulative Bulletin*.

Under established standards for publishing rulings involving substantive tax law and internal procedures affecting the rights or duties of taxpayers, 329 Revenue Rulings and 44 Revenue Procedures were published in the *Bulletin*, as follows:

Revenue Rulings and Revenue Procedures published

Type	Number
Total	373
Administrative	27
Alcohol and tobacco taxes	57
Employment taxes	22
Estate and gift taxes	20
Excise taxes	27
Exempt organizations	35
Income tax	159
Pension trusts	26
Self-employment tax	2

The more significant Revenue Rulings and Procedures are summarized on page 94.

During the year, the *Bulletin* contained announcements of acquiescence or nonacquiescence in approximately 120 decisions of the Tax Court of the United States. In addition, 88 announcements of general interest were published. Twelve listed the names of organizations, contributions to which are no longer deductible under section 170 of the Code; seven listed disaster areas in which losses qualify for the special tax treatment under section 165(h) of the Code; and four announced tax administration agreements with the States of Arizona, Delaware, Hawaii, and Vermont. Other significant announcements of general interest are described on page 97.

A 1,012-page *Index-Digest Supplement*, which may be purchased from the Superintendent of Documents, U.S. Government Printing Office, includes finding lists and topically arranged digests of Public Laws, Treasury Decisions, tax conventions, court decisions, rulings, and procedures published in the *Cumulative Bulletins* for the years 1961 through 1964. Together with similar publications for the years 1953 through 1956 and 1957 through 1960, this Supplement is a valuable tax research and reference aid. A looseleaf *Index-Digest Quarterly System* provides research assistance on a current basis for Service personnel.

Alcohol and Tobacco Industries Receive Advance Notice of Technical Changes

The Service issues industry circulars to the various segments of the alcohol and tobacco industries so that they will be currently advised of matters affecting operations and procedures, the Service will receive the benefit of industry thinking in various operational and procedural areas, and voluntary compliance with laws and regulations will be promoted.

Thirty-five industry circulars were issued during

the year. Twelve of these announced the substance of revenue rulings and revenue procedures in advance of publication in the *Bulletin*, and seven called attention of the affected industries to the more significant changes resulting from enactment of the Excise Tax Reduction Act of 1965 and related regulatory changes. Circulars of particular interest are described on page 98.

REGULATIONS ISSUED UNDER THE INTERNAL REVENUE CODE

The most authoritative means for communicating and interpreting the tax laws to taxpayers is by regulations issued under the Internal Revenue Code. Such regulations are written to provide general guides for the Internal Revenue Service and taxpayers alike and are binding upon Service personnel.

The usual procedure for issuance of tax regulations is for initial publication of a notice of proposed rulemaking in the Federal Register. By this means, interested persons are given a notice of what the intended regulations are, and are given the opportunity to submit their views by means of written comments and a public hearing, if they so desire. After all relevant comments have been considered and appropriate changes have been made, the proposed regulations are published in final form in the Federal Register by means of a Treasury Decision which carries the approval of the Secretary of the Treasury or his delegate.

Occasionally, however, conditions may demand departures from the usual procedures. In some cases, for example, it is permissible for regulations to be published without a notice of proposed rulemaking where a notice would be unnecessary or impractical or where the needs of the public are otherwise better served without such notice. Another departure is the case of temporary regulations which are published without a notice of proposed rulemaking in order to provide temporary rules, e.g., in situations where taxpayers must make important decisions almost immediately after the passage of legislation. These are followed by permanent regulations which are prescribed under the customary procedures.

Thirty-five final regulations, 7 temporary regulations, and 12 notices of proposed rulemaking, relating to matters other than alcohol and tobacco taxes, were published in the Federal Register during the year. These regulations were issued under the

provisions of the Internal Revenue Code of 1954 as amended by subsequent public laws or on the basis of administrative determinations.

Six public hearings were held on the provisions of proposed regulations and were attended by approximately 225 taxpayers or their representatives.

Seven Treasury Decisions, four notices of proposed rulemaking, and five final regulations were

issued in connection with alcohol and tobacco tax administration. These were published in the Federal Register. Three of the Treasury Decisions and one notice of proposed rulemaking related to the Excise Tax Reduction Act of 1965.

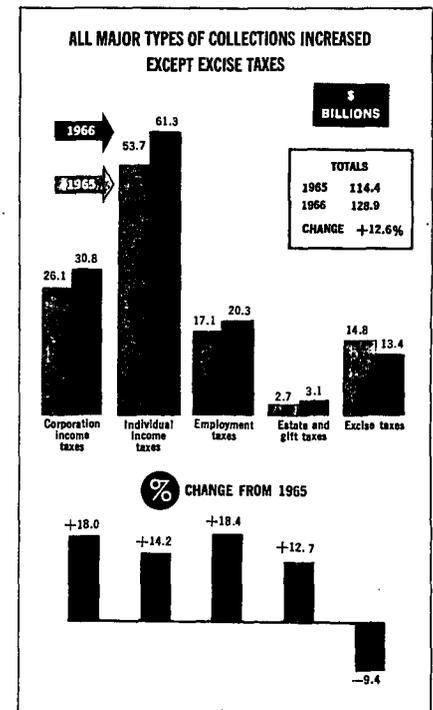
Treasury Decisions containing some of the more important final and temporary regulations published during the year are listed on pages 93 and 94.

INTERNAL REVENUE COLLECTIONS, REFUNDS, AND RETURNS FILED

REVENUES JUMP TO NEW RECORD

Gross internal revenue collections rose sharply in 1966 to a total of \$128.9 billion. This was an increase of \$14.4 billion or approximately 12.6 percent over the prior year. This increase was the third largest in history, exceeded only by those in 1944 and 1952.

There are three primary reasons for the increase: The high level of business and personal income; growth in the number of taxpayers; and changes in the Federal Insurance Contributions Act (FICA) tax withholding rate. A slight further increase in



collections resulted from regulations requiring employers having more than \$4,000 monthly in withheld individual income and FICA taxes to deposit such funds twice a month instead of once a month.

This became effective in June 1966, with one additional payment included in collections for the year.

Gross collections by class of tax for 1965 and 1966 are shown in the following table:

Gross internal revenue collections

(In thousands of dollars. For details see table 3, p. 121)

Source	Percent of 1966 collections	1965	1966	Increase or decrease	
				Amount	Percent
Grand total ¹	100.0	114,434,634	128,879,961	14,445,328	12.6
Income taxes, total.....	71.5	79,792,016	92,131,794	12,339,778	15.5
Corporation.....	23.9	26,131,334	30,834,243	4,702,909	18.0
Individual, total.....	47.6	53,660,683	61,297,552	7,636,869	14.2
Withheld by employers ²	33.2	36,840,394	42,811,381	5,970,987	16.2
Other ³	14.3	16,820,288	18,486,170	1,665,882	9.9
Employment taxes, total.....	15.7	17,104,306	20,256,133	3,151,827	18.4
Old-age and disability insurance, total.....	14.7	15,846,073	19,005,488	3,159,415	19.9
Federal insurance contributions.....	14.0	14,815,855	18,078,143	3,262,288	22.0
Self-employment insurance contributions.....	7	1,030,218	827,345	-102,873	-10.0
Unemployment insurance.....	4	622,499	567,014	-55,485	-8.9
Railroad retirement.....	5	635,734	683,631	47,897	7.5
Estate and gift taxes.....	2.4	2,745,532	3,093,922	348,390	12.7
Excise taxes, total.....	10.4	14,792,779	13,596,112	-1,196,667	-9.4
Alcohol.....	3.0	3,772,634	3,814,378	41,745	1.1
Tobacco.....	1.6	2,148,594	2,073,959	-74,635	-3.5
Other.....	5.8	8,871,551	7,708,777	-1,162,774	-13.1

¹ Revised.
² Collections are adjusted to exclude amounts transferred to the Government of Guam. For details see table 1, p. 112 and footnote 5, p. 123.
³ 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.

Income Taxes Produce Bulk of Revenue

Individual income tax, including both amounts withheld from wages and amounts paid with regular and estimated income tax returns, continues to account for about half of total gross tax collections. In spite of the reduced tax rates on 1965 income which were established by the Revenue Act of 1964, there was a substantial increase of \$7.6 billion in 1966 individual income tax payments—a 14-percent increase over 1965. Contributing to this increase was the larger number of taxpayers (68.6 million individual returns filed in 1966 versus 65.9 million returns filed in 1965) and a sharp increase in personal income.

Changes in withholding and payments on income taxes during 1966 are shown in the following comparison with 1965:

Income tax collections for 1965 and 1966

(Thousands of dollars)

Source	1965	1966	Change	
			Amount	Percent
Individual—Withheld.....	36,840,394	42,811,381	+5,970,987	+16.2
Individual—Other than withheld.....	16,820,288	18,486,170	+1,665,882	+9.9
Total.....	53,660,683	61,297,552	+7,636,869	+14.2
Corporation.....	26,131,334	30,834,243	+4,702,909	+18.0
Total, individual and corporation.....	79,792,016	92,131,794	+12,339,778	+15.5

Corporation income tax is the second largest source of tax revenue. Despite the fact that the corporation surtax was at a higher rate during half of 1965 than in 1966, corporation tax payments increased by \$4.7 billion over the period, accounting for almost one-third of the total increase of \$14.4

billion in taxes collected. The increase is primarily attributed to the high level of business activity during the year. A modest increase of 82,000 (6 percent) in the number of corporation returns also contributed, as did an increase in corporation estimated tax payments. The latter change was brought about largely by a revision in the rate schedule for installments of corporate estimated tax, bringing corporations more nearly on a pay-as-you-go basis than had previously been true.

Employment Taxes Rise

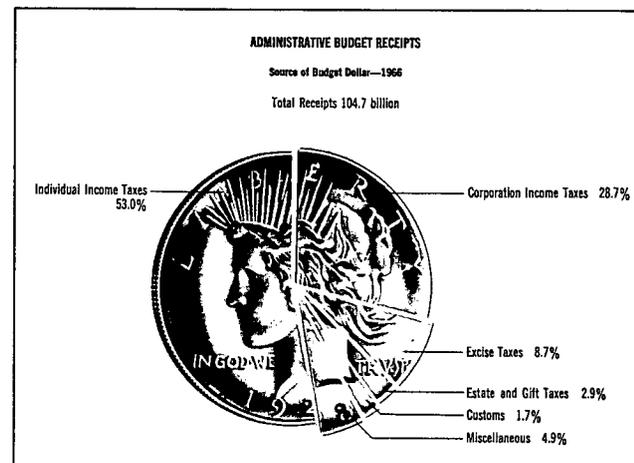
Employment taxes experienced the highest percentage increase of any class, with an 18.4-percent rise. Almost all of the increase occurred in the Federal Insurance Contributions Act (FICA) area, where there was a \$3.3 billion increase. This increase resulted from changes effective January 1, 1966, which raised the maximum annual income on which the tax is applied from \$4,800 to \$6,600 and increased the rate itself from 3.625 to 3.85 percent. In addition, the new Medicare provision added another 0.35 percent to the tax. Both rate changes apply equally to employees and employers. An increase in the total number of employed persons in 1966 over 1965 also caused some of the increase in FICA taxes collected.

Excise Tax Collections Are Down

The Annual Report for 1965 pointed out that the Excise Tax Reduction Act of 1965 (Public Law 89-44) would substantially affect Federal revenue in fiscal year 1966. Excise collections of \$13.4 billion were down \$1.4 billion from last year, a decrease of over 9 percent. The reduction in revenue was moderated by the Tax Adjustment Act of 1966 (Public Law 89-368).

The tax on passenger automobile chassis was reduced from 10 to 7 percent by Public Law 89-44. As the next step in the reduction program, the tax was reduced to 6 percent on January 1, 1966. Public Law 89-368 restored the 7-percent tax rate effective March 16, 1966. This tax brought in total revenue of \$1.5 billion in 1966 as compared to \$1.9 billion in 1965. Present legislation provides that the rate will be cut to 2 percent on April 1, 1968, and then to 1 percent on January 1, 1969.

The 10-percent tax on local and toll telephone calls and teletypewriter services was reduced for a time, then later restored under Public Law 89-368, which further provided for a reduction to 1 percent on April 1, 1968, and repeal January 1, 1969. In 1966 the revenue from this source was \$0.9 billion, compared to \$1.1 billion in 1965.



"Administrative budget receipts" is that part of the total collections of the Federal Government available for financing the operations and programs included in the annual budget. To arrive at administrative budget receipts, gross collections of internal

revenue, customs duties, and receipts from miscellaneous sources are reduced by transfers to trust fund accounts, refunds, and interfund transfers. The following table describes the source of gross collections, deductions, and administrative budget receipts:

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.....	42,811,381				
Other.....	18,486,170				
Total.....	61,297,552		5,851,844		55,445,707
Corporation income taxes.....	30,834,243		761,215		30,073,028
Excise taxes:					
Highway trust funds.....	4,063,390	3,949,458	119,631		
Other.....	9,328,722		216,639		9,112,084
Total.....	13,392,112	3,949,458	336,270		9,112,084
Employment taxes:					
Old-age and disability insurance.....	19,005,488	18,777,813	227,675		
Railroad retirement.....	583,531	583,458	173		
Unemployment insurance.....	567,014	561,428	5,586		
Total.....	20,156,033	20,022,699	233,434		3,666,317
Estate and gift taxes.....	3,083,922		27,605		
Total internal revenue.....	128,879,961	23,972,157	7,210,667		97,697,137
Adjusted to conform with "Statement of Receipts and Expenditures of the U.S. Government":					
Adjusted total internal revenue.....	-37,430	-33,333	-3,211		-886
Customs.....	128,842,531	23,938,824	7,207,456		97,696,251
Miscellaneous receipts.....	1,811,170		44,527	628,747	1,765,543
Total.....	5,797,358		285	628,747	5,168,305
Total.....	136,451,039	23,938,824	7,252,369	628,747	104,631,039

¹ Preliminary.

REFUNDS INCREASE

The total amount of refunds paid, including interest, was \$7.3 billion. This is about the same amount as was refunded in 1964 but \$1.2 billion more than in 1965, a 21-percent increase.

The number of individual income tax refunds (including employment taxes) increased 13.5 percent during the year, from 38 to 44 million. This reversed the 1965 drop which had resulted from underwithholding of taxes in the last several months of calendar year 1964.

Corporation income tax refunds declined slightly in number, but increased \$90.8 million or 13.5 per-

cent in principal amount. At the same time, interest on corporation refunds increased by more than \$25 million to \$69.8 million. This comprised 67.1 percent of all interest paid in 1966 with the corporate increase amounting to 95.4 percent of the total increase. The large increase was caused by some very large interest payments on corporation income tax refunds during the year.

Excise tax refunds totaled \$338 million, an increase of \$114 million. Of the increase 74.1 percent is in manufacturers' and retailers' excise tax categories. Refunds by class of tax are shown for 1965 and 1966 in the following table:

Internal revenue refunds, including interest

(For refunds by region and district, see table 5, p. 125)

Type of tax	Number		Amount refunded (principal and interest—thousand dollars)		Amount of interest included (thousand dollars)	
	1965	1966	1965	1966	1965	1966
Total refunds of internal revenue ¹	39,916,251	45,106,255	6,068,596	7,314,599	77,419	103,931
Corporation income taxes.....	122,376	117,252	714,879	830,998	44,490	69,782
Individual income and employment taxes, total ²	38,440,892	43,547,568	5,097,226	6,115,148	28,728	29,859
Excessive prepayment income tax ³	37,345,272	42,436,224	4,865,851	5,858,028	10,870	11,598
Other income tax and old-age and disability insurance ⁴	1,049,620	1,110,344	231,375	257,120	17,678	18,042
Railroad retirement.....	195	308	189	176	9	3
Unemployment insurance.....	45,573	32,603	7,751	5,813	172	227
Estate tax.....	6,813	7,326	30,962	29,386	3,309	3,104
Gift tax.....	791	791	1,941	1,477	226	155
Excise taxes, total.....	1,345,579	1,333,630	223,587	337,591	668	1,022
Alcohol taxes ⁵	12,045	8,777	83,796	94,427	(*)	4
Tobacco taxes.....	1,039	831	6,728	7,505	1	7
Manufacturers' and retailers' excise taxes, total.....	1,312,282	1,277,602	126,463	210,899	305	179
Gasoline used on farms.....	1,279,777	1,239,717	101,071	98,106		
Gasoline, nonhighway.....	28,211	25,242	22,428	21,470		
Other.....	4,274	12,643	2,964	91,323	305	179
All other excise taxes ⁶	20,233	46,420	6,501	24,679	357	836

¹ Figures have not been reduced to reflect reimbursements from the Federal Old-Age and Survivors and Federal Disability Insurance Trust Funds amounting to \$227,675,000 in 1965 and \$191,690,000 in 1966; from the Highway Trust Fund amounting to \$119,772,000 in 1965 and \$123,498,000 in 1966; and from the Unemployment Trust Fund amounting to \$5,000,000 in 1965 and \$7,609,000 in 1966.

² Net of 199,082 undeliverable checks totaling \$18,245,000 in 1966 and 58,817 undeliverable checks totaling \$4,165,000 in 1965.

³ Includes refunds "not otherwise classified."

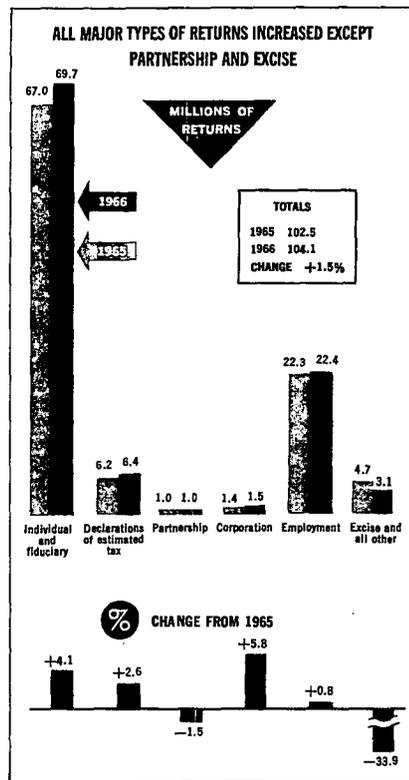
⁴ Includes drawbacks and stamps redemptions.

⁵ Includes narcotics, silver, wagering (excise and stamps), capital stock, and other excise tax refunds.

⁶ Less than \$500.

RECORD NUMBER OF RETURNS FILED

A total of 104 million tax returns of all types was filed in 1966. This is an increase of 1.6 million over



the number filed last year and reflects both the continuing growth in population and the expanding economy. Returns filed in 1965 and 1966 are compared in the following table by type of return.

Number of returns filed, by principal type of return

(Figure in thousands. For details, see table 6, p. 126)

Type of return	1965	1966
Grand total.....	* 102,492	104,078
Income tax, total.....	76,113	79,111
Individual and fiduciary, total.....	66,965	69,724
Individual-citizens and resident aliens, total.....	65,932	68,632
Forms 1040.....	48,158	50,054
Forms 1040A.....	17,774	18,578
All other individual and fiduciary.....	* 1,032	1,092
Declarations of estimated tax, total.....	6,197	6,356
Individual.....	6,166	6,329
Corporation.....	31	27
Partnerships.....	977	962
Corporation.....	1,420	1,522
Other.....	* 555	567
Employment tax, total.....	22,256	22,446
Employers' Form 941.....	15,483	15,632
Employers' Form 942 (household employees).....	* 4,559	4,577
Employers' Form 943 (agricultural employees).....	651	634
Railroad retirement, Forms CT-1, CT-2.....	22	21
Unemployment insurance, Form 940.....	1,510	1,582
Estate tax.....	94	103
Gift tax.....	122	134
Excise tax, total.....	* 3,898	2,284
Occupational tax.....	1,262	1,003
Form 720 (retailers, manufacturers, etc.).....	2,289	973
Alcohol.....	23	22
Tobacco.....	10	9
Highway use tax.....	249	220
Other.....	* 65	57

* Revised.

Taxpayers' Requests for Filing Extensions

More than one-half million taxpayers requested extension of the deadline for filing individual income tax returns. The Service weighed these requests carefully, approving 57 percent of the requests received. These extensions do not relieve taxpayers of any interest charges they may incur by late payment.

Chapter 3

AUTOMATIC DATA PROCESSING

ADP TO BE COMPLETELY OPERATIONAL JANUARY 1, 1967

The Service's integrated automatic data processing (ADP) system, already operational nationwide for high-volume business tax returns, will become operational nationwide for individual tax returns on January 1, 1967. Thus, the basic plan becomes an operating reality on schedule, just 5 years after testing began in a pilot installation in the Southeast Region in 1962.

Meeting this schedule was made possible by the successful introduction of the Southwest, Central (except Michigan), and Western (except California) Regions into the individual master file operation in 1966. Remaining to be phased into the program are the Midwest and North-Atlantic Regions, and the States of Michigan and California, which will be brought under the system next January.

MASTER FILES CONTINUE TO GROW

Operations in 1966 brought about tremendous increases in the number of accounts in both the business master file (BMF) and the individual master file (IMF). The BMF went from 5 million accounts at the close of 1965 to 5.7 million at the close of 1966. The introduction of additional offices into individual return processing increased the IMF accounts from 17.8 to 36.9 million. Over 19.3 million of the 26.8 million business returns received during 1966, and over 35.6 million of the 76.1 million individual income tax returns and declarations of estimated tax received during the same period were posted to these accounts in 1966.

EMPLOYEE REDEPLOYMENT HANDLED SMOOTHLY

The reduction in the number of positions in district offices resulting from implementation of the ADP program presents a real challenge to the Service. However, with the advice and assistance of the Civil Service Commission, considerable success has been achieved in the redeployment program. Mr.

John Macy, Chairman of the CSC, has stated that the IRS "has done an exemplary job of minimizing the impact on employees in its extensive ADP conversion program." Permanent staffing in the district office returns processing function was reduced from approximately 12,000 in 1960 to 4,300 in June 1966, a net reduction of some 7,700 positions. This has been accomplished without once resorting to involuntary separation or transfer. All placements were on a voluntary basis, and the majority were made within the employees' own district offices. Present plans call for about 1,800 employees to remain at the end of conversion.

IRS DATA CENTER NOW OPERATIONAL

Operations in the new IRS Data Center at Detroit, Mich., began as planned on January 1, 1966. The Center, located in interim space pending construction of a new building, is relieving service centers of all data processing activity not directly related to the ADP master file. This facility will be completely operational by January 1, 1967, at the same time the basic ADP plan is fully implemented.

THE ADP SYSTEM IMPROVES TAX ADMINISTRATION

ADP Identifies Nonfilers

Under ADP, delinquency checks are performed by comparing recorded returns filed against the filing requirement in each taxpayer's account in the master file. For businesses, the system is little more productive than the manual procedure previously employed; however, computer checking has proven to be faster, easier, and somewhat more comprehensive. Results are shown below for the BMF check in 1966, when all seven regions were included, compared to 1965, when only four regions had been under the BMF for sufficient time to permit this check:

	1965	1966
Number of notices of nonreceipt issued.....	1, 011, 366	1, 981, 872
Number of delinquent return investigation notices issued...	583, 749	1, 055, 723
Number of delinquent returns secured.....	396, 915	777, 624
Dollar value of returns secured.	\$83, 289, 000	\$171, 077, 000

Full-scale delinquency checking of individual returns was not feasible prior to ADP, and 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 1965. Surprisingly, the delinquency checking process, normally designed to collect past-due taxes, has uncovered thousands of cases in which taxpayers, in failing to file required returns, have been depriving themselves of millions of dollars in refunds.

Results to date show that over 9,000 delinquent returns were secured. The total tax shown on these returns was \$2.6 million, of which \$2.4 million were prepaid through payments of estimated tax and withholding of income tax at the source on wages. Additional revenue amounting to \$0.6 million was due on these returns, as were refunds of \$0.4 million. These results were brought about by notices mailed to individuals from whom income tax returns were not received. Cases of nonfiling for which there was no taxpayer response are being acted on by enforcement personnel.

ADP Performs Extended Verification of Data on Returns

The ultimate capability of the ADP system will permit verification of the mathematical accuracy of all returns as well as verification of estimated tax credits claimed by individual and corporate taxpayers on their returns. In 1966, all of the high-volume business returns filed by the Nation's taxpayers were subject to the verification processes. Mathematical verification by computer was also applied to returns filed by individuals in the five regions having all or part of such returns processed under the ADP system, including a more comprehensive verification of Form 1040 performed under ADP. Verification of all estimated tax credits claimed by individuals, which could be done only on a limited basis under manual processing, was performed by ADP in the Southeast and Mid-Atlantic Regions. It is estimated that ADP mathematical verification, including verification of estimated tax credits, yielded about \$19.1 million which would not have been produced save for the more extensive processing performed by the new system. The verification also resulted in the assessment of \$1.2 million as penalty for the failure of taxpayers to make sufficient estimated tax payments.

Computers Check on Outstanding Accounts Before Refunding

The ADP system has been effective in identifying unpaid accounts prior to refunding overpayments to taxpayers. In fiscal year 1966, overpayments numbering 291,863 and amounting to \$58.7 million were offset against tax liabilities for the same taxpayers. At present, the offset procedure is employed for all the Nation's BMF returns, and for all individual income tax returns on the IMF. All individual returns will be subject to the ADP offset procedure in 1967.

In addition, the offset procedures will be expanded nationwide in 1967 to cover non-master file accounts which went into a delinquent status. In tests in the Southeast and Mid-Atlantic Regions this year 87,516 IMF accounts were flagged to note the existence of a non-ADP delinquent account. As a result, offsets against ADP refunds were made automatically in 21,367 cases and revenue totaling \$1,397,070 was realized. Many of these cases had previously been classified as uncollectible.

ADP Stops Duplicate Refunds

Another problem that has plagued the Service since the inception of the withholding system is the fact that a large number of taxpayers, most of them with honest intention, file more than one refundable income tax return in the same filing season. One of the most common reasons for this is that many taxpayers who have had more than one employment during the year make the mistake of filing a separate return for each withholding statement they receive. This frequently gives the taxpayer a lesser total tax liability than he should have. Under the old system these duplicate filings were detected by manual methods, long after the refunds had been issued, and recovery action was difficult and expensive. The ADP system permits identification of duplications before the refund checks are issued. This system resulted in over \$6 million in additional revenue in calendar year 1965 in the two regions using ADP procedures for processing individual returns.

Matching of Information Documents With Returns Progresses

Testing has continued on the optimum use of information documents 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.

A test conducted in the Southeast Region covering tax year 1963 demonstrates that more extensive use of these documents will result in substantial additional revenue. The test revealed 1,699 apparent nonfilers and 1,513 apparent underreporters of income with additional taxes and penalties assessed amounting to \$150,000 and \$193,000, respectively. In addition, 372 delinquent returns were secured covering 1962 and prior taxable years with aggregate tax liabilities of \$72,000. Six substantial fraud cases were uncovered, three currently being investigated, and three whose additional taxes, penalties, and interest are expected to exceed \$132,000.

The current test, for tax year 1964, encompassed the Mid-Atlantic Region as well as Southeast. Preliminary results show that over 11,000 delinquent returns were secured with net tax plus penalty and interest due of \$478,000.

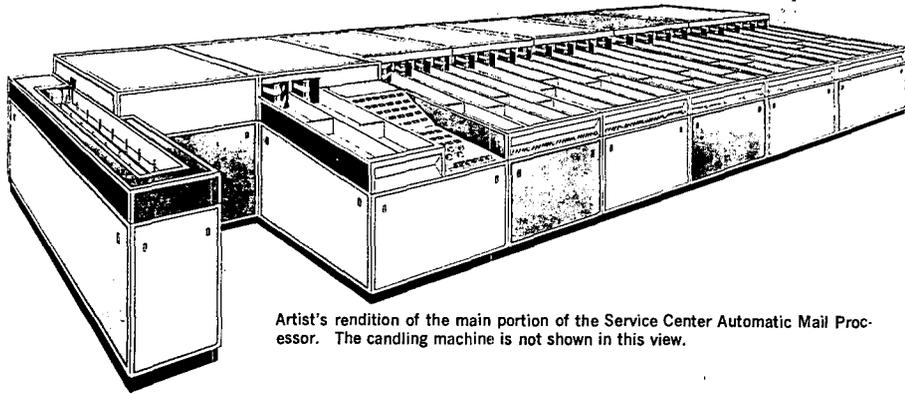
ADP Looks at All Returns in Making Selection for Audit

ADP provides a systematic and rapid means for screening tax returns to select those most likely to contain tax error. For this purpose audit selection criteria are programed into the computers at the service centers and the National Computer Center. The computers are also programed to pass over the returns of taxpayers where seemingly questionable issues have been examined for the immediately preceding year and found to be acceptable. This means that generally a taxpayer will not be contacted from year to year for the same reason, a consideration of no small consequence in reducing annoyance to the public. It means also that audit can be extended to cover other taxpayers whose returns may not have been selected for audit because of manpower limitations.

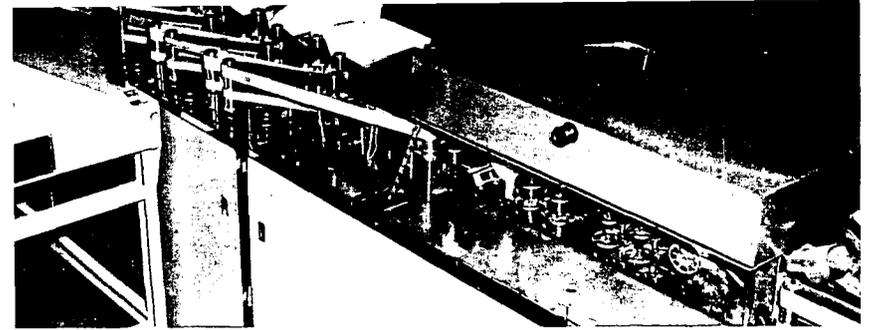
Direct Filing With Service Centers Proves Popular

The option of filing returns claiming refunds direct with the service center, which was received enthusiastically by taxpayers in the Southeast Region in 1965, was extended to individuals in the Mid-Atlantic Region in 1966. In the Southeast Region, 82.3 percent of overpayment returns, and 80.7 percent of those in the Mid-Atlantic Region were sent by taxpayers directly to the service centers. This eliminated the need for sorting, packaging, and

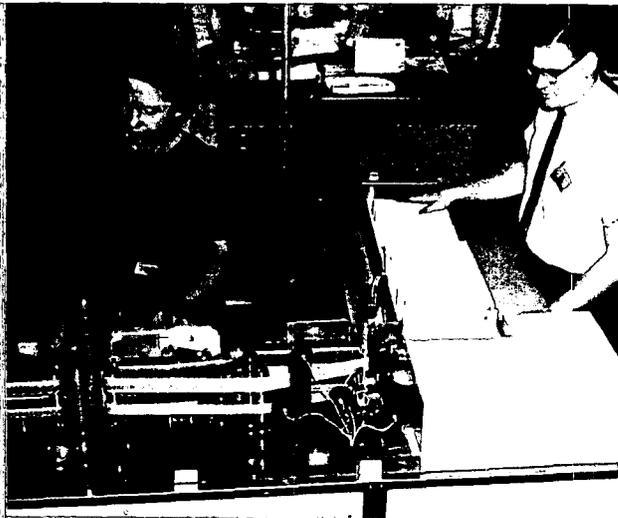
SERVICE CENTER AUTOMATED MAIL PROCESSOR



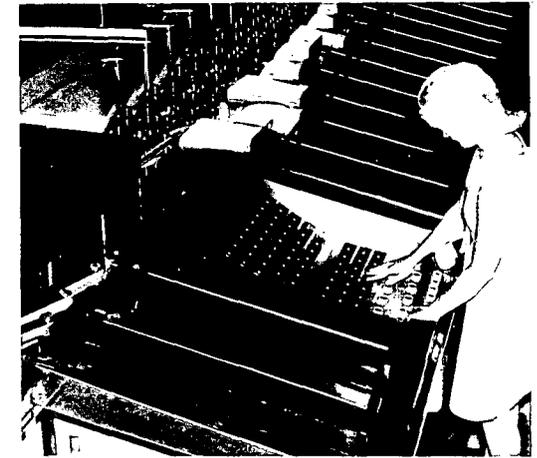
Artist's rendition of the main portion of the Service Center Automatic Mail Processor. The candling machine is not shown in this view.



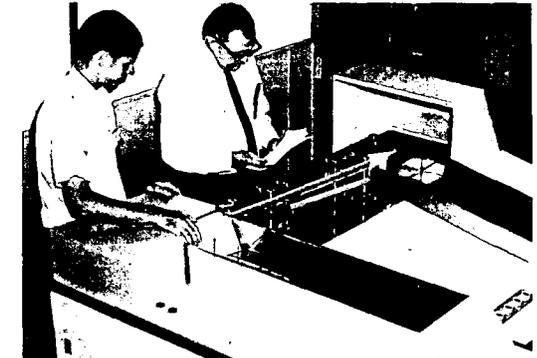
LETTER OPENER. Letters are lifted vertically to a common height where high speed milling knives trim off the top of the envelope. This system avoids cutting the contents of the envelope, often a problem under other systems.



INPUT FEED AND CULLING SECTION. Mail which has been removed from tied bundles is placed in the automatic feed. As the envelopes leave the input feed at a rate of 500 per minute, they are photoelectrically scanned to see if they are of the IRS size which can be automatically sorted. Those varying from this size are culled out for manual processing.



SORTING OPERATION. The edges of envelopes are coded to enable automatic sorting. The code is scanned photoelectrically, and the number processed under each code is automatically tallied. A total of 128 different codes can be handled on this processor. Processing is controlled through the operating console shown in the picture.



CANDLING MACHINE. A final check is made by this machine to insure that all returns, checks, or other documents have been removed from envelopes. Each "empty" envelope is tested for multiple thicknesses of paper or unusual dark areas by transmitting a light through the envelope. Any envelope not passing the tests is set aside for a final manual inspection.

shipping returns from the district offices to the service centers. The resulting savings to the Government are estimated at \$50,000 for 1965, and \$113,000 for 1966. The option is being extended to taxpayers in the Central, Southwest, and Western Regions, except for those residing in California, in 1967.

ADP Brings About Increase in Voluntary Compliance

Because of the difficulty of determining motivation, no accurate measurement can be made of the amount of revenue realized from taxpayers who have filed delinquent or amended returns because of a fear of being caught through ADP. There are good reasons to believe, however, that many millions of dollars in previously unreported taxes are being voluntarily tendered. Since January 1, 1962, approximately \$6 million in previously unreported taxes have been realized from taxpayers who have

specifically indicated that they were filing delinquent or amended returns because of fear of detection by the ADP system.

Innovations Provide Further Benefits

Some of the more important operational improvements developed in the ADP area this year, described more fully in Chapter 9, Management Activities, include: (1) Installation and testing of an automated mail sorting machine at the Southeast Service Center (see illustrations on p. 18 and 19 and detailed description in Ch. 9, Management Activities, p. 63); (2) development of a pilot system for optical character recognition; (3) installation of a magnetic tape rehabilitation process at the National Computer Center; (4) testing of a pilot project for using information return data furnished by payers on magnetic tape in lieu of paper documents; and (5) expansion of the use of preaddressed mailing labels on income tax returns.

ENFORCEMENT ACTIVITIES

INTRODUCTION

Through its enforcement activities the Service seeks not only to detect those individuals who willfully attempt to evade their tax obligations, but also to identify persons who have unintentionally erred in determining their tax, whether in their own favor or in favor of the Government. The self-assessment system on which our tax system is based requires that taxpayers have confidence that each individual is paying his taxes as prescribed by law; the Service spends a considerable portion of its total budget to make this confidence a reality. Enforcement activities include mathematical verification of returns, selection and examination of returns, investigation of tax fraud, the securing of past-due returns and collection of delinquent accounts, and provision for appeals and legislative services allied to these activities. They also include enforcement of the laws relating to alcohol and tobacco taxes and firearms.

YIELD FROM MATHEMATICAL VERIFICATION INCREASES

The Service verified and corrected arithmetic operations on nearly 61 million Form 1040 and 1040A returns this year, a decrease of about 2 million from 1965. The first major benefit of mathematical verification is an intangible quality of fair-share tax administration for all taxpayers, but certainly not far behind is the very tangible net yield in tax revenue through disclosure of taxpayer errors. Taxpayers file returns with errors predominantly in their own favor (about 1½ to 1). Moreover, average errors in favor of the taxpayer are about 1½ times as large (\$91 to \$58) as those in favor of the Government. Therefore, while either the taxpayer or the Government may benefit from any single mathematical verification, total corrections resulting from the process significantly increase Federal revenue.

Last year, net yield from verification, which is the difference between the sums of these two kinds of error, was diminished due to widespread misunderstanding of tax tables and instructions by 1040A taxpayers. Their most common error was to select a tax table which called for more tax than

they rightfully owed. As a result, these "decrease" errors overbalanced those producing net gain to the Government—the reverse of normal events. Through revisions in tax tables and instructions and through taxpayer education, that abnormality has been corrected in 1966. Net yield from mathemat-

ical verification this year was \$104.3 million. Total net yield has increased steadily with the growth in returns filed and the implementation of ADP, increasing \$4.4 million in 1966 alone. The results of the mathematical verification program are shown in the table below:

Individual income tax returns mathematically verified

Item	Total		Form 1040		Form 1040A	
	1965	1966	1965	1966	1965	1966
Number..... thousands.....	62,879	80,721	47,174	44,211	15,705	16,510
Number of returns on which changes were made..... do.....	3,856	3,461	2,412	2,405	1,444	1,056
Returns with increase:						
Number..... thousands.....	1,880	2,050	1,456	1,456	524	594
Amount..... thousand dollars.....	194,086	186,244	149,809	141,692	44,277	44,552
Returns with decrease:						
Number..... thousands.....	1,876	1,411	956	949	920	462
Amount..... thousand dollars.....	94,194	81,954	61,138	60,387	33,056	21,567
Net yield..... do.....	99,892	104,289	88,671	81,305	11,221	22,984
Average per return verified..... dollars.....	1.59	1.72	1.88	1.84	0.71	1.39

AUDIT PROGRAM SUCCESSFUL IN DETECTING ERRORS

Selection of Returns Is Starting Point

The starting point for a successful audit program is the careful classification and selection of returns for examination. The basic objective in classification and selection is identification of those returns which are most in need of examination. Considerable effort has been expended to determine those characteristics of returns which indicate a probable error in reporting some aspect of income or deductions. Selection criteria are continuously evaluated and updated to gain the benefit of the most recent Service experience.

Prior to the introduction of ADP, the classification and selection of returns was done manually. When returns processing by ADP was implemented, it was determined that a certain amount of this work could be done by the computer, using criteria similar to those used in the manual process but designed specifically to make use of the capabilities of the computer. The system has gradually been improved and extended. Five of the seven regions are now operational under this system, with three regions added this year and the remaining two regions to be brought under the system next year. Manual screening is required even after the computer selection, but computer identification has nevertheless greatly reduced technical personnel time required in selecting returns for audit.

Using both the manual and ADP systems, 18.2 million income, estate, and gift tax returns were

classified in 1966, in comparison with the 71.4 million such returns filed. Of this number, 2.9 million were selected for examination.

Number of Examinations Holds Steady

Returns selected for audit are examined either by office audit techniques which usually are limited to correspondence and office interview, or by field audit techniques, normally requiring a visit to the taxpayer's place of business.

As planned, the total number of returns examined this year was approximately the same as last year—3.5 million. Within the examination program, planned shifts toward the examination of more complex returns are in progress. The emphasis reported last year on quality audit of returns was continued this year, as was the assignment of teams of experienced revenue agents, rather than individual agents, to the audit of returns of large, complex corporations.

The Service has undertaken a concerted effort to place its audit workload on a more current basis, and substantial progress has been made. This, of course, reduces the number of instances where it becomes necessary to extend the statute of limitations to complete the examinations.

Of the 3.5 million returns examined, 1.9 million resulted in deficiency recommendations, of which 1.8 million (96 percent) were agreed to by the taxpayers. Some examinations disclosed an overstatement of tax liability and the examiner recommended a refund. The number of tax returns examined by type of return follows:

Number of tax returns examined

(Figures in thousands)

Type of return	Total		Field audit		Office audit	
	1965	1966	1965	1966	1965	1966
Grand total.....	3,472	3,480	756	767	2,716	2,713
Income tax, total.....	3,268	3,273	584	590	2,684	2,683
Corporation.....	164	168	162	166	2	2
Individual and fiduciary.....	3,092	3,092	410	411	2,682	2,681
Exempt organization.....	12	13	12	13	(¹)	(¹)
Estate and gift tax.....	35	38	32	35	3	3
Excise and employment tax.....	169	169	140	142	29	26

¹ Less than 500.

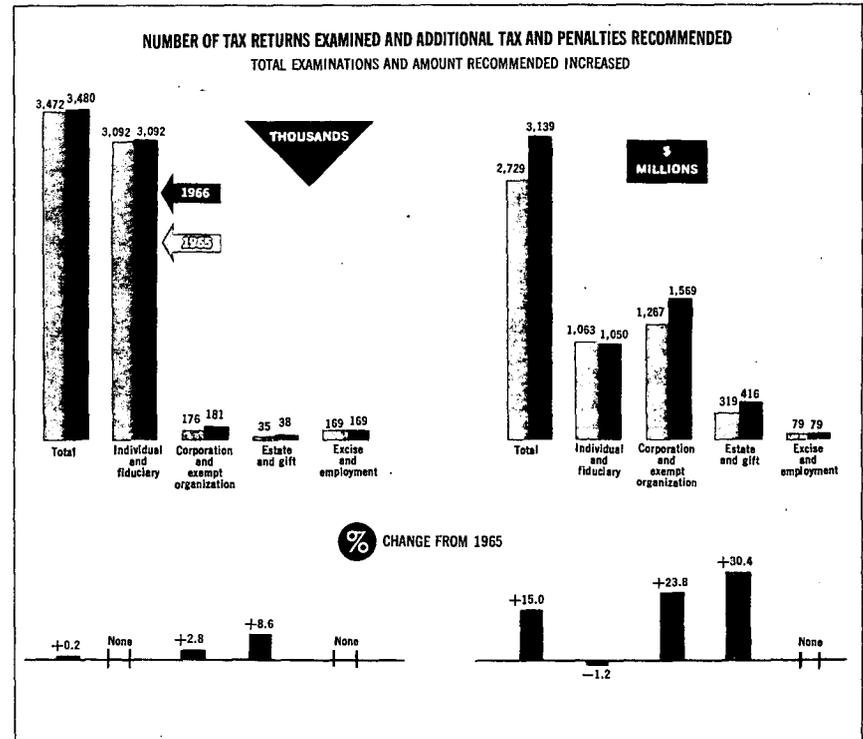
Additional Tax Recommended Reaches New High

For the fourth consecutive year, additional taxes and penalties recommended for returns examined

has risen substantially. For example, the total amount recommended exceeded \$2 billion for the first time in 1963; in 1966 the trend continued and for the first time the \$3 billion mark has been exceeded.

Additional taxes and penalties recommended increased in almost every tax area. Recommendations resulting from the examination of corporation returns were 24 percent higher than in 1965, while recommendations in estate tax cases increased 33 percent from last year. There was a slight decline of 1 percent from last year's recommendations in the individual and fiduciary area. This was attributable in part to the Tax Reduction Act of 1964.

Average additional tax and penalties recommended per return examined by field audit increased



to \$3,777, which is 15 percent above the \$3,288 average recorded in 1965.

Exempt Organization Examinations Continued

The Service continued its program to detect and prevent tax abuses in the tax exempt organization area by examining 13,331 returns from such organizations during the year, an increase of about 7.5 percent over the 12,406 returns examined in 1965. As a result of these examinations and returns of related taxpayers, approximately \$37.7 million of additional taxes and penalties were recommended. Examining officers recommended revocation of the tax exempt status of 232 organizations.

To assure continued quality audits in this specialized area, guidelines for examination were issued to field personnel, and special classroom training sessions and field conferences were held. The Exempt Organization Master File, set up in previous years utilizing data processing techniques, was expanded to include records pertaining to trusts established under pension plans.

Claims for Refund

Claims for refund closed by district audit divisions totaled 433,507 in 1966 and involved \$512.6 million. Of the total \$214.4 million was allowed and the remainder, or \$298.3 million was disallowed. Taxpayers' claims in the amount of \$95.9 million were unagreed and forwarded to appellate divisions for further action.

Individual (including fiduciary) and corporation claims represented 82.2 and 7.7 percent, respectively, of the total number of claims submitted. However, corporation claims accounted for 53.4 percent of total dollars claimed for refund, while individual and fiduciary accounted for only 26.0 percent of the total.

The number of excise tax claims increased 84.2 percent over 1965 and the dollar amount claimed increased 91.5 percent. The Excise Tax Reduction Act of 1965, which provided for floor stock and consumer refunds, was responsible for a substantial portion of the increase.

The following table shows a detailed comparison by type of tax of the number of claims and amounts involved during the past 2 years:

Claims for refund disposed of by district audit divisions, fiscal years 1965 and 1966

Class of tax	Closed by audit divisions							
	Number		Amount (thousand dollars)					
			Claimed by taxpayer		Allowed		Disallowed	
	1965	1966	1965	1966	1965	1966	1965	1966
Total	388,133	433,507	392,100	512,631	192,132	214,368	199,967	298,265
Individual income.....	325,987	358,360	134,024	146,209	93,080	104,497	40,944	41,713
Corporation income.....	28,933	32,291	215,505	254,709	83,880	76,042	131,625	178,667
Estate.....	1,760	1,965	16,352	25,037	6,604	7,651	11,748	17,386
Gift.....	339	283	1,540	2,635	403	292	1,132	2,343
Excise.....	14,465	27,236	18,836	80,324	6,108	23,651	12,727	56,673
Employment.....	18,649	13,382	3,843	3,717	2,052	2,235	1,791	1,483
Class of tax	Protected—transferred to appellate divisions							
	Number		Amount (thousand dollars)					
			Claimed by taxpayer		Recommended by audit divisions			
	1965	1966	1965	1966	Allowed		Disallowed	
1965	1966	1965	1966	1965	1966	1965	1966	
Total	5,027	5,503	91,990	95,896	7,180	4,781	84,810	91,114
Individual income.....	2,314	2,563	10,668	12,308	905	802	9,763	11,506
Corporation income.....	1,391	1,578	49,631	70,101	6,125	3,566	43,506	66,535
Estate.....	127	130	4,678	8,630	76	330	4,602	8,300
Gift.....	34	63	1,277	4,418	29	3	1,248	415
Excise.....	753	788	25,184	3,937	29	68	25,135	3,904
Employment.....	393	391	572	502	16	12	556	474

Overassessments Are Disclosed Through Audit

At all stages of the audit operation, field examiners look for indications that taxpayers have overstated their tax liabilities. In 1966, examination of returns disclosed overassessments amounting to \$154.5 million. This excludes the amounts determined to be allowable on the basis of claims for refund. The following table reflects the amount of overassessment recommended by type of tax:

Type of tax	Overassessments of tax exclusive of claims for refund	
	Amount recommended (thousand dollars)	
	1965	1966
Total	144,577	154,548
Individual and fiduciary income.....	47,052	48,779
Corporation income.....	84,133	89,093
Estate.....	11,145	11,478
Gift.....	604	832
Excise.....	1,221	4,049
Employment.....	422	317

FORMAL APPEALS SYSTEM PROVIDED FOR TAXPAYERS

Taxpayer Has Opportunity for an Independent Administrative Review

The appeals procedure of the Service provides a taxpayer who disagrees with a proposed adjustment to his tax liability with a means of obtaining a prompt and independent administrative review of his case.

The appeals function is decentralized and operates at two organizational levels, the district and the region. Jurisdiction at both the district and regional levels extends to disagreements involving overassessments as well as deficiencies and to all internal revenue taxes except alcohol, tobacco, firearms, narcotics, and wagering taxes.

District Conferences Give Taxpayer Early Hearing

After examination has been completed, the taxpayer may or may not agree with the findings reached by the examining officer. If he does not agree, he may request a hearing at a district office. The fundamental purpose of this district conference is to effect the early disposition of contested cases on a basis which reflects a fair and impartial administration of the revenue laws. Under conference procedures put into effect in 1965, the examining officer prepares a full report for study by a review staff prior to the issuance of the conference invitation to the

taxpayer. If agreement is not reached at the conference, other established avenues of appeal remain open to the taxpayer.

District conference activity for the year is set forth in the table below:

District conference case workload			
Item	Field audit	Office audit	Total
Cases pending July 1.....	6,796	3,328	10,124
Cases received.....	24,932	17,449	42,381
Conferences completed:			
Agreed.....	12,788	12,443	25,231
Unagreed.....	8,922	4,870	13,792
Cases pending June 30.....	10,018	3,464	13,482

Taxpayer Has Other Options Available

If an agreement is not reached at the district level, the taxpayer may request that his case be considered by the appellate division of the regional office. In the event an agreement is not reached on an income, estate, or gift tax case at the appellate division level, the taxpayer may file an appeal with the Tax Court of the United States. Even after a case has been docketed in the Tax Court, conference opportunities are available in the appellate division.

A taxpayer who does not reach an agreement either at the district audit or the regional appellate level and prefers to avoid litigating his case before the Tax Court has other choices. These can be exercised by paying the deficiency and within 2 years from the date of payment filing a claim for refund of the amount in dispute. When the claim is disallowed by the Service, or 6 months after the the claim is filed, he can file suit in either a U.S. district court or the U.S. Court of Claims.

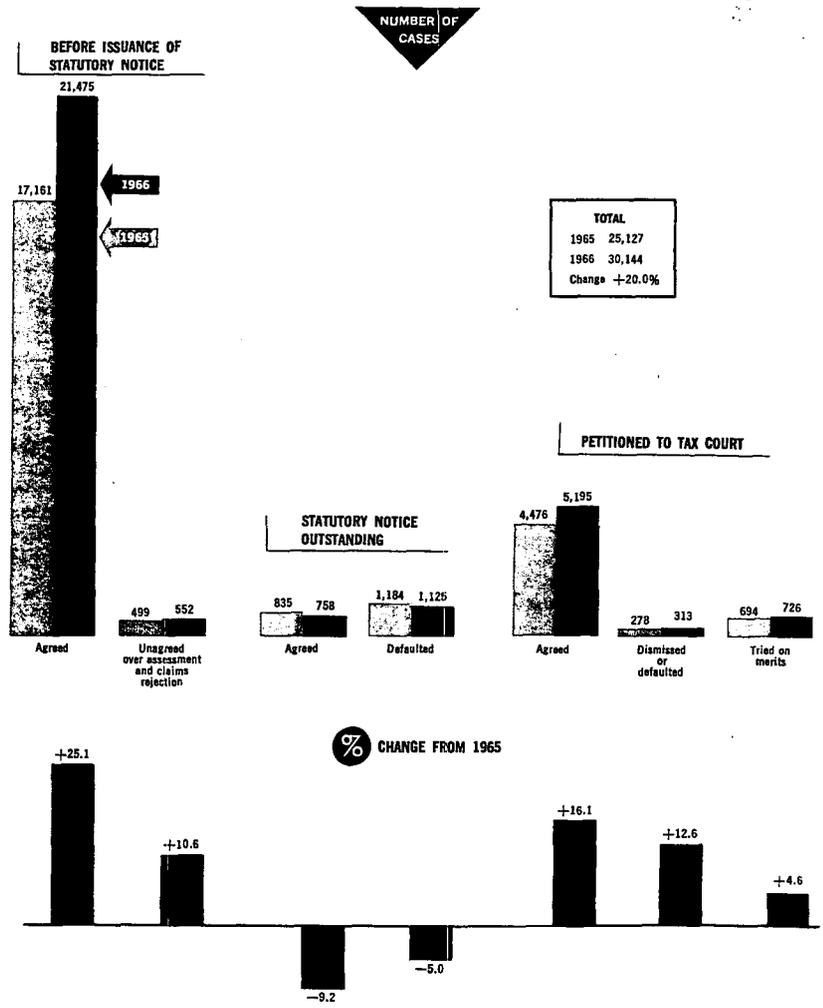
Workload Highlights

Receipts of income, estate, and gift tax cases from audit divisions increased a nominal 4 percent from 1965. However, case disposals were 20 percent higher reflecting more effective use of manpower as well as some staffing increase. Although the number of cases on hand on June 30, 1966, was 7 percent above a year ago, the inventory continues to be in a current condition.

Greater Number of Pre-90-Day Cases Processed

If a taxpayer disagrees with a proposed determination of tax liability in a preliminary notice, commonly referred to as a 30-day letter, he may file a protest and request a conference. If no agree-

APPEALS—(INCOME, ESTATE, AND GIFT TAX CASES) METHOD OF DISPOSAL



ment is reached at the district level he may request the case be transferred to an appellate division office. These cases are referred to by appellate divisions as pre-90-day cases. The appellate division's activities during 1965 and 1966 in the processing of these cases is summarized below. (For additional information, see table 15, p. 133.)

Pre-90-day cases
(Appeals prior to issuance of statutory notice)

Status	Number of cases	
	1965	1966
Pending July 1	15,531	20,095
Received	26,301	27,652
Disposed of, total	21,737	26,278
By agreement	17,161	21,475
Unagreed overassessment and claim rejections	499	552
By issuance of statutory notices—transferred to 90-day status	4,077	4,251
Pending June 30	20,095	21,469

The number of pre-90-day case disposals in 1966 was 21 percent greater than in 1965. For the fifth consecutive year, the percentage closed by agreement rose. During 1966, 82 percent of pre-90-day case disposals were by agreement.

Case Disposals by Petition Relatively Low

If a taxpayer does not accept the district director's proposed determination, or if he files a protest but does not settle his case at the appellate level during the pre-90-day consideration, a statutory notice of deficiency is issued. Such a notice is commonly referred to as 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. A case which is pending in the appellate division during this period is called a 90-day case. The following table shows the results of processing these cases in the appellate division. (For additional information, see table 16, p. 133.)

90-day cases
(Statutory notices issued)

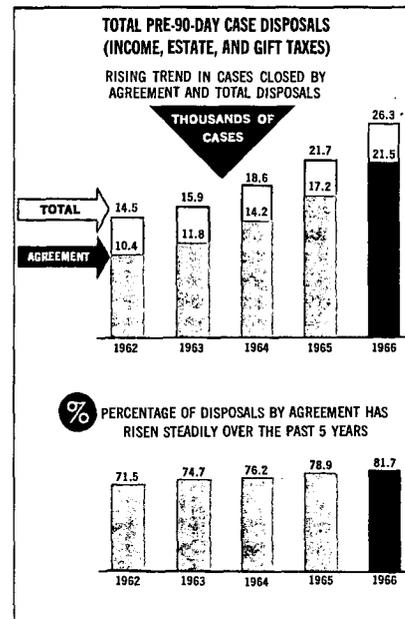
Status	Number of cases	
	1965	1966
Pending July 1	1,380	1,299
Received, total	4,378	4,443
Statutory notices issued by appellate divisions ¹	3,921	4,101
Statutory notices issued by district directors and received during 90-day period	457	342
Disposed of, total	4,469	4,345
By agreement	835	758
By taxpayer default	1,184	1,125
By petition to the Tax Court—transferred to docketed status	2,450	2,462
Pending June 30	1,299	1,397

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

With the number of pre-90-day and 90-day disposals by agreement totaling 22,233 cases, an all-time high, the proportion of disposals by petition to the Tax Court was the lowest ever.

Docketed Case Disposals Increased

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 of the United States asking for a redetermination of his tax liability. Such cases are referred to as petitioned or docketed cases. The Tax Court is an independent agency of the Govern-



ment and has no connection with the Internal Revenue Service.

A taxpayer may discuss the possibilities of settling his case with the Service even after it has been petitioned to the Tax Court, regardless of whether he has previously availed himself of conference opportunities with the audit division of the district office or with the appellate division at the regional level. Settlement negotiations in docketed cases may be conducted by the appellate division 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 following table reflects the processing of docketed cases. (For additional information see table 17, p. 134.)

Docketed cases (Petitioned to the Tax Court)		
Status	Number of cases	
	1965	1966
Pending July 1.....	7,980	9,384
Received, total.....	6,852	6,874
Petitions filed in response to—		
District directors' statutory notices.....	4,493	4,489
Appellate divisions' statutory notices ¹	2,359	2,385
Disposed of, total.....	5,448	6,234
By stipulated agreement.....	4,476	5,195
By dismissal by the Tax Court or taxpayer default.....	278	313
Tried before the Tax Court on the merits.....	694	726
Pending June 30.....	9,384	10,024

¹ Difference from number shown as petitioned in preceding table is caused by excluding district directors' statutory notices considered by appellate in 90-day status.

The number of docketed case disposals was 14 percent greater than in the previous year and percentage of disposals by agreement also increased.

Disposals Exceed Receipts in Excise and Employment Tax Appeals

The number of excise and employment tax cases on hand June 30, 1966, was 1,090, which is a decrease of 63 cases from a year ago. A total of 1,719 cases was received and there were 1,782 dispositions.

Revised Procedures for Processing Joint Committee Cases Adopted

A total of 947 cases involving overassessments of \$492.2 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. This represented an increase of 407 cases and \$158.9 million over the previous year.

The increase in cases processed results in part from new procedures for processing Joint Committee cases which were put into effect this year to provide better service to taxpayers by reducing elapsed time, to save interest costs to the Government, and to reduce operating and manpower costs.

Under prior procedures, Joint Committee cases were subject to special audit and documentation requirements and received several successive reviews before being reported to the Joint Committee. Even if a case was agreed to by the taxpayer and the district director, the results were nonetheless subject to a complete review by the regional appellate office and also by the Office of the Chief Counsel. Under the new procedures, these cases no longer require greater documentation or intensity of audit than the Service normally accords other cases, nor are cases agreed at district level subject to special reviews by regional appellate and Chief Counsel's offices. Agreed and unagreed cases obtain a thorough procedural and technical review by Joint Committee coordinators in the district office located in the same city as the regional headquarters. If the case is agreed at the agent's level, the report to the Joint Committee is prepared by the coordinators, and is forwarded to the National Office for processing and official signature. Where agreement is reached at the regional appellate or regional counsel level, the report is prepared by appellate conferees. If a settlement is agreed upon before trial in cases before a district court or the Court of Claims, the report is prepared by the Office of the Chief Counsel, and includes a detailed supporting memorandum prepared by the Department of Justice.

ALMOST 1 MILLION DELINQUENT RETURNS SECURED

During the year the Service secured 966,000 delinquent returns representing \$246.7 million in unreported tax, interest, and penalties. The lion's share, 912,000 returns representing \$203 million, was secured through the established delinquent returns program. Accelerated attrition of revenue

officer strength due to retirements as a result of the Daniels Act, and difficulty in recruitment, reduced manpower below the anticipated level. As a result, this year's achievements were lower than planned, and decreases below last year of 18 percent in the number of delinquent returns secured and 8 percent in the amount assessed were experienced.

Data Processing Paves Way for New Programs

Statistical results alone, however, are not the full measure of accomplishments. In fact, the new major programs and concepts made possible by the ADP system which were launched in 1966 will improve compliance, create a smoother and more effective operation, and reduce costs for future years. Foremost among these is a system known as the entity concept. In the past when a taxpayer became delinquent in filing any return, a delinquency notice was issued for each class of tax and for each period of delinquency. Under this new concept, only one delinquency notice is issued for the earliest tax on which a taxpayer is delinquent. In this way, all returns due are secured as a result of the one investigation, thereby reducing the number of delinquency investigations by an estimated 30 to 40 percent.

Another major program instituted during the year provides for immediate contact with selected taxpayers who are listed on the Business Master File, but from whom a required return has not been received. In the selection processing, the taxpayer's compliance history and monetary delinquency are taken into account. When the taxpayer is identified as one who has been flagrant in not complying with filing requirements, normal processing time is set aside and delinquency notices are immediately issued.

In a somewhat similar manner, as data processing becomes nationwide in processing individual income tax returns, every effort is being made to insure that all taxpayers receive equitable treatment and pay their share of the tax. To identify those cases where the taxpayer has failed to file, a comparison is made of the individual master file with the current year's return. In this way, those taxpayers who have filed one return and fail to continue filing are easily recognized. In addition, tape information submitted by industry and Government agencies reflecting information on income paid to payees is also being utilized to identify nonfilers.

TAX FRAUD INVESTIGATIONS INCREASED

All intelligence programs were maintained at a high level with continued progress toward the objective of ferreting out tax law violations at all strata of society, in all geographical areas and for all types of taxes. This resulted in more full-scale investigations in both the nonracketeer and the racketeer categories.

A summary of investigations by special agents follows:

Tax fraud investigations		
Type	1965	1966
Full-scale investigations, total.....	3,643	3,772
Prosecution recommended, total.....	2,382	2,418
Fraud.....	1,216	1,163
Wagering.....	1,088	1,177
Coin-operated gaming devices.....	26	45
Miscellaneous.....	52	33
Prosecution not recommended, total.....	1,261	1,354
Preliminary investigations, total.....	10,520	10,436
Fraud and miscellaneous.....	8,786	8,988
Wagering and coin-operated gaming devices.....	1,734	1,448

Total full-scale investigations increased 3.5 percent over 1965. Overall, the total number of prosecutions recommended increased. Although the number of prosecutions recommended in fraud cases declined, this was more than offset by the increase in prosecutions recommended in wagering cases. This increase in full-scale investigations and prosecution recommendations was accomplished in spite of the loss of a substantial number of experienced special agents through retirement in December 1965.

Organized Crime Investigations Accelerated

The Service continued to play an important role in the Federal Government's drive against organized crime. With support of compliance divisions of the Service, an increased number of the Nation's notorious and prominent racketeers were investigated and prosecuted for tax violations in 1966. President Johnson on May 5, 1966, stated in his remarks regarding the drive on organized crime, "the campaign against racketeering must not only be continued but it must be accelerated." In line with the President's directive, the Intelligence Division is now in the process of establishing the Organized Crime Drive as an integral part of regular district operations, thereby making available to the Organized Crime Drive the knowledge and skills of all

intelligence division supervisory personnel. It will also permit district directors; chiefs, intelligence divisions; and other district management officials to be kept currently informed regarding the progress of these investigations and will result in more effective utilization of the manpower devoted to this program.

As part of the Service's enforcement efforts against violators of the wagering tax laws, special agents conducted nationwide coordinated raids for the 10th year. As the result of raids made in 1966, \$463,000 in currency and other property valued at \$275,000 was seized.

ADP Assists in Identifying Tax Violations

As mentioned in Chapter 3, Automatic Data Processing, procedures have been established to detect multiple return filers. Additional studies and field tests are underway to explore further the capabilities of ADP in identifying criminal tax violations, including false claims of payment of estimated tax and failures to file. Tax enforcement work in future years will be greatly assisted by the capability of the computer to store and report facts on a nationwide basis, providing to special agents the leads needed to investigate suspected violations.

Intelligence Career Development Strengthened

A Career Development Program for Intelligence Division technical personnel was established in 1966. This program provides a systematic approach to identifying, developing, and promoting employees on the basis of merit into supervisory or managerial positions within the intelligence activity. Further details on this program are given on page 65.

NO SIGNIFICANT CHANGE IN CRIMINAL PROSECUTION CASE RECEIPTS

Cases received in the Chief Counsel's Office with recommendations for criminal prosecution this year involved total additional taxes and penalties of \$150.3 million, for a nominal increase of \$2.7 million over 1965. Case receipts numbered 1,490—almost the same as in 1965 (1,507 cases) and 1964 (1,493 cases).

The following table provides an analysis of criminal tax case flow from Assistant Regional Commis-

sioners (Intelligence) through the Office of the Chief Counsel to the Department of Justice for all types of tax except wagering-occupational cases handled at the district level:

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

Status	1965		1966	
Pending July 1 ¹	2,104		2,336	
Received, total.....	1,507		1,490	
With recommendations for prosecution.....	1,393		1,363	
With requests for opinion, etc.....	114		127	
Disposed of, total.....	1,275		1,463	
Prosecution not warranted.....	120		180	
Department of Justice declined.....	82		72	
Prosecutions.....	853		995	
Opinions delivered.....	72		75	
All other closings.....	148		141	
Pending June 30 ¹	2,336		2,363	

¹ Includes cases awaiting action in Department of Justice exclusive of wagering tax cases referred by Intelligence Division.

The table below provides additional detail on legal workload involved in the prosecution of criminal cases by Service attorneys during the past 2 years:

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

[Exclusive of wagering and coin-operated gaming device cases]

Disposition	Tax years		Tax and penalty	
	1965	1966	1965	1966
Totals.....	3,801	4,141	\$122,231,399	\$108,993,554
Prosecutions.....	2,909	2,895	72,108,603	49,431,490
All other closings ¹	892	1,246	50,122,796	59,562,064

¹ Includes cases declined by Department of Justice.

Referrals of income tax and miscellaneous criminal cases to the Department of Justice did not change significantly. This year, 1,009 such cases with prosecution recommendations involving 955 prospective defendants were referred, compared to 994 cases involving 1,005 prospective defendants in 1965. Indictments of these cases were down 6.8 percent from 1965, and the total disposal of cases in this category in the district courts decreased 7.8 percent.

In income, excise, and wagering tax criminal cases, pleas of guilty or nolo contendere were entered for 1,147 defendants and cases against 226 were

dismissed. Trials of the remaining defendants resulted in 177 convictions and 66 acquittals.

Indictments and court actions for the last 2 years are shown in the following table:

Results of criminal action in tax fraud cases

Action	Number of defendants	
	1965	1966
Total		
Indictments and informations.....	1,919	1,660
Disposals, total.....	1,732	1,616
Plea, guilty or nolo contendere.....	1,251	1,147
Convicted after trial.....	200	177
Acquitted.....	86	66
Not-prosessed or dismissed.....	195	126
Income and miscellaneous cases¹		
Indictments and informations.....	823	767
Disposals, total.....	790	728
Plea, guilty or nolo contendere.....	572	531
Convicted after trial.....	73	70
Acquitted.....	50	39
Not-prosessed or dismissed.....	95	88
Wagering tax cases		
Indictments and informations.....	1,096	893
Disposals, total.....	942	888
Plea, guilty or nolo contendere.....	679	616
Convicted after trial.....	127	107
Acquitted.....	35	27
Not-prosessed or dismissed.....	100	138

¹ Includes cases dismissed for the following reasons: 17 because of death of principal defendant, 4 because of serious illness, and 50 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.

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

A total of 3,381 cases involving 5,304 defendants were presented to U.S. attorneys with recommendation for prosecution as the result of actions taken against violators of the alcohol, tobacco, and firearms tax laws. (See p. 37 for additional detail.) The number of indictments and disposals for the last 2 years is shown below.

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

Action	Number of defendants	
	1965	1966
Indictments and informations.....	4,908	4,364
Disposals, total.....	5,021	4,615
Plea, guilty or nolo contendere.....	3,696	3,236
Convicted after trial.....	564	569
Acquitted.....	220	202
Not-prosessed or dismissed.....	541	588

* Revised.

YEAR OF CHANGE FOR TAXPAYER DELINQUENT ACCOUNTS PROGRAM

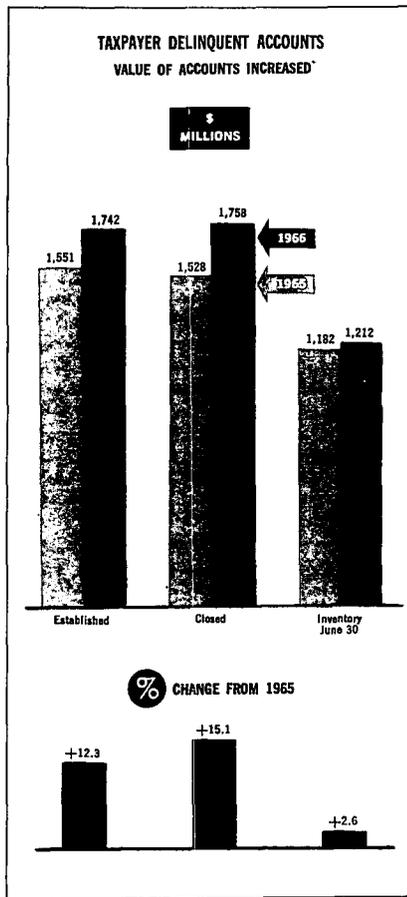
Systemic and Procedural Changes Increase Volume of Accounts Established

Responding to the procedural changes that were set in motion last year and the systemic innovations introduced this year, almost 3 million delinquent accounts were established, an increase of 24 percent over the previous year. While the \$1,742 million of delinquent tax involved was \$191 million higher than that of 1965, the average dollar value per delinquent account was less (\$583 in 1966 versus \$642 in 1965). The increase in the number of delinquent accounts was caused by two factors: (1) A new procedure which altered the pattern so that accounts that would have been established in June 1965 were, instead, established in July, thereby reducing last year's accounts and increasing this year's commensurately; and (2) inception of a new program which expanded the previous prompt collection program to include chronic delinquents and taxpayers having certain specified types of outstanding liabilities. As a result, delinquent accounts which, under normal processing, would have been established in July 1966 were instead established in May and June, thereby raising this year's accounts by almost 200,000.

Almost 2.8 million delinquent accounts were closed in 1966. This was 88,000 or 3 percent below the number closed in 1965. The decline, however, is misleading since the 1966 closings do not include the many accounts which, as a result of procedural changes, were closed on a followup notice to the taxpayer rather than as a delinquent account as was done in prior years. Moreover, the delinquent accounts actually generated were established 5 to 7 weeks later than in previous years. This had the effect of reducing the time available in the remainder of the year for closure action. Further, even though closings were somewhat fewer, the \$1,758 million value of delinquent accounts closed in 1966 was \$230 million greater than the amount of delinquent accounts closed in 1965.

Inventory Still Low Despite Rise Caused by Systemic Changes

The basic procedural and systemic changes which together caused the sharp increase in delinquent accounts established also caused an increase in the



size of the yearend inventory. Last year, a historic alltime low of 530,000 accounts was attained. This year, however, under a new processing system almost 200,000 delinquent accounts were established during the last 2 months of the year which, under prior procedures, would have been established next year. Since not enough time was available in which to close these "last minute" accounts, the increase in yearend inventory to 764,000 accounts compared to

last year's level of 530,000 is inflated. Actually, allowing for the aforementioned "last minute" establishment of accounts, the 1966 inventory level would have been only slightly above last year's, and one of the lowest in history.

Utilization of ADP Has Marked Impact on Programs

As in the case of other programs, the progressive extension of ADP nationwide has had a salutary impact in the delinquent accounts area. As one major example, ADP has enabled the Service to expand its program of prompt collection of underpaid liabilities and dishonored check cases. The ADP service centers now, in addition to sending the local offices accounts involving certain underpaid liabilities and dishonored check cases, are also immediately establishing accounts on chronic delinquents and taxpayers having outstanding liabilities. In the past, the accounts reflected only the liability of the taxpayer for one period and one type of tax. The accounts that are now being established reflect information concerning the taxpayer's tax history that is recorded in the ADP master file. This information enables the local office to make a more systematic check of its own records. The result is that local office employees now have a more complete picture of the taxpayer's problem, and consequently can deal with his delinquencies more effectively.

The ADP system has also made possible development of a program that will deduct unpaid taxes assessed prior to the establishment of the ADP system from any refund due the taxpayer on his individual income tax. This is accomplished by feeding into the ADP Individual Master File a list of individuals who owe income taxes or business taxes for prior years. The Service will then deduct the prior liability and send the balance, if any, to the taxpayer.

As important as any program benefit is a fruitful byproduct to be derived from data processing; namely, the quantitative data required to manage and control the entire delinquent accounts and returns area. Here, the system already contains data such as delinquency notices issued, delinquent accounts established, closures, inventory, etc., of all accounts and delinquency investigations now under the system. Programs and systems for retrieval of the data have been devised and the first machine output is scheduled for August 1966. Thereafter, a testing period will ensue during which time an

evaluation of the machine output will be made for purposes of refining the program, proving the capabilities of the mechanized reporting system, and eventually replacing the more costly manual system now in effect with the relatively inexpensive mechanized system.

The delinquent accounts activity (including activity related to the accelerated collection of underpaid liabilities and dishonored checks) is shown in the following table:

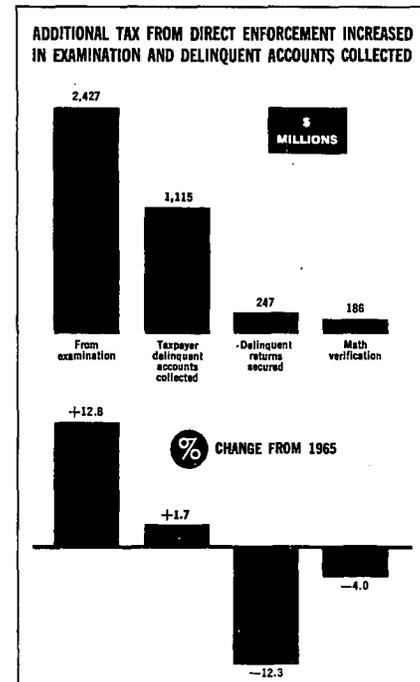
Status	Number (thousands)		Amount (thousand dollars)	
	1965	1966	1965	1966
Established.....	2,417	2,988	1,551,041	1,741,654
Closed, total.....	2,843	2,754	1,528,183	1,758,231
By type of action:				
Collected.....	2,341	2,292	1,034,734	1,067,611
Additional collections.....			60,804	46,919
Other disposals ¹	501	462	432,645	643,701
Pending June 30, total.....	530	764	1,182,110	1,212,451
Accelerated collection of underpaid liabilities and dishonored checks:				
Received.....	148	131	313,082	273,715
Collected.....	104	95	217,371	195,186

¹ Includes disposals due to uncollectibility and erroneous and duplicate assessments.

SUMMARY OF ADDITIONAL TAXES FROM DIRECT ENFORCEMENT

History records few laws that have operated successfully in an enforcement vacuum. This is particularly true of laws imposing taxes. While the American internal revenue laws and regulations stress the concept of voluntary compliance, a wealth of experience makes it clear that there always exists a proportion of the population that attempts to avoid or evade taxes. Successful evasion attempts not only result in an unfair distribution of taxes, but also tend to corrupt the honest into what might be facetiously called "fair share cheating."

The bulk of taxes are collected quite simply and routinely, with no enforcement work required. The enforcement functions of the Service concentrate on maintaining full compliance with the tax laws, collecting any taxes due, refunding any erroneous overpayments, and bringing to prosecution those individuals who have violated criminal aspects of the tax laws. The primary emphasis is on gaining continuing taxpayer cooperation, rather than on an after-



the-fact pursuit of taxes due but not paid. Assessments resulting directly from enforcement, however, are quite substantial. The amount of tax, penalties, and interest assessed in 1966 as a result of these programs reached \$2.9 billion, an increase of \$232.9 million over last year.

Additional assessments resulting from examination of tax returns totaled \$2.4 billion, an increase of \$276.1 million over 1965. These assessments represent liability determined after any appeals action or court litigation, which may delay closing of a case for a year or more, and hence are not comparable with proposed assessments resulting from current year examinations of returns.

The following table shows the source of additional tax, penalties, and interest assessed.

Tax, penalties, and interest resulting from direct enforcement
(In thousands of dollars)

Item	1965	1966
Additional tax, penalties, and interest assessed, total.....	2,628,925	2,862,817
From examination of tax returns, total.....	2,151,187	2,427,329
Income tax, total.....	1,866,230	2,096,201
Corporation.....	1,001,565	1,275,667
Individual and fiduciary:		
Preretand audit.....	107,583	93,000
Regular audit.....	757,083	727,533
Estate and gift tax.....	224,617	269,279
Employment tax (including withheld income tax).....	9,639	10,081
Excise tax.....	50,701	51,769
From mathematical verification of income tax returns.....	194,086	186,244
From National Identity File.....	3,374	2,548
From delinquent returns secured, total.....	281,278	246,696
By district collection divisions.....	220,152	202,697
By district audit divisions.....	61,126	43,999
Claims disallowed.....	278,795	401,122
By district audit divisions.....	189,967	298,265
By regional appellate divisions.....	78,828	102,857
Delinquent taxes collected.....	1,312,909	1,309,716
Accelerated collections of underpaid liabilities and dishonored checks.....	1,095,538	1,114,530
Total.....	217,371	195,186

WORKFLOW IN THE SERVICE AND COURTS

In fiscal year 1966, 104.1 million returns were filed and 3.5 million returns were examined. The time required to perform quality examinations of selected returns and, when required, to conduct fraud investigations, provide appellate service, and participate in litigation proceedings makes it impossible to complete processing of all returns in the year of receipt. The tables which follow provide a comparison of volume on which processing was completed at each administrative level for the current and the last prior fiscal year, even though the return processed may have been filed in an earlier fiscal year. It should be noted that the unit count varies at different levels: Returns filed and audit division activity are recorded on a return basis, while processing in appellate, intelligence, and the courts is on a case basis. A case may involve more than one

return. The major administrative workload involves income, estate, and gift tax returns, especially in the appellate divisions and the courts, hence the following tables are confined to these returns except for returns filed and internal revenue collections:

Workflow in the Internal Revenue Service and the courts, fiscal years 1965 and 1966

Item	Returns	
	1965	1966
Tax returns filed, total.....	102,492,013	104,077,987
Individual income.....	66,964,537	69,724,148
Corporation income.....	1,419,978	1,501,776
Estate and gift.....	215,568	237,059
Employment.....	22,263,607	22,445,558
Excise.....	3,897,887	2,284,218
Other income.....	7,728,436	7,885,228
INCOME, ESTATE, AND GIFT TAXES		
Number of returns examined.....	3,302,873	3,311,131
Returns with adjustments proposed by audit divisions.....	2,249,769	2,275,658
Disposed of by audit divisions:		
Agreed, paid or defaulted.....	1,956,446	1,950,264
Civil cases		
Total received in appellate divisions.....	26,602	27,844
Disposed of by appellate divisions:		
Agreed, paid, or defaulted.....	19,679	23,910
Courts of original jurisdiction:		
Tax Court:		
Total petitioned to Tax Court.....	6,942	7,013
Dismissed.....	284	345
Settled by stipulation.....	4,635	5,104
Settled by Tax Court decision.....	825	778
Decided by Tax Court but appealed.....	368	332
District courts and Court of Claims:		
Total filed in district courts and Court of Claims.....	1,477	1,508
Settled in district courts and Court of Claims.....	79	819
Decided by district courts and Court of Claims.....	473	506
Courts of appeals:		
Settled by courts of appeals decision.....	381	373
Favorable to Government.....	267	290
Favorable to taxpayers.....	79	62
Modified.....	35	21
Decided by courts of appeals but reviewed by Supreme Court.....	22	10
Supreme Court:		
Settled by Supreme Court decision.....	22	10
Fraud cases ¹		
Received for full-scale investigation in intelligence divisions.....	2,307	1,975
Disposed of by intelligence divisions:		
Prosecution recommended.....	1,232	1,169
Prosecution not recommended.....	1,043	1,195
Disposed of by Office of Chief Counsel:		
Prosecution not warranted, including cases declined by the Department of Justice.....	202	252
Prosecutions.....	853	995

¹ Revised.

² Includes excise tax cases

Amounts of revenue involved at each level of the tax system, fiscal years 1965 and 1966

Item	Amount (Millions of dollars)	
	1965	1966
Internal revenue collections, total.....	114,435	128,880
Individual income taxes, total.....	53,661	61,298
Withholding.....	36,840	42,811
Other.....	16,820	18,486
Corporation income taxes.....	26,131	30,834
Estate and gift taxes.....	2,746	3,094
Employment taxes.....	17,104	20,256
Excise taxes.....	14,793	13,398
INCOME, ESTATE, AND GIFT TAXES		
Civil cases		
Additional tax and penalties in cases disposed of in audit divisions by agreement, payment, or default.....	1,269	1,371
Additional tax and penalties in cases disposed of in appellate divisions by agreement, payment, or default.....	195	334
Additional tax and penalties determined by settlement in Tax Court.....	90	112
Additional tax and penalties determined by Tax Court decision:		
Dismissed.....	3	8
Decisions on merits.....	23	18
Additional tax and penalties in cases decided by Supreme Court and courts of appeals.....	15	10
Amount refunded to taxpayers as a result of refund suits.....	37	46
Fraud cases ¹		
Deficiencies and penalties in cases disposed of in intelligence divisions:		
Prosecution recommended.....	72	49
Prosecution not warranted and cases declined by Department of Justice.....	50	60

¹ Includes excise taxes.

Offer in compromise disposals

Type of tax or penalty	Number		Amount (thousand dollars)			
	1965	1966	Liabilities		Offers	
			1965	1966	1965	1966
Offers accepted, total.....	11,094	10,706	28,667	26,575	7,590	6,858
Income, estate, and gift taxes.....	1,068	1,004	15,261	16,745	3,941	3,893
Employment and withholding taxes.....	956	826	7,705	6,383	1,129	1,340
Alcohol taxes.....	78	116	445	347	104	129
Other excise taxes.....	222	157	3,714	1,985	716	438
Delinquency penalties on all taxes.....	2,204	1,673	1,542	1,115	313 ¹	232
Specific penalties.....	6,566	6,920	240	240	240	126
Offers rejected or withdrawn, total.....	4,485	3,789	65,631	74,735	11,870	13,266
Income, estate, and gift taxes.....	1,763	1,572	46,628	56,997	8,313	9,799
Employment and withholding taxes.....	1,279	1,121	11,078	11,134	2,658	2,696
Alcohol taxes.....	85	69	379	226	54	30
Other excise taxes.....	276	234	6,771	5,647	783	574
Delinquency penalties on all taxes.....	1,056	758	775	731	159	164
Specific penalties.....	26	35			4	2

COLLECTION LITIGATION LEGAL SERVICES REQUIRED BY FIELD OPERATIONS

Collection litigation legal services are furnished at both the national and regional level, with the greatest volume of work being performed at the regional level. The attorneys providing the services are primarily concerned with legal work arising as a result of the activities of the district directors' offices, and the divisions of the National Office,

NO SIGNIFICANT CHANGE IN OFFERS IN COMPROMISE WORKLOAD

When it has been determined, after a careful investigation, that a taxpayer is unable to pay the full amount of his tax liability, or there is substantial doubt as to the amount of the liability, the Internal Revenue Code provides a means whereby the liability may be compromised. In certain cases where the agreement concerns present inability to pay the liability in full, the compromise arrangement provides that additional payment will be made in the future if the taxpayer's income exceeds an agreed upon figure.

The overall number of offers in compromise cases processed during the year declined by 7 percent from last year. Total liabilities involved were \$101.3 million, an increase of 7 percent from 1965, but for offers accepted liabilities declined by 7 percent.

A comparative summary of compromise cases closed in the last 2 years follows:

including the Office of International Operations. In general, the services include providing legal opinions in noncourt matters and work in connection with court proceedings. Most collection litigation actions can be disposed of finally at the regional level because of broad delegated authority; however, a substantial segment of work involving initial action by the regional offices is subject to National Office consideration before final action can be taken.

Some Decrease in Courtwork in 1966

The legal work during the year continued at about the same general level of activity reached for the year 1965, but there were decreases in both receipts and disposals. There were 11,565 cases received during 1966 as compared with 12,493 cases received during 1965. Disposals for the year 1966 were 11,491 cases as compared with 12,456 for the year 1965. The inventory of pending cases at the end of the year stands at 5,165, an increase of 74 cases over the 5,091 cases pending at the end of 1965. For a detailed statistical report of case receipts and disposals during the year, see tables 23 through 25 on page 136.

The U.S. Supreme Court decided five cases vitally affecting legal problems in the collection litigation area during the year. Also, the Court granted certiorari in one case decided by the Court of Appeals for the Second Circuit in favor of the Government. There were a number of cases decided by the courts of appeals in some of which petitions for writs of certiorari to the Supreme Court were denied. These decisions relate not only to issues concerning the collection of federal tax claims and tax liens, but also to issues arising in civil summons enforcement cases. Summaries of some of these cases may be found starting on page 99.

Day-to-Day Legal Assistance Important

The statistical data indicate the number of cases handled in the collection litigation area and show generally the types of legal services being performed; however, such statistics do not reflect all of the activities of the collection litigation lawyer. The lawyer performs many other services which are not counted as cases and do not relate to cases. Such noncase work includes rendering day-to-day formal and informal legal assistance to administrative personnel, periodic visitations to district offices and suboffices, and participation as instructors and counselors in training programs for collection personnel.

FEDERAL-STATE COOPERATION SHOWS FURTHER GAINS

Over 80 percent of all taxpayers live in States with which the Service has concluded a cooperative exchange agreement. With the addition of Arizona and Hawaii, 41 agreements, including the one with the District of Columbia, were in force at the end

of the year.¹ Two additional agreements, with the States of Mississippi and New Jersey, were in process of negotiation.

The year was marked by increased attention to the exchange of tax return data through the use of computer-generated tape files. Working with the National Association of Tax Administrators, the Service is seeking a consensus from State tax administrators with respect to a uniform set of data elements to be furnished routinely on magnetic tape to the cooperating States. With the completion in 1967 of the Service's conversion to fully automated data processing, it is expected that the Service will have the capability of providing States timely and useful tax information at reduced costs to both the Service and the States. Additionally, State tax personnel continued to inspect and abstract information from Federal tax returns—totaling approximately 3.5 million returns this year. The interchange of audit abstracts continued to be an effective means for increasing revenue receipts, especially at the State level, and for reducing the number of instances in which a taxpayer is required to undergo an audit of his returns by both State and Federal agencies in the same year. During calendar year 1965 the Service prepared and forwarded to the States 339,000 audit abstracts.

In addition to cooperating with the States in the interchange of tax information, the Service continued its program under Public Law 87-870 of providing training assistance and special statistical services to the States. Seventeen State tax personnel were enrolled in the Service's various training classes. Beside this classroom training, the Service provided the States with 144 sets of training materials and 142 sets of correspondence courses.

ALCOHOL AND TOBACCO TAX PROSECUTIONS PRESSED

In recognition of the importance to effective law enforcement of the prompt and successful prosecution of violators, the alcohol and tobacco tax lawyers in the offices of Regional Counsel maintain a very close liaison with the offices of the U.S. attorneys in their regions. Thus, they can be kept informed as to the prosecution of criminal cases

¹ Agreements are in effect or in process of negotiation with all States except Alabama, Alaska, Connecticut, Georgia, Louisiana, Nevada, Rhode Island, and Texas.

referred and render assistance as requested in drafting pleadings, briefs, libels, and other legal documents. They also are available for legal research and prepare memoranda of law on issues likely to be raised in cases referred for prosecution or judicial forfeiture.

The attorneys in the National Office also keep in close touch with the attorneys in the Department of Justice who handle cases within the alcohol and tobacco tax function so that timely assistance will be available to them if needed.

Similarly, alcohol and tobacco tax attorneys normally participate in training programs for law enforcement personnel and attend regional meetings of investigators and agents when practical. Thus, the individual enforcement officers are made fully aware that legal assistance is readily available to them during the course of investigation as well as thereafter during the review of completed case reports for prosecution of criminal cases.

The alcohol and tobacco tax attorneys review and prepare legal opinions on offers in compromise and petitions for the remission and mitigation of forfeiture filed by those who have an interest in property seized because of its use or intended use in violation of law. During the past year, the Service investigated and acted upon 410 such petitions and in addition recommended action on a number of similar petitions which were filed with the Attorney General with respect to property referred for judicial forfeiture.

ALCOHOL AND TOBACCO TAX ENFORCEMENT CONCENTRATES ATTACK IN HIGH VIOLATION AREAS

Production of Illicit Distilled Spirits—Number One A&T Enforcement Problem

The illicit liquor enforcement problems confronting the Service have not changed materially from those encountered in 1965. In 1966, 82 percent of all illicit distilleries seized were located in the Southeastern States, which historically have been the site of entrenched moonshine activity. There has been no indication of a resurgence of large-scale organized illicit alcohol operations in the metropolitan areas of the Eastern Seaboard States which, in past years, led to enormous losses of revenue.

Slightly over 80 percent of all investigative time during 1966 was used in combating the illicit pro-

duction and distribution of nontaxpaid liquor. Almost 8 percent of investigative time was devoted to enforcement of the laws relating to firearms. The remainder of the investigative effort was expended on other enforcement programs, including assignments to the Intelligence Division in connection with the drive on organized crime.

Seizures and arrests resulting from this application of investigator manpower during 1966 are compared with results of the prior year's work in the following table:

Seizures and arrests for alcohol, tobacco, and firearms violations

Item	1965	1966
Seizures:		
Distilleries.....number.....	5,160	5,273
Sills at distilleries.....do.....	7,432	7,585
Nontaxpaid distilled spirits.....gallons.....	156,544	153,062
Mash.....do.....	3,637,881	3,664,880
Vehicles.....number.....	2,089	1,705
Property (appraised value).....dollars.....	2,486,193	2,133,600
Arrests.....number.....	7,426	6,880

¹ Includes 251 arrests for firearms violations and no arrests for tobacco violations in 1965 compared with 254 and 1 respectively, in 1966.

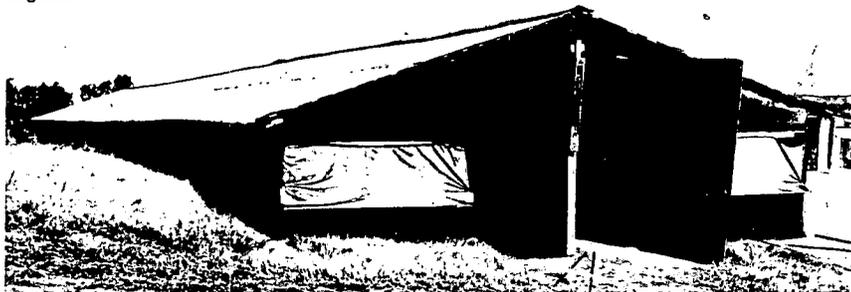
Notes.—Includes seizures and arrests in cases adopted, as well as originated, by the Internal Revenue Service.

Operation Dry-Up Expanded

The 1966 increase in seizures of illegal distilleries of 2 percent and the decrease in arrests of 7 percent are partly attributable to the large-scale diversion of investigative manpower to "Operation Dry-Up," where the initial effort is concerned primarily with the location and destruction of all illicit distilleries in a preselected geographic area and the measurement of violation potential. As a result of these saturation-type raids, and the attendant publicity, the violator is forewarned and often escapes without detection in the early stages of the program.

This program, used successfully in one Southeastern State for the past 3 years, was extended to include a second Southeastern State in October 1965. The program contemplates an intensified effort toward elimination of commercial-type illicit liquor activity. Its success in the first State where it was instituted is attested to by the increase in sales of legal, taxpaid alcoholic beverages and the virtual elimination of large-scale illicit distilling operations in that State. In essence, the program consists of the application of unremitting pressure on the violator by an enlarged force of mobile investigators. Tied in with this concentration of investigative manpower is an all-out effort to secure the active support of enforce-

Illicit distilleries are concealed in a variety of protective disguises.



However, the filthy clutter of an illicit distillery is almost universal.

ment officers and prosecutors at all levels—local, State, and Federal. Another principal feature is the intensive use of radio, television, and other news media to call attention to the health hazards in drinking moonshine whisky and to solicit the cooperation of the public in reporting suspected violations. The program has already produced results which are encouraging in the limited time it has been in operation in the second State.

CHEMICAL ANALYSES AND RESEARCH STRENGTHEN LAW ENFORCEMENT

The National Office laboratory has continued to keep abreast of advances in the field of chemical analysis and instrumentation, so that new techniques and procedures can be successfully utilized in carrying out work in the area of alcoholic beverages, industrial products produced from or with alcohol, specially denatured alcohol articles, and miscellaneous nonalcoholic items subject to excise taxes.

Since the initial introduction of neutron activation analysis into Federal courts by the Internal Revenue Service, this technique has gained widespread recognition. Neutron activation analysis has been successfully used in handling such physical evidence as opiate drugs, synthetic narcotics, marihuana, barbiturates, tranquilizers, soils, paints, metals, gunshot residues, brans, coins, illicit alcohol, waters, and other items. In 1966, a total of 1,006 samples were examined by neutron activation analyses.

Successful application of atomic absorption spectrophotometry to analytical problems has resulted in a more efficient use of manpower and a reduction in time required for each analysis.

Gas chromatography has proved its usefulness as a backup and screening instrument, along with neutron activation analysis, in the development of court testimony. Work is continuing on the development of quantitative control methods for use in permissive work as well as in other areas of interest.

Service laboratories analyzed 9,260 samples of illicit spirits and 5,360 samples of narcotic drugs

in 1966. During the preceding year, 8,769 illicit spirits samples and 5,088 narcotic samples were analyzed. Statistics on laboratory work required by the Service's regulatory function are presented on page 42.

FIREARMS ACTIVITY INCREASED

There was an increase in manpower expenditures on the Firearms Program during 1966. Investigations of violations of the National and Federal Firearms Acts resulted in 466 criminal cases, 251 arrests and the seizures of 87 vehicles and 839 firearms. In addition, 13,783 inspections were conducted of the records of persons and businesses holding Federal Firearms Act licenses. This inspection activity is exhibiting multifold results; it allows for a systematic approach to weeding out those holders of Federal Firearms Act licenses who are not, in fact, bona fide dealers; it has greatly encouraged compliance with the recordkeeping provisions of the act by bona fide dealers; and, perhaps most important, it has provided local enforcement officials with a helpful tool for use in policing local firearms laws. The program is proving highly useful in acquainting the public in general and the small dealer in particular with the requirements of law relative to firearms thus enabling them to avoid technical violations. Reports from many local law enforcement officials indicate that information referred to them under this program has been of value in keeping guns out of the hands of the criminal element and has, in many instances, been directly instrumental in allowing them to trace weapons used in committing a crime.

A factor relating to the increase in manpower expenditure on the firearms program is the emphasis placed on suspected violations of the National Firearms Act by various extremist and paramilitary groups. Intelligence sources have reported large stockpiling of all types of weapons: handguns, machineguns, artillery, and explosives. Investigation of these reported violations is continuing.

SUPERVISION OF THE ALCOHOL AND TOBACCO INDUSTRIES

MANUFACTURED TOBACCO TAXES REPEALED

The repeal of the 103-year-old Federal tax on manufactured tobacco (smoking tobacco, chewing tobacco, and snuff) became effective on January 1, 1966, and concurrently, internal revenue controls on manufactured tobacco were terminated.

Effective on the same date, internal revenue controls over tobacco materials were discontinued. Tobacco may now be handled in any manner at any place so long as such handling does not result in a taxable tobacco product (cigar or cigarette).

DISTILLED SPIRITS REGULATORY STUDIES MOVE AHEAD

Proposed Draft of Revised Regulations Covering Labeling and Standards for Distilled Spirits Issued Informally

In June 1965, a Distilled Spirits Standards and Labeling Survey Committee was established to re-appraise regulations issued under the Federal Alcohol Administration Act. On May 25, 1966, the Committee draft was released containing a complete regulation proposing many substantive changes in the labeling, advertising, and standards of identity of distilled spirits (27 CFR Part 5). Drafts of the proposals were furnished members of the industry in Industry Circular No. 66-9. An important adjunct to this study has been the addition to the Committee's agenda of an exploration into the aging of neutral spirits through storage in reused cooperage. The proposals are completely informal at this time.

The Committee will continue its work in 1967, and is now considering suggestions submitted by various industry groups in connection with the proposed changes in regulations.

Two Public Hearings Held

A public hearing was held on January 11, 1966, concerning proposals to amend 27 CFR, Part 6, Inducements Furnished to Retailers. A Treasury Decision is expected in the near future which will clarify

the "gray area" surrounding the meaning of certain sections of present regulations.

Public hearings were held in April 1966, to elicit information pertaining to any aging effect on specially distilled neutral spirits resulting from storage in reused cooperage.

ACTIONS TAKEN RELATING TO INDUSTRY OPERATIONS

Label Applications Approved and News Media Monitored for Advertising Practices

Under the provisions of the Federal Alcohol Administration Act, 53,341 applications for label approval, and exemption from label approval, were processed by the National Office during the year. The increase in this activity from the previous year (47,454 applications) is due primarily to the increased activity in private labeling.

The act also imposes certain requirements in the field of advertising as a means of supplementing the controls established for the labeling of alcoholic beverages. To measure the degree of compliance with these requirements, 18,856 advertisements placed in newspapers and magazines were examined and 2,669 broadcast or televised commercials were reviewed by the National Office. Although approval of advertising prior to publication or dissemination is not required, 1,094 proposed advertisements and projected advertising campaigns were given advance review by the National Office as a service to industry members.

Permits Issued, Formulas Processed

In the National Office, 20 permits to use tax-free spirits and 12 permits to use specially-denatured spirits were issued to Government agencies. The National Office processed 1,203 formulas for rectified products and 259 formulas for wine during the year. This represents an increase in formula approvals of 339 over last year, when 925 rectification formulas and 198 wine formulas were processed.

Plant and Permittee Qualifications Numbered Nearly 20,000

The offices of Assistant Regional Commissioners, Alcohol and Tobacco Tax, approved 19,860 original and amended permits, notices and applications which authorized their holders to engage in various

types of business utilizing alcoholic beverages, industrial alcohol, cigars and cigarettes.

ON-PREMISES SUPERVISION WORKLOAD INCREASED BUT COST REDUCED

As depicted by the chart on page 42, since 1957 production at distilled spirits plants requiring supervision has continued to increase. During the same period, applied man-years have dropped from 728 on-premises officers to 395 during 1966. The reduction in man-years reflects the continuing trend away from immediate supervision, resulting from the Service's simplifications in plant control concepts.

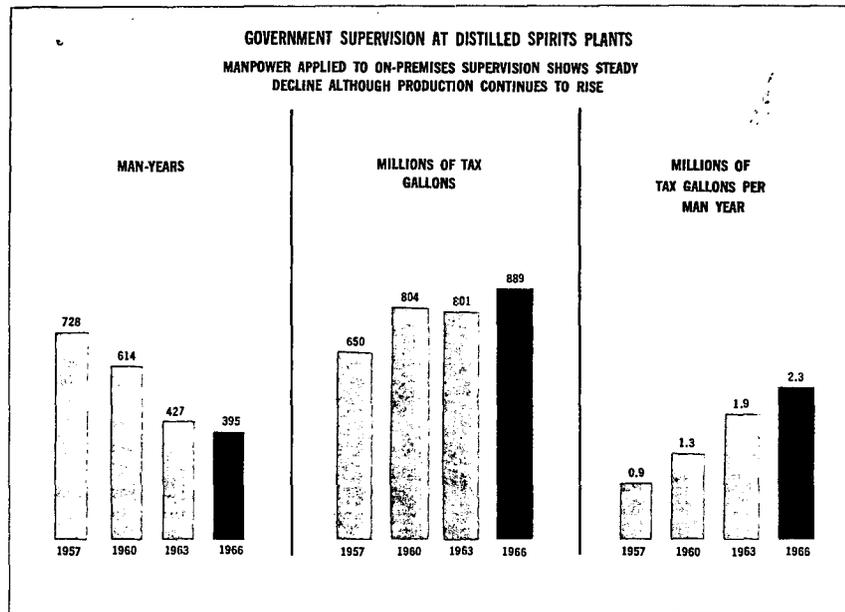
Distilled spirits plants requiring on-premises supervision produced 889.3 million tax gallons of distilled spirits during 1966. Tax-free withdrawals of spirits amounted to 630.9 million tax gallons, of which 576.4 million were denatured. Distilled spirits in bonded storage at the close of the year amounted to 1,098.6 million tax gallons. The production of rectified products totaled 98.8 million proof gallons, and 264.7 million wine gallons of distilled spirits were bottled during 1966.

Emphasis Placed on Quality Inspections

The inspection program covers on-site examination of records, equipment, processes, and premises of 18 different types of establishments, including many that embrace a variety of operations in one plant. The program is geared to operate closely with a technical office staff which analyzes operating reports and pinpoints possible trouble areas for the attention of inspectors.

During the year a total of 31,080 inspections were completed compared to 30,552 in 1965. Of the total completed, approximately 43 percent were revenue-related inspections while the remaining 57 percent were regulatory in nature. Emphasis continues to be placed on the conduct of high-quality, audit-type inspections.

Breweries subject to inspection produced 109.7 million 31-gallon barrels of beer. Wineries subject to inspection produced 267.0 million gallons of still and effervescent wines, 5.0 million gallons of vermouth, and 16.5 million gallons of special natural wines other than vermouth. Tobacco products factories, also subject to inspection, produced 7.5 billion large cigars, 474.7 million small cigars, and 562.7 billion cigarettes.



LEGAL AND LEGISLATIVE ACTIVITIES

The legal work of the Service is performed in the Office of the Chief Counsel. In the technical area, the Chief Counsel renders opinions to officials of the Service on substantive legal questions. The legal staff prepares drafts of proposed regulations implementing the tax laws and participates in the rule-making process involving these regulations. The Office also contributes greatly to the Treasury Department's legislative program (see p. 45). For a discussion of the regulations program, see Chapter 1, page 7.

In the litigation area, the Chief Counsel represents the Commissioner in trying and helping to settle cases docketed in the Tax Court of the United States. The legal staff also furnishes advice relating to refund litigation, collection litigation, criminal enforcement, alcohol and tobacco tax, and firearms matters. Statistics on legal activities are shown in tables 18-25 on pages 134 to 136. Criminal prosecution cases, legal services in the collection litigation area, and legal work in alcohol, tobacco, and firearms matters are shown under Chapter 4, Enforcement Activities. Important court actions are reported in the Appendix beginning on page 99.

SLIGHT INCREASE IN CASELOAD INVENTORY

Caseload receipts in the Chief Counsel's Office during 1966 were 27,215, down 1,885 cases from 1965. The disposals of total caseload were 26,270, a decrease of 1,281 from 1965. At the end of the year the pending total caseload was 23,793, an increase of 945.

THE GOVERNMENT SUCCEEDS IN MAJORITY OF CIVIL CASES

The Supreme Court rendered decisions in six refund suits during the year (one opinion covered three related cases). The Government's position was sustained in four of the decisions. The taxpayers won the other two cases. The Supreme Court decided three cases originating in the Tax Court against the Commissioner and remanded a fourth case after enactment of legislation which provided special relief for the taxpayers.

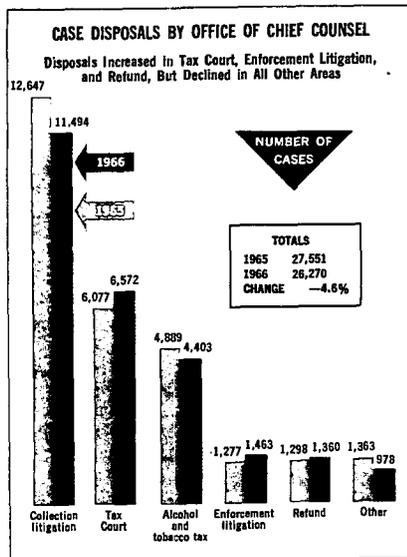
CHEMICAL ANALYSIS MADE FOR REGULATORY WORK

The national and regional laboratories analyzed a total of 38,645 samples in 1966. The number analyzed during the preceding year was 38,589. The majority of these analyses were made in connection with regulatory functions but some were required by enforcement work in the Service and other Treasury Department Bureaus. (See p. 39.)

In the National Office laboratory, 2,671 new formulas using taxpaid (nonbeverage) alcohol in foods, flavors, and medicines were approved and 772 samples were examined. Comparative statistics for 1965 are 2,452 formulas approved and 724 samples examined. Manufacturers using specially de-

natured alcohol submitted 4,551 formulas, 5,656 samples, and 10,606 labels for approval this year. Last year 4,682 formulas, 4,834 samples, and 12,485 labels were submitted. The following table indicates the general increase in the volume of work generated by the processing of formulas by the Alcohol and Tobacco Tax Division:

Formulas	1965	1966	Percent change
Rectified products.....	925	1,203	+30.1
Wine.....	198	259	+30.8
Nonbeverage products and medicines.....	2,452	2,671	+8.9
Specially denatured spirits products.....	4,682	4,551	-2.8
Total.....	8,257	8,684	+5.2



The Government won, in whole or in part, 311 of the 373 decisions rendered by the circuit courts of appeal in civil tax cases (exclusive of collection litigation and alcohol and tobacco tax legal matters). See table 21, page 135.

The record of Government wins, losses, and partial wins in the trial courts (Tax Court, Court of Claims and U.S. district courts) follows:

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

Action	Tax Court		Court of Claims		District Courts	
	1965	1966	1965	1966	1965	1966
Won.....	235	207	40	37	215	247
Lost.....	84	79	13	17	145	152
Partially won.....	179	150	15	4	45	42
Percent won or partially won.....	83	82	81	71	64	65

In the trial or settlement of cases in the Tax Court, proposed deficiency assessments totaling \$327.3 million were successfully defended. In refund suits in the Court of Claims and the U.S. district courts, the Government's position in \$47.8 million of amounts claimed for refund was successfully defended. A total of \$375 million of revenue was thus saved for

the Government in these cases. At the end of the year, \$1.6 billion was involved in taxes and penalties being contested in trial courts (see table below and tables 18 and 20, pp. 134 and 135.

Taxes in Litigation
(In thousands of dollars)

Status	Total	Tax Court		Refund litigation
		Deficiencies	Overpayments	
Pending July 1.....	1,454,208	1,027,882	57,307	364,044
Received.....	690,655	536,533	15,555	138,567
Disposed of.....	562,812	447,843	20,874	94,095
Pending June 30.....	1,582,250	1,123,551	52,983	405,716
Amount saved.....	375,078	310,121	17,155	47,802

TORT CLAIMS DECREASE

The Service acted on 167 administrative claims for damages resulting from negligence of Service employees acting within the scope of their employment under the Federal Tort Claims Act, compared with 201 such administrative claims disposed of last year. The Service assisted the Treasury Department in drafting its regulations under the Military Personnel and Civilian Employees' Claims Act of 1964. After the issuance of these regulations, the Service acted on 18 claims under this Act.

An administration bill, H.R. 13650, which has passed both Houses of Congress, will become law next year.¹ This bill amends the Federal Tort Claims Act to require tort claims, regardless of amount, to be submitted to the administrative agency concerned for consideration before suit may be instituted, and provides the agency with authority to dispose of claims up to \$25,000 in amount. The agency may settle claims for amounts over \$25,000 with the approval of the Attorney General. This bill undoubtedly will result in a substantial increase in the number and dollar amount of tort claims to be handled by the Service.

REVENUE LEGISLATION ASSISTANCE PROVIDED

The Service continued to play a significant role in the development of legislation relating to internal revenue matters by providing technical assistance to the other offices of the Treasury Department, to the committees of the Congress concerned with tax mat-

¹ Enacted as Public Law 89-506, July 18, 1966, effective January 1967.

ters and, on occasion, to other executive agencies. This technical assistance was performed by many means but principally by (1) preparing information reports, technical reports, drafts of bills and accompanying technical explanations, and other data relating to legislative matters, and (2) attending public hearings and congressional committee meetings. Much of this activity was directed toward legislation which was enacted by the Congress during the year or was still pending at the close of the year.

To assist the Assistant Secretary for Tax Policy in the formulation of the Treasury Department's legislative program, the Service carried out a number of its own research and study projects to develop information about tax administrative problems, and to suggest ways and means of simplifying certain areas of the tax law and removing unintended benefits or inequities. The Service also considered and evaluated comments on tax laws and suggestions for improvements which were advanced by taxpayers and their congressional representatives.

Fourteen draft reports and technical memoranda were prepared for the Treasury Department on legislative proposals in the alcohol, tobacco, and firearms area. The Service prepared comments for departmental use on 10 other legislative proposals in connection with alcohol, tobacco, and firearms functions.

More Effective Regulation Sought Over Interstate Traffic in Firearms

The President, in his message to Congress on national strategy against crime, recommended the enactment of S. 1592, a bill to amend the present Federal Firearms Act so as more effectively to regulate the interstate shipment of firearms and to prevent state controls over the traffic in firearms from being nullified or evaded by interstate shipments. The Service, in preceding years, had actively assisted in drafting the bill. The Subcommittee to Investigate Juvenile Delinquency of the Senate Judiciary Committee held hearings on S. 1592 and the House Ways and Means Committee held hearings on identical House bills (H.R. 6628 and H.R. 6783). After coordination with other interested agencies, at the request of the legislative committees, assistance was rendered in drafting language to revise the bill so as to reflect the views and suggestions of members and others interested.

S. 1591 and companion House bills, H.R. 6629

and H.R. 6782, would amend the National Firearms Act by including "destructive devices" such as bombs, rockets or launching devices within the control provisions of the Act and by doubling the rate of each of the taxes now imposed by that Act. As in the case of the President's proposals to amend the Federal Firearms Act, these bills reflect, to a great extent, the efforts of the Service for several years to effect needed amendments to the National Firearms Act. The House Ways and Means Committee held hearings on this proposed legislation at which the Under Secretary and the Commissioner appeared in support of the legislation.

Important Legislation Completed During Year

By far the most important enactment during the year from the standpoint of impact on most taxpayers was the Tax Adjustment Act of 1966 (Public Law 89-368). This Act contained a number of provisions which will have a far-reaching effect on the collection of the income tax. One of the most significant features, which resulted from a suggestion made by the Commissioner at a Cabinet meeting in the Spring of 1965, imposes graduated rates of withholding of income tax collected at the source on wages. As a result, the collection of income tax from almost every wage earner in the United States will be affected. For many taxpayers, this will cause the amount of income tax withheld from their earnings throughout the year to come very close to equaling their tax liability as ultimately shown on their tax returns. Thus, while the overall tax liability of an individual will not be increased by this provision, the income tax will be collected on a more timely basis throughout the year.

The Tax Adjustment Act also provided for an acceleration in the amount of the quarterly payments of estimated income taxes by certain corporations. Ultimately, this will bring the affected corporations into a pay-as-you-go system similar to that now provided for estimated income tax payments by individuals. Another significant feature of the Act was the provision for the postponement of certain excise tax rate reductions. Other provisions related to the combining of estimated self-employment tax and income tax in the declarations of estimated tax, and to the disallowance of deductions for certain indirect contributions to political parties, such as expenses of advertising in convention programs.

Another Act which affected tax matters was the Social Security Amendments of 1965 (Public Law 89-97). Among the more significant tax aspects of this Act are the provisions relating to an increase in the social security tax, and the inclusion of tips as wages for purposes of the social security employee tax and income tax withholding. Such treatment of tips will have a widespread impact on people employed in the service industries, such as waiters, cab drivers, and barbers.

Eight public laws affecting the Service's alcohol and tobacco tax function were enacted. Of particular interest is Public Law 89-184 which authorizes the Secretary of the Treasury to waive a statutory bar to the issuance of a license under the Federal Firearms Act if he determines that such action would not be contrary to the public interest and that the applicant would be likely to conduct his operation in a lawful manner.

A number of other public laws having an effect on tax matters were enacted during the year, the following being of particular interest:

Public Law 89-212, relating to an amendment of the Railroad Retirement Act of 1937 and the Railroad Retirement Tax Act.

Public Law 89-243, the Interest Equalization Tax Extension Act of 1965.

Public Law 89-352, relating to the exemption of certain nonprofit corporations operated to provide reserve funds for domestic building and loan associations.

Public Law 89-365, relating to the tax treatment of certain amounts paid to servicemen and survivors.

Public Law 89-384, relating to the recoveries of foreign expropriation losses.

Public Law 89-389, providing for the repeal of subchapter R and amendment of subchapter S of the Internal Revenue Code of 1954 relating, respectively, to the election of certain partnerships and proprietorships as to taxable status and the election of certain small business corporations as to taxable status.

Several Tax Bills Pending

Some of the more important tax bills which had been passed by the House at the end of the year and were awaiting Senate action were:

H.R. 10, relating to limitations on contributions of self-employed individuals to pension plans, etc.

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

H.R. 4665, relating to exploration expenditures in case of mining.

H.R. 13103, the Foreign Investors Tax Act of 1966.

Additionally, two bills had been passed by both the House and the Senate by the close of the year and were awaiting the approval of the President. These bills were H.R. 136, relating to the priority of liens in bankruptcy, and H.R. 3438, relating to limiting priority and nondischargeability of taxes in bankruptcy.¹

Legislative Implementations

An important function of the Service, related to that of assisting in the development of legislation, is to implement the tax legislation once it has been enacted. Implementation includes the issuance of new and amendatory regulations, revisions of tax return forms and instructions, issuance of publicity primarily through news or technical information releases, revisions of Service publications, and the issuance of special instructions and procedures to the field offices. (For a fuller discussion of some of these programs, see Chapter 1 and the Appendix.)

INCREASES NOTED IN INTERPRETATIVE ACTIVITIES

Interpretative activities increased substantially during the year. Cases formally referred to the Interpretative Division by the Assistant Commissioner (Technical) and by litigation divisions in the Office of Chief Counsel increased from 708 last year to 763 and dispositions increased from 664 to 759. Continued efforts were made to improve legal services to the Assistant Commissioner (Technical) by the use of informal consultation. Written procedures were finalized to carry out recommendations to this effect by a study group appointed by the Under Secretary of the Treasury and experimental procedures were instituted in the informal clearance of revenue rulings. During the year many areas of substantive tax problems were extremely active including especially those relating to insurance companies, exempt organizations, foreign transactions, cooperatives, and corporate stockholder relationships.

¹ Both of these bills were signed into law shortly after the close of the year.

LEGAL STAFF DECREASES SLIGHTLY

As of June 30, 1966, the Chief Counsel's Office employed 1,251 persons, with 616 attorneys and 635 nonattorney employees. This represents a decrease of six attorneys and an increase of one nonattorney employee from last year. Attorneys were assigned to the National Office and regions as follows:

Office	Number of attorneys
National Office.....	243
Central Region.....	45
Mid-Atlantic Region.....	59
Midwest Region.....	55
North-Atlantic Region.....	71
Southeast Region.....	42
Southwest Region.....	38
Western Region.....	63

INTERNATIONAL ACTIVITIES

Chapter 7

INTRODUCTION

The important and sensitive overseas affairs of the Service continued their growth during this year. Tax modernization teams working in foreign countries were expanded to 19 during the year from the 17 teams of last year. Tax conventions were negotiated with seven countries during the year with respect to four new conventions, two protocols supplementing existing conventions, and one convention to replace the one presently in force.

FOREIGN TAX ASSISTANCE PROGRAM

The Foreign Tax Assistance Program became operative in 1963 honoring a pledge made by the Secretary of the Treasury at Punta del Este in 1961. The program extends to developing countries of the free world requested technical assistance in tax administration. To insure coordination of the wide variety of functions included within the program, the Foreign Tax Assistance Staff, which is responsible for this program, is an organizational part of the Commissioner's Office. The Staff's activities are conducted in collaboration with the Agency for International Development, Department of State.

Tax Assistance Teams Increased

Tax assistance teams are established overseas to help tax officials of foreign governments in devising and installing modern methods of tax administration. During the past year, two new long-range teams were assigned, one in Argentina and the other in Honduras. As of the end of June, there were 19 teams active overseas. In prior years, teams were assigned to India, the Philippines, and South Korea, and in Latin America to Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Nicaragua, Panama, Paraguay, Peru, and Uruguay. In addition, agreement was reached to establish a regional office for Central America and Panama.

A total of 69 long-term advisors are assigned to these teams. An additional 44 short-term advisors were detailed abroad this year for 54 special projects

in 17 countries. A survey of tax administration requirements was completed in South Vietnam, as a prelude to establishing a long-term team in that country. Final arrangements are also being made toward assignment of a team in Turkey.

Seminar Held for Inter-American Tax Administrators

A high point of the year was a 3-week, Inter-American Seminar for Directors-General of Taxation, held in Washington in the Spring of 1966. Twenty-seven of the principal tax administrators from 17 countries participated. This was the first opportunity for these top level officials to meet and work together. The immediate objectives of the seminar were to provide an effective forum for the exchange of experiences and concepts in tax administration, and to familiarize the participants with the Service's operation in the National Office and in the field.

As a direct result of this seminar, plans were initiated to form a permanent association of the principal tax officials of the Western Hemisphere. An organizing committee, composed of members from Chile, Mexico, Panama, Uruguay, and the United States, with the assistance of the Foreign Tax Assistance Staff, has started work on a plan of organization.

Visits by 319 foreign tax officials from 58 countries during the year helped to emphasize the worldwide scope of tax administration problems. Several officials from the United States participated by invitation in a special conference conducted by the Mexican tax administration for its upper level tax officials.

Foreign Language Training Programs in Operation

This year marked the beginning of a regularly scheduled series of International Tax Training (INTAX) seminars and courses for the officials and managers of tax agencies of developing countries. This series, developed jointly by the Foreign Tax Assistance Staff and Training Division, covers the development, operation, and management of tax programs, including audit, collection, taxpayer relations, training, and data processing. Most of the courses and seminars held this year were conducted in Spanish for the 128 persons who attended.

The success of this first year of operation has confirmed the desirability of expanding the INTAX

series. Seminars and courses have now been scheduled through 1970, and will be offered in French, English, and Spanish, while special courses are also scheduled to be given in Portuguese.

Mobile instructor teams, first used last year, were used this year to furnish intensive on-site audit training to revenue agents in Bolivia, the Dominican Republic, and Honduras. The mobile instructor team concept will be broadened to cover collection and other areas for future operations.

TAX CONVENTIONS WITH SEVEN COUNTRIES NEGOTIATED

During the year, the Service participated in 11 negotiations with 7 countries regarding income tax conventions. Five of the discussions took place in Washington and six took place abroad. These negotiations were directed to the conclusion of four new conventions, two protocols supplementing conventions already in existence, and one convention replacing an existing one.

Supplementary protocols to the income tax conventions with the Federal Republic of Germany, the Netherlands, and the United Kingdom were signed and received the consent of the Senate to ratification in 1966. The Senate also consented to the ratification of a protocol supplementing the income tax convention with Belgium which had been signed in the previous year. On December 27, 1965, the instruments of ratification of the protocol with the Federal Republic of Germany were exchanged and the protocol entered into force.

INTERNATIONAL OPERATIONS REORGANIZED TO KEEP PACE WITH INCREASED INTERNATIONAL ACTIVITY

Program Activity Broadened

Increased U.S. involvement in international affairs places a comparable increase on the importance of maintaining effective Service programs to encourage voluntary compliance with U.S. tax laws by its citizens residing abroad and by nonresident aliens and foreign corporations receiving income from U.S. sources. To keep pace with this increased international activity, the Service improved and expanded compliance programs and initiated procedures to improve the administrative provisions of the 22 income tax conventions and 14 estate tax

conventions between the United States and foreign countries. Under the delegation order to act as the Government's Competent Authority under these treaties, the Office of International Operations (OIO) continued to be active in the administration of the tax conventions of the United States.

Complex Audit Problems Involving International Area

In addition to action required to receive and process returns, and collect or refund tax, there was a full range of audit activity in which approximately 20,000 returns were examined. Approximately \$23 million in tax deficiencies and penalties resulted from these examinations. The examinations involved many complex problems pertaining to international taxation. Because of the complexity of the international provisions of the tax laws and the special treatment of tax under particular tax treaties, there was a much greater percentage of requests for taxpayer assistance in proportion to total returns filed than are ordinarily received in connection with the same number of domestic returns.

New Foreign Posts at Rome and Tokyo

New foreign posts at Rome and Tokyo were activated during 1966. Nine foreign posts are now in existence to handle Service affairs in overseas areas. Prior to 1966, foreign posts were already in operation in Paris, London, Ottawa, Mexico City, Sao Paulo, Manila, and Bonn.

To service foreign posts, a cadre of highly qualified persons has been established. Because of their varied functions, all cadre members are given intensive training courses in all Service functions. In addition, they attend Department of State orientation and language courses. Such training is important since these individuals represent the Service in all functions necessary within their geographic areas. The representative at Paris was requested to head a working party within the Organization for Economic Cooperation and Development (OECD) in Europe to investigate the possibility of standardizing forms and administrative procedures under the treaties.

Information was furnished in 328 collateral reports in response to requests by districts, regions, and National Office components for information needed from foreign countries in connection with compliance activities of these offices.

Assistant Commissioner (Compliance) Confers With Foreign Tax Officials

The Assistant Commissioner (Compliance) attended the European Regional Conference of the International Criminal Police Organization (Interpol) in Rome, in May 1966. While in Europe he took the opportunity to confer with foreign tax administrators in Rome, Bern, Bonn, Paris, and London. In addition, he held discussions with American Embassy officials and Service personnel stationed in those areas. While in Bonn the Assistant Commissioner presented a 100-year-old income tax return to the German tax officials for display in the Tax Museum of the German Finance Academy.

OIO Realigned for Added Functions

The increased activity in the international tax area coupled with additional functions assigned, necessitated a realignment of the organizational structure and functions of OIO.

Among the additional functions assigned are: (1) Determining the amount of relief from economic double taxation under Revenue Procedure 64-54; (2) functioning as International Coordinator to the Assistant Commissioner (Compliance) in all matters in the international area, including recommending and furnishing guidelines in the international enforcement program of the Service; and (3) accumulating and analyzing data involving foreign tax laws for use in treaty matters and other aspects of international transactions involving U.S. taxpayers.

The Research, Tax Treaty, and Technical Services Division was created under the realignment to administer the major portion of these additional functions.

U.S. Taxpayers Overseas Assisted for 13th Consecutive Year

For the 13th consecutive year, U.S. citizens residing abroad were furnished assistance during the filing period under the Overseas Taxpayer Compliance Program. To supplement the four agents assigned to this program from foreign posts, 18 Service employees visited 118 cities in 51 countries, plus Guam and the Canal Zone. A total of 41,000 taxpayers were assisted.

The Office of International Operations and the Judge Advocate General of the Army jointly sponsor an annual military income tax school program involving the instruction each year of approximately

1,000 servicemen in 10 tax schools in Europe and the Far East. OIO materially contributes to this program by supplying all of the instructors and the course of instruction for these schools. Tax assistance rendered within the military community by the graduates of these schools serves the needs of upwards of two-thirds of our Armed Forces abroad. Hence, these jointly operated military tax schools significantly increase the ability of the tax assistance program to reach Americans wherever they may be located in the world.

Competent Authority Function on Increase

There has been an increase in the number of issues that OIO, as the Government's Competent Authority under tax conventions, has been called upon to resolve. An increase in the number of informal inquiries received on treaty matters before the cases have reached the point where they can be referred to the Competent Authority, gives indications that a continued increase in Competent Authority cases can be expected. The number of informal inquiries received indicates a definite need for publication of policies and procedural rules for use in applying for relief from double taxation. Proposed publications on this subject are being prepared for consideration within the Service and by the Treasury Department.

Special Programs Initiated To Identify U.S. Taxpayers

Various foreign laws and practices in the international area preclude the use of many of the taxpayer compliance programs ordinarily used by district offices. Sharp increases in recent years of U.S. persons employed or engaging in business ventures in foreign countries have necessitated research to find new approaches to effective taxpayer compliance programs abroad.

One of the problems has been to identify U.S. persons having an interest in foreign corporations. Prior to the amendment of section 6046 of the Internal Revenue Code by the Revenue Act of 1962, very little information was available on foreign corporations in which U.S. persons had an interest or about the U.S. persons who owned them.

During this year, 2,862 additional foreign corporations were identified. This brings the current inventory of foreign corporations in which U.S. persons have an interest to 29,411. The information on U.S. persons with an interest in foreign corporations

will be used to identify persons who have potential tax liability through their investments in these foreign corporations.

To promote filing compliance by U.S. persons residing abroad, a program was initiated to identify U.S. citizens who apply for or renew passports. These individuals are requested to complete an information document, Form 3966, identifying the office where their tax returns were filed for prior years. It is estimated that under the new procedure approximately 150,000 Forms 3966 will be received annually. Under present plans the information obtained from the program will be utilized for delinquency checks through facilities available under automatic data processing.

Taxes and the Economist

Continuing assistance on complex economic problems encountered in tax cases is provided by OIO economists. Such assistance has received increasing attention and acceptance within and without the Service. Courts are accepting sound economic approaches for solving problems relating to section 482 allocation adjustments. This indicates that principles of economics are compatible with judicious administration of tax laws.

Mitigation of Economic Double Taxation

Claims filed for relief from economic double taxation resulting from adjustments made between related entities under section 482 are being processed in accordance with section 3 of Revenue Procedure 64-54. Twenty-four claims representing 65 tax years were received. These cases involved \$6.5 million in income adjustments, and \$3.4 million U.S. tax attributable to these adjustments. Offset claims totaling \$2 million have been filed under Revenue Procedure 64-54 against the additional tax of \$3.4 million.

A related procedure, Revenue Procedure 65-17, permits the taxpayer to file a claim to repatriate from the foreign affiliate the amount of the section 482 adjustment without such amount being taxed as a distribution of earnings and profits from the foreign entity. Only 8 of the 24 claims filed with OIO under Revenue Procedure 64-54 also contained claims under Revenue Procedure 65-17.

The effective period covered by these two revenue procedures was advanced to taxable years beginning

prior to January 1, 1965. This extension is expected to increase the number of claims filed under both of the revenue procedures.

Foreign Investments in the United States

Information reported on more than 12,000 Form 1042 returns filed with the Office of International Operations continues to indicate growth in the amount of foreign investment in the United States. While the basic purpose of Form 1042 is to summarize only the nature and amount of income paid and tax withheld at the source from foreign persons, the forms also provide Treasury with actual statistics for use in their fiscal projections as details of the nature of foreign investment in the United States is available from nearly 500,000 documents (Forms 1042S, 1001, and 1001 (treaty series)) which accompany the Forms 1042.

These forms provide OIO with information for delinquency checks on alien taxpayers. They also provide the means by which information is sent to treaty countries to comply with the automatic exchange provisions of the treaties. In return, OIO receives a large number of documents from treaty countries permitting the Service to verify the reporting practices of U.S. citizens receiving income from foreign sources.

The following table is an analysis of the tax withheld from nonresident alien entities:

Tax withheld from payments to nonresident alien entities of treaty and nontreaty countries, calendar year 1964

Country	Number of information documents	Thousand dollars		Total
		Tax withheld by domestic withholding agents	Tax from foreign governments or withholding agents	
Total.....	443,827	100,127	20,301	120,428
Treaty countries:				
Australia.....	2,702	321		321
Austria.....	944	109	(*)	109
Belgium and overseas territories.....	9,304	1,937	197	2,134
Canada.....	171,606	19,849	908	20,757
Denmark.....	1,377	122	(*)	122
Finland.....	157	12		12
France.....	26,108	3,287	35	3,322
Federal Republic of Germany.....	11,290	1,687		1,687
Greece.....	2,054	171		171
Honduras.....	500	25		25
Ireland.....	2,732	343	3	346
Italy.....	5,972	721		721
Japan.....	1,516	422	(*)	422
Luxembourg.....	67	68		68
Netherlands.....	4,839	5,950	273	6,223
Netherlands Antilles.....	2,535	1,959	23	1,982
New Zealand.....	688	66		66
Norway.....	3,486	156		156
Pakistan.....	130	9		9
Sweden.....	3,063	471		471
Switzerland.....	31,329	22,190	18,759	40,949
Union of South Africa.....	845	227		227
United Kingdom and overseas territories.....	47,809	26,158	102	26,260
Nontreaty countries by Forms 1042S.....	77,408	13,199		13,199
Treaty and nontreaty countries by coupon bond information documents.....	35,326	698		698

* Amount too small to report. Included in the totals on the first line.

PLANNING ACTIVITIES

EFFECTIVE TAX ADMINISTRATION REQUIRES EXTENSIVE PLANNING

The size and complexity of the Federal tax system make extensive planning a prerequisite for effective tax administration. Overall program planning activities are directed at both short- and long-range needs of the Service and are centered on the formulation of a comprehensive multiyear plan reflecting the objectives and resource requirements for all functional areas.

New approaches to improve the Service's operations and to reduce the compliance burden on taxpayers are developed through an intensive research effort. Basic information with respect to the operation of the tax laws is provided through the statistical reporting program for use in tax studies and legislation by the Congress, as well as for the Service's own research and planning needs. A continuing program is conducted for the purpose of reducing costs and increasing efficiency in the Service's data processing operations and other internal systems.

PLANNING - PROGRAMING - BUDGETING SYSTEM PROVIDES FOR REVIEW OF PROGRAM OBJECTIVES, ACCOMPLISHMENTS, COSTS, ALTERNATIVES

New System Installed To Improve Program Management

Introduction of a new Planning-Programing-Budgeting System throughout the Executive Branch was announced by the President on August 25, 1965. The new system is designed to improve the quality of agency planning and resource allocation through a continuous review and analysis, on a cost/benefit basis, of program objectives and the various alternative means of meeting these objectives.

Provisions for comprehensive long-range operational and financial planning were established in the Revenue Service in 1956. A Long-Range Plan has been prepared and updated annually since 1959 to provide an overall view of the Service's long-term program objectives and resource requirements. The new PPB System replaces the Long-Range Plan

with a multiyear "Program and Financial Plan" and supporting "Program Memoranda," which require more extensive analyses of program objectives, performance, costs and benefits, and alternatives. However, the experience and capabilities developed under the earlier system have facilitated the change-over to the PPB System.

The new PPB System is designed to:

- (1) Make available to top management definitive data relevant to broad decisions;
- (2) Spell out more concretely the objectives of IRS programs;
- (3) Analyze systematically and present for review and decision alternative objectives and programs to meet these objectives;
- (4) Evaluate thoroughly and compare the benefits and costs of programs;
- (5) Produce total rather than partial cost estimates of programs;
- (6) Present on a multiyear basis the prospective costs and accomplishments of programs;
- (7) Review objectives and conduct program analyses on a continuing, year-round basis, instead of on a crowded schedule to meet budget deadlines.

The Program and Financial Plan and the Program Memoranda together comprise the Service's long-range plan and, subject to continuing modification and updating, serve as the basis for planning the general level of operations and the accompanying allocation of resources. For example, the 1966 editions of these two documents describe the specific program objectives over the period 1968-72 and will serve as the basis for determination of budgetary planning levels for the fiscal year 1968 budget estimate to be developed during the early part of fiscal year 1967.

Short-Range Work Plans Are Developed From Program and Financial Plan

Another important phase of the Service's planning activities is the development of work plans for the year immediately ahead. These are based on the Program and Financial Plan and Program Memoranda mentioned above but they provide a more detailed breakdown of program objectives and priorities. Current goals, workloads, and performance measurements for the principal activities are provided by detailed work planning and control systems and by integrated reporting systems.

After enactment of congressional appropriations, appropriate adjustments are made in the program plans for the coming year. Resources to carry out the programs are then allocated to the various activities of the Service as part of the Operating Financial Plan.

Planning Studies Also Cover Organizational Needs

Organizational planning during the year was concentrated on the problem resulting from the transfer of returns processing and accounting functions from the district offices to the regional service centers. While this transfer is being phased in over a period of years, the eventual result will be a radically reduced processing operation in the district offices. Taxpayer assistance and enforcement functions will continue to be handled at the district level and, due to intensive efforts to reassign and retrain personnel affected by the transfer, it is expected that no employees will be involuntarily separated or transferred on account of these adjustments. However, the organizational status of the eventually small remainder of returns processing and accounting functions in the districts remains to be determined. Several discussions of this problem were held during the year between national, regional, and district officials, with particular emphasis on pending legislation to authorize the direct filing of tax returns in regional service centers.

Further Increases Expected in Number of Returns Filed.

Projections of the number of tax returns filed continue to be one of the more valuable tools used by officials in making long-range estimates of the Service's workload. The steady, upward trend in the volume of returns filed has been maintained in recent years and the outlook for continued growth in the Nation's population, labor force, and economy indicates further substantial gains in the number of returns. An indication of the impact of the expanding economy is shown in the expected increase in the number of individual returns in the Adjusted Gross Income \$10,000 and over class—a twofold increase in the 10-year period from 1965 to 1975.

The total number of returns filed during the calendar year 1965 was approximately 102 million, representing an increase of over 13 million returns during the last 10 years. Projections recently prepared for long-range planning purposes indicate

that the number of returns filed will reach 113 million by 1970 and will exceed 125 million by 1975. The accompanying table shows the national projections for selected types of returns.

Selected types of returns filed in 1965 and projected for calendar years 1966, 1970, and 1975

Type of return	Actual 1965 ¹	Projected		
		1966	1970	1975
Total returns.....	102,140	103,599	113,473	125,030
Individual, total.....	66,226	68,812	74,891	82,913
AGI under \$10,000 ²	56,782	57,942	59,850	61,476
AGI \$10,000 and over.....	9,433	10,870	15,041	21,437
Corporation, total.....	1,477	1,550	1,844	2,246
Form 1120, total.....	1,297	1,344	1,543	1,819
Assets under \$50,000 ³	574	594	682	801
Assets \$50,000 under \$1,000,000.....	644	657	767	906
Assets \$1,000,000 or more.....	79	82	94	111
Form 1120S.....	160	184	270	387
Form 1122.....	20	23	31	41
Employment.....	22,368	22,734	24,362	26,511
All others ⁴	12,069	10,503	12,376	13,350

¹ Data by size class are estimated.
² In addition to Forms 1040 and 1040A, includes Forms 1040C, B, NB, NBa, 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.

DIVERSIFIED RESEARCH PROGRAM EXPLORES ADMINISTRATIVE PROBLEMS

The Service's advanced research program was directed toward exploring a broad spectrum of administrative problems inherent in a large and changing tax structure. Studies related to broadening and improving the coverage of the information reporting system and sample surveys of compliance in the reporting of various specific types of income were undertaken as possible means to improving taxpayer compliance.

Indicative of its expanding activities, the research staff was increasingly called upon to assist the Treasury Department in developing its legislative program and in pinpointing the alternative administrative costs and benefits under current tax laws compared with various legislative proposals.

Graduated Withholding System Is Developed

Alternative plans of withholding of income taxes from wages were examined in order to design a system of graduated withholding which would more effectively synchronize withholding with actual tax liability. This system of withholding, which was en-

acted as part of the Tax Adjustment Act of 1966, will minimize the burden on taxpayers of additional year-end payments because of underwithholding as well as reduce hardships for many low-income taxpayers due to overwithholding.

In place of the prior flat 14-percent withholding rate, the new graduated withholding system provides for withholding at six graduated rates. These rates will bring withholding closely in line with the actual tax due on wage income up to the level of \$12,000 for single taxpayers and up to \$24,000 for married couples, whose deductions are approximately 10 percent of income or who take the minimum standard deduction. These income levels encompass the first nine tax brackets and rates in the tax rate schedules for single and married persons. For people above this income level with deductions of approximately 10 percent of income, withheld and actual taxes will be more closely related than under the previous system. Moreover, the minimum standard deduction is now reflected in the new withholding system through an increase in the value of the personal exemptions for withholding purposes and a zero withholding rate on \$200 of wages on an annual basis. This change will appreciably reduce overwithholding for those employees who use the minimum standard deduction, particularly those with income falling in the first two income tax brackets.

Under the new system, it is estimated that the number of returns with overwithholding will drop from 39.8 to 32.7 million, the number with underwithholding will decrease from 12.5 to 9.7 million, while the number of "break-even" returns (with withholding within \$10 of liability) will increase from 10.8 to 20.7 million. In terms of estimated dollar amounts, the new graduated withholding system is expected to reduce overwithholding by \$800 million and also reduce underwithholding by \$1,105 million.

Information System Studies Promote Increased Use of ADP Facilities

In connection with improving the information system, several studies were directed toward facilitating the integration of information document programs with the increasing capabilities of the Service's automatic data processing system. Prominent among these were studies designed to: (1) Determine what changes need to be made in the dividend reporting rules in order to secure compatibility be-

tween data on income tax and information returns; (2) develop methods to facilitate and stimulate better compliance with the taxpayer identifying number requirements on information documents by both payees and payers; (3) develop more efficient and effective approaches to matching information documents to tax returns; and (4) extend the information reporting system to cover amounts paid to recipients of agricultural program payments by the Department of Agriculture.

One result of the latter study was an agreement whereby the Department of Agriculture will provide the Service with information returns on magnetic tape covering payments made to farmers under the major agricultural conservation and commodity stabilization programs.

Sample-type studies were undertaken to estimate the degree of taxpayer compliance in reporting specific types of income, including: (1) Capital gains from the sale or exchange of corporate securities; (2) interest income from the redemption of Series E savings bonds; (3) dividend and interest income shown on information returns; and (4) wage income from domestic employment.

Measurement of Taxpayer Compliance Aids in Program Evaluation

To permit more effective program design and evaluation, and to meet the demands for a long-range research program which would further the objectives of long-range planning and other tax administration requirements, the Service has implemented a Taxpayer Compliance Measurement Program (TCMP). TCMP is gathering new data in three tax administration areas: (1) Delinquent accounts; (2) delinquent returns; and (3) individual returns filed. Plans are being developed to cover corporate returns filed. Outputs from 1963 delinquent accounts and delinquent returns programs have been tabulated and analyzed. Field audit work for the 1964 individual returns filed program has been completed, and its output tabulations are scheduled to begin in the early part of fiscal year 1967. The 1966 programs of delinquent returns and individual returns filed are in operation. Additionally, a new segment of the delinquent returns program covering farm operators has been planned for the Central Region in 1967.

Tangible results have already been obtained from the 1963 delinquent accounts and delinquent re-

turns programs as described in last year's report. Additional benefits from the delinquent accounts study are planned in fiscal year 1967 through the use of master file processing controls to reduce the time spent by field collection personnel in handling small delinquent accounts. Approximately 70,000 accounts will be processed under the new procedure in fiscal year 1967, releasing about 70 productive man-years for other work. The delinquent returns program results have been put to further use in designing a procedure for effective use of master file information to increase the productivity of revenue officers in canvassing operations.

In anticipation of the availability in fiscal year 1967 of TCMP data from individual returns filed, the Service has started a new research project to use mathematical techniques to develop a more effective ADP procedure for selecting from the 66 million individual returns filed annually those most urgently in need of examination. Utilizing previous research data, two selection (discriminant function) formulas have been developed for selecting low-income single proprietor returns, and a field test has been installed to ascertain the effectiveness of these formulas in comparison with existing selection procedures.

If present expectations are realized, the ADP selection via the formula approach 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) determining the adequacy of the Business Master File as a delinquent returns check; (3) disclosing pockets of delinquent returns noncompliance for systematic followup by enforcement personnel, educational programs and other indicated tax administration methods; and (4) developing an effective ADP selection procedure for more than 66 million individual returns filed annually. In addition to the increased efficiency expectations outlined above, TCMP will help clarify overall tax administration needs by providing new data indicating the sizes of the various kinds of tax-return-filing delin-

quency problems among farm and nonfarm business taxpayers, and the tax error problems of both individual and corporate 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.

Administrative Implications of Present and Proposed Tax Laws Are Evaluated

An analysis of information reporting provisions of the Internal Revenue Code, with a view toward identifying areas that might benefit from amendatory legislation, is indicative of the type of analysis the research staff was requested to furnish in order to improve tax administration. As a means of administratively reconciling relations with foreign tax entities, researchers developed procedures for Service certification of evidence of U.S. residence for withholding on foreign-source dividends subject to withholding, and conducted a study to determine the ownership characteristics of resident foreign corporations.

In connection with consideration of proposals for possible inclusion in the Treasury Department's future tax legislative recommendations, the research staff furnished analyses and comments on the administrative aspects of such proposals.

Statistical Reporting Provides Data for Tax Studies and Other Research Purposes

During 1966 the Internal Revenue Service continued to prepare statistics for use in analyzing the operation of the Federal tax system for both revenue estimating and tax research purposes. Input data for these statistics were derived from samples of the tax returns filed during the year. Substantial cost benefits are realized by utilizing tax returns as basic source documents to obtain information on sources of income, deductions, assets, and liabilities, and significant characteristics of taxpayers. 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 sec-

tion 6108 of the 1954 Internal Revenue Code. A list of these reports published during the year may be found on page 107. A few summary statistics related to topics covered in these reports follow.

The 1963 Individual Income Tax Return Report contains data on sources of income, exemptions, and tax items, presented by States and for the 100 largest standard metropolitan statistical areas. The State tables show, for example, that one out of every four individual tax returns filed was from California, New York, or Pennsylvania. These States accounted for 31 percent of the individual income tax reported. Of particular interest in the report for 1964 individual income tax returns is that while adjusted gross income in 1964 amounted to \$397 billion, an increase of almost \$28 billion over 1963, income tax after credits dropped over 2 percent from 1963 to a little more than \$47 billion. This was due to the lower tax rates effected by the Revenue Act of 1964. Another statistic of the 1964 report worthy of comment is that the number of returns with itemized deductions declined by 1.3 million returns from 1963. The decline reflects the provision of the 1964 law which introduced a new minimum standard deduction. Prior to the law change, the proportion and number of taxpayers itemizing deductions had been increasing.

The table on page 58 presents, for a 5-year period, some of the overall summary information contained in the Statistics of Income reports for individual taxpayers.

The 1963 Corporation Income Tax Return Report reflects several "firsts" attained by U.S. industry. U.S. corporations for the first time reported receipts of \$1 trillion on their income tax returns. Profits before taxes reached a record \$54 billion and cash distributions to stockholders exceeded \$21 billion, another high. The investment credit claimed by corporations in 1963 rose to \$1.1 billion, up 33 percent over 1962, the first full year for which the credit was allowed, when \$834 million was claimed.

The U.S. Business Tax Returns Report for 1963 presents, for the first time, data on the use of the investment credit provisions of the law, by both corporate and noncorporate businesses. For 1963, investment credit reduced total income tax liability by nearly \$1.4 billion. Other new data, which measure the effect of a recent change in the law, are for deductions claimed by sole proprietors on

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

Item	Income year				
	1960	1961	1962	1963	1964
(Thousands)					
A. Number of returns					
All individual returns, total.....	61,028	61,499	62,712	63,943	65,376
Taxable.....	48,061	48,583	50,092	51,323	51,306
Nontaxable.....	12,967	12,917	12,620	12,620	14,069
Returns with itemized deductions, total.....	24,083	25,262	26,451	28,154	26,910
Taxable.....	22,785	23,258	24,351	25,828	25,009
Nontaxable.....	1,298	2,004	2,100	2,326	1,900
Returns with standard deductions, total ¹	36,945	36,238	36,261	35,789	38,466
Taxable.....	25,876	25,325	25,741	25,495	26,297
Nontaxable ¹	11,069	10,913	10,520	10,294	12,169
(Million dollars)					
B. Sources of income					
Adjusted gross income, total.....	315,466	329,861	348,701	368,778	396,660
Salaries and wages ²	257,918	266,902	283,373	299,443	323,266
Business, farm, and profession.....	21,072	22,630	23,925	23,872	25,628
Dividends in adjusted gross income ³	9,530	9,890	10,640	11,452	11,917
Interest received.....	5,057	5,683	7,155	9,212	10,125
Partnership.....	8,966	8,949	9,344	9,313	9,731
Capital gains.....	5,300	7,621	5,771	6,449	7,939
Other income.....	7,624	8,187	8,491	*9,037	*8,055
(Million dollars)					
C. Itemized deductions					
Itemized deductions, total.....	35,313	38,391	41,661	46,053	46,832
Taxes.....	10,526	13,045	13,045	14,071	14,071
Interest paid.....	8,416	8,416	10,274	12,457	12,457
Contributions.....	6,750	7,516	7,516	8,227	8,227
Medical and dental expenses.....	5,219	6,079	6,079	7,095	7,095
Other deductions.....	4,402	4,402	4,747	4,747	4,882

Note.—Returns classified as taxable are those reporting income tax after credits.
¹ Includes returns with no adjusted gross income.
² For 1960-63, reduced by sick pay exclusion and certain employee business expenses.
³ For 1964, gross salaries are shown.
* Excludes dividends and interest reported on Forms 1040A, and for 1961, excludes

certain Forms 1040 with less than \$200 of dividends or interest.
⁴ Reduced by self-employment pension deduction of \$19,483,000.
⁵ Reduced by sick pay exclusion of \$22,233,000, employee moving expenses of \$92,635,000, employee business expenses of \$2,238,028,000, and self-employed pension deduction of \$26,383,000.

their tax returns for contributions to self-employed retirement plans.

The 1962 Fiduciary, Gift, and Estate Tax Returns Report presents extensive data on these three little-known kinds of Federal tax returns—all related to personal wealth. The 1962 report continues the classification of estates by size of gross estate and presents a new classification by size of economic estate; that is, gross estate less debts and mortgages. Also new in the report are separate figures on funeral expenses and the various administrative expenses.

The 1960 Supplemental Report on Depletion Allowances for Mineral Production Reported on U.S. Tax Returns completes a study initiated in 1962 to provide background material on the operation of the depletion provisions of the Revenue Code. The report contains information on the composition of depletion allowances, income, and expenditures related to mineral production. Statistics are shown for various minerals and statutory percentage deple-

tion rates, industries, operating and nonoperating interests, and foreign and domestic properties.

Tax Models Yield Data Needed for Legislative Changes

The Service is continuing to make extensive use of Statistics of Income tax models for tax research. The 1962 model which is based on a sample comprised of 100,000 individual income tax returns was developed to provide fast and reliable estimates of the revenue effect of changes in tax laws and their administration. The model was used extensively in making estimates of revenue that would be received under varying graduated withholding rates on salaries and wages. These model estimates laid the groundwork for Code changes which were effected by the Tax Adjustment Act of 1966 (Public Law 89-368).

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. The model tape file will contain a sample of 95,000 returns (stratified by size of adjusted gross income) from the population of 66 million individual income tax returns filed for 1964. The file is a subsample of the regular 470,000 returns used to produce Statistics of Income. The data record consists of 67 items from the individual return form—virtually all of the income, deduction, exemption, and credit information required for tax computation. In addition, codes indicate such essential characteristics as sample class, filing district, form of deduction, marital status, and the use of certain special provisions of tax law.

Studies Undertaken for Other Agencies

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, 12 projects were completed, with the estimated cost of the projects ranging from \$300 to \$7,100. The major users have been other Federal Government agencies, State and local government agencies, universities, private individuals, companies, and research organizations. In addition, 69 requests for material from the Source Book of Statistics of Income were filled, consisting of approximately 850 photostats or microfilm prints and 78 rolls of microfilm.

Statistical Processing Operations Transferred to Data Center

Many of the activities that relate to the Statistics of Income program are now being performed at the Detroit Data Center. Beginning January 1, 1966, the Center started the clerical processing of the Statistics of Income sample of Forms 1065, 706, 709, 1041, 1120L, and 1120M. In addition, the processing of the data from all returns used in the Statistics of Income sample will be handled on computers located at the Data Center. Thus, on some of the returns used in 1965 Statistics of Income, data will be edited, keypunched, checked, and tabulated all at one central location. This centralization of activities is expected to result in several benefits. Whereas, in the recent past, the various computer tests for statistical consistency in the data for each return were carried out at a site far removed from that at which the editing had taken place, these tests

can now be made at the same location as the editing and, where necessary, the returns can be used to check out questionable items. This should help to produce better quality data and perhaps shorten the processing cycle, thereby permitting the sample returns to be sent back to the district offices earlier for audit and other uses.

SYSTEMS DEVELOPMENT CONTINUES EMPHASIS ON OPERATIONAL IMPROVEMENTS

Good progress was made during the past year on a number of developmental projects directed specifically toward reducing ADP systems' costs and increasing operating efficiency. Major attention was given to projects relating to input preparation, a process which represents the largest single item of cost in the Service's total ADP operations. Concurrently, work was continued in developing improved management information systems and in furthering plans for designing a conceptually new ADP system capable of satisfying needs not met by the present system.

Lower Cost Input Methods Are Tested

In dealing with the problem of finding more economical and efficient ways for converting input documents to a form acceptable for computer processing, input documents are grouped into two broad classes: (1) Those which may be received in machine language without human transcription; and (2) those which require human transcription.

(1) *Machine-language inputs.*—Analysis and evaluation of the results of the pilot magnetic tape reporting program was completed. Under this program, a small number of payers submitted 1964 Forms W-2 and 1099 information on magnetic tape on an experimental basis. The test proved the practicability and advantages of this form of information reporting and led to the establishment of an operational tape reporting program beginning with 1965 payment information filed in calendar year 1966. Approximately 18 million Forms W-2, 1099, and 1087 were filed on magnetic tape by payers under the new program and this number is expected to double for the succeeding payment year.

Progress was also made on projects directed toward developing systems for handling several types of high-volume documents which lend themselves to magnetic tape conversion through the use of

optical scanning devices. Specifications were developed for a scanning system, designed to handle documents prepared within the Service and which can be printed or typed under controlled conditions. These documents are primarily taxpayer bills and other notices which are returned to the Service and are then reentered into the master file processing operations. A relatively simple and inexpensive optical scanning device can be used to read these documents. An invitation to propose such equipment for the Service's consideration was issued on July 27, 1965, to manufacturers of this type of equipment and several proposals were received in September 1965. Evaluation of these proposals led to the selection of a single-font scanning system for use in a pilot operation to be conducted at the Southeast Service Center beginning in September 1966. If the test is successful, plans will go forward for the acquisition and installation of additional scanners for other service centers. Substantial savings can be expected to result from elimination of the need for key punching and key verifying the documents involved.

Another set of specifications was developed for a scanning system capable of handling a large segment of the approximately 200 million information returns (Forms W-2, 1099, and 1087) which will be filed annually on paper forms rather than magnetic tape during the coming years. A more complex scanning device is required to handle these forms since they are ordinarily prepared on a variety of printers or typewriters, without Service control of the imprinting. An invitation to bid on such a system was issued to manufacturers in March 1966, with proposals due to be received in July 1966. Assuming that a selection of a supplier is made, a pilot operation will be conducted at the Southeast Service Center beginning in September 1967. As in the case of the single-font scanner, results achieved during the pilot operation will determine whether or not additional systems will be acquired for the other service centers.

(2) *Inputs requiring human transcription.*—This class of documents contains principally tax returns which are not suitable for magnetic tape reporting or direct optical scanning because of complexities of content or format. A request for proposals for furnishing equipment to the Service for the initial transcription, verification, and conversion to tape of data contained on returns was issued on

December 17, 1965. Ten manufacturers submitted proposals in April 1966. Evaluation of these proposals and selection of a supplier (assuming one is selected) would lead to the installation of pilot equipment in January 1967 for testing at the Southeast Service Center. If justified by test results, a complete system would be installed and put into operation in the Southeast Service Center during the Fall of 1967. The decision to replace the present system of key punching and key verifying tax returns will not be made unless the new system can achieve a substantial reduction in manpower requirements, sufficient dollar savings to recover the cost of new equipment within two to three years, and a substantial reduction in the floor space now allotted to transcription.

Improvements Sought in Management Information Systems

Projects in this area continued to move forward during 1966. Steps were taken to effect improvements in systems established in the prior fiscal year and to expand these systems to accommodate additional functions. This was particularly true with respect to information systems serving the appellate, legal, administrative, and IR-Manual activities.

(1) *Appellate and legal information systems.*—The principal development during 1966 was the perfecting of a comprehensive automated reporting system for appellate nondocketed cases. This system has been tested and will become fully operational for 1967. It produces statistical tables which will replace both the manually-prepared statistical reports previously submitted by the appellate branch offices and unpublished and published analytical tables hitherto prepared manually in the National Office. The appellate nondocketed case reporting system also produces legal issue tables consisting of a listing of cases by issues, with a summary by major issue categories of receipts, disposals, and inventory in terms of cases, work units and dollars; a listing of cases by offices and case numbers; and a cumulative list of closed cases by issue. It also provides a utility table for nonrecurring reports as needed. A task group of representatives of Planning and Research, Data Processing, Appellate, and Chief Counsel have also developed a comprehensive integrated reporting system for docketed cases, which will measure outputs for both Appellate and Counsel, replacing all manually-prepared reports and statistics. It also

will expand and improve the existing legal-issue tables on docketed cases. Considerable further developmental work will be required before this system can become operational.

(2) *Personnel and payroll system.*—A recommendation for the installation of a computer-based system for meeting personnel management information and related operational requirements was approved this year. The recommendation includes a provision to integrate the input processing of personnel and fiscal data to provide the advantages available through the use of a single input source. Approval of the plan for development and the allocation of necessary funds led to the establishment of a work group which will develop the system requirements and prepare the procedures necessary to test and install the new system. A pilot operation will first be undertaken in one of the regions prior to Servicewide implementation. Further information about this system will be found on p. 69.

(3) *IR-Manual Index.*—This project, designed to develop a system that will make access to Internal Revenue Manual material more complete and rapid, has progressed to a point where feasibility of applying the Key-Word-in-Context (KWIC) indexing techniques has been established. This technique develops a computer-produced alphabetical index of key subject words and provides for complete identification of manual locations of the subject matter being searched. During 1966, a KWIC index for IR-Manual, Part I (Administration), was prepared and distributed for testing. Reaction from all regional and National Office officials was generally favorable and additional indexes will be prepared for the remaining parts. Once established, the system will provide for periodic updating of each section.

Plan Is Developed for Future ADP System Study

A study plan was developed during 1966 which specifically describes the approach to be taken in identifying information requirements and processing functions necessary to administer and enforce the tax laws and regulations. These requirements and functions correlate directly with tax administra-

tion program and operating objectives and are the basis for determining the degree to which advanced technology available in the data processing field should be built into an ADP system designed to meet these objectives.

The study plan distinguishes between two classes of objectives: Those which are systemic by nature, i.e., they relate to the procedural and performance aspects of the system and have to do with such elements as requirements for processing speeds, accessibility of data, facility to disseminate information and response time; and those which are programmatic by nature in that they are oriented toward missions of the Service. These include objectives presently being met by the master file system and several not now being met but worthy of consideration as desirable goals. The latter would provide for (1) integration into the master file system of information required to satisfy management and statistical reporting needs; (2) indicators needed to show the status of accounts with respect to such legal and technical functions as appeals, litigation, interpretation, and special investigations; (3) access to tax account and tax-base data which might be useful in carrying out taxpayer assistance functions; and (4) uniform procedures for meeting the Service's obligations under Federal-State interchange programs.

Analyses of the total system information requirements, in terms of characteristics of the data, sources of data, and processing steps required to transform these data into the desired form, together with the attendant time constraints, will form the basis for the development of system specifications. This refinement and synthesis of requirements will then permit a determination of the extent to which available technological developments in the data processing and communication fields will contribute to meeting the overall objectives of the contemplated system.

The study plan proposes that the first phase of the project, that of identifying and describing system objectives and data requirements, be assigned to functional task forces which will generally follow existing organizational lines. Organization and activation of these task forces is planned for 1967.

MANAGEMENT ACTIVITIES

Chapter 9

SERVICE EXCEEDS 1966 COST REDUCTION GOAL

Managers and supervisors throughout the Service made concerted efforts during the year to improve the efficiency of programs and operations and to insure that maximum results were obtained for every dollar spent. The theme of personal stewardship of public funds and excellence in the public service has become an accepted "way of life" within the Service. Application of this theme is continually being demonstrated in seeking out methods and means for doing work better at the same or less cost. The Bureau of the Budget directive that "Government business will be conducted in accordance with the same exacting standards that apply to the most expertly managed private business" is accepted as a challenge for further improvement by Service officials.

Specific actions taken to improve efficiency and reduce costs resulted in tangible savings of \$14.4 million—nearly 12 percent over the goal (\$12.9 million) established at the beginning of the year.

Future Cost Reduction Goals Reflect Continuing Increases

The previously established cost reduction goal for 1967 of \$13.0 million has been revised upward to \$14.5 million, to reflect a continuation of the outstanding accomplishments in 1966.

Looking ahead another year, the Service is projecting anticipated savings of \$14.6 million in 1968 from cost reduction and management improvement actions to be taken in 1967 and 1968. Since projected savings are deducted in advance from Service budget submissions, managers and supervisors are continually challenged to effect improvements and economies which will permit them to carry out effectively their assigned responsibilities with limited resources.

Categories of Reported Savings

Actions aimed toward improving efficiency and reducing costs are grouped for reporting purposes under four broad categories. These categories, and

MANAGEMENT ACTIVITIES

the savings accruing in 1966 under each, are indicated below:

Category	1966 savings (in thousands)
Increased productivity and efficiency.....	\$3,598
Substitution of less costly alternatives.....	4,547
Continuing management programs (incentive awards, reports, position management).....	4,507
Special expenditure reductions (canceled expenditures).....	1,763
Total.....	14,415

Within these broad categories, many individual actions are involved, ranging from employee suggestions to management studies of broad scope and complexity. Specific examples of individual actions completed and implemented are described below and elsewhere within this report.

Use of ADP To Identify Returns in Need of Audit Action

Computers in regional service centers are programmed with criteria to identify income tax returns having characteristics that indicate audit potential. The returns so identified by the computer are then manually inspected to select those most in need of audit. Computer classification greatly reduces technical time needed in selecting returns for audit.

In 1966 approximately 13 man-years or \$102,000 were saved with five regions participating in the program. Increased savings are anticipated in 1967, when the program is scheduled to become operational nationwide.

Organization Structures Streamlined

During the year a number of changes were made in the alcohol and tobacco tax organizational structure in the field to promote efficiency and economy in operations. Branch offices at Buffalo, N.Y.; Charleston, W. Va.; Omaha, Nebr.; and Milwaukee, Wis., were closed following determinations that the effects of these actions would not prove detrimental to alcohol and tobacco industry operations or law enforcement activities.

The plan to consolidate local office collection force organizations into one or two central organizations for each district was continued during the past year. Over 80 such consolidations were made resulting in savings of 86 man-years and \$590,000. In addition, processing work is being shifted to one or two central locations in each district where the

advantages of bulk processing will be realized. Since the duties connected with contacting taxpayers have not been removed from these local offices, the service offered by them to the taxpayer has not been reduced.

Expanded Temporary Assistor Staffing

Limited tests started in 1965 were expanded during the last filing period to determine the feasibility of using temporary employees to perform certain taxpayer assistance duties which formerly were handled by permanent technical and semitechnical employees detailed from other activities. Evaluation of test results showed that the 44 temporary man-years employed for this purpose released at least 33 technical man-years for productive enforcement activities, without a decrease in the quality of assistance rendered. Savings in salary differential totaled \$97,000. For 1967, 150 temporary man-years have been authorized for similar taxpayer assistance work.

Automated Sorter Expected To Expedite Mail Handling in Service Centers

An automated mail sorter designed specifically for use in Internal Revenue Service Centers has been delivered to the Southeast Service Center. The prototype has been tested and will be fully operational on a pilot basis in 1967. Nicknamed "SCAMP" (Service Center Automated Mail Processor), the principal feature of this machine is an ability to read preprinted code markings on the face of the return envelope included in the income tax package mailed to each taxpayer at the end of the year. The preprinted code markings are different for each district office and for each type of return enabling the mechanical sorting of the coded envelopes by district into the three categories of 1040 nonbusiness, 1040 business and farm, and 1040A. SCAMP is expected to process these envelopes at the rate of 30,000 per hour, maintaining an automatic count by district and return category, and transporting them to personnel who extract the returns and other contents. An electronic candling device guards against failure to remove documents from envelopes. An additional feature, still in the developmental state, is the automatic detection of bank check remittances by sensing the magnetic ink on the enclosed checks and separating this mail from nonremittance returns.

Magnetic Tape Rehabilitation Saves Over \$5 Per Reel

A magnetic tape rehabilitation function has been put into operation at the National Computer Center. The equipment which has been acquired enables the Computer Center to clean, repair, and test all tapes as necessary. Tapes will be shipped from the service centers and the IRS Data Center to the Computer Center for this service.

It is anticipated that 90 percent of all regular tapes in inventory can be restored to prime processing condition at a cost of approximately \$1.50 per reel. By comparison, the rehabilitation of tape through commercial sources runs from \$7.00 to \$11.00 per reel, depending on contract quantities. More important, rehabilitation is effective low-cost insurance against tape failure in critical processing operations.

Processing of Information Document Data on Magnetic Tape From Payers Proves Practicable

Pilot project testing during 1966 has proved the practicability of receiving from employers and payers magnetic tape records concerning Form W-2 wage and tax data, and Form 1099 or 1087 information return data. The pilot test involved receipt, from 70 participants, of about 18 million data records on 599 reels of magnetic tape, of which 44 reels required translation to a recording code compatible with Service equipment.

Substantial savings to the Service will result since transcribing data from millions of paper documents to punched cards and subsequent conversion of data to magnetic tape is eliminated. Savings to payers include elimination of specified paper information return copy previously filed with the Service, although a paper document still must be furnished to the employee or payee. A combination of unduplicated magnetic tape records and paper returns also is acceptable.

A new revenue procedure specifying acceptable tape formats and other details has been issued in response to over 900 inquiries during the year. Cooperation between pilot test participants and the Service has been most gratifying this year.

Preaddressed Labels Speed Return Processing

A two-part "piggyback" mailing label is affixed to Form 1040 individual and Form 1120 corporation income tax returns. Both parts, one on top of the other, bear the taxpayer's name, address, and

account number as shown by the master file. If the taxpayer does not use the form sent to him, he is requested to remove the top label and affix it to the return which he does use. Experience in the Southeast and Mid-Atlantic Regions where the labels were used for the 1965 tax year indicates that 51 percent of the Form 1040 taxpayers filed returns with the preprinted label, and of these, 15 percent availed themselves of the opportunity of transferring the top label to a return other than the form received in the mail. Taxpayer use of the preaddressed labels contributes to faster and more accurate processing of returns, and generates substantial manpower savings in the Service.

Reports Management Program Activity High

Emphasis in the Reports Management Program of the Service is placed upon designing the most efficient reporting systems which will satisfy the information requirements of management. Techniques used to achieve this goal include elimination of duplication in source reports, integration of reporting systems across functional lines, incorporation of the reporting elements needed by each level of management into the system and design of reports tailored to meet these specific requirements, and utilization of the Service's ADP equipment where automated processing will result in a net savings of time or costs. Service automation has made feasible a number of management information report requirements which could not be economically provided by less sophisticated processing methods. Development of requirements, added to maintenance and review of manual and automated systems introduced in prior years, has resulted in increased activity involving all functional operations of the Service.

PERSONNEL, TRAINING PROGRAMS IMPROVE INTERNAL AND EXTERNAL OPERATIONS

Personnel and training programs continued to emphasize support for management objectives and development of positive means to assist managers and supervisors in accomplishing program objectives economically, efficiently, and with the fullest possible utilization of human resources, and in providing the highest quality of service to the public. Following are some of this year's highlights in these areas:

Planned Redeployment Eases Impact of Organizational Change on Employees

One of the major personnel problems of the Service results from the gradual conversion from manual operations to automatic data processing. An active redeployment program for the staff affected is continuing as additional processing functions are moved from the district offices to the regional service centers.

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 in ways that minimize adverse impact on employees. The key elements in the program are: (1) Plans to identify and utilize affected employees are made an integral part of initial planning, allowing the lead time required for effecting personnel adjustments; (2) full advance information is given employees and employee groups regarding the changes, to insure understanding and cooperation in making adjustments; (3) intensive placement and training programs are developed, designed to open up new employment opportunities for affected employees; and (4) special personnel procedures and techniques, developed jointly with the Civil Service Commission, provide increased flexibility in appointments, details, and reassignments to other positions.

The personnel redeployment program being carried on in the data processing conversion is described on p. 15.

During the year the redeployment concept and techniques developed for the ADP phase-in were extended to personnel affected by the consolidation of office collection functions from some of the smaller posts of duty to larger offices, usually at the district headquarters. This approach was also used with employees of three area service centers engaged in activities connected with non-tax related data processing, which were transferred to the new IRS Data Center. While large numbers of employees were not involved in these office collection and service center changes, the Service's experience in these transfers was very satisfactory, indicating that the redeployment approach works to the mutual advantage of employees, the Service, and the taxpayer.

Executive Selection and Development Enters Its Second Decade

The Executive Selection and Development Program entered its second decade with the first woman

trainee included among the 17 candidates selected from over 300 Federal career nominees.

Since its establishment in 1955, the Executive Selection and Development Program has become the major route into the Service's corps of general executives. It has graduated 111 carefully chosen candidates; of this number, 100 continue to serve in key executive positions, including 2 regional commissioners and 29 district directors. In addition, 31 incumbent executives have received similar training in this program.

Selected individuals, who are chosen through competition open to all qualified employees, receive broad training in Service functions and management techniques, and remain under continuing appraisal as they progress step by step in developmental assignments. This year attention was focused on expanding the exposure of trainees to a wider variety of managerial situations, styles and methods of operations. Seminars were held with high level business and Federal executives. This provided an insight into the management philosophies and practices of industry and other government organizations for comparison with and evaluation against those of the Service. Top Service officials contributed to this objective by maintaining a closer classroom training and work assignment relationship with selectees. Guidelines were prepared to assure systematic continuing developmental opportunities for graduates beyond the formal training period.

The steady improvement in operations and efficiency of the Service and its growing recognition as one of the better managed agencies of the Government can be attributed in large part to the upgrading of managerial and executive skills through this program.

In response to widespread outside interest, a brochure is being published describing the Executive Selection and Development Program.

Career Programs Emphasize Identification and Development of Supervisors and Managers

Further notable progress was made in the installation of a comprehensive program for selection and development of supervisory and managerial personnel. Nationwide career development programs for the intelligence and appellate activities were begun and regional career plans were developed for selection of supervisors and managers in the collection and audit activities. In data processing a 3-year



Top, left to right: A. James Golato, John Weber, Michael Sassi, Gerald Portney, Michael DeGuire, Edmund Vitkus, T. Blair Evans, John West, William Waters, William Bartlow, Dean Morrow. Bottom, left to right: Edwin Trainor, Joseph McGowan, Mary Taylor, Gordon Anderson, James Stigamire, Joseph Davis.

training program leading to GS-14 managerial positions was begun with six employees, GS-11 and GS-12, selected in nationwide competition.

Individually tailored training opportunities are used to develop employees selected under these career programs before they are placed in a supervisory or managerial position. As part of the career programs, a counseling program was developed for use throughout the Service. This counseling not only assists selected individuals in preparing a developmental plan, but also provides to those who were not placed on career program registers assistance and guidance in assessing their potential and developing their ability. To further facilitate effective implementation of career programs, a Management Development Training Handbook was prepared. It provides management with a flexible guide that expresses the concepts and objectives associated with employee development activities.

To meet training needs at the first line supervisory level, a program dealing with the human relations, personnel, and work management aspects of supervision was implemented. In addition, a management analysis training course was begun for employees who use this skill in their program work.

A concerted effort to improve supervisory counseling skills, through intensive emphasis on case-study and role-playing activities, has been launched. Approximately 30 headquarters and field representatives participated this year in a workshop to develop

a prototype training program and to train instructors. Field offices will be conducting training programs to help strengthen supervisors' skills in counseling and coaching, a vital aspect of their overall responsibilities.

A supervisory training program specifically designed for supervisors in the delinquent accounts and returns area of the collection function was conducted for supervisors who had not previously completed the program. This program is designed to assist supervisors in meeting specialized functional supervisory job requirements associated with their activity, as opposed to general supervisory training dealing with the principles and concepts of supervision that are applicable to all functional areas. A thorough evaluation of the pilot program conducted last year was made. As a result of this analysis and evaluation, groundwork was laid for development of additional specialized supervisory training programs for other functional areas.

Groundwork was also laid for beginning developmental work on a functional manager's techniques course to provide specialized managerial training dealing with the managerial responsibilities peculiar to the function. Training needs in the appellate management area were identified during the year and development work will be initiated on an appellate functional managerial practice course for appellate managers.

As a continuing part of managerial development efforts a number of highly qualified employees were selected during the year to participate in intensive university mid-career development programs for periods ranging from one semester to a full academic year.

Administrative Intern Program Broadened

For a number of years the Service has had an Administrative Intern Program designed to develop specially selected recruits or employees to fill professional administrative positions in the National Office. As an extension of this program, a "compliance option" was added during the year. This option enables employees who are currently working in field offices to be considered for staff positions in National Office compliance divisions; e.g., audit, collections, etc. A small number of journeymen and senior employees were selected this year to participate in a centralized training program and to work on rotational job assignments. After completing the training program and working a number of assignments in the various National Office compliance divisions, these employees will be placed in permanent staff positions.

Incentive Awards Program Continues Upswing

An unprecedented volume of employee suggestions to improve operations and effect economies was received, processed, and recognized through the payment of cash awards. The number of suggestions received and adopted and the amount of estimated savings exceeded by 21 percent the alltime record established last fiscal year. In addition, employees were recognized in greater number than ever before for special services and performance awards, exceeding by 62 percent the previous peak, which was reached last year. Some of this change is attributable to liberalized IRS requirements for high-quality step increases, which placed the Service on the same basis as other Government agencies, and resulted in 1,038 such increases this year, as against only 318 the preceding one.

A much needed tool related to this program was provided for Service supervisors with the publication of the Supervisors' Guide for Performance Evaluation and Awards. The Guide contains procedural and other information drawn together from a number of sources so that it is available in one complete, easy-to-use document. It should result in a more

effective use of the incentives and appraisal techniques necessary to good management. The Guide has won favorable acclaim, not only within the Service, but also from many other Federal agencies, including the Civil Service Commission.

Service Recruiters Active on College Campuses

Trained and experienced recruitment teams from all district and regional offices visited more than 600 colleges and universities throughout the United States to recruit young college-trained people. Attractive and informative recruiting brochures were sent to the schools for distribution to students through their placement offices or faculty members. In addition, more than 50,000 copies were sent to students by direct mail. The Service also participated in "Career Day" festivities on a large number of campuses. To stimulate student interest in Service careers, extensive use was made of sound films, posters, and exhibits, as well as advertising in college newspapers and employment information publications widely circulated to college students.

Unprecedented numbers of enforcement-type personnel retired during the year, to take advantage of the attractive annuity benefits of Public Law 89-205. In replacing these losses and the losses from normal attrition, and hiring for the modest number of additional positions provided by an increase in the Service's appropriation, nearly 3,000 enforcement position vacancies were filled during this year's recruiting season.

On June 5, 1966, the Civil Service Commission authorized increases in the pay rates for GS-5, 7, and 9 accountants, auditors, and internal revenue agents to overcome handicaps in recruiting because of higher salary offers of private employers. This authority also permitted the Service to hire accounting students under work-study agreements with colleges, juniors at grade GS-3 and seniors at GS-4. After 6 months of training and graduation, these students may be given career-conditional appointments noncompetitively. Plans were made to hire about 200 students during the coming year under this arrangement.

Recruiting Gives Support for New Activities and Offices

The Western, Southwest, and Central Service Centers, which began processing of individual returns during the 1966 filing season, successfully recruited and trained approximately 4,500 new em-

ployees. It was also necessary to recruit in larger numbers than expected, to make up for turnover of seasonal employees in the older service centers, Southeast and Mid-Atlantic. In spite of the high rate of employment in our present economy, Service recruiting was successful in finding quality employees to meet seasonal staffing goals in each service center.

A major accomplishment was the establishment and initial staffing of the IRS Data Center in Detroit. Administrative arrangements were worked out to permit timely local actions, through delegated authority, with technical assistance and support as required from the regional and National Office level. Another new activity which got off to a good start was the National Training Center, which was staffed during the year with high-caliber technical and administrative personnel, mostly obtained from other parts of the Service.

Man-years realized during each of the past 2 years and employees on rolls at the close of 1965 and 1966 are shown in the following table:

Location and type	Personnel summary			
	Man-years realized		Number on rolls at close of year	
	1965	1966	1965	1966
Service, total.....	62,098	63,508	60,360	61,689
Permanent.....	57,444	58,511	56,345	57,365
Temporary.....	4,654	4,997	4,015	4,324
National Office.....	13,881	13,982	3,614	3,626
Field service, total ¹	58,217	59,526	56,746	58,063
Data processing, total.....	17,563	18,839	16,426	17,499
Collection, total.....	10,288	10,088	10,015	9,774
Revenue officers.....	6,383	6,125	6,201	5,989
Other.....	3,905	3,963	3,814	3,785
Audit, total.....	19,654	19,970	19,686	20,137
Revenue agents.....	12,450	12,473	12,178	12,561
Office auditors and tax technicians.....	3,126	3,093	3,018	3,039
Other.....	4,278	4,404	4,490	4,537
Intelligence, total.....	2,325	2,343	2,336	2,350
Special agents.....	1,722	1,732	1,712	1,721
Other.....	603	611	624	629
Alcohol and tobacco tax, total.....	2,709	2,620	2,665	2,598
Investigators.....	943	937	930	929
Inspectors—general.....	459	459	456	453
Inspectors—on premises.....	435	411	420	410
Other.....	872	813	859	796
Appellate, total.....	1,492	1,602	1,533	1,647
Appellate conferees.....	664	717	677	735
Auditors.....	151	157	153	161
Other.....	677	728	703	751
Administration.....	2,639	2,683	2,704	2,653
Regional counsel.....	742	742	751	761
Regional inspection.....	605	639	630	644

¹ Includes terminal leave man-years for entire Service.
² Includes Office of International Operations, National Computer Center, and IRS Data Center.
³ Includes overseas employees hired locally (4 in 1965 and 6 in 1966).

Operation MUST Presents New Challenges in Manpower Utilization

The Service has long shared the interest of the Civil Service Commission and the Bureau of the Budget in achieving the underlying objectives of Operation MUST (Maximum Utilization of Skills and Training)—those of developing new or little-used sources of manpower, making full utilization of existing skills, restructuring positions for better manpower utilization, and training to develop full potential of employees.

In line with these objectives, the Service has developed recruitment programs among minority groups and other disadvantaged persons, reviewed existing employee skills to bring to light new talents, engineered positions to achieve better manpower utilization, and continued with one of the most comprehensive training programs in the Federal Government.

In May and June a pilot test was conducted of a training program designed to tap junior colleges and other 2-year schools for GS-4 recruits with the potential for planned advancement to revenue officer (trainee) positions at GS-5. If successful, this program will greatly broaden the recruitment base for revenue officer recruits, and, possibly, open up new sources of supply for other occupations.

The program and innovations undertaken to achieve the MUST objectives have been given additional urgency by the concurrent broad efforts of the Service to provide equal employment and promotional opportunities for all candidates and employees. Considerable progress towards equal employment goals has been achieved as the result of special emphasis programs for minority groups, women, and handicapped persons, and several economic and educational opportunity programs for young people and disadvantaged individuals.

Equal Opportunity in Service Occupations

Equal employment opportunity coordinators, designated for all regional, district, and service center offices, have been made responsible for monitoring equal employment plans and programs in their area and for reporting problem areas requiring additional attention to the heads of their offices. Local coordinators also have been designated to serve as minority group contacts at about 250 local posts of duty. This has greatly improved cooperation with

organized minority group and community leaders, high schools, and colleges, and sharpened their interest in the employment possibilities the Service offers minority group members.

Equal employment opportunity seminars for supervisors were held at the National Office and in Little Rock, St. Louis, and Greensboro. These seminars are designed to promote supervisory-employee understanding of Service policy and to stimulate open discussions of local problems faced in implementing this policy. Because of the success of these initial seminars, the program will be expanded rapidly to other offices.

There is a continuing increase in the number of minority group employees moving into enforcement and other professional positions. During the year, two minority group members were selected, trained, and appointed to assistant district director positions, and a third one was selected for training for a similar executive position during the coming year.

As of December 1965, the Service had 478 women in enforcement or technical positions—positions often considered by the general public as “men’s” jobs—such as internal revenue agent, attorney, estate tax examiner, tax law specialist, and revenue officer. This year, for the first time, a woman was chosen for the Executive Selection and Development Program from which the highest executive positions of the Service are filled. The increases to date in the employment of women in professional, technical, and executive positions are expected to stimulate even further increases in the future.

The Service continued its emphasis on placing persons with physical or other handicaps in duties they can successfully perform. Past success stimulated increased efforts in recruiting at special schools for the handicapped and closer working relationship with State and local rehabilitation agencies. The Service received the Blinded Veterans Association Annual Award as “Employer of the Year.” The Treasury Department won the “Employer of the Year Award” granted by the Washington, D.C., Chapter of the National Association of the Physically Handicapped, in which achievements of the Service played a most important role. The personnel officer of the Austin Service Center was presented a citation from the Governor of the State of Texas in recognition of outstanding service in the employment of the handicapped.

Economic and Educational Opportunity Programs

The Service has been an active participant in the various War on Poverty Programs aimed at providing work-training opportunities for young people and disadvantaged individuals. As of May 31 there were 696 persons participating in such year-round programs, of whom 582 were minority group members. For the most part they are paid from funds granted to local schools and sponsoring organizations by other Federal agencies. The participants benefit from these work-training assignments both by the training they receive to perform capably on jobs of increasing difficulty, and also by the financial help provided, to stay in school and prepare themselves for even better jobs in the future.

In addition, approximately 800 students and non-student youths will be working for the Service during the summer months. These appointments are financed by the Service. With the year-round appointees, about 1,500 young people a year will receive some kind of work-training assistance in IRS.

Automated Personnel Record and Document System Under Development

The first phase of what will become an automated system for manpower management information and personnel reporting and document output is now being developed. This initial effort will result in the establishment of a basic centralized computer system that will automatically prepare personnel action and related documents, maintain statistical records on employees and positions, and produce outputs to meet various reporting requirements. Future development of this basic system contemplates incorporating data relating to education, training and skills of employees, data for analyzing the dynamics of the work force (e.g., turnover), and data to assist the manager in evaluating the progress and impact of special employment programs and policies.

Employee Organization Activity Increases

During the year, the number of employees in units exclusively represented by employee organizations increased by approximately 7,000. At the end of the year, more than 27,000 employees in 41 districts and 3 service centers were in units exclusively represented by 3 employee organizations. In addition to continuing consultation with organized groups, the Service has now negotiated its third formal collective bargaining agreement (in the Bos-

ton District). Aside from basic provisions, the Boston agreement contains clauses on employee organization representatives, leave, promotions, consultation, and grievances for the approximately 1,000 nonsupervisory employees affected. Other formal steps included submission to advisory arbitration of two disputes relating to appropriate units for representation under Executive Order 10988, which provides for union recognition and employee representation elections.

Employee Attitudes Sampled in Seven Districts

A high percentage of employees in seven large districts (over 4200 employees) responded to a survey designed to communicate their attitudes and opinions directly to management. Much that they had to say was similar to results of previous years in what has been a continuing program of attitude surveys in different districts each year. Responses were evaluated to attain understanding of employee satisfactions and dissatisfactions and to provide guidance for improvement in Service operations and personnel policies. There are variations between districts, divisions, and occupational groups; but employees generally expressed a high degree of satisfaction with the work they perform, their coworkers, their immediate supervisors, the benefits program, the training they received, their opportunity for self-reliance, and the knowledge they have of what is expected in their jobs. They reported that the actual work they do is the most significant aspect of their job satisfaction. Varying degrees of dissatisfaction were expressed over such matters as promotions, reports, and production requirements. Followup evaluations and plans for corrections are being made in these areas.

Training for Better Taxpayer Service

Several new training programs designed to provide faster and better taxpayer service through written and oral communications were conducted during the year. Communications training was conducted for employees in the appellate area who meet and hold conferences with taxpayers and their counsel. Special training in the interpretative aspect of tax law was given to employees who assist taxpayers and answer taxpayer questions. This training is designed to enable employees to answer taxpayer questions in nonlegal terms and thereby assist the taxpayer in determining how the various tax laws

apply to his individual return. In addition, a completely new writing improvement course for all Service employees was developed, and telephone courtesy training efforts were continued during the year.

For some years the Service has provided instructional material on preparing various types of tax returns to schools, industry, associations, and other groups, to assist them in conducting training to meet their special needs. During the past year a survey was conducted to determine the amount of local activity in these programs and how the Service might better meet the needs of taxpayers. Several new programs were tested in the field including a Small Business Teaching Taxes Program. Taxpayer assistance institutes for tax practitioners and non-Service tax assistants were also conducted at local offices throughout the country.

Assistance was given to State and local governments in meeting their training needs by providing selected training materials which could be used as a basis for conducting or developing training programs adapted to local needs. In areas where the local training requirements are similar to those of the Service, State and local government employees participated in Service training programs. In addition, through the Agency for International Development, assistance was given to foreign governments in developing training programs to meet their country's special requirements. Working closely with the Service's Foreign Tax Assistance Staff, a basic orientation program was developed that would be applicable to tax programs throughout the world. Instruction, in the case of Latin American countries requesting assistance, was conducted largely by Service instructors who speak Spanish. The Director of the Training Division visited several Latin American countries to meet with members of the Foreign Tax Assistance Teams and Latin American tax officials to discuss approaches to meeting local training needs. The feasibility of establishing a training school in a host Latin American country to provide centralized training for Latin American officials was also explored during the trip.

Improved Training Methods and Operations

Following two years successful experience with the Western Regional Training Center, a second regional center was activated this year in the Central Region. Additional centers will be established in each of the five remaining regions during the next

three years. The National Training Center, designed to meet Servicewide needs on a centralized basis, completed its first year of operations. Highly successful, it has demonstrated that new and better methods of course development and training techniques can be developed by a highly specialized staff that has the facilities to carry out operations on a centralized basis.

New advances were made in the use of specialized instructional equipment and techniques. One highly successful use of automated teaching equipment was conducted in the data processing area during the year. An automated training program using the latest audiovisual techniques was designed to provide uniform training for 1,500 service center tax examiners hired during the peak filing period to process individual tax returns. Not only did the program provide uniform training for all employees in the five centers in which it was used but instruction as previously conducted was cut by one full day of classroom time. The rate of error in preparing returns for the next processing step was substantially reduced, and a careful monitoring of employee productivity after completion of the training revealed a 32-percent increase in productivity which was in part attributed to the new training technique. The feasibility of extending this type of instruction to other training programs is now being pursued.

A study of organizational developmental efforts in the Southwest Region was continued during the year. This study is designed to measure the amount and kind of change in employee effectiveness and productivity resulting from efforts to develop the total work group as one unit rather than the individual development of skills related to the function.

Operational Training Updated and Strengthened

As a part of continuing efforts to make training of maximum value, a number of existing courses designed to train employees hired to fill entrance-level jobs in the field offices were updated during the year.

In the area of audit training, the income tax law unit of the Basic Revenue Agent Course was completely revised and updated. In addition, the units covering taxpayer relations, auditing techniques, report writing, and fraud awareness were extensively rewritten. A new format for the classroom use of course materials was initiated providing for more

meaningful use of materials. The total thrust of this course reorganization is toward a three-part career training program which coordinates the revenue agent's development with the level of his case assignment. The former basic course mentioned above becomes Part I in this revenue agent training program. Updating of course material in the future will be done on a continuing basis by the National Training Center to keep materials current and eliminate the need for an extensive revision at one time.

A new Insurance Company Tax Law Course was developed as well as specialized training for revenue agents engaged in international issue examinations. In the alcohol and tobacco tax area both basic enforcement and permissive training programs for new recruits were revised and updated. In the collection area, phase I of the revenue officer trainee program was completely revised and updated, and materials on ADP procedures were also developed for purposes of training.

IMPROVEMENTS AND ECONOMIES PRODUCED BY BETTER FACILITIES MANAGEMENT

Office Space Improved in Many Localities

The Service housed its employees and equipment in 11.1 million square feet of space in 1,270 buildings and 1,090 cities across the Nation. While 5.3 million square feet of this space was in federally-owned buildings, 5.8 million was leased at an annual cost of \$19.3 million.

The Service's Space Management Program moved forward along a number of avenues toward providing a professional working environment for its employees while improving the accessibility and atmosphere of all of its offices for the benefit of the taxpaying public. Nearly 5,000 employees in district or major local offices were moved into new or renovated quarters. Less significant improvements were made in 122 other locations. In addition, the appearance and public facilities of 41 offices were improved as part of the President's Program on Beautification of Federal Buildings. A few unsatisfactory major offices remain, but these are expected to be cleared up within the next few years by the completion of projected Federal buildings, including those in Chicago, Indianapolis, and Newark. District headquarters offices will move into new Federal buildings in Detroit; Augusta, Maine; Baltimore;

Cleveland; St. Paul; Jacksonville, Fla.; Portsmouth, N.H.; and Des Moines during 1967; and the Nashville space will be substantially renovated. The following table reflects the continued emphasis on improving field offices:

New or substantially renovated space		
District offices headquarters	Major local offices	Other local offices
Boston, Mass. Wichita, Kans. Denver, Colo. Cheyenne, Wyo. Portland, Oreg. Los Angeles, Calif.	Gary, Ind. Kansas City, Mo. Baileys Crossroads, Va. Oakland, Calif.	31 localities.

Meanwhile, the Service has launched a concerted campaign to improve its smaller offices, many of which have been in poor space for a number of years. This program has been given added impetus by the President's Commission on Employment of the Physically Handicapped and by the administration's current program to improve the service given citizens by all Federal agencies. A primary goal will be to remove from Service offices architectural barriers to handicapped taxpayers and employees. The first significant results from this undertaking are expected during 1967.

Other projects have been pushed in an effort to improve service to the public. These include a test of new taxpayer assistance areas which will provide the taxpayers with quicker, more efficient service with less "run-around" and greater privacy.

Furniture Program Nears Completion; Emphasis Shifts to Office Machines

The Service has almost completed its 4-year program to replace outdated and worn furniture with modern, functional-type furniture specially designed to improve operating efficiency. All major field offices are now so equipped. The emphasis in the next few years will be shifted to office machines. Here, too, employees have been handicapped for a long time by too few machines—many worn out or of inferior quality. The aim is to provide all offices with additional and up-to-date equipment geared to maximum efficiency under changing procedures and new programs. This will also help increase employee productivity and job satisfaction and will result in further improvements in service to taxpayers.

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Automobile Travel Plan Cuts Costs

Use of General Services Administration (GSA) cars to provide transportation for employees at the least cost to Government resulted in many objections from employees who preferred to use their own cars. To meet these objections a sliding scale optional use automotive travel plan was developed. This gives high-mileage drivers the option of driving a GSA car, or their own car at reimbursement rates which approximate the rates paid for GSA cars. It also gives employees considerable latitude as to which type of transportation they prefer to use while still preserving savings to the Service derived from the use of GSA cars. This year savings amounted to \$674,000. Although the sliding scale plan has largely overcome employee dissatisfaction, the Service is continuing to work with employee organizations to improve the plan to provide the most equitable system possible for reimbursement.

Disabling Injuries Reduced 14 Percent

During this first full year of operation under President Johnson's Mission SAFETY-70, the Service had 3.0 disabling injuries per million man-hours worked. This 14-percent reduction in the disabling injury frequency rate is a real stride toward the President's stated goal of a 30-percent overall reduction by 1970. During the year, safety awards were presented to 29 district offices and service centers in recognition of either 1 or more years' operations or 1 million man-hours of operations without sustaining a single disabling injury.

Vehicle Safety Improves

The Service developed a training film entitled "Take Time to Think" which is being shown to as many of the 20,000 Service drivers as possible. This film, designed to improve driver's attitudes, has had a definite effect on reducing motor vehicle accident frequency rate. Approximately 101 million miles were driven on official business during calendar year 1965 with only 822 accidents reported. This is a rate of 8.1 accidents per million miles driven, a creditable reduction from the 8.5 rate of the prior 2 calendar years.

Paperwork Management Results in Cost Reduction

The records and paperwork management program continued to make significant contributions to

the cost reduction efforts of the Service. During the year about 272,000 cubic feet of inactive records were either retired to Federal records centers or destroyed. As more than 250,000 cubic feet of newly acquired or reactivated records piled up, removal of the inactive records from office-type space resulted in a savings of almost \$940,000 by making this space and file equipment available for reuse. Records holdings and disposition activities are shown in the following table:

Status	Records holdings and disposition activities	
	Volume of records (cubic feet)	
	1965	1966
On hand July 1.....	603,021	599,342
Disposals.....	244,724	271,801
Destroyed.....	119,458	111,165
Retired to Federal records centers.....	125,266	160,636
On hand June 30.....	599,342	587,728

A significant part of efforts to streamline and modernize the operations of the Service is devoted to the forms management program. Continued attention was given to the development and standardization of needed forms and form letters and the elimination of unnecessary ones. Total Service forms and form letters were reduced by 1.5 percent this year. National Office prescribed forms increased by 11.8 percent, regional standardized forms decreased by 1.9 percent, district office forms decreased by 24.6 percent, and service center forms decreased by 13.9 percent. The summary results of this year's forms management activities is shown in the following table:

Prescribed by	Forms and form letters				
	Open- ing inventory	Newly developed	Eliminated	Closing inventory	Net change
Total.....	16,888	3,725	3,980	16,633	-255
National Office (used at headquarters and service-wide).....	4,826	1,197	629	5,394	+568
Regional offices (used by regional headquarters components or 2 or more district offices).....	8,145	1,320	1,475	7,990	-155
District offices (used by local districts and their subordinate offices).....	2,084	339	851	1,572	-512
Service centers.....	1,833	758	1,013	1,578	-255
Data Center.....	111	12	99	+99

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Graduated Withholding Program Printing Crises Met

As a result of new legislation described on page 55, it was necessary to print on a crash basis (1) new Employer's Tax Guides (Circular E), (2) special information for employees, and (3) supplies of Employee's Withholding Exemption Certificates (W-4). Four million copies of Circular E and 2.2 million packages containing copies of W-4 and information for employees were labeled and mailed by regional service centers. Backup supplies were furnished district offices. These items were distributed and in the hands of employers about a month before the changeover to the new rates.

Telecommunications Improvements Help Service and Taxpayers

The Service transmitted and received more information by telephone, telegraph, and data transmission modes than ever before. A better grade of telephone service for taxpayers and the general public was provided and the telecommunications services essential to support operating programs were improved. In managing services and facilities for conveying voice, image, data, and other message information, the Service is pioneering in a rapidly changing telecommunications field. Changes in Service operations, such as the conversion to automatic data processing, and the centralization of tax accounting, collection and audit functions, require more versatile telephone systems and services to provide adequate voice communications within the Service and to the general public. This year's telecommunications management program emphasized (1) ensuring effective communications at a minimum total cost consistent with efficient operation and reliability, and (2) providing the equipment and circuitry necessary for essential communications.

New guidelines and criteria for determining telephone instruments, circuitry, and related equipment needed in all Service offices have been issued. One of these guidelines coupled with work methods prescribed for filing period operations in district headquarters should result in a 20-percent increase in productive time of telephone assistance people. Additionally, pilot installations of a centralized telephone-answering service (Centiphone) described

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on page 4 indicates promising potential benefits in manpower utilization and taxpayer assistance. A review of Service teletypewriter needs during the year resulted in an annual savings of more than \$45,000.

FINANCIAL MANAGEMENT AIDED BY NEW PROGRAMS

To get maximum return for every dollar invested, the Service must put its money and manpower where the most essential and productive work is. That is the objective of financial management. Achieving this objective requires the closest coordination and teamwork among all officials throughout the Service.

The Service has taken a number of measures over the past years to improve its allocation of resources. These include the Long-Range Plan, the Taxpayer Compliance Measurement Program, the Master File ADP System, regional mergers, the Management Improvement Program, work planning and control, organizational and methods reviews, operating financial plans, reports of budget execution, grade structure controls, streamlining of training courses, and midyear reviews and adjustments of financial resources.

To these measures several others were added this year which have built upon the groundwork previously laid and which should have a beneficial effect on management of Service resources. These additional measures included: The Planning-Programming-Budgeting System (PPBS), the Manpower Utilization and Control (Position Management) Handbook, the Cost Reduction Program, and expenditure restrictions.

a. *The Planning-Programming-Budgeting System.*—Under this system, which built upon the Service's established long-range planning system, there is a continual reevaluation of work programs in terms of their objectives, costs, and benefits; and alternative programs and objectives are studied and compared on a cost-utility basis. Through this system, Service management officials should become increasingly confident that they are allocating available resources to the most productive work. Operation of this system is more fully described on page 53.

b. *Manpower Utilization and Control (Position Management) Handbook.*—This handbook places

renewed emphasis on the development of authorized staffing patterns, periodic reviews of organizational structures, positions, work methods, and employee utilization. It brings together many facets of position management already in effect, adds certain formal reviews, changes the methods of authorizing positions and grades for certain categories, and establishes formal controls for grades GS-14 and 15. This manpower utilization and control program is designed to identify, prevent, and eliminate unnecessary organizational fragmentation, excessive layering of supervisory levels, excessive use of assistants, improper design of jobs, outmoded work methods, improper distribution of manpower, and unnecessary levels of review.

c. *The Cost Reduction Program.*—This program is an advancement over the previous Management Improvement Program in that (1) annual cost-reduction goals are required, (2) reports have to be submitted showing progress toward achieving the goals, (3) savings reported must be validated, and (4) disposition of the savings must be accounted for and considered in long-range planning and in development of the annual budget. Although estimated increases in employee productivity constitute the bulk of the cost-reduction goals for the Service, many individual projects and actions actually make the increased productivity possible.

d. *Expenditure Restrictions.*—Through special studies and economy measures, the Service has for many years sought to reduce travel, communications, procurement, and other costs in ways which would not adversely affect law enforcement, and indeed would release funds and personnel for strengthening the Service's primary mission. Special emphasis was again placed on these measures in 1966. Confronted with sharply rising commitments for a number of Federal programs, the President directed that expenditures be reviewed and cut back wherever possible. He set tight expenditure ceilings and called upon all agencies to reduce travel costs, abolish or defer the filling of vacancies, postpone or eliminate purchases, and in general to take practical economy measures to restrict expenditures.

In view of the essentially revenue producing nature of the Service work programs, the expenditure restrictions had to be, and were, applied with a great deal of prudence, to maintain revenue production while reducing costs. As the program reports from

other pages of this Annual Report disclose, the Service carried out and in many cases exceeded the planned work programs and was still able to meet the President's expenditure limitations.

The charts on the following page reflect the distribution of each dollar obligated in 1966, by function and object of expenditure. The distribution of obligations in fiscal years 1965 and 1966 is shown in the table below. For more detail by appropriation by activity, see table 27, page 138.

Appropriations and obligations

Appropriation	[In millions of dollars]					
	Appropriated ¹		Obligated		Percentage obligated	
	1965	1966	1965	1966	1965	1966
Salaries and expenses.....	16.8	18.0	16.5	17.8	98.2	98.9
Revenue accounting and processing.....	152.0	162.9	151.3	159.5	99.5	97.9
Compliance.....	429.6	447.6	427.2	444.8	99.4	99.4
Total.....	598.4	628.5	595.0	622.1	99.4	99.0
Increase 1966 over 1965.....		+30.1		+27.1		

¹ Includes adjustments for appropriation transfers and pay increase supplementals.

Man-years authorized and realized by appropriation for 1965 and 1966 (exclusive of reimbursements) are compared below:

Man-years authorized and realized

Appropriation	Authorized		Realized		Percentage realized	
	1965	1966	1965	1966	1965	1966
	Salaries and expenses.....	1,387	1,436	1,374	1,413	99.1
Revenue accounting and processing.....	19,385	20,485	19,202	20,494	99.1	100.0
Compliance.....	41,440	42,019	41,386	41,440	99.9	98.6
Total.....	62,212	63,940	61,962	63,347	99.6	99.1
Increase 1966 over 1965.....		+1,728		+1,385		

(For more detail by appropriation by activity, and also obligations by districts, regions, and National Office, see tables 26 and 27 on pp. 137 and 138.)

Reimbursable Services Increase

In the past few years the Service has cooperated with the Agency for International Development (AID) in providing technical assistance to foreign governments in improving the administration and enforcement of their tax laws. Not only has training been given to foreign tax officials, but also teams

of tax and administrative experts have provided on-the-spot assistance in those countries where agreements have been worked out with AID. Most of this assistance has been in South and Central America under the Alliance for Progress. Reimbursement to the Service is provided by AID.

Growth of the foreign tax assistance program is reflected in the following figures showing reimbursement received:

Reimbursements for foreign tax assistance

Year	[Dollars]	
	Reimbursement	Increase over prior year
1964.....	637,000	637,000
1965.....	1,530,000	893,000
1966.....	2,065,000	535,000

Reimbursement is also received for services provided to other agencies and governments. These services include: Collection of taxes for Puerto Rico; providing requested tax information to various states; and furnishing payroll services to other Treasury bureaus. The total reimbursements for 1966 amounted to \$3.4 million, an increase of \$1.1 million over 1965.

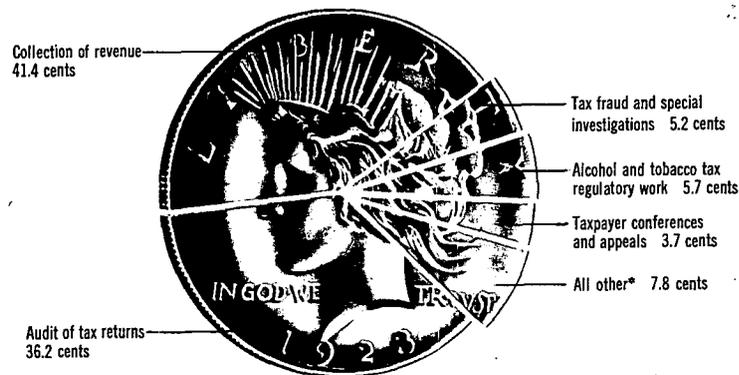
Mailing of Salary Checks Recommended

A study of comparative cost of the distribution of salary checks and bonds, through use of Service personnel or by direct mailing from the disbursing office to an address designated by the employee, revealed that considerable saving could be achieved through the latter method. A change over to direct mailing has been recommended to the Treasury Department.

Statistical Sampling Techniques Applied to Audit of Vouchers

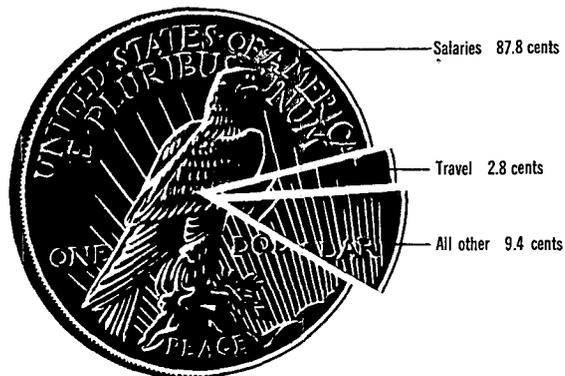
For some years the Service has experimented with statistical sampling techniques in the audit of vouchers. Public Law 88-521 of 1964, which authorized the application of such techniques to the audit of vouchers under \$100, confirms the feasibility of the Service's approach. The sampling plan developed to carry out the authority granted under the law may produce additional savings above those realized under prior experimental procedures.

OBLIGATIONS BY ACTIVITY



*Includes rulings and other technical services, 1.5; legal services, 2.4; inspection, 1.6; statistical reporting, 0.7; executive direction, 1.6.

OBLIGATIONS BY OBJECT OF EXPENDITURE



INSPECTION'S MISSION IS TO GUARD INTEGRITY

"Every Citizen Is Entitled to Have Complete Confidence in the Integrity of His Government"

President Johnson in prescribing standards of ethical conduct for government officers and employees, stated: "Whereas government is based on the consent of the governed, every citizen is entitled to have complete confidence in the integrity of his government. Each individual officer, employee, or adviser of government must help to earn and must honor that trust by his own integrity and conduct in all official actions."

The Nation's system of taxation is based on voluntary self-assessment. Such a system necessitates that the taxpaying public have confidence in the integrity and impartiality of officers and employees of the Service. The Inspection Service's mission is to constantly guard the integrity of the Service from within and from attempts by persons outside the Service to corrupt it, to insure that the Service earns the confidence of the citizenry in honest and impartial tax administration. In fulfilling this mission Inspection serves as an independent factfinding body reporting directly to the Commissioner. Inspection performs two primary functions—internal security and internal audit. Major investigations involving both functions, such as those involving fraud on the revenue, are closely coordinated by the operational elements concerned. The organization is comprised of a National Office inspection staff and seven regional inspection offices under the direct supervision of the Assistant Commissioner (Inspection).

The decrease in disciplinary actions, particularly separations, is an encouraging indication that the intense efforts the Service has made to ferret out corruption in tax administration are bearing fruit. Recent steps taken to improve integrity have included strengthening of supervision, tightening of internal controls and safeguards, thoroughly indoctrinating Service managers in recognizing indications of integrity breakdown, and more careful screening of applicants for appointments to key jobs in the Service.

Internal Audit Provides Assistance to Management

Internal audit is an integral part of the management control system and provides protective and con-

structive assistance to the Commissioner and all other levels of management. Internal audit's broad programs provide for the examination on a regular basis of all field organizations and activities of the Service. These programs recognize the essential interrelationship between the development of information concerning conditions requiring corrective action and the development of information with respect to the reasons these conditions existed. Internal audit, therefore, is concerned not only with the financial impact of the matters disclosed by examinations, but also with any inherent procedural or internal control defects. Although responsibility for correcting operating deficiencies is vested solely in the operating officials, the internal audit staff has the responsibility for evaluating and reporting the corrective actions, and for making recommendations for improvement where appropriate. The Commissioner and other top levels of management are thus provided with a timely independent review and appraisal of all Service operations.

Program Stresses Protection of the Revenues and Promotion of Taxpayer Relations

Internal audit program coverage continues to stress those activities of the Service where the results of examinations can be of the greatest assistance in the protection of the revenues and the promotion of good taxpayer relations. Over 80 percent of the direct internal audit staff time was spent on audit, collection, data processing, intelligence, and alcohol and tobacco tax functions, while an additional 15 percent was used on integrity matters.

In the automatic data processing area a number of recommendations for improvement in programs and procedures have been developed which will serve not only to strengthen the processing procedures, but also to improve the Service's relations with taxpayers. Internal audit's continuous examination of the Service's automatic data processing system at the seven regional service centers continues to result in the early detection and correction of errors in computer programs and operating practices, and in improvements in systems concepts and procedures. Continuous coordination of regional and National Office internal audit activities together with the immediate reporting of systems, programming or procedural problems has proven to be an effective

method of meeting internal auditing responsibilities in the data processing area.

Matters reported by the internal auditors have resulted in many substantial improvements. Some of the actions taken by operating officials as the result of internal audit findings are susceptible of measurement in terms of additional revenue, savings, or other matters having an impact on the revenue. It is conservatively estimated that the results of these actions during 1966 aggregated more than \$34 million. Included are such items as management's action on specific cases, interest and penalties not properly assessed, and accelerated collection actions.

Internal Security Provides Major Safeguards

Thorough investigations are made of the character, reputation, loyalty, and background of all persons appointed to positions involving contact with taxpayers, handling of money and other key functions in the Service. These investigations are one of the basic safeguards toward a reasonable assurance that those hired will adhere to the strict code of ethics and rules of conduct for Service employees.

A substantial portion of inspection manpower is devoted to investigating complaints or information indicating that Service employees, acting independently or in collusion with taxpayers or their representatives, have been guilty of unethical or other improper conduct. These investigations range from complaints of administrative misconduct to alleged violation of Federal criminal statutes. Inspection also conducts investigations of complaints from Service employees of actual or suspected bribery attempts by taxpayers or their representatives to influence Service actions in tax examinations, tax collections, or other tax matters.

Internal Security investigations of all types completed during the year totaled 9,864, a 12-percent increase over the prior year. In addition, police record checks were made on 5,723 employees considered for short-term temporary appointments.

A tabulation of the types of investigations completed during the last 2 years and the resulting disciplinary actions follows:

Investigations and disciplinary actions		
Type of investigation and action	1965	1966
Total investigations closed.....	8,825	9,864
Personnel investigations		
Number of cases closed, total.....	6,162	7,340
Character and security investigations.....	2,674	3,430
Conduct investigations.....	742	809
Special inquiries.....	2,746	3,101
Actions taken by Service management officials as a result of personnel investigations:		
Disciplinary actions, total.....	797	770
Separations, total.....	340	239
Bribery, extortion, or collusion.....	62	22
Embezzlement or theft of Government funds or property.....	15	11
Failure of employee to pay proper tax.....	21	20
Falsification or distortion of Government reports, records, etc.....	130	94
Unauthorized outside activity.....	10	5
Failure to discharge duties properly.....	11	5
Refusal to cooperate.....	2	2
Divulgence of confidential information.....	3	22
Acceptance of fees or gratuities.....	8	8
Personal and other misconduct.....	78	55
Suspensions from duty and pay.....	35	58
Reprimands, warnings, reassignments, transfers, or demotions.....	422	473
Nondisciplinary actions.....	5,365	6,570
Other investigations		
Number of cases closed, total.....	2,663	2,524
Applications for admission to practice before the Internal Revenue Service.....	662	715
Charges against enrollees.....	137	113
Federal tort claims.....	220	204
Attempted bribery.....	78	85
Discrimination.....	1,566	1,407
Investigations for other Treasury bureaus.....		

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.

The Integrity Drive Is Continuing

Although there are encouraging signs that the level of integrity in tax administration is steadily improving, the Service will continue to stress this program. Where there are indications of breakdowns in integrity involving actual or potential frauds on the revenue, committed by employees, or through collusion between Service employees and non-Service people, joint internal audit and internal security investigations will be made.

Inspection Services Are Provided to Other Government Organizations

Internal security inspectors were called upon to furnish assistance to Secret Service in several assign-

ments involving protection of the President and other dignitaries. Over 1,400 personnel investigations were conducted for other Treasury bureaus. 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 1965 totaled \$17.4 million compared with \$8.9 million in 1962.

ADVISORY GROUP CONVOCATION HELD

The first convocation of former and present members of the Commissioner's Advisory Group was held in Washington on December 14, 1965. Of the 73 living alumnae, 70 attended. Under Secretary of the Treasury, Joseph W. Barr, and Assistant Secretary for Tax Policy, Stanley S. Surrey, addressed the group.

The Group advises the Commissioner on matters relating to tax administration. Members serve 1-year terms without compensation. Membership includes attorneys, accountants, business executives, economists, and educators from all parts of the United States. They are selected for their standing and experience in the tax field and their familiarity with problems involved in administering the tax law.

The Advisory Group appointed in April 1965, and listed in last year's Annual Report, served

through fiscal year 1966. The following members will serve on the Group commencing July 1, 1966:

Guy S. Balsler
Public Accountant
3491 Elm Avenue
Long Beach, Calif.

Warren K. Bass
Certified Public Accountant
E. L. Gaunt & Co.
923 Pyramid Building
Little Rock, Ark.

J. Waddy Bullion
Attorney
Thompson, Knight, Simmons & Bullion
Republic National Bank Building
Dallas, Tex.

Charles Conlon
Executive Secretary
National Association of Tax Administrators
1313 East 60th Street
Chicago, Ill.

Milton A. Dauber
Attorney
Schnader, Harrison, Segal & Lewis
1719 Packard Building
Philadelphia, Pa.

Adrian DeWind
Attorney
Paul, Weiss, Rifkind, Wharton & Garrison
New York, N.Y.

Dr. William C. Flewellen
Dean, College of Business and Industry
Mississippi State University
State College, Miss.

Charles H. Gebhardt
Manager, Tax Department
The Mead Corp.
118 West First Street
Dayton, Ohio

Dr. John R. Stockton
Economist
Bureau of Business Research
University of Texas
Austin, Tex.

John M. Sullivan
Attorney
Briggs & Morgan
First National Bank Building
St. Paul, Minn.

Don J. Summa
Certified Public Accountant
Arthur Young & Co.
277 Park Avenue
New York, N.Y.

Bernard Wolfman
Professor
University of Pennsylvania
Law School
Philadelphia, Pa.

PRINCIPAL OFFICERS OF THE INTERNAL REVENUE SERVICE

As of June 30, 1966

NATIONAL OFFICERS

OFFICE OF THE COMMISSIONER

Commissioner----- Sheldon S. Cohen
 Deputy Commissioner----- William H. Smith
 Assistant to the Commissioner-- Edwin M. Perkins
 Assistant to the Commissioner-- Thomas D. Terry
 Assistant to the Deputy
 Commissioner----- Vacant
 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----- Leon C. Green
 Division Directors:
 Alcohol and Tobacco Tax----- Harold A. Serr
 Appellate----- Arthur H. Klotz
 Audit----- Singleton B. Wolfe
 Collection----- Harold E. Snyder
 Intelligence----- William A. Kolar
 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 E. 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 F. McCarthy

PLANNING AND RESEARCH

Assistant Commissioner----- Albert W. Brisbin
 Division Directors:
 Planning and Analysis----- Marius Farioletti
 Research----- James R. Turner
 Statistics----- Vito Natrella
 Systems Development
 Lancelot W. Armstrong

TECHNICAL

Assistant Commissioner----- Harold T. Swartz
 Executive Assistant----- Eugene Woodside
 Division Directors:
 Exempt Organizations and
 Pension Trust----- Richard J. Stakem, Jr.
 Income Tax----- John W. S. Littleton
 Miscellaneous Tax
 (Acting) Linder Hamblen

Technical Publications and
 Services----- August F. Pohlig

OFFICE OF CHIEF COUNSEL

Chief Counsel----- Lester R. Uretz
 Deputy Chief Counsel----- Vacant
 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
 Technical Adviser to the
 Chief Counsel----- Samuel R. McClurd
 Technical Adviser to the
 Chief Counsel----- Robert B. Jacoby
 Division Directors:
 Interpretative----- Richard M. Hahn
 Joint Committee----- W. Dean Mathis

NATIONAL OFFICERS—Continued

Legislation and Regulations--- James F. Dring
 Operations and Planning-- William P. Crewe
 Associate Chief Counsel (Litigation)
 Rudy P. Hertzog
 Executive Assistant to the Associate
 Chief Counsel----- E. Riley Campbell
 Technical Adviser to the Associate
 Chief Counsel----- Paul E. Treusch

Division Directors:

Alcohol and Tobacco Tax Legal
 John W. Caggins
 Collection Litigation
 J. Walter Feigenbaum
 Enforcement----- William F. McAleer
 Refund Litigation----- William B. Riley
 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----- Charles G. Keebler
 Assistant Regional Commissioners:
 Administration----- F. Dean McCrory
 Alcohol and Tobacco Tax----- Rex D. Davis
 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 44111----- Frank S. Turbett, 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-- Charles R. Peterson
 Appellate----- William E. Steynen
 Audit----- Dwight L. James, Jr.
 Collection----- William F. Culliney
 Data Processing----- Edward J. Manning
 Intelligence----- Daniel L. Tucker
 District Directors:
 Baltimore, Md. 21202----- Irving Machiz
 Newark, N.J. 07102----- Joseph M. Sholtz
 Philadelphia, Pa. 19108----- Kenneth O. Hook
 Pittsburgh, Pa. 15222----- H. Alan Long
 Richmond, Va. 23240----- James P. Boyle
 Wilmington, Del. 19802----- James H. Kennedy
 Director, Mid-Atlantic Service Center,
 Philadelphia, Pa. 19154----- Anthony L. Carrea
 Regional Counsel----- Cecil H. Haas
 Regional Inspector, Bankers Securities Building,
 Walnut and Juniper Streets, Philadelphia, Pa.
 19107----- Emanuel M. Schuster

MIDWEST REGION

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

Regional Commissioner----- Alvin M. Kelley
 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.
 Des Moines, Iowa 50309----- Ernest W. Bacon

REGIONAL AND DISTRICT OFFICERS—Continued

MIDWEST REGION—Continued

Fargo, N. Dak. 58102----- Martin L. Webb
 Milwaukee, Wis. 53202----- Walter S. Strumpf
 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----- Vacant
 Alcohol and Tobacco Tax----- Edward J. Fox
 Appellate----- Stephen C. Volpone
 Audit----- Alfred L. Whinston
 Collection----- Elmer H. Klinsman
 Data Processing----- J. Orville Tuescher
 Intelligence----- Alan McBride
 District Directors:
 Albany, N.Y. 12210----- Donald T. Hartley
 Augusta, Maine 04330----- Whitney L. Wheeler
 Boston, Mass. 02215----- William E. Williams
 Brooklyn, N.Y. 11201----- Charles A. Church
 Buffalo, N.Y. 14202----- John E. Foley
 Burlington, Va. 05402----- Fulton D. Fields
 Hartford, Conn. 06115----- Joseph J. Conley, Jr.
 Manhattan, N.Y.
 10007----- Edward J. Fitzgerald, Jr.
 Portsmouth, N.H. 03801----- Frank T. Murphy
 Providence, R.I. 02907----- Ellis R. Rogers
 Director, North-Atlantic Service Center, Lawrence,
 Mass. 01841----- Thomas J. Gilfillan
 Regional Counsel, 30 Church Street, New York,
 N.Y. 10007----- Marvin E. Hagen
 Regional Inspector, 50 Church Street, 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----- Zachary T. Johnson
 Alcohol and Tobacco Tax----- F. Dale McClanahan
 Appellate----- Vance N. Bates
 Audit----- Harold B. Bindseil
 Collection----- William E. Loeb
 Data Processing----- Wayne S. Kegerreis
 Intelligence----- Allen T. Hollinrake
 District Directors:
 Atlanta, Ga. 30303----- Aubrey C. Ross
 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----- Earl L. Fuoss

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:
 Alcohol and Tobacco Tax----- James G. Carroll
 Appellate----- G. Clifton Witt
 Audit----- Lawrence M. Stewart
 Collection----- Alfred N. Kay

REGIONAL AND DISTRICT OFFICERS—Continued

SOUTHWEST REGION—Continued

Intelligence----- William E. Beloate, Jr.
 District Directors:
 Albuquerque, N. Mex.
 87101----- William M. Coard
 Austin, Tex. 78701----- Robert L. Phinney
 Cheyenne, Wyo. 82001----- Arthur A. Kennedy
 Dallas, Tex. 75201----- Ellis Campbell, Jr.
 Denver, Colo. 80202----- Charles W. Emlet
 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----- Erwin B. Osborn
 Regional Counsel, 1025 Elm Street, Dallas, Tex.
 75202----- J. Marvin Kelley
 Regional Inspector, 1511 Bryan Street, 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----- Homer O. Croasmun
 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----- Nelson L. Seeley
 Honolulu, Hawaii 96813----- Evan S. Lloyd
 Los Angeles, Calif. 90012----- Robert A. Riddell
 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 Street, San Francisco,
 Calif. 94108----- Melvin L. Sears
 Regional Inspector, 1076 Mission Street, San Fran-
 cisco, Calif. 94103----- Henry A. Feltz

COMMISSIONERS OF INTERNAL REVENUE

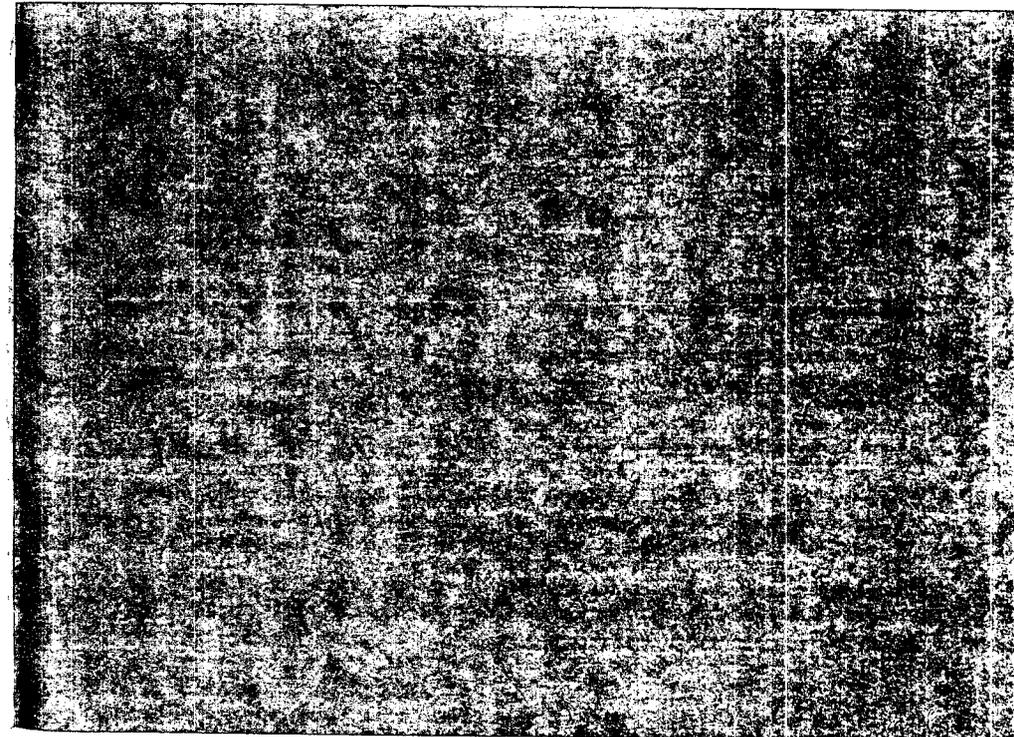
Office of Commissioner of Internal Revenue created by act of Congress, July 1, 1862

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. Baldrige, 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.

Appendix



APPENDIX

TAXPAYER PUBLICATIONS

Your Federal Income Tax, IRS Publication No. 17, deals primarily with the problems commonly encountered in filing individual returns. It is revised annually to reflect new legislation, Revenue Rulings, Revenue Procedures, Regulations, and court decisions. The 1966 edition follows the pattern established in prior years, with a filled-in sample of an individual return keyed to page numbers where detailed explanations and examples can be found. It is available at the Government Printing Office and all local Internal Revenue Service offices at a price of 50 cents a copy. This publication continues to be the "best seller" among Government publications with sales of over 975,000 copies. In addition, 106,000 copies were used in the Teaching Taxes Program, the Taxpayer's Assistance Program, and in various training programs.

Teaching Taxes is issued in two parts. Publication No. 19, a teacher's manual, and Publication No. 21, a student's workbook, are used by 100,000 teachers to instruct 4 million students in high school and college classes in the preparation of individual income tax Forms 1040 and 1040A. The two-part 1966 edition of *Teaching Taxes* consolidates the four-part publication formerly used at a significant saving in cost, but maintains the effectiveness of the program. The teacher's manual contains step-by-step explanations and illustrations for the preparation of returns of imaginary taxpayers who have the more usual types of income and expenses. The student's workbook contains sample problems followed by blank forms for the students to use in preparing returns. Both the teacher's manual and the student's workbook also contain a brief history of taxes in the United States and a discussion of the Federal budget.

Liquor Laws and Regulations for Retail Dealers, Publication No. 30 (Rev. 5-65), explains briefly and nontechnically the Federal laws and regulations pertaining to retail dealers in liquors. Each retail dealer on entering business is furnished a copy of this publication in an effort to promote voluntary compliance with applicable laws and regulations and

to enable him to avoid technical or nonwillful violations.

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 dealing with the tax problems of farmers. It features a list of Important Dates to Remember to help farmers keep track of their tax obligations throughout the year. Income, employment, and self-employment taxes are discussed in detail with numerous examples illustrating the rules. A sample farm return, complete with the schedules that farmers normally use, is keyed to explanations for each entry. Also illustrated are sample farm records, including depreciation schedules. A total of 1,250,000 copies of the *Farmer's Tax Guide* were distributed free of charge by Internal Revenue Service offices and agricultural extension agents of the Department of Agriculture.

Tax Guide for Small Business, Publication No. 334, deals with the problems of sole proprietorships, partnerships, and corporations. Like *Your Federal Income Tax*, it is an important segment of the program for assistance to taxpayers. Income, excise, and employment taxes are explained in nontechnical language and numerous examples are used to illustrate the application of the rules. A Check List, of particular interest to new businessmen, shows at

a glance taxes that might be incurred and what actions should be taken. A Tax Calendar for 1966 is also provided to assist businessmen in keeping track of various things that should be done during the year with respect to all their Federal taxes. 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, over 270,000 copies were sold and 61,500 copies were printed for internal use by the Service.

National Firearms Act and Federal Firearms Act, Publication No. 364 (Rev. 4-66), is a reprint of the laws applicable to firearms. It is distributed as a public service to acquaint the general public with these laws and to inform them of the proper places for directing inquiries.

What You Should Know About the Alcohol and Tobacco Tax Division, Publication No. 425 (Rev. 1-66), provides a brief historical sketch and a general description of the activities of the Alcohol and Tobacco Tax Division. The document is particularly valuable in informing the general public of this phase of the Service's activities and in eliciting cooperation from the public.

Tobacco Tax Guide, Publication No. 464, is a compilation of basic reference materials to assist manufacturers of taxable 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 U.S. Government Printing Office, Washington, D.C. 20402.

Crime Prevention and You, Publication No. 477 (Rev. 4-66), is designed to acquaint the public with the most frequent signs of illegal distilled spirits production and unlawful traffic in firearms and to solicit cooperation in reporting possible violations.

NEW FREE TAXPAYER INFORMATION DOCUMENTS

Tax Information for Visitors to the United States, Document No. 5371, informs aliens entering the United States about their tax responsibilities to this country. Arrangements have been made with the State Department to distribute this pamphlet through all U.S. Embassies and Consulate offices at the time a visa is issued.

Reporting Your Tips for Federal Tax Purposes, Document No. 5640, explains how an employee receiving tips should report tip income to his em-

ployer. It also explains income and social security tax withholding and how the tax is to be paid if the employer is unable to deduct the full amount of the tax from regular wages. There is an illustration of a Daily Record of Tips (Form 4070A) and Report of Tips to Employer (Form 4070). Union officials were invited to distribute this pamphlet to their union membership as a means of implementing provisions of law which became effective in 1966.

New Withholding System, Document No. 5642, was developed to ease the transition into the graduated withholding system under the Tax Adjustment Act of 1966. This two-page pamphlet, with a detachable Form W-4, explained the new system and alerted taxpayers to the need for filing a new Form W-4, Employee's Withholding Exemption Certificate. A supply in sufficient quantity for distribution to employees was furnished to all employers.

Tax Benefits for Older Americans, Document No. 5569, explains various provisions of the Federal income tax laws which are of special interest to those 65 years of age or older. At the request of the Deputy Chief, Division for the Blind, U.S. Library of Congress, it was reprinted in braille in cooperation with the Director of the Cloverbrook Home and School for the Blind, Cincinnati, Ohio.

Social Security Coverage for Clergymen and Religious Workers Abroad, Document No. 5586, discusses the filing of a waiver certificate for social security coverage; individuals who fall within the scope of these rules; services covered; determination of the amount treated as self-employment income; tax years for which the waiver certificate is effective; and, in certain cases, the manner in which retroactive application of a waiver certificate may be effected.

Preparation of Form 1040B, Document No. 5587, was developed to assist nonresident alien individuals in preparing an income tax return where they have performed personal services or have engaged in a trade or business within the United States at any time during the tax year. This pamphlet contains an illustrated Form 1040B with step-by-step instructions keyed to the nonresident alien income tax return.

Tax Advice for Foreign Scholars and Visitors on Official Educational and Cultural Exchange Programs, Document No. 5588, is directed mainly to those alien individuals who are nonmigrants and are temporarily in the United States as students or

as educational or cultural exchange visitors. It discusses tax on income from sources within the United States, the withholding of income and social security taxes, scholarship and fellowship grants, and tax exemptions provided by treaty or convention.

American Scholars Abroad and U.S. Income Tax Including Fullbright Scholars, Document No. 5590, explains the taxation of U.S. citizens who are studying, teaching, or engaged in research abroad under scholarships and fellowship grants.

Credit Sales by Dealers in Personal Property, Document No. 5593, discusses the reporting of income by a dealer on his sales of personal property on the installment plan or revolving credit plan, repossessions, and the sale of installment obligations.

Information on Tax Adjustment Act of 1966 for Taxpayer Assistance is a one-time publication developed for those having contact with the public in the Taxpayer Assistance Program. It provides these people with an accurate and timely explanation of all the provisions of this legislation and includes information on the Service's implementation of the graduated withholding system.

Fifty-one other taxpayer information publications, ranging in size from 2 to 28 pages, were distributed free to taxpayers. One of the primary objectives is to increase the effectiveness of the Service's program to assist taxpayers by conserving technical time expended on letters and personal inquiries. In many instances, a copy of a publication is the best and most practical reply to a taxpayer inquiry. Following is a list of these publications and one additional publication available for purchase:

Title	Publication number	Document number
Tax Guide for U.S. Citizens Abroad.....	54	
A Guide to Federal Estate and Gift Taxation (price 25 cents).....	448	
Travel, Entertainment, and Gift Expenses.....	463	
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.....	5043	
Tax Calendar and Check List for 1966.....	5046	
Self-Employment Tax.....	5047	
Sales and Exchanges of Assets.....	5048	
Depreciation, Investment Credit, Amortization, Depletion.....	5050	
Business Expenses.....	5051	
Child Care.....	5052	

Title	Document number
Contributions.....	5053
Excise Taxes for 1966.....	5054
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
Disasters, Casualties 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
Condemnations of Private Property for Public Use.....	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
How To Apply for Exemption for Your Organization.....	5551
Highlights of 1965 Tax Changes.....	5552
Income Averaging.....	5553
Sales and Other Dispositions of Depreciable Property.....	5554
Information Reporting Requirements of Sponsors of Contests or Sporting Events.....	5572
Income Tax Deductions for U.S. Government Civilian Employees Stationed Abroad.....	5583
U.S. Tax Guide for Aliens.....	5589
Retirement Plans for Self-Employed Individuals.....	5592

TAX FORMS ACTIVITY

The following new forms were issued:

Form No.	Title
1001-L.....	Ownership Certificate—Luxembourg.
1001-SWED.....	Ownership Certificate—Sweden.
3646.....	Income From Controlled Foreign Corporation.
4029.....	Application for Exemption From Tax on Self-Employment Income, Claims for Refund, and Waiver of Benefits.
4067.....	U.S. Annual Information Return (Summary Report of Forms 3921 and 3922).
4070.....	Employee's Report on Tips.
SS-15b.....	Certificate for Retroactive Coverage under the FICA.

The following forms were eliminated:

277.....	Application for Registry of Manufacturer of Playing Cards.
729-A.....	Information Return Broker's Sales of Admission Tickets.

Form No.	Title
741.....	Statement of Registration (for persons engaged in transferring stocks and bonds).
749.....	Quarterly Return of Manufacturer or Importer of Playing Cards.
752.....	Application for Registry (persons required to collect tax on admissions).
754.....	Notification to District Director by Lessor Where Lessee Is Responsible for Collection of Federal Tax on Admissions.
755.....	Application for Exemption From Collection of Federal Tax on Admissions.
827.....	Advance Report to District Director by the Owner or Lessee Who Operates Any Theater, etc., for a Term Not Exceeding 10 days and Collects Taxable Admission Charges.
928.....	Gasoline and Lubricating Oil Bond (required of manufacturers or producers).
929.....	Consent of Surety To Change in Terms of Bond Relating to Gasoline and Lubricating Oil.
2701.....	Type "A" Agreement (agreement by supplier to pay retail excises for retailers).
2240.....	Claim for Refund of Federal Tax on Gasoline Used on a Farm.

SELECTED REGULATIONS PUBLISHED

Income Tax Regulations

Income Tax Regulations under various sections of the Internal Revenue Code were either amended or added by the following Treasury Decisions:

Treasury Decision 6832, relating to the treatment of gain from dispositions of certain personal property subject to an allowance for depreciation.

Treasury Decision 6838, relating to the computation of the credit for investment in certain depreciable property and the restoration to the depreciable basis of amounts previously not taken into account for purposes of computing depreciation.

Treasury Decision 6841, relating to (1) the disposal of coal or domestic iron ore with retained economic interest, and (2) the percentage depletion rate for ores of beryllium.

Treasury Decision 6845, relating to the reduction of the exemption from surtax in the case of corporations which are members of a controlled group.

Treasury Decision 6850, relating to adjustments to basis of stock in controlled foreign corporations and other property.

Treasury Decision 6856, relating to the exclusion from gross income of gain on the sale of the residence of an individual aged 65 or over.

Treasury Decision 6859, relating to an election to treat operating mineral interests in the same tract

or parcel of land as separate or in combination, in cases of oil and gas wells.

Treasury Decision 6861, relating to the determination of earnings and profits of foreign corporations for purposes of the foreign tax credit.

Treasury Decision 6862, relating to losses caused by the expropriation of property by foreign governments and other net operating loss deductions.

Treasury Decision 6885, relating to the averaging of the bunched income received in a single taxable year as if such income had been received over a series of 5 taxable years.

Treasury Decision 6886, relating to a number of subjects of interest to the insurance industry, for example, the tax treatment of variable annuities, capital gains, and accident and health insurance contract premiums.

Treasury Decision 6887, relating to the income tax treatment of certain employee stock options.

Regulations on Procedure and Administration

Treasury Decision 6870. The Regulations on Procedure and Administration under section 6334 of the Internal Revenue Code were amended so as to prohibit a levy by the Internal Revenue Service on mail which has not been delivered to the addressee.

Excise Tax Regulations

Treasury Decision 6847. The Manufacturers and Retailers Excise Tax Regulations under section 6011 of the Internal Revenue Code were amended with respect to rules relating to the refund of retailers excise tax paid by suppliers on articles held by retailers on June 22, 1965.

Employment Tax Regulations

Employment Tax Regulations under various sections of the Code were amended or added by the following Treasury Decisions:

Treasury Decision 6860, relating to the collection of income tax at the source to reflect a reduction in the income tax rates.

Treasury Decision 6882, relating to the establishment of a flat percentage rate for withholding of income tax from supplemental wage payments in lieu of graduated withholding rates.

Treasury Decision 6883, relating to permission to employers and others to submit the information required by certain forms on magnetic tape so as to fa-

cilitate the accumulation and processing of the required information.

Treasury Decision 6884, relating to rules which accelerate, in the case of certain employers, the depositing of social security taxes and income taxes which have been withheld at the source on wages.

Temporary Regulations

The enactment of the Excise Tax Reduction Act of 1965 on June 21, 1965, required a number of timely actions on the part of manufacturers and others to comply with that act. In order to give taxpayers guidance in taking such actions, a number of temporary regulations were issued under *Treasury Decisions 6839, 6846, and 6857*. These *Treasury Decisions* related, respectively, to (1) extensions of time for filing returns and paying certain retailers and manufacturers excise taxes, (2) credit or refund for floor stocks and certain consumer purchases, and (3) floor stock refunds on automobile parts and accessories.

Treasury Decision 6854. Temporary regulations were also issued under the Interest Equalization Tax Extension Act of 1965.

Alcohol, Tobacco, and Firearms Regulations

Treasury Decisions 6843, 6851, 6871, and 6880 amended regulations in 26 CFR Parts 201, 211, 240, 270, 275, 285, 290, 295, and 296 to implement the Excise Tax Reduction Act of 1965 (Public Law 89-44) as it relates to chapters 51 and 52 of the Internal Revenue Code.

Treasury Decisions 6848 and 6849, effective September 24, 1965, prescribed semimonthly return periods for alcohol and tobacco taxes consistent with calendar months, and provided for a two-step increased period of time for filing tax returns.

Treasury Decision 6877, published February 26, 1966, provides an entirely new concept for the payment of distilled spirits tax by domestic bottlers. No change is made in the method of determining the tax; however, the actual amount of the tax to be paid with any one return will, generally, depend on the quantity of finished product removed from the bottler's premises after completion of processing and bottling. This system provides taxpayers substantial relief from the burden of financing their taxpayments until the tax is recovered through sales to customers.

SIGNIFICANT REVENUE RULINGS AND REVENUE PROCEDURES

Guides for the qualification of annuity, pension, profit-sharing, and stock bonus plans under section 401(a) of the Code were updated (Rev. Rul. 65-178, C.B. 1965-2, 94).

A junior chamber of commerce operated exclusively for the promotion of social welfare qualifies for income tax exemption under section 501(c)(4) of the Code (Rev. Rul. 65-195, C.B. 1965-2, 164).

Any increment in value of so-called "advance premiums," "prepaid premiums," or "premium deposit funds" which is applied to the payment of premiums due on annuity and life insurance policies, or made available for withdrawal by the policyholder, will result in taxable income to the policyholder at that time (Rev. Rul. 65-199, C.B. 1965-2, 20, as amplified by Rev. Rul. 66-120, I.R.B. 1966-20, 8) (T.I.R. 748, 7-8-65, and T.I.R. 818, 5-16-66).

Guidelines are set forth with respect to the use of proper identifying numbers in certain specific situations involving escrow accounts maintained by a bank (Rev. Rul. 65-203, C.B. 1965-2, 437).

An annual requirement contract and a material release authorization, a purchase order, a shipping order, or a similar document, properly cross-referenced, together constitute a record which is within the meaning of the term "purchase order or other document" as used in the temporary rules relating to tax-free sales and purchases for purposes of the manufacturers excise tax (Rev. Rul. 65-210, C.B. 1965-2, 424).

The requirements of section 6049 of the Code are not satisfied where amounts paid by savings institutions are designated as dividends on information returns, Forms 1099 and 1096, in which case the Service may decline to process such defective returns and may require the payer to file proper returns (Rev. Rul. 65-215, C.B. 1965-2, 435).

Under the facts presented, the Service will no longer contend that for purposes of section 337 of the Code the date a closely held corporation adopts a plan of complete liquidation is the date of adoption by the shareholders of a resolution authorizing the distribution of the corporation's assets (Rev. Rul. 65-235, C.B. 1965-2, 88) (T.I.R. 755, 8-16-65).

For purposes of the floor stocks and consumer refund provisions of the Excise Tax Reduction Act

of 1965, a "demonstrator" automobile could be treated as a new automobile if it could be shown that on June 22, 1965, the label required by the Automobile Information Disclosure Act of 1958 was affixed to a window of the vehicle, that the vehicle was to be sold by the dealer under a written or express warranty by which the manufacturer is obligated to the consumer, or by any other evidence acceptable to the Service (Rev. Rul. 65-239, C.B. 1965-2, 439, as amplified by Rev. Rul. 65-304, C.B. 1965-2, 438) (T.I.R. 771, 10-6-65).

Where useful lives can be factually determined with reasonable accuracy on oil and gas pipeline right-of-way easements and related intangibles (such as roddage fees for traversing the land, severance and crop damage, legal fees, etc.), the costs of such intangibles may be depreciated. A taxpayer may show that these intangibles have a limited life if they will not be useful after the useful life of a related pipeline has expired (Rev. Rul. 65-264, C.B. 1965-2, 53) (T.I.R. 777, 11-3-65).

Capital gains treatment is accorded the amount of cash received in a total distribution, on account of separation from service, consisting partly of cash and partly in the form of an annuity contract which is not surrendered in the year distributed (Rev. Rul. 65-267, C.B. 1965-2, 141).

Capital gains treatment does not apply to the amounts received upon the surrender of annuity contracts in a year subsequent to the year in which they were distributed by the employees' trust even though the contracts represented the total amount standing to the employee's credit at the time of his separation from service and were distributed in 1 taxable year (Rev. Rul. 65-268, C.B. 1965-2, 143).

An otherwise qualified hospital may remain exempt from income tax under section 501(c)(3) of the Code even though it requires its doctor staff members to pay fees for the use of hospital facilities (Rev. Rul. 65-269, C.B. 1965-2, 159).

Organizations formed to promote the arts (by teaching dancing, presenting jazz festivals, or promoting group harmony singing) qualify for income tax exemption as educational and charitable organizations under section 501(c)(3) of the Code (Rev. Rul. 65-270, C.B. 1965-2, 160; Rev. Rul. 65-271, C.B. 1965-2, 161; and Rev. Rul. 66-46, I.R.B. 1966-9, 9).

Wages paid to a farm employee do not constitute gross income from farming, and the employee is

subject to the requirements for the filing of a declaration of estimated income tax within the time prescribed by section 6073(a) of the Code (Rev. Rul. 65-280, C.B. 1965-2, 433).

Cost depletion is allowable on ground water extracted by taxpayers beneath their land for irrigation purposes in the Southern High Plains of Texas and New Mexico from the Ogallala formation under facts similar to those in the case of *United States v. Marvin Shurbet, et ux.*, 347 Fed. (2) 103 (1965). (Rev. Rul. 65-296, C.B. 1965-2, 181) (T.I.R. 780, 11-19-65).

The sale of special motor fuels (such as liquefied petroleum gas) in general purpose portable containers that can be attached to a motor vehicle, motorboat, or airplane in such a manner that the fuel can be used for its propulsion is not subject to the retailers excise tax imposed by section 4041(b) of the Code unless the purchaser indicates in writing to the seller prior to or at the time of the sale that the entire quantity of the liquid covered by the sale is for use by him for a taxable purpose as a fuel in such motor vehicle, motorboat, or airplane. If such a written statement is not furnished by the purchaser, he will be liable for the tax on that quantity of the liquid he uses as fuel in a motor vehicle, motorboat, or airplane or which is sold by him in a taxable transaction (Rev. Rul. 65-301, C.B. 1965-2, 415).

On or after February 1, 1966, the importation under described conditions by a resident of the United States of an automobile not previously sold in the United States is not considered to be "incidental" as that term is used in the regulations and, therefore, the U.S. resident is held to be an importer of a taxable article and his use of the automobile is subject to the manufacturers excise tax imposed by section 4061(a)(2) of the Code (Rev. Rul. 65-317, C.B. 1965-2, 422, as amplified by Rev. Rul. 66-66, I.R.B. 1966-12, 12) (T.I.R. 803, 2-28-66).

A casualty loss deduction arising from the destruction of timber by hurricane cannot exceed the adjusted basis for determining loss from the sale or other disposition of the quantity of timber which by fair and reasonable estimates is found to be unfit for use because of the hurricane. Adjusted basis in such a case does not include any portion of the basis attributable to the land, other improvements, or any timber not rendered worthless by the hurricane (Rev. Rul. 66-9, I.R.B. 1966-3, 5).

A qualified plan must provide for commencement of distributions of an employee's interest no later than actual retirement after attainment of normal retirement age, stated age, or occurrence of a specified event, and completion of service and uniform requirements, except, in the case of an owner-employee, no later than age seventy and one-half (Rev. Rul. 66-11, I.R.B. 1966-3, 6).

The qualification of plans established for only a specified class of employees rather than for all employees was discussed in a series of four rulings (Rev. Rul. 66-12, I.R.B. 1966-3, 7; Rev. Rul. 66-13, I.R.B. 1966-3, 9; Rev. Rul. 66-14, I.R.B. 1966-3, 11; and Rev. Rul. 66-15, I.R.B. 1966-3, 12).

Only one-half of the administration expenses, funeral expenses, and all other ordinary expenses connected with the management or division of Texas community property are generally allowable as a deduction for Federal estate tax purposes. Expenses which can be specifically allocated to the decedent's share of the community or incurred solely to determine the estate tax liability, however, are deductible in full (Rev. Rul. 66-21, I.R.B. 1966-4, 15).

Where a corporate shareholder received stock in another corporation as a result of a merger but was required by a consent decree entered in 1965 to divest itself of such stock within 7 years, the continuity of interest requirements of the reorganization provisions of the Code are satisfied if at the time of the reorganization the corporate shareholder has no preconceived plan or arrangement for disposing of the stock received. Ordinarily, the Service will treat 5 years of unrestricted rights of ownership as a sufficient period for the purpose of satisfying the continuity of interest requirements of a reorganization (Rev. Rul. 66-23, I.R.B. 1966-5, 8).

To clarify and supplement the application of the formula authorized by Revenue Ruling 65-92, guidelines are provided for computing annual additions to reserves for bad debts by banks for taxable years ending after December 31, 1964 (Rev. Rul. 66-26, I.R.B. 1966-5, 5).

Various situations are presented for claiming refund of, or taking credit against income tax for, the manufacturers excise tax on gasoline used otherwise than as a fuel in a highway vehicle after June 30, 1965, and the tax on lubricating oil used otherwise than in a highway motor vehicle after December 31, 1965 (Rev. Rul. 66-48, I.R.B. 1966-11, 6).

An upland cotton acreage allotment is an intangible property right which qualifies as a capital asset under section 1221 of the Code, if held by a taxpayer who is not a dealer in such allotments (Rev. Rul. 66-58, I.R.B. 1966-11, 12) (T.I.R. 800; 2-17-66).

The full value of property held by a husband (who furnished the entire consideration) and wife as tenants by the entirety is includible in the husband's gross estate where a determination cannot be made other than that they died simultaneously. Where the Uniform Simultaneous Death Act is applicable, however, the husband's estate is entitled to a marital deduction on the one-half interest passing to the wife (Rev. Rul. 66-60, I.R.B. 1966-11, 14).

Truck chassis, designed to be equipped with high-pressure pumping equipment for use in furnishing pumping services in oilfields, are subject to the manufacturers excise tax imposed by section 4061(a)(1) of the Code (Rev. Rul. 66-61, I.R.B. 1966-11, 16).

The applicability of sections 892, 893, and 4382 of the Code to an organization separate in form but wholly owned by a foreign government will be determined by the organization's purposes, functions, and activities (Rev. Rul. 66-73, I.R.B. 1966-13, 10).

Where a corporation is liquidated under section 333 of the Code (1 month liquidation) and the shareholders continue the business of the corporation as a partnership, a portion of the basis of the shareholders' stock must be allocated to the goodwill of the corporation where the goodwill has value in the hands of the shareholders (Rev. Rul. 66-81, I.R.B. 1966-14, 9).

In accordance with a prior conclusion that the sale of a production payment retained from the assignment of an interest in oil, gas, and minerals in place is a "conveyance of realty sold" within the meaning of section 4361 of the Code, the documentary stamp tax imposed by that section also applies to a transaction of the kind commonly described and known in the industry as the conveyance of a carved-out production payment (Rev. Rul. 66-88, I.R.B. 1966-15, 12).

Further guides are furnished for resolving issues in connection with deferred compensation plans than established by professional services organizations (Rev. Rul. 66-92, I.R.B. 1966-17, 6).

When used real property, such as a building, is acquired for a lump-sum amount, a unified structure is purchased rather than separate components of the building. The basis (cost) of the used property cannot be allocated into separate component accounts in order to determine a composite life for computing depreciation allowances. Rather, an overall useful life for the building must be determined on the basis of the building as a unit (Rev. Rul. 66-111, I.R.B. 1966-19, 6).

The amount of a refund or credit will not be limited under the provisions of section 6511(b)(2)(A) of the Code where the last day of the limitation period is a Saturday, Sunday, or legal holiday and the claim is filed on the next succeeding day which is not a Saturday, Sunday, or legal holiday (Rev. Rul. 66-118, I.R.B. 1966-20, 18).

The management of health and welfare plans for a fee by a business league, exempt from income tax under section 501(c)(6) of the Code, is an unrelated business subject to tax (Rev. Rul. 66-151, C.B. 1966-22, 20).

The qualification for income tax exemption of a "garden club" depends upon its form of organization and method of operation (Rev. Rul. 66-179, I.R.B. 1966-26, 10).

Procedures are set forth for the application of the regulations under section 7701 of the Code, relating to the tax classification of professional service organizations (Rev. Proc. 65-27, C.B. 1965-2, 1017) (T.I.R. 770, 10-6-65).

An administrative procedure is provided whereby cash basis taxpayers may expeditiously obtain consent to change their accounting practice of reporting payments received under the U.S. Department of Agriculture 1963 Wheat Stabilization Program and the 1963 Feed Grain Program (Rev. Proc. 66-1, I.R.B. 1966-2, 16).

In examining returns filed for taxable years beginning after December 31, 1964, by employees and self-employed individuals, the Service will accept the use of a simplified method for computing deductions for costs of operating passenger cars (including vehicles such as pickup or panel trucks) for business purposes. The method may be used irrespective of whether the taxpayer receives a reimbursement or allowance (Rev. Proc. 66-10, I.R.B. 1966-10, 19).

Based upon data obtained from manufacturers of rear loading compaction-type refuse collection

trucks, the Service will, in the examination of highway use tax returns covering such trucks, accept without substantiation the exclusion of 3,000 pounds in computing their "actual unloaded weight" (Rev. Proc. 66-15, I.R.B. 1966-15, 50).

Manufacturers of tobacco products have the initial responsibility in determining whether a roll of tobacco is a cigar or a cigarette and to taxpay it accordingly. Samples of reconstituted tobacco intended for use as a wrapper for rolls of tobacco, and of the finished product and the package need not be submitted for a tax determination if the manufacturer is confident that the wrapper material is a "substance containing tobacco" and that the product is clearly distinguishable as a cigar or clearly distinguishable as a cigarette (Rev. Proc. 66-5, I.R.B. 1966-4, 23).

Stills, beer, wines, or distilled spirits shipped to any possession of the United States on or after July 1, 1965, shall be considered to be exportations for any purpose within the purview of 26 CFR Parts 196, 201, 240, 245, or 252. This ruling modifies the definition of "export" and "exportation" contained in the above cited regulations (Rev. Rul. 65-182, C.B. 1965-2, 487).

Interest is payable on the amount paid in excess of that due with a bottler's deferred payment return, Form 4077, only as to the amount in excess of the total outstanding liability for distilled spirits tax; and underpayment on such return is subject to interest (Rev. Rul. 66-109, I.R.B. 1966-18, 22).

Two additional meters were approved for metering beer in breweries, and all approved meters, together with related control, installation, and testing provisions, were incorporated in one issuance for ready reference by interested individuals (Rev. Proc. 66-14, I.R.B. 1966-13, 22).

SIGNIFICANT ANNOUNCEMENTS

A pamphlet, entitled "The Excise Tax Reduction Act—Some Questions and Answers for Consumers," may be ordered from the Superintendent of Documents, U.S. Government Printing Office (Announcement 65-59, I.R.B. 1965-30, 35).

The Service has undertaken a project aimed at more effective taxpayer guidance regarding the deductibility of payments by patrons who are thereby entitled to participate in events conducted to raise

funds for charity (Announcement 65-61, I.R.B. 1965-31, 28) (T.I.R. 747, 6-30-65).

The National Office Technical Organization has been realigned to provide better utilization of its manpower and improved service to taxpayers (Announcement 65-62, I.R.B. 1965-33, 50) (T.I.R. 751, 7-20-65).

Exempt trusts are requested to cooperate with the Service in updating its records prior to conversion to automatic data processing (Announcement 65-69, I.R.B. 1965-37, 54) (T.I.R. 758, 9-1-65).

Cash basis farmers who have reported diversion payments under the 1963 Agricultural Wheat and Feed Grain Programs in the year of actual receipt rather than in the year of constructive receipt may request a change in accounting practice under Revenue Procedure 64-16 (Announcement 65-72, I.R.B. 1965-41, 34) (T.I.R. 762, 9-20-65).

New procedures have been developed for processing cases reportable to the Joint Committee on Internal Revenue Taxation (Announcement 65-77, I.R.B. 1965-43, 41) (T.I.R. 763, 9-22-65).

The Index-Digest Supplement to Cumulative Bulletins 1961-64, a compilation of digests of all matters appearing in the Cumulative Bulletins for those years, is available from the Superintendent of Documents, U.S. Government Printing Office (Announcement 65-80, I.R.B. 1965-44, 41).

A gift of money, land, or other property to programs designed to conserve the Nation's natural beauty may qualify for a charitable contribution deduction (Announcement 65-86, I.R.B. 1965-50, 42).

The Special Enrollment Examination given on September 23 and 24, 1965, for persons other than attorneys or certified public accountants, who wish to practice before the Service, is reproduced in the Bulletin (Announcement 66-5, I.R.B. 1966-3, 18).

One edition of the Bulletin is devoted to the publication of an index to administrative and procedural matters (other than those on alcohol, tobacco, and firearms taxes) which have been published in the Bulletin since 1952 (Announcement 66-13, I.R.B. 1966-7).

Beginning January 1, 1967, computer produced magnetic tape reports of payments of income will be accepted by the Service (Announcement 66-16, I.R.B. 1966-8, 61).

A brief summary of the various records required to be retained for Federal tax purposes is included

in the current "Guide to Record Retention Requirements," which has been published in the Federal Register (Announcement 66-25, I.R.B. 1966-13, 24).

The proposed revision of Form 3646, Income of Controlled Foreign Corporation, includes a schedule relating to earnings and profits of controlled foreign corporations (Announcement 66-37, I.R.B. 1966-19, 21) (T.I.R. 813, 4-20-66).

ALCOHOL AND TOBACCO INDUSTRY CIRCULARS

Industry Circulars 65-30 and 65-31 (Nov. 1, 1965) advised alcohol and tobacco industry members, qualified for extended deferral, that when the last date for filing a return falls on a Saturday, Sunday, or legal holiday, such return will be timely filed if it is filed on the next succeeding day which is not a Saturday, Sunday, or legal holiday.

TECHNICAL INFORMATION RELEASES

One of the primary means of informing the public of the enactment of new legislation or steps that taxpayers must take under recently enacted legislation is by the issuance of Technical Information Releases. Among such Technical Information Releases issued during the year were:

T.I.R. 750 (July 15, 1965) announcing that extensions of time for filing excise tax returns and paying the tax would be granted to certain taxpayers entitled to credits or refunds under the Excise Tax Reduction Act of 1965 (Public Law 89-44).

T.I.R. 772 (Oct. 12, 1965) explaining the liability of surety companies with regard to gasoline and lubricating oil sold prior to July 1, 1965, because of amendments to the Code by Public Law 89-44.

T.I.R. 790 (Dec. 20, 1965) instructing taxpayers about changes in references to the Federal admissions tax on tickets for admission to theaters, etc., because of the repeal of the tax on admissions made by Public Law 89-44.

T.I.R. 808 (Apr. 1, 1966) announcing alternative formula tables for withholding of income tax to assist employers in complying with the Tax Adjustment Act of 1966 (Public Law 89-368).

T.I.R. 809 (Mar. 29, 1966) calling attention to the changes provided for in Public Law 89-368 with respect to the communication services tax imposed on amounts paid for local telephone services, toll

telephone service, and teletypewriter exchange service.

T.I.R. 811 (Apr. 5, 1966) pointed out that section 102 of Public Law 89-368 provided that for taxable years beginning on or after January 1, 1967, self-employed persons must include their estimated self-employment tax in their declaration of estimated tax.

SUPREME COURT DECISIONS

Civil Cases

The Court, in reversing the Second Circuit in *Fribourg Navigation Co. v. Commissioner*, 383 U.S. 272 (1966), held that depreciation was not to be disallowed in the year of sale, as a matter of law, merely because the sales price of a depreciable asset exceeded the adjusted basis of such asset at the beginning of the year of sale. By tying depreciation to sales price, the Court held that the Commissioner had commingled two distinct and established concepts of tax accounting—depreciation of an asset through wear and tear or gradual expiration of useful life and fluctuations in the value of that asset through changes in price levels or market values. This decision does not, however, preclude the Commissioner from requiring a redetermination of useful life and salvage value of an asset where they are found to be erroneous.

In *Commissioner v. Tellier*, 342 U.S. 690 (1966), the Court held that legal expenses incurred by a securities dealer in an unsuccessful defense of a criminal prosecution were deductible as ordinary and necessary business expenses. In upholding a decision of the Second Circuit, the Court rejected the Government's contention that the deduction must be disallowed on the ground of public policy.

In *Hollywood Baseball Association v. Commissioner*, 383 U.S. 824 (1966), the Court followed its decision in *Malat v. Riddell*, 383 U.S. 569 (1966), also decided during the same term, and remanded the case to the Tax Court to determine whether baseball player contracts were held "primarily" for sale in the ordinary course of taxpayer's trade or business. *Malat* had resolved a conflict among the Courts of Appeals with regard to the meaning of the term "primarily" as it is used in section 1221(1) of the 1954 Code. In *Malat*, the Court rejected the Commissioner's "dual purpose" construction of the term and held that it is

to be given its ordinary, everyday meaning, that is, "of first importance" or "principally."

In *Estate of Leyman v. Commissioner*, 383 U.S. 832 (1966), the Court vacated the judgment of the Sixth Circuit, 344 F. 2d 763 (6th Cir. 1965) and remanded the case to the Tax Court for computation of the civil fraud penalty in accordance with Public Law 89-359, a private relief bill. That statute specifically amends section 894(a) of the 1939 Code to provide, consistent with the corresponding provision of the 1954 Code (sec. 6653(b)) and contrary to the pro-Government holding of the Sixth Circuit, that the fraud penalty for filing a fraudulent estate tax return is to be computed as 50 percent of the total deficiency rather than as 50 percent of the entire tax, as provided in section 3612(d)(2).

The Court, in *Fortugno v. Commissioner*, 353 F. 2d 429 (3d Cir. 1966), granted taxpayer's petition for certiorari and agreed to review a Third Circuit decision which held that an advance payment constituted a deposit rather than a payment of tax for purposes of determining whether interest is due the taxpayer on a remittance in excess of the finally determined liability.

The Supreme Court denied the Government's petition for a writ of certiorari in *Estate of Borax v. Commissioner*, 349 F. 2d 666 (2d Cir. 1965) and *Wondsel v. Commissioner*, 350 F. 2d 339 (2d Cir. 1965). The taxpayers (husbands) had obtained *ex parte* divorces (Borax in Mexico and Wondsel in Florida) which, at the instance of their first wives, were declared invalid by the New York Supreme Court. Marriages entered into by the husbands following the divorces were also declared invalid. Despite these declarations of invalidity, the Second Circuit held that taxpayers may treat the divorces and remarriages as valid for tax purposes.

In *Malat v. Riddell*, 383 U.S. 569, decided March 21, 1966, the Supreme Court rendered a significant per curiam decision adverse to the Government in a very frequently litigated area of tax law. The question presented was whether property held for either rent or sale, whichever proved to be the more profitable, should be treated as property held "primarily" for sale to customers in the ordinary course of a trade or business under section 1221(1).

The Court resolved a conflict on this question between the circuits, and held that the word "pri-

marily" should be construed in accord with its ordinary, literal meaning as "of first importance." The case was remanded for fact findings as to which purpose, renting or selling, was primary. In addition to its importance under section 1221(1), this decision could also affect the interpretation of other Code provisions using the word "primarily" or substantially the same language.

On the same day as the *Malat* decision the Court also decided *The Motorlease Corporation v. United States*, 383 U.S. 573, against the Government on the authority of its prior decision in *Fribourg Navigation Co., Inc. v. Commissioner*, 383 U.S. 272, which involved the same question.

On March 23, 1966, *O'Malley et al., Exrs. v. United States*, 383 U.S. 627, was decided in favor of the Government, resolving a conflict among the circuits on an estate tax question arising under section 811(c)(1)(B)(ii) of the Internal Revenue Code of 1939, the predecessor to section 2036(a)(2) of the Internal Revenue Code of 1954. The case involved an irrevocable inter vivos trust where the settlor retained the power to accumulate income for the remaindermen instead of distributing it currently to income beneficiaries. The Court held that not only the trust corpus, but also the income which had been accumulated under this power, was includible in the gross estate. It rejected the argument that the decedent had only transferred the corpus and had never made a "transfer" of the accumulated income within the meaning of the statute.

United States v. Catto, 86 S. Ct. 1311, was decided on April 26, 1966, in favor of the Government. In doing so, the Court reversed the Fifth Circuit and resolved a conflict between its decision and other circuit court decisions, including *United States v. Ekberg*, 291 F. 2d 913 (8th Cir. 1961), regarding the question of the validity of section 1.471-6(f) of the regulations. This regulation requires that accrual basis farmers and ranchers electing to use the "unit-livestock-price method" of inventorying animals raised for sale, draft, or dairy purposes must use the same method for inventorying breeding animals also. The result is that the cash method cannot be employed by such taxpayers in the case of raised breeding livestock in computing capital gain on the sale of such animals, and cash basis taxpayers are able to obtain a substantial tax advantage on such sales not available to accrual basis taxpayers. Notwithstanding such

acknowledged tax differential, the Court concluded that the regulation was clearly valid. As a result of the decision, consideration is being given by the Treasury Department to requiring cash basis ranchers to capitalize raising costs thereby removing the advantage which they presently enjoy over accrual basis ranchers.

The Court on December 13, 1965, in the case of *United States v. Ray Speers, Trustee in Bankruptcy of the Kurtz Roofing Company*, 86 S. Ct. 411, affirmed the Court of Appeals for the Sixth Circuit and held against the United States. The Court held that under section 70c of the Bankruptcy Act (11 U.S.C. 110c) the Federal tax lien is invalid as to the trustee in bankruptcy unless a notice of Federal tax lien is filed prior to the commencement of the bankruptcy proceeding. The Court relied on the legislative history of section 70c and congressional action on bills, which would accomplish the same result, to support its conclusion. The specific question presented was whether a trustee in bankruptcy is a "judgment creditor" within the meaning of section 6323 of the Internal Revenue Code of 1954.

On June 6, 1966, the Court decided the case of *United States v. The Equitable Life Assurance Society of the United States*, 86 S. Ct. 1561, in favor of the United States, reversing the Supreme Court of New Jersey. The Court held that a Federal tax lien was entitled to priority over claims of an attorney for fees. The Supreme Court of New Jersey had awarded priority to the attorney's claims on the basis of a State law which provides for the allowance in a foreclosure action of an attorney's fee fixed by statute as a certain percentage of the amount adjudged to be paid the mortgagee and taxed as costs in the foreclosure action. The Supreme Court of the United States decided that since this New Jersey law had not been invoked, much less applied, to establish the liens for such costs at the time when the Federal tax lien attached, the Federal lien was prior.

The Court on June 13, 1966, affirmed the Court of Appeals for the Fifth Circuit in part, reversed in part and remanded the case of *Nicholas, Trustee v. United States*, 384 U.S. 678. The Court in reversing held that the trustee in bankruptcy was not liable for interest on Federal taxes which were incurred by a debtor in possession during an arrangement proceeding under chapter XI of the Bank-

ruptcy Act where the arrangement proceeding was terminated and a petition in bankruptcy was filed before such taxes became payable. The Court further held that interest on cabaret and withholding taxes was not a trust fund. The Court in affirming held that the trustee was liable for penalties for failure to file timely returns for such taxes. Penalties are necessary for enforcement and no legitimate purpose would be served by permitting the trustee to escape the unburdensome task of filing returns. Inasmuch as the case of *United States v. Kalishman, Trustee*, 346 F. 2d 514 (8th Cir. 1965), decided adversely against the Government by the Eighth Circuit Court of Appeals involved the same issue but only as regards interest, certiorari was held in abeyance pending the outcome of the *Nicholas* case. In conformity with the decision in the *Nicholas* case, the Court on June 20, 1966, denied the Government's petition for certiorari.

In the case of *Segal v. Rochelle, Jr.*, 86 S. Ct. 511, in which the United States was not a party, the Court on January 18, 1966, affirming the Court of Appeals for the Fifth Circuit, held that refunds resulting from a loss—carryback based on losses occurring during the year of bankruptcy were assets of the trustee in bankruptcy rather than the taxpayer—bankrupt, even though the refunds were not payable until after the close of the taxable year. This decision will have a substantial effect with respect to the collection of taxes from bankrupt taxpayers.

On June 6, 1966, the Court granted certiorari over the Government's objections in the case of *Hodes v. United States*, 355 F. 2d 746 (2d Cir. 1966). The Court of Appeals in this case had overruled the district court and held that Federal tax liens were superior against certain mortgagees and purchasers. The decision is very significant insofar as the collection of the revenue is concerned in that under the Circuit Court's reasoning and decision a Federal tax lien has no specific time limitation on its life and survives so long as the underlying liability is enforceable. Under section 6502(a) of the Code, the tax assessed may be collected by a proceeding in court begun within 6 years of the assessment. Therefore, the institution of a suit to enforce the tax liability extends the life of the tax lien beyond the 6-year period. The judgment keeps the underlying liability enforceable and therefore "serves merely as a measuring rod for the life of the lien." The court held also that the tax lien does

not merge into the judgment but exists independently.

Actions of Lower Court

In response to the Service's recommendation, the Solicitor General has filed a petition for a writ of certiorari in *Stidger v. Commissioner*, 335 F. 2d 294 (9th Cir. 1965). The Ninth Circuit held that amounts expended for meals by a military officer stationed at his permanent duty post to which he is prohibited from bringing his family, constitute deductible "traveling expenses" incurred while away from home in the pursuit of a trade or business rather than nondeductible "personal" or "living" expenses. The Ninth Circuit's decision conflicts with that of the Fourth Circuit in *Bercaw v. Commissioner*, 165 F. 2d 521 (4th Cir. 1948). The decision also conflicts with other appellate courts' interpretations (*i.e.*, the Second, Third, and Fourth) of the term "home" in the travel expense area. This issue is of importance because there are approximately 25,000 commissioned officers serving overseas at permanent duty stations to which they cannot take their families.

The Seventh Circuit upheld the Commissioner's position in Rev. Rul. 57-377, C.B. 1957-2, 146, in *Commissioner v. Indiana Broadcasting Corp.*, 350 F. 2d 580 (7th Cir. 1965), when it reversed the Tax Court and held that a television station's network affiliation contract (with Columbia Broadcasting Co.) for a 2-year term, which was automatically renewable for successive 2-year terms, was not a depreciable asset. The network affiliation contracts had been purchased with other assets of the station.

The Service was successful in a case involving a net operating loss carryover and a section 482 allocation issue. In *Pauline W. Ach v. Commissioner*, 358 F. 2d 342 (6th Cir. 1966), the Service reallocated 70 percent of the 1954-58 income of a dress business from the Ach Corp. to Pauline. The dress business had previously been transferred to an inactive family corporation having heavy net operating losses. The sole purpose of the transfer was to give a tax benefit by routing the income of the dress business through the corporation and thence back to Pauline or her husband in the guise of tax-free repayment of otherwise unrecoverable loans earlier made by the husband to the corporation. The Sixth Circuit, holding that the term "ownership" in

section 269 of the 1954 Code included "beneficial ownership," also denied the corporation the use of certain net operating loss-carryovers sustained prior to 1953 in the operation of its creamery and dairy business.

In another section 482 case the Commissioner successfully included in the parent corporation's income a portion of the commissions paid and discounts allowed to the parent's wholly owned foreign subsidiary. The commissions paid and the discounts allowed by the parent to its subsidiary were far in excess of the commissions and discounts that had been paid or allowed to the parent corporation's previously existing independent agent in the same country and to the parent's independent representative in another country. *Oil Base, Inc. v. Commissioner*, 17 AFTR 2d 1280 (9th Cir. 1966). The Court upheld the arm's length bargaining standard of the regulations and effectively limited its prior holding in *Frank v. International Canadian Corp.*, 308 F. 2d 520 (9th Cir. 1962).

The Commissioner's attempt to establish legal support for collateral estoppel as fulfilling respondent's burden of proof in support of the civil fraud penalty has met with mixed success. The Fourth Circuit in *Amos v. Commissioner*, 360 F. 2d 358 (4th Cir. 1965), initially added unqualified appellate court approval of the Tax Court's newly established position, that conviction for criminal tax evasion results in collateral estoppel as to the fraud issue in later civil proceedings. However, the Fourth Circuit subsequently modified its decision in *Moore v. United States*, 360 F. 2d 353 (4th Cir. 1965) and held that the wife, who had signed a joint return but had not been a party to the criminal evasion action, was not estopped by the husband's conviction and could litigate the fraud issue in the civil proceeding.

Taxpayer's attempt to deduct his State's income tax on his share of business income from a partnership in computing adjusted gross income as an ordinary and necessary business expense was successfully thwarted in *Tanner v. Commissioner*, CCH par. 9537 (4th Cir. 1966). Significantly, the Tax Court's decision was affirmed by the Fourth Circuit which had previously allowed a deduction from adjusted gross income for legal and accounting fees incurred in controversies with respect to Federal income tax deficiencies, and interest thereon, as deductions "attributable to a trade or business carried

on by the taxpayer" in *Standing v. Commissioner*, 259 F. 2d 450 (4th Cir. 1958).

In *John G. Moffatt v. Commissioner*, 17 AFTR 2d 1290 (9th Cir. 1966), the Ninth Circuit affirmed the Tax Court's holding that, under section 356 of the Internal Revenue Code, the transferee corporation acquired "substantially all" of the assets of the transferor when it had the use and benefit of all the assets relating to the operation of the transferor's business even though certain nonoperating assets were retained by the transferor's stockholders (i.e., 35½ percent of the book assets of the transferor). It specifically adopted the position in Rev. Rul. 57-518, C.B. 1957-2, 253, to the effect that no specific percentage should be controlling in determining what are "substantially all" of the transferor's assets. This decision refutes the oft-cited principle that 86 percent total net worth is sufficient (*Commissioner v. First National Bank*, 104 F. 2d 865 (3d Cir. 1939)) but that 68 percent is insufficient (*Arctic Ice Machine Co. v. Commissioner*, 23 B.T.A. 1223 (1931)) to meet the "substantially all" requirement.

In *Uinta Livestock Corp. v. United States*, 335 F. 2d 761 (10th Cir. 1966), the court held that execution of a Form 870-Ad promising not to claim refund did not estop the taxpayer from thereafter suing for refund. This decision represents another in a long line of conflicting decisions on this question. The question of binding effect of a Form 870-Ad is of great importance administratively because of the numerous "agreements" entered into by the Service with taxpayers using these forms.

The decisions in *Jerome Moore v. United States*, 360 F. 2d 353 (4th Cir. 1966), and *O. K. Armstrong v. United States*, 354 F. 2d 274 (Ct. Cl. 1966), resolved in favor of the Government the very important question of whether a prior criminal conviction is binding on a taxpayer under collateral estoppel principles in subsequent civil proceedings involving fraud penalties for the same year. These decisions are consistent with several other recent decisions to the same effect.

However, in the *Moore* case the circuit court resolved another important aspect of this problem in a manner unfavorable to the Government. It held that the wife who filed a joint return could still relitigate the question of her husband's fraud, since she was not a party to the criminal case. The court did not discuss the question of whether the wife

and husband could be considered to be in privity for collateral estoppel purposes.

In *Morrison v. United States*, 355 F. 2d 218 (6th Cir. 1966), cert. den. June 13, 1966, the Government was successful in upholding its position that an uncompensated casualty loss had to be offset against a section 1231(a) gain before any loss could be deducted under section 165(c)(3). This issue affects numerous taxpayers. The court declined to follow the previous decision for the taxpayer in *Maurer v. United States*, 284 F. 2d 122 (10th Cir. 1960), involving a similar question.

The year saw two more adverse decisions concerning the property status of the cash surrender value of a level premium life insurance policy in lien foreclosure suits, the cases being *United States v. Home Life Insurance Co.*, 355 F. 2d 86 (2d Cir. 1966) and *United States v. Miroff*, 353 F. 2d 481 (7th Cir. 1965). Earlier adverse decisions were in *United States v. Mitchell*, 349 F. 2d 94 (5th Cir. 1965); *Mutual Life Insurance Co. of New York v. United States*, 343 F. 2d 71 (9th Cir. 1965); and *United States v. Sullivan*, 333 F. 2d 100 (3d Cir. 1964). In rejecting the Government's arguments the Third and Seventh Circuits have held that a policy loan is not a direct loan, but rather an advance to the insured of the cash loan value since the insured is merely drawing down money deposited with the insurer which he has no obligation to repay. There was not a lien priority question, as contended by the Government, since the insurer was a debtor of the insured, not a creditor. Further, as to the effect of a notice of levy, the Second, Third, Fifth, and Ninth Circuits have held that while a tax lien attached to the power of election held by the insured to cancel the policy and receive the cash surrender value, the levy alone did not exercise the right of the taxpayer to demand the cash surrender value. Petitions for writs of certiorari were not filed in any of the cases.

A significant decision with respect to the collection of taxes by suit was entered by the Fifth Circuit in the case of *United States v. West Texas State Bank*, 357 F. 2d 198 (5th Cir. 1966). The court reversed and remanded the district court decision, holding that the State statute of limitations did not apply in a suit brought by the Government on a contract under which the bank had agreed to assume the debts and liabilities of the taxpayer corporation in consideration for a transfer by the corporation

of all of its assets. The United States had brought suit as a third party beneficiary to enforce the contract and the circuit court reasoned that since the action was one to collect taxes the Government was acting within its sovereign capacity and was therefore immune from time restrictions imposed by State law.

In the case of *United States v. Silverstein*, 344 F. 2d 1016 (2d Cir. 1965), cert. den. 382 U.S. 828 (1965) the Court of Appeals affirmed the District Court, holding that a general partner in two real estate syndicates was not entitled to invoke the fifth amendment privilege against self-incrimination as grounds for his refusal to produce the syndicates' books and records where it was found that the syndicates were of a character so impersonal in the scope of their membership and activities that they could not be said to embody or represent the purely private or personal interests of their constituents, but rather to embody their common or group interests only.

The Court of Appeals for the Seventh Circuit had occasion to rule with respect to two suits brought to enjoin the district director from using evidence for purposes of asserting deficiencies, which evidence was unlawfully seized by State officials and then turned over to the Service. The Seventh Circuit in *Zamaroni v. Philpott*, 346 F. 2d 365 (7th Cir. 1965), affirmed the district court in dismissing the injunction suit against the district director, agreeing that there was no jurisdiction to enjoin the Service from using certain evidence in the determination of a tax liability. The Court did not rule on the question of whether the exclusionary rule set forth in *Elkins v. United States*, 364 U.S. 206 (1960), applies to civil proceedings. In *Kennedy v. Coyle*, 352 F. 2d 867 (7th Cir. 1965), the Court affirmed the district court's dismissal upon the grounds that the taxpayer had an adequate remedy at law. The Court again refused to resolve the question of whether the exclusionary rule applies to civil proceedings.

In the case of *Illinois Redi-Mix Corp. v. Coyle*, 66-14 STC par. 9435 (7th Cir. 1966), the question presented was whether due process requires that attorneys' and accountants' fees for services rendered and to be rendered in contesting jeopardy assessments for income taxes be paid out of funds of the taxpayer which are subject to Federal tax liens. The Court reversed the district court which had ordered payment of the fees, stating that the constitu-

tional question of due process was prematurely decided.

The Government obtained another significant decision in the case of *United States v. Montreal Trust Company*, 358 F. 2d 239 (2d Cir. 1966), cert. den. 86 S. Ct. 1366. The United States instituted suit in the district court in New York against the estate of the taxpayer, a deceased resident of Canada, to reduce to judgment income tax assessments arising from income realized by the taxpayer from various New York transactions. Service was made on the taxpayer's Canadian executors under the New York "long-arm" statute which confers "personal jurisdiction over any nondomiciliary or his executor or administrator," as to causes of action arising from the transaction of business in New York. The bank, one of the executors, challenged the jurisdiction of the district court alleging that service was not authorized under the New York statute. The district court held that the Government had not proved necessary jurisdictional facts. The Court of Appeals decided that the taxpayer through the activities conducted by his agents in New York had transacted sufficient business in the State to establish prima facie proof of the jurisdictional facts. The Court remanded the case for a hearing on the merits, stating that the threshold jurisdiction established for purposes of utilizing the "long-arm" statute does not relieve the Government at the trial on the merits from proving the facts upon which jurisdiction is based by a preponderance of the evidence.

In the case of *Brown v. Lethert*, 360 F. 2d 560 (8th Cir. 1966), the Court affirmed the order of the district court denying an injunction against the collection of Federal taxes. The taxpayer sought the injunction on the basis that the Service had not complied with the statute requiring notice of determined deficiencies in income tax. The Court found that the notices of deficiency were properly sent to the taxpayer's "last known address" and held that the failure of the taxpayer to receive the notices was not relevant because a notice sent by registered mail to the correct address is adequate under the statute, whether or not it is received.

The Seventh Circuit Court of Appeals in the case of *Tillotson v. Boughner*, 350 F. 2d 663 (7th Cir. 1965), reversed the district court and held that the attorney for an undisclosed client was not in contempt of court for refusing to divulge the name of

the person who employed him to make a voluntary payment of taxes. This case involves the situation where an attorney transmitted a cashier's check to the Service for over \$215,000 and refused to divulge the name of his client. In 1964 in the decision of *Tillotson v. Boughner*, 333 F. 2d 515 (7th Cir. 1964), the Court of Appeals affirmed the district court order holding that the Service had the authority to issue a summons to ascertain the tax liability of the unknown taxpayer. After the attorney's petition for writ of certiorari was denied, he still refused to disclose the identity of his client, raising for the first time the attorney-client privilege. The United States moved for a contempt citation and the district court held him in contempt and fined him \$100 a day until he purged himself of his contempt. On the appeal to the Court of Appeals, the Court held that the attorney had not waived the right to claim the attorney-client privilege and further, that under the facts of the case the attorney-client privilege includes the identity of the client. Certiorari was not sought by the Government. As an additional matter of interest, the Court of Appeals in the case of *Raynec v. Schulze*, 350 F. 2d 666 (7th Cir. 1965), cert. den. 382 U.S. 919 affirmed the district court, holding that the records of the bank from which the attorney purchased the cashier's check for the undisclosed client were not clothed with the attorney-client privilege and ordering that the bank produce its records.

Of special interest were two cases in which taxpayers convicted of income tax evasion were later detected and convicted of willful attempts to evade payment of the same taxes which they had evaded.

Harold C. Trowsell, Chicago, Ill., was found guilty by U.S. Judge J. Sam Perry of willfully attempting to evade the payment of corporate and individual income taxes for the years 1946 to 1953, inclusive. Trowsell was sentenced to 5 years in prison, with the proviso that the court would reconsider the sentence if within 60 days, Trowsell would take some action towards the returning of \$500,000 from Switzerland. Trowsell has appealed his conviction. In 1954 Trowsell pleaded guilty to evading the income taxes of the Trowsell Chevrolet Sales, Inc., and Chicago Avenue Chevrolet, Inc., for the years 1946 to 1948, inclusive, for which he was sentenced to serve 3 years in prison and fined \$10,000. In the recent trial he was found guilty of attempting to evade payment of these corporate

income taxes, as well as income taxes for other years, owed by him and the corporations. The evidence showed that as a part of the scheme of evading payment, the defendant had sent in excess of \$500,000 out of the country to a Swiss bank.

Charles R. (Ruby) Stein pleaded guilty to willful attempted evasion of the payment of his income taxes for the years 1947 to 1950, inclusive, and willfully evading his income taxes for the years 1960 and 1961. Judge Weinfeld of the Southern District of New York, sentenced Stein to serve 4 years in prison, concurrently, and to pay fines totaling \$30,000. In a prior prosecution, Stein in 1954 pleaded guilty to evading his taxes for the years 1946 to 1949, inclusive, and was sentenced to serve a year and a day in prison together with 1 year's probation. As noted above the recent prosecution was partly based on willful evasion of the payment of taxes for several years covered by the prior evasion case. Newspaper publicity referred to Stein as a "loan shark's loan shark."

Perhaps the two most significant decisions in civil cases in the alcohol and tobacco tax area were handed down by district courts. In *Wood v. United States*, 250 Fed. Supp. 995 (D.C. S. Car.), the court clearly and squarely upheld the Government's traditional position that the alcohol contained in fermented but as yet undistilled mash found at the site of an illicit still is taxable as distilled spirits. Although this has been the Government's view for 100 years, never before has the issue been squarely and definitely presented in a reported case.

The other district court case of outstanding significance involved the judicial forfeiture of the mail order weapons purchased by Lee Harvey Oswald and used in the assassination of President Kennedy (15 U.S.C. Ch. 18). Forfeiture under the Federal Firearms Act was sought on the ground that the weapons were involved in a violation of the Federal Firearms Act (15 U.S.C. section 905(b)) in that Oswald, by ordering the weapons under a fictitious name, caused the dealers who sold the weapons (though unwittingly) to make false entries in the records which the law required to be maintained. In a strong opinion (*U.S. v. One 6.5 mm. Mannlicher-Carcano Military Rifle, etc.*, 250 Fed. Supp. 410) the District Court decreed forfeiture of the weapons. The claimant, who allegedly purchased the weapons from Mrs. Oswald, has appealed and

the case is now pending before the Court of Appeals for the Fifth Circuit.

Another wagering tax forfeiture case of significance, *One 1961 Lincoln Continental Sedan v. United States* was decided by the Court of Appeals for the Eighth Circuit in May of 1966 (360 F. 2d 467) when the Court reaffirmed the position that a substantial amount of currency is required in the conduct of a wagering operation and is therefore subject to forfeiture as is an automobile which is used as an active aid in the business. Of greater significance, however, is the Court's rejection of a contention that *One Plymouth Sedan v. Pennsylvania*, 380 U.S. 693 (1965) requires that the Government, in a forfeiture case, prove its case beyond a reasonable doubt. The Circuit Court said "overwhelming authority unequivocally holds that the essential facts must be established by a preponderance of the evidence and not beyond a reasonable doubt."

Perhaps the largest sum of money subjected to judicial forfeiture in recent years was involved in *U.S. v. \$305,644.26*, Civil Action No. C65-403, decision dated March 8, 1966, in which the District Court for the Northern District of Ohio forfeited the money seized from the operators of a large scale "numbers" operation in the Cleveland, Ohio, area.

United States v. George Fisher, as claimant of one 1954 Cadillac sedan, 353 F. 2d 396 (5th Cir. 1965) is of importance primarily because the Circuit Court supported the Government's contention that a hand stock gun designed to fire fixed shotgun ammunition was a "firearm" in the "any other weapon" category under the National Firearms Act and not a pistol or revolver which types of weapons are not subject to the act. This decision will be helpful in controlling commerce in this type of weapon which has proved troublesome in the past.

There were two significant criminal decisions in the firearms area. In *United States v. Forgett*, 349 F. 2d 601 (6th Cir. 1965), the Circuit Court upheld the conviction of Forgett for shipping in interstate commerce 52 firearms which had not been registered as required (sec. 5841, I.R.C.) in violation of the National Firearms Act (sec. 5855, I.R.C.). Forgett had contended that the registration provisions of section 5841 violated the fifth amendment, relying on *Russell v. United States*, 306 F. 2d 402 (9th Cir. 1962). The Court rejected this contention, pointing out that the offense was the unlawful transportation, not the failure to register, and that, in

any event, registration of the firearms by Forgett prior to shipment would not have incriminated him. Certiorari was denied by the Supreme Court on February 28, 1966, 383 U.S. 926.

The precedent effect of the refusal of the District Court to consider a sawed-off shotgun a firearm under the National Firearms Act because the firing pin was missing (*U.S. v. Thompson*, 202 Fed. Supp., N.D. Cal., 1962) was weakened by *U.S. v. Cooney*, 244 Fed. Supp. 100 (D.C.E.D. La. 1965) where the Louisiana District Court, although disclaiming any intention to criticize Thompson, after a courtroom demonstration as to the ease with which the gun could be fired by using a nail, held that a sawed-off shotgun, minus a firing pin, was a firearm under the National Act.

The power of the Service to annul alcoholic beverage permits secured through fraud, misrepresentation or concealment of material fact has been considerably strengthened by a decision of the Court of Appeals for the Eighth Circuit. The Circuit Court in *White, et al. v. U.S.*, 355 F. 2d 58, affirmed an administrative order annulling an outstanding permit because of the concealment of the continued interest in the business of a person whose connection therewith had resulted in a denial of an application in 1955, 8 years earlier. In a decision of considerable precedent value, the Court finally obviated the possibility that the law might be thwarted through "a game of successive subsequent transfers" under section 4(g) which provides for the continuation of a transferred business pending consideration of a timely filed application for a new permit (cf. *Mid-Valley Distilling Corp. v. DeCarlo*, 161 F. 2d 485 (3d Cir. 1947)). The authority of the Secretary to complete proceedings for the annulment of an outstanding permit notwithstanding the filing of an application by an alleged transferee of the business was specifically confirmed. The decision is also of importance in that the Court made it clear that an administrative order may be validly supported by the accumulative effect "contextually, in the whole situation," of a series of "evidentiary details of testimony, documents, memoranda, admissions, act and circumstances" each of which may be capable, separately, of opposing implications and inferences.

Criminal Cases

In the case of *United States v. Kohatsu* (C.A. 9, 1965), 351 F. 2d 898, the Ninth Circuit Court

of Appeals affirmed the conviction of the defendant for willful tax evasion and for willful falsification of income tax returns under penalty of perjury, rejecting his contention that the Supreme Court's theorem of the right of an accused to an attorney as announced in *Escobedo v. Illinois* (1964) 378 U.S. 478, was applicable to investigations by a revenue agent and a special agent. In effect the court sharply distinguished the arrest case and its "custodial and accusatory aspects" as covered by the *Escobedo* decision from an investigation by the Service the purpose of which is to determine whether in fact a crime had been committed and, if so, by whom.

On June 20, 1966, following its decision in the case of *Miranda v. State of Arizona*, the Supreme Court denied Mr. Kohatsu's petition for a writ of certiorari. In the *Miranda* case, (1966) 384 U.S. 436 the Court indicated that the rationale of the *Escobedo* case applied to cases involving "custody" of the accused, or deprivation of his freedom of action in any significant way. Mr. Justice Douglas found with respect to the Ninth Circuit Court of Appeals decision in *Kohatsu*, no violation of the principles in *Miranda v. State of Arizona*, 384 U.S. 436 and was of the opinion that certiorari should be granted and the judgment below affirmed.

The Supreme Court on May 23, 1966, in the case of the *United States v. Blue*, 384 U.S. 251, held that the pretrial order of a U.S. district court dismissing a criminal indictment charging income tax evasion, on the ground that the defendant had been compelled to incriminate himself in civil tax proceedings, was a decision "sustaining a motion in bar," and hence that the Government was entitled to appeal directly to the Supreme Court under the Criminal Appeals Act.

After the defendant had been advised by the Service that criminal charges might be brought against him for violation of the Internal Revenue Code, jeopardy assessments were made against him, his wife, and his wholly owned corporation. Assets were seized and tax liens recorded. The defendant contested the proposed deficiencies alleging errors in the determinations. Over a year later, the defendant was indicted on various income tax evasion counts involving the same years as the jeopardy assessments and the consequent Tax Court proceedings. The defendant contended successfully to the district court that he had been compelled by the

civil proceedings to come forward in the same matters involved in the criminal proceedings to testify against himself. The Supreme Court reversed the district court, and in part, referred to the Government's argument that the Tax Court pleadings filed by the defendant were no more than denials of underpayments and did not constitute incriminating evidence.

In addition, the Court held in effect that even if they assumed that the Government did acquire incriminatory evidence in violation of the fifth amendment, a defendant would at most be entitled to suppress the evidence and its fruits if an attempt was made to use them at the trial. The remedy at the trial of exclusion from evidence of illegally seized material does not of itself include barring the prosecution altogether.

The conflict in the Circuit Courts of Appeal for the Fourth and Sixth and for the Fifth Circuits as to the constitutionality of the statutory presumption (sec. 5601(b)(1), I.R.C.) that defendant's unexplained presence at the site of an illicit still shall be deemed sufficient evidence to authorize a conviction of the crime of having possession, custody, or control of an unregistered still (sec. 5601(a)(1), I.R.C.) was resolved against the Government by the decision of the Court in *United States v. Romano*, 382 U.S. 136. In *United States v. Gainey*, 380 U.S. 63, the Court, last term, had upheld the similar presumption (sec. 5601(b)(2), I.R.C.), applicable to a charge of carrying on the business of a distiller without having given bond. In *Romano*, it distinguished *Gainey*, on the ground that, although there is a reasonable connection between the fact proved; i.e., presence at the still, and that presumed;

i.e., carrying on the business, since one who is found at the still site is likely to be aiding and abetting in the illegal operation in some capacity, this connection is too remote and tenuous when the performance of a specific act or function; i.e., possession, custody, or control, is sought to be inferred from defendant's presence at the still.

Thirteen petitions for certiorari were filed by defendants in alcohol and tobacco tax criminal cases, nine such petitions were denied and three were pending action at the end of the term of court.

STATISTICS OF INCOME REPORTS PUBLISHED

Individual Income Tax Returns, 1963 (208 pps., \$1.25).

Corporation Income Tax Returns With Accounting Periods Ended July 1962-June 1963 (422 pps., \$2.25).

Corporation Income Tax Returns With Accounting Periods Ended July 1963-June 1964, Preliminary (38 pps., 30¢).

U.S. Business Tax Returns With Accounting Periods Ended July 1962-June 1963 (406 pps., \$2.25).

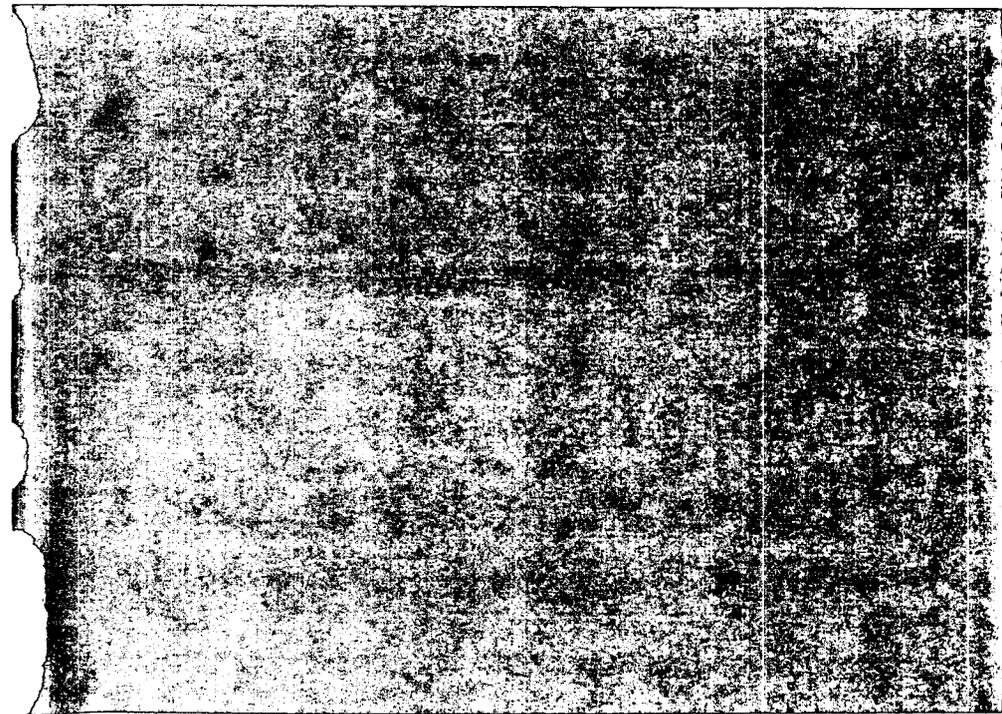
U.S. Business Tax Returns With Accounting Periods Ended July 1963-June 1964, Preliminary (24 pps., 20¢).

Fiduciary, Gift, and Estate Tax Returns, 1962 (108 pps., 65¢).

Depletion Allowances for Mineral Production Reported on U.S. Tax Returns, 1960 (62 pps., 40¢).

Statistics of Income publications may be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

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Notes: All yearly data are on a fiscal year basis, unless otherwise specified. For example, data headed "1966" pertain to the fiscal year ended June 30, 1966, and "July 1" inventory items under this heading reflect inventories as of July 1, 1965.

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 83.

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. 121, for tax rates and further breakdown of national totals by source)

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- employ- ment tax ³	Income tax withheld and self- employ- ment tax ³	Railroad retirement ⁴	Unemploy- ment insurance
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
United States, total.	128,879,961	30,834,243	81,553,645	19,413,516	60,889,524	683,631	867,924
North-Atlantic Region.	31,021,192	9,554,302	18,878,648	4,956,717	14,820,222	114,043	132,968
Albany..... (See (c) below)	1,424,708	412,730	966,261	139,866	826,395	3,203	6,505
Augusta..... (Maine)	319,112	51,249	249,379	174,824	74,549	1,781	1,781
Boston..... (Massachusetts)	3,685,407	735,192	2,606,412	581,199	2,003,439	4,487	17,278
Brooklyn..... (See (c) below)	2,646,243	330,824	2,095,061	662,208	1,412,235	7,499	13,119
Buffalo..... (See (c) below)	2,456,300	633,558	1,822,742	512,700	1,235,700	172	10,821
Burlington..... (Vermont)	138,533	19,147	108,428	30,582	77,846	836	692
Hartford..... (Connecticut)	2,488,232	483,543	1,699,472	432,156	1,249,641	7,751	9,225
Manhattan..... (New York)	17,068,622	6,615,561	9,029,420	1,657,916	7,216,769	68,289	80,289
Portsmouth..... (New Hampshire)	3,221,882	748,471	2,209,929	623,008	1,689,744	55	1,556
Providence..... (Rhode Island)	577,227	127,601	411,269	127,601	324,979	13	3,000
Mid-Atlantic Region.	18,274,383	4,349,322	13,708,481	2,879,393	10,829,088	172,446	91,641
Baltimore..... (Maryland and D.C.)	2,962,394	351,493	2,201,529	471,733	1,660,485	42,910	10,844
Newark..... (New Jersey)	4,309,726	1,076,286	2,764,511	760,341	1,968,233	20,878	30,876
Philadelphia..... (See (c) below)	4,544,460	1,019,402	3,079,628	729,091	2,242,960	83,732	102,848
Pittsburgh..... (Pennsylvania)	3,221,182	748,471	2,009,929	574,222	1,404,894	3,224	16,568
Richmond..... (Virginia)	1,926,319	321,093	1,138,511	316,426	782,168	3,056	7,882
Wilmington..... (Delaware)	1,204,282	625,214	314,332	206,745	304,483	3	3,101
Southeast Region.	9,437,963	1,885,894	6,989,949	1,741,290	4,822,915	23,773	69,484
Atlanta..... (Georgia)	1,694,099	364,249	1,163,087	264,812	887,546	9,116	9,116
Birmingham..... (Alabama)	812,445	148,693	624,248	169,042	434,219	6,395	5,132
Columbia..... (South Carolina)	615,518	147,041	438,863	127,332	311,531	104	4,306
Greensboro..... (North Carolina)	2,999,771	604,319	1,111,606	283,764	815,592	1,042	11,208
Jackson..... (Mississippi)	358,707	33,597	291,063	103,543	184,365	10	2,684
Jacksonville..... (Florida)	2,076,664	469,849	1,606,815	442,953	1,163,862	12,458	10,382
Nashville..... (Tennessee)	1,119,404	227,145	825,152	249,969	566,729	1,428	7,026
Central Region.	23,351,399	6,507,121	12,182,892	2,831,404	9,114,933	64,472	84,472
Cincinnati..... (See (c) below)	3,216,496	706,821	2,250,657	385,565	1,865,092	1,454	11,562
Cleveland..... (See (c) below)	9,071,963	1,263,892	7,808,071	1,633,788	6,174,283	39,004	20,522
Detroit..... (Michigan)	9,974,415	3,783,382	4,028,898	848,333	3,180,565	4,445	33,352
Indianapolis..... (Indiana)	2,755,661	509,877	1,869,759	395,904	1,462,500	976	10,349
Louisville..... (Kentucky)	1,981,909	218,428	606,620	189,204	417,416	15,318	8,287
Parkersburg..... (West Virginia)	426,952	64,561	331,250	231,078	51,171	4	2,297
Midwest Region.	18,817,858	4,643,497	12,143,424	2,983,844	9,085,915	206,247	28,279
Aberdeen..... (South Dakota)	2,265,260	18,750	1,870,941	412,750	1,458,191	10	40,558
Chicago..... (See (c) below)	8,263,260	2,218,153	5,275,835	1,118,245	4,014,964	102,068	40,558
Des Moines..... (Iowa)	966,153	192,170	714,458	277,361	437,445	4,357	3,357
Fargo..... (North Dakota)	135,003	11,807	106,262	47,216	59,046	1	711
Madison..... (Wisconsin)	2,230,179	558,135	1,406,094	329,310	1,065,642	354	10,788
Omaha..... (Nebraska)	697,021	127,858	494,073	146,535	315,521	29,042	2,974
St. Louis..... (Missouri)	2,936,342	658,008	1,879,593	442,953	1,385,428	36,377	13,835
St. Paul..... (Minnesota)	1,954,254	468,959	1,333,759	286,603	1,005,753	36,279	9,182
Springfield..... (See (c) below)	1,479,301	321,657	816,371	265,139	545,218	811	5,203
Southeast Region.	9,906,948	1,899,637	6,798,913	1,984,605	4,716,887	64,218	44,909
Albuquerque..... (New Mexico)	297,291	76,609	209,993	62,522	146,051	1	1,314
Austin..... (See (f) below)	2,681,427	431,799	1,560,411	501,576	1,044,086	3,396	11,352
Cheyenne..... (Wyoming)	97,912	7,919	77,274	31,685	45,137	1	711
Dallas..... (See (f) below)	2,082,513	415,076	1,502,549	467,104	1,015,663	8,895	10,886
Denver..... (Colorado)	1,386,291	145,225	1,115,238	169,357	935,861	5,930	4,091
Little Rock..... (Arkansas)	386,105	51,794	302,386	110,229	198,509	206	2,451
New Orleans..... (Louisiana)	1,100,261	184,308	811,156	254,630	550,300	782	5,384
Oklaoma City..... (Oklahoma)	1,138,059	185,207	638,662	189,592	444,249	34	4,787
Wichita..... (Kansas)	767,086	141,479	581,346	195,910	384,964	34,964	3,292
Western Region.	15,316,833	2,388,708	11,826,242	3,059,791	8,337,696	86,339	72,907
Anchorage..... (Alaska)	81,837	7,771	71,777	18,787	52,990	1	744
Boise..... (Idaho)	245,743	48,736	187,777	49,615	138,162	294	1,472
Helena..... (Montana)	188,753	30,674	147,540	55,174	91,303	216	847
Honolulu..... (Hawaii)	323,614	83,323	242,247	61,044	181,203	112	1,536
Los Angeles..... (See (c) below)	6,316,817	980,074	4,659,579	1,239,754	3,387,525	1,836	30,465
Phoenix..... (Arizona)	420,533	58,103	357,231	119,128	238,586	129	2,389
Portland..... (Oregon)	833,353	147,137	647,730	188,534	454,062	2,569	4,945
Reno..... (Nevada)	238,451	35,001	177,483	54,780	121,353	(*)	1,349
Salt Lake City..... (Utah)	317,791	51,448	243,678	55,337	188,783	1,067	1,511
San Francisco..... (See (c) below)	4,768,283	709,349	3,435,131	926,939	2,438,462	20,263	21,811
Seattle..... (Washington)	1,576,457	287,088	1,156,156	285,303	858,718	655	7,480
Office of International Operations.	473,899	44,386	393,264	202,342	186,749	4,197	2,922
Puerto Rico.....	130,310	210	75,644	5,207	67,527	2,811	2,811
Other.....	343,580	44,185	277,620	197,155	79,156	1,197	111
Undistributed: Depository receipts ¹	1,693,379		1,786,973		1,790,672	-9,699	
Transferred to Government of Guam.....	4,133		4,133		4,133		
Withheld taxes of Federal employees.....	257,462		257,462		257,462		
Totals for States not shown above							
(a) California.....	11,085,100	1,689,423	8,094,710	2,166,692	5,825,987	51,297	50,734
(b) Illinois.....	9,748,561	2,539,809	6,992,206	4,960,181	4,960,181	102,879	1,180
(c) New York.....	23,100,306	6,042,613	13,878,721	2,801,356	10,881,961	97,840	98,754
(d) Ohio.....	8,252,462	1,990,813	5,536,115	999,294	4,284,150	40,488	32,184
(e) Pennsylvania.....	7,871,642	1,768,874	5,089,558	1,104,252	3,848,854	93,056	39,396
(f) Texas.....	4,773,940	846,875	3,062,959	968,680	2,095,745	12,291	22,328

See footnotes on p. 123.

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. 121, for tax rates and further breakdown of national totals by source)

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)	Estate tax	Gift tax	Excise taxes, total (sum of columns 11, 28, 31, 34, 42, 47, and 55)	Alcohol taxes						
				Total	Distilled spirits taxes					
(8)	(9)	(10)	(11)	Total	Imported (collected by Customs)	Domestic ²	Rectifica- tion ³	Occupat- ional ⁴	Other ⁵	
(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	
United States, total.	2,646,968	446,954	13,398,112	3,454,378	2,909,777	634,868	2,131,588	27,477	14,894	840
North-Atlantic Region.	688,461	96,831	1,763,841	862,889	416,742	225,028	186,742	2,280	2,855	27
Albany..... (See (c) below)	27,335	820	1,759	832	320	6	1,608	54	316	3
Augusta..... (Maine)	11,412	968	6,104	1,937	1,691	6	1,608	75	23	7
Boston..... (Massachusetts)	92,345	12,776	190,183	96,009	83,853	21,297	61,473	565	310	9
Brooklyn..... (See (c) below)	116,346	8,844	4,507	116,346	4,507	36,141	3,676	286	636	3
Buffalo..... (See (c) below)	59,677	8,844	113,717	71,113	36,664	2	2	517	3	
Burlington..... (Vermont)	5,207	305	5,447	3,856	3,790	7,785			34	3
Hartford..... (Connecticut)	102,293	15,506	120,917	120,917	120,917	22	73,782	321	24	3
Manhattan..... (New York)	245,204	44,528	1,130,589	215,300	198,654	151,877	45,623	798	425	1
Portsmouth..... (New Hampshire)	9,157	493	2,471	225	187		131	21	35	(*)
Providence..... (Rhode Island)	17,675	518	14,240	2,310	1,665		131	21	35	(*)
Mid-Atlantic Region.	397,225	153,453	822,773	510,154	60,828	437,282	3,261	2,898	124	124
Baltimore..... (Maryland and D.C.)	71,144	18,691	319,136	222,374	194,264	22,265	165,041	6,574	376	8
Newark..... (New Jersey)	105,681	6,025	359,244	205,917	128,704	71,931	127,332	351	759	63
Philadelphia..... (See (c) below)	92,707	10,038	442,684	167,955	127,674	28,279	97,105	1,498	788	4
Pittsburgh..... (See (c) below)	55,033	83,442	329,306	77,855	54,067	9,055	43,743	736	515	18
Richmond..... (Virginia)	42,620	2,701	421,174	8,599	5,414	1,237	4,143	(*)	23	1
Wilmington..... (Delaware)	31,845	30,556								

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. 121, 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 ²	Total	Imported (collected by Customs)	Domestic ³	Occupational taxes ²
(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	
United States—total	132,574	10,834	90,449	2,290	892,023	5,863	881,458	4,799
North-Atlantic Region	24,283	5,494	14,776	93	121,776	3,274	117,527	875
Albany..... (See (c) below)	113		415	2	7,797		7,797	91
Augusta..... (Maine)	167	(*)	78		16		16	62
Boston..... (Massachusetts)	1,065	489	571	5	11,092	158	10,931	91
Brooklyn..... (See (c) below)	2,201		2,344	7	37,891		37,490	401
Burlingame..... (See (c) below)	12,186	152	12,031	3	22,263	805	21,303	154
Burlington..... (Vermont)	61	(*)	185	61	1	2	737	48
Hartford..... (Connecticut)	1,355		1,168	1	809		809	172
Manhattan..... (See (c) below)	5,819	4,597	2,008	15	10,017	2,244	7,600	104
Portsmouth..... (New Hampshire)					38			3
Providence..... (Rhode Island)	143	59	74	(*)	11,785	24	11,759	843
Mid-Atlantic Region	12,804	908	11,447	280	159,985	405	159,037	643
Baltimore..... (Maryland and D.C.)	855	459	400	36	27,225	232	26,930	63
Newark..... (New Jersey)	6,532		6,532	(*)	70,581		70,581	63
Philadelphia..... (See (a) below)	3,203		2,799	3	37,078	153	36,771	155
Pittsburgh..... (See (a) below)	9				23,778	(*)	23,584	194
Richmond..... (Virginia)	1,863	38	1,816	210	1,321	20	1,198	104
Wilmington..... (Delaware)					1			2
Southeast Region	2,833	643	1,479	841	22,889	260	21,280	749
Atlanta..... (Georgia)	734	46	601	67	4,332	7	4,239	86
Birmingham..... (Alabama)	13	13		1	7,129	31	7,098	97
Columbia..... (South Carolina)	285	17	147	120	116	13	103	103
Greensboro..... (North Carolina)	135	12	2	120	124	22	102	103
Jackson..... (Mississippi)				6	119		119	9
Jacksonville..... (Florida)	1,704	469	528	306	18,054	187	17,741	125
Nashville..... (Tennessee)	6			(*)	116	(*)		116
Central Region	4,854	721	3,234	899	99,943	537	99,241	265
Cincinnati..... (See (d) below)	791		631	160	12,818		12,794	24
Cleveland..... (See (d) below)	991	339	535	116	14,537	55	14,470	12
Detroit..... (Michigan)	1,797	314	1,291	192	37,992	481	37,405	22
Indianapolis..... (Indiana)	1,320	26	1,114	192	20,881		20,842	58
Louisville..... (Kentucky)	819	43	776	(*)	12,382		12,320	68
Parkersburg..... (West Virginia)	18			18	426		426	39
Midwest Region	8,830	1,402	2,498	20	293,431	358	292,374	98
Aberdeen..... (South Dakota)					39		39	99
Chicago..... (See (f) below)	5,518	985		7	14,647	267	14,346	33
Des Moines..... (Iowa)		(*)		87	4,526		4,526	116
Fargo..... (North Dakota)		(*)			74	(*)	61	12
Milwaukee..... (Wisconsin)	223	185	33	34	124,702	84	124,454	164
Omaha..... (Nebraska)			2,601	3	7,284		7,227	36
St. Louis..... (Missouri)	2,742	138			85,196	2	85,085	105
St. Paul..... (Minnesota)	254	93		(*)	34,476	4	34,316	14
Springfield..... (See (b) below)	1			1	25,598		25,679	19
Southwest Region	1,134	460	341	333	89,898	142	88,486	959
Albuquerque..... (New Mexico)	502	278		(*)	33,072	109	32,544	419
Austin..... (See (f) below)					9		9	9
Cheyenne..... (Wyoming)					66		66	101
Dallas..... (See (f) below)	66				33,835		33,784	44
Denver..... (Colorado)	67	45			7		7	101
Little Rock..... (Arkansas)	350		329	21	42,083	474	41,406	204
New Orleans..... (Louisiana)	148	137	10	1	21,229	47	21,084	118
Oklahoma City..... (Oklahoma)					1,093		961	132
Wichita..... (Kansas)					92		92	73
Western Region	58,224	1,280	56,683	373	105,128	852	103,738	636
Anchorage..... (Alaska)					3		3	6
Boise..... (Idaho)					46		46	24
Helena..... (Montana)					982		958	24
Honolulu..... (Hawaii)	33	32		2	1,343	103	1,240	204
Los Angeles..... (See (a) below)	3,253	673	2,581	53	42,083	474	41,406	204
Phoenix..... (Arizona)	54				873		859	15
Portland..... (Oregon)	183	40	18	124	3,674	14	3,615	45
Reno..... (Nevada)					1,690		1,658	6
Salt Lake City..... (Utah)					20,845	216	20,505	128
San Francisco..... (See (a) below)	33,837	479	53,165	193	20,845	216	20,505	128
Seattle..... (Washington)	863	64	799		33,573	45	33,497	31
Office of International Operations	1	(*)	1	1	76	15	76	15
Puerto Rico.....								
Other.....	(*)	(*)			15		15	
Depository receipts ¹								
Transferred to Government of Guam								
Withheld taxes of Federal employees								
Totals for States not shown above								
(e) California.....	57,000	1,151	55,746	193	62,928	689	61,911	378
(f) Illinois.....	5,520	985	4,527	8	40,345	267	40,025	52
(g) New York.....	21,571	4,749	16,796	26	97,968	3,050	94,100	819
(h) Ohio.....	1,782	339	1,167	276	27,359	25	27,264	49
(i) Pennsylvania.....	3,212	410	2,799	3	60,857	153	60,555	349
(j) Texas.....	567	278	(*)	289	33,305	109	32,677	520

See footnotes on p. 123.

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. 121, 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	Cigarettes ¹	Cigars ¹	Manu- factured tobacco ¹	Other ¹	Total	Sales by postmasters	Sales by district officers ³
	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)
United States—total	2,073,956	2,006,499	67,662	8,684	3,132	146,457	50,317	96,140
North-Atlantic Region	284	29	383	38	363	94,613	5,978	83,825
Albany..... (See (c) below)	29	(*)	29			123		123
Augusta..... (Maine)	10		(*)		2	226		215
Boston..... (Massachusetts)	2		5	1	1	3,749	1,436	2,113
Brooklyn..... (See (c) below)	10	(*)	9	4	1	1,170		1,170
Burlingame..... (See (c) below)	26	(*)	1	12	14	1,173		1,173
Burlington..... (Vermont)	(*)	216	215	1	(*)	1,167		110
Hartford..... (Connecticut)						4,122	1,203	2,919
Manhattan..... (See (c) below)	569	80	124	20	345	45,232	2,128	43,104
Portsmouth..... (New Hampshire)	(*)		(*)			263		198
Providence..... (Rhode Island)			1	(*)		259		65
Mid-Atlantic Region	407,654	376,656	29,095	1,445	48	13,528	7,124	6,798
Baltimore..... (Maryland and D.C.)	828				48	2,343	1,409	833
Newark..... (New Jersey)	1,850		1,443		28	3,928	2,590	1,336
Philadelphia..... (See (a) below)	26,033	2	25,835	177	19	2,178		2,552
Pittsburgh..... (See (a) below)	188		187		(*)	2,280	1,729	551
Richmond..... (Virginia)	378,966		376,554	1,523	910	1,994	1,797	198
Wilmington..... (Delaware)					(*)	431		138
Southeast Region	1,204,789	1,184,347	13,644	3,342	626	9,338	7,703	1,995
Atlanta..... (Georgia)	673		670		2	1,676	1,436	240
Birmingham..... (Alabama)	1,480		1,480		(*)	3,277	2,927	350
Columbia..... (South Carolina)	2,017	(*)	2,017			688		200
Greensboro..... (North Carolina)	1,187,220	1,184,051	1	2,623	545	1,294	1,244	51
Jacksonville..... (Florida)			95	9,474	(*)	3,534	2,231	1,014
Nashville..... (Tennessee)	792		2	2	70	1,335	1,051	284
Central Region	454,158	445,712	5,638	2,939	8	14,974	5,074	8,897
Cincinnati..... (See (d) below)	123		116	7	8	3,467	2,081	1,386
Cleveland..... (See (d) below)	2,156		1,704	448	4	1,412		1,412
Detroit..... (Michigan)	934	(*)	550	381	3	3,851	1,568	2,282
Indianapolis..... (Indiana)	722		722		3	1,494	1,091	403
Louisville..... (Kentucky)	449,565	445,712	2,281	1,571	1	977	603	374
Parkersburg..... (West Virginia)	650	(*)	237	413	9	310	331	30
Jackson..... (Mississippi)	1,963	(*)	31	1,037	9	17,686	7,954	10,734
Midwest Region	621	(*)	7	609	4	9,208	183	25
Aberdeen..... (South Dakota)						6		7,880
Chicago..... (See (f) below)	621	(*)	7	609	4	9,208	183	25
Des Moines..... (Iowa)						1,073		16
Fargo..... (North Dakota)						165		18
Milwaukee..... (Wisconsin)	36	(*)	28	7	1	1,649	1,321	328
Omaha..... (Nebraska)						2,479	457	202
St. Louis..... (Missouri)	402		1	401	(*)	2,599	1,474	1,093
St. Paul..... (Minnesota)	(*)	4	(*)	4	1	1,850	754	1,055
Springfield..... (See (b) below)						2,479	457	202
Southwest Region	216	1	231	(*)	4	13,397	6,842	5,948
Albuquerque..... (New Mexico)						99		218
Austin..... (See (f) below)						2,234		2,234
Cheyenne..... (Wyoming)	99	(*)	95</					

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. 121, 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)	Manufacturers' excise taxes							
	Total (34)	Gasoline (35)	Lubricating oil, etc. (36)	Tires (wholly or in part of rubber), inner tubes, and tread accessories (37)	Motor vehicles, chassis, bodies, parts, and accessories (38)	Radio and television sets, phonographs, components, etc. ² (39)	Refrigerators, freezers, air-conditioners, gas, and oil appliances ³ (40)	Other ⁴ (41)
United States, total.....	5,613,823	2,824,189	90,776	483,803	2,548,849	-5,761	5,504	64,518
North-Atlantic Region.....	715,805	529,417	17,755	109,889	25,669	-5,594	-1,487	15,144
Albany..... (See (c) below)	3,486	2,022	7	26	1,305	19	22	86
Augusta..... (Maine)	2,038	1,113	143	70	143	70	12	152
Boston..... (See (c) below)	16,704	15,904	130	128	2,249	-25	51	2,866
Brooklyn..... (See (c) below)	9,104	2,209	66	3,018	4,854	-340	-968	2,664
Burlington..... (See (c) below)	25,868	11,662	60	2,523	732	-592	3,324	2,137
Hartford..... (Connecticut)	55,854	6,292	18	18	12	12	12	14,797
Manhattan..... (See (c) below)	591,473	488,047	17,473	66,015	11,125	-5,985	195	13,607
Providence..... (Rhode Island)	3,679	1,981	238	1,336	5	5	1	121
Mid-Atlantic Region.....	837,964	485,843	15,551	30,943	82,885	-2,172	1,893	4,918
Baltimore..... (Maryland and D.C.)	54,405	28,038	5	24	578	78	78	1,111
Newark..... (New Jersey)	81,317	18,430	1,284	1,158	60,138	-9	-9	431
Philadelphia..... (See (c) below)	166,978	146,344	4,395	2,467	15,233	-1,572	-1,572	3,111
Pittsburgh..... (See (c) below)	227,501	206,983	8,943	9,433	5,633	1	1	2,623
Richmond..... (Virginia)	7,300	5,648	75	98	1,135	17	17	327
Wilmington..... (Delaware)	463	428	1	1	1	1	1	3
Southwest Region.....	77,113	56,468	678	3,377	15,468	39	645	1,113
Albany..... (Georgia)	15,584	9,142	74	1,187	2,934	11	11	237
Birmingham..... (Alabama)	10,700	4,609	5	1,307	4,681	11	11	52
Columbia..... (South Carolina)	1,166	737	144	5	214	21	21	368
Greensboro..... (North Carolina)	20,802	17,895	138	399	2,482	-1	-1	77
Jackson..... (Mississippi)	3,003	2,441	1	540	1	1	1	36
Jacksonville..... (Florida)	10,164	6,529	125	50	2,281	26	26	720
Nashville..... (Tennessee)	10,889	7,186	173	165	2,378	26	26	599
Central Region.....	2,450,779	229,697	6,378	319,851	1,877,605	1,899	4,284	12,366
Cincinnati..... (See (d) below)	15,513	4,123	110	172	5,379	10	10	603
Cleveland..... (See (d) below)	472,969	89,522	2,285	319,017	53,877	223	-1,198	9,243
Detroit..... (Michigan)	1,840,515	31,957	370	247	1,800,652	3,275	1,525	2,491
Indianapolis..... (Indiana)	31,561	19,693	578	22	12,282	366	-239	373
Louisville..... (Kentucky)	87,450	81,852	2,847	34	1,212	3,384	3,384	65
Parkersburg..... (West Virginia)	2,771	2,350	148	60	204	5	5	4
Midwest Region.....	629,839	402,877	10,322	1,137	97,344	1,326	7,472	2,804
Aberdeen..... (South Dakota)	2,341	3,273	1	1	1	1	1	2
Chicago..... (See (b) below)	322,659	244,714	6,785	568	66,849	851	1,224	2,804
Des Moines..... (Iowa)	14,543	11,451	228	228	2,538	206	206	491
Fargo..... (North Dakota)	4,267	2,995	144	25	841	25	25	2
Milwaukee..... (Wisconsin)	42,820	29,967	175	74	12,194	1	-180	586
Omaha..... (Nebraska)	5,850	4,945	190	190	556	46	91	21
St. Louis..... (Missouri)	58,381	48,239	1,929	1,221	6,319	9	143	491
Springfield..... (See (b) below)	48,460	37,992	367	231	2,544	78	78	3,034
Southwest Region.....	824,842	847,844	28,634	14,882	12,432	-269	-82	928
Albuquerque..... (New Mexico)	4,409	4,423	2	41	2	2	-140	20
Austin..... (See (f) below)	533,024	513,800	18,803	5,288	1,157	2	2	53
Chattanooga..... (Tennessee)	4,933	4,926	233	5	6,263	328	72	238
Dallas..... (See (d) below)	40,955	39,320	233	6	257	1,299	2	131
Denver..... (Colorado)	27,311	16,545	76	7	723	1	2	419
Little Rock..... (Arkansas)	16,653	15,460	33	14	723	1	2	72
New Orleans..... (Louisiana)	7,018	5,719	491	2	726	5	1	32
Oklahoma City..... (Oklahoma)	265,138	255,885	8,571	7	1,634	8	1	1
Wichita..... (Kansas)	12,421	11,366	423	14	583	1	9	14
Western Region.....	291,356	313,631	31,874	3,149	36,532	1,853	781	4,294
Anchorage..... (Alaska)	19	9	1	1	1	1	1	136
Boise..... (Idaho)	1,971	1,618	1	6	175	1	1	10
Helena..... (Montana)	355	311	1	1	5	5	5	30
Honolulu..... (Hawaii)	357	6	1	54	270	1	1	12
Los Angeles..... (See (e) below)	243,114	217,497	7,756	1,565	13,203	999	670	1,425
Phoenix..... (Arizona)	248	77	1	27	126	3	57	81
Portland..... (Oregon)	10,977	1,616	124	9	9,184	3	1	1
Reno..... (Nevada)	427	415	1	1	1	1	1	1,688
Salt Lake City..... (Utah)	3,882	1,940	1	49	204	37	17	782
San Francisco..... (See (g) below)	114,539	104,972	4,100	1,228	3,404	6	13	131
Seattle..... (Washington)	15,457	5,335	14	54	9,805	7	4	3
Office of International Operations.....	26	1	1	1	1	1	1	3
Puerto Rico.....	16	1	1	1	1	1	1	3
Other.....	16	1	1	1	1	1	1	3
Undistributed:								
Depository receipts ⁵								
Transferred to Government of Guam.....								
Withheld taxes of Federal employees.....								
Totals for States not shown above.....								

(a) California.....	357,654	322,468	11,856	2,792	16,507	1,036	877	2,207
(b) Illinois.....	344,733	265,184	8,854	545	68,394	1,129	1,343	2,646
(c) New York.....	604,981	504,840	17,607	17,607	17,607	-5,376	-395	10,159
(d) Ohio.....	468,483	393,645	2,996	319,188	63,256	-1,567	1,200	3,254
(e) Pennsylvania.....	394,478	353,338	13,234	4,553	20,667	-1,567	1,200	3,254
(f) Texas.....	585,079	553,220	19,036	5,539	7,420	-526	-67	237

See footnotes on p. 123.

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. 121, 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)	Retailers' excise taxes					Miscellaneous excise taxes				
	Total (42)	Luggage, etc. (43)	Jewelry, etc. (44)	Furs (45)	Toilet preparations (46)	Total (47)	Theaters, concerts, athletic contests, etc. ² (48)	Roof gardens, cabarets, etc. ³ (49)	Club dues and initiation fees (50)	
United States, total.....	108,155	20,814	43,264	3,379	40,699	1,605,364	45,668	35,738	52,573	
North-Atlantic Region.....	31,533	6,728	10,962	1,113	13,630	365,605	17,291	6,448	10,889	
Albany..... (See (c) below)	501	69	229	30	173	4,844	517	426	682	
Augusta..... (Maine)	183	31	183	82	171	1,587	82	171	152	
Boston..... (Massachusetts)	3,489	770	1,226	1,282	53,692	1,868	788	1,580		
Brooklyn..... (See (c) below)	2,119	425	877	99	219	5,292	4,149	511		
Burlington..... (See (c) below)	2,137	1,178	105	317	15,070	808	1,321	371		
Hartford..... (Connecticut)	86	15	49	21	815	60	24	89		
Manhattan..... (See (c) below)	260	189	531	47	793	20,263	375	331		
Providence..... (Rhode Island)	20,791	4,765	681	9,843	256,687	8,381	1,537	2,357		
Portsmouth..... (New Hampshire)	131	27	72	27	965	237	43	108		
Wilmington..... (Delaware)	515	98	218	12	188	3,910	205	170		
Mid-Atlantic Region.....	13,989	2,967	4,474	508	4,469	187,646	5,864	3,793		
Baltimore..... (Maryland and D.C.)	2,733	450	1,209	78	885	33,201	1,331	1,969		
Newark..... (New Jersey)	2,732	498	1,022	177	1,035	50,034	1,849	1,349		
Philadelphia..... (See (e) below)	2,835	547	1,207	910	65,285	1,537	600	797		
Pittsburgh..... (See (e) below)	2,837	359	36	678	18,801	444	223	243		
Richmond..... (Virginia)	1,172	189	579	29	484	19,186	266	117		
Wilmington..... (Delaware)	152	34	79	11	170	337	46	123		
Southwest Region.....	1,719	381	1,381	3	1,881	17,881	2,644	3,284		
Atlanta..... (Georgia)	1,803	398	797	9	599	111,683	723	639		
Birmingham..... (Alabama)	927	145	437	53	292	5,885	92	534		
Columbia..... (South Carolina)	484	89	430	3	484	12,184	122	847		
Greensboro..... (North Carolina)	1,493	314	631	20	527	16,323	332	101		
Jackson..... (Mississippi)	424	83	191	4	147	2,779	29	83		
Nashville..... (Tennessee)	2,516	429	27	254	24,754	950	1,997	1,457		
Nashville..... (Tennessee)	1,144	302	472	10	360	7,867	284	173		
Central Region.....	12,743	2,139	4,974	242	4,974	104,003	4,315	3,939		
Cincinnati..... (See (d) below)	2,642	523	1,081	23	1,015	15,046	563	681		
Cleveland..... (See (d) below)	4,687	377	1,142	61	897	52,307	1,106	829		
Detroit..... (Michigan)	4,684	787	1,740	107	2,051	47,621	1,541	1,636		
Indianapolis..... (Indiana)	7,754	247	852	33	622	28,057	349	458		
Louisville..... (Kentucky)	714	202	282	10	184	499	256	680		
Parkersburg..... (West Virginia)	483	75	219	7	788	257	80	394		
Midwest Region.....	16,898	4,273	6,447	661	5,227	133,034	4,968	6,808		
Aberdeen..... (South Dakota)	771	23	80	4	64	3,724	53	70		
Chicago..... (See (b) below)	7,554	2,004	2,921	107	1,049	129,429	2,509	1,737		

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. 121, 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)	Miscellaneous excise taxes—Continued					
	Telephone, wire, etc., and equipment services (51)	Transportation of persons ² (52)	Use of safe deposit boxes (53)	Coconut and other vegetable oils processed (54)	Sugar (55)	Diesel and special motor fuels (56)
United States, total	997,937	139,624	1,902	17	102,932	159,328
North-Atlantic Region	192,412	43,655	461	3	89,792	29,977
Albany..... (See (c) below)	1,518	(*)	17	1	796	296
Albany..... (Maine)	283	1,938	69	1	1,782	131
Augusta..... (See (c) below)	39,694	1,122	72	5	583	14,530
Boston..... (See (c) below)	5,183	1,166	44	(*)	52	1,759
Buffalo..... (See (c) below)	1,152	3	2	2	280	330
Burlington..... (Vermont)	1,318	9	36	2	1	38
Hartford..... (See (c) below)	14,724	182	1	1	19,929	19,898
Manhattan..... (See (c) below)	130,655	39,818	6	1	36,869	827
Portsmouth..... (New Hampshire)	1,122	6	1	1	181	17
Providence..... (Rhode Island)	34	(*)	1	1	111	4
Mid-Atlantic Region	118,466	4,452	273	1	5,228	2,877
Baltimore..... (Maryland and D.C.)	18,223	4,411	37	36	2,232	3,827
Newark..... (New Jersey)	36,638	13	81	1	2,089	4,042
Philadelphia..... (See (c) below)	45,804	19	79	1	5,170	972
Pittsburgh..... (See (c) below)	4,524	(*)	45	1	8,861	11,037
Richmond..... (Virginia)	13,256	3	23	1	2,470	844
Wilmington..... (Delaware)	1	(*)	1	1	130	3,824
Southeast Region	311,922	18,289	148	1	6,870	31,816
Atlanta..... (Georgia)	89,702	11,084	20	2	2,537	978
Birmingham..... (Alabama)	960	15	11	1	1,216	28
Columbia..... (South Carolina)	892	2	8	1	1,284	3
Greensboro..... (North Carolina)	8,991	1,223	15	1	1,850	643
Jackson..... (Mississippi)	216	(*)	8	8	934	9
Jacksonville..... (Florida)	8,483	5,898	61	1	1,047	20
Nashville..... (Tennessee)	1,887	53	19	1	2,141	447
Central Region	102,798	224	224	1	1,772	1,816
Cincinnati..... (See (d) below)	8,618	50	30	41	1,971	1,884
Cleveland..... (See (d) below)	36,255	1	36	232	7,104	487
Detroit..... (Michigan)	32,060	81	16	1,471	1,471	17,558
Indianapolis..... (Indiana)	17,069	414	18	29	4,514	3,511
Louisville..... (Kentucky)	3,121	(*)	34	3	5,538	58
Parkersburg..... (West Virginia)	5,581	10	10	1	1,094	16
Midwest Region	197,238	54,270	321	10	22,228	41,618
Aberdeen..... (South Dakota)	404	7	2	6	825	3
Chicago..... (See (b) below)	54,003	28,951	118	6	1,740	41,618
Des Moines..... (Iowa)	3,583	5	28	2	2,106	181
Fargo..... (North Dakota)	5	5	5	52	422	4
Milwaukee..... (Wisconsin)	15,737	39	14	1	1,462	1,393
Omaha..... (Nebraska)	35,029	1	14	542	3,455	6,553
St. Louis..... (Missouri)	79,858	18,549	53	2	3,455	2,712
St. Paul..... (Minnesota)	2,373	6,746	31	2	2,095	1,729
Springfield..... (See (b) below)	5,815	10	26	21	1,541	91
Southwest Region	48,934	6,442	183	29	29,966	6,997
Albuquerque..... (New Mexico)	343	7	7	494	13,276	7
Austin..... (See (f) below)	1,187	86	36	3	1,033	401
Cheyenne..... (Wyoming)	63	3	3	(*)	4,667	181
Dallas..... (See (f) below)	8,080	4,800	33	15,159	1,333	21,878
Denver..... (Colorado)	31,542	761	16	9	1,536	12,697
Little Rock..... (Arkansas)	873	3	3	10,409	1,700	(*)
New Orleans..... (Louisiana)	454	3	3	7,321	1,700	577
Oklahoma City..... (Oklahoma)	1,797	(*)	20	1	1,331	131
Wichita..... (Kansas)	2,595	22	22	1	1,331	25
Western Region	140,894	12,185	318	3	17,128	2,720
Anchorage..... (Alaska)	968	238	3	4	1,018	1,610
Boise..... (Idaho)	181	1	1	1	1	833
Helena..... (Montana)	313	67	6	5	712	28
Honolulu..... (Hawaii)	2,748	627	6	4	114	39,328
Los Angeles..... (See (a) below)	21,826	9,227	82	7	8,870	1,136
Phoenix..... (Arizona)	214	9	13	9	1,570	42
Portland..... (Oregon)	1,176	(*)	21	3	1,510	74
Reno..... (Nevada)	96	596	18	1	774	69
Salt Lake City..... (Utah)	308	8	152	1	6,748	23
San Francisco..... (See (a) below)	88,008	649	132	1	10,368	1,454
Seattle..... (Washington)	24,226	825	37	1	1,194	514
Seattle..... (Washington)	69	468			2,833	96
Office of International Operations					2,559	41
Puerto Rico.....	69	460				
Other						
Undistributed:						
Depository receipts ³						
Transferred to Government of Guam.....						
Withheld taxes of Federal employees.....						
Totals for States not shown above						
(a) California.....	109,833	9,876	214	1	10,375	8,346
(b) Illinois.....	55,818	28,962	144	7	36,947	36,012
(c) New York.....	137,387	41,106	326	3	16,870	2,961
(d) Ohio.....	44,873	8	87	1	9,075	1,581
(e) Pennsylvania.....	50,328	13	125	1	5,171	1,581
(f) Texas.....	9,268	5,664	69	(*)	3,496	22,280

See footnotes on p. 123.

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. 121, 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)	Miscellaneous excise taxes—Continued									
	Narcotics and marihuana, including occupational taxes (57)	Coin-operated amusement devices (58)	Coin-operated gaming devices (59)	Bowling alleys, pool tables, etc. (60)	Occupational Wagers (61)	Use tax on highway motor vehicles (62)	Other ² (63)	Unclassified excise taxes (64)	(65)	
United States, total	1,341	320	16,498	248	795	5,689	104,240	28,626	37,933	
North-Atlantic Region	388	74	87	46	143	288	12,991	19,825	37,462	
Albany..... (See (c) below)	56	3	1	2	2	35	1,747	32	44	
Augusta..... (Maine)	2	(*)	4	(*)	1	2	474	76	131	
Boston..... (Massachusetts)	13	19	69	5	13	36	2,368	689	14,530	
Brooklyn..... (See (c) below)	188	38	40	7	38	40	1,329	409	1,759	
Buffalo..... (See (c) below)	44	23	(*)	11	61	1,955	118	330	330	
Burlington..... (Vermont)	11	(*)	4	(*)	53	33	183	12	38	
Hartford..... (See (c) below)	59	14	1	5	3	62	3,191	17,453	19,898	
Manhattan..... (See (c) below)	2	2	9	2	11	10	231	4	73	
Portsmouth..... (New Hampshire)	5	(*)	2	(*)	2	1	11	85	85	
Providence..... (Rhode Island)	2	2	2	2	2	2	2	2	2	
Mid-Atlantic Region	315	87	2,520	26	95	447	14,835	2,877	33,922	
Baltimore..... (Maryland and D.C.)	17	8	2,203	2	6	92	1,683	81	4,042	
Newark..... (New Jersey)	179	59	62	2	2	8	3,498	972	13,498	
Philadelphia..... (See (c) below)	78	6	21	50	26	62	4,762	432	11,037	
Pittsburgh..... (See (c) below)	16	8	130	6	21	236	2,507	1,215	844	
Richmond..... (Virginia)	23	7	102	6	6	51	1,737	76	3,824	
Wilmington..... (Delaware)	1	1	1	1	1	10	25	1	31	
Southeast Region	91	25	2,985	80	34	610	13,413	283	8,438	
Atlanta..... (Georgia)	20	4	322	4	5	58	1,406	33	12,399	
Birmingham..... (Alabama)	16	3	1	1	1	80	19	19	643	
Columbia..... (South Carolina)	15	2	656	1	1	37	772	3	9	
Greensboro..... (North Carolina)	16	2	25	2	2	7	2,871	20	643	
Jackson..... (Mississippi)	4	2	421	57	2	69	47	27	447	
Jacksonville..... (Florida)	17	9	15	8	9	282	2,528	158	3,816	
Nashville..... (Tennessee)	15	2	645	4	7	74	1,728	28	978	
Central Region	148	27	3,238	23	87	1,409	16,812	487	14,884	
Cincinnati..... (See (d) below)	74	1	203	1	2	85	1,709	39	17,558	
Cleveland..... (See (d) below)	19	6	73	8	20	246	4,502	121	7,609	
Detroit..... (Michigan)	40	11	4	11	11	101	4,950	240	3,511	
Indianapolis..... (Indiana)	54	3	230	3	8	43	170	58	227	
Louisville..... (Kentucky)	7	4	208	3	3	11	1,571	16	856	
Parkersburg..... (West Virginia)	4	2	461	2	10	191	700	11	35	
Midwest Region	128	31	835	28	115	183	17,011	3,425	41,618	
Aberdeen..... (South Dakota)	2	(*)	137	1	2	1	551	8	41	
Chicago..... (See (b) below)	28	11	123	6	11	140	4,707	1,023	35,414	
Des Moines..... (Iowa)	8	1	1	1	8	1	1,796	39	17,558	
Fargo..... (North Dakota)	5	2	1	1	13	248	16	4	11	
Milwaukee..... (Wisconsin)	12	1	1	1	1	2,399	456	1,393	1,393	
Omaha..... (Nebraska)	45	2	33	2	80	1,290	21	6,553	6,553	
St. Louis..... (Missouri)	45	4	114	10	50	2,958	712	1,584	2,712	
St. Paul..... (Minnesota)	12	3	3	3	48	2,270	91	1,729	1,729	
Springfield..... (See (b) below)	6	10	254	3	13	52	1,333	34	699	
Southwest Region	130	34	1,417	18	89	846	18,341	833	8,997	
Albuquerque..... (New Mexico)	2	1	11	1	(*)	1	462	7	19	
Austin..... (See (f) below)	33	7	34	5	14	190	3,496	145	401	
Cheyenne..... (Wyoming)	1	(*)	82	1	14	2	318	2	181	
Dallas..... (See (f) below)	25	3	1	1	2	38	4,216	428	21,878	
Denver..... (Colorado)	33	15	53	5	2	4	1,622	43	12,697	
Little Rock..... (Arkansas)	4	1	308	1	8	92	1,182	10	(*)	
New Orleans..... (Louisiana)	10									

Table 2.—Internal revenue collections by sources and by quarters
(In thousands of dollars)

Source of revenue	Quarter ended—			
	Sept. 30, 1965 (1)	Dec. 31, 1965 (2)	March 31, 1966 ¹ (3)	June 30, 1966 ² (4)
Grand total	26,642,965	23,361,274	33,533,002	45,342,720
Corporation income tax ³	5,445,391	5,447,072	8,499,475	11,442,305
Individual income and employment taxes, total	16,872,963	13,919,213	21,082,728	29,676,781
Income tax not withheld and self-employment tax ⁴	2,955,846	859,904	4,917,312	10,680,454
Income tax withheld and old-age and disability insurance	13,741,052	12,898,651	15,451,145	18,798,674
Railroad retirement ⁵	170,380	156,293	166,862	180,096
Unemployment insurance	5,687	4,364	547,406	9,557
Estate tax	622,956	626,606	698,077	699,329
Gift tax	14,279	10,139	73,957	348,579
Excise taxes, total	3,687,374	3,358,244	3,178,768	3,173,726
Alcohol taxes, total	935,274	1,094,072	835,372	949,661
Distilled spirits taxes	653,379	864,289	612,131	679,978
Wines, cordials, etc.	24,867	31,807	27,917	27,983
Beer ⁶	257,028	197,976	195,324	241,699
Tobacco taxes, total ⁷	537,842	496,461	489,478	550,175
Cigarettes	518,272	477,039	476,284	534,804
Cigars	15,171	15,009	12,343	15,138
Other	4,399	4,413	751	233
Stamp taxes on documents, other instruments, and playing cards, total	46,424	51,059	29,840	19,133
Issues and transfers of bonds of indebtedness or capital stock, foreign insurance policies, and deeds of conveyance:				
Sales by postmasters	12,655	12,582	14,385	10,695
Sales by district directors	33,768	38,477	15,455	8,436
Playing cards, silver bullion transfers	2	(*)	(*)	2
Manufacturers' excise taxes, total	1,578,518	1,304,413	1,414,899	1,316,039
Gasoline	708,485	756,497	705,247	653,960
Lubricating oil, etc.	22,817	22,458	20,851	24,650
Tires (wholly or in part of rubber), inner tubes, and tread rubber	129,495	115,143	121,516	117,649
Motor vehicles, chassis, bodies, parts, and accessories	672,574	361,018	577,337	557,911
Radio and television sets, phonographs, components, etc.	6,755	6,378	-9,502	-7,393
Refrigerators, freezers, air-conditioners, etc.; electric, gas, and oil appliances	6,284	7,377	-8,044	-10,114
Other ⁸	32,108	27,542	7,493	-624
Retailers' excise taxes, total	90,595	7,748	8,929	884
Luggage, etc.	18,633	1,708	257	215
Jewelry, etc.	38,502	3,013	1,313	436
Furs	2,557	286	302	35
Toilet preparations	30,902	2,741	7,056	198
Miscellaneous excise taxes, total	506,095	398,547	361,647	337,074
Admissions:				
Theaters, concerts, athletic contests, etc. ⁹	15,361	17,537	12,253	517
Roof gardens, cabarets, etc.	11,097	11,853	11,045	1,741
Club dues and initiation fees	23,686	15,623	11,863	1,399
Telephone, wire, etc., and equipment services	230,291	220,905	201,905	195,216
Transportation of persons ¹⁰	28,987	32,073	34,232	44,332
Use of safe deposit boxes	1,799	45	47	11
Coconut and other vegetable oils processed	9	2	6	(*)
Sugar	25,169	27,834	26,290	23,640
Diesel and special motor fuels	39,090	41,542	38,540	40,154
Narcotics and marihuana, including occupational taxes	381	208	223	529
Coin-operated amusement and gaming devices	12,235	720	449	3,420
Bowling alleys, pool tables, etc.	151	60	20	17
Wagering taxes:				
Occupational	251	121	85	249
Wagers	1,428	1,651	1,340	1,270
Use tax on highway motor vehicles	53,064	17,575	16,705	16,895
Other ¹¹	3,097	11,201	6,645	7,682
Unclassified excise taxes:				
Unapplied collections	861	902	170,058	-46,394
Undistributed depositary receipts ¹²	-8,334	5,042	-131,456	47,153

See footnotes on p. 123.

Table 3.—Internal revenue collections by sources, fiscal years 1965 and 1966
(In thousands of dollars)

Source of revenue	Fiscal year	
	1965 (1)	1966 ¹ (2)
Grand total, all sources	114,434,634	128,879,961
Corporation income taxes, total ¹³	26,131,334	30,834,243
Regular	26,128,635	30,831,126
Exempt organization business income tax	2,699	3,117
Individual income and employment taxes, total	70,764,989	81,553,685
Income tax not withheld and self-employment tax ¹⁴	17,850,506	19,413,516
Income tax withheld and old-age and disability insurance, total ¹⁵	51,655,249	59,985,524
Received with returns	49,116,910	58,098,832
Undistributed depositary receipts ¹⁶	2,539,339	1,790,672
Railroad retirement, total	635,734	683,631
Railroad employment compensation tax; employers' tax 7½ percent, employees' tax 7½ percent; both imposed on taxable portion of wages:		
Received with returns	594,755	693,297
Undistributed depositary receipts ¹⁷	40,954	-9,699
Railroad employees' representative tax, 14½ percent on taxable portion of wages	25	33
Unemployment insurance, employers of 4 or more persons taxed 3.1 percent on taxable portion of wages, effective January 1, 1964, 3.35 credit allowed up to 90 percent of tax for contributions to State unemployment funds	622,499	567,014
Estate tax, graduated rates from 3 percent on first \$5,000 of net estate in excess of \$60,000 exemption to 77 percent on portion over \$10,000,000; credit allowed for State death taxes	2,454,332	2,646,968
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	291,201	446,954
Excise taxes, total	14,752,779	13,398,112
Alcohol taxes, total	3,772,634	3,814,378
Distilled spirits taxes, total	2,743,884	2,809,777
Imported (collected by Customs, rates same as domestic)	538,576	634,868
Domestic, \$10.50 per proof gallon or wine gallon when below proof ¹⁸	2,151,147	2,131,538
Rectification, 30 cents per proof gallon ¹⁹	24,626	27,477
Occupational taxes:		
Nonbeverage manufacturers of spirits, \$25, \$50, \$100 per year	81	82
Rectifiers:		
Less than 20,000 proof gallons, \$110 per year	8	8
20,000 proof gallons or more, \$220 per year	21	20
Retail dealers in liquor or medicinal spirits, \$54 per year	13,557	14,024
Wholesale liquor dealers, \$255 per year	676	753
Manufacturers of stills, \$55 per year	6	6
Seizures, penalties, etc.	885	934
Stills or condensers manufactured, \$22 each	5	6
Wines, cordials, etc., taxes, total	1,112,432	1,127,574
Imported (collected by Customs, rates same as domestic)	9,644	10,834
Domestic (still-wines, 17 cents, 67 cents, \$2.25 per wine gallon; sparkling wines, \$3.40; artificially carbonated wines \$2.40; liqueurs, cordials, \$1.92)	100,509	99,449
Occupational taxes:		
Retail dealers in wines or in wines and beer, \$54 per year	2,052	2,113
Wholesale dealers in wines or in wines and beer, \$255 per year	187	177
Beer taxes, total	910,319	892,028
Imported (collected by Customs, rates same as domestic)	5,869	5,661
Domestic, \$9 per barrel of 31 gallons ²⁰	899,861	881,458
Occupational taxes:		
Brewers:		
Less than 500 barrels, \$55 per year	1	(*)
500 barrels or more, \$110 per year	26	16
Retail dealers in beer, \$24 per year (includes limited retail dealers in wine or beer, \$2.20 per month)	3,628	3,729
Wholesale dealers in beer, \$123 per year	834	963
Tobacco taxes, total	2,148,594	2,073,956
Cigarettes, total	2,069,695	2,006,499
Class A (small), \$4 per thousand	2,069,695	2,006,498
Class B (large), \$8.40 per thousand ²¹	(*)	(*)
Prepayments	(*)	(*)
Cigars, total	60,823	57,662
Large cigars, classified by intended retail prices, total ²²	60,547	57,313
Class A (Retailing at not over 2½ cents each), \$2.50 per thousand	528	322
Class B (Over 2½ cents, not over 4 cents each), \$3 per thousand	1,662	1,797
Class C (Over 4 cents, not over 6 cents each), \$4 per thousand	14,572	13,961
Class D (Over 6 cents, not over 8 cents each), \$7 per thousand	6,723	5,829
Class E (Over 8 cents, not over 15 cents each), \$10 per thousand	29,343	27,628
Class F (Over 15 cents, not over 20 cents each), \$15 per thousand	4,320	4,301
Class G (Over 20 cents each), \$20 per thousand	3,400	3,474
Small cigars, 75 cents per thousand	330	328
Prepayments	46	21
Tobacco material, tobacco products, and cigarette papers and tubes (Customs) ²³	505	477
Manufactured tobacco, 10 cents per pound ²⁴	16,716	8,684
Cigarette papers and tubes, papers ½ cent per 50; tubes 1 cent per 50	654	634
Tobacco materials—Violations, sec. 5731, Internal Revenue Code of 1954	1	1

See footnotes on p. 123.

Table 3.—Internal revenue collections by sources, fiscal years 1965 and 1966—Continued

Source of revenue	Fiscal year	
	1965 (1)	1966 ¹ (2)
Excise taxes, total—Continued	186,289	146,457
Stamp taxes on documents, other instruments, and playing cards, total		
Issues and transfers of bonds of indebtedness or capital stock, foreign insurance policies, and deeds of conveyance: ¹⁴		
Sales by postmasters	54,212	50,317
Sales by directors	123,947	96,136
Playing cards, 13 cents per pack ¹⁵	8,128	2
Silver bullion transfers, 50 percent of profit; repealed, effective June 5, 1963	2	2
Manufacturers' excise taxes, total	6,418,745	5,613,869
Gasoline, 4 cents per gallon		
Lubricating oil, etc., 6 cents per gallon; cutting oil, 3 cents per gallon ¹⁶	2,687,135	2,824,189
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 highway vehicles), 1 cent per pound	391,588	430,235
Inner tubes, 10 cents per pound	24,584	27,398
Tread rubber, 5 cents per pound	24,295	24,170
Motor vehicles, chassis, bodies, parts, and accessories:		
Passenger automobiles, chassis, bodies, etc., 7 percent ¹⁷	1,887,691	1,492,225
Trucks and buses, chassis, bodies, etc., 10 percent	425,361	450,069
Parts and accessories for automobiles, trucks, etc., 8 percent ¹⁸	252,874	196,546
Radio and television sets, phonographs, components, etc., 10 percent ¹⁹	221,769	—7,761
Refrigerators, freezers, air-conditioners, etc., 5 percent; self-contained air-conditioning units, 10 percent ²⁰	75,987	137
Electric, gas, and oil appliances, 5 percent ²¹	80,983	5,367
Pistols and revolvers, 10 percent ²²	2,206	3,108
Photograph records, 10 percent ²³	26,692	1,148
Musical instruments, 10 percent ²⁴	25,810	—5,312
Sporting goods (other than fishing rods, creels, etc.), 10 percent ²⁵	21,317	2,317
Fishing rods, creels, etc., 10 percent ²⁶	4,373	7,894
Business and store machines, 10 percent ²⁷	74,428	6,745
Cameras, lenses, film, etc., 10 percent; household type projectors, 5 percent ²⁸	35,095	1,064
Electric light bulbs and tubes, 10 percent ²⁹	42,754	16,230
Firearms (other than pistols and shotguns), 10 percent; cartridges, 11 percent ³⁰	20,217	21,344
Mechanical pencils, pens, 10 percent; lighters (31 or more), 10 percent (less than \$1) ³¹	9,468	2,133
Matches, 2 cents per thousand (but not to exceed 10 percent of selling price); fancy wooden or colored stems, 5 1/2 cents per thousand ³²	4,440	1,147
Retailers' excise taxes, total ³³	513,181	108,155
Luggage, etc., 10 percent	81,385	20,814
Jewelry, etc., 10 percent	204,572	43,264
Furs, 10 percent	31,390	5,179
Toilet preparations, 10 percent	185,833	40,898
Miscellaneous excise taxes, total	1,786,056	1,603,364
Admissions taxes, total ³⁴	95,591	81,404
Theaters, concerts, athletic contests, etc.:		
Admissions, 1 cent for each 10 cents or major fraction thereof of the amount paid in excess of \$1	50,531	43,810
Ticket brokers' sales, 10 percent of amounts in excess of box office price	25,596	57
Leases of boxes or seats, 10 percent of the amount for which similar accommodations are sold	197	349
Admissions sold by proprietors in excess of established price, 50 percent of such excess	323	942
Roof gardens, cabarets, etc., 10 percent of total paid for admissions, services, etc. ³⁵	43,823	35,736
Club dues and initiation fees, 20 percent (if dues or fees are in excess of \$10 per year) ³⁶	79,671	52,571
Telephone, wire mileage, etc., services, 10 percent; wire and equipment service, 8 percent	1,078,937	907,917
Transportation of:		
Oil by pipeline, 4 1/2 percent; repealed, effective Aug. 1, 1958	34	16
Persons, 10 percent; repealed, effective Nov. 16, 1962, except on air transportation which was reduced to 5 percent	125,890	139,624
Property, 3 percent of amount paid, except coal which is 4 cents per ton; repealed, effective Aug. 1, 1958	7,410	115
Use of safe deposit boxes, 10 percent ³⁷	7,480	1,902
Coconut and other vegetable oils processed, 2 cents per pound; repealed, effective Aug. 31, 1963	29	17
Sugar, approximately 3/8 cent per pound	97,109	102,932
Diesel and special motor fuels, 4 cents per gallon (in some instances 2 cents per gallon)	152,188	153,326
Narcotics and marihuana, total ³⁸	1,366	1,341
Narcotics	1,289	1,212
Marihuana	77	129
Coin-operated amusement devices, \$10 per device, per year ³⁹	4,363	326
Coin-operated gaming devices, \$250 per device, per year	15,018	16,498
Bowling alleys, pool tables, etc., \$20 per alley or table, per year ⁴⁰	4,778	248
Wagering taxes:		
Occupational tax, \$50 per year	603	705
Wagers, 10 percent of amount wagered	6,071	5,689
Use tax on highway motor vehicles weighing over 26,000 pounds, \$3.00 per 1,000 pounds per year (installment privileges permitted)	102,038	104,240
Adulterated butter and filled cheese (imported and domestic), process or renovated butter and imported oleomargarine ⁴¹	3	3
Firearms transfer and occupational taxes ⁴²	7	63
Interest equalization	14,597	25,653
Foreign insurance	23,090	2,775
Unclassified excise taxes:		
Unapplied collections	23,090	125,527
Undistributed depositary receipts ⁴³	—55,210	—87,595

See footnotes on p. 123.

Table 4.—Internal revenue collections by principal sources, fiscal years 1940 through 1966

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	5,370,108	3,471,121	2,063,459	1,417,635	925,856	407,059	820,056	688,077	617,371	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	821,682
1943	22,371,586	16,298,888	9,668,956	6,629,532	1,498,705	447,496	1,423,646	923,857	504,746	1,274,048
1944	40,121,760	33,027,802	14,766,796	18,261,005	1,738,372	511,210	1,618,775	988,483	503,462	1,733,635
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	2,292,108
1946	40,672,097	31,286,138	12,553,602	18,704,536	1,700,828	676,832	2,526,165	1,165,519	922,671	2,421,844
1947	38,108,386	29,019,756	9,676,459	19,343,297	2,074,365	779,291	2,474,762	1,237,768	1,425,260	2,147,184
1948	41,864,542	31,172,191	10,174,410	20,997,781	2,381,342	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	1,321,975	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	1,836,053	2,214,951
1951	50,445,686	37,384,879	14,387,569	22,997,309	3,627,479	729,730	2,546,808	1,360,996	2,383,677	2,392,719
1952	65,009,586	50,741,017	21,466,910	29,274,107	4,664,264	833,147	2,849,120	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	2,662,788	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	75,112,649	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	86,171,971	60,560,425	21,330,633	39,229,792	7,560,522	1,371,999	2,973,195	1,674,050	3,761,925	2,243,656
1958	79,978,476	59,101,874	20,533,316	38,568,559	6,644,386	1,410,925	2,946,461	1,734,621	3,974,135	2,166,675
1959	79,797,973	58,826,254	18,091,509	40,734,744	6,853,744	1,352,962	3,002,096	1,806,816	3,958,789	1,977,292
1960	91,774,803	67,125,126	22,179,414	44,945,711	11,158,589	1,626,348	3,193,714	1,931,604	4,735,129	2,004,394
1961	94,401,086	67,817,941	21,784,940	46,033,001	12,502,451	1,916,392	3,212,801	1,991,117	4,896,802	1,963,582
1962	99,440,839	71,945,305	21,295,711	50,649,594	12,708,171	2,203,187	3,341,282	2,005,786	5,122,340	2,264,817
1963	105,925,395	75,323,714	22,336,134	52,987,581	15,004,486	2,187,457	3,441,656	2,079,237	6,610,309	2,728,536
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	2,299,645
1965	114,434,634	79,792,016	26,131,334	53,660,683	17,104,306	2,745,532	3,772,634	2,148,594	6,418,145	2,453,406
1966	128,879,961	92,131,794	30,834,243	61,297,552	20,256,133	3,093,922	3,814,378	2,073,956	5,613,869	1,895,909

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.

¹ Less than \$500.² Revised.

³ 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.

⁴ Includes tax on unrelated business income of exempt organizations.

⁵ 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. 10 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 byproduct of its wage and income recordkeeping operations and are published in the Annual Statistical Supplement of the Social Security Bulletin.

⁶ 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.

⁷ 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 Aug. 1, 1950 (64 Stat. 392). This adjustment amounted to \$4,133,068.43 for 1966.

⁸ Includes railroad employment compensation tax and tax on railroad employee representatives.

⁹ Tax payments made to banks, under the depositary receipts system, are included in internal revenue collections for the period in which the depositary 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 depositary receipts are received in the internal revenue offices with tax returns. Accordingly, the items shown as "Undistributed depositary receipts" represent the amount of depositary receipts issued, less the amount of depositary receipts received with returns and distributed by district and tax class.

¹⁰ Amounts of internal revenue taxes collected on Puerto Rican products transported to the United States or consumed in the island (less refunds, drawbacks, and expenses) are covered into the Treasury of Puerto Rico under provisions of secs. 7652(a)(3) and 5314(a)(4) of the Internal Revenue Code of 1954. The gross amounts are included in overall collections results (tables 1 through 4), beginning with 1955, and are shown separately in table 7.

¹¹ Includes occupational tax on manufacturers of stills, rectifiers, wholesale liquor dealers, retail dealers in liquor or medicinal spirits, and nonbeverage manufacturers of spirits.

¹² Includes seizures, penalties, etc., and tax on stills or condensors manufactured.

¹³ Includes occupational taxes on wholesale and retail dealers in wines or in wines and beer.

Footnotes for tables 1-4—Continued

¹² Includes occupational taxes on brewers and wholesale and retail beer dealers.

¹³ Includes taxes on cigarette papers and tubes, and 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 Nov. 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; transportation of property and oil by pipeline (repealed effective Aug. 1, 1958); and firearms transfer; and occupational taxes.

¹⁹ Corporation income tax rates: Effective Jan. 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.

²⁰ Rates of tax are as follows:
Individual income tax: Effective Jan. 1, 1965, graduated rates from 14 percent on taxable income not over \$500 to 70 percent on amounts of taxable income over \$100,000. Calendar year 1964, rates were 16 percent on taxable income not over \$500 and 77 percent on amounts of taxable income over \$200,000. Old-age and disability insurance taxes on self-employment taxable income, 5.4 percent for taxable years 1965 and 1966.

²¹ Rates of tax are as follows:
Income tax withheld: Effective May 1, 1966, graduated withholding, 14 percent to 30 percent of wages in excess of exemptions (Public Law 89-368). From Mar. 4, 1964, to Apr. 30, 1966, 14 percent. Old-age, survivors, and disability insurance taxes, and hospital insurance taxes on salaries and wages: Employers' and employees' tax each, 4.2 percent, (3.85 percent for old-age, survivors, and disability insurance plus 0.35 percent for hospital insurance benefits), effective Jan. 1, 1966, both imposed on taxable portion of wages. Prior to Jan. 1, 1966, tax was 3½ percent each to employers and employees.

²² Collected by Customs beginning Oct. 1, 1961, as authorized by Part 275.62 of Title 26, Code of Federal Regulations.

²³ Repealed, effective Jan. 1, 1966 (Public Law 89-44).

²⁴ Issues and transfers of stocks and bonds, repealed,

effective Jan. 1, 1966 (Public Law 89-44). Tax on foreign insurance policies (1 cent, or 4 cents per \$1 of premium) payable by return on and after Jan. 1, 1966 (Public Law 89-44 and Treasury Decision 6868). Deeds of conveyance: \$100 to \$500, 55 cents; each additional \$500 or fraction thereof, 55 cents.

²⁵ Repealed, effective June 22, 1965 (Public Law 89-44).

²⁶ Cutting oil (3 percent), repealed Jan. 1, 1966 (Public Law 89-44).

²⁷ Rate 10 percent through May 14, 1965; 7 percent from May 15, 1965, through Dec. 31, 1965; 6 percent, Jan. 1, 1966, through Mar. 15, 1966 (Public Law 89-44). Under the Tax Adjustment Act of 1966, rate restored to 7 percent, effective Mar. 16, 1966 (Public Law 89-368).

²⁸ Automobile parts and accessories (except truck parts), repealed, effective Jan. 1, 1966 (Public Law 89-44).

²⁹ Air conditioners, repealed, effective May 15, 1965. Refrigerators and freezers, repealed, effective June 22, 1965 (Public Law 89-44).

³⁰ 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. Tax on all other light bulbs and tubes, repealed, effective Jan. 1, 1966 (Public Law 89-44).

³¹ Repealed, effective noon, Dec. 31, 1965 (Public Law 89-44).

³² General and toll telephone and teletypewriter service reduced to 3 percent, effective Jan. 1, 1966. Private communications service, telegraph service, and wire equipment service, repealed, effective Jan. 1, 1966 (Public Law 89-44). For general and toll telephone services and for teletypewriter exchange service, the rate of tax on amounts paid on bills first rendered on or after Apr. 1, 1966; for services rendered after Jan. 31, 1966, is increased from 3 to 10 percent of the amount paid (Public Law 89-368).

³³ Repealed, effective July 1, 1965 (Public Law 89-44).

³⁴ 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.

³⁵ 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.

³⁶ 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.

³⁷ Negative figures due to prior year adjustment.

³⁸ Negative figures (excluding unapplied collections and undistributed depository receipts) stem primarily from floor stock credits taken on certain taxes repealed by the Excise Tax Reduction Act of 1965.

Table 5.—Internal revenue refunds including interest

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)	[In thousands of dollars]						
	Total (1)	Corporation income (2)	Individual income and employment taxes		Estate (5)	Gift (6)	Excise (7)
			Excessive pre- payments (3)	Other (4)			
United States, total	7,834,639	830,998	1,658,628	257,319	29,386	1,477	337,931
North-Atlantic Region	1,231,466	230,998	962,711	33,370	8,469	153	62,913
Albany..... (See (c) below)	62,022	57,262	5,760	482	716	3	330
Augusta..... (Maine)	31,543	2,615	27,919	580	73	4	350
Boston..... (Massachusetts)	205,011	17,094	175,562	5,297	448	36	6,975
Brooklyn..... (See (c) below)	231,113	14,834	200,235	3,078	2,120	9	8,032
Buffalo..... (See (c) below)	164,911	8,881	138,901	3,302	808	9	13,011
Burlington..... (Vermont)	11,450	458	10,282	421	31	(*)	257
Hartford..... (Connecticut)	118,610	15,378	91,751	2,751	837	1	7,588
Manhattan..... (See (c) below)	333,173	144,120	148,109	13,815	3,267	82	23,780
Portsmouth..... (New Hampshire)	23,613	2,555	21,674	809	103	1	471
Providence..... (Rhode Island)	34,010	1,786	30,706	902	445	1	158
Mid-Atlantic Region	1,035,473	98,401	853,688	30,216	3,023	474	49,776
Baltimore..... (Maryland and D.C.)	172,079	16,128	136,208	5,579	714	5	13,385
Newark..... (New Jersey)	283,178	20,651	234,706	4,285	1,067	84	17,545
Philadelphia..... (See (a) below)	279,649	30,645	227,999	7,623	582	188	12,604
Pittsburgh..... (See (a) below)	146,503	10,259	130,237	3,563	352	114	1,978
Richmond..... (Virginia)	131,294	12,609	118,869	3,406	241	3	3,952
Wilmington..... (Delaware)	23,169	7,310	15,800	54	22	1	312
Southeast Region	725,438	49,287	625,249	24,713	2,381	233	23,373
Atlanta..... (Georgia)	125,795	6,129	109,896	4,081	352	3	5,335
Birmingham..... (Alabama)	83,090	4,929	74,466	100	124	1	911
Columbia..... (South Carolina)	57,826	3,024	51,490	1,734	218	1	1,359
Greensboro..... (North Carolina)	121,003	6,977	102,683	3,030	196	12	8,104
Jackson..... (Mississippi)	42,378	1,668	37,290	1,386	54	1	1,334
Jacksonville..... (Florida)	191,464	15,247	163,921	9,185	1,231	59	1,821
Nashville..... (Tennessee)	103,861	11,393	85,121	3,006	230	3	4,108
Central Region	1,005,642	166,623	824,294	23,248	2,493	64	48,443
Cincinnati..... (See (d) below)	144,352	12,392	122,179	2,716	357	3	6,704
Cleveland..... (See (d) below)	245,475	30,800	201,804	5,928	775	10	6,159
Detroit..... (See (d) below)	327,554	43,478	252,507	7,285	658	10	17,529
Indianapolis..... (Indiana)	166,618	7,816	140,341	4,312	341	13	13,794
Louisville..... (Kentucky)	75,907	3,210	65,721	2,219	304	6	4,446
Parsonsburg..... (West Virginia)	50,767	8,906	40,641	838	47	27	409
Midwest Region	1,071,888	138,471	810,455	37,882	3,887	184	104,449
Aberdeen..... (South Dakota)	18,724	715	13,733	1,042	59	(*)	174
Chicago..... (See (b) below)	378,992	76,184	232,702	10,967	1,191	41	28,906
Des Moines..... (Iowa)	89,445	5,564	87,941	1,021	170	3	12,145
Fargo..... (North Dakota)	18,153	442	12,229	1,026	38	1	4,417
Milwaukee..... (Wisconsin)	140,718	12,180	116,650	2,973	671	52	8,192
Omaha..... (Nebraska)	47,687	4,964	35,703	2,944	151	3	3,946
St. Louis..... (Missouri)	163,656	18,829	127,124	5,421	679	31	11,572
St. Paul..... (Minnesota)	139,047	12,763	109,389	6,626	279	12	9,978
Springfield..... (See (b) below)	92,168	3,030	75,914	2,562	327	17	11,818
Southeast Region	757,148	89,996	596,840	45,974	2,339	144	23,994
Albuquerque..... (New Mexico)	31,003	1,075	28,014	1,379	125	19	391
Austin..... (See (f) below)	192,220	42,405	135,329	10,066	461	10	3,948
Cheyenne..... (Wyoming)	12,596	964	9,773	868	110	1	380
Dallas..... (See (f) below)	150,744	16,782	114,542	14,358	389	94	4,380
Denver..... (Colorado)	81,872	7,519	67,070	4,740	190	7	2,347
Little Rock..... (Arkansas)	42,821	1,299	36,953	908	65	1	1,582
New Orleans..... (Louisiana)	102,675	9,300	87,532	4,175	239	6	1,434
Oklahoma City..... (Oklahoma)	69,801	5,118	59,428	3,323	299	1	1,526
Wichita..... (Kansas)	73,511	5,534	58,298	3,939	320	3	5,407
Western Region	1,424,287	138,883	1,269,464	64,622	6,187	248	34,179
Anchorage..... (Alaska)	11,839	896	9,881	888	77	(*)	174
Boise..... (Idaho)	24,848	2,816	19,933	1,416	111	(*)	1,025
Helena..... (Montana)	23,410	2,350	17,870	1,556	41	18	1,476
Honolulu..... (Hawaii)	31,226	3,672	25,885	2,565	35	1	749
Los Angeles..... (See (a) below)	663,347	73,614	560,701	23,700	2,232	30	5,661
Phoenix..... (Arizona)	59,268	5,269	49,935	3,036	203	1	823
Portland..... (Oregon)	71,130	4,219	61,878	3,647	159	1	1,226
Reno..... (Nevada)	25,363	2,001	21,776	1,324	45	(*)	217
Salt Lake City..... (Utah)	39,314	1,503	35,110	1,261	37	(*)	403
San Francisco..... (See (a) below)	360,003	29,217	304,246	13,901	1,902	56	10,681
Seattle..... (Washington)	122,349	10,246	102,581	6,498	1,434	133	1,655
Other.....	48,138	5,488	35,153	4,894	4,139	(*)	32
Puerto Rico.....	6,588	28	6,368	287	3	(*)	23
Other.....	38,842	5,130	28,762	3,807	1,120	(*)	1,648
Bureau of Customs	1,448						
Totals for States not shown above							
(a) California.....	1,025,350	102,831	864,317	37,631	4,134	95	16,343
(b) Illinois.....	473,159	79,214	326,616	13,529	1,518	58	50,224
(c) New York.....	791,219	170,202	544,808	22,284	6,410	107	47,416
(d) Ohio.....	389,827	43,191	323,983	8,644	1,132	14	12,863
(e) Pennsylvania.....	425,152	40,904	356,236	11,186	844	30	14,582
(f) Texas.....	342,964	59,187	249,872	24,423	850	104	8,828

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 \$227,675,000 in 1966 and \$31,630,000 in 1965; from the Highway Trust Fund amounting to \$119,772,000 in 1966 and \$123,436,000 in 1965; and from the Unemployment Trust Fund amounting to \$6,000,000 in 1966 and \$7,609,000 in 1965.

³ Net of 199,082 undeliverable checks deposited totaling \$18,245,000.

⁴ 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)
United States, total	104,077,847	68,744,743	1,602,776	961,822	7,901,111	22,445,558	103,413	133,646	2,284,218
North-Atlantic Region	11,277,460	393,353	1,586,323	1,586,323	3,796,781	19,603	27,773	358,585	
Albany..... (See (c) below)	1,073,922	740,959	15,170	8,472	75,174	1,333	1,106	27,096	
Augusta..... (Maine)	547,680	363,757	7,333	3,132	33,149	124,894	521	14,372	
Boston..... (See (a) below)	3,171,233	2,131,648	16,615	10,475	633,254	3,075	4,560	67,465	
Brooklyn..... (See (c) below)	3,741,163	2,548,973	81,432	31,197	276,054	729,865	4,682	5,040	63,920
Buffalo..... (See (c) below)	2,329,573	1,590,149	31,570	15,523	183,356	444,495	2,453	2,549	59,478
Burlington..... (Vermont)	242,114	162,292	1,330	2,267	16,705	59,274	234	319	7,199
Hartford..... (Connecticut)	1,685,341	1,053,238	28,978	12,735	163,896	333,874	2,032	2,562	34,132
Manhattan..... (See (c) below)	3,965,009	2,094,514	145,228	38,812	516,802	1,081,163	4,290	9,879	72,321
Portsmouth..... (New Hampshire)	385,578	256,632	6,943	2,406	84,995	149,419	375	5,663	9,709
Providence..... (Rhode Island)	302,053	242,103	12,184	2,739	34,568	89,176	446	558	11,111
Mid-Atlantic Region	15,123,628	10,868,435	219,841	109,622	1,396,904	1,105,073	14,039	17,790	295,625
Baltimore..... (Maryland and D.C.)	2,580,588	1,717,915	35,720	16,169	210,800	546,237	3,068	3,188	48,491
Newark..... (New Jersey)	3,972,012	2,656,301	89,101	30,537	319,562	801,140	3,223	3,185	67,464
Philadelphia..... (See (e) below)	4,102,336	2,836,965	43,161	27,344	332,020	771,652	3,852	4,222	83,120
Pittsburgh..... (See (e) below)	2,214,016	1,513,957	20,029	18,502	177,473	428,367	1,851	2,236	51,601
Richmond..... (Virginia)	2,144,350	1,439,239	28,263	14,590	183,904	489,555	1,556	2,415	39,728
Wilmington..... (Delaware)	300,226	202,058	6,667	1,482	25,845	68,122	288	543	5,221
Southern Region	12,810,994	8,317,197	189,993	109,603	724,181	1,203,532	9,337	16,133	261,956
Birmingham..... (Alabama)	1,421,745	74,622	15,781	10,454	330,911	1,158	1,158	2,544	32,200
Columbia..... (South Carolina)	1,442,493	951,496	14,159	12,029	68,409	365,513	680	1,378	28,829
Columbus..... (North Carolina)	1,102,013	718,643	11,818	7,495	55,686	280,442	726	1,052	26,151
Greensboro..... (North Carolina)	2,343,826	1,539,392	28,974	16,483	128,854	382,126	1,381	2,813	43,803
Jackson..... (Mississippi)	875,825	519,802	7,877	3,704	279,068	456	788	24,758	
Jacksonville..... (Florida)	3,149,675	1,959,133	64,523	31,852	239,782	781,161	3,938	5,650	63,636
Nashville..... (Tennessee)	1,805,958	1,207,246	17,247	16,286	87,292	434,311	998	1,899	40,679
Central Region	11,811,811	8,456,811	172,811	109,811	1,905,811	1,815,811	13,645	15,811	314,811
Cincinnati..... (See (d) below)	2,113,638	1,451,785	24,562	15,199	164,216	413,821	1,826	2,779	39,290
Cleveland..... (See (d) below)	3,191,125	2,196,159	45,654	22,780	232,801	613,262	2,820	3,721	73,928
Detroit..... (See (d) below)	4,253,750	2,923,914	45,904	25,914	304,762	806,307	4,020	4,799	94,798
Indianapolis..... (Indiana)	2,521,929	1,753,852	31,004	19,512	164,957	488,514	2,471	2,781	52,838
Louisville..... (Kentucky)	1,413,328	937,610	14,793	17,056	89,257	321,303	1,105	1,402	30,802
Parkersburg..... (West Virginia)	183,179	125,348	1,352	505	3,205	171,795	513	513	23,165
Midwest Region	15,778,678	10,455,475	207,962	173,445	1,272,792	1,282,728	20,432	21,903	343,781
Aberdeen..... (South Dakota)	370,512	234,601	3,953	3,005	18,158	94,362	488	479	12,566
Chicago..... (See (b) below)	4,408,782	3,025,833	62,958	48,203	375,780	817,411	5,149	6,382	56,424
Des Moines..... (Iowa)	1,575,926	895,006	14,702	22,239	141,847	357,751	4,130	2,030	38,724
Fargo..... (North Dakota)	339,505	218,881	3,636	4,338	16,524	85,688	416	456	9,566
Milwaukee..... (Wisconsin)	2,302,820	1,512,829	33,427	19,562	203,361	462,236	2,214	3,351	65,820
Omaha..... (Nebraska)	856,798	538,918	10,087	11,025	68,491	201,371	1,456	1,817	25,029
St. Louis..... (Missouri)	2,437,254	1,591,006	37,373	23,724	189,036	536,777	2,010	3,541	53,787
St. Paul..... (Minnesota)	1,896,101	1,288,578	24,123	19,995	133,467	362,290	2,024	1,955	43,669
Springfield..... (See (b) below)	1,386,880	1,040,817	15,066	17,954	128,108	344,242	2,505	1,892	28,196
Southeast Region	13,851,645	7,874,792	146,896	135,841	800,598	2,834,688	10,688	17,819	313,658
Albuquerque..... (New Mexico)	469,849	311,598	5,246	4,501	107,778	244	524	12,511	
Austin..... (See (b) below)	2,814,213	1,805,862	31,715	30,722	185,783	676,445	2,715	4,884	75,087
Cheyenne..... (Wyoming)	198,627	119,771	3,026	2,537	14,070	50,188	164	384	8,087
Dallas..... (See (f) below)	2,467,236	1,522,464	29,777	37,014	181,785	633,577	1,945	2,855	57,809
Denver..... (Colorado)	1,099,117	709,167	17,146	13,949	80,474	233,601	1,205	2,372	31,303
Little Rock..... (Arkansas)	855,141	559,278	9,668	8,128	46,765	216,048	495	1,231	23,528
New Orleans..... (Louisiana)	1,489,800	966,525	22,093	12,067	87,009	361,978	820	1,374	37,934
Oklahoma City..... (Oklahoma)	1,239,695	811,383	15,958	12,567	74,548	286,861	1,268	1,836	35,274
Wichita..... (Kansas)	1,208,007	765,744	12,266	13,376	92,025	288,212	1,612	2,449	32,103
Western Region	15,901,909	10,842,871	189,428	143,388	1,301,658	1,258,067	15,838	15,784	398,994
Anchorage..... (Alaska)	14,112,489	77,115	1,616	1,665	9,995	24,881	23	30	3,564
Boise..... (Idaho)	353,986	225,817	4,673	4,566	19,701	85,261	311	401	13,256
Helena..... (Montana)	390,227	242,551	5,473	5,330	28,740	93,286	518	795	16,534
Honolulu..... (Hawaii)	597,762	278,955	5,908	3,356	30,485	70,300	229	473	8,057
Los Angeles..... (See (a) below)	6,164,753	4,108,450	77,277	69,272	546,520	1,225,185	6,277	4,829	127,443
Phoenix..... (Arizona)	758,807	505,060	9,895	7,246	51,317	165,483	646	819	18,341
Portland..... (Oregon)	1,171,783	797,447	13,822	13,271	86,082	233,106	960	1,284	25,711
Reno..... (Nevada)	247,616	166,364	4,000	3,228	15,620	49,337	179	261	8,227
Salt Lake City..... (Utah)	468,025	315,770	7,213	5,266	26,586	83,278	299	617	18,996
San Francisco..... (See (a) below)	4,152,286	2,719,003	38,052	33,442	364,559	867,651	5,043	5,105	102,431
Seattle..... (Washington)	1,681,175	1,106,339	21,500	16,947	130,651	350,199	1,345	1,450	52,844
Office of International Operations	487,634	308,685	2,181	210	13,331	129,767	1,908	385	1,271
Puerto Rico.....	184,384	71,525	148	9	296	121,687	14	703	111
Other.....	263,250	237,060	2,037	201	13,035	8,080	1,896	371	568

Totals for States not shown above

(a) California.....	10,320,039	6,821,453	115,329	122,714	916,879	2,092,836	11,320	9,634	229,874
(b) Illinois.....	5,995,662	4,074,655	80,661	66,157	501,888	1,161,653	7,754	8,274	94,620
(c) New York.....	11,109,667	6,974,595	273,400	94,004	1,053,386	2,460,135	12,758	18,574	222,815
(d) Ohio.....	5,304,763	3,647,944	70,216	37,979	397,017	1,027,383	4,806	6,500	113,218
(e) Pennsylvania.....	6,816,352	4,350,922	63,190	45,846	509,433	1,200,019	5,703	6,458	134,722
(f) Texas.....	5,281,449	3,328,326	61,452	67,736	368,568	1,310,022	4,660	7,749	132,896

¹ Includes 114,822 Forms 1040B, NB, NBA, PR, and VI which are included in "All other individual and fiduciary" returns in the table on p. 14.

Table 7.—Internal revenue tax collected on Puerto Rican manufactured products transported to the United States, by objects of taxation

Objects of taxation	[In thousands of dollars]	
	1965	1966
Total	45,100	51,700
Distilled spirits.....	35,788	41,817
Distilled spirits, rectification tax.....	979	1,061
Wine.....	(*)	76
Beer.....	(*)	(*)
Cigars, large:		
Class A.....	(*)	(*)
Class B.....	580	1,105
Class C.....	4	11
Class D.....	5,860	6,032
Class E.....	1,749	1,471
Class F.....	137	127
Cigars, small:		
Cigarettes, large.....	(*)	(*)
Cigarettes, small.....	(*)	(*)
Manufactured tobacco (chewing, smoking, and snuff).....	(*)	(*)

*Less than \$500.

Note.—Amounts of internal revenue taxes collected on Puerto Rican tobacco and liquor manufactured products transported to the United States, or consumed in the island (less refunds, drawbacks, and expenses), are covered into the Treasury of Puerto Rico under the provisions of secs. 7652(a)(3) and 5314(a)(4) of the Internal Revenue Code of 1954. The gross 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—	
	1965	1966
Distilled spirits plants:		
Plants (net number).....	352	347
Facilities:		
Production.....	172	168
Warehousing.....	278	281
Bottling in bond.....	61	57
Denaturing.....	50	52
Taxpaid bottling.....	147	146
Rectifying.....	130	131
Denatured and tax-free products (dealers, users, etc.):		
Dealers in specially denatured alcohol and denatured rum.....	44	49
Users of specially denatured alcohol and denatured rum.....	3,690	3,615
Reprocessors, redistillers, etc., of specially denatured alcohol articles.....	1,062	1,028
Users of tax-free alcohol.....	7,483	7,460
Beer: Breweries.....	191	178
Wines:		
Bonded wine cellars.....	435	426
Taxpaid wine bottling houses.....	93</	

Table 11.—Permits for operations relating to alcoholic beverages under the Federal Alcohol Administration Act

Status	Grand total	Distilled spirits plants ¹				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, 1965	13,276	419	185	205	153	366	52	1,891	10,548
Issued	1,333	19	10	12	13	21	6	216	1,071
Terminated, total	1,504	42	16	26	13	31	11	205	1,215
Revoked	1								
Otherwise terminated	1,503	42	16	26	13	31	10	205	1,215
In effect June 30, 1966	13,105	396	180	191	153	356	47	1,902	10,404
Amended	1,361	202				83	13	269	794

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 1 permit may cover more than 1 activity.

Table 12.—Permits relating to tobacco under chapter 52, Internal Revenue Code, 1954

Status	Total	Manu- facturers of tobacco products	Export warehouse proprietors
In effect July 1, 1965	606	458	148
Issued	53	22	31
Terminated, total	196	172	24
Revoked	196	172	24
Otherwise terminated	72	37	35
In effect June 30, 1966	463	308	155
Amended	72	37	35

¹ Effective Jan. 1, 1966, the Excise Tax Reduction Act of 1965 (Public Law 89-44) repealed the tax on tobacco other than cigars and cigarettes.

Table 13.—Label activity under Federal Alcohol Administration Act

Type of label	Applications acted upon			
	Total	Certificates issued		
		Approvals	Exemp- tions	Dis- approved
Grand total	53,341	51,860	386	1,095
Distilled spirits, total	19,684	19,140	61	483
Domestic	17,718	17,317	61	340
Imported	1,966	1,823		143
Wines, total	31,573	30,668	325	580
Domestic	9,085	8,668	325	92
Imported	22,488	22,000		488
Malt beverages, total	2,084	2,052		32
Domestic	1,542	1,533		9
Imported	542	519		23

Table 14.—Number of occupational tax stamps issued, covering fiscal year 1966, 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 paren- theses; totals for other States shown at bottom of table)	Total number of occu- pational tax stamps issued	Distilled spirits									
		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			Manufacturers of nonbeverage products		
						At large, \$54	Medi- cal spirits, \$54	Not exceed- ing 25 gallons, \$25	Not exceed- ing 50 gallons, \$50	More than 50 gallons, \$100	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
United States, total	857,437	186	58	86	2,749	243,226	612	1,171	69	74	744
North-Atlantic Region	158,303	46	5	18	315	44,878	29	690	16	8	183
Albany (See (c) below)	12,233	22			10	4,542	25				8
Augusta (Maine)	4,698	1	2	2	59	1,135					2
Boston (Massachusetts)	23,714	8			103	7,616		589	5	3	40
Brooklyn (See (c) below)	35,056	1	2	1	38	8,064	1		4	3	56
Buffalo (See (c) below)	25,358	66			27	8,080	1	1	1	1	21
Burlington (Vermont)	7,504				1	3,687					1
Hartford (Connecticut)	14,530		1	4	3	5,176	1		1		12
Manhattan (See (c) below)	32,992	1			1	7,087			4	1	43
Portsmouth (New Hampshire)	2,815				1	1,175					2
Providence (Rhode Island)	3,903				1	1,835	1		2		5
Mid-Atlantic Region	115,389	36	18	18	193	39,648	128	8	6	6	172
Baltimore (Maryland and D.C.)	27,139	4	6	4	59	5,756			1	1	18
Newark (New Jersey)	28,409	27	11	6	69	13,105	31		2	2	79
Philadelphia (See (e) below)	29,979	7	1	7	43	11,502	3	1	2	2	58
Pittsburgh (See (a) below)	16,337	2			2	8,552		3			9
Richmond (Virginia)	14,752	2			10	1,555		4	1	1	9
Wilmington (Delaware)	1,753				10	774	14				1
Southwest Region	10,980	2	2	2	226	10,980		13	4	15	39
Atlanta (Georgia)	83,896				35	747					1
Birmingham (Alabama)	8,087				5	607		4			4
Columbia (South Carolina)	11,227				14	977					2
Greensboro (North Carolina)	13,759				51	1,647			7	1	6
Jackson (Mississippi)	9,280				29	1,271					3
Jacksonville (Florida)	25,515	2	2		62	4,633					5
Nashville (Tennessee)	13,509			1	33	698		2			19
Central Region	113,338	21	8	23	648	39,339	48	15	6	6	82
Cincinnati (See (d) below)	16,591				2	110	4,780	20			22
Cleveland (See (d) below)	26,585	4	1	1	172	10,217		3	3	3	11
Detroit (Michigan)	54,537	3	3	3	153	15,125	9	11			28
Indianapolis (Indiana)	17,552			3	20	5,650					1
Louisville (Kentucky)	9,948		3	14	90	1,885	19				1
Pataskiaburg (West Virginia)	8,125	1	1		3	573					1
Midwest Region	129,999	8	2	10	426	69,199	296	119	14	13	144
Aberdeen (South Dakota)	3,754				19	1,052					1
Chicago (See (b) below)	31,808			4	122	15,124	13	4	4	10	70
Des Moines (Iowa)	11,373				4	2,562			9	1	4
Fargo (North Dakota)	2,359				11	1,056					1
Milwaukee (Wisconsin)	26,560		1		82	13,033	2	273	3		10
Omaha (Nebraska)	6,268				35	1,945		8			1
St. Louis (Missouri)	19,626	4	1	3	55	6,070	224	4	3	1	34
St. Paul (Minnesota)	17,441	1	1	14	2	2,352	4	32			13
Springfield (See (b) below)	10,600			2	84	5,035		7	1		8
Southwest Region	104,355	12	4		226	37,498	87	178	4	23	23
Albuquerque (New Mexico)	2,584				30	1,380					1
Austin (See (f) below)	31,577	3	2		30	2,199			1	2	10
Cheyenne (Wyoming)	1,785				1	687					1
Dallas (See (d) below)	14,586	9			28	1,670	2	2	1	11	
Denver (Colorado)	9,311		1		19	2,847	55	172			7
Little Rock (Arkansas)	6,218				8	759					2
New Orleans (Louisiana)	17,848		1		57	5,615					7
Oklahoma City (Oklahoma)	10,846				21	947					1
Wichita (Kansas)	9,200				32	1,304			1	1	4
Western Region	143,067	11	18	15	812	43,647	84	31	19	8	94
Anchorage (Alaska)	1,399				15	720					1
Boise (Idaho)	3,470				1	684					1
Helena (Montana)	4,131				1	1,561					1
Honolulu (Hawaii)	2,642		2	29	1	1,167					1
Los Angeles (See (e) below)	48,629		2	7	231	15,908	41		9	4	44
Phoenix (Arizona)	7,126				67	2,815					4
Portland (Oregon)	10,164				59	1,249					2
Reno (Nevada)	4,289				32	1,479		30			2
Salt Lake City (Utah)	4,407				68	1,42	2				4
San Francisco (See (a) below)	40,349	11	14	7	249	14,106	11		3	1	42
Seattle (Washington)	16,461			1	128	3,816			4	1	1

Totals for States not shown above

(a) California	88,978	11	16	14	480	30,014	52		12	4	86
(b) Illinois	42,508	3		6	206	20,159	13	11	5	10	78
(c) New York	106,639	90	2	2	152	28,781	27	1	8	5	128
(d) Ohio	43,176	15	2	3	282	14,997	20	3	6	5	33
(e) Pennsylvania	48,316	7	1	8	45	20,054	3	4	2	2	67
(f) Texas	45,163	12	1		58	3,869	2	2	2	13	10

Table 14.—Number of occupational tax stamps issued, covering fiscal year 1966, 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—			Temporary dealers in liquor (wines or beer), \$2.20 per month	
	Wines, \$255 ¹	Wines and beer, \$25	Wines, \$54	Wines and beer, \$5	500 barrels or more, \$110 ¹	Wholesale dealers, \$123	Retail dealers, \$24		Retail dealers at large, \$24 ¹
	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
United States, total	120	464	189	41,002	188	7,295	143,492	125	5,957
North-Atlantic Region									
Albany..... (See (c) below)	52	37	18	1,239	22	2	38,288	49	774
Augusta..... (Maine)							3,392	2	88
Boston..... (Massachusetts)							123		121
Brooklyn..... (See (c) below)	7	7	4	85	4	22	8,922	47	338
Buffalo..... (See (c) below)	6	2		12	6	208	5,944		171
Burlington..... (Vermont)		26	4	907		2	149		45
Hartford..... (Connecticut)						46	2,007		141
Manhattan..... (See (c) below)	39	2	10	62		89	6,143		20
Plymouth..... (New Hampshire)						20	1,175		1
Providence..... (Rhode Island)						12	34		
Mid-Atlantic Region	10	60	3	4,955	29	2,020	7,645	59	1,139
Baltimore..... (Maryland and D.C.)		2		496		3	100		560
Newark..... (New Jersey)							145		27
Philadelphia..... (See (e) below)	1						3,246		57
Pittsburgh..... (See (e) below)	2						784		33
Richmond..... (Virginia)	3	45	1	4	2	8	335		6
Wilmington..... (Delaware)						7	3,887	2	37
Southwest Region	10	140	76	16,883	4	98	24,833		88
Atlanta..... (Georgia)		13	18	847		1	2,061		2
Birmingham..... (Alabama)							2,374		21
Columbia..... (South Carolina)		33		1,661			3,571		10
Greensboro..... (North Carolina)		37	50	2,498		73	4,223		21
Jackson..... (Mississippi)						8	3,513		10
Jacksonville..... (Florida)		57		5,755		109	4,178		21
Nashville..... (Tennessee)						88	4,319		2
Central Region	10	71	23	12,337	27	766	7,966	2	862
Cincinnati..... (See (d) below)	3	10	1	2,724	4	67	559		158
Cleveland..... (See (d) below)	5	4	8	3,894	5	102	511		183
Detroit..... (Michigan)	8	51	7	3,260	8	145	1,269		34
Indianapolis..... (Indiana)		6	7	2,133	1	5	312		180
Louisville..... (Kentucky)						4	117		29
Parkeburg..... (West Virginia)						1	3,354		1
Midwest Region	4	11	8	325	89	1,820	22,344	12	2,164
Aberdeen..... (South Dakota)						48	1,386		13
Chicago..... (See (b) below)						9	219		534
Des Moines..... (Iowa)						1	159		9
Fargo..... (North Dakota)						1	276		7
Milwaukee..... (Wisconsin)		8	1	12	26	403	4,111		816
Omaha..... (Nebraska)						2	88		1
St. Louis..... (Missouri)		2	4	3	6	124	4,032	8	226
St. Paul..... (Minnesota)						10	7,027	3	215
Springfield..... (See (c) below)						1	135		345
Southwest Region	3	33	6	5,333	16	1,030	33,345	3	132
Albuquerque..... (New Mexico)						3	20		26
Austin..... (See (f) below)		8	6	4,173	7	414	14,867		28
Cheyenne..... (Wyoming)						48	1,022		30
Dallas..... (See (f) below)						2	3,186	3	5
Denver..... (Colorado)						2	1,236		1
Little Rock..... (Arkansas)		23		229		42	1,467		3
New Orleans..... (Louisiana)						9	3,633		9
Oklahoma City..... (Oklahoma)						1	102		8
Wichita..... (Kansas)						90	3,578		25
Western Region	23	122	24	7,092	33	623	16,388		1,114
Anchorage..... (Alaska)						15	22		5
Boise..... (Idaho)						62	1,502		225
Helena..... (Montana)						1	596		30
Honolulu..... (Hawaii)		2	2	29		7	32		10
Los Angeles..... (See (a) below)						137	5,398		191
Phoenix..... (Arizona)						11	404		148
Portland..... (Oregon)		26		2,105		1	1,505		1
Reno..... (Nevada)						13	119		7
Salt Lake City..... (Utah)						38	1,213		704
San Francisco..... (See (a) below)		78	22	2,790	11	175	3,634		18
Seattle..... (Washington)		12		1,484	6	33	1,140		
Totals for States not shown above									
(a) California.....	23	78	22	2,790	18	312	9,622		895
(b) Illinois.....	1	1	1	13	13	358	530		879
(c) New York.....	52	4	14	162	15	659	24,301	49	477
(d) Ohio.....	8	14	9	6,618	9	169	1,070		341
(e) Pennsylvania.....	3	10	1	6	24	1,690	1,544		27
(f) Texas.....			6	5,047	9	559	18,053	3	56

¹ Includes 5 brewers of less than 500 barrels at \$55.

Table 14.—Number of occupational tax stamps issued, covering fiscal year 1966, 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 compounders of opium, etc., \$24	Wholesale dealers, \$12	Retail dealers, \$3	Practitioners, \$1	Dealers in unaltered preparations, \$1	Laboratories, etc., \$1	Manufacturers, \$24	Dealers, \$3	Producers and millers, \$1	Practitioners, \$1	Laboratories, \$1
	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)
United States, total	129	984	66,094	320,532	1,461	404	6	3	1	47	25
North-Atlantic Region											
Albany..... (See (c) below)	21	130	9,724	67,969	596	503	6	1		15	6
Augusta..... (Maine)		7	254	1,444	1	1					
Boston..... (Massachusetts)			31	1,985	12,051	24	26			5	3
Brooklyn..... (See (c) below)	5	22	2,345	16,134	124	11					
Buffalo..... (See (c) below)	2	16	1,205	8,185	207	11				3	
Burlington..... (Vermont)					2	2					
Hartford..... (Connecticut)			11	933	6,076	13	11			4	
Manhattan..... (See (c) below)	6	27	1,849	17,321	138	30	2			3	2
Plymouth..... (New Hampshire)		141	3	141	3,710	29	1				
Providence..... (Rhode Island)			7	307	1,626	26	1				
Mid-Atlantic Region	33	103	8,132	46,336	253	85	1			6	10
Baltimore..... (Maryland and D.C.)		2	27	1,089	8,062	7	9			3	7
Newark..... (New Jersey)		10	25	2,425	11,525	34	38				
Philadelphia..... (See (e) below)	16	29	2,264	13,939	32	19	1			2	3
Pittsburgh..... (See (e) below)	1	18	1,299	6,578	12	8					
Richmond..... (Virginia)		4	9	935	5,508	161	8				
Wilmington..... (Delaware)				121	724	5	7				
Southwest Region	8	122	7,533	31,974	112	37				1	
Atlanta..... (Georgia)		31	1,197	4,959	12	4					
Birmingham..... (Alabama)		12	979	3,377	7	3				1	
Columbia..... (South Carolina)		1	9	761	2,429	2	2				
Greensboro..... (North Carolina)		11	1,092	3,919	105	16					
Jackson..... (Mississippi)			9	639	2,150	12					
Jacksonville..... (Florida)		25	1,735	8,772	21	5					
Nashville..... (Tennessee)		4	28	1,128	26	7					
Central Region	26	161	7,397	40,717	133	60				1	3
Cincinnati..... (See (d) below)	5	27	1,083	6,280	24	14				3	3
Cleveland..... (See (d) below)	1	5	532	9,613	32	8					
Detroit..... (Michigan)	8	54	2,282	12,919	43	11					4
Indianapolis..... (Indiana)		6	27	1,297	6,323	28	10				1
Louisville..... (Kentucky)		13	829	3,582	8	3					1
Parkeburg..... (West Virginia)		1	9	374	2,100	1					
Midwest Region	28	188	8,158	43,158	145	43	2	2	1	17	2
Aberdeen..... (South Dakota)		5	222	784							
Chicago..... (See (b) below)	7	36	2,275	12,755	34	10				1	
Des Moines..... (Iowa)		26	792	3,908	18	3				2	
Fargo..... (North Dakota)		3	204	735							
Milwaukee..... (Wisconsin)		5	17	1,110	6,352	6	3				
Omaha..... (Nebraska)		1	10	514	2,327	5	4			1	14
St. Louis..... (Missouri)		10	28	7,015	46	13					
St. Paul..... (Minnesota)		3	20	991	3,801	9	3				
Springfield..... (See (c) below)		2	13	788	3,483	27	7				
Southwest Region	4	121	7,485	34,195	60	17					
Albuquerque..... (New Mexico)		3	287	1,213	4	5					
Austin..... (See (f) below)		23	1,610	7,994	16	4					
Cheyenne..... (Wyoming)			3	119	454						
Dallas..... (See (f) below)		2	28	1,483	7,052	12	3				
Denver..... (Colorado)			20	722	3,960	3	1				

Table 14.—Number of occupational tax stamps issued, covering fiscal year 1966, 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 or reconstituted butter, and filled cheese	Wagering, \$50	(41)
	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 device premises, \$10 per device	Gaming device premises, \$250 per device			
	Class 1, \$500	Class 2, \$25									
	(32)	(33)	(34)	(35)	(36)	(37)	(38)	(39)	(40)		
United States, total	24	4	2	65	64	70	379	25,201	40	4,155	
North-Atlantic Region	11	3		9	8	6	273	273		143	
Albany (New York)	1	1		1	1	1	1	1		1	
Augusta (Maine)	1									55	
Boston (Massachusetts)	4			1	1					26	
Brooklyn (See (c) below)	1			1							
Buffalo (See (c) below)	1			1							
Burlington (Vermont)				1	1				5	10	
Hartford (Connecticut)	3			5	1				8	13	
Manhattan (New York)										12	
Portsmouth (New Hampshire)		2								454	
Providence (Rhode Island)	4	1		13	12	63	280	4,261	2	34	
Baltimore (Maryland and D.C.)	1	1		9	12	63	280	3,440	61	105	
Newark (New Jersey)	1			1	3			61		25	
Philadelphia (See (a) below)	1			2	1			62		154	
Pittsburgh (See (e) below)	1	1		2	1			371		154	
Richmond (Virginia)	2			2	6			324		34	
Wilmington (Delaware)				1	1			3		33	
Southwest Region			1	3	15	1	58	6,775	19	454	
Atlanta (Georgia)				2	1			529		58	
Birmingham (Alabama)				1	1			2		37	
Columbia (South Carolina)				2	2	1	58	1,673		40	
Greensboro (North Carolina)								39		22	
Jackson (Mississippi)			1	1	7			1,324		116	
Jacksonville (Florida)				1	1			41		87	
Nashville (Tennessee)	4			3	10			2,167		94	
Central Region	4			3	10			624	6	1,278	
Cincinnati (See (d) below)	3			1	1			624		46	
Cleveland (See (d) below)	3			2	2			152		164	
Detroit (Michigan)	1			2	3			15		65	
Indianapolis (Indiana)				1	1			904		534	
Louisville (Kentucky)				1	1			960		203	
Parkersburg (West Virginia)	3			11	4			1,001		266	
Midwest Region	3			5	1			1,450	3	246	
Aberdeen (South Dakota)								209		14	
Chicago (See (b) below)				5	1			339		54	
Des Moines (Iowa)								13		11	
Fargo (North Dakota)								2		24	
Milwaukee (Wisconsin)				1	2			120		45	
Omaha (Nebraska)				1	1			426		15	
St. Louis (Missouri)	1			1	1			12		22	
St. Paul (Minnesota)	1			2	2			329		53	
Springfield (See (b) below)			1	7	9	4	41	4,045	15	798	
Southwest Region				1	2			31	12	92	
Albuquerque (New Mexico)				1	2			17		36	
Austin (See (f) below)						6	41	204		92	
Cheyenne (Wyoming)			1	1	1			139		5	
Denver (Colorado)								770		118	
Little Rock (Arkansas)				3	2			2,277		241	
New Orleans (Louisiana)					3			194		119	
Oklahoma City (Oklahoma)				1	1			422		33	
Wichita (Kansas)	4			20	9			5,735	4	2,888	
Western Region								183		161	
Anchorage (Alaska)								211		4	
Boise (Idaho)								178		352	
Helena (Montana)								29		15	
Honolulu (Hawaii)				17				160		27	
Los Angeles (See (a) below)	4			3				750		14	
Phoenix (Arizona)					3			1,737		138	
Portland (Oregon)								591		594	
Reno (Nevada)								2		1	
Salt Lake City (Utah)					2			1		1	
San Francisco (See (a) below)					1			1,890		1,583	
Seattle (Washington)					1						
Totals for States not shown above											
(a) California	4			17	2			31	4	15	
(b) Illinois				6	1			668	2	107	
(c) New York	3	1		7	2			786	6	210	
(d) Ohio	3			2	3			433		176	
(e) Pennsylvania	1	1		2	4			18	12	189	
(f) Texas			1	3	1						

Table 15.—Appellate Division receipts and dispositions of protested income, 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	20,095	1,394,593	42,902	224,096
Received	27,652	1,176,917	40,946	44,621
Disposed of, total	26,278	982,632	26,807	166,857
By agreement	21,475	753,362	17,683	162,835
Unagreed overassessments and claims rejections	352	1,146	34	2,380
By issuance of statutory notices—transferred to 90-day status	4,251	228,124	9,090	1,642
Pending June 30	21,469	1,588,877	57,041	101,860

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	26,278	534,483	11,652	152,658
By agreement	21,475	292,178	3,602	150,146
Unagreed overassessments and claim rejections	352	64	23	2,214
By issuance of statutory notices—transferred to 90-day status	4,251	242,241	8,027	2,288

Table 16.—Appellate Division receipts and dispositions of protested income, 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	1,299	56,876	9,906	257
Received, total	4,443	258,340	8,853	267
Statutory notices issued by Appellate Division	4,101	234,848	8,075	224
Statutory notices issued by district directors and received during 90-day period	342	23,492	778	44
Disposed of, total	4,345	248,691	14,680	491
By agreement	758	14,333	570	72
By taxpayer default	1,125	24,244	1,358	139
By petition to the Tax Court—transferred to docketed status	2,462	210,114	12,751	280
Pending June 30	1,397	66,925	4,079	33

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	4,345	246,334	14,388	498
By agreement	758	11,976	278	79
By taxpayer default	1,125	24,244	1,358	139
By petition to the Tax Court—transferred to docketed status	2,462	210,114	12,751	280

Table 17.—Appellate Division receipts and dispositions of income, estate, and gift tax cases petitioned to the Tax Court (docketed cases)

A. Progress of work				
Status	Number of cases (1)	Amount stated in statutory notice (thousand dollars)		
		Deficiency in tax (2)	Penalty (3)	Overassessment (4)
Received, total.....	6,674	544,816	37,433	—152
Petitions filed in response to— District directors' statutory notices.....	4,489	344,373	24,977	—311
Appellate Division's statutory notices ¹	2,385	200,443	12,456	159
Disposed of, total.....	6,234	437,528	44,122	882
By stipulated agreement.....	5,195	396,152	39,499	806
By dismissal by the Tax Court or taxpayer default.....	313	6,003	1,364	32
Tried before the Tax Court on the merits.....	726	33,373	3,259	45
Pending June 30.....	10,024	1,105,877	113,457	2,803

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)
By stipulated agreement.....	5,195	93,650	9,939	4,671
By dismissal by the Tax Court or taxpayer default.....	313	7,464	1,339	31
Tried before the Tax Court on the merits ¹	726	33,373	3,259	42

¹ Represents amounts petitioned.

Table 18.—Office of Chief Counsel—Processing of income, 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.....	10,576	920,373	112,489	57,302
Filed or reopened.....	7,013	507,282	31,251	16,555
Disposed of.....	6,227	412,555	35,288	20,874
Pending June 30.....	11,362	1,015,100	108,452	52,983

Table 19.—Office of Chief Counsel—Receipt and disposal of Tax Court cases in courts of appeals and in Supreme Court

Status	Number of cases (1)	In courts of appeals			In Supreme Court				
		Amount in dispute (thousand dollars)		Amount approved (thousand dollars)	Number of cases (6)	Amount in dispute (thousand dollars)		Amount approved (thousand dollars)	
		Deficiency and penalty (2)	Over-payment (3)			Deficiency and penalty (7)	Over-payment (8)	Deficiency and penalty (9)	Over-payment (10)
Pending July 1, 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	—	—	—	—	—	—
Appealed, total.....	332	16,624	214	13	864	—	—	—	—
By Commissioner.....	41	3,104	4	1	14	—	—	—	—
By taxpayers.....	257	11,518	96	12	850	—	—	—	—
By both.....	34	2,002	114	—	—	—	—	—	—
Disposed of, total.....	336	24,078	71	10,054	57	8	123	—	123
Favorable to Commissioner.....	191	8,131	19	8,132	19	8	123	—	123
Favorable to taxpayers.....	46	2,198	41	—	37	—	—	—	—
Modified.....	13	4,530	—	1,663	1	—	—	—	—
Settled.....	12	3,177	—	—	—	—	—	—	—
Dismissed.....	74	6,042	—	—	—	—	—	—	—
Pending June 30, total.....	459	38,152	429	14	935	—	—	—	—
Appealed by Commissioner.....	48	3,553	5	—	—	—	—	—	—
Appealed by taxpayers.....	338	25,730	110	13	14	—	—	—	—
Appealed by both.....	53	4,869	314	—	922	—	—	—	—

Table 20.—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		Erroneous refunds (4)
		Court of Claims (2)	District courts (3)	
Pending July 1:.....	3,335	510	2,800	25
Cases.....	364,044	200,013	163,184	847
Amount in dispute thousand dollars.....	1,512	125	1,383	4
Received during year:.....	135,767	36,640	97,329	1,797
Cases.....	1,360	149	1,205	6
Amount in dispute thousand dollars.....	94,095	28,039	66,028	27
Disposed of during year:.....	46,293	14,662	31,631	—
Amount.....	49.18	52.29	47.90	—
Percent of amount disposed of.....	3,487	486	2,978	23
Cases.....	405,716	208,614	194,485	2,617
Amount in dispute thousand dollars.....				

¹ 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 58, of which 37 were for the Government, 17 against the Government, and 4 partly for and partly against the Government. In the district courts 448 decisions were rendered, of which 247 were for the Government, 159 against the Government, and 42 partly for and partly against the Government. For decisions by the courts of appeals and Supreme Court, see table 21.

Table 21.—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.....	373	290	62	21
Originally tried in— Tax Court.....	250	203	30	17
District courts.....	123	87	32	4
By Supreme Court, total.....	10	4	6	—
Originally tried in— Tax Court.....	4	—	4	—
District courts.....	6	4	2	—
Court of Claims.....	—	—	—	—

¹ The Supreme Court decided 3 cases against the Commissioner and remanded the 4th after enactment of legislation which provided special relief for the taxpayers. Note.—Cases covered by tables 23 and 24 are not included.

Table 22.—Office of Chief Counsel—Receipt and disposal of collection, injunction, summons, and disclosure cases

Status	Number of cases
Pending July 1.....	1,909
Received.....	2,583
Disposed of.....	2,629
Pending June 30.....	1,863

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 23), nor to appeal and other cases which are included in table 24.

Table 23.—Office of Chief Counsel—Receipt and disposal of insolvency and debtor proceedings

Status	Total (1)	Reorgani- zation proceed- ings ¹ (2)	Bankruptcy and re- ceivership proceedings ² (3)	Miscel- laneous insolvency proceedings ³ (4)
Pending July 1.....	1,993	985	550	458
Received.....	3,142	1,296	1,168	680
Disposed of.....	3,059	1,261	1,129	669
Pending June 30.....	2,076	1,020	587	469

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 24.—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)	Miscel- laneous court cases ¹ (2)	Lien cases not in court ² (3)	Noncourt collection litigation cases ³ (4)	Appeal cases ⁴ (5)
Pending July 1.....	1,189	310	86	635	158
Received.....	5,840	818	1,734	3,111	177
Disposed of.....	5,803	813	1,749	3,050	191
Pending June 30.....	1,226	315	71	636	144

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 cases 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, and collection, summons, and injunction cases.

Note.—Includes cases handled at national and regional levels.

Table 25.—Office of Chief Counsel—Caseload report

Activity	Pending July 1 (1)	Receipts (2)	Disposals (3)	Pending June 30 (4)
Total.....	22,848	27,215	26,270	23,793
Administration.....	196	70	125	141
Alcohol and tobacco tax.....	515	4,440	4,403	552
National office.....	114	1,098	1,092	120
Field.....	401	3,342	3,311	432
Collection litigation.....	5,091	11,568	11,494	5,165
National office.....	297	398	377	318
Field.....	4,794	11,170	11,117	4,847
Enforcement.....	2,336	1,485	1,463	2,358
National office.....	79	85	80	84
Field.....	2,257	1,400	1,383	2,274
Interpretative Division.....	252	763	759	256
Joint Committee Division ¹	75	19	94
Refund Litigation Division.....	3,335	1,512	1,350	3,487
Tax Court ²	11,048	7,356	6,572	11,834
National office.....	472	345	344	473
Field.....	10,576	7,013	6,228	11,361

¹ No joint committee cases received after December 1965.

² Nondocketed cases not included.

Table 26.—Obligations incurred by the Internal Revenue Service

(In thousands of dollars)

Internal revenue office, district, or region	Total (1)	Personnel compensation and benefits (2)	Travel (3)	Equipment (4)	Other (5)
A. National Office and regional totals (including district directors' offices and service centers)					
Total Internal Revenue Service ¹	624,862	548,825	17,618	11,610	46,809
National Office.....	70,556	39,320	2,134	4,570	24,532
North-Atlantic.....	99,018	93,464	1,624	844	3,086
Mid-Atlantic.....	78,481	73,518	1,645	699	2,619
Southwest.....	60,472	54,765	2,323	530	2,853
Central.....	70,757	65,015	1,968	306	2,837
Midwest.....	76,581	71,339	2,093	456	2,692
Southwest.....	59,819	54,529	2,076	710	2,503
Western.....	80,810	73,855	2,473	607	3,674
Regional counsel.....	8,717	8,248	126	39	304
Regional inspection.....	7,851	6,828	843	23	157
Office of International Operations.....	4,258	3,923	170	17	169
National Computer Center.....	4,059	1,518	19	1,811	711
IRS Data Center.....	3,682	2,521	92	397	673
B. Regional commissioners' offices (excluding district directors' offices and service centers)					
North-Atlantic.....	11,018	10,109	254	65	590
Mid-Atlantic.....	10,496	9,458	368	102	527
Southwest.....	11,054	9,339	536	119	1,071
Central.....	10,584	9,641	321	86	536
Midwest.....	8,717	7,784	293	82	558
Southwest.....	6,640	5,992	233	347	347
Western.....	9,059	8,148	315	190	446
C. Regional costs undistributed					
North-Atlantic.....	1,280	1,000	227	8	44
Mid-Atlantic.....	911	709	173	23	23
Southwest.....	1,176	880	293	15	87
Central.....	1,013	695	276	5	188
Midwest.....	837	551	220	7	37
Western.....	1,074	885	403	7	20
D. District directors' offices and service centers					
North-Atlantic:					
Albany.....	3,771	3,523	100	50	97
Augusta.....	1,852	1,722	72	11	47
Boston.....	12,047	11,462	230	33	323
Brooklyn.....	14,872	14,272	126	71	403
Buffalo.....	8,935	8,350	200	156	230
Burlington.....	944	871	38	8	28
Hartford.....	6,576	6,257	122	41	156
Manhattan.....	26,570	25,779	135	75	580
Portsmouth.....	2,173	1,220	53	27	45
Providence.....	111	104	4	1	51
Puerto Rico.....	1,111	1,004	29	1	1
North-Atlantic Service Center.....	7,523	6,714	29	291	485
Mid-Atlantic:					
Baltimore.....	10,213	9,778	120	70	236
Newark.....	14,708	14,031	222	66	395
Philadelphia.....	14,430	13,831	235	79	285
Pittsburgh.....	8,935	8,309	165	53	168
Richmond.....	6,569	6,019	292	82	176
Wilmington.....	1,797	1,702	31	14	50
Mid-Atlantic Service Center.....	10,663	9,643	29	225	766
Southeast:					
Atlanta.....	6,037	5,606	206	54	171
Birmingham.....	4,273	3,975	156	29	113
Columbia.....	2,963	2,551	102	31	79
Greensboro.....	6,791	6,306	265	44	176
Jackson.....	2,888	2,372	130	18	68
Jacksonville.....	10,932	10,221	359	42	300
Nashville.....	5,484	5,067	195	55	157
Southeast Service Center.....	9,530	8,754	37	117	622
Central:					
Cincinnati.....	7,642	7,272	172	30	168
Cleveland.....	12,132	11,459	286	72	315
Detroit.....	14,847	14,040	334	127	346
Indianapolis.....	8,097	7,642	240	66	149
Louisville.....	5,143	4,781	187	50	125
Parkersburg.....	3,004	2,785	134	24	91
Central Regional Training Center.....	150	128	2	2	157
Central Service Center.....	7,582	6,618	29	435	900

See footnotes at end of table.

Table 26.—Obligations Incurred by the Internal Revenue Service—Continued

(In thousands of dollars)

Internal revenue office, district, or region	Total (1)	Personnel compensation and benefits (2)	Travel (3)	Equipment (4)	Other (5)
Midwest:					
Aberdeen.....	1,493	1,367	80	10	36
Chicago.....	20,134	19,368	233	52	481
Des Moines.....	5,035	4,711	185	27	112
Fargo.....	1,300	1,186	83	2	29
Milwaukee.....	7,902	6,605	182	26	189
Omaha.....	3,242	3,034	95	20	93
St. Louis.....	9,540	8,965	277	38	260
Springfield.....	6,598	6,219	160	49	167
St. Paul.....	5,519	5,148	194	41	136
Midwest Service Center.....	6,990	6,258	36	104	592
Southwest:					
Albuquerque.....	2,078	1,881	106	12	79
Austin.....	10,175	9,411	327	85	352
Chicago.....	1,034	938	59	10	27
Cheyenne.....	9,890	9,228	336	55	271
Dallas.....	4,257	3,948	117	24	158
Denver.....	2,866	2,601	145	30	90
Little Rock.....	2,595	2,214	154	18	210
New Orleans.....	4,778	4,432	155	47	144
Oklahoma City.....	4,426	4,063	179	31	153
Wichita.....	7,872	6,882	45	324	641
Southwest Service Center.....					
Western:					
Anchorage.....	863	768	61	3	31
Boise.....	4,446	4,139	63	12	52
Bozeman.....	1,637	1,484	87	5	61
Helena.....	1,740	1,623	43	4	70
Honolulu.....	23,249	21,833	534	55	827
Los Angeles.....	3,118	2,896	97	17	108
Phoenix.....	4,185	3,902	123	10	150
Portland.....	2,016	1,773	82	6	155
Reno.....	1,879	1,769	49	6	35
Salt Lake City.....	15,585	14,552	360	106	567
San Francisco.....	6,211	5,783	181	27	210
Seattle.....	8,277	7,772	4	1	67
Western Regional Training Center.....					
Western Service Center.....	8,330	7,238	72	167	853

* Less than \$500.
 † Includes \$3.4 million financed from reimbursements.
 ‡ Does not include \$552,000 rental transfer to General Services Administration.

Table 27.—Obligations Incurred by Internal Revenue Service, by appropriation and activity

(In thousands of dollars)

Appropriation by activity	Total		Personnel compensation and benefits		Other	
	1965	1966	1965	1966	1965	1966
	Total obligations.....	597,387	624,861	522,490	548,825	74,897
Appropriated funds, total.....	595,047	621,468	520,607	546,065	74,440	75,403
Salaries and expenses:						
Total.....	16,511	17,490	14,128	14,878	2,383	2,612
Executive direction.....	7,507	7,798	6,394	6,452	1,113	1,346
Internal audit and security.....	9,004	9,692	7,734	8,426	1,270	1,266
Revenue accounting and processing:						
Total.....	151,339	159,449	117,823	128,301	33,516	31,148
District manual operations.....	84,281	74,529	71,999	61,658	12,252	12,871
Service center automated operations.....	61,360	80,006	41,864	62,544	19,376	17,862
Statistical reporting.....	5,728	4,914	3,840	4,099	1,888	415
Compliance:						
Total.....	427,197	444,529	388,656	402,886	38,541	41,643
Audit of tax returns.....	215,922	225,850	201,120	209,520	14,802	16,330
Collection of delinquent accounts and securing delinquent returns.....	100,549	103,086	90,201	91,818	10,348	11,168
Tax fraud and special investigations.....	31,235	32,493	27,029	28,186	4,206	4,307
Alcohol and tobacco tax regulatory work.....	34,773	35,484	28,580	29,290	5,793	6,194
Taxpayer conferences and appeals.....	20,823	23,291	19,585	21,747	1,238	1,544
Buildings, technical planning, and special technical services.....	9,265	9,360	8,198	8,426	1,067	934
Legal services.....	14,630	14,965	13,543	13,789	1,087	1,166
Reimbursements, total.....	2,340	3,393	1,883	2,760	457	633

Note.—Amounts shown do not include appropriation transfer to GSA for rent of space amounting to \$27,000 in 1965; \$552,000 in 1966.

Table 28.—Quantity and cost statistics for printing

Class of work	1965			1966		
	Quantity (thousands)		Cost (thousand dollars)	Quantity (thousands)		Cost (thousand dollars)
	Items or sets (1)	Packages (2)		Items or sets (4)	Packages (5)	
Total.....			9,436			11,100
Tax returns and instructions for major mailings to taxpayer, total.....	464,720	76,574	1,521	447,682	77,186	1,795
Package 1 (Form 1040 and instructions—20 pages).....	47,286	15,762	287	63,345	21,115	427
Package 2 (Form 1040, Schedules B, D, 1040ES, and instructions—32 pages).....	185,640	23,205	546	164,704	20,588	588
Package 3 (Form 1040, Schedules B, C, D, 1040ES, and instructions—40 pages).....	73,304	6,664	245	67,681	6,151	291
Package 4 (Form 1040, Schedules B, D, F, 1040ES, and instructions—40 pages).....	35,860	3,260	119	34,177	3,107	246
Package 5 (Form 1065, Schedule D, and instructions—16 pages).....	5,135	1,027	17	5,100	1,020	23
Package 6 (Form 1120, Schedule D, Form 3468, and instructions—24 pages).....	7,920	1,320	29	6,850	1,370	44
Package 7 (Form 1040A, instructions, and return envelope).....	41,610	20,805	171	38,720	19,360	125
Employment tax package—Pub. 393 (Forms 7018, 941a, W-2, W-4, and Pub. 213—28 pages).....	67,965	4,531	107	67,125	4,475	151
Other tax returns, instructions, public-use forms, and pamphlets.....	1,161,874		4,012	1,349,321		15,423
Administration forms and pamphlets.....	682,125		2,392	933,015		2,495
Field printing.....	148,000		544	128,650		451
Excise tax stamps.....	2,152,311		867	2,360,694		936

† Included in this figure is \$467,000 for the Graduated Withholding Program.

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