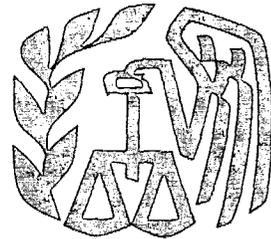


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nineteen sixty-seven

THE COMMISSIONER OF INTERNAL REVENUE

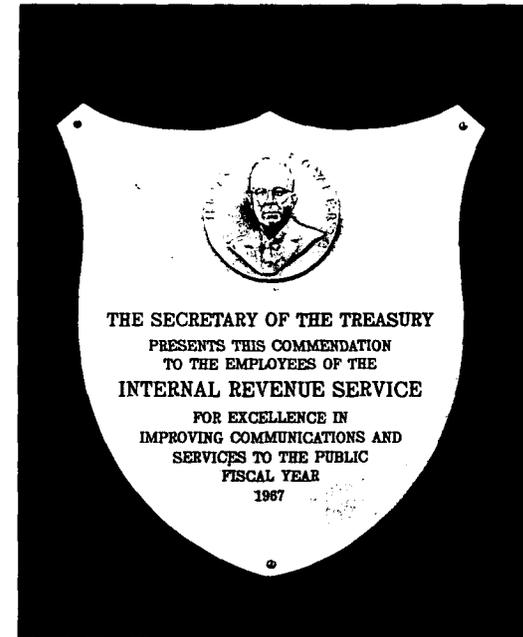


# 1967 annual report

for the fiscal year ended June 30, 1967

Publication No. 55

INTERNAL REVENUE SERVICE • U.S. TREASURY DEPARTMENT



Pictured above is the Secretary of the Treasury's  
"Award for Excellence in Improving Communications  
and Services to the Public, Fiscal Year 1967"  
which was presented to Commissioner Sheldon S. Cohen  
for the Internal Revenue Service  
by Treasury Secretary Henry H. Fowler.



Commissioner  
**Internal Revenue Service**  
Washington, DC 20224

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

DEAR MR. SECRETARY:

I am honored and pleased to send you the attached 105th annual report of the Internal Revenue Service. The record clearly shows that the Service did indeed achieve significant improvements in tax administration in fiscal year 1967. I am personally appreciative of the vital role you played by giving us your wholehearted support and encouragement.

The following brief comments relating to only a few developments will serve to illustrate progress attained. These developments and many others are covered in detail throughout the report.

Gross collections reached \$148.4 billion—15 percent above last year's record. The 49 million refunds, worth \$9.6 billion, were likewise, in both number and amount, far in excess of past results. Collections and refunds were processed faster and more accurately than ever before.

Throughout 1967 Service officials gave highest priority to improving service to taxpayers. New programs were undertaken, existing programs were expanded, a variety of innovations were introduced to meet taxpayers' need for service, and training courses designed to improve the skill of employees who assist taxpayers were revamped. These management actions brought about a better understanding of filing requirements and caused a significant reduction in errors made by taxpayers in preparing their tax returns.

Culminating 6 years of intensive effort, a major event in the annals of tax administration occurred when the automated Federal tax system became a national network on January 1, 1967. By bringing computers with all their capability and versatility into our administrative structure, the Service is equipping itself to cope with a workload that is constantly growing and tax laws that are ever changing and increasing in complexity.

With kind regards,

Sincerely,

A handwritten signature in cursive script that reads "Sheldon S. Cohen".

SHELDON S. COHEN,  
*Commissioner of Internal Revenue.*

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Notes: All yearly data are on a fiscal year basis, unless otherwise specified. For example, data headed "1967" pertain to the fiscal year ended June 30, 1967, and "July 1" inventory items under this heading reflect inventories as of July 1, 1966.

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

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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

1967
\$148,374.8
49.0
\$9,630.9
105.4
3.1
\$2,729.4
\$1,550.0

chapter

1

*"Give light, and  
the people will  
find their own way."*

## Informing and Assisting Taxpayers

### Introduction

In recognition of the fact that the American taxpayer has the primary responsibility for preparing his return, the Service utilizes all communication media in its efforts to provide taxpayers with the information they need to meet their tax obligations with a minimum of inconvenience. The Service has thoroughly equipped itself to carry out its public information role and is constantly striving to respond more effectively to specific taxpayer inquiries and to improve the process of disseminating information of general import to the taxpaying public. Described below are some of the operations carried out by the Service in meeting the public need for tax information.

### Courtesy and Service

The President's program to improve Federal service to the public was recognized from its inception in 1965 to have very special importance to the Internal Revenue Service. In July 1966, the program reached full stature. One new feature was the introduction of a reporting system providing for the quarterly collection and dissemination of new ideas and fresh approaches to better service arising anywhere in the organization. Hundreds of improvement leads were exchanged. The program has included such improvements as less formidable forms and form letters to taxpayers; pleasanter reception areas; quicker and more private interview service; more courteous telephone service; and more readily available tax information and assistance.

### Public Service Enhanced Through Training

Internal Revenue Service employees continued to receive a wide variety of training designed to increase their skills in the public service aspects of their jobs. This training, which is built into most technical courses, gives employees a better understanding of the skills involved in sound relations with the taxpayer. Illustratively, a special course was developed to help personnel in public contact jobs better understand the Service's data processing system so that they may more effectively help taxpayers who receive forms and notices produced by the computers.

Good public service, in the form of better letters to taxpayers, also was emphasized in a continuing program to provide writing improvement training to a major portion of Service employees. This pro-

gram for managers, reviewers and letter writers, attempts to provide all levels with a clear understanding of agreed-upon standards for good writing.

In addition to internal training, the Service provides training opportunities for the public in various aspects of tax return preparation. One of the most sizeable of those programs is the "Teaching Taxes" program, which provides training materials each year to more than 3 million high school students throughout the country. Through this program, which has grown approximately 10 percent each year, teaching materials now are sent on request to approximately 80,000 teachers in nearly 25,000 schools. A portion of the program has been converted to four 1/2-hour sessions for use on educational TV in South Carolina, and is being evaluated for possible use in other ETV systems.

#### Taxpayer Assistance Facilities Upgraded

As part of the President's program for improving Government services to the public, the Service has promoted a series of trial installations in taxpayer assistance areas of district office buildings. These tests in nine cities have proven immensely successful in permitting the Service to give taxpayers more rapid and convenient assistance during the filing period. Waiting time, long lines, and confusion during the filing season rush have been sharply reduced at the test sites, and with the use of fewer tax assistants. Next year, design and layout standards developed from these tests will begin to receive Servicewide application. During the coming year there will also be tests of a new uniform series of clear, easy-to-read directional and information signs.

Another aspect of improved public services is associated with the efforts of the President's Commission on Employment of the Physically Handicapped. The Service has been working with the General Services Administration and the Post Office Department to remove architectural features which hinder handicapped taxpayers and employees. The Service cooperated with the General Services Administration to strengthen office occupancy-guide requirements for first floor public contact locations and meet the necessity for elevator service in multiple floor buildings occupied by Service offices.

#### Accurate Taxpayer Information Encourages Accurate Returns

A self-assessment system needs well-informed taxpayers, just as a democracy needs a well-informed

electorate. This becomes especially true as tax laws grow in complexity and as account processing is taken over by automated equipment. In this past year both conditions prevailed, with important tax code changes introduced and with automatic data processing extended to all taxpayers in every State. As described in the Commissioner's address to the National Industrial Conference Board in New York, supplying the public "more information, better understood information, more easily accessible information" has become one of the major aims of the Internal Revenue Service. With accurate source data so vital to computer processing, errors on returns assume a critical importance. To avoid the necessity for costly correctional processing, taxpayers must have both information and motivation to file accurate returns. This goal was the dominating theme of the 1966-67 information program.

#### How Did the Error Reduction Program Operate?

The error reduction program was built around the compilation, by regional service centers, of weekly totals in six major error categories: Arithmetic, tax table, social security number, signature, Form W-2, and schedules. District offices were provided 10 master news releases which they could adapt and issue on a weekly basis, emphasizing different types of errors as their frequency warranted. The point of the releases was that taxpayer refunds were being needlessly delayed by easily avoidable mistakes.

The main error categories publicized in the business return area included the employer's identification number, business code, depository receipts, and arithmetic. These error totals also were large enough to justify news interest and publication on a wide scale.

During February and March this campaign was pressed through use of the slogan "Take Another Look" (before mailing returns) on postal truck posters, in broadcast spot announcements and other mass communication. Evidence indicates that generally most taxpayers were exposed to the error reminder message several times during the filing period.

#### Early Planning Ties Field Experiences Together

Since it was clear that an expanded information program would be required to meet 1967 filing period needs of taxpayers, planning teams set to work during the summer of 1966. As a result, by September work was underway on much of the

scheduled program: Technical and general news releases (which could be adapted for timely local use by individual district offices); feature articles and photographs; TV and radio films, scripts, and tapes. The quantities involved were generally above those of any previous year.

By using task forces made up of district information specialists, the experiences of a number of district offices could be taken into consideration in planning and drafting the filing period publicity. Then, too, on this team basis, it was possible to find the most practicable dividing lines for each type of material between Servicewide standardization and local flexibility.

The National Office, in addition to issuing news releases on Servicewide developments, provided "fact sheets," reprints of speeches and articles, and other background items for field office use in local informational programs.

District offices continued to find 1-day seminars for representatives of the several Service functions very productive in identifying effective ways of working together to meet the local public's needs for tax information—39 such seminars were held in the large metropolitan locations.

#### Increased Use of Television and Radio

The growing importance of television and radio in reaching the American public was reflected in a considerable increase in planned use of these media. More than 90 percent of all TV broadcasting stations, and 78 percent of all radio stations, used spot messages provided by the Service.

The nationwide filing period program included a "how to file" film narrated by Dave Garroway, 12 color TV spots, and a series of color slides on tax topics of common interest. In addition, more than 800 TV programs were developed by local offices working directly with individual TV stations. Panel question-and-answer periods received heavy audience response.

In radio, a series of eight 5-minute tape programs brought informative question-and-answer programs to the listeners of more than 1,500 stations. More than 100 spot announcements—10 to 90 seconds long—were prepared in Washington as nationwide supplements to the 3,000 radio programs originated by local offices.

Top officials, including the Commissioner, frequently appeared on network and local programs, sometimes as individual speakers, often as members

of a discussion panel, occasionally as interview principals.

#### Use of Question-and-Answer Column Grows

The weekly series of question-and-answer columns continued to be an extremely popular news feature. During the 1967 filing period, these columns were regularly published by more than 800 daily and 1,300 weekly papers. Their subject matter was governed by weekly reports from field offices on the trends of taxpayer queries. For the first time, the "Q and A" technique was extended to meet the special needs of Americans living abroad. Five columns of such information were provided 70 newspapers and magazines circulated among these taxpayers.

#### Carrying Out the Freedom of Information Act

In accordance with Public Law 89-487, commonly called the Freedom of Information Act, the Service established public reading rooms in Washington and in each of the regions. The purpose of these facilities is to make informational materials conveniently available to the public. They will also serve as inquiry points for any other official information which can be released to the public under the law. For list of reading rooms by location, see page 78.

#### New Programs Spur Increase in Taxpayers Assisted

##### Telephone Requests for Assistance Show Largest Increase

Over 26 million taxpayers voluntarily sought and received assistance from the Service during 1967. This was half a million—2 percent—more than last year. Almost all of this increase was in telephone requests, with 17 million taxpayers, or 65 percent requesting assistance over the telephone. This was a satisfying response to the Service's efforts to encourage taxpayers to telephone for assistance whenever possible. In this way, the Service is able to quickly provide the high-quality assistance required, but at a lower cost than a personal visit entails and with minimum inconvenience to the taxpayer.

Type	Taxpayers assisted		Percent change
	1966	1967	
Total taxpayers assisted.....	25,755,437	26,267,833	2.0
Telephone assistance.....	16,615,369	17,095,801	2.9
Assistance to office visitors.....	9,140,068	9,172,032	.3



When the Tucson Office of the Phoenix District moved into a building which formerly housed a bank, it saw the potential of the drive-in window it inherited. Now Tucson taxpayers are the first in the Nation to be able to obtain tax forms without leaving their cars.

The busy Manhattan Office found that parents waiting for tax assistance needed a way to keep their youngsters occupied. A portion of the waiting room was designed for this, to the children's obvious pleasure.



These scenes are typical of Philadelphia taxpayer assistance during the busy season. A visitor won't normally see the assistants answering telephone inquiries, but the activity is an every-day occurrence throughout the taxpayer assistance organization.



### Centralized Telephone Concept Test Continues

The potential benefits from telephone assistance has stimulated the Service to pursue avenues which might bring further improvement by this means. Major among these is the concept of centralized telephone service. Known as Centiphone, it enables a taxpayer to make a toll-free call to the district office even though he might be located some distance away. Controlled tests already conducted in the Baltimore, Little Rock, and Los Angeles Districts show that certain benefits may result both to the taxpayers and to the Service from centralized telephone assistance facilities. As a result, the Service plans further tests to determine if the benefits to be derived justify the cost involved in providing Centiphone service.

### Service Streamlines Information Flow for Better Taxpayer Assistance

Recognizing that the most effective assistance to taxpayers hinges on the timely availability of tax information desired by the public, the Service initiated two major programs designed to streamline information flow from point of origin to point of need. One involves a nationwide program, begun on January 1, 1967, to sample the nature and frequency of taxpayer inquiries. Information thus obtained has given new insight into the problems of taxpayers in filing Federal tax returns, highlighted information gaps in forms and public use documents, and provided a basis for developing job-related training for personnel detailed or assigned to the assistance program. The 25 most frequently asked questions are summarized monthly and disseminated to Service activities involved in improving communications and contacts with the public.

The second program incorporates the concept of a rapid internal tax information system which disseminates urgent "need-to-know-now" tax information to all Service employees dealing with the public. Providing information to employees immediately on such items as forthcoming technical information releases and taxpayer error data enables them to assist the public more effectively. This program has been in operation continuously since February 1967, and will be maintained on a permanent basis.

### Extended Office Hours Still Being Tested on Expanded Basis

The experiment conducted last year to determine the nature and scope of tax assistance the public requires on Saturday (normally Service offices are

closed Saturdays) was expanded from 14 to 89 headquarters and district offices. If the results indicate a substantial demand for service during these hours, arrangements will be made to further extend taxpayer assistance service.

### Forms and Instructions Provide Major Link With Taxpayers

Tax return forms and the related instructions provide the primary, and frequently the only, direct line of communication between the Service and most of the Nation's taxpayers. The success of the self-assessment system rests largely upon this link.

To provide for active participation and guidance by the Commissioner in this important activity, the chairmanship of the Service's Tax Forms Coordinating Committee has been made a part of the Commissioner's immediate office.

The goal of making the various tax forms and instructions easily understood by a multitude of users may never be fully attained, but efforts toward improvements in the content and format continued throughout the year. Of the 300 tax returns and related forms, approximately 100 must be revised annually because they bear a year designation. Others are revised when changes in the statute or regulations require revision or when means for improvement can be found. In revising the return forms and instructions, consideration is given to many suggestions from within the Service and from outside sources such as the various professional and practitioner groups.

Approximately 1,700 forms and form letters are used in a wide range of Service communications with taxpayers. Continued improvement in the appearance and content of these form letters is a matter of much importance. A consulting firm has been engaged to review especially the computer-generated notices and form letters, which present particular difficulties in proper wording to make the message clear while avoiding a harsh automated tone.

During the year, five new forms were issued and three others were eliminated, as listed on page 88.

The enactment of the Foreign Investors Tax Act of 1966 required major revision of income tax return forms used by aliens. Other significant revisions were required by changes in the manner in which corporations make estimated income tax payments, by changes in the depositary receipt rules for employers and withholding agents, and by several new income tax treaties and protocols.

**Banner Year for Tax Forms Distribution**

New methods of insuring timely delivery of tax forms to all Service offices are constantly being explored. In 1967, in cooperation with the Government Printing Office, a method was devised for making split shipments. As a result, a preliminary supply of "must" tax forms arrived in all Service offices nationwide by December 1. This was achieved by having 30-40 percent of each form produced at the Government Printing Office, regardless of the ultimate source of production for the balance, thereby insuring an initial supply in the pipeline. The balance of 60-70 percent was produced either at GPO, depending on production capabilities, or by commercial contractors. Splitting shipments in this way assured field offices of early receipt of sufficient forms for filing requests from groups such as the tax practitioners who need forms ahead of the filing period.

**Publications for Guidance in Filing Returns**

The nontechnical-language booklets and pamphlets published by the Service are an important part of the total effort to furnish the information needed for voluntary compliance. These publications bring together and present in easily understood language the technical requirements of the revenue statutes, regulations, and official rulings.

The best known of these publications, *Your Federal Income Tax*, explains and illustrates the tax laws for individual taxpayers. It features a filled-in return that is keyed to text material where readers may find explanations and examples. Numerous topical headings and a topical index make it easy to locate material in specific areas of interest.

*Tax Guide for Small Business* and *Farmer's Tax Guide* are examples of publications addressed to particular segments of the public who may have special problems under the tax laws. Others deal with special subjects such as casualty and disaster losses, child care and dependents, and medical and dental expenses. Altogether there are more than 80 of these publications, and new ones are developed from time to time as the need arises.

*Teaching Taxes* is a special purpose publication that has attracted wide-spread interest. Last year 80,000 teachers used this publication to instruct over 3 million high school and college students in the preparation of Form 1040 and Form 1040A returns.

The Service also works with other Government

agencies in developing publications, such as *Employer and Employee Tips*, I.R.S. Publication No. 478, which was prepared in cooperation with the Social Security Administration. Other illustrations of such cooperative efforts are found in the Department of Health, Education, and Welfare publication, *The Visiting Teacher, Instructions for International Teacher Development Program Grantees*; the Department of the Navy publication, *Federal Income Tax Information for Service Personnel*; and the Peace Corps publication, *Tax Guide for Peace Corps Trainees, Volunteers and Former Volunteers*.

The Department of Agriculture provided valuable assistance in developing realistic examples and illustrations relating to farm tax problems for use in various publications, including the *Farmer's Tax Guide*.

Further information about these and other Service publications starts on page 86.

**Technical Interpretations Are Published to Inform All Taxpayers and to Promote Uniformity**

Published rulings continue to play a vital role in the administration of our self-assessment tax system. Voluntary compliance is based upon the compliance capability of the Nation's taxpayers, and that capability depends in large measure upon the timely development and dissemination of technical interpretations of the revenue statutes and regulations.

The publication of administrative interpretations involving substantive tax law provides guidance to taxpayers and tax practitioners both in planning transactions and in preparing returns. Published rulings also promote uniform treatment of issues in the examination of returns because they provide precedents to be cited and relied upon in the disposition of other cases. This uniformity serves to sustain and strengthen public confidence in the administration of the revenue statutes.

These interpretations are published weekly in the *Internal Revenue Bulletin*, which has been the authoritative instrument of the Commissioner since 1919 for announcing official rulings and procedures of the Service, as well as for publishing tax legislation and related committee reports, regulations, tax conventions, certain court decisions, and other tax items of general interest. The rulings and other matters of continuing research value are consolidated semiannually into a permanent *Cumulative Bulletin*,

which becomes the primary reference source for this wide range of Federal tax material.

During the year, 415 Revenue Rulings and 53 Revenue Procedures were published in the various tax areas, as shown in the table below.

Type	Number
Total.....	468
Administrative.....	53
Alcohol and tobacco taxes.....	23
Employment taxes.....	22
Estate and gift taxes.....	23
Excise taxes.....	44
Exempt organizations.....	54
Income tax.....	225
Pension trusts.....	22
Self-employment tax.....	2

The more significant Revenue Rulings and Revenue Procedures are summarized on page 89.

To eliminate unnecessary research and to reduce the possibility of erroneous decisions by taxpayers and tax practitioners, rulings published prior to 1953 are being reviewed and more than 2,600 have been listed as not being considered determinative with respect to future transactions.

Fourteen of the 62 announcements of general interest listed the names of organizations, contributions to which are no longer deductible under section 170 of the Code; five listed disaster areas in which losses qualify for the special tax treatment under section 165(h) of the Code; and two announced tax administration agreements with the States of Mississippi and New Jersey. Other significant announcements of general interest are described on page 95.

**Alcohol and Tobacco Industries Notified of Technical Changes**

In a continuing effort to promote understanding of tax laws and thus aid industries in complying voluntarily with the requirements of laws and regulations, the Service issues circulars to members of the alcohol and tobacco industries.

Thirteen such circulars were issued during the year. Of these, three announced the substance of Revenue Rulings and Revenue Procedures in advance of publication in the *Bulletin*; one advised industry of the text of a ruling immediately after publication; two announced forthcoming hearings for the presentation and discussion of proposed amendments to the regulations on labeling and advertising of distilled spirits; and the remaining circulars called attention to specified requirements of regulations and procedures. Circulars of particular interest are described on page 96.

**Letter Rulings and Technical Advice Memoranda Interpret and Apply Law to Specific Sets of Facts**

The National Office interprets the tax law and issues letter rulings on specific sets of facts in response to inquiries from individuals and organizations. Some of these requests are received directly from the taxpayers or their representatives, while others are referred from the field offices because no published precedent can be found to support the issuance of a "determination letter" by the district director. In reliance upon the conclusions stated in these letter rulings, the taxpayers to whom they are issued may complete proposed transactions.

District directors request technical advice from the National Office on technical or procedural questions which develop during the examination of returns or claims for refund or credit if they cannot be resolved on the basis of law, regulations, or a clearly applicable Revenue Ruling or other precedent published by the National Office. New procedures were announced in Revenue Procedure 67-2 (*Internal Revenue Bulletin* 1967-1). The major change responded to desires of tax practitioners that they have the opportunity to seek a review at the National Office of a denial by the district office to request technical advice. Under the new procedure, a denial by the district office will be reviewed by the National Office upon request of a taxpayer or his representative, and all examination action will be suspended (unless such suspension will prejudice the Government's interest) until the National Office notifies the district of its decision. This review is solely on the basis of the written record and no conference is held in the National Office.

During the year 25,393 requests for letter rulings and 3,175 requests for technical advice were processed, relating to the tax categories and subject matter shown in the table below:

Subject	Total	Taxpayers' requests	Field requests
Total.....	28,568	25,393	3,175
Accounting methods.....	2,456	2,456	.....
Accounting periods.....	9,163	9,163	.....
Actuarial matters.....	149	32	117
Administrative provisions.....	165	108	57
Alcohol and tobacco taxes.....	5,022	3,733	1,289
Earnings and profits.....	556	556	.....
Employment and self-employment taxes.....	502	.....	50
Engineering questions (depreciation, etc.).....	231	119	112
Estate and gift taxes.....	549	412	137
Other excise taxes.....	3,333	2,951	382
Other income tax matters.....	626	450	176
Pension trusts.....	5,183	4,529	574
	683	442	241

### Determination Letters 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 and custodial accounts. Such letters are based on published principles and precedents which are applied to the facts in the cases considered.

During fiscal year 1967, 19,884 plans, exclusive of self-employed individual plans, covering 1,236,583 employees were held qualified. The number of plans approved during the fiscal year was more than double the number approved in any year prior to 1962 and shows a significant increase over the immediately preceding year. 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.....	8,915	10,947	22
Participating employees.....	332,513	882,388	21,682
b. Plans disapproved.....	174	176	1
2. Termination of plans.....	630	602	.....
Cases closed without issuance of determination letter.....	823	953	6

In addition to the foregoing, 14,086 plans which include self-employed individuals, covering 21,374 participants, were held qualified. Among those participating in these plans were 15,420 self-employed individuals. The number of approved plans was almost double the number approved in the previous year. 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.....	4,462	9,267	357
Number of participants.....	6,946	13,974	454
b. Plans disapproved.....	28	65	2
2. Termination of plans.....	10	13	1
Cases closed without issuance of determinations.....	134	357	28

District directors also issued 14,486 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, 13,672 were letters of approval and 814 of disapproval. In addition, 2,136 cases were closed without the issuance of a determination letter.

### Regulations Provide Interpretation of Internal Revenue Code

Regulations issued under the Internal Revenue Code, being expressly authorized by the Code, constitute the most authoritative administrative interpretation of its provisions. These regulations provide guidance for both the Service and taxpayers, and are binding upon Service personnel.

Normally, the process of issuing regulations begins with the publication in the Federal Register of a notice of proposed rulemaking. Persons interested in the proposed regulations are given an opportunity to comment on them in writing and at a public hearing if one is requested. After consideration of all comments and incorporation in the proposed regulations of any appropriate changes, a Treasury Decision containing the final regulations is prepared. This document is signed by the Commissioner, approved by the Secretary of the Treasury or his delegate, and published in the Federal Register.

It is sometimes necessary or appropriate to depart from the usual procedures and omit the notice of proposed rulemaking. For example, if taxpayers must make important decisions under a new law soon after its enactment, temporary regulations published without notice might then be necessary. These regulations would be followed by permanent ones issued in the usual manner. Notice may also be omitted if unnecessary or impractical or where the needs of the public are better served without it.

Twenty-eight final regulations, three temporary regulations, and 22 notices of proposed rulemaking relating to matters other than alcohol and tobacco taxes, were published in the Federal Register during the year. Ten public hearings attended by a total of approximately 335 persons were held on proposed regulations.

Five Treasury Decisions were issued in connection with the administration of alcohol, tobacco, and firearms regulations.

Some of the more important regulations published during the year are listed on pages 88 and 89.

## chapter 2

*"That a people so numerous, scattered and individualistic annually assesses itself with a tax liability, often in highly burdensome amounts, is a reassuring sign of the stability and vitality of our system of self-government."*

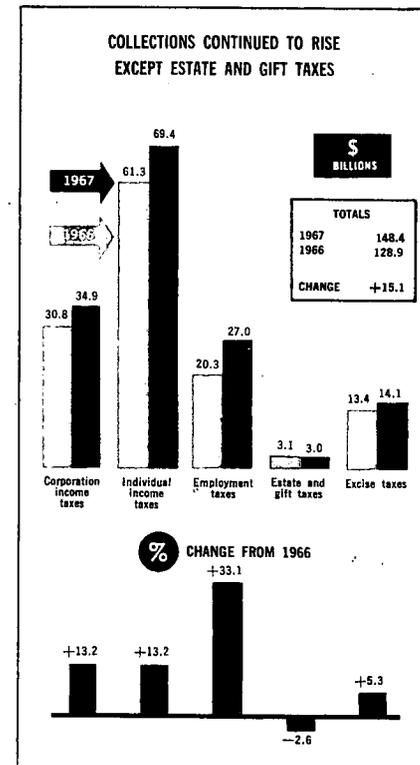
Supreme Court Justice ROBERT H. JACKSON

### Collections, Refunds, and Returns Filed

### Tax Revenue Continues to Rise

Tax revenue continued its upward movement of past years. Revenue increases were recorded for the year in all of the major classes of tax except estate and gift taxes.

In fiscal year 1967, gross internal revenue receipts were \$148.4 billion—an increase of approximately \$19.5 billion (15.1 percent) over fiscal year 1966. The total amount collected and the amount of increase were the largest in the history of the Internal Revenue Service. The increase of \$19.5 billion is



larger than total internal revenue collections in 1942, when \$13.0 billion was collected (see table 4,

p. 119). Gross collections by class of tax for 1966 and 1967 are shown in the following table:

Gross internal revenue collections  
(In thousands of dollars. For details see table 3, p. 117)

Source	Percent of 1967 collections	1966	1967	Increase or decrease	
				Amount	Percent
Grand total <sup>1</sup>	100.0	128,879,861	148,374,815	19,494,854	15.1
Income taxes, total	70.3	92,131,794	104,288,420	12,156,626	13.2
Corporation	23.5	30,834,243	34,917,825	4,083,582	13.2
Individual, total	46.8	61,297,552	69,370,595	8,073,043	13.2
Withheld by employers <sup>2</sup>	34.0	42,811,381	50,520,274	7,709,493	18.0
Other <sup>2</sup>	12.7	18,486,170	18,849,721	363,551	2.0
Employment taxes, total	18.2	20,256,133	26,958,241	6,702,108	33.1
Old-age and disability insurance, total	17.2	19,005,488	25,562,638	6,557,150	34.5
Federal insurance contributions	16.0	18,078,143	23,786,660	5,708,517	31.6
Self-employment insurance contributions	1.2	927,345	1,775,978	848,633	91.5
Unemployment insurance	4	567,014	602,745	35,731	6.3
Railroad retirement	.5	683,631	792,858	109,227	16.0
Estate and gift taxes	2.9	3,083,922	3,014,406	-79,516	-2.6
Excise taxes, total	9.5	13,398,112	14,113,748	715,636	5.3
Alcohol	2.7	3,814,378	4,075,723	261,345	6.9
Tobacco	1.4	2,073,596	2,079,869	6,273	.3
Other	5.4	7,509,777	7,958,156	448,379	6.0

<sup>1</sup> Collections are adjusted to exclude amounts transferred to the Government of Guam. For details see table 1, p. 109 and footnote 5, p. 119.  
<sup>2</sup> 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.

**Individual Income Tax Is Top Source of Revenue**

The tax on individual income, withheld by employers and paid by the individual with his return, continues to be the biggest single contributor to Federal revenue, representing about 47 percent of all collections. This class of tax increased \$8.1 billion (13.2 percent) from 1966 to reach \$69.4 billion in 1967. A portion of the increase was caused by the rise in withholding rates effective in May 1966.

In June 1967, new deposit dates became effective for agents withholding income tax from payments to nonresident alien individuals, foreign partnerships, foreign corporations and from interest on certain bonds. Prior to that date a single payment, covering the preceding calendar year had been made annually with the filing of Form 1042 due on March 15. Deposit for the first five months of calendar year 1967, the period of transition, became due on June 22, 1967. The first regular payments under the new regulations start in July 1967. Agents whose monthly withholding exceeds \$2,500 will make semi-monthly deposits; agents who withhold \$2,500 or less but over \$100 will deposit on a monthly basis.

**Corporation Income Tax Collections Show Gains**

Corporation income tax payments, next in order of importance to individual income tax in amount

of revenue produced, rose to \$34.9 billion in 1967, a \$4.1 billion (13.2 percent) increase over the prior year. A contributing element was the acceleration of estimated payments. Beginning in April 1966, the first and second installments were computed at 12 percent. In April 1967, the estimated tax installments due each quarter increased to a rate of 25 percent. This liability refers only to that portion of the tax liability estimated to be in excess of \$100,000.

**Procedure Instituted for Direct Payments to Federal Reserve Banks**

A new deposit procedure instituted in 1967 requires direct payment of corporation income tax to Federal Reserve Banks or member banks, reducing the processing time of tax payments. In 1967 only estimated tax payments were affected. The amount of deposits was \$7.2 billion. The new procedure, which will be extended to cover other business tax payments in 1968, is discussed more fully in Chapter 9.

**Investment Credit Restored**

Public Law 90-26, June 13, 1967, restored as of March 9, 1967, the investment credit and accelerat-

ed depreciation that had been suspended on October 10, 1966. This incentive to business expansion may have lessened income tax payments slightly in fiscal year 1967 and will continue to have an effect on future tax liabilities.

**Employment Taxes, Rates, and Total Payments Increase**

Employment tax collections, as a group, went up 33.1 percent or \$6.7 billion in 1967. These taxes represent funds which are set aside for the payment of insurance and retirement benefits. Rate increases and an increase in the amount of wages subject to the tax, as well as expanding employment, played a part in the rise in collections.

On January 1, 1966, rates under the Federal Insurance Contributions Act (FICA) (old-age, survivors, and disability provisions) increased from 3.625 to 3.85 percent plus 0.35 percent for the medicare provision of the law. Employers and employees are each taxed at the same rate. At the same time the maximum taxable wage was increased from \$4,800 to \$6,600. These rate and base changes affected collections during the first part of fiscal 1967. On January 1, 1967, there was a further increase to 3.9 percent for FICA and 0.5 percent for medicare, which affected collections in the second half of fiscal 1967. Total FICA collections (including medicare) increased by \$5.7 billion or 31.6 percent in 1967.

The tax on self-employment income, up \$0.8 billion (91.5 percent) was affected by the following revisions:

January 1, 1966: Rate changed from 5.4 to 5.8 percent plus 0.35 percent for medicare. Base changed from \$4,800 to \$6,600.

January 1, 1967: Rate changed to 5.9 percent plus 0.5 percent for medicare.

Railroad retirement tax also followed the trend of higher collections and rate increases. The rate changes (applicable to both employer and employee) on taxable wages as defined in the Railroad Retirement Tax Act, as amended, were:

January 1, 1966: From 7.125 to 7.6 percent plus 0.35 percent for medicare.

January 1, 1967: To 8.15 percent plus 0.5 percent for medicare.

In addition to these rate changes, Public Law 89-699, approved October 30, 1966, added a supplemental tax on railroad employers of 2 cents per man-hour effective with wages beginning in November 1966.

During fiscal year 1967, there was no change in the rate of tax under the Federal Unemployment Tax Act. Nevertheless, the \$603 million collected represented an increase of \$36 million (6.3 percent) over the prior year. Increased employment was primarily responsible for the rise. In past years substantial added collections resulted from the reduction of credits allowed for employers' payments to the various States. In 1967, however, additional collections were only \$19.3 million or 3.2 percent of total revenue for this class of tax, compared with \$25.5 million (4.5 percent) in 1966 and \$144.6 million (18.4 percent) in 1965. The decline in recent years is attributable to the decrease in number of States affected by reduced credits and a drop in the rate of reduced credits in Alaska.

**Excise Taxes Show Gains**

In spite of the numerous excise taxes reduced or eliminated under the Excise Tax Reduction Act of 1965, revenue from excise taxes represents a substantial part of total collections. In 1967, the Service collected \$14.1 billion from all kinds of excise levies, a gain of \$0.7 billion or 5.3 percent over 1966. Two years ago in fiscal year 1965, excise revenue was the highest ever, \$14.8 billion. Collections in 1967 were only 5 percent under that peak year.

It is interesting to compare the amounts received in taxes on the following excise tax leaders in 1967 and 1966 (see table 3, p. 117):

Selected excise taxes  
(In millions of dollars)

Item	1966	1967	Percent change
Gasoline	2,824	2,933	3.8
Distilled spirits	2,810	3,007	7.0
Cigarettes	2,006	2,023	.8
Automobile chassis	1,492	1,414	-5.3

\*10 percent through June 21, 1965; 7 percent through December 31, 1965; 6 percent through March 15, 1966; 7 percent through March 31, 1968.

**Administrative Budget Receipts**

A distinction must be made between gross collections and "administrative budget receipts"—those funds available for financing the operations and programs of the annual budget. Administrative budget receipts include gross collections of internal revenue, customs duties, and miscellaneous receipts,

reduced by transfers to trust fund accounts, inter-fund transfers, and refunds. The following table

presents 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.....	50,520,874				
Other.....	18,849,721				
Total.....	69,370,595		7,844,609		61,525,986
Corporation income taxes.....	34,917,825		946,468		33,971,357
Excise taxes:					
Highway trust funds.....	4,347,541	4,134,756	212,785		
Other.....	9,766,207		182,012		9,584,193
Total.....	14,113,748	4,134,756	394,799		9,584,193
Employment taxes:					
Old-age and disability insurance.....	25,562,638	25,280,482	282,156		
Railroad retirement.....	792,858	790,283	165		
Unemployment insurance.....	602,745	596,542	6,202		
Total.....	26,958,241	26,667,306	288,524		2,978,311
Estate and gift taxes.....	3,014,406		36,095		
Total internal revenue.....	148,374,815	30,802,062	9,510,495		108,062,258
Adjusted to conform with "Statement of Receipts and Expenditures of the United States Government".....		-308,747			-308,747
Adjusted total internal revenue.....	148,374,815	31,110,809	9,510,495		107,753,511
Customs.....	1,971,800		71,085		1,900,715
Miscellaneous receipts.....	6,876,422		107	681,723	6,194,592
Total.....	157,223,037	31,110,809	9,581,686	681,723	115,848,817

Refunds Continue to Rise

Approximately 49 million refunds of overpaid Federal taxes were made in 1967, totaling \$9.6 billion including interest of \$120.4 million. Each of these items increased over the previous year. The number of refunds was up 3.9 million (8.6 percent), while the amount refunded, including both principal and interest, was \$2.3 billion (31.7 percent) larger. Principal refunded increased \$2.3 billion (31.9 percent), while interest paid increased \$16.4 million (15.8 percent).

The largest increase in both number (5.1 million) and amount (\$2.1 billion) of refunds occurred

in individual income tax. A contributing factor was the increased rate of withholding from wages, beginning in May 1966, under the Tax Adjustment Act of 1966.

Excise tax refunds accounted for a large part of the interest increase—\$7.7 million. The large amount of interest in many of these cases involved unavoidable delays, such as claims deferred pending court decisions. Interest costs also increased by \$3.9 million for individual income tax and \$3.6 million for corporation income tax refunds. The following table shows refunds by class of tax for 1966 and 1967:

Internal revenue refunds, including interest

(For refunds by region and district, see table 5, p. 121)

Type of tax	Number		Amount refunded (principal and interest—thousand dollars)		Amount of interest included (thousand dollars)	
	1966	1967	1966	1967	1966	1967
Total refunds of internal revenue <sup>1</sup> .....	45,106,265	49,004,545	7,314,599	9,630,864	103,931	120,370
Corporation income taxes.....	117,252	130,263	830,998	1,019,829	69,782	73,360
Individual income and employment taxes, total <sup>2</sup> .....	43,647,266	48,783,099	6,115,148	8,166,952	29,869	33,819
Excessive prepayment income tax <sup>3</sup> .....	42,436,224	47,719,580	5,858,028	7,593,008	11,598	12,949
Other income tax and old-age and disability insurance <sup>4</sup> .....	1,178,131	1,029,913	251,131	567,286	18,042	20,580
Railroad retirement.....	308	359	176	158	3	3
Unemployment insurance.....	32,603	33,247	5,813	6,490	227	288
Estate tax.....	7,326	7,475	29,386	37,813	3,104	4,216
Gift tax.....	791	735	1,477	2,660	155	264
Excise taxes, total.....	1,333,630	782,973	337,591	403,510	1,022	8,711
Alcohol taxes <sup>5</sup> .....	8,777	8,728	94,427	95,771	7	9
Tobacco taxes <sup>6</sup> .....	831	437	7,586	3,075	1	(*)
Manufacturers' and retailers' excise taxes, total.....	1,277,602	77,157	210,899	287,337	179	8,241
Gasoline used on farms.....		n.a.	98,106	159,179		
Gasoline, nonhighway.....		n.a.	21,470	12,519		
Other <sup>7</sup> .....		7,157	91,323	115,639	179	8,241
All other excise taxes <sup>8</sup> .....	46,420	66,651	24,679	17,328	836	461

<sup>1</sup> Figures have not been reduced to reflect reimbursements from the Federal Old-Age and Survivors and Federal Disability Insurance Trust Funds amounting to \$282,156,250 in 1967 and \$227,675,000 in 1966; from the Highway Trust Fund amounting to \$211,507,037 in 1967 and \$119,931,000 in 1966; and from the Unemployment Trust Fund amounting to \$3,971,809 in 1967 and \$5,586,000 in 1966.

<sup>2</sup> Net of 32,703 undeliverable checks totaling \$9,274,000 in 1967 and 199,082 undeliverable checks totaling \$18,245,000 in 1966.

<sup>3</sup> Includes refunds "not otherwise classified."

<sup>4</sup> Includes drawbacks and stamps redemptions.

<sup>5</sup> Includes lubricating oil used for non-highway purposes.

<sup>6</sup> Includes narcotics, silver, wagering (excise and stamps), capital stock, and other excise tax refunds.

<sup>7</sup> Excludes gasoline tax refunds.

<sup>8</sup> Includes excess FICA credits.

\* Less than \$500.

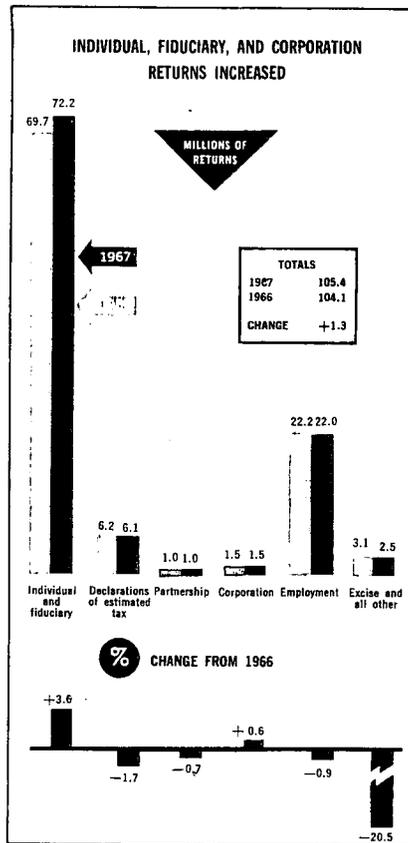
### Returns Filed Still Increasing

More than 105 million tax returns of all types were filed in 1967, an increase of more than 1 million returns from last year. The largest increase was in the number of Forms 1040 which increased by nearly 2 million to a 1967 total of 52 million. The following table presents data on returns filed by type of return in 1966 and 1967:

Number of returns filed, by principal type of return  
(Figures in thousands. For details, see table 6, p. 122)

Type of return	1966	1967
Grand total.....	*104,072	105,433
Income tax, total.....	*79,104	81,502
Individual and fiduciary, total.....	69,724	72,224
Individual-citizens and resident aliens, total.....	68,632	71,080
Forms 1040.....	50,054	52,000
Forms 1040A.....	18,578	19,080
All other individual and fiduciary.....	1,092	1,144
Declarations of estimated tax, total.....	*6,349	6,233
Individual.....	*6,322	6,202
Corporation.....	27	31
Partnerships.....	862	956
Corporations.....	1,502	1,526
Other.....	567	562
Employment tax, total.....	*22,248	22,039
Employers' Form 941.....	15,632	15,464
Employers' Form 942 (household employees).....	*4,579	4,387
Employers' Form 943 (agricultural employees).....	634	580
Railroad retirement, Forms CT-1, CT-2.....	21	20
Unemployment insurance, Form 940.....	1,582	1,588
Estate tax.....	103	113
Gift tax.....	134	137
Excise tax, total.....	2,284	1,642
Occupational tax.....	1,003	981
Form 720 (retailers, manufacturers, etc.).....	973	956
Alcohol.....	22	22
Tobacco.....	9	7
Highway use tax.....	220	223
Other.....	57	54

\* Revised.



## chapter 3

*"The Greatest Change in a Century of Tax Collection—Automatic Data Processing (ADP)."*  
LILLIAN DORIS, *The American Way in Taxation*

## Automatic Data Processing

### Introduction

The automatic data processing (ADP) system of the Service is one of the most complex applications of its kind in the world. The system must handle annually hundreds of millions of transactions, with every proper regard for the intricacies of the tax laws and regulations and sound accounting principles. The acid test lies in the systems' ability to produce timely and accurate outputs, whether in the form of refunds, bills, or other notices.

It is virtually axiomatic that some difficulties will be encountered in installing a large-scale computerized processing and accounting system. Although the Service has had its share of such problems, the error rate has been lower than in comparable commercial applications. During test periods in the pilot region (Southeast Service Center) progress has been made to the extent that an unusual number of problems no longer exists. These improvements have been built into the system as it expanded into other regions. The experience thus far has been most gratifying due in no small measure to the understanding of the public and the professional tax community.

### Extension of ADP System to Entire Nation Brings Good Results

#### Master Files Installation Completed

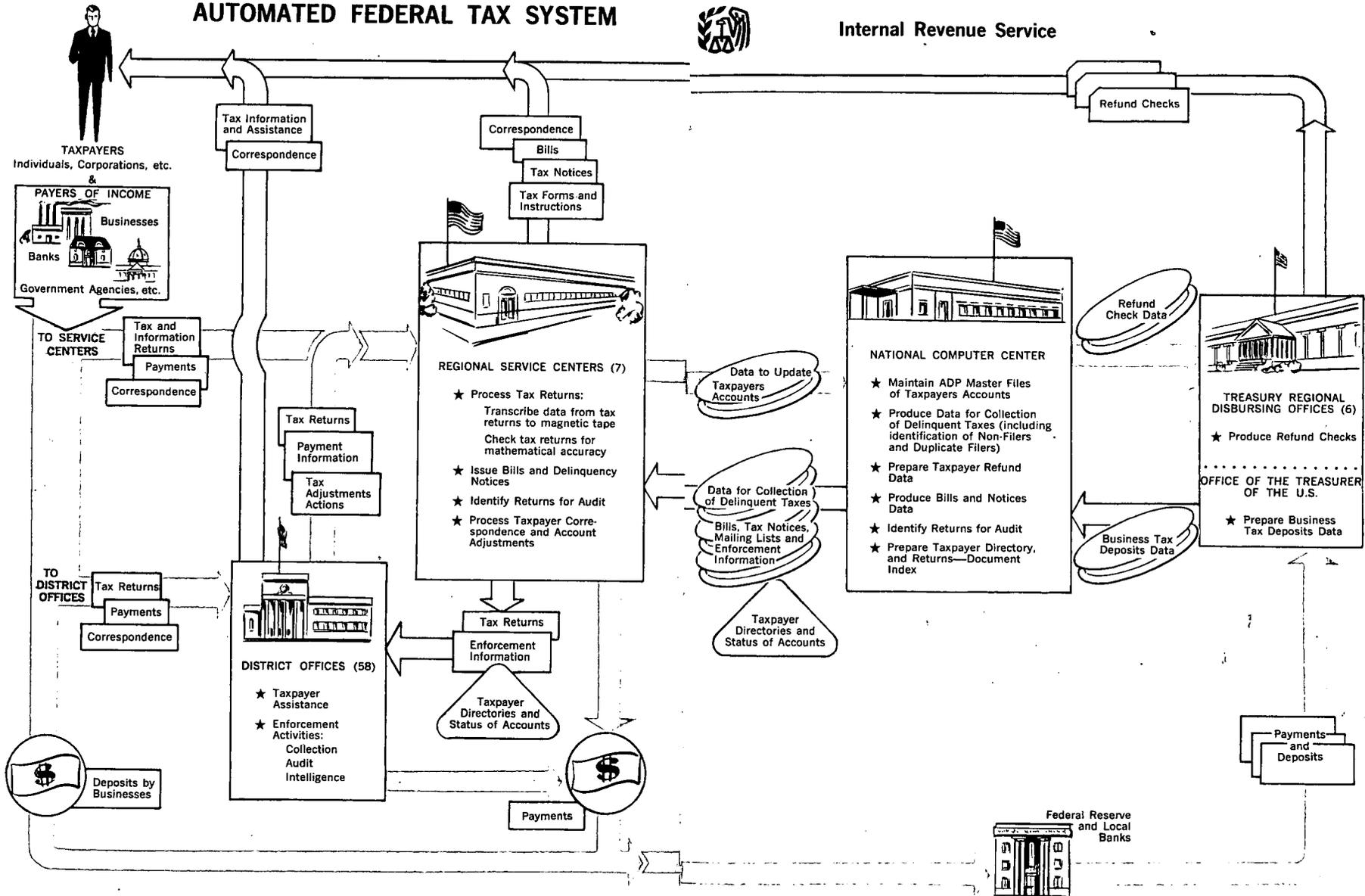
An important milestone was reached when the Business Master File (BMF) became nationwide in scope on January 1, 1965. The second high point was reached on January 1, 1967, when Individual Master File (IMF) coverage became nationwide. This was accomplished by the phasing in of the Midwest and North-Atlantic Regions, and the Detroit, Los Angeles, and San Francisco Districts of the Central and Western Regions. All individual income tax returns and accounts (except the Office of International Operations (OIO)) for calendar year 1966 and subsequent periods will be processed under one system—the ADP Master File Plan. Master file type OIO returns will be included in ADP operations beginning in processing year 1968 to achieve complete coverage.

To attain uniform IMF operations in 1967, estimated income tax accounts for calendar year 1966 established by the former area service centers were transferred into the ADP system. Thus, validation of

# AUTOMATED FEDERAL TAX SYSTEM



Internal Revenue Service



estimated tax credits on all returns is being accomplished by ADP processes. Any underpayment of estimated tax also can be identified on all accounts in a uniform manner.

Transfer to the IRS Data Center of non-master file programs formerly assigned to regional service centers was also completed. The Data Center now processes all non-master file programs such as payrolls, Statistics of Income tables, the Taxpayer Compliance Measurement Program, and other management information studies and reports.

All taxpayer correspondence and adjustments relating to both IMF and BMF returns and accounts are now being processed in the regional service centers. Returns are selected for audit review nationwide using ADP programmed criteria. To reduce manual processing of prior-year delinquent accounts all business taxpayer open accounts from 1962, and individual accounts from 1963, are incorporated on the master files and processed under ADP procedures. Before nationwide ADP processing, BMF and IMF accounts had been governed by the year in which the several regions and districts were brought under ADP.

In brief, all objectives of the ADP master plan became effective with the nationwide processing of individual income tax returns under one system. The gradual phase-in was done on schedule and without major difficulties. The BMF went from 5.7 million accounts at the end of 1966 to 6.2 million at the close of 1967, and the IMF from 36.9 million to 70.4 million.

#### Direct Filing Legislation Passed

Public Law 89-713, enacted on November 2, 1966, authorized the Internal Revenue Service to require taxpayers to file their returns directly with service centers. Prior to this, such filing was optional. The change in filing requirements will be introduced gradually with total installation scheduled for 1970.

Optional direct filing of individual income tax refund returns was further extended in 1967. Only the North-Atlantic and Midwest Regions and the State of California have not yet been brought under the system. From January through May, approximately 83 percent of the refundable Forms 1040 and 1040A received in regions where direct filing was permitted were filed directly with service centers. In the Southeast and Mid-Atlantic Regions, the direct filing of refundable returns increased from approximately 82 and 81 percent respectively in 1966 to 85 and 86 percent in 1967. The optional di-

rect filing of refund returns will be extended to all regions in 1968. In the Southeast Region mandatory direct filing of Forms 1040 and 1040A will also begin in 1968.

The filing of selected business returns with the service center was made mandatory in the Southeast Region beginning with certain first quarter returns due April 30, 1967. More than 90 percent of these returns, Forms 941, 720, CT-1, and CT-2 were filed with the service center. The direct filing of these business-type returns will be extended to the Mid-Atlantic, Central, Southwest, and Western Regions in 1968 and will also be extended to Forms 940 and 1120 in the Southeast Region at that time.

#### ADP Verifies Taxpayer Arithmetic and Estimated Tax Payments

January 1967 saw incorporation into the Individual Master File of taxpayers' returns filed in the two regions not previously under the system. Mathematical verification was accordingly extended to the returns filed in these regions on the same basis as in all other regions. Verification includes not only the validation and correction of taxpayers' arithmetic, but also the verification of the estimated tax credits claimed by individuals on their returns.

In 1967, for the first time, the estimated tax credits claimed by individuals filing Form 1040 were computer verified on a 100-percent basis. This was possible since the estimated tax credits for these taxpayers in the last regions and districts to be incorporated were preestablished on the master file prior to the implementation of individual returns processing in January.

The above verifications resulted in an estimated net yield from ADP processing of \$71.8 million and an additional estimated \$6.9 million in penalty assessments for taxpayers who failed to make sufficient estimated tax payments.

#### System Helps Identify Nonfilers

A nationwide check of individual taxpayers who have failed to file returns will be possible in 1968 when all regions will have processed returns for 2 years. At the present time this check is made in regions which do meet this requirement. The cases of nonfiling identified for tax year 1965 in the Southeast and Mid-Atlantic Regions are currently being processed. This check has been integrated into the current information documents matching program for tax year 1965, which identifies nonfilers as well as those who do not report all income.

Under the system used previously, certain taxpayers could receive more than one notice for the same filing discrepancy. Another advantage of the new system is its ability to eliminate many cases of apparent nonfiling through discriminate analysis of all data available from information documents and the master files.

#### Unpaid Liabilities Deducted From Refunds Due

Before the Service authorizes a refund for an overpayment of tax, the taxpayer's master file account is searched for any unpaid liabilities. If any are found, the overpayment is appropriately applied and any remainder then refunded. This is the year in which it first became possible to make this offset on the accounts of taxpayers in all regions.

Also effective in January 1967, the offset procedure was expanded nationwide to cover non-master-file accounts in delinquent status. From January through June, 27,674 overpayments totaling \$2.8 million were applied to these accounts, many of which had been considered uncollectible.

#### Refund Duplications Caught Before Issuance of Check

The ADP system permits the identification of taxpayers who file more than one return requesting refunds. Many of these duplicate returns are filed because taxpayers mistakenly file a return for each withholding statement received. Others file another return when they want to inform the Service of a change in name or address. Before ADP, each of these returns might have resulted in a refund at the time the return was processed, with the duplication being discovered only upon later processing. The present system of identifying duplicate returns prior to issuance of a refund saves not only the cost of issuing a refund, but also costly recovery action. During this fiscal year, \$4.8 million in duplicate refund requests were detected before refund action was taken.

#### Information Document Matching Extended

For many years the Service has been testing methods for obtaining the greatest use from infor-

mation documents reflecting wage, interest, and certain other payments. The power of ADP to store and recover data has helped tremendously in making use of the large volume of information documents received each year.

The test conducted in the Southeast Region in tax year 1963 was reported in last year's annual report. Final results for tax year 1964, covering both the Southeast and Mid-Atlantic Regions, show that over 17,000 amended or delinquent returns were secured as a result of computer matching of information documents with returns filed. Net tax, penalty, and interest due totaled \$1,074,700.

#### Selections for Audit Facilitated by ADP

Under the ADP system, all returns are screened against audit selection criteria programmed into the computers at the service centers and the National Computer Center. The criteria represent the conditions under which experience has shown that taxpayers are most likely to make mistakes. This computer process has a double function. It assures that returns with the greatest deviation from programmed criteria will be selected for examination. Also, it provides relief to the taxpayer whose return was audited in a prior year on a questionable issue and was found acceptable, by bypassing him if only the same issue arises again. The refined screening provided by the system greatly reduces the time required by audit technical personnel to manually select returns for examination.

#### Redeployment Program Nears Completion

The implementation of the ADP program continues to be accomplished without adversely affecting the several thousand employees whose work is being shifted from the district offices to the service centers. Approximately 9,000 people have been redeployed thus far. We are working to carry the program to conclusion with the same high measure of success achieved to date.

Individual income tax returns mathematically verified

Item	Total		Form 1040		Form 1040A	
	1966	1967	1966	1967	1966	1967
Number.....	60,721	65,361	44,211	48,205	16,510	17,156
Number of returns on which changes were made.....	3,461	3,895	2,405	2,991	1,056	904
Returns with increase:						
Number.....	2,050	2,389	1,456	1,852	594	537
Amount.....	186,244	207,605	141,692	167,865	44,552	39,740
Returns with decrease:						
Number.....	1,411	1,506	949	1,139	462	367
Amount.....	81,954	94,281	60,387	76,161	21,567	18,120
Net yield:						
Total.....	104,289	113,324	81,305	91,704	22,984	21,620
Average per return verified.....	1.72	1.73	1.84	1.90	1.39	1.26

**Introduction**

The prime objective of the Service's enforcement activities is to insure that each taxpayer's tax liability is correctly established and that all taxes due are paid. The confidence of the American citizen in the Federal tax structure and his acceptance of our self-assessment system is largely dependent on the Service's ability to achieve this objective. In recognition of this important relationship the Service's enforcement programs strive to promote maximum voluntary compliance through fair and impartial administration of the tax laws and regulations. Narrated below are the results from enforcement in 1967, ranging from verification of simple arithmetic to investigations of complex schemes to evade payment of taxes. Related activities, such as research on compliance patterns and legal work in court cases are covered elsewhere in this report.



chapter

**Mathematical Verification Yield Continues High**

About 65.4 million income tax returns of individuals filed on Forms 1040 and 1040A were mathematically verified during the year, an increase of 4.6 million or 7.6 percent over the preceding year. The increase in 1967 resulted primarily from a 3.6-percent increase in the number of returns filed and the accelerated processing of returns intrinsic to the data processing system.

The mathematical correction of returns helps to insure that each taxpayer will pay the proper amount of tax, neither overpaying nor underpaying his tax liability. This year about six percent of the taxpayers erred in the preparation of their returns. Some of the most common mistakes which lead to erroneous tax computation are failure to (1) use the proper tax table or proper column from the tax table; (2) enter amounts on the proper lines of the return; and (3) verify the computations on associated schedules and the transfer of these amounts to the basic return. The correction of taxpayers' mathematical errors resulted in a net yield of \$113.3 million (the difference between \$207.6 million in increased taxes and \$94.3 million in decreased taxes). The results of this year's mathematical verification program are shown in the table below:

**Audit Program Keeps Pace With Expanding Economy**

**Initial Screening of Returns for Audit Becomes Fully Automated**

The essential first step in the audit program is the identification of those returns most in need of examination. 1967 marked the first year that all regions used the computer system to classify returns with audit potential. The addition of the Midwest and North-Atlantic Regions completed the final step in the initial phase of utilizing ADP to classify returns.

Through computer screening of most income tax returns filed, it has been possible to reduce the number of returns manually handled by more than 50 percent since 1964, despite an increase in returns filed of 7.3 million. Of the 81.8 million income, estate, and gift tax returns filed during 1967, 12 million were manually classified compared with 25 million in 1964. Technical manpower freed as a result of the screening process was redirected to examination work.

Advanced statistical and operations research techniques are being employed in developing a new classification technique called "discriminant function." This technique, by weighing significant return characteristics, permits the ranking of selected returns by magnitude of potential tax error. This method will further reduce manpower required for classification and, by more effectively identifying returns with greatest error potential, help to ensure the most efficient employment of the audit manpower of the Service. Meanwhile, current selection criteria are continually evaluated and updated to gain the benefit of the most recent Service experience.

The number of tax returns examined by type of return follows:

Number of tax returns examined

(Figures in thousands)

Type of return	Total		Field		Office	
	1966	1967	1966	1967	1966	1967
Grand total.....	3,480	3,108	767	731	2,713	2,377
Income tax, total.....	3,273	2,942	590	590	2,683	2,352
Corporation.....	158	162	156	160	2	2
Individual and fiduciary.....	3,092	2,768	411	417	2,681	2,351
Exempt organization.....	13	12	13	12	( <sup>1</sup> )	( <sup>1</sup> )
Estate and gift tax.....	38	40	35	35	3	4
Excise and employment tax.....	169	127	142	106	26	20

<sup>1</sup> Less than 500.

**Audit Job Becomes More Complex**

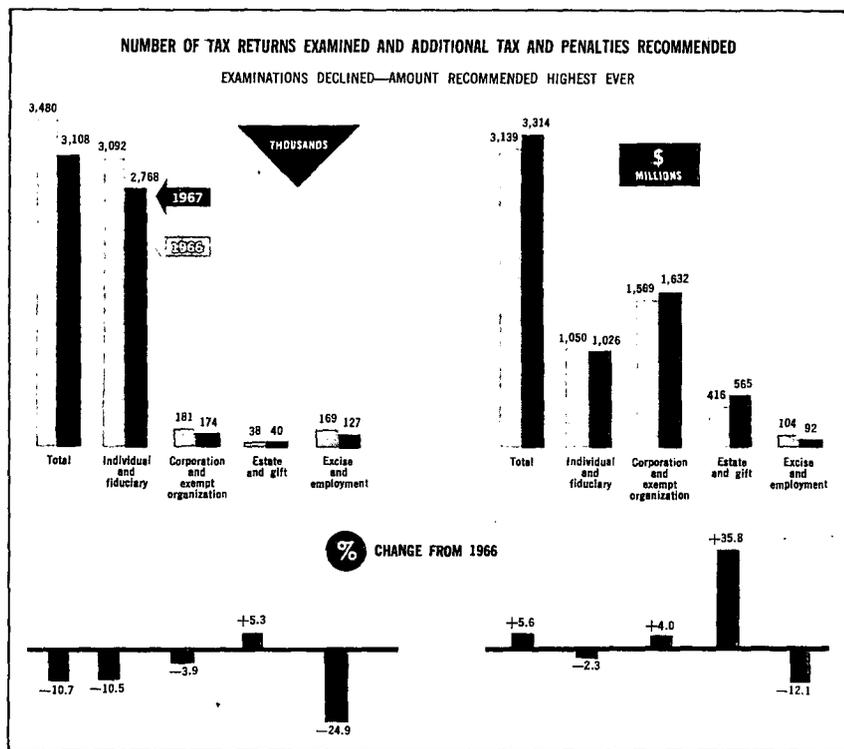
Responsive to the changing demands on tax administration in a burgeoning economy, the audit program expanded activity in the larger, more complex return area while maintaining quality audit standards throughout. There was a 10.7-percent decline in returns examined, from 3.5 million in 1966 to 3.1 million in 1967. Continued high quality audits plus shifts in audit concentration to larger cases resulted in additional tax recommended of \$3.3 billion—the highest ever. This was the second consecutive year additional tax recommended from audits exceeded \$3 billion, bringing the total for the last 5 years to over \$14 billion.

Through upgrading of skills in office audit, employees assigned in this area were able to keep pace with an increase in relatively small business and nonbusiness returns. In 1967, the Service increased the number of office audit returns examined by interview methods, rather than by correspondence. Use of the interview technique makes possible a better examination, permitting office auditors to personally counsel taxpayers in the interest of avoiding repetition of errors. As expected, this approach brought about a decrease in the total number of office audit examinations.

*"For voluntary self-assessment to be both meaningful and productive of revenues, citizens must not only have confidence in the fairness of the tax laws, but also in the uniform and vigorous enforcement of these laws."*

President JOHN F. KENNEDY

**Enforcement Activities**



Greater accumulation of personal wealth and greater audit coverage contributed to the increase in tax recommended from examinations of estate and gift tax returns—\$565 million in the current year, a marked increase over last year's \$416 million.

Altogether, additional tax was recommended in 1.6 million of the returns examined and 96.2 percent of the adjusted returns were agreed to by taxpayers.

The primary responsibility of the audit program is to determine correct tax liability. While the bulk of examinations result in the assessment of additional tax, equivalent effort is expended in cases where it appears that the taxpayer has assessed himself with a greater tax burden than the law requires. In 1967, Service examinations disclosed overassessments of

\$190.6 million. This is exclusive of claims for refund initiated by taxpayers. Overassessment recommendations made in the last 2 years are shown in the following table:

Type of tax	Overassessments of tax exclusive of claims for refund Amount recommended (thousand dollars)	
	1966	1967
Total.....	154,548	190,648
Individual and fiduciary income.....	48,779	53,273
Corporation income.....	89,053	121,358
Estate.....	11,478	11,972
Gift.....	832	1,151
Excise.....	4,049	2,487
Employment.....	317	407

**Large Case Audit Techniques Contribute to Improvements**

In the years since World War II, the corporate economy has undergone dramatic changes. Large corporations have grown tremendously in size, number, and complexity of organizational structure. In the face of such developments it became obvious that the Service's traditional practice of "one man, one case" was outmoded and insufficient to carry out a realistic audit of the tax affairs of these corporate giants. Many of these audits involved more than a single IRS district and sometimes crossed regional boundaries.

The large case audit program introduced the concept of a carefully planned, highly coordinated audit using a team approach with each agent given specific assignments according to a formal overall examination plan. In general, the program is designed to cover very large corporations including related entities, and other corporations or taxpayers that are appropriate for coordinated examination because of highly complex operations and a history of complex tax issues. Since its inception in July of 1966 the program has proved successful in achieving better overall quality of large case audits, a higher degree of uniformity of issues raised, as well as their resolution, and shortening the time span of examinations.

As a subsidiary feature of the program the Service conducts periodic conferences of examining agents and coordinators to consider problems and other matters peculiar to specific industries. These conferences serve a dual purpose of improving coordination and communication within the Service as well as with industry and promoting uniformity in treatment of issues common to a specific industry.

**Concentrated Effort Successful in Reducing Inventory Backlog**

Vigorous efforts to place the field audit examination program on a more current basis proved successful this year with the inventory of individual and corporation older year returns registering a 22-percent reduction during the past 2 years. This not only

greatly reduced the number of requests to extend the statute of limitations but also enabled taxpayers to know the status of their Federal tax accounts at an earlier date. Since a more current audit workload permits assessment of additional tax or refund of any overassessment at an earlier date, both the taxpayer and the Service are benefited by lower interest accumulations.

In the large corporate tax area, the team audit techniques discussed above have significantly reduced the backlog of old returns by reducing the time span of examinations.

**Exempt Organizations Master File Assists Program Planning**

Tangible benefits are beginning to be realized from the exempt organizations master file which ultimately will provide information by type, size, and other significant characteristics of all exempt organizations. This file, on tape at the IRS Data Center, will assist in planning a more effective enforcement program.

The Service continued to give considerable attention to exempt organizations during 1967. A primary objective in this area has been to assure that organizations receiving the benefit of tax exempt status confine their activities to those allowable and otherwise comply with the provisions of law under which exemption was granted. Revocation of tax exempt status of 260 organizations was recommended by examining officers in 1967.

**Increase in Claims Examined**

District audit divisions completed action on 443,059 claims for refunds, an increase of 4,049 over last year. Individual (including fiduciary) claims accounted for 85.4 percent of the total acted upon and corporation claims 7.9 percent. The balance of claims are primarily in the excise and employment tax areas. Agreement was reached in 437,598 claims involving \$562.9 million of which \$268.6 million was allowed. The remaining 5,461 claims in the amount of \$178.8 million were unagreed. In unagreed cases, district conference and appellate procedures are available.

Claims for refund disposed of by district audit divisions, fiscal years 1966 and 1967

Class of tax	Closed by audit divisions <sup>1</sup>							
	Number		Amount (thousand dollars)					
			Claimed by taxpayer		Allowed		Disallowed	
	1966	1967	1966	1967	1966	1967	1966	1967
Total	433,507	437,598	512,631	562,941	214,368	268,616	298,265	294,326
Individual income	358,360	375,679	146,709	151,515	104,497	113,586	41,713	37,829
Corporation income	37,281	33,571	234,709	244,130	75,042	104,588	178,667	139,141
Estate	1,965	1,962	25,037	24,165	7,651	8,379	17,386	15,186
Gift	283	353	7,635	2,398	292	961	2,343	1,637
Excise	27,236	15,337	80,324	135,892	23,651	38,498	56,673	97,395
Employment	13,382	10,136	3,717	4,641	2,235	1,504	1,483	3,138

Class of tax	Protested-transferred to appellate divisions							
	Number		Amount (thousand dollars)					
			Claimed by taxpayer		Recommended by audit divisions		Disallowed	
	1966	1967	1966	1967	1966	1967	1966	1967
Total	5,503	5,461	95,896	178,842	4,781	12,370	91,114	165,872
Individual income	2,563	2,876	12,308	19,440	802	1,202	11,506	18,238
Corporation income	1,578	1,352	70,101	122,109	3,566	11,045	66,535	111,064
Estate	130	176	8,630	12,681	330	417	8,300	12,274
Gift	53	32	418	20,586	3	4	415	20,582
Excise	788	684	3,937	3,754	68	299	3,869	2,455
Employment	391	341	502	262	12	3	429	259

<sup>1</sup> Includes claims allowed in full without formal examination of the return: 1966—273.8 thousand returns and \$94.8 million; 1967—298.3 thousand returns and \$109.5 million.

### Training Programs Meet Changing Needs

To meet the challenge of increasingly complex taxpayer automated accounting systems, the Service developed a new training course for revenue agents in the latest techniques for auditing these modern systems.

The marked increase in the number of estate and gift tax returns filed highlighted the need for additional training in methods of asset valuation. A new course is now given examining agents to better equip them in determining values of various types of real and personal property.

### Appeals System Provided for Taxpayers

#### Taxpayer Has Opportunity for Independent Administrative Review

In the examination of over 3 million tax returns each year it is inevitable that some taxpayers will

disagree with proposed adjustments to their tax liability. It is essential that the Service provide taxpayers the opportunity to resolve these controversies, without litigation if at all possible, on a basis which is fair and impartial to both the taxpayer and the Government. The appeals system set up for this purpose gives the taxpayer a prompt, convenient, and independent review of his case and, in an overwhelming majority of cases, results in a mutually agreeable resolution of the controversy. While there were approximately 3.1 million returns examined in 1967, only 76,000 disputed cases were received by the appeals function of the Service, and only 1,340 cases were tried in the courts—799 in the Tax Court of the United States, and 541 in the district courts and the U.S. court of claims.

#### Taxpayers Given Early Hearings

The appeals procedure of the Service is designed to achieve the disposition of tax disputes at the earliest opportunity with minimum inconvenience and expense to the taxpayer. Accordingly, the appeals function is decentralized and operates through 58

district conference staffs at the district level and 40 appellate division offices at the regional level. Conferences for the purpose of resolving tax disputes are available in all of these offices. The Service also provides other conference opportunities by periodically sending conferees to locations where full-time conference staffs are not maintained.

The principal difference between the two appeal levels is that the appellate division has complete authority to settle tax controversies and may, therefore, consider the trial hazards in the case (that is the respective chances of the parties to prevail in the event of trial), whereas the district conference staffs resolve cases solely on the basis of the facts.

During the year, 41,154 cases were closed at the district conference level. This represents an increase of 2,131 cases or 5 percent over 1966 with essentially the same number of district conferees. Taxpayers agreed to the conferee's recommendation in 65 percent of these cases—the same rate as last year.

A higher percentage of taxpayers who disagree with the examining agent's findings are electing to use the district conference, and indications are that this pattern will continue. The downward trend in taxpayers bypassing the district conference and going directly to the appellate division of the regional office reflects success in concentrated efforts to encourage taxpayers to use the simple and inexpensive district conference appeal procedure.

To lessen the burden on small taxpayers, conference procedures were modified during the year so that no written protest is required if the amount of tax at issue is less than \$2,500. The previous limitation was \$1,000. Other measures are being considered to permit quicker, less expensive disposition of contested cases.

District conference activity is set forth in the following table:

Item	District conference case workload		
	Field audit	Office audit	Total
Cases pending July 1	10,018	3,464	13,482
Cases received	24,806	14,962	39,768
Conferences completed	25,796	15,398	41,194
Number agreed	15,552	10,959	26,511
Agreed as a percent of total	59	71	65
Cases pending June 30	9,532	3,285	12,817

#### Appellate Division Disposals Rise

Total case receipts in the Appellate Division in 1967 were very close to case receipts for 1966, 36,664 compared to 36,720, but total case disposals

### ENFORCEMENT ACTIVITIES

were 9 percent higher in 1967. Appellate conferee manpower increased only 1.4 percent, reflecting a significant increase in effective use of manpower. The total number of cases on hand at June 30, 1967, was 3 percent less than the year before, and the inventory continued in a current condition.

The following table shows the Appellate Division processing of all types of cases considered:

Status	Appellate division processing of all cases <sup>1</sup>	
	Number of cases	
	1966	1967
Pending July 1	32,139	34,180
Received	36,720	36,664
Disposed of	34,723	37,755
Pending, June 30	34,136	33,097

<sup>1</sup> Income, estate, gift, excise, and employment tax cases and offers in compromise.  
<sup>2</sup> Nondocketed case reporting system was automated on July 1, 1966, and physical count of total case inventory resulted in increase of 52 cases.

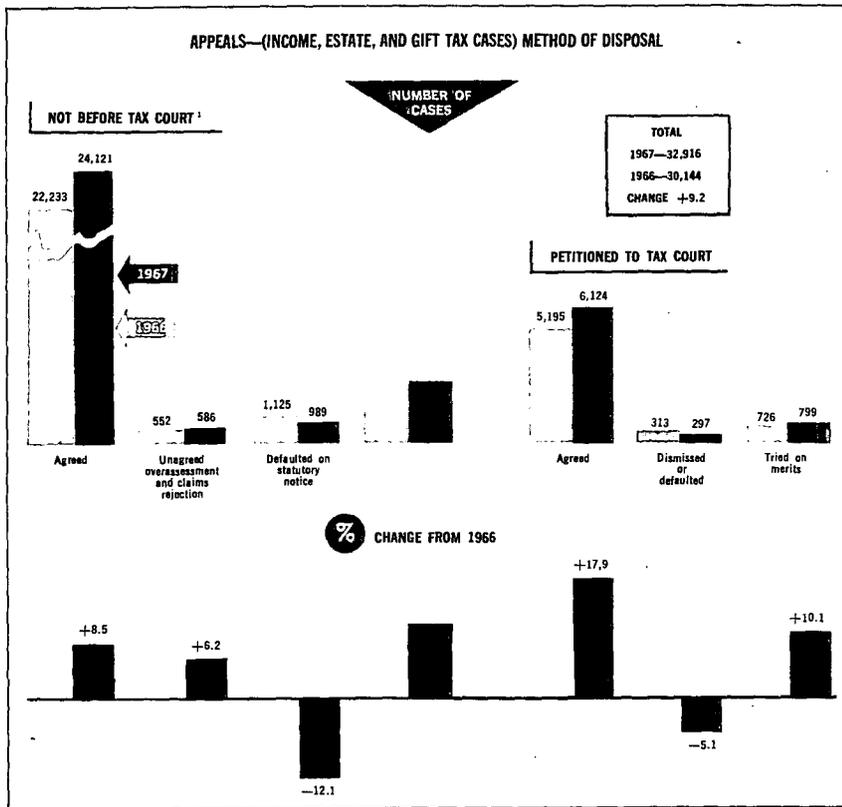
#### Nondocketed Case Disposals Continue to Climb

Nondocketed cases are those in which taxpayers have filed protests against the findings of the examining officer, but have not yet filed petitions with the Tax Court. More than 80 percent of the cases handled by the Appellate Division fall into this category. In 1967, the Appellate Division disposed of a greater number of nondocketed cases than ever before, continuing a trend of increased dispositions over each of the last 5 years. The percentage of cases closed by agreement (83 percent in 1967) has also risen steadily over this 5-year span. Approximately 95 percent of the nondocketed cases considered involve income, estate, and gift taxes. Activities during 1966 and 1967 in the processing of these cases are shown below. (For additional information, see table 15, p. 129.)

Appellate division processing of protested income, estate, and gift tax cases not before the Tax Court

Status	Number of cases	
	1966	1967
	Pending July 1	21,394
Received	27,844	28,207
Disposed of, total	26,372	28,430
By agreement	22,233	24,121
Unagreed overassessment and claim rejections	332	586
By taxpayer default on statutory notice	1,125	989
By petition to the Tax Court—transferred to docketed status	2,462	2,734
Pending June 30	22,866	22,693

<sup>1</sup> Nondocketed reporting system was automated July 1, 1966, and physical count of income, estate, and gift tax cases resulted in an increase of 50 cases.



**Docketed Cases Processed**

Docketed cases are those in which the taxpayer has filed a petition with the Tax Court asking for a redetermination of his tax liability. Settlement negotiations between the taxpayer and the Service may be conducted even after the case has been docketed for trial. Almost 90 percent of such cases were disposed of without trial in 1967. The following table shows the Appellate Division processing of cases which were petitioned to the Tax Court. (For additional information, see table 16, p. 130):

Appellate division processing of income, estate, and gift tax cases petitioned to the Tax Court

Status	Number of cases	
	1966	1967
Pending July 1.....	9,384	10,024
Received, total.....	6,874	6,488
Petitions filed in response to—		
District directors' statutory notices.....	4,489	3,931
Appellate divisions' statutory notices <sup>1</sup> .....	2,385	2,557
Disposed of, total.....	6,234	7,220
By stipulated agreement.....		
By dismissal by the Tax Court or taxpayer default.....	5,195	6,124
Tried before the Tax Court on the merits.....	313	297
Tried before the Tax Court on the merits.....	726	799
Pending June 30.....	10,024	9,292

<sup>1</sup> Difference from number shown as petitioned in preceding table is caused by instances in which 2 or more nondocketed cases are covered by 1 petition.

**Other Appellate Division Information**

An automatic data processing system for records and reports keeping on nondocketed cases has been in use in the appellate division for the past year. A similar system on docketed cases has been developed and the first case tables on a test basis are expected in October 1967. It is hoped that the system will become completely operational by June 30, 1968.

Prior to 1967, final closing agreements were reviewed for acceptance in the National Office of the Appellate Division. During 1967, the authority to review and accept such agreements on district director and regional appellate division cases (all but about 1 percent of the total) was decentralized to the appellate division branch offices. This will result in more expeditious handling of taxpayers' cases which require a final closing agreement.

**Streamlined Procedures for Processing Joint Committee Cases Prove Effective**

Refunds or credits over \$100,000 in income, estate, or gift tax require a report to the Joint Committee on Internal Revenue Taxation before final action is taken.

By eliminating certain special documentation and some intermediate levels of review, the average processing time for Joint Committee cases has been reduced from 12 months to 5½ months. The result is better public service, in the form of earlier refunds to taxpayers, as well as savings in interest and operating expenses to the Government. Although annual operating expense savings are estimated at \$800,000, the high degree of quality continues.

A total of 757 cases involving overassessments of \$499.8 million was reported to the Joint Committee in 1967.

**Changes Occurring in Delinquent Returns Program**

The Service secured 766,000 delinquent returns representing \$262.7 million in unreported tax, interest, and penalties during the year. The vast majority, some 721,000 returns valued at \$206 million, were secured through the established delinquent returns program. The remainder were secured as a byproduct of audit examination. Although fewer returns

were secured than last year, there was an increase of \$16.0 million in the amount assessed.

**More Programs Adapted to ADP**

The entity concept initiated last year was in full operation all during 1967. Under this concept, only one delinquency notice was issued to a taxpayer regardless of the various kinds of delinquent returns for which the taxpayer was liable. This reduced the number of delinquency notices issued by 18 percent, without any sacrifice to enforcement effectiveness, since all returns due at the time of the investigation are secured.

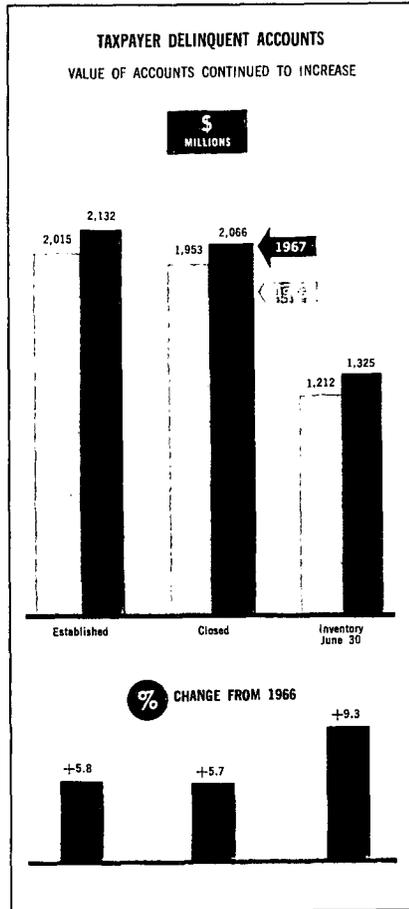
Broad plans, based on tests currently underway, have promise of narrowing the noncompliance gap through improved methods of identifying taxpayers who under report income or who fail to file required returns. This program, known as WAID (Wage and Information Document Matching Program), involves information from returns filed which are input to the ADP system and, by so doing, provide numerous areas which can be matched internally within the data system to uncover potential tax violators.

**Taxpayer Delinquent Accounts Program Continues to Reflect Changing Pattern Conditioned by Phased Transition to ADP**

As expected and forecast, only 2.8 million delinquent accounts were established in 1967, a decline of 6 percent below last year. Despite the drop, the amount of the delinquent tax involved, \$2,132 million, was \$117 million more, due in some part to several unusually large accounts. The decrease in the number of delinquent accounts was caused by two factors: (1) The imbalance of withholding which had generated additional accounts last year, and (2) procedural changes made possible by transition to ADP which permitted monitoring of delinquents either by the ADP system or by the direct use of enforcement personnel, depending upon need, emphasis, and nature of delinquency. As a result, certain delinquent accounts which, under former processing procedures, would have been established during 1967, were instead monitored and controlled by the ADP system. In this way, enforcement per-

sonnel were able to cover a wider range of delinquency areas than would otherwise have been possible.

Over 2.8 million delinquent accounts were closed in 1967; virtually the same as the number closed in 1966 despite fewer accounts issued. More significant, the \$2,066 million of delinquent accounts closed in 1967 was \$112 million greater than closures in 1966.



**Reduction in Inventory Achieved**

The high number of closures reduced the ending inventory to 748,000 accounts, 16,000 below last year's 764,000 accounts. The value of the inventory, totaled \$1,325 million, \$112 million higher than last year. Here again, however, because incorporation of individual income tax returns to ADP processing for the last two regions has had a direct impact on the inventory position, the statistics do not fully reflect the inroads made both in terms of number and of value. An estimated 44,000 delinquent accounts were established at the last minute and are a part of the inventory, since not enough time was available in which to close them. In addition, a previously delayed cycle of delinquent accounts was established in June, which further served to increase the yearend inventory. Thus, inventory reduction was more significant than is readily apparent from a statistical comparison.

**Utilization of ADP Has Enforcement Payoff**

Now that nationwide transition to ADP has been accomplished, future enforcement efforts in the delinquent accounts program will be enhanced by management's ability to utilize the system as a strong additional deterrent to delinquency. Programs initiated along these lines last year are already having meaningful payoffs. For example, this year for the first time on a nationwide basis, names of individuals owing income taxes or business taxes for periods prior to ADP were fed into the system. Where a refund was due these taxpayers, the prior liability was deducted before the balance, if any, was sent to the taxpayer. At last count, this program had automatically collected almost \$12 million on prior liabilities. Equally important, the program freed enforcement personnel to be used on other delinquency areas requiring personal contact.

The above application of refund against prior liability is only one area in which data processing can serve. Actually, because the system has the capability to record and monitor delinquency, it presents management with a full range of possible procedural innovations that can be undertaken. In time, these can yield a combination which enables management to select and to tailor different kinds of enforcement efforts to confront different types of delinquency elements. This entire area is under intensive study.

As indicated last year, one of the real benefits to be derived from data processing involves the

quantitative data required to manage and control the entire delinquent accounts and returns area. During the year, systems and programs for retrieval of the data were devised and since November 1966 machine reports have been output for those accounts in the system. The program is still in a testing stage. Within the short-term future, it will be possible to develop a complete reporting system capable of replacing the costly and more limited manual reporting system now in existence.

The delinquent accounts activity is shown in the following table:

Taxpayer delinquent accounts

Status	Number (thousands)		Amount (thousand dollars)	
	1966	1967	1966	1967
Issued.....	3,119	2,818	2,015,369	2,132,058
Closed, total.....	2,850	2,834	1,953,417	2,065,658
By type of action:				
Collected.....	2,292	2,368	1,067,611	1,503,999
Additional collections.....			46,919	45,955
Other disposals <sup>1</sup> .....	462	467	643,701	515,704
Pending June 30, total.....	764	748	1,212,451	1,324,807

<sup>1</sup> Includes receipts and/or closures from the accelerated collection of underpaid liabilities and dishonored checks. In 1966 under this program, number received was 131,000 amounting to \$23,715 thousand; in 1967 collected amounting to \$195,186 thousand. This program not applicable in 1967.  
<sup>2</sup> Includes disposals due to uncollectibility and erroneous and duplicate assessments.

**Change in Handling of Offers in Compromise Permits More Effective Public Service**

The Internal Revenue Code provides a means whereby a taxpayer's liability may be compromised

and the assessment finally disposed when careful investigation has determined that one of two conditions prevail; (1) either the taxpayer is unable to pay the full amount of his tax liability, or (2) substantial doubt exists as to the amount of the liability. Up until last year, both these conditions were handled by Service audit personnel. Study revealed, however, that more effective public service could be provided if those offers in compromise involving inability to pay were administered by the collection staff, which handles all other tax matters related to inability to pay. In this way, the public would benefit from dealing with the particular Service specialist who is most experienced in each of the compromise areas. Thus, on January 1, the collection staff began to administer those offers in compromise which pertain to the taxpayer's inability to pay while the audit staff continued to handle those offers on which substantial doubt exists as to the amount of taxpayer liability.

**Some Decline in Offers in Compromise Disposals**

The overall number of offers in compromise cases processed during the year declined by 16 percent from last year. Total liabilities amounted to \$88.5 million, a drop of 13 percent below last year. Coincidentally, offers accepted liabilities also dropped 13 percent.

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

Offers in compromise disposals

Type of tax or penalty	Number		Amount (thousand dollars)			
	1966	1967	Liabilities		Offers	
			1966	1967	1966	1967
Offers accepted, total.....	10,707	9,260	26,585	23,185	6,865	6,493
Income, estate, and gift taxes.....	1,004	776	16,745	14,088	3,993	3,858
Employment and withholding taxes.....	827	650	6,393	5,533	1,947	1,782
Alcohol taxes.....	116	72	347	284	129	60
Other excise taxes.....	167	130	1,985	2,170	438	505
Delinquency penalties on all taxes.....	1,873	1,291	1,115	1,105	232	215
Specific penalties.....	6,500	6,341			126	74
Offers rejected or withdrawn, total.....	3,788	2,989	74,725	65,353	13,259	9,590
Income, estate, and gift taxes.....	1,572	1,252	56,997	48,320	9,799	7,000
Employment and withholding taxes.....	1,120	868	11,124	8,978	2,689	2,060
Alcohol taxes.....	69	54	226	201	30	35
Other excise taxes.....	234	172	5,647	7,063	574	331
Delinquency penalties on all taxes.....	758	622	731	789	164	146
Specific penalties.....	35	21			2	18

<sup>1</sup> Revised.

### Tax Fraud Detection and Investigation Procedures Modernized

The intelligence mission of the Service is to encourage and achieve the highest possible degree of voluntary compliance with the internal revenue laws through investigation and prosecution of those who would attempt to commit tax fraud. Two basic programs are conducted to satisfy this mission, the general program directed at all suspected criminal violations of our tax laws except violations by racketeers, and the program devoted specifically to known racketeers.

In the general program, attention was given at all levels of the Service to the investigation of cases of major significance. A special task force functioned during this period studying ways and means of making the Service's fraud detection program more effective.

Special emphasis was also placed on exchanging information between districts to keep pace with the mobility of our populace and today's rapid means of transportation, which enables individuals to carry on financial transactions in areas distant from the district in which they file their tax returns.

Coordination with automatic data processing was stepped-up with a view toward more fully utilizing information available at regional service centers with respect to omissions of income from returns and failure-to-file situations.

In the racketeer program, procedures and organizational structures were revised to bring the Organized Crime Drive under the line supervision of field officials. In addition, greater selectivity in the identification of Organized Crime Drive subjects was provided by improved coordination with the Department of Justice.

Tax investigations made during the year involving racketeers resulted in numerous members of the

hierarchy in organized crime in the United States being arrested, and/or convicted.

A summary of investigations by special agents follows:

Type	1966		1967	
Full-scale investigations, total.....	3,772	3,193		
Prosecution recommended, total.....	2,418	2,015		
Fraud.....	1,163	1,010		
Wagering.....	1,177	941		
Coin-operated gaming devices.....	45	14		
Miscellaneous.....	33	50		
Prosecution not recommended, total.....	1,354	1,178		
Preliminary investigations, total.....	10,436	10,663		
Fraud and miscellaneous.....	8,988	9,309		
Wagering and coin-operated gaming devices.....	1,448	1,354		

### Broad Program Coverage Obtained in Prosecutions

In accordance with Service policy of obtaining broad program coverage of all types of violations, taxpayers were successfully prosecuted during the year for income tax evasion, wagering tax violations and failure to file tax returns, as well as for engaging the following types of fraudulent schemes: false withholding (W-4), false claims for refund, false estimated tax credits, failure to remit trust funds collected, false statements and perjury.

A total of 865 income and miscellaneous criminal cases, with prosecution recommendations involving 859 prospective defendants, were forwarded to the Department of Justice. Compared with the prior year this was a decrease of 14 percent in the volume of referrals. In 1967, indictments of such cases were down 11.7 percent and the total disposal of cases in those categories in the district courts decreased 4.4 percent.

In income, excise, and wagering tax criminal cases 928 defendants pleaded guilty or nolo contendere, 145 were convicted after trial, 50 were acquitted, and 233 were dismissed.

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

Action	Number of defendants	
	1966	1967
<b>Total</b>		
Indictments and informations.....	1,660	1,342
Disposals, total.....	1,616	1,356
Plea, guilty or nolo contendere.....	1,147	928
Convicted after trial.....	177	145
Acquitted.....	56	50
Not-prosessed or dismissed <sup>1</sup> .....	226	233
<b>Income and miscellaneous cases<sup>2</sup></b>		
Indictments and informations.....	767	677
Disposals, total.....	728	696
Plea, guilty or nolo contendere.....	531	520
Convicted after trial.....	70	62
Acquitted.....	39	31
Not-prosessed or dismissed <sup>1</sup> .....	88	83
<b>Wagering tax cases</b>		
Indictments and informations.....	893	655
Disposals, total.....	888	660
Plea, guilty or nolo contendere.....	616	408
Convicted after trial.....	107	83
Acquitted.....	27	19
Not-prosessed or dismissed.....	138	150

<sup>1</sup> Includes cases dismissed for the following reasons: 19 because of death of principal defendant, 1 because of serious illness, and 24 because principal defendant had pleaded guilty or had been convicted in a related case.  
<sup>2</sup> Includes income, estate, gift, and excise taxes other than wagering, alcohol, tobacco, and firearms taxes.

### Organized Crime Drive Prosecutions Have Beneficial Results

The Government's Organized Crime Drive was initiated early in 1961 and many of the major racketeers were then classified as subjects for investigation. The intelligence activity of the Internal Revenue Service has played a major role in this drive by conducting income tax and wagering tax investigations of a number of major racketeers. Successful prosecutions have been obtained in many cases. To determine the effect of these prosecutions and the attendant publicity, a survey concerning the average gross income reported by major racketeers in one of the Service's larger regions was made in 1967 covering the 6-year-period from 1958 through 1963. The survey disclosed that after the inception of the Organized Crime Drive in 1961 these same racketeers reported an average gross income of 57 percent more than they reported during the 3-year period prior to 1961. The deterrent effect created

by successful prosecutions and widespread news coverage is apparent from the substantial increase in income reported by the racketeer fraternity in that region.

### Criminal Prosecution Cases

Total additional taxes and penalties of \$99 million were involved in cases received in the Chief Counsel's Office with recommendations of criminal prosecution.

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

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

Status	1966	1967
Pending July 1.....	2,336	2,363
Received, total.....	1,490	1,212
With recommendations for prosecution.....	1,363	1,099
With requests for opinion, etc.....	127	113
Disposed of, total.....	1,463	1,224
Prosecution not warranted.....	180	113
Department of Justice declined.....	72	79
Prosecutions.....	995	836
Opinions delivered.....	75	88
All other closings.....	141	108
Pending June 30.....	2,363	2,351

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

Additional detail on legal workload involved in the prosecution of criminal cases by Service attorneys during the past 2 years is provided in the following table:

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

Disposition	Tax years		Tax and penalty	
	1966	1967	1966	1967
Totals.....	4,141	3,628	\$108,993,554	\$72,339,471
Prosecutions.....	2,895	2,675	49,431,490	44,232,208
All other closings <sup>1</sup> .....	1,246	953	59,562,064	28,107,263

<sup>1</sup> Includes cases declined by Department of Justice.

### Summary of Additional Taxes From Direct Enforcement

The enforcement of internal revenue laws and regulations has both civil and criminal aspects. The civil portion is best known, and affects the greatest number of taxpayers. When there is a mathematical error on a return; when a tax exemption is questioned; when itemized deductions appear to be out of line; when a return is due but not received; when information documents indicate that a taxpayer has received more income than is reported on his tax return: then and in many similar cases will civil enforcement action be started by the Service.

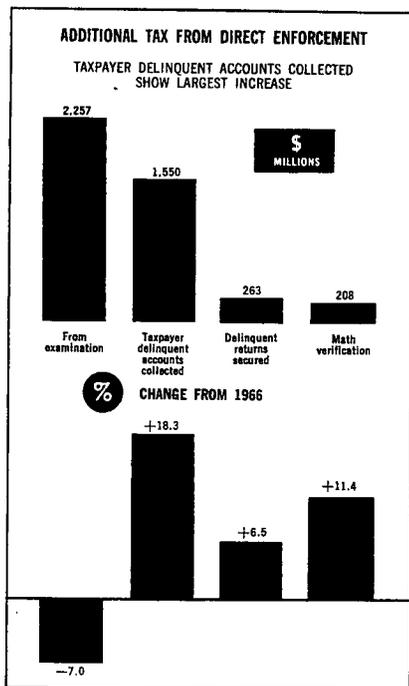
Enforcement action of any sort seldom goes beyond the civil phase. Routine mathematical errors are easily corrected; questioned exemptions or deductions are normally easily resolved; unsettled areas of law or regulation may go to the courts before a final resolution can be obtained, but in most cases the question is one of civil tax liability rather than a criminal case.

As a result of civil enforcement action, additional taxes, penalties, and interest totaling \$2.7 billion was assessed in 1967. This represents liability determined after any appeals action or court litigation, which may delay final closing of a case by a year or more.

The following table shows the source of additional tax, penalties, and interest assessed during fiscal year 1967:

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

Item	1966	1967
Additional tax, penalties, and interest assessed, total.....	2,862,817	2,729,375
From examination of tax returns, total.....	2,427,329	2,256,933
Income tax, total.....	2,096,201	1,942,739
Corporation.....	1,275,667	1,150,638
Individual and industry:		
Pretax audit.....	93,000	68,888
Regular audit.....	727,533	723,214
Estate and gift tax.....	269,279	254,802
Employment tax (including withheld income tax).....	10,081	13,150
Excise tax.....	51,769	46,242
From mathematical verification of income tax returns.....	185,244	207,506
From National Identity File.....	2,548	2,271
From delinquent returns secured, total.....	246,696	262,665
By district collection divisions.....	202,697	206,118
By district audit divisions.....	43,999	56,547
Claims disallowed, total.....	401,122	392,199
By district audit divisions.....	298,265	294,326
By regional appellate divisions.....	102,857	97,873
Delinquent taxes collected, total.....	1,309,716	1,549,954



### Workflow in the Service and the Courts

The tables which follow provide information on the processing at each administrative level for the years 1966 and 1967. It should be noted that the tables reflect work completed by the Service during the year, and do not indicate action with respect to the same returns; for example, a return filed in fiscal year 1966 might be examined in 1967, and if appealed or petitioned to the courts, action at that level might not be completed until 1968 or later.

The major administrative workload involves income, estate, and gift taxes, hence the following tables are confined to these taxes except for returns filed and internal revenue collections. The unit count at the returns filed and audit levels are recorded on a return basis; processing in appellate, intelligence,

and the courts is on a case basis. A case will frequently include more than one return.

Workflow in the Internal Revenue Service and the courts, fiscal years 1966 and 1967

Item	Returns	
	1966	1967
Tax returns filed, total.....	*104,071,812	105,432,742
Individual income.....	69,724,148	72,223,773
Corporation income.....	1,501,776	1,526,209
Estate and gift.....	237,059	249,810
Employment.....	*22,447,558	22,039,001
Excise.....	*2,283,666	1,641,752
Other income.....	*7,877,605	7,762,197

INCOME, ESTATE, AND GIFT TAXES		
Number of returns examined.....	3,311,131	2,969,433
Returns with adjustments proposed by audit divisions.....	2,275,658	2,059,340
Disposed of by audit divisions:		
Agreed, paid, or defaulted.....	1,950,264	1,707,879
Survived claims.....	262,359	291,310
Transferred to appellate.....	55,783	53,770
Other.....	7,252	6,381

Civil cases		
Total received in appellate divisions.....	27,844	28,207
Disposed of by appellate divisions:	23,910	25,696
Agreed, paid, or defaulted.....	7,013	6,262
Dismissed.....	345	315
Settled by stipulation.....	5,104	6,274
Settled by Tax Court decision.....	778	659
Decided by Tax Court but appealed.....	332	249
District courts and Court of Claims:		
Total filed in district courts and Court of Claims.....	1,508	1,436
Settled in district courts and Court of Claims.....	819	852
Decided by district courts and Court of Claims.....	506	541
Courts of appeals:		
Settled by courts of appeals decision.....	373	413
Favorable to Government.....	290	283
Favorable to taxpayers.....	82	74
Modified.....	21	56
Decided by courts of appeals but reviewed by Supreme Court.....	10	4
Supreme Court:		
Settled by Supreme Court decision.....	10	4

Fraud cases <sup>1</sup>		
Received for full-scale investigation in intelligence divisions.....	1,975	1,991
Disposed of by intelligence divisions:		
Prosecution recommended.....	1,169	1,010
Prosecution not recommended.....	1,195	991
Disposed of by Office of Chief Counsel:		
Prosecution not warranted, including cases declined by the Department of Justice.....	252	192
Prosecutions.....	995	836

\* Revised.  
<sup>1</sup> Includes excise tax cases.

### ENFORCEMENT ACTIVITIES

Amounts of revenue involved at each level of the tax system fiscal years 1966 and 1967

Item	(Millions of dollars)	
	1966	1967
Internal revenue collections, total.....	128,880	148,375
Individual income taxes, total.....	61,298	69,371
Withholding.....	42,811	50,521
Other.....	18,486	18,850
Corporation income taxes.....	30,834	34,816
Estate and gift taxes.....	3,994	3,014
Employment taxes.....	20,256	26,958
Excise taxes.....	13,398	14,114

INCOME, ESTATE, AND GIFT TAXES		
Civil cases		
Additional tax and penalties in cases disposed of in audit divisions by agreement, payment, or default.....	1,371	1,370
Additional tax and penalties in cases disposed of in appellate divisions by agreement, payment or default.....	334	256
Additional tax and penalties determined by settlement in Tax Court.....	112	85
Additional tax and penalties determined by Tax Court decisions:		
Dismissed.....	8	9
Decision on merits.....	18	16
Additional tax and penalties in cases decided by Supreme Court and courts of appeals.....	10	13
Amount refunded to taxpayers as a result of refund suits.....	46	63
Fraud cases <sup>1</sup>		
Deficiencies and penalties in cases disposed of in intelligence divisions:		
Prosecution recommended.....	49	44
Prosecution not warranted and cases declined by Department of Justice.....	60	28

<sup>1</sup> Includes excise taxes.

### Federal-State Cooperation Reflects the Increased Use of Computers

Reflecting the increased use of computers by the Service and the States, arrangements were completed for the Service to make available annually to States a set of uniform data elements in tape mode from the Individual Master File. As of the end of the year, 25 States had expressed a desire to participate in the initial tape program which will cover individual income tax returns for tax year 1966. Additionally, the Service continued to respond to State and local government requests for data from the Business Master File on a case-by-case basis. At the same time, the longstanding practice of exchanging audit abstracts and other data on a manual basis continued unabated.

During the year, cooperative exchange agreements, which provide for the exchange of tax information, were concluded with the States of Mississippi and New Jersey, bringing to 43 the number of agreements in force with the States and the District of Columbia. At the end of the year, negotiations were under way for completing an agreement with the State of Alaska.<sup>1</sup>

There was increased activity in providing training assistance and special statistical services to the States on a reimbursable basis under section 7515 of the Internal Revenue Code. Thirty-one tax personnel were enrolled in Service-conducted training classes. Additionally, there was a significant increase in requests for classroom training and correspondence course materials. At the request of three States and one city, four reimbursable projects involving the preparation of statistical tabulations of data from Federal tax returns were completed during the year.

## Alcohol and Tobacco Tax Enforcement Broadened on Several Fronts

### Main Thrust Directed Toward Elimination of Commercial Illicit Distilling

In prior years the Service brought under control the production of illicit distilled spirits in many areas, particularly in the metropolitan areas of the Eastern Seaboard States, where operations in high-proof alcohol of commercial quality had previously brought about huge revenue frauds. No resurgence of this activity has been found. The continued success in limiting commercial scale violations in these areas again enabled the Service to strengthen the enforcement program in the Southeast Region. In 1967, 83.8 percent of the illegal distilleries and 93.3 percent of all mash seized were in the Southeast Region.

This intensified approach to liquor law enforcement, known as Operation Dry-Up, was launched in one southeastern State in 1963 and was extended to an adjoining State in October 1965. The program, aimed at eradicating commercial-type illicit distilling, includes among its principal features: (1) A substantially increased investigator force exerting continuous pressure on the violator, (2) the use

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

of mass information media to alert the public to the true criminal nature of the moonshiner's enterprise, including the dangers to health, and (3) close liaison with prosecutors and law enforcement officers at all levels of Government to secure their active cooperation in meeting the program's objectives.

The success of Operation Dry-Up in the first State is evidenced by the virtual disappearance of large-scale illicit distilling, leading to an estimated rise in Federal revenue of approximately \$2.4 million annually from increases in sales of taxpaid liquors. In the second State, reports disclose a decline in both the number of violations and the scope of illegal operations. As a result of these successes, Operation Dry-Up will be extended to a third southern State in 1968.

### Seizures and Arrests Decline

Seizures and arrests resulting from investigative work in 1967 are compared with 1966 data in the following table:

Item	1966	1967
<b>Seizures:</b>		
Distilleries.....number..	5,273	4,636
Stillts at distilleries.....do.	7,585	5,608
Non taxpaid distilled spirits.....gallons.	153,182	131,800
Mash.....do.	3,664,880	3,125,442
Vehicles.....number..	1,705	1,850
Property (appraised value).....dollars.	2,133,650	2,052,936
Arrests.....number..	6,880	5,507

<sup>1</sup> Includes 351 arrests for firearms violations, 6 arrests for tobacco violations, and 2 for other violations in 1967 compared with 251 for firearms and none for tobacco and other violations in 1966.

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

The 1967 decreases of 12 percent in illegal distillery seizures and 5 percent in arrests are largely attributable to the success of Operation Dry-Up in selected areas in the Southeast Region and to the further inroads made against unlawful distilling in other parts of the country. An additional contributing factor is the diversion of manpower initially planned for liquor law enforcement to the Organized Crime Drive and Firearms Program.

### Investigative Effort Expanded in Campaign Against Racketeering

The Alcohol and Tobacco Tax Division has provided material assistance, including both manpower and equipment, in furtherance of the Service's drive against organized crime since January 1961. In 1967, this division's role in the Organized Crime Drive was substantially elevated by the initiation of an independent program geared to the intensive

investigation of syndicates, conspiracy groups, and racketeers engaged in illicit liquor activities or suspected of having hidden ownership or concealed interest in legitimate liquor enterprises. Another prime objective is the perfection of criminal cases against hoodlums, racketeering elements, and combines for violations involving the manufacture, transfer, or possession of illegal firearms.

This program, which is closely coordinated with the Department of Justice, has led to the initiation of 30 formal investigations since its inception in December 1966. Court action is pending in two cases, and indictments have been returned in four others. Of the remaining 24 cases, 22 are still under investigation and 2 have been closed without recommendation for prosecution.

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

Recommendations for prosecution were presented to U.S. attorneys in a total of 3,421 cases involving 5,294 defendants as the result of actions taken against violators of the alcohol, tobacco, and firearms tax laws.

A comparison 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	
	1966	1967
Indictments and informations.....	4,364	3,830
Disposals, total.....	4,615	3,705
Plea, guilty or not contending.....	3,256	2,590
Convicted after trial.....	569	485
Acquitted.....	202	161
Not-prossed or dismissed.....	588	469

## Chemical Analysis Gives Strong Support to Law Enforcement

The National Office laboratory is placing increasing emphasis on its studies of advanced instrumentation so that improved techniques can be applied to the analysis and examination of specimens in the areas of alcoholic beverages, industrial and commercial non-beverage products containing alcohol, miscellaneous nonalcoholic products subject to excise taxes, tax depletion substances, and in the broad field of scientific crime detection. Special attention is also being given to automated techniques which have the potential for increasing the productivity of the laboratory staff.

In a recent criminal case, precedent was established by the Service by the successful introduction of physical evidence analyzed by atomic absorption spectrophotometry, a technique for the determination of chemical elements which is particularly useful in conjunction with neutron activation analysis in the examination of samples not amenable to other methods because of matrix problems or instrument limitations. Since 1964, when neutron activation analysis was first accepted by the courts, the Service, the Bureau of Narcotics, and other State and Federal offices have shown growing interest in the use of this technique for the examination of evidence. Neutron activation analysis was used in the examination of 1,765 samples in 1967, compared to 1,006 such analyses in 1966. This work involved the examination of such diverse evidence as illicitly-produced alcohol, soils, safe insulations, wheat pastes, metals, and plastics.

Field office laboratories analyzed 6,450 samples in connection with alcohol and tobacco tax enforcement work and 5,197 samples for the Bureau of Narcotics in 1967. During the preceding year, these analyses numbered 7,531 and 5,088, respectively.

## Firearms Workload Shows Substantial Increase

The objective of the Firearms Program is to prevent weapons from falling into the hands of criminals, while preserving the rights of law abiding citizens to legitimately purchase and possess firearms. In the pursuit of this objective, the Service is using a variety of approaches. Complementary to the primary effort to apprehend and prosecute willful violators of the taxing, registration and interstate commerce provisions of the firearms laws, the Service is systematically conducting inspections at the premises of persons and businesses holding Federal Firearms Act licenses.

The purposes of these inspections are to weed out licensees who are not bona fide firearms dealers, to assist reputable dealers in avoiding technical violations by thoroughly explaining regulatory requirements, and to uncover criminal violations which might otherwise remain undetected. Another significant aspect of the program calls for close liaison and a high level of coordination with other agencies and local governments. As an example, procedures

are now in effect whereby the Department of Defense notifies the Service regarding applications for the purchase of surplus military firearms disposed of through the Civilian Marksmanship Program. Following appropriate records checks, the Service, in turn, furnishes the names of applicants to local officials.

Continuous surveillance is also being maintained of individuals and extremist groups who attempt to accumulate stockpiles of weapons in violation of the Federal and National Firearms Acts. Large quantities of these accumulated weapons were seized in 1967 in various sections of the country.

Manpower expenditures on firearms enforcement increased approximately 80 percent over 1966. Investigations of violations of the Federal statutes led to 720 criminal cases and the seizure of 3,787 firearms in contrast to 466 cases and 839 seizures in 1966. In addition, 36,050 firearms records inspections were made at the premises of dealers, as compared to 13,783 such inspections last year. As a direct result of these inspections, 12,442 information referrals were made to State and local law enforcement agencies, and 921 criminal investigations were initiated involving suspected violations of Federal laws.

chapter

## 5

*"The pages of history contain considerable evidence that the public interest requires government regulation of the alcoholic beverage business. . . . The principle is well established that certain anti-social conditions inevitably flow from the operation of this business if uncontrolled by government."*

FROM REPORT BY THE JOINT COMMITTEE  
OF THE STATES TO STUDY ALCOHOLIC  
BEVERAGE LAWS.

## Supervision of the Alcohol and Tobacco Industries

### Distilled Spirits Regulatory Studies Continue

In June 1965, a Distilled Spirits Standards and Labeling Survey Committee was established to re-appraise the various regulations issued under the Federal Alcohol Administration Act. In 1967 the Committee continued its program for improvement of the regulations in 27 CFR Part 5. The comments and suggestions submitted by interested persons in response to the Committee's informal proposals (Industry Circular No. 66-9, dated May 25, 1966) were carefully reviewed and evaluated. In addition, the petitions of several distillers requesting consideration of various proposals to amend provisions of the regulations applicable to the labeling of domestic whiskey stored in used cooperage were considered.

As a result, it was determined that sufficient grounds exist, based on the petitions, industry request and consumer interest, to justify proceeding with a series of public hearings. At the close of the year a notice of proposed rulemaking was being prepared in regard to changes in the labeling of whiskeys and neutral spirits stored in used cooperage. These proposed changes were requested by the distillers and members of the cooperage trades.

A number of other studies made during the year with the view of simplifying and updating regulations in accordance with current trends in Government and industry procedures have resulted in initial drafts of proposed amendments of regulations.

#### Public Hearing Held

A hearing was held in January 1967 to give interested parties an opportunity to present their views concerning allegations that certain wine products bearing "distilled spirits type" generic names were misleading consumers. A Treasury Decision is now being drafted to clarify the regulations in this respect.

#### Actions Taken Relating to Industry Operations

##### Alcoholic Beverage Labels Processed— Advertising Monitored

The Federal Alcohol Administration Act (27 U.S.C. 205 (e)) provides that bottlers or importers

shall obtain a certificate of label approval, evidencing compliance with the labeling provisions of the Act, covering labels affixed to alcoholic beverage products bottled or imported. A certificate of exemption from label approval is issued for products sold only in intrastate commerce. During the year, 56,385 applications for label approval, and exemption from label approval, were processed. The increase in this activity from the previous year (53,341 applications processed in 1966) is due to the continuing increase in private labeling activity. Much of this activity results from new State laws relating to pricing of such beverages.

The same Act imposes certain requirements applicable to the advertising of distilled spirits, wines, and malt beverages. As a control measure, a sampling is made of advertising published in a selective group of newspapers and magazines of general circulation in various regions of the United States. In 1967, advertisements in 18,852 newspapers and magazines were examined.

Distilled spirits are not generally advertised by radio and television. However, both media are employed for advertising wines and malt beverages. During the year 1,235 broadcast or televised commercials were reviewed. In addition, 966 proposed advertisements and projected advertising campaigns were reviewed and commented upon as a service to industry. Four hundred and six letters of technical advice concerning advertising were issued to the alcoholic beverage industry. Seven communications furnishing instructions and advice were issued to field offices.

Two advertising cases were closed upon the acceptance of an offer in compromise pursuant to section 7 of the Federal Alcohol Administration Act (27 U.S.C. 207).

#### Trade Practices Regulated

As a result of the Service's review of trade practices, 18 cases were closed with the acceptance of offers in compromise. (Federal Alcohol Administration Act (27 U.S.C. 207)). These cases involved such matters as the furnishing or giving of equipment, services, or other things of value to retailers by alcoholic beverage permittees.

The Federal Alcohol Administration Act (27 U.S.C. 208) imposes restrictions on the holding of office by an individual in more than one company engaged in business as a distiller, rectifier, or blender of distilled spirits. Provision is made for the holding

of such office upon approval. The Service approved 16 such interlocking-directorate applications during the year.

#### Permits Issued, Formulas Processed

In the National Office, 36 permits to use tax-free spirits and 16 permits to use specially-denatured spirits were issued to Government agencies. The National Office processed 872 formulas for rectified products and 248 formulas for wine during the year.

#### Plant and Permittee Qualifications Continue at High Rate

In the seven regions, the Service approved 19,653 original and amended permits, notices, and applications authorizing various types of business in the alcohol and tobacco industries.

#### On-Premises Workload Increases

Tax determinations at distilled spirits plants requiring Government supervision have consistently increased over the past few years. During the year these plants produced 873.0 million tax gallons of distilled spirits. Tax-determinations of spirits amounted to 221.2 million tax gallons and tax-free withdrawals totaled 610.4 million tax gallons of which 564.5 million tax gallons were denatured. Distilled spirits in bonded storage at the close of the year amounted to 1,116.4 million tax gallons. The production of rectified products totaled 103.2 million proof gallons, and 275.3 million wine gallons of distilled spirits were bottled during 1967.

For the first time in many years applied man-years of on-premises supervision increased—from 395 in 1966 to 399 in 1967 or a rise of 1 percent—although not in proportion to tax determinations, the key measure of on-premises workload, which increased 2.7 percent in 1967 from the preceding year.

#### Trend Toward Audit-Type Inspections

The inspection program provides for on-site examination of records, equipment, processes, and premises of 18 different types of establishments. The program operates 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 31,112 inspections were completed compared to 31,080 in 1966. Of the total, approximately 42 percent were conducted at

revenue-producing establishments while the remaining 58 percent were regulatory in nature. Continuation of the preparation and use of plant accounting profiles in which crucial audit trails are identified has accentuated the trend toward the use of more refined, audit-type sampling devices by inspectors.

Production figures for distilled spirits plants are given above. Production at other revenue-producing plants during the year was: Breweries—116.6 million barrels (31 gallons each) of beer; wineries—247.0 million gallons of still and effervescent wines, 5.4 million gallons of vermouth, and 17.2 million gallons of special natural wines other than vermouth; and tobacco products factories—6.9 billion large cigars, 420.8 million small cigars, and 572.8 billion cigarettes.

#### Chemical Analyses Made for Regulatory Work

Among the more than one hundred categories of materials examined by the National laboratory are

fermented alcoholic beverages, distilled spirits products, narcotic and other drugs, toilet preparations, lubricants, flavors, alcoholic food products and tobacco.

During 1967, the National and regional laboratories analyzed a total of 38,568 samples. This represents only a slight change from the previous year's total of 38,645. Of the 1967 figure, 21,476 represent analyses made in connection with regulatory functions. The remainder were required for enforcement and narcotics cases. (See p. 37.)

In the National laboratory, 4,364 formulas for products manufactured with specially-denatured alcohol were examined together with 4,572 samples and 13,413 labels. The previous year, 4,551 formulas; 5,656 samples; and 10,606 labels were submitted.

Manufacturers of internal medicinal products, flavors, and alcoholic food products submitted for examination and analysis 2,600 formulas and 671 samples as compared to 2,671 formulas and 772 samples the year before.

chapter **6**

*"The ever-increasing complexity of our society and the increasing number of variations of business enterprises of necessity require many complexities in our tax laws."*

WILBUR MILLS, Chairman of House Ways and Means Committee

# Legal and Legislative Activities

## Introduction

The legal work of the Service is performed in the Office of the Chief Counsel. The legal staff contributes greatly to the Treasury Department's legislative program (see p. 44). The Office prepares drafts of proposed regulations implementing the tax laws and participates in the rulemaking process involving these regulations. For a discussion of the regulations program, see Chapter 1, page 10. In the technical area, the Chief Counsel also renders opinions to officials of the Service on substantive legal questions.

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. Criminal prosecution cases are shown under Chapter 4, Enforcement Activities. Statistics on legal activities are shown in tables 18-24 on pages 131 to 132. Important court actions are listed in the Appendix beginning on page 97.

## Decrease in Caseload Inventory

Caseload receipts in the Chief Counsel's Office during 1967 were 25,982, down 1,233 cases from 1966. The disposals of total caseload were 26,685, an increase of 415 from 1966. At the end of the year the pending total caseload was 23,090, a decrease of 703.

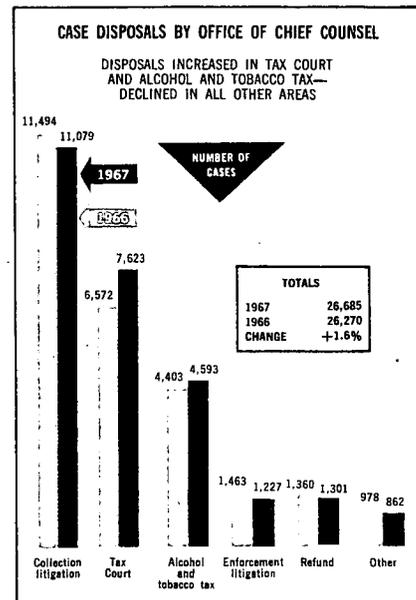
## Civil Litigation

The Supreme Court rendered two decisions in Tax Court cases during the year. The Court decided both for the Government. The Supreme Court rendered two decisions in refund suits. The Government's position was sustained in one case and the taxpayer won the other.

The Government won, in whole or in part, 339 of the 413 civil tax cases decided by courts of appeal (exclusive of collection litigation and alcohol and tobacco tax legal matters). See table 21, page 131. In the trial courts (Tax Court, Court of Claims, and U.S. district courts) the record of Government wins, losses, and partial wins appears as follows:

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

Action	Tax Court		Court of claims		District courts	
	1966	1967	1966	1967	1966	1967
Won.....	207	230	37	32	247	268
Lost.....	79	77	17	35	159	127
Partially won.....	150	125	4	10	42	68
Percent won or partially won.....	82	82	71	55	65	73



In the trial or settlement of cases in the Tax Court \$269.6 million was successfully defended. In refund suits in the Court of Claims and in the U.S. district courts, \$47.7 million was successfully defended. A total of \$317.3 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).

Taxes in litigation  
 (In thousands of dollars)

Status	Total	Tax Court		Refund litigation
		Deficiencies	Over-payments	
Pending July 1.....	1,582,250	1,123,551	52,993	405,716
Received.....	543,824	392,716	10,395	140,713
Disposed of.....	492,807	367,955	13,733	111,079
Pending June 30.....	1,633,067	1,148,272	49,645	435,150
Amount saved.....	317,348	238,490	11,124	47,734

## Tort Claims Activity Changing

The Service disposed of 134 administrative claims under the Federal Tort Claims Act during the year, compared with 167 such claims last year. The Service also acted on 51 claims under the Military Personnel and Civilian Employees' Claims Act of 1964; an increase from the 18 claims acted on in 1966.

Public Law 89-506 became effective on January 18, 1967, as to claims accruing on or after that date. Under this amendment to the Federal Tort Claims Act, claims, regardless of amount, must be submitted to the administrative agency concerned for consideration before suit may be instituted. The Service participated in the drafting of Treasury Department regulations to effectuate these amendments. It is believed that this new law will result in a substantial increase in the number and dollar amount of tort claims to be processed by the Service. However, the full impact of the new law cannot as yet be ascertained.

## Collection Litigation Legal Services

In the collection litigation area, the legal work for the year continued at about the same general level as for the preceding year, but there were slight decreases in both receipts and disposals. There were 11,288 cases received during 1967 as compared with 11,565 cases received during 1966. Disposals for 1967 were 11,081 as compared with disposals of 11,491 for 1966. The inventory of pending cases at the end of the year stands at 5,372, an increase of 107 cases over the 5,165 cases pending at the end of 1966. For detailed statistics on case receipts and disposals, see tables 22 through 24 on page 132.

There were a number of significant decisions by the courts of appeals during the year. These decisions relate not only to the issues arising in connection with the collection of federal tax claims and tax liens but also relate to issues arising in cases involving the civil enforcement of internal revenue summons. Civil summons enforcement cases continue to be a major area of litigation at the appellate level. Summaries of some of these courts of appeals cases may be found starting at page 98.

### Revenue Legislation Assistance Provided

The Service continued this year to provide extensive technical assistance to the Treasury Department and Congress in connection with tax legislation. Among other things, its personnel attended public hearings and congressional committee meetings, aided in drafting of bills, and prepared information and technical reports to inform legislative committees. In addition, various tax abuses, inequities, and administrative problems were studied, with a view toward the development of corrective legislation.

The Service also evaluated a great number of legislative suggestions made by Congressmen, taxpayers, and its own employees.

A number of 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 eight other legislative proposals in connection with alcohol, tobacco, and firearms functions.

### Important Legislation Completed During Year

One of the most important tax laws enacted during the year was Public Law 89-809, title I of which was designated as the Foreign Investors Tax Act of 1966. The provisions of title I effected a comprehensive revision of the Federal income, estate, and gift tax laws applicable to foreign persons, the first such revision in more than 30 years. This revision removed various tax barriers to foreign investment in the United States and provided for more equitable tax treatment of nonresident alien individuals and foreign corporations.

Title II made several significant amendments to the income tax laws, the most notable of which concerned (1) the transfer of property to invest-

ment companies controlled by transferors (swap funds), and (2) the removal of special limitations with respect to deductibility of contributions to pension plans by self-employed individuals.

Title III provided for the establishment of the Presidential Election Campaign Fund from which disbursements might be made to the political parties of presidential candidates under certain circumstances. Appropriations to and disbursements from this fund were suspended by Public Law 90-26, which was enacted later in the year.

Public Law 89-800, another important tax law, was intended to restrain the inflationary trend and monetary pressures which were causing concern at the time of its enactment. It suspended as of October 10, 1966 both (1) the operation of the credit for investment in certain property, such as machinery and equipment, and (2) the availability of accelerated depreciation methods with respect to buildings not eligible for the investment credit. Certain exceptions to the suspensions were provided. With a change in the economic conditions which prompted the suspensions, Public Law 90-26 was enacted terminating the suspension period as of March 9, 1967, and making the suspensions inapplicable to property ordered during the suspension period but acquired or begun to be constructed after May 23, 1967.

Public Law 89-713 was of great importance to the Service's efforts to streamline its operations as the ADP program advances. Under prior law tax returns were required to be filed in one of the 58 offices of the district directors. This Act, among other things, amended the law to permit the issuance of regulations requiring taxpayers to file their returns at one of the seven regional ADP service centers.

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

Public Law 89-495, relating to the priority of liens in bankruptcy.

Public Law 89-496, relating to limiting priority and nondischargeability of taxes in bankruptcy.

Public Law 89-570, permitting taxpayers to elect to deduct certain exploration expenditures in the case of domestic mining.

Public Law 89-621, relating to the effect of disclaimers on the allowance of the marital deduction for estate tax purposes and to the disallowance of double deductions.

Public Law 89-719, the Federal Tax Lien Act of 1966.

Public Law 89-721, relating to the disallowance of interest on refunds of overpayments of income tax made within 45 days of the date the return was due or filed.

Public Law 89-722, relating to the allowance of deductions with respect to reserves for certain guaranteed debt obligations.

### Pending Tax Legislation

Among the tax bills awaiting action by the Congress at the end of the year were the following:

H.R. 5710, the Social Security Amendments of 1967.

H.R. 6056, relating to the deduction for personal exemptions for children of parents who are divorced or separated.

H.R. 6098, the Interest Equalization Tax Extension Act of 1967.

S. 18, relating to the establishment of a Small Tax Division within the Tax Court.

S. 1863, the Small Business Investment Company Tax Amendments of 1967.

### More Effective Regulation of Traffic in Firearms

The President, in his message to the 90th Congress on the National Crime Commission Report, again recommended the enactment of further legislation to control the interstate movement of firearms. The Service participated in the drafting of S. 1, Amendment No. 90, and H.R. 5384—bills introduced in the Senate and in the House of Representatives to incorporate the President's recommendations. These bills are entitled the State Firearms Control Assistance Act of 1967. As indicated by their title, the bills are designed to assist State and local authorities in controlling firearms within their respective jurisdictions and to prevent State and local controls from being evaded or nullified through the use of interstate channels of commerce. Hearings were held before a subcommittee of the House Judiciary Committee on H.R. 5384 on April 7, 1967. No other affirmative action has been taken by the present Congress on these firearms bills.

### Legislative Implementations

The Service plays an important role in the implementation of tax laws after their enactment. It

issues news or technical information releases publicizing the provisions of new laws and develops appropriate amendments to the regulations reflecting legislative changes. It revises tax forms and instructions, revises its publications, and issues special instructions and procedures to its field offices. (For a fuller discussion of some of these programs, see Chapter 1 and the Appendix.)

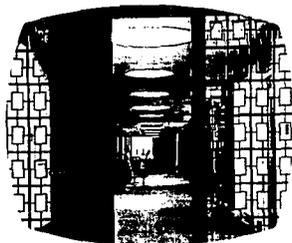
### Interpretative Activities Continuing High

Interpretative activities remained at a high level 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 totaled 761 as compared with 763 last year, while dispositions totaled 749 as compared with 759 last year. In addition to the regular referrals, which included 302 proposed revenue rulings, an experimental procedure was continued throughout the year in which proposed revenue rulings were submitted to the Office of Chief Counsel for informal clearance immediately prior to publication. Approximately 40 revenue rulings were handled each month under this procedure. A study is now being made to review the effectiveness of this procedure and to examine alternative methods by which the Chief Counsel might furnish legal assistance in the Commissioner's publication program.

### Legal Staff Increases

As of June 30, 1967, the Chief Counsel's Office employed 1,304 persons, with 645 attorneys and 659 nonattorney employees. This represents an increase of 29 attorneys and 24 nonattorney employees from last year. Attorneys are assigned to the National Office and regions as follows:

Office	Number of attorneys
National Office	258
Central Region	44
Mid-Atlantic Region	57
Midwest Region	55
North Atlantic Region	69
Southeast Region	47
Southwest Region	42
Western Region	73



Internal Revenue Service library facilities were consolidated and relocated during the spring of 1967. The library is now located in about 10,000 square feet of renovated space, is completely air-conditioned, and has new equipment and furniture. Library holdings are now approximately 45,000 volumes.



## Introduction

International and foreign tax matters received considerable Service attention during the year. The overseas affairs of the Service divide into three broad areas. These are: (1) Administration of the tax laws as they apply to U.S. citizens living abroad, nonresident aliens, and foreign corporations; (2) negotiation and administration of tax conventions with foreign countries, established to prevent economic double taxation of individuals and corporations subject to taxation by two or more countries, and (3) providing assistance requested by developing countries in upgrading and improving their tax administration system.

## chapter 7

*"Taxation is the most difficult function of government, and that against which their citizens are most apt to be refractory. The general aim is, therefore, to adopt the mode most consonant with the circumstances and sentiments of the country."*

THOMAS JEFFERSON

## International Activities

### Foreign Tax Assistance

The Foreign Tax Assistance Program extends technical assistance in tax administration to a number of developing countries, at their request. The program was originally developed in 1963 in response to needs emphasized in the 1961 Charter of Punta-del-Este, which established the Alliance for Progress, and is conducted by the Foreign Tax Assistance Staff in collaboration with the Agency for International Development, Department of State. Additionally, the Staff maintains continuing liaison with international organizations having programs in this general area, such as the Organization of American States, the International Monetary Fund and the United Nations.

### Inter-American Center of Tax Administrators Established

One of the most significant developments this year was the creation of the Inter-American Center of Tax Administrators. The Center was established in May, at a meeting held in Panama City, Panama, which was attended by 43 tax administrators from 21 countries. Commissioner Cohen was elected President of the Center's Executive Council and as such is the chief executive officer of the Center. The other members of the executive council are from Guatemala, Ecuador, Venezuela, and Brazil. At present, the Center has 39 members from 19 countries.



The Commissioner and the Director, Foreign Tax Assistance Staff, with tax administrators from 17 nations of the Western Hemisphere.

The Center developed out of a proposal made at the Seminar for Directors-General of Taxation held in Washington in May 1966. It is intended to provide a permanent forum for the exchange of ideas, concepts and experiences for the improvement of all phases of tax administration among tax administration executives of the Western Hemisphere within the self-help concept of the Alliance for Progress.

#### Overseas Assistance Expanded

Long-term, on-site tax advisory teams provide one of the major avenues for extending technical assistance by the Service. This year, two new tax advisory teams were assigned, one to Turkey and the other to South Vietnam. The team previously assigned to Ecuador has been withdrawn for the time being. There are now 21 teams assigned to foreign countries, 16 of which are in Latin America. Current team locations are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, India, Nicaragua, Panama, Paraguay, Peru, the Philippines, South Korea, South Vietnam, Turkey, Uruguay, and ROCAP (AID's Regional Office for Central America and Panama).

At present, 82 long-term advisors staff the overseas teams. From time to time, the teams are supplemented by short-term advisors in specialized subjects. This year, 34 short-term advisors were assigned on 41 missions to 15 countries.

#### Foreign Training Programs Continue Vital

The Service was visited this year by 291 foreign tax and financial officials, representing 59 countries and one trust territory. Of these visitors, 121 participated in the regularly scheduled International Tax Training (INTAX) seminars and courses, designed and initiated in 1965 primarily for the managers and decision makers of the tax agencies of the developing countries. This training series covers the development, operation, and management of tax programs. The courses were for the most part conducted in Spanish with the exception of those given in Portuguese for our visitors from Brazil.

On-site training by mobile instructor teams was provided this year to Vietnam for audit techniques and to the Dominican Republic for collection techniques. Also during the year, for the first time, a mobile instructor team in basic investigative tech-

niques was formed. This team provided on-site training in these techniques to Panama.

Since the inception of the Foreign Tax Assistance Program in 1963, over 1,000 foreign tax officials have been oriented or trained by the Internal Revenue Service.

#### Review and Evaluation of Program

The first appraisal from outside the Service of the Foreign Tax Assistance Program was conducted during the summer of 1966. The central objective was to evaluate the current approach, and to propose measures which would heighten the effectiveness of the program. The review and evaluation team was made up of four outside consultants and a member of the Agency for International Development.

The team examined the programs in Peru and Panama in depth and, for reference purposes, also took soundings of foreign tax assistance activities in Chile and Colombia. In general, the review and evaluation team completely endorsed the basic approach the Service has been following for the past 3 years and the manner in which the Service is organized for the program. The team concluded that "the United States has an effective technical assistance program in the AID/IRS joint tax administration projects in Latin America. The success of this program constitutes a major achievement within the general field of technical assistance . . ."

#### New Tax Conventions Negotiated

Attorneys from the Office of the Chief Counsel, as representatives of the Commissioner of Internal Revenue, assisted the Treasury Department in negotiations with seven countries concerning bilateral income tax conventions. In six cases the negotiations took place outside the United States.

Income tax conventions were signed with Brazil (March 13, 1967) and Trinidad and Tobago (December 22, 1966) and the proposed conventions were transmitted to the Senate for consideration with a view to ratification. A supplementary income tax convention with Canada was signed October 25, 1966, and it too was sent to the Senate. The Senate ratified a protocol to the United States-United Kingdom income tax convention and the instruments of ratification were exchanged on September 9, 1966. Instruments of ratification of an income tax con-

vention between the United States and the Netherlands were exchanged on July 8, 1966.

## Alcohol and Tobacco Tax Active in International Field

### Council of Europe Meetings Attended

A representative of the Service's Alcohol and Tobacco Tax Division participated, as an observer delegate, in a series of deliberations of the Committee of Senior Officials on Wines and Spirits of the Council of Europe and of the two groups of experts appointed by that Committee to work out definitions and labeling requirements for wines and spirits to facilitate the free movement of goods between the 18 member nations of the Council.

The United States' interest is twofold. It is interested in the proposed standards, as an importer, because it desires assurance that products produced under Council of Europe standards will meet U.S. standards if exported to the United States. It is also interested, as an exporter, because of increasing exportation of alcoholic beverages.

Another important interest of the United States was to persuade the Council of Europe to recognize bourbon whisky as a distinctive product of the United States—in keeping with the concurrent resolution of the Congress of the United States (Senate Concurrent Resolution 19—Passed by the House May 4, 1964).

### Alcohol and Tobacco Tax Laboratory Provides Training on International Scale

Because of its international recognition in the fields of narcotic drugs and tobacco and alcoholic products, government chemists from many countries visit the National Office laboratory to receive first-hand training in advanced analytical techniques. These students come under sponsorship of the Service's Foreign Tax Assistance Programs, World Health Organization and United Nations Fellowships. Chemists from Chile, Venezuela, Singapore, and Thailand have received training for periods up to 6 months. In addition, the laboratory regularly provides instruction and laboratory exercises in narcotic drug identification to participants in U.S. Bureau of Narcotics training schools for law enforcement officers. Seven schools were held during this fiscal year including one all Spanish-speaking class from Central America.

## International Operations Continue to Expand

### Fourteenth Overseas Taxpayer Compliance Program Completed

The Service completed its 14th annual overseas taxpayer compliance program during the 1967 filing period. Seventeen field agents, four office auditors, and one assistant revenue service representative visited 116 cities in 51 countries plus Guam, Okinawa, and the Canal Zone to assist U.S. taxpayers abroad.

As part of this assistance program, the Office of International Operations (OIO) and the Judge Advocate General of the Army jointly held fourteen 1-week military tax schools at 11 sites for 900 student-instructors in Europe, the Far East and, for the first time, the Panama Canal Zone. These tax schools were conducted by agents who participated in the overseas taxpayer compliance program. They taught a completely revised text specially prepared by the Service for military tax schools.

The Service advanced its overseas "self-help" program by publishing a brief document entitled *Answers to Questions Most Frequently Asked by U.S. Taxpayers Abroad*. This document was distributed through the State Department to each embassy and consulate overseas for their use in contacts with the public. The revenue service representative in the foreign countries participated in the dissemination of the information to the public through television, radio broadcasts, and newspapers. In addition, a number of pilot seminars and lectures were held by the revenue service representatives at their posts in England, France, Germany, and Italy.

Additional tax assistance is provided year-round through correspondence by the Washington office as well as by the overseas posts. A total of 14,555 replies to taxpayers' inquiries were answered by the Washington office during the 1967 filing period.

### Increased Activity at Foreign Posts

The Service maintains overseas offices in nine foreign posts located in Bonn, London, Manila, Mexico City, Ottawa, Paris, Rome, Sao Paulo, and Tokyo. Revenue service representatives who have responsibility for each of these offices and specified surrounding geographic areas perform functions for all branches of the Service. In addition, these representatives maintain close liaison with tax authorities of foreign governments on the administration of tax

treaties, exchange of information and other matters of mutual interest. One of their major functions is to assist U.S. citizens overseas in complying with their U.S. tax responsibilities. As a normal part of their duties they audit returns, collect taxes, hold conferences, and carry on other similar district functions.

Growing investments and activity by U.S. persons in all areas of the world have generated additional workload in these foreign posts. An assistant revenue service representative has been assigned to each of the previously one-man posts of Bonn, Mexico City, Rome, and Tokyo. With this increased staffing, there will be 21 technical personnel assigned overseas, and each foreign post will have at least two permanently stationed representatives.

### Foreign Investors Tax Act Changes Tax Concepts

On November 13, 1966, the President signed the Foreign Investors Tax Act, which made comprehensive changes in the concepts of U.S. taxation of nonresident aliens and foreign corporations. These changes have a dual purpose: to provide more equitable tax treatment of nonresident aliens and foreign corporations and to stimulate foreign investment in the United States. This Act establishes new standards to evaluate the tax effect of transactions of nonresident aliens and foreign corporations, and is resulting in material changes in the administrative and enforcement activities of the Service.

The Act introduced the "effectively connected" concept. This concept subjects all United States sourced and certain foreign sourced income which is "effectively connected" with a nonresident alien or foreign corporation's trade or business in the United States to the same rates of tax which apply to U.S. citizens and domestic corporations. Any fixed or determinable annual or periodic income not "effectively connected" with the alien person's conduct of a trade or business will be taxed, as before, at the 30 percent (or lower treaty) rate.

Three new forms have resulted from the tax concepts introduced by the Foreign Investors Tax Act. Two of these forms were designed to facilitate compliance with the new "effectively connected" concept of this Act. Form 4224 is filed to claim exemption from withholding on U.S. sourced income if it is "effectively connected" with the conduct of a trade or business in the United States. Form 1040ES (OIO) is a specially designed declaration of estimated income tax for nonresident aliens to place them on the same current payment basis as U.S.

citizens and residents on income reportable to the United States not subject to withholding at source.

Form 4277 was designed for use by withholding agents in making quarterly remittances of income tax withheld at source from income paid to foreign persons. Regulations now require withholding agents to purchase depository receipts semimonthly or monthly and to forward these receipts quarterly, along with a remittance covering any withholding not covered by depository receipts. The amounts of tax paid with the Form 4277 will be reflected on a line added on the annual Form 1042.

The requirements for filing the Form 1040ES (OIO) and Form 4277 accelerate receipt by the Treasury of over \$100 million in taxes which previously were remitted after the close of the calendar year.

### Safeguards Established for Tax Treaty Rates

Under each tax convention, provisions are made for an exemption or a reduced rate of tax to be withheld with respect to certain types of income paid to residents of the other treaty country. Most conventions provide that the treaty partners will safeguard these treaty provisions by collecting, on behalf of the other country, any additional tax due from persons not eligible for the other country's reduced treaty rate of tax.

In the past, foreign countries have looked only to the recipient of the income to establish that the taxpayer was a U.S. resident to qualify that person for the reduced rate of tax under the treaties.

The growing volume of income flowing to the United States from treaty countries is causing them to propose new methods of assuring proper allowance of the reduced treaty tax rate on income paid to U.S. recipients. In the case of Germany, Italy, Luxembourg, the Netherlands, and the United Kingdom the Service has agreed that the U.S. district director will certify that the U.S. person filed a return with the district to permit our residents to obtain the reduced treaty rate of tax.

The Service will propose a standard form for utilization by all countries requiring certification.

In addition to the certification procedure, the regulations under the renegotiated convention with the United Kingdom provide new withholding requirements for U.S. withholding agents. For the first time under any U.S. tax convention, U.S. persons who are not beneficial owners who receive income from the United Kingdom for persons not resident in the United States are required to with-

hold and remit any additional tax due. By election, these remittances can either be made direct to the United Kingdom tax authorities or to OIO, which will periodically forward this additional tax to the United Kingdom. A new Form 4198-UK has been issued for use by the withholding agents in forwarding any additional tax withheld.

This requirement in the regulations is similar to the arrangements in effect in the United Kingdom to assure that U.S. treaty benefits do not enure to persons not entitled to them.

#### Competent Authority Activities Continue Growth

The Director of the Office of International Operations, who is the appointed official to carry on negotiations with treaty countries regarding double taxation and other administrative matters under the treaties, was extremely active in this role during the past year. Continued growth in international investments by U.S. persons in treaty countries has generated increased workload in competent authority activity. Attention was also focused on the exchange of information on an automatic and specific request basis as required by the treaties. For fiscal year 1967, the significant issues under consideration involved foreign treaty countries of Canada, France, Greece, Italy, New Zealand, Sweden, Switzerland, and the United Kingdom. The issues involved estate tax, income tax, reciprocal collection, and specific requests for information.

A document detailing policies and procedural rules to follow in applying for relief from double taxation is now under consideration by the Service and Treasury.

#### Programs Stressed for Identification of U.S. Taxpayers

The growth of investments in foreign countries by U.S. taxpayers continued during the year. There was also an increase in numbers of U.S. persons residing abroad. These increases, coupled with complex international laws, have required the development of specialized programs by the Service to identify U.S. taxpayers in foreign areas and activities. This will provide the necessary information for the Service to measure the compliance of these persons with U.S. tax laws.

Form 959 is filed by U.S. persons owning a 5-percent or more interest in foreign corporations or by U.S. persons who are officers or directors in such foreign corporations. During the fiscal year ending June 30, 1967, 6,426 Forms 959 were filed by U.S.

persons who are officers, directors, or stockholders of foreign corporations. These forms identified 2,919 new foreign corporations with U.S. persons owning at least 5 percent of the stock. The cumulative total of foreign corporations identified under this program up to June 30, 1966, was 32,123. The information on these forms is compiled by automatic data processing and circulated throughout all districts offices for use in their classification and examination program.

In cooperation with the Department of State, the Service in 1966 initiated a program designed to identify U.S. citizens residing abroad. Under this program an information document, Form 3966, is completed by U.S. citizens when they apply for or renew passports at the consular offices abroad. The list of U.S. citizens identified under this program will be compared with the master file by ADP to identify whether returns have been filed.

#### Economics Important in Section 482 Allocation Adjustments

In determining the correct allocations of income and expenses between related entities under section 482 of the Code the application of economics is playing an increasingly important role. The economists have assisted the draftors of the proposed regulations under section 482. In addition, a procedure has been established whereby they will attend conferences with taxpayers when they assisted in the development of the case. A pilot seminar was conducted to acquaint field personnel with the economic aspects of section 482. The seminar proved to be of value and additional seminars are planned. Economists have offered expert testimony in court cases and are assisting the Department of Justice in developing economic approaches to be used in cases pending before the courts.

#### Foreign Investments in the United States

Over 12,000 Form 1042 returns were received by OIO in calendar year 1966. Form 1042 is used to summarize all income payments and tax withheld at source by the withholding agent from income payments to nonresident aliens and foreign corporations, and to forward information documents, Form 1042S, which identify the recipients and the nature of the income paid to nonresident aliens and foreign corporations. More than 425,000 of these information documents were filed in 1966.

These information forms are used by the Service as one of the means of carrying out its responsibility in securing compliance from alien taxpayers with U.S. tax laws. They are also used by Treasury in making fiscal projections and planning programs in the international area.

In addition, the Service has exchanged these information documents with treaty countries as required under the automatic exchange provisions of the treaties to assist in the administration of their tax laws and the tax conventions. Certain treaty countries in return send the Service the equivalent information for use in the U.S. taxpayer compliance program.

The table following is an analysis of the tax withheld from nonresident alien persons. The column headed "Tax from Foreign Governments or Withholding Agents" represents additional tax remitted to the United States in excess of the effective treaty rates on income received by persons not eligible for the reduced treaty rates of tax. The significant amount of \$13 million additional withholding received from Switzerland illustrates that this country is used as an international banking center by persons not resident of that country.

## INTERNATIONAL ACTIVITIES

Tax withheld from payments to nonresident alien persons of treaty and nontreaty countries, calendar year 1965

Country	Number of information documents	Thousand dollars		Total
		Tax withheld by domestic withholding agents	Tax from foreign governments or withholding agents	
Total	425,025	105,332	14,659	119,991
Treaty Countries:				
Australia	2,914	283		283
Austria	1,002	137	( <sup>1</sup> )	137
Belgium and overseas territories	8,992	1,926	194	2,120
Canada	183,186	22,325	863	23,188
Denmark	1,598	194	( <sup>1</sup> )	194
Finland	233	17		17
France	12,314	3,153	60	3,213
Federal Republic of Germany	10,891	1,406		1,406
Greece	2,162	182		182
Honduras	541	25		25
Ireland	2,934	391	5	396
Italy	1,647	872	( <sup>1</sup> )	872
Japan	1,869	456		456
Luxembourg	4,683	5,594	202	5,796
Netherlands	2,443	3,206	24	3,230
Netherlands Antilles	718	47		47
New Zealand	3,667	215		215
Pakistan	114	14		14
Sweden	3,356	743		743
Switzerland	26,999	19,447	13,000	32,447
Union of South Africa	782	245		245
United Kingdom and overseas territories	47,551	28,903	311	29,214
Nontreaty countries by Forms 1042S	66,602	14,186		14,186
Treaty and nontreaty countries by coupon bond information documents	31,447	805		805

<sup>1</sup> Amount too small to report. Included in the totals on the first line.

## Planning Is Essential to Effective Tax Administration

The size, scope, and complexity of the Internal Revenue Service mission make extensive planning a prerequisite for effective management of Federal tax administration. Planning activities concentrate on developing a balanced program for the most beneficial use of limited manpower and dollar resources. The comprehensive, multiyear program and financial plan, developed as a result of these planning activities, reflects the Service's objectives and resource requirements. This plan forms the short- and long-range basis for integrating into unified programs the variety of separate Service functional activities.

### chapter **8**

*"There plainly has to be a continuous arrangement for planning and installing improved systems . . . There must be an organized and systematic approach to the discovery and the application of better ways of doing things."*

DAVID E. BELL  
Former Director, Bureau  
of the Budget

## Planning Activities

### Organizational Planning Concentrates on Modernizing District Processing Activities

The transition to full operation of the automatic data processing system continued to be of prime concern in organizational planning. During the year, numerous consultations took place between National Office and regional officials to determine how and when to phase out the residual data processing responsibilities of the district offices after the transfer of the primary data processing workload to the regional service centers. It was concluded that these residual functions would not be large enough to support continuance of the separate returns processing and accounting function previously maintained in the districts. In accordance with the Service's long-standing redeployment practices, a system was adopted for gradually consolidating these residual functions with the delinquent accounts and returns functions of the district offices. These consolidations will take place in each region within 6 months after the region adopts the direct filing of individual income tax returns at regional service centers as authorized by recent legislation.

### Research Activities Keyed to Improving Compliance

The Service maintained a broad range of research projects during the year. These projects touched

many aspects of tax administration, especially the improvement of taxpayer compliance with the law. The research program also was designed to foster cooperation between the Service and other governmental bodies at various levels—Federal agencies, State and local governments, and countries with which the United States has tax treaties. Some of the principal research projects included:

**Utilization of Information Returns.**—Several projects were conducted during the year for the purpose of improving the usefulness of existing information returns (particularly those relating to wages, dividends, and interest) and exploring new potentials in information reporting. Among other things, this research activity included: (1) Analysis of different methods of matching information returns with the corresponding data on tax returns; (2) methods of obtaining better identification of income recipients; and (3) possibilities of extending the use of magnetic tape instead of paper information returns.

**Retention period for master file data.**—The Service adopted a new policy for retaining master file data as a result of a cost-benefit study. The new Service policy strikes a balance between the needs for computer-retrieval of tax return data and the mounting costs of retaining such data on a progressively lengthening tape file.

Under the new master file retention policy, tax settlement data will be retained for 27 months beyond the posting date of the transaction that brings the tax account to a zero balance or frees the account from any prior holding condition. Tax base data will be removed from the master files annually after completion of scheduled computer runs for Service programs (e.g., mathematical verification, information document matching, audit selection, State tape program, etc.). This new retention policy relates to data on master tape files and does not change Service policies for retention and disposition of tax returns and related source documents.

**Other projects.**—Among other projects during the year were the following:

- (a) Developing a program for the Service and the States to exchange tax information data by means of magnetic tape;
- (b) Planning a system for accelerating the remittance of taxes withheld from nonresident aliens and foreign corporations;

(c) Cooperating with the U.S. Civil Service Commission in the development of instructions to assist annuitants in determining the taxable portion of their annuities; and

(d) Coordinating implementation of new rules for individuals authorized to represent taxpayers in tax matters before the Service.

### Systems Development Concentrates on Reducing Data Input Costs and Designing the Next Generation ADP System

Major attention was devoted to the evaluation and testing of new techniques for data conversion. Present methods involve sequences of separate steps, i.e. transcription, verification, conversion, validation, etc. Prospective methods would permit the consolidation of several of these steps, and should result in substantial reduction in the cost of preparation of data input to the Service's ADP system.

A long-range study of a data processing system to meet the needs of the 1970's has been initiated. The existing ADP master file system was designed within the technological capabilities of the early 1960's. While it is performing well, it lacks the versatility and responsiveness achievable under current technology. Progress in the computer and communications fields makes it possible to plan for an ADP system which will not only meet objectives of the present system more effectively, but will also meet demands for improved management information and more rapid and complete account and taxpayer status information.

#### Search for Lower Cost Input Methods Continues

**Optical scanning.**—Scanners, as a means for converting typed and printed documents directly to magnetic tape, continued under intensive study. The Service has been testing a single-font scanner in the Southeast Service Center since late in 1966. This relatively inexpensive machine was designed to handle bills and other notices typed or printed on Service equipment using a special American Standards Association approved type font. Under actual operating conditions, the single-font scanner has successfully met the Service's acceptance criteria for

reading typewritten documents. Acceptance tests of documents prepared on the Service's high-speed printers have not yet been completed. A decision on acquisition of single-font scanners will be made when the tests for printed documents are concluded.

Also investigated during the year was the possibility of acquiring a scanner capable of converting data from information returns (Forms W-2, 1099, and 1087) directly to magnetic tape. Since these returns are prepared by payers on a wide variety of typewriters or printers, a more complex scanner capable of reading a number of different type fonts is required. In response to an invitation to propose a multi-font scanner, three manufacturers submitted proposals. After careful evaluation, it was decided that none of the proposals offered sufficient economic advantages to merit an award. The Service will keep informed of progress in the industry, and will make further studies.

**Direct data entry system.**—Ten proposals were received in response to the Service's invitation to propose equipment to perform the functions of the present key punch system. The principal objectives of the direct data entry system are manpower savings and sufficient dollar savings to recover the cost of new equipment within three years. A pilot system was selected from the proposals, and in March 1967, this system was installed at the Southeast Service Center for acceptance testing. Basically, the system provides keyboards coupled directly to a small general-purpose computer. Direct communication between input stations and the computer provide error detection and correction capability as data are being entered. Operators are notified of errors through a video tube display at the input station. The system provides for direct recording of the verified data on magnetic tape which can be read directly by IRS computers, thus eliminating the formerly required step of converting data from punch cards to tape.

Pilot testing of a small scale version of this equipment is expected to be completed early in fiscal year 1968. Results of this test together with the results of simulation studies of the full system will determine whether this new system will replace the present key punch method in regional service centers.

#### Progress Made in Designing ADP System for the 1970 Decade

Design of a new ADP system to replace the present master file system early in the 1970's is well

into the first study phase, that of definition of information requirements. Potential users (Collection, Audit, Intelligence, Data Processing, etc.) are defining and cataloging their requirements with respect to such characteristics as significance, urgency, volumes, frequency of occurrence, and frequency of demand. This catalogue, free of duplication, will indicate the total processing and storage requirements of the system. As the study progresses, continuing cost/benefit review of the overall design will be conducted. Simulation techniques will be used in both the design phase and in the evaluation of proposals of manufacturers which will be solicited when design specifications are firm.

Major benefits anticipated in the future system include: (1) Faster entry of new information into master files, (2) direct access to information on file by revenue officers, revenue agents, and other Service technicians in the field, (3) inclusion of more comprehensive data on file in terms of both historical and current information, (4) rapid, selective, and properly formatted retrieval of information, and (5) better management through improved allocation of resources.

#### Further Increases Expected in Number of Returns Filed

Long-range planning and estimates of future Service workloads rely on the projections of the number of tax returns to be filed in future years. The steady upward trend in the volume of returns filed in recent years continued during the 1966 calendar year, and the expected growth in the Nation's population, economy, and labor force indicates additional future increases in the number of tax returns. The impact of an expanding national economy is reflected, for example, in the rapid rise in the number of individual tax returns with adjusted gross income of \$10,000 and over. The number of returns in this category more than doubled between 1961 and 1966.

During the 1966 calendar year the total number of returns filed exceeded 103 million, an increase of more than 12 million during the last 10 years. Recent projections forecast a total of 114.5 million returns by 1970 and further gains to 126.1 million returns by 1975. The accompanying table shows the national projections for selected types of returns.

Selected types of returns filed in 1966 and projected for calendar years 1967, 1970, and 1975

Type of return	Actual 1966 <sup>1</sup>	Projected <sup>2</sup>		
		1967	1970	1975
Total returns.....	103,261	105,998	114,509	126,103
Individual, total.....	68,739	71,488	77,606	86,046
AGI under \$10,000 <sup>3</sup> .....	57,720	58,702	60,495	61,130
AGI \$10,000 and over.....	11,019	12,785	17,110	24,916
Corporation, total.....	1,529	1,995	1,762	2,096
Form 1120, total.....	1,327	1,375	1,494	1,714
Assets under \$50,000 <sup>4</sup> .....	581	596	642	729
Assets \$50,000 under \$1,000,000.....	663	694	760	881
Assets \$1,000,000 or more.....	83	84	91	104
Forms 1120S and 1122.....	202	220	268	382
Employment.....	22,307	22,031	23,471	25,331
All other <sup>5</sup> .....	10,687	10,884	11,671	12,631

<sup>1</sup> Data by size class are estimated.

<sup>2</sup> Projections are revised each year.

<sup>3</sup> In addition to Forms 1040 and 1040A, includes Forms 1040C, B, NB, NB-a, PR, and SS.

<sup>4</sup> Includes Form 1120 with assets not reported.

<sup>5</sup> Includes individual declarations, corporation declarations, partnership, estate, gift, exempt organization, special occupation fiduciary, and excise tax returns, and Forms 7004 and tentative Forms 1120L and M and 1042.

#### Annual Benchmarks Relating to Income Taxes

During 1967, the Service published in the Statistics of Income series, four regular reports and three supplemental reports. The list appears on page 104. The information and statistical data contained in these reports are useful for: (1) Revenue estimating, (2) tax and financial research conducted by Government agencies, businesses, private research organizations, and universities, and (3) supplying financial and economic data used in the preparation of the National Income and Product Accounts which show all contributors to the Gross National Product. A few summary statistics related to topics covered in the Statistics of Income program follow.

Among the annual reports now available, the 1965 Individual Income Tax Returns Report presents new information on dividends, on capital gain distributions, and on nontaxable return of capital distributions as reported by individuals. Of the \$15.0 billion in dividends and non-taxable and capital gain distributions, \$13.6 billion represented dividends eligible for exclusions which can, as a result of the Revenue Act of 1964, amount to as much as \$200 for a joint return if both husband and wife received eligible dividends. In fact, one out of every two joint returns with eligible dividends which were filed in 1965 reflected dividends received by both husband and wife.

The summary figures shown in the table on page 58 were derived from the 1965 report. They indi-

cate, for example, that the number of returns with itemized deductions increased by 962,000 in 1965, after declining by 1.2 million in 1964. The increase was to be expected as returns with itemized deductions stabilized following the initial impact of the minimum standard deduction introduced by the Revenue Act of 1964. Prior to this change, the number of taxpayers itemizing deductions had been increasing substantially each year.

In the corporate area, information about controlled groups was obtained. According to preliminary estimates, one out of seven corporation tax returns for 1965 was filed by a controlled group member. There were almost 215,000 corporation returns identified as members of controlled groups, compared with 182,000 corporate returns in that category for 1964. Some of the increase may be the result of more complete information for 1965, since the return forms filed previously by corporations did not provide complete controlled group information.

In connection with the Statistics of Income program, advance estimates of financial data from business tax returns for 1965 were delivered to the Commerce Department for use in revising the gross national product and national income series. The first estimate of corporate net income for 1965 was \$74.2 billion, up sharply from \$61.6 billion in 1964. Income tax before credits rose to \$31.8 billion in 1965 compared with \$27.9 billion in the previous year. The foreign tax credit amounted to \$2.6 billion or 13 percent more than in 1964, while the investment credit of \$1.7 billion in 1965 was 16 percent higher. Key income and deduction items by industry from the business and farm schedules of Form 1040 Individual Income Tax Returns and Form 1065 Partnership Income Returns also were sent to the Department of Commerce. Profits of sole proprietorships were 9 percent higher and partnerships 5 percent higher in 1965 than in 1964.

#### Statistics of Income Supplements

In addition to the annual Statistics of Income reports, three supplemental reports were published during the year:

(1) 1963 Supplemental Report for Farmers' Cooperatives.

(2) 1962 Supplemental Report on Sales of Capital Assets Reported on Individual Income Tax Returns.

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

Item	Income year				
	1961	1962	1963	1964	1965
<b>A. Number of returns</b>					
(Thousands)					
All individual returns, total.....	61,499	62,712	63,943	65,376	67,596
Taxable.....	48,583	50,092	51,323	51,306	53,701
Nontaxable.....	12,917	12,620	12,620	14,069	13,896
Returns with itemized deductions, total.....	25,262	26,451	28,154	28,910	27,872
Taxable.....	23,258	24,351	25,828	25,009	25,957
Nontaxable.....	2,004	2,100	2,326	1,900	1,915
Returns with standard deductions, total.....	36,238	36,261	35,789	38,466	39,724
Taxable.....	25,325	25,741	25,495	26,297	27,744
Nontaxable.....	10,913	10,520	10,294	12,169	11,980
<b>B. Sources of income</b>					
(Million dollars)					
Adjusted gross income, total.....	329,861	348,701	368,778	396,660	429,201
Salaries and wages <sup>1</sup> .....	266,902	283,373	299,443	323,266	347,150
Business, farm, and profession.....	22,630	23,925	23,872	25,628	27,953
Dividends in adjusted gross income <sup>2</sup> .....	9,890	10,640	11,452	11,917	12,961
Interest received.....	5,683	7,155	9,212	10,125	11,296
Partnership.....	8,949	9,344	9,313	9,731	10,606
Capital gains.....	7,621	5,771	6,449	7,939	10,181
Other income <sup>3</sup> .....	8,187	8,491	9,037	8,055	9,055
<b>C. Itemized deductions</b>					
(Million dollars)					
Itemized deductions, total.....	38,391	41,661	46,053	46,832	50,739
Taxes.....		13,045		14,071	
Interest paid.....		10,274		12,457	
Contributions.....		7,518		8,327	
Medical and dental expense.....		6,079		7,095	
Other deductions.....		4,747		4,882	
Not tabulated.....	Not tabulated.		Not tabulated.		Not tabulated.

Note.—Returns classified as taxable are those reporting income tax after credits.

<sup>1</sup> Includes returns with no adjusted gross income.

<sup>2</sup> For 1961-63, reduced by sick pay exclusion and certain employee business expenses. For 1964 and 1965, gross salaries are shown.

<sup>3</sup> Excludes dividends and interest reported on Forms 1040A, and for 1961, excludes certain Form 1040 with less than \$200 of dividends or interest.

<sup>4</sup> Reduced by self-employed pension deduction for 1963 and by self-employed pension deduction, sick pay exclusion, employee business expense deduction, and employee moving expense deduction for 1964 and 1965.

(3) 1961 Supplemental Report on Foreign Tax Credit Claimed on Corporation Income Tax Returns.

The 1963 Farmers' Cooperatives Report—the first report of this kind since 1953—presents complete income statement and balance sheet data for nearly 9,000 exempt and nonexempt cooperatives. These marketing and purchasing cooperatives, representing an important part of the agricultural sector of the economy, had receipts of \$14 billion and assets of \$6 billion. Almost two-thirds of the cooperatives were allowed special statutory deductions from income resulting in a substantial tax savings. These so-called "exempt" cooperatives reported tax liability of \$1.9 million, while the nonexempt portion reported \$13.2 million.

The 1962 Sales of Capital Assets Report presents detailed data on the gross sales price, cost and expense of sale, depreciation, and gross gain or loss for

25 different types of property or capital distributions. Classifications are by size of adjusted gross income, size of net capital gain or loss, period held, and State. Most of this information was made available for the first time in this Statistics of Income supplement.

The 1961 Foreign Tax Credit Report is the first with information on the countries in which foreign income was earned and to which taxes were paid by U.S. corporations. For example, the report reveals that four countries—Canada, the United Kingdom, Saudi Arabia, and Venezuela—accounted for more than one-half of the total foreign income of \$3.6 billion and foreign taxes paid of \$1.8 billion. The data in this report along with the ones being prepared for 1962 and 1964 are designed to aid in assessing the impact of the Revenue Act of 1962 which introduced major changes in the taxation of income earned abroad.

## Tax Models Provide Data Needed for Evaluation of Legislative Changes

The Service continued to make extensive use of Statistics of Income tax models for tax research. The model concept was developed to provide quick and reliable estimates of the revenue effect of proposed changes in the tax law. A typical tax model consists of a magnetic tape file of the sampled returns and makes use of generalized computer programs which are capable of simulating the probable result of a wide variety of proposed changes in tax law or in economic conditions. For example, the model for individuals has been used extensively to evaluate proposed legislation in the areas of (1) taxpayers age 65 or over, and (2) the deduction for State income taxes. The model for sole proprietorships has been used to provide profiles of individuals having large business deductions and losses.

Three model files are currently in operation. The model based on individual income tax returns for 1964 contains all the important items of income, exemptions, deductions, and tax for a sample of 95,000 Forms 1040 and 1040A. The model for sole proprietorships contains most of the receipt and deduction amounts for a sample of 147,000 Schedules C and F, Forms 1040 for 1964. The 1964 corporation model file contains the complete income statement and balance sheet as well as other tax computation schedules for a sample of 51,000 returns in the Form 1120 series with accounting periods ended July 1964 through June 1965.

## Statistics To Assist Taxpayers and Tax Administrators

For several years now, taxpayers who itemize deductions have been provided tables which they may use in determining a reasonable allowance for general State or local retail sales taxes. Sales tax tables for States and the District of Columbia were included in the Form 1040 instruction book for 1966. Three States passed sales tax laws in 1966, and tables were prepared for them for the first time. Eleven tables were revisions of the 1965 tables. In addition, a table of allowable deductions for 1966 State gasoline taxes, based on mileage and State tax rates, was provided for inclusion in the instruction book for the first time. Inclusion of sales and gasoline tax tables in the instruction book has reduced the Service's taxpayer assistance workload by eliminating

many thousands of phone calls which would have been placed had the tables not been available.

## Computer Selects Returns Used for Statistics of Income Sample

A computer application developed to select tax year 1965 Form 1040 and Form 1040A returns for the Statistics of Income sample at the Southeast Service Center was extended to include three other service centers—Mid-Atlantic, Southwest, and Western—for the tax year 1966 program. Utilizing programing techniques and computer capabilities, each return in the individual master file is examined to ascertain whether its income size or other characteristics qualify it for inclusion in the Statistics of Income stratified sample. Not only does the new system speed up the selection and statistical processing of returns, it also improves the selection procedures through increased accuracy in the identification of returns designated for the Statistics of Income sample.

## Effectiveness of Planning-Programing-Budgeting System Grows as Service's Long-Range Planning Tool

The Planning-Programing-Budgeting System, now in its second year in the Service, has become the major tool for projecting long-range trends in Service programs and resource requirements. Special studies, which are an essential part of the PPB system, provide management with the analytic basis for choosing from among alternative courses of action.

Service task forces started work this year on several special studies of significant activities to assist management in making program choices. Systematic quantitative analysis, as well as traditional qualitative analysis, is being used to develop alternative objectives and alternative means to meet these objectives. Quantitative analysis assists in evaluating the practicality of alternatives by providing calculations and comparisons of the relative costs and benefits of the alternatives being considered. The results of these analyses will be presented to Service, Treasury, and Budget Bureau executives for review and decision.

## Measurement of Taxpayer Compliance Aids in Program Evaluation

To permit optimum program design, operation and evaluation, and to meet the demands for a long-range research program which would further the objectives of the Planning-Programming-Budgeting System and other tax administration requirements, the Service installed a Taxpayer Compliance Measurement Program (TCMP) in 1963.

TCMP is gathering new data in four tax administration areas: (1) Delinquent accounts; (2) Delinquent returns; (3) Individual returns filed; and (4) Corporation returns filed.

Substantial progress has been made on the various phases of TCMP: (1) Outputs from 1963 delinquent accounts and returns programs have been tabulated and analyzed; (2) outputs from the 1964 delinquent accounts program have been tabulated and are now being analyzed; (3) the 1967 delinquent accounts program is in process; (4) field audit work for the 1964 individual returns filed program has been completed and some of its outputs have been tabulated and analyzed; and (5) the input phase of the 1966 program of delinquent returns is nearly complete and its output tabulations are expected in 1968.

The 1966 program of individual returns filed is still in operation. Additionally, two new programs are in the planning stage: A new segment of the delinquent returns program covering farm operators, and a corporation survey covering small corporations filing returns with assets under one-half million dollars or without balance sheets.

Tangible results have already been obtained from the 1963 delinquent accounts and delinquent returns programs as described in the 1965 Commissioner's Annual Report. Additional benefits from the delinquent accounts study have been realized in fiscal 1967 through the use of master file processing controls to reduce the time spent by field collection personnel in handling small delinquent accounts. When these benefits fully accrue in fiscal 1969, it is estimated that annual savings of \$1.6 million (202 man-years and 196,000 fewer taxpayer delinquent accounts issued) will be realized.

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 anticipating the availability of TCMP data in fiscal 1967 from individual returns filed, the Service started a new research project in 1966. Mathematical techniques will be used to develop a more effective ADP procedure for annually selecting for examination those individual returns filed that most need examining. Utilizing previous research data, two selection (discriminant function) formulas were developed for selecting low-income single proprietor returns, and a field test was installed to ascertain the effectiveness of these formulas in comparison with existing selection procedures. Results of this test will not be available until fiscal 1968. Anticipated results would indicate, however, that the use of such formulas could produce such large gains as: (1) A reduction in the "no change" rate; (2) an increase in the average tax change resulting from examination; and (3) a substantial reduction in manual returns classification requirements.

Viewing the discriminant function technique as a key method for attaining a substantial payoff from TCMP, and in the light of available data gathered in the 1964 individual returns filed program, the Service is developing formulas for the four high-volume, low-income classes of individual returns (namely, Forms 1040A, nonbusiness Form 1040, and farm and nonfarm business Form 1040 with adjusted gross income under \$10,000) for possible inclusion in the 1969 computer selection program of returns for examination.

The major uses of TCMP data will be: (1) To develop cost-yield relationships (average and marginal) in delinquent accounts and returns and returns examination operations for PPBS inputs and requirements; (2) to measure the levels of compliance and tax administration gaps for determining the Service's long-term enforcement policies; (3) to determine changes in compliance levels over a period of time for proper direction of enforcement programs; (4) to develop better selection procedures to improve the effectiveness of enforcement operations; and (5) to identify alternative methods of operations to achieve greater operating economies.

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 non-compliance 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 70 million individual returns filed annually. In addition to the improvements outlined above, TCMP will help clarify overall tax administration needs by

providing new data indicating the size of the various kinds of filing delinquency problems among farm and nonfarm business taxpayers, and the tax error problems of both individual and certain corporate income taxpayers.

Over a longer period, TCMP will indicate whether the methods of tax administration are associated with decreasing, increasing, or constant levels of taxpayer compliance.

chapter **9**

*"I don't suppose we will ever get to the point where people are pleased to pay taxes, but we owe it to them to see that the collection is done as efficiently as possible, as courteously as possible, and always honestly."*

President LYNDON B. JOHNSON

## Management Activities

### Service Sets New Savings Record

The Service continued to make significant progress in reducing costs and improving the management of its operations. During the year, record savings of \$16.5 million were reported by managers and supervisors throughout the Service. This represents an increase of 14 percent over savings reported last year, and exceeds by \$2 million the savings goal for 1967 which was established a year ago.

The savings achieved in 1967 are the result of thousands of actions ranging from individual employee suggestions to major, Servicewide projects involving the efforts of many people. The more significant achievements are presented below and in other chapters of this report.

#### Future Savings Goals Are High

Looking ahead for the next 2 years, the Service is projecting a continuation of concerted efforts to improve efficiency and reduce costs. Accordingly, saving goals for 1968 and 1969 have been set at \$16.6 million and \$16.7 million, respectively. These goals will challenge the initiative, ingenuity, and creativity of all Service personnel in carrying out their responsibilities effectively and economically.

#### Awards Program Supports Economy Drive

The Incentive Awards Program of the Service reflects the Government-wide emphasis on economy over the past year. Savings resulting from adopted suggestions exceeded \$1.2 million, a new record for the Service. Seven employees have received recognition under the Civil Service Commission Economy Champion Program which honors employees whose suggestions saved \$10,000 or more. There also has been a 50-percent increase in the number of employees receiving performance awards.

A new publication, the *Pocket Guide for Supervisors*, should help to ensure greater uniformity in the performance awards program. It outlines the requirements for granting performance awards, and will increase supervisory awareness of the various types of awards for which they may recommend employees.

#### New Procedure Installed for Handling Undelivered Refund Checks

Many times refund checks mailed to taxpayers are undeliverable because the taxpayers failed to

notify the Post Office or the Internal Revenue Service of change of address. These checks are returned to the Service and, prior to this year, had been deposited to the taxpayers' accounts on the master file awaiting change of address notification. New checks would be issued upon receipt of valid addresses. Beginning in March 1967, a new procedure was implemented which delays the redeposit of undelivered refund checks. This means that the refund checks are available for immediate issuance and will not have to go through the costly process of reissuance. While awaiting new addresses the check is manually compared with the taxpayer's return to insure that the name and address on the check have been correctly transcribed from the return. If errors are found, the check is immediately corrected and remailed.

#### Federal Tax Deposit System Initiated

A new method was initiated this year for corporation estimated tax payments and will be extended to other business tax payments in 1968. In this system, each taxpayer is provided with preaddressed punch cards which he will complete when payment is due, and submit with his tax payment directly to a Federal Reserve Bank, or a Federal bank depository which then forwards it to a Federal Reserve Bank. After depositing remittances to the Treasurer's account, the Federal Reserve Bank forwards the punch cards to the Office of the Treasurer where the data are converted to tape. The tapes are then sent to the National Computer Center where the taxpayers' deposits are reconciled with the amounts claimed on the returns. Primary benefits accruing from this system include: (1) The deposit of tax payments to the credit of the Treasurer of the United States is accelerated; (2) the taxpayer is relieved of the necessity of attaching validated receipts to the tax returns; (3) the new deposit form simplifies bank processing; and (4) the system eliminates several processing operations in the service centers and leads to manpower savings.

#### Preaddressed Label Proves To Be Effective

Taxpayers filing Form 1040 (individual) and Form 1120 (corporation) returns are mailed forms to which a two-part "piggy-back" mailing label is attached. The two parts, bearing the taxpayer's name, address, and account number as shown by the master file, are affixed one on top of the other. 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 he does file. If he is required to file a declaration of estimated income tax, the instructions tell him to remove the top label and attach it to the declaration, and file the Form 1040 or Form 1120 return with the bottom label. Experience in five regions where the labels were used for the 1966 tax year indicates that 50 percent of the Form 1040 taxpayers filed returns with the preprinted label, and about 3 percent of those filing declarations of estimated tax transferred the top label to their tax year 1967 declaration. Taxpayers are encouraged to file a return with a preaddressed label attached because it lessens the chance of error, speeds up processing, and contributes materially to keypunch savings.

#### Magnetic Tape Used for Reporting Wage and Interest Payments

Magnetic tape, instead of paper documents, may be used by payers for reporting wage, interest, and certain other payments to individual and corporation taxpayers. The program is designed to capitalize on the capabilities of electronic computers in business and government. During 1967, about 7 percent of the information documents furnished the Service were tape records. One of the major uses of these tapes is in the wage and information documents matching program covered in Chapter 3.

#### Service Center Operations Expanded

With the implementation of ADP nearly completed, the Service has determined with a fair degree of certainty what returns processing work should remain in district offices, and what could better be performed in the service centers. A timetable, compatible with both the direct filing and redeployment programs, has been developed for the movement of work to service centers.

The movement of non-master-file tax returns processing and related accounting operations to service centers, begun in the Southeast Service Center in 1966, was extended into the Mid-Atlantic and other regions during 1967. However, Forms 943, Employer's Annual Tax Return for Agricultural Employees, for calendar year 1966 and Forms 942, Employer's Quarterly Tax Return for Household Employees, beginning with first quarter 1967 returns, are now manually processed in all service centers, including transmittal of employee wage schedules to the Social Security Administration.

A special mailing, indexing, and delinquency check tape file has been set up in each service center to expedite these operations for Forms 942 and 943.

also Forms 1065, U.S. Partnership Return of Income, and 1120S, U.S. Small Business Corporation Income Tax Return, showing no tax due.

Revised procedures have been issued to simplify manual processing of non-master-file returns and accounts in the service centers. Transfer of all manual accounting operations to the service centers will be accomplished during 1968.

#### More Responsive ADP Service Sought

Major emphasis is being placed on making the ADP system more responsive to the taxpayer and more effective in taking care of the increasing number of public contacts attributable in substantial measure to the expanded capability of the new system. A private consulting firm is assisting in an all-out effort to simplify the language on the many letters, notices, and forms produced by the system. Special attention is being given to streamlining the procedures and techniques involved in handling the large volume of correspondence received from taxpayers about their tax accounts and in making necessary adjustments after their returns have been filed. A new organizational element, known as the Taxpayer Service Division, has been added in the service centers to further this objective.

### Personnel-Training Programs Meet Staffing and Development Challenges

The personnel and training programs of the Service were focused on the problems created by the necessary expansion of Internal Revenue Service functions and services during a period of strong demand for high-caliber recruits by both the public and private sectors of the economy. Working within this context, the aim has been to adequately staff the Service without compromising the primary objective of providing service of the highest quality to the Nation and its taxpayers. Consequently, emphasis has been placed on new methods of recruiting competent employees from every available source, and on career development and maximum utilization of existing human resources.

#### Recruitment Reaching New Peaks

Recruiting for the Internal Revenue Service in 1967 remained a major task. Many kinds of people were recruited or reassigned to accomplish the mission of the Service:

2,000 Revenue agents, to examine accounting records and investigate other sources of information to determine a taxpayers' correct Federal liability.

935 Revenue officers, to take necessary enforcement actions insuring that all taxpayers meet their obligations.

230 Special agents, to investigate suspected or alleged tax fraud.

700 Tax technicians, to interview or correspond with taxpayers in explaining tax issues and determining tax liability.

110 Alcohol and tobacco tax investigators, to track down liquor law violators in backwoods dens and big city stills.

60 Internal auditors, to conduct management audits.

Plus administrators, to coordinate and direct executive functions, and clerks, typists, key punch operators, and others to give logistic support.

In addition to recruitment for the permanent workforce, the Service has an annual task of hiring temporary employees during the peak months of the filing season. Approximately 15,000 seasonal employees were used in regional service centers this year. Overall, service centers had to hire 74 percent more seasonal employees at the peak of employment this year than last year:

1966 Filing season	1967 Filing season	Percent increase
7,154	12,711	74

Midwest and North-Atlantic Service Centers both began processing Individual Master File (IMF) returns for the first time this year. As a result, peak seasonal employment doubled at North-Atlantic and quadrupled at Midwest. Western Service Center took on the processing of IMF returns from California for the first time, as well as the optional filing of refund returns, while Central took on the processing of IMF returns from Detroit and optionally filed refund returns. As a result, Western's peak seasonal employment increased 2½ times and Central's doubled.

College student recruitment has become an important source of service center seasonal manpower. In the last year, the number of college students employed at service centers during the filing season more than doubled:

1966 Filing season	1967 Filing season	Percent increase
563	1,143	102

Man-years realized during each of the past 2 years and employees on rolls at the close of 1966 and 1967 are shown in the following table:

Location and type	Man-years realized		Number on rolls at close of year	
	1966	1967	1966	1967
	Service, total.....	63,508	65,946	61,689
Permanent.....	58,511	58,628	57,365	58,640
Temporary.....	4,997	7,318	4,324	6,482
National Office.....	13,982	13,894	3,626	3,852
Field service, total <sup>1</sup> .....	59,526	62,052	58,063	61,270
Data processing, total.....	18,839	20,378	17,499	19,468
Collection, total.....	10,088	10,268	9,774	10,029
Revenue officers.....	6,125	6,097	5,989	6,027
Other.....	3,963	4,171	3,785	4,002
Audit, total.....	19,970	20,560	20,137	20,824
Revenue agents.....	12,473	12,878	12,561	12,882
Office auditors and tax technicians.....	3,093	3,121	3,039	3,145
Other <sup>2</sup> .....	4,404	4,561	4,537	4,797
Intelligence, total.....	2,343	2,346	2,350	2,380
Special agents.....	1,732	1,726	1,721	1,740
Other.....	611	620	629	640
Alcohol and tobacco tax, total.....	2,620	2,611	2,598	2,637
Investigators.....	937	964	939	968
Inspectors-general.....	459	444	453	442
Inspectors-on premises.....	411	416	410	426
Other.....	813	787	796	801
Appellate, total.....	1,602	1,643	1,647	1,658
Appellate conferees.....	717	727	735	731
Auditors.....	157	164	161	162
Other.....	728	752	751	765
Administration.....	2,683	2,836	2,653	2,785
Regional counsel.....	742	752	761	776
Regional inspection.....	639	658	644	713

<sup>1</sup> Includes terminal leave man-years for entire Service.

<sup>2</sup> Includes Office of International Operations, National Computer Center, and IRS Data Center.

<sup>3</sup> Includes overseas employees hired locally (6 in 1966 and 7 in 1967).

#### Recruiting Goes Nationwide

In an effort to obtain the highest quality possible, districts are now helping meet the recruiting needs of other districts as well as their own. Under the program, offices willingly accept applicants recruited for them by other offices. Eligible candidates are referred for positions according to their work location preference, rather than on the basis of their place of residence or school attended. An important feature of the program is concentrated attention, in recruiting and referral, on designated locations where the supply of high-quality eligibles is insufficient to meet immediate hiring needs or anticipated advance commitment needs.

#### Hundreds of Schools Contacted

Recruitment brochures, a direct mailing campaign, advertising media, on-campus recruiting, and participation in college career days were again used extensively. Trained recruitment teams went to most major colleges and universities. Prominent National Office officials, including the Commis-

sioner, Deputy Commissioner, and Assistant Commissioners, also participated in the field recruiting effort by visiting colleges and universities and speaking to groups of accounting students. Speakers concentrated on substantive aspects of tax law and on what it is like to work for the Service.

To tap the manpower reservoir of the future, *Careers in Tax Work* brochures were mailed to 12,000 high school guidance counselors during the past year. Thousands of copies of the brochure were also distributed in the *Teaching Taxes* kits for high school teachers. *Treasury Enforcement Agent and Careers and a Sense of Purpose* brochures were mailed to 5,900 college and university guidance counselors. In addition, 20,000 copies of *Careers in Tax Work* were distributed to the Accounting Career Council for inclusion in their career guidance packages.

#### Student Trainee Program Aids Future Accountant Recruitment

The program of hiring undergraduate accounting students as trainees, for development into internal revenue agents and internal auditors, produced substantial results in the first full year of operation. This included the participation of 152 students and the negotiation of work-study agreements with 74 colleges and universities. These accomplishments are especially significant in view of the strong competition from private industry, State and local government, and other Federal employers for such students. Field offices enthusiastically received the program and consider it an extremely useful recruiting and college relations system. Further expansion is planned for the coming year, along with certain refinements and improvements in administration.

#### Special Salary Rates Approved

As in previous years, the competitive recruitment market in a booming economy created difficulties in filling vacancies for accountants (including revenue agents and internal auditors), special agents, and estate tax examiners. As early as 1963, special higher minimum salary rates were approved by the Civil Service Commission for revenue agents and internal auditors, grades GS-5 through 9, in California. The situation became so acute that special rates for these positions were authorized nationwide in 1966. In March 1967 payment of travel and transportation expenses to first-post-of-duty was authorized for new appointees. To meet private competition, a further increase in rates was approved

in June for Grades GS-5 through 9. Similar pay rates and travel and transportation payments were approved for estate tax examiners.

Requests were pending at Civil Service Commission, at fiscal year's end, on special salary rates for special agents GS-5 through 9 in intelligence, and on paying their moving expenses to first-posts-of-duty.<sup>1</sup>

#### Recruitment Shortages Met by Utilization Techniques

A recruitment survey, to be fully implemented next year, will provide the means for a continuing analysis of job performance of recruits in the Service's nine major occupations. The study will help identify job applicants with the best potential for rapid progression to journeyman levels and for quality performance at these and higher levels. Subsidiary to this is identifying the kinds of applicants who are of high quality but who do not present turnover problems.

A smaller scale version of this recruitment study was completed for the revenue agent occupation in 1965. The findings have been translated into a revised revenue agent recruitment examination guide for interviewers. Most of the new factors are being incorporated in an accountant auditor examination guide now under review by the Civil Service Commission.

To help meet recruitment goals for special agents, a major internal recruitment effort also has been initiated. By this means, the Service expects to identify and select from employees already on the rolls a number of individuals for careers as special agents in the intelligence activity. This will be one of several future efforts to expand and extend the talents and experience of employees by offering them additional career development possibilities.

#### Employee Retention and Utilization Receives Prime Attention

"Almost a miracle," were the words used this year by Congressman Wilbur Mills, Chairman of the House Ways and Means Committee, in describing the Service's redeployment program. This continuing effort retrains and finds other placements for district office personnel whose returns-processing work is moving to the service centers. Of the over 9,000 personnel redeployed to date, 1,368 were accounted for this year. A number of these employees have been reassigned to service centers or other

IRS jobs. Others left voluntarily to go to other agencies, private business, on into retirement.

Complementing its vigorous recruitment effort, the Service has given added emphasis to retaining employees. This is based on recognition of conditions in work design and work environment which might prevent employees from doing a truly professional job. Their help in identifying possible roadblocks to increased professionalism resulted in a number of changes; for example—private interview rooms for discussions with taxpayers, and additional dictating and other office equipment to reduce clerical work of professionals. These changes, designed to make jobs more attractive, will assist in attracting as well as retaining good employees.

The Service has become increasingly aware of the fact that numbers of professional employees erroneously believe production is being used as a principal factor in selection and promotion. This pointed to a serious need for better management and employee understanding and interpretation of various officials' guides. A number of actions have been taken to bring about fuller understanding, including short training sessions for supervisors and employees to make them more aware of opportunities for career advancement.

Special attention was paid to the revenue officer occupation. Interviews of several hundred revenue officers, supervisors, and line officials made up a part of the effort to analyze the working environment of this key group of employees.

#### Employee-Management Cooperation Expands

The past year again saw an increase in employee organization activity; approximately 8,000 additional employees are now in units represented by an exclusively recognized employee organization. By the end of the year more than 35,000 employees in 45 districts and three service centers were exclusively represented by four employee organizations.

In addition to consulting with recognized employee groups, the Service negotiated its fourth and fifth formal collective bargaining agreements, in the Portsmouth District and the Kansas City Service Center. The Portsmouth agreement contains the first advisory arbitration provision negotiated within the Service. Other negotiations are underway in Detroit, Los Angeles, and San Francisco.

#### Technical's Blue Ribbon Study Nears Completion

One-hundred and eighty-four employees (including 77 first-line supervisors and managers), have

been interviewed in a coordinated study of personnel and training operations under the Assistant Commissioner (Technical). Bolstering these interviews are 280 reports of specific work occurrences gathered from among 750 employees serving in Technical. A study team analyzed and evaluated this and other available data to develop means of improving personnel and training programs. Preliminary findings point to the need for functional work assignment criteria, improved operation of the grade structure change and control program, flexible staffing patterns, more realistic entrance levels, establishment of a student trainee and a college recruitment program, improved personnel selection techniques, increased participation in training activities, and improved supervisory practices. Action on resulting recommendations will be initiated in 1968.

#### Blind Taxpayer Assistors Successfully Employed

A dramatic, if modest, beginning was made in the employment of the blind as taxpayer assistors. Three blind persons were trained as fully qualified taxpayer assistors in a pilot program and were scheduled to enter on duty in the Little Rock District early in fiscal year 1968. The Office of the Services for the Blind, Vocational Rehabilitation Administration, supplied a grant for the experimental project, and the actual training was done through the Arkansas Enterprises for the Blind. The Little Rock experiment is an example of what can be accomplished when agencies work together. Employment of the blind in the Service offers a potential source of manpower in tomorrow's labor market.

#### Economic and Educational Opportunity Programs Boosted

Following established Executive policy, the Service actively continues to provide employment for young people who qualify because of economic or educational disadvantage. As of May 1967, the programs had 1,054 enrollees, representing a 51-percent increase over last year's total of 696. Participation of minority groups has remained high.

These programs, mostly funded from non-IRS sources, provide each enrollee with a specialized introduction to the world of work in addition to direct financial benefits. Because many of the young people hired are inexperienced, a permanent aim of these programs is to increase knowledge of and motivation toward opportunities in Government and business. To help the enrollees compete in today's complex society, each appointing office has designed and

conducted its own training programs. These usually emphasize orientation in basic office skills and practices, plus training in such subjects as typing and business English.

With an added year of experience in handling the program, supervisors have reported improved results from the participating personnel. Remaining problems, arising from cultural and economic diversity of the participants, are not easy to solve, but progress is being made with the added use of new personnel techniques.

The Service was again active in furthering the goals of Operation MUST (Maximum Utilization of Skills and Training)—a Governmentwide drive aimed at countering the effects of labor market shortages while, at the same time, providing increased opportunities for the disadvantaged. Among the more important achievements this year have been: (1) The establishment of GS-4 recruitment and training programs for many professional and technical occupations, and (2) the development of a National Office pilot program for hiring and training GS-1 and GS-2 office aids.

#### Equal Employment Opportunity Efforts Advanced

As a prelude to progressive understanding and familiarization in achieving equal employment opportunity goals, Service and Treasury officials participated at conferences in 17 cities with many top executives of the Service.

The Action Plan for Equal Employment Opportunity, published in May 1967, pinpointed the responsibilities of key officials and reemphasized the President's goal of achieving "Full and equal opportunity for persons of every race, color and creed and nationality in every part of the United States." Specifically, the plan called for: (1) Continued co-operation with other agencies through Federal executive boards and associations in spearheading community action projects which affect employability, and (2) the development of comprehensive regional equal opportunity action plans.

An Equal Employment Opportunity Handbook implementing the program was completed and scheduled for publication in early fiscal year 1968. The Handbook sets forth responsibilities, objectives, procedures and guidelines relative to the program. Two issues of *Employment News* dealt with success stories of minority employees.

Equal employment opportunity seminars continued throughout the Service. They stressed positive ways to improve the total program. National Office

<sup>1</sup> These requests were approved early in fiscal year 1968.

seminars included one for divisions directors and above, and another for supervisors and managers. The seminar program is to be completed by the end of the second quarter, fiscal year 1968, when virtually all supervisory personnel will have received Equal Employment Opportunity training.

#### Technical Training Increases

Major increases in technical training resulted both from expanded recruitment and the need to train employees to deal with changes in tax law and other aspects of their jobs. Since 1965, the number of recruits trained increased by more than 100 percent. Recruit training is expected to continue at a relatively high level, as the need for recruitment of technical employees increases.

Other developments in technical training have resulted from major changes in the tax law and technological developments which have added to the complexity of employees' jobs. Illustratively, a course for revenue agents assists them in following an audit trail in organizations using computerized accounting systems. The course introduces the experienced revenue agent to the concepts of data processing, and gives him practical experience in applying the principles he learns to a case built on a model computerized system.

A 2-week course for higher level revenue officers has been developed to provide advanced technical training that will increase their ability to deal with more sophisticated and complex issues involving collection and returns compliance. Revenue officers also received training in the provisions of the changed Tax Lien Law, and a new course was developed to teach them how to handle offer-in-compromise cases, since the responsibility for many of these cases was shifted from revenue agents to revenue officers.

The Service has adapted a computer manufacturer's training materials to its own needs and is conducting specialized training courses for prospective card punch operators in service centers. Nearly 3,500 people who received this training were hired as permanent or temporary card punch operators during the year.

#### Developmental Efforts Increase Managerial Efficiency

Emphasis continues on the systematic selection and development of supervisory personnel. Many of the concepts originally associated with the Executive Selection and Development Program have been extended to supervisory and managerial jobs throughout the Service. Specially tailored courses are being

developed to provide supervisory and management training in each of several functions such as appellate and field audit.

#### Training Methods and Operations Improved

The year 1967 marked the opening of the North-Atlantic Regional Training Center, which is housed on the campus of Hofstra University on Long Island. The Central Regional Training Center was relocated from leased space in Detroit to the new Federal Office Building in Cincinnati. To provide higher quality and more uniform training, the Service will establish additional regional training centers during the next 2 years. A Western Regional Center has been operating successfully for the past few years.

The National Training Center continued its work in development and updating of technical training materials for field use. These materials are used in a variety of technical and professional courses.

The center also continued to experiment with new methods designed to make training more efficient and effective. Successful initial application of the EDEX automated teaching system to one of the service center courses in returns processing has led to EDEX adaptation of several other related service center courses. This reduced average training time from approximately 16 days to 11 days for each of the 3,000 people involved. Eight experimental EDEX tax law units are intended for multiple use in several courses. If the field test is successful, this also will result in a saving of training time.

Other experimentation involved using closed circuit television in training programs for employees who have extensive contact with the public. TV is also used in instructor training to help trainees critique their own instructional techniques.

#### Deputy Commissioner Smith Honored by National Civil Service League

In April Deputy Commissioner William H. Smith was named as one of the ten Outstanding Federal Employees by the National Civil Service League. Since 1955, the League has selected annually ten Career Civil Servants who represent the highest ideals of public service. Mr. Smith was the third Internal Revenue Official to receive this honor. The League's Career Service Award was given to him in recognition of the leadership, imagination, integrity and devotion to duty that he has displayed throughout 21 years of civilian Government service involving three agencies.

Mr. Smith's contributions are apparent from the awards bestowed on him by the Service and the Treasury Department. In 1960 he shared in a group award for the development of the Service's automatic data processing system. In 1963 he was given the Commissioner's award for his role in achieving economies in tax administration. And in 1966 he was presented the Secretary's Meritorious Service Honor Award for the quality of his work, his personal integrity and his dedication to public service.

#### Improvements Produced Through Facilities Management

##### New Office Space Provided for 9400 Employees

The Internal Revenue Service is one of the largest single users of office space in the United States, with approximately 65,000 employees occupying 11.3 million square feet of space in 1,259 buildings located in 1,067 cities across the Nation. About 52 percent of this space is in federally owned buildings which are managed by the General Services Administration. The remaining 48 percent is leased by GSA at an annual rate of \$19.3 million.

During 1967, the last three of seven ADP Service Centers (Andover, Mass.; Covington, Ky.; and Ogden, Utah), occupied newly completed buildings that were specially designed to accommodate both their massive paperwork flow and their complex electronic data processing requirements. In addition to the 9,400 people moved into these modern facilities, 2,931 more employees in major Service field offices moved into new or largely renovated quarters. Less substantial improvements and alterations were made at 58 other offices housing 10,395 employees.

These improvements were part of a Servicewide program to provide employees with a modern, clean, professional working environment and furnish the taxpaying public with convenient, efficient places in which to meet Service representatives with appropriate ease and privacy.

The Service will continue working on the placement of all employees and operations in good, efficient space. For those offices which deal with the public, additional efforts will be made to give taxpayers the convenience and dignity which is due to citizens. As part of this program, the Service will press toward solutions for the relatively few offices remaining in unsatisfactory space.

The four most significant unsatisfactory locations continue to be the district headquarters offices in Chicago, Indianapolis, Newark, and Nashville.

These must wait upon new Federal office buildings, scheduled for completion during the next several years. All other district headquarters offices are in good space. During fiscal year 1968, 16 larger Service offices and 36 smaller offices will move into new or significantly renovated space; 202 other offices are scheduled for less substantial improvements.

#### Furniture and Equipment Improved

Having virtually completed a 4-year program of replacing obsolete and dilapidated furniture during 1967, the Service launched a two-pronged program aimed at replacing worn out and inefficient office equipment, and providing up-to-date machinery necessary to handle large volume, complex programs.

Plans call for eliminating all unsatisfactory office equipment as rapidly as funds permit. The replacement program is geared not only to get rid of old and broken equipment, but also to provide additional equipment in offices with too few machines or inadequate equipment.

A concentrated effort to provide the most efficient and economical equipment for processing the large volume of paperwork flowing through operational organizations has resulted in converting manual typing to automatic typing systems in audit and appellate, thus releasing many employees for higher priority duties.

#### Telephone Calls Save Service Manpower

Telecommunication costs continue to rise as a result of increased telephone use, rate increases, improved communications systems, and additional emphasis on timely and responsive communications. Considerable progress has been made in identifying the source of these rising costs and determining resultant benefits. As part of an in-depth comparative cost survey, a pilot study of telephone calls made in one district office demonstrated that the telephone call is an especially effective and economical method for meeting the communication needs of the Service. The study also indicated that manpower expenses for a personal visit or for writing a letter are greater than those for telephoning.

#### Automobile Travel Plan Produces Savings

The Service continued its effort to establish fair and reasonable mileage reimbursement rates for privately owned vehicles used by employees on official business. A sliding scale plan was adopted by the Service last year to give high-mileage drivers the

option of driving a General Services Administration (GSA) car, or their own car at rates approximating the rates paid for GSA cars. The sliding scale plan was amended this year to provide for 10 cents a mile up to 500 miles a month, rather than the former rate of 10 cents a mile up to 400 miles a month. Further, employees may now prorate their monthly mileage over the full year for reimbursement on an average monthly basis. Lower rates are paid for mileage after the first 500 miles per month. The sliding scale plan saved over \$500,000 when compared to a flat rate of 10 cents a mile. The General Accounting Office and the Bureau of the Budget estimate significant savings in future years through application of a sliding scale plan by other agencies.

**Records Disposition Highest in Ten Years**

More records were sent to Federal Records Center storage or destroyed this year than any period since 1957. Almost 300,000 cubic feet of records were removed from Service offices. Space and file equipment valued at \$1,066,000 was made available for reuse by retiring or destroying these records.

**Forms and Form Letters Standardized and Improved**

Forms management efforts continued to result in improved and standardized paperwork operations. The inventory of forms and form letters was reduced by 1.6 percent during the year. Most of this reduction was the result of consolidating and standardizing forms on a regional or national basis. Equally important were improvements in forms and form letters to make them more generally usable and, in the case of those sent to the public, more courteous and understandable. The table which follows summarizes the results of this year's forms management activities.

Prescribed by	Opening inventory	Newly developed	Eliminated	Closing inventory	Net change
Total.....	16,633	2,123	2,395	16,361	-272
National Office (used at headquarters and Service-wide).....	5,394	423	161	5,656	+262
Regional offices (used by regional headquarters components or 2 or more district offices).....	7,990	707	1,178	7,519	-471
District offices (used by local districts and their subordinate offices).....	1,572	288	509	1,351	-221
Service Centers.....	1,578	999	511	1,666	+88
Data Center.....	99	106	36	169	+70

**Disabling Injury Rate Continues Low**

The Service has maintained without change the 14-percent reduction in disabling injuries made in

its safety program during the first year of President Johnson's Mission SAFETY-70. There was an encouraging 27-percent reduction in the disabling injury frequency rate during the first 4 months of calendar year 1967 over the comparable period in 1966. There is reason to believe that this improvement will continue for the remainder of the year, sparked by interest in prevention of falls.

Safety awards were presented to 26 district offices and service centers in recognition of either one or more years' operations, or 1 million man-hours of operations, without sustaining a single disabling injury. Employees of the Cheyenne District Office received the Commissioner's Safety Award for having completed 12 consecutive years without a disabling injury. This is the longest record in the Service and represents an exposure of over 2 million man-hours during that period.

**Vehicle Safety Improves**

"Take Time to Think," a Service-developed training film, has been shown to over 17,500 Service employees who drive on official business. This film, designed to improve driver awareness of the constant need for caution, continues to receive a large share of credit for the 10-percent reduction in the frequency rate of motor vehicle accidents during calendar year 1966 over 1965. Approximately 96 million miles were driven during calendar year 1966 with only 702 accidents reported. The motor vehicle accident frequency rate of 7.4 accidents per million miles driven is one of the lowest Service rates recorded, and represents a significant improvement over the 1964 and 1965 rates of 8.5 and 8.1, respectively.

**Transfer of Functions to Data Center Completed**

The IRS Data Center at Detroit, Mich., became fully operational on January 1, 1967, and now performs all computer operations not directly related to ADP master files. Special projects processed at this facility include: the Statistics of Income program; IRS payrolls and payrolls for certain other Treasury offices; Taxpayer Compliance Measurement Programs; IRS management information reporting systems; and the Exempt Organization and Pension Trust Master Files.

**Financial Management Aided by New Programs**

Over the past several years the Service has taken a number of measures toward achieving maximum

utilization of resources in accomplishing its work programs—an effort which continues to challenge the imagination and ingenuity of all Service officials. These measures include the Planning-Programming-Budgeting System and related Special Studies Program; the Taxpayer Compliance Measurement Program; the annual operating financial plan; the position management system; the master file automatic data processing system; reorganization and consolidation of offices; work planning and control systems; and the decentralization of management and control of resources to the lowest feasible operating levels.

During the past year the Service devoted considerable effort to improving these measures and added several others described below, which should further improve management of IRS resources.

For fiscal year 1967, Internal Revenue Service was authorized an increase of 1,369 people and \$36.6 million, over fiscal year 1966. This increase was especially significant since Congress authorized it within an extremely tight fiscal environment for all Federal programs.

**Resource Ceilings and Restrictions Imposed**

Management of the financial aspects of Service operations was particularly challenging during the past year, requiring supplementary controls, analyses and reports, and increased attention of Service officials. Faced with sharply rising commitments in a number of Federal programs, several tight resource ceilings and restrictions were imposed on most departments and agencies to partially offset increased costs elsewhere.

In view of the revenue-producing nature of Service work programs, the ceilings and restrictions were applied with a great deal of prudence—to maintain revenue production while reducing costs. Through special studies and economy measures the Service is continually seeking to reduce travel, communications, procurement and other costs in ways which will not adversely affect its tax enforcement activities. Overhead and supporting staff is always critically reviewed and allowed only where considered essential to the Service's primary mission. Special emphasis was placed on these measures again this year. As disclosed in program reports on other pages of this Annual Report, the Service was able to substantially carry out its planned work programs, thereby maintaining revenue production while holding costs and

personnel levels within approved ceilings and restrictions.

The distribution of obligations in fiscal year 1966 and 1967 is shown below. For more detail by appropriation and activity, see table 26, page 134.

Appropriation	Appropriated <sup>1</sup>		Obligated		Percentage obligated	
	1966	1967	1966	1967	1966	1967
Salaries and expenses.....	18.0	18.9	17.5	18.8	97.2	99.5
Revenue accounting and processing.....	162.9	173.0	159.4	172.6	97.8	99.8
Compliance.....	447.6	473.2	444.5	472.5	99.3	99.9
Total.....	628.5	665.1	621.4	663.9	98.9	99.8
Increase 1967 over 1966.....		+36.6		+42.5		

<sup>1</sup> Includes adjustments for appropriation transfers and pay increase supplementals.

Man-years authorized and realized by appropriation for fiscal year 1966 and 1967 (exclusive of reimbursements) are compared below:

Appropriation	Authorized		Realized		Percentage realized	
	1966	1967	1966	1967	1966	1967
Salaries and expenses.....	1,436	1,484	1,413	1,459	98.4	98.3
Revenue accounting and processing.....	20,485	21,201	20,494	22,012	100.0	103.8
Compliance.....	42,019	42,624	41,440	42,332	98.6	99.3
Total.....	63,940	65,309	63,347	65,803	99.1	100.8
Increase 1967 over 1966.....		+1,369		+2,456		

(For more detail by appropriation, by activity, and also obligations by districts, regions, and National Office, see tables 25 and 26 on pages 133 and 134).

**Studies Under Way To Improve Reporting of Resource Utilization**

The Service reviews its financial program continually throughout the fiscal year to reevaluate the original allocation of resources, to reprogram them as necessary to meet changing conditions, and to achieve their most effective utilization. Studies are now under way to identify specific resource utilization data which management needs for timely and meaningful decision making.

**Payroll Operation Consolidated**

In prior years, payroll operations were divided between the North-Atlantic Service Center and the Western Service Center. In 1967, the transfer and

consolidation of payroll operations to the IRS Data Center in Detroit was completed. The eventual result of the consolidation will be a more economical operation and better service to both management and the employees of the Service and other Treasury bureaus who come under this payroll operation.

#### **Payday Advanced and Direct Mailing of Salary Checks Scheduled**

Procedures are being developed to provide for direct mailing of salary checks and bonds to addresses designated by employees, at their option. Implementation of direct mailing is planned for early in calendar year 1968, with direct mailing of bonds to follow thereafter.

Payday was advanced 1 day during 1967, reducing the time between the end of the pay period and the receipt of pay checks from 10 days to 9 days. The advancement also reduced the crucial time available for processing the payroll, but it is anticipated that this can be recovered by direct mailing of checks and bonds.

#### **Employee Reimbursement for Moving Expenses Liberalized**

The Service has issued operating regulations implementing the new moving allowance law, which liberalized reimbursements to employees who change official duty stations in the interest of the Government. In addition to the increased benefits for employees under this law, the Service stands to benefit through greater mobility of its management officials.

#### **Federal Tax Lien Revolving Fund Established**

The Service requested, and Congress approved, capitalization of a revolving fund for use in purchasing real property on which the Service has a tax lien and under circumstances where it would be advantageous for the Government to buy the property. Procedures for using the fund are effective beginning in fiscal year 1968. It is anticipated that the fund will provide significant improvement in the Government's ability to insure maximum collection of revenue.

#### **Inspection Continues to Guard Integrity of Service**

To aid in maintaining the public's confidence, the Service has for many years had an inspection service

to provide the Commissioner and other management officials with timely, factual, and objective information on any matter that represents a potential threat to the Service's fulfillment of its public trust.

A protective and constructive service is furnished the Commissioner and all other levels of management through a comprehensive internal audit program which provides continuing independent review of all Service operations. The results of these audits not only permit management to appraise the degree of compliance with established policies, procedures, and controls, but also provide a basis for appraising their effectiveness. As an additional safeguard to integrity, internal security investigations are regularly conducted on various matters, particularly character background investigations of new appointees to positions of trust, and investigations of complaints of misconduct on the part of employees. The prompt and thorough investigations made protect the public from those who have violated the high standards required, and at the same time protect Service employees who have been falsely accused of misconduct. Investigations are also made of reports by Service employees of actual or suspected bribery attempts by taxpayers or their representatives to influence Service actions in tax matters.

#### **Internal Audit Program Emphasis on Collection and Enforcement**

As an integral part of the Service's management control system, internal audit examined and reported on the major activities of the Service which are most closely related to the collection of the tax revenues and the enforcement of the tax laws. During the fiscal year, over 85 percent of the direct internal audit staff time was spent on data processing, collection, audit, intelligence, and alcohol and tobacco tax functions. An additional 12 percent was spent on integrity matters.

Management's actions on deficiencies reported and on recommendations made as a result of internal audit represent a significant contribution to the maintenance of an effective Internal Revenue Service. Programs and procedures were improved, systemic errors were corrected, and internal controls were strengthened. Many of these actions had the effect of improving taxpayer relations and enhancing the image of the Service. Some of them also had an impact on the revenue. A conservative estimate of

the results of such actions during 1967 totals more than \$37 million. Included\* are such items as management's actions on specific cases; the assessment of tax, penalties, and interest not properly assessed; the recoupment of erroneous refunds; the securing of delinquent returns; and the acceleration of collection action on delinquent accounts.

One example of program improvement occurred when an internal audit disclosed that computer programs were not detecting taxpayers who failed to report their self-employment tax liabilities. Prompt management action initiated computer program changes which are estimated to produce several million dollars in additional revenue each year.

In another instance internal audit reported on the inconsistency in the Code which provided that agents withholding taxes from nonresident aliens remit the amounts withheld annually, while at the same time the Code required domestic employers to remit amounts withheld at least quarterly. Changes were made in the Internal Revenue Code and Regulations to provide for the more timely deposit of taxes withheld from amounts paid to nonresident aliens which will result in estimated interest savings of \$4 million annually.

#### **Breaches in Integrity Investigated**

Indications of breaches in integrity involving frauds on the revenue, committed by employees, or through collusion between employees and non-Service people, are investigated by teams of auditors and investigators.

One such joint investigation disclosed that a district office employee had been paid by taxpayers for preparing approximately 100 tax returns. The investigation disclosed that 32 of the returns were fraudulent and the employee was subsequently prosecuted, convicted, and sentenced to 18 months in prison. This investigation also disclosed four multiple filer refund schemes perpetrated by individuals outside the Service which were referred to the Intelligence Division.

In another instance investigation of allegations that cases could be "fixed" disclosed collusion between an office auditor and a tax practitioner. Fraudulent deductions on tax returns prepared by the practitioner were allowed by the auditor in his examinations of returns, thus permitting the taxpayers to avoid full payment of their income tax.

Both the employee and the practitioner were tried, found guilty, and placed on probation for 3 years.

In both of the above cases examinations or re-examinations of the fraudulent returns resulted in assessments of substantial amounts of tax and penalties.

#### **Record Number of Attempts to Bribe Service Employees**

The success of the voluntary self-assessment system of this Nation requires continuing public confidence in the integrity of Service employees. Nothing demonstrates this integrity so credibly as the prosecution of persons who attempt to corrupt honest employees through offering bribes. A large percentage of Service employees engage daily in official contacts with the public of a nature which presents tempting possibilities to those unethical persons who regard the offering of a bribe as an acceptable solution to any difficulty. The Service program to bring these corruptors to justice received renewed emphasis during the year by a special message from the Commissioner to all employees urging them to report bribe offers. During 1967, employees reported a record number of bribe attempts—50 percent more than last year. In the past 2 years, 16 persons were convicted or pleaded guilty to attempted bribery of Service employees; at yearend prosecutions were pending on 32 defendants for this crime and 68 cases were still under investigation.

#### **Internal Security Case Production Increases**

Internal Security investigations of all types completed during the year totaled 12,373—a 25-percent increase over the prior year. In addition, police record checks were made on 4,491 employees considered for short-term temporary appointments. Faced with the highest workload in its history, and with only a nominal increase in authorized staff, streamlined procedures were adopted in midyear in one of the major inspection case categories—character investigations. As a result, reductions were achieved in investigation costs and the length of time to complete cases.

One of the most rewarding aspects of inspection's work is that many investigations result in exoneration of wrongfully accused employees. During the fiscal year, the majority of accused employees were cleared after investigation.

There follows a tabulation of the types of investigations completed during the past two years and the resulting disciplinary actions:

Investigations and disciplinary actions		
Type of investigation and action	1966	1967
Total investigations closed.....	9,864	12,373
Personnel investigations		
Number of cases closed, total.....	7,340	10,027
Character and security investigations.....	3,430	5,484
Conduct investigations.....	809	632
Special inquiries.....	3,101	3,911
Actions taken by Service management officials as a result of personnel investigations		
Disciplinary actions, total.....	770	657
Separations, total <sup>1</sup> .....		
Bribery, extortion, or collusion.....	22	7
Embezzlement or theft of Government funds or property.....	11	5
Failure of employee to pay proper tax.....	20	17
Falsification or distortion of Government reports, records, etc.....	94	98
Unauthorized outside activity.....	8	8
Failure to discharge duties properly.....	5	11
Refusal to cooperate.....	2	2
Divulgence of confidential information.....	2	2
Acceptance of fees or gratuities.....	22	12
Personal and other misconduct.....	55	65
Suspensions from duty and pay.....	58	48
Reprimands, warnings, reassignments, transfers, or demotions.....	473	384
Nondisciplinary actions.....	6,570	9,370
Other investigations		
Number of cases closed, total.....	2,524	2,346
Applications for admission to practice before the Internal Revenue Service.....	715	902
Charges against enrollees.....	113	107
Federal tort claims.....	204	145
Attempted bribery.....	85	90
Investigations for other Treasury bureaus.....	1,407	1,102

<sup>1</sup>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.

**Assistance to Other Government Organizations**

The Service also occasionally lends internal audit assistance to other Government bodies. One assignment, undertaken at the request of the territorial Governor, involves assistance in the development and installation of a modern tax system for the Virgin Islands. Adoption of the recommendations made to date has enabled the Virgin Island Tax Division to make substantial improvements in operations and has contributed to substantially increased revenues. Tax collections for 1966 totaled \$25.4 million, over two and one-half times as much as the \$8.9 million collected in 1962, when this program had its beginning.

Internal security continued to furnish assistance to the Secret Service in connection with the protection of the President and other dignitaries. Over

1,100 personnel investigations were conducted for other Treasury bureaus.

**Advisory Group Helps Keep Service Informed**

The Commissioner's Advisory Group is appointed for the purpose of suggesting ways in which the Service can improve its operations, and to provide constructive criticism of Service policies, procedures, and programs. Membership of the Advisory Group includes outstanding attorneys, accountants, business executives, economists and educators from all parts of the United States. The Advisory Group provides a means for frank interchanges with individuals outside the Service, and helps in keeping the Service constantly attentive to the opinions and desires of the public.

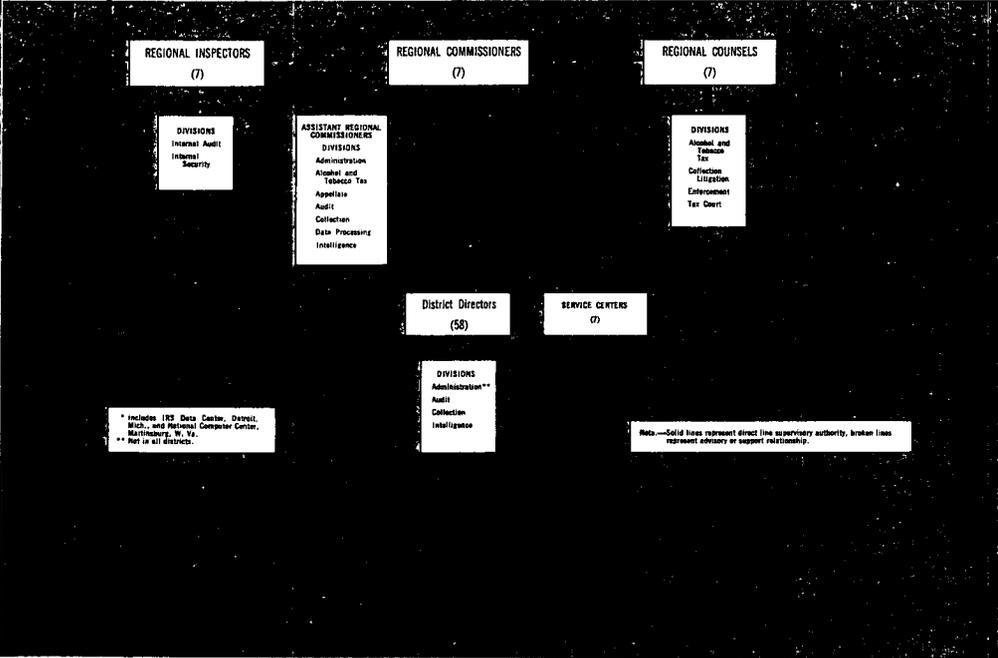
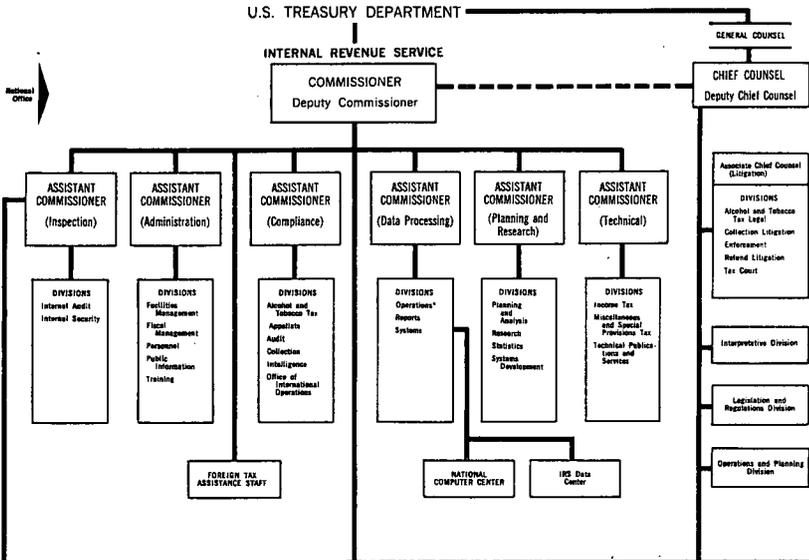
The Advisory Group appointed in July, 1966 and listed in last year's report met with the Commissioner and other top Service officials on four occasions during the year. The following individuals have consented to serve on the Advisory Group for 1968:

- |  |   |
|--|---|
| Bernard Barnett<br>CPA<br>Apfel & Englander<br>347 Madison Avenue<br>New York, N.Y.                      | A. Byrne Litschgi<br>Attorney<br>Shackleford, Farrior, Stal-<br>lings, Glos & Evans<br>Suite 711 Marine Bank<br>Building<br>Tampa, Fla. |
| Carl W. Brieske<br>Assistant Treasurer<br>The Kroger Co.<br>1012 Vine Street<br>Cincinnati, Ohio         | Max E. Meyer<br>Attorney<br>Lord, Bissell & Brook<br>135 South La Salle Street<br>Chicago, Ill.   |
| Edwin S. Cohen<br>Professor<br>University of Virginia<br>Charlottesville, Va.                            | John S. Nolan<br>Attorney<br>Miller & Chevalier<br>1700 Pa. Ave. NW.<br>Washington, D.C.  |
| Raymond E. Graichen<br>CPA<br>Lybrand, Ross Bros. &<br>Montgomery<br>Philadelphia, Pa.                   | Edwin J. Reimann<br>Public Accountant<br>Reimann, Wursten, and<br>Lewis<br>2063 McClelland Street<br>Salt Lake City, Utah               |
| Harding L. Lawrence<br>President, Braniff Airways<br>Exchange Park<br>Dallas, Tex.                       | Ernest L. Wehner<br>CPA<br>Arthur Andersen & Co.<br>Houston, Tex.   |
| Leonard Lesser<br>AFL-CIO<br>Industrial Union Depart-<br>ment<br>815 16th Street NW.<br>Washington, D.C. | Robert M. Winokur<br>Attorney<br>Taylor & Winokur<br>351 California Street<br>San Francisco, Calif.                                     |

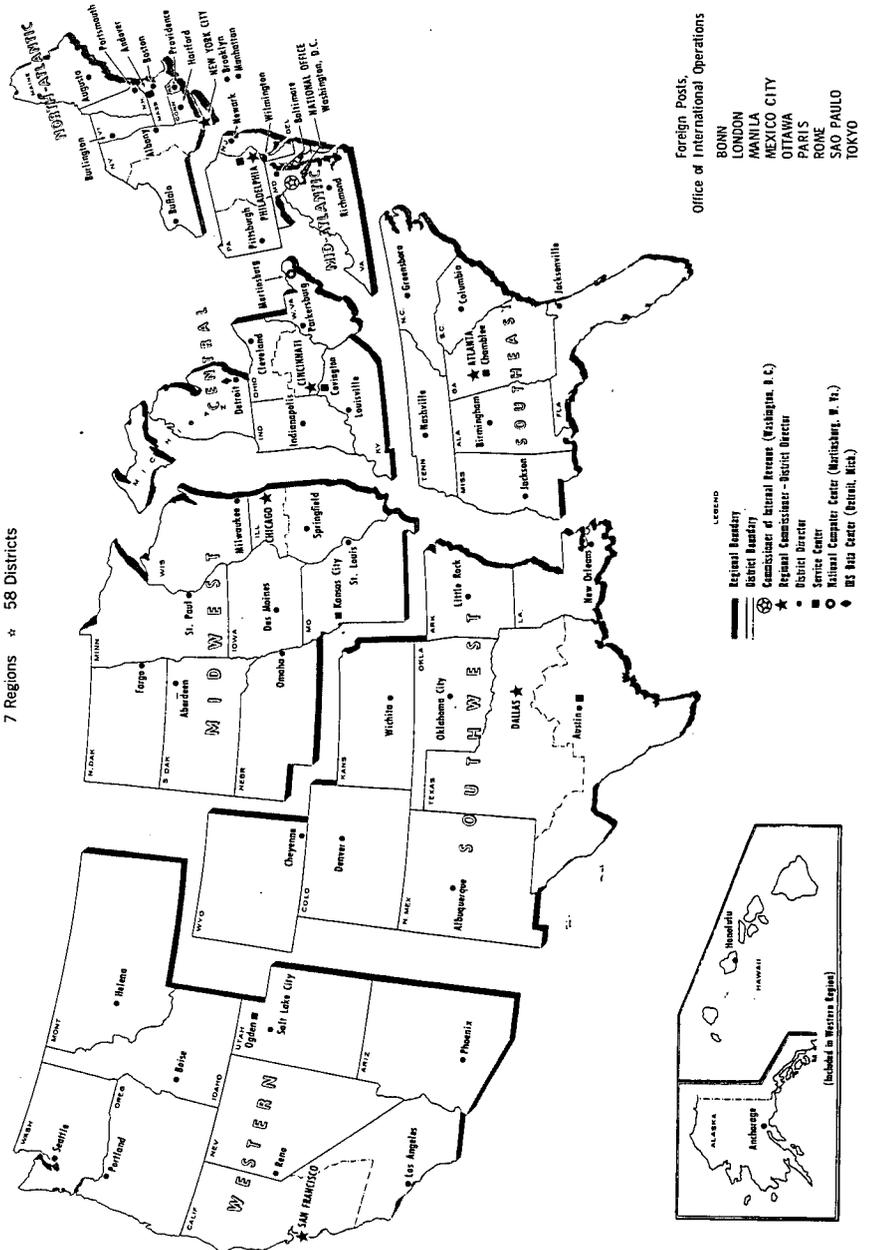
**Organization—  
Principal  
Officers**

Organization of the Internal Revenue Service  
Internal Revenue Regions and Districts  
Service Reading Rooms  
Principal Officers  
Historical List of Commissioners

INTERNAL REVENUE SERVICE ORGANIZATION



Internal Revenue Service  
7 Regions \* 58 Districts



Foreign Posts,  
Office of International Operations

BONN  
LONDON  
MANILA  
MEXICO CITY  
OTTAWA  
PARIS  
ROME  
SAO PAULO  
TOKYO

Regional Inspectors  
District Inspectors  
Assistant Commissioner of Internal Revenue (Washington, D.C.)  
Regional Commissioner - District Director  
District Director  
Service Center  
National Computer Center (Baltimore, Md.)  
IRS Data Center (Ft. Worth, Tex.)

\* Includes IRS Data Center, Detroit, Mich., and National Computer Center, Baltimore, Md.

\*\* Not in all districts.

Note—Solid lines represent direct line supervisory authority, broken lines represent advisory or support relationship.

## Internal Revenue Service Reading Rooms

(Locations of reading rooms same as mailing address unless otherwise indicated)

### NATIONAL OFFICE

Mail Address:  
 Director, Public Information Division  
 Internal Revenue Service  
 1111 Constitution Avenue NW.  
 Washington, D.C. 20224

### CENTRAL REGION

Mail Address:  
 Regional Public Information Officer  
 Room 7106  
 Federal Office Bldg.  
 550 Main Street  
 Cincinnati, Ohio 45202

### MID-ATLANTIC REGION

Mail Address:  
 Regional Public Information Officer  
 P.O. Box 12805  
 Philadelphia, Pa. 19108  
 Location:  
 401 N. Broad Street

### MIDWEST REGION

Mail Address:  
 Regional Public Information Officer  
 17 N. Dearborn Street  
 Chicago, Ill. 60602

### NORTH-ATLANTIC REGION

Mail Address:  
 Regional Public Information Officer  
 Room 1102  
 90 Church Street  
 New York, N.Y. 10007

### SOUTHEAST REGION

Mail Address:  
 Regional Public Information Officer  
 P.O. Box 926  
 Atlanta, Ga. 30301  
 Location:  
 Federal Office Building  
 275 Peachtree Street

### SOUTHWEST REGION

Mail Address:  
 Regional Public Information Officer  
 1114 Commerce Street  
 Dallas, Tex. 75202

### WESTERN REGION

Mail Address:  
 Regional Public Information Officer  
 Flood Building  
 870 Market Street  
 San Francisco, Calif. 94102

## Principal Officers of the Internal Revenue Service

As of June 30, 1967

### 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  
 Chairman, Tax Forms Coordinating  
 Committee..... James N. Kinsel  
 Assistant to the Deputy  
 Commissioner..... Donald C. Dawkins  
 Director, Foreign Tax Assistance  
 Staff..... L. Harold Moss

#### ADMINISTRATION

Assistant Commissioner..... Edward F. Preston  
 Director, Program Staff..... Julius H. Lauderdale  
 Division Directors:  
 Facilities Management... Daniel H. Hollums  
 Fiscal Management..... Gray W. Hume, Jr.  
 Personnel..... Albert J. Schaffer  
 Public Information..... Joseph S. Rosapepe  
 Training..... Stanley Goldberg

#### COMPLIANCE

Assistant Commissioner..... Donald W. Bacon  
 Deputy Assistant Commissioner... 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  
 Deputy Assistant Commissioner... 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  
 Deputy Assistant  
 Commissioner..... Richard J. Stakem, Jr.  
 Division Directors:  
 Miscellaneous and Special  
 Provisions Tax..... Linder Hamblen  
 Income Tax..... John W. S. Littleton  
 Technical Publications  
 and Services..... August F. Pohlig

#### OFFICE OF CHIEF COUNSEL

Chief Counsel..... Lester R. Uretz  
 Deputy Chief Counsel..... Richard C. Swartz  
 Executive Assistant to the  
 Chief Counsel..... Thomas McP. Davis  
 Special Assistant to the  
 Chief Counsel..... Arthur B. White

## NATIONAL OFFICERS—Continued

Special Assistant to the  
Chief Counsel..... Lester Stein

Special Assistant to the  
Chief Counsel..... W. Dean Mathis

Technical Advisor to the  
Chief Counsel..... Samuel R. McClurd

Technical Advisor to the  
Chief Counsel..... Robert B. Jacoby

Division Directors:

Interpretative..... Richard M. Hahn

Legislation and Regulations... James F. Dring

Operations and Planning... William P. Crewe

Associate Chief Counsel..... Rudy P. Hertzog

Executive Assistant to the  
Associate Chief Counsel... E. Riley Campbell

Technical Advisor to the  
Chief Counsel..... Paul E. Treusch

Division Directors:

Alcohol and Tobacco Tax  
Legal..... John W. Coggins  
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

Data Processing..... Wayne S. Kegerreis

Intelligence..... Harold B. Holt

District Directors:

Cincinnati, Ohio 45202..... Paul A. Schuster

Cleveland, Ohio 44199... 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. 26101... Hugh D. Jones

Director, Central Service Center,  
Covington, Ky 41019..... Everett L. Meek

Regional Counsel..... Clarence E. Price

Regional Inspector..... William A. Costello

## Mid-Atlantic Region

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

Regional Commissioner..... Dean J. Barron

Assistant Regional Commissioners:

Administration..... Leo C. Inglesby

Alcohol and Tobacco Tax... Charles R. Peterson

Appellate..... Victor Cuniglio

Audit..... Dwight L. James, Jr.

Collection..... William F. Cullinly

Data Processing..... Anthony L. Carrea

Intelligence..... Amerigo R. Manzi

District Directors:

Baltimore, Md. 21202..... Irving Machiz

Newark, N.J. 07102..... Joseph M. Shotz

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. 19155... Earl L. Torgerson

Regional Counsel..... Cecil H. Haas

Regional Inspector,  
Bankers Securities Building,  
Walnut and Juniper Streets,  
Philadelphia, Pa. 19107... Emanuel M. Schuster

## REGIONAL AND DISTRICT OFFICERS—Continued

## Midwest Region

All Regional Offices at 35 East Wacker Drive, Chi-  
cago, Ill. 60601 unless a different address is indi-  
cated

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..... Roger C. Beck

Data Processing..... Norman B. Bergeson

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

Fargo, N. Dak. 58102... Frederick G. Kniskern

Milwaukee, Wis. 53202... Walter S. Stumpf

Omaha, Nebr. 68102..... Richard P. Vinal

St. Louis, Mo. 63101..... Edwin P. Trainor

St. Paul, Minn. 55101... George O. Lethert

Springfield, Ill. 62704... Jay G. Philpott

Director, Midwest Service Center,  
Kansas City, Mo. 64170... Arnold S. Dreyer

Regional Counsel..... Frank C. Conley

Regional Inspector..... Gordon M. Anderson

## North-Atlantic Region

All Regional Offices at 90 Church St., New York,  
N.Y. 10007 unless a different address is indi-  
cated

Regional Commissioner..... Harold R. All

Assistant Regional Commissioners:

Administration..... John E. Foristall

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. 02203..... William E. Williams

Brooklyn, N.Y. 11201... Charles A. Church

Buffalo, N.Y. 14202..... John E. Foley

Burlington, Vt. 05402... Fulton D. Fields

Hartford, Conn. 06115... Joseph J. Conley, Jr.

Manhattan, N.Y. 10007

Edward J. Fitzgerald, Jr.  
Portsmouth, N.H. 03801... Frank W. Murphy

Providence, R.I. 02907... John J. O'Brien

Director, North-Atlantic Service Center,  
Andover, Mass. 01812... Norman E. Morrill

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 NE.,  
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... William N. Griffin

Appellate..... Vance N. Bates

Audit..... Harold B. Bindsell

Collection..... William H. Loeb

Data Processing..... Claude A. Kyle

Intelligence..... Allen T. Hollinrake

District Directors:

Atlanta, Ga. 30303..... Aubrey C. Ross

Birmingham, Ala. 35203... Walter T. Coppinger

Columbia, S.C. 29201... Harold M. McLeod

Greensboro, N.C. 27401... John E. Wall

Jackson, Miss. 39202... James G. Martin, Jr.

Jacksonville, Fla. 32202... Andrew J. O'Donnell, Jr.

Nashville, Tenn. 37203... James A. O'Hara

Director, Southeast Service Center,  
Chamblee, Ga. 30006... William H. Weaver

Regional Counsel..... Henry C. Stockell, Jr.

Regional Inspector..... Earl L. Fuoss

REGIONAL AND DISTRICT OFFICERS—Continued

Southwest Region

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

Regional Commissioner..... B. Frank White  
Assistant Regional Commissioners:

Alcohol and Tobacco Tax..... James G. Carroll  
Appellate ..... G. Clifton Witt  
Audit ..... Lawrence M. Stewart  
Collection ..... Alfred N. Kay  
Data Processing..... George M. Oliver  
Intelligence ..... William E. Beloate, Jr.

District Directors:

Albuquerque, N. Mex. 87101..... William M. Coard  
Austin, Tex. 78701..... R. L. Phinney

Cheyenne, Wyo. 82001..... Richard L. Hutt  
Dallas, Tex. 75201..... Ellis Campbell, Jr.  
Denver, Colo. 80202..... Arthur A. Kennedy  
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. 78740..... Ervin 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... Brenton G. Thorne  
Appellate ..... Gardiner B. Willmarth  
Audit ..... Raymond F. Harless  
Collection ..... Charles D. Moran  
Data Processing..... Willard L. Pierson  
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..... Frank S. Schmidt  
Phoenix, Ariz. 85025... George D. Patterson, Jr.  
Portland, Oreg. 97204..... Arthur G. Erickson  
Reno, Nev. 89502..... Warren A. Bates  
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 84405..... Robert H. Terry  
Regional Counsel,  
447 Sutter St.,  
San Francisco, Calif. 94108... Melvin L. Sears  
Regional Inspector,  
1076 Mission St.,  
San Francisco, Calif. 94103... Henry A. Feltz

Historical List of 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

Taxpayer Publications  
Tax Forms Activity  
Selected Regulations Published  
Significant Revenue Rulings and Revenue Procedures  
Significant Announcements of General Interest  
Alcohol and Tobacco Industry Circulars  
Technical Information Releases  
Supreme Court Decisions  
Actions of Lower Courts  
Statistics of Income Reports Published

## Appendix

### Taxpayer Publications

*Your Federal Income Tax*, IRS Publication No. 17, deals primarily with the various problems encountered in filing individual returns. It is revised annually to reflect new legislation, regulations, official rulings, and court decisions.

The 1967 edition, which follows the pattern established in prior years, is designed to help taxpayers find answers to questions arising in preparing income tax returns for the past year. It contains a filled-in sample of a 1966 individual return keyed to page numbers where detailed explanations of the tax law and examples can be found. An index also assists the user in finding answers to particular questions without having to read material in which he is not interested. Among the new features of the 1967 edition are a special chapter on "Income from Tips," a chart for use in figuring deductions for state gasoline taxes, a section on "Servicemen's Election of Survivor Annuities," a chart showing the effect of marital status on computing base period income for income averaging purposes, a discussion of the income tax credit allowed nonhighway users of gasoline and lubricating oil, and information regarding additional withholding allowances permitted in 1967 for certain taxpayers who itemize deductions.

This publication continues to be the "best seller" among Government publications with sales of 847,711 copies. In addition, 257,450 copies were used in the Teaching Taxes Program, the Taxpayer Assistance Program, and in various training programs. It is available at the Government Printing Office and all local Internal Revenue Service offices for 50 cents a copy.

*Teaching Taxes* is issued in three parts: Publication No. 19, a teacher's guide; Publication No. 21, a student's text, general edition; and Publication No. 22, student's text, farm edition. These rotogravure tabloid publications, designed to appeal to teenagers, are used by more than 80,000 teachers to instruct over 3 million students in high school and college classes in the preparation of individual income tax Forms 1040 and 1040A.

The general edition of the student text, used by the majority of students, contains step-by-step explanations and illustrations for the preparation of returns of taxpayers who have the usual types of income and expenses. Also included are practical problems in filing income tax returns and supplementary problems and questions which may be used as the teacher desires. Introductory sections discuss civic responsibility, U.S. tax history, and the Federal budget.

The specialized edition for farm students contains the same material as the general edition with an eight-page additional section explaining how to file farm returns.

A total of 1,250,000 copies of the *Farmer's Tax Guide*, Publication No. 225, were distributed free of charge by Internal Revenue Service offices and agricultural extension agents of the Department of Agriculture. This booklet deals with the tax problems of farmers and 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.

*Liquor Laws and Regulations for Retail Dealers*, Publication No. 30, (Rev. 5-65) explains briefly and nontechnically Federal laws and regulations relating to retail liquor dealers. Each retailer on entering business is furnished a copy of this pamphlet to promote voluntary compliance with laws and regulations to enable him to avoid technical 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, pro-

duction, taxable and tax-free withdrawals, stocks, 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.

*Cumulative List of Organizations*, Publication No. 78, revised to December 31, 1966, contains names of approximately 100,000 exempt organizations to which contributions are deductible under section 170 of the Internal Revenue Code of 1954. Bimonthly supplements contain cumulative lists of new organizations, name or address changes of existing organizations, and a list of those organizations the status of which has been changed or revoked. Biennial revisions, together with supplements issued since the last revision, are sold on a subscription basis by the Government Printing Office.

*Machine Guns and Certain Other Firearms*, Publication No. 232 (Rev. 2-67) This publication is designed to acquaint the public with the requirements of the National Firearms Act and contains the regulations issued thereunder.

*Tax Guide for Small Business*, Publication No. 334, deals with the problems of sole proprietorships, partnerships, and corporations. Numerous examples are used to illustrate in nontechnical language the application of the rules with respect to income, excise, and employment taxes. 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 1967 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 257,000 copies were sold and 95,000 copies were printed for internal use by the Service.

The Service's Publication No. 341, *Methods of Analysis for Alkaloids, Opiates, Marihuana, Barbiturates, and Miscellaneous Drugs* was revised and reissued during the year. This publication of 147 pages, designed to serve a training function, is available to law enforcement agencies and crime laboratories throughout the world.

*Distribution and Use of Denatured Alcohol and Rum*, Publication No. 443 (Rev. 1-67), deals with the procurement, use, disposition, and recovery of denatured alcohol, specially denatured rum, and articles containing denatured spirits. The current issue may be secured from the U.S. Government Printing Office, Washington, D.C. 20402, at 25 cents per copy.

*Tobacco Tax Guide*, Publication No. 464, is a compilation of basic reference material which has been up-dated 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.

*A Guide to Laws*, Document No. 5173 (Rev. 7-66). This pamphlet is designed to acquaint law enforcement officers, particularly those unfamiliar with the traffic in nontaxpaid whisky and alcohol, with alcohol and tobacco tax laws enforced by the Service. It provides basic examples of substantive violations and evidence often connected with them.

The *Looseleaf Regulations System*, which is divided into five Services, is a current compilation of the regulations on Income Tax, Estate and Gift Taxes, Employment Taxes, Excise Taxes (other than Alcohol and Tobacco Taxes), and Procedure and Administration. Each Service contains the relevant Internal Revenue Code provisions, as well as the regulations, and has its own table of contents and index. The separate Services may be purchased on a subscription basis from the Government Printing Office.

*Dual-Status Tax Years of Alien Taxpayers*, Document No. 5584, was developed to assist any taxpayer who has been both a resident and a nonresident alien during the same tax year. This pamphlet describes the classes of dual-status taxpayers and discusses the tax treatment for each class.

Sixty-one other free taxpayer information publications, ranging in size from 2 to 28 pages, and three which were available for purchase, are listed below.

Title	Publication number	Title	Document number
Tax Guide for U.S. Citizens Abroad.....	54	Tax Benefits for Older Americans.....	5569
Farmer's Gas Tax Credit.....	308	Information Reporting Requirements of Sponsors of Contests or Sporting Events.....	5572
Law and Regulations Relating to Employee Pension, Annuity, Profit-Sharing, Stock-Bonus and Bond Purchase Plans Including Plans for Self-Employed Individuals (price 60 cents).....	337	Income Tax Deductions for U.S. Government Civilian Employees Stationed Abroad.....	5583
Federal Use Tax on Trucks, Truck-Tractors and Buses.....	349	Social Security Coverage for Clergymen and Religious Workers Abroad.....	5586
Pension Trust Procedures and Guides for Qualification (price 35 cents).....	377	Preparation of Form 1040B.....	5587
Federal Gas Tax Credit or Refund for Nonhighway and Transit Users.....	378	Tax Advice for Foreign Scholars and Visitors on Official Education and Cultural Exchange Programs.....	5588
A Guide to Federal Estate and Gift Taxation (price 25 cents).....	448	U.S. Tax Guide for Aliens.....	5589
Travel, Entertainment, and Gift Expenses.....	463	American Scholars Abroad and U.S. Income Tax Including Fulbright Scholars.....	5590
		Retirement Plans for Self-Employed Individuals.....	5592
		Credit Sales by Dealers in Personal Property.....	5593
		Reporting Your Tips for Federal Tax Purposes.....	5640
Personal Exemptions and Dependents.....	5013		
Employee Expenses, Educational Expenses.....	5014		
Sick Pay.....	5016		
Selling Your Home.....	5017		
Retirement Income and Credit.....	5018		
Medical and Dental Expenses.....	5020		
What Is Income.....	5045		
Tax Calendar and Check List for 1967.....	5046		
Self-Employment Tax.....	5047		
Sales and Exchanges of Assets.....	5048		
Depreciation, Investment Credit, Amortization, Depletion.....	5050		
Business Expenses.....	5051		
Child Care.....	5052		
Contributions.....	5053		
Excise Taxes for 1967.....	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" Itemized Deductions.....	5110		
Estimated Tax and Tax Withholding.....	5111		
Disasters, Casualties and Thefts.....	5174		
Accounting Periods and Methods.....	5175		
Bad Debts.....	5176		
Repairs and Improvements.....	5178		
Partnerships.....	5179		
Corporations.....	5180		
Sale of a Business.....	5181		
Community Property.....	5192		
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## Tax Forms Activity

Five new forms were issued, as follows:

Form No.	Title
W-2 (Optional)...	Wage and Tax Statement.
W-4, Schedule A...	Determination of Withholding Allowances for Itemized Deductions.
1040-ES (OIO)...	Declaration of Estimated Income Tax for Nonresident Alien Individuals.
1040-Q.....	U.S. Individual Income Tax Return (Questionnaire Version).
4277.....	Quarterly Transmittal Return of Tax Withheld at Source.

Three forms were eliminated, as follows:

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.
2948.....	Medical and Dental Expense Statement.

## Selected Regulations Published

### Income Tax Regulations

Income tax regulations under various sections of the Internal Revenue Code were amended or added by the following Treasury Decisions:

*Treasury Decision 6888*, relating to group-term life insurance purchased for employees.

*Treasury Decision 6892*, relating to the treatment of blocked earnings and profits of controlled foreign corporations.

*Treasury Decision 6894 and Treasury Decision 6909*, relating to consolidated returns of affiliated corporations.

*Treasury Decision 6900*, relating to charitable contributions.

*Treasury Decision 6904*, relating to the one class of stock requirement for electing small business corporations.

*Treasury Decision 6908*, relating to the withholding of tax on nonresident aliens and foreign corporations and the filing of returns with respect thereto.

*Treasury Decision 6914*, relating to the deposit of corporation income and estimated income tax with Government depositaries.

*Treasury Decision 6916*, relating to certain reacquisitions of real property.

*Treasury Decision 6917*, relating to the non-allowance of deductions for certain amounts paid or credited by certain savings institutions on deposits or withdrawable accounts.

*Treasury Decision 6918*, relating to the deductibility of educational expenses.

*Treasury Decision 6922*, relating to the return and payment of tax withheld on nonresident aliens and foreign corporations and tax-free covenant bonds.

### Regulations on Procedure and Administration

*Treasury Decision 6920*, relating to the procedure to be followed by Service personnel upon receipt of a request, subpoena, notice, or other order for disclosure of internal revenue records or information.

### Excise Tax Regulations

Excise tax regulations under various Code sections were amended or added by the following Treasury Decisions:

*Treasury Decision 6910*, relating to the semi-monthly deposit of certain excise taxes.

*Treasury Decision 6915*, relating to the filing of certain excise and employment tax returns with service centers and to semi-monthly returns for certain excise taxes.

### Employment Tax Regulations

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

*Treasury Decision 6893*, relating to the time for filing returns to accord with regulation provisions on semi-monthly deposits.

*Treasury Decision 6903*, relating to the amount of social security taxes and withheld income tax which necessitates semi-monthly deposits thereof by employers.

## Temporary Regulations

The following temporary income tax regulations were promulgated:

*Treasury Decision 6907*, relating to exploration expenditures in the case of mining.

*Treasury Decision 6912*, relating to the passive investment income of electing small business corporations.

## Alcohol and Tobacco Regulations

*Treasury Decision 6901* was issued on November 22, 1966. This amendment clarifies the proviso in 27 CFR 6, Sec. 6.21 to negate any implication that a supplier of distilled spirits furnishing a window or other interior display to a retailer may not at the same time sell the retailer a reasonable quantity of merchandise to fill out the display and make it presentable to public view. The amendment will clarify the gray area surrounding the intent of the present regulations.

*Treasury Decision 6923*, published June 30, 1967, liberalized provisions relating to removal of concentrate from volatile fruit-flavor concentrate plants.

## Statement of Procedural Rules

In addition to the Treasury Decisions published during the year, there was signed and filed with the Federal Register this year (published on July 1, 1967) an important amendment to the Statement of Procedural Rules. The amendment implemented Public Law 89-487, commonly called the Freedom of Information Act. In general, it describes the information of the Service to which that Act applies and tells how members of the public may obtain the information.

## Significant Revenue Rulings and Revenue Procedures

The retention by a subsidiary corporation of any property, no matter how small in amount, for the purpose of continuing the operation of its present business or a new business will prevent the distribution of its remaining property to its parent from qualifying as a distribution in complete liquidation within the meaning of section 332 of the Code (Rev. Rul. 66-186, C.B. 1966-2, 112).

Pursuant to the syndicate agreement, the tax-exempt bond interest received by a syndicate formed to acquire and distribute an issue of tax-exempt municipal bonds is allocated only to those members

who advanced the funds used to purchase the bond issue. The special allocation of the bond interest has "substantial economic effect" within the meaning of that term as used in section 1.704-1(b)(2) of the Income Tax Regulations and will be recognized for Federal income tax purposes (Rev. Rul. 66-187, C.B. 1966-2, 246).

Amounts paid to a real estate investment trust as rentals by tenants of a trust property will not be disqualified as "rents from real property" because the independent contractor who manages such property is also a tenant thereof; that is, the rent paid by the independent contractor will not, for this purpose, be considered income received by the trust from him (Rev. Rul. 66-188, C.B. 1966-2, 276).

Distilled spirits plant proprietors who rectify and bottle only products which are exempt from rectification tax may be relieved of filing Form 2527, Rectifier's Return—Deferred Taxes (Rev. Rul. 66-192, C.B. 1966-2, 532).

Due to a continued shortage of brucine and quassin, authorized denaturants for specially denatured alcohol Formula No. 40, the use of specified optional denaturants is authorized indefinitely (Rev. Rul. 66-194, C.B. 1966-2, 535).

Where a corporation leases property and receives annual rents and a fee interest in other property from the lessee, the fair market value of the other property is income to the corporation as an advance rental (Rev. Rul. 66-209, C.B. 1966-2, 299).

An organization which is exempt from Federal income tax under section 501(c)(9) of the Code may reimburse its members for premiums paid under the medical benefits program (Medicare) provided under the Social Security Amendments of 1965, Public Law 89-97 (Rev. Rul. 66-212, C.B. 1966-2, 230) (T.I.R. 824, 6-29-66).

Amounts paid in accordance with the "Medicare" program as self-employment tax (under section 1401(b) of the Code) and as employee tax (under section 3101(b) of the Code) do not qualify as amounts paid for insurance for the purpose of the medical expense deduction provided by section 213 of the Code and, therefore, may not be taken as medical expense deductions on returns filed by individuals for any taxable year (Rev. Rul. 66-216, C.B. 1966-2, 100).

An organization which otherwise qualifies for exemption under section 501(c)(3) of the Code will not be denied an exempt status merely because the creator (if a trust) or the grantor retains control of

the organization (Rev. Rul. 66-219, C.B. 1966-2, 208).

An organization the primary activity of which is maintaining and operating a volunteer fire department for the benefit of the community is exempt from Federal income tax under section 501(c)(4) of the Code even though the principal source of its income is from operating social facilities for its members and holding regular public dances (Rev. Rul. 66-221, C.B. 1966-2, 220).

Local banking holidays, as well as Saturday, Sunday, and legal holidays, shall be excluded in determining the "three banking days" limitation applicable to certain deposits of employment taxes (Rev. Rul. 66-230, C.B. 1966-2, 494) (T.I.R. 835, 8-1-66).

A casualty to a personal residence must be real and actual in order for any loss sustained thereon to be deductible under section 165 of the Code. The loss cannot be a hypothetical loss or due to a mere fluctuation in value. An appraisal made immediately after a flood showing a decline in value based on short-lived buyer resistance causing a temporary fluctuation in value is inadequate to prove a deductible casualty loss (Rev. Rul. 66-242, C.B. 1966-2, 56).

The Service will not follow the decision in *Sherwood Swan and Company, Ltd., et al. v. Commissioner*, 352 F. 2d 306 (1965), affirming 42 T.C. 299. The court held that if, when adopted, an employees' profit-sharing plan and trust meet all the requirements of the Code and regulations, the trust continues to be exempt from tax even though contributions to the trust cease and even though, because of employee dropouts, most of the benefits upon termination of the trust are likely to be received by the group in whose favor discrimination is prohibited. The Service will continue to reexamine any plan which, though adequate in form, fails for any reason to comply in its operation with the provisions of section 401 of the Code (Rev. Rul. 66-251, C.B. 1966-2, 121) (T.I.R. 817, 5-4-66).

Where an organization described in section 501(c)(3) of the Code, or a public school, establishes an annuity purchase program for its employees under section 403(b), such employer may undertake, as part of such program and by means of an agreement with an employee and the insurance company, to pay future premiums on an annuity contract originally purchased by the employee or by a former employer of such employee (Rev. Rul. 66-254, C.B. 1966-2, 125).

A nonprofit organization created for the purpose of elevating the standards of ethics and morality in the conduct of campaigns for election to political office by publicizing its code of fair campaign practices through newspapers, radio, and television, and by furnishing aids to political science and civics teachers for use in school classes, may qualify for exemption from Federal income tax under section 501(c)(3) of the Code (Rev. Rul. 66-258, C.B. 1966-2, 213).

The source of funds used to acquire foreign stock or debt obligations is not relevant in determining the applicability of interest equalization tax under section 4911 of the Code (Rev. Rul. 66-268, C.B. 1966-2, 479).

The provisions of section 39 and 6424 of the Code, relating to claims for credit or payment with respect to the tax on lubricating oil used otherwise than in a highway motor vehicle, are clarified (Rev. Rul. 66-276, C.B. 1966-2, 276) (T.I.R. 784, 12-8-65; and T.I.R. 819, 5-16-66).

Only the portion of the price attributable to business supplies is deductible where a taxpayer elects to pay an additional amount for such supplies in order to obtain premiums for his personal use (Rev. Rul. 66-289, C.B. 1966-2, 43).

The source of a prize awarded a nonresident alien contestant in a puzzle contest conducted in the United States by a domestic corporation is determined by the place where his activities in solving the puzzle are performed (Rev. Rul. 66-291, C.B. 1966-2, 279).

When a life insurance policy is assigned to a leasing company and leased back under an agreement which establishes no indebtedness on the part of the lessee, no portion of the payments made by the lessee is deductible as interest under section 163 of the Code (Rev. Rul. 66-298, C.B. 1966-2, 48).

The manufacturers' excise tax imposed on automobile truck bodies and chassis applies to certain models of such vehicles as the "Bronco," "Jeep," and "Scout." If a particular model of such a vehicle is taxable as a passenger automobile when sold by the manufacturer, but the vendee installs a truck-type cab enclosure on the vehicle, the vendee is considered to have manufactured a truck and is liable for the higher rate of tax imposed on trucks, buses, etc. (Rev. Rul. 66-308, C.B. 1966-2, 467).

Self-unloading, tank-type bodies used primarily for hauling animal and poultry feed to farms and unloading such products (but which have no special design adaptation for hauling on farms) do not come

within the exemption from the manufacturers excise tax provided by the Excise Tax Reduction Act of 1965 for automotive bodies primarily designed to haul feed, seed, or fertilizer to and on farms (Rev. Rul. 66-315, C.B. 1966-2, 463).

No interest is payable under section 6601(e) of the Code on the portion of tax originally offset by an investment credit which is eliminated by reason of a net operating loss carryback (Rev. Rul. 66-317, C.B. 1966-2, 510).

Notwithstanding that a partnership had filed a timely election under section 754 of the Code, where the collection of accounts receivable represents income in respect of a decedent, the provisions of section 743 of the Code may not be applied so as to give the estate of a deceased member of a personal service partnership the benefit of an adjustment to the basis of the partnership's accounts receivable (Rev. Rul. 66-325, C.B. 1966-2, 249).

A domestic corporation whose business and income is derived, for the most part, from the performance of services on the high seas cannot qualify as a Western Hemisphere trade corporation (Rev. Rul. 66-340, C.B. 1966-2, 283).

The interest paid by a taxpayer as a result of an additional excise tax assessment, due to the taxpayer's failure to have obtained exemption certificates for sales of gasoline to municipalities, can be refunded under section 6416(b) of the Code where properly executed exemption certificates are subsequently obtained. The restriction on refunds or credits of interest as contained in section 6416(b) refers to initial over-payments of tax and does not refer to the interest paid as a result of additional tax payments (Rev. Rul. 66-343, C.B. 1966-2, 503).

The exemption from United States income tax provided by Article 10 of the United States-France Income Tax Convention with respect to "the exercise of a liberal profession" may apply to French residents employed as teachers or professors in the United States (Rev. Rul. 66-357, C.B. 1966-2, 564).

Where the acquiring corporation pays cash in lieu of issuing fractional shares to shareholders of the acquired corporation who are entitled to fractional share interests and the cash is not a separately bargained for consideration but merely represents a mechanical rounding off of the fractions in the exchange, the "solely for voting stock" requirements of section 368(a)(1)(B) and (C) of the Code is satisfied. In reorganizations defined in section 368(a)(1)(A), (B), (C), and (D) of the Code, cash

so received will be treated under section 302 of the Code as having been paid to the shareholders in redemption of the fractional share interest to which they were entitled (Rev. Rul. 66-365, C.B. 1966-2, 116).

Tips are wages subject to the Federal unemployment tax when reported in writing by an employee to his employer and taken into account by the employer in determining the employee's compensation under a minimum wage law (Rev. Rul. 66-369, C.B. 1966-2, 451).

An employer ostensibly on a 4-week payroll period but making advance payments at the end of each second week in such period is required to withhold employment taxes from the advance payments and make semimonthly deposits under the provisions of section 31.6302(c)-1 of the Employment Tax Regulations (Rev. Rul. 66-376, C.B. 1966-2, 495).

Where a producer-patron of a nonexempt marketing and purchasing cooperative purchases crops marketed by the cooperative for other producer-patrons, the purchaser of such crops is not dealing with the cooperative "on a cooperative basis" and, therefore, is not a "patron" as defined in section 1.1388-1(e) of the Income Tax Regulations, with respect to such purchases (Rev. Rul. 66-380, C.B. 1966-2, 359).

The exemption from communications tax provided by the Excise Tax Reduction Act of 1965 with respect to nonprofit hospitals applies even though the hospital passes the burden of the charges on to the individual patients (Rev. Rul. 66-382, C.B. 1966-2, 474).

An organization formed for the purpose of encouraging basic research in specific types of physical and mental disorders, to improve educational procedures for teaching those afflicted with such disorders, and to disseminate educational information by the publication of a journal containing current technical literature relating to these disorders, may qualify for exemption from Federal income tax under section 501(c)(3) of the Code if it meets prescribed conditions (Rev. Rul. 67-4, I.R.B. 1967-2, 15).

An association the activities of which are primarily devoted to preserving the traditions, architecture, and appearance of a community by means of individual and group action before the local legislature and administrative agencies with respect to zoning, traffic, and parking regulations may be exempt from Federal income tax under section 501

(c)(4) of the Code but is not exempt under section 501(c)(3) of the Code (Rev. Rul. 67-6, I.R.B. 1967-2, 18).

An organization which has been denied exemption from Federal income tax by reason of having engaged in a prohibited transaction described in section 503(c)(1) of the Code may not reestablish exemption until the loan which was the prohibited transaction has been repaid or adequately secured (Rev. Rul. 67-9, I.R.B. 1967-2, 22).

Interim guides for issuing advance determination letters on pension, annuity, profit sharing, and stock bonus plans designed to integrate with old age and survivors insurance benefits provided by the Social Security Act, as amended through 1965, were provided pending the development and publication of the final rules (Rev. Rul. 67-10, I.R.B. 1967-3, 12).

Amounts paid by a mutual casualty insurance company for accrued bond interest are not included in the cost of bonds for purposes of computing the amount of bond premiums to be amortized under section 822(d)(2) of the Code (Rev. Rul. 67-17, I.R.B. 1967-3, 14).

Where a life insurance company values its life insurance reserves on a preliminary term basis, it should not reduce its insurance in force and life insurance reserves by the amount of insurance in force and the reserves attributable to reinsurance ceded on a yearly renewable term basis before revaluing such reserves under section 818(c) of the Code. However, the total life insurance reserves as revalued must be reduced by the portion thereof attributable to the net value of risks reinsured on a yearly renewable term basis (Rev. Rul. 67-43, I.R.B. 1967-6, 15).

In accordance with a program to identify and officially declare obsolete all rulings published before 1953 which are not considered determinative with respect to future transactions, various lists were published (Rev. Rul. 67-45, I.R.B. 1967-6, 49; Rev. Rul. 67-46, I.R.B. 1967-6, 54; Rev. Rul. 67-97, I.R.B. 1967-13, 15; Rev. Rul. 67-112, I.R.B. 1967-15, 23; Rev. Rul. 67-123, I.R.B. 1967-16, 25; Rev. Rul. 67-140, I.R.B. 1967-18, 39; Rev. Rul. 67-199, I.R.B. 1967-25, 13; Rev. Rul. 67-211, I.R.B. 1967-26, 20).

The value of nonvoting stock transferred in trust is includible in a decedent's gross estate for Federal estate tax purposes if, at and after the time of the transfer, the grantor (now deceased) held the voting stock and either the grantor was the trustee or the

trustee was restricted in some way in his power to dispose of the stock. The grantor is considered to have retained for a period, which did not in fact end before his death, the power to designate the persons who shall possess or enjoy the transferred property or the income therefrom (Rev. Rul. 67-54, I.R.B. 1967-8, 10).

For purposes of computing the manufacturers' excise tax on foreign-made automobiles imported by U.S. residents who have not physically left the United States, the term "total cost of acquisition" does not include State and local use taxes or fees paid for the privilege of operating an automobile on State highways, such as registration fees and license tags (Rev. Rul. 67-56, I.R.B. 1967-8, 13).

For purposes of computing the manufacturers' excise tax, the price for which an article is sold may not be reduced by an amount equal to a warehouse "handling-out" charge incurred by the manufacturer for having the article moved from the inner storage area of a public warehouse to the loading platform of the warehouse (Rev. Rul. 67-59, I.R.B. 1967-8, 15).

All direct costs to the consumer, such as mailing and handling charges, are an integral part of the retail price of a single cigar under section 5701 of the Internal Revenue Code of 1954, with the exception only of the exact amount of State and local taxes as specifically provided for in the statute (Rev. Rul. 67-60, I.R.B. 1967-8, 18).

The formula provided by section 163(b) of the Code, relating to the deductibility of interest, applies to service charges paid by customers of a department store on purchases made under a so-called "budget charge account" where the service charge is added if the account is not paid in full in a specified number of days after the billing date (Rev. Rul. 67-62, I.R.B. 1967-9, 8).

Where, as required by an agreement between the partners, the surviving partner of a two-man partnership purchases the deceased partner's interest from his estate, the partnership terminates under the provisions of section 708(b)(1)(A) of the Code at the time the sale is consummated, and the surviving partner is deemed to have acquired by purchase the assets attributable to the deceased partner's interest in the partnership. In determining his holding period for the assets deemed acquired by purchase, the surviving partner cannot include the period such assets were held in the partnership (Rev. Rul. 67-65, I.R.B. 1967-9, 14).

A nonprofit organization created to improve a

public educational system is not exempt from Federal income tax under section 501(c)(3) of the Code where it campaigns on behalf of candidates for election to the school board (Rev. Rul. 67-71, I.R.B. 1967-10, 11).

Where the Service makes adjustments under section 482 of the Code allocating income or deductions among members of a group of business entities under common ownership or control, corresponding adjustments must be made with respect to the related corporations from which the allocations were made (Rev. Rul. 67-79, I.R.B. 1967-11, 7) (T.I.R. 838, 8-2-66).

A contingent contractual right to receive only additional voting stock provided for in a plan of reorganization satisfies the "solely for voting stock" requirement of section 368(a)(1)(B) of the Code where the number of additional shares to be issued is determined by a formula based on the future market price of the shares of the acquiring corporation (Rev. Rul. 67-90, I.R.B. 1967-13, 8) (T.I.R. 889, 2-27-67).

The unadjusted basis of property acquired by an individual from a decedent's estate through exercise of an option to purchase the property at an amount below its fair market value, provided for in the will of the decedent, is the sum of (1) the basis of the option under section 1014(a) of the Code and (2) the option price. The provisions of section 1234 of the Code which allow a loss on the failure to exercise an option are not applicable on nonexercise of a testamentary option (Rev. Rul. 67-96, I.R.B. 1967-13, 12).

If a qualified stock option is amended to delete the requirement that an optionee must represent that he is acquiring the stock for investment, such amendment is a "modification" of the option under section 425(h)(3) of the Code (Rev. Rul. 67-102, I.R.B. 1967-14, 11).

Used cars taken in trade as part payment on the sale of cars by an automobile dealer may be valued, for inventory purposes, at valuations comparable to those listed in an official used car guide as the average wholesale prices for comparable cars (Rev. Rul. 67-107, I.R.B. 1967-15, 8) (T.I.R. 892, 3-15-67).

Where a grantor irrevocably assigns to a trust, established for a term of 5 years for the benefit of a college, an overriding royalty interest owned by the grantor, there is no anticipatory assignment of income. The grantor is not taxable on the income of the trust, even though the term of the trust is less than the economic life of the lease, provided the

grantor does not retain such dominion and control over the trust corpus as to be considered its substantial owner under sections 671 through 677 of the Code (Rev. Rul. 67-118, I.R.B. 1967-16, 16).

Legal fees incurred by a corporation in securing advice on the tax consequences prior to the consummation of a merger with another corporation, a subsequent stock split, and proposed distribution in redemption of a portion of the outstanding stock under section 302 of the Code are expenditures which are capital in nature and therefore not deductible as ordinary and necessary business expenses. However, in the event the proposed redemption of stock is subsequently abandoned, the capitalized fees attributable to such proposed redemption are deductible in the taxable year of abandonment (Rev. Rul. 67-125, I.R.B. 1967-17, 6).

In computing the deduction for death benefits, etc. under section 809(d)(1) of the Code, a life insurance company must include the full amount of its reasonable estimate of losses incurred but not reported and must reduce its life insurance reserves by the amount attributable to such losses (Rev. Rul. 67-129, I.R.B. 1967-17, 11).

For purposes of section 956(b)(1)(A) of the Code, "tangible property located in the United States" does not include property in transit from one foreign point to another which is being transshipped through, or temporarily stored under customs bond in, the United States (Rev. Rul. 67-130, I.R.B. 1967-17, 13).

Acquisitions of debt obligations of the World Bank are not subject to the interest equalization tax since that organization is not a foreign issuer or obligor (Rev. Rul. 67-132, I.R.B. 1967-17, 15).

A taxpayer may claim as a depreciation deduction the payments he made on the purchase price of U.S. patents and U.S. patent applications, where the inventions covered by the applications will be issued in the normal course, if the purchase price is fixed as a reasonable percentage of the annual earnings of the patents and applications over the period of their remaining lives (Rev. Rul. 67-136, I.R.B. 1967-18, 9).

A nonprofit organization created to provide instruction and guidance to low-income families in need of adequate housing and interested in building their own homes may be exempt from Federal income tax under section 501(c)(3) of the Code (Rev. Rul. 67-138, I.R.B. 1967-18, 12).

Gem and mineral clubs and a federation of such clubs may qualify for exemption from Federal in-

come tax under section 501(c)(3) or 501(c)(7) of the Code depending upon their forms of organization and methods of operation (Rev. Rul. 67-139, I.R.B. 1967-18, 13).

Railroads using the "retirement method" of accounting for depreciation of their track account assets must value their recovered track materials at their fair market values at the time the materials are retired or replaced and transferred to supplies or scrap accounts (Rev. Rul. 67-145, I.R.B. 1967-19, 7).

A dealer in personal property may continue to use the installment method of accounting with respect to its installments sales after adopting the accrual method for book purposes, if the differences in such sales for book and Federal income tax purposes are reconciled in permanent auxiliary records (Rev. Rul. 67-147, I.R.B. 1967-19, 9).

The liability for retrospective rate credits based on experience with respect to different types of insurance contracts issued by life insurance companies is treated for Federal tax purposes as a reserve for dividends to policyholders as distinguished from unearned premiums or return premiums. However, reserves for dividends to policyholders do not include any amounts attributable to potential rate credits with respect to contracts expiring after the close of the taxable year (Rev. Rul. 67-180, I.R.B. 1967-22, 16) (T.I.R. 902, 5-10-67).

Packages of cigars or cigarettes bearing the required mark and notice may be enclosed in outer containers which may be sealed, or such packages may be overwrapped, including overwraps for special occasions such as Christmas or Father's Day. (Rev. Rul. 67-184, I.R.B. 1967-23, 17).

A new member of an affiliated group joining in the filing of a consolidated return is not required to annualize its income for the short period prior to affiliation in filing its separate return for such period (Rev. Rul. 67-189, I.R.B. 1967-24, 14).

Acquisitions of certain participation certificates sold by the Export-Import Bank of Washington are not subject to the interest equalization tax since that organization is not a foreign issuer or obligor (Rev. Rul. 67-190, I.R.B. 1967-24, 15).

Income of a foreign corporation from the mining and processing of a mineral at a site within a foreign country and its sale in the United States without further treatment or processing outside the foreign country is gross income from sources without the United States (Rev. Rul. 67-194, I.R.B. 1967-25, 5).

Literary agents must report on information returns the gross amount of royalties received from publishers prior to deduction of commissions, fees, and expenses (Rev. Rul. 67-197, I.R.B. 1967-25, 11).

An "overdeposit" of employment taxes for a semi-monthly period may be applied to reduce the amount of such tax required to be deposited for a subsequent semi-monthly period within the same calendar quarter (Rev. Rul. 67-198, I.R.B. 1967-25, 12).

Where a winner of the Irish Sweepstakes reports his income on the cash receipts and disbursements basis and, by reason of being a minor, his winnings must be held by the Irish court until he reaches majority, the economic benefit doctrine applies and requires the inclusion of the present value of the sweepstakes winnings in the minor's gross income at the time the funds are paid over to the Irish court (Rev. Rul. 67-203, I.R.B. 1967-26, 8).

A transitional procedure was established for use by certain employers to avoid penalties while changing over to the new requirements for deposits of certain employment taxes on a semi-monthly basis (Rev. Proc. 66-31, C.B. 1966-2, 1212) (T.I.R. 820, 5-17-66).

The Service announced certain operating rules which have been developed by the Reorganization Branch for determining whether a ruling will be issued in certain types of cases and the conclusions which will be expressed in such rulings (Rev. Proc. 66-34, C.B. 1966-2, 1232).

A renewed request for an identifying number must be made by any person who has requested, but has not received, such number from another person (Rev. Proc. 66-47, C.B. 1966-2, 1255) (T.I.R. 866, 10-26-66).

An administrative procedure was established whereby an individual whose income is derived from certain limited sources may expeditiously change his annual accounting period from a fiscal year to a calendar year (Rev. Proc. 66-50, C.B. 1966-2, 1260).

The Service published in updated form its general procedures relating to issuing rulings and determination letters to taxpayers and entering into closing agreements as to specific issues, with an explanation of the rights and responsibilities of taxpayers (Rev. Proc. 67-1, I.R.B. 1967-1, 5); furnishing technical advice to District Directors of Internal Revenue, with a detailed explanation of the rights of taxpayers (Rev. Proc. 67-2, I.R.B. 1967-1, 16); processing applications for exemption from income tax,

revocation or modification of exemption letters and determination letters, and rulings involving prohibited transactions (Rev. Proc. 67-3, I.R.B. 1967-1, 22); and processing requests for qualification of pension, annuity, profit-sharing, and stock bonus plans and the exemption of related trusts (Rev. Proc. 67-4, I.R.B. 1967-1, 27).

A program for the review of rulings published prior to 1953 has been established to identify for public listing those which are not considered determinative with respect to future transactions (Rev. Proc. 67-6, I.R.B. 1967-6, 66).

An administrative procedure was established whereby taxpayers may expeditiously obtain consent to change their overall method of accounting from the cash receipts and disbursements method to an accrual method (Rev. Proc. 67-10, I.R.B. 1967-9, 123) (T.I.R. 883, 2-7-67).

Procedures for reporting certain "other compensation" on Forms 1099 and W-2 were clarified (Rev. Proc. 67-19, I.R.B. 1967-16, 30) (T.I.R. 882, 1-30-67).

A new beer metering system identified as the Potter beer monitoring system, Model SY-81-600, may be used in breweries with the Potter Flow Meter; all previously approved beer meters and metering systems are listed (Rev. Proc. 67-20, I.R.B. 1967-19, 18).

Section 204 of the Foreign Investors Tax Act of 1966 (Public Law 89-809) eliminated the special limitation on the amount allowed as a deduction for self-employed individuals for contributions to certain pension, etc., plans and provided a new definition of "earned income" from self-employment, effective with respect to taxable years beginning after December 31, 1967. If plans are amended only to conform to the new provisions of law, previously issued favorable determination letters will apply to the plans as amended (Rev. Proc. 67-26, I.R.B. 1967-20, 44).

### Significant Announcements of General Interest

In disposing of pending cases involving educational expense deductions, the Service will take into consideration the fact that the proposed amendments to the regulations clarifying the deductibility of such expenses were not available for guidance (Announcement 66-50, I.R.B. 1966-32, 42) (T.I.R. 829, 7-8-66).

The Service requested the views of interested persons with respect to developing a formula for integrating pension, annuity, profit sharing, and stock bonus plans with old age and survivors insurance benefits provided under the Social Security Act (Announcement 66-58, I.R.B. 1966-38, 87).

Refunds due on joint income tax returns will not be delayed because of the missing signature of the husband serving in the armed forces in Vietnam (Announcement 66-61, I.R.B. 1966-39, 33) (News Release I.R. 842, 8-31-66).

Form 4136, for use in computing the credit for tax on gasoline and lubricating oil used for nonhighway use, is available; taxpayers are reminded that the credit will be allowable only on a timely filed income tax return (Announcement 66-62, I.R.B. 1966-40, 16) (T.I.R. 845, 9-14-66).

Suggestions are invited on proposed guidelines for taxpayers and their representatives in connection with requests for advance rulings required under section 367 of the Code on certain types of transactions involving foreign corporations (Announcement 66-63, I.R.B. 196-40, 17).

The Internal Revenue Code has been amended to permit the Treasury Department to require the filing of returns with Service centers, but the new legislation will not affect the filing of 1966 returns (Announcement 66-76, I.R.B. 1966-51, 49) (News Release I.R.-845, 11-10-66).

Form 3468, Computation of Investment Credit, has been revised and must be used for computing investment credit on property placed in service on or after October 10, 1966 (Announcement 66-79, I.R.B. 1966-51, 51) (T.I.R. 868, 12-6-66).

The income tax exclusion for combat pay of commissioned officers serving in Vietnam has been raised from \$200 to \$500 retroactive to January 1, 1966 (Announcement 66-77, I.R.B. 1966-52, 77) (News Release I.R.-847, 11-29-66).

Revenue Procedure 66-49, outlining the appraisal format to support claimed fair market value of donated property, is available as Document 5672 from the Superintendent of Documents, Washington, D.C. (Announcement 67-1, I.R.B. 1967-3, 21) (News Release I.R.-852, 12-20-66).

The United States-Honduran income tax convention was terminated as of December 31, 1966, and will not apply for taxable years beginning on or after January 1, 1967 (Announcement 67-3, I.R.B. 1967-4, 21) (Treasury Department Release F-729, 12-8-66).

One issue of the Bulletin is devoted to an index of administrative and procedural matters which have been published in the Internal Revenue Bulletin since 1952 (Announcement 67-8, I.R.B. 1967-7, 4).

A new statement of organization and functions of the Service, effective January 12, 1967, has been issued (I.R.B. 1967-9, 27).

The \$3 a month payments by senior citizens beginning July 1, 1966, for supplementary medical insurance under "Medicare" are deductible as medical expenses on their 1966 Federal income tax returns (Announcement 67-12, I.R.B. 1967-10, 20) (News Release I.R.-868, 2-7-67).

The proposed amendments to the regulations under sections 512 and 513 of the Code, published in the Federal Register for April 14, 1967, reflect conclusions reached by the Service in a study of unrelated business income tax applicable to certain exempt organizations (Announcement 67-18, I.R.B. 1967-19, 43) (T.I.R. 899, 4-14-67).

"Retirement age" has been defined to clarify an ambiguity in the definition applicable to disabled retirees who otherwise qualify for the sick pay exclusion (Announcement 67-23, I.R.B. 1967-23, 19) (T.I.R. 905, 5-18-67).

A special enrollment examination for accountants and others who wish to practice before the Internal Revenue Service will be held on September 25 and 26, 1967 (Announcement 67-25, I.R.B. 1967-24, 19) (News Release I.R.-888, 5-25-67).

## Alcohol and Tobacco Industry Circulars

Winemakers are advised of the more frequent errors or omissions found in requests for approval of formulas and processes for making wine and of applicable regulatory requirements (Industry Circular 66-20, Oct. 6, 1966).

Industry members are notified of proposed hearings in response to petitions to amend regulations governing the labeling of domestic whiskies as affected by cooperage. The hearings will consider, essentially, petitions to allow age statements to be made on labels affixed to distilled spirits stored in uncharred or used charred oak containers (Industry Circular 67-3, April 21, 1967).

Brewers are cautioned that it is their immediate responsibility to assure that all beer reported destroyed is, in fact, destroyed. Any such beer

diverted to beverage use becomes taxable (Industry Circular 67-5, April 19, 1967).

## Technical Information Releases

One of the principal means of publicizing new tax legislation and regulations and their effects upon taxpayers is by the issuance of Technical Information Releases. Some of the more important of these releases issued during the year are the following:

T.I.R. 829 (July 8, 1966), announcing proposed amendments to the income tax regulations on the deductibility of educational expenses.

T.I.R. 868 (December 6, 1966), discussing the suspension of the investment credit by Public Law 89-800 and announcing the revision of the form used in computing that credit.

T.I.R. 873 (December 22, 1966), calling attention to the provision of Public Law 89-719, the Federal Tax Lien Act of 1966, which requires persons to notify the Service of sales on any property to be sold as a result of foreclosure action where the United States has or claims a Federal tax lien.

T.I.R. 878 (December 30, 1966), announcing the finalization of certain regulations, and the proposal of other regulations, relating to consolidated returns of affiliated corporations.

T.I.R. 881 (January 30, 1967), calling attention to the provision of the Federal Tax Lien Act of 1966 which specifies the place in which the Service is to file a notice of Federal tax lien with respect to real property.

T.I.R. 899 (April 14, 1967), announcing proposed regulations dealing with unrelated business income of tax-exempt organizations.

## Supreme Court Decisions

### Civil Cases

In *Commissioner v. Stidger*, 386 U.S. 287 (1967), the Supreme Court agreed with the Commissioner's position that the military taxpayer is not "away from home" when he is at his permanent duty station whether or not it is feasible or permissible for his family to be with him. While the Supreme Court has settled the meaning of "home" insofar as military personnel are concerned, the question as it affects civilian taxpayers still remains unresolved. However, two of the reasons given for its decision, i.e., the Commissioner's longstanding and judicially approved interpretation, and Congressional approval

of this interpretation as indicated by Congress' carving out an exception to cover its own special travel expense problems, would have equal validity when applied to the nonmilitary taxpayer.

On June 5, 1967, the Court rendered a most significant decision in favor of the Government in *Second National Bank of New Haven, Exr. v. United States*, 387 U.S. 456 (1967) affirming the decision of the Court of Appeals for the Second Circuit. *Commissioner v. Estate of Bosch*, 387 U.S. 456 (1967) which involved a common issue was also decided in the same opinion. Apart from the substantive estate tax aspects of the cases, they both involved the issue of the effect to be given a state trial court decree determining an issue of state law in cases where a Federal tax question is dependent on such underlying issue of state law. The Supreme Court held that such decrees should be given "proper regard," but no binding effect, where the United States was not a party to the state court proceeding. In such cases, the Federal courts must apply what they find to be the state law and must, in effect, sit as state courts themselves. The Court relied on the famous decision in *Erie R. Co. v. Tompkins*, 304 U.S. 64 (1938). It rejected the approach taken in *Gallagher v. Smith*, 223 F. 2d 218 (3d Cir. 1955), which the Government had been fighting vigorously for years.

The two cases involved Connecticut and New York trial court decrees adjudicating property rights, which had become binding on the parties when they were not appealed. The Supreme Court actually went beyond the position argued by the Government in concluding that a trial court decree would not be binding even if it resulted from a bona fide adversary proceeding. It stated, though, that the decision of the highest court of a State would be binding. This decision should greatly restrict any opportunities in the future to alter or avoid Federal tax consequences through proceedings in the State courts.

In *Northeastern Pennsylvania National Bank & Trust Co. v. United States*, 387 U.S. 213 (1967), decided May 22, 1967, the Court reversed the Third Circuit and held against the Government in another estate tax refund suit which reached the Supreme Court because of a conflict with *United States v. Citizens National Bank of Evansville*, 359 F. 2d 817 (7th Cir. 1966), cert. den., 387 U.S. 941. The Court held that a bequest in trust for the payment of a specific monthly sum to the decedent's widow qualified for the marital deduction under section 2056 (b)(5) of the 1954 Code where the widow had a

general power of appointment over the entire trust; and that the "fractional or percentile share" definition of a "specific portion" contained in the Estate Tax Regulations, section 20.2056(b)-5(c), improperly restricted the scope of the deduction as intended by Congress in the context of this case. The Court rejected the actuarial approach and approved the capitalization method for valuing the interest passing to the surviving spouse.

#### Criminal Cases

The Supreme Court continued until next term the two cases raising the issue as to whether the registration and return provisions of the wagering tax law violate the privilege against self-incrimination guaranteed by the fifth amendment, *Marchetti v. United States*, 35 U.S.L. Week 3436 (U.S. June 12, 1967), and *Grosso v. United States*, 35 U.S.L. Week 3436-7 (U.S. June 12, 1967). Initially, the grant of certiorari was limited solely to the question whether the Court should reexamine its prior holdings in *United States v. Kahriger*, 345 U.S. 22 (1953), and *Lewis v. United States*, 348 U.S. 419 (1955), with respect to the fifth amendment issue in view of its decision in *Albertson v. Subversive Activities Control Board*, 382 U.S. 70 (1965). In 1953, the Supreme Court held that the registration provisions of the wagering tax law did not infringe upon the fifth amendment privilege against self-incrimination because the privilege relates only to past acts and under the registration provisions an individual subject to the tax is not compelled to confess to past acts, *United States v. Kahriger*, *supra*. This holding was reaffirmed 2 years later in *Lewis v. United States*, *supra*. Although these two cases were briefed in accordance with the grant of certiorari and the oral arguments were held on January 17 and 18, 1967, the cases have been set for rearguing during the 1967 term in order that two additional questions can be briefed and argued. These are: (1) What relevance has the required records doctrine, *Shapiro v. United States*, 335 U.S. 1 (1948), to the validity under the fifth amendment of the registration and return requirements; and (2) Can the occupational and excise taxes be satisfied without filing a registration statement and wagering excise tax return?

In April 1967, the Government filed a direct appeal in the case of *United States v. Arnold Habig and Jerome Schoering*, No. 1311, October Term 1966, from a district court's order dismissing two counts of an indictment because of the statute of

limitations. These counts charged both defendants with tax evasion and aiding and assisting in the preparation and presentation of a false tax return, respectively. The lower court's order took the position that the statute of limitations started to run on the date the subject returns were due without regard to extensions. In support of this order, the district court cited *Hull v. United States*, 356 F. 2d 919 (5th Cir. 1966), and *United States v. Scheetz*, 224 F. Supp. 789 (S.D. Ind. 1963). The Government's position is that, with respect to a return filed subsequent to the statutory due date, the statute of limitations begins to run from the date of actual filing.

No alcohol and tobacco tax cases were decided by the Court. Three petitions for certiorari filed by defendants which were pending at the beginning of the year were denied; nine petitions were filed during the year, of which eight were denied, and one was granted (*Haynes v. United States*, 372 F. 2d 651 (5th Cir., 1967)).

*Haynes* involves a conviction under section 5851 of the Code for the possession of a firearm which had not been registered. Convictions under this section have previously been upheld in five circuits, and certiorari was denied by the Court in three of those cases.

### Actions of Lower Courts

#### Civil Cases

In a case involving an issue which will ultimately be decided by the Supreme Court of the United States, the First Circuit, in *Commissioner v. Bagley*, 374 F. 2d 204 (1st Cir. 1967), upheld the Commissioner's long-standing "overnight" rule by reversing the Tax Court's holding that taxpayer, a consulting engineer, was entitled to a deduction for meal expenses incurred while traveling to and from several job locations even though he was not "away from home overnight". The First Circuit's holding conflicts with the Sixth Circuit's recent decision in *Correll v. United States*, 369 F. 2d 87 (6th Cir. 1966) and the Eighth Circuit's decision in *Hanson v. Commissioner*, 298 F. 2d 391 (8th Cir. 1962). The Supreme Court has granted the Government's petition for certiorari in *Correll* and the Government has recommended acquiescence in taxpayer's petition for certiorari in *Bagley*.

The Commissioner successfully litigated two "corporate reorganization" cases in the Fifth Cir-

cuit. In *Davant v. Commissioner*, 366 F. 2d 874 (5th Cir. 1966), the Fifth Circuit held that where taxpayers owned the stock of two corporations, Warehouse Company and Water Company, and transferred their Warehouse stock to a third party pursuant to a plan whereby the third party dissolved Warehouse Company and transferred all its operating assets to Water Company, the transactions resulted in a reorganization under sections 368(a)(1)(D) or (F) of the 1954 Code. The Commissioner did not make an "F" reorganization argument in the Court of Appeals because, under Service position, the combination of brother-sister corporations does not constitute an "F" reorganization. Nonetheless, the Court found that the reorganization qualified as an "F". The Court further held that taxpayers received a dividend to the extent of the earnings and profits of both Warehouse and Water Companies. The same Court, in *Reef Corp v. Commissioner*, 368 F. 2d 125 (5th Cir. 1966), found a complicated transaction involving the sale of the assets and stock of Corporation A through an intermediary to Corporation B, for the purpose of liquidating the interest of one of Corporation A's original stockholders, to be both a "D" and an "F" reorganization under section 368. As a result, the notice of deficiency sent to Corporation B as successor in name to Corporation A for a full fiscal year was valid. The transaction was not a sale of stock to the intermediary and the transferred assets took a substituted basis for depreciation purposes.

In a case involving a net operating loss carryover, the Sixth Circuit held that the statutory provisions of the 1954 Code applied, even though the purchase of the corporation and the change of business both occurred in 1952. *Frederick Steel Co. v. Commissioner*, 375 F. 2d 351 (6th Cir. 1967). As a result, the corporation was entitled, under section 382(a), to carry over its losses from 1952 and earlier years to 1954 when a new profitable business was acquired. The relevant year for consideration of the two factors mentioned in section 382(a) is not the close of the year for which the carryover deduction is claimed, as the Court of Appeals held, but instead, the year when the change in ownership and change in the nature of the business occurred. Certiorari was not requested on the transitional rule issue despite a conflict with *Frank Ix & Sons v. Commissioner*, 375 F. 2d 867 (3rd Cir. 1967), due to the few pending cases and the declining importance of the issue.

The Third Circuit held that, where the parties to a transaction involving the sale of a business have entered into a written agreement spelling out the precise amount to be paid for a covenant not to compete, they should not then be permitted, for tax purposes, to attack the tax treatment such provision is accorded by the Commissioner in the absence of grounds necessary for an action between the parties to the agreement—i.e., proof of fraud, duress, or undue influence. *Commissioner v. Danielson*, 378 F. 2d 771 (3rd Cir. 1967). On the other hand, the Commissioner can attack such a provision on the ground that the form of the agreement does not coincide with the substance of the transaction.

In a case of first impression, the Third Circuit permitted a partnership to deduct an allocable portion of certain "repair" expenses incurred by the partnership in readying two barges for transfer to a newly-formed corporation. Since the barges were used by the corporation before being repaired, the corporation was permitted to deduct the remaining repair expense. *Estate of Walling v. Commissioner*, 373 F. 2d 190 (3rd Cir. 1967). The Court rejected the Commissioner's contention, and the Tax Court's conclusion, that the repairs were incidental to the transfer of the capital assets on which they were made, and were, therefore, capital expenditures. The Court in effect related the repairs to past use of the barges by the partnership and the corporation rather than to their prospective use by the partnership in its business. The Tax Court had sought to guard against any unintended tax benefits which repair prior to sale or transfer of a capital asset may provide to taxpayers.

The Court, in *Dinkins v. Commissioner*, 378 F. 2d 825 (8th Cir. 1967), held that the Commissioner had overcome the rationale of *Fribourg Navigation Co. v. Commissioner*, 383 U.S. 272. In *Dinkins*, depreciation was disallowed the taxpayer on the basis that the estimated useful life and salvage values were adjusted as a result of comparisons with the past experience of this particular taxpayer. (citing *Massey Motors, Inc. v. United States*, 364 U.S. 92). The depreciation had originally been disallowed on both the invalidated *Fribourg* approach and the *Massey Motors* approach.

The Second Circuit, citing *Knetsch v. United States*, 364 U.S. 361 (1960), upheld the Commissioner's position that the prepayments of interest on loans obtained to finance the purchase of Treasury Notes did not represent "interest on indebtedness" within the meaning of section 163(a) of the 1954

Code so as to entitle taxpayers to a deduction in the computation of their net income. *Goldstein v. Commissioner*, 364 F. 2d 734 (2d Cir. 1966). In so holding, the Court rejected the Tax Court's finding that the transactions involved were "shams".

Major developments in the area concerning the deductibility of expenses of transporting tools and effects to and from work are portended by the decision of the Second Circuit in *Sullivan v. Commissioner*, 368 F. 2d 1007 (2d Cir. 1966). The Court held that taxpayer is entitled to deduct that portion of his reasonable driving expenses which is allocable to the transportation of his tools. The Second Circuit's decision is contrary to the Tax Court's holding in *Tyne v. Commissioner*, 1966 P-H T.C. Memo ¶66,214 presently being appealed by taxpayer to the Seventh Circuit.

In *Coastal Club, Inc. v. Commissioner*, 368 F. 2d 231 (5th Cir. 1966), the Fifth Circuit, in affirming the Tax Court, held that a duck hunting club which had entered into several oil and gas leases of its property which provided three-fifths to two-thirds of the amounts expended for operations, repairs, maintenance, and improvements was not exempt as a social club under section 501(c)(7) of the Code. The Court found that it was not operated exclusively for pleasure, recreation, and other non-profit purposes because part of its net earnings inured to the benefit of its shareholder-members through such expenditures.

In *Scott v. Commissioner*, 374 F. 2d 154 (9th Cir. 1967), the Ninth Circuit held that, under California law, a wife's heirs who succeeded to her community property interest in an insurance policy on her husband's life had an interest in the entire bundle of rights in the policy, not just in one of the rights, the cash surrender value, so that on the husband's subsequent death there was excludable from his estate that part of the proceeds proportionate to the heirs' interest in the policy and not just the cash surrender value of the policy on which the wife's estate paid a tax.

The decision in *Eli Lilly and Co. v. United States*, 372 F. 2d 990 (Ct. Cl. 1967), involved a major test of the Commissioner's powers to reallocate income between related corporations under section 482 of the 1954 Code. At issue were the pricing arrangements between Lilly and two subsidiaries engaged in international trade, one of which was a western hemisphere trade corporation entitled to the benefits of sections 921 and 922 of the 1954 Code. Lilly had priced its products at cost, without even in-

cluding research and development costs, resulting in a diversion of taxable income to the western hemisphere subsidiary. The court held that income could be reallocated to reflect prices which would have been charged if the corporations had been unrelated parties dealing at arm's length, notwithstanding that there were valid business reasons supporting the actual pricing arrangements.

The Court of Claims approved the reallocation in spite of the fact that it resulted in reducing the benefits which would otherwise flow from the subsidiary's qualification as a western hemisphere trade corporation. Significantly, the court did not accept taxpayer's argument that the reallocation should be disapproved because the method actually employed by the revenue agent in arriving at arm's length prices was arbitrary. The court in *Lilly* held that the taxpayer has the further burden of proving that the method produced an arbitrary and unreasonable result. It also invoked the rule that a taxpayer in a refund suit must not only prove arbitrary action by the Commissioner, but also the correct amount of tax and resulting overpayment, citing *Helvering v. Taylor*, 293 U.S. 507 (1935).

In *Skelly Oil Co. v. United States*,—F. 2d—(10th Cir. 1967), the Court of Appeals held that the taxpayer, which had taken depletion deductions on income received in the year 1952 through 1957 and held under a claim of right, was not required under section 1341 of the 1954 Code to reduce its deductions in a later year for refunds made to customers by the amount of such depletion deductions. The court treated the question as a question of interpreting section 1341, without reference to other sections of the Code, and could find no statutory support for limiting the deduction in the year of repayment.

The adverse decisions of the Court of Claims in *Metropolitan Life Insurance Co. v. United States*, 256 F. 2d 835 (1967), and *Equitable Life Assurance Society v. United States*, 366 F. 2d 967 (1966), cert. den. 386 U.S. 1021, constitute important precedents in the field of foreign tax credits. In these cases it was held that the premiums taxes imposed by the Dominion of Canada and various of its provinces on mutual life insurance companies were to be treated as "in lieu of" incomes taxes and were, therefore, available for the foreign tax credit under sections 901 and 903 of the 1954 Code. These decisions represent a liberal and nonrestrictive interpretation of the requirements of the foreign tax credit provisions. The Government sought unsuccessfully to

persuade the Supreme Court to review the *Equitable* decision.

In *U.S. Thermo Control Co. v. United States*, 372 F. 2d 964 (Ct. Cl. 1967), the court had before it the question of whether truck and trailer refrigerating units are subject to manufacturers excise tax as truck parts or accessories under section 4061(b) of the 1954 Code. It held that these units were exempt from the manufacturers excise tax. The Government views the decision as having misinterpreted the ruling position of the Service on the question and as applying erroneous principles in interpreting legislative intent. A petition for certiorari has now been filed by the Solicitor General.

A significant decision with respect to the "first in time, first in right" rule of allocating involuntary payments on a taxpayer's unpaid tax accounts was handed down by the Court of Appeals for the Second Circuit. In *United States v. Pollack*, 370 F. 2d 79 (2d Cir. 1966), the Court of Appeals in affirming the judgment of the district court held that a creditor has the right to apply sums received from a debtor in such fashion as to give the creditor the utmost advantage of such security as the creditor may possess. In absence of any other creditor who would be prejudiced by the allocation, the courts must respect the rights of the secured creditor. The "first in time, first in right" rule only prevents the Government from using the security of a prior lien to satisfy subsequent liens when such action would be to the detriment of an intervening or competing creditor whose security is superior to that of the Government with respect to its junior liens. In the subject case the Government was permitted to apply the surplus proceeds of a mortgage foreclosure sale of one parcel of property to its later liens in order to preserve its earlier liens against other property representing security for the balance of the tax liens.

In the case of *In the Matter of Quakertown Shopping Center, Inc. v. United States*, 366 F. 2d 95 (3d Cir. 1966), the Court of Appeals considered the question whether the District Director may validly serve a notice of levy on a chapter XI (Bankruptcy Act) receiver to attach the claim of a taxpayer against the debtor in bankruptcy without the prior permission of the Bankruptcy Court. The amount due the creditor taxpayer from the debtor was substantially more than the sum sought by the Federal tax levy. The district court in reversing the Referee in Bankruptcy held that the levy was unauthorized without the prior permission of the Bank-

ruptcy Court because the funds were in *custodia legis*. The Court of Appeals reversed the district court judgment and held that the levy did not invade the jurisdiction of the Bankruptcy Court or interfere with the administration of the estate. The levy was held to be valid and enforceable and payment was ordered to be made to the Government from the dividend due the taxpayer creditor, plus interest to the date the chapter XI petition was filed.

The highest court of the State of New York, the Court of Appeals, in the case of *In re the Estate of Feinberg* (1966) 18 N.Y. 2d 499, affirmed the lower Supreme Court appellate decision and held that the filing of a proof of claim for unpaid Federal taxes with the representative of an estate constituted the commencement of a "proceeding in court" within the meaning of the Internal Revenue Code thereby tolling the statute of limitations with respect to collection from assets of the estates. Section 6502 (a) of the Internal Revenue Code provides generally that an assessment may be collected by levy or by a proceeding in court if begun within 6 years after the assessment or prior to the expiration of any period for collection as extended by agreement. Proofs of claim for Federal taxes had been timely filed with the estates (two estates involved in this case), i.e., within 6 years from the dates of assessment, and more than 6 years after assessment applications for final accountings were filed by the Government. The estates' representatives charged the applications were barred as not being timely, but the New York Court of Appeals held that under New York law the filing of the claim was the commencement of a proceeding in court sufficient to toll the statute of limitations. Although this decision involves interpretation of New York law, it is considered to be a significant decision on a point of law vital to the collection of taxes from estates.

In the case of *United States v. John McKay*, 372 F. 2d 174 (5th Cir. 1967), the Government petitioned the district court for enforcement of a civil summons directed to the executor-attorney of an estate to produce a certain appraisal report which he had obtained covering property of a corporation whose stock was owned by the estate. The Federal estate tax return was then under examination. The district court denied the Government's petition and sustained the argument of the executor that the appraisal report was protected by the attorney-client privilege or as his work product as attorney for the estate. The Court of Appeals reversed after the Government appealed and held that the report was

not privileged from disclosure. The attorney-client privilege was held inapplicable because the work product rule was not applicable since the work was the product of experts employed to prepare it and not that of the lawyer. The Court of Appeals concluded that the Service was entitled to inspect the appraisal report and remanded the case to the district court with directions to grant the petition of the United States to enforce the summons. The Court noted its view that the power of the Commissioner to investigate the records and affairs of taxpayers is greater than that of an ordinary party to civil litigation.

In the case of *Goodman v. United States*, 369 F. 2d 166 (9th Cir. 1966), the Court of Appeals contrary to the Government's argument held that, in the absence of a pending criminal proceeding, a suit seeking the return of property and its suppression as evidence is an independent civil proceeding and a district court order denying such relief is final and, therefore, appealable under section 1291 of the Judicial Code. Subsequently, in *Parrish v. United States*, 376 F. 2d 601 (4th Cir. 1967), the Fourth Circuit Court of Appeals held that a district court order dismissing a similar type suit was interlocutory and unappealable where a criminal proceeding was, in fact, commenced while the appeal was pending. The unsettled nature of this type of suit, as independent or ancillary to a criminal proceeding, is a recurring problem and further judicial clarification of the bases of appellate jurisdiction in such suits is anticipated.

#### Criminal Cases

With the denial of certiorari last year in the case of *Kohatsu v. United States*, 351 F. 2d 898 (9th Cir. 1965), cert. denied 384 U.S. 1011 (1966), the Supreme Court left undisturbed the Ninth Circuit's holding that a special agent of the Internal Revenue Service was not required to warn a taxpayer of his right to counsel at the investigative stage of an examination. The First, Fourth, and Sixth Circuit Courts of Appeal have now followed the Ninth Circuit's holding. *Morgan v. United States*, 377 F. 2d 507 (1st Cir. 1967), 67-1 USTC 9449, 19 AFTR2d 67-598 (1st Cir. 1967); *United States v. Mancuso*, 378 F. 2d 612 (4th Cir. 1967); *United States v. Maius*, 378 F. 2d 716 (6th Cir. 1967).

In the case of *Siravo v. United States*, 377 F. 2d 469 (1st Cir. 1967), 67-1 USTC 9446, 19 AFTR2d 67-601 (1967), the Court of Appeals for the First Circuit affirmed the conviction of the defendant on

three counts of wilfully making and subscribing false tax returns in violation of section 7206(1) and one count of wilfully failing to file a tax return in violation of section 7203. With respect to the 7206(1) counts, the taxpayer reported income only from wages subject to withholding and did not file a schedule C pertaining to his business of assembling jewelry components as a subcontractor for various manufacturers. The Government in presenting its case relied on total receipts from these manufacturers, but offered no proof of expenses. The defense contended that 26 U.S.C. 7206(1) described a form of perjury and that the failure to attach a separate schedule C reporting "gross receipts" was neither a constructive misrepresentation of taxable income nor a false statement. In rejecting this argument, the Court held that "true and correct" as used in the statute means "both accurate and complete". As for the section 7203 count, the Court stated, with respect to establishing the legal duty to file, it is met when the Government produces evidence showing that receipts exceed cost of goods sold by at least \$600. The Court then held that the evidence of unexplained receipts shifted to the taxpayer the burden of coming forward with evidence as to the amount of offsetting expenses, if any. In so ruling, the Court limited its prior holding in *Winkler v. United States*, 230 F. 2d 766 (1st Cir. 1956), with respect to this point.

In the case of *United States v. Frazier, et al.*, 365 F. 2d 316 (6th Cir. 1966), the Court of Appeals affirmed the conviction of Frazier and Reed for attempted evasion of income taxes due and owing by Frazier. The Government by means of the net worth and expenditures method proved Frazier substantially understated his income by handling transactions in the name of Miss Reed and that she aided in the concealment of his assets. At the trial, the prosecution introduced into evidence a computation wherein Frazier and Reed were treated as an economic unit. As part of its proof, the Government undertook to establish that Miss Reed did not have the financial ability to acquire the concealed assets with her own funds. The Sixth Circuit's affirmance was by a per curiam opinion and on March 20, 1967, the Supreme Court denied certiorari, 386 U.S. 971.

On January 29, 1967, former Senate Aide Robert G. (Bobby) Baker was found guilty by a jury in the U.S. District Court for the District of Columbia on seven counts of a nine-count indictment. Among the charges for which he was convicted were: attempted evasion of his income taxes; aiding in the prepara-

tion of a false and fraudulent return for another taxpayer; larceny; transportation of stolen money; and conspiracy. On April 7, 1967, Judge Oliver Gasch sentenced Baker to serve not less than one nor more than three years on each of the seven counts in which he was convicted. The sentences are to run concurrently. A notice of appeal has been filed.

There were no significant decisions in the alcohol or tobacco criminal field.

Several significant cases involving firearms were, however, decided. In *United States v. Kokin*, 365 F. 2d 595 (3rd Cir. 1966), cert. denied 385 U.S. 987 (Dec. 12, 1966), the Court of Appeals for the Third Circuit decided that the transfer of a carbine, itself not a machine gun, together with all of the parts necessary to convert it to a machine gun, constituted transfer of a machine gun as defined in the National Firearms Act.

*United States v. Lauchli*, 371 F. 2d 303, (7th Cir. 1966), upheld a conviction of violations of the National Firearms Act and of the Federal Firearms Act by a persistent firearms violator. Some idea of the extent of the operation involved may be inferred from the fact that, during the investigation, \$17,000 in Government money was turned over by undercover agents to the defendant in the "purchase" of weapons. The money was recovered at the time of arrest.

*United States v. DePugh, et al.*, 266 F. Supp. 417 (D.C.W.D. Mo. 1967), denied a motion for a new trial filed by the leader of the Minutemen, a major right-wing para-military organization, who had been convicted on several counts dealing with the illegal possession of firearms. The same defendant filed a motion to dismiss the indictment in a related case brought under the Federal Firearms Act. The motion was denied, 266 F. Supp. 453 (D.C.W.D. Mo. 1967). Both cases have been appealed.

In *United States v. Leavell, et al.* (D.C.S.C. 1967, unreported), several defendants were convicted of violations of the National Firearms Act. The case arose from the seizure of almost 300 tons of machine guns and machine gun parts from the defendants.

The Court of Appeals for the Fifth Circuit in *King v. U.S.*, 364 F. 2d 235, reversed a district court decision (*U.S. v. One 6.5 Mannlicher-Carcano Military Rifle, etc.*, 250 F. Supp. 410), forfeiting the weapons involved in the assassination of President Kennedy because they were involved in a violation of the record-keeping requirements of the law, i.e., the recording of the purchaser under a fictitious name. The circuit court found no evidence to establish that Oswald had had any knowledge of the requirements that firearms dealers record the names of the purchasers of their weapons and therefore could not, by ordering the guns under a fictitious name, have knowingly caused the dealer to falsify his records. The court in its decision referred to the fact that special legislation had been enacted authorizing the Government to retain possession of the weapons if it compensated the owner therefor.

The same circuit court affirmed the administrative annulment of a wholesaler's basic permit which had been issued on the basis of the applicant's representation that an ineligible person had severed his connection with the applicant and had disposed of his interest. Some years after the issuance of the permit, the company was involved in violations of State liquor laws which were engineered by this individual, allegedly only a salesman. The court found ample evidence of record to support the Director's reversal of the Hearing Examiner's initial decision in favor of the corporation on the annulment issue. (*Valdosta Distributing Company, Inc. v. Serr*, 375 F. 2d 770 (5th Cir. 1967)).

The District Court for the Middle District of Pennsylvania has pointed out once more that acquittal of the owner on the related criminal charges of accepting wagers does not bar forfeiture of the money seized on the gambling premises. The court pointed out that not only is the quantum of proof necessary to support a conviction different and more restrictive than that applicable in the civil forfeiture case, but also that knowledge on the part of the defendant of the registration and stamp requirements need not be established in the forfeiture proceedings, *U.S. v. \$2,813.37*, 264 F. Supp. 394 (Dec. 26, 1966).

**Statistics of Income Reports  
Published**

Individual Income Tax Returns, 1964 (192 pp., \$1.25).

Individual Income Tax Returns, 1965, Preliminary (25 pp., 20¢).

U.S. Business Tax Returns, 1963 (237 pp., \$1.50).

U.S. Business Tax Returns, 1964, Preliminary (25 pp., 20¢).

Sales of Capital Assets Reported on Individual Income Tax Returns for 1962 (153 pp., \$1.00).

Farmers' Cooperative Income Tax Returns for 1963 (58 pp., 40¢).

Foreign Tax Credit Claimed on Corporation Income Tax Returns, 1961 (73 pp., 50¢).

Statistics of Income publications may be ordered from the Superintendent of Documents, Government Printing Office, Washington, D.C. 20402.

**Statistical  
Tables**

## Statistical Tables

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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 77.

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. 117, for tax rates and further breakdown of national totals by sources)

Internal revenue regions, districts, States, and other areas <sup>1</sup> (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Total internal revenue collections (1)	Corporation income tax <sup>2</sup> (2)	Individual income and employment taxes				Unemployment insurance (7)
			Total (3)	Income tax not withheld and self-employment tax <sup>4</sup> (4)	Income tax withheld and old-age and disability insurance <sup>3</sup> (5)	Railroad retirement <sup>1</sup> (6)	
<b>United States, total</b> .....	<b>148,374,815</b>	<b>24,517,825</b>	<b>96,328,836</b>	<b>20,425,699</b>	<b>74,307,534</b>	<b>792,858</b>	<b>602,745</b>
<b>North-Atlantic Region</b> .....	<b>34,894,843</b>	<b>11,310,566</b>	<b>21,166,898</b>	<b>4,184,674</b>	<b>16,799,889</b>	<b>114,579</b>	<b>143,749</b>
Albany..... (See (c) below)	1,632,932	417,076	1,172,419	145,368	1,016,811	2,988	7,231
Augusta..... (Maine)	348,679	60,425	265,243	70,074	193,931	3,948	1,891
Boston..... (Massachusetts)	4,068,239	955,763	2,833,799	633,371	2,178,140	4,246	18,042
Brooklyn..... (See (c) below)	2,793,902	401,659	2,203,967	665,605	1,517,444	7,352	13,506
Buffalo..... (See (c) below)	2,864,923	882,965	1,811,895	354,509	1,445,112	183	11,712
Burlington..... (Vermont)	160,486	22,259	124,279	36,316	86,007	1,199	756
Hartford..... (Connecticut)	2,727,263	586,346	1,886,455	446,370	1,416,568	12,537	10,977
Manhattan..... (See (c) below)	327,321	53,835	260,685	58,710	200,116	82,626	72,508
Portsmouth..... (New Hampshire)	674,312	166,743	472,293	89,649	379,258	53	1,806
Providence..... (Rhode Island)	20,914,312	4,484,818	13,940,176	2,834,668	10,833,064	67	3,320
<b>Mid-Atlantic Region</b> .....	<b>20,914,312</b>	<b>4,484,818</b>	<b>13,940,176</b>	<b>2,834,668</b>	<b>10,833,064</b>	<b>67</b>	<b>3,320</b>
Baltimore..... (Maryland and D.C.)	3,508,786	426,755	2,656,577	483,739	2,107,935	286,597	97,180
Newark..... (New Jersey)	5,039,452	1,296,092	3,314,771	776,561	2,499,350	6,199	32,661
Philadelphia..... (See (b) below)	5,297,945	1,021,515	3,659,309	745,122	2,810,965	76,937	10,920
Pittsburgh..... (See (a) below)	3,744,488	861,822	2,474,029	396,887	2,049,759	6,294	24,243
Richmond..... (Virginia)	2,157,311	330,335	1,325,953	320,351	941,970	52,283	8,350
Wilmington..... (Delaware)	1,112,588	556,319	515,537	112,206	403,096	6	3,430
<b>Southeast Region</b> .....	<b>11,176,162</b>	<b>2,147,029</b>	<b>7,237,157</b>	<b>1,955,485</b>	<b>5,185,117</b>	<b>28,448</b>	<b>83,428</b>
Atlanta..... (Georgia)	2,025,181	432,970	1,391,604	293,773	1,085,830	2,126	9,825
Birmingham..... (Alabama)	977,070	176,042	757,916	199,534	391,932	6,294	4,401
Columbia..... (South Carolina)	708,999	145,573	531,211	132,068	399,092	149	8,281
Greensboro..... (North Carolina)	3,226,682	671,010	1,329,803	309,265	1,007,803	959	11,777
Jackson..... (Mississippi)	440,836	63,996	359,228	121,121	234,856	526	2,725
Jacksonville..... (Florida)	2,448,616	398,530	1,853,682	610,903	1,217,145	14,605	11,029
Nashville..... (Tennessee)	1,348,748	268,998	1,013,714	292,942	711,394	1,748	7,630
<b>Central Region</b> .....	<b>25,186,664</b>	<b>6,876,249</b>	<b>14,359,406</b>	<b>2,859,902</b>	<b>11,544,493</b>	<b>64,548</b>	<b>89,462</b>
Cincinnati..... (See (c) below)	3,033,305	822,029	1,982,215	396,185	1,568,035	5,473	21,930
Cleveland..... (See (f) below)	5,946,222	1,478,176	3,754,020	590,456	3,108,495	35,139	35,342
Detroit..... (Michigan)	10,264,027	3,358,353	5,212,214	926,705	4,241,316	8,851	10,876
Indianapolis..... (Indiana)	3,309,770	598,066	2,310,386	432,921	1,865,734	855	4,563
Louisville..... (Kentucky)	2,154,799	246,435	1,702,047	210,321	1,491,989	14,173	10,470
Parkersburg..... (West Virginia)	478,538	70,189	378,535	103,314	270,924	270	2,926
<b>Midwest Region</b> .....	<b>22,363,233</b>	<b>5,828,362</b>	<b>14,781,325</b>	<b>3,296,314</b>	<b>11,259,484</b>	<b>236,362</b>	<b>94,887</b>
Aberdeen..... (South Dakota)	18,698	18,698	138,149	53,012	81,396	7	739
Chicago..... (See (b) below)	9,865,453	2,661,121	6,392,164	1,185,957	5,049,824	113,386	42,988
Des Moines..... (Iowa)	1,118,597	225,377	840,363	301,160	532,181	2,412	4,611
Fargo..... (North Dakota)	154,113	11,436	134,998	53,794	81,493	74	688
Milwaukee..... (Wisconsin)	2,680,072	704,452	1,738,042	364,581	1,361,476	429	11,555
Omaha..... (Nebraska)	796,982	130,469	590,137	167,548	385,281	34,314	2,995
St. Louis..... (Missouri)	3,514,682	847,070	2,314,164	472,920	1,783,590	42,854	14,799
St. Paul..... (Minnesota)	2,419,772	593,221	1,667,826	315,525	1,299,962	41,935	10,404
Springfield..... (See (b) below)	1,646,062	336,543	965,481	285,619	673,278	1,005	5,579
<b>Southwest Region</b> .....	<b>11,725,043</b>	<b>2,067,401</b>	<b>8,025,956</b>	<b>2,156,848</b>	<b>5,816,848</b>	<b>65,770</b>	<b>46,814</b>
Albuquerque..... (New Mexico)	283,112	27,361	240,750	82,848	178,595	7	1,319
Austin..... (See (f) below)	3,718,659	647,202	1,842,152	543,176	1,283,645	3,077	12,254
Cheverus..... (Wyoming)	100,658	8,282	85,780	32,082	51,268	5	426
Dallas..... (See (f) below)	2,432,677	485,924	1,774,717	514,385	1,235,817	10,046	11,469
Denver..... (Colorado)	1,632,682	149,605	1,343,506	180,420	1,151,987	6,779	4,320
Little Rock..... (Arkansas)	454,080	64,711	354,725	124,147	227,767	2,541	5,903
New Orleans..... (Louisiana)	1,304,503	229,748	882,400	280,997	694,515	985	3,330
Oklahoma City..... (Oklahoma)	1,371,919	277,520	770,693	204,581	560,995	64	5,053
Wichita..... (Kansas)	920,753	177,147	693,233	215,890	429,257	44,556	3,530
<b>Western Region</b> .....	<b>17,869,154</b>	<b>2,672,606</b>	<b>13,536,769</b>	<b>3,072,386</b>	<b>10,317,094</b>	<b>85,313</b>	<b>70,976</b>
Anchorage..... (Alaska)	91,658	5,757	83,528	17,274	65,760	94	1,502
Boise..... (Idaho)	284,457	53,969	220,465	54,655	163,976	331	870
Helena..... (Montana)	210,293	31,535	170,066	61,113	107,785	290	1,625
Honolulu..... (Hawaii)	347,842	59,019	267,528	57,618	208,758	27	4,802
Los Angeles..... (See (a) below)	7,445,040	1,190,723	5,657,493	1,226,885	4,396,260	1,533	32,814
Phoenix..... (Arizona)	496,483	46,519	428,440	126,503	299,214	130	2,592
Portland..... (Oregon)	940,430	153,877	746,177	186,662	551,141	3,573	4,802
Reno..... (Nevada)	238,962	30,975	190,596	52,017	137,339	1	1,239
Salt Lake City..... (Utah)	337,316	52,189	263,878	56,162	204,623	1,487	1,596
San Francisco..... (See (a) below)	5,653,110	811,935	4,074,892	917,265	3,079,437	57,313	20,877
Seattle..... (Washington)	1,819,764	236,047	1,433,696	321,151	1,103,300	648	8,597
<b>Office of International Operations</b> .....	<b>544,068</b>	<b>56,647</b>	<b>407,313</b>	<b>224,208</b>	<b>178,251</b>	<b>1,483</b>	<b>3,469</b>
Other.....	380,274	56,585	310,064	6,375	90,634	1,483	3,055
<b>Undistributed:</b>							
Depository receipts <sup>1</sup> .....	3,068,433		2,243,380		2,230,242	13,139	
Transferred to Government of Guam.....	-7,144				-7,144		
Withheld taxes of Federal employees.....	167,172		167,172		167,172		
Casoline, lubricating oil, and excess FICA credits <sup>4</sup> .....	478,728	70,029	408,699	408,699			
<b>Totals for States not shown above</b> .....							
(a) California.....	13,098,149	2,002,658	9,732,385	2,144,150	7,475,697	58,846	53,691
(b) Illinois.....	11,511,515	2,997,669	7,357,646	1,471,575	5,723,103	114,391	48,577
(c) New York.....	26,588,253	9,465,194	15,314,139	2,770,185	12,345,868	93,129	104,558
(d) Ohio.....	8,973,532	2,300,205	5,736,224	986,641	4,674,530	40,613	34,440
(e) Pennsylvania.....	9,042,433	1,885,337	6,133,338	1,142,008	4,859,724	89,855	41,750
(f) Texas.....	5,651,336	1,133,126	3,616,869	1,057,561	2,522,462	13,123	23,723

See footnotes on p. 119.

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. 117, for tax rates and further breakdown of national totals by sources)

Internal revenue regions, districts, States, and other areas <sup>1</sup>	Estate tax	Gift tax	Excise taxes, total (sum of columns 11, 26, 30, 33, 39, 40, and 53)	Alcohol taxes						
				Total	Distilled spirits taxes					Other <sup>11</sup>
					Total	Imported (collected by Customs)	Domestic <sup>12</sup>	Rectification <sup>13</sup>	Occupational <sup>14</sup>	
(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	
<b>United States, total</b>	<b>2,728,580</b>	<b>285,826</b>	<b>14,113,748</b>	<b>4,075,723</b>	<b>3,006,636</b>	<b>682,603</b>	<b>2,283,615</b>	<b>24,637</b>	<b>15,079</b>	<b>748</b>
<b>North-Atlantic Region</b>	<b>690,398</b>	<b>79,477</b>	<b>1,653,222</b>	<b>671,244</b>	<b>423,748</b>	<b>236,665</b>	<b>181,952</b>	<b>2,277</b>	<b>2,831</b>	<b>22</b>
Albany (See (c) below)	24,536	1,159	17,744	9,718	258	258	258	1	1	4
Augusta (Maine)	12,482	407	6,121	1,057	823	6	1,776	20	21	(*)
Boston (Massachusetts)	84,842	13,081	170,755	100,679	87,587	21,502	64,460	916	704	4
Brooklyn (See (c) below)	105,562	6,227	81,547	68,754	4,121	3,508	275	329	8	8
Buffalo (See (c) below)	52,786	7,399	109,878	72,141	35,396	34,842	2	547	4	4
Hartford (Vermont)	7,650	14	5,264	4,749	4,183	4,148	2	35	2	(*)
Hartford (Connecticut)	92,709	8,126	153,630	78,207	76,183	10,869	64,719	228	363	4
Manhattan (See (c) below)	272,518	40,995	1,088,551	221,422	212,125	163,625	47,238	832	430	(*)
Portsmouth (Rhode Island)	37,241	3,152	2,071	91	281	244	6	113	3	(*)
Providence (Rhode Island)	17,467	647	17,181	13,697	1,789	1,672	6	113	3	(*)
<b>Mid-Atlantic Region</b>	<b>461,831</b>	<b>47,513</b>	<b>1,966,960</b>	<b>682,601</b>	<b>502,444</b>	<b>62,807</b>	<b>430,490</b>	<b>6,652</b>	<b>2,366</b>	<b>129</b>
Baltimore (Maryland and D.C.)	118,107	5,567	391,800	221,293	191,127	22,993	130,468	3,898	694	88
Newark (New Jersey)	109,751	8,590	369,247	212,931	131,315	10,048	489	694	88	88
Philadelphia (See (e) below)	98,664	10,740	507,717	169,943	128,485	38,568	88,550	1,482	781	4
Pittsburgh (See (e) below)	68,491	12,632	325,515	69,921	44,573	4,573	43,291	782	488	12
Richmond (Virginia)	37,241	3,152	460,657	9,459	5,892	1,646	4,200	73	22	22
Wilmington (Delaware)	28,829	6,879	2,024	54	50	50	50	50	50	50
<b>South-Atlantic Region</b>	<b>223,977</b>	<b>22,430</b>	<b>1,545,870</b>	<b>80,967</b>	<b>51,470</b>	<b>26,589</b>	<b>23,811</b>	<b>26</b>	<b>698</b>	<b>987</b>
Atlanta (Georgia)	32,535	7,444	165,586	13,234	7,653	2,235	5,213	23	109	72
Birmingham (Alabama)	20,579	2,386	20,148	1,466	1,282	1,166	43	42	31	31
Columbia (South Carolina)	12,777	1,201	18,237	1,681	1,202	1,054	4	58	76	76
Greensboro (North Carolina)	30,032	3,482	1,192,294	1,837	1,561	1,389	29	24	100	100
Jackson (Mississippi)	10,044	845	6,813	236	114	23	23	38	31	26
Jacksonville (Florida)	92,289	9,728	104,417	44,485	21,757	20,715	672	3	54	33
Nashville (Tennessee)	25,301	3,343	36,392	19,078	17,911	17,927	17,927	17,927	17,927	17,927
<b>Central Region</b>	<b>281,719</b>	<b>35,935</b>	<b>3,946,356</b>	<b>1,312,420</b>	<b>1,210,025</b>	<b>178,588</b>	<b>1,015,977</b>	<b>9,449</b>	<b>2,311</b>	<b>111</b>
Cincinnati (See (d) below)	52,703	7,003	189,871	145,997	131,816	130,251	1,328	229	8	8
Cleveland (See (d) below)	73,513	8,523	632,889	84,565	69,869	64,001	5,117	75	667	8
Detroit (Michigan)	79,738	12,285	1,601,436	182,661	144,265	114,586	28,638	366	926	29
Indianapolis (Indiana)	41,857	5,454	356,397	292,549	268,220	262,009	5,869	322	21	21
Louisville (Kentucky)	20,208	1,400	1,165,708	605,429	593,592	591,636	1,801	136	20	20
Farkersburg (West Virginia)	14,189	1,170	14,454	1,604	1,507	1,507	1,507	1,507	1,507	1,507
<b>Midwest Region</b>	<b>358,933</b>	<b>38,334</b>	<b>1,656,247</b>	<b>728,320</b>	<b>416,442</b>	<b>60,096</b>	<b>348,406</b>	<b>4,421</b>	<b>1,936</b>	<b>52</b>
Aberdeen (South Dakota)	3,860	137	6,684	91	52	52	52	52	52	(*)
Chicago (See (d) below)	149,223	16,286	646,659	142,462	123,770	44,334	77,514	607	881	35
Des Moines (Iowa)	23,129	1,915	27,813	1,774	1,428	1,269	1,269	1,269	1,269	1,269
Fargo (North Dakota)	2,963	166	4,551	111	100	39	61	61	61	61
Milwaukee (Wisconsin)	33,156	3,825	209,597	133,650	4,383	2,691	823	104	773	1
Omaha (Nebraska)	16,213	858	59,303	7,589	120	120	119	119	119	119
St. Louis (Missouri)	63,700	7,039	282,709	116,980	26,259	8,221	16,290	654	352	12
St. Paul (Minnesota)	37,392	5,747	115,986	46,381	8,825	4,031	4,515	69	220	(*)
Springfield (See (d) below)	28,343	3,342	312,345	278,775	251,495	247,995	3,188	307	74	27
<b>Southwest Region</b>	<b>252,738</b>	<b>29,255</b>	<b>1,283,596</b>	<b>149,975</b>	<b>36,392</b>	<b>25,126</b>	<b>10,437</b>	<b>4</b>	<b>921</b>	<b>33</b>
Albuquerque (New Mexico)	6,015	1,302	7,882	83	80	80	80	80	80	(*)
Austin (See (f) below)	63,431	14,591	651,263	56,034	15,056	14,675	252	252	252	252
Cheyenne (Wyoming)	3,026	282	5,288	50	40	40	40	40	40	40
Dallas (See (f) below)	60,671	6,173	105,242	9,220	335	335	335	335	335	335
Denver (Colorado)	27,451	1,057	111,064	40,543	170	170	170	170	170	170
Little Rock (Arkansas)	9,083	1,135	24,427	466	58	58	58	58	58	58
New Orleans (Louisiana)	23,117	3,301	67,937	40,939	19,814	10,451	9,038	4	316	4
Oklahoma City (Oklahoma)	33,255	1,839	28,821	1,569	68	68	68	68	68	68
Wichita (Kansas)	26,736	1,585	22,053	1,071	571	895	76	76	76	(*)
<b>Western Region</b>	<b>439,924</b>	<b>32,398</b>	<b>1,179,739</b>	<b>499,534</b>	<b>315,975</b>	<b>92,835</b>	<b>219,155</b>	<b>622</b>	<b>2,928</b>	<b>35</b>
Anchorage (Alaska)	359	10	2,003	151	148	103	103	103	103	103
Boise (Idaho)	6,443	182	3,798	83	38	38	38	38	38	(*)
Helena (Montana)	4,047	284	3,662	1,081	259	259	169	87	5	87
Honolulu (Hawaii)	6,205	411	9,579	4,327	2,374	2,237	87	45	45	45
Los Angeles (See (a) below)	205,823	15,615	373,986	135,779	87,235	40,778	45,323	95	1,018	21
Phoenix (Arizona)	14,787	1,181	5,496	1,377	208	25	208	25	181	2
Portland (Oregon)	14,066	970	25,340	8,692	4,637	1,568	2,993	74	74	74
Reno (Nevada)	4,152	1,160	12,079	82	80	80	80	80	80	80
Salt Lake City (Utah)	15,052	550	10,686	2,158	10	10	10	10	10	(*)
San Francisco (See (a) below)	143,281	9,398	613,604	288,722	202,230	31,964	168,733	515	995	4
Seattle (Washington)	35,400	2,635	111,937	57,573	18,347	10,137	1,850	7	347	6
<b>Office of International Operations</b>	<b>20,060</b>	<b>586</b>	<b>83,725</b>	<b>50,461</b>	<b>50,393</b>	<b>9</b>	<b>49,389</b>	<b>994</b>	<b>994</b>	<b>994</b>
Puerto Rico (Washington)	20,060	586	83,725	50,461	50,393	9	49,389	994	994	994
Other	20,058	377	1,189	9	9	9	9	9	9	9
Undistributed:										
Depository receipts <sup>1</sup>			825,053							
Transferred to Government of Guam										
Withheld taxes of Federal employees										
Gasoline, lubricating oil, and excess FICA credits <sup>2</sup>										
Totals for States not shown above										
(a) California	345,104	25,013	988,990	424,001	289,465	72,762	214,056	610	2,013	25
(b) Illinois	178,568	18,628	959,005	421,236	375,265	44,334	325,912	3,794	1,188	37
(c) New York	455,422	55,779	2,287,719	372,936	251,998	198,467	50,510	1,107	1,563	14
(d) Ohio	71,716	14,626	802,761	229,862	201,685	64,001	135,368	1,403	897	15
(e) Pennsylvania	167,155	23,372	833,231	238,864	174,058	38,568	131,941	2,265	1,269	15
(f) Texas	124,052	20,764	756,525	65,254	15,391	14,675	19,981	8	215	8

See footnote, on p. 119.

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. 117, for tax rates and further breakdown of national totals by sources)

Internal revenue regions, districts, States and other areas <sup>1</sup>	Alcohol taxes—Continued							
	Wines, cordials, etc., taxes				Beer taxes			
	Total	Imported (collected by Customs)	Domestic	Occupational taxes <sup>11</sup>	Total	Imported (collected by Customs)	Domestic <sup>12</sup>	Occupational taxes <sup>13</sup>
(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
<b>United States, total</b>	<b>124,022</b>	<b>11,872</b>	<b>109,617</b>	<b>2,532</b>	<b>945,015</b>	<b>6,018</b>	<b>934,604</b>	<b>4,393</b>
<b>North-Atlantic Region</b>	<b>29,343</b>	<b>5,762</b>	<b>23,288</b>	<b>93</b>	<b>138,354</b>	<b>3,288</b>	<b>134,259</b>	<b>887</b>
Albany (Maine)	1,209	1,208	1	1	8,252	11	8,170	65
Augusta (Massachusetts)	160	160	0	0	74	0	74	0
Boston (Massachusetts)	1,082	495	587	13	12,010	175	11,825	62
Brooklyn (See (c) below)	3,761	3,754	7	7	60,873	60	60,665	208
Buffalo (See (c) below)	14,706	14,534	172	172	22,039	812	21,046	182
Hartford (Vermont)	1,196	1,196	0	0	2	2	0	4
Hartford (Connecticut)	6,895	2,063	4,832	12	8,227	243	7,444	61
Manhattan (See (c) below)	2,831	2,831	0	0	2,831	2,831	0	38
Portsmouth (Rhode Island)	75	75	0	0	11,803	33	11,809	38
<b>Mid-Atlantic Region</b>	<b>13,138</b>	<b>979</b>	<b>11,839</b>	<b>320</b>	<b>167,020</b>	<b>479</b>	<b>166,148</b>	<b>392</b>
Baltimore (Maryland and D.C.)	998	511	467	27	29			

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. 117, for tax rates and further breakdown of national totals by sources]

Internal revenue regions, districts, States, and other areas <sup>1</sup>	Tobacco taxes				Stamp taxes on documents and other instruments <sup>2</sup>		
	Total (26)	Cigarettes <sup>3</sup> (27)	Cigars <sup>4</sup> (28)	Other <sup>5</sup> (29)	Total (30)	Sales by postmasters (31)	Sales by district directors (32)
<b>United States, total</b>	<b>2,079,859</b>	<b>2,023,099</b>	<b>55,736</b>	<b>1,043</b>	<b>68,260</b>	<b>40,393</b>	<b>27,867</b>
<b>North-Atlantic Region</b>	<b>782</b>	<b>104</b>	<b>370</b>	<b>308</b>	<b>9,392</b>	<b>4,305</b>	<b>4,487</b>
Albany (See (c) below)	29	25	25	25	96	36	16
Augusta (Maine)	(*)	216	202	(*)	1,776	1,276	500
Boston (Massachusetts)	10	1	4	1	490	734	890
Buffalo (See (c) below)	14	(*)	(*)	14	128	99	30
Burlington (Vermont)	(*)	222	221	(*)	1,232	1,074	158
Hartford (Connecticut)	504	103	108	293	3,842	1,947	1,995
Manhattan (See (c) below)	222	(*)	(*)	(*)	231	174	57
Portsmouth (New Hampshire)	(*)	1	1	1	247	234	14
Providence (Rhode Island)	446,443	418,776	26,631	(*)	9,629	6,718	2,910
Baltimore (Maryland and D.C.)	23	(*)	(*)	23	1,531	1,092	439
Newark (New Jersey)	24,058	2	24,056	(*)	2,515	2,210	305
Philadelphia (See (c) below)	215	215	215	(*)	1,902	1,800	102
Pittsburgh (See (e) below)	421,278	419,768	1,510	(*)	1,523	1,437	86
Richmond (Virginia)	1,146,516	1,145,947	569	(*)	1,313	1,122	191
Wilmington (Delaware)	9,674	134	9,516	23	833	180	653
<b>Mid-Atlantic Region</b>	<b>1,160,725</b>	<b>1,146,202</b>	<b>13,879</b>	<b>645</b>	<b>1,932</b>	<b>6,494</b>	<b>1,437</b>
Atlanta (Georgia)	698	698	698	(*)	1,122	706	416
Birmingham (Alabama)	1,146,516	1,145,947	569	(*)	1,313	1,122	191
Columbia (South Carolina)	2,197	121	2,076	18	576	413	164
Greensboro (North Carolina)	9,674	134	9,516	23	833	180	653
Jackson (Mississippi)	9,674	134	9,516	23	833	180	653
Jacksonville (Florida)	9,674	134	9,516	23	833	180	653
Nashville (Tennessee)	9,674	134	9,516	23	833	180	653
<b>Central Region</b>	<b>462,833</b>	<b>457,011</b>	<b>5,841</b>	<b>1</b>	<b>2,711</b>	<b>5,473</b>	<b>3,468</b>
Cincinnati (See (d) below)	113	113	113	1	881	881	881
Cleveland (See (d) below)	1,789	1,789	1,789	(*)	2,820	1,181	1,639
Detroit (Michigan)	129	(*)	128	1	1,126	900	226
Indianapolis (See (c) below)	459,403	457,011	2,392	(*)	761	526	235
Louisville (Kentucky)	220	(*)	220	2	331	305	26
Parkersburg (West Virginia)	27	(*)	25	2	9,324	5,546	3,778
<b>Midwest Region</b>	<b>9,224</b>	<b>9,224</b>	<b>9,224</b>	<b>9,224</b>	<b>9,224</b>	<b>9,224</b>	<b>9,224</b>
Aberdeen (South Dakota)	7	6	6	1	3,866	854	2,557
Chicago (See (b) below)	1,310	1,310	1,310	(*)	144	129	15
Des Moines (Iowa)	(*)	(*)	(*)	(*)	1,218	1,074	144
Fargo (North Dakota)	18	(*)	18	(*)	488	359	129
Milwaukee (Wisconsin)	1,562	1,562	1,562	1	1,517	1,061	456
Omaha (Nebraska)	2	(*)	2	(*)	1,020	633	387
St. Louis (Missouri)	(*)	(*)	(*)	(*)	69	69	69
St. Paul (Minnesota)	113	113	113	1	8,889	5,388	3,798
Springfield (See (b) below)	113	113	113	1	1,313	149	100
<b>Southwest Region</b>	<b>113</b>	<b>2</b>	<b>112</b>	<b>1</b>	<b>1,313</b>	<b>82</b>	<b>17</b>
Albuquerque (New Mexico)	113	2	112	1	2,818	1,944	874
Austin (See (f) below)	894	894	894	1	402	299	102
Cheyenne (Wyoming)	(*)	(*)	(*)	(*)	894	660	234
Dallas (See (f) below)	1	1	1	(*)	1,145	1,016	128
Denver (Colorado)	1	1	1	(*)	498	478	120
Little Rock (Arkansas)	1	1	1	(*)	1,372	820	552
New Orleans (Louisiana)	1	1	1	(*)	1,145	1,016	128
Oklahoma City (Oklahoma)	1	1	1	(*)	498	478	120
Wichita (Kansas)	1	1	1	(*)	1,372	820	552
<b>Western Region</b>	<b>72</b>	<b>1</b>	<b>27</b>	<b>43</b>	<b>15,001</b>	<b>6,322</b>	<b>8,680</b>
Anchorage (Alaska)	(*)	(*)	(*)	(*)	179	156	24
Boise (Idaho)	8	8	8	8	193	180	13
Helena (Montana)	8	8	8	8	210	13	197
Honolulu (Hawaii)	36	(*)	23	12	5,437	210	5,437
Los Angeles (See (a) below)	(*)	(*)	(*)	(*)	701	491	210
Phoenix (Arizona)	(*)	(*)	(*)	(*)	705	597	108
Portland (Oregon)	26	1	4	21	450	104	345
Reno (Nevada)	(*)	(*)	(*)	(*)	199	87	111
Salt Lake City (Utah)	26	1	4	21	5,525	4,350	1,175
San Francisco (See (a) below)	(*)	(*)	(*)	(*)	1,327	586	741
Seattle (Washington)	9,350	9,350	9,350	9,350	55	55	55
<b>Office of International Operations</b>	<b>9,350</b>	<b>9,350</b>	<b>9,350</b>	<b>9,350</b>	<b>55</b>	<b>55</b>	<b>55</b>
Puerto Rico	9,350	9,350	9,350	9,350	55	55	55
Other	9,350	9,350	9,350	9,350	55	55	55
<b>Undistributed:</b>	<b>44</b>	<b>1</b>	<b>13</b>	<b>30</b>	<b>44</b>	<b>1</b>	<b>13</b>
Depository receipts <sup>7</sup>							
Transferred to Government of Guam							
Withheld taxes of Federal employees							
Gasoline, lubricating oil, and excess FICA credits <sup>8</sup>							
<b>Totals for States not shown above</b>							
(a) California	62	1	27	34	10,962	4,350	6,612
(b) Illinois	7	6	6	6	2,536	1,310	2,536
(c) New York	554	104	143	307	5,562	1,847	3,715
(d) Ohio	1,902	1	1,902	(*)	3,592	2,259	1,333
(e) Pennsylvania	24,274	24,271	3	(*)	2,527	1,803	827
(f) Texas	115	2	112	1	4,131	1,944	2,187

See footnotes on p. 119.

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. 117, for tax rates and further breakdown of national totals by sources]

Internal revenue regions, districts, States, and other areas <sup>1</sup>	Manufacturers' excise taxes					Total retailers' excise taxes <sup>17</sup>
	Total (33)	Gasoline (34)	Lubricating oil, etc. (35)	Tires (wholly or in part of rubber), inner tubes, and tread rubber (36)	Motor vehicles, chassis, bodies, parts, and accessories (37)	
<b>United States, total</b>	<b>5,478,347</b>	<b>2,932,894</b>	<b>92,573</b>	<b>503,753</b>	<b>1,931,384</b>	<b>1,639</b>
<b>North-Atlantic Region</b>	<b>704,226</b>	<b>538,803</b>	<b>18,739</b>	<b>107,967</b>	<b>14,370</b>	<b>24,347</b>
Albany (See (c) below)	3,676	2,750	33	1,222	—	—236
Augusta (Maine)	2,408	2,147	(*)	188	73	(*)
Boston (Massachusetts)	18,809	16,108	772	1,928	1,042	(*)
Buffalo (See (c) below)	6,807	1,963	68	3,406	1,102	268
Burlington (See (c) below)	21,800	12,393	(*)	8,597	2,049	125
Hartford (Vermont)	666	562	10	80	1	1
Manhattan (See (c) below)	51,852	5,945	4	30,761	676	14,466
Portsmouth (See (c) below)	595,813	494,421	18,440	64,351	10,887	7,515
Providence (Rhode Island)	840	749	(*)	420	16	(*)
<b>Mid-Atlantic Region</b>	<b>605,452</b>	<b>473,293</b>	<b>16,466</b>	<b>35,550</b>	<b>79,159</b>	<b>159</b>
Baltimore (Maryland and D.C.)	41,852	13,396	167	27,034	337	258
Newark (New Jersey)	74,253	25,247	2,086	12,115	47,517	187
Philadelphia (See (c) below)	247,053	206,802	5,966	5,088	28,484	714
Pittsburgh (See (e) below)	234,853	222,726	8,232	2,070	2,352	—537
Richmond (See (c) below)	6,891	6,061	5	142	420	324
Wilmington (Delaware)	491	462	(*)	29	(*)	87
<b>Southwest Region</b>	<b>81,842</b>	<b>65,504</b>	<b>711</b>	<b>3,907</b>	<b>10,630</b>	<b>1,000</b>
Atlanta (Georgia)	14,248	10,660	100	1,301	2,095	33
Birmingham (Alabama)	10,802	5,537	1	1,473	3,713	79
Columbia (South Carolina)	9,630	8,984	160	64	171	251
Greensboro (North Carolina)	23,499	21,113	105	811	1,412	37
Jackson (Mississippi)	3,694	3,345	25	303	—1	—4
Jacksonville (Florida)	9,615	7,139	159	105	1,340	871
Nashville (Tennessee)	10,355	6,727	162	110	1,596	239
<b>Central Region</b>	<b>2,275,853</b>	<b>240,230</b>	<b>6,784</b>	<b>314,245</b>	<b>1,693,971</b>	<b>—2,577</b>
Cincinnati (See (d) below)	8,191	4,747	41	230	3,214	—41
Cleveland (See (d) below)	482,631	95,445	2,583	340,376	44,842	—417
Detroit (Michigan)	1,658,409	33,652	345	—6,560	1,641,611	24
Indianapolis (Indiana)	25,086	20,695	570	30	3,354	—1,563
Louisville (Kentucky)	83,008	83,983	3,114	77	1,328	107
Parkersburg (West Virginia)	2,228	2,029	92	—	—209	7
<b>Midwest Region</b>	<b>504,981</b>	<b>433,167</b>	<b>9,734</b>	<b>3,395</b>	<b>74,488</b>	<b>4,194</b>
Aberdeen (South Dakota)	4,614	3,988	20	20	606	(*)
Chicago (See (b) below)	305,402	238,257	6,757	1,431	58,423	596
Des Moines (Iowa)	16,361	13,575	114	316	2,064	292
Fargo (North Dakota)	3,010	5,509	31	8	1,455	7
Milwaukee (Wisconsin)	39,124	32,646	202	107	5,697	472
Omaha (Nebraska)	6,210	5,620	267	(*)	268	56
St. Louis (Missouri)	60,688	56,493	1,125	1,332	1,557	130
St. Paul (Minnesota)	48,237	40,488	1,084	132	3,104	1,430
Springfield (See (c) below)	21,274	20,591	134	18	1,316	—785
<b>Southwest Region</b>	<b>960,809</b>	<b>904,185</b>	<b>29,866</b>	<b>15,650</b>	<b>9,568</b>	<b>261</b>
Albuquerque (New Mexico)	4,746	4,705	23	23	14	1
Austin (See (f) below)	563,662	537,605	19,538	5,461	1,031	26
Cheyenne (Wyoming)	3,371	3,362	1	(*)	5	3
Dallas (See (f) below)	43,097	37,478	308	340	4,217	754
Denver (Colorado)	30,007	18,831	2	9,762	156	4
Little Rock (Arkansas)	18,572	17,886	45	17	417	608
New Orleans (Louisiana)	9,070	7,739	8	708	56	212
Oklahoma City (Oklahoma)	274,405	263,736	9,097	13	1,542	17
Wichita (Kansas)	13,478	12,764	315	25	378	—3
<b>Western Region</b>	<b>345,819</b>	<b>297,290</b>	<b>10,253</b>	<b>3,043</b>	<b>33,185</b>	<b>2,071</b>
Anchorage (Alaska)	7	5	(*)	(*)	(*)	(*)
Boise (Idaho)	1,346	1,037	(*)	50	109	—2
Helena (Montana)	579	525	10	31	12	(*)
Honolulu (Hawaii)	421	421	4	82	8	(*)
Los Angeles (See (a) below)	173,144	156,513	4,220	10,673	11,052	—314

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. 117, for tax rates and further breakdown of national total; by sources]

Internal revenue regions, districts, States, and other areas <sup>1</sup> (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Miscellaneous excise taxes						Total (40)
	Admissions, theaters, athletic contests, roof gardens, cabarets, etc. <sup>2</sup> (41)	Telephone, wire, etc. and equipment services (42)	Transportation of persons <sup>3</sup> (43)	Use of safe deposit boxes <sup>4</sup> (44)	Sugar (45)	Diesel and special motor fuels (46)	
<b>United States, total</b>	<b>1,732,067</b>	<b>3,399</b>	<b>1,101,653</b>	<b>170,323</b>	<b>33</b>	<b>104,203</b>	<b>182,147</b>
<b>North-Atlantic Region</b>	<b>344,140</b>	<b>671</b>	<b>183,268</b>	<b>57,199</b>	<b>22</b>	<b>40,999</b>	<b>22,579</b>
Albany (See (c) below)	3,839	33	1,833	10	(*)	(*)	860
Augusta (Maine)	1,422	1	399	6	(*)	(*)	504
Boston (Massachusetts)	47,555	65	37,197	2,603	7	1,719	1,719
Brooklyn (See (c) below)	2,952	258	29	177	(*)	2	629
Buffalo (See (c) below)	12,845	56	6,927	1,843	(*)	16	1,885
Burlington (Vermont)	743	4	209	1	(*)	1	322
Hartford (Connecticut)	21,097	19	17,817	13	(*)	(*)	1,380
Manhattan (See (c) below)	252,252	207	128,095	52,546	(*)	20	14,884
Portsmouth (New Hampshire)	671	10	157	1	(*)	(*)	20
Providence (Rhode Island)	640	24	6	1	(*)	(*)	5
<b>Mid-Atlantic Region</b>	<b>204,509</b>	<b>407</b>	<b>153,122</b>	<b>4,768</b>	<b>1</b>	<b>5,442</b>	<b>24,883</b>
Baltimore (Maryland and D.C.)	34,775	161	25,642	1,672	(*)	(*)	1,361
Newark (New Jersey)	53,958	109	45,373	23	(*)	(*)	74
Philadelphia (See (c) below)	73,626	79	55,649	31	(*)	(*)	5,354
Pittsburgh (See (e) below)	17,686	16	5,119	3	1	(*)	8,205
Richmond (Virginia)	23,847	37	18,331	36	(*)	(*)	3,170
Wilmington (Delaware)	517	6	1	1	(*)	(*)	139
<b>Southeast Region</b>	<b>203,955</b>	<b>395</b>	<b>143,965</b>	<b>22,028</b>	<b>1</b>	<b>4,889</b>	<b>13,665</b>
Atlanta (Georgia)	139,672	131	115,739	14,415	(*)	(*)	4,575
Birmingham (Alabama)	5,735	70	1,285	12	(*)	(*)	2,601
Columbia (South Carolina)	3,881	17	1,132	(*)	(*)	(*)	1,741
Greensboro (North Carolina)	19,295	-21	12,253	1,348	(*)	(*)	1,264
Jackson (Mississippi)	2,549	(*)	789	(*)	(*)	(*)	1,071
Jacksonville (Florida)	73,943	103	40,697	6,249	(*)	(*)	2,242
Nashville (Tennessee)	7,959	10	2,469	10	(*)	(*)	2,410
<b>Central Region</b>	<b>179,183</b>	<b>284</b>	<b>131,677</b>	<b>651</b>	<b>3</b>	<b>1,501</b>	<b>24,402</b>
Cincinnati (See (d) below)	15,329	67	11,200	43	(*)	(*)	1,524
Cleveland (See (d) below)	56,430	94	43,439	12	(*)	(*)	7,349
Detroit (Michigan)	53,722	95	43,407	93	(*)	(*)	3,432
Indianapolis (Indiana)	32,358	45	22,596	492	(*)	(*)	4,834
Louisville (Kentucky)	1,503	4	4,089	1	(*)	(*)	5,801
Parkersburg (West Virginia)	9,264	4	6,875	4	(*)	(*)	1,102
<b>Midwest Region</b>	<b>358,534</b>	<b>502</b>	<b>246,397</b>	<b>63,719</b>	<b>3</b>	<b>1,258</b>	<b>24,901</b>
Aberdeen (South Dakota)	1,829	5	488	9	(*)	(*)	1,767
Chicago (See (f) below)	114,952	200	66,393	31,453	(*)	(*)	8,747
Des Moines (Iowa)	8,993	66	4,548	31	(*)	(*)	2,380
Fargo (North Dakota)	1,784	6	533	13	(*)	(*)	444
Milwaukee (Wisconsin)	24,542	45	19,493	32	(*)	(*)	2,149
Omaha (Nebraska)	52,996	5	42,730	7,621	(*)	(*)	1,365
St. Louis (Missouri)	122,896	78	100,296	14,287	(*)	(*)	3,594
St. Paul (Minnesota)	19,862	28	14,639	9,772	(*)	(*)	2,516
Springfield (See (b) below)	11,260	64	7,277	7	(*)	(*)	2,294
<b>Southwest Region</b>	<b>162,536</b>	<b>840</b>	<b>87,559</b>	<b>8,224</b>	<b>2</b>	<b>29,939</b>	<b>43,798</b>
Albuquerque (New Mexico)	2,509	5	763	5	(*)	(*)	1,767
Austin (See (f) below)	29,696	121	1,474	1,096	(*)	(*)	3,718
Cheyenne (Wyoming)	1,760	3	1	1	(*)	(*)	1,258
Dallas (See (f) below)	30,574	64	10,466	6,024	(*)	(*)	8,897
Denver (Colorado)	59,198	161	39,434	1,056	(*)	(*)	1,917
Little Rock (Arkansas)	4,432	17	1,163	11	(*)	(*)	1,686
New Orleans (Louisiana)	15,193	49	512	11	(*)	(*)	1,911
Oklahoma City (Oklahoma)	11,492	66	929	5	(*)	(*)	8,699
Wichita (Kansas)	6,651	35	3,234	8	(*)	(*)	1,849
<b>Western Region</b>	<b>276,235</b>	<b>678</b>	<b>177,897</b>	<b>16,899</b>	<b>1</b>	<b>17,107</b>	<b>29,338</b>
Anchorage (Alaska)	1,766	4	1,260	237	(*)	(*)	38
Boise (Idaho)	2,060	11	232	6	(*)	(*)	1,007
Helena (Montana)	1,809	40	451	2	(*)	(*)	127
Honolulu (Hawaii)	4,692	17	2,512	1,594	(*)	(*)	739
Los Angeles (See (a) below)	54,493	200	26,971	11,955	(*)	(*)	9,477
Phoenix (Arizona)	3,072	14	221	162	(*)	(*)	1,721
Portland (Oregon)	5,977	107	1,519	2	(*)	(*)	1,906
Reno (Nevada)	11,042	187	158	534	(*)	(*)	889
Salt Lake City (Utah)	9,760	211	9,760	(*)	(*)	(*)	1,171
San Francisco (See (a) below)	144,534	79	113,366	830	(*)	(*)	8,713
Seattle (Washington)	37,305	19	30,905	879	(*)	(*)	11,226
<b>Office of International Operations</b>	<b>3,815</b>	<b>1</b>	<b>187</b>	<b>545</b>	<b>1</b>	<b>2,729</b>	<b>46</b>
Puerto Rico	2,734	1	167	545	(*)	(*)	2,729
Other	1,081						46
<b>Undistributed:</b>							
Depositary receipts <sup>5</sup>							825,953
Transferred to Government of Guam							
Withheld taxes of Federal employees							
Gasoline, lubricating oil, and excess FICA credits <sup>6</sup>							
<b>Totals for States not shown above</b>							
(a) California	198,847	279	140,338	12,785	(*)	(*)	9,727
(b) Illinois	126,212	265	73,670	31,460	(*)	(*)	706
(c) New York	272,102	554	137,484	54,576	(*)	(*)	38,223
(d) Ohio	71,759	111	54,629	55	(*)	(*)	166
(e) Pennsylvania	91,312	95	60,769	36	(*)	(*)	5,355
(f) Texas	60,270	185	7,119		(*)	(*)	3,796

See footnotes on p. 119.

Table 1.—Internal revenue collections by sources and by internal revenue regions, districts, States, and other areas—Continued

[In thousand of dollars. See table 3, p. 117, for tax rates and further breakdown of national total; by sources]

Internal revenue regions, districts, States, and other areas <sup>1</sup> (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Miscellaneous excise taxes—Continued						Unclassified excise taxes (53)
	Narcotics and marihuana, including occupational taxes (47)	Coin-operated gaming devices (48)	Wagering taxes (49)		Use tax on highway motor vehicles (51)	Other <sup>2</sup> (52)	
			Occupational (49)	Wagers (50)			
<b>United States, total</b>	<b>1,340</b>	<b>16,650</b>	<b>572</b>	<b>5,624</b>	<b>108,178</b>	<b>37,709</b>	<b>675,967</b>
<b>North-Atlantic Region</b>	<b>590</b>	<b>147</b>	<b>56</b>	<b>144</b>	<b>12,328</b>	<b>16,337</b>	<b>22,518</b>
Albany (See (c) below)	69	3	3	7	736	289	356
Augusta (Maine)	2	9			485	6	18
Boston (Massachusetts)	39	110			2,346	703	1,794
Brooklyn (See (c) below)	141	1	16	17	1,339	342	2,068
Buffalo (See (c) below)	40	1	3	48	1,885	143	2,334
Burlington (Vermont)					2		2
Hartford (Connecticut)	10	26	5	1,552	176	1,115	1,115
Manhattan (See (c) below)	82	(*)	2	44	3,198	14,582	14,534
Portsmouth (New Hampshire)	2	1			248	8	8
Providence (Rhode Island)	4		16	4	334	89	370
<b>Mid-Atlantic Region</b>	<b>246</b>	<b>2,311</b>	<b>68</b>	<b>277</b>	<b>14,659</b>	<b>4,326</b>	<b>18,646</b>
Baltimore (Maryland and D.C.)	16	2,030	5	18	1,850	514	2,253
Newark (New Jersey)	112	77	14	1	3,313	1,196	2,640
Philadelphia (See (c) below)	78	10	22	15	4,801	1,170	-7,705
Pittsburgh (See (e) below)	14	98	16	32	2,472	934	1,925
Richmond (Virginia)	25	35	7	37	1,885	216	-2,488
Wilmington (Delaware)	2	(*)	4	23	338	95	22
<b>Southeast Region</b>	<b>84</b>	<b>1,206</b>	<b>10</b>	<b>29</b>	<b>13,283</b>	<b>1,889</b>	<b>11,300</b>
Atlanta (Georgia)	11	206	10	85	1,705	207	-170
Birmingham (Alabama)	12	1	9	85	1,961	11	-791
Columbia (South Carolina)	7	552	2	38	1,561	56	161
Greensboro (North Carolina)	12	38	1	56	3,201	88	-114
Jackson (Mississippi)	6	349	5	43	773	8	-114
Jacksonville (Florida)	19	16	4	97	2,811	555	13,840
Nashville (Tennessee)	6	79	4	182	1,337	96	92
<b>Central Region</b>	<b>149</b>	<b>969</b>	<b>91</b>	<b>1,698</b>	<b>17,416</b>	<b>591</b>	<b>-297,765</b>
Cincinnati (See (d) below)	19	192	3	97	2,100	83	-1,595
Cleveland (See (d) below)	27	62	11	287	4,713	258	6,568
Detroit (Michigan)	35	4	7	71	4,965	329	-301,329
Indianapolis (Indiana)	54	331	40	757	3,533	251	4,556
Louisville (Kentucky)	18	10	294	1	1,124	104	10
Parkersburg (West Virginia)	5	370	12	193	681	17	86
<b>Midwest Region</b>	<b>134</b>	<b>533</b>	<b>52</b>	<b>340</b>	<b>17,923</b>	<b>632</b>	<b>53,247</b>
Aberdeen (South Dakota)	40	121	1	1	482	5	3
Chicago (See (f) below)	8	2	1	111	4,760	2,517	78,106
Des Moines (Iowa)	8	2	1	9	1,805	73	-64
Fargo (North Dakota)	6	2	5	4	2,670	108	-11
Milwaukee (Wisconsin)	12	7	4	1	2,716	7	-11
Omaha (Nebraska)	11	34	1	85	1,039	104	-7,984
St. Louis (Missouri)	41	123	12	35	3,055	483	-19,364
St. Paul (Minnesota)	13	7	10	44	2,568	264	-410
Springfield (See (b) below)	7	199	10	44	1,768	66	349
<b>Southwest Region</b>	<b>88</b>	<b>1,891</b>	<b>88</b>	<b>572</b>	<b>15,428</b>	<b>6,797</b>	<b>1,629</b>
Albuquerque (New Mexico)	4	12	2	2	423	22	83
Austin (See (f) below)	33	45	10	165	3,399	3,909	447
Cheyenne (Wyoming)	1	4	5	350	1	6	
Dallas (See (f) below)	13	3	72	2	4,363	128	19,515
Denver (Colorado)	8	52	1	2	1,601	583	-19,583
Little Rock (Arkansas)	4	263	31	113	1,126	19	152
New Orleans (Louisiana)	9	773	34	136	1,601	971	379
Oklahoma City (Oklahoma)	6	44	4	48	1,601	89	-222
Wichita (Kansas)	8	147	1	10			

Table 2.—Internal revenue collections by sources and by quarters

(In thousands of dollars)

Source of revenue	Quarters ended— <sup>1</sup>			
	Sept. 30, 1966 (1)	Dec. 31, 1966 (2)	Mar. 31, 1967 (3)	June 30, 1967 (4)
Grand total	31,531,615	27,982,495	38,965,030	50,795,675
Corporation income tax <sup>2</sup>	6,031,045	6,013,560	8,185,053	14,688,168
Individual income and employment taxes, total <sup>3</sup>	21,473,106	17,976,115	25,355,086	31,524,530
Income tax not withheld and self-employment tax <sup>4</sup>	3,136,149	856,182	5,181,237	11,452,131
Income tax withheld and old-age and disability insurance <sup>5</sup>	18,144,540	16,927,241	19,382,859	19,852,894
Railroad retirement <sup>6</sup>	188,087	189,863	205,160	209,748
Unemployment insurance <sup>7</sup>	4,329	2,829	585,830	9,757
Estate tax <sup>8</sup>	644,409	591,989	739,886	752,297
Gift tax <sup>9</sup>	7,832	11,822	23,269	240,903
Excise taxes, total <sup>10</sup>	3,375,224	3,387,010	3,761,738	3,589,776
Alcohol taxes, total <sup>11</sup>	934,777	1,159,490	874,680	1,106,776
Distilled spirits <sup>12</sup>	647,572	905,563	643,495	810,056
Wines, cordials, etc. <sup>13</sup>	27,084	38,121	26,749	32,068
Beer <sup>14</sup>	260,120	215,807	204,436	264,652
Tobacco taxes, total <sup>15</sup>	515,485	495,943	502,199	566,242
Cigarettes <sup>16</sup>	501,376	480,802	489,853	551,060
Cigars <sup>17</sup>	13,807	14,916	12,074	14,939
Other <sup>18</sup>	302	226	273	242
Stamp taxes on documents, other instruments, and playing cards, total <sup>19</sup>	23,250	13,050	15,695	16,266
Issues and transfers of bonds of indebtedness or capital stock, and deeds of conveyance:				
Sales by postmasters <sup>20</sup>	14,444	6,674	10,276	8,998
Sales by district directors <sup>21</sup>	8,803	6,371	5,418	7,167
Playing cards, silver bullion transfers <sup>22</sup>	2	5	(*)	1
Manufacturers' excise taxes, total <sup>23</sup>	1,425,795	1,247,681	1,479,634	1,325,237
Gasoline <sup>24</sup>	737,755	780,891	732,117	682,131
Lubricating oil, etc. <sup>25</sup>	27,210	24,060	20,432	20,853
Tires (wholly or in part of rubber), inner tubes, and tread rubber <sup>26</sup>	153,152	115,222	135,344	116,023
Motor vehicles, chassis, bodies, parts, and accessories <sup>27</sup>	522,828	315,754	582,463	496,338
Radio and television sets, phonographs, components, etc. <sup>28</sup>	3,026	—317	2,248	—234
Refrigerators, freezers, air-conditioners, etc.; electric, gas, and oil appliances <sup>29</sup>	—2,971	—504	—75	142
Other <sup>30</sup>	10,836	8,575	7,085	9,983
Retailers' excise taxes, total <sup>31</sup>	2,443	436	205	535
Luggage, etc. <sup>32</sup>	376	111	2	65
Jewelry, etc. <sup>33</sup>	979	241	160	263
Furs <sup>34</sup>	98	33	2	71
Toilet preparations <sup>35</sup>	991	51	41	135
Miscellaneous excise taxes, total <sup>36</sup>	386,266	256,934	482,466	606,396
Admissions: <sup>37</sup>				
Theaters, concerts, athletic contests, etc. <sup>38</sup>	114	70	186	—12
Root gardens, cabarets, etc. <sup>39</sup>	953	919	604	565
Club dues and initiation fees <sup>40</sup>	573	396	347	410
Telephone, wire, etc. and equipment services <sup>41</sup>	199,292	116,316	336,305	449,940
Transportation of persons <sup>42</sup>	28,924	41,757	43,785	55,853
Use of safe deposit boxes <sup>43</sup>	23	5	1	4
Cocoon and other vegetable oil processed <sup>44</sup>	(*)	(*)	—1	(*)
Sugar <sup>45</sup>	31,506	—	23,287	23,275
Diesel and special motor fuels <sup>46</sup>	41,597	44,606	50,745	45,199
Narcotics and marijuana, including occupational taxes <sup>47</sup>	421	191	242	485
Coin-operated amusement and gaming devices <sup>48</sup>	11,957	533	385	3,857
Bowling alleys, pool tables, etc. <sup>49</sup>	19	10	10	4
Wagering taxes: <sup>50</sup>				
Occupational <sup>51</sup>	262	116	43	151
Wagers <sup>52</sup>	1,320	1,472	1,438	1,395
Use tax on highway motor vehicles <sup>53</sup>	60,728	11,718	17,392	18,340
Other <sup>54</sup>	13,850	7,319	7,695	6,927
Unclassified excise taxes: <sup>55</sup>				
Unapplied collections <sup>56</sup>	107,052	—124,735	182,121	—313,623
Undistributed depository receipts <sup>57</sup>	—19,844	338,211	224,737	281,948

See footnotes on p. 119.

Table 3.—Internal revenue collections by sources, fiscal years 1966 and 1967

(In thousands of dollars)

Source of revenue	Fiscal year	
	1966 <sup>1</sup> (1)	1967 (2)
Grand total, all sources	128,879,961	148,374,815
Corporation income taxes, total <sup>2</sup>	30,834,243	34,917,825
Regular <sup>3</sup>	30,831,126	34,914,810
Exempt organization business income tax <sup>4</sup>	3,117	2,916
Individual income and employment taxes, total <sup>5</sup>	81,553,685	96,328,836
Income tax not withheld and self-employment tax <sup>6</sup>	19,413,516	20,625,699
Income tax withheld and old-age and disability insurance, total <sup>7</sup>	60,889,524	74,307,534
Received with returns <sup>8</sup>	59,098,852	72,077,293
Undistributed depository receipts <sup>9</sup>	1,790,672	2,230,242
Railroad retirement, total <sup>10</sup>	683,631	792,858
Railroad employment compensation tax: <sup>11</sup>		
Received with returns <sup>12</sup>	693,297	779,683
Undistributed depository receipts <sup>13</sup>	—9,699	13,139
Railroad employees' representative tax <sup>14</sup>	53	36
Unemployment insurance, employers of 4 or more persons taxed 3.1 percent on taxable portion of wages, effective Jan. 1, 1964, credit allowed up to 50 percent of tax for contributions to State unemployment funds <sup>15</sup>	567,014	602,745
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 <sup>16</sup>	2,646,968	2,728,580
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 <sup>17</sup>	446,954	285,826
Excise taxes, total <sup>18</sup>	13,398,112	14,113,748
Alcohol taxes, total <sup>19</sup>	3,814,378	4,075,723
Distilled spirits taxes, total <sup>20</sup>	2,809,777	3,006,686
Imported (collected by Customs, rates same as domestic) <sup>21</sup>	634,868	682,693
Domestic, \$10.50 per proof gallon or wine gallon when below proof <sup>22</sup>	2,131,598	2,283,619
Rectification, 30 cents per proof gallon <sup>23</sup>	27,477	24,637
Occupational taxes: <sup>24</sup>		
Nonbeverage manufacturers of spirits, \$25, \$50, \$100 per year <sup>25</sup>	82	76
Rectifiers: <sup>26</sup>		
Less than 20,000 proof gallons, \$110 per year <sup>27</sup>	13	13
20,000 proof gallons or more, \$220 per year <sup>28</sup>	20	24
Retail dealers in liquor or medicinal spirits, \$54 per year <sup>29</sup>	14,024	14,274
Wholesale liquor dealers, \$255 per year <sup>30</sup>	934	688
Manufacturers of stills, \$55 per year <sup>31</sup>	9	5
Seizures, penalties, etc. <sup>32</sup>	753	745
Stills or condensers manufactured, \$22 each <sup>33</sup>	6	3
Wines, cordials, etc., taxes, total <sup>34</sup>	112,574	124,022
Imported (collected by Customs, rates same as domestic) <sup>35</sup>	10,834	11,872
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) <sup>36</sup>	99,449	109,617
Occupational taxes: <sup>37</sup>		
Retail dealers in wines or in wines and beer, \$54 per year <sup>38</sup>	2,113	2,351
Wholesale dealers in wines or in wines and beer \$255 per year <sup>39</sup>	177	181
Beer taxes, total <sup>40</sup>	892,028	945,015
Imported (collected by Customs, rates same as domestic) <sup>41</sup>	5,861	6,018
Domestic, \$3 per barrel of 31 gallons <sup>42</sup>	881,458	934,604
Occupational taxes: <sup>43</sup>		
Brewers: <sup>44</sup>		
Less than 500 barrels, \$55 per year <sup>45</sup>	(*)	3
500 barrels or more, \$110 per year <sup>46</sup>	16	16
Retail dealers in beer, \$24 per year (includes limited retail dealers in wines or beer, \$2.20 per month) <sup>47</sup>	3,729	3,540
Wholesale dealers in beer, \$123 per year <sup>48</sup>	963	835
Tobacco taxes, total <sup>49</sup>	2,073,956	2,079,869
Cigarettes, total <sup>50</sup>	2,006,499	2,023,090
Class A (small), \$4 per thousand <sup>51</sup>	2,006,498	2,023,090
Class B (large), \$8.40 per thousand <sup>52</sup>	(*)	1
Prepayments <sup>53</sup>	(*)	—
Cigars, total <sup>54</sup>	57,662	55,736
Large cigars, classified by intended retail prices, total <sup>55</sup>	57,313	55,414
Class A (Retailing at not over 2½ cents each), \$2.50 per thousand <sup>56</sup>	322	280
Class B (Over 2½ cents, not over 4 cents each), \$3 per thousand <sup>57</sup>	1,797	1,627
Class C (Over 4 cents, not over 6 cents each), \$4 per thousand <sup>58</sup>	13,961	13,249
Class D (Over 6 cents, not over 8 cents each), \$7 per thousand <sup>59</sup>	5,829	5,432
Class E (Over 8 cents, not over 15 cents each), \$10 per thousand <sup>60</sup>	27,680	26,680
Class F (Over 15 cents, not over 20 cents each), \$15 per thousand <sup>61</sup>	4,301	4,567
Class G (Over 20 cents each), \$20 per thousand <sup>62</sup>	3,474	3,579
Small cigars, 75 cents per thousand <sup>63</sup>	328	303
Prepayments <sup>64</sup>	31	19
Tobacco materials, tobacco products, and cigarette papers and tubes (Customs) <sup>65</sup>	477	401
Manufactured tobacco, 10 cents per pound <sup>66</sup>	8,684	7
Cigarette papers and tubes, papers ½ cent per 50; tubes 1 cent per 50 <sup>67</sup>	634	639
Tobacco materials—Violations, sec. 5731, Internal Revenue Code of 1954 <sup>68</sup>	1	1

See footnotes on p. 119.

Table 3.—Internal revenue collections by sources, fiscal years 1966 and 1967—Continued

Source of revenue	Fiscal year	
	1966 <sup>(1)</sup>	1967 <sup>(2)</sup>
Excise taxes—Continued		
Stamp taxes on documents, other instruments, and playing cards, total	149,232	68,260
Issues and transfers of bonds of indebtedness or capital stock, foreign insurance policies, and deeds of conveyance: <sup>3</sup>		
Sales by postmasters	50,317	40,933
Sales by directors	98,911	27,859
Playing cards, 13 cents per pack <sup>4</sup>	2	6
Silver bullion transfers, 50 percent of profits; repealed, effective June 5, 1963	2	2
Manufacturers' excise taxes, total	5,613,869	5,478,347
Gasoline, 4 cents per gallon	2,824,189	2,932,834
Lubricating oil, etc., 6 cents per gallon; cutting oil, 3 cents per gallon <sup>5</sup>	90,776	92,573
Tires (wholly or in part of rubber), inner tubes, and tread rubber: <sup>6</sup>		
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	430,235	448,975
Inner tubes, 10 cents per pound	27,398	29,636
Tread rubber, 5 cents per pound	24,170	25,082
Motor vehicles, chassis, bodies, parts, and accessories: <sup>7</sup>		
Passenger automobiles, chassis, bodies, etc., 7 percent <sup>8</sup>	1,493,225	1,413,833
Trucks and buses, chassis, bodies, etc., 10 percent	460,069	468,910
Parts and accessories for automobiles, trucks, etc., 8 percent <sup>9</sup>	196,546	34,640
Radio and television sets, phonographs, components, etc., 10 percent <sup>10</sup>	-3,761	-1,329
Refrigerators, freezers, air-conditioners, etc., 5 percent; self-contained air-conditioning units, 10 percent <sup>11</sup>	137	-2,650
Electric, gas, and oil appliances, 5 percent <sup>12</sup>	5,367	-758
Pistols and revolvers, 10 percent	3,008	4,176
Photograph records, 10 percent <sup>13</sup>	3,148	-2,323
Musical instruments, 10 percent <sup>14</sup>	-1,512	-1,349
Sporting goods (other than fishing rods, creels, etc.), 10 percent <sup>15</sup>	2,317	-193
Fishing rods, creels, etc., 10 percent	7,894	9,824
Business and store machines, 10 percent <sup>16</sup>	6,745	-461
Cameras, lenses, film, etc., 10 percent; household type projectors, 5 percent <sup>17</sup>	1,064	-341
Electric light bulbs and tubes, 10 percent <sup>18</sup>	15,230	-1,042
Firearms (other than pistols and revolvers): shells and cartridges, 11 percent	24,344	27,806
Mechanical pencils, pens, 10 percent; lighters 10 cents per lighter (\$1 or more); 10 percent (less than \$1) <sup>19</sup>	2,133	378
Matches, 2 cents per thousand (but not to exceed 10 percent of selling price); fancy wooden or colored stems, 5½ cents per thousand <sup>20</sup>	1,147	5
Retailers' excise taxes, total <sup>21</sup>	108,155	3,619
Luggage, etc., 10 percent	20,814	555
Jewelry, etc., 10 percent	43,264	1,643
Furs, 10 percent	3,179	204
Toilet preparations, 10 percent	40,898	1,218
Miscellaneous excise taxes, total	1,600,569	1,732,062
Admissions taxes, total <sup>22</sup>	81,404	3,399
Theaters, concerts, athletic contests, etc.:		
Admissions, 1 cent for each 10 cents or major fraction thereof of the amount paid in excess of \$1	43,810	313
Ticket brokers' sales, 10 percent of amounts in excess of box office price	567	1
Leases of boxes or seats, 10 percent of the amount for which similar accommodations are sold	349	1
Admissions sold by proprietors in excess of established price, 50 percent of such excess	942	37
Roof gardens, cabarets, etc., 10 percent of total paid for admissions, services, etc.	35,736	3,941
Club dues and initiation fees, 20 percent (if dues or fees are in excess of \$10 per year) <sup>23</sup>	52,571	1,825
Telephone, wire mileage, etc., services, 10 percent; wire and equipment service, 8 percent <sup>24</sup>	907,917	1,101,853
Transportation of: <sup>25</sup>		
Oil by pipeline, 4½ percent; repealed, effective Aug. 1, 1958	16	(*)
Persons, 10 percent; repealed, effective Nov. 16, 1962, except on air transportation which was reduced to 5 percent	139,524	107,323
Property, 3 percent of amount paid, except coal which is 4 cents per ton; repealed, effective Aug. 1, 1958	24,344	51
Use of sale deposit boxes, 10 percent <sup>26</sup>	1,902	33
Coconut and other vegetable oils processed, 2 cents per pound; repealed, effective Aug. 31, 1963	17	(*)
Sugar, approximately ½ cent per pound	103,932	182,147
Diesel and special motor fuels, 4 cents per gallon (in some instances 2 cents per gallon)	159,326	1,340
Narcotics and marijuana, total <sup>27</sup>	1,341	1,340
Narcotics	1,212	1,163
Marihuana	129	177
Coin-operated amusement devices, \$10 per device, per year <sup>28</sup>	326	51
Coin-operated gaming devices, \$20 per device, per year	16,498	16,680
Bowling alleys, pool tables, etc., \$20 per alley or table, per year <sup>29</sup>	248	42
Wagering taxes:		
Occupational tax, \$50 per year	705	572
Wagers, 10 percent of amount wagered	5,689	5,624
Use tax on highway motor vehicles weighing over 26,000 pounds, \$3 per 1,000 pounds per year (installment privileges permitted)	104,240	108,178
Adulterated butter and filled cheese (imported and domestic), process or renovated butter and imported oleomargarine <sup>30</sup>	3	7
Firearms transfer and occupational taxes <sup>31</sup>	63	73
Interest equalization	25,653	19,898
Foreign insurance	(*)	15,762
Unclassified excise taxes:		
Unapplied collections	125,527	-149,186
Undistributed depositary receipts <sup>32</sup>	-87,595	825,053

See footnotes on p. 119.

Table 4.—Internal revenue collections by principal sources, fiscal years 1940 through 1967

Fiscal year ended June 30	Total internal revenue collections	Income and profits taxes			Employment taxes	Estate and gift taxes	Alcohol taxes <sup>2</sup>	Tobacco taxes <sup>3</sup>	Manufacturers' excise taxes	All other taxes
		Total	Corporation income and profits taxes <sup>1</sup>	Individual income taxes <sup>1</sup>						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
1940	5,340,452	2,129,603	1,147,592	982,017	833,521	360,071	624,253	609,518	447,088	337,392
1941	7,370,103	3,471,124	2,053,469	1,417,655	925,856	407,038	820,056	698,077	617,373	436,564
1942	11,047,869	5,006,884	4,744,093	3,262,800	1,185,362	432,540	1,048,517	780,982	711,902	821,682
1943	22,371,386	16,298,888	9,668,956	6,629,932	1,498,705	447,496	1,023,646	923,875	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	1,733,655
1945	43,800,388	35,061,526	16,027,213	19,034,313	1,779,177	643,055	2,309,866	932,145	782,511	2,292,108
1946	40,672,097	31,258,138	12,553,607	18,704,536	1,700,828	676,832	2,326,165	1,165,519	922,671	2,421,944
1947	39,108,386	29,019,756	9,076,459	19,943,297	2,021,365	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	2,381,842	899,583	2,255,327	1,300,280	1,648,274	2,206,823
1949	40,463,125	29,605,491	11,553,669	18,051,822	2,476,113	796,538	2,210,607	1,321,875	1,771,533	2,280,959
1950	38,957,132	28,007,659	10,854,351	17,153,303	2,644,575	706,227	2,219,202	1,328,464	1,836,053	2,124,951
1951	50,445,686	37,384,879	14,387,569	22,997,309	3,627,479	729,730	2,546,808	1,380,396	2,383,677	2,932,719
1952	65,009,586	50,741,017	21,466,910	29,274,107	4,464,264	833,147	2,549,120	1,565,162	2,348,943	3,507,933
1953	69,686,535	54,130,732	21,594,515	32,536,217	4,718,403	891,284	2,780,925	1,654,911	2,647,488	3,647,489
1954	69,919,931	54,360,014	21,546,322	32,813,691	5,107,623	935,121	2,783,012	1,580,229	2,689,133	3,484,859
1955	66,288,692	49,914,828	18,264,720	31,650,106	6,219,665	936,267	2,742,840	1,571,213	2,895,016	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	80,171,971	60,560,425	21,530,653	39,029,772	7,580,522	1,377,999	2,973,195	1,674,050	3,761,925	2,243,896
1958	79,975,476	59,101,974	20,533,315	38,568,559	8,644,366	1,410,925	2,946,461	1,734,021	3,974,135	2,166,675
1959	79,797,973	58,826,254	18,091,309	40,734,944	8,853,744	1,352,882	3,002,086	1,806,816	3,958,789	1,997,292
1960	91,774,803	67,125,126	27,179,414	44,945,711	11,156,589	1,626,348	3,193,714	1,931,504	4,735,129	2,004,394
1961	94,401,086	67,917,941	27,164,940	46,753,001	12,507,651	1,916,393	3,224,801	1,991,117	4,896,802	1,863,582
1962	99,440,839	71,945,305	21,295,711	50,649,594	12,708,171	2,025,187	3,341,282	2,025,736	5,120,340	2,264,817
1963	103,925,395	75,323,714	22,336,134	52,987,581	15,001,486	2,187,457	3,441,656	2,079,237	5,610,309	2,278,536
1964	112,760,237	79,891,218	24,300,863	54,590,354	17,002,584	2,467,903	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	17,194,396	2,745,532	3,772,634	2,148,594	6,418,145	2,454,406
1966	128,879,961	92,131,794	30,834,242	61,297,552	20,255,133	3,093,022	3,814,378	2,073,956	5,613,869	2,985,809
1967	148,374,815	104,288,420	34,917,825	69,370,595	26,952,241	3,014,406	4,075,723	2,079,869	5,478,347	2,478,809

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.

- <sup>1</sup>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 \$7,144,497.07 for 1967.
- <sup>2</sup>Includes railroad employment compensation tax and tax on railroad employee representatives.
- <sup>3</sup>Tax payments made to banks, under the depositary receipts system, are included in the 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 related) 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.
- <sup>4</sup>Represents credits allowable on income tax returns for certain gasoline and lubricating oil tax payments and for excess Social Security payments under the Federal Insurance Contributions Act (FICA).
- <sup>5</sup>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.
- <sup>6</sup>Includes occupational tax on manufacturers of stills, rectifiers, wholesale liquor dealers, retail dealers in liquor or medicinal spirits, and nonbeverage manufacturers of spirits.
- <sup>7</sup>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.
- <sup>8</sup>Includes tax on unrelated business income of exempt organizations.
- <sup>9</sup>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 amounts with old-age and disability insurance taxes on salaries and wages.
- <sup>10</sup>Estimated separate national totals for individual income tax and for old-age and disability insurance taxes are shown in the text table on p. 12 and are used in obtaining national totals for individual income taxes and employment taxes in table 4.
- <sup>11</sup>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.

Footnotes for tables 1-4—Continued

<sup>11</sup> Includes seizures, penalties, etc., and tax on stills or condensers manufactured.

<sup>12</sup> Includes occupational taxes on wholesale and retail dealers in wines or in wines and beer.

<sup>13</sup> Includes occupational taxes on brewers and wholesale and retail beer dealers.

<sup>14</sup> Includes taxes on cigarette papers and tubes; court fines, penalties, and taxes on leaf tobacco sold or removed in violation of sec. 5731, Internal Revenue Code; and manufactured tobacco, repealed Jan. 1, 1966 (Public Law 89-44).

<sup>15</sup> Includes stamp taxes on deeds of conveyances and the following items no longer subject to stamp taxes: Issues and transfers of bonds of indebtedness or capital stock, repealed Jan. 1, 1966, playing cards, repealed June 22, 1965, and silver bullion, repealed June 5, 1963.

<sup>16</sup> Includes taxes on fishing equipment, and taxes on the following items which were repealed by Public Law 89-44: Pistols and revolvers; photograph records; musical instruments; sporting goods (except fishing equipment); business and store machines; cameras, lenses, film, and projectors; electric light bulbs, and tubes; firearms, shells, and cartridges; mechanical pencils, pens, and lighters; matches; radio and television sets, phonographs, components, etc.; refrigerators, freezers, air-conditioners, etc.; electric, gas, and oil appliances.

<sup>17</sup> Includes taxes on luggage, jewelry, furs, toilet preparations; repealed effective June 22, 1965 (Public Law 89-44).

<sup>18</sup> 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. (Repealed effective noon, Dec. 31, 1965, Public Law 89-44.)

<sup>19</sup> Transportation of persons: Rate 10 percent, repealed effective Nov. 16, 1962, except on air transportation which was reduced to 5 percent.

<sup>20</sup> Includes taxes on interest equalization; foreign insurance policies paid by returns for liabilities beginning January 1966; adulterated butter and filled cheese (imported and domestic), process or renovated butter and imported oleomargarine; firearms transfer; and occupational taxes. Includes taxes on the following items which were repealed by Public Law 89-44: Club dues and initiation fees; coin-operated amusement devices; and bowling alleys, pool tables, etc. Also includes taxes on coconut and other vegetable oils processed (repealed effective Aug. 31, 1963) and transportation of property and oil by pipeline (repealed effective Aug. 1, 1958).

<sup>21</sup> 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 by certain exempt organizations from unrelated trade or business.

<sup>22</sup> 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. Old-age and disability insurance taxes on self-employment taxable income, 6.15 percent for taxable year 1966 and 6.4 percent for taxable year 1967 on income through \$6,600.

<sup>23</sup> 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 (Medicare) insurance benefits), effective Jan. 1, 1966. For taxable year 1967, a combined tax rate of 4.4 percent (3.9 percent for social security and 0.5 percent for hospital insurance) applies. For both years the tax applies to wages up to \$6,600 paid by the employer and received by the employee. Prior to Jan. 1, 1966, tax was 3½ percent each to employers and employees.

<sup>24</sup> Includes railroad employment compensation tax 8½ percent, Jan. 1, through Sept. 30, 1965; 7½ percent, Oct. 1

through Dec. 31, 1965; 7.95 percent for calendar year 1966 and 8.65 percent for calendar year 1967. Tax applies to employers and employees, both imposed on taxable portion of wages.

<sup>25</sup> Effective Oct. 31, 1966, includes (a) a tax on income of each employee representative equal to 2 cents per man-hour for which compensation is paid to him; and (b) a tax imposed on each employer equal to 2 cents for each man-hour for which compensation is paid to employees.

<sup>26</sup> Railroad employees representative tax, 16½ percent, Jan. 1 through Sept. 30, 1965; 14½ percent, Oct. 1 through Dec. 31, 1965; 15.9 percent for calendar year 1966; 17.3 percent for calendar year 1967, on taxable portion of wages.

<sup>27</sup> Collected by Customs beginning Oct. 1, 1961, as authorized by Part 275.62 of Title 26, Code of Federal Regulations.

<sup>28</sup> Repealed, effective Jan. 1, 1966 (Public Law 89-44).

<sup>29</sup> Issues and transfers of stocks and bonds, repealed, effective Jan. 1, 1966 (Public Law 89-44). Foreign by directors for fiscal year 1996 includes tax on sales 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.

<sup>30</sup> Repealed, effective June 22, 1965 (Public Law 89-44).

<sup>31</sup> Cutting oil, repealed Jan. 1, 1966 (Public Law 89-44).

<sup>32</sup> 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).

<sup>33</sup> Automobile parts and accessories (except truck parts), repealed, effective Jan. 1, 1966 (Public Law 89-44).

<sup>34</sup> Air conditioners, repealed, effective May 15, 1965. Refrigerators and freezers, repealed, effective June 22, 1965 (Public Law 89-44).

<sup>35</sup> Sales of light bulbs for incorporation in articles upon which the manufacturer's tax was repealed, effective June 22, 1965 (e.g., refrigerators), are 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).

<sup>36</sup> Repealed, effective noon, Dec. 31, 1965 (Public Law 89-44).

<sup>37</sup> 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 service 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).

<sup>38</sup> Repealed, effective July 1, 1965 (Public Law 89-44).

<sup>39</sup> 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.

<sup>40</sup> Adulterated butter: 10 cents per pound. Process or renovated butter: ¼ 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.

<sup>41</sup> 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.

<sup>42</sup> 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  
(In thousands of dollars)

Internal revenue regions, districts, States, and other areas (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Total (1)	Corporation income (2)	Individual income and employment taxes		Estate (5)	Gift (6)	Excise <sup>1</sup> (7)
			Excessive prepayments (3)	Other (4)			
<b>United States, total<sup>2</sup></b>	<b>1 9, 620, 664</b>	<b>1, 019, 829</b>	<b>1 7, 553, 908</b>	<b>573, 943</b>	<b>37, 513</b>	<b>2, 460</b>	<b>4 483, 510</b>
<b>North-Atlantic Region</b>	<b>1, 512, 846</b>	<b>235, 318</b>	<b>1, 166, 847</b>	<b>44, 758</b>	<b>9, 573</b>	<b>216</b>	<b>56, 135</b>
Alabama	31, 208	3, 508	75, 086	1, 112	251	2	823
Augusta	36, 379	3, 516	31, 787	1, 132	180	12	1, 102
Boston	263, 671	21, 974	229, 977	7, 080	945	19	3, 677
Brooklyn	287, 028	13, 069	254, 617	5, 896	619	118	7, 309
Buffalo	202, 827	13, 656	178, 695	5, 046	655	9	4, 766
Burlington	13, 183	1, 329	12, 229	439	43		1, 307
Hartford	143, 292	7, 601	123, 263	4, 551	743	5	6, 128
Manhattan	419, 116	165, 749	197, 514	18, 261	4, 634	37	32, 922
Portsmouth	29, 814	2, 742	26, 245	687	80		1, 209
Providence	41, 453	2, 838	37, 334	854	42	14	1, 371
<b>Mid-Atlantic Region</b>	<b>1 188, 258</b>	<b>144, 825</b>	<b>1 123, 885</b>	<b>23, 806</b>	<b>4, 709</b>	<b>98</b>	<b>13, 453</b>
Baltimore	258, 528	18, 850	216, 932	5, 496	788	4	16, 371
Newark	355, 382	43, 320	287, 717	6, 964	954	56	16, 371
Philadelphia	343, 059	40, 718	281, 015	8, 200	1, 875	31	8, 211
Pittsburgh	208, 893	21, 704	178, 991	4, 060	451	1	3, 685
Richmond	175, 268	20, 952	147, 503	3, 098	545	1	3, 168
Wilmington	23, 712	2, 646	19, 621	271	96		1, 478
<b>Southeast Region</b>	<b>834, 490</b>	<b>55, 845</b>	<b>738, 976</b>	<b>24, 818</b>	<b>3, 228</b>	<b>711</b>	<b>9, 987</b>
Atlanta	153, 897	12, 339	133, 716	4, 244	378	13	3, 307
Birmingham	107, 788	11, 008	98, 375	2, 963	198	1	1, 245
Columbia	64, 822	3, 040	59, 778	644	208	11	1, 141
Greensboro	132, 379	9, 749	115, 141	3, 375	559	3	3, 553
Jacksonville	46, 616	2, 315	42, 476	445	214	59	2, 077
Jacksonville	222, 651	13, 647	198, 180	8, 374	1, 356	88	1, 006
Nashville	110, 238	9, 729	97, 299	2, 573	412	537	1, 529
<b>Central Region</b>	<b>1 337, 640</b>	<b>96, 451</b>	<b>1 145, 839</b>	<b>29, 264</b>	<b>3, 923</b>	<b>755</b>	<b>41, 889</b>
Cincinnati	191, 659	9, 984	172, 161	4, 213	672	11	4, 927
Cleveland	311, 731	23, 204	271, 303	6, 699	821	83	9, 622
Detroit	448, 420	47, 505	373, 461	9, 513	779	613	16, 548
Indianapolis	215, 137	9, 987	195, 124	5, 276	430	41	8, 319
Louisville	97, 828	3, 715	84, 833	843	280	6	2, 190
Parkersburg	57, 415	4, 056	51, 558	1, 068	530	1	2, 000
<b>Midwest Region</b>	<b>1 312, 933</b>	<b>206, 737</b>	<b>1 023, 982</b>	<b>46, 616</b>	<b>3, 362</b>	<b>403</b>	<b>28, 813</b>
Aberdeen	18, 540	1, 463	16, 129	1, 463	36		159
Chicago	487, 203	73, 349	336, 492	16, 195	3, 664	74	13, 044
Des Moines	92, 733	3, 905	84, 032	4, 287	170	7	332
Fargo	16, 508	572	14, 586	1, 229	20		1, 101
Milwaukee	167, 685	18, 172	142, 103	3, 901	463	43	3, 093
Omaha	52, 388	6, 106	42, 478	3, 354	209	4	2, 338
St. Louis	202, 778	27, 762	157, 747	7, 600	681	61	8, 928
St. Paul	171, 214	28, 774	134, 719	4, 963	302	210	1, 651
Springfield	103, 862	4, 833	93, 685	3, 473	371	4	4, 497
<b>Southeast Region</b>	<b>866, 435</b>	<b>74, 779</b>	<b>734, 415</b>	<b>45, 106</b>	<b>3, 978</b>	<b>136</b>	<b>8, 844</b>
Albuquerque	36, 093	1, 297	33, 327	1, 385	36		4, 627
Austin	219, 567	16, 918	184, 427	10, 791	892	45	4, 495
Cheyenne	12, 706	558	11, 293	809	23		1, 232
Dallas	170, 741	18, 837	136, 086	12, 131	1, 522	96	2, 059
Denver	96, 467	7, 770	83, 331	4, 548	246	2	769
Little Rock	46, 857	2, 633	42, 467	1, 325	274		148
New Orleans	109, 328	9, 965	97, 861	4, 963	302		237
Oklahoma City	90, 073	12, 338	71, 837	5, 031	400	4	463
Wichita	84, 584	6, 462	73, 476	4, 109	225	8	304
<b>Western Region</b>	<b>1 051, 381</b>	<b>196, 185</b>	<b>1 031, 486</b>	<b>69, 487</b>	<b>6, 287</b>	<b>320</b>	<b>15, 615</b>
Anchorage	16, 708	751	14, 990	69			159
Boise	28, 084	2, 417	23, 778	1, 755	55		128
Helena	25, 173	938	22, 625	1, 484	130		29
Honolulu	39, 250	3, 597	33, 873	1, 507	59		152
Los Angeles	881, 377	88, 201	751, 486	32, 538	3, 653	136	5, 364
Phoenix	89, 585	3, 110	82, 607	2, 911	303		65
Portland	47, 559	38, 441	409, 475	17, 314	1, 631		79
Reno	32, 449	2, 576	28, 697	1, 123	34		14
Salt Lake City	47, 341	2, 277	43, 759	1, 081	33		136
Seattle	188, 819	41, 494	140, 955	5, 361	333	54	8, 619
San Francisco	53, 543	6, 282	41, 681	3, 249	316		75
Puerto Rico	7, 498	4	7, 046	443			5
Other	44, 045	6, 278	34, 635	2, 807	10		10
<b>Gasoline, lubricating oil, and excess FICA credits</b>	<b>478, 728</b>	<b>4, 158</b>	<b>282, 156</b>				<b>196, 872</b>
<b>Bureau of Customs</b>	<b>4, 158</b>						<b>1, 158</b>
Totals for States not shown above							
(a) California	1, 356, 936	126, 642	1, 160, 961	49, 852	5, 284	214	13, 983
(b) Illinois	591, 065	122, 567	430, 177	19, 668	4, 034	78	14, 541
(c) New York	985, 053	196, 282	705, 912	30, 314	6, 559	166	45, 820
(d) Ohio	503, 700	33, 189	443, 461	10, 492	1, 490	93	14, 949
(e) Pennsylvania	551, 951	62, 423	463, 012	12, 260	2, 326	39	11, 897
(f) Texas	390, 309	37, 755	320, 523	22, 922	2, 414	141	6, 554

<sup>1</sup> Includes drawbacks.

<sup>2</sup> Figures have not been reduced to reflect reimbursements from the Federal Old Age and Survivors and Disability Insurance Trust Funds amounting to \$282,186,230 in 1967 and \$277,875,000 in 1966; from the Highway Trust Fund amounting to \$211,507,037 in 1967 and \$119,772,000 in 1966; and from the Unemployment Trust Fund amounting to \$5,971,899 in 1967 and \$6,000,000 in 1966.

<sup>3</sup> Net of 92,703 undeliverable checks deposited totaling \$3,274,000.

<sup>4</sup> Represents credits allowable on income tax returns for certain gasoline and lubricating oil tax payments and for excess Social Security payments under the Federal Insurance Contribution Act (FICA).

<sup>5</sup> 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 <sup>1</sup> (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)
<b>United States, total</b> .....	<b>1,053,432,742</b>	<b>771,193,825</b>	<b>1,526,209</b>	<b>955,738</b>	<b>7,826,487</b>	<b>22,039,001</b>	<b>113,051</b>	<b>136,729</b>	<b>1,641,752</b>
<b>North-Atlantic Region</b> .....	<b>17,637,454</b>	<b>11,594,988</b>	<b>400,607</b>	<b>131,002</b>	<b>1,583,179</b>	<b>3,633,285</b>	<b>21,516</b>	<b>28,782</b>	<b>244,695</b>
Albany..... (See (c) below).....	1,104,466	790,412	15,879	8,236	65,698	202,794	1,327	725	19,395
Augusta..... (Maine).....	7,509	3,179	119	574	115,050	574	447	9,954	3,105
Boston..... (Massachusetts).....	3,171,134	2,231,152	60,382	13,610	270,240	3,659	4,680	4,680	45,048
Brooklyn..... (See (c) below).....	3,693,213	2,538,955	87,769	33,900	275,811	704,716	5,274	4,382	42,426
Buffalo..... (See (c) below).....	2,338,579	1,639,930	32,912	18,372	183,377	417,602	3,043	46,334	34,334
Burlington..... (New Hampshire).....	243,451	161,842	3,738	2,038	17,434	58,227	189	242	1,199
Hartford..... (Connecticut).....	1,728,224	1,152,818	28,927	12,946	169,243	331,296	1,940	3,034	26,385
Manhattan..... (See (c) below).....	3,851,920	2,077,915	144,341	33,818	482,321	1,056,469	4,553	9,215	43,288
Portsmouth..... (New Hampshire).....	414,377	278,711	5,745	2,185	34,680	83,999	337	6,551	1,379
Providence..... (Rhode Island).....	536,146	359,104	12,405	2,737	41,324	112,644	480	474	6,978
<b>Mid-Atlantic Region</b> .....	<b>15,442,294</b>	<b>10,695,989</b>	<b>214,684</b>	<b>115,581</b>	<b>1,156,417</b>	<b>3,017,337</b>	<b>16,021</b>	<b>18,318</b>	<b>207,627</b>
Baltimore..... (Maryland and D.C.).....	2,761,419	1,960,423	34,648	15,175	178,107	531,921	2,312	3,097	35,039
Newark..... (New Jersey).....	3,967,304	2,689,857	81,464	32,975	308,093	796,381	4,508	4,935	49,091
Philadelphia..... (See (e) below).....	3,925,709	2,718,772	45,062	27,932	324,202	741,842	4,747	5,198	57,954
Pittsburgh..... (See (e) below).....	2,325,584	1,648,004	21,498	24,123	179,167	414,906	1,912	2,108	34,864
Richmond..... (Virginia).....	2,177,410	1,505,942	24,361	13,430	163,259	465,735	6,686	7,402	28,404
Wilmington..... (Delaware).....	283,868	172,991	7,651	1,168	31,398	66,550	857	578	2,275
<b>Southeast Region</b> .....	<b>13,444,812</b>	<b>8,678,885</b>	<b>175,330</b>	<b>108,508</b>	<b>749,636</b>	<b>3,233,378</b>	<b>10,489</b>	<b>15,353</b>	<b>182,733</b>
Atlanta..... (Georgia).....	2,113,855	1,469,181	26,063	16,591	106,591	546,020	2,475	2,670	26,700
Birmingham..... (Alabama).....	1,472,646	987,944	15,384	17,807	70,169	359,291	824	1,123	19,704
Columbia..... (South Carolina).....	1,145,875	765,899	13,422	8,196	56,712	281,460	812	973	18,461
Greensboro..... (North Carolina).....	2,389,417	1,609,740	29,148	19,728	127,381	571,441	1,500	1,569	25,629
Jackson..... (Mississippi).....	856,223	546,516	9,538	8,767	42,950	229,049	521	781	18,101
Jacksonville..... (Florida).....	3,216,855	2,031,637	62,905	18,028	252,753	794,247	4,363	5,929	46,993
Nashville..... (Tennessee).....	1,849,641	1,247,688	18,670	20,352	93,080	442,464	1,106	1,603	24,678
<b>Central Region</b> .....	<b>14,575,500</b>	<b>10,290,720</b>	<b>175,301</b>	<b>118,291</b>	<b>988,340</b>	<b>2,747,260</b>	<b>12,767</b>	<b>15,331</b>	<b>227,690</b>
Cincinnati..... (See (d) below).....	2,261,204	1,615,112	25,223	14,832	164,522	407,841	2,136	2,416	29,022
Cleveland..... (See (d) below).....	3,186,029	2,231,410	42,636	31,676	230,800	596,719	3,053	3,511	53,686
Detroit..... (Michigan).....	4,315,763	3,078,770	48,888	36,870	295,857	781,659	3,043	4,391	66,295
Indianapolis..... (Indiana).....	2,573,469	1,828,450	32,933	19,629	170,086	475,470	2,766	2,636	41,499
Louisville..... (Kentucky).....	1,424,167	975,560	15,344	17,223	88,241	313,676	2,121	1,436	21,376
Parkersburg..... (West Virginia).....	804,805	559,418	10,077	7,765	38,644	77,895	683	693	6,600
<b>Midwest Region</b> .....	<b>16,033,220</b>	<b>10,896,422</b>	<b>210,272</b>	<b>163,517</b>	<b>1,238,074</b>	<b>3,234,047</b>	<b>22,081</b>	<b>22,153</b>	<b>266,636</b>
Aberdeen..... (South Dakota).....	370,626	235,157	4,502	5,118	21,951	93,413	539	547	9,399
Chicago..... (Illinois).....	4,546,726	3,118,817	61,816	40,954	347,150	810,588	6,478	5,145	64,878
Des Moines..... (Iowa).....	1,617,143	1,040,522	17,237	22,993	162,669	340,680	4,880	2,387	26,375
Fargo..... (North Dakota).....	333,450	222,470	3,994	4,240	17,410	83,163	482	518	7,173
Milwaukee..... (Wisconsin).....	2,332,817	1,570,148	33,991	19,524	200,293	454,744	3,138	3,138	46,464
Omaha..... (Nebraska).....	845,837	547,688	11,235	11,863	63,997	190,022	1,367	1,367	17,498
St. Louis..... (Missouri).....	2,454,002	1,648,716	35,783	23,411	181,828	526,476	2,219	3,064	42,555
St. Paul..... (Minnesota).....	1,914,916	1,322,114	24,744	16,683	139,295	358,613	2,022	2,070	39,275
Springfield..... (See (c) below).....	1,601,708	1,090,780	14,240	18,031	103,279	346,401	2,524	1,983	24,470
<b>Southwest Region</b> .....	<b>12,137,127</b>	<b>7,914,931</b>	<b>152,080</b>	<b>132,674</b>	<b>804,623</b>	<b>2,482,962</b>	<b>9,750</b>	<b>16,934</b>	<b>221,833</b>
Albuquerque..... (New Mexico).....	458,983	311,056	5,990	4,673	25,428	101,957	287	436	8,456
Austin..... (See (f) below).....	3,058,788	2,048,393	33,215	29,746	185,554	700,830	1,481	3,153	56,416
Cheyenne..... (Wyoming).....	199,356	118,296	3,375	2,782	13,831	54,234	170	439	6,239
Dallas..... (See (f) below).....	2,465,961	1,554,749	31,995	35,170	168,719	630,547	1,801	1,189	42,821
Denver..... (Colorado).....	1,083,974	710,967	16,006	13,396	91,741	228,813	331	1,758	19,862
Little Rock..... (Arkansas).....	864,558	558,456	9,994	9,329	47,316	221,379	556	1,099	16,829
New Orleans..... (Louisiana).....	1,521,111	993,806	23,089	12,081	96,393	367,144	789	1,268	26,532
Oklahoma City..... (Oklahoma).....	1,248,894	824,349	16,317	12,134	80,357	287,485	1,382	993	15,800
Wichita..... (Kansas).....	1,211,502	794,870	12,939	13,043	93,684	270,613	1,943	2,589	21,821
<b>Western Region</b> .....	<b>15,977,752</b>	<b>10,797,332</b>	<b>195,394</b>	<b>186,983</b>	<b>1,284,784</b>	<b>3,206,738</b>	<b>18,472</b>	<b>18,965</b>	<b>287,728</b>
Anchorage..... (Alaska).....	106,604	75,210	1,754	566	4,627	21,493	25	43	2,581
Boise..... (Idaho).....	365,586	237,969	4,946	4,655	24,618	83,110	326	393	9,589
Helena..... (Montana).....	390,715	244,581	5,786	5,308	28,202	92,116	581	822	13,321
Honolulu..... (Hawaii).....	364,267	248,486	6,091	3,118	31,523	69,667	235	515	4,422
Los Angeles..... (See (a) below).....	6,291,418	4,328,211	79,739	70,844	513,795	1,204,758	8,026	7,020	79,015
Phoenix..... (Arizona).....	766,860	513,384	10,911	7,612	39,197	160,284	694	814	13,964
Portland..... (Oregon).....	1,044,506	653,035	14,399	14,778	94,954	239,324	1,085	1,475	29,856
Reno..... (Nevada).....	246,764	167,308	4,368	2,775	14,914	48,798	471	450	6,680
Salt Lake City..... (Utah).....	491,698	345,769	7,505	4,896	29,155	91,452	324	450	12,147
San Francisco..... (See (a) below).....	4,226,130	2,832,487	37,327	35,422	349,235	861,545	5,223	5,420	79,471
Seattle..... (Washington).....	1,703,244	1,150,882	22,930	15,991	136,566	334,198	1,482	1,493	39,702
San Juan..... (Puerto Rico).....	484,843	325,348	2,579	182	19,352	133,042	2,009	353	1,342
Other.....	196,558	114,838	1,95	9	313	123,656	4	21	722
<b>Office of International Operations</b> .....	<b>282,285</b>	<b>253,910</b>	<b>2,384</b>	<b>173</b>	<b>19,639</b>	<b>5,168</b>	<b>2,001</b>	<b>332</b>	<b>660</b>
Totals for States not shown above									
(a) California.....	10,517,548	7,160,698	117,066	126,266	863,030	2,066,303	13,249	12,450	158,486
(b) Illinois.....	6,146,429	4,309,597	79,186	59,935	450,431	1,156,986	7,857	8,462	75,925
(c) New York.....	10,988,178	7,041,182	280,901	94,326	1,007,207	2,381,581	14,202	17,336	151,443
(d) Ohio.....	5,447,286	3,848,522	67,839	36,808	383,412	1,004,560	5,188	6,237	82,710
(e) Pennsylvania.....	6,252,293	4,366,776	66,560	52,056	503,369	1,156,750	6,658	7,306	92,818
(f) Texas.....	5,529,749	3,603,142	65,170	64,916	354,773	1,331,377	3,282	7,352	99,237

<sup>1</sup> Includes 113,588 Forms 1040B, NB, NBA, PR, and VI which are included in "All other individual and fiduciary" returns in the table on p. 16.

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)	
	1966	1967
Total.....	51,700	59,803
Distilled spirits.....	41,817	49,389
Distilled spirits, rectification tax.....	1,161	394
Wine.....	76	6
Beer.....	76	63
Cigars.....	1,105	1,451
Class A.....	11	24
Class B.....	11	24
Class C.....	11	24
Class D.....	6,032	6,348
Class E.....	1,477	1,379
Class F.....	121	145
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 manufactures 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 sec. 7652(a)(3) and 5214(c)(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—	
	1966	1967
Distilled spirits plants:		
Plants (net number).....	347	349
Facilities:		
Production.....	168	165
Warehousing.....	281	286
Bottling in bond.....	57	56
Taxpaid bottling.....	52	52
Rectifying.....	146	150
Total.....	131	138
Denatured and tax-free products (dealers, users, etc.):		
Dealers in specially denatured alcohol and denatured rum.....	49	44
Users of specially denatured alcohol and denatured rum.....	3,615	

Table 11.—Permits for operations relating to alcoholic beverages under the Federal Alcohol Administration Act

Status	Grand total	Distilled spirits plants <sup>1</sup>			Wine producers and blenders	Wine blenders	Importers	Wholesalers	
		Total <sup>2</sup>	Distillers	Warehousing and bottling					Rectifiers
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
In effect July 1, 1966.....	13,105	396	180	191	153	356	47	1,902	10,404
Terminated, total.....	1,608	32	15	15	12	27	5	257	1,287
Revoked.....	3								3
Otherwise terminated.....	1,605	32	15	15	12	27	5	257	1,284
In effect June 30, 1967.....	12,945	385	176	189	155	361	45	1,955	10,199
Amended.....	1,409	234				69	10	275	821

<sup>1</sup> Excludes permits for Customs manufacturing bonded warehouses since such establishments are not required to qualify as distilled spirits plants.  
<sup>2</sup> 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	Manufacturers of tobacco products	Export warehouse proprietors
	(1)	(2)	(3)
In effect July 1, 1966.....	463	308	155
Terminated, total.....	69	33	36
Revoked.....	80	59	21
Otherwise terminated.....	80	59	21
In effect June 30, 1967.....	452	282	170
Amended.....	92	56	36

Table 13.—Label activity under Federal Alcohol Administration Act

Type of label	Applications acted upon			
	Total	Certificates issued		Disapproved
		Approvals	Exemptions	
Grand total.....	56,385	54,535	847	1,003
Distilled spirits, total.....	20,649	20,050	142	457
Domestic.....	19,116	18,650	142	324
Imported.....	1,533	1,400		133
Wines, total.....	33,173	31,951	705	517
Domestic.....	10,693	9,914	705	74
Imported.....	22,480	22,037		443
Malt beverages, total.....	2,563	2,534		29
Domestic.....	1,688	1,680		8
Imported.....	875	854		21

Table 14.—Number of occupational tax stamps issued, covering fiscal year 1967, or portion thereof, by class of tax and by internal revenue regions, districts, and States

Internal revenue regions, districts and States (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Total number of occupational tax stamps issued	Distilled spirits									
		Manufacturers of stills, \$55	Rectifiers		Wholesale dealers, \$255	Retail dealers		Medical spirits, \$54	Manufacturers of non-beverage products		
			Less than 20,000 proof gallons, \$110	20,000 proof gallons or more, \$220		At large, \$54	At large, \$54		Not exceeding 25 gallons, \$25	Not exceeding 50 gallons, \$50	More than 50 gallons, \$100
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
<b>United States, total.....</b>	<b>847,228</b>	<b>124</b>	<b>36</b>	<b>89</b>	<b>2,648</b>	<b>232,951</b>	<b>658</b>	<b>1,127</b>	<b>49</b>	<b>70</b>	<b>727</b>
<b>North-Atlantic Region.....</b>	<b>157,145</b>	<b>26</b>	<b>5</b>	<b>14</b>	<b>318</b>	<b>45,311</b>	<b>27</b>	<b>571</b>	<b>19</b>	<b>14</b>	<b>179</b>
Albany..... (See (c) below)	12,387	11			13	5,345		25			8
Augusta..... (Maine)	4,611				1	435					2
Boston..... (Massachusetts)	23,107				92	7,388		571	5	7	41
Brooklyn..... (See (c) below)	36,010	3			2	7,552					5
Buffalo..... (See (c) below)	25,056	9			28	9,122			2	2	18
Burlington..... (Vermont)	2,517				1	585					10
Hartford..... (Connecticut)	14,638				37	5,125					10
Manhattan..... (See (c) below)	33,053	1			1	78	7,164				39
Portsmouth..... (New Hampshire)	3,333				1	603					3
Providence..... (Rhode Island)	2,875				20	1,791					3
<b>Mid-Atlantic Region.....</b>	<b>113,132</b>	<b>30</b>	<b>2</b>	<b>18</b>	<b>201</b>	<b>32,964</b>	<b>109</b>	<b>8</b>	<b>7</b>	<b>10</b>	<b>152</b>
Baltimore..... (Maryland and D.C.)	21,522				56	5,718	81				18
Newark..... (New Jersey)	27,645	19			5	12,775	14				5
Philadelphia..... (See (e) below)	29,875	10			7	52	11,233				65
Pittsburgh..... (See (e) below)	17,883				1	8,172					8
Richmond..... (Virginia)	14,443				8	221					5
Wilmington..... (Delaware)	11,844				1	845					16
<b>Southeast Region.....</b>	<b>89,810</b>	<b>1</b>	<b>2</b>	<b>211</b>	<b>9,172</b>	<b>6</b>	<b>13</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>58</b>
Atlanta..... (Georgia)	11,056				37	1,554	4				10
Birmingham..... (Alabama)	5,021				5	642					5
Columbia..... (South Carolina)	10,686				14	1,049					3
Greensboro..... (North Carolina)	13,010				56	152					6
Jackson..... (Mississippi)	5,731				4	810					5
Jacksonville..... (Florida)	25,374				61	4,299					9
Nashville..... (Tennessee)	12,922				1	34	656				17
<b>Central Region.....</b>	<b>111,646</b>	<b>20</b>	<b>12</b>	<b>21</b>	<b>868</b>	<b>37,908</b>	<b>19</b>	<b>19</b>	<b>4</b>	<b>6</b>	<b>81</b>
Cincinnati..... (See (d) below)	16,398	14			106	4,775					22
Cleveland..... (See (d) below)	26,120	4			1	165	9,635				11
Detroit..... (Michigan)	34,003	4			3	138	14,519				26
Indianapolis..... (Indiana)	18,086	2			20	5,554					15
Louisville..... (Kentucky)	8,967	3			6	1,929	15				5
Parkersburg..... (West Virginia)	9,929	1			3	396					1
<b>Midwest Region.....</b>	<b>127,518</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>423</b>	<b>48,328</b>	<b>366</b>	<b>122</b>	<b>10</b>	<b>3</b>	<b>139</b>
Aberdeen..... (South Dakota)	3,774				18	994					1
Chicago..... (See (b) below)	31,140	2			3	142	14,577	42	5	5	68
Des Moines..... (Iowa)	11,082				3	2,732					4
Fargo..... (North Dakota)	2,349				9	1,034					4
Milwaukee..... (Wisconsin)	26,354				1	85	13,184	2	256	1	12
Omaha..... (Nebraska)	6,233				32	2,009	53				4
St. Louis..... (Missouri)	19,433	3			3	52	5,957	252			31
St. Paul..... (Minnesota)	17,057				1	13	2,955	15	33	1	12
Springfield..... (See (b) below)	10,096	2			2	69	4,887	2	5		3
<b>Southwest Region.....</b>	<b>106,538</b>	<b>28</b>	<b>1</b>	<b>2</b>	<b>218</b>	<b>37,398</b>	<b>66</b>	<b>183</b>	<b>1</b>	<b>21</b>	<b>23</b>
Albuquerque..... (New Mexico)	2,998				24	1,375					11
Austin..... (See (j) below)	31,700	16			33	2,187					3
Cheyenne..... (Wyoming)	1,732					705					1
Dallas..... (See (j) below)	14,860	9			26	1,664					3
Denver..... (Colorado)	9,558				20	3,047					3
Little Rock..... (Arkansas)	6,149				9	763					3
New Orleans..... (Louisiana)	17,647	1			55	5,435					6
Oklahoma City..... (Oklahoma)	10,960				20	920					1
Wichita..... (Kansas)	9,935				32	1,225					3
<b>Western Region.....</b>	<b>143,440</b>	<b>7</b>	<b>12</b>	<b>25</b>	<b>775</b>	<b>43,187</b>	<b>67</b>	<b>29</b>	<b>7</b>	<b>7</b>	<b>98</b>
Anchorage..... (Alaska)	1,315				13	677					1
Boise..... (Idaho)	3,519				1	672					3
Helena..... (Montana)	4,225					1,526					1
Honolulu..... (Hawaii)	2,664				3	28	1,176				1
Los Angeles..... (See (a) below)	49,387	1			7	232	15,905	41			46
Phoenix..... (Arizona)	7,175				60	2,808	15				3
Portland..... (Oregon)	9,969				55	1,251					4
Reno..... (Nevada)	4,218				29	1,430					1
Salt Lake City..... (Utah)	4,286					148					1
San Francisco..... (See (a) below)	39,957	6			17	232	13,392	11			42
Seattle..... (Washington)	16,725				1	124	4,111				4
Totals for States not shown above											
(a) California.....	89,344	7	9	24	464	29,297	52		5	7	88
(b) Illinois.....	41,236	4		5	271	19,464	44	10	5	5	76
(c) New York.....	105,186	16		7	158	29,183	27	1	10	6	119
(d) Ohio.....	42,759	18		2	211	14,410	3	7	4	5	33
(e) Pennsylvania.....	47,708	10		8	55	19,405	3	4	3	1	61
(f) Texas.....	46,560	25		1	59	3,831	2	5	1	11	14

Table 14.—Number of occupational tax stamps issued, covering fiscal year 1967, or portion thereof, by class of tax and by internal revenue regions, districts, and States—Continued

Internal revenue regions, districts, and States (States represented by single districts indicated in parentheses; totals for other States shown at bottom of table)	Wines				Beer				
	Wholesale dealers		Retail dealers		Brewers	Wholesale dealers, \$123	Retail dealers, \$24	Retail dealers at large, \$24	Temporary dealers in liquor (wines or beer), \$2.20 per month
	Wines, \$255	Wines and beer, \$255	Wines, \$54	Wines and beer, \$54	500 barrels or more, \$110				
	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
<b>United States, total</b> .....	<b>106</b>	<b>477</b>	<b>118</b>	<b>49,617</b>	<b>177</b>	<b>6,873</b>	<b>136,340</b>	<b>104</b>	<b>5,694</b>
<b>North-Atlantic Region</b> .....	<b>49</b>	<b>18</b>	<b>13</b>	<b>1,268</b>	<b>19</b>	<b>803</b>	<b>29,974</b>	<b>56</b>	<b>733</b>
Albany..... (See (c) below)				19	1	96	3,301	2	80
Augusta..... (Maine)				136	3	27	2,406		109
Boston..... (Massachusetts)		10	2	76	4	259	8,264	54	4
Buffalo..... (See (c) below)	7			13	7	207	5,625		396
Burlington..... (Vermont)		25	1	929		41	1,966		157
Hartford..... (Connecticut)		3	10	65		92	5,813		43
Manhattan..... (See (c) below)	39	3				26	1,448		
Providence..... (Rhode Island)				34		10	34		
<b>Mid-Atlantic Region</b> .....	<b>7</b>	<b>37</b>	<b>3</b>	<b>3,794</b>	<b>39</b>	<b>1,739</b>	<b>7,144</b>	<b>24</b>	<b>1,112</b>
Baltimore..... (Maryland and D.C.)		1		502	8	95	2,450		497
H Newark..... (New Jersey)				14	16	69	380	23	22
Philadelphia..... (See (a) below)	1			4	8	751	501		550
Pittsburgh..... (See (e) below)	1			2	2	78	3,728		1
Richmond..... (Virginia)	2	33		3,288		8	13		1
Wilmington..... (Delaware)				10	2	3	101		42
<b>Southeast Region</b> .....	<b>8</b>	<b>142</b>	<b>47</b>	<b>10,425</b>	<b>4</b>	<b>476</b>	<b>23,433</b>	<b>1</b>	<b>31</b>
Atlanta..... (Georgia)	3	13	12	921	1	69	1,836		1
Birmingham..... (Alabama)				5		69	2,824		
Columbia..... (South Carolina)		34	2	1,533		24	3,107		9
Greensboro..... (North Carolina)	1	39	32	2,192		61	3,743		
Jackson..... (Mississippi)				14		75	948		
Jacksonville..... (Florida)	1	56	1	5,705	3	107	4,059		20
Nashville..... (Tennessee)				23		309	3,918		443
<b>Central Region</b> .....	<b>11</b>	<b>105</b>	<b>26</b>	<b>12,344</b>	<b>23</b>	<b>735</b>	<b>6,654</b>		<b>126</b>
Cincinnati..... (See (d) below)	4	10		2,735	4	61	523		126
Cleveland..... (See (d) below)	5	5	18	4,085	4	93	4,511		152
Detroit..... (Michigan)	7	83	2	3,151	7	136	115		27
Indianapolis..... (Indiana)			6	2,080	3	233	294		1
Louisville..... (Kentucky)				3	4	115	2,056		27
Parkersburg..... (West Virginia)	1			290	1	107	3,214		2,120
<b>Midwest Region</b> .....	<b>5</b>	<b>8</b>	<b>7</b>	<b>93</b>	<b>83</b>	<b>1,423</b>	<b>21,973</b>		<b>22</b>
Aberdeen..... (South Dakota)				1		47	1,330		550
Chicago..... (See (b) below)	1			59	8	187	278		7
Des Moines..... (Iowa)				1	1	150	3,336		4
Fargo..... (North Dakota)				12	23	39	278		703
Milwaukee..... (Wisconsin)	2	6		12	23	382	6,045		86
Omaha..... (Nebraska)				4	6	56	390		258
St. Louis..... (Missouri)	2	1	4	4	6	146	3,953		201
St. Paul..... (Minnesota)				1	5	282	6,635		374
Springfield..... (See (b) below)	2	29	12	5,648	15	1,019	12,929		11
<b>Southeast Region</b> .....	<b>1</b>	<b>5</b>	<b>10</b>	<b>4,394</b>	<b>7</b>	<b>402</b>	<b>14,547</b>		<b>25</b>
Albuquerque..... (New Mexico)				1		10	14,547		22
Austin..... (See (f) below)	1	5			2	160	3,169		3
Cheyenne..... (Wyoming)				33	3	63	1,268		8
Dallas..... (See (f) below)				220	3	45	1,463		1
Denver..... (Colorado)				10	2	104	3,499		29
Little Rock..... (Arkansas)				10	1	98	5,167		8
New Orleans..... (Louisiana)				2		86	3,419		24
Oklahoma City..... (Oklahoma)				8		620	15,966		1,048
Wichita..... (Kansas)				24		16	19		6
<b>Western Region</b> .....	<b>21</b>	<b>118</b>	<b>10</b>	<b>7,615</b>	<b>24</b>	<b>62</b>	<b>1,532</b>		<b>26</b>
Anchorage..... (Alaska)				8	1	7	610		15
Boise..... (Idaho)				30	3	11	450		171
Helena..... (Montana)				3	3	51	1,433		81
Honolulu..... (Hawaii)				6	6	139	6,039		7
Los Angeles..... (See (a) below)				1	1	36	1,151		5
Phoenix..... (Arizona)				634	1	13	99		7
Portland..... (Oregon)				2,058	1	51	1,433		718
Reno..... (Nevada)				1	1	13	99		1
Salt Lake City..... (Utah)				8	6	170	3,441		38
San Francisco..... (See (a) below)	21	74		2,804	6	38	1,102		17
Seattle..... (Washington)				1,481	5				
Totals for States not shown above									
(a) California.....	21	74	8	2,804	12	309	9,480		889
(b) Illinois.....		1	1	16	13	289	516		974
(c) New York.....	49	3	12	173	12	654	23,003	56	523
(d) Ohio.....	9	15	18	6,820	8	154	974		237
(e) Pennsylvania.....	2		1	4	24	1,618	1,481		22
(f) Texas.....	1	8	10	5,411	9	562	17,716	3	35

1 Includes 5 brewers of less than 500 barrels at \$55.

Table 14.—Number of occupational tax stamps issued, covering fiscal year 1967, 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 un- taxed preparations, \$1	Laborato- rers, etc., \$1	Manu- facturers, \$24	Deal- ers, \$3	Pro- ducers and millers, \$1	Practi- tioners, \$1	Labora- tories, \$1
	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)
<b>United States, total</b> .....	<b>117</b>	<b>971</b>	<b>54,828</b>	<b>326,156</b>	<b>1,357</b>	<b>430</b>	<b>4</b>	<b>4</b>	<b>2</b>	<b>50</b>	<b>21</b>
<b>North-Atlantic Region</b> .....	<b>20</b>	<b>121</b>	<b>9,622</b>	<b>67,900</b>	<b>604</b>	<b>106</b>				<b>11</b>	<b>7</b>
Albany..... (See (c) below)	1	6	592	3,411	57	1					
Augusta..... (Maine)		4	246	1,460	11	6					
Boston..... (Massachusetts)		4	1,967	12,278	18	29				4	5
Brooklyn..... (See (c) below)	5	22	2,376	15,131	132	14					
Buffalo..... (See (c) below)	2	14	1,178	8,164	222	11				2	
Burlington..... (Vermont)		2	71	431	1	1					
Hartford..... (Connecticut)		11	939	6,235	10	11					
Manhattan..... (See (c) below)	6	25	1,722	17,766	138	29				3	2
Providence..... (Rhode Island)		3	161	1,055	1	2					
<b>Mid-Atlantic Region</b> .....	<b>29</b>	<b>109</b>	<b>6,872</b>	<b>47,965</b>	<b>177</b>	<b>91</b>				<b>3</b>	<b>2</b>
Baltimore..... (Maryland and D.C.)	2	21	1,026	8,240	9	11					
Newark..... (New Jersey)		12	26	1,200	12,500	34					
Philadelphia..... (See (e) below)	11	37	2,197	14,223	33	23					2
Pittsburgh..... (See (a) below)	1	13	1,352	6,607	9	9					
Richmond..... (Virginia)	3	10	933	5,663	81	6					
Wilmington..... (Delaware)		7	2	114	732	6					
<b>Southeast Region</b> .....	<b>7</b>	<b>129</b>	<b>7,840</b>	<b>52,824</b>	<b>163</b>	<b>31</b>				<b>1</b>	<b>1</b>
Atlanta..... (Georgia)		13	1,026	8,993	11	14					
Birmingham..... (Alabama)		12	988	3,426	4	2					
Columbia..... (South Carolina)		9	658	2,594	2	2					
Greensboro..... (North Carolina)	2	11	1,127	5,418	100	12					
Jackson..... (Mississippi)		8	658	2,185	9	6					
Jacksonville..... (Florida)		27	1,748	9,187	14	7					
Nashville..... (Tennessee)	4	25	1,917	4,891	25	6					
<b>Central Region</b> .....	<b>24</b>	<b>156</b>	<b>7,382</b>	<b>41,822</b>	<b>138</b>	<b>50</b>				<b>2</b>	<b>13</b>
Cincinnati..... (See (d) below)	6	26	1,193	6,317	21	9					
Cleveland..... (See (d) below)	4	31	1,480	9,643	30	14					
Detroit..... (Michigan)	8	50	2,233	13,229	50	13					
Indianapolis..... (Indiana)	5	27	1,275	6,937	27	11					
Louisville..... (Kentucky)		12	817	3,651	9	3					
Parkersburg..... (West Virginia)		9	374	2,047	1	1					
<b>Midwest Region</b> .....	<b>24</b>	<b>165</b>	<b>8,909</b>	<b>43,156</b>	<b>121</b>	<b>47</b>				<b>1</b>	<b>20</b>
Aberdeen..... (South Dakota)		4	230	776	26	12					
Chicago..... (See (b) below)	6	36	2,286	12,732	26	15					
Des Moines..... (Iowa)		27	784	3,928	20	5					
Fargo..... (North Dakota)		2	204	735	7	4					
Milwaukee..... (Wisconsin)	4	17	1,125	6,475	7	4					
Omaha..... (Nebraska)	1	10	505	2,353	5	4					
St. Louis..... (Missouri)	9	27	1,252	7,003	44	12					
St. Paul..... (Minnesota)	1	24	968	5,846	9	3					
Springfield..... (See (b) below)	3	18	655	3,308	20	7					
<b>Southeast Region</b> .....	<b>3</b>	<b>113</b>	<b>7,510</b>	<b>34,854</b>	<b>87</b>	<b>29</b>				<b>1</b>	<b>1</b>
Albuquerque..... (New Mexico)		3	289	1,229	4	4					
Austin..... (See (f) below)	23	1,647	8,240	16	4	4					
Cheyenne..... (Wyoming)		3	123	451							
Dallas..... (See (f) below)	1	28	1,505	7,147	14	4					
Denver..... (Colorado)		14	684	4,030	3	7					
Little Rock..... (Arkansas)		5	606	2,184	3	1		</			

Table 14.—Number of occupational tax stamps issued, covering fiscal year 1967, 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 gaming device premises, \$250 per device	Adulterated, process or re-novated butter, and filled cheese	Wagering, \$50
	Manufacturers or Importers		Pawn-brokers, Class 3, \$300	Dealers other than pawn-brokers, Class 4, \$200	Dealers, Class 5, \$10			
	Class 1, \$500	Class 2, \$25						
	(32)	(33)	(34)	(35)	(36)	(37)	(38)	(39)
<b>United States, total</b> .....	<b>11</b>	<b>9</b>	<b>2</b>	<b>75</b>	<b>66</b>	<b>22,396</b>	<b>37</b>	<b>5,917</b>
<b>North-Atlantic Region</b> .....	<b>13</b>	<b>8</b>		<b>10</b>	<b>6</b>	<b>256</b>		<b>108</b>
Albany..... (See (c) below)	1	1						12
Augusta..... (Maine)					2			
Boston..... (Massachusetts)	6					238		30
Brooklyn..... (See (c) below)	1						2	27
Buffalo..... (See (c) below)					2			
Burlington..... (Vermont)		5						
Hartford..... (Connecticut)	3			1	1	10		6
Manhattan..... (See (c) below)					8	1		1
Portsmouth..... (New Hampshire)		2						8
Providence..... (Rhode Island)				1				16
<b>Mid-Atlantic Region</b> .....	<b>7</b>	<b>8</b>		<b>13</b>	<b>15</b>	<b>3,942</b>		<b>246</b>
Baltimore..... (Maryland and D.C.)	1	5		10	5	3,248		37
Newark..... (New Jersey)	3					46		1
Philadelphia..... (See (e) below)	1				1	28		17
Pittsburgh..... (See (a) below)		1				27		44
Richmond..... (Virginia)	2			1	1	335		24
Wilmington..... (Delaware)				2		2		22
<b>Southeast Region</b> .....			<b>1</b>	<b>3</b>	<b>17</b>	<b>4,848</b>	<b>10</b>	<b>342</b>
Atlanta..... (Georgia)				2	2	310		24
Birmingham..... (Alabama)				1	1	1		29
Columbia..... (South Carolina)				1	1,597	1		44
Greensboro..... (North Carolina)				2	2	79		16
Jackson..... (Mississippi)						845		114
Jacksonville..... (Florida)			1	3	6	37		34
Nashville..... (Tennessee)				5	5	2,029		81
<b>Central Region</b> .....	<b>4</b>			<b>4</b>	<b>12</b>	<b>2,718</b>	<b>8</b>	<b>1,276</b>
Cincinnati..... (See (d) below)					1	611		53
Cleveland..... (See (d) below)	2				2	150		149
Detroit..... (Michigan)	2			3	5	12		48
Indianapolis..... (Indiana)				1	3	923		551
Louisville..... (Kentucky)						21		198
Parkersburg..... (West Virginia)				1	1	1,001		277
<b>Midwest Region</b> .....				<b>12</b>	<b>3</b>	<b>1,307</b>	<b>2</b>	<b>227</b>
Aberdeen..... (South Dakota)						338		13
Chicago..... (See (b) below)				6	1	178		36
Des Moines..... (Iowa)						16		9
Fargo..... (North Dakota)						1		27
Milwaukee..... (Wisconsin)				1	1	1		3
Omaha..... (Nebraska)				2		106		50
St. Louis..... (Missouri)				1	1	377		23
St. Paul..... (Minnesota)				2		15		23
Springfield..... (See (d) below)						276		43
<b>Southwest Region</b> .....			<b>1</b>	<b>5</b>	<b>10</b>	<b>3,801</b>	<b>14</b>	<b>748</b>
Albuquerque..... (New Mexico)				1	1	35		131
Austin..... (See (f) below)				3		14		121
Cheyenne..... (Wyoming)						198		84
Dallas..... (See (f) below)			1	1	1	1		54
Denver..... (Colorado)						138		5
Little Rock..... (Arkansas)						706		117
New Orleans..... (Louisiana)					4	2,298		233
Oklahoma City..... (Oklahoma)					3	156		117
Wichita..... (Kansas)				1	1	255		17
<b>Western Region</b> .....	<b>7</b>			<b>28</b>	<b>3</b>	<b>5,524</b>	<b>3</b>	<b>2,979</b>
Anchorage..... (Alaska)						164		1
Boise..... (Idaho)						1		3
Helena..... (Montana)						185		484
Honolulu..... (Hawaii)						143		1
Los Angeles..... (See (a) below)	5			20		63		10
Phoenix..... (Arizona)	2			6		151		26
Portland..... (Oregon)						832		12
Reno..... (Nevada)				2		1,698		143
Salt Lake City..... (Utah)						538		547
San Francisco..... (See (a) below)						2		9
Seattle..... (Washington)						1,731		1,613
Totals for States not shown above								
(a) California.....	5			20	2	72	3	10
(b) Illinois.....	1			6	1	454	1	79
(c) New York.....	3	1		8	3	761	6	40
(d) Ohio.....	2			2	4	313		202
(e) Pennsylvania.....	1			1	4	1		162
(f) Texas.....			1	4	1	15	11	175

Table 15.—Appellate division receipts and dispositions of protested income, estate, and gift tax cases not before the Tax Court (nondocketed cases)

Status	Number of cases (1)	Amount stated in revenue agent's report (thousand dollars)	
		Deficiency and penalty (2)	Overassessment (3)
		Pending July 1.....	22,916
Received.....	28,207	1,467,081	48,627
Disposed of, total.....	28,430	957,650	45,036
By agreement.....	24,121	739,234	43,629
Unagreed overassessment and claim rejection	586	589	640
By taxpayer default on statutory notice	989	16,445	35
By petition to the Tax Court—transferred to docketed status	2,734	201,385	733
Pending June 30.....	22,693	2,257,811	105,453
<b>B. Results obtained in dispositions</b>			
Method	Number of cases (1)	Appellate determination (thousand dollars)	
		Deficiency and penalty (2)	Overassessment (3)
Disposed of, total.....	28,430	451,749	58,757
By agreement.....	24,121	239,704	57,863
Unagreed overassessment and claim rejection	586	704	804
By taxpayer default on statutory notice	989	15,675	35
By petition to the Tax Court—transferred to docketed status	2,734	196,166	55

Table 16.—Appellate Division receipt and disposition of income, estate, and gift tax cases petitioned to the Tax Court (docketed cases)

Status	Number of cases (1)	Amount stated in statutory notice (thousand dollars)	
		Deficiency in tax and penalty (2)	Overassessment (3)
Received, total.....	6,468	447,994	-533
Petitions filed in response to—			
District directors' statutory notices.....	3,931	258,981	-950
Appellate Division's statutory notices.....	2,557	189,014	-82
Disposed of, total.....	7,220	402,269	1,131
By stipulated agreement.....			
By dismissal by the Tax Court or taxpayer default.....	6,124	334,453	848
Tried before the Tax Court on the merits.....	297	8,636	19
Pending June 30.....	9,292	1,265,059	740

<sup>1</sup> Difference from table 15, transferred to docketed status is caused by excluding district director's statutory notices considered by Appellate in 90-day status.

**B. Results obtained in dispositions**

Method	Number of cases (1)	Appellate determination (thousand dollars)	
		Deficiency in tax and penalty (2)	Overassessment (3)
By stipulated agreement.....			
By dismissal by the Tax Court or taxpayer default.....	6,124	83,009	7,208
Tried before the Tax Court on the merits.....	799	8,605	19
Pending June 30.....	799	59,179	264

<sup>1</sup> Represents amounts petitioned.

Table 17.—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.....	11,362	1,015,100	108,432	52,983
Filed or reopened.....	6,282	368,534	24,162	10,395
Disposed of.....	7,248	341,667	26,328	13,733
Pending June 30.....	10,376	1,041,987	106,286	49,645

Table 18.—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 (4)	Over- payment (5)	Deficiency and penalty (7)	Over- payment (8)	Deficiency and penalty (9)
Pending July 1, total.....	459	38,152	429		14	935				
Appealed by Commissioner.....										
Appealed by taxpayers.....	48	3,553	5		1	14				
Appealed by both.....	358	29,730	110		13	922				
Appealed, total.....	53	4,869	314							
Appealed, total.....										
By Commissioner.....	249	8,896	152		2	28				
By taxpayers.....	33	1,352	1		2	28				
By both.....	200	6,631	123							
Disposed of, total.....	16	913	29							
Favorable to Commissioner.....										
Favorable to taxpayers.....	341	20,025	275	12,881	31	14	948		196	
Modified.....	196	10,865	31	10,893	31	10	196		196	
Settled.....	39	3,544	243		4	752				
Dismissed.....	43	1,541		679						
Pending June 30, total.....	13	2,415	1	1,309						
Appealed by Commissioner.....	50									
Appealed by taxpayers.....	367	27,023	306		2	15				
Appealed by both.....	37	3,363	6		2	15				
Disposed of, total.....	299	20,639	155							
By both.....	31	3,021	146							

Table 19.—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) <sup>1</sup>		Errone- ous refunds (4)
		Court of Claims (2)	District courts (3)	
Amount in dispute thousand dollars.....	405,716	208,614	194,485	2,617
Received during year: Cases.....number.....	1,448	139	1,297	12
Amount in dispute thousand dollars.....	140,513	52,519	87,913	81
Disposed of during year: Cases.....number.....	1,301	116	1,176	9
Amount in dispute thousand dollars.....	111,079	61,627	49,331	121
Refunded during year: Amount.....thousand dollars.....	63,345	36,774	26,571	
Percent of amount disposed of.....	57.03	59.67	53.86	
Pending June 30: Cases.....number.....	3,634	509	3,099	26
Amount in dispute thousand dollars.....	435,150	199,506	232,067	2,577

<sup>1</sup> 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 77, of which 32 were for the Government, 39 against the Government, and 10 partly for and partly against the Government. In the district courts 464 decisions were rendered, of which 269 were for the Government, 127 against the Government, and 68 partly for and partly against the Government. For decisions by the courts of appeals and Supreme Court, see table 20.

Table 20.—Office of Chief Counsel—Decisions of courts of appeals and Supreme Court in civil tax cases

Court	Total (1)	For the Govern- ment (2)	Against the Govern- ment (3)	Partly for and partly against the Govern- ment (4)
By courts of appeals, total.....	413	283	74	56
Originally tried in—				
Tax Court.....	294	204	41	49
District courts.....	119	79	33	7
By Supreme Court, total.....	4	3	1	
Originally tried in—				
Tax Court.....	2	2		
District courts.....	2	1	1	
Court of Claims.....				

Table 21.—Office of Chief Counsel—Receipt and disposal of collection, injunction, summons, and disclosure cases

Status	Number of cases
Pending July 1.....	1,863
Received.....	2,139
Disposed of.....	2,346
Pending June 30.....	1,656

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 22), nor to appeal and other cases which are included in table 23.

Table 22.—Office of Chief Counsel—Receipt and disposal of insolvency and debtor proceedings

Status	Total	Reorganization proceedings <sup>1</sup>	Bankruptcy and receivership proceedings <sup>2</sup>	Miscellaneous insolvency proceedings <sup>3</sup>
	(1)	(2)	(3)	(4)
Pending July 1.....	2,076	1,020	587	469
Received.....	3,479	1,461	1,159	849
Disposed of.....	3,126	1,219	1,166	741
Pending June 30.....	2,429	1,262	590	577

<sup>1</sup> Proceedings instituted under the following sections 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.

<sup>2</sup> 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 23.—Office of Chief Counsel—Receipt and disposal of miscellaneous court cases, lien cases not in court, noncourt collection litigation cases, and appeal cases

Status	Total	Miscellaneous court cases <sup>1</sup>	Lien cases not in court <sup>2</sup>	Noncourt collection litigation cases <sup>3</sup>	Appeal cases <sup>4</sup>
	(1)	(2)	(3)	(4)	(5)
Pending July 1.....	1,226	315	71	696	144
Received.....	5,670	701	1,787	3,071	111
Disposed of.....	5,029	710	1,756	3,004	139
Pending June 30.....	1,287	306	102	763	116

<sup>1</sup> Includes suits for foreclosures by mortgages or other secured creditors, and suits to quiet title to which the United States is made a party.

<sup>2</sup> Primarily applications for discharge of property from tax liens.

<sup>3</sup> Primarily memorandums on collection litigation matters from regional counsel to district directors which are not related to court proceedings or lien cases.

<sup>4</sup> 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 24.—Office of Chief Counsel—Caseload report

Activity	Pending July 1 (1)	Receipts (2)	Disposals (3)	Pending June 30 (4)
Total.....	23,793	25,982	26,685	23,090
Administration.....	141	83	113	111
Alcohol and tobacco tax.....	552	4,650	4,593	609
National Office.....	120	1,181	1,162	139
Field.....	432	3,469	3,431	470
Collection litigation.....	5,165	11,286	11,079	5,372
National Office.....	319	316	311	323
Field.....	4,847	10,970	10,768	5,049
Enforcement.....	2,358	1,220	1,227	2,351
National Office.....	84	60	57	87
Field.....	2,274	1,160	1,170	2,264
Interpretative Division.....	256	761	749	268
Refund Litigation Division.....	3,487	1,448	1,301	3,634
Tax Court <sup>1</sup> .....	11,834	6,534	7,623	10,745
National Office.....	473	251	355	369
Field.....	11,361	6,283	7,268	10,376

<sup>1</sup> Nondocketed cases not included.

Table 25.—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)
<b>A. National Office and regional totals (including district directors' offices and service centers)</b>	<b>657,060</b>	<b>589,042</b>	<b>18,531</b>	<b>6,645</b>	<b>52,862</b>
Total Internal Revenue Service <sup>1</sup> .....	657,060	589,042	18,531	6,645	52,862
<b>National Office.....</b>	<b>73,887</b>	<b>42,136</b>	<b>2,353</b>	<b>2,012</b>	<b>27,386</b>
North-Atlantic.....	106,131	100,075	1,720	830	3,506
Mid-Atlantic.....	91,319	76,532	1,102	444	2,444
Southeast.....	65,648	59,322	2,354	460	3,512
Central.....	74,809	69,471	1,971	531	2,836
Midwest.....	81,402	75,500	2,785	663	2,954
Southwest.....	62,725	57,602	2,115	409	2,599
Western.....	88,319	80,539	2,834	952	3,994
Regional counsel.....	9,196	8,756	120	33	320
Regional inspection.....	8,383	7,351	799	33	180
Office of International Operations.....	4,725	4,250	207	58	210
National Computer Center.....	3,430	1,808	13	168	1,441
IRS Data Center.....	7,126	5,700	58	85	1,283
<b>B. Regional commissioners' offices (excluding district directors' offices and service centers)</b>					
North-Atlantic.....	11,404	10,560	256	84	504
Mid-Atlantic.....	10,594	9,682	353	61	511
Southeast.....	11,047	10,432	529	71	15
Central.....	11,065	10,216	304	21	524
Midwest.....	9,119	8,159	298	62	600
Southwest.....	6,618	5,876	253	31	458
Western.....	9,603	8,735	372	61	435
<b>C. Regional costs undistributed</b>					
North-Atlantic.....	935	577	268	28	62
Mid-Atlantic.....	809	513	285	11	11
Southeast.....	3,145	301	351	7	2,479
Central.....	818	427	283	7	201
Midwest.....	1,017	567	374	7	48
Southwest.....	621	345	243	15	18
Western.....	992	475	437	28	52
<b>D. District directors' offices and service centers</b>					
North-Atlantic:					
Albany.....	3,648	3,431	100	21	96
Augusta.....	1,825	1,699	72	8	46
Boston.....	12,440	11,776	223	80	351
Brooklyn.....	15,246	14,581	156	78	431
Buffalo.....	8,700	8,249	187	48	216
Burlington.....	807	842	33	4	28
Hartford.....	6,439	6,180	121	25	169
Manhattan.....	28,284	27,450	171	96	567
Portsmouth.....	1,319	1,209	48	12	50
Providence.....	2,196	2,026	30	20	50
Puerto Rico.....	107	97	8	—	2
North-Atlantic Training Center.....	45	5	—	—	40
North-Atlantic Service Center.....	12,560	11,523	47	316	894
Mid-Atlantic:					
Baltimore.....	10,344	9,940	139	50	215
Newark.....	14,657	14,015	233	56	363
Philadelphia.....	14,494	13,910	244	52	288
Pittsburgh.....	8,559	8,195	151	31	182
Richmond.....	6,675	6,208	237	60	170
Wilmington.....	1,896	1,820	26	11	39
Mid-Atlantic Service Center.....	13,281	12,249	34	136	862
Southeast:					
Atlanta.....	6,100	5,840	219	32	9
Birmingham.....	4,271	4,099	151	19	2
Columbia.....	2,622	2,735	104	20	3
Greensboro.....	6,702	6,382	281	52	7
Jackson.....	2,615	2,484	113	14	4
Jacksonville.....	11,175	10,741	371	53	10
Nashville.....	5,430	5,189	206	31	4
Southeast Service Center.....	12,301	11,119	29	174	979
Central:					
Cincinnati.....	7,735	7,369	177	27	162
Cleveland.....	12,255	11,654	287	55	299
Detroit.....	14,294	13,631	320	33	310
Indianapolis.....	8,563	7,624	240	25	174
Louisville.....	5,280	4,931	185	32	132
Parkersburg.....	3,069	2,830	137	24	78
Central Regional Training Center.....	216	141	6	22	47
Central Service Center.....	11,914	10,648	32	205	949

See footnotes at end of table.

Table 25.—Obligations incurred by the Internal Revenue Service—Continued  
[In thousands of dollars]

Internal revenue office, district, or region	Total	Personnel compensation and benefits	Travel	Equipment	Other
	(1)	(2)	(3)	(4)	(5)
<b>D. District directors' offices and service centers—Continued</b>					
<b>Midwest:</b>					
Aberdeen.....	1,469	1,347	84	7	31
Chicago.....	20,201	19,395	247	57	512
Des Moines.....	4,830	4,378	193	6	107
Fargo.....	1,292	1,183	77	3	29
Milwaukee.....	7,948	6,619	204	25	198
Omaha.....	3,209	2,994	109	19	87
St. Louis.....	9,634	9,021	289	50	274
St. Paul.....	6,534	6,169	179	19	167
Springfield.....	5,410	5,038	198	32	142
Midwest Service Center.....	11,591	10,440	37	355	759
<b>Southwest:</b>					
Albuquerque.....	2,098	1,908	82	11	87
Austin.....	9,893	9,204	313	49	317
Cheyenne.....	1,050	942	71	4	33
Dallas.....	10,101	9,419	344	55	283
Denver.....	4,172	3,843	126	13	190
Little Rock.....	2,866	2,612	141	18	95
New Orleans.....	5,683	5,324	154	22	183
Oklahoma City.....	4,869	4,584	165	31	209
Wichita.....	4,234	3,904	174	27	129
Southwest Service Center.....	10,410	9,641	39	133	597
<b>Western:</b>					
Anchorage.....	969	846	65	6	52
Boise.....	1,439	1,301	74	4	60
Helena.....	1,534	1,392	80	8	54
Honolulu.....	1,692	1,582	44	9	57
Los Angeles.....	24,442	22,878	657	89	818
Phoenix.....	3,201	2,945	112	11	133
Portland.....	4,120	3,814	146	27	133
Reno.....	2,235	1,925	88	20	202
Salt Lake City.....	1,932	1,812	51	9	60
San Francisco.....	16,599	15,994	438	87	680
Seattle.....	6,150	5,640	195	24	191
Western Regional Training Center.....	274	213	5	4	52
Western Service Center.....	13,237	11,587	70	565	1,015

<sup>1</sup> Includes \$3.2 million financed from reimbursements.  
<sup>2</sup> Does not include \$257,000 rental transfer to General Services Administration.

Table 26.—Obligations incurred by Internal Revenue Service, by appropriation and activity  
[In thousands of dollars]

Appropriation by activity	Total		Personnel compensation and benefits		Other	
	1966	1967	1966	1967	1966	1967
	Total obligations.....	624,861	667,080	548,825	589,042	76,036
Appropriated funds, total.....	621,468	663,853	546,065	586,365	75,403	77,488
Salaries and expenses:						
Total.....	17,490	18,817	14,878	16,012	2,612	2,805
Executive direction.....	7,798	8,465	6,452	6,992	1,346	1,473
Internal audit and security.....	9,692	10,352	8,426	9,020	1,266	1,332
Revenue accounting and processing:						
Total.....	159,449	172,557	128,301	141,118	31,148	31,439
District manual operations.....	74,529	55,668	61,658	44,610	12,871	11,058
Service center automated operations.....	80,406	111,072	62,544	91,385	17,862	19,687
Statistical reporting.....	4,514	5,817	4,099	5,123	415	684
Compliance:						
Total.....	444,529	472,479	402,886	429,235	41,643	43,244
Audit of tax returns.....	225,850	242,986	209,520	225,497	16,330	17,489
Collection of delinquent accounts and securing delinquent returns.....	103,086	108,342	91,818	96,745	11,268	11,597
Tax fraud and special investigations.....	32,493	33,859	28,186	29,548	4,307	4,311
Alcohol and tobacco tax regulatory work.....	35,484	36,622	29,290	30,450	6,194	6,172
Taxpayer conferences and appeals.....	23,291	24,357	21,747	23,126	1,544	1,231
Rulings, technical planning, and special technical services.....	9,360	10,053	8,426	9,003	934	1,044
Legal services.....	14,965	16,260	13,799	14,860	1,166	1,400
Reimbursements, total.....	3,393	3,227	2,760	2,677	633	550

Note.—Amounts shown do not include appropriation transfer to GSA for rent of space amounting to \$52,000 in 1966; \$257,000 in 1967.

Table 27.—Quantity and cost statistics for printing

Class of work	1966			1967		
	Quantity (thousands)		Cost (thousand dollars)	Quantity (thousands)		Cost (thousand dollars)
	Items or sets (1)	Packages (2)		Items or sets (4)	Packages (5)	
Total.....			11,100			13,191
Tax returns and instructions for major mailings to taxpayer, total.....	447,682	77,186	1,795	460,203	80,001	2,069
Package 1 (Form 1040 and instructions—20 pages).....	63,345	21,115	427	70,824	23,608	505
Package 2 (Form 1040, Schedules B, D, 1040ES, and instructions—32 pages).....	164,704	20,588	588	152,368	19,046	511
Package 3 (Form 1040, Schedules C, D, 1040ES, and instructions—40 pages).....	67,661	6,151	291	78,045	7,095	382
Package 4 (Form 1040, Schedules B, D, F, 1040ES, and instructions—40 pages).....	34,177	3,107	146	37,906	3,446	186
Package 5 (Form 1065, Schedule D, and instructions—16 pages).....	5,100	1,020	23	5,350	1,070	23
Package 6 (Form 1120, Schedule D, Form 3468, and instructions—24 pages).....	6,850	1,370	44	8,480	1,697	52
Package 7 (Form 1040A, instructions).....	38,720	19,360	125	38,980	19,490	228
Employment tax package—Pub. 393 (Forms 7018, 941a, W-2, W-4, and Pub. 213—28 pages).....	67,125	4,475	151	68,250	4,550	182
Other tax returns, instructions, public-use forms, and pamphlets.....	1,349,321		5,423	1,386,775		16,570
Administration forms and pamphlets.....	833,015		2,495	874,235		3,056
Field printing.....	128,850		451	212,706		606
Excise tax stamps.....	2,360,894		936	2,267,167		880

<sup>1</sup> Included in this figure is \$467,000 for the Graduated Withholding Program.

<sup>2</sup> Included in this figure is \$820,000 for envelopes used in major mailings to taxpayers. This item not previously part of printing statistics.

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