December 16, 1937.

Honorable James A. Farley, Chairman,
National Democratic Committee,
Hotel Biltmore,
Washington, D.C.

Dear Jim:

Following my previous letter to you regarding the inequities of the much discussed surplus tax program, I enclose, herewith, a memorandum from Mr. J. M. North, Jr., Editor of The Star-Telegram, concerning a personal experience that he and another of my associates have encountered in the automobile business in Houston.

Naturally, I have no desire to burden you unnecessarily with details of this kind; meanwhile, this is one of the average cases that is much discussed and, under the present plan, perpetrates a serious hardship and handicap on business. I can imagine this is one of the many thousands and thousands throughout the country. So, as busy as you are, I hope you will take the time to read it through and I will send you an extra pecan for Christmas.

With best wishes, I am,

Sincerely,

AGC.KD

Mr Carter:

Several times recently you and I have discussed, from the standpoint of editorial comment, the undistributed profits tax law, its effect upon business, and the desirability of its modification, if not repeal.

Now, I have had its effect brought home to me in a personal and forcible manner. The case of the Earle North Buick Company at Houston, with which you are somewhat familiar, offers a concrete example of its damaging effect upon a business working itself out of serious difficulties.

This is a close corporation owned by Earle North of Houston, and Bert Honea and J M North, Jr, of The Star-Telegram, Fort Worth. It is one of the largest Buick agencies, in point of sales. We bought it in 1930 for approximately $300,000, assuming some $436,000 of company-indorsed customer paper, and setting up a reserve against this paper based on average losses of the previous ten years. By March of 1933, due to the depression, the enormous number of people thrown out of work and their inability to meet their installment notes, the company had lost two-thirds of its capital and surplus and we had to lend it an additional $20,000 to keep it operating.

But we paid the bank and all others in full, took our losses, reduced capital to $100,000 and started over.

Since 1933 the company has made money. In 1936 it paid $34,000 in cash dividends, having the cash to do it and believing conditions then prevailing would continue at least another year.

Then things quickly happened that made us wish we hadn't paid it. The Buick Motor Company had labor trouble in January of 1937, resulting in a shortage of cars; in February, a strike, resulting in the stoppage of cars. These two months showed practically no profit. Then in April labor difficulties arose in the shops of all 41 automobile dealers in Houston. The demands were too ridiculous to be met, a compromise could not be effected and a strike resulted. It lasted 60 days. It cost our company in lost profits fully $25,000, for April and May normally are among the most profitable months of the year.

Of course, these difficulties weakened the cash position of the company; and the Buick factory, which closely supervises the dealer operations, criticised us for the dividends paid in 1936, a criticism I answered by saying that whenever the company needed money with which to operate Bert and I would arrange to supply it.

Now we are confronted with this situation: business has been good since the strike was settled; the company will earn between $30,000 and $35,000 this year. It can't pay a dividend because it hasn't the cash. The profit is in the business, in a new service station we were forced to build adjoining the main plant and costing $10,000, and an increase of approximately $18,000 in used car stock, due to increased business. Yet, if we do not pay the dividend, the business will have to pay, in addition to its normal income tax of 15 percent, an additional $7,000 ~~surplus~~ profits tax for not paying the dividend.

The company is as bad off in one respect as in the other. It can't afford to pay the dividend because it hasn't the money, and it can not afford to pay a $7,000 penalty tax.

The service station is an example of doing something the government is encouraging all business to do. We needed the station, in order to handle service work more efficiently and conveniently for our customers. We borrowed the money with which to build it and have been paying it back.

It does seem hard for a company that has taken nearly a $200,000 loss and has been fighting its way back ever since to be punished for not paying a dividend which it hasn't the money to pay and which the company's condition would certainly not justify.

I thought perhaps in view of our discussions a concrete case so close to home would be of interest to you.

J M NORTH Jr

December 9 1937