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Income Tax - New Interpretation

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INCOME TAX—NEW INTERPRETATION

"The power to tax involves the power to destroy". These were the memorable words uttered by Chief Justice Marshall in his opinion in *McCulloch vs. Maryland*. And so for 120 years we followed the rule that the States were without power to tax Federal Employees and on the other hand the Federal Government was without power to tax State employees. On March 6th, 1939, the Supreme Court of the United States overruled, the rule laid down in *McCulloch vs. Maryland*, and held in *Graves vs. People of New York*, that the salary or wages of employees of an instrumentality of the United States were not exempt from the New York State income tax law. 59 S. Ct. 595.

On account of this decision we are asking the question. How far can the States go in passing laws taxing instrumentalities of the Federal Government? Will tax exempt securities become obsolete? There are nearly 40 billion of tax exempt Federal bonds in the hands of investors and perhaps that many more State and municipal bonds and warrants, all exempt from tax at the present time. The question is shall income derived from Federal, State and Municipal bonds and securities be taxed the same as any other income? That is a debatable question, one that is worthy of the study of the lawyers of the land.

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