Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 5, 1941.

To Chairman Eccles

From Mr. Vest

Subject: United States savings bonds and other matters under H.R. 2959.

Taxation of United States Savings Bonds

Under now existing law, United States savings bonds are exempt from normal Federal income tax and surtax on income from an amount up to $5,000 for any one person. They are subject to Federal surtaxes on income from amounts in excess of $5,000 and are also subject to Federal estate taxes.

The passage of the now pending Public Debt Act of 1941 (H.R. 2959) will not in any way affect this situation as to savings bonds issued before the passage of the Act. They will continue to be taxable to the same extent and to have the same exemptions as they now have.

Just on increase for [illegible] + surtax
Total subject to Estate taxes

However, savings bonds issued after the passage of the proposed Act will be subject to Federal income taxes and surtaxes as well as estate taxes, the existing exemption from Federal taxation being removed as to future issues. The increment resulting from the difference between the price paid for such bonds and the amount received on redemption is considered interest for taxation purposes.

United States savings bonds are now exempt from State taxes, except estate and inheritance taxes, and it is understood that this bill is not intended to change this exemption from State taxes, whether the savings bonds are issued heretofore or hereafter.

Reason for Introduction of New Bill

The Public Debt Act of 1941 was first introduced in Congress by Mr. Doughton on January 24 as H.R. 2653. On January 30th he introduced a revised draft, H.R. 2959, which made a few rather unimportant amendments in the bill. The revised draft eliminated certain language of the first draft which might have raised an incorrect implication that the principal of Government obligations was taxable by the Federal Government. The revised bill also eliminated a provision of the first draft which authorized the withdrawal of Postal Savings deposits on less than 60 days' notice in order to acquire United States savings bonds. Why this change was made is not known.

It is understood that since certain changes were desired, it was considered preferable to introduce the revised bill rather than to have to complicate the bill with committee amendments or amendments on the floor of the House. This is a usual practice.

The bill H.R. 2959 was reported favorably to the House by the Ways and Means Committee on February 3, without amendment.

Respectfully,

George B. Vest

George B. Vest,
Assistant General Counsel.

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