

**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**

Office Correspondence

To Mr. Despres

From Mr. Krost

Date June 24, 1940

Subject: _____

Of the three memoranda prepared by Mr. Paul, Memorandum A consists of a discussion of thirty-one possible changes in tax law which would increase revenue by eliminating loopholes now utilized for tax evasion purposes. Memorandum C consists of a brief summary of Memorandum A; it is well worth reading as a list of some of the steps it would be necessary to take to give our high surtax and estate tax rates more than their present merely nominal significance. It deals with such questions as the exemption from income tax of stock dividends, the use of trusts to reduce surtaxes, the exemption from income tax of capital gains during the life of the decedent on property transmitted at death, the estate tax exemptions, and the general treatment of insurance under the estate tax.

Only one loophole of major significance is not discussed: undistributed corporate earnings in the broad sense. There is a discussion of methods of improving the present provision relating to corporations "improperly accumulating surplus"; but the general problem of undistributed corporate earnings covers a much wider field.

Memorandum B consists of fifteen suggestions for changes to eliminate certain injustices to taxpayers, most of them of minor importance from a revenue point of view although of considerable interest to individual taxpayers who are sometimes treated inequitably by the operation of the existing law and regulations. A reading of this memorandum leaves the impression that few serious inequities of this nature remain after the changes made by the Revenue Act of 1939.

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