

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM**Office Correspondence**Date May 27, 1941To Chairman Eccles**Subject:** Treatment of New Capital  
and New Corporations for Excess-  
Profits Tax PurposesFrom Martin Krost

MK

With reference to the questions you raised yesterday, the existing excess-profits tax provides as follows:

1. New capital in existing corporations is allowed an 8 per cent rate of return, whether the invested capital or the income method of computing the excess-profits credit is elected. The new Treasury proposal would raise the rate allowable on new investment that does not bring total invested capital above \$500,000 to 10 per cent.

2. Corporations beginning operations during the taxable year must use the invested-capital method, under which they are allowed the same 8 per cent return, as old corporations.

3. Corporations in existence during only part of the base period 1936-39 may elect either the invested-capital or the income method. Under the invested-capital method they are allowed the same 8 per cent return as all other corporations. Under the income method, they are allowed the average of actual earnings over the part of the base period during which they were actually in existence, plus an 8 per cent return on statutory invested capital (as it stands on the first day of the taxable year 1940) over the part of the base period during which they were not in existence.