

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date May 12, 1947.

To Chairman Eccles

Subject: Status of Tax Legislation.

From Alfred Sherrard *AS RNM*

The Senate Finance Committee on Friday, May 9, approved a tax reduction bill similar in most essential respects to that passed by the House. There were only two important changes:

(a) While the House bill provided for a uniform 20 per cent reduction in liability on net incomes between \$1,395 and \$302,000, the Senate bill provides for a reduction of 20 per cent on net incomes between \$1,395 and \$79,000 but of only 15 per cent on incomes between \$79,000 and \$302,000. In both cases the reduction on incomes over \$302,000 is 10 $\frac{1}{2}$  per cent.

(b) Under the Senate bill, reductions would apply only on incomes received after July 1. The House bill provided for reductions retroactive to January 1, 1947.

On a full year basis, the Senate bill is expected to yield only about 26 million dollars more than the House bill. For the fiscal year 1948, however, the difference is over 1.7 billion dollars due to the retroactive feature of the House bill. (Part of this difference would appear as increased expenditure for refunds rather than as decreased revenue.)

The formal report of the Senate Finance Committee has not yet been prepared, and the bill is not expected to be debated on the floor until the end of this week at the earliest.

In the attached table the effect of the House and Senate bills on tax liability at selected income levels is shown for the calendar year 1948 and also, in the case of the Senate bill, for a full year at reduced rates. In addition, estimates of the yield of the personal income tax under the two proposals are given.

Attachment

# EFFECT OF PERSONAL INCOME TAX REDUCTION

## SELECTED LEVELS OF INCOME

Head of Family, One Dependent

<u>Net Income before Exemptions</u>	<u>Liability under Present Law</u>	<u>Liability under House Bill</u>	<u>Liability under Senate Bill</u>	
			<u>1948</u>	<u>Full yr.</u>
\$ 1,600	\$ 19	\$ 13	\$ 16	\$ 13
2,000	95	66	81	66
3,000	285	228	257	228
4,000	485	388	437	388
5,000	694	555	625	555
10,000	2,024	1,619	1,822	1,619
20,000	6,142	4,914	5,528	4,914
50,000	24,453	19,562	22,008	19,562
100,000	62,714	50,171	59,578	56,442
200,000	147,697	118,158	136,623	125,548
500,000	407,032	341,687	374,360	341,687
Estimated yield (billions of dollars)	18.4	13.5	15.2	13.5