FEDERAL RESERVE BANK
OF NEW YORK

Fiscal Agent of the United States

[Circular No. 944
November 23, 1929]

Banking institutions are advised that, in addition to the offering concerning which notice is given below, an offering of new Treasury bills may be announced on December 10th and that a general circular governing the sale and issue of the Treasury bills when offered but not announcing a specific offering will be forwarded to them shortly. Public notice describing the offering of Treasury bills may be given on or about December 10th.

New Treasury Issue

Preliminary Notice of Offering and Methods of Filing Subscriptions

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To all Member Banks, State Banks, Trust Companies and Savings Banks in the Second Federal Reserve District:

From advices received from the Treasury Department of the United States, this bank is enabled to transmit to banking institutions in this district the following information:

1. That a Treasury offering may be expected shortly.
2. That the subscription books may be closed by the Treasury without advance notice, and therefore,
3. That each subscribing bank, upon receipt of information as to the terms of the Treasury offering (either in the press, through the mails or by telegram) should promptly file with the Federal Reserve Bank any subscriptions for itself and its customers. This is important, as no guarantee can be given as to the period the subscription books may remain open, and subscribing banks, even before receipt of official subscription blanks, may file their subscriptions by telegram or by mail with the Federal Reserve Bank. Any subscriptions so filed by telegram or mail in advance of receipt by subscribing bank of subscription blanks furnished for the particular issue should be confirmed immediately by mail, and on the blank provided, when such blank shall have been received.
4. That if the terms of the offering when announced provide for both cash subscriptions and subscriptions for which payment may be tendered in other securities, the subscribing bank should prepare its subscriptions in such manner as to indicate the method by which it proposes to make payment and the respective par amounts of securities, if any, to be tendered in payment.

Classification of Subscriptions, Etc.

Bank Customers' Subscriptions: With regard to issues, subscriptions to which the Treasury determines for the purpose of allotment shall be considered as on a cash basis irrespective of whether or not payment is to be made in cash or in securities, the following classification will be required of subscriptions made for account of customers, stating the number of subscriptions in each class.

Class A—Subscriptions for $1,000 or less for any one subscriber;
Class B—Subscriptions for over $ 1,000, but not exceeding $ 10,000;
Class C—Subscriptions for over $ 10,000, but not exceeding $ 50,000;
Class D—Subscriptions for over $ 50,000, but not exceeding $ 100,000;
Class E—Subscriptions for over $ 100,000, but not exceeding $ 500,000;
Class F—Subscriptions for over $ 500,000, but not exceeding $1,000,000;
Class G—Subscriptions for over $1,000,000.

Where the maturing securities are not by the instructions accompanying the offering given a preference they shall be treated as cash and such subscriptions to be paid for in securities should be included in the classification.

Bank Subscriptions: A subscription for a bank's own account should not be included in the above classification of subscriptions for account of customers but should be clearly indicated as for the bank's own account and in addition to subscriptions for customers.

Subscriptions Not Classified: Where under the terms of an offering or under instructions accompanying an offering, the Treasury agrees to allot new securities *in full* for any of its securities maturing on the date of the new issue or on any later date, subscriptions to be paid for in such securities *should not be classified.*

Application Forms to be Furnished

When the terms of the offering are announced, notice thereof, together with subscription blanks, will be mailed promptly by this bank to banking institutions in this district. Should notice and subscription blanks for any reason be delayed in reaching such institutions this bank will nevertheless receive subscriptions either by letter or telegraph. It is suggested that subscriptions be promptly transmitted to this bank.

If it be found necessary to telegraph subscriptions they should be confirmed immediately either by letter or on subscription blank, setting forth the classifications indicated above and method of payment, and clearly stating that the confirmation is not an original subscription so that duplication may be avoided.

Subscriptions cannot be received until the terms of the offering are publicly announced by the Secretary of the Treasury.

George L. Harrison,
Governor.

IMPORTANT NOTICE:

This is not a specific offering of Treasury bills but a general circular governing the sale and issue when offered. Public notice, describing the particular offering, will be given from time to time by the Secretary of the Treasury when Treasury bills are offered for sale.

UNITED STATES OF AMERICA

TREASURY BILLS

1929
Department Circular No. 418
Public Debt

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY.
Washington, November 22, 1929.

1. The Secretary of the Treasury is authorized by Section 5 of the Second Liberty Bond Act, as amended,[1] to issue Treasury bills on a discount basis and payable at maturity without interest, and to fix the form, terms and conditions thereof, and to offer them for sale on a competitive basis, under such regulations and upon such terms and conditions as he may prescribe. Pursuant to said authorization, the Secretary of the Treasury, by public notice, may from time to time offer Treasury bills for sale and invite tenders therefor, through the Federal Reserve Banks. The Treasury bills so offered and the tenders made will be subject to the terms and conditions and to the general rules and regulations herein contained and also to the terms and conditions stated in the public notices as issued by the Secretary of the Treasury from time to time in connection with particular offerings.

DESCRIPTION OF TREASURY BILLS

2. Treasury bills are bearer obligations of the United States, promising to pay a specified amount without interest on a specified date. They are to be issued on a discount basis. Each Treasury bill, prior to its issue, must be validated by a Federal Reserve Bank as fiscal agent of the United States, and the date of the original issue thereof and the amount of discount at which the bill is then sold by the United States will be stated thereon. All Treasury bills of the same maturity, irrespective of the issue date or the amount of discount at which sold, will constitute a single series which will be designated by the due (or maturity) date. Treasury bills will be payable at maturity upon presentation to the Treasurer of the United States in Washington or to any Federal Reserve Bank.

3. Treasury bills will be issued in denominations (maturity value) of $1,000, $10,000, and $100,000. Exchanges of Treasury bills of the same series from higher to lower denominations will be permitted at Federal Reserve Banks, but not from lower to higher.

4. Treasury bills will be exempt, both as to principal and interest, from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority. The amount of discount at which Treasury bills are originally sold by the United States, which will be stated on the face of each bill, shall be considered to be interest for tax exemption purposes. (The method of apportioning the discount among successive holders of the bills, for tax purposes, is prescribed in Treasury Decision 4276, copy annexed.)

[1] The statute appears in T. D. 4276, on pages 3 and 4 of this circular.

5. Treasury bills will be acceptable at maturity value to secure deposits of public moneys, but they will not bear the circulation privilege. Treasury bills will be acceptable at maturity, but not before, and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury, in payment of income and profits taxes payable at the maturity of the Treasury bills. Notes secured by Treasury bills are eligible for discount or rediscount at Federal Reserve Banks by member banks, as are notes secured by bonds and notes of the United States, under the provisions of Section 13 of the Federal Reserve Act. Treasury bills will be acceptable at maturity, but not before, in payment of interest or of principal on account of obligations of foreign governments held by the United States.

PUBLIC NOTICE

6. When tenders are to be invited, public notice thereof will be given by the Secretary of the Treasury prior to the date of issue of the Treasury bills. In such public notice there will be set forth (a) the amount of the Treasury bills for which tenders are then invited, (b) the date or dates of issue, (c) the date or dates when such bills will become due and payable, (d) the closing hour and date for the receipt of tenders at the Federal Reserve Banks, and (e) the date or dates on which payment for accepted tenders must be made.

TENDERS

7. **Tenders, in response to any such public notice, will be received only at the Federal Reserve Banks, or Branches thereof, and unless received before the fixed time of closing will be disregarded.** No tender will be accepted for an amount less than $10,000 (maturity value), and each tender must be for an amount in multiples of $1,000 (maturity value). The price or prices offered by the subscriber for the amount or amounts (at maturity value) applied for must be stated, and must be expressed on the basis of 100, with not more than three decimal places, e. g., 99.125. Fractions must not be used.

8. It is urged that tenders be submitted on the prescribed forms and inclosed in special envelopes, securely sealed. On application, the forms and special envelopes will be supplied by the Federal Reserve Bank of the district in which the subscriber is located. If special envelope is not available, the inscription "Tender for Treasury Bills" should be placed on the envelope used. The instructions of the Federal Reserve Banks with respect to the submission of tenders should be observed. Tenders will be accepted without cash deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by a 10 per cent payment of the face amount of the Treasury bills applied for; provided, however, that such deposit will not be required if the tender is accompanied by an express guaranty of payment in full by an incorporated bank or trust company. The forfeiture of the 10 per cent cash deposit may be declared by the Secretary of the Treasury if payment in full is not made, in the case of accepted tenders, on the prescribed date.

9. The time of closing will be specified in the public notice. At the time fixed for closing, all tenders received by the Federal Reserve Banks, or branches, will be opened. The Secretary of the Treasury will determine the acceptable prices offered and will make public announcement thereof as soon as possible after the opening of bids, probably on the following morning. Those submitting tenders will be advised by the Federal Reserve Banks of the acceptance or rejection thereof, and payment on accepted tenders must be made on the date specified in the public notice.

10. In considering the acceptance of tenders, the highest prices offered will be accepted in full down to the amount required, and if the same price appears in two or more tenders and it is necessary to accept only a part of the amount offered at such price, the amount accepted at such price will be pro-rated in accordance with the respective amounts applied for. However, the Secretary of the Treasury ex-

pressly reserves the right on any occasion to reject any or all tenders or parts of tenders; and to award less than the amount applied for; and any action he may take in any such respect or respects shall be final.

11. Any payments which may be due on account of accepted tenders must be made to the appropriate Federal Reserve Bank in cash or other funds that will be immediately available on the due date specified. Following any such payment, delivery of definitive Treasury bills (or interim receipts) will be made without cost to the subscriber.

12. Federal Reserve Banks as fiscal agents of the United States are authorized to perform such acts as may be necessary to carry out the provisions of this circular and of the public notice or notices issued in connection with any offering of Treasury bills.

DESTROYED, MUTILATED, OR DEFACED TREASURY BILLS

13. No relief will be granted on account of the loss or theft of Treasury bills issued hereunder. Relief will be granted on account of the destruction, mutilation, or defacement thereof under the conditions and in accordance with the procedure prescribed in paragraphs 80 and 81 of Treasury Department Circular No. 300, dated July 31, 1923, so far as applicable.

GENERAL

14. The Secretary of the Treasury reserves the right to withdraw, amend, or supplement this circular at any time, or from time to time.

A. W. MELLON,
Secretary of the Treasury.

(T. D. 4276)

Income tax—Exemption of Treasury bills

TREASURY DEPARTMENT,
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,
Washington, D. C.

To Collectors of Internal Revenue and Others Concerned:

Attention is invited to the act entitled "An act to amend section 5 of the Second Liberty Bond act, as amended," approved June 17, 1929 (Pub. No. 11, 71st Cong., H. R. 1648), which, among other things, authorizes the Secretary of the Treasury to issue Treasury bills on a discount basis, payable at maturity without interest. That act amends section 5 of the Second Liberty Bond act, as amended, to read as follows, the tax provisions being contained in subdivision (b) thereof:

SEC. 5. (a) That in addition to the bonds and notes authorized by sections 1 and 18 of this Act, as amended, the Secretary of the Treasury is authorized to borrow from time to time, on the credit of the United States, for the purposes of this Act, to provide for the purchase or redemption before maturity of any certificates of indebtedness or Treasury bills issued hereunder, and to meet public expenditures authorized by law, such sum or sums as in his judgment may be necessary, and to issue therefor (1) certificates of indebtedness of the United States at not less than par and at such rate or rates of interest, payable at such time or times as he may prescribe; or (2) Treasury bills on a discount basis and payable at maturity without interest. Treasury bills to be issued hereunder shall be offered for sale on a competitive basis, under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final. Certificates of indebtedness and Treasury bills issued hereunder shall be in such form or forms and subject to such terms and conditions, shall be payable at such time, not exceeding one year from the date of issue, and may be redeemable before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe. Treasury bills issued hereunder shall not be acceptable before maturity in payment of interest or of principal on account of obligations of foreign governments held by the United States of America. The sum of the par value of such certificates and Treasury bills outstanding hereunder and under section 6 of the First Liberty Bond Act shall not at any one time exceed in the aggregate $10,000,000,000.

(b) All certificates of indebtedness and Treasury bills issued hereunder (after the date upon which this subdivision becomes law) shall be exempt, both as to principal and interest, from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority; and the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest within the meaning of this subdivision.

(c) Wherever the words "bonds and notes of the United States," or "bonds and notes of the Government of the United States," or "bonds or notes of the United States" are used in the Federal Reserve Act, as amended, they shall be held to include certificates of indebtedness and Treasury bills issued hereunder.

The statement of the managers on the part of the House which accompanied the conference report (Rept. No. 17, 71st Cong., 1st sess.) accompanying H. R. 1648, shows that Congress intended that the original discount rate at which a Treasury bill is issued should be regarded in the same way as the interest rate fixed by the security itself in the case of an interest-bearing obligation, and that the amount of the discount should be apportioned among the holders according to the periods of their holdings just as the interest on an interest-bearing obligation is apportioned. (See Sol. Op. 46, C. B. 3, p. 90.)

Accordingly, in the case of an original purchaser from the Government who holds a Treasury bill to maturity, the entire amount of the discount at which the bill was issued is exempt from income tax. If a bill is sold before maturity, each respective holder is entitled to treat as exempt from income tax that proportion of the amount of the discount at which the bill was issued which the number of days (computed on an actual calendar day basis) the bill was owned by him bears to the total number of days (computed on an actual calendar day basis) from the date of the issuance of the bill to the date of its maturity. In other words, the amount of the discount at which the bill was issued is to be apportioned among the holders according to the periods of their holdings. The gain from the sale or other disposition of a Treasury bill (that is, the excess of the amount realized therefrom less discount from the date of acquisition to the date of its disposition over the cost or other basis of the bill) is taxable as ordinary income. A loss from the sale or other disposition of a Treasury bill (that is, the excess of the cost or other basis of the bill over the amount realized therefrom less discount from the date of acquisition to the date of its disposition) is allowable as a deduction. There will be stated on each Treasury bill the amount of the discount at which it was issued.

The foregoing principles may be illustrated by the following examples:

Example 1.—A 90-day Treasury bill is issued to A on March 17 for $9,900. The bill has a maturity value of $10,000 on the following June 15. A holds the bill to maturity. He may treat the entire amount of the discount, or $100, as tax-exempt interest.

Example 2.—A Treasury bill is issued to A as in example 1. A holds the bill until April 11 (25 days), on which date he sells it to B for $9,927.78. B holds the bill to maturity (i. e., for 65 days). A is entitled to treat 25/90ths of the amount of the discount, or $27.78, as tax-exempt interest, that amount being the proportion of the discount which the number of days A owned the bill (25) bears to the total number of days for which the bill was issued (90). Likewise, B is entitled to treat 65/90ths, or $72.22, as tax-exempt interest.

Example 3—A Treasury bill is issued to A as in example 1. A holds the bill until May 1, when he sells it to B for $9,962.50. B holds the bill to maturity. A is entitled to treat 45/90ths of the amount of the discount, or $50, as tax-exempt interest. A realizes a taxable gain of $12.50 in the transaction, computed as follows:

The amount A realizes from the sale is $9,962.50, which includes $50, representing discount to him. Therefore, $9,962.50 less $50, or $9,912.50, is the amount A realizes from the sale in addition to the discount treated as tax-exempt interest. Since the bill cost A $9,900, the amount of the gain is $9,912.50 less $9,900, or $12.50.

B is also entitled to treat 45/90ths of the amount of the discount, or $50, as tax-exempt interest. B sustains a deductible loss of $12.50 in the transaction, computed as follows:

The amount B realizes upon the maturity of the bill is $10,000, which includes $50, representing discount to him. Therefore, $10,000 less $50, or $9,950, is the amount B realizes upon the maturity of the bill in addition to the discount treated as tax-exempt interest. Since the bill cost B $9,962.50, the amount of his deductible loss is $9,962.50, less $9,950, or $12.50.

Example 4.—A Treasury bill is issued to A as in example 1. A holds the bill until May 1, when he sells it to B for $9,937.50. B holds the bill to maturity. A is entitled to treat 45/90ths of the amount of the discount, or $50, as tax-exempt interest. A sustains a deductible loss of $12.50 in the transaction computed as follows:

The amount A realizes from the sale is $9,937.50, which includes $50 representing discount to him. Therefore, $9,937.50 less $50, or $9,887.50, is the amount A realizes from the sale in addition to the discount treated as tax-exempt interest. Since the bill cost A $9,900, the amount of his deductible loss is $9,900 less $9,887.50, or $12.50.

B is also entitled to treat 45/90ths of the amount of the discount, or $50, as tax-exempt interest. B realizes a taxable gain of $12.50 in the transaction, computed as follows:

The amount B realizes upon the maturity of the bill is $10,000, which includes $50 representing discount to him. Therefore, $10,000 less $50, or $9,950, is the amount B realizes upon maturity of the bill in addition to the discount treated as tax-exempt interest. Since the bill cost B $9,937.50, the amount of the gain is $9,950 less $9,937.50, or $12.50.

This Treasury decision is applicable only to the treatment of discount in the case of Treasury bills.

ROBT. H. LUCAS,
Commissioner of Internal Revenue.

Approved:

A. W. MELLON,
Secretary of the Treasury.