

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 988, June 30, 1930
Reference to Amended Treasury
Department Circular No. 418,
dated June 25, 1930.]

United States of America Treasury Bills

To all Banks, Trust Companies, Savings Banks, Bankers, Investment Dealers, Principal Corporations and Others Concerned in the Second Federal Reserve District:

We are sending you herewith a copy of the amended Treasury Department Circular No. 418, dated June 25, 1930, relating to Treasury bills.

The following extract from a letter we have received from the Secretary of the Treasury explains the occasion for the issuance of this amended Treasury Department Circular:

“The original Treasury Department Circular No. 418, dated November 22, 1929, has been changed by this amended circular in one very important respect. The change occurs in paragraph 4 and was occasioned by the fact that by the Act of Congress approved June 17, 1930, Treasury bills were given an additional tax exemption feature.

“By that Act any gain from the sale or other disposition of Treasury bills issued after June 17, 1930, will be exempt from all taxation (except estate or inheritance taxes), and no loss from the sale or other disposition thereof shall be allowed as a deduction, or otherwise recognized, for the purposes of any tax now or hereafter imposed by the United States or any of its possessions.”

It will be noted that this is not a specific offering of Treasury bills, but a general circular governing their sale and issue when offered.

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. This circular governs Treasury bill issues dated after June 17, 1930.

UNITED STATES OF AMERICA

TREASURY BILLS

1930

Department Circular No. 418, as amended

Public Debt

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY.

Washington, June 25, 1930.

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 will be stated thereon. All Treasury bills of the same maturity, irrespective of the issue date, 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. (a) Treasury bills issued prior to June 17, 1930, will be subject to the tax-exemption provisions stated in Department Circular No. 418, dated November 22, 1929. Gains from the sale or other disposition of such Treasury bills are taxable, and losses from the sale or other disposition thereof shall be deductible, in the manner prescribed in Treasury Decision 4276, annexed to that circular.

(b) Treasury bills issued subsequent to June 17, 1930, will be exempt, as to principal and interest, and any gain from the sale or other disposition of such Treasury bills shall also be exempt, from all taxation (except estate or 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 no loss from the sale or other

¹ The statute appears in T. D. 4292 on pages 3 and 4 of this circular.

disposition of such Treasury bills shall be allowed as a deduction, or otherwise recognized, for the purposes of any tax now or hereafter imposed by the United States or any of its possessions. However, taxpayers making income-tax returns are required to report in their returns, for information purposes, the number and amount of obligations and securities of the United States owned by them and the income received therefrom. In reporting in their income-tax returns the amount of Treasury bills (issued subsequent to June 17, 1930) owned by them and the income received therefrom, taxpayers will be governed by the provisions of Treasury Decision 4292, which appears on pages 3 and 4 of this circular. It will be noted from that Treasury Decision that (1) the "amount of such obligations and securities" to be so reported is the face or maturity value of the Treasury bills, and that (2) the "income received therefrom" to be reported is the net excess of the amount realized during the taxable year from the sale or other disposition of the bills over the cost or other basis thereof, no separate computation of discount being necessary. In such cases, and pending revision of the income tax forms, taxpayers making income-tax returns and owning any such Treasury bills should submit the information required in the form of a rider attached to the returns.

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 \$1,000 (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 prorated in accordance with the respective amounts applied for. However, the Secretary of the Treasury expressly 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 DEFACTED 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. 4292)

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 providing certain exemptions from taxation for Treasury bills," approved June 17, 1930 (Pub. No. 376, 71st Cong., H. R. 12440), which amends section 5 of the Second Liberty Bond Act, as amended (Pub. No. 11, 71st Cong., June 17, 1929), by adding at the end thereof a new subdivision known as subdivision (d). This new subdivision provides that any gain from the sale or other disposition of Treasury bills issued after the enactment of the act approved June 17, 1930, shall be exempt from all Federal, State, and local taxation (except estate or inheritance taxes), and that no loss from the sale or other disposition of such Treasury bills shall be allowed as a deduction, or otherwise recognized, for the purposes of any tax imposed by the United States or any of its possessions. Section 5 of the Second Liberty Bond Act, as so amended, reads as follows, the tax-exemption provisions being contained in subdivisions (b) and (d) 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 inter-

est, 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.

(d) Any gain from the sale or other disposition of Treasury bills issued hereunder (after the date upon which this subdivision becomes law) shall be exempt from all taxation (except estate or 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 no loss from the sale or other disposition of such Treasury bills shall be allowed as a deduction, or otherwise recognized, for the purposes of any tax now or hereafter imposed by the United States or any of its possessions.

The report of the Committee on Ways and Means (Rept. No. 1759, accompanying H. R. 12440) shows that it is the purpose of the Act approved June 17, 1930, to obviate the necessity, which existed under the law prior to its amendment by such Act, of keeping a complicated system of bookkeeping records in order to ascertain gain or loss from the sale or other disposition of Treasury bills as differentiated from the discount received on such bills.

Attention is also invited to section 22 (b) (4) of the revenue act of 1928, which provides in part as follows:

SEC. 22. * * * (b) Exclusions from gross income * * * The following items shall not be included in gross income and shall be exempt from taxation under this title: * * * (4) * * * Interest upon (A) the obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia; or (B) securities issued under the provisions of the Federal Farm Loan Act, or under the provisions of such Act as amended; or (C) the obligations of the United States or its possessions. Every person owning any of the obligations or securities enumerated in clause (A), (B), or (C) shall, in the return required by this title, submit a statement showing the number and amount of such obligations and securities owned by him and the income received therefrom, in such form and with such information as the Commissioner may require. In the case of obligations of the United States issued after September 1, 1917 (other than postal savings certificates of deposit), the interest shall be exempt only if and to the extent provided in the respective Acts authorizing the issue thereof as amended and supplemented, and shall be excluded from gross income only if and to the extent it is wholly exempt to the taxpayer from income taxes;

Article 81 of Regulations 74 promulgated under the Revenue Act of 1928 provides that "Every person owning obligations of a State, Territory, any political subdivision thereof, or the District of Columbia; securities issued under the provisions of the Federal Farm Loan Act or of such Act as amended; or obligations of the United States or its possessions, must, however, submit in his income-tax return a statement showing the number and amount of such obligations and securities owned and the income received therefrom."

Under the above-quoted provisions of the Revenue Act of 1928 and Regulations 74, in the case of Treasury bills issued after June 17, 1930, (1) the "amount of such obligations and securities" is their par (maturity) value, and (2) the "income received therefrom" is the net excess of the amount realized during the taxable year from the sale or other disposition of the bills over the cost or other basis thereof, no separate computation of discount being necessary. In such cases, and pending revision of the income-tax forms, taxpayers making income-tax returns shall submit the statement required by section 22 (b) (4) and article 81 in the form of a rider attached to the return.

ROBT. H. LUCAS,
Commissioner of Internal Revenue.

Approved: June 25, 1930.

A. W. MELLON,
Secretary of the Treasury.