

June 24, 1941

Memorandum to: Undersecretary Bell

From: Chairman Eccles

The Board yesterday afternoon considered in detail the program for issuing Treasury tax notes. Regarding Series A notes, we present for consideration the possibility of increasing the limit from \$1,200 to \$1,500 or \$1,800. Another suggestion advanced is that some mechanism should be devised for giving the holder of the maturing notes a receipt for the amount of taxes paid. This might be in the form of a stub attached to the tax notes, which could be detached, stamped by the Internal Revenue collector, and mailed to the owner of the notes.

Regarding Series B notes, it seems to me that the proposal which I made some time ago for issuing non-negotiable notes having a 2-year maturity and paying semiannual coupons at annual rates of $1/4$, $1/2$, $3/4$, and 1 per cent would be preferable, because it would meet not only the immediate problem of tax anticipation but also the larger problem of tapping idle deposits. The notes which I propose would be sold to investors other than commercial banks, would be registered, would be issued in denominations of \$1,000 and over, and would be redeemable on 30 days' notice. Provision might also be made for extending the maturity beyond 2 years. There is no use having both the notes which I propose and the Series B notes, since this would only add to the already large number of types of issues. The Series B notes are not necessary from the point of view of enabling taxpayers to budget their tax requirements. This is done anyway by the larger taxpayers who would purchase Series B notes.

These larger taxpayers have substantial amounts of cash available, not only as reserves for tax payments but for other purposes as well. The plan which I propose, therefore, would tap not

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only the tax reserves but large additional sums of money. This proposal would be better than the issuance of additional bills, because the bills would go largely to banks, while the special issue would not. An advantage of the proposed securities over Series B notes is that the interest that the Treasury would pay would be smaller, except where the notes were held for the entire 2 years. Another advantage is that the holders, furthermore, might well find that they have sufficient cash when income taxes are due to pay the taxes out of cash balances rather than to turn in the notes. In this way there would be a constant increase in substantial holdings of non-negotiable Government securities and a corresponding decrease in the need for open-market issues.

LMP/fsc