

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 18, 1936.To Chairman EcclesSubject: Revised tax estimates.From Lauchlin Currie*LC*

G P O 16-852

I am enclosing a revised set of estimates of the yield from the proposed taxes. Please substitute them for the estimates I sent you yesterday. If these estimates are accurate it does not look as though the adoption of your amendments would yield the amounts asked for by the President. On the other hand, there are grounds for thinking that they may yield more than the Treasury's proposals. For one thing, the Treasury's estimates of a yield of 35 per cent from the combined distributed and undistributed incomes appears high. I have asked Miss Burr to work on the Treasury's estimates.

I am also enclosing a paragraph from the current issue of Today.

Tentative
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TABLE I

DETAILS OF ESTIMATES OF UNDISTRIBUTED EARNINGS OF CORPORATIONS,
ADMINISTRATION PROPOSAL AND CHAIRMAN ECCLES' SUGGESTED MODIFICATION
ON BASIS OF 1936 INCOMES

	Administration proposal <u>1/</u>	Chairman Eccles <u>2/</u>
	(Millions of dollars)	
Statutory net income <u>3/</u>	7,200	7,200
Add: Capital stock tax, no longer deductible	108	108
Dividends received	1,000	1,000
	8,308	8,308
Deductions other than dividends paid:		
Income taxes paid	none	<u>4/</u> 877
Exemption of banks and insurance companies	100	100
For amortization of funded debt, outstanding January 1, 1936	none	<u>5/</u> 1,000-1,200
Payment of current debt incurred prior to January 1, 1935	none	900-1,300
Total, other than dividends paid	100	2,877-3,477
Earnings for distribution	8,208	5,431-4,831
Dividends paid under present law	3,540	3,540
Percent of earnings for distribution	43	65-73
Undistributed earnings under present law, that is, before further distribution as a result of new tax	4,668	1,891-1,291
Percent of earnings for distribution	57	35-27

1/ Estimates as reported in newspapers.

2/ Figures for statutory net income, capital stock tax deducted, dividends received, dividends paid under present law, and exemption of banks and insurance companies are Treasury estimates as published in the newspapers. Estimated deductions for repayment of debt are subject to a wide range of error.

3/ This estimate is about 15 percent larger than the figure on which Budget estimates were based.

4/ At flat 12 percent rate.

5/ Assumes amortization of debt of railroads, and public utilities, over a period of 20 years and of other long-term debt, 10 years.

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TABLE II

ADDITIONAL REVENUE DUE TO TAX ON UNDISTRIBUTED EARNINGS OF CORPORATIONS,
ADMINISTRATION PROPOSAL AND CHAIRMAN ECCLES' SUGGESTED MODIFICATION
ON BASIS OF 1936 INCOMES

	Administration proposal <u>1/</u>	Chairman Eccles	
		High	Low
(In millions of dollars)			
Undistributed earnings on basis of present law (that is, before further distributions as a result of new tax)	4,668	1,891	1,291
Assumed taxable status of earnings			
As additional dividends	?	945	645
Balance undistributed	?	945	645
Rate of tax			
On dividends <u>2/</u> --percent	<u>3/</u> 33 1/3-35.5	<u>4/</u> 31	<u>4/</u> 31
On balance--percent		50	50
Tax			
On additional dividends		<u>4/</u> 293	<u>4/</u> 200
On balance		473	323
Total tax	1,556-1,658	766	523
Total dividends distributed			
Under present law	3,540	3,540	3,540
Additional assumed under new tax	?	945	645
Total	?	4,485	4,185
Earnings for distribution	8,208	5,431	4,831
Percent distributed		83	87

1/ Estimates as reported in newspapers.

2/ Normal and surtax.

3/ Average rate taking account of tax on additional dividends and tax on balance undistributed. Newspaper reports indicate 33 1/3 percent; reported revenue results indicate 35 percent.

4/ Assumes that additional dividends will be reported by net income classes approximately as under present law. If the penalty rate is not high enough to force distributions to the larger incomes, this net rate and this tax yield would be too high.

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TABLE III

COMPARISON OF REVENUE EFFECT OF TAX CHANGES,
ADMINISTRATION PROPOSALS AND CHAIRMAN ECCLES' SUGGESTED MODIFICATIONS

	Administration <u>1/</u>	Chairman Eccles	
		High	Low
(In millions of dollars)			
New taxes:			
Tax on undistributed earnings (including tax on additional dividends distributed)	1,556-1,658	766	523
Normal tax on dividends	94	94	94
Total revenue from new taxes	1,650-1,752	860	617
Taxes repealed or revised:			
Corporation income tax	952 (?)	<u>3/</u> 73	
Capital stock and excess profits	170 (?)	<u>2/</u> 168	
Total revenue eliminated	1,132	241	241
Additional revenue	518-620	619	376

1/ Estimates as reported in newspapers.

2/ On basis of Budget estimates.

3/ Yield at 12 percent on 7,308 million dollars compared with estimate
for calendar year 1936 indicated by Budget estimates.