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October 12, 1936

Hon. Marriner S. Eccles, Chairman  
Board of Governors  
Federal Reserve System  
Washington, D. C.

Dear Governor Eccles:

The present Revenue Act exempts from the corporate surtax organizations in bankruptcy and receivership. Unfortunately, it does not extend this exemption to those that are in friendly out-of-court adjustments or liquidations. The need for exemption in both instances is apparent to anyone, and I feel certain to the Treasury Department. We have had some discussions with the Treasury Department about this and I believe those who have given this their study in the Internal Revenue Department agree that an amendment to the law would be in order.

The essential thing in any amendment is to prevent the evasion of tax through the use of some such means as this, but this could be easily provided for by Internal Revenue Department regulations.

I am calling this to your attention since I think it will have some bearing on bank credit. The banks are usually cooperative in instances where we seek to re-habilitate businesses. Their cooperation is usually dependent upon the income or realizable cash arising out of these situations being definitely allocated to debts or creditors. However, should a large portion of the cash be diverted to taxation, the credit of the company is weakened with the banks.

I am not calling this to your attention expecting you to make an issue of it, but I wanted you to be informed. I believe you will see the need of correction in the law. This is the subject I covered in your office several days ago. You might want someone in the Federal Reserve Board to check into it and form your opinion from a report within your own organization.

Sincerely,

H.H.Heimann\*H

EXECUTIVE MANAGER.