

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM**Office Correspondence**Date November 6, 1940To Chairman EcclesSubject: Taxation of Corporate ProfitsFrom Emile Despres

I believe that you will find interesting some rough estimates which we have developed of the share of corporate profits drawn off in taxes. These estimates were made in connection with a study now in preparation on the characteristics and economic effects of the existing tax structure under conditions of rising national income. They are merely first approximations and will be revised after further research.

It appears that existing Federal and State taxes on corporate profits, including both taxes paid by corporations and by individual dividend recipients, amount to about 35 per cent of the profits before tax of corporations receiving net income. <sup>1/</sup> The proportion of taxes to net profits of all corporations is, of course, higher.

As corporate profits rise this percentage will increase, first, because the excess profits tax is levied on the increase in profits, and, second, because dividends received by individuals will fall into progressively higher surtax brackets. Taking account of these factors, we estimate that about 60 per cent of the increase in corporate profits before tax will be drawn off through taxes on corporations and individuals.

*E.D.*

<sup>1/</sup> Profits include tax-exempt interest but exclude dividends received from other corporations.