

CONFIDENTIAL

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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Board of Governors

Income Tax Status of

Henry H. Edmiston

Mutual Savings Banks

Mutual savings banks are specifically exempt from the Federal corporation income tax. The tax-exempt income from their large holdings of United States direct and guaranteed obligations, which on June 30, 1940 amounted to over \$3,100,000,000, is, therefore, of no value to them for tax purposes. For this reason mutual savings banks might be expected to switch from tax-exempt into taxable bonds, provided the market yields on the taxable issues are higher than the rate at which they are booking the income on their present holdings. Switching operations of any magnitude by mutual savings banks would be an important factor in preventing a wide spread developing between the new taxable issues and outstanding obligations. In addition, the mutual savings banks have been outright purchasers of considerable amounts of Government securities. The following table shows the increase in their holdings of direct and guaranteed obligations during recent fiscal years. The latest figures available are for fiscal year 1940 when their holdings increased only \$70,000,000 as compared with an average increase of over \$300,000,000 in the previous three years.

<u>Fiscal year</u>	<u>Increase</u> (In millions of dollars)
1937	+309
1938	+294
1939	+358
1940	+70