

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date April 26, 1941

To Chairman Eccles

Subject: Comparison of Proposed Surtax

From Mr. Despres

Rate Schedules

The following table shows taxes on incomes of various sizes that would result from the application of the present tax laws, the Treasury's proposals, the proposals suggested by Mr. Stam, head of the Technical Staff of the Joint Committee on Internal Revenue, and the rate schedule we have developed in accordance with your suggestions.

Married Taxpayer, No Dependents

Income	Taxes				Effective Rates			
	Present	Treasury	Stam	Eccles	Present	Treasury	Stam	Eccles
\$ 2,000	\$ 0	\$ 0	\$ 0	\$ 32	--	--	--	1.6
2,500	11	72	44	70	0.4	2.9	1.8	2.8
3,000	31	152	97	108	1.0	5.1	3.2	3.6
10,000	528	1,628	1,364	1,060	5.3	16.3	13.6	10.6
50,000	14,128	19,540	20,794	17,489	28.3	39.0	41.6	35.0
100,000	43,476	52,474	54,124	47,324	43.5	52.5	54.1	47.3
1,000,000	717,584	738,086	739,598	700,644	71.8	73.8	74.0	70.1

Note: Under present law, a maximum amount of \$14,000 may be counted as earned income for purposes of the 10 per cent earned income credit in connection with the normal tax. In the above table, all income is assumed to be earned for incomes of \$10,000 or less and \$14,000 is assumed to be earned for larger incomes.

The Treasury proposes to leave personal and other exemptions unchanged. Stam proposes reducing the earned income credit from ten per cent to four per cent of earned income but to make that credit allowable for surtax purposes, instead of only for normal tax purposes, as at present. He also proposes substituting absolute amount tax credits for the present system of allowing personal exemptions and credit for dependents as credits against income. In effect, this amounts to disallowing personal exemption and credit for dependents for surtax purposes (a proposal we advanced last summer). Under your proposal personal exemption would be lowered to \$1,500 for married persons and the other exemptions and credits would be left unchanged.

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