

**BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM**

# Office Correspondence

**To** Chairman Eccles

**From** Martin Krost

rMK

**Date** May 20, 1941

**Subject:** Differences Between Memorandum

of April 22 and Statement

before Ways and Means Committee

May 7.

In the period of a little over two weeks between the two documents referred to above a number of changes of detail were made in the tax proposals under discussion, but there were no changes in the underlying principles.

### Excess Profits Tax

1. Base -- Memorandum of April 22 proposes a 6 per cent floor and a 10 per cent ceiling. Statement of May 7 makes a more general recommendation to restrict the use of the average earnings method by any one of several devices and to lower the allowable rate of return under the invested capital method from 8 to 6 per cent.

2. Rates -- Memorandum of April 22 proposes a specific rate schedule; statement of May 7 makes a more general recommendation for a maximum rate of 75 per cent, applicable to a much lower amount of excess profits than at present and recognizes the merits of graduating rates according to percentage return on capital.

### Surtax on Corporate Income -- No differences

### Personal Income Tax

1. Loopholes -- Memorandum of April 22 proposes taxing income of husbands and wives as a single income; statement of May 7 makes no specific reference to loopholes.

2. Personal exemption -- Memorandum of April 22 proposes lowering married persons exemption to \$1,600; statement of May 7 proposes lowering married persons exemption to \$1,500 and credit for dependents to \$300.

3. Surtax rates -- Statement of May 7 proposes somewhat higher rates than memorandum of April 22.

### Estate and Gift Taxes

Both the memorandum and the statement propose consolidation of the two taxes. Memorandum proposes a single exemption of \$25,000; statement proposes a single exemption of \$40,000; Memorandum proposes a specific rate schedule; statement agrees with Treasury rate schedule. Memorandum proposes a limit on tax exempt charitable gifts and bequests; statement omits this proposal.

### Excise Taxes

Memorandum proposes a specific schedule of taxable commodities and rates; statement outlines appropriate principles of taxation to be applied and gives no specific rates except for new and used automobiles.