

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 12, 1941To Chairman EcclesSubject: Tax DevelopmentsFrom Martin Krost

MK

On the basis of information from the Treasury and other sources, it seems likely at the moment that the House Ways and Means Committee will take the following action on the new tax bill:

1. Excess profits tax - The framework of the existing law will be retained; the invested capital credit will be reduced and the tax rates increased; the average earnings credit will be left substantially unchanged. The committee has not yet decided between the two plans outlined in my memorandum of June 3.

2. Surtax on corporate net income - The Treasury's proposals for a surtax of 5 per cent on net income of less than \$25,000 and 6 per cent on net income in excess of that amount will probably be accepted.

3. Individual income tax - The personal exemptions will be left unchanged. A schedule of rates similar to that proposed by Mr. Stam will be adopted. Husbands and wives will no longer have the option of filing separate returns.

4. Excise taxes - More moderate rate increases than the Treasury proposed will be made on non-durable goods (liquor, tobacco, cosmetics). Higher rates than the Treasury proposed will be levied on durable goods competing with defense production. The Treasury seems to be opposed to high rates on durable goods other than automobiles, on the ground that capacity in many of these industries is not readily shiftable to defense production. Even if a high tax on new cars is adopted, a tax on transfers of used cars seems unlikely.