

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 27, 1941

TO CHAIRMAN ECCLES, FEDERAL RESERVE BOARD

FROM UNDER SECRETARY BELL

swb

I am attaching a copy of the letter to President Young, regarding the new tax notes, and a copy of the draft which accompanied it. A similar letter was sent to each of the other Presidents.

Enclosures

June 27, 1941

My dear Mr. Young:

There are enclosed three draft copies of a memorandum embodying our latest conclusions with respect to the two tax series of Treasury notes.

I will appreciate it if you will consider this presentation carefully and discuss it with bankers and others in your district whom you may consider it appropriate to approach on this subject, in order to get a cross section of opinion on the proposed issues.

Please wire me your views by Tuesday night, July 1. Final conclusions must be reached next week, since the Secretary wishes the notes to go on sale on July 15.

Very truly yours,
(Signed) D. W. Bell

Under Secretary of the Treasury.

R. A. Young, Esq.,
President, Federal Reserve Bank,
Boston, Massachusetts.

3 enclosures

ELK:arp

TREASURY NOTES - TAX SERIES

The Treasury has under consideration a proposal to issue two series of notes as outlined below, both dated July 15, 1941, and maturing July 15, 1943. On January 1st of each year hereafter two new series will be provided so that a taxpayer can always purchase notes during the entire year in which he is receiving his income, to be used in payment of his taxes due in the following year. The reason for the two-year note is to permit a taxpayer, if he so desires, to begin saving in January of one year and continuing throughout that year for his taxes due in March, June, September, and December of the following year.

All notes are to be sold at par and accrued interest, if any, and will be redeemed at any time after three months from the month of issue, but not before January 1942, when presented in payment of income taxes at par and accrued interest up to and including the month in which such taxes are paid. Interest will not accrue beyond the maturity of the notes. If not presented in payment of income taxes, they will be redeemed for cash under certain specified conditions at par and accrued interest, if any, up to the date of purchase. In other words, the taxpayer, in this case, gets back just the amount he paid for the notes and no more. The notes will not be registered, but will have the purchaser's name and address inscribed thereon so that the Collector of Internal Revenue can compare the purchaser's name with that on his tax return. They will not be transferable; nor can they be used as collateral. Applications for purchases of both series of notes can be made through the taxpayer's bank and the bank may credit the proceeds to its War Loan Deposit Account, if it has such an account. Applications can also be made directly to the Federal Reserve Banks or to the Treasurer of the United States.

These notes may be used to pay any Federal income taxes (current and back personal and corporation taxes, and excess-profits taxes). Provision may be made so that these notes will be acceptable in payment of estate taxes where the notes have been purchased by the estate of a deceased person.

TAX SERIES - A-1943

Denominations will be \$25, \$50, and \$100. The amount of this series which can be presented in payment of income taxes will be limited to \$1200 in any one tax year by any one taxpayer. Control of this limit will be exercised by Collectors of Internal Revenue. The notes will provide a return of about 1.92 per cent a year, but the return will not be expressed in terms of percentage. For a \$25 denomination, it will be expressed at 4 cents a month, \$50 denomination at 8 cents a month, and for the \$100 denomination at 16 cents a month. By following this method it is made simple to compute the cost when the taxpayer purchases the notes and simple both to the taxpayer and the Collector of Internal Revenue to compute the credit that may be applied to the taxes due. There will be a schedule of values printed on the face of each note. (See attached schedule showing the purchase price and the tax payment values for each month from July 1941 to July 1943.) These notes will be redeemed for cash at the Federal Reserve Bank of issue at any time at the price paid by the taxpayer.

It is realized that this rate of return (1.92%) is considerably out of line with two-year money rates, but it should be an inducement to the taxpayer, particularly the small one, to save his taxes currently as he earns his income rather than paying his taxes due on this year's income out of next year's income. The rate is not too much out of line with the rate paid in some cases on savings accounts and the rate paid on postal savings deposits. Furthermore, the taxpayer can use these only for the one purpose and if he wants cash for their redemption he gets no interest.

TAX SERIES - B-1943

Denominations will be \$100, \$500, \$1,000, \$10,000, and \$100,000. Other denominations can be made available if a need for them is shown. The amount of these notes which can be presented in payment of taxes is limited only by the amount of taxes due. The Secretary will, however, reserve the right to reject any and all subscriptions. It is necessary to keep this control in order to prevent their use for a purpose not intended. The notes will provide a return of slightly less than $\frac{3}{8}$ of 1 per cent (about 0.36%) a year, but here, as in Series A, the rate per cent will not be expressed. It will be stated as 3 cents a month for a \$100 denomination, 15 cents for a \$500 denomination, and so on. There will be a schedule of values printed on the face of each note. (See attached schedule showing the purchase price and the tax payment values for each month from July 1941 to July 1943.) These notes will be redeemed for cash at the Federal Reserve Bank of issue, after sixty days and upon thirty days advance notice at the price paid by the taxpayer.

TREASURY NOTES - TAX SERIES A-1943

	<u>Purchase Price and Tax Payment Values on each Denomination</u>		
	\$25	\$50	\$100
July 1941	\$25.00	\$50.00	\$100.00
August 1941	25.04	50.08	100.16
September 1941	25.08	50.16	100.32
October 1941	25.12	50.24	100.48
November 1941	25.16	50.32	100.64
December 1941	25.20	50.40	100.80
January 1942	25.24	50.48	100.96
February 1942	25.28	50.56	101.12
March 1942	25.32	50.64	101.28
April 1942	25.36	50.72	101.44
May 1942	25.40	50.80	101.60
June 1942	25.44	50.88	101.76
July 1942	25.48	50.96	101.92
August 1942	25.52	51.04	102.08
September 1942	25.56	51.12	102.24
October 1942	25.60	51.20	102.40
November 1942	25.64	51.28	102.56
December 1942	25.68	51.36	102.72
January 1943	25.72	51.44	102.88
February 1943	25.76	51.52	103.04
March 1943	25.80	51.60	103.20
April 1943	25.84	51.68	103.36
May 1943	25.88	51.76	103.52
June 1943	25.92	51.84	103.68
July 1943	25.96	51.92	103.84

TREASURY NOTES - TAX SERIES B-1943

: Purchase Price and Tax Payment Values on Each Denomination					
	\$100	\$500	\$1,000	\$10,000	\$100,000
July 1941	\$100.00	\$500.00	\$1,000.00	\$10,000.00	\$100,000.00
August 1941	100.03	500.15	1,000.30	10,003.00	100,030.00
September 1941	100.06	500.30	1,000.60	10,006.00	100,060.00
October 1941	100.09	500.45	1,000.90	10,009.00	100,090.00
November 1941	100.12	500.60	1,001.20	10,012.00	100,120.00
December 1941	100.15	500.75	1,001.50	10,015.00	100,150.00
January 1942	100.18	500.90	1,001.80	10,018.00	100,180.00
February 1942	100.21	501.05	1,002.10	10,021.00	100,210.00
March 1942	100.24	501.20	1,002.40	10,024.00	100,240.00
April 1942	100.27	501.35	1,002.70	10,027.00	100,270.00
May 1942	100.30	501.50	1,003.00	10,030.00	100,300.00
June 1942	100.33	501.65	1,003.30	10,033.00	100,330.00
July 1942	100.36	501.80	1,003.60	10,036.00	100,360.00
August 1942	100.39	501.95	1,003.90	10,039.00	100,390.00
September 1942	100.42	502.10	1,004.20	10,042.00	100,420.00
October 1942	100.45	502.25	1,004.50	10,045.00	100,450.00
November 1942	100.48	502.40	1,004.80	10,048.00	100,480.00
December 1942	100.51	402.55	1,005.10	10,051.00	100,510.00
January 1943	100.54	402.70	1,005.40	10,054.00	100,540.00
February 1943	100.57	402.85	1,005.70	10,057.00	100,570.00
March 1943	100.60	403.00	1,006.00	10,060.00	100,600.00
April 1943	100.63	403.15	1,006.30	10,063.00	100,630.00
May 1943	100.66	403.30	1,006.60	10,066.00	100,660.00
June 1943	100.69	403.45	1,006.90	10,069.00	100,690.00
July 1943	100.72	403.60	1,007.20	10,072.00	100,720.00