

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 12, 1942

To Chairman Eccles

Subject: Information on Tax Structure

From Martin Krost

Individual income tax rates and exemptions

United States - Personal exemptions, \$1,500 married, \$750 single, \$400 each dependent, 10 per cent earned income credit.

Normal tax - 4 per cent; applies to first dollar of income above personal exemption plus credit for dependents.

Surtax - 6 per cent; applies to first dollar of income above personal exemptions; thus surtax applies before normal tax; surtax begins just above \$750 for single persons, \$1,500 for married persons, no dependents; \$1,900 for married persons, one dependent; \$2,300 for married persons, two dependents.

Combined rate of 4 per cent normal tax and 6 per cent surtax begins to apply just above \$833 for single persons, \$1,667 for married persons, no dependents, \$2,111 for married persons, one dependent, \$2,556 for married persons, two dependents.

Surtax rates - 6 per cent on first \$2,000 of income subject to surtax, 9 per cent on next \$2,000, 13 per cent on next \$2,000; highest rate is 77 per cent on income in excess of \$5 million.

Great Britain - Personal exemptions: All incomes below \$440 exempt. Incomes above \$440 are exempt to the extent of \$320 single, \$560 married, \$200 each dependent, 10 per cent earned income credit.

Normal tax (called "standard rate") - 32 1/2 per cent on the first \$660 of income subject to tax, 50 per cent on the remainder.

Surtax - 10 per cent on incomes above \$6,000, ranging to 47 per cent on income in excess of \$80,000, or combined rate of 97 1/2 per cent.

Credit is given for a small part of the tax in Savings Bank accounts payable after the war.

Canada - Personal exemptions: \$660 single, \$1,200 married. Special defense tax rate of 5 per cent applies to total income received by those receiving incomes larger than the exemptions. E.g. A single person receiving \$700 is taxed on the whole \$700, not merely on \$40. Single persons pay 7 per cent on total income if income exceeds \$1,200. Credit for each dependent: \$20 tax credit, equivalent to \$40 exemption applied against income.

Regular income tax is addition to this, with exemptions same as U. S.; rates range from 15 per cent to 85 per cent.

Individual Income Tax
(Married taxpayer, no dependents)

Income	United States	United Kingdom	Canada
<u>Amount of tax in dollars</u>			
1,000	--	111	--
2,000	42	505	175
5,000	375	1,855	1,000
10,000	1,305	4,505	3,080
20,000	4,614	11,230	8,330
50,000	20,439	36,455	26,965
100,000	52,704	84,080	61,875
<u>Effective Rate (per cent)</u>			
1,000	--	11.1	--
2,000	2.1	25.2	8.8
5,000	7.5	37.1	20.0
10,000	13.1	45.0	30.8
20,000	23.1	56.1	41.7
50,000	40.9	72.9	53.9
100,000	52.7	84.1	61.9

Corporation taxes

United States - 24 per cent normal tax; 7 per cent surtax; total 31 per cent. Excess profits tax: rates range from 35 per cent on first \$20,000 of excess profits to 60 per cent on excess profits over \$500,000.

Canada - Normal tax: 16 per cent, 22 per cent if consolidated returns are filed plus 22 "minimum excess profits tax" (really an addition to normal tax). Total: 40 or 42 per cent.

Excess profits tax: 75 per cent on profits over 1936-39 base period earnings.

United Kingdom - 50 per cent normal tax but stockholders receive credit against personal income tax for tax withheld on dividends distributed.

Excess profits tax - 100 per cent on earnings over base period earnings; 20 per cent available as post-war credit.

Base period is 1935; or 1936; or average 1935 and 1937; or average 1936 and 1937; at option of taxpayer.

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General sales tax

Canada has general sales tax of 8 per cent on manufacturer's sales price; exempts staple foods.

England has general sales tax, called "purchase tax". Food, rent, utility services are exempted. Less essential articles are taxed at rate of $33 \frac{1}{3}$ per cent - furniture, household appliances, etc. -- on wholesale price. Essential articles are taxed at the rate of $16 \frac{2}{3}$ per cent - household utensils, clothing, etc. These rates are equal to 24 and 12 per cent on retail prices.

Excise taxes in the United States

Already bring in 3.5 billion dollars in revenue. Cover tobacco, liquor, sugar, gasoline, automobiles, tires and tubes, refrigerators, cosmetics and toilet preparations, matches, telephone and telegraph service, amusements, domestic use of electricity, passenger transportation, many minor articles. Rates on these will have to be sharply increased and list will be extended. (Advisable not to mention specific new commodities, as industry representatives will protest in advance of official presentation of the tax program.)