BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 2, 1942

To Mr. Goldenweiser

From George Jaszi GJ

Subject: Ways and Means Committee
Corporate Tax Plan

The corporate tax plan finally adopted by the Ways and Means Committee somewhat differs from the scheme I summarized for you yesterday. The main differences are as follows:

1. The excess profits tax is to be imposed at 94 per cent instead of the previously reported 90 per cent.

This is a purely nominal change, because it is linked with the provision that the residue of excess profits which is left after payment of the excess profits tax shall be exempt from corporation normal and surtax. Under the 90 per cent excess profits tax, the 10 per cent residue of excess profits would have been subject to a 40 per cent normal and surtax. The net result would have been the same.

2. The first $10,000 of excess profits is to be exempt from excess profits tax. Under the present law and the original Treasury proposals only the first $5,000 were exempt.

This provision will benefit small corporations.

The Committee does not seem to have decided whether corporations with incomes over (approximately) $25,000, who are subject to the combined normal and surtax rate of 40 per cent, shall be given some relief if their current income falls short of base period income 1936-9. The original Treasury scheme which proposed a combined normal and surtax rate of 55 per cent for large corporations provided that such corporations shall be given a credit against the tax equal to 10 per cent of the difference between base period and current income (but not exceeding 20 per cent of current income), if their current income fell short of their base period income. The Committee may feel that this special relief is not needed if the combined normal and surtax rate is set at 40 per cent instead of 55 per cent.

The Committee has not yet voted on the lower differential rates of normal and surtax to which small corporations shall be subject. Nor has it come to a decision as regards the capital stock tax and the declared value excess profits tax (not to be confused with the excess profits tax proper), two minor corporate taxes whose repeal was advocated by the Treasury.