

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 24, 1942

To Chairman Eccles

Subject: _____

From Martin Krost

I am transmitting the attached memorandum describing the opening of Senate hearings on the tax bill. We intend to send similar memoranda every few days as important developments occur.

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Office Correspondence

Date July 23, 1942

To Mr. Krost

Subject: Submission of Revenue Bill

From R. A. Musgrave

to Senate Finance Committee

After over four months of deliberation by the Ways and Means Committee and a brief discussion on the floor of the House, the War Revenue Act of 1942 was sent to the Senate Finance Committee on July 21. The Committee bill differed substantially from the original Treasury proposal and was accepted by the House with little change, except for a further increase in the excess profits tax rate to a flat 90 per cent.

In the opening session of the hearings of the Senate Finance Committee, Secretary Morgenthau today presented a statement on the Revenue Bill of 1942. In the statement he emphasized that the original Treasury request for 8.7 billion dollars of additional revenue was the minimum needed and that amendments to the House bill would be necessary to meet the Treasury requirements. The Secretary specifically asked for the following changes in the House bill:

1. Taxation of tax-exempt state and local securities.
2. Discontinuation of unlimited percentage depletion allowances for income taxes on oil wells and mines.
3. Enactment of mandatory joint returns under the personal income tax.
4. Substitution of a 90 per cent rate on excess profits coupled with a 10 per cent refund provision for the flat rate of 90 per cent proposed by the House bill.
5. Revision of the tax on freight and express proposed in the House bill.

In the ensuing discussion the Secretary stated that with the higher rate of excess profits, the Treasury would be satisfied to accept the combined corporation income rates of 45 per cent as contained in the House bill rather than return to the original request for a 55 per cent rate. Mr. Morgenthau further stated that the Treasury still favored its proposal for personal income tax exemptions of \$600 for single and of \$300 for dependents. As against this the House bill proposes \$500 exemption for single taxpayers and \$400 for dependents. The Secretary stated moreover that the Treasury would welcome adoption of its original surtax rate schedule in place of the lower rates proposed by the House.

Senators Taft and Vandenberg inquired what amount the Secretary thought would have to be obtained by borrowing from banks during the coming fiscal year. Neither the Secretary nor Mr. Bell were willing to provide an estimate although the figure of 30 to 35 billions was not objected to. The Senators suggested that this would leave the financial problem one of bank lending rather than taxation, and that the Treasury's tax and savings bond program might be inadequate. The Secretary replied that he considered the

8.7 billion of additional revenue requested as sufficient and that he did not feel that his savings bond program was likely to fall short of expectation. The Treasury people appeared altogether unwilling to admit that their original revenue proposal might have been on the low side, although the questioning represented an excellent opportunity to appeal for more revenue.
