



TREASURY DEPARTMENT  
WASHINGTON

June 30, 1942

Dear Marriner:

The Secretary has asked that I forward to you for comment and suggestions the proposed Congressional action with respect to the post-war rebate. You will find the Committee action described on page 4 of the enclosed memorandum "Committee action on Revenue Bill of 1942, June 26, 1942."

The Secretary would like to have your comments at your earliest possible convenience as the bill will go to first printing Thursday.

Sincerely yours,



Randolph E. Paul  
Assistant to the Secretary

Honorable Marriner S. Eccles,  
Chairman, Federal Reserve Board,  
Washington, D. C.

Enclosure



For circulation

Governor Ransom

Governor Evans

Governor Szymczak

Governor McKee

Governor Draper *absent*

(Please return to Chairman's  
office)

BOARD OF GOVERNORS  
OF THE  
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# Office Correspondence

To Members of the Board

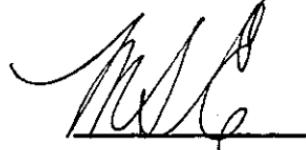
Date July 1, 1942

From Chairman Eccles

Subject: \_\_\_\_\_

I am circulating for your information a letter with memorandum attached which I received from Mr. Randolph Paul and also a copy of my reply.

I received Mr. Paul's letter last evening and he called me on the telephone this morning and requested that I get a reply to him this afternoon.



Attachments

July 1, 1942.

Mr. Randolph E. Paul,  
Assistant to the Secretary,  
Treasury Department,  
Washington, D. C.

Dear Randolph:

In your letter of June 30 enclosing a copy of the memorandum, "Committee action on Revenue Bill of 1942, June 26, 1942", you invite my comments with respect to the post-war rebate. Since you wish me to reply immediately, I am giving you my impressions inasmuch as there is not time to study this particular proposal thoroughly.

While I would have preferred an 80 per cent top without a rebate, I recognize the considerations which prompt the 9 1/4 per cent tax with a 1 1/4 per cent rebate. Certainly a 9 1/4 per cent rate without a rebate would not be desirable, as experience in England, for example, with a hundred per cent rate indicated. There would be too much incentive for tax avoidance and the rebate is an inducement to retain earnings.

One good feature of the proposal, I think, is the options given to the Treasury for calling or redeeming the bonds, which are callable upon three months' notice at any time prior to maturity or may be paid one-third at the end of the second calendar year following the end of the war, one-third at the end of the third year, and one-third at the end of the fourth year. These payments presumably will be available to enable business concerns to convert to peacetime production. (It is specifically provided that these funds shall not be available to pay dividends, bonuses, etc., or to increase idle cash reserves or to buy securities.)

So far as personal savings are concerned as represented in War Bonds, it would be desirable if their redemption could be closely coordinated with conversion to peacetime production so that demand would be in reasonable relationship to supply. In the case of business savings, however, the sooner they are available after the war, the quicker adjustments can be effected so that civilian production will be facilitated.

Mr. Randolph E. Paul - (2)

July 1, 1942

I would prefer that feature of your formula which would not include the amounts returned in corporate incomes subject to tax. Making the amount so returnable subject to the capital gains tax of 15 per cent actually makes the effective rate of the excess profits tax more than 80 per cent. It would be fairer, I think, to leave these funds free for the conversion that will be so urgently needed after the war. If these refunds really represent a debt obligation owed by the Treasury to the taxpayer, they cannot properly be regarded as capital gains. If the Committee felt that your formula was too liberal, a more direct approach would be to reduce somewhat the amount of the refund rather than to resort to this taxing back of a part of the refund.

Offhand I have no other comments. Needless to add, I appreciate your giving me an opportunity to express my views.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,  
Chairman.

  
ET:b