

Mr. Masgrave

“What's the
Alternative Tax”
this writer is
complaining about?”

7912, S. E. 35th. Avenue
Portland 2, Oregon
February 26, 1946

Mr. Marriner S. Eccles
Chairman Board of Governors
Federal Reserve System
Washington, D. C.

Dear Mr. Eccles:

Under the Washington date line of Feb. 25th. the Associated Press quotes you as proposing "a substantial increase in the capital gains tax as a means of putting brakes on speculative buying".

I am a small investor and have come to the time of life when I shall have to live on my capital - my income will be so meager as to be too small to support me. This means that I shall have to realize the capital gains that my hard earned investments contain.

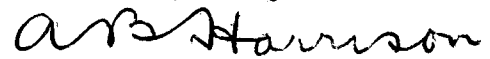
Evidently you do not propose to differentiate between large and small capital gainers in stepping up the tax according to your published statements. If this is true I think that you are suggesting a grave injustice. Why do you not propose first and foremost to abolish the Alternative Tax? That would be a really effective check to speculative buying and would be very popular, as it would hit the big operators.

As I am well acquainted with the investment business from the inside of the trade I know that the recent stock market bulge was caused by the advent of big money freed by the closing down of war industries and of caterers to their wage earners, and by sale of office buildings and similar prolific sources of released money.

The public is not acquainted with the vagaries of the Alternative Tax. When it is informed of them, as I have found, it is indignant at the stupid injustice of taxing a man only one quarter of \$16,000 of unearned income while mulcting another man who has worked hard for exactly the same amount two quarters (twice as much) in tax, I think you might well follow this line of attack.

Moreover, the rich man can escape taxation because he is not compelled to sell his securities as the poor man often is. Many a well-to-do citizen bought Portland Electric Power Prior Preference stock at anything from 50 cents to \$2 per share shortly after Pearl Harbor. That stock is now selling at \$135 per share but he is continuing to hold it until taxes come away down again or until the reorganization is consummated. Meanwhile the Internal Revenue net entirely misses him. Can you not find some way of making him bear his share of the present national burden?

Yours very truly



A. B. Harrison

March 12, 1946.

Mr. A. D. Harrison,
7912 S. E. 35th Avenue,
Portland 2, Oregon.

Dear Mr. Harrison:

I was interested to have your letter of February 26 in regard to the capital gains tax, particularly because you see the desirability of curbing the speculator and recognize the injustice of high individual income tax rates on earned income while the "alternative tax", as you point out, enables the speculator who has a profit in capital assets to pay only the present capital gains tax of 25 per cent on unearned income after the holding period of six months.

I have tried to emphasize that the special capital gains tax which I have in mind should not be retroactive but should apply to future transactions. It would not, therefore, as I see it, affect your own situation on your hard earned investments.

I do not know of any practical way of differentiating between the small and large capital gainers or reaching the man with a large but unrealized capital gain who is waiting for taxes to come down. He, of course, takes the chance that by that time his gain may be much less.

Sincerely yours,

M. S. Eccles,
Chairman.

FT:b

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 11, 1946

To Mr. Thurston

Subject: Letter by Mr. Harrison

From R. A. Musgrave *R.A.M.*

The reference to the "alternative tax" is to the provision under the tax law whereby capital gains may be either included with other income or be taxed separately at the preferential rate of 25%.