

Form F. R. 511

TO

Mr. Krosh

FROM \_\_\_\_\_

REMARKS:

Do you see  
any force to the  
point in the  
last IP?

LC

CHAIRMAN'S OFFICE

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM**Office Correspondence**Date January 22, 1942To Mr. ClaytonSubject: Letter of January 20, 1942From Martin Krostin re Withholding Tax

MK

The proposal for a withholding tax would allow exemptions high enough (certainly not less than \$1,000 for married persons or heads of families) so that the writer of this letter, who could claim a head-of-family exemption, would be virtually free from tax. This is a good illustration of the point that a tax that can be so framed as to give an outright exemption to those with very low incomes and to bear more heavily on larger incomes is better than a tax that tries to do the same thing by exempting goods that form an important part of the household budget of the poor.

A sales tax with a food and drugs exemption would certainly be fairer than a flat rate income tax without exemptions as applied to the group of families too poor to save, and it would probably be the most appropriate form of tax to use if the need for revenue became so pressing as to require sacrifices from families with incomes of less than \$1,000 a year. Any form of sales tax would bear lightly on families sufficiently well-off to save a considerable part of income, to own their own homes, and to pay for domestic service.