

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 10, 1945

To Chairman Eccles

Subject: Tax Legislation

From Richard A. Musgrave R. A. M.

At yesterday's meeting of the Inter-departmental Tax Committee Mr. Blough announced that sometime this week he was to meet with the Joint Committee on Internal Revenue Taxation at which time he expected the Committee to accept a report providing for tax adjustments in the transition period along the lines proposed by Mr. Blough and Stam's research staff. (I have reported to you on these recommendations in an earlier memorandum dated March 16.) Mr. Blough expected that, following this meeting, a press announcement by Mr. Doughton will be forthcoming. This release will include a statement that cancellation of the Excess Profits Tax was contemplated for the income year 1947 if the war in the Pacific is terminated by December 31, 1946. Mr. Blough also mentioned that the transition period proposals worked up by the Treasury and Mr. Stam's committee had been cleared with the President.

With respect to the Capital Gains Tax, Mr. Blough reported that the Stabilization Committee had agreed on proposing to lengthen the withholding period to three years. At this point negotiations appear to be deadlocked between the Treasury research staff and Mr. Stam's group, it being quite evident that Mr. Stam does not want to act--and I surmise the Treasury not being all too anxious either. In any case, Mr. Blough did not consider it advisable or feasible to tie the Capital Gains proposal to the less controversial report on transition legislation now before the Joint Committee. However, Mr. Blough said that he hoped to get Mr. Stam to take a position prior to next week's meeting of the Stabilization Committee, a position which probably will be negative. It is my impression that in order to get action at an early date it will be necessary to work up some direct Committee support for the proposal to lengthen the withholding period. Most likely it will be necessary for Mr. Davis or somebody to get in touch with Committee members.