

February 27, 1946

Mr. Marriner S. Eccles  
Chairman Board of Governors  
of the Federal Reserve System

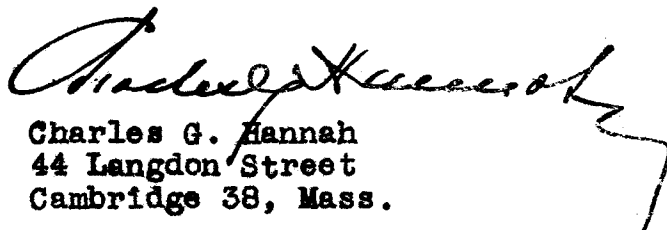
Dear Sir:

In announcing the adoption of 100% "margin" on Stock Exchange transactions, the dailies quote you as recommending more stringent taxes on capital gains, and in this connection I would ask your comment on one phase of such taxation which materially affects genuine investors.

You are naturally cognizant of the continual refinancing of corporate obligations and preferred stocks; each new transaction resulting in a material reduction in income of the investor. Not only is this the case, but such investor, in an attempt to partially maintain this income, must immediately reinvest such old capital at the market (but at a lower yield) and also furnish additional capital to the extent of the federal tax paid by him, because of the government's claim that he has made a "profit" in any transaction where the sale price is above the price of purchase.

This is particularly pertinent at the present time where there are short intervals between two or more refinancings of a single corporation. So I would appreciate your opinion as to whether the present capital gains tax is not sufficiently stringent in the case I mention, where it is obvious the purchaser of such securities is a genuine investor to whom refinancing is a hardship.

Yours very truly,

  
Charles G. Hannah  
44 Langdon Street  
Cambridge 38, Mass.

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March 5, 1946.

Mr. Charles G. Hannah,  
44 Langdon Street,  
Cambridge 38, Massachusetts.

Dear Mr. Hannah:

I was interested to have your letter of February 27 referring particularly to the effects of refinancing in relation to the capital gains tax.

While I have felt for a long time that the holding period should be extended, possibly to three years, and that the rate also should be increased, I have emphasized that such a special capital gains tax should not be applicable to past transactions. Accordingly, my proposal would not affect securities now held by investors. However, such a tax, in my judgment, would go far to eliminate the speculative activity that, in turn, is such a potent factor in driving prices up and yields down. Hence, I believe the tax would be very effective in reducing or eliminating altogether the inducement that exists to refinance in order to take advantage of lower rates.

I regret to say, however, that I see no prospect that Congress will be willing to enact such a protective measure affecting not only the security markets but particularly the entire real estate field, urban and rural, where speculative buying has been invited by the present inadequate capital gains tax and has done so much to drive up prices.

Sincerely yours,

M. S. Eccles,  
Chairman.

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