

FEDERAL RESERVE BANK OF DALLAS

FISCAL AGENT OF THE UNITED STATES

Dallas, Texas, February 20, 1962

SPECIAL HANDLING OF TAX PAYMENTS

To All Banking Institutions and Others Concerned
in the Eleventh Federal Reserve District:

The Treasury Department has announced that the procedure customarily in effect during periods of heavy tax payments, with respect to the special handling of large payments of income taxes, will be effective for the March 1962 corporation income tax collections. This arrangement will be applicable only to the extent of 50% of the amount of checks of \$10,000 or more, representing payments of corporation income taxes.

During the period from March 1, 1962, through March 30, 1962, (1) Directors of Internal Revenue will make special deposits with the Federal Reserve banks of checks representing tax remittances of \$10,000 or over covering payments of corporation income taxes, (2) Federal Reserve banks will prepare daily a "Special Draft for Credit in Treasury Tax and Loan Account" in an amount not to exceed 50% of the aggregate amount of such checks drawn on each Special Depositary, and (3) in accordance with conditions set forth on the face of the special draft, Special Depositaries may exercise their options to accept for deposit in their Treasury Tax and Loan Accounts funds in an amount equal to the amount of the special draft.

The Treasury Department has indicated that it may be necessary to either increase or decrease the percentage amount of such checks for credit in the Treasury Tax and Loan Account from time to time during the period, if such action is required to prevent undue fluctuations in the account of the Treasurer of the United States with Federal Reserve banks.

No distinction will be made between these special credits and other credits to Treasury Tax and Loan Accounts. Withdrawals of balances in Treasury Tax and Loan Accounts will be made as required by the needs of the Treasury.

The Treasury Department has requested all Special Depositaries be notified that in connection with the March income tax installment the Treasury will take steps to deny credit of customers' tax checks which arise out of sales of their tax anticipation securities to the banks.

During previous periods of heavy tax payments the Treasury learned that some special depositaries for Treasury Tax and Loan Accounts were encouraging their customers to sell Treasury Bills, Tax Anticipation Series, and to accept payment for the Treasury bills by deposit credit in their checking accounts and to pay their taxes by checks drawn on their accounts with the banks. Depositaries were apparently engaging in this practice in expectation that under the usual arrangements for handling income tax checks of over \$10,000, the banks would obtain a deposit in their Treasury Tax and Loan Accounts for one-half the amount of the taxpayers' checks drawn on their accounts with the banks and in regular course the banks would present the Treasury bills to the Treasury for cash redemption at maturity. If the Treasury learns that any depositary follows a similar practice this year, credit will be withheld for tax checks which grow out of such transactions.

This bank will be pleased to furnish any additional information in this connection that may be desired.

Yours very truly, .

Watrous H. Irons

President