

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, June 15, 1944, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Draper  
Mr. Evans

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 14, 1944, were approved unanimously.

Memorandum dated June 12, 1944, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, effective July 10, 1944, Miss Alvern H. Sutherland, Assistant Librarian in that Division, be appointed Librarian, and her basic salary increased from \$3,600 to \$4,000 per annum. The memorandum stated that after Miss Sutherland had had an opportunity to study the personnel situation in the library the Division would recommend consideration of a general reorganization of the library staff.

Approved unanimously.

Memorandum of this date from Mr. Paulger, Director of the Division of Examinations, submitting the resignation of Mrs. Elizabeth B. Wauchope as a stenographer in that Division, to become effective as of the close of business on June 15, 1944, and recommending that the resignation be accepted as of that date.

The resignation was accepted as recommended.

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Memorandum of this date from Mr. Morrill submitting the resignation of Robert Sinclair as a chauffeur in the Secretary's Office, to become effective as of the close of business on July 14, 1944, and recommending that the resignation be accepted as of that date.

The resignation was accepted as recommended.

Memorandum of this date from Mr. Morrill submitting the resignation of Miss Peggy Irene Dixon as an elevator operator in the Secretary's Office, to become effective as of the close of business on July 11, 1944, and recommending that the resignation be accepted as of that date or an appropriate earlier date if she uses any annual leave prior to leaving the service of the Board.

The resignation was accepted as recommended.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"In the light of the circumstances described in your letter of June 12, the Board will interpose no objection to the payment of Mr. Carver's tuition and expenses for the two-week farm appraisal case-study course offered by the American Institute of Real Estate Appraisers in cooperation with the College of Agriculture of the University of Illinois, and to granting Mr. Carver the necessary leave of absence to attend the course."

Approved unanimously.

Letter to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors approves the payment of salary to Mr. H. C. Anderson, Assistant Manager, Memphis Branch,

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"for the period June 8, 1944 through May 31, 1945, at the rate of \$3,700 per annum which is the rate fixed by your Board of Directors as reported in your letter of June 9, 1944."

Approved unanimously.

Letter to Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of Minneapolis and the Helena Branch as submitted with your letter of May 29, 1944, and supplemented by your letter of June 8."

Approved unanimously.

Telegram to the Presidents of all the Federal Reserve Banks reading as follows:

"Phrase 'heating equipment' in section 8(m) of Regulation W includes heating stoves and water heaters, but does not include cooking stoves or ranges."

Approved unanimously.

Letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of June 1, 1944, enclosing a copy of a letter dated April 14, 1944, received by your Bank from Irving Trust Company, raising various questions with respect to the treatment of certain types of moneys for purposes of reserve computation, together with a copy of your reply to Irving Trust Company under date of June 1, 1944."

"In your letter to Irving Trust Company you state that you are referring to the Board of Governors for rulings two of the questions presented, namely, whether the Board's ruling published in the 1942 Federal Reserve Bulletin, page 542, regarding the treatment for reserve purposes of deductions for Social Security taxes, also applies with respect to (1) New York State income taxes withheld from salaries of a bank's

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"own employees who reside outside New York State, and (2) Federal income taxes withheld from payments made by a bank as disbursing agent for dividends, bond interest, etc., where withholding at source is required under the Revenue Act. In connection with these questions, you enclose a copy of a memorandum dated May 5, 1944, prepared by Mr. Tiebout of your Bank, in which the conclusion is reached that the Board might appropriately rule that amounts withheld in both cases are not to be regarded as deposits for reserve purposes, but should be shown in condition reports as 'Other Liabilities'.

"With respect to withholdings under the New York State income tax law, it appears that section 366 of the Tax Law of New York requires every withholding agent to deduct and withhold certain amounts from all salaries, wages, etc., except as to resident taxpayers who file a certificate of residence and nonresident taxpayers who file a certificate of exemption in accordance with the provisions of the law. It appears further that each withholding agent required to deduct and withhold any tax under the law is required to pay the tax deducted and withheld to the Tax Commission and is expressly made liable for the payment of such tax.

"With respect to Federal income taxes withheld by a bank as disbursing agent for dividends, bond interest, etc., it appears that the pertinent provisions of section 143 of the Internal Revenue Code require any withholding agent which has control, receipt, etc., of such dividends, bond interest, etc., to deduct and withhold a specified tax in cases in which such income is payable to any nonresident alien individual or partnership. Each withholding agent so required to withhold and deduct such tax is required to pay the tax to the official of the United States Government authorized to receive it and is expressly made liable for such tax. Section 144 of the Internal Revenue Code requires the withholding and payment in the same manner of taxes similarly derived from income payable to foreign corporations.

"The Board's ruling in the 1942 Federal Reserve Bulletin, page 532, with respect to the withholding of Social Security taxes, was based principally upon the fact that in such case the bank is required to deduct the amount of the tax from the salary of its employee and is then itself legally liable for the payment of such tax. As above indicated, it appears that, both as to the taxes withheld under New York law from income of nonresidents and taxes withheld under the Internal Revenue Code from income payable to alien nonresidents, the withholding agent is made legally liable for the payment of the tax. While section 3661 of the Internal Revenue Code provides that the amount of any tax collected or withheld from another person shall be held to be a special trust for the United States, it appears

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"that, under this section, failure of a withholding agent to pay to the United States any tax deducted and withheld by it would subject such withholding agent to penalties for nonpayment of taxes.

"Accordingly, for present purposes, there appears to be no difference in principle between the withholding of Social Security taxes considered by the Board in 1942 and the withholding of taxes in the two cases presented by the Irving Trust Company. It is the Board's view, therefore, that taxes withheld by a bank under section 366 of the New York State income tax law from salaries of its nonresident employees and taxes withheld by a bank as disbursing agent under sections 143 and 144 of the Federal Internal Revenue Code for dividends, bond interest, etc., are not to be regarded as deposits for reserve purposes, but should be shown in condition reports as 'Other Liabilities'."

Approved unanimously, together with letters to the Presidents of all the Federal Reserve Banks and to the Comptroller of the Currency enclosing copies of the above letter for their information.

Thereupon the meeting adjourned.

Chester Morrice  
Secretary.

Approved:

W. C. C. C.  
Chairman.