

**FEDERAL RESERVE BANK
OF NEW YORK**

Fiscal Agent of the United States

[Circular No. 4862]
March 10, 1960]

PAYMENT OF MARCH TAXES

Undesirable Practices Involving Tax Anticipation Bills

*To All Treasury Tax and Loan Depositories, and Others
Concerned, in the Second Federal Reserve District:*

The Treasury Department has learned that an effort has been made by some banks that are Treasury Tax and Loan depositories to encourage their corporate customers (a) to sell to the banks their tax anticipation Treasury bills maturing March 22, 1960, (b) to accept payment for the Treasury bills by a deposit credited to their checking accounts, and (c) to pay their corporation income taxes due March 15, 1960, by checks drawn on their accounts with the banks. Depositories engaging in this practice are apparently doing so in expectation that, under arrangements in effect for the March 15 corporation income tax instalment (set forth in our Circular No. 4857, dated February 18, 1960), the depositories will obtain deposits in their Treasury Tax and Loan Accounts for amounts up to 50 per cent of the taxpayers' checks of \$10,000 or more drawn on their accounts with the depositories in payment of taxes, and that the depositories will present the Treasury bills for cash redemption at maturity.

In notices dated February 25, 1952, May 20, 1952, and May 25, 1953, the Treasury Department announced that it does not look with favor upon transactions of this character, inasmuch as they increase the amount of tax anticipation bills presented for cash redemption in advance of the availability of Treasury receipts from the income tax instalment due on the 15th of the month and make it more difficult for the Treasury and the Federal Reserve System to handle the large income tax collections during the month in a manner that will maintain stability in the money market. In those notices, the Treasury also announced that it would take steps to deny credit to depositories for customers' checks arising out of such transactions.

The position of the Treasury as outlined in such notices has not changed, and the Treasury has stated that, in connection with the March 15, 1960 corporation income tax instalment, steps will be taken to withhold credit to depositories for customers' tax checks arising out of sales to the depositories of the customers' tax anticipation Treasury bills maturing March 22, 1960.

ALFRED HAYES,
President.