FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 27, 1918.

X-1025.

Dear Sir:

I hand you herewith for your information copy of a letter written by the Commissioner of Internal Revenue which states the views of his office regarding the application of Internal Revenue laws to certain proposed stock dividends.

I also inclose copy of a letter addressed by the Commissioner to the Counsel for the Federal Reserve Board, holding that the stamp tax does not apply to drafts in connection with the shipment of articles from the interior to the seaboard, where such articles have been sold to the United States agent of a foreign purchaser for export under circumstances entitling the transportation within the United States to exemption from the transportation tax.

Very truly yours,

Governor.

Federal Reserve Agent,

(Two inclosures)

C O P Y X-1025a

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Your letter of June 8, addressed to Hon. W. F. Ramsey, asking certain questions relative to the application of the internal revenue laws to certain proposed stock dividends, has today been referred to me for reply by Hon. M. C. Elliott, Counsel for the Federal Reserve Board.

Income upon which the bank in question has paid income and excess profits taxes does not become subject to any additional taxes by reason of its use in payment for stock issued as a stock dividend. Your conclusion as to the first point dealt with in your letter appears to be correct.

Under the Income Tax Act now in force (Act of September 8, 1916, as amended by the Act of October 3, 1917) stock dividends, are expressly taxed, as they were not under the Act of October 3, 1913, the Statute under which it was decided in the case of Towne v. Eisner to which you refer.

On this point, see Section 31 (a) of the Act added by Section 1211 of the Act of October 3, 1917, which provides in part as follows:

> "The term 'dividends' as used in this title shall be held to mean any distribution made or ordered to be made by a corporation, joint-stock company, association, or insurance company, out of its earnings or profits accrued since March first, nineteen hundred and thirteen, and payable to its shareholders, whether in cash or in stock of the corporation, joint-stock company, association, or insurance company, which stock dividend shall be considered income, to the amount of the earnings or profits so distributed."

It has been the ruling of this Department in accordance with an opinion of the Attorney General that under this language the tax upon stock dividends is to be collected, notwithstanding the decision to which you refer relating to the earlier act.

You are, therefore, advised that in so far as the stock dividend is issued against earnings or profits accrued since March 1, 1913, it will be subject to addtional or super-tax in the hands of the individual stockholders. As to the allocation of earnings distributed by means of such dividends as between different years in which the earnings were received, see Section 31 (b) of the Act, and Treasury Decisions Nos. 2659 and 2678, copies of which are inclosed. Dividends are not, however, subject to the excess profits tax against the individual stockholders.

Respectfully,

Signed - Daniel C. Roper,

Commissioner.