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 ———
 ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

April 3, 1920.

X-1880

Subject: Tax on Deficiencies in Reserves against Deposits.

Sir:—

Under terms of Section 11, sub-section (c) of the Federal Reserve Act, the Federal Reserve Board is authorized and empowered to suspend any reserve requirement specified in the Federal Reserve Act, "Provided, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified."

Section 16 of the Federal Reserve Act provides in part that "Every Federal Reserve Bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal Reserve notes in actual circulation."

The Federal Reserve Board has already by regulation established a graduated tax upon the deficiency in note reserves in the manner expressly required by the second provision of sub-section (c) of Section 11, but it has not heretofore established any specified graduated tax upon a deficiency in reserves against deposits. You are advised therefore, that in accordance with the requirements of the law the Board has now established a tax of one per centum per annum upon the amount of the deficiency in reserves against deposits, provided, however, that whenever those reserves fall below thirty per centum the tax upon the amount by which they have fallen below that limit shall be increased by one per centum per annum upon each five per centum or fraction thereof that such reserve falls below thirty per centum.

You are advised that the rate of tax hereby established is retroactive and that any bank to which it applies shall forward each month to the appropriate officials of the Treasury Department, the full amount of any tax due and payable by such bank for the preceding month.

This ruling is made by the Board in order to comply with the requirements of the Section of the Act above quoted but is not intended to change the Board's present policy of requiring Federal Reserve Banks to keep as far as possible the legal reserves required by rediscounting with other Federal Reserve Banks.

There is enclosed for your further information copy of a letter from the Secretary of the Treasury describing the manner in which taxes on account of reserve deficiencies shall be paid.

Very truly yours,

Enclosure.

Governor.

To Chairmen of all F.R. Banks.