

FEDERAL RESERVE BOARD

WASHINGTON

469

X-3101

April 23, 1921.

SUBJECT: Reserves for Government Franchise Tax.

Dear Sir:

At the recent conference of Federal Reserve Bank Governors it was recommended that a reserve for franchise tax be set up by each Federal Reserve Bank which has accumulated the maximum normal surplus allowed under Section 7 of the Federal Reserve Act, and this recommendation has been approved by the Board. On and after May 11th the Board's weekly statement of condition of all Federal Reserve Banks combined will show this reserve. It is not intended that any other items be added to the statement but that other undivided profits be carried under the heading "All other Liabilities" as at present.

The amount to be carried to reserve for franchise tax should be calculated at close of business each Wednesday. In setting aside earnings for franchise tax the Board would suggest that allowance be made for the probable charge-offs at the close of the calendar year in order that the amount actually paid to the Government at the end of the year may not be less than the amount of "Reserve for Government Franchise Tax" shown on the last statement day of the year. While it is of course impossible to calculate the tax reserve with mathematical accuracy week by week, there will be opportunity for proper adjustment during the closing weeks of the year.

Very truly yours,

G o v e r n o r .

ALL GOVERNORS.