FEDERAL RESERVE BOARD

WASHINGTON

May 2, 1921.
St.1948.

SUBJECT: Reserve for Government franchise tax.

Dear Sir:

In connection with the Board's letter St.1936, dated April 23, 1921, subject - Reserve for Government franchise tax, there is quoted below a letter sent by the Board to one of the Federal Reserve banks in reply to its request for information as to the proper procedure to be followed in arriving at amounts to be carried in the normal surplus and supersurplus accounts:

"Receipt is acknowledged of your letter of April 25 in which you refer to the Board's letter St.1936 of April 23, 1921, and request information as to the proper accounting procedure to be followed in arriving at amounts to be carried in normal surplus and supersurplus.

"In reply, I beg to advise that a sufficient amount should be transferred from the bank's net earnings to the normal surplus account to bring that account up to 100 per cent of the bank's subscribed capital on closing of books on June 30 and December 31 of each year. This transfer should be made without reference to any amount which a bank may have in its supersurplus account. Ten per cent of the balance of net earnings should be transferred to supersurplus and 90 per cent paid to the Government as a franchise tax. In other words, when net earnings are sufficient the normal surplus at closing of books will be equal to the subscribed capital of the Federal Reserve Bank, while the supersurplus will represent the accumulation of the semi-annual credits to that account of the 10 per cent of net profits retained by the bank after the normal surplus has reached 100 per cent of the subscribed capital. The books of a Federal Reserve Bank should show separately the accounts 'normal surplus' and 'supersurplus', but the two amounts should be combined and shown under the heading 'surplus' in all published statements."

Very truly yours,

R. G. Emerson,
Assistant to Governor.

(Letter sent to F. R. Agent at all banks except Richmond)