

FEDERAL RESERVE BOARD

WASHINGTON

X-7203

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 25, 1932.

SUBJECT: Tax on Checks, and Other Questions
Arising under the Revenue Act of 1932.

Dear Sir:

Inclosed are three copies of a letter addressed to the Secretary of the Treasury dated July 16, 1932, signed by Governor Meyer asking numerous questions arising under the Revenue Act of 1932. The questions deal principally with the tax on checks imposed by Section 751a. Questions arising under other sections of the Act are also covered and will be found on pages 3 and 25 of the inclosed letter.

The letter was prepared in order to facilitate and expedite consideration by the Treasury Department by eliminating duplications and by re-grouping and rearranging the questions and inclosures contained in the letters received from the reserve banks. Conferences were had with the Treasury officials both before and after July 16.

It now appears that the reply of the Secretary of the Treasury will not be received for a day or two, although it had originally been hoped that the reply would be received before the

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end of last week.

Accordingly, a copy of the letter of July 16 is being sent to you at this time in order that you may, if you so desire, familiarize yourself with its contents and thus shorten the time required for the examination of the answer of the Secretary of the Treasury, and also in order that this office may telegraph to you, if necessary, a summary of the reply of the Secretary of the Treasury, with references to the questions by number, without having to repeat the questions in the telegram.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO CHAIRMEN AND GOVERNORS OF ALL F. R. BANKS.

C O P Y

X-7203-a

July 16, 1932.

Honorable Ogden L. Mills,
Secretary of the Treasury,
Washington, D. C.

S I R :

On behalf of the Federal reserve banks, rulings by your Department are respectfully requested on the questions set forth below, all of which arise under the Revenue Act of 1932 out of transactions incident to the conduct of the business of the Federal reserve banks.

The various Federal reserve banks have addressed separate letters and telegrams to the Federal Reserve Board stating the questions upon which they desire rulings and submitting sample copies of the forms used in the transactions referred to; but, in order to eliminate duplications and to facilitate consideration by your Department, the various questions have been assembled in this letter and grouped according to the types of transactions out of which they arise, excepting the first group which consists of questions all of which are believed to be governed by the same legal principles and precedents.

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Numerous different questions which apparently involve the same general principles are being presented at the request of the reserve banks; because the practices of various Federal reserve banks are not uniform and, even at the same Federal reserve bank, the same type of transaction may assume a number of different forms; and it would be helpful to the Federal reserve banks to have specific rulings on each of the questions presented. The answers to some of the questions may appear to be obvious; but the Federal reserve banks have specifically asked that rulings on such questions be obtained from your Department.

Specimens of all of the forms submitted by the Federal reserve banks are inclosed herewith in two separate groups. Those in the group marked "Appendix A" are specifically referred to in this letter as illustrative of the transactions described. Those in the group marked "Appendix B" are not specifically referred to in this letter, but are submitted for the inspection of your Department.

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I TAXABILITY OF FEDERAL RESERVE BANKS.

1. Does the tax imposed by Section 751(a) apply to checks drawn on Federal reserve banks by their own officers acting in their official capacities?

2. Does the tax imposed by Section 701(a) (2) apply to leased telephone and telegraph service contracted for, used and paid for by the Federal reserve banks?

3. Does the tax imposed by 701(a) (1) apply to telegraph, telephone, cable and radio messages sent by the reserve banks or sent to them collect, which are paid for by the reserve banks and for which no reimbursement is received by them? (Instances of the latter sort are described in Exhibits 1 and 2).

4. Does the tax imposed by Section 701(a) (1) apply to messages paid for by the reserve banks but for which they are later reimbursed by other banks, such as messages sent by the reserve banks in performing services for other banks?

5. Is electrical energy furnished to Federal reserve banks for their own use subject to the tax imposed by Section 616(a)?

6. Do the taxes on fuel oil and other articles of merchandise imposed in Article IV of the Revenue Act of 1932 apply when such articles are purchased by the reserve banks for their own use?

COMMENTS.

In connection with the above questions, reference is made to the following:

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Federal Reserve Act (Act of December 23, 1913; 38 Stat. 251, Chap. 6), section 7:

"* * * Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate."

Opinion of the Attorney General of the United States

addressed to the Secretary of the Treasury under date of March 10, 1916, holding that the above-quoted provision of the Federal Reserve Act exempted Federal reserve banks from the provisions of the Act of October 22, 1914 (38 Stat. 759) imposing, in general terms, a stamp tax on stock certificates. (30 Op. Atty. Gen. 511.)

A letter from the Commissioner of Internal Revenue, addressed to the General Counsel of the Federal Reserve Board under date of November 8, 1917, and referred to at page 921 of the 1917 Federal Reserve Bulletin. The body of the letter is quoted below:

"Referring to your letter of the 3d instant, I have to advise you that it is the opinion of this office that Federal Reserve Banks are not subject to the tax upon payments for telephone, telegraph and express service when such payments fall directly upon the banks."

II. VARIOUS FORMS OF REMITTANCES OR SETTLEMENTS FOR
CHECKS AND COLLECTION ITEMS.

Pursuant to the provisions of Sections 13 and 16 of the Federal Reserve Act and Regulation J of the Federal Reserve Board, a copy of which is inclosed herewith, the Federal reserve banks act as clearing houses and collect checks for their member banks, which maintain deposit balances with the Federal reserve banks as their legal reserves, and for non-member banks which establish deposit balances with the Federal reserve banks for the purpose. The Board's regulations on this subject are supplemented by circulars issued by the Federal reserve banks, copies of which are attached (Exhibits 3 and 4). Each Federal reserve bank receives each day numerous checks drawn upon banks in its district and forwards them to the drawee banks for payment. The usual procedure is to send all the checks received during each day drawn on a particular bank to that bank, with one covering letter. The covering letter is known as a "cash letter". The total amount of the checks thus transmitted is accounted for to the Reserve bank in any one of several ways, the principal ones being, (a) by authorizing the Federal reserve bank to debit the amount to the deposit balance of the remitting bank on the books of the Federal reserve bank, and (b) by sending the Federal reserve bank a check or draft drawn upon the remitting bank's deposit with the Federal reserve bank or a correspondent bank. The reply to the cash letter will also state the amount, if any, of the items which are returned to the reserve bank (because not collected or for some other reason),

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and this amount is accordingly deducted from the total stated in the cash letter. The transaction is illustrated by Exhibit 5, which is a detachable portion of the cash letter sent by one reserve bank, and Exhibit 6, which is a form furnished by another reserve bank.

The Federal reserve banks also collect for their member banks promissory notes, bills of exchange and other similar items and the procedure in forwarding and accounting for such items is similar, so far as the questions here presented are concerned to that followed in connection with the collection of checks, except for differences in detail which are indicated in Questions 8 to 11 below. For convenience, such items are commonly referred to as "non-cash items", in order to distinguish them from checks and similar items payable on demand at banks, which are commonly referred to as "cash items".

1. Is a tax payable in the event that a member bank, in response to the cash letter, authorizes the Federal reserve bank to debit the amount to its deposit balance with the Federal reserve bank, (a) by a specific authorization in the form indicated in Exhibits 5 and 6; or (b) by returning to the Federal reserve bank a memorandum slip (Exhibit 7) merely stamped "debit" or "paid", which has by custom the effect of such authorization?

2. In some cases the reserve bank is given a continuing authorization to charge the account of the member bank with the net amount of each "cash letter" sent to that bank. Is such authori-

ization taxable? If so, is it taxable once, or each time an entry is made?

3. Is the tax payable in the event that the bank makes remittance of the amount called for by its reply to the cash letter, by means of a draft or check, (a) drawn against its deposit balance with the Federal reserve bank? or (b) drawn against a deposit in a correspondent bank?

4. In one instance the cash letter has a detachable portion which performs the same functions as those contained in Exhibits 5 and 6 but which is in the form of a draft and which is marked "Settlement draft". This "Settlement draft" is not dealt with as an ordinary draft in that it is never returned to the drawer, but, like the forms in Exhibits 5 and 6, is held by the reserve bank as a part of its records. Is such a "Settlement draft" taxable? (See Exhibit 8)

5. In the event that any of the transactions described in the preceding questions is taxable, is only one tax imposed, or is the tax payable with regard to each separate item inclosed with the cash letter, when a single settlement is made for the total amount of such items?

6. It sometimes occurs that, in its response to a cash letter, the member bank will incorrectly state the amount chargeable against its reserve account, usually because it has failed for some reason to return and deduct an item which should have been returned and deducted because uncollectible or for some other reason.

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In that event, it communicates again with the reserve bank advising it of the correcting book entry to be made. Is such a transaction taxable?

7. In certain reserve districts, in order to achieve greater promptness in settlement, where drafts are sent in settlement of cash letters, the drafts are required to be on certain member banks which have previously agreed that such drafts may be immediately charged against their accounts by the reserve bank, without waiting for the draft to be sent to the drawee bank. After such a charge is made, the reserve bank notifies the bank upon which the draft is drawn so that it may keep its books in order and forwards the draft to it. (For a form of such notification, see Exhibit 9) Is such notification taxable?

8. In connection with non-cash items, a printed slip is often attached to each item when it is forwarded for collection by the Federal reserve bank, such slip taking the place of a letter of transmittal. Acknowledgment of receipt of the item, acknowledgment that payment has been received, and authorization to the reserve bank to charge its account is made by the bank receiving it, by returning a carbon copy of the slip stamped "paid" or "debit". Is this transaction, or the returned slip, taxable? (Exhibit 10 is an example)

9. Is the result different if the collecting bank merely advises the reserve bank that it has credited the latter's account, which is an implied authorization to the latter to make a corresponding entry on its books? (Exhibit 11)

10. Promissory notes, bills of exchange and other non-cash collection items which are payable by persons located in the same city

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as the Federal reserve bank or its branch are sometimes presented by the Federal reserve bank directly to the persons by whom they are payable, and such persons give the Federal reserve banks in payment for such items checks drawn on member banks in the same city. In such cases the Reserve bank immediately presents such checks by messenger to the banks on which they are drawn and the drawee banks give the Federal reserve bank drafts against their deposit balances with the Federal reserve bank. Are such drafts subject to the tax?

11. In the circumstances described in the preceding question, the bank, instead of sending a draft, sometimes authorizes the reserve bank to charge its account. Is this transaction taxable?

COMMENTS.

It has been suggested that, under the language of the statute, the tax is levied on "instruments", and not on transactions or on debits or credits; that, in order for an "instrument" to be taxable, it must be "presented for payment" and must be a check, draft or order "for the payment of money"; and that, therefore, a mere authorization to debit the account of a bank on the books of the Federal reserve bank is not an order "for the payment of money", is never "presented for payment", and is not taxable under the statute.

The argument has also been made by some of the Federal reserve banks that the imposition of any tax on these transactions results in pyramiding the tax, since the tax has already been paid upon the checks or drafts for which payment or settlement is made by the transactions described above.

III. CLEARING HOUSE TRANSACTIONS.

The questions under this heading involve the settlement of balances resulting from exchange of checks between banks. The settlement of balances resulting from the exchange of checks through the Newark Clearing House Association, Newark, New Jersey, will illustrate this type of transaction. Each business day each bank in the Clearing House Association takes to the office of the association checks deposited with such bank drawn on other banks in the association, and messengers representing the respective banks in the association call for and receive the checks drawn on their banks. Each bank is credited with the amount of the checks drawn on the other banks which it brings to the clearing house and is debited with the amount of the checks drawn on it which other banks bring. There is a net credit or debit balance in favor of or against each bank as a result of the day's exchanges, and the aggregate of the net credit balance must, of course, be exactly equal to the aggregate of the net debit balances. The amounts of the net credit and debit balances to all banks are written on the clearing house statement for that day and this statement, signed by an officer of the Clearing House Association, is sent by messenger to the Federal Reserve Bank of New York, and the balances as shown on the statement are settled on the books of the Federal reserve bank by credits and debits to accounts of member banks. The balances in favor of or against banks which are members of the Federal Reserve Bank are

credited or debited to the accounts of such banks on the books of the Federal reserve bank. The balances for or against other banks, i. e. banks which are not members of, and therefore have no account with, the Federal reserve bank are, by arrangement between the banks concerned, credited or debited to the accounts of designated banks in New York City which are members of the Federal reserve bank. These credits and debits are made by the Federal reserve bank pursuant to continuing letters of authorization on file with it signed by the various banks. Copies of the three forms of letter of authorization used for this purpose are hereto attached and marked Exhibits 12, 13 and 14, and a copy of the form of New-ark Clearing House Association statement furnished each day to the Federal reserve bank is also attached and marked Exhibit 15.

The questions asked in this connection are:

1. Are any of the above-described transactions which consist merely in book entries, taxable?
2. Is the clearing house statement above referred to (Exhibit 15) subject to the tax?
3. Are the letters of authorization (Exhibits 12, 13 and 14) subject to tax? If so, are they taxable once, or each time an entry is made, or as to each item covered by each entry?
4. In some instances the clearing house issues certificates showing the net balances. Such a certificate is issued to a creditor bank called upon a debtor bank to pay the creditor bank the amount

stated therein. No accounts are carried in any of the clearing house banks in the name of the manager for the purpose of effecting settlement pursuant to the certificates, and these certificates are issued by the clearing house manager merely as memoranda to facilitate the settlement of balances between the members of the clearing house association. The Federal reserve bank participates in the clearings and certificates issued in its favor against member banks are charged against their deposit balances on the books of the Federal reserve bank pursuant to standing authorizations. Are such certificates subject to the tax?

5. In some instances (particularly where banks are so located as not to be in communication by messenger with the Federal reserve bank) a group of banks adopt, by agreement, the procedure of forwarding each day to each member of the group all the items they receive that are payable by or through that member of the group, forwarding to the reserve bank a form on which are listed the names of all the other members of the group together with the amount of the items that it has forwarded to each. When received by the reserve bank, this form is used as an authorization to make the appropriate entries in the accounts of the banks in the group. In practice, however, instead of making several entries, the reserve bank strikes the balance from the advices sent by all the members of the group and makes each day only one entry in each of their accounts, representing the net balance for the particular bank. Examples of these forms are attached hereto, marked Exhibits 16 and 17.

Is the use of these forms in the manner above-described taxable?

6. Are the resultant book entries made by the reserve bank taxable?

7. In certain instances, the Federal reserve bank itself acts as a clearing house, receiving the checks from the various banks, striking the balance and making the appropriate entries in the accounts of the various banks. Are these transactions taxable?

8. In certain instances the Federal reserve bank performs these services even for banks which have no account with it (i.e., banks not members of the Federal Reserve System). Where such banks are located in the same city as the reserve bank, the method adopted is for the drawee bank to send a messenger to the reserve bank to get the checks drawn on it which have been forwarded to the reserve bank for collection. The checks are immediately charged to the account of a member bank which has authorized the reserve bank to do so, and credited to the bank which forwarded them. In the event that the check is later dishonored, the book entries are reversed. Exhibits 18, 19 and 20 are copies of such authorizations. Are such authorizations taxable?

IV. MEMBER BANKS OBTAINING CURRENCY FROM RESERVE BANKS.

A member bank desiring currency usually obtains it from the Federal reserve bank, and the amount usually is debited on the books of the Federal reserve bank to the deposit balance maintained by the member bank with the Federal reserve bank as the legal reserve of the member bank. Such requests for currency and the authorizations to debit the reserve balances assume a variety of forms and give rise to the following questions:

1. Is such a request by a member bank for the shipment of currency to it taxable when made by telephone and not confirmed in writing?
2. If such a request is made by telephone but confirmed in writing after the shipment of the currency, is it taxable?
3. If a messenger sent to the Federal reserve bank delivers merely a receipt for the currency and receives the currency, is the transaction taxable? (Exhibit 21)
4. If the messenger in such a case delivers a check or draft drawn on the Federal reserve bank for the amount of the currency, is the transaction taxable?
5. If a written request for currency is accompanied by a check or draft, are both the check and the request taxable?
6. When the transaction is completed, the reserve bank frequently sends a confirmation on a printed form to the member bank. (See Exhibit 22) Is this document taxable, whether or not any other part of the transaction is taxable?

COMMENTS.

In this connection, reference has been made to the language of the court in Haverty Furniture Co. v. United States, 286 Fed. 985-986, which indicates that a mere receipt for currency delivered across the counter was not taxable under a similar provision of the Revenue Act of 1898. This principle is adopted in Article 36 of Regulation 42, dealing with Section 751 (a).

V. TRANSACTIONS INCIDENT TO REDISCOUNTS AND ADVANCES
BY FEDERAL RESERVE BANKS.

1. Federal reserve banks extend credit accommodations to their member banks: (a) By rediscounting, on the indorsement of their member banks, the commercial, industrial and agricultural paper acquired by them from their customers; and (b) by making advances to their member banks on their promissory notes secured in the manner prescribed by law. In either event, the proceeds usually are made available to the member bank by crediting the amount to the deposit balance of the member bank on the books of the Federal reserve bank. Are such credit entries taxable?

2. At the maturity of the rediscounted paper or the promissory notes of the member banks, the Federal reserve banks, pursuant to agreements or regulations previously made, return the rediscounted paper or promissory notes to the member banks and debit the amounts due thereon to the deposit balances of the member banks on the books of the Federal reserve banks. Are these transactions taxable?

3. The member bank frequently desires to have its promissory notes or rediscounted paper returned to it prior to the time when it would be returned in due course as described above. Its reason for so desiring may be, for instance, that the maker of the instrument desires to pay it before maturity, or it may be that the member bank desires to decrease the total amount of the paper rediscounted for it by the

reserve bank. In such case the member bank communicates with the Reserve Bank by letter or by telegram, requesting that the item be returned to it, and, either impliedly or actually in words, authorizing the reserve bank to debit its deposit balance on the books of the reserve bank with the amount due thereon. Are these transactions, (i.e., the book entries, the transmission of the instruments, or the communications requesting the return of the instruments and authorizing the book entries) taxable?

(See Exhibits 23 and 24, being a circular letter describing the transaction, and a printed memorandum slip in two parts, one of which is called "debit ticket". See Exhibits 25 and 26 being examples of a form of letter and a telegram asking for a change in the usual procedure.)

COMMENTS.

I am advised that it has been held by the courts that the indorsement and rediscount of commercial paper by a member bank with a Federal reserve bank results in an indebtedness owing by the member bank to the Federal reserve bank (see Federal Reserve Bank of Minneapolis v. First National Bank, 277 Fed. 300), and, of course, this is true where the member bank gives its own promissory note to the Federal reserve bank for money borrowed. It has been suggested, therefore, that, where a member bank authorizes a Federal reserve bank to debit its deposit balance with the amount due on rediscounted paper or on the promissory note of the member bank, whether due or not, the transaction is a mere offset of indebtedness between mutual creditors and that the transaction is not taxable.

VI. INTER-BANK TRANSFERS OF FUNDS.

One of the important functions of the Federal Reserve System is to facilitate the transfer of funds between banks. This function is performed (with unimportant exceptions) free of charge for members of the System. It is done as far as possible without resorting to shipments of currency.

Transfers between member banks in the same Federal Reserve District are made merely by means of entries on the books of the Reserve bank. The steps involved in such transaction are: (1) A member bank requests the reserve bank to transfer an amount on its books from the reserve account of the requesting bank to the account of another bank, (2) the reserve bank makes the transfer on its books, and (3) the bank to whose account the transfer is made is notified. If the bank to which the transfer is made is located in another District, the second step must consist in (a) a transfer from the account of the requesting bank to the account of the reserve bank for the District in which is located the bank to which the transfer is made, and (b) a transfer by that reserve bank to the account of the latter. If the latter has no account with the reserve bank, the reserve bank transfers to the account of a bank which has and which is a correspondent of the bank to which the transfer is made. For the purpose of effecting transfers between two Federal reserve banks (where the transfer is from one District to another), the Gold Settlement Fund is maintained in Washington. This fund was created by a deposit of gold by each Federal reserve bank with the Treasurer of the United States to the credit of the Federal Reserve

Board, which maintains books showing the amount due to each Federal reserve bank. The Federal reserve banks each own an undivided interest in this fund and advise the Federal Reserve Board each day of the transfers made to each other. The Board makes appropriate book entries transferring interests in the Fund equivalent to the transfers of funds made between the Federal reserve banks.

Member banks make their requests for transfers in many ways:- by letter, (Exhibit 27), telegram, (Exhibit 28) telautograph, and telephone. After the transfer has been made, the Federal reserve bank sends a memorandum of the transaction to the member bank, and executes appropriate vouchers, and makes appropriate entries on its books. Exhibit 29 attached hereto consists of a circular letter of the Federal Reserve Bank of Philadelphia dealing with such transfers and various printed memorandum slips used in connection therewith. See also Exhibit 2.

(1) Are such transfers of funds by one Federal reserve bank to another at the request of a member bank, made by means of a telegram or letter sent by one Federal reserve bank to another, taxable?

(2) Is a request for such a transfer, made by the member bank, taxable if made by telephone and not confirmed in writing?

(3) Is such a request taxable if made by telephone and confirmed in writing after the transfer has been made?

(4) If made by telautograph or telegram and not confirmed in writing?

(5) If made by telautograph or telegram and subsequently confirmed in writing?

(6) If made by letter? (Exhibit 30, See also Exhibit 31 being a printed form for such request).

(7) If such requests are taxable if made by telephone, then when a number of such requests are made in the course of one day and the Federal reserve bank makes only one book entry for the total amount at the conclusion of the day, is one tax only imposed or is each separate request taxable?

(8) In the event that a request for transfer of funds made by letter is taxable, is a letter containing a request for several transfers subject to taxation once, or several times depending upon the number of transfers requested in the letter? (In this connection it has been suggested that, if taxable at all, such requests are subject to only one tax since they are contained in one letter or memorandum).

(9) Requests for such transfers are sometimes accompanied by a draft for the amount to be transferred. Is such draft taxable?

(10) If so, is the letter transmitting the draft and making the request also taxable?

(11) Is a receipt or acknowledgment on a printed form sent by the reserve bank to the member bank in response to a letter such as is described in the preceding question (Exhibits 32, 33, 34 and 35) also taxable?

(12) When a bank located in one Federal Reserve District requests that a transfer be made to a bank located in another District, the steps incident to completing the transaction include a transfer by the Federal reserve bank of the District in which the requesting bank is located to the Federal reserve bank of the District in which the transferee bank is located and a transfer from the latter reserve bank to the transferee

bank, both transfers being accomplished by means of book entries in the accounts of the respective banks. Is the latter transfer taxable?

(13) Transfers are also made by Federal reserve banks between two member banks located in its district. Requests for such transfers take the same forms as the transfers described above, but such transfers are accomplished merely by means of book entries in the reserve accounts of the two banks involved. Are such transfers taxable when the requests are made in any of the different ways described above, (including messenger, telephone, written memorandum, etc.)?

VII. TRANSFERS TO 5% REDEMPTION FUND, WAR LOAN DEPOSIT
ACCOUNT AND RECONSTRUCTION FINANCE CORPORATION.

National banks issuing national bank notes are required by statute to maintain with the Treasurer of the United States a Redemption Fund equal to 5% of their notes in circulation. When necessary, a national bank will in most instances make additions to its 5% Redemption Fund by requesting the Federal Reserve Bank of its district to transfer the required amount to the account of the Treasurer of the United States. Such requests are made substantially in the following form: "Please charge our account \$---- and credit the Treasurer of the United States for the account of our 5% Redemption Fund". The reserve banks prepare "debit tickets" covering the necessary book entries and send copies, or similar slips, to the member banks for their records. Samples of such forms are attached, marked Exhibits 37 and 38.

1. Is such a request taxable?

2. Sometimes such a request is accompanied by a draft. Is the draft or the written request taxable?

It has been contended by some of the reserve banks that such transfers to officers of the United States are not taxable in any event.

3. Similar questions are also raised with regard to transfers from the reserve account of a member bank to the Treasurer of the United States as payments on the War Loan deposit of the bank giving the direction (representing its subscription to United States securities.)

4. From time to time borrowing institutions repay on advances made by the Reconstruction Finance Corporation, doing so (a) by means of instructions to the Reserve bank to charge the borrowing bank's account and to credit the Treasurer of the United States for account of the Reconstruction Finance Corporation, and (b) by means of drafts. Debit tickets are prepared by the reserve bank and similar slips are forwarded to the requesting bank for its records. (Exhibit 39) Are either the instructions, the debit tickets and slips, or the drafts taxable?

VIII. MISCELLANEOUS TRANSACTIONS.(a) Purchase of Securities by Reserve Banks on Behalf of Member Banks.

Member banks frequently request reserve banks to purchase Government or other securities, or bankers' acceptances for them, authorizing the reserve bank, either impliedly or specifically, to charge their reserve account with the cost. Such requests are made in a variety of ways.

1. Is such request taxable if made by telephone and not confirmed in writing?

2. If made by telephone and subsequently confirmed in writing?

3. If made by letter not specifically authorizing the reserve bank to charge the account of the requesting member bank?

4. If the request described in the preceding question contains a specific authorization to charge the member bank's account?

5. If the reserve bank, when the transaction is completed, sends to the member bank a memorandum confirming the transaction and stating the amount of the charge, is such confirmation taxable? (Exhibit 40).

(b) Incidental Expenses, Telephone Calls, etc.

6. In connection with transactions of this type as well as numerous others, the reserve banks have occasion to charge the accounts of member banks, without specific authorization, with

expenses incurred in connection with telephone, telegraph, shipping charges on securities, etc. The member bank is notified by sending to it a copy of the "debit ticket" made out by the operating department which incurred the expense, or else a list of the expenses which have been charged to its account is sent to the member bank at the end of the month. Are such "debit tickets", book entries or memoranda taxable?

7. Are telephone calls and telegrams subject to a tax when they pertain to Fiscal Agency or Reconstruction Finance Corporation business when the cost falls directly on the Treasury Department or the Reconstruction Finance Corporation?

(c) Member Bank Subscriptions to Stock of Federal Reserve Banks.

8. All banks which are members of the Federal Reserve System are required to subscribe to the capital stock of the Federal reserve bank in an amount equal to 6% of their own unimpaired capital and surplus. As a member bank's capital and surplus accounts are increased it is necessary to subscribe for a proportionate increase in its holdings of Federal reserve bank stock. Infrequently, drafts are drawn in favor of the Federal reserve bank for these payments. Usually when subscribing for this additional stock the member bank authorizes a charge to its account. (See Exhibit 41). In the latter case, is the transaction taxable?

(d) Correction Entries.

9. Member and nonmember banks make deposits of coin or currency with the reserve bank, receiving immediate credit subject to

verification. Occasionally in process of verification the Reserve Bank finds counterfeits and shortages for which a debit is prepared (Exhibit 42) and charged to the depositing bank's account. Are such entries taxable?

10. A similar question is raised with regard to maturing coupons deposited with the reserve bank. When mutilated or unmaturing coupons are discovered, the coupons are returned to the depositing bank and charge made to its account. (Exhibit 43) Are such transactions taxable?

(e) Penalty for Insufficient Reserves.

At periodic intervals an analysis is made of each member bank's reserve account to determine whether adequate reserves have been carried during the period, as required by the Federal Reserve Act. If the reserves have not been properly maintained, a penalty is assessed pursuant to the Federal Reserve Act and the regulations of the Federal Reserve Board. The penalty is charged to the reserve account of the member bank by the Reserve bank itself. (Exhibit 44). Is such a charge taxable?

Rulings at the early convenience of your Department on the the questions herein presented will be greatly appreciated. If further information is desired respecting any of the transactions described in this letter it will be furnished promptly on request; and, if conferences with the Board's General Counsel or with

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officers or counsel of the Federal reserve banks are desired, they can be arranged on short notice.

Very truly yours,

(Signed) Eugene Meyer.

Eugene Meyer
Governor

GHC/WW/gc/omc/mw