

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal Reserve Banks)

December 9, 1933.

Dear Mr. _____:

This is in reply to your letter of November 8, 1933, with inclosures, in which you request a ruling upon the question whether the absorption by member banks of the Federal Reserve System of the tax imposed upon bank deposits by the laws of Indiana is in violation of the provision of Section 19 of the Federal Reserve Act which forbids a member bank to pay interest, directly or indirectly by any device whatsoever, on any deposit which is payable on demand.

Under the Indiana Intangibles Tax Acts, a copy of which was inclosed with your letter, it appears that the deposits of every bank in Indiana are assessed to the respective owners thereof and taxed at the rate of 25¢ per annum upon each \$100 or fractional part thereof and that such taxes are computed according to the amounts on deposit in such banks on the last day of each month in each year. Each bank, at its election, may pay the taxes assessed against its depositors or, if it elects not to pay such taxes, is required to deduct the amount thereof from the deposits against which such taxes are assessed or from interest thereon and to pay the amount so deducted to the county treasurer. It is understood that such taxes represent a certain per-

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centage of the funds on deposit on the last day of each month and have no relation either to the average amount on deposit for any given period of time or to the length of time for which the bank has the use of the money.

After consideration of the matter, the Federal Reserve Board is of the opinion that the absorption by member banks of the Indiana tax on deposits as an operating expense of each bank does not, in itself and in the absence of special factors in particular cases which might indicate the contrary, constitute a payment of interest by such banks and is not inconsistent with that provision of Section 19 of the Federal Reserve Act which forbids any member bank, directly or indirectly by any device whatsoever, to pay any interest on any deposit which is payable on demand. The Board is also of the opinion that the amount of such taxes so absorbed need not be taken into consideration in determining whether member banks are paying interest on time deposits at a rate in excess of the limitations prescribed by the Federal Reserve Board pursuant to that provision of Section 19 of the Federal Reserve Act which requires the Board from time to time to limit by regulation the rate of interest which may be paid by member banks on time deposits.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.