

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9737



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 14, 1936.

Dear Sir:

As you probably know, the Revenue Act of 1936 provides that holding company affiliates shall be allowed a special credit for the purpose of the surtax on undistributed profits and on the income of corporations improperly accumulating surplus. Such credit is provided in section 26(d) of the Act which reads as follows:

"(d) Bank Affiliates.--In the case of a holding company affiliate (as defined in section 2 of the Banking Act of 1933), the amount of the earnings or profits which the Board of Governors of the Federal Reserve System certifies to the Commissioner has been devoted by such affiliate during the taxable year to the acquisition of readily marketable assets other than bank stock in compliance with section 5144 of the Revised Statutes. The aggregate of the credits allowable under this subsection for all taxable years shall not exceed the amount required to be devoted under such section 5144 to such purposes."

Inclosed herewith is a copy of the section of the regulations of the Commissioner of Internal Revenue which relates to such credit. Your attention is called to the fact that, according to the regulations, the credit is allowed only to holding company affiliates which hold general voting permits at the end of the taxable year. In view of this fact, it is possible that certain holding company affiliates which have not heretofore received general voting permits will desire to do so

prior to the end of the calendar year, which is understood to be the taxable year for most, if not all, such organizations. If such is the case, it is essential that steps be taken at once to review the applications of such holding company affiliates and to obtain and analyze supplemental information, in order that the Board will be in a position to determine whether it may properly grant such permits.

Accordingly, it is suggested that you bring the pertinent provisions of the Revenue Act of 1936 and the Commissioner's regulations to the attention of the holding company affiliates in your district which have voting permit applications pending, and ascertain whether they desire to have immediate consideration given to the granting of general voting permits. In any case in which a general voting permit is desired, please advise the Board at once, furnishing to it as promptly as possible such information as is necessary to bring the application up to date, together with your recommendations.

If there are any holding company affiliates in your district which do not have voting permit applications pending and have not received general voting permits or been determined not to be engaged as a business in holding the stock of, or managing or controlling, banks, it is suggested that this matter also be brought to their attention in order that they may file applications for voting permits immediately if they desire to have them considered before the end of the year.

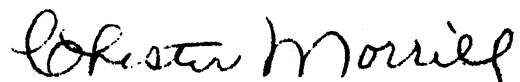
For the information of the holding company affiliates which hold general voting permits, it may be desirable to direct their

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attention also to the pertinent provisions of the Revenue Act of 1936 and the Commissioner's regulations.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

EXCERPT FROM REGULATIONS 94 OF THE BUREAU OF INTERNAL REVENUE
OF THE DEPARTMENT OF THE TREASURY OF THE UNITED STATES
RELATING TO SPECIAL CREDIT ALLOWED HOLDING
COMPANY AFFILIATES UNDER THE PROVISIONS
OF SECTION 26(d) OF THE REVENUE ACT OF 1936

Art. 26-3. Bank affiliates.-- The credit provided in section 26(d) is allowed --

(1) to a holding company affiliate of a bank, as defined in section 2 of the Banking Act of 1933, which holding company affiliate holds, at the end of the taxable year, a general voting permit granted by the Board of Governors of the Federal Reserve System;

(2) in the amount of the earnings or profits of such holding company affiliate which, in compliance with section 5144 of the Revised Statutes, has been devoted by it during the taxable year to the acquisition of readily marketable assets other than bank stock;

(3) upon certification by the Board of Governors of the Federal Reserve System to the Commissioner that such an amount of the earnings or profits has been so devoted by such affiliate during the taxable year.

No credit is allowable either for the amount of readily marketable assets acquired and on hand at the beginning of the first taxable year subject to the Revenue Act of 1936 or for an amount of readily marketable assets in excess of what is required, by such section 5144, to be acquired by such affiliate.

Every taxpayer claiming and making a deduction for the credit provided for in section 26(d) shall attach to its return a supplementary statement, in duplicate, setting forth all the facts and information upon which the claim is predicated, including such facts and information as the Board of Governors of the Federal Reserve System may prescribe as necessary to enable it, upon the request of the Commissioner subsequent to the filing of the return, to certify to the Commissioner the amount of earnings or profits devoted to the acquisition of such readily marketable assets. A certified copy of such supplementary statement shall be forwarded by the taxpayer to the Board of Governors at the time of the filing of the return. The holding company affiliate shall also furnish the Board of Governors such further information as the Board shall require. For the requirements with respect to the amount of such readily marketable assets which must be acquired and maintained by a holding company affiliate to which a voting permit has been granted, see subsections (b) and (c) of section 5144 of the Revised Statutes (paragraph 56 of the Appendix to these regulations).