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TREASURY DEPARTMENT

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, April 7, 1942.
4/6/42

Press Service
No. 31-0

During the month ended March 31, 1942, authorizations were issued to receivers for payments of dividends to the creditors of fifteen insolvent national banks. Dividends so authorized will effect total distributions of \$3,293,753 to 97,062 claimants who have proved claims aggregating \$41,393,487, or an average payment of 7.96 percent. The minimum and maximum percentages of dividends authorized were 4.45 percent and 12.69 percent, while the smallest and largest payments involved in dividend authorizations during the month were \$31,553 and \$834,900, respectively. Of the fifteen dividends authorized during the month, twelve were for final dividend payments and three were for final and partial interest dividend payments. Dividend payments so authorized during the month ended March 31, 1942, were as follows:

DIVIDEND PAYMENTS TO CREDITORS OF INSOLVENT NATIONAL
BANKS AUTHORIZED DURING THE MONTH ENDED
MARCH 31, 1942

<u>Name and Location of Bank</u>	<u>Nature of Dividend</u>	<u>Date Authorized</u>	<u>Number and Percentage of Dividend Authorized</u>	<u>Distribution of Funds by Dividend Authorized</u>	<u>Total Percentage Authorized Dividends to Date</u>	<u>Number of Claimants</u>	<u>Amount Claims Proved</u>
Commercial National Bank Washington, D. C.	Final	3-23-42	5th 12.57%	\$ 703,200	82.57%	11,227	\$ 5,594,500
Seventh Street Savings Bk Washington, D. C.	Final Partial	Int. 3-19-42	5th 11.8 %	124,100	106.8 %	2,695	1,052,100
The National Bank of Pontiac, Illinois	Final	3-18-42	6th 7.15%	52,200	72.65%	2,766	729,500
The Rockford Nat'l Bk Rockford, Illinois	Final	3-9-42	7th 12.69%	456,700	84.69%	11,887	3,598,500
The Citizens Nat'l Bk of Kokomo, Indiana	Final	3-13-42	7th 3.53%	78,500	90.197%	6,919	2,387,000
Peoples-Ticonic Nat'l Bk Waterville, Maine	Final	3-17-42	5th 4.32%	233,000	89.32%	10,085	5,393,800
The Ticonic Nat'l Bank Waterville, Maine	Final	3-6-42	2nd 5.736%	31,553	16.736%	1	550,087
The American NB & Tr Co Benton Harbor, Mich.	Final Partial	Int. 3-10-42	8th 5.0 %	75,700	101%	4,500	1,514,900
The Commercial NB & Tr Co St. Joseph, Michigan	Final	3-10-42	7th 5.99%	143,500	76.49%	5,697	2,396,100

DIVIDEND PAYMENTS TO CREDITORS OF INSOLVENT NATIONAL
BANKS AUTHORIZED DURING THE MONTH ENDED
MARCH 31, 1942
Continued

<u>Name and Location of Bank</u>	<u>Nature of Dividend</u>	<u>Date Authorized</u>	<u>Number and Percentage of Dividend Authorized</u>	<u>Distribution of Funds by Dividend Authorized</u>	<u>Total Percentage Authorized Dividends to Date</u>	<u>Number of Claimants</u>	<u>Amount Claims Proved</u>
The Diamond Nat'l Bank Pittsburgh, Pennsylvania	Final	3-31-42	5th 9.92%	\$ 834,900	84.92%	20,142	\$ 8,416,100
The Duquesne Nat'l Bk Pittsburgh, Pennsylvania	Final	3-26-42	6th 4.45%	154,200	94.45%	2,791	3,466,900
The First Nat'l Bk of Verona, Pennsylvania	Final	3-24-42	5th 6.5%	99,400	69.0%	5,245	1,529,600
The Central Nat'l Bank Spartanburg, S. C.	Final Partial Int.	3-18-42	7th 7.38%	120,700	102.38%	4,871	1,635,600
First Nat'l Bank Spartanburg, S. C.	Final	3-27-42	6th 7%	112,200	74%	4,250	1,602,600
First National Bank Logan, West Virginia	Final	3-24-42	6th 4.84%	73,900	79.84%	3,986	1,526,200

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, April 6, 1942.

Press Service
No. 31-1

Secretary of the Treasury Morgenthau today announced that the subscription books for the current offering of 1/2 percent Treasury Certificates of Indebtedness of Series A-1942 will close at the close of business today, April 6.

Subscriptions addressed to a Federal Reserve Bank, or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Monday, April 6, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Friday, April 10.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, April 7, 1942.
4/6/42

Press Service
No. 31-2

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 72-day Treasury bills, to be dated April 8 and to mature June 19, 1942, which were offered on April 3, were opened at the Federal Reserve Banks on April 6.

The details of this issue are as follows:

Total applied for - \$333,669,000
Total accepted - 150,414,000

Range of accepted bids: (Excepting one tender of \$20,000)

High	- 99.970	Equivalent rate	approximately	0.150	percent
Low	- 99.944	"	"	0.280	"
Average					
Price	- 99.947	"	"	0.264	"

(91 percent of the amount bid for at the low price was accepted)

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, April 7, 1942.

Press Service
No. 31-3

The Bureau of Customs announced today that due to changes in classification upon appraisement of Peruvian cotton authorized for entry to the extent of the quotas for the twelve months commencing September 20, 1941, provided for in the President's proclamations of September 5, 1939, and December 19, 1940, these quotas are now found to be unfilled, as follows:

	<u>Established Quota (Pounds)</u>	<u>Approximate Unfilled Balance - (Pounds)</u>
Peruvian cotton of less than 1-1/8 inches staple (other than harsh or rough cotton of less than 3/4 inch staple chiefly used in manufacture of blankets and blanketing, and other than linters)	247,952	151,000
Peruvian cotton of 1-1/8 inches or more but less than 1-11/16 inches staple (other than linters)	2,056,299	146,000

To afford importers an equal opportunity to present for quota allocation Peruvian cotton which may be awaiting entry under the quotas, the collectors of customs have been instructed to provide for the simultaneous presentation of entries for consumption and warehouse withdrawals for consumption covering such cotton on April 15, 1942, at 12 noon, Eastern War Time, 11 A. M., Central War Time, 10 A. M., Mountain War Time, and 9 A. M., Pacific War Time.

If entries and withdrawals for consumption presented at that moment of time cover quantities of Peruvian cotton in excess of the quotas, the quantities which may be admitted to entry under the quotas will be prorated on the basis of the quantities presented for entry. If the quotas are not filled at the moment of reopening, entries and withdrawals presented thereafter will be authorized for acceptance within the quotas in the order of the time of their presentation in proper form. No quota status will attach at the reopening of the quotas by reason of the presentation of an entry or withdrawal prior to April 15, 1942.

Statement of Randolph Paul,
Tax Adviser to the Secretary of the Treasury,
Before the Committee on Ways and Means
of the House of Representatives
on percentage depletion and related allowances

April 16, 1942

In statements before your committee on March 3, 1942, the Treasury recommended the elimination of (1) percentage depletion and (2) the privilege available to the oil and gas and mining industries of expensing development costs.^{1/} Several witnesses have appeared before your committee in opposition to these recommendations. I should like now to present evidence supporting the Treasury's position and to refute the arguments made by the representatives of these industries in favor of existing provisions of the statute.

I. ELIMINATION OF PERCENTAGE DEPLETION

The Treasury believes that the favored treatment to a particular industrial group involved in percentage depletion should not be retained in an all-out war tax

^{1/} For oil and gas wells, the Regulations give the taxpayer the option of charging "intangible development costs" to expense, or to capital account to be recovered through depletion. The Regulations define "intangible development costs" as "wages, fuel, repairs, hauling, supplies, etc., incident to and necessary for the drilling of wells." [Regulations 103, Sec. 19.23 (m)-16]

For mines, the Regulations provide that all development costs may be charged to expense except development costs in excess of receipts while the mine is in the development stage. The latter shall be charged to capital account recoverable through depletion. [Sec. 19.23 (m)-15]. Development costs for mines are expenditures incurred in the development of the mine other than expenditures on depreciable property.

program. Percentage depletion does not appreciably stimulate exploration and discovery. It is not essential to the maintenance of the output of stripper wells. Its elimination will in no way endanger the supply of raw materials needed for the war effort. The continuance of the special privilege involved in percentage depletion would allow the oil and mineral industries to escape their fair share of the tax burden at a time when millions of small taxpayers are being asked to save and sacrifice for the winning of the war. The continuance of the provision at such a time cannot but adversely affect the morale of the American taxpayer.

It is estimated that at 1942 business levels and proposed 1942 tax rates the elimination of percentage depletion and the substitution of cost depletion will increase the revenue by \$117 million. ^{1/} Approximately 75 percent of this total is accounted for by oil and gas properties, the rest by sulphur, metal, and coal mines.

A. Percentage depletion is a special privilege

The 1941 Revenue Act levied a combined normal and surtax rate of 31 percent on the net income of corporations in excess of \$25,000. In addition, an excess profits tax was imposed with rates ranging up to 60 percent. Yet many oil companies pay extremely low income taxes, and most oil companies pay no excess profits taxes. Some actual examples of oil companies that made provision for Federal income taxes of less than 31 percent of net income are listed in Exhibit 1. Each of the four major oil companies listed in that exhibit set aside for Federal income and excess profits taxes less than 26 percent of its 1941 net income reported to stockholders. The 13 minor companies, which generally speaking were engaged more exclusively in production, set aside an even smaller part of income, the percentage varying from 18 percent to as little as 2 percent.

The striking difference between the percentage of income absorbed by taxes for these companies and the

^{1/} At existing rates the revenue increase is estimated at \$87 million.

statutory tax rates is to some extent attributable to differences between book income and taxable income common to all corporations. In the main, however, it is attributable to the special percentage depletion. The companies ordinarily report depletion to their stockholders on a cost basis, but receive for tax purposes a very much larger allowance of percentage depletion.

Despite the statutory provision limiting percentage depletion to 50 percent of the net income from each property, the use of percentage depletion instead of cost depletion enables many companies to cut their taxable income by much more than 50 percent. ^{1/} Exhibit 2 gives a few actual examples. For the first two companies cited, percentage depletion converted sizable net incomes into deficits, for the third company, it reduced net income by more than 75 percent, for the fourth company, it almost completely wiped out net income. The examples given in this exhibit are not untypical.

The amount freed from taxation through percentage depletion bears little or no relation to the actual cost of the depleted property. Percentage depletion continues even after 100 percent of the cost of the property has been recovered. For example, one of the leading oil companies in the East Texas field still has in the ground more than three-quarters of the original oil reserves in 10 oil properties. Yet this company has recovered through percentage depletion, and the related option to expense intangible development expense, more than the entire cost of the property

^{1/} Reductions in taxable income by more than 50 percent, despite the statutory limitation, are possible because the law specifies that percentage depletion be computed with respect to each property separately. Consequently, after the taxable income of properties showing net income has been reduced by a maximum of 50 percent by depletion allowances, it can be reduced still further by the deduction of losses on other properties.

and of intangible development. If, on the remaining reserves, this company should obtain depletion allowances at the rate enjoyed thus far, the aggregate deductions for depletion would approximate five times the cost of the properties, and the aggregate deduction for both depletion and intangible development costs would approximate three times the cost of the properties plus intangible development costs. (Exhibit 3)

B. The elimination of percentage depletion will not endanger the supply of raw materials needed for the war effort

The claim that the elimination of percentage depletion will endanger the supply of raw materials needed for the war effort cannot be accepted.

1. The oil industry

a. Production and reserves. The production of crude oil in 1941 was the highest in our history. At the same time the known reserves of crude oil increased to an all-time high. Total reserves of 20.3 billion barrels were about fifteen times the output in 1941. (Exhibit 4) Even the record output of 1.4 billion barrels in 1941 was below the maximum achievable. The production of oil in at least some States, including Texas, is still proceeding under proration regulations designed to reduce output to probable market demand.

While military requirements for oil products in 1942 will increase very substantially over 1941, civilian consumption will decrease greatly because of the transportation and rubber shortage, so that total consumption is not likely to expand and may even decline. The loss of oil-producing areas in the Far East will throw a greater burden upon American oil resources; but the shortage of tankers will make it necessary to replace the supplies formerly produced in these areas by restricting civilian consumption rather than by expanding production in this country. Recent increases in the seriousness of the transportation shortage have already led to a reduction

of production. The Office of Petroleum Coordinator early in March ordered a widespread reduction in output throughout the Southwest. 1/ Later, the State authorities in Texas ordered 18 shutdown days in April. This marks the first time in the history of proration in Texas that the oil wells have been ordered to shut down for more days than they are permitted to produce. 2/ It is clear that the problem of oil supply is a problem of transportation and not of production or limited reserves.

b. Stripper wells. Witnesses opposing the Treasury's recommendations have claimed that their adoption would lead to the widespread abandonment of stripper wells -- the wells with relatively low output and high cost of production. Clearly, the elimination of percentage depletion would not have any such effect. Most stripper wells produce small amounts of oil under conditions that leave little or no book profit. The operators of such wells get little, if any, benefit from percentage depletion because of the statutory limitation of percentage depletion to 50 percent of net income from the property. The continued operation of these properties cannot be dependent on the continuance of percentage depletion. They are continued in operation because current revenues exceed "out of pocket" costs, although they may not exceed total cost, including depreciation, depletion, and overhead.

In a sample study, based on the tax returns for a large number of properties in Pennsylvania, it has been found that of the properties producing fewer than 400 barrels a year nearly one-half showed no net income even before any allowance for depletion. These properties get no percentage depletion under existing law. Other properties get only a negligible amount of depletion because of the 50 percent net income limitation. Only one out of twelve properties got percentage depletion equal to 27-1/2 percent of gross income, the maximum amount allowed by

1/ Wall Street Journal, March 5, 1942.

2/ Oil and Gas Journal, April 2, 1942, p. 16.

existing law. In order to qualify for this maximum percentage depletion allowance, these properties had to have net incomes in excess of two times 27-1/2 percent or 55 percent of gross income. Such a large margin of profit is not characteristic of the stripper well. The salvation of the stripper well industry lies in advances in crude oil prices rather than the percentage depletion provision.

In support of the claim that the elimination of percentage depletion would lead to the abandonment of stripper wells, it has been maintained that the provision for percentage depletion introduced in the Revenue Act of 1926 led to a substantial increase in production from the eastern part of the United States. It is true that there was a substantial increase in the production of crude oil in Pennsylvania and New York after 1926. However, this increase seems directly traceable to the development of water flooding methods, methods that were first permitted by local law in 1921. ^{1/} The resulting increase in production manifested itself prior to the enactment of percentage depletion. Between 1921 and 1926 there was a steady increase in production, the increases being minor from 1921 to 1924, but substantial from 1924 to 1925, and again from 1925 to 1926. Naturally, the full effect of this new technique for extracting oil was not felt at once and continued to operate after 1926. (Exhibit 5)

c. The effect of price. The effect of percentage depletion on production is negligible compared to the effect of price changes. In 1941 the tax relief attributable to percentage depletion amounted to about 5 cents per barrel of oil. In that year the price of oil went up 8 cents a barrel. In Pennsylvania it rose by even more -- since August, 1940, by 90 cents a barrel including a recent increase of 25¢ per barrel granted by the Office of Price Administration to stimulate output in that area.

^{1/} Pennsylvania Statutes 1920, 16, 268a-3, Acts 1921, p. 912,3 (amended 1929, page 821).

2. The mining industry

The conditions of supply vary widely for different metals. Some are in abundant supply; others are limited as to known deposits; still others, like aluminum and manganese, are limited by the availability of power, processing plants, and materials for exploitation, for example, explosives and mining equipment made of steel.

These variations in supply conditions have been recognized by the agencies dealing with the problem of war production. In the case of some metals, premium prices have been established to stimulate production; in other cases direct assistance in adding to equipment for recovery has been extended. This approach clearly indicates the diversity of situations in the mineral industry and the difficulty of trying to accomplish specific results by any general tax relief such as percentage depletion.

Representatives of the mining industry have pointed out that the acceleration of production for war purposes will subject the industry to greatly increased income and excess profits taxes at the time when it is exhausting reserves that might be produced in later years under lower tax rates. The Treasury is aware that producers of exhaustible mineral resources face a special problem in increasing production by using available reserves, and is studying methods of providing appropriate relief under the excess profits tax. This problem, which involves both price policy and tax policy, affects all producers in the industry and not only the relatively few who now benefit from percentage depletion. Any solution of this problem should be applicable to the large number of producers who now get no benefit from percentage depletion as well as to those who do.

C. Percentage depletion cannot be justified as a stimulus to exploration and discovery

The original enactment of discovery depletion in 1918 was prompted by a fear of mineral shortages and the desire of Congress to stimulate the discovery of mineral

properties and compensate for the hazard involved in prospecting. 1/ The shift to percentage depletion in 1926 was in the interest of simplicity of administration; problems involved in determining which taxpayer was entitled to the benefit of the discovery, the exact date when the discovery was made, and the value of discovery wells within 30 days of discovery were difficult and led to extensive controversy.

We now know that the 1918 fear of oil shortages was unfounded. It is also clear that we did not need this special discovery provision to obtain exploitation of our natural resources, and that the provision has been extremely costly in terms of the revenue. It is not true that the development occurring between 1918 and the present time has been the result of tax incentives. It has been due principally to high prices and improvements in the technique of discovery.

1. The oil industry

a. The importance of other factors. The tremendous post-war expansion of the oil industry is attributable to the factors mentioned and not, as witnesses before your Committee have claimed, to the enactment of the discovery depletion provision by Congress in the 1918 Act. During this period the automobile industry expanded enormously. The extended use of automotive transportation created a strong demand for oil products which led, in turn, to a high level of crude oil prices; it also stimulated technical advances to raise the gasoline recovery ratio. It was these factors, and not percentage depletion, that accounted for the increase in reserves and in output.

i. The influence of price. The importance of the price of oil products in stimulating or retarding the search for oil is clearly revealed by Exhibit 6

1/ Senate Report No. 617, 65th Cong., 3rd Session, p. 6.
Senate Document No. 280, 65th Cong., 2nd Session,
p. 6.

and Chart 1 which shows for the period 1917 to 1941 the number of wells drilled and the average price of oil per barrel. In all except five of the twenty-five years covered by the exhibit the number of wells drilled changed in the same direction as the average price per barrel, rising when the price rose and declining when the price declined.

ii. The influence of technical developments.

While price changes have been the major stimulus to the search for new oil the effectiveness of this search has also depended in large part upon developments in the technique of discovery and on pure chance. Immediately after the first World War there was a great advance in the application of scientific knowledge to the discovery of oil. According to a study by the National Research Project, scientific approaches have accounted for an increasing proportion of oil discoveries, while wildcatting based on "hunches" has become relatively less significant. According to this study, the ultimate production from wells discovered by scientific methods between 1922 and 1938 was estimated at about 14 billion barrels, whereas the corresponding figure for wells discovered by other methods was only slightly over 5 billion barrels. (Exhibit 7) The application of scientific knowledge to the search for oil has not, however, reduced the discovery of oil to a routine matter. The unusual strike, such as that in East Texas, respects neither price nor technology. Such exceptionally fortunate discoveries of large pools are naturally irregular. Provisions enacted in the law cannot make them otherwise.

iii. The influence of war priorities. Percentage depletion should be a particularly negligible factor in the discovery of oil during the war period. The shortage of steel has led the War Production Board to restrict the use of steel in drilling oil wells to such an extent that drilling will be curtailed by about 40 percent in 1942. This restriction is limited primarily to the drilling of development wells rather

Chart I

NUMBER OF WELLS DRILLED FOR OIL AND GAS AND PRICE OF CRUDE PETROLEUM, 1917 - 1941



Source: See Exhibit 6
p = preliminary

than discovery or wildcat wells. The latter have been granted a priority rating of A-2, the former of A-8. In addition, the Office of Petroleum Coordinator is urging the industry to drill at least 4,000 wildcat wells in 1942 compared with 3,100 drilled last year, even though the total number of wells drilled will probably be reduced from 32,000 in 1941 to fewer than 19,000 in 1942. The forced restriction in the drilling of development wells will release substantial funds for the drilling of the wildcat wells. The saving from the drilling of fewer development wells in 1942 will exceed the cost of all wildcat wells expected to be drilled in 1942. The shortages necessitating curtailments in the drilling of development wells are likely to continue, and, indeed, to be intensified during the entire war period.

b. The ineffectiveness of percentage depletion as a stimulus to the prospector

Even if percentage depletion contributed to the stimulation of exploration and discovery -- and we do not agree that it does -- it would be an extremely wasteful and costly method. It would have been cheaper for the Government to have paid the entire cost of drilling all the dry holes classified as wildcat wells in 1941. The estimated cost of drilling these holes was about \$50 million, 1/ the estimated loss in revenue

1/ At the Hearings on the Cole Bill reported in Oil Weekly for March 2, 1942, (p. 14), it was estimated that in 1941, 3,113 wildcat wells were drilled of which 486 were successful, and 2,627 were dry holes. At an average drilling cost of \$17,300 per hole (reported for 1935 in Petroleum and Natural Gas Production, National Research Project, Works Progress Administration, p. 203) these dry holes involved an expenditure of \$45,447,000. At an average cost per hole of \$20,000 (an outside figure allowing for possible increases in cost) the 2,627 dry holes in 1941 represented a total drilling cost of \$52,540,000.

from percentage depletion attributable to oil and gas wells was more than \$65 million. The reason why percentage depletion is so ineffective a stimulus is that a large part of the benefit accrues not to prospectors but to operators and royalty owners.

i. The operator. Twenty major integrated companies have been reported to account for about 53 percent of the total crude petroleum production of the United States. While data for these 20 companies are not available, it was estimated that the major companies in 1941 accounted for only 25 percent of the wildcat wells drilled and 36 percent of the footage drilled. ^{1/} Their share in the direct benefits of percentage depletion is much larger than their share in the prospecting for new oil, since they frequently purchase properties with potentialities which have been established by the activities of independent prospectors.

ii. The royalty owner. Royalty owners who bear little or none of the cost of prospecting obtain disproportionate benefits from percentage depletion. They have little or no investment to charge against income, which makes the percentage depletion allowance particularly valuable to them. The benefits of percentage depletion to royalty owners are confined largely to taxpayers having ownership prior to the discovery of oil. Purchasers of royalty interests in developed properties ordinarily pay a sufficiently high price to entitle them to larger depletion allowances under cost depletion than under percentage depletion.

c. Other provisions favoring the prospector

There are several statutory provisions designed to provide relief to the prospector. The Mineral Lands Leasing Act of 1920 provides that successful completion of a well on the public lands entitles the prospector

^{1/} Hearings on the Cole Bill reported in Oil Weekly for March 2, 1942.

to a lease at a royalty rate of 5 percent -- less than half the customary commercial royalty of $12\frac{1}{2}$ percent. Section 105 of the Internal Revenue Code limits the surtax imposed by Section 12 to 30 percent of the selling price in the case of an oil or gas property, the principal value of which has been demonstrated by discovery work done by the taxpayer. Finally, Section 721 of the Code provides for relief under the excess profits tax in the case of abnormal income resulting from exploration, discovery, and prospecting.

2. The mining industry

The unimportance of percentage depletion in stimulating discovery and exploration is even clearer with respect to the mining industry than in the case of the oil industry. The development of mining properties in the field of the basic metals has passed beyond the stage of prospecting risk and adventure, and has settled down to a predictable, scientific, and commercial business enterprise involving the use of low-grade ores.

Except for the metals that have more recently become of commercial importance, domestic deposits of high grade ores were fully explored many years ago. Growing demand and technological development, further stimulated by the war emergency, have led to more extensive exploration of low-grade ores. This cannot be termed "discovery", since the deposits for the most part have been known to exist. A recent proposal by the Secretary of the Interior calls for a program of extensive exploration of additional low-grade ores -- to be carried out at Government expense. ^{1/} Moreover, most mineral deposits -- including metals of more recent commercial importance -- are not developed by original prospectors; their development requires large amounts of capital and is of necessity undertaken by established enterprises.

^{1/} Department of the Interior, Press Release, February 16, 1942.

D. Percentage depletion cannot be justified by any special risks in the oil industry

The hazardous character of the oil industry has been cited as a reason for retaining the specially favorable tax treatment accorded the industry through percentage depletion. The possibility that percentage depletion may permit the recovery of considerably more than the actual cost of exploration and development of a productive well has been said to be justifiable on the ground that the excess is needed to compensate for the cost incurred in connection with wells that never become productive.

The answer is that percentage depletion is largely ineffective in accomplishing the desired objective and that the law contains other provisions for the offsetting of losses against gains. Further, the past two decades have seen changes in the organization of the oil industry that have made it better able to bear the risks of prospecting. Larger companies have become more important and have shouldered a larger part of the costs of prospecting.

a. Provisions for the offsetting of losses against profits

Percentage depletion is of no help to the operator who loses his capital in repeated unsuccessful ventures, since he gets the benefit of percentage depletion only if he develops property that yields a net income. On the other hand, the operator who engages in both successful and unsuccessful ventures is permitted, both under the present law and the Treasury's proposals, to offset the cost of dry holes and unproductive leases against current income from productive property; he may also carry forward operating losses for two years. Consequently, even without percentage depletion, provision is made for the offsetting of losses on unsuccessful ventures against gains in successful ventures. No satisfactory reason has been offered why one operator should be permitted to recover more than his capital investment because another has lost his capital.

b. Changes in the structure of the industry

During the twenty years of discovery and percentage depletion the structure of the oil industry has changed substantially. The industry is now in a much better position to offset losses against income from successful wells, and thus to distribute the prospecting risk. Domestic production of crude petroleum in 1941 was about four times as great as in 1918. The estimated investment in crude petroleum production of \$5.7 billion in 1935, together with investment in transportation, refining, and marketing, makes the combined petroleum industry the fourth largest in the country in terms of investment. (Exhibit 8) The gross investment in petroleum properties, plant and equipment more than doubled from 1921 to 1938, increasing from \$6.5 billion to \$14.8 billion. (Exhibit 9)

This increase in the size of the industry has been accompanied by the integration of production with transportation, refining and marketing with the result that the risks of prospecting are actually distributed over a very large aggregation of capital. Twenty major integrated companies have been reported to account for about 53 percent of the crude petroleum production of the United States, 72 percent of the mileage of crude oil pipe lines, 87 percent of the tonnage of oil tankers, 76 percent of the crude oil refining capacity, and 80 percent of the gasoline sales of the entire petroleum industry in the United States. (Exhibit 10) This integration is the development of recent years. Six important refining and marketing organizations that owned no important producing properties in 1918 now account for 38 percent of the crude petroleum production of the 20 major companies and 16 percent of the national total. (Exhibit 11)

Although these large producers account for a smaller share of prospecting and exploration than of production, they now bear more of the cost of exploration, either directly or indirectly, than they did when discovery depletion was first enacted. The use of

so-called scientific methods for locating oil deposits, deeper well drilling, and other factors increasing capital requirements have tended to favor the large operator. Large producers also make what are termed dry hole contributions to independent wildcatters and purchase leases in prospect areas from the wildcatter.

c. Loans to finance drilling

Concern has been expressed that the elimination of percentage depletion would make it difficult to borrow money to finance drilling for oil. The testimony presented to this Committee has indicated that bank loans are commonly made only on the basis of productive properties. The servicing of such loans depends on the ability of the operator to recover his capital investment and to earn a sufficient margin over his operating costs to pay interest on the loan. The Treasury proposal would in no way interfere with the recovery of the capital investment since depreciation and depletion allowances would be permitted equal to the amount invested. Moreover, the interest paid on the loan is an allowable deduction from gross income in computing taxable income. Consequently, percentage depletion does not benefit the taxpayer unless his income exceeds the amount needed to repay capital cost and to pay interest on outstanding loans, i.e., unless he is a good credit risk without the benefit of percentage depletion.

E. The elimination of percentage depletion will simplify the computation of the tax

Percentage depletion is not a simple method of computing the depletion allowance. Under existing law percentage depletion is computed separately for each property. This involves serious difficulty, first, in determining the price of the product at the property, and, second, in allocating expenses. The extensive

litigation ^{1/} that has resulted from the necessity of computing percentage depletion for each property separately is sufficient evidence of its complexity. Moreover, the provision for percentage depletion has not obviated the necessity of computing depletion based on cost. Since taxpayers have the option of using the one or the other basis, they generally compute cost depletion in order to protect themselves. Further, in their reports to stockholders, corporations ordinarily use cost depletion rather than percentage depletion.

F. Percentage depletion is not justified as an offset to the heavy burdens of other taxes

It is claimed that special relief from the income tax in the form of percentage depletion is justified because the oil industry now bears a heavy tax burden in the form of gasoline taxes, property taxes, and State production or severance taxes. This claim cannot be accepted. Neither the property nor the production taxes are restricted to the oil industry alone. They affect other industries as well and justify no special relief for this particular industry. While the gasoline taxes are peculiar to the oil industry, they are borne in large part by the consumer rather than the producer.

^{1/} Palmer vs. Bender, 287, U.S. 551; Twin Bell Oil Syndicate, 293 U.S. 312; Vinton Petroleum Company of Texas, certiorari denied, 293 U.S. 601; Consumers Natural Gas Co., certiorari denied, 296 U.S. 634; J.J. Perkins, 302 U.S. 655; Mountain Producers Corporation, 302 U.S. 681; Bankline Oil Co., 303 U.S. 362; Thomas A. O'Donnell, 303 U.S. 370; Wilshire Oil Co., 308 U.S. 90; J. Steve Anderson, 60 S. Ct. 952; Elbe Oil Land Development Co., 58 S. Ct. 621; Atlas Milling Co., 29 Fed. Supp. 942; Rocky Mountain Oil Co., 36 B.T.A. 365; Montreal Mining Co., 41 B.T.A. 399; Mirabel Quicksilver Co., 41 B.T.A. 401; Sheridan-Wyoming Coal Co., U.S. Ct. of Appeals for Dist. of Columbia, 7768-Decided 12-31-41.

II. ELIMINATION OF THE INTANGIBLE DEVELOPMENT EXPENSE OPTION

The Regulations now give taxpayers the option of expensing intangible development costs of oil and gas properties. They also permit the expensing of the development costs of mines except the excess of costs over receipts for mines that have not yet reached the state of production. This excess must be charged to capital account to be recovered through depletion. It is recommended by the Treasury that the expensing of development costs be eliminated and that all development costs of productive properties be capitalized. Companies that elect to expense intangible development costs for tax purposes frequently capitalize intangible development costs in their reports to stockholders. Intangible development costs are a proper capital asset for purposes of reports to stockholders; they are likewise a proper capital asset for tax purposes.

It is estimated at levels of business for the calendar year 1942 and at the proposed tax rates that the elimination of the expensing of development costs alone, without the elimination of percentage depletion, would increase the revenue by \$84 million. ^{1/} The combined effect of eliminating percentage depletion and the expensing of development costs would be to increase the revenue by \$206 million. 1/

Under the existing law, a taxpayer who uses percentage depletion and who is not subject to the net income limitation gets the same depletion allowance, whether he capitalizes his development expenses or deducts them currently as expense. Expensing his development costs gives him an additional deduction; capitalizing them does not. The expensing of development costs is, therefore, equivalent to allowing a double deduction, once when the costs are incurred, and once through percentage depletion. (For illustration of excessive allowances, see Exhibit 3)

1/ At existing rates the estimates are \$63 million and \$155 million respectively.

If percentage depletion were eliminated and cost depletion substituted, the option of expensing development costs would not involve a double deduction. In that case, if development costs were capitalized, they would be included in the base to be depleted and would be recovered through depletion allowances; if the costs were expensed, the base to be depleted would be smaller and hence the depletion allowance less.

Expensing of development costs should be eliminated, however, regardless of the action taken with respect to percentage depletion. This privilege is not permitted to other groups for comparable capital outlays. The drilling cost of a productive well, for example, is a capital investment in the same way as the cost of a building or of equipment to a small retailer or manufacturer. There seems no more justification for allowing the capital investment in the well to be deducted from current gross income than for allowing the retailer or manufacturer to deduct his capital investment from his gross income at the time when the investment is made.

The original option for oil and gas wells dates back to 1917. The regulations contemplated development work done directly by an operator; they are written in terms of expenditures by an operator on wages, fuel, and other items. The trend in the industry since the adoption of the regulations has been toward drilling by independent contractors. The decisions of the Board of Tax Appeals 1/ suggest that under the regulations operators may no longer be entitled to expense development costs where the operator does not drill the well himself, but pays a fixed price under a contract. The Treasury is reluctant to continue the option in force in view of these administrative and legal problems.

1/ Retsal Drilling Co., 42 B.T.A., 1,057, and W. D. Ambrose,
42 B.T.A., 1,405, (Pending C.C.A.-5)

It may be suggested that the expensing of development costs could be disallowed merely by changing the Regulations. It might be claimed, however, that the interpretation given by the Regulations has become imbedded in the statute, since it is of long standing and has been retained unchanged in the Regulations concomitant with several re-enactments of the basic legislation. 1/ To avoid controversy, it would be best to eliminate the expensing of development costs by statute rather than by amending the Regulations.

The elimination of the option to expense intangible development costs has been objected to on the grounds that taxpayers would have difficulty in segregating such expenses from others. The experience of the Bureau of Internal Revenue does not support this claim. Statements have been made by the Independent Drillers Association that more than 80 percent of all oil wells are drilled by members of their Association. Most of these are drilled at a fixed price under a contract that differentiates intangible costs from others.

III. POSSIBLE ALTERNATIVES TO THE ELIMINATION OF PERCENTAGE DEPLETION

The Treasury is firmly convinced that percentage depletion should be completely eliminated. However, in case your Committee prefers partial retention and modification of percentage depletion to its elimination, I should like to make some suggestions along that line.

A. Continuance of percentage depletion for stripper wells and marginal mines only

If your Committee desires to continue percentage depletion for stripper wells and marginal mines, this might be accomplished by the following:

a. Oil and gas properties. Permit percentage depletion at the rate of 25 percent of net income from the property for taxpayers who operate oil or gas wells on which the unrestricted production is not more than 1-1/4 barrels per well

1/ Griswold, A Summary of the Regulations Problem, 54 Harvard Law Review 398, 1941.

per day and on which the net income from the property (computed without allowance for depletion) is not more than 10 percent of the gross income from the property. This allowance shall be restricted to taxpayers who bear the actual burden of the cost of operating the property.

b. Mines. Permit percentage depletion at the rate of 25 percent of net income from the property, for taxpayers who operate mines on which the net income from the property (computed without allowance for depletion) is not more than 10 percent of the gross income from such property. This allowance shall be restricted to taxpayers who bear the actual burden of the cost of operating the property.

B. Treatment of new discoveries.

1. Proposal

If your Committee should desire to continue percentage depletion not only for stripper wells and marginal mines but also for new discoveries, this might be accomplished by the following provisions for properties becoming productive after December 31, 1941.

a. Oil and gas properties. On future discoveries of new pools, allow depletion not to exceed 27-1/2 percent (or a lesser percentage) of gross income to taxpayers contributing the equivalent of 25 cents or more per foot of hole drilled for wells less than 6,000 feet in depth and 50 cents per foot of hole drilled for wells in excess of such depth.

b. Metal mines. On metal mines hereafter discovered, allow 10 percent of gross income for taxpayers who bear the burden of the cost of exploration, development, and operation of the property.

c. Non-metal and coal mines. For non-metal mines, including coal mines, hereafter discovered, allow 5 percent of gross income for taxpayers who bear the burden of cost of exploration, development, and operation of the property.

If these allowances were made, the present limitation of percentage depletion to 50 percent of the net income of the property (computed before deduction of depletion) should be retained.

2. Reasons for the proposal

Tax incentives for stimulating desirable industrial developments can be justified only if they are effective in terms of their cost to the public. Accordingly, if it is desired to continue tax incentives to encourage discoveries in mining properties, such incentives should be denied properties that will be developed in the ordinary course of extending the recovery of known commercially profitable mineral deposits.

It is suggested that for oil and gas wells this can be done by defining a discovery as a "pool" outside of the limits of a previously discovered and proven oil or gas pool. It is suggested further that the benefits of discovery allowances be limited to those contributing substantially toward the cost of the exploration of a new pool. Persons who, through fortuitous circumstances, find themselves the beneficiaries of mineral deposits discovered by others, have made no economic contribution. For this reason, it is proposed that a minimum financial contribution be required varying with the depth of the well.

It is suggested that for mines the definition of discovery used in the present Regulations ^{1/} be adopted. The benefits might be limited to taxpayers who bear the cost of exploration, development, and operation of the property.

C. Special treatment of existing properties

1. Proposal

If, further, your committee desires to accord special treatment to all taxpayers who developed properties prior to January 1, 1942, this could be accomplished by the following proposal:

^{1/} Regulations 103, Section 19.23 (m) -3.

a. Oil and gas properties. Permit percentage depletion at the rate of 15 percent of gross income for taxpayers who elected to charge intangible drilling and development costs to capital account in prior years, and at the rate of 5 percent of gross income for taxpayers who elected to charge such costs to expense.

b. Metal mines. Permit percentage depletion at the rate of 10 percent of gross income for metal mines of taxpayers who capitalized intangible development costs in prior years, and at the rate of 5 percent for taxpayers who charged such costs to expense.

c. Non-metal mines including coal mines. Permit percentage depletion at the rate of 5 percent of gross income for non-metal mines of taxpayers who capitalized intangible development costs in prior years, and at the rate of $2\frac{1}{2}$ percent for taxpayers who charged such costs to expense.

If these allowances were made, the present limitation of percentage depletion to 50 percent of the net income of the property (computed before deduction of depletion) should be reduced to 25 percent.

Moreover, if percentage depletion were continued for mines, it should not be required that taxpayers make a binding election in order to secure the percentage depletion allowance.

2. Reasons for proposal

a. The reduced rates. The available evidence suggests that the present rates applicable to gross income in computing percentage depletion are much more generous than is justified in view of the costs of acquiring properties and of developing them. As shown in Exhibit 12 for 1934 the U. S. Department of Interior reported that cost depletion amounted to about $7\frac{1}{2}$ percent of the average selling price, and intangible development costs, on a capitalized basis, amounted to about 6 percent.

The increase in tax rates since these percentage provisions were enacted make them far more generous now than they were when enacted. For example, the 1936 normal tax on corporations reached a maximum rate of 15 percent. Under this rate there was a tax saving of 4.1 cents attributable to the $27\frac{1}{2}$ -cent depletion allowance permitted from each dollar of gross income. ^{1/} If the taxpayer's net income was 75 percent of his gross income, the tax saving amounted to $5\frac{1}{2}$ percent of net income. Under the proposed tax rates and with only a 5 percent depletion allowance, the corresponding tax saving would be 5.9 percent of net income if the taxpayer were in the highest excess profits tax bracket. In general, the possible tax saving under the proposed tax rates and the proposed percentage depletion allowances exceeds the tax saving under the 1936 rates and percentage depletion allowances.

b. The differential rates. The proposed lower percentage allowance for taxpayers who expensed development costs is intended to compensate for the advantage they gained by exercising the option of expensing such costs. Taxpayers who expensed development costs have no capitalized amount to be depleted, whereas taxpayers who capitalized such costs have such an unrecovered capital.

For oil and gas mines, the suggested differential is 10 percent. The size of the suggested differential is based on preliminary data supplied by the Tariff Commission from its current survey on the costs of producing crude petroleum. According to this survey, the annual deductions under the method of capitalizing costs currently average about 10 percent of gross income.

c. Reduction in the net income limitation. At present, percentage depletion allowances are limited to 50 percent of net income. If percentage depletion were to be continued on existing properties and the rates suggested above were to be substituted for the present

^{1/} Since there was an undistributed profits tax in 1936, this estimate assumes that all income was paid out.

provision, this limitation should be reduced to 25 percent. Unless this is done, a considerable part of the effect of reducing the gross income percentages would be lost, since for many taxpayers the net income percentage rather than the gross income percentage is the effective limit to the amount of depletion they can deduct.

IV. CONCLUSION

The Treasury has made many studies of percentage depletion and related allowances in the past several years. It has given careful consideration to the objections repeatedly advanced against the elimination of these special allowances. These objections have been re-examined in the light of the special needs for the war program. It is found that the elimination of percentage depletion and the expensing of development costs will not interfere with the war effort, will yield about \$206 million of much needed revenue, and will remove from the statute a long standing and inequitable privilege. Thus, it will contribute substantially to the war effort in terms of national morale.

EXHIBIT 1

Net income and provision for Federal income taxes of selected oil companies for 1941, with provision for Federal income taxes less than 31 per cent of net income, as reported in Moody's Industrials Supplement

Company	: Net income : before Federal : taxes	: Provision : for Federal : income taxes	: Taxes : a percent : of net income
<u>Major Companies</u>			
Phillips Petroleum Co.	\$23,515,535	\$ 6,078,558	25.8%
Skelly Oil Co.	7,679,826	1,766,000	23.0
Texas Corporation	67,704,681	15,830,000	23.4
Union Oil Co. of California	7,700,732	1,461,500	19.0
<u>Minor Companies</u>			
Bishop Oil Co.	56,562	1,400	2.5
Devonian Oil Co.	710,907	16,574 ^{2/}	2.3
Houston Oil Co. of Texas	1,235,400	24,303	2.0
Kirby Petroleum Co.	186,030	18,609 ^{2/}	10.0
North American Oil Consolidated	207,101	37,000 ^{2/}	17.9
Plymouth Oil Co.	1,734,590	63,356	3.7
Republic Natural Gas Co. ^{3/}	745,759	85,600 ^{2/}	11.5
Republic Petroleum	122,695	15,619 ^{2/}	12.7
Superior Oil Co.	164,503	18,000 ^{2/}	10.9
Texas Gulf Producing Co.	340,994	24,264 ^{4/}	7.1
Universal Consolidated Oil Co.	350,123	41,250	11.8
Wellington Oil Co.	208,594	15,948	7.6
Wilcox Oil and Gas Co.	349,254	9,500 ^{2/}	2.7

Source: Moody's Industrials Supplement through March 28, 1942.

- ^{1/} For Phillips Petroleum Co., includes \$308,100 for excess profits taxes; no other company in this table reported separately reserves for excess profits taxes.
- ^{2/} May include State income taxes.
- ^{3/} Fiscal year ending June 30, 1941.
- ^{4/} Reserve established for Federal taxes, shown in reported balance sheet.

Exhibit 2

Net income of selected oil companies reported
for income tax purposes compared with net income
on the basis of cost depletion

(In thousands of dollars)

Company:	Year	Depletion claimed: for income tax purposes 1/	Cost depletion:	Taxable net: income re- ported 2/	Net income based on cost depletion 2/
A	1937	9,800	600	-5,000	4,200
B	1937	10,100	2,900	-5,900	1,300
C	1937	3,600	400	800	4,000
D	1938	5,300	1,900	6	3,400

Source: Form 1120, Corporation Income Tax Return

1/ Under percentage depletion privileges

2/ After deduction of 85% of dividends received

EXHIBIT 3

Percentage depletion and intangible development costs
of a leading oil company for 10 oil properties
in the East Texas field

1. Cost of properties (including additions to cost)	\$3,001,318
2. Depletion sustained on cost	701,604
3. Depletion allowed under existing law	3,635,544
4. Ratio of depletion allowed to cost of properties	121.1%
5. Intangible development costs expensed	3,083,271
6. Total deductions for depletion and intangible development costs	6,718,815
7. Cost of properties plus intangible development costs	6,084,589
8. Ratio of total deductions to cost of properties plus intangible development costs	110.4%
9. Original oil reserves (barrels)	64,408,000
10. Remaining oil reserves (barrels)	48,704,533
11. Percent of original reserves remaining	75.6%

Source: Schedules filed with income tax returns 1931-1937.

EXHIBIT 4

United States petroleum production, consumption, imports, exports, and estimated reserves
1926 - 1941

(Millions of barrels)

Year	Production:				Imports of crude oil	Exports of crude oil	Estimated reserves of crude oil ^{1/}
	of crude oil	Domestic consumption					
		All oils	Gasoline	Fuel Oil			
1926	771	780	267	340	60	15	<u>4/</u>
1927	901	803	305	339	58	16	<u>4/</u>
1928	901	861	339	384	80	19	<u>4/</u>
1929	1,007	940	383	415	79	26	<u>4/</u>
1930	898	927	398	369	62	24	<u>4/</u>
1931	851	903	408	335	47	26	<u>4/</u>
1932	785	835	378	308	45	27	<u>4/</u>
1933	906	868	380	324	32	37	<u>4/</u>
1934	908	920	410	340	36	41	12,177
1935	997	984	435	367	32	51	<u>4/</u>
1936	1,100	1,093	482	411	32	50	13,063
1937	1,279	1,170	519	442	27	67	15,507
1938	1,214	1,137	523	409	26	77	17,348
1939	1,265	1,231	556	458	33	72	18,483
1940	1,352	1,323	589	500	43	52	19,025
1941 ^{2/}	1,392	1,483	660	<u>3/</u>	<u>3/</u>	<u>3/</u>	20,300

Source: Petroleum Facts and Figures^{1/} End of year figures, estimated by American Petroleum Institute. Includes only reserves in known and proved fields, and recoverable by production methods then known.^{2/} Estimated by Oil and Gas Journal, January 29, 1942.^{3/} Data not made public.^{4/} No comparable estimate available.

EXHIBIT 5

Production of crude oil in Pennsylvania
and New York and average price
1911 - 1929

Year	Production (in thousands of barrels)	Average price Penna. crude (per barrel)
1911	9,201	\$ 1.32
1912	8,713	1.64
1913	8,865	2.49
1914	9,109	1.91
1915	8,726	1.59
1916	8,467	2.52
1917	8,613	3.25
1918	8,217	4.00
1919	8,988	4.15
1920	8,344	5.97
1921	8,406	3.33
1922	8,425	3.21
1923	8,859	3.33
1924	8,926	3.61
1925	9,792	3.62
1926	10,917	3.56
1927	11,768	3.06
1928	12,559	3.27
1929	15,197	3.79

Source: Bureau of Mines, Minerals Yearbook,
1911-1929.

EXHIBIT 6

Total number of wells drilled for oil and gas and
U. S. average price of crude petroleum at the wells,
1917 - 1941

Year	Total wells drilled	U. S. average price of crude petroleum per barrel
1917	23,407	1.56
1918	25,687	1.98
1919	29,173	2.10
1920	33,911	3.08
1921	21,937	1.73
1922	24,689	1.61
1923	24,438	1.34
1924	21,888	1.43
1925	25,623	1.68
1926	29,319	1.88
1927	24,143	1.30
1928	22,331	1.17
1929	26,356	1.27
1930	21,240	1.19
1931	12,432	.65
1932	15,040	.87
1933	12,312	.67
1934	18,197	1.00
1935	21,420	.97
1936	25,890	1.09
1937	33,075	1.18
1938	27,493	1.13
1939	27,717	1.02
1940	30,040	1.02
1941	32,140	1.10 <u>1/</u>

Source: For 1917 - 1939, Petroleum Facts and Figures (1941) pp. 79 and 82; (1937) pp. 79 and 92. For 1940 and 1941, data on number of wells from Oil and Gas Journal, January 29, 1942, data on average price from the Bureau of Mines.

1/ Preliminary.

EXHIBIT 7

Number of oil fields discovered with more than 1 million barrels of ultimate production and ultimate production, by method of discovery, 1922 - 1938

Year	Number of oil fields				Ultimate production (millions of bbls.)				
	Geo-	Geo-	Random	Total	Geo-	Geo-	Geological	Random	Total
	logical	physical	drilling		logical	physical	and Geophysical	drilling	
1922	14	-	8	22	343	-	343	501	844
1923	13	-	8	21	532	-	532	148	680
1924	26	-	1	27	550	-	550	17	567
1925	19	1	2	22	544	5	549	7	556
1926	27	2	4	33	1,703	8	1,711	243	1,954
1927	23	3	3	29	644	208	852	22	874
1928	34	1	2	37	2,368	90	2,458	7	2,465
1929	24	10	3	37	847	83	930	83	1,013
1930	18	4	1	23	166	44	210	3,430 ^{1/}	3,640
1931	9	8	3	20	55	363	418	747	1,165
1932	10	4	1	15	152	13	164	34	199
1933	14	7	-	21	180	87	267	-	267
1934	26	18	1	45	385	623	1,008	1	1,009
1935	58	30	4	92	635	680	1,315	30	1,345
1936	56	38	3	97	424	372	796	8	804
1937	63	44	4	111	331	754	1,085	11	1,096
1938	78	64	2	144	281	524	805	7	812
Total 1922-1938	512	234	50	796	10,138	3,854	13,992	5,297	19,288

Source: Petroleum and Natural Gas Production, National Research Project, Works Progress Administration, July 1939, pp. 336-7.

Note: Due to rounding, the sum of the individual items will not add to totals in all cases.

^{1/} Includes East Texas discovery.

EXHIBIT 8

Gross investment in the American petroleum industry,
by divisions of the industry, 1935

Division	:Gross investment:	
	:(in millions of : : dollars)	: Percent : of total
Producing	\$ 5,665	42.7%
Natural gasoline	270	2.0
Transportation	2,127	16.0
Refining	3,400	25.6
Marketing	1,814	13.7
Total	13,276	100.0

Source: T.N.E.C. Hearings, Part 14A, p. 7701.

EXHIBIT 9

Gross investment in properties, plant and equip-
ment of the American petroleum industry,
1921 - 1938

Year	Gross investment (in millions of dollars)
1921	6,550
1922	7,877
1923	8,000
1924	9,151
1925	9,500
1926	10,000
1927	10,500
1928	11,000
1929	11,500
1930	12,000
1931	12,100
1932	12,200
1933	12,300
1934	12,700
1935	13,276
1936	13,775
1937	14,525
1938	14,750

Source: T.N.E.C. Hearings,
Part 14A, p. 7700.

EXHIBIT 10

Relative importance of twenty major oil companies in the petroleum industry of the United States

	: : Year or : date :	: : All : companies :	: : Twenty : major : oil : companies :	: Ratio of twenty : major oil : companies to : all companies
Domestic production of crude petroleum (in thousands of barrels)	1937	1,279,160	671,992	52.5%
Mileage of crude oil pipe lines:				
Trunk line	June 30, 1936	57,820	49,371	85.4
Gathering line	" " "	<u>52,760</u>	<u>30,284</u>	<u>57.4</u>
Total		110,580	79,655	72.0
Oil tankers:				
Number	Sept. 30, 1938	396	333	84.1
Deadweight tonnage	" " "	4,168,450	3,634,650	87.2
Daily crude oil refining capacity (in thousand barrels of crude oil input)	Jan. 1, 1938	4,351.2	3,291.5	75.6
Sales of gasoline (in thousand barrels)	1938	509,665 <u>1/</u>	407,689 <u>2/</u>	80.0

Source: Temporary National Economic Committee Hearings, Petroleum Industry, Part 14-A, pp. 7714, 7720, 7730, 7731, 7817.

1/ Total U. S. gasoline consumption.

2/ Includes only 18 companies.

EXHIBIT 11

Gross production in 1938 of major oil companies having no important producing properties in 1918 1/

Name of company	: 1938 production : (in thousands of : barrels)
Atlantic Refining Co.	15,417
Continental Oil Co.	27,337
Socony Vacuum Oil Co. <u>2/</u>	58,481
Standard Oil Co. (Ind.)	37,401
Standard Oil Co. (N. J.)	60,620
Standard Oil Co. (Ohio)	361
Total for 6 companies	199,617
Total for 20 major companies	528,437
Total for 6 companies as a percent of total for 20 major companies	37.8%
U. S. Total	1,214,355 <u>3/</u>
Total for 6 companies as a percent of total for U. S.	16.1%

Source: Production data from TNEC Hearings,
Part 14-A, p. 7779.

- 1/ Information as to crude production of companies in 1918 from description of company's operations in Moody's, 1919.
- 2/ Standard Oil of New York, a component of Socony Vacuum Oil Company, acquired important producing properties in 1918.
- 3/ Petroleum Facts and Figures, 1941, p. 64

EXHIBIT 12

Depletion, intangible development cost, and average selling price of crude petroleum 1/ 1931 - 1934

Year	Depletion	Intangible development cost <u>2/</u>	Average selling price
1931	\$.084	\$.037	\$.643
1932	.081	.043	.858
1933	.073	.054	.678
1934	.074	.060	.984

Source: U. S. Department of Interior, Petroleum Administrative Board, "Report on the Cost of Producing Crude Petroleum," 1935.

1/ Average cost is based upon "company interest" oil, or approximately 7/8 of the total crude petroleum production.

2/ As reported by producers east of the Mississippi. For producers west of the Mississippi the reported costs were charged to capital and amortized.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Wednesday, April 8, 1942.

Press Service
No. 31-5

The Secretary of the Treasury Henry Morgenthau, Jr., announced today that the Treasury Department had been asked to work out some means for making the free silver stocks of the Treasury available for use in connection with war production and thereby release substantial amounts of vitally needed copper. The General Counsel of the Treasury, after study of the problem, has concluded that there is legal authority to lend-lease the free silver stocks of the Treasury for this purpose. The Attorney General concurs in this view.

Under the plan which has been approved by the President, the silver would be made available to Government-owned and privately owned plants engaged in war production, particularly aluminum and magnesium plants. Title to the silver would remain in the Treasury. The silver would not become a part of the products of the war production plants, nor would the silver be used up. The silver would be used in the plants (where such articles as bus bars are now made of copper) so as to permit substantially all of the silver to be returned to the Treasury after the termination of the war.

There are at present over 1,360,000,000 ounces of free silver in the Treasury which can be used for this purpose. Its use will release more than 40,000 tons of copper for other war production requirements.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, April 9, 1942.

Press Service
No. 31-6

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the twelve months commencing October 1, 1941, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	Quota Quantity (Pounds) ^{1/}	As of (Date)	Authorized for Entry For Consumption (Pounds)
Signatory Countries:			
Brazil	1,401,426,521	Mar. 28, 1942	649,151,930
Colombia	475,086,450	"	216,980,483
Costa Rica	30,144,642	"	26,577,202
Cuba	12,109,603	"	2,299,009
Dominican Republic	18,098,664	(Import quota filled)	
Ecuador	22,634,408	Mar. 28, 1942	17,647,846
El Salvador	96,657,909	"	41,190,743
Guatemala	80,715,477	"	48,806,680
Haiti	41,436,647	"	36,144,339
Honduras	3,287,588	"	997,421
Mexico	74,966,100	"	20,699,014
Nicaragua	32,078,385	"	14,352,501
Peru	3,767,088	Apr. 4, 1942 ^{2/}	3,031,529
Venezuela	38,094,430	Mar. 28, 1942	23,569,874
Non-signatory Countries:			
British Empire, except Aden and Canada	17,674,322	(Import quota filled)	
Kingdom of the Netherlands and its possessions	19,669,574	Mar. 28, 1942	12,038,283
Aden, Yemen, and Saudi Arabia	3,872,909	"	787,809
Other Countries not signatories of the Inter- American Coffee Agreement	12,276,800	(Import quota filled)	

^{1/} Quotas revised effective February 26, 1942

^{2/} Per telegraphic reports

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, April 9, 1942.

Press Service
No. 31-7

The Bureau of Customs announced today that preliminary reports from the collectors of customs show imports of cotton and cotton waste chargeable to the import quotas established by the President's proclamations of September 5, 1939, and December 19, 1940, as follows, during the period September 20, 1941, to March 28, 1942, inclusive:

COTTON HAVING A STAPLE OF LESS THAN 1-11/16 INCHES (OTHER THAN HARSH OR ROUGH COTTON OF LESS THAN 3/4 INCH IN STAPLE LENGTH AND CHIEFLY USED IN THE MANUFACTURE OF BLANKETS AND BLANKETING, AND OTHER LINTERS). Annual quotas commencing September 20, by Countries of Origin:

(In Pounds)

Country of Origin	Staple length less than 1-1/8"		Staple length 1-1/8" or more but less than 1-11/16"	
	Established : Quota	Imports Sept. : 20, 1941, to March 28, 1942	Established : Quota	Imports Sept. : 20, 1941, to March 28, 1942
Egypt and the Anglo- Egyptian Sudan	783,816	-	43,451,566	23,451,240
Peru	247,952	96,952 4/	2,056,299	1,910,299 4/
British India	2,003,483	69,452	64,942	-
China	1,370,791	-	2,626	-
Mexico	8,883,259	8,883,259	-	-
Brazil	618,723	618,723	3,808	3
Union of Soviet Socialist Republics .	475,124	-	-	-
Argentina	5,203	203	435	2
Haiti	237	2	506	6
Ecuador	9,333	9,333	-	-
Honduras	752	-	-	-
Paraguay	871	-	-	-
Colombia	124	-	-	-
Iraq	195	-	-	-
British East Africa ...	2,240	-	29,909	145
Netherlands East Indies	71,388	-	-	-
Barbados	-	-	12,554	-
Other British West Indies 1/	21,321	-	30,139	-
Nigeria	5,377	30	-	-
Other British West Africa 2/	16,004	-	2,002	-
Algeria and Tunisia ...	-	-	1,634	-
Other French Africa 3/.	689	-	-	-
Total	14,516,882	9,677,954	45,656,420	25,361,695

1/ Other than Barbados, Bermuda, Jamaica, Trinidad and Tobago.

2/ Other than Gold Coast and Nigeria.

3/ Other than Algeria, Tunisia, and Madagascar.

4/ Revised.

COTTON CARD STRIPS, COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE. Annual quotas commencing September 20, by Countries of Origin:

Total quota, provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes other than card strips and comber wastes made from cottons of 1-3/16 inches or more in staple length in the case of the following countries: United Kingdom, France, Netherlands, Switzerland, Belgium, Germany and Italy:

(In Pounds)

Country of Origin	: Established : TOTAL QUOTA :	TOTAL IMPORTS Sept. 20, 1941, to Mar. 28, 1942	: Established : 33-1/3% of : Total Quota	Imports Sept. 20, 1941, to Mar. 28, 1942 ^{1/}
United Kingdom	4,323,457	434	1,441,152	434
Canada	239,690	231,615	-	-
France	227,420	-	75,807	-
British India	69,627	69,627	-	-
Netherlands	68,240	-	22,747	-
Switzerland	44,388	-	14,796	-
Belgium	38,559	-	12,853	-
Japan	341,535	-	-	-
China	17,322	-	-	-
Egypt	8,135	-	-	-
Cuba	6,544	-	-	-
Germany	76,329	-	25,443	-
Italy	21,263	-	7,088	-
Total	5,482,509	301,676	1,599,886	434

^{1/} Included in total imports, column 2.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, April 9, 1942.
4/8/42

Press Service
No. 31-8

Secretary Morgenthau today announced that hereafter Elmer L. Irey will devote full time to coordinating activities of the enforcement branches of the Treasury Department.

Mr. Irey has been serving as Chief of the Intelligence Unit of the Bureau of Internal Revenue in addition to supervising the coordination work. The new assignment relieves him of the Intelligence Unit responsibility.

As Chief Coordinator of the Treasury Law Enforcement Agencies Mr. Irey will perform liaison work between and coordinate the investigative work of the Secret Service Division, the Bureau of Narcotics, the Customs Agency Service, the Enforcement Division of the Alcohol Tax Unit, the Intelligence Unit, and the Investigative Division of Foreign Funds Control, and will maintain contacts in the development of important cases. He will report directly to Herbert E. Gaston, Assistant Secretary of the Treasury.

Mr. Irey came to the Bureau of Internal Revenue in 1919, after twelve years in the postal inspection service. With a nucleus of five men from the postal personnel, he established the Intelligence Unit, which has been responsible for collecting many millions of dollars of additional taxes and penalties, and has resulted in successful prosecution of a number of notorious characters.

The Intelligence Unit has been a potent force in the war against racketeers and other criminals.

Mr. Irey became Chief Coordinator of Treasury Enforcement Agencies in 1937.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, April 9, 1942.

Press Service
No. 31-9

The Bureau of Customs announced today preliminary figures for imports of commodities within the quota limitations provided for under the Philippine Independence Act, as amended by the Act of August 7, 1939, from the beginning of the quota periods to March 28, 1942, inclusive, as follows:

Products of Philippine Islands	:	Established Quota	:	Unit of	:	Imports as of
	: <td style="text-align: center;">Period</td> <td style="text-align: center;">:</td> <td style="text-align: center;">Quantity</td> <td style="text-align: center;">:</td> <td style="text-align: center;">Quantity : March 28, 1942</td>	Period	:	Quantity	:	Quantity : March 28, 1942
Coconut oil		Calendar year		448,000,000		Pound 29,199,054
Refined sugars		Calendar year		112,000,000)		Pound 2,346,712
) ^{1/}		
)		
Sugars other than refined		Calendar year		1,792,000,000)		Pound 43,232,544
Cordage		Calendar year		6,000,000		Pound 323,997
Buttons of Pearl or shell		Calendar year		850,000		Gross 72,057
Cigars		Calendar year		200,000,000		Number 519,306
Scrap tobacco and stemmed and unstemmed filler tobacco		Calendar year		4,500,000		Pound 103,850

^{1/} The duty-free quota on Philippine Sugars applies to 850,000 long tons, of which not more than 50,000 long tons may be refined sugars.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, April 9, 1942.

Press Service
No. 31-10

The Bureau of Customs announced today preliminary figures for imports of commodities within quota limitations provided for under trade agreements, from the beginning of the quota periods to March 28, 1942, inclusive, as follows:

Commodity	Established Quota : Period & Country :	Quantity :	Unit of : Quantity :	Imports as of : Mar. 28, 1942
Cattle less than 200 pounds each	Calendar year	100,000	Head	15,357
Cattle, 700 pounds or more each (other than dairy cows)	Quarter year from Jan. 1, 1942 Canada	51,720	Head	46,841
	Other countries	8,280	"	(Tariff rate quota filled)
Whole milk, fresh or sour	Calendar year	3,000,000	Gallon	1,052
Cream, fresh or sour	Calendar year	1,500,000	Gallon	277
Fish, fresh or frozen filleted, etc., cod, haddock, hake, pollock, cusk and rosefish	Calendar year	15,000,000	Pound	2,259,491
White or Irish potatoes Certified seed	12 months from Sept. 15, 1941	90,000,000	Pound	29,686,574
Other	12 months from Sept. 15, 1941	60,000,000	Pound	1,193,197
Cuban filler tobacco, unstemmed or stemmed (other than cigarette leaf tobacco), and scrap tobacco	Calendar year	22,000,000	Pound (Unstemmed equivalent)	5,270,101
Red Cedar shingles	Calendar year	2,617,111	Square	861,882
Silver or black foxes, furs, and articles: Foxes valued under \$250 ea. and whole furs and skins	Month of March 1942			
	Canada	17,500	Number	7,020
	Other than Canada	7,500	"	1,108

Commodity	Established Quota Period & Country	Quantity	Unit of Quantity	Imports as of March 28, 1942
Silver or black foxes, furs, and articles: Tails	12 months from December 1, 1941	5,000	Piece	(Import quota filled)
Paws, heads, or other separated parts	"	500	Pound	(Import quota filled)
Piece plates	"	550	Pound	None
Articles, other than Piece plates	"	500	Units	22.
Crude petroleum, topped crude petroleum, and fuel oil	Calendar year Venezuela	2,082,574,771	Gallon	258,769,082
	Netherlands	630,097,196	"	176,460,791
	Colombia	94,662,490	"	58,218,802
	Other Countries	150,868,343	"	100,866,646
Molasses and sugar sirups containing soluble nonsugar solids equal to more than 6% of total soluble solids	Calendar year	1,500,000	Gallon	444,002

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, April 9, 1942.

Press Service
No. 31-11

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and wheat flour entered, or withdrawn from warehouse, for consumption under the import quotas established in the President's Proclamation of May 28, 1941, for the twelve months commencing May 29, 1941, as follows:

Country of Origin	Wheat		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Imports Established : May 29, 1941 to Quota : March 28, 1942 (Bushels)	Imports Established : May 29, 1941 to Mar. 28, 1942 (Bushels)	Imports Established : May 29, 1941 to Mar. 28, 1942 (Pounds)	Imports Established : May 29, 1941 to Mar. 28, 1942 (Pounds)
Canada	795,000	795,000	3,815,000	3,701,346
China	-	-	24,000	5,836
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	5,816
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	-
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	-
Netherlands	100	-	1,000	-
Argentina	2,000	-	14,000	-
Italy	100	-	2,000	-
Cuba	-	-	12,000	97
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Danzig	-	-	1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-	-	1,000	-
Norway	-	-	1,000	-
Canary Islands	-	-	1,000	-
Rumania	1,000	-	-	-
Guatemala	100	-	-	-
Brazil	100	-	-	-
Union of Soviet Socialist Republics	100	-	-	-
Belgium	100	-	-	-
	800,000	795,000	4,000,000	3,713,095

STATEMENT OF RANDOLPH E. PAUL,
TAX ADVISER TO THE SECRETARY OF THE TREASURY,
BEFORE THE COMMITTEE ON WAYS AND MEANS
U. S. HOUSE OF REPRESENTATIVES

APRIL 10, 1942

I have previously presented to the Committee our suggestions with respect to the tax treatment of pension trusts. At this time I believe it desirable briefly to state the reasons underlying these suggestions. The present treatment of pension trusts affords a tax subsidy to those trusts which meet the requirements set forth in the statute. This subsidy is at the expense of the general body of taxpayers. It was granted because of the desire to improve the welfare of employees by encouraging the establishment of pension trusts for their benefit. Our purpose in presenting our suggestions was to carry out this objective of the Congress by suggesting various provisions which would both make the present statute more effective in promoting the welfare of employees through such trusts and at the same time prevent utilization of such trusts for tax avoidance purposes.

Thus, we suggested that only those trusts which are designed to benefit large numbers of employees should be permitted this favored treatment. (Suggestion No. 2 in March 23, 1942 Statement) Trusts which cover only a few favored high-salaried employees or executives should not qualify. At the same time, we recognize that such extended coverage by itself would be no guaranty that the trust is designed for the welfare of employees generally in view of the possibility of manipulating the benefits under the trust. Consequently, we have suggested that the benefits must be extended in a non-discriminatory fashion, so that the higher salaried employees in the trust cannot be favored at the expense of the lower salaried employees. (Suggestion No. 3) These suggestions at the same time would operate to safeguard the pension provision against its use as a tax avoidance device.

Our suggestion that the trust should provide for vesting of the employer's contributions, as well as the employee's contributions, was for the purpose of benefiting the employees covered by the trust. At the present time an employee who leaves the company's employ, either voluntarily or involuntarily, under many trusts forfeits his benefit from the employer's contributions. Our suggestion was designed to mitigate such hardships by providing some benefit in the case of such employees who had been in the company's service for some time. (Suggestion No. 1) However, we recognize that any plan of vesting which may be adopted must be one which does not affect adversely the interests of the entire group of employees under a plan which is presently functioning and which is not a device for tax avoidance.

Finally, we have suggested that the pensions which may be paid on account of the employer's contribution from trusts given this tax treatment should not exceed \$7,500 a year. (Suggestion No. 4) We believe that the general body of taxpayers should not be called upon to subsidize pensions in excess of that amount. Such large pensions would represent a distortion of the major objective of the Congress in providing this special treatment, for they would give to a few favored persons very high pensions at the expense of the public.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, April 10, 1942.

The Secretary of the Treasury, by this public notice, invites tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated April 15, 1942, and will mature July 15, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern war time, Monday, April 13, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on April 15, 1942, provided, however, any qualified depository will be permitted to make payment by credit for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

FOR RELEASE, MORNING NEWSPAPERS
Saturday, April 11, 1942

Press Service
No. 31-13

During the month of March, 1942, the liquidation of seven insolvent national banks was completed and the affairs of such receiverships finally closed.

Total disbursements, including offsets allowed, to depositors and other creditors of these seven receiverships, amounted to \$11,389,785, while dividends paid to unsecured creditors amounted to an average of 73.34 percent of their claims. Total costs of liquidation of these receiverships averaged 9.27 percent of total collections from all sources including offsets allowed.

Dividend distributions to all creditors of all active receiverships during the month of March, amounted to \$1,892,324. Data as to results of liquidation of the receiverships finally closed during the month are as follows:

INSOLVENT NATIONAL BANKS LIQUIDATED AND FINALLY CLOSED
DURING THE MONTH OF MARCH, 1942

<u>Name and Location of Bank</u>	<u>Date of Failure</u>	<u>Total Disbursements to Creditors Including Offsets Allowed</u>	<u>Percent Dividends Declared to All Claimants</u>	<u>Capital Stock at Date of Failure</u>	<u>Cash, Assets, Uncollected stock Assessments, etc., Returned to Shareholders</u>
North Capital Savings Bank Washington, D. C.	7-14-32	\$ 532,499	36.64%	\$ 90,000	- 0 -
National City Bank Ottawa, Illinois	10-6-31	888,473	67.65%	200,000	- 0 -
First National Bank Portsmouth, Ohio	12-19-33	4,170,810	81.79%	400,000	- 0 -
First National Bank Beaver Falls, Pa.	5-8-34	1,329,012	95.33%	150,000	- 0 -
Merchants National Bank Pottsville, Pa.	10-12-34	2,374,208	89.93%	125,000	- 0 -
Citizens National Bank Shenandoah, Pa.	12-19-34	1,509,003	83.3%	100,000	- 0 -
First National Bank Elizabethton, Tenn.	10-19-31	585,780	18.45%	75,000	- 0 -

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, April 10, 1942.

Press Service
No. 31-14

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the cash offering of 1/2 percent Treasury Certificates of Indebtedness of Series A-1942.

Reports received from the Federal Reserve Banks show that subscriptions aggregate \$3,062,000,000. Subscriptions in amounts up to and including \$25,000, totaling about \$66,000,000, were allotted in full. Subscriptions in amounts over \$25,000 were allotted 48 percent, on a straight percentage basis, but not less than \$25,000 on any one subscription, with adjustments, where necessary, to the \$1,000 denomination.

Details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

-c00-

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Saturday, April 11, 1942.
4/10/42

Press Service
No. 31-15

Negotiations leading to the closing of the largest bank receivership in the history of the United States, The First National Bank - Detroit, of Detroit, Michigan, were announced tonight in a joint statement issued by the Comptroller of the Currency, Preston Delano, and Senator Prentiss M. Brown of Michigan.

The remaining assets of this receivership, which had an original book value of over \$500,000,000, will be disposed of through a bulk sale to a group representative of Detroit's leading industries.

This group is headed by Joseph B. Schlotman, Chairman of the E. L. Ford Company.

Under the plan contemplated, the depositors, all of whom have already had returned to them 100% of their funds in the bank at the time of closing, will be offered the option of an immediate payment of a substantial interest dividend on the principal amount of their deposits, or the opportunity to participate in the further liquidation by the Committee of the bank's remaining assets. Any values remaining after the claims of depositors have been settled will inure to the bank's stockholders.

The Comptroller of the Currency, the statement said, has accepted the offer of the committee, which must be submitted to the courts for final approval.

While the asset liquidation of the bank has been substantially completed, there remains a large volume of assets of various types, it was said, including 2000 parcels of improved real estate; more than 8000 real estate contracts for sale and many hundreds of notes, judgments, and other types of assets.

The statement declared that the tentative agreement reached between the Comptroller of the Currency and the committee would permit the receiver to pay about two-thirds of all interest accrued on deposit claims since the bank suspended business on February 11, 1933.

The First National Bank-Detroit had deposits of more than \$400,000,000 divided among more than 600,000 depositors when it

(over)

folded its doors. Depositors holding claims under \$300 got 100 percent on their money in 1935 by the sale of their claims to a syndicate of large depositors. These claims numbered about 450,000.

During the nine years the bank was in receivership all depositors received 100 percent of their claims. Presently their only interest in the bank's assets is through the medium of interest accrued on deposits since the date of suspension 9 years ago.

The receivership has been administered by B. C. Schram since 1933.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, April 14, 1942.
4/13/42

Press Service
No. 31-16

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be dated April 15 and to mature July 15, 1942, which were offered on April 10, were opened at the Federal Reserve Banks on April 13.

The details of this issue are as follows:

Total applied for - \$311,219,000
Total accepted - 150,073,000

Range of accepted bids: (Excepting two tenders totaling
\$150,000)

High	-	99.960	Equivalent rate approximately	0.158	percent
Low	-	99.922	" " "	0.309	"
Average					
Price	-	99.929	" " "	0.281	"

(16 percent of the amount bid for at the low price was accepted)

TREASURY DEPARTMENT
Washington

(The following address by Randolph E. Paul, Assistant to the Secretary, before the National Association of Insurance Agents at the Hotel Pennsylvania in New York City is scheduled for delivery at 7 p.m., Eastern War Time, Tuesday, April 14, 1942, and is for release at that time.)

I accepted your very kind invitation to address you this evening on one condition. The condition was that I should not be obliged to discuss the very difficult question which interests you most, the taxation of insurance companies other than life. I hope you will not think that I am running away from difficulties when I avoid this subject. We are wrestling with the problem in the Treasury and we hope that the Revenue Act of 1942 when it is enacted will contain a provision that is not too much to your distaste.

I want to appeal to you this evening, not in your capacity as leading insurance men, but rather in your capacity as American citizens. In that capacity you are vitally interested in taxation. That interest may have its grim check-writing moments, but there are also moments of compensation. For I am sure that the high taxes you pay now, and will pay under the Revenue Act of 1942, will be more willingly paid than any taxes you have ever paid. Most of us have come to realize the meaning of some prophetic words of the late Mr. Justice Holmes uttered many years ago. The Secretary of the Justice asked him, "Don't you hate to pay taxes?" The hot response was, "No, young feller, I like to pay taxes. With them I buy civilization."

I say "most of us" have come to realize what Holmes meant. Unfortunately, not all of us. No one sincerely concerned with the future of civilization -- as we define that term -- could be wholly without misgiving if he attended the public hearings now being held by the Ways and Means Committee. Hardly a witness fails to pay what Lewellyn has called "mandarin courtesy" to the doctrine that we must sacrifice to pay for the war. After an assertion of unbounded patriotism, many witnesses then proceed to the task of explaining how the sacrifices should be made by the other fellow. As Sidney Smith has remarked, "It is remarkable with what equanimity and fortitude we bear the sacrifices of our neighbors."

I wondered a little whether I should try this evening to discuss the entire Treasury tax program, and I decided against any such ambitious undertaking. We may disagree on some points, but you will certainly agree with me that the Treasury program covers more ground than I could cover in fifteen minutes. So I decided to select one important aspect of the program, which I thought would interest you

as citizens -- and upon which the public discussion so far has generated more heat than light.

I refer to the controversial subject of sales taxation. The sales tax is one of the best examples of willingness to have taxes paid by the other fellow -- in this case the fellow least able to pay. This is one of the reasons underlying the Treasury's opposition to the sales tax. But there are other reasons, and I would like to tell you in the few moments available to me the basis of the Treasury's position.

On the regressive character of the sales tax let me repeat some words used by the Secretary of the Treasury. In his statement to the Ways and Means Committee on March 3, 1942, the Secretary said, "The general sales tax falls on scarce and plentiful commodities alike. It strikes at necessities and luxuries alike. As compared with the taxes proposed in this program, it bears disproportionately on the low income groups whose incomes are almost wholly spent on consumer goods. It is, therefore, regressive and encroaches harmfully upon the standard of living."

The Secretary's position in the language I have quoted is unassailable. The low income groups are now carrying a heavy burden of taxation. A single man with an income of \$750 per year is now subject to a combined Federal, State, and local tax burden of about \$135, and a married couple with an income of \$1,500 is subject to a Federal, State, and local tax burden of \$250.

If we imposed a general retail sales tax on consumer purchases large enough to equal 10 percent of the income of a person with consumer income under \$500, the tax would amount to only 6 percent of an income between \$2,000 and \$2,500, and 3 percent of an income above \$10,000. It would have an effect similar to imposing an income tax without exemption at the rate of 10 percent on an income of \$500, at 6 percent on an income of \$2,500 and at 3 percent on an income above \$10,000. The idea is fantastic when we consider imposing such rates under the income tax, but that is the way the sales tax would distribute the tax burden.

We need not go to the statistician to learn how little relation the sales tax has to ability to pay. The man who must spend for the bare essentials of life every cent he can scrape together is certainly not better able to pay taxes than the man who can buy the necessities, some luxuries to boot, and who then has money left for other things.

The question is not just a matter of fairness and equity. It is bad economics to reduce the standard of living of persons who even now are not able to purchase enough consumers' goods to maintain their productive efficiency. To reduce further the standard of living of the low income groups through a sales tax would increase sickness and decrease ability to produce. Possibly it would be necessary to supplement their income by Government relief and subsidies.

Some opponents of the Treasury program say that we must forget principles of tax justice and tax the small incomes because only thus can we curb inflation. Much of the demand for a general sales tax probably springs from the mistaken assumption that the bulk of increased national income is going to defense workers in low brackets who escape the income tax. There is no basis for this assumption. All available figures indicate that most of the increase is going to persons who are now subject to the income tax. The most effective and the most equitable way to tap these increased incomes is through the income tax.

Moreover, this argument assumes that the Treasury tax program consists solely of direct income taxation. This is not true. The Federal tax system contains two additional instruments for combating inflation. I refer to the social security program and the excise taxes. The \$2 billion increase in the social security taxes proposed by the President in his Budget Message of January 5, 1942, would fall primarily on wage earners. It would exercise a strong deflationary influence in the case of persons not now subject to income tax. Also, the Treasury tax proposals to Congress reach the income of persons below the personal exemptions through the \$1,300,000,000 of new excise taxes. Most of this additional sum comes from tobacco, liquor, and gasoline. These commodities are directly or indirectly consumed by all income classes. With the increase, the total Federal excises would amount to \$4,700,000,000.

In addition, the Treasury's war savings bonds and stamps are designed to reach the group below the income tax exemptions as well as income taxpayers. The program for selling bonds and stamps is being developed along the lines of voluntary payroll deduction. It is anticipated that a substantial percentage of incomes in the lower levels will be withdrawn through savings of those who are able to save, while a flexible adjustment of contributions to obligations and family responsibilities will be afforded. Strong support is being given this program both by industry and by all branches of labor.

I want to repeat -- we should not accept too casually the assertion that the control of inflation requires taxes upon those who are unfortunate enough not to be Federal income taxpayers. The estimates of the Office of Price Administration show that the \$18,000,000,000 increase in income expected for 1942 will be received very largely by persons who will be subject to income tax in 1942. Moreover, persons with incomes not large enough to be reached by the Federal income tax purchase a much smaller proportion of the total of durable goods and other very scarce goods than they do of foods and other relatively plentiful goods.

Another reason for being wary of the sales tax is that it is entirely possible that it will be a spur to inflation rather than a curb on inflation. It would make the problem of wage control, and consequently the problem of price control, much more difficult.

Sales taxes are ordinarily added to prices. Sales taxes are like other increases in the cost of living; they stimulate workers to demand higher wages. In the case of commodities under price ceilings sales taxes would be included in costs, and would require the revision of established ceilings. The tax on prices paid by farmers would force an increase in the parity price of farm products. As you know, prices of farm products may not be fixed at less than 110 percent of parity. Farm prices would therefore be forced up by a sales tax.

Passing to other considerations, I should like to point out that the sales tax from a revenue standpoint is a great illusion. It would not be the money-getter in war-time its advocates claim that it would be. We are accustomed to thinking in terms of State sales taxes of 2 percent and 3 percent. When we approach the problem of paying for this war, we must think in terms of billions of dollars of revenue. To raise \$4,500,000,000 a retail sales tax would have to carry the rate of 10 percent, and such a tax would have to be levied on food, clothing, medicine -- all the tangible goods a person buys. A retail sales tax of 2 percent would raise only about \$1,000,000,000 scarcely enough to justify the tremendous new machinery required for its collection.

Finally, I should like to ask for a realistic attitude in connection with problems of administration. The sales tax advocates are romantics if they think the tax is easily administered. We have no available machinery for administration, as we have for the excise and the income and estate taxes. A retail sales tax would cover a base of about 2,400,000 taxpayers. To check the payment of tax by that number of persons we should need a large additional force, and that force would need training and experience before it could operate effectively. When man-power is as scarce as it is today, it is folly to use it for the purpose of policing a vast new system of sales taxation when other more equitable methods are ours for the asking.

The problem would not be solved by using manufacturers' sales tax. The number of businesses to be checked would be less, although still running into the hundreds of thousands. Many difficult problems of exemption and valuation arise with a tax imposed on manufacturers. The rates would have to be higher to raise the same amount of revenue, while the consumer would commonly pay a price including not only the tax, but a higher margin of profit due to the tax. This pyramiding of the tax would involve an added burden.

I hope I have been able to convey the impression that my opposition to the sales tax is not "lukewarm." Some of you may be for it. The disagreement protected by the democratic process is always at a peak in tax territory. In conclusion I can therefore quote some wistful words of Edmund Burke: "To tax and to please, no more than to love and to be wise, is not given to men."

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, April 15, 1942.

Press Service
No. 31-18

Market transactions in Government securities for Treasury investment and other accounts in March, 1942, resulted in net purchases of \$5,814,450, Secretary Morgenthau announced today.

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Statement of Randolph E. Paul,
Tax Adviser to the Secretary of the Treasury,
Before the Ways and Means Committee
of the House of Representatives
on tax-exempt securities

April 16, 1942

I. THE ECONOMIC ISSUES

In his statement to your Committee on March 3, 1942, the Secretary of the Treasury recommended the taxation of interest from outstanding, as well as future, issues of State and local securities. I should like now to discuss this recommendation more fully and to present supporting evidence. 1/

The present war emergency makes the immediate elimination of tax-exempt securities an important step in sound war finance. Under war conditions, the withdrawal of the tax immunity from future issues alone will not be enough. What is required now is the immediate removal of tax exemption in all cases in which the Federal Government is not bound by its own pledge.

1. The revenue loss from tax exemption is substantial

The annual loss in revenue from the tax exemption of State and local securities under the rates proposed by the Treasury is estimated at \$275 million 2/, at 1942 levels of business.

2. The revenue loss from tax exemption will continue to increase

This is a large amount; but the continuance of the existing tax exemption would not stabilize the revenue loss even at that large figure. If the tax exemption were removed only from future issues, a considerably larger revenue loss could result merely from the shifting of outstanding issues from holders subject to little or no income taxes to those subject to higher rates.

Of the \$20 billion of such securities outstanding on June 30, 1941, \$12.2 billions were held by tax-exempt institutions, governments, banks, insurance companies and, to a small extent, other business corporations. (Table 1 & Chart 1) The securities of these holders are a huge reservoir from which individuals could increase their tax-free holdings by as much as 150 percent, even if the tax exemption privilege were immediately removed from all new issues. Additional shifts are possible from individuals in low income groups to individuals in high income groups.

1/ Some of the detailed evidence is supplied in appendices.

2/ At present rates the loss is estimated at \$184 million.

All such transfers of outstanding tax exempts to individuals with large incomes yield nothing by way of lower interest rates to State or local governments. The benefits of such transfers are confined mainly to the sellers, who obtain windfall capital gains, and to the buyers who obtain exemption from regular and wartime income taxes.

3. Tax rate increases stimulate tax avoidance

Even before 1941, the trend toward the concentration of tax-exempt securities in the hands of individuals in the upper income brackets had become noticeable. State and local securities have constituted an increasing percentage of the total assets of large estates, and there has been a pronounced and consistent tendency for tax-exempt securities to constitute a greater percentage of the larger than of the smaller estates. For net estates of \$1,100,000 and over, State and local securities averaged 6.2 percent of the gross estate in 1928 and 15.1 percent in 1940. (Table 2 and Chart 2)

We may reasonably expect a further increase in the movement of tax-exempt securities into the hands of those with large incomes because the recent and anticipated tax rate increases provide new and powerful motives to individuals with large incomes to use this means of tax avoidance. Under the 1942 tax rates proposed by the Treasury, an individual with a surtax net income of \$100,000 from other sources would obtain as large a net return, after taxes, from a 2½ percent municipal bond as from a taxable investment yielding 20.8 percent. Other illustrations are presented in Table 3.

4. The outstanding tax-exempt securities were not purchased in anticipation of war-time tax rates

The continuance of the tax exemption of interest on State and local securities enables the holders of these securities to avoid not only the pre-war scale of income taxes, but also the tax rate increases necessitated by the war. Most of the outstanding bonds were issued long before there could have been any serious expectation of war-time tax rates. Of the \$20 billions of State and local securities outstanding, \$14.4 billions, or almost three-quarters of the total, has been outstanding for five years or more, and \$10.7 billions, or over half the total, for ten years or more. (Table 4)

Tax exemption enables the holders of State and local securities to enjoy an exemption for which few, if any, can be said to have paid a price at all commensurate with the benefits received. Insofar as

the coupon rates of interest and the market prices of State and local securities reflected the tax exemption privilege at all, they reflected exemption from much lower tax rates than those in prospect, and, in most cases, than those already in force. A person with income from other sources of \$100,000, who purchased a 4 percent tax-exempt security in 1929, obtained therefrom the equivalent of a taxable return of 5.26 percent under 1929 rates. Under the rates proposed by the Treasury this individual would derive as much benefit from his 4 percent tax-free bond as he would from a taxable security yielding 33 1/3 percent. (Table 5)

5. Holders of tax-exempt securities have enjoyed substantial windfalls during recent years

Because of the rise in tax rates, and also because of the decline in interest rates, most holders of tax-exempt securities have enjoyed substantial windfalls during recent years. The most common rates of interest on State and municipal bonds now outstanding are 4 to 4½ percent, whereas the present market yield of such securities is generally below 3 percent. (Table 6 and Chart 3) For 1941 the average coupon rate on all outstanding State and local government securities was just over 4 percent, while the Standard Statistics Company's index of municipal bond yields for April, 1942, was only 2.49 percent.

6. Tax exemption results in inequitable taxation

Tax-exempt securities produce sharp inequalities in tax burdens. Persons with income from property are in a position to benefit most from this means of tax avoidance; persons who derive their incomes from earnings benefit least. Every increase in tax rates increases the importance of these inequalities.

The discrimination between individuals and between classes of individuals constitutes, from an equitable standpoint, the most fundamental of all the objections to tax-exempt securities. A survey of twenty-five actual returns for the taxable year 1940 reveals how striking are the differences in burden resulting from tax-exempt securities. If the rate schedule proposed by the Treasury were applied to the tax-exempt, as well as the taxable, income reported on these returns, the aggregate tax liability would be almost doubled -- \$21.4 million, instead of \$12.5 million. Several of the cases summarized in Table 7 are spectacular. In one case, out of a total reported income of approximately \$974,600, no less than \$668,700 came from State and local securities. The tax liability under the

proposed rates would be \$254,300, if the tax-exemption privilege were retained, but \$856,100, if the tax-exemption privilege were removed. In a second case, \$817,400 out of a total income of \$1,106,300 was in the form of State and local interest. The tax liability of \$239,600 under proposed rates would be raised to \$975,300 if the entire income were taxable.

7. The premium paid for tax-exempt securities does not reflect the value of the tax exemption

The differences between taxes paid by recipients of taxable and tax-exempt income would be less inequitable if the holders of tax-exempt securities had paid a premium that reflected in full the value of the tax exemption. This is not the case. The price that is set upon the tax-exemption privilege in the open market differs substantially in most cases, and spectacularly in the extreme cases, from the value of the exemption privilege to the individual purchaser. The current market value of the tax-exemption feature of State and local securities is roughly, $1/2$ of 1 percent. This means that an investor who purchases a municipal bond must content himself with a yield that is about $1/2$ of 1 percent lower, before allowance for taxes, than the yield he could obtain from a corporate bond of comparable quality. But to an individual with a surtax net income of \$150,000, under the rates proposed by the Treasury, the tax-exemption feature of the municipal bond is worth five times as much as he has to pay for it. A high grade 3 percent corporation bond purchased at par would yield him only $3/10$ of 1 percent after income taxes, compared with the $2\frac{1}{2}$ percent tax-free yield that he could get from a municipal bond of at least comparable quality. The investor pays a half percent. It would be worth his while to pay as much as 2.7 percent.

The value of the tax-exemption privilege varies with the size of individual incomes. To a person with an income below the personal exemption, a 3 percent tax-free security is worth no more than a taxable security of comparable cost. To a married man with no dependents, with a net income of \$10,000, the same 3 percent tax-free security is equivalent, under the proposed rates, to a taxable issue yielding 4.84 percent. To a similar individual with a net income of \$100,000, the 3 percent tax-free security is equivalent to a taxable security yielding 25.0 percent; and to an individual with a taxable income of half a million dollars, to a taxable security yielding 30 percent. (Table 3)

If the volume of State and local securities were so small that the whole amount available was purchased by individuals in the upper income brackets, the premium paid for these securities in the form of lower interest rates might reflect roughly the value of the tax exemption to the purchasers. However, the larger part of the outstanding securities was held by Federal and State trust funds, banks, insurance companies, and other corporations. (Table 1) Some of these institutional investors enjoy a tax-free status. To them the tax exemption feature has no value at all. Others are subject to effective rates of taxation much lower than the rates imposed on income received by individuals in the upper income brackets. Normally, the price paid for a privilege of this sort in the open market will reflect the importance of that privilege, not to the most urgent, but to the least urgent of the actual buyers. That is to say, the premium paid for the tax-exempt security will reflect the importance of the exemption privilege to those among the buyers to whom the privilege is worth the least.

Purchases to avoid taxes are not the only factors affecting the yield of State and local securities. Some investors, because of legal requirements, their desire for greater safety, or ignorance of superior alternatives, purchase or retain State and local securities even at some sacrifice in interest rates and without any regard to the tax exemption. Many wealthy individuals do not choose their investments solely with an eye on net yields after taxes. They are also influenced by the desire to control particular business enterprises, and reluctance to alter radically the composition of large bequests or other large holdings, particularly when such an alteration would entail the liquidation of properties with poor markets.

The net balance of these factors has been such that wealthy individuals have consistently been able to purchase tax exemption at bargain prices. This fact is reflected in Tables 3 and 9 and Charts 4 and 5, which show the spread in yield between corporate and municipal bonds is small relative to possible tax benefits.

8. The removal of the tax exemption will not reduce State and local sovereignty

The claim is frequently made that the removal of tax exemption would undermine State and local sovereignty. Some persons have argued as if the adoption of this proposal would give the Federal Government the power to levy special or discriminatory taxes upon any or all operations of State and local governments. Nothing could be further from the truth. The elimination of tax exemption

would not give the Federal Government the right to tax State and local interest at rates any higher than apply to other forms of income. It would give the Federal Government no new powers over the operations of State and local governments.

The securities of local governments in Great Britain do not enjoy exemption from the income tax of the central government, nor do those of the local governments and provinces of Canada or Australia. Further, in subjecting interest from State and local securities to the same tax laws that apply to other kinds of income, the Federal Government would only be doing what all of the thirty-two States imposing personal income taxes already do themselves with respect to the obligations of other States and the subdivisions thereof. (Table 10)

9. Elimination of tax exemption would only moderately increase State and local interest costs

The removal of tax exemption is frequently opposed on the ground that it would greatly increase State and local interest costs. These fears appear to be exaggerated. Tax exemption is only one of the many influences affecting the market rate of interest for State and local securities. Some persons mistakenly ascribe the whole difference between corporate and municipal bond yields to the tax exemption privilege. But a large part of the difference is due to the superior quality or greater safety of State and local obligations. The differential in yield in favor of municipal bonds was greater in 1900, before the adoption of the Federal income tax, than it is today. (Table 9)

Although the precise effect of the tax-exemption privilege on the market interest rate is subject to some difference of opinion, the Treasury believes that it is somewhere between one-fourth and five-eighths of one percent. Hence, it is reasonable to suppose that the removal of the tax-exemption privilege would increase interest rates on new State and local issues by something less than one-half of one percent on the average.

The interest costs of outstanding obligations would not be affected unless and until the obligations were refunded by new issues. It will be 1970 before 90 percent of the outstanding State and local obligations have matured. ^{1/} (Table 11)

^{1/} The fact that new plus-refunding issues have been appearing at the rate of a billion a year must not be made the basis for the expectation that the entire outstanding debt will have been refunded in twenty years. A portion of the refunding issues merely replace securities which in themselves were refunding issues.

If other interest rates remained at approximately their present levels, the refunding of outstanding tax-exempt obligations with taxable securities would not increase the interest costs of State and local governments in the vast majority of cases since the removal of the tax exemption would be more than offset by the drastic decline that has taken place in the general level of interest rates.

In recent years new and refunding State and local issues have averaged about \$1 billion annually. If this volume should continue, the immediate effect of the elimination of the tax immunity would be an increase in State and local interest costs of about \$5 million during the first year. Eventually, the annual difference would reach about \$100 millions if the debt of State and local governments remained at its recent level.

The net cost to State and local governments would be less than \$100 million, since they would obtain increased revenues from the application of their income taxes to new Federal issues, if Congress consents to such taxation.

10. Tax exemption should be appraised as a joint Federal, State, and local problem

The individual citizen is not only a citizen and taxpayer of his city and State; he is no less a citizen and taxpayer of his national government. He is subject at one and the same time to taxes imposed by all governments, -- Federal, State, and local. The additional burden imposed on the State and local governments must be balanced against the new revenue that would be derived from Federal taxation. The net burden on the taxpayers of the Nation as a whole will not be increased by the removal of the exemption privilege. Whereas the immediate difference in interest costs to State and local governments would be about \$5 million a year and the ultimate difference in the neighborhood of \$100 million a year, the Federal Government would, under the proposed rates for 1942, avoid an immediate annual loss in revenue of \$275 million and the possibility of even larger future losses in revenue. Finally, the taxpayers of the nation as a whole would be benefited by the elimination of an important source of tax avoidance, and by a resulting increase in the equity with which the total tax load is distributed among our citizens.

II. THE LEGAL AND CONSTITUTIONAL ISSUES INVOLVED IN THE PROPOSAL OF THE TREASURY MARCH 3, 1942 TO ELIMINATE THE EXEMPTION OF INTEREST ON OBLIGATIONS OF STATES AND THEIR POLITICAL SUBDIVISIONS

The Congress possesses the power to levy a tax on incomes. Interest paid on State and municipal obligations clearly constitutes income. It would follow, therefore, that such interest is subject to the Federal income tax. Certainly there is no provision of the Constitution which prohibits the imposition of a Federal income tax upon the interest derived from State and municipal obligations. The only possible basis for questioning the constitutional validity of such a tax is therefore the assertion that the holders of such obligations are cloaked with an immunity that may be implied from the Constitution. In 1895 the Supreme Court in Pollock v. Farmers Loan & Trust Co., 157 U.S. 429; 158 U.S. 601, stated that such an immunity existed. But the foundations of this opinion have been so weakened by subsequent decisions that it cannot withstand a direct attack. With it falls the only barrier to the validity of a Federal income tax on the interest received by such bondholders.

A.

The belief that the Pollock decision has no validity today rests upon these bases: First, it may be argued that the adoption of the Sixteenth Amendment to the Constitution affirmatively sanctioned taxation of the income from State obligations, through the express grant of power to the Congress "to lay and collect taxes on incomes, from whatever source derived."

Second, every other claim to private immunity from Federal income taxation, even those formerly recognized by the Court, has now been rejected. The income derived by Government contractors from their contracts was denied immunity in Lotcaif & Eddy v. Mitchell, 269 U.S. 514 (1926) and James v. Dravo Contracting Co., 302 U.S. 134 (1937); the income derived by lessees of Government property from their leased property was denied immunity in Holvering v. Mountain Producers Corporation, 303 U.S. 376 (1936); the income derived by Federal judges from their salary was in effect denied immunity in O'Malley v. Woodrough, 307 U.S. 277 (1939). Most significant of all, State employees, who had enjoyed under Collector v. Day, 11 Wall. 113 (1870), an immunity from Federal income taxation antedating that given to the bondholder by the Pollock case, were held in Graves v. O'Keefe, 306 U.S. 466 (1939), to be

subject to Federal income taxation on their salaries. Like the State employee, the bondholder offers services, his capital, to the State at a price and like the employee that price must pay its contribution to the Federal revenues.

Third, the theoretical basis of the Pollock decision, that a tax on the income from State obligations is equivalent to a tax on the bonds themselves and thus is a tax on the power of the State to borrow money, has been flatly rejected by the Supreme Court. In Graves v. O'Keefe, Justice Stone said: "The theory, which once won a qualified approval, that a tax on income is legally or economically a tax on its source, is no longer tenable." In place of that discarded theory there has been substituted by the Supreme Court the view that a non-discriminatory Federal income tax, directed at all citizens alike, is valid as against any claim to constitutional immunity based upon dealings with State governments. That the economic burden of a State sales tax upon materials sold to a "cost-plus-a-fixed-fee" contractor with the Federal Government "is but a normal incident of the organization within the same territory of two independent taxing sovereignties" was recently announced in Alabama v. King & Boozer, 314 U.S. 1 (1941). From this case it would follow that any burden that may be passed on economically to State governments because of a tax upon the interest derived from bonds issued by such governments is but the normal incident of the existence of two governments within the same territory. Such an indirect and incidental effect does not warrant a restriction of the Federal taxing power.

Fourth, great emphasis is placed by the Supreme Court in its recent opinions on the duty of all individuals to contribute their share to the costs of Government. Equally stressed is the recognition of the dangers inherent in placing restrictions upon the Federal taxing power. The Court has thus clearly recognized that recognition of any immunity on the part of the holders of State obligations would relieve one group of taxpayers from the duty of financial support to the national Government and curtail the sovereign power of that Government to maintain its existence. When the issue is so viewed, the urgency of our present needs for revenue, greater than ever before, compels the conviction that the Supreme Court will refuse to exempt the holders of State bonds from their obligations to the Nation.

B.

Some individuals have asserted that while the Federal Government may possess the power to tax the interest on future issues of State and municipal obligations, such power does not extend to the interest on the outstanding obligations. They support this assertion by claiming that a contract of exemption exists between the Federal Government and the holders of such outstanding obligations.

However, no such contract exists. Although the various revenue acts have excluded from gross income the interest upon such obligations, the exemption provisions in these acts cannot be regarded as contracts between the Federal Government and the States or the bondholders. This exemption, like any other exemption, is simply an expression of legislative policy which may be changed at any time. If such a provision were said to be a contract, on like grounds a salaried taxpayer might claim he had a binding contract right to the earned income credit, a father to the credit for dependent children and so on. In short, to these taxpayers, and to the taxpayer who possesses State and local obligations, the Federal Government has made no promises that existing laws would not be changed.

But, it has been asserted, while no contract exists, at least there is a moral obligation upon the Federal Government not to tax such interest in view of the exemption existing at the time of their issuance. But here again the granting of an exemption does not carry with it the understanding that it will be forever continued. No doubt many investors expected a continued tax-free yield when they purchased the obligations. But it has been pointed out previously that such expectation did not extend to the high rates necessitated by emergency conditions. And every taxpayer takes the chance that the rates of tax and the exemptions thereunder will change. Any other view of the situation would turn the tax laws into static rules and by thus strait-jacketing revenue legislation make it impossible for the Congress to adapt its tax policies to changing conditions.

C.

Finally, it has been contended that the history of the ratification of the Sixteenth Amendment proves that at that time it was the understanding that the words "from whatever source derived" did not give to the Congress the power to levy a tax upon interest from State and local obligations. The communications and speeches of Senators Borah of Idaho and Root of New York have been cited in an effort to show that

Congress did not intend to tax the interest on State and municipal obligations. It should be noted that this issue was not raised until after the Amendment had been submitted to the States for ratification. In fact, there is nothing that was said in the course of the debate in the Congress from which it may be inferred that a single Member expected or intended that the income from State and municipal bonds and the salaries of State and municipal officers and employees should be constitutionally immune under the proposed amendment.

When the Sixteenth Amendment was before the New York State Legislature for ratification, Governor Hughes recommended its rejection on the ground that the Amendment gave to the Federal Government the right to tax the interest on State and municipal securities. Senator Root took the position that the Amendment merely dealt with the problem of apportionment and did not affect the inherent power of the Federal Government to tax incomes. In other words, the Sixteenth Amendment simply permitted Congress to levy an income tax without apportionment among the several States, and that therefore the Amendment did not give to the Congress any power that it did not previously have, so that the rule of the Pollock case was unaffected by its passage. This was also Senator Borah's position. While the New York Legislature rejected the Amendment on Governor Hughes' advice, it was ratified by that State after his departure from office. It is thus apparent that at the time of the ratification of the Sixteenth Amendment by the several States there was reputable authority on both sides of the question with respect to the taxability of interest upon State and local obligations.

There is, however, a stronger answer to this contention. As indicated above, the observations of Senators Borah and Root amount to the assertion that the Pollock case was unaffected by the adoption of the Sixteenth Amendment. But the rule of the Pollock case has since been rejected by the Supreme Court, so that there is no immunity afforded by the Constitution to the interest on these obligations. In this light the references to the Sixteenth Amendment become wholly irrelevant.

Table 1

Tax-exempt State and local securities,
by classes of holder, June 30, 1941 1/

Class of holder	:	Estimated amounts at par value (in billions of dollars)
Individuals <u>2/</u>		7.8
Commercial banks		3.7
Insurance companies		2.1
Corporations other than banks and insurance companies		.5
Tax-exempt holders:		
Federal funds	.7	
State and local government funds <u>3/</u>	4.1	
Mutual savings banks	.5	
Other tax-exempt institutions	.6	
All tax-exempt holders		5.9
All holders		20.0

Source: Treasury Bulletin, February 1942 and Annual Report of the Secretary of the Treasury, 1941.

- 1/ Including securities of Territories and insular possessions.
- 2/ Including estates and trusts.
- 3/ Including trust, investment, and sinking funds, and holdings of Territorial and insular governmental funds.

Table 2

State and local government securities as a percent of gross estate, by size classes of net estate, estate tax returns filed in 1928-1940.

		: Net estate ^{1/} (in thousands of dollars)					
Filing year	:	100	200	300	500	1,100	
	:	under	under	under	under	and	
	:	200	300	500	1,100	^{2/} over	

(State and local government securities as percent of gross estate) ^{3/}

1928	1.6%	2.3%	2.7%	4.3%	6.2%
1929	1.6	1.8	2.2	4.5	6.0
1930	1.4	2.4	3.0	3.6	7.3
1931	1.9	2.5	4.2	4.8	9.2
1932	2.2	2.6	5.0	8.3	13.3
1933	2.9	5.1	6.6	11.2	21.9
1934	3.4	4.4	5.8	10.0	23.9
1935	3.6	5.7	6.7	11.0	14.4
1936	3.0	5.4	6.3	8.2	12.5
1937	3.1	5.3	5.7	9.2	11.4
1938	2.9	4.4	5.3	8.0	16.1
1939	3.2	4.4	7.1	11.6	22.7
1940	3.1	3.6	6.2	8.8	15.1

Source: Compiled from Statistics of Income.

^{1/} Before specific exemption.

^{2/} Includes securities of Territories and insular possessions.

^{3/} Gross estate includes tax-exempt insurance.

Table 3

Gross annual yields from a taxable security equivalent to specified yields from a wholly tax-exempt security 1/

Net income : from other : sources : 2/	Gross annual yield from a taxable security equivalent to a tax-exempt yield of							
	<u>2½</u> percent		3 percent		<u>3½</u> percent		4 percent	
	1941	proposed	1941	proposed	1941	proposed	1941	proposed
	rates	rates	rates	rates	rates	rates	rates	rates
\$ 1,000	2.50	2.50	3.00	3.00	3.50	3.50	4.00	4.00
2,500	2.77	3.21	3.32	3.85	3.87	4.49	4.42	5.13
5,000	2.87	3.47	3.45	4.17	4.02	4.86	4.60	5.56
10,000	3.33	4.03	4.00	4.84	4.67	5.65	5.33	6.45
20,000	4.31	5.56	5.17	6.67	6.03	7.78	6.90	8.89
50,000	6.10	10.42	7.32	12.50	8.54	14.58	9.76	16.67
100,000	7.81	20.83	9.38	25.00	10.94	29.17	12.50	33.33
500,000	10.42	25.00	12.50	30.00	14.58	35.00	16.67	40.00
1,000,000	11.36	25.00	13.64	30.00	15.91	35.00	18.18	40.00

1/ It is assumed that both the taxable and the tax-exempt security are bought at par; and that the income from additional investments, if taxable, would not be large enough to become subject to a higher rate than that applicable to the first dollar of the additional income. The calculations apply to a married person with no dependents, and take into account variations in the personal exemption and earned income credit as well as in tax rates. The earned income credit is assumed to be unaffected by the additional taxable income except in those cases where by statutory definition all net income is deemed earned.

2/ Before personal exemption.

3/ As presented by Secretary Morgenthau to the Ways and Means Committee, March 3, 1942.

Table 4

State and local government securities, by
length of time outstanding, 1/
June 30, 1941

Length of time outstanding	:	Estimated amount (in billions of dollars)
Less than 1 year		2.3
" " 2 years		3.1
" " 3 "		4.2
" " 4 "		4.9
" " 5 "		5.6
" " 6 "		6.5
" " 7 "		7.3
" " 8 "		7.9
" " 9 "		8.4
" " 10 "		9.3
Total amount outstanding		20.0

Source: Compiled from data supplied by the Bureau of the Census,
Division of State and Local Government.

1/ Interest-bearing securities only, including those of
territories and insular possessions.

Table 5

Gross annual yield from a taxable security equivalent to a 4 percent yield from a wholly tax-exempt security, under tax rates in effect in 1929, 1935, and 1941, and proposed for 1942 1/

Net income from other sources <u>2/</u>	:	1929	:	1935	:	1941	:	1942 (proposed rates <u>3/</u>)
\$ 1,500		4.00%		4.00%		4.00%		4.00%
2,500		4.00		4.00		4.42		5.13
5,000		4.02		4.17		4.60		5.56
10,000		4.12		4.37		5.33		6.45
20,000		4.40		4.71		6.90		8.89
50,000		4.82		5.80		9.76		16.67
100,000		5.26		8.70		12.50		33.33
500,000		5.26		10.00		16.67		40.00
1,000,000		5.26		10.53		18.18		40.00

1/ It is assumed that both the taxable and the tax-exempt security are bought at par; and that the income from additional investments, if taxable, would not be large enough to become subject to a higher rate than that applicable to the first dollar of the additional income. The calculations apply to a married person with no dependents, and take into account variations in the personal exemption and earned income credit as well as in tax rates. The earned income credit is assumed to be unaffected by the additional taxable income except in those cases where by statutory definition all net income is deemed earned.

2/ Before personal exemption.

3/ As presented by Secretary Morgenthau to the Ways and Means Committee, March 3, 1942.

Table 6
 Securities of States, and of cities with more than 100,000 population, by interest rate, 1939 ^{1/}
 (Amounts in thousands of dollars)

Securities outstanding, at par value						
Interest rate (Percent)	States, and cities over 100,000 population		States		Cities over 100,000 population	
	Amount	:Percent of total	Amount	: Percent : of total	Amount	:Percent of total
1.50	75,980	.8	75,980	2.4	-	-
1.75	43,388	.4	43,388	1.4	-	-
2.00	131,814	1.3	65,153	2.1	66,661	1.0
2.25	233,516	2.4	140,570	4.4	92,946	1.4
2.50	149,174	1.5	50,188	1.6	98,986	1.5
2.75	177,907	1.8	72,600	2.3	105,307	1.6
3.00	713,118	7.3	300,121	9.5	412,997	6.2
3.25	402,411	4.1	136,839	4.3	265,572	4.0
3.50	848,107	8.6	195,681	6.2	652,426	9.8
3.75	230,617	2.4	117,483	3.7	113,134	1.7
4.00	2,267,298	23.1	782,670	24.7	1,484,628	22.3
4.25	1,580,990	16.1	349,750	11.0	1,231,240	18.5
4.50	1,730,479	17.6	435,485	13.7	1,294,994	19.5
4.75	294,902	3.0	124,284	3.9	170,618	2.6
5.00	706,704	7.2	227,626	7.2	479,078	7.2
5.25	15,809	.2	-	-	15,809	.3
5.50	81,963	.8	-	-	81,963	1.2
5.75	14,764	.2	-	-	14,764	.2
6.00	120,871	1.2	52,328	1.6	68,543	1.0
Total	9,819,812	100.0	3,170,146	100.0	6,649,666	100.0
Other rates	1,086,476		166,795		919,681	
Rates not reported	6,999		1,087		5,912	

Source: Bureau of the Census, Division of State and Local Government.

^{1/} Securities outstanding at close of fiscal years ended in 1939. Debt with original maturity of less than one year is not included.

Table 7

Tax liability assuming interest from State and local government securities (a) tax-exempt and (b) taxable, under present and proposed individual income tax rates, for 25 selected individuals.

(In thousands of dollars)

Case	State and local interest			Present rates			Proposed rates <u>2/</u>		
	State	Taxable	Total	Tax liability		Revenue loss	Tax liability		Revenue loss
	and	net income	income	Interest	Interest	from tax	Interest	Interest	from tax
	local	from		exempt	taxable	exemption	exempt	taxable	exemption
	interest	other	sources <u>1/</u>						
1	221.9	601.9	823.8	424.2	595.7	171.5	521.4	721.0	199.6
2	236.2	207.9	444.1	126.4	301.2	174.8	164.6	377.2	212.6
3	260.4	148.9	409.3	87.0	276.8	189.8	113.6	348.0	234.4
4	230.9	1,337.5	1,568.4	999.2	1,181.6	182.4	1,182.7	1,390.5	207.8
5	226.9	1,081.0	1,307.9	796.6	975.8	179.2	951.9	1,156.0	204.1
6	215.0	147.8	362.8	83.8	241.8	158.0	110.2	303.7	193.5
7	349.5	144.2	493.7	82.6	339.6	257.0	107.8	422.4	314.6
8	820.7	835.6	1,656.3	605.0	1,251.6	646.6	731.7	1,470.3	738.6
9	162.7	249.8	412.5	158.1	279.2	121.1	204.4	350.9	146.5
10	351.7	275.1	626.8	175.9	442.7	266.8	226.5	543.0	316.5
11	330.7	373.6	704.3	249.9	503.0	253.1	315.8	613.5	297.7
12	773.0	765.1	1,538.1	549.4	1,157.7	608.3	667.6	1,363.2	695.6
13	668.7	305.9	974.6	198.6	712.8	514.2	254.3	856.1	601.8
14	817.4	288.9	1,106.3	186.6	817.2	630.6	239.6	975.3	735.7
15	394.6	376.6	771.2	250.7	553.2	302.5	316.8	672.0	355.2
16	296.5	603.0	899.5	423.2	653.0	229.8	520.2	787.0	266.8
17	404.3	160.1	564.4	94.8	395.3	300.5	123.7	487.6	363.9
18	316.3	915.1	1,231.4	666.8	915.8	249.0	803.1	1,087.8	284.7
19	313.4	278.7	592.1	179.2	416.6	237.4	230.4	512.5	282.1
20	356.5	135.4	491.9	75.1	336.9	261.8	98.9	419.7	320.8
21	1,083.7	4,321.4	5,405.1	3,380.3	4,251.3	871.0	3,868.8	4,844.2	975.4
22	172.6	170.7	343.3	102.2	227.2	125.0	133.2	288.6	155.4
23	226.2	166.9	393.1	99.5	264.5	165.0	129.8	333.4	203.6
24	314.8	331.7	646.5	217.5	457.3	239.8	276.9	560.1	283.2
25	424.8	218.9	643.7	136.2	366.3	230.1	176.6	558.9	382.3
Total	9,969.4	14,441.7	24,411.1	10,348.8	17,914.1	7,565.3	12,470.5	21,442.9	8,972.4

Source: Income items from returns on Form 1040 for 1940.

1/ Exclusive of net long-term capital gains and losses.

2/ As presented by Secretary Morgenthau to the Ways and Means Committee, March 3, 1942.

Table 8

Comparison of the Yields of High-Grade Corporate and Municipal Bonds

Month	Yield on first day of month		Spread	Month	Yield on first day of month		Spread
	High-grade corporate bonds 1/	High-grade municipal bonds 2/			High-grade corporate bonds 1/	High-grade municipal bonds 2/	
1939-January....	3.01	2.36	.65	1940-October....	2.69	2.01	.68
February...	2.94	2.33	.61	November...	2.70	1.94	.76
March.....	2.86	2.38	.48	December...	2.61	1.82	.79
April.....	2.93	2.32	.61	1941-January....	2.57	1.80	.77
May.....	2.90	2.37	.53	February...	2.61	1.97	.64
June.....	2.82	2.26	.56	March.....	2.76	2.13	.63
July.....	2.78	2.26	.52	April.....	2.72	2.02	.70
August.....	2.74	2.27	.47	May.....	2.75	1.92	.83
September..	2.98	2.79	.19	June.....	2.74	1.77	.97
October....	3.28	2.94	.34	July.....	2.65	1.69	.96
November...	3.00	2.55	.45	August.....	2.64	1.70	.94
December...	2.90	2.35	.55	September..	2.65	1.71	.94
1940-January....	2.83	2.24	.59	October....	2.62	1.65	.97
February...	2.83	2.28	.55	November...	2.58	1.57	1.01
March.....	2.80	2.35	.45	December...	2.59	1.60	.99
April.....	2.73	2.27	.46	1942-January....	2.71	1.91	.80
May.....	2.74	2.21	.53	February...	2.80	2.04	.76
June.....	2.99	2.66	.33	March.....	2.81	2.19	.62
July.....	2.88	2.34	.54	April.....	2.77	2.06	.71
August.....	2.82	2.17	.65				
September..	2.78	2.17	.61				

1/ Treasury Department average of high-grade corporate bonds.

2/ Bond Buyer average, 11 first grade cities.

Table 9

Yields of Corporate and Municipal Bonds, Spread, and Federal Individual Income Tax Rates, 1900-42

Year	Annual average yield		Spread	Tax rate : on bracket : immediately : above : \$100,000 :	Year	Annual average yield		Spread	Tax rate on bracket immediately above \$100,000
	High-grade corporate bonds 1/	Municipal bonds 2/				High-grade corporate bonds 1/	Municipal bonds 2/		
1900.....	4.05	3.12	0.93	0	: 1922.....	5.10	4.23	0.87	56
1901.....	3.90	3.13	.77	0	: 1923.....	5.12	4.25	.87	42
1902.....	3.86	3.20	.66	0	: 1924.....	5.00	4.20	.80	43
1903.....	4.07	3.38	.69	0	:				
1904.....	4.03	3.45	.58	0	: 1925.....	4.88	4.09	.79	25
					: 1926.....	4.73	4.08	.65	25
1905.....	3.89	3.40	.49	0	: 1927.....	4.57	3.98	.59	25
1906.....	3.99	3.57	.42	0	: 1928.....	4.55	4.05	.50	25
1907.....	4.27	3.86	.41	0	: 1929.....	4.73	4.27	.46	24
1908.....	4.22	3.93	.29	0	:				
1909.....	4.06	3.78	.28	0	: 1930.....	4.55	4.07	.48	25
					: 1931.....	4.58	4.01	.57	25
1910.....	4.16	3.97	.19	0	: 1932.....	5.01	4.65	.36	56
1911.....	4.17	3.98	.19	0	: 1933.....	4.49	4.71	-.22	56
1912.....	4.21	4.02	.19	0	: 1934.....	4.00	4.03	-.03	56
1913.....	4.42	4.22	.20	5	:				
1914.....	4.46	4.12	.34	5	: 1935.....	3.60	3.41	.19	56
					: 1936.....	3.24	3.07	.17	62
1915.....	4.64	4.16	.48	5	: 1937.....	3.26	3.10	.16	62
1916.....	4.49	3.94	.55	7	: 1938.....	3.19	2.91	.28	62
1917.....	4.79	4.20	.59	31	: 1939.....	3.01	2.76	.25	62
1918.....	5.20	4.50	.70	64	:				
1919.....	5.49 3/	4.46	1.03 3/	60	: 1940.....	2.84	2.50	.34	66
1920.....	6.12	4.98	1.14	60	: 1941.....	2.77	2.10	.67	69
1921.....	5.97	5.09	.88	60	: 1942 4/.....	2.84	2.49	.35	

1/ From 1900 through 1918, Standard Statistics Co. average for 15 high-grade railroad bonds; other years Moody's Investors Service average for high-grade corporate (Aaa) bonds.

2/ Standard Statistics Co. average.

3/ Standard Statistics Co. average of yields of high-grade railroad bonds was 5.29 percent for 1919, and the spread based upon this average was 0.83 percent.

4/ April 1, 1942.

Table 10

Treatment of interest from Federal, State and local Government obligations under State individual income taxes, as of January 1, 1942

State	Interest from obligations of the				Federal Government and its agencies
	Home State	Other States	Political sub-divisions of the Home State	Other States	
Alabama	Exempt	Taxed	Exempt	Taxed	Exempt <u>1/</u>
Arizona	Exempt <u>2/</u>	Taxed	Exempt <u>2/</u>	Taxed	Exempt <u>3/</u>
Arkansas	Exempt	Taxed	Exempt	Taxed	Exempt
California	Exempt <u>4/</u>	Taxed	Exempt <u>4/</u>	Taxed	Exempt <u>5/</u>
Colorado	Taxed	Taxed	Taxed	Taxed	Exempt <u>6/</u>
Delaware	Exempt	Taxed	Exempt	Taxed	Exempt
Georgia	Exempt	Taxed	Exempt	Taxed	Exempt <u>6/</u>
Idaho	Taxed	Taxed	Taxed	Taxed	Exempt <u>3/</u>
Iowa	Taxed	Taxed	Taxed	Taxed	Exempt <u>6/</u>
Kansas	Taxed	Taxed	Taxed	Taxed	Exempt <u>6/</u>
Kentucky	Exempt	Taxed	Exempt	Taxed	Exempt
Louisiana	Exempt	Taxed	Exempt	Taxed	Exempt <u>6/</u>
Maryland	Exempt	Taxed	Exempt	Taxed	Exempt <u>5/</u>
Massachusetts	Exempt <u>7/</u>	Taxed	Exempt <u>7/</u>	Taxed	Exempt
Minnesota	Exempt	Taxed	Exempt	Taxed	Exempt <u>1/</u>
Mississippi	Exempt	Taxed	Exempt	Taxed	Exempt
Missouri	Exempt	Taxed	Exempt	Taxed	Exempt
Montana	Taxed	Taxed	Taxed	Taxed	Exempt <u>8/</u>
New Hampshire	Exempt	Taxed	Taxed <u>9/</u>	Taxed	Exempt <u>3/</u>
New Mexico	Exempt	Taxed	Exempt	Taxed	Exempt
New York	Exempt	Taxed	Exempt	Taxed	Exempt
North Carolina	Exempt	Taxed	Exempt	Taxed	Exempt <u>10/</u>
North Dakota	Exempt	Taxed	Exempt	Taxed	Exempt
Oklahoma	Taxed <u>3/</u>	Taxed <u>8/</u>	Taxed <u>6/</u>	Taxed <u>8/</u>	Exempt <u>6/</u>
Oregon	Taxed	Taxed	Taxed	Taxed	Exempt <u>5/</u>
South Carolina	Exempt	Taxed	Exempt	Taxed	Exempt
South Dakota	Taxed <u>11/</u>	Taxed	Taxed	Taxed	Exempt <u>5/</u>
Utah	Exempt	Taxed	Taxed	Taxed	Exempt <u>5/</u>
Vermont	Exempt <u>12/</u>	Taxed	Exempt <u>12/</u>	Taxed	Exempt
Virginia	Exempt	Taxed	Taxed	Taxed	Exempt
West Virginia	Exempt	Taxed	Exempt	Taxed	Exempt
Wisconsin	Taxed	Taxed	Taxed	Taxed	Exempt <u>3/</u>

See next page for footnotes.

Table 10 (Continued)

- 1/ Recent legislation (1939 to 1942) provides that interest from obligations of the United States shall be included in gross income insofar as the State is constitutionally or legally authorized to tax such income.
- 2/ Exemption is restricted to interest from bonds.
- 3/ Exempt by regulation.
- 4/ Restricted to bonds issued after 1902.
- 5/ Excludes from gross income all income which the State is prohibited from taxing under the Constitution or laws of the United States.
- 6/ Recent legislation (1939 to 1942) repealed the section which excluded from gross income the interest upon obligations of the United States.
- 7/ Restricted to post-1906 State and post-1908 local issues marked tax-exempt.
- 8/ No specific exemption in statute or regulation.
- 9/ Applicable to post-1923 issues.
- 10/ Exemption is conditional upon interest upon obligations of the State of North Carolina or of its political subdivisions being exempt from United States income taxes.
- 11/ Interest on Soldiers' Compensation bonds and on Rural Credit bonds issued prior to July 1, 1927 is exempt.
- 12/ Exempt when the rate of interest does not exceed 5 percent per annum.

Table 11

Estimated maturities of State and local government securities
outstanding June 30, 1941 1/

(Amounts in millions of dollars)

Date of maturity, fiscal years ended June 30	Yearly maturities <u>2/</u>		Cumulative maturities	
	Amount	Percent of total	Amount	Percent of total
1942	2,021 <u>3/</u>	10.2	2,021	10.2
1943	905	4.6	2,926	14.8
1944	904	4.6	3,830	19.4
1945	849	4.3	4,679	23.7
1946	725	3.6	5,404	27.3
1947	737	3.7	6,141	31.0
1948	651	3.3	6,792	34.3
1949	673	3.4	7,465	37.7
1950	682	3.4	8,147	41.1
1951-1955	3,396	17.1	11,543	58.2
1956-1960	2,779	14.0	14,322	72.2
1961-1965	2,267	11.4	16,589	83.6
1966-1970	1,138	5.7	17,727	89.3
1971-1975	686	3.5	18,413	92.8
1976-1980	1,235	6.2	19,648	99.0
1981-1985	182	.9	19,830	99.9
1986-1990	29	.1	19,859	100.0
1991-1995	1	<u>4/</u>	19,860	100.0
Total	19,860	100.0		

Source: Bureau of the Census, Division of State and Local Government.

1/ Excluding securities of Territories and insular possessions.

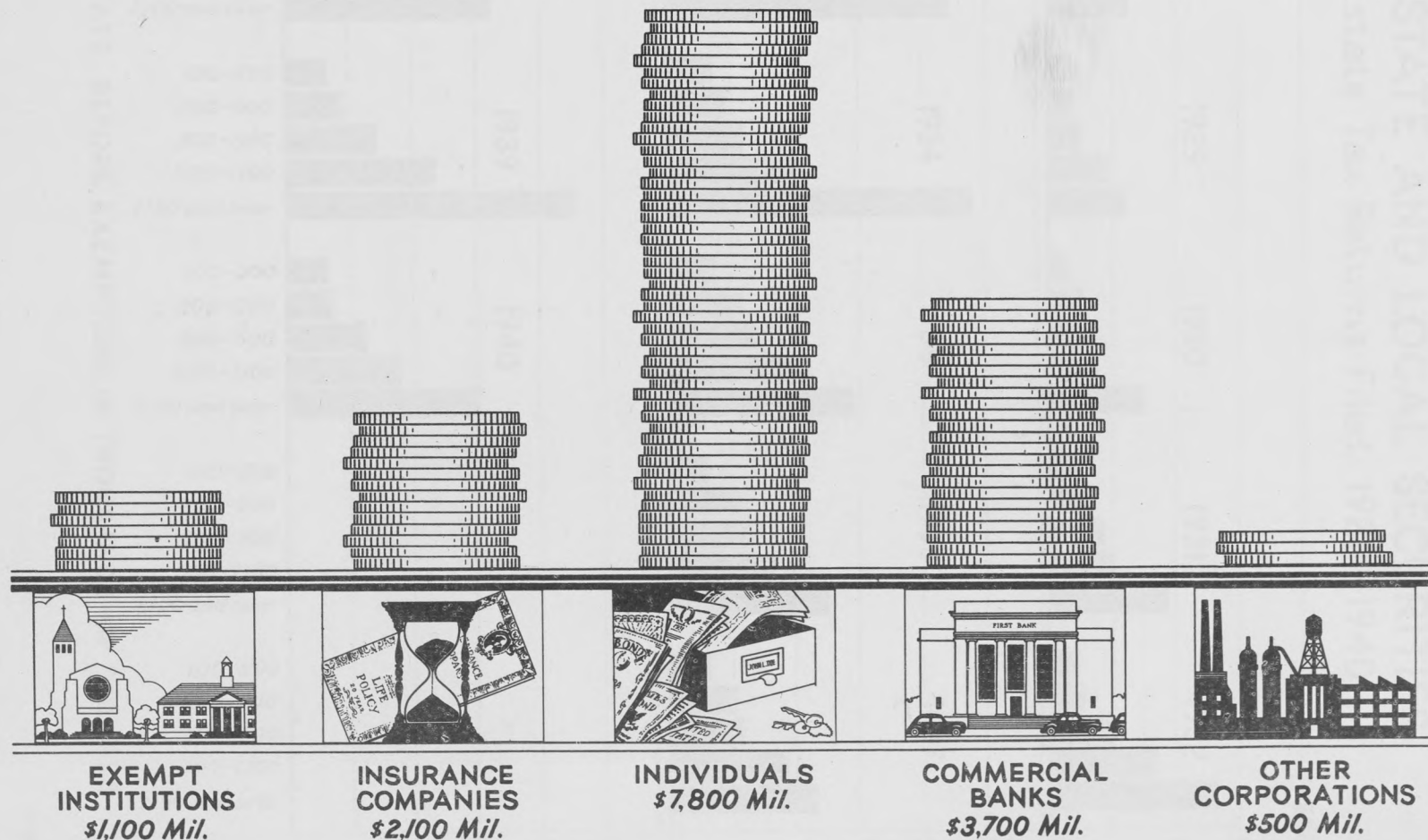
2/ By maturity dates, without reference to optional earlier call dates.

3/ Includes \$1,144 millions short-term interest-bearing securities.

4/ Less than .05 percent.

Chart 1

OWNERSHIP OF STATE AND LOCAL GOVERNMENT SECURITIES Outstanding June 30, 1941*

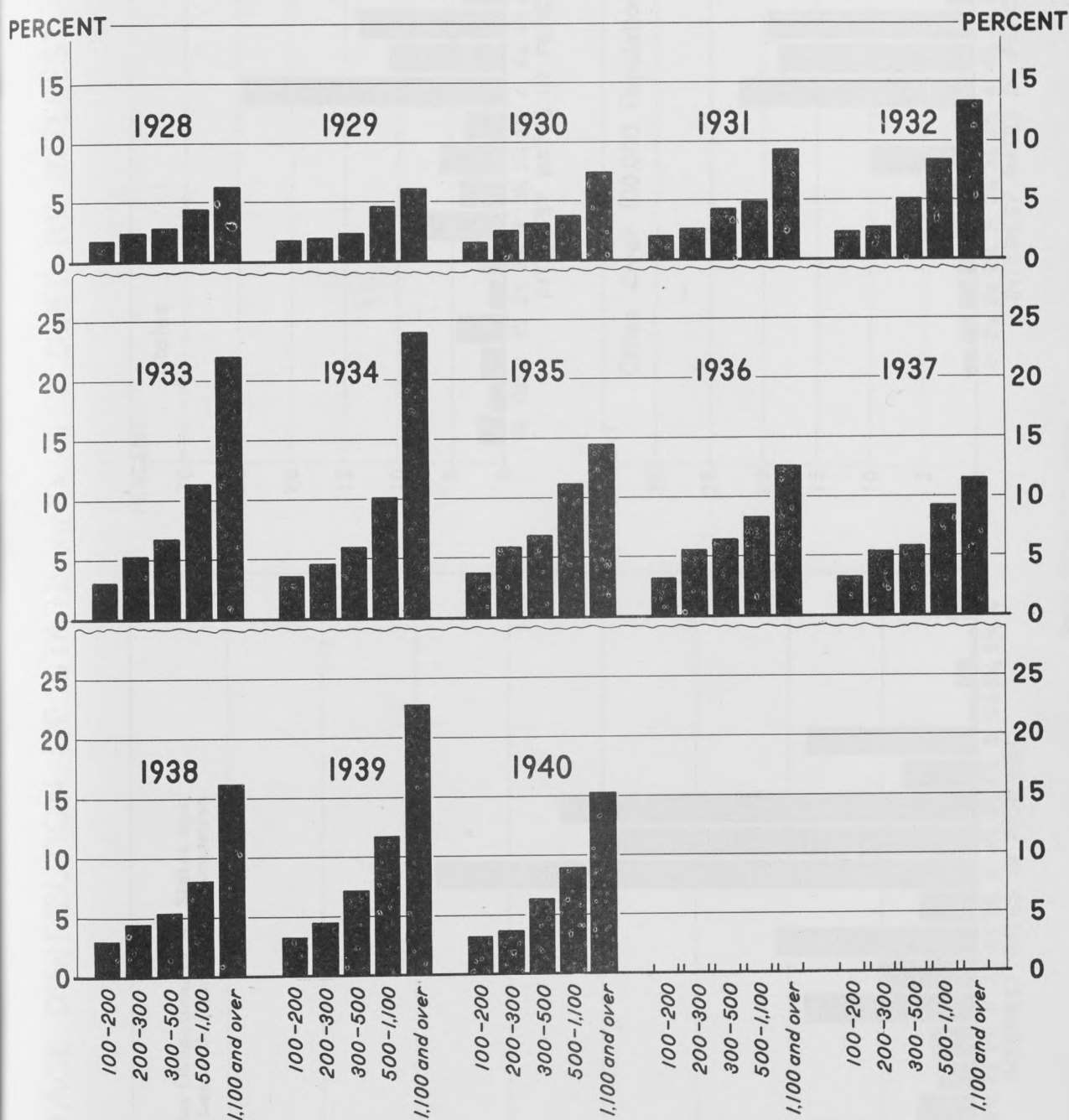


*Excludes \$4,800 Millions held by Governments

Chart 2

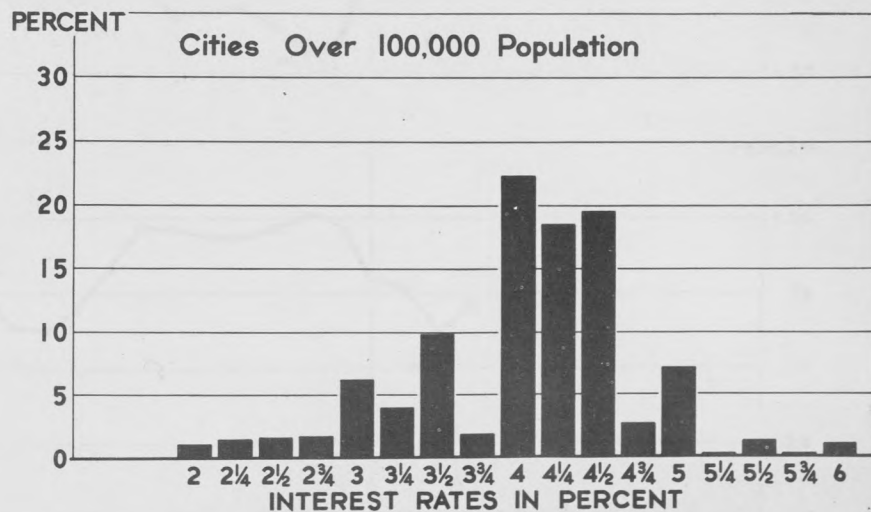
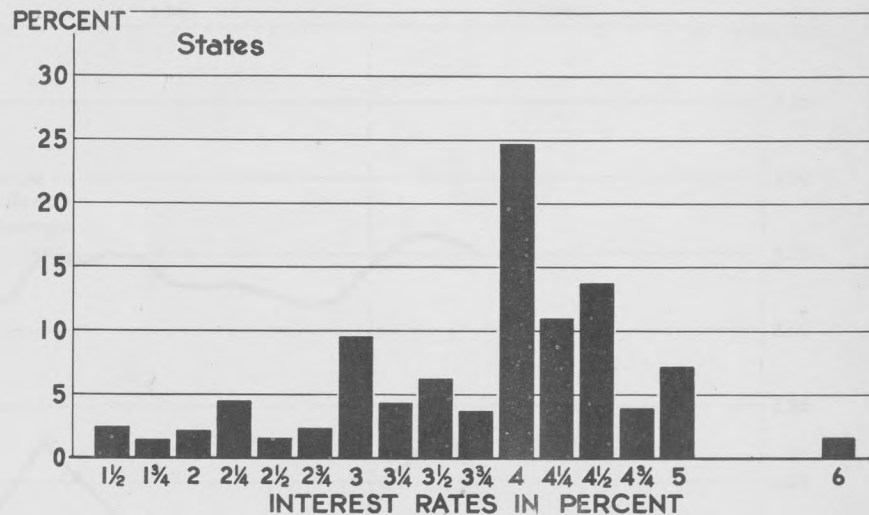
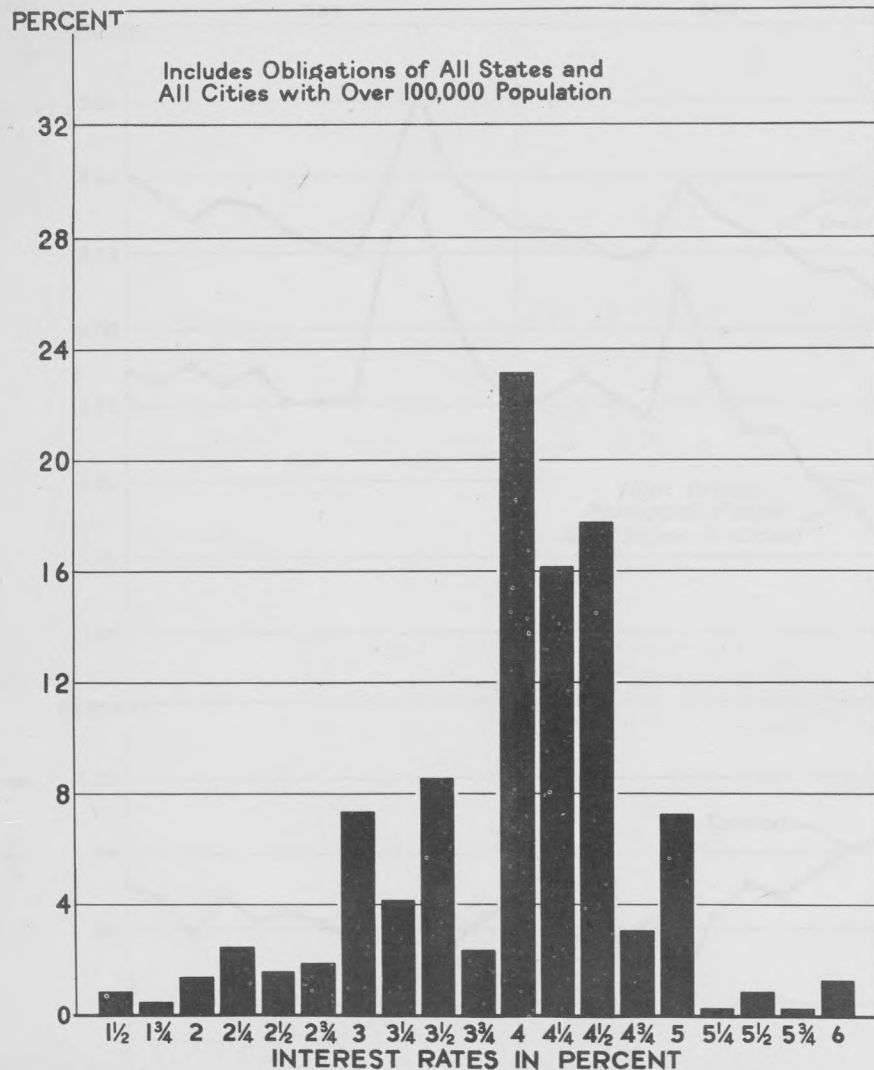
PERCENTAGE OF ESTATES IN STATE AND LOCAL SECURITIES

Estate Tax Returns Filed, 1928-1940



NET ESTATE, BEFORE EXEMPTION, IN THOUSANDS OF DOLLARS

PERCENTAGE DISTRIBUTION OF STATE AND CITY DEBT, BY INTEREST RATES, 1939



Source: Bureau of the Census.

Chart 4

COMPARISON OF THE YIELDS OF HIGH-GRADE CORPORATE AND MUNICIPAL BONDS

First Day of the Month Figures, 1939 to Date

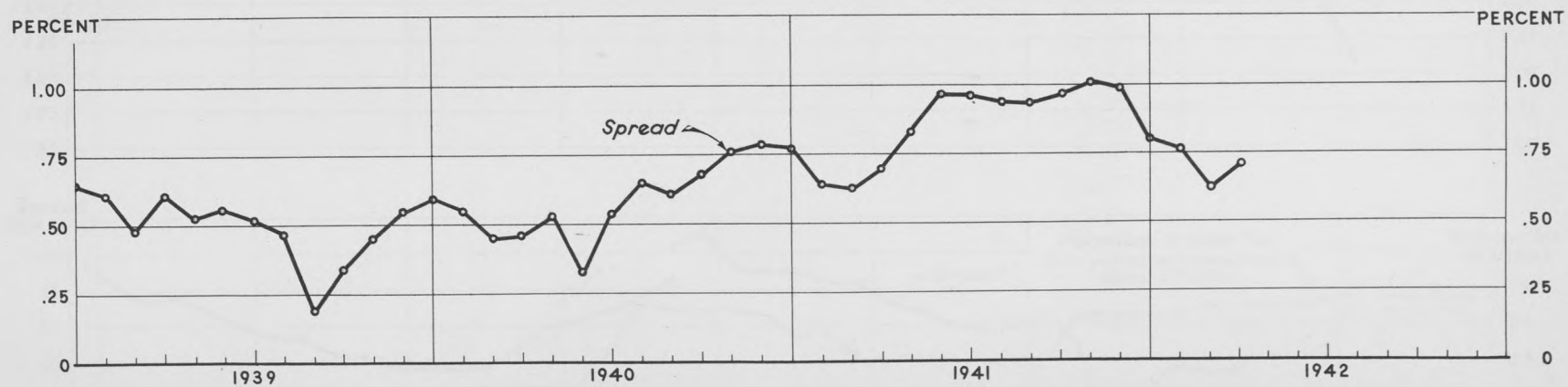
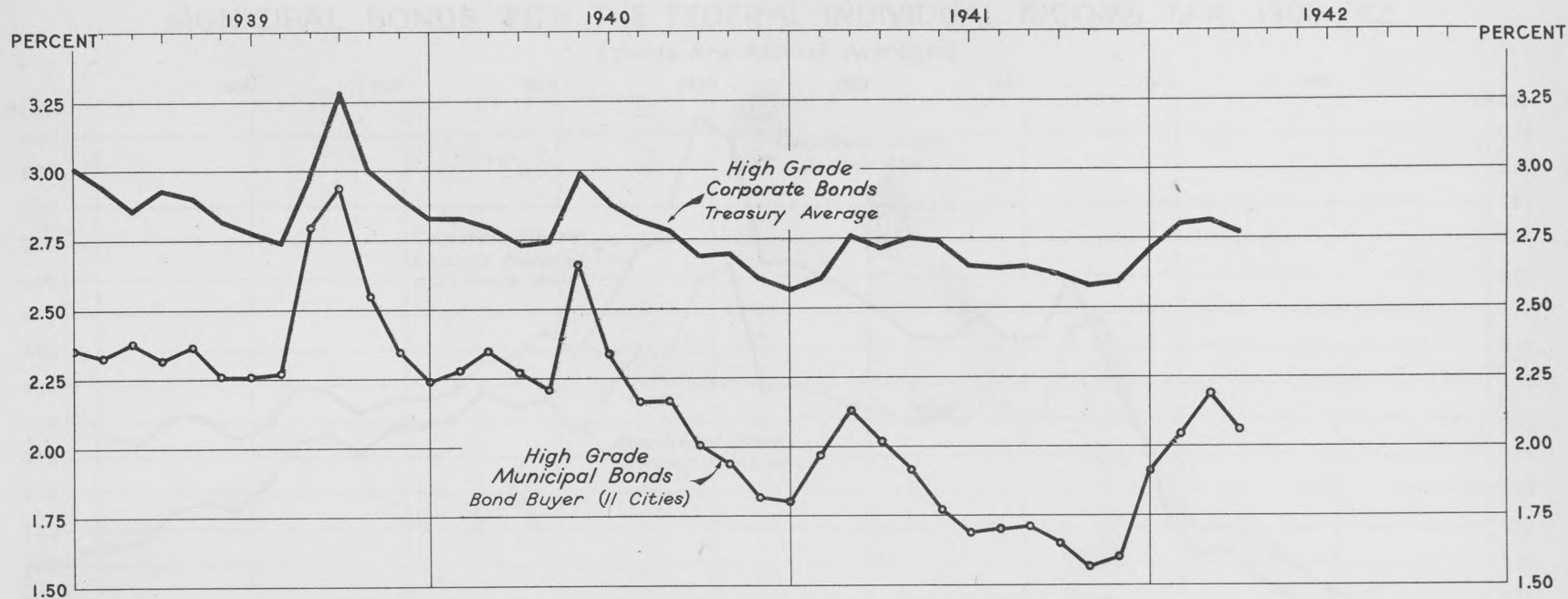
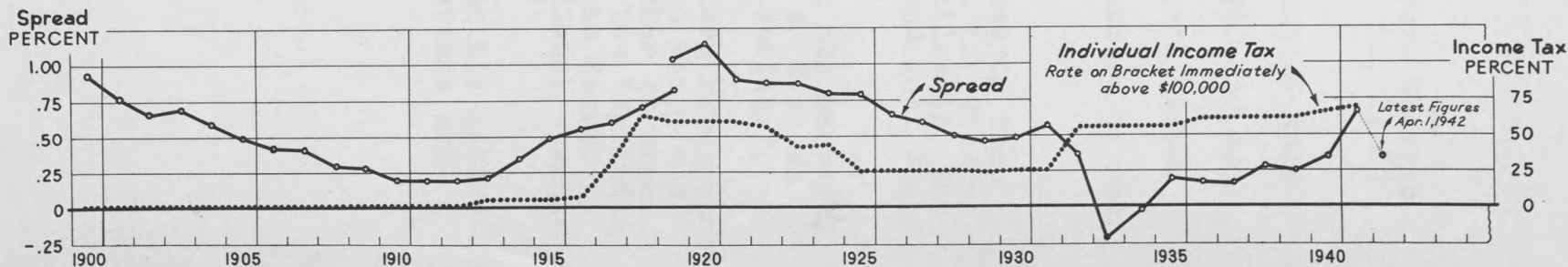
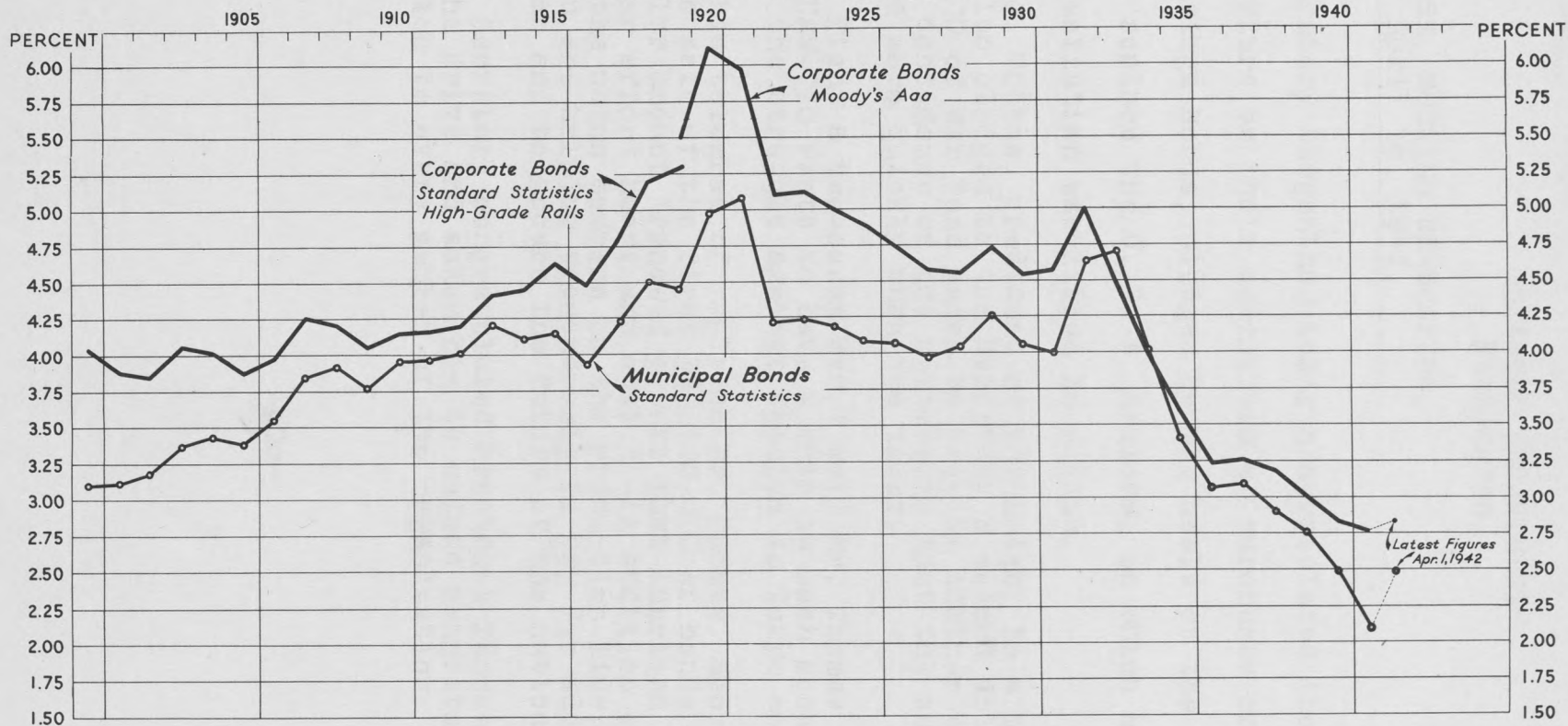


Chart 5

COMPARISON OF THE SPREAD IN YIELD BETWEEN CORPORATE AND MUNICIPAL BONDS WITH THE FEDERAL INDIVIDUAL INCOME TAX, 1900-'42
(Yields Are Annual Averages)



TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, April 16, 1942.
4/15/42

Press Service
No. 31-20

Secretary Morgenthau today congratulated the United Automobile Workers on their completion of purchases of \$50,000,000 of War Savings Bonds, pledged on the heels of the Pearl Harbor attack to replace the U. S. S. Arizona, on which a member of the labor organization was killed in action.

R. J. Thomas, president of the union, in a telegram from Detroit also pledged to the Secretary a second drive for another \$50,000,000 of War Bond sales to provide another battleship, and expressed confidence of the membership that the second goal would be reached more quickly than the first.

"We fight a two-ocean war," said Mr. Thomas in his message, "and the UAW-CIO wants to have a ship in each ocean so that we can carry the struggle against fascism to Tokyo and Berlin."

In his telegram of reply to Mr. Thomas, Secretary Morgenthau called the sale of the first \$50,000,000 of bonds and the pledge of a similar amount "renewed proofs that American labor is back of this war effort heart and soul." In addition to the "splendid work" of the union members on the production line, the Secretary said, "you are helping tremendously to pay for additional weapons for the war and to secure the future of the nation."

The Secretary congratulated President Thomas on his leadership of the drive and asked him to extend congratulations and appreciation to every member of the organization.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, April 16, 1942.

Press Service
No. 31-21

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 1/2 percent Treasury Certificates of Indebtedness of Series A-1942.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received</u>	<u>Total Subscriptions Allotted</u>
Boston	\$ 212,414,000	\$ 104,289,000
New York	1,724,584,000	832,804,000
Philadelphia	111,799,000	55,613,000
Cleveland	150,548,000	75,334,000
Richmond	77,737,000	39,828,000
Atlanta	73,532,000	37,200,000
Chicago	368,055,000	185,568,000
St. Louis	71,103,000	37,386,000
Minneapolis	50,052,000	27,087,000
Kansas City	44,835,000	23,493,000
Dallas	47,634,000	24,526,000
San Francisco	129,772,000	63,774,000
Treasury	185,000	98,000
TOTAL	\$3,062,250,000	\$1,507,000,000

The Secretary of the Treasury, by this public notice, invites tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated April 22, 1942, and will mature July 22, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern war time, Monday, April 20, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on April 22, 1942.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall

be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, April 17, 1942.

Press Service
No. 31-23

The Treasury Department announced today that a staff of Treasury representatives is conducting an investigation of the operations of Sterling Products, Inc., the subsidiaries of which produce such household remedies as Bayer Aspirin, Fletcher's Castoria and Dr. Lyons Tooth Powder.

In August, 1941, Sterling Products, Inc., agreed with the Foreign Funds Control Committee to sever completely its relationship with I. G. Farbenindustrie and agreed to enter into active competition with I. G. Farbenindustrie subsidiaries in the other American Republics.

The Treasury Department has received monthly reports from Sterling Products with regard to its activities in the other American Republics and the present investigation has as its object an evaluation of the extent and vigor of Sterling Product's participation in the war against the Axis on the economic front.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, April 17, 1942.

Press Service
No. 31-24

Treasury enforcement officers and other friends of Major Frank Frayser, veteran agent of the Intelligence Unit of the Bureau of Internal Revenue, will honor him at a luncheon tomorrow in the Jefferson Hotel, Richmond, Virginia, on the occasion of his retirement after thirty-nine years in the Federal service. Major Frayser was one of the original six inspectors drawn from the Postal service in 1919 to form the Intelligence Unit.

Associates will present the veteran agent with a medallion, bearing on one side the Seal of the Post Office Department, and his service record; and on the other side the Treasury Seal, and a record of his service in that Department.

A delegation from Washington will attend the luncheon, headed by Elmer L. Irey, Chief Coordinator of the Treasury Enforcement groups, and Mrs. Irey; Frank J. Wilson, Chief of the Secret Service, and Mrs. Wilson; J. R. Cox, Special Agent in Charge of the Washington district of the Intelligence Unit, and Mrs. Cox; and Harry Cooper, head of the Washington office of the Secret Service, and Mrs. Cooper.

Mr. Irey, who selected Major Frayser to join him in setting up the Intelligence Unit, will read a letter from Secretary of the Treasury Morgenthau expressing appreciation of the agent's Government career.

Major Frayser served with the nation's military forces in two wars, and maintained the vigor in his seventy-first year to serve his country in a civilian capacity in a third. He was born in King George county, Virginia, February 8, 1871.

He enlisted as a private in the Richmond Light Infantry Blues in the Spanish American War, and spent a year in the Philippines with the Army.

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Although he had been awarded a law degree from George Washington University, Major Frayser turned to the Government service, and in 1903 entered the Post Office Department as a clerk, in Washington. In 1907, he began his investigative career, as Post Office Inspector, and in 1917 became Inspector in Charge.

The Inspector entered the United States Army in April, 1918, as a Captain in the Military Intelligence division, and served until June, 1919. He later attained the rank of Major in the Reserve Corps.

Upon returning to civilian duties, Major Frayser was called to the Intelligence Unit by Mr. Irey. This little group of investigators pioneered the war against income tax evasion which has proved one of the most potent weapons against crime of all types in the United States. The Unit now has a personnel of more than 400.

Major Frayser became Special Agent in Charge of the Richmond Division in 1921 and continued as Senior Agent there when the Richmond office became a part of the Washington District in 1936.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, April 21, 1942.
4/20/42

Press Service
No. 31-25

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be dated April 22 and to mature July 22, 1942, which were offered on April 17, were opened at the Federal Reserve Banks on April 20.

The details of this issue are as follows:

Total applied for - \$332,677,000
Total accepted - 150,058,000

Range of accepted bids:

High	- 99.960	Equivalent rate approximately	0.158 percent
Low	- 99.914	" " "	0.340 "
Average Price	- 99.920	" " "	0.317 "

(85 percent of the amount bid for at the low price was accepted).

TREASURY DEPARTMENT
Washington

(The following address by RANDOLPH E. PAUL, tax adviser and special assistant to Secretary Morgenthau, is scheduled to be delivered at the morning session of the League of Women Voters' one-day school on Taxation and Price Control in the Washington Hotel on Tuesday, April 21, 1942, at 11:00 a.m., Eastern War Time, and is for release upon delivery at that time.)

INTRODUCTORY

Your chairman has very kindly given me great latitude in selecting a subject for today. At least, that is how I interpret her suggestion that I discuss "Taxation in Wartime". Unfortunately, however, that is too broad a field to explore in a half hour. Perhaps we could cover it if we traveled along at double-quick time, but I fear that most of the scenery would escape us. I therefore propose to exercise a speaker's prerogative by selecting one particular by-path which I think may be of special interest to you.

THE TREASURY PROPOSAL

I would like to discuss the taxation of family income in the light of the recent proposals made by the Treasury. These proposals seek to attain the following objectives:

1. Mandatory joint returns by husband and wife of their aggregate income.
2. A credit for dependent children between the ages of 18 and 21 who are still in school.
3. A deduction for extraordinary medical expenses, subject to a specified limitation.

In discussing these proposals I intend to devote most of my available time to the subject of mandatory joint returns. This emphasis upon one phase of the Treasury's group of proposals should not be construed as a judgment upon the relative importance of the three proposals. The income tax is rooted in the fundamental principle of ability to pay. Ability to pay cannot be determined without a careful and painstaking consideration of deductions and credits as well as income. The Treasury has therefore proposed some changes which would improve the present scheme of deductions and credits. Others, however, have chosen to concentrate their energies upon mandatory joint returns, and have sought to bury the merits of the Treasury's recommendation beneath an avalanche of rhetoric and invective plus the inevitable appeal to the Constitution. I should like to clear away some of the misunderstandings which have arisen with respect to this proposal.

The Treasury proposes that a husband and wife, each having an income, should combine that income in one tax return. Neither would be taxed on the income of the other. The tax would be computed on the basis of the aggregate income of husband and wife, and each spouse would be liable only for that portion of the tax attributable to his or her portion of the income.

THE FIRST INEQUITY

The Treasury proposal was framed in the light of the inequalities and discrimination which have emerged under existing law. At the present time a family wherein the husband is the sole breadwinner pays more tax than a family in which bread is earned by both husband and wife. For example, if the husband in the first case earns a net income, before personal exemption, of \$6,000 a year the resulting tax burden is \$521, whereas if the husband and wife each earns \$3,000 the total tax burden is \$442. The lower tax derives from the fact that husband and wife are permitted to file separate returns, thereby escaping the higher surtax brackets which would otherwise apply if their incomes were pooled for tax purposes as they are for other purposes.

In the two cases I have given the family incomes are the same, and expenditures will pursue a similar pattern. But the taxes to be paid are different. Under the proposal for mandatory joint returns both families will pay the same tax, except for a small differential to which I shall return later.

THE SECOND INEQUITY

The present law has produced another kind of injustice which should be legislated out of existence. The Supreme Court has held that a husband cannot reduce the tax on his earned income by assigning any part of the earnings to his wife. Investment income, on the other hand, may be treated differently. If a husband, for example, transfers stocks or bonds to his wife, the income tax burden upon the dividends or interest yielded by the securities is shifted to the wife at the relatively low cost of a gift tax. In short, those who live on investment income are enabled to reduce their total tax burden by an assignment of the underlying property producing the income, although the total family income and the economic status of the family remain the same. The Treasury recommendation abolishes this gross discrimination between earned income and investment income.

THE THIRD INEQUITY

I come now to a third source of marked inequity: community property. At the present time the system of community property is recognized in nine States. Under this system of property ownership the wife, in theory, is co-owner of the wealth acquired by the husband during the marital relationship. It has been truly said, though, that community ownership really emerges upon the termination, through death or divorce, of the marital status. This appraisal of the community property system is based upon the husband's powers of management, control and disposition of the community assets. As Mr. Justice Holmes has indicated, the husband is even entitled to a certain degree of debauchery. Except in unusual cases, the wife, is at most, a back-seat driver who is confined to carping and criticizing.

I am not passing upon the proper position of the wife within the family unit; I am merely referring to the realities of the community property system, which formally bestows co-ownership upon a wife who confines her activities to the home. Despite the superior economic position accorded the husband, one-half the community income is attributed to the wife as co-owner, with the result that the total tax burden in a community property State is less than the total burden in a common law State. An example will dramatize the discriminatory operation of the present law. If a husband in a community property State earns \$10,000 a year before personal exemption the tax is \$966, while the same income in a common law State produces a tax of \$1,305. I would like to emphasize that California, in 1927, changed its law in order to reap the benefits of this discrimination. Oklahoma has more recently adopted an optional community property system. Taxpayers are accorded the privilege of choosing either common law ownership or community ownership to suit their top brackets.

THE OBJECTIONS TO THE TREASURY PROPOSAL

I have summarized briefly the recommendation on joint returns and the inequalities it is intended to abolish. I turn now to some of the objections which have been launched at the proposal.

(1) It has been said that the proposal undermines the Constitution in that it measures the tax on one person by the income of another. (2) It has been said that mandatory joint returns will encourage divorce and discourage marriage; in other words, they penalize marriage and discriminate against married persons. (3) Still another charge against the Treasury proposal, which is hurled on all sides, is that mandatory joint returns constitute an attack on women's hard-won rights, returning women to their essentially chattel status of the feudal period when husband and wife were one, "and that one the husband". A prominent figure in the struggle

for women's rights has strongly implied that if mandatory joint returns are approved by Congress, women will no longer be regarded as human beings. I could easily lengthen my talk here with a flow of shrieks and groans from editorials and statements by religious and political leaders. They all reduce marriage to a computation of taxes. That seems to me to be a slight oversimplification of marriage. I cannot believe that people with income will refuse to contract marriage because marriage may raise their taxes by a few dollars, or that other people with income will get divorced in order to save a few dollars in taxes. These results have not been observed in England where a mandatory joint return provision has been in effect for many years.

SMALL GROUP AFFECTED

In evaluating the clamor against mandatory joint returns, one should constantly remember that the Treasury's proposal affects a comparatively small group of taxpayers. It has been estimated that approximately 9 couples out of 10 have been filing joint returns although there is no requirement that they do so. The Treasury's recommendation will increase the tax burden of the other 10 percent representing either those couples who derive substantial incomes through both the husband and wife and those couples having net incomes over \$3,500 who reside in the community property states. The fundamental purpose of the Treasury joint return proposal is to prevent high income groups from passing to low income groups the tax burden that should attach to their high family income.

WOMEN'S RIGHTS

The Treasury joint return proposal no more affects the rights of women than it affects those of men. Both spouses are treated upon a plane of equality, as they should be. The joint return requirement would not give a husband any more control over his wife's property than he might otherwise have. His income remains his and her income remains hers. Each may spend it or invest it as he or she pleases. There is no abrogation of property rights. The Treasury recommendation merely bases the tax calculation upon a fundamental reality -- the economic unity of husband and wife. There is no attempt here to create a theory unrelated to fact. On a number of occasions the Supreme Court has determined tax liability in the light of the economic solidarity of husband and wife. The Supreme Court, however, must work within the framework of the present statute, which does not sufficiently recognize the economic unity created by marriage.

CONSTITUTIONALITY OF THE PROPOSAL

So far as the charges of unconstitutionality are concerned, they derive from the imagination rather than the Constitution. A good deal has been heard of the Hoyer case wherein a majority of the Supreme Court in 1931 held invalid a Wisconsin statute providing for mandatory joint returns. Mr. Justice Holmes wrote a dissenting opinion which received the approval of Mr. Justice Brandeis and Mr. Justice -- now Chief Justice -- Stone. Even if one were to make the bold assumption that the majority decision in the Hoyer case is still good law, it is nevertheless clear that the Treasury recommendation would be sustained if challenged in the courts. The Wisconsin statute, unlike the Treasury's proposal, failed to apportion tax liability and the entire tax was assessed against the husband. The theme of the Treasury's recommendation is equality of the spouses, who compose an economic entity.

The opponents of mandatory joint returns have even claimed Mr. Justice Holmes as their own and have emphasized quotations from his dissenting opinion to support their exposition of the Constitution. I have no doubt that Mr. Justice Holmes would dissent from their interpretation of his very able dissent in the Hoyer case, in which he was prepared to go beyond the Treasury's recommendation. Quotations from his opinion seem to follow a similar pattern: several sentences are wrested from their context and those portions of the opinion which are clearly favorable to the Treasury's position are conveniently omitted. If we are to tear language from its context we might include his reference to "community when two spouses live together and when usually each would get the benefit of the income of each without inquiry into the source." At another point in his opinion Mr. Justice Holmes observed that the wife's income "in every probability will make his life easier and help to pay his bills. Taxation may consider not only command over, but actual enjoyment, of the property taxed." The Justice definitely held that the status was justified "by its tendency to prevent tax evasion."

THE CREDIT WHERE THE WIFE WORKS

I return now to an item which I mentioned previously. The Treasury has recommended an additional credit to families if the wife works outside the home. Where both husband and wife are employed certain household expenses may be incurred because the wife cannot devote her full time to managing the home. Accordingly the Treasury has proposed that the tax of a family in which both husband and wife are working should be reduced by an amount equal to 10 percent of the wife's earnings, but not in excess of \$100. This recommendation reflects the Treasury's desire to impose taxes upon a fair and equitable basis, making allowance for the economic realities of married life.

THE CREDIT FOR DEPENDENT CHILDREN

The Treasury has also recommended two additional changes. The first relates to a credit for dependent children between the ages of 18 and 21 who are still in school. Under present law parents are not entitled to the \$400 credit for dependent children after the children have reached the age of 18. In many cases, however, that is the very age at which a child becomes the greatest burden on the family budget because his parents must pay his expenses in college or vocational school. We think the tax law should take this fact into account and we have framed a proposal along such lines.

THE DEDUCTION FOR MEDICAL EXPENSES

The second of these two changes deals with medical expenses. Many of us know from sad experience how disastrously a serious illness or operation may upset the family budget. A certain amount is needed every year to meet routine medical expenses, and such expenditures should not be deductible any more than other living expenses. But a taxpayer may suddenly be confronted with large bills for doctors' fees, hospital expenses and other items of medical care which far exceed his normal medical expenses. We believe that the tax law should give due recognition to situations created by such sudden and unfortunate drains on the family pocket-book. The Treasury has therefore recommended that extraordinary medical expenses be deductible from income up to a certain limit.

CONCLUSION

All the proposals which I have so briefly discussed represent a basic objective -- fairness and equity in the distribution of the income tax burden. Discriminations based upon the activities of husband and wife, the nature of the income involved, and the State of residence have no place in a revenue measure framed in terms of such an objective. It cannot be emphasized too often that if any factor in the tax calculation "is unreal, it distorts the liability of the particular taxpayer to the detriment or advantage of the entire taxpaying group." The Treasury recommendations are directed to the abolition of such distortion.

TREASURY DEPARTMENT
Washington

FOR RELEASE, AFTERNOON PAPERS,
Wednesday, April 22, 1942.
4/21/42

Press Service
No. 31-27

Without waiting for the Treasury's new War Savings quota campaign to get under way, 500 employees of the United States Mint at San Francisco already are buying Bonds and Stamps at an average rate of more than one-tenth of their earnings.

Mrs. Nellie Tayloe Ross, Director of the Mint, today reported to Secretary Morgenthau that 97 percent of the group is participating in the voluntary payroll deduction plan, and that War Savings purchases for the last pay period were at an average rate of \$16 a month per worker. The total monthly payroll is about \$78,000, of which about \$8,000 is being invested in securities to help finance the war. Most of the San Francisco employees are men with families.

Mrs. Ross said the men and women who coin the nation's money are turning substantial portions of their own earnings back to the Government for the duration, at all the Mint institutions. Payroll allotments for bonds and stamps top five percent on the average in the other Mint establishments. Total Mint personnel is about 2,300, and monthly payroll totals \$375,000.

The Treasury Department soon will launch a nation-wide intensification of its program to enlist all earners in voluntary, systematic purchasing of War Savings Bonds and Stamps, and has suggested that ten percent of the country's income should be turned into these securities.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, April 21, 1942.

Press Service
No. 31-28

The Treasury Department in a formal statement issued today called attention to the fact that all unlicensed transfers of blocked assets in the United States are void and unenforceable.

General Ruling No. 12, issued by the Secretary of the Treasury, makes clear that unlicensed transfers of blocked assets in violation of the freezing orders, and transfers designed or having the effect of evading such orders, always have been void and unenforceable.

Secretary Morgenthau, commenting on today's general ruling, pointed out that these unlicensed transfers of blocked assets always have been void and unenforceable under the freezing orders and that today's ruling serves the purpose of emphasizing this fact for the benefit of any of the public who may have overlooked this aspect of freezing control.

He also called attention to the provisions of the ruling, making it possible for persons who have been parties to unlicensed transfers of blocked assets to file applications for licenses to validate these transfers.

"The Treasury, of course, wants to be reasonable about this matter," he stated, "we do not propose to allow our regulations, intended for the protection of our country and the United Nations, to become an instrumentality for defeating their interests or producing unconscionable advantages or unreasonable hardships. These matters can be dealt with by licenses without undue interference with the purposes of freezing control."

Treasury officials pointed out that there are more than seven billion dollars in blocked assets in the United States. The Government's policy on this matter, as reflected in today's formal ruling, has nullified attempts by the Axis to gain title to the billions of dollars in assets belonging to nationals of the countries overrun by the Axis. It has defeated efforts of the Axis to wrest control of such assets away from their lawful owners and hold them in the hopes that in the post-war period it will be possible to realize on such assets if freezing restrictions are lifted. Of equal significance is the fact that it has destroyed any possible black market in neutral countries for blocked assets -- one of the ways the Axis would like to be able to obtain the foreign credit necessary to finance imports from neutral countries into Axis territory and also one of the ways the Axis would like to be able to gain the funds necessary to subsidize espionage, sabotage and fifth column activities in the United Nations, Latin America and elsewhere.

Treasury officials explained that based on the evidence of what the Axis was doing with assets of the overrun countries within their physical control, Axis efforts in an operation of this character would follow no single pattern. Rather they would run the gamut from outright duress -- assignments at the point of a gun, or with the Gestapo as "witnesses" -- through to the more subtle "legal" transfers -- the purchase of such blocked assets against payment in local currency obtained as occupation costs or by forced loan from banking institutions in the occupied areas. In these latter cases the point of the gun would not be levelled at the individual but would be levelled at the central bank and "Quisling" governments who would provide the credit for the Axis to "buy" their country's birthright.

The net effect of such transfers would not vary however, they would be intended to mulct the overrun countries of the very lifeblood of any post-war reconstruction, namely, the foreign exchange needed to obtain the goods and services necessary for rebuilding the economies of these countries. Axis war psychology would be benefited also -- by depriving the holders of their title to these assets the Axis would encourage a spirit of defeatism and a willingness to succumb to the German "new order".

Officials also explained that based on the operation of the neutral black market in looted assets physically in the control of the Axis, it was easy to anticipate the type of black market the enemy might try to foster for "blocked assets". This neutral black market operation would be designed to give the Axis immediate returns on blocked assets even though the Axis could not get such assets out from under our freezing regulations. In this case the assets would be assigned or otherwise transferred to neutral speculators at heavy discount in order that the Axis could obtain credit now to buy goods and services in neutral countries and thus assist the war effort. Of course some of these black market operations would be for the obvious purpose of lining the pockets of Axis officialdom as insurance against the day when the Axis is crushed. Neutral speculators would either hold such assignments with the intent of salvaging on them after the war or in the hope of being able to squeeze the blocked assets through the freezing control by one trick or another.

As was pointed out, since freezing control makes null and void or unenforceable all transfers with respect to blocked assets unless licensed by the Secretary of the Treasury, Axis attempts to gain title to these assets are frustrated and the true owner's interests are protected and he continues to have a valuable stake in a victory by the United Nations.

Commenting upon today's ruling, Secretary Morgenthau stated: "This government served notice on the world when we froze the assets of Norway and Denmark on April 10, 1940, that we did not intend to permit the Axis to realize any use or benefit from Norwegian and Danish assets in the United States. Since that time we have

consistently pursued this policy with respect to every country falling under the Axis yoke. The policy of this government always has been unequivocal. We will not allow the Axis, directly or indirectly, to gain any interest in the seven billion dollars in blocked assets in this country. Neither those funds nor any interest in them will be used against the United Nations by the Axis. Neither will they be used as a part of Germany's economic 'new order' in Europe or Japan's 'co-prosperity sphere' in the Pacific."

It was emphasized that while freezing control attempted to interfere as little as possible with normal legitimate commercial transactions, still the Government was combatting a menace of sweeping proportions and was compelled to block all corrosive efforts of infiltration through loop-holes. Freezing control and the Government's policy is therefore comprehensive and the licensing technique must be freely used to prevent hardship in legitimate cases. Thus, under the freezing orders, more than eighty general licenses have been issued, permitting vast categories of transactions under appropriate safe-guards without even filing an application. In addition, more than 400,000 specific licenses also have been issued.

Paragraph (1) of today's general ruling deals with unlicensed transfers made after the effective date of the freezing orders involving property in blocked accounts. If any such transfer was made after the account was actually blocked, then the transfer is null and void unless licensed. Thus, if a bank blocked the account of a national of Denmark on April 10, 1940, and on June 10, 1940, the national attempted to assign title to the account to a German, the transfer would be null and void unless the Treasury licensed it. On the other hand, if a transfer were made before the account was actually blocked, but attempt was made to enforce it while the account was in fact blocked, the transfer would be unenforceable. By way of example: On July 15, 1941, John Doe, resident in Argentina, assigned his account with an American bank to Richard Roe in the United States. On September 15, 1941, the Treasury instructed the bank to block the account of John Doe as a national of Rumania. After September 15, 1941, the assignment would be unenforceable against John Doe's blocked account unless the transfer were licensed by the Treasury Department.

Paragraph (2) of the general ruling deals with transfers alleged to have been made before the effective date of the freezing orders but involving accounts thereafter blocked. These transfers are unenforceable against blocked accounts unless the person with whom the blocked account was held or maintained had written notice of the transfer or had recognized it in writing prior to the effective date of the Order. Thus, if in the example above, the national of Denmark had assigned the bank account to the German in 1937 and the bank was not notified of the assignment until June 10, 1940, the assignment would be unenforceable against the blocked account unless licensed. If, on the other hand, the bank was notified in

writing of the assignment before April 10, 1940, then the assignment is enforceable against the blocked account (but, of course, payment from the blocked account could only be made pursuant to Treasury license).

Treasury officials pointed out that the policy behind paragraph (2) of the general ruling was understandable. If the general ruling had been merely prospective in operation, it would be easy for Axis agents to validate transfers obtained under duress by the subterfuge of dating them prior to the effective date of the Executive Order. This would, of course, defeat one of the major purposes of freezing control. Officials pointed out that in those cases where notice of the transfer was given to the person maintaining the account in this country and where the transfer had been accepted by that person as valid, the provisions of the general ruling are inapplicable since under those circumstances the notice is an adequate precaution to guarantee that the transfer was made prior to the effective date of freezing control.

Paragraph (3) of the ruling provides that a license issued by the Treasury Department, either before or after a transfer, completely validates the transfer for the purposes of freezing control. Of course, if an assignment would have been invalid without freezing control, (e.g., because not properly executed) a Treasury license does not purport to remedy this type of invalidity.

Paragraph (4) is but a formal statement of the position which the Treasury Department has always taken on litigation (including attachments) affecting blocked assets. The Treasury has no desire to limit the bringing of suits in courts within the United States, provided that no greater interest is created by virtue of the attachment, judgment, etc., than the owner of the blocked account could have voluntarily conferred without a license. Thus, the Treasury does not want to interfere with the orderly consideration of cases by the courts provided that the results of court proceedings are subject to the same policy consideration from the point of view of freezing control as those arising through voluntary action of the parties.

Paragraph (5) defines various terms employed in the ruling. For example: the term "transfer" is given a very comprehensive meaning, excepting only certain types of transfers by operation of the law (e.g., transfer by intestate succession). The term "property" is broad but by and large does not include mere chattels or real property. The term "blocked account" is in effect limited to accounts actually treated as blocked accounts by the person with whom such account is held or maintained.

Paragraph (6) is technical in character and reserves the full right of the Government to prosecute for violations of the freezing orders and emphasizes that General Ruling No. 12 is not intended to modify outstanding freezing orders, regulations, etc.

TREASURY DEPARTMENT

Office of the Secretary

April 21, 1942

GENERAL RULING NO. 12

UNDER EXECUTIVE ORDER NO. 8389, AS AMENDED,
SECTIONS 3(a) AND 5(b) OF THE TRADING WITH
THE ENEMY ACT, AS AMENDED BY THE FIRST WAR
POWERS ACT, 1941, RELATING TO FOREIGN FUNDS CONTROL.

(1) Unless licensed or otherwise authorized by the Secretary of the Treasury, (a) any transfer after the effective date of the Order is null and void to the extent that it is (or was) a transfer of any property in a blocked account at the time of such transfer; and (b) no transfer after the effective date of Order shall be the basis for the assertion or recognition of any right, remedy, power, or privilege with respect to, or interest in, any property while in a blocked account (irrespective of whether such property was in a blocked account at the time of such transfer).

(2) Unless licensed or otherwise authorized by the Secretary of the Treasury, no transfer before the effective date of Order shall be the basis for the assertion or recognition of any right, remedy, power, or privilege with respect to, or interest in, any property while in a blocked account unless the person with whom such blocked account is held or maintained had written notice of the transfer or by any written evidence had recognized such transfer prior to the effective date of the Order.

(3) Unless otherwise provided, an appropriate license or other authorization issued by the Secretary of the Treasury before, during or after a transfer shall validate such transfer or render it enforceable to the same extent as it would be valid or enforceable but for the provisions of section 5(b) of the Trading with the enemy Act, as amended, and Order, regulations, instructions and rulings issued thereunder.

(4) Any transfer affected by the Order and/or this general ruling and involved in, or arising out of, any action or proceeding in any Court within the United States shall be, so far as affected by the Order and/or this general ruling, valid and enforceable for the purpose of determining for the parties to the action or proceeding the rights and liabilities therein litigated; provided, however, that no attachment, judgment, decree, lien, execution, garnishment, or other judicial process shall confer or create a greater right, power or privilege with respect to, or interest in, any property in a blocked account than the owner of such property could create or confer by voluntary act prior to the issuance of an appropriate license.

(5) For the purposes of this general ruling:

(a) the term "transfer" shall mean any actual or purported act or transaction, whether or not evidenced by writing, and whether or not done or performed within the United States, the purpose, intent, or effect of which is to create, surrender, release, transfer, or alter, directly or indirectly, any right, remedy, power, privilege, or interest with respect to any property and without limitation upon the foregoing shall include the making, execution, or delivery of any assignment, power, conveyance, check, declaration, deed, deed of trust, power of attorney, power of appointment, bill of sale, mortgage, receipt, agreement, contract, certificate, gift, sale, affidavit, or statement; the appointment of any agent, trustee, or other fiduciary; the creation or transfer of any lien; the issuance, docketing, filing, or the levy of or under any judgment, decree, attachment, execution, or other judicial or administrative process or order, or the service of any garnishment; the acquisition of any interest of any nature whatsoever by reason of a judgment or decree of any foreign country; the fulfillment of any condition, or the exercise of any power of appointment, power of attorney, or other power; provided, however, that the term "transfer" shall not be deemed to include transfers by operation of law.

(b) the term "property" includes gold, silver, bullion, currency, coin, credit, securities (as that term is defined in section 2(1) of the Securities Act of 1933, as amended), bills of exchange, notes, drafts, acceptances, checks, letters of credit, book credits, debts, claims, contracts, negotiable documents of title, mortgages, liens, annuities, insurance policies, options and futures in commodities, and evidences of any of the foregoing. The term "property" shall not, except to the extent indicated, be deemed to include chattels or real property.

(c) the term "blocked account" shall refer to a blocked account (including safe deposit box) of a party to the transfer and shall have the meaning prescribed in General Ruling No. 4 except that it shall not be deemed to include an account not treated as a blocked account by the person with whom such account is held or maintained.

(d) the term "effective date of the Order" shall have the meaning prescribed in General Ruling No. 4 except that "the effective date of the Order" as applied to any person whose name appears on the Proclaimed List of Certain Blocked Nationals shall be the date upon which the name of such person first appeared on such list.

(e) the term "transfer by operation of law" shall be deemed only to mean any transfer of any dower, curtesy, community property, or other interest of any nature whatsoever, provided that such transfer arises solely as a consequence of the existence or change of marital status; any transfer to any person by intestate succession; any transfer to any person as administrator, executor, or other fiduciary by reason of any testamentary disposition; any transfer to any person as administrator, executor, or fiduciary by reason of judicial appointment or approval in connection with any testamentary disposition or intestate succession; and any transfer pursuant (i) Netherlands Royal Decree of May 24, 1940, and (ii) Norwegian Provisional Decree of April 22, 1940, concerning the monetary system, etc.

(6) Nothing contained in this general ruling shall be deemed to affect in any way criminal liability for violation of the Order, or the regulations, ruling, circulars or instructions issued thereunder, or in connection therewith, or to otherwise modify any provision thereof.

By direction of the President:

H. Morgenthau, Jr.
Secretary of the Treasury

TREASURY DEPARTMENT,
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, April 24, 1942.

The Secretary of the Treasury, by this public notice, invites tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated April 29, 1942, and will mature July 29, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern war time, Monday, April 27, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on April 29, 1942.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition

of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, April 24, 1942.

Press Service
No. 31-30

Secretary Morgenthau announced today that proposals are being invited for furnishing distinctive paper required for printing currency and public debt securities of the United States during the fiscal year 1943, for which bids will be opened at the Treasury Department on May 14, 1942.

The estimated quantity of paper required for currency is 145,000,000 sheets, or about 1750 tons, and for public debt securities 40,000,000 sheets, or about 765 tons.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Saturday, April 25, 1942.

Press Service
No. 31-31

Secretary Morgenthau today announced the appointment of Thomas Manning as Special Assistant to the Chief Counsel of the Bureau of Internal Revenue and of Thurman Hill as Chief Counsel of the Procurement Division of the Treasury Department.

Mr. Manning, who has been Chief Counsel of the Procurement Division, will handle a number of new problems growing out of proposed tax legislation. He joined the Treasury's legal staff in 1935. His home is in New Rochelle, New York.

Mr. Hill, a native of Wichita, Kansas, has been Head of the Reorganization Section in the office of the Chief Counsel of the Bureau of Internal Revenue. He entered the service of the Treasury Department in 1934. In his new position Mr. Hill will handle all legal work connected with both the regular and lend-lease purchase programs of the Procurement Division.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, April 27, 1942.

Press Service
No. 31-32

The Bureau of Customs announced today that preliminary reports from the collectors of customs show that 71,173,952 gallons of crude petroleum, topped crude petroleum, and fuel oil the produce or manufacture of Colombia and 119,402,506 gallons the produce or manufacture of foreign countries other than Venezuela, the Netherlands and its overseas territories, and Colombia were entered, or withdrawn from warehouse, for consumption during the period January 1 to April 11, 1942, inclusive.

Under the terms of the President's proclamation of December 26, 1941, not more than 94,662,490 gallons the produce or manufacture of Colombia and not more than 150,868,343 gallons the produce or manufacture of such other countries may be entered, or withdrawn from warehouse, for consumption at the reduced rate of import tax of 1/4 cent per gallon provided for in the trade agreement with Venezuela during the calendar year 1942. Such imports in 1942 in excess of the quota will be dutiable at the full rate of import tax of 1/2 cent per gallon.

In order to provide for the control of these quotas the collectors of customs have been instructed that, during the period April 27 to December 31, 1942, entries and withdrawals for consumption covering petroleum and fuel oil the produce or manufacture of Colombia and such other countries may be accepted at the reduced rate, provided the merchandise is not released pending determination of its quota status. If release of the merchandise is desired before determination of the rate applicable importers will be required to deposit estimated duties at the full rate. Excessive duties deposited on such merchandise found to be within the quotas will be refunded.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, April 28, 1942.
4/27/42

Press Service
No. 31-33

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be dated April 29 and to mature July 29, 1942, which were offered on April 24, were opened at the Federal Reserve Banks on April 27.

The details of this issue are as follows:

Total applied for - \$375,372,000
Total accepted - 150,125,000

Range of accepted bids: (Excepting two tenders totaling \$55,000)

High	- 99.950	Equivalent rate	approximately	0.198	percent
Low	- 99.910	"	"	0.356	"
Average					
Price	- 99.915	"	"	0.335	"

(26 percent of the amount bid for at the low price was accepted)

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, April 28, 1942.

Press Service
No. 31-34

The Bureau of Customs announced today that preliminary reports from the collectors of customs show imports of 20,445 head of Canadian cattle weighing 700 pounds or more each (other than cows imported specially for dairy purposes), during the period April 1 to 18, 1942, inclusive, under the tariff rate quota of 51,720 head for the second quarter of the calendar year 1942, provided for under the trade agreement with Canada.

These reports also show that the tariff rate quota of 8,280 head for this class of cattle, the produce of foreign countries other than Canada, for the second quarter of 1942 was filled on April 1, 1942.

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The Secretary of the Treasury, by this public notice, invites tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated May 6, 1942, and will mature August 5, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern war time, Monday, May 4, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders, will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on May 6, 1942.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under

Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, April 30, 1942.

Press Service
No. 31-36

Secretary Morgenthau announced today that the Treasury's May financing will be in substantially the following form:

1. The Treasury will offer on Monday of next week a 2% bond with a medium maturity in the amount of \$1,250,000,000, or thereabouts. The rules theretofore in effect governing the basis of subscriptions to Government securities will not be applicable. All subscriptions up to \$10,000 will be allotted in full.
2. The Treasury will offer at the same time a 2½% registered bond of longer term. This bond will not be transferable for the first sixty days and it will not be available for subscription by commercial banks accepting demand deposits, nor eligible for purchase by such banks for a period of ten years. The bonds may be pledged as collateral for loans, including loans by commercial banks, but any commercial bank acquiring such securities because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks. The amount of the offering of this security will not be specifically limited. Subscriptions will be allotted in full as received and the offering will remain open for a period longer than customary. Subscriptions may be forwarded to the Federal Reserve Banks through commercial banks and the latter may make payment for the subscription allotted for account of their depositors through the Government's War Loan Account with such banks.
3. Next week the Treasury will offer for payment on Wednesday, May 13, \$250,000,000 in Treasury bills instead of the usual \$150,000,000. An offering of \$250,000,000 each week will continue for the next several weeks. The Treasury is advised that the Federal Open Market Committee has directed the twelve Federal Reserve Banks to purchase for the System Open Market Account all Treasury bills that may be offered to such banks, on a discount basis, at the rate of 3/8 per cent per annum.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Sunday, May 3, 1942.
5/1/42

Press Service
No. 31-37

A flood of unrequested cash donations to help finance the war effort, received in Washington since the President's fireside talk of last Tuesday, was described by Secretary Morgenthau today as an impressive demonstration of the virility of the voluntary spirit in American life. The voluntary principle is the basis of the Treasury's new quota campaign to sell a billion dollars' worth of War Savings Bonds every month.

After consultation with leaders in labor, industry and agriculture, Treasury officials became convinced that the people of the nation would prefer an opportunity to subscribe voluntarily to the War Bonds rather than resort to legislation requiring such purchases. The continued waves of outright contributions to pay for the tools of war have strengthened this conviction.

Since June, 1940, a total of 13,895 cash donations have been received, totalling \$614,670.57. This number is exclusive of approximately 15,000 individual donations grouped and treated as single gifts as, for example, was done in the case of an aeronautical corporation whose 7,000 employees sent in individual checks. The amount is exclusive of stock, old gold and offers where the value, if any, has not been ascertained.

Every cash gift is acknowledged on behalf of Secretary Morgenthau by a friendly little letter which thanks the donor for his patriotism and lauds it as an example of the interest, effort and sacrifice of a united people.

At the same time the letter stresses the urgent importance of setting aside a substantial part of current income to finance the war and to check the rising cost of living, and reminds the reader that War Savings Bonds and Stamps were designed for this particular purpose.

Donors represent all walks of life. From the mountains of Colorado came recently a small cash donation from a self-styled hermit. From a Chinese proprietor of an art store in Mexico comes regular donations of 25 per cent of all purchases made by American

customers. At least four widows of World War #1 turn back their pension checks to Uncle Sam, while an American oil operator in Venezuela has contributed \$100 each month since Pearl Harbor.

Occasionally the letters contain more than a touch of pathos. One such was received recently from an aged married couple enclosing 10 per cent of their income. The letter explained the couple had no dependents and did not wish to buy War Bonds as their life expectancy was too short to witness maturity of these bonds ten years hence.

In the table that follows the chronological receipts of cash donations for national defense is given through April 30, 1942:

Donations Received:	<u>Number</u>	<u>Amount</u>
June 18, 1940 to August 31, 1941	4,341	\$ 42,860.97
September, 1941 to December 7, 1941 (Pearl Harbor)	147	2,489.10
December 7, - 31, 1941	2,126	88,350.54
January, 1942	2,123	239,120.49
February, 1942	838	77,163.37
March, 1942	1,919	99,535.10
April 1 - 30, 1942	2,401	65,151.00
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TOTAL	13,895	\$614,670.57

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, May 4, 1942.
5/2/42

Press Service
No. 31-38

Secretary of the Treasury Morgenthau today announced an offering of two series of Treasury Bonds, through the Federal Reserve Banks, and invited cash subscriptions, at par and accrued interest, for \$1,250,000,000, or thereabouts, of 2 percent Treasury Bonds of 1949-51, and for an unspecified amount of 2-1/2 percent Treasury Bonds of 1962-67.

The Treasury Bonds of 1949-51, now offered for subscription, will be dated May 15, 1942, and will bear interest from that date at the rate of 2 percent per annum payable semiannually with the first coupon due September 15, 1942, for a fractional period. The bonds will mature September 15, 1951, but may be redeemed, at the option of the United States, on and after September 15, 1949. The bonds will be issued in two forms: bearer bonds with interest coupons attached, and bonds registered both as to principal and interest. Both forms will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. For these bonds restrictions recently in effect as to the basis of subscriptions to Government securities will not apply. All subscriptions for amounts up to \$10,000 will be allotted in full; other subscriptions will be received subject to allotment.

The Treasury Bonds of 1962-67, also offered for subscription at this time, will be dated May 5, 1942, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable semiannually with the first payment due December 15, 1942, covering the period from May 5, 1942. The bonds will mature June 15, 1967, but may be redeemed, at the option of the United States, on and after June 15, 1962. Bonds registered both as to principal and interest will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000; they will not be issued in coupon form prior to May 5, 1952, but coupon bonds in these denominations will be available and freely interchangeable with the registered bonds after that date. These bonds will not be transferable for the first sixty days from May 5, and they will not be available for subscription by commercial banks accepting demand deposits, nor eligible for transfer to such banks for a period of ten years from May 5. The bonds may be pledged as collateral for loans, including loans by commercial banks which accept demand deposits, but any such banks acquiring the bonds because of the failure of such loans to be paid at maturity will be required

to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks. As the offering is not specifically limited in amount, it will remain open for a period longer than customary.

Pursuant to the provisions of the Public Debt Act of 1941, interest upon the bonds now offered shall not have any exemption, as such, under Federal Tax Acts now or hereafter enacted. The full provisions relating to taxability are set forth in the official circulars released today.

Subscriptions for the bonds of both series will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington. Banking institutions generally and in addition, for the 2-1/2 percent Treasury Bonds of 1962-67, security dealers generally, may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. For the 2 percent Treasury Bonds of 1949-51, subscriptions from banks and trust companies for their own account will be received without deposit, but subscriptions for these bonds from all others must be accompanied by payment of 10 percent of the amount of bonds applied for. Subscriptions for the 2-1/2 percent Treasury Bonds of 1962-67 must be accompanied by payment in full.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions for bonds of either or both series at any time without notice. The basis of allotment for the 2 percent Treasury Bonds of 1949-51 will be publicly announced, and payment for any such bonds allotted must be made or completed on or before May 15, 1942, or on later allotment. Subscriptions for the 2-1/2 percent Treasury Bonds of 1962-67 will be allotted in full as received, and payment at par and accrued interest, if any, must be made on or before May 5, 1942, or on later allotment. One day's accrued interest is about seven cents per \$1,000.

The texts of the official circulars follow:

UNITED STATES OF AMERICA

2 PERCENT TREASURY BONDS OF 1949-51

Dated and bearing interest from May 15, 1942

Due September 15, 1951

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER SEPTEMBER 15, 1949

Interest payable March 15 and September 15

1942

Department Circular No. 684

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, May 4, 1942.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 2 percent Treasury Bonds of 1949-51. The amount of the offering is \$1,250,000,000, or thereabouts.

II. DESCRIPTION OF BONDS

1. The bonds will be dated May 15, 1942, and will bear interest from that date at the rate of 2 percent per annum, payable on a semiannual basis on September 15, 1942, and thereafter on March 15 and September 15 in each year until the principal amount becomes payable. They will mature September 15, 1951, but may be redeemed at the option of the United States on and after September 15, 1949, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or of the securities which may be allotted thereon, prior to the closing of the subscription books. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions from banks and trust companies for their own account will be received without deposit. Subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, subscriptions for amounts up to and including \$10,000 will be allotted in full. The basis of the allotment on all other subscriptions will be publicly announced, and allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made or completed on or before May 15, 1942, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of bonds applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

UNITED STATES OF AMERICA

2-1/2 PERCENT TREASURY BONDS OF 1962-67

Dated and bearing interest from May 5, 1942

Due June 15, 1967

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND
AFTER JUNE 15, 1962

Interest payable June 15 and December 15

1942

Department Circular No. 685

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, May 4, 1942.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 2-1/2 percent Treasury Bonds of 1962-67. These bonds will not be available for subscription, for their own account, by commercial banks which accept demand deposits. The amount of the offering is not specifically limited.

II. DESCRIPTION OF BONDS

1. The bonds will be dated May 5, 1942, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable on a semiannual basis on June 15 and December 15 in each year until the principal amount becomes payable, the first payment being made December 15, 1942. They will mature June 15, 1967, but may be redeemed at the option of the United States on and after June 15, 1962, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will not be acceptable to secure deposits of public moneys before May 5, 1952, they will not bear the circulation privilege, and they will not be entitled to any privilege of conversion.

4. Bonds registered as to principal and interest will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The bonds will not be issued in coupon form prior to May 5, 1952, but will be available in coupon form after that date, in the same denominations as, and freely interchangeable with, the registered bonds of this issue. Under rules and regulations prescribed

by the Secretary of the Treasury, provision will be made for the transfer of the bonds, other than to commercial banks which accept demand deposits, and for exchanges of denominations, on and after July 6, 1942. They will not be eligible for transfer to commercial banks which accept demand deposits before May 5, 1952. However, the bonds may be pledged as collateral for loans, including loans by commercial banks which accept demand deposits, but any such bank acquiring such bonds before May 5, 1952 because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks.

5. Except as provided in the preceding paragraphs, the bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions and security dealers generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made on or before May 5, 1942, or on later allotment. One day's accrued interest is \$0.06868 per \$1,000. Any qualified depository will be permitted to make payment by credit for bonds allotted to its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

STATUTORY DEBT LIMITATION
AS OF APRIL 30, 1942.

May 4, 1942.

Section 21 of the Second Liberty Bond Act, as amended, provides that the face amount of obligations issued under authority of that Act, "shall not exceed in the aggregate \$125,000,000,000 outstanding at any one time."

The following table shows the face amount of obligations outstanding and the face amount which can still be issued under this limitation:

Total face amount that may be outstanding at any one time		\$125,000,000,000
Outstanding as of April 30, 1942:		
Interest-bearing:		
Bonds -		
Treasury	\$35,909,784,700	
Savings (Maturity value)*	10,957,211,250	
Depository	76,361,000	
Adjusted Service	<u>730,336,696</u>	\$47,673,693,646
Treasury notes	12,239,863,225	
Certificates of indebtedness	4,439,635,000	
Treasury bills (maturity value)	<u>1,953,364,000</u>	<u>18,632,862,225</u>
		\$66,306,555,871
Matured obligations, on which interest has ceased	<u>96,197,050</u>	<u>66,402,752,921</u>
Face amount of obligations issuable under above authority		<u>\$58,597,247,079</u>

Reconcilement with Daily Statement of the United States Treasury
April 30, 1942

Total face amount of outstanding public debt obligations issued under authority of the Second Liberty Bond Act, as amended.		\$66,402,752,921
Deduct, unearned discount on Savings bonds (difference between current redemption value and maturity value)		<u>2,006,198,132</u>
		64,396,554,789
Add other public debt obligations outstanding but not subject to the statutory limitation:		
Interest-bearing (Pre-War, etc.)	\$ 195,990,180	
Matured obligations on which interest has ceased	11,306,480	
Bearing no interest	<u>357,466,376</u>	<u>564,763,036</u>
Total gross debt outstanding as of April 30, 1942		<u>\$64,961,317,825</u>

* Approximate maturity value. Principal amount (current redemption value) according to preliminary public debt statement \$8,951,013,118.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, May 4, 1942.

Press Service
No. 31-40

Secretary of the Treasury Morgenthau today announced that the subscription books for the current offering of \$1,250,000,000, or thereabouts, of 2 percent Treasury Bonds of 1949-51 will close at the close of business today, May 4.

Subscriptions addressed to a Federal Reserve Bank or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Monday, May 4, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment for this issue will probably be made on Friday, May 8.

The subscription books will remain open until further notice for the receipt of subscriptions for the 2-1/2 percent Treasury Bonds of 1962-67.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, May 5, 1942.
5/4/42

Press Service
No. 31-41

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be dated May 6 and to mature August 5, 1942, which were offered on May 1, were opened at the Federal Reserve Banks on May 4.

The details of this issue are as follows:

Total applied for - \$354,590,000
Total accepted - 150,400,000

Range of accepted bids:

High	- 99.938	Equivalent rate	approximately	0.245	percent
Low	- 99.906	"	"	0.372	"
Average					
Price	- 99.910	"	"	0.358	"

(72 percent of the amount bid for at the low price was accepted)

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, May 5, 1942.

Press Service
No. 31-42

As a further link in the closer relations which have developed between the Governments of the United States and of Iceland during the last year, Secretary of the Treasury Henry Morgenthau, Jr., and Icelandic Minister Thor Thors signed an Exchange Stabilization Agreement today.

This agreement between the Government of the United States, the Government of Iceland and the National Bank of Iceland, provides that up to \$2,000,000 of the United States Stabilization Fund will be used for the purpose of stabilizing the United States dollar-Icelandic krona rate of exchange.

The agreement also provides for periodic conferences among representatives of the parties to the agreement to discuss monetary, financial and economic problems of mutual interest.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, May 5, 1942.

Press Service
No. 31-43

The Treasury Department today cleared the way for active participation by the women of Latin America in the war activities of the American National Red Cross by removing tariff barriers to importation of goods and materials designed for use by the relief agency.

The Bureau of Customs issued the new regulations, under Presidential authority, and with the cooperation of the State Department. The ruling is general, permitting free entry of food, clothing, medical, surgical and other supplies imported by the Red Cross for relief work in connection with the war.

However, Red Cross officials said that the immediate effect of the order would be to admit the handiwork of scores of chapters of the organization in other American Republics. The Red Cross said there were no plans for the present to acquire food and other materials for importation.

These "Good Neighbor" chapters are functioning similarly to the Red Cross sewing rooms in this country, except that the members supply their own materials. United States women residing in the Latin-American countries have set up units, and the citizens of South and Central American nations are participating eagerly, Red Cross Headquarters here said.

Mexico has chapters in a dozen cities, and other units are functioning in Argentina, Brazil, Costa Rica, Guatemala, El Salvador, and Uruguay. Organizations also are being set up in Bolivia, Chile, Cuba, Haiti, Honduras, Paraguay and Venezuela. The units have memberships from 50 to 700.

The Tariff Act of 1930 authorizes the Secretary of the Treasury to permit free entry of relief materials for the Red Cross upon declaration by the President of a state of emergency.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, May 5, 1942.

Press Service
No. 31-44

The Bureau of Customs announced today that preliminary reports from the principal ports of entry of Canadian cattle weighing 700 pounds or more each (other than cows imported specially for dairy purposes), indicate that during the period April 1 to May 2, 1942, inclusive, approximately 40,500 head of this class of Canadian cattle were entered for consumption under the tariff rate quota of 51,720 head for the second quarter of the calendar year 1942, provided for in the trade agreement with Canada.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, May 5, 1942.

Press Service
No. 31-45

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the twelve months commencing October 1, 1941, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	: Quota Quantity : : (Pounds) ^{1/} :	: Authorized for Entry : : For Consumption : : As of (Date) : (Pounds) -
Signatory Countries:		
Brazil	1,401,426,521	Apr. 25, 1942 691,351,585
Colombia	475,086,450	" 262,911,533
Costa Rica	30,144,642	May 2, 1942 ^{2/} 28,791,839
Cuba	12,109,603	Apr. 25, 1942 2,817,231
Dominican Republic	18,098,664	(Import quota filled)
Ecuador	22,634,408	Apr. 25, 1942 17,910,857
El Salvador	96,657,909	" 53,718,930
Guatemala	80,715,477	" 59,842,922
Haiti	41,436,647	May 2, 1942 ^{2/} 37,714,628
Honduras	3,287,588	Apr. 25, 1942 1,316,027
Mexico	74,966,100	" 26,207,451
Nicaragua	32,078,385	" 16,066,927
Peru	3,767,088	May 2, 1942 ^{2/} 3,111,658
Venezuela	38,094,430	Apr. 25, 1942 30,293,877
Non-signatory Countries:		
British Empire, except Aden and Canada	17,674,322	(Import quota filled)
Kingdom of the Netherlands and its possessions	19,669,574	Apr. 25, 1942 13,086,302
Aden, Yemen, and Saudi Arabia	3,872,909	" 875,809
Other Countries not signatories of the Inter- American Coffee Agreement	12,276,800	(Import quota filled)

^{1/} Quotas revised effective February 26, 1942.

^{2/} Per telegraphic reports.

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, May 7, 1942.
5/6/42

Press Service
No. 31-46

During the month ended April 30, 1942, authorizations were issued to receivers for payments of dividends to the creditors of four insolvent national banks. Dividends so authorized will effect total distributions of \$256,000 to 14,601 claimants who have proved claims aggregating \$6,815,800, or an average payment of 3.76 percent. The minimum and maximum percentages of dividends authorized were 1.25 percent and 8.2 percent, while the smallest and largest payments involved in dividend authorizations during the month were \$20,500 and \$138,800, respectively. All four dividends authorized during the month were final dividend payments. Dividend payments so authorized during the month ended April 30, 1942, were as follows:

DIVIDEND PAYMENTS TO CREDITORS OF INSOLVENT NATIONAL
BANKS AUTHORIZED DURING THE MONTH ENDED
APRIL 30, 1942

<u>Name and Location of Bank</u>	<u>Nature of Dividend</u>	<u>Date Authorized</u>	<u>Number and Percentage of Dividend Authorized</u>	<u>Distribution of Funds by Dividend Authorized</u>	<u>Total Percentage Authorized Dividends to Date</u>	<u>Number of Claimants</u>	<u>Amount Claims Proved</u>
The Grand National Bk. of St. Louis, Missouri	Final	4/2/42	8th 1.25%	\$ 20,500	90.25%	4,486	\$ 1,637,000
First National Bank of East Rochester, N. Y.	Final	4/16/42	6th 8.2%	58,600	93.2%	2,409	715,300
Union National Bank of Scranton, Pennsylvania	Final	4/30/42	4th 6.07%	138,800	76.07%	5,300	2,287,100
Merchants Nat'l Bank of Brownsville, Texas	Final	4/9/42	3rd 1.75%	38,100	46.75%	2,406	2,176,400

The Secretary of the Treasury, by this public notice, invites tenders for \$250,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated May 13, 1942, and will mature August 12, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern war time, Monday, May 11, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on May 13, 1942.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts

now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, May 7, 1942.

Press Service
No. 31-48

The Bureau of Customs announced today that preliminary reports from the principal ports of entry of Canadian cattle weighing 700 pounds or more each (other than cows imported specially for dairy purposes), indicate that during the period April 1 to May 5, 1942, inclusive, approximately 44,000 head of this class of Canadian cattle were entered for consumption under the tariff rate quota for the second quarter of the calendar year 1942, provided for in the trade agreement with Canada.

The President's proclamation signed December 22, 1941, provides that not more than 51,720 head of this class of cattle, the produce of Canada, entered, or withdrawn from warehouse, for consumption in any calendar quarter year during 1942 shall be entitled to the reduced rate of duty of 1-1/2 cents per pound provided in the trade agreement.

During the period May 8 to June 30, 1942, inclusive, the collectors of customs have been instructed to collect estimated duties at 3 cents per pound, the full rate of duty under paragraph 701 of the Tariff Act of 1930, on this class of Canadian cattle entered or withdrawn for consumption. Excessive duties deposited on imported cattle of this class found to be within the quarterly quota will be refunded.

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

FOR RELEASE, MORNING NEWSPAPERS
Saturday, May 9, 1942.

Press Service
31-49

The Comptroller of the Currency today released the following preliminary figures, showing the assets and liabilities of all active banks in the United States and possessions on Dec. 31, 1941, and comparisons of such figures with the assets and liabilities of all active banks on June 30, 1941, and Dec. 31, 1940.

(In thousands of dollars)

	Dec. 31, 1941	June 30, 1941	Dec. 31, 1940
Number of banks.....	14,885	14,919	14,956
ASSETS			
Loans on real estate.....	9,718,024	9,633,305	9,436,945
Other loans, including overdrafts.....	17,120,341	15,910,133	14,530,531
Total loans.....	26,838,365	25,543,438	23,967,476
U. S. Government securities:			
Direct obligations.....	21,235,684	18,892,790	16,788,834
Guaranteed obligations.....	4,318,125	4,684,271	4,239,964
Obligations of States and political subdivisions.....	4,196,861	4,206,526	4,339,983
Other bonds, notes, and debentures.....	4,165,153	4,242,115	4,416,238
Corporate stocks, including stock of Federal Reserve banks....	673,523	704,030	743,555
Total investments.....	34,589,346	32,729,732	30,528,574
Currency and coin.....	1,545,018	1,408,306	1,407,364
Balances with other banks, including reserve balances.....	25,942,377	25,471,008	26,846,418
Bank premises owned, furniture and fixtures.....	1,209,480	1,222,200	1,223,787
Real estate owned other than bank premises.....	706,486	834,353	930,106
Investments and other assets indirectly representing bank premises or other real estate.....	133,125	144,408	144,002
Customers' liability on acceptances outstanding.....	84,468	90,360	104,269
Interest, commissions, rent, and other income earned or accrued but not collected.....	162,893	157,961)	419,906
Other assets.....	242,136	226,953)	
Total assets.....	91,453,694	87,828,719	85,571,902

	Dec. 31, 1941	June 30, 1941	Dec. 31, 1940
LIABILITIES			
Deposits of individuals, partnerships, and corporations:			
Demand.....	37,805,431	35,571,528	33,636,143
Time.....	26,063,374	26,247,184	26,072,015
U. S. Government and postal savings deposits.....	1,947,950	800,326	805,449
Deposits of States and political subdivisions.....	4,303,416	4,140,029	3,939,312
Deposits of banks.....	11,015,110	10,982,431	10,973,203
Other deposits (certified and cashiers' checks, etc.).....	1,097,979	807,831	981,763
Total deposits.....	82,233,260	78,549,329	76,407,885
Bills payable, rediscounts, and other liabilities for borrowed money.....	22,593	22,559	25,060
Acceptances executed by or for account of reporting banks.....	100,521	106,594	120,773
Interest, discount, rent, and other income collected but not earned.....	97,811	101,181)	
Interest, taxes, and other expenses accrued and unpaid.....	124,227	114,899)-----	608,626
Other liabilities.....	380,145	409,638)	
Total liabilities.....	82,958,557	79,304,200	77,162,344
CAPITAL ACCOUNTS			
Capital notes and debentures.....	108,146	114,650	123,134
Preferred stock.....	312,133	331,873	347,613
Common stock.....	2,614,082	2,608,482	2,599,772
Surplus.....	3,704,368	3,616,763	3,501,155
Undivided profits.....	1,248,461	1,247,041	1,186,924
Reserves and retirement account for preferred stock and capital notes and debentures.....	507,947	605,710	590,960
Total capital accounts.....	8,495,137	8,524,519	8,409,558
Total liabilities and capital accounts.....	91,453,694	87,828,719	85,571,902

Assets and liabilities of all active banks in the United States and possessions, by classes, Dec. 31, 1941.

(In thousands of dollars)

	: Total all : banks	: National : banks	: All banks : other than : national	: Banks other than national		
				: State : (commercial):	: Mutual : savings	: Private
Number of banks.....	14,885	5,123	9,762	9,162	548	52
ASSETS						
Loans and discounts:						
Commercial and industrial loans.....	8,780,952	5,184,624	3,596,328	3,572,068	357	23,903
Agricultural loans.....	1,513,805	818,806	694,999	694,294	243	462
Open-market paper.....	699,696	395,399	304,297	291,699	6,651	5,947
Loans to brokers and dealers in securities.	636,868	253,954	382,914	377,305	30	5,579
Other loans for the purpose of purchasing or carrying stocks, bonds, and other securities.....	679,566	336,215	343,351	338,434	490	4,427
Real estate loans:						
On farm land.....	576,423	222,813	353,610	342,719	10,458	433
On residential properties.....	8,049,876	1,551,543	6,498,333	1,738,746	4,757,873	1,714
On other properties.....	1,091,725	481,052	610,673	566,768	43,845	60
Loans to banks.....	41,286	14,651	26,635	26,594	41	--
All other loans.....	4,755,084	2,484,922	2,270,162	2,176,727	84,568	8,867
Overdrafts.....	13,084	7,813	5,271	4,839	--	432
Total loans and discounts.....	26,838,365	11,751,792	15,086,573	10,130,193	4,904,556	51,824
Investments:						
U. S. Government direct obligations.....	21,235,684	9,786,743	11,448,941	7,796,096	3,613,619	39,226
Obligations guaranteed by U. S. Government:						
Reconstruction Finance Corporation.....	1,476,530	612,380	864,150	838,799	17,376	7,975
Home Owners' Loan Corporation.....	1,619,163	1,036,424	582,739	532,548	47,068	3,123
Federal Farm Mortgage Corporation.....	579,014	294,890	284,124	271,228	12,429	467
Other Government corporations and agencies.	643,418	342,615	300,803	287,499	9,239	4,065
Total U. S. Government obligations, direct and guaranteed.....	25,553,809	12,073,052	13,480,757	9,726,170	3,699,731	54,856
Obligations of States and political sub- divisions.....	4,196,861	2,024,715	2,172,146	1,728,825	438,649	4,672

1/ Includes trust companies and stock savings banks.

Assets and liabilities of all active banks in the United States and possessions, by classes,
Dec. 31, 1941 - Continued.

(In thousands of dollars)

	: Total all : banks	: National : banks	: All banks : other than : national	: Banks other than national		
				: State (commercial):	: Mutual savings:	: Private
Investments - Continued:						
Other bonds, notes, and debentures:						
U.S. Government corporations and agencies, not guaranteed by United States:						
Federal land banks.....	195,441	110,840	84,601	76,405	3,013	5,183
Federal intermediate credit banks.....	205,204	111,066	94,138	89,778	3,645	715
Other Government corporations and agencies.....	202,029	109,660	92,369	91,718	137	514
Other domestic corporations:						
Railroads.....	1,317,025	459,507	857,518	401,870	455,390	258
Public utilities.....	923,294	280,824	642,470	276,940	364,881	649
Industrials.....	648,531	353,244	295,287	284,815	9,719	753
All other.....	466,662	73,457	393,205	99,281	290,419	3,505
Foreign--public and private.....	206,967	89,408	117,559	80,892	36,233	434
Total other bonds, notes, and debentures.....	4,165,153	1,588,006	2,577,147	1,401,699	1,163,437	12,011
Stocks of Federal Reserve banks and other domestic corporations.....	666,195	201,293	464,902	287,998	171,518	5,386
Stocks of foreign corporations.....	7,328	442	6,886	6,757	--	129
Total investments.....	34,589,346	15,887,508	18,701,838	13,151,449	5,473,335	77,054
Currency and coin.....	1,545,018	786,501	758,517	668,437	88,026	2,054
Balances with other banks, including reserve balances and cash items in process of collection.....	25,942,377	14,215,429	11,726,948	10,969,554	707,140	50,254
Bank premises owned, furniture and fixtures..	1,209,480	590,579	618,901	500,595	117,811	495
Real estate owned other than bank premises...	706,486	81,697	624,789	199,722	424,146	921
Investments and other assets indirectly representing bank premises or other real estate.	133,125	54,036	79,089	62,013	17,042	34
Customers' liability on acceptances outstanding	84,468	40,139	44,329	35,425	--	8,904
Interest, commissions, rent and other income earned or accrued but not collected.....	162,893	64,346	98,547	56,367	42,154	26

Assets and liabilities of all active banks in the United States and possessions, by classes,
Dec. 31, 1941 - Continued

(In thousands of dollars)

	Total all banks	National banks	All banks other than national	Banks other than national		
				State (commercial)	Mutual savings	Private
Other deposits (certified and cashiers' checks (including dividend checks, letters of credit and travelers' checks sold for cash, and amounts due to reserve agents (transit account)).....	1,097,979	585,549	512,430	510,648	231	1,551
Total deposits.....	82,233,260	39,554,772	42,678,488	31,983,509	10,533,061	161,918
Bills payable, rediscounts, and other liabilities for borrowed money.....	22,593	3,778	18,815	18,541	125	149
Acceptances executed by or for account of reporting banks and outstanding.....	100,521	47,558	52,963	43,112	--	9,851
Interest, discount, rent, and other income collected but not earned.....	97,811	52,613	45,198	44,787	358	53
Interest, taxes, and other expenses accrued and unpaid.....	124,227	62,570	61,657	51,915	9,677	65
Other liabilities (including securities borrowed and dividends declared but not payable).....	380,145	167,844	212,301	191,332	20,666	303
Total liabilities.....	82,958,557	39,889,135	43,069,422	32,333,196	10,563,887	172,339
CAPITAL ACCOUNTS						
Capital stock:						
Capital notes and debentures.....	108,146	--	108,146	101,346	6,800	--
Preferred stock.....	312,133	168,530	143,603	143,603	--	--
Common stock.....	2,614,082	1,347,264	1,266,818	1,260,520	--	6,298
Surplus.....	3,704,368	1,388,672	2,315,696	1,433,531	870,209	11,956
Undivided profits.....	1,248,461	499,081	749,380	435,971	313,035	374
Reserves and retirement account for preferred stock and capital notes and debentures.....	507,947	245,552	262,395	207,119	54,155	1,121
Total capital accounts.....	8,495,137	3,649,099	4,846,038	3,582,090	1,244,199	19,749
Total liabilities and capital accounts..	91,453,694	43,538,234	47,915,460	35,915,286	11,808,086	192,088

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, May 8, 1942.

Press Service
No. 31-50

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the cash offering of 2 percent Treasury Bonds of 1949-51.

Reports received from the Federal Reserve Banks show that subscriptions aggregate \$3,287,000,000. Subscriptions in amounts up to and including \$10,000, totaling about \$69,000,000, were allotted in full. Subscriptions in amounts over \$10,000 were allotted 38 percent, on a straight percentage basis, but not less than \$10,000 on any one subscription, with adjustments, where necessary, to the \$100 denomination.

Details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, May 12, 1942.
5/11/42

Press Service
No. 31-51

During the month of April, 1942, the liquidation of eleven insolvent national banks was completed and the affairs of such receiverships finally closed.

Total disbursements, including offsets allowed, to depositors and other creditors of these eleven receiverships, amounted to \$30,683,557, while dividends paid to unsecured creditors amounted to an average of 55.38 percent of their claims. Total costs of liquidation of these receiverships averaged 9.44 percent of total collections from all sources including offsets allowed.

Dividend distributions to all creditors of all active receiverships during the month of April, amounted to \$1,705,279. Data as to results of liquidation of the receiverships finally closed during the month are as follows:

INSOLVENT NATIONAL BANKS LIQUIDATED AND FINALLY CLOSED
DURING THE MONTH OF APRIL, 1942

<u>Name and Location of Bank</u>	<u>Date of Failure</u>	<u>Total Disbursements to Creditors Including Offsets Allowed</u>	<u>Percent Dividends Declared to All Claimants</u>	<u>Capital Stock at Date of Failure</u>	<u>Cash, Assets, Uncollected Stock Assessments, etc., Returned to Shareholders</u>
Park Savings Bank Washington, D. C.	7-13-33	\$ 2,261,613	36.68%	\$ 100,000	- 0 -
Seventh St. Savings Bank Washington, D. C.	12-21-33	1,584,337	^{1/} 106.8%	100,000	- 0 -
Bowmanville Nat'l Bank of Chicago, Illinois	6-21-32	1,687,193	47.25%	300,000	- 0 -
Third Nat'l Bank Mount Vernon, Illinois	1-3-33	2,211,658	85.56%	150,000	- 0 -
First National Bank Wilmette, Illinois	6-25-32	900,547	77.00%	150,000	- 0 -
National Bank of America at Gary, Indiana	2-10-32	1,035,065	98.5%	150,000	- 0 -
Ticonic National Bank Waterville, Maine ^{2/}	6-28-34	390,167	16.736%	200,000	- 0 -

^{1/} 100 percent and partial interest paid to creditors.

^{2/} Receiver appointed to levy and collect stock assessment covering deficiency in value of assets sold, or to complete unfinished liquidation.

INSOLVENT NATIONAL BANKS LIQUIDATED AND FINALLY CLOSED
DURING THE MONTH OF APRIL, 1942

<u>Name and Location of Bank</u>	<u>Date of Failure</u>	<u>Total Disbursements to Creditors Including Offsets Allowed</u>	<u>Percent Dividends Declared to All Claimants</u>	<u>Capital Stock at Date of Failure</u>	<u>Cash, Assets, Uncollected Stock Assessments, etc., Returned to Shareholders</u>
Federal National Bank Boston, Massachusetts	12-15-31	\$ 15,959,612	49.94%	\$ 2,005,585	- 0 -
First National Bank Birmingham, Michigan	10-14-33	2,203,386	71.425%	200,000	- 0 -
National Bank of Ionia, Michigan	6-26-34	1,316,253	96.38%	150,000	- 0 -
First National Bank Masontown, Pennsylvania	4-18-31	1,133,726	35.7%	100,000	- 0 -

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, May 12, 1942.
5/11/42

Press Service
No. 31-52

The Secretary of the Treasury announced last evening that the tenders for \$250,000,000, or thereabouts, of 91-day Treasury bills, to be dated May 13 and to mature August 12, 1942, which were offered on May 8, were opened at the Federal Reserve Banks on May 11.

The details of this issue are as follows:

Total applied for - \$546,350,000
Total accepted - 250,692,000

Range of accepted bids: (Excepting two tenders totaling \$15,000)

High	- 99.938	Equivalent	rate	approximately	0.245	percent
Low	- 99.905	"	"	"	0.376	"
Average						
Price	- 99.907	"	"	"	0.368	"

(15 percent of the amount bid for at the low price was accepted)

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, May 12, 1942.

Press Service
No. 31-53

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the twelve months commencing October 1, 1941, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	: Quota Quantity : (Pounds) <u>1/</u>	: As of (Date)	: Authorized for Entry : for Consumption : (Pounds)
Signatory Countries:			
Brazil	1,401,426,521	May 2, 1942	707,842,934
Colombia	475,086,450	"	279,900,095
Costa Rica	30,144,642	May 9, 1942 <u>2/</u>	28,968,172
Cuba	12,109,603	May 2, 1942	2,916,695
Dominican Republic	18,098,664	(Import quota filled)	
Ecuador	22,634,408	May 2, 1942	17,913,253
El Salvador	96,657,909	"	64,917,808
Guatemala	80,715,477	"	63,257,062
Haiti	41,436,647	May 9, 1942 <u>2/</u>	38,238,077
Honduras	3,287,588	May 2, 1942	1,839,674
Mexico	74,966,100	"	26,838,869
Nicaragua	32,078,385	"	17,258,831
Peru	3,767,088	May 9, 1942 <u>2/</u>	3,111,658
Venezuela	38,094,430	" <u>2/</u>	31,844,325
Non-signatory Countries:			
British Empire, except Aden and Canada	17,674,322	(Import quota filled)	
Kingdom of the Netherlands and its possessions	19,669,574	May 2, 1942	13,086,296
Aden, Yemen, and Saudi Arabia	3,872,909	"	875,809
Other Countries not sig- natories of the Inter- American Coffee Agreement	12,276,800	(Import quota filled)	

1/ Quotas revised effective February 26, 1942.

2/ Per telegraphic reports.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, May 12, 1942.

Press Service
No. 31-54

Secretary of the Treasury Morgenthau today announced that the subscription books for the current offering of 2-1/2 percent Treasury Bonds of 1962-67 will close at the close of business Thursday, May 14.

Subscriptions addressed to a Federal Reserve Bank or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight Thursday, May 14, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and allotments and their division among the several Federal Reserve Districts will be made when final reports are received from the Federal Reserve Banks.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, May 13, 1942.

Press Service
No. 31-55

The Bureau of Customs announced today that preliminary reports from the collectors of customs show imports of cotton and cotton waste chargeable to the import quotas established by the President's proclamations of September 5, 1939, and December 19, 1940, as follows, during the period September 20, 1941, to May 2, 1942, inclusive:

COTTON HAVING A STAPLE OF LESS THAN 1-11/16 INCHES (OTHER THAN HARSH OR ROUGH COTTON OF LESS THAN 3/4 INCH IN STAPLE LENGTH AND CHIEFLY USED IN THE MANUFACTURE OF BLANKETS AND BLANKETING, AND OTHER THAN LINTERS). Annual quotas commencing September 20, by Countries of Origin:

Country of Origin	(In Pounds)			
	Staple length less than 1-1/8"	Imports Sept. : Established : 20, 1941, to : Quota : May 2, 1942	Staple length 1-1/8" or more but less than 1-11/16"	Imports Sept. : Established : 20, 1941, to : Quota : May 2, 1942
Egypt and the Anglo-Egyptian Sudan	783,816	-	43,451,566	29,786,314
Peru	247,952	247,952	2,056,299	2,056,299
British India	2,003,483	69,452	64,942	-
China	1,370,791	-	2,626	-
Mexico	8,883,259	8,883,259	-	-
Brazil	618,723	618,723	3,808	8
Union of Soviet Socialist Republics ..	475,124	-	-	-
Argentina	5,203	203	435	2
Haiti	237	2	506	6
Ecuador	9,333	9,333	-	-
Honduras	752	-	-	-
Paraguay	871	-	-	-
Colombia	124	-	-	-
Iraq	195	-	-	-
British East Africa	2,240	-	29,909	170
Netherlands East Indies	71,388	-	-	-
Barbados	-	-	12,554	-
Other British West Indies 1/	21,321	-	30,139	-
Nigeria	5,377	30	-	-
Other British West Africa 2/	16,004	-	2,002	-
Algeria and Tunisia	-	-	1,634	-
Other French Africa 3/ ..	689	-	-	-
Total	14,516,882	9,828,954	45,656,420	31,842,799

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.

2/ Other than Gold Coast and Nigeria.

3/ Other than Algeria, Tunisia, and Madagascar.

COTTON CARD STRIPS ^{2/}, COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE. Annual quotas commencing September 20, by Countries of Origin:

Total quota provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes other than card strips ^{2/} and comber wastes made from cottons of 1-3/16 inches or more in staple length in the case of the following countries: United Kingdom, France, Netherlands, Switzerland, Belgium, Germany and Italy:

		(In Pounds)		
Country of Origin	: Established TOTAL QUOTA	TOTAL IMPORTS : Sept. 20, 1941 to May 2, 1942	: Established 33-1/3% of Total Quota	Imports Sept. 20, 1941, to May 2, 1942 ^{1/}
United Kingdom	4,323,457	434	1,441,152	434
Canada	239,690	231,615	-	-
France	227,420	-	75,807	-
British India	69,627	69,627	-	-
Netherlands	68,240	-	22,747	-
Switzerland	44,388	-	14,796	-
Belgium	38,559	-	12,853	-
Japan	341,535	-	-	-
China	17,322	-	-	-
Egypt	8,135	-	-	-
Cuba	6,544	-	-	-
Germany	76,329	-	25,443	-
Italy	21,263	-	7,088	-
Total	5,482,509	301,676	1,599,886	434

^{1/} Included in total imports, column 2.

^{2/} The President's proclamation, signed March 31, 1942, exempts from import quota restrictions card strips made from cottons having a staple 1-3/16 inches or more in length.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, May 13, 1942.

Press Service
No. 31-56

The Bureau of Customs announced today preliminary figures for imports of commodities within quota limitations provided for under trade agreements, from the beginning of the quota periods to May 2, 1942, inclusive, as follows:

Commodity	: <u>Established Quota</u> :	Unit of	: Imports as of
	: Period & Country :	Quantity :	Quantity : May 2, 1942
Cattle less than 200 pounds each	Calendar year	100,000 Head	28,960
Cattle, 700 pounds or more each (other than dairy cows)	Quarter year from April 1, 1942		
	Canada	51,720 "	40,276
	Other countries	8,280 "	(Tariff rate quota filled)
Whole milk, fresh or sour	Calendar year	3,000,000 Gallon	1,664
Cream, fresh or sour	Calendar year	1,500,000 Gallon	356
Fish, fresh or frozen filleted, etc., cod, haddock, hake, pollock, cusk and rosefish	Calendar year	15,000,000 Pound	3,309,651
White or Irish potatoes Certified seed	12 months from Sept. 15, 1941	90,000,000 Pound	32,542,754
	Other	12 months from Sept. 15, 1941	60,000,000 Pound
Cuban filler tobacco, unstemmed or stemmed (other than cigarette leaf tobacco), and scrap tobacco	Calendar year	22,000,000 Pound (Unstemmed equivalent)	7,836,172
Red Cedar Shingles	Calendar year	2,617,111 Square	1,181,347
Silver or black foxes, furs, and articles: Foxes valued under \$250 ea. and whole furs and skins	Month of April 1942		
	Canada	17,500 Number	5,083 <u>1/</u>
	Other than Canada	6,395 "	None
Tails	12 months from December 1, 1941	5,000 Piece	(Import quota filled)

Commodity	Established Quota Period & Country	Quantity	Unit of Quantity	Imports as of May 2, 1942
Silver or black foxes, furs, and articles:				
Paws, heads, or other separated parts	12 months from December 1, 1941	500	Pound	(Import quota filled)
Piece plates	"	550	Pound	None
Articles, other than Piece plates	"	500	Unit	22
Crude petroleum, topped crude petroleum, and fuel oil	Calendar year Venezuela	2,082,574,771	Gallon	272,280,641
	Netherlands	630,097,196	"	211,615,355
	Colombia	94,662,490	"	81,767,338
	Other Countries	150,868,343	"	138,388,942
Molasses and sugar sirups containing soluble nonsugar solids equal to more than 6% of total soluble solids	Calendar year	1,500,000	Gallon	665,594

1/ Covers month of April only.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, May 13, 1942.

Press Service
No. 31-57

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and wheat flour entered, or withdrawn from warehouse, for consumption under the import quotas established in the President's Proclamation of May 28, 1941, as modified by the President's proclamation of April 13, 1942, for the twelve months commencing May 29, 1941, as follows:

Country of Origin	Wheat		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Established Quota (Bushels)	Imports May 29, 1941, to May 2, 1942 (Bushels)	Established Quota (Pounds)	Imports May 29, 1941 to May 2, 1942 (Pounds)
Canada	795,000	795,000	3,815,000	3,806,840
China	-	-	24,000	5,836
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	6,116
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	-
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	-
Netherlands	100	-	1,000	-
Argentina	2,000	-	14,000	-
Italy	100	-	2,000	-
Cuba	-	-	12,000	97
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Danzig	-	-	1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-	-	1,000	-
Norway	-	-	1,000	-
Canary Islands	-	-	1,000	-
Rumania	1,000	-	-	-
Guatemala	100	-	-	-
Brazil	100	-	-	-
Union of Soviet Socialist Republics	100	-	-	-
Belgium	100	-	-	-
	800,000	795,000	4,000,000	3,818,889

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, May 13, 1942.

Press Service
No. 31-58

The Bureau of Customs announced today preliminary figures for imports of commodities within the quota limitations provided for under the Philippine Independence Act, as amended by the Act of August 7, 1939, from January 1 to May 2, 1942, inclusive, as follows:

Products of Philippine Islands	;	Established Quota		:	Unit of	:	Imports as of
	:	Period	:	Quantity	:	Quantity	: May 2, 1942
Coconut oil		Calendar year		448,000,000		Pound	31,141,490
Refined sugars		Calendar year		112,000,000)		Pound	2,346,712
) 1/			
)			
Sugars other than refined		Calendar year		1,792,000,000)		Pound	43,232,544
Cordage		Calendar year		6,000,000		Pound	323,826
Buttons of Pearl or shell		Calendar year		850,000		Gross	72,057
Cigars		Calendar year		200,000,000		Number	521,366
Scrap tobacco and stemmed and unstemmed filler tobacco		Calendar year		4,500,000		Pound	210,617

1/ The duty-free quota on Philippine Sugars applies to 850,000 long tons, of which not more than 50,000 long tons may be refined sugars.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, May 14, 1942.

Press Service
No. 31-59

5/13/42

Secretary Morgenthau today announced plans for the organization throughout the country of Victory Fund Committees to be set up in each Federal Reserve district and to be made up of bankers and members of the securities industry to aid the Treasury's financing program. This organization will work chiefly with the larger investors and will in no way duplicate the work of the War Savings Staff.

Because the nation's war needs have increased tremendously the money-raising responsibilities of the Treasury, the Secretary of the Treasury has accepted the offer of the banking and securities industry to co-ordinate their efforts in helping to distribute Government securities.

The organization announced today, in which committees headed by presidents of the Federal Reserve Banks will be set up in each Federal Reserve district, developed through assistance given the Treasury by the banking and securities industries.

The collaboration of these organizations will be formalized with the establishment of the new Victory Fund Committees, tied together nationally by a committee of Federal Reserve bank presidents, of which the Secretary of the Treasury will be chairman. The Chairman of the Board of Governors of the Federal Reserve System will provide the liaison between the Reserve banks and the Treasury.

In some districts executive committees may be set up for operating purposes, and district committees, with approval of the Secretary of the Treasury, may set up regional subcommittees.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, May 15, 1942.

The Secretary of the Treasury, by this public notice, invites tenders for \$250,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated May 20, 1942, and will mature August 19, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p.m., Eastern war time, Monday, May 18, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on May 20, 1942.

(Over)

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, May 14, 1942.

Press Service
No. 31-61

The Treasury Department today made public a ruling which permits actors, athletes, lecturers and others to donate their services "directly and gratuitously" to charitable causes without reporting the value of such services for income tax purposes.

A flood of recent inquiries, resulting from talent donations to war-time charities by "big-name" performers, caused the Treasury to issue the ruling, which affects numerous organizations sponsoring entertainments for the purpose of augmenting their incomes.

An example in which the donor of his or her talents to a charity need not include the proceeds from such performance in gross income, Internal Revenue officials said, would be the case of an actor or athlete whose services were requested by the charitable organization actually sponsoring the event, and the income from the event, whatever it might be, would belong solely to the organization.

However, when the services of the entertainer are rendered to a person other than a charitable organization and that person makes payment for the entertainer's services to the charitable organization, the amount so paid must be included in the return of the performer and subject to Federal tax.

Typical of these cases would be a radio sponsor or a motion picture producer who engaged the services of the entertainer, and by agreement with the actor or athlete, turned the payment for his services over to a charitable organization. This would be treated by the Treasury as an assignment of income by the entertainer and taxable to him.

The text of the new ruling, which amends section 19.22 (a)-2 of Regulations 103 relative to compensation for personal services, is as follows:

"The value of services need not be included in gross income when rendered directly and gratuitously to an organization described in section 23(o). Where, however, pursuant to an agreement or understanding services are rendered to a person for the benefit of an organization described in section 23(o) and an amount for such services is paid to such organization by the person to whom the services are rendered, the amount so paid constitutes income to the person performing the services even though at the time of the agreement or understanding the person making the payment acknowledges his liability to make payment to such organization. The second sentence of this paragraph shall not apply where such an agreement or understanding has been entered into prior to May 14, 1942, (the date of the approval of Treasury Decision 5151)."

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, May 15, 1942.

Press Service
No. 31-62

Market transactions in Government securities for Treasury investment and other accounts in April, 1942, resulted in net purchases of \$300,000, Secretary Morgenthau announced today.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Sunday, May 17, 1942.
5/16/42

Press Service
No. 31-63

Secretary Morgenthau today asked all employees of the Treasury Department in Washington and throughout the country - more than 67,000 persons - to set an example for all other Government workers by putting aside at least 10 percent of their pay every pay day for the buying of War Savings Bonds.

The Secretary announced that an "All-out for Victory" campaign would be conducted during the two week period beginning June 1 to enroll every Treasury employee in the Government's Payroll Allotment Plan for systematic War Bond purchase. The sale of bonds and stamps for cash through so-called group agents will be discontinued in Government departments July 1, and a Payroll Allotment campaign similar to the Treasury's will soon be begun in all other departments and agencies of the Government.

This action follows closely the President's order of last April 16, establishing an Interdepartmental Committee for the promotion of voluntary savings by Government employees through the payroll allotment system.

In line with his recent announcement of a 10 percent goal for the nation, Mr. Morgenthau's goal for his own Department is 10 percent of the gross payroll. Translated into dollars and cents, complete participation on the part of Treasury employees would mean the allotment of \$600,000 twice each month by more than 67,000 Treasury employees, or almost \$14,500,000 a year.

With the slogan "Everybody - Every Pay Day - At Least 10%" the campaign will be directed by E. F. Bartelt, Commissioner of Accounts, acting as departmental chairman. Mr. Bartelt will be assisted by representatives of the various bureaus and offices of the Treasury Department.

Mr. Bartelt said that the Treasury was seeking not only to enroll as many of its employees as possible, in the field as well as in Washington, but also to have each employee set aside on every pay day the maximum amount which his income will permit. The Department expects a total of at least 10 percent of the gross amount of each semi-monthly payroll to be allotted by employees for the purchase of bonds, and quotas will be established for the several bureaus and divisions on this basis, he declared.

To achieve this purpose specially selected "Minute Men" will be assigned to call on designated employees with a view to enrolling them in the Plan. Each employee will be supplied with a payroll pledge card already approved by the Comptroller General, on which the employee authorizes the Treasury to deduct a percentage of the semi-monthly pay. The authorization will remain in effect until cancelled by the employee in writing.

Other Government departments are expected to employ a similar plan, while several have indicated their program will be along identical lines.

"Our plans for financing the war are based on the belief that the American people will, of their own free will, want to assume a big share of the cost," Mr. Morgenthau wrote recently in a letter to Treasury employees. "In this effort no group should be more active than the employees of the Government itself. They should be in the front ranks of that vast army of wage-earners throughout the country who are so generously supplying fighting dollars for fighting men. In every community pay days are fast becoming 'bond days' for everyone receiving regular current income.

"This is a people's war," the Secretary continued, "and I am depending on you to do your part by supplying your just share of the funds necessary to finance this war. It will be the responsibility of each one of us to determine the very most that we can set aside from our wages each pay day to buy War Bonds for our own good and for our country's good."

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Saturday, May 16, 1942.

Press Service
No. 31-64

Bids for furnishing distinctive paper for printing the currency and public debt securities of the United States during the fiscal year 1943 were received and opened at the Department on May 14. Only one bid was received, from Crane and Company, Inc., Dalton, Massachusetts, the present contractor.

The price offered was $40\frac{1}{2}\phi$ per pound for the currency paper and $32\frac{1}{2}\phi$ per pound for the bond paper. The currency paper was bid at the price we are now paying for that paper, and the bid for the bond paper is 3ϕ per pound less than the present price.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, May 18, 1942.

Press Service
No. 31-65

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 2-1/2 percent Treasury Bonds of 1962-67.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received and Allotted</u>
Boston	\$ 55,589,400
New York	586,998,100
Philadelphia	27,274,900
Cleveland	28,918,100
Richmond	14,881,800
Atlanta	6,740,700
Chicago	48,525,600
St. Louis	6,826,100
Minneapolis	8,575,200
Kansas City	5,187,400
Dallas	19,339,700
San Francisco	18,055,300
Treasury	55,166,400
TOTAL	<u>\$882,078,700</u>

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, May 18, 1942.

Press Service
No. 31-66

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 2 percent Treasury Bonds of 1949-51.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received</u>	<u>Total Subscriptions Allotted</u>
Boston	\$ 174,935,000	\$ 67,734,500
New York	1,289,326,300	493,606,700
Philadelphia	136,489,900	53,614,700
Cleveland	170,332,400	67,555,600
Richmond	118,470,900	47,175,700
Atlanta	163,858,800	72,399,400
Chicago	719,358,500	280,228,400
St. Louis	83,653,400	37,002,900
Minneapolis	53,172,900	23,189,000
Kansas City	66,997,200	28,982,900
Dallas	84,668,600	35,329,800
San Francisco	216,329,500	83,439,500
Treasury	5,750,000	2,185,000
TOTAL	<u>\$3,283,343,400</u>	<u>\$1,292,444,100</u>

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, May 19, 1942.

Press Service
No. 31-67

The Treasury Department today extended its controls over importation of securities so as to cover the importation of currency. Prior to today's action, controls over the importation of currency have been limited to importations from blocked countries and Proclaimed List nationals. Under the new ruling, currency upon importation into this country will be forwarded immediately to a Federal Reserve Bank as fiscal agent of the United States. The Federal Reserve Bank will thereafter hold such currency or deliver it to a domestic bank to be held until such time as the Treasury Department has authorized its release.

It was pointed out that just as in the case of the provisions applicable to securities which are subject to similar control, the provisions of the amended general ruling applicable to currency imported from Latin America will be so administered as to prevent interference with legitimate importations of currency from that area, including the bringing in by travelers of reasonable amounts of currency for traveling expenses. Treasury officials suggested that the fact that an importation of currency from Latin America was bona fide could be more easily established if such currency were sent into the United States by and for the account of the central banks (or the equivalent or analogous institutions) of any of the American Republics under appropriate assurances from such banks or institutions.

(Over)

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, May 19, 1942.
5/18/42

Press Service
No. 31-68

The Secretary of the Treasury announced last evening that the tenders for \$250,000,000, or thereabouts, of 91-day Treasury bills to be dated May 20 and to mature August 19, 1942, which were offered on May 15, were opened at the Federal Reserve Banks on May 18.

The details of this issue are as follows:

Total applied for - \$567,190,000
Total accepted - 251,726,000

Range of accepted bids: (Excepting several tenders
totaling \$98,000)

High	- 99.940	Equivalent rate approximately	0.237	percent
Low	- 99.906	" " "	0.372	"
Average				
Price	- 99.908	" " "	0.365	"

(73 percent of the amount bid for at the low price was accepted)

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, May 19, 1942.

Press Service
No. 31-69

The Bureau of Customs announced today that preliminary reports from the collectors of customs show imports of 46,774 head of Canadian cattle weighing 700 pounds or more each (other than cows imported specially for dairy purposes), during the period April 1 to May 9, 1942, inclusive, under the tariff rate quota of 51,720 head for the second quarter of the calendar year 1942, provided for under the trade agreement with Canada.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, May 21, 1942.
5/20/42

Press Service
No. 31-70

The American people have poured more than \$15,000,000,000 into their Treasury since the beginning of the calendar year, the Department's ledgers showed today.

From January 1 to May 15 Government receipts from taxes, borrowings and all other sources amounted to \$15,797,000,000, a sum, Treasury officials said, far in excess of any amount ever collected in a comparable period of time.

Contributing largely to the heavy influx was the voluntary purchase of \$3,117,000,000 of War Savings Bonds and Stamps during the period, which indicated the widespread popularity of this class of security, particularly in the light of the limit on maximum purchases permitted in any one year.

Income tax payers, making their first returns under the higher levies enacted last year, contributed a total of \$3,905,000,000, principally during the first installment period on March 15. This rate, of course, is not expected to be maintained during the remainder of the year because many small taxpayers waived the privilege of installment payments and remitted in full, officials said.

Of the remainder, a total of \$4,208,000,000 has been realized through the purchase of Treasury bonds, including the issue of 2½ percent 20-25 year bonds which remained open for subscription for a period of 10 days and which was closed on May 14; \$1,506,000,000 through the sale of Certificates of Indebtedness, and \$343,000,000 through the net sale of Tax Savings notes purchased in anticipation of future income tax assessments.

The cost of the War is expected to increase progressively from the present rate of about \$3,500,000,000 a month to more than \$5,000,000,000 a month by the end of the calendar year 1942. Nevertheless, Treasury officials said that it was a proof of the financial soundness and the patriotism of the country that the vast amount of \$15,797,000,000 could be collected without dislocating the national economy or without any widespread public awareness of the total amount of money involved.

In the table that follows is a summary for the first four and a half months of the year of receipts and expenditures, taken from official Treasury records:

RECEIPTS	(In millions)
<u>General revenue:</u>	
Income Tax	\$ 3,905
Miscellaneous	1,553
Other, excluding transfer to Federal Old Age and Survivors Insurance Trust Fund	402
Net receipts	<u>5,860</u>
 <u>Trust Fund Receipts, etc. (net):</u>	
Federal Old-Age and Survivors Insurance Trust Fund	402
Unemployment Trust Fund	347
Other	-12
Total trust fund receipts	<u>737</u>
 <u>Public debt receipts, cash (net):</u>	
<u>Marketable issues:</u>	
Certificates of Indebtedness	1,506
Treasury bonds	4,208
Treasury notes (tax series)	343
United States savings bonds	3,117
Other	26
Total public debt receipts	<u>9,200</u>
Total general, trust and public debt receipts	<u><u>\$15,797</u></u>
 EXPENDITURES	
General	2,142
War activities	12,192
Governmental corporations and credit agencies (net)	<u>1,193</u>
Total expenditures	<u><u>\$15,527</u></u>
Excess of receipts over expenditures	<u><u>\$270</u></u>
 GENERAL FUND BALANCE	
December 31, 1941	3,560
May 15, 1942	3,830
Net increase	270

INCOME TAX COLLECTION AT THE SOURCE

Statement of Randolph E. Paul,
Tax Adviser to the Secretary of the Treasury,
Before the Ways and Means Committee
of the House of Representatives
on the reasons for recommending
collection at source

May 20, 1942

In his statement of March 3, 1942, Secretary Morgenthau suggested that part of the income tax be collected at source for those types of income for which this method of collection is practicable. Before presenting an outline of the method by which collection at source could be put into operation, we should like to indicate the advantages of this method, particularly under present circumstances. These advantages are primarily: (1) Lightening the burden on the taxpayer; (2) greater speed and flexibility in meeting the threat of inflation; and (3) greater assurance of collection for certain groups of taxpayers.

1. The convenience of the taxpayer. -- At present exemption levels, approximately 20 million taxpayers are expected to pay a tax on their 1942 incomes. At the lower exemption levels tentatively approved by the House Ways and Means Committee, the number of taxpayers would be increased by about 8 million, making a total of about 28 million taxpayers in all. Under the rates proposed by the Treasury, the tax would begin at sixteen percent on the first dollar of income above the exemption. The rates are rapidly progressive, as they must be, to raise in an equitable way the amount of revenue that needs to come from the income tax. The result is a tax burden that many persons will find very difficult to meet under the present method of payment.

At present, individuals pay their tax in the year following the receipt of the income on which the tax is levied. Most persons, especially in the middle and lower income brackets, make little if any advance provision for their tax liabilities by building up reserves during the year when the income is being earned. They are therefore obliged to pay the tax in, at most, four quarterly installments, out of the income of the following year. These installments are in many cases very hard to meet because they have not been built up bit by bit, week by week, or month by month. Furthermore, in numerous cases the income of the following year is less than the income of the taxable year and, accordingly, the tax liability must be met out of a smaller income. This problem threatens to be particularly acute at the end of the war. Many will suffer large declines in income and yet be obligated to pay heavy wartime taxes on the high incomes of the preceding year.

The burden on the taxpayer would be considerably lightened if the tax were taken from his income week by week or month by month as he receives it. Collection at the source provides a convenient method of accomplishing this objective, of enabling the taxpayer to pay his tax currently in a large number of small installments rather than in a few large installments in the succeeding year. While no method of paying taxes can make them painless, collection at source is the most nearly painless of any method because the tax is paid in small amounts before the taxpayer receives his income and spends it.

Furthermore, it is very much to the taxpayer's advantage to have a substantial part of his tax liability liquidated while he is receiving his income. Under the present system he ends each year in debt to the Government. This debt for his income tax is as burdensome as any other debt and can have just as serious effects on the taxpayer's budget if his income falls off or his expenses greatly increase.

The first reason for urging the adoption of a system of collecting the income tax at source on such portions of income as are adapted to this method is, therefore, that the convenience of the taxpayer is thereby served and the weight of the tax burden is reduced.

2. The control of inflation. -- The introduction of collection at the source is essential not only because it would be a permanent improvement in the income tax, but also because it would make the income tax a more effective fiscal instrument for the control of inflation. In order that increases in taxes contribute most effectively to the control of inflation, they must begin to withdraw income at once. Under present methods of payment, an increase in income taxes enacted now will not affect tax payments until March 1943. By the time the higher collections become effective, the inflationary damage may be done.

Collection at source would largely eliminate this lag. Income taxes can be increased and the collections under the increased rates can begin almost immediately instead of many months or even a year later.

Collection of income taxes simultaneously with the production of the income will make the income tax better adjusted to the needs of the economy at all times, and not only at times like the present, when inflation threatens. In periods when incomes are falling and unemployment is increasing, it will contribute to economic stability if the taxpayers are out of

debt to the Government, so that their purchases of goods and their other economic activities are not unduly hampered by the necessity of paying income taxes on income received in a more prosperous year.

Accordingly, to get the maximum effect in restraining inflation, and to make the income tax better suited to the needs of the economy, it is important that as much of the income tax as possible be collected currently while the income is being earned. The most practical method of doing this is through collection at source for those parts of the income to which this method is applicable.

If collection at source were introduced July 1, 1942, at a 10-percent rate, there would be withheld from consumers during the last 6 months of this year alone about a billion and a quarter dollars under the lowered exemptions tentatively adopted by the House Ways and Means Committee. This is at an annual rate of $2\frac{1}{2}$ billion dollars. If the present system of collection is retained, there will be no increase in the amounts collected from consumers until March 1943.

3. The improvement of collections from small taxpayers.--
As the number of taxpayers increases the problem of getting a full reporting of income likewise increases. The American system of income taxation is one of self-assessment. The taxpayer files his return, lists his income, and computes his tax. To a considerable extent, of course, he is assisted in these operations by representatives of the Government, but the initiative is his. By and large, this system has worked well, although, as we all know it has not worked perfectly. That non-reporting and underreporting have not been greater is attributable in considerable measure to the reporting of information at source. The employer, for example, is required to submit to the Government a slip for every person receiving more than \$800 of wages or salary showing his name, address, and the amount of wages or salaries paid to him. Ordinarily, a copy of this slip is sent also to the employee. This reporting system, on the one hand, gives the employee notice that the Government has been informed of his income and, on the other hand gives the Government a source of information against which to check the income-tax return. While the appropriations made available to the Bureau of Internal Revenue have not permitted a complete check of the information returns against the income-tax returns, a great deal of checking has been done with the result that the reporting by workers has been found to be very high and the loss of revenue due to lack of reporting relatively low.

Nevertheless, the lowering of exemptions and increase in number of returns subjects to the income tax groups that are less well informed about tax matters and are less likely to file a return at the same time that it increases the task of checking the returns. Further, when the checking reveals a delinquency, the delinquency must be treated taxpayer by taxpayer.

The collection-at-source method not only gives the Government information about the employee's compensation but also gives the Government a large part of the tax, the part it receives depending on how much of the tax is collected at source. With the income tax extending more and more into the masses of the population, collection is thereby assured in areas where there would be an increasing likelihood of its breaking down.

The importance of this problem is illustrated by the experience of England and Australia. In both countries taxation at the source was introduced primarily for the purpose of easing the payment problem and of facilitating the collection of the income tax, rather than for anti-inflationary purposes.

The third reason for adopting collection at source is therefore the more complete tax collection that should result therefrom.

Against these advantages of collection at source must be set the disadvantage arising from the administrative difficulty inherent in this type of collection. Collection of an income tax at source involves the same type of administrative difficulty of matching returns as in the administration of the Social Security pay-roll taxes. It involves some additional difficulty, notably in checking the tax return at the end of the year against the payments which have been made from time to time by the employer on account of his employees and in making refunds in those cases where too large an amount has been collected because of irregularity of employment. These administrative problems are revealed in more detail by the description that follows of the plan that has been developed for the collection of the individual income tax at source. While this plan can doubtless be improved in some of its details, I believe we have succeeded in working out an entirely practicable plan.

It is our conviction that if proper provisions are made for its administration, collection at source is a highly desirable method of collecting the income tax and that its very great advantages far outweigh the administrative difficulties which would arise. Accordingly, we recommend to the committee that it provide for collection of the income tax

at source on salaries, wages, bond interest, and dividends. The income tax is no longer a tax on the fortunate few; it has become a people's tax. This change in coverage demands a change in methods of collection. Self-assessment and quarterly installments are no longer adequate. They should be supplemented by collection at source, the only method that is suited to the needs of a multitude of new taxpayers. The enactment of collection at source will prove a boon to these taxpayers, will convert the income tax into an effective fiscal instrument for the control of inflation, and will insure the collection of the taxes levied.

An income tax which covers as many as 20 or 30 million people cannot function effectively without collection at source. In my opinion the very existence of the income tax of the scope proposed depends upon the adoption of this new collection device.

SUMMARY OF PLAN FOR COLLECTION OF INDIVIDUAL INCOME TAX AT SOURCE

Collection at source will apply to three types of income: (1) Wages and salaries, (2) bond interest, and (3) dividends.

A. CURRENT WITHHOLDING

1. Wages and salaries -- (a) Each employee will fill out and give to his employer an exemption certificate, indicating marital and dependency status, and, if married, whether the spouse is also employed.

(b) On the basis of the exemption certificate, the employer will classify the employee according to the exemption to which he is entitled.

(c) Each pay period the employer will withhold from the employee's wage or salary an amount determined by applying the withholding rate to the excess of the wage or salary over the exemption to which the employee is entitled.

(d) The employer will determine the exemption to which the employee is entitled by reference to a table to be furnished by the Bureau of Internal Revenue. (See attached exhibit.) This table will show the exemption for different marital status and dependent groups and for different pay periods (weekly, semimonthly, monthly).

(e) This table will be computed by adding an arbitrary allowance for deductions to the annual personal exemption and credit for dependents, and prorating the sum over the number of pay periods.

(f) At the end of each quarter, the employer will remit to the Bureau of Internal Revenue the amounts withheld during that quarter.

(g) At the end of the year the employer will send to the Bureau of Internal Revenue the exemption certificates filled out by the employees, entering on each the amount of wages paid during the year and the amount of tax withheld.

(h) At the end of the year, or at the termination of employment, the employer will give the employee a duplicate of his exemption certificate, entering on this duplicate the amount of wages paid during the year and the amount of tax withheld. This duplicate will serve as a receipt for the taxes withheld. In addition, small employers will be required to give the employee each pay period a receipt for the amount of tax withheld.

2. Bond interest and dividends. -- (a) Corporations and other institutions exempt from the individual income tax will file exemption certificates with the payors of interest or dividends certifying to their exempt status.

(b) Individuals who expect their total annual income to be less than the exemption and dependent credit to which they are entitled may also file exemption certificates with the payors, certifying to that effect.

(c) Payors of bond interest and dividends will withhold the tax on payments to all recipients who have not filed exemption certificates. The amount withheld will be computed by applying the withholding rate to the total amount of interest or dividends paid. By not withholding on payments to persons who have filed exemption certificates, relief is given to persons with small incomes derived largely from interest and dividends.

(d) All payments of dividends and interest on which the tax has been withheld will be accompanied by a receipt for the amount withheld.

(e) At the end of each quarter, payors of dividends or bond interest will remit to the Bureau of Internal Revenue the amounts withheld during that quarter.

(f) At the end of the year, the employer will send to the Bureau of Internal Revenue a list of all payments made during the year, the amount of tax withheld from each recipient, and the exemption certificates for recipients not subject to withholding.

B. YEAR-END ADJUSTMENT

(a) All persons from whom any tax has been withheld will be required to file an individual income-tax return by March 15 of the following year, along with all other persons required to file returns.

(b) The tax liability will be computed as at present.

(c) The tax form will carry space for entering the amount of tax withheld at source.

(d) If the tax liability exceeds the amount withheld, the difference represents the amount the taxpayer must pay to satisfy his liability.

(e) If the amount withheld exceeds the tax liability, the difference represents the refund to which the taxpayer is entitled.

(f) If the refund claimed is less than \$50 and if the taxpayer submits with his tax return receipts for all amounts withheld at source, the refund will be made promptly without further evidence.

(g) The information given by employers and by payers of interest or dividends will be matched with the individual income-tax returns. This will furnish a check on the additional tax liability of individuals whose liability exceeds the amount withheld at source and a validation of the claims for refunds.

(h) Refunds not made promptly (as described in (f) above) will be made as soon as the tax returns have been compared with the reports of employers and of payers of interest and dividends.

Exhibit 1.

Amount of wage or salary to be exempt from collection at source under personal exemptions and credit for dependents tentatively adopted by House Ways and Means Committee: Single person (not head of family), married person or head of family, and each dependent, by payroll period

Payroll period	: Single person : : (not head of : : family)	: Married person : : or head of : : family	: Each : : dependent :
Weekly	\$ 11	\$ 26	\$ 8.50
Bi-weekly	22	52	17.00
Semi-monthly	23	55	18.00
Monthly	46	110	36.00
Quarterly	138	330	108.00
Semi-annually	276	660	216.00
Annually	552	1,320	432.00

Treasury Department,
Division of Tax Research.

May 20, 1942

3171

[CONFIDENTIAL COMMITTEE PRINT—UNREVISED]

DATA ON PROPOSED
REVENUE BILL OF 1942

SUBMITTED TO THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
BY THE
TREASURY DEPARTMENT

No. 14

MAY 20, 1942

D. Individual Income Tax—Continued
Section 6. Collection at source

UNITED STATES
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D. INDIVIDUAL INCOME TAX—Continued

Exhibit 97. Amount of individual income taxes and effective rates under schedule N and modified and original staff of Joint Committee rates, with Ways and Means tax base

SINGLE PERSON—NO DEPENDENTS
PERSONAL EXEMPTION: PRESENT LAW, \$750; WAYS AND MEANS BASE, \$500

Net income before personal exemption ¹	Amount of tax			Effective rates		
	Schedule N	Staff of Joint Committee rates		Schedule N	Staff of Joint Committee rate	
		Raised by 1 percentage point	Original		Raised by 1 percentage point	Original
				Pct.	Pct.	Pct.
\$500-----						
\$600-----	\$13	\$14	\$13	2.2	2.3	2.2
\$700-----	29	32	30	4.1	4.6	4.3
\$800-----	44	49	46	5.5	6.1	5.8
\$900-----	60	67	63	6.7	7.4	7.0
\$1,000-----	75	84	79	7.5	8.4	7.9
\$1,200-----	106	119	112	8.8	9.9	9.3
\$1,500-----	153	171	161	10.2	11.4	10.7
\$2,000-----	245	258	243	12.3	12.9	12.2
\$2,500-----	338	345	325	13.5	13.8	13.0
\$3,000-----	445	447	422	14.8	14.9	14.1
\$4,000-----	675	651	616	16.9	16.3	15.4
\$5,000-----	935	875	830	18.7	17.5	16.6
\$6,000-----	1,210	1,119	1,064	20.2	18.7	17.7
\$8,000-----	1,805	1,667	1,592	22.6	20.8	19.9
\$10,000-----	2,460	2,295	2,200	24.6	23.0	22.0
\$15,000-----	4,395	4,221	4,076	29.3	28.1	27.2
\$20,000-----	6,845	6,621	6,426	34.2	33.1	32.1
\$25,000-----	9,750	9,381	9,136	39.0	37.5	36.5
\$50,000-----	26,665	25,316	24,821	53.3	50.6	49.6
\$100,000-----	66,510	63,646	62,651	66.5	63.6	62.7
\$500,000-----	410,500	409,621	404,626	82.1	81.9	80.9
\$1,000,000-----	840,500	844,621	834,626	84.1	84.5	83.5
\$5,000,000-----	4,280,500	4,324,621	4,274,626	85.6	86.5	85.5
Normal tax rates (percent)-----	5	6	6	5	6	6

¹ Maximum earned income assumed.

Exhibit 97.—Amount of individual income taxes and effective rates under schedule N and modified and original staff of Joint Committee rates, with Ways and Means tax base—Continued

MARRIED—NO DEPENDENTS

PERSONAL EXEMPTION: PRESENT LAW, \$1,500; WAYS AND MEANS BASE, \$1,200

Net income before personal exemption ¹	Amount of tax			Effective rates		
	Schedule N	Staff of Joint Committee rates		Schedule N	Staff of Joint Committee rates	
		Raised by 1 percentage point	Original		Raised by 1 percentage point	Original
				Per-cent	Per-cent	Per-cent
\$1,200						
\$1,300	\$11	\$12	\$11	0.8	0.9	0.8
\$1,400	25	28	26	1.8	2.0	1.8
\$1,500	41	45	42	2.7	3.0	2.8
\$1,700	72	80	75	4.2	4.7	4.4
\$2,000	118	132	124	5.9	6.6	6.2
\$2,500	205	219	206	8.2	8.8	8.2
\$3,000	297	306	288	9.9	10.2	9.6
\$4,000	506	504	476	12.7	12.6	11.9
\$5,000	745	708	670	14.9	14.2	13.4
\$6,000	1,014	944	896	16.9	15.7	14.9
\$8,000	1,588	1,464	1,396	19.9	18.3	17.5
\$10,000	2,222	2,064	1,976	22.2	20.6	19.8
\$15,000	4,088	3,914	3,776	27.3	26.1	25.2
\$20,000	6,474	6,264	6,076	32.4	31.3	30.4
\$25,000	9,330	8,982	8,744	37.3	35.9	35.0
\$50,000	26,154	24,840	24,352	52.3	49.7	48.7
\$100,000	65,922	63,072	62,084	65.9	63.1	62.1
\$500,000	409,898	409,012	404,024	82.0	81.8	80.8
\$1,000,000	839,898	844,012	834,024	84.0	84.4	83.4
\$5,000,000	4,279,898	4,324,012	4,274,024	85.6	86.5	85.5
Normal tax rates (percent)-----	5	6	6	5	6	6

¹ Maximum earned income assumed.

Exhibit 97. Amount of individual income taxes and effective rates under schedule N and modified and original staff of Joint Committee rates, with Ways and Means tax base—Continued

MARRIED PERSON—TWO DEPENDENTS

PERSONAL EXEMPTION: PRESENT LAW, \$1,500; WAYS AND MEANS BASE, \$1,200

DEPENDENT CREDIT: PRESENT LAW, \$400; WAYS AND MEANS BASE, \$400

Net income before personal exemption and dependent credit ¹	Amount of tax			Effective rates		
	Schedule N	Staff of Joint Committee rates		Schedule N	Staff of Joint Committee rate	
		Raised by 1 percentage point	Original		Raised by 1 percentage point	Original
				Per-cent	Per-cent	Per-cent
\$2,000-----						
\$2,100-----	\$11	\$12	\$11	0.5	0.6	0.5
\$2,200-----	22	24	22	1.0	1.1	1.0
\$2,300-----	37	40	37	1.6	1.7	1.6
\$2,400-----	52	58	54	2.2	2.4	2.2
\$2,500-----	68	75	70	2.7	3.0	2.8
\$3,000-----	145	162	152	4.8	5.4	5.1
\$4,000-----	330	336	316	8.3	8.4	7.9
\$5,000-----	545	540	510	10.9	10.8	10.2
\$6,000-----	790	744	704	13.2	12.4	11.7
\$8,000-----	1,340	1,232	1,172	16.8	15.4	14.7
\$10,000-----	1,950	1,800	1,720	19.5	18.0	17.2
\$15,000-----	3,760	3,586	3,456	25.1	23.9	23.0
\$20,000-----	6,050	5,856	5,676	30.3	29.3	28.4
\$25,000-----	8,850	8,526	8,296	35.4	34.1	33.2
\$50,000-----	25,570	24,296	23,816	51.1	48.6	47.6
\$100,000-----	65,250	62,416	61,436	65.3	62.4	61.4
\$500,000-----	409,210	408,316	403,336	81.8	81.7	80.7
\$1,000,000-----	839,210	843,316	833,336	83.9	84.3	83.3
\$5,000,000-----	4,279,210	4,323,316	4,273,336	85.6	86.5	85.5
Normal tax rates (percent)-----	5	6	6	5	6	6

¹ Maximum earned income assumed.

Exhibit 98. Revenue effect under various schedules of rates, both with and without mandatory joint return provision,¹ at calendar year 1942 estimated levels of income, assuming that corporation taxes and individual income tax bases are those tentatively adopted by the Committee on Ways and Means through May 15, 1942

[In millions of dollars]

Surtax schedule	Normal tax rate	Total tax liabilities		Yield of mandatory joint return provision	Increase over yield of present law ²	
		Without mandatory joint returns	With mandatory joint returns		Without mandatory joint returns	With mandatory joint returns
	<i>Pct.</i>					
Treasury schedule.....	4	8,523.3	8,974.7	451.4	3,478.5	3,929.9
Schedule L.....	4	8,286.1	8,696.8	410.7	3,241.3	3,652.0
Schedule M.....	5	8,055.4	8,457.2	401.8	3,010.6	3,412.4
Schedule N.....	5	7,746.9	8,141.9	395.0	2,702.1	3,097.1
Schedule of staff of Joint Committee on Internal Revenue Taxation.....	6	7,483.8	7,841.7	357.9	2,439.0	2,796.9

¹ Without provision for special relief in connection with provision for mandatory joint returns.

² The present law is without mandatory joint returns.

Source: Treasury Department, Division of Research and Statistics, May 19, 1942.

Exhibit 99. Corporation taxes¹ and individual income tax with joint returns mandatory²—Estimated revenue effect at levels of income estimated for calendar year 1942³ of various proposed changes in law

[In millions of dollars]

Tax plan	Total liabilities			Increase (+), decrease (-)								
				Over yield of present law			Over yield of Treasury proposal of Mar 3, 1942			Over yield of Treasury proposal of May 6, 1942		
	Corporation	Individual	Total	Corporation	Individual	Total	Corporation	Individual	Total	Corporation	Individual	Total
Present law.....	7,937.1	5,044.8	12,981.9				-3,196.4	-2,692.4	-5,888.8	-3,196.4	-3,969.7	-7,166.1
Treasury proposal, Mar. 3, 1942.....	⁴ 11,133.5	⁵ 7,737.2	18,870.7	+3,196.4	+2,692.4	+5,888.8					-1,277.3	-1,277.3
Treasury proposal, May 6, 1942.....	⁴ 11,133.5	⁵ 9,014.5	20,148.0	+3,196.4	+3,969.7	+7,166.1		+1,277.3	+1,277.3			
Ways and Means Committee corporation proposals and individual income-tax base, with individual income-tax rates as follows:												
<i>Surtax schedule</i>												
<i>Normal tax rate</i>												
Proposed by Treasury..... 4 percent.....	10,442.3	8,974.7	19,417.0	+2,505.2	+3,929.9	+6,435.1	-691.2	+1,237.5	+546.3	-691.2	-39.8	-731.0
Schedule L..... 4 percent.....	10,442.3	8,696.8	19,139.1	+2,505.2	+3,652.0	+6,157.2	-691.2	+959.6	+268.4	-691.2	-317.7	-1,008.9
Schedule M..... 5 percent.....	10,442.3	8,457.2	18,899.5	+2,505.2	+3,412.4	+5,917.6	-691.2	+720.0	+28.8	-691.2	-557.3	-1,248.5
Schedule N..... 5 percent.....	10,442.3	8,141.9	18,584.2	+2,505.2	+3,097.1	+5,602.3	-691.2	+404.7	-286.5	-691.2	-872.6	-1,563.8
Proposed by staff of Joint Committee on Internal Revenue Taxation. 6 percent.....	10,442.3	7,841.7	18,284.0	+2,505.2	+2,796.9	+5,302.1	-691.2	+104.5	-586.7	-691.2	-1,172.8	-1,864.0

¹ Corporation income and excess-profits taxes and capital-stock tax.

² Figures representing tax liabilities under present law are without joint returns mandatory. All other figures (including those under the Treasury proposals of Mar. 3 and May 6, 1942) are with joint returns mandatory but are without provision for special relief in connection with the mandatory joint-return provision.

³ Adjusted for effect on dividends of increased corporation taxes proposed.

⁴ Excluding the revenue effect of special provisions relating to (a) changed treatment of capital gains and losses, (b) taxation of interest on outstanding obligations of State and local governments, (c) depletion, (d) consolidated returns, and (e) revised method of taxation of insurance companies.

⁵ Excluding the revenue effect of special provisions relating to (a) changed treatment of capital gains and losses, (b) taxation of interest on outstanding obligations of State and local governments, (c) allowance of medical expenses as a deduction, and (d) allowance of dependent credit for dependent school children between the ages of 18 to 20, inclusive. The special provisions relating to mandatory joint returns, as treated in this table, are described in footnote 2.

Source: Treasury Department, Division of Research and Statistics, May 19, 1942.

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INCOME TAX

Section 8. COLLECTION AT SOURCE

Exhibit 100. *Statement of Randolph E. Paul, Tax Adviser to the Secretary of the Treasury, before the Ways and Means Committee of the House of Representatives on the reasons for recommending collection at source*

May 20, 1942

In his statement of March 3, 1942, Secretary Morgenthau suggested that part of the income tax be collected at source for those types of income for which this method of collection is practicable. Before presenting an outline of the method by which collection at source could be put into operation, we should like to indicate the advantages of this method, particularly under present circumstances. These advantages are primarily: (1) Lightening the burden on the taxpayer; (2) greater speed and flexibility in meeting the threat of inflation; and (3) greater assurance of collection for certain groups of taxpayers.

1. *The convenience of the taxpayer.*—At present exemption levels, approximately 20 million taxpayers are expected to pay a tax on their 1942 incomes. At the lower exemption levels tentatively approved by the House Ways and Means Committee, the number of taxpayers would be increased by about 8 million, making a total of about 28 million taxpayers in all. Under the rates proposed by the Treasury, the tax would begin at sixteen percent on the first dollar of income above the exemption. The rates are rapidly progressive, as they must be, to raise in an equitable way the amount of revenue that needs to come from the income tax. The result is a tax burden that many persons will find very difficult to meet under the present method of payment.

At present, individuals pay their tax in the year following the receipt of the income on which the tax is levied. Most persons, especially in the middle and lower income brackets, make little if any advance provision for their tax liabilities by building up reserves during the year when the income is being earned. They are therefore obliged to pay the tax in, at most, four quarterly installments, out of the income of the following year. These installments are in many cases very hard to meet because they have not been built up bit by bit, week by week, or month by month. Furthermore, in numerous cases the income of the following year is less than the income of the taxable year and, accordingly, the tax liability must be met out of a smaller income. This problem threatens to be particularly acute at the end of the war. Many will suffer large declines in income and yet be obligated to pay heavy wartime taxes on the high incomes of the preceding year.

The burden on the taxpayer would be considerably lightened if the tax were taken from his income week by week or month by month as he receives it. Collection at the source provides a convenient method of accomplishing this objective, of enabling the taxpayer to pay his tax currently in a large number of small installments rather than in a few large installments in the succeeding year. While no method of paying taxes can make them painless, collection at source is the most nearly painless of any method because the tax is paid in small amounts before the taxpayer receives his income and spends it.

Furthermore, it is very much to the taxpayer's advantage to have a substantial part of his tax liability liquidated while he is receiving his income. Under the present system he ends each year in debt to the Government. This debt for his income tax is as burdensome as

any other debt and can have just as serious effects on the taxpayer's budget if his income falls off or his expenses greatly increase.

The first reason for urging the adoption of a system of collecting the income tax at source on such portions of income as are adapted to this method is, therefore, that the convenience of the taxpayer is thereby served and the weight of the tax burden is reduced.

2. *The control of inflation.*—The introduction of collection at the source is essential not only because it would be a permanent improvement in the income tax, but also because it would make the income tax a more effective fiscal instrument for the control of inflation. In order that increases in taxes contribute most effectively to the control of inflation, they must begin to withdraw income at once. Under present methods of payment, an increase in income taxes enacted now will not affect tax payments until March 1943. By the time the higher collections become effective, the inflationary damage may be done.

Collection at source would largely eliminate this lag. Income taxes can be increased and the collections under the increased rates can begin almost immediately instead of many months or even a year later.

Collection of income taxes simultaneously with the production of the income will make the income tax better adjusted to the needs of the economy at all times, and not only at times like the present, when inflation threatens. In periods when incomes are falling and unemployment is increasing, it will contribute to economic stability if the taxpayers are out of debt to the Government, so that their purchases of goods and their other economic activities are not unduly hampered by the necessity of paying income taxes on income received in a more prosperous year.

Accordingly, to get the maximum effect in restraining inflation, and to make the income tax better suited to the needs of the economy, it is important that as much of the income tax as possible be collected currently while the income is being earned. The most practical method of doing this is through collection at source for those parts of the income to which this method is applicable.

If collection at source were introduced July 1, 1942, at a 10-percent rate, there would be withheld from consumers during the last 6 months of this year alone about a billion and a quarter dollars under the lowered exemptions tentatively adopted by the House Ways and Means Committee. This is at an annual rate of 2½ billion dollars. ~~(Detailed estimates are given in the attached table.)~~ If the present system of collection is retained, there will be no increase in the amounts collected from consumers until March 1943.

3. *The improvement of collections from small taxpayers.*—As the number of taxpayers increases the problem of getting a full reporting of income likewise increases. The American system of income taxation is one of self-assessment. The taxpayer files his return, lists his income, and computes his tax. To a considerable extent, of course, he is assisted in these operations by representatives of the Government, but the initiative is his. By and large, this system has worked well, although, as we all know it has not worked perfectly. That non-reporting and underreporting have not been greater is attributable in considerable measure to the reporting of information at source. The employer, for example, is required to submit to the Government a slip

for every person receiving more than \$800 of wages or salary showing his name, address, and the amount of wages or salaries paid to him. Ordinarily, a copy of this slip is sent also to the employee. This reporting system, on the one hand, gives the employee notice that the Government has been informed of his income and, on the other hand, gives the Government a source of information against which to check the income-tax return. While the appropriations made available to the Bureau of Internal Revenue have not permitted a complete check of the information returns against the income-tax returns, a great deal of checking has been done with the result that the reporting by workers has been found to be very high and the loss of revenue due to lack of reporting relatively low.

Nevertheless, the lowering of exemptions and increase in number of returns subjects to the income tax groups that are less well informed about tax matters and are less likely to file a return at the same time that it increases the task of checking the returns. Further, when the checking reveals a delinquency, the delinquency must be treated taxpayer by taxpayer.

The collection-at-source method not only gives the Government information about the employee's compensation but also gives the Government a large part of the tax, the part it receives depending on how much of the tax is collected at source. With the income tax extending more and more into the masses of the population, collection is thereby assured in areas where there would be an increasing likelihood of its breaking down.

The importance of this problem is illustrated by the experience of England and Australia. In both countries taxation at the source was introduced primarily for the purpose of easing the payment problem and of facilitating the collection of the income tax, rather than for anti-inflationary purposes.

The third reason for adopting collection at source is therefore the more complete tax collection that should result therefrom.

Against these advantages of collection at source must be set the disadvantage arising from the administrative difficulty inherent in this type of collection. Collection of an income tax at source involves the same type of administrative difficulty of matching returns as in the administration of the Social Security pay-roll taxes. It involves some additional difficulty, notably in checking the tax return at the end of the year against the payments which have been made from time to time by the employer on account of his employees, and in making refunds in those cases where too large an amount has been collected because of irregularity of employment. These administrative problems are revealed in more detail by the description that follows of the plan that has been developed for the collection of the individual income tax at source. While this plan can doubtless be improved in some of its details, I believe we have succeeded in working out an entirely practicable plan.

It is our conviction that if proper provisions are made for its administration, collection at source is a highly desirable method of collecting the income tax and that its very great advantages far outweigh the administrative difficulties which would arise. Accordingly, we recommend to the committee that it provide for collection of the

income tax at source on salaries, wages, bond interest, and dividends. The income tax is no longer a tax on the fortunate few; it has become a people's tax. This change in coverage demands a change in methods of collection. Self-assessment and quarterly installments are no longer adequate. They should be supplemented by collection at source, the only method that is suited to the needs of a multitude of new taxpayers. The enactment of collection at source will prove a boon to these taxpayers, will convert the income tax into an effective fiscal instrument for the control of inflation, and will insure the collection of the taxes levied.

An income tax which covers as many as 20 or 30 million people cannot function effectively without collection at source. In my opinion the very existence of the income tax of the scope proposed depends upon the adoption of this new collection device.

In addition to a summary of a plan for collection at source, I am attaching brief summaries of the collection at source systems now in operation in Canada, Britain, and Australia.

Exhibit 101. Estimated revenue effects, for a full year of operation, at levels of income estimated for calendar year 1942¹ of collecting at source: (a) 10 percent of wages and salaries in excess of 110 percent of personal exemptions and dependent credit² and (b) 10 percent of the gross amount of dividends and bond interest, by net income classes³

Net income class	Amount collected at source, by type of income			
	Wages and salaries	Dividends	Bond interest	Total
Returns made taxable by lowered exemptions:	<i>Millions</i>	<i>Millions</i>	<i>Millions</i>	<i>Millions</i>
Under \$1,000.....	\$48.7	\$17.2	\$3.6	\$69.5
\$1,000 to \$2,000.....	70.3	17.3	3.7	91.2
\$2,000 to \$3,000.....		1.7	.4	2.1
\$3,000 to \$4,000.....		.1		.1
\$4,000 to \$5,000.....				
Total.....	118.9	36.3	7.7	162.9
Returns taxable under exemptions of 1941 act:				
Under \$1,000.....	51.8	8.6	1.7	62.1
\$1,000 to \$2,000.....	490.2	34.0	10.6	534.8
\$2,000 to \$3,000.....	474.9	59.5	17.3	551.7
\$3,000 to \$4,000.....	223.4	22.8	7.0	253.2
\$4,000 to \$5,000.....	135.0	14.1	3.9	153.1
\$5,000 to \$10,000.....	231.1	37.1	9.4	277.6
Over \$10,000.....	308.5	224.5	20.6	553.7
Total.....	1,914.9	400.7	70.5	2,386.1

Exhibit 101. Estimated revenue effects for a full year of operation at levels of income estimated for calendar year 1942 of collecting at source: (a) 10 percent of wages and salaries in excess of 110 percent of personal exemptions and dependent credit; and (b) 10 percent of the gross amount of dividends and bond interest, by net income classes—Con.

Net income class	Amount collected at source, by type of income			
	Wages and salaries	Dividends	Bond interest	Total
All returns taxable under low-ered exemptions:	<i>Millions</i>	<i>Millions</i>	<i>Millions</i>	<i>Millions</i>
Under \$1,000.....	\$100.4	\$25.8	\$5.3	\$131.6
\$1,000 to \$2,000.....	560.5	51.3	14.3	626.0
\$2,000 to \$3,000.....	474.9	61.2	17.7	553.8
\$3,000 to \$4,000.....	223.4	22.9	7.0	253.3
\$4,000 to \$5,000.....	135.0	14.1	3.9	153.1
\$5,000 to \$6,000.....	74.8	9.5	2.6	86.9
\$6,000 to \$7,000.....	57.8	8.7	2.2	68.7
\$7,000 to \$8,000.....	41.3	7.2	1.8	50.2
\$8,000 to \$9,000.....	31.0	6.2	1.4	38.6
\$9,000 to \$10,000.....	26.1	5.6	1.3	33.1
Over \$10,000.....	308.5	224.5	20.6	553.7
Total.....	2,033.8	437.0	78.2	2,549.0

¹ Adjusted for the effect of increased corporation taxes resulting from the tentative decision of the Committee on Ways and Means, May 5, 1942.

² Personal exemptions of \$1,200 for married couples and single heads of families and \$500 for single individuals not heads of families, and dependent credit of \$400.

³ With joint returns mandatory.

Source: Treasury Department, Division of Research and Statistics, May 18, 1942.

Exhibit 102. Summary of plan for collection of individual income tax at source

Collection at source will apply to three types of income: (1) Wages and salaries, (2) bond interest, and (3) dividends.

A. CURRENT WITHHOLDING

1. *Wages and salaries.*—(a) Each employee will fill out and give to his employer an exemption certificate, indicating marital and dependency status, and, if married, whether the spouse is also employed.

(b) On the basis of the exemption certificate, the employer will classify the employee according to the exemption to which he is entitled.

(c) Each pay period the employer will withhold from the employee's wage or salary an amount determined by applying the withholding rate to the excess of the wage or salary over the exemption to which the employee is entitled.

(d) The employer will determine the exemption to which the employee is entitled by reference to a table to be furnished by the Bureau of Internal Revenue. This table will show the exemption for different

(See attached exhibit.)

marital status and dependent groups and for different pay periods (weekly, semimonthly, monthly).

(e) This table will be computed by adding an arbitrary allowance for deductions to the annual personal exemption and credit for dependents, and prorating the sum over the number of pay periods.

(f) At the end of each quarter, the employer will remit to the Bureau of Internal Revenue the amounts withheld during that quarter.

(g) At the end of the year the employer will send to the Bureau of Internal Revenue the exemption certificates filled out by the employees, entering on each the amount of wages paid during the year and the amount of tax withheld.

(h) At the end of the year, or at the termination of employment, the employer will give the employee a duplicate of his exemption certificate, entering on this duplicate the amount of wages paid during the year and the amount of tax withheld. This duplicate will serve as a receipt for the taxes withheld. In addition, small employers will be required to give the employee each pay period a receipt for the amount of tax withheld.

2. *Bond interest and dividends.*—(a) Corporations and other institutions exempt from the individual income tax will file exemption certificates with the payors of interest or dividends certifying to their exempt status.

(b) Individuals who expect their total annual income to be less than the exemption and dependent credit to which they are entitled may also file exemption certificates with the payors, certifying to that effect.

(c) Payors of bond interest and dividends will withhold the tax on payments to all recipients who have not filed exemption certificates. The amount withheld will be computed by applying the withholding rate to the total amount of interest or dividends paid. By not withholding on payments to persons who have filed exemption certificates, relief is given to persons with small incomes derived largely from interest and dividends.

(d) All payments of dividends and interest on which the tax has been withheld will be accompanied by a receipt for the amount withheld.

(e) At the end of each quarter, payors of dividends or bond interest will remit to the Bureau of Internal Revenue the amounts withheld during that quarter.

(f) At the end of the year, the employer will send to the Bureau of Internal Revenue a list of all payments made during the year, the amount of tax withheld from each recipient, and the exemption certificates for recipients not subject to withholding.

B. YEAR-END ADJUSTMENT

(a) All persons from whom any tax has been withheld will be required to file an individual income-tax return by March 15 of the following year, along with all other persons required to file returns.

(b) The tax liability will be computed as at present.

(c) The tax form will carry space for entering the amount of tax withheld at source.

(d) If the tax liability exceeds the amount withheld, the difference represents the amount the taxpayer must pay to satisfy his liability.

(e) If the amount withheld exceeds the tax liability, the difference represents the refund to which the taxpayer is entitled.

(f) If the refund claimed is less than \$50 and if the taxpayer submits with his tax return receipts for all amounts withheld at source, the refund will be made promptly without further evidence.

(g) The information given by employers and by payers of interest or dividends will be matched with the individual income-tax returns. This will furnish a check on the additional tax liability of individuals whose liability exceeds the amount withheld at source and a validation of the claims for refunds.

(h) Refunds not made promptly (as described in (f) above) will be made as soon as the tax returns have been compared with the reports of employers and of payers of interest and dividends.

Exhibit 103. *Withholding of the national defense tax in Canada*

Collection at source is used by the Dominion of Canada in connection with the national defense tax which became effective July 1, 1940. It is not used in connection with the general income tax.

As amended effective July 1, 1941, the national defense tax is based on total net income¹ before personal exemption. It is payable by all single persons receiving income of more than \$660 and married persons and heads of families receiving income of more than \$1,200. It applies to husband and wife separately, each being liable if the separate income exceeds \$660. Officers and men in the active military services are in general exempt to the extent of their service pay and allowances.

The rate of tax is 5 percent except for single persons with an income of more than \$1,200, for whom the rate is 7 percent. If the taxpayer receives income from sources not subject to withholding, or if the amount withheld is less than the tax liability, the tax is slightly increased.² The tax, however, is subject to the limitation that it must not reduce the individual's income after tax below the limits stated above (\$660 and \$1,200).

A tax credit of \$20 a year, or approximately \$0.38 a week, is allowed for each dependent.³

Basis of withholding.—While the tax is based on total net income from all sources, withholding applies only to specified sources of income, namely earnings⁴ paid by an employer to an employee and interest or dividends paid to persons registered as the holders of bonds, debentures, or like obligations or shares. For salaries and wages, the marital and dependent status is taken into consideration in order to determine the applicable tax rate and the amount of the tax

¹ Total income less deductions except the allowance for donations.

² If the amount of tax not withheld at source is \$25 but not more than \$100, the extra tax is \$1. If this amount is more than \$100, the extra tax is 3 percent. (Income War Tax Act, sec. 91 (3).)

³ Except the first dependent that qualifies the taxpayer for head of family status.

⁴ Not including commissions and professional fees, but including pensions to superannuated employees.

credit, for interest and dividends, 5 percent is withheld without regard to marital status and dependents. If husband and wife each earn at a rate in excess of \$660 per year each may claim married status and thus be exempt from deduction at the source unless their respective earnings are at a rate in excess of \$1,200 per year.

The taxability of wages and salaries.—The taxability of wages and salaries is determined by the rate of pay. If the amount paid (in cash or in kind ⁵) daily, weekly, monthly, or for some other pay period is such that if continued for 12 months it would cause the annual earnings of the employee to exceed the specified \$660 or \$1,200, the amount so paid is subject to tax deduction at source. At present exemption levels the smallest payment subject to withholding is \$1.82 on a daily basis and \$12.70 on a weekly basis.

The method used to determine the amount subject to withholding is the same whether the employee is engaged on a permanent, temporary, seasonal, or casual basis. The employer need not be concerned with how much income from all sources the employee will in fact receive during the year. His obligation is simply to deduct the tax if the rate of pay indicates that such wages and salaries may be taxable.

Obligations imposed on employers and payers.—The responsibility both for deducting the tax and remitting it to the Crown rests on the employer or payer and a severe penalty is provided by statute for failure to comply with the requirements. Remittances are to be made on or before the 15th day of the month next following that in which the wages, interest, or dividends were paid. Information with regard to names, addresses, salaries, wages, etc., and the amounts of tax deducted is required to be filed annually.

There is no obligation upon employers to verify exemptions or allowances claimed by employees, though they are urged to exercise "reasonable care."

Taxpayers' forms and returns.—Employees who are married or who have dependents file in duplicate with their employers a form showing marital and dependent status. The employers in turn forward one copy to the inspector of income tax for the district. An employee not filing such form is regarded for tax purposes as a single person without dependents. If during the year any change occurs in the status of an employee, he must file with his employer an amended form in duplicate.

Persons liable to the national defense tax whose tax has not been fully paid by deduction at the source must file an annual return of total income on or before March 31 of each year, and make payment at that time.

Refunds.—Amounts of national defense tax deducted at the source are regarded as payments on account of each individual's total liability for both national defense tax and income tax. Hence refunds of national defense tax deducted at the source are paid only in the following cases:

(1) Where the taxpayer has not earned or received sufficient income to render him liable to national defense tax, or is exempt from such tax by law.

⁵ In calculating the amount paid, personal and living expenses or the value of subsistence, if any, furnished to the employee are included, it being incumbent on the employer to place a "reasonable value" thereon.

(2) Where the taxpayer is liable only to national defense tax and the deductions at source are greater than his liability for national defense tax.

In each of these two cases the taxpayer must complete and file an application for refund with the inspector of income tax for the district in which he resides, within 12 months from the close of the calendar year in which the deductions at source were made.

(3) Where the taxpayer is liable to income tax and national defense tax and the total amount of his liability for both taxes has been overpaid.

As each taxpayer in this category is required to file an annual income tax return, any refund due to such taxpayer is automatically taken care of when the income tax return is assessed. It is, therefore, unnecessary for any taxpayer in this class to file an application for refund.

Source: Treasury Department, Division of Tax Research, May 19, 1942.

Exhibit 104. *Collection at source in Great Britain*

Collection at source is the keystone of the British income tax system. It is used to collect current liabilities on interest, dividends, and ground rents; it is used to collect liabilities for the preceding period on wages and salaries. For wages and salaries it amounts in practice to a method for the installment payment of taxes.

I. INTEREST, DIVIDENDS, AND GROUND RENTS

Collection at source has been used for well over a century to collect the normal tax, at present at a rate of 50 percent, on the great bulk of the payments of interest, dividends, and ground rents. Except for interest paid by banks and on some types of Government securities, payors of interest and ground rents are required to deduct 50 percent of the payment and remit it to the collector of taxes. Corporations are required to pay 50 percent of their net profits after payment of interest, whether or not all profits are in fact distributed. Dividends paid are then treated as having had the normal tax collected at source. When the individual's normal tax liability is computed, interest, dividends, and ground rents on which tax was deducted at source are not included in the base to which the normal tax rate is applied. When his surtax is computed, the tax paid at source to the Government as well as the amount actually received is included in the base to allow for the taxes deducted at source.

II. WAGES AND SALARIES

From 1931 to 1940, collection at source on wages and salaries was voluntary. Employees could request employers to withhold the tax from their salaries and wages so that the tax could be spread evenly throughout the year. The Finance (No. 2) Act of 1940 made deduction at source from wages and salaries compulsory. Further changes in the collection-at-source system were proposed in the budget submitted in April 1942. The following description of the collection-at-source method takes these changes into account.

Collection at source is used to collect the liabilities for a preceding period of 6 months. The work of determining the tax is done by the Board of Inland Revenue which informs the employer of the amount to be deducted. The employer deducts this amount in weekly installments, paying the tax to the tax authorities once a month.

In September or October of each year, wage earners file a return showing their income from all sources and the allowances which they claim. Employers report the wages paid during the 6 months ending October 5. On the basis of the wages reported by the employer and the allowances reported by the employee, the Board of Inland Revenue computes the taxes due on the wages for the 6 months ending October 5. If an employee does not file a return, he is regarded as a single person for purposes of computing his tax. The tax is, in general, computed on the assumption that the rate of pay during the next 6 months will be the same as during the preceding 6 months.¹ In order to maximize the part of the total tax collected from wages and salaries, income from sources other than wages and salaries is commonly deducted from the allowances and exemptions before these are applied to the wages. Notice of the assessment is sent to the employee who is given an opportunity to protest the assessment. When this has been done, the employer is notified of the amount due from the employee and he is required to deduct this amount in 24 weekly installments beginning February 1.

The amount of weekly deduction is recomputed for income earned in the 6 months from October 5 to April 5 on the basis of changes in wages, allowances, and amount of unpaid tax if any. The revised deductions are collected by the employer in 24 installments beginning August 1.

Since the amount of the deduction depends upon income earned in a preceding period, the strict application of this procedure might involve undue hardship if wages declined severely. Special relief is granted in these cases by providing that the weekly wage, after the deduction of tax, may not be less than \$8 for a single person, \$12 for a married person with no dependents, \$16 for a married person with one child, and \$20 for a married person with two or more children.²

If the 24 installments are not sufficient to pay all of the tax due because deduction of the full installment would make the weekly wage after tax less than the minimum limits, the additional tax is collected in the twenty-fifth and twenty-sixth weeks. Any unpaid tax remaining is added to the next 6-months' deduction.

III. REFUNDS

A decline in earnings during the second half year may make the total tax due for the year less than the tax collected for the first 6 months. If this occurs, refunds are made by the Board of Inland Revenue without application by the worker.

¹ To allow for seasonally high earnings of summer months, this procedure is modified for certain groups of workers. For these workers, the wages of the 5 months ending September 5 are treated as the income of the first half year, and the wages of the next 7 months as the income of the second half-year. In both cases, a full half-year's allowances are offset against the wages, thereby equalizing the deductions in the 2 half-years.

² Pound converted at \$4.

Taxpayers may also be entitled to refunds of taxes withheld on interest, dividends, and ground rents. These taxes are withheld at the standard normal tax rate although if the recipient's income is sufficiently low he may be entirely exempt from tax or he may be subject to the reduced rate. Since the introduction of collection at source on wages and salaries, such overpayments are allowed against the wage assessment for persons who are employed. For other persons, the refunds are made upon application by the taxpayer.

Source: Treasury Department, Division of Tax Research, May 19, 1942.

Exhibit 105. *Tax collection at source in Australia*

The Income Tax Assessment Act (No. 2), 1940, introduced a system of collection at source for the Commonwealth income tax. The law provides for compulsory collection at source from salaries and wages. The amounts so collected are applied against the employee's total income-tax liabilities for the preceding taxable year. Collection at source is therefore used for the installment payment of the preceding year's liabilities, not for the collection of current liabilities. The law also provides for the purchase of tax-installment stamps from authorized sources by persons other than employees as a means of assisting taxpayers who desire to set aside a certain amount of tax from time to time, in anticipation of the receipt of a notice of assessment; for such taxpayers, however, the use of stamps is wholly voluntary.

Deductions begin on the 1st of August of each year and continue for a maximum of 40 weeks or until the taxpayer has sufficient credits to meet the tax liability on his income for the year ended June 30. The amounts deducted at source depend on the size of salaries or wages and the marital and dependency status at the time the installments are deducted. They are determined by the employer from tables, rather than by applying a tax rate to the salaries and wages. The rates of deduction where there are no dependents begin at \$0.32 on weekly wages¹ exceeding \$9.69 but not in excess of \$11.31, and reach a maximum of 20 percent of weekly wages exceeding \$59.76.² The amount of the weekly tax deduction is reduced by \$0.65 for each dependent other than children (including the husband or wife of the employee), and for the first child, and by \$0.16 for each additional child. If the foregoing deductions appear insufficient to meet the tax or will impose hardship, the Commissioner is empowered to adjust them.

Obligations imposed on employers and employees.—Employers are required to make the prescribed deductions from each payment of wages and to hand the employees stamps equal in denomination to the deduction made.³

The employee is required to affix the stamp in a book and to cancel it by writing thereon his name or initials and the date. He is responsible for the safe condition of his stamps until he presents them to the Commissioner in payment of his tax.

¹ Including \$2.42 for board and \$0.81 for quarters if received in consideration for services.

² Pound converted at \$3.23.

³ Where large numbers of employees are concerned, arrangements may be made with the Commissioner for cash deductions to be made by the employers and paid by them to the Commissioner. In such cases, tax installment stamps are not used and installments are dealt with under what is termed a "group scheme."

Taxpayers' forms and returns.—In order to authorize the employer to make weekly deductions lower than the basic deductions prescribed for a person without dependents, the employee must furnish a declaration in duplicate to his employer setting out particulars regarding his dependents. On the basis of this information, the employer reduces the basic deduction according to the number of dependents. The employer retains one copy of this declaration and forwards the duplicate to the Commissioner.

When the taxpayer receives his notice of assessment, he forwards the book of stamps representing tax withheld during the year and his notice of assessment to the Commissioner who applies the face value of the stamps in payment of the tax. If the value of the stamps is insufficient to pay the whole of the tax, the balance must be paid in cash; if the value of the stamps exceeds the amount of the tax payable, the excess will be refunded immediately.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, May 22, 1942.

The Secretary of the Treasury, by this public notice, invites tenders for \$250,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated May 27, 1942, and will mature August 26, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p.m., Eastern war time, Monday, May 25, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on May 27, 1942.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, May 22, 1942.

Press Service
No. 31-73

5/21/42

Comptroller of the Currency Preston Delano announced today that the total deposits of the 5,115 active national banks in the United States and possessions on April 4, 1942, amounted to \$39,477,493,000. This was a decrease of \$77,279,000 in the amount reported by national banks on December 31, 1941, the date of the previous call, but an increase of \$3,190,012,000 over the amount reported on April 4, 1941. Deposits on April 4, 1942, consisted of demand and time deposits of individuals, partnerships, and corporations of \$20,287,746,000 and \$7,721,120,000, respectively, United States Government deposits of \$1,479,538,000, deposits of States and political subdivisions of \$2,735,059,000, postal savings of \$14,320,000, certified and cashiers' checks, cash letters of credit and travelers' checks outstanding of \$396,668,000, and deposits of domestic and foreign banks of \$6,843,042,000.

Loans and discounts were \$11,569,311,000, a decrease of \$182,481,000 in the quarter, but an increase of \$1,141,845,000 in the year.

Investments in United States Government obligations, direct and fully guaranteed, aggregating \$12,782,079,000, were \$709,027,000 more than in December, and \$2,186,089,000 more than the amount held a year ago. The direct and indirect obligations held on April 4, 1942, were \$10,665,769,000 and \$2,116,310,000, respectively. Other bonds, stocks and securities totaling \$3,843,589,000, which included obligations of States and political subdivisions of \$2,082,182,000, increased \$29,133,000 since December but decreased \$148,057,000 in the year.

Cash of \$635,312,000, balances with other banks, including cash items in process of collection, of \$6,022,393,000, and reserves with Federal Reserve banks of \$7,753,030,000, a total of \$14,410,735,000, decreased \$591,195,000 since December, but showed an increase of \$166,927,000 over the amount reported in April of last year.

The total assets on April 4, 1942, were \$43,496,537,000, in comparison with \$43,538,234,000 on December 31, 1941, and \$40,193,021,000 on April 4, 1941.

Bills payable, rediscounts, and other liabilities for borrowed money amounting to \$12,270,000 increased \$8,492,000 and \$9,840,000 in the three and twelve month periods, respectively.

The unimpaired capital stock on April 4, 1942, was \$1,511,895,000, comprising \$159,999,000 of preferred stock and \$1,351,896,000 of common stock. Surplus of \$1,396,118,000, undivided profits of \$515,127,000, and reserves of \$249,442,000, a total of \$2,160,687,000, increased \$27,382,000 since December and \$115,260,000 since April last year.

The percentage of loans and discounts to total deposits on April 4, 1942, was 29.31, in comparison with 29.71 on December 31, 1941, and 28.74 on April 4, 1941.

Comparison of principal items of assets and liabilities of national banks - continued.

(In thousands of dollars)

	: April 4, : 1942 :	: Dec. 31, : 1941 :	: April 4, : 1941 :	: Increase or decrease : since Dec. 31, 1941 : Amount	: Increase or decrease : since Apr. 4, 1941 : Percent	: Increase or decrease : since Dec. 31, 1941 : Amount	: Increase or decrease : since Apr. 4, 1941 : Percent
LIABILITIES							
Deposits of individuals, partnerships, and corporations:							
Demand.....	\$20,287,746	\$20,480,952	\$18,070,367	-\$193,206	- .94	\$2,217,379	12.27
Time.....	7,721,120	7,964,912	8,050,125	-243,792	-3.06	-329,005	-4.09
Postal savings deposits.....	14,320	15,061	16,197	-741	-4.92	-1,877	-11.59
Deposits of U. S. Government.....	1,479,538	1,127,673	462,215	351,865	31.20	1,017,323	220.10
Deposits of States and political subdivisions.....	2,735,059	2,590,940	2,530,319	144,119	5.56	204,740	8.09
Deposits of banks.....	6,843,042	6,789,685	6,751,121	53,357	.79	91,921	1.36
Other deposits (certified and cashiers' checks, etc.).....	396,668	585,549	407,137	-188,881	-32.26	-10,469	-2.57
Total deposits.....	39,477,493	39,554,772	36,287,481	-77,279	-.20	3,190,012	8.79
Bills payable, rediscounts, and other liabilities for borrowed money.....	12,270	3,778	2,430	8,492	224.78	9,840	404.94
Other liabilities.....	334,192	330,585	330,744	3,607	1.09	3,448	1.04
Total liabilities, excluding capital accounts.....	39,823,955	39,889,135	36,620,655	-65,180	-.16	3,203,300	8.75
CAPITAL ACCOUNTS							
Capital stock:							
Preferred stock.....	159,999	168,530	189,025	-8,531	-5.06	-29,026	-15.36
Common stock.....	1,351,896	1,347,264	1,337,914	4,632	.34	13,982	1.05
Total	1,511,895	1,515,794	1,526,939	-3,899	-.26	-15,044	-.99
Surplus	1,396,118	1,388,672	1,319,321	7,446	.54	76,797	5.82
Undivided profits and reserves ...	764,569	744,633	726,106	19,936	2.68	38,463	5.30
Total capital accounts	3,672,582	3,649,099	3,572,366	23,483	.64	100,216	2.81
Total liabilities and capital accounts	43,496,537	43,538,234	40,193,021	-41,697	-.10	3,303,516	8.22
Ratio of loans to total deposits	29.31%	29.71%	28.74%				

NOTE: Minus sign denotes decrease.

Statement showing comparison of principal items of assets and liabilities of active national banks as of April 4, 1942, December 31, 1941, and April 4, 1941.

(In thousands of dollars)

	: April 4, : 1942 :	: Dec. 31, : 1941 :	: April 4, : 1941 :	: Increase or decrease : since Dec. 31, 1941 : Amount : Percent		: Increase or decrease : since Apr. 4, 1941 : Amount : Percent	
Number of banks	5,115	5,123	5,144	-8	-0.16	-29	-0.56
ASSETS							
Loans and discounts, including rediscounts and overdrafts.....	\$11,569,311	\$11,751,792	\$10,427,466	-\$182,481	-1.55	\$1,141,845	10.95
U. S. Government securities:							
Direct obligations	10,665,769	9,786,743	8,482,114	879,026	8.98	2,183,655	25.74
Obligations fully guaranteed....	2,116,310	2,286,309	2,113,876	-169,999	-7.44	2,434	.12
Obligations of States and political subdivisions.....	2,082,182	2,024,715	2,147,574	57,467	2.84	-65,392	-3.04
Other bonds, notes, and debentures.....	1,563,719	1,588,006	1,634,616	-24,287	-1.53	-70,897	-4.34
Corporate stocks, including stock of Federal Reserve banks	197,688	201,735	209,456	-4,047	-2.01	-11,768	-5.62
Total investments	16,625,668	15,887,508	14,587,636	738,160	4.65	2,038,032	13.97
Total loans and investments..	28,194,979	27,639,300	25,015,102	555,679	2.01	3,179,877	12.71
Currency and coin.....	635,312	786,501	610,586	-151,189	-19.22	24,726	4.05
Reserve with Federal Reserve banks	7,753,030	7,399,238	7,620,089	353,792	4.78	132,941	1.74
Balances with other banks	6,022,393	6,816,191	6,013,133	-793,798	-11.65	9,260	.15
Total cash, balances with other banks, including reserve balances, and cash items in process of collection.....	14,410,735	15,001,930	14,243,808	-591,195	-3.94	166,927	1.17
Other assets	890,823	897,004	934,111	-6,181	-0.69	-43,288	-4.63
Total assets.....	43,496,537	43,538,234	40,193,021	-41,697	-0.10	3,303,516	8.22

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, May 22, 1942.

Press Service
No. 31-74

The Treasury Department in a formal statement issued today called attention to the fact that any interested party is entitled to file an application for the unblocking of accounts or other property on the grounds that no blocked national has an interest in the property, and is entitled to be heard on such application. General Ruling No. 13, issued today, makes this clear and sets forth the procedure for filing applications.

The Treasury Department noted that in this situation, as in all other situations arising under the freezing control, full opportunity will continue to be afforded to anyone desiring a hearing on an application.

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TREASURY DEPARTMENT
Office of the Secretary
May 22, 1942

GENERAL RULING NO. 13
UNDER EXECUTIVE ORDER NO. 8389, AS AMENDED, SECTIONS
3(a) AND 5(b) OF THE TRADING WITH THE ENEMY ACT, AS
AMENDED BY THE FIRST WAR POWERS ACT, 1941, RELATING
TO FOREIGN FUNDS CONTROL

(1) This general ruling relates to the procedure to be followed in connection with the filing of applications for the unblocking of accounts or other property in which applications it is alleged that no person having an interest in the property involved is a national of a blocked country.

(2) Any interested party is entitled to file such an application. Such application shall be filed in the manner provided in section 130.3 of the Regulations, and shall contain full information in support of the administrative action requested. The application for administrative action may be filed on Form TFU-1 or on Form TFE-1 (even though the request for administrative action is not a request for a license), and any documents or other data as may be relevant to the application should be attached to and made a part of the application.

(3) The applicant is entitled to be heard on the application. If the applicant desires to be heard on the application, either before or after the Treasury Department has taken action on such application, he should so notify the Treasury Department. Such notice should contain an appropriate reference to the application involved and the names of the parties desiring to be heard with respect to the application.

E. H. Foley, Jr.,
Acting Secretary of the Treasury.

(over)

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, May 25, 1942.
5/23/42

Press Service
No. 31-75

Comptroller of the Currency Preston Delano announced today that the 5,123 active national banks in the United States and possessions on December 31, 1941, reported gross earnings of \$925,663,000 for the calendar year 1941. This represents an increase of \$60,914,000 over the gross earnings for 1940 of the 5,150 national banks that were in active operation on December 31 of that year.

Operating expenses for the year 1941 were \$641,648,000 as against \$599,444,000 for the year 1940. Net operating earnings for 1941 were \$284,015,000, which was \$18,710,000 more than the amount reported for the preceding year.

Adding to the net operating earnings profits on securities sold of \$79,983,000 and recoveries on loans and investments, etc., previously charged off of \$106,779,000, and deducting losses and depreciation of \$201,482,000, the net profits before dividends for the year 1941 amounted to \$269,295,000, which was 17.70 percent of the par value of common and preferred stock and 7.37 percent of capital funds. This figure of net profits before dividends for 1941 was \$27,830,000 more than the amount reported for 1940.

The principal items of current gross operating earnings for 1941 were \$457,466,000 from interest and discount on loans, an increase of \$45,822,000; and \$291,984,000 from interest and dividends on bonds and securities, an increase of \$7,891,000 in the year. The principal operating expenses were \$272,057,000 for salaries and wages of officers and employees, an increase of \$16,758,000 over 1940; \$99,199,000 expended in the form of interest on time and savings deposits, a decrease of \$6,371,000, and \$85,134,000 paid in taxes, an increase of \$19,030,000.

Profits on securities sold during 1941 aggregating \$79,983,000 were \$25,068,000 less than in the preceding year, and losses and depreciation on bonds and securities for 1941 totaling \$92,134,000 were \$15,826,000 less than in the year before.

Dividends declared on common and preferred stock in 1941 totaled \$147,970,000, in comparison with \$145,273,000 in 1940. The dividends were 9.73 percent of common and preferred capital and 4.05 percent of capital funds.

EARNINGS, EXPENSES, AND DIVIDENDS OF NATIONAL BANKS FOR YEARS
ENDED DECEMBER 31, 1940 AND 1941

(Amounts in thousands of dollars)

	: Six months ended :		: Year ended :	
	: Dec. 31, :	: June 30, :	: Dec. 31, :	: Dec. 31, :
	: 1941 :	: 1941 :	: 1941 :	: 1940 :
Capital stock par value: 1/				
Preferred.....	169,303	184,441	169,303	195,657
Common.....	1,351,981	1,340,705	1,351,981	1,333,816
TOTAL CAPITAL STOCK.....	1,521,284	1,525,146	1,521,284	1,529,473
Capital funds 1/.....	3,656,300	3,598,141	3,656,300	3,536,398
Gross operating earnings:				
Interest and discount on loans...	237,084	220,382	457,466	411,644
Interest and dividends on bonds and securities.....	150,212	141,772	291,984	284,093
Trust department.....	18,087	15,235	33,322	32,681
Service charges on deposit accounts	22,485	21,726	44,211	40,745
Rent received.....	26,442	26,046	52,488	51,792
Other earnings.....	24,603	21,589	46,192	43,794
TOTAL GROSS OPERATING EARNINGS	478,913	446,750	925,663	864,749
Gross operating expenses:				
Salaries and wages---				
Officers.....	56,196	52,548	108,744	104,102
Employees other than officers.	85,877	77,436	163,313	151,197
Interest on time and savings deposits.....	48,715	50,484	99,199	105,570
Real estate taxes.....	10,452	10,111	20,563	21,815
Other taxes.....	37,265	27,306	64,571	44,289
Other expenses	94,366	90,892	185,258	172,471
TOTAL GROSS OPERATING EXPENSES	332,871	308,777	641,648	599,444
NET OPERATING EARNINGS.....	146,042	137,973	284,015	265,305
Recoveries:				
On loans.....	25,323	18,335	43,658	36,751
On bonds and securities.....	25,649	22,508	48,157	40,993
All other.....	8,510	6,454	14,964	15,355
TOTAL RECOVERIES.....	59,482	47,297	106,779	93,099
Profits on securities sold.....	41,335	38,648	79,983	105,051
TOTAL RECOVERIES AND PROFITS ON SECURITIES SOLD.....	100,817	85,945	186,762	198,150
Losses and depreciation:				
On loans.....	28,754	23,235	51,989	58,249
On bonds and securities.....	48,061	44,073	92,134	107,960
On banking house, furniture and fixtures.....	19,334	14,528	33,862	28,346
All other.....	14,199	9,298	23,497	27,435
TOTAL LOSSES AND DEPRECIATION.	110,348	91,134	201,482	221,990
NET PROFITS BEFORE DIVIDENDS.....	136,511	132,784	269,295	241,465
Dividends declared:				
On preferred stock.....	3,821	4,379	8,200	8,114
On common stock.....	74,760	65,010	139,770	137,159
TOTAL DIVIDENDS DECLARED.....	78,581	69,389	147,970	145,273
Number of banks 1/.....	5,123	5,136	5,123	5,150
Annual rate of net profits:	Percent	Percent	Percent	Percent
On common and preferred stock 1/..	17.95	17.41	17.70	15.79
On capital funds 1/.....	7.47	7.38	7.37	6.83
Annual rate of dividends:				
On common and preferred stock 1/..	10.33	9.10	9.73	9.50
On capital funds 1/.....	4.30	3.86	4.05	4.11

1/ At end of period.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, May 25, 1942.
5/23/42

Press Service
No. 31-76

Secretary of the Treasury Morgenthau today announced the plan for refinancing the outstanding Series G 1942-44 bonds of the Home Owners' Loan Corporation, called for redemption on July 1, 1942, and the Series S notes of the Reconstruction Finance Corporation, maturing July 1, 1942. Holders of these securities may exchange them on a par for par basis, with an adjustment of accrued interest to June 5, 1942, for 1-1/2 percent Treasury Notes of Series B-1946.

The Treasury notes now offered will be dated June 5, 1942, and will bear interest from that date at the rate of 1-1/2 percent per annum, payable on a semiannual basis on December 15, 1942 and thereafter on June 15 and December 15 in each year until they mature on December 15, 1946. They will not be subject to call for redemption prior to maturity. They will be issued only in bearer form with interest coupons attached, in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

Pursuant to the provisions of the Public Debt Act of 1941, interest upon the notes now offered shall not have any exemption, as such, under Federal tax Acts now or hereafter enacted. The full provisions relating to taxability are set forth in the official circular released today.

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions must be accompanied by a like face amount of Home Owners' Loan Corporation bonds of Series G 1942-44, or of Reconstruction Finance Corporation notes of Series S. Coupon bonds should have July 1, 1942 and all subsequent coupons attached. Registered bonds should be assigned to the Secretary of the Treasury for exchange as provided in the official circular. The Series S notes should have final coupon due July 1, 1942 attached. Following acceptance of the securities, accrued interest from January 1 to June 5, 1942, about \$9.63 per \$1,000 in the case of Series G bonds, and \$4.28 per \$1,000 in the case of Series S notes, will be paid to the owners of the securities surrendered.

The right is reserved to close the books as to any or all subscriptions at any time without notice. Subject to the reservations set forth in the official circular, all subscriptions will be allotted in full.

There are now outstanding \$875,438,625 of the Series G bonds and \$275,868,000 of the Series S notes.

The text of the official circular follows:

UNITED STATES OF AMERICA

1-1/2 PERCENT TREASURY NOTES OF SERIES B-1946

Dated and bearing interest from June 5, 1942

Due December 15, 1946

Interest payable June 15 and December 15

1942
Department Circular No. 686

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, May 25, 1942.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par, from the people of the United States for notes of the United States, designated 1-1/2 percent Treasury Notes of Series B-1946, in payment of which only Home Owners' Loan Corporation 2-1/4 percent bonds, Series G 1942-44, called for redemption on July 1, 1942, or Reconstruction Finance Corporation 1 percent notes of Series S, maturing July 1, 1942, may be tendered. The amount of the offering under this circular will be limited to the amount of such Series G bonds and Series S notes tendered and accepted.

II. DESCRIPTION OF NOTES

1. The notes will be dated June 5, 1942, and will bear interest from that date at the rate of 1-1/2 percent per annum, payable on a semiannual basis on December 15, 1942, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1946, and will not be subject to call for redemption prior to maturity.

2. The income derived from the notes shall be subject to all Federal taxes, now or hereafter imposed. The notes shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

5. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, and \$100,000. The notes will not be issued in registered form.

6. The notes will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States notes.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par for notes allotted hereunder must be made on or before June 5, 1942, or on later allotment, and may be made only in Home Owners' Loan Corporation bonds of Series G 1942-44, called for redemption on July 1, 1942, or in Reconstruction Finance Corporation notes of Series S, maturing July 1, 1942, which will be accepted at par, and should accompany the subscription. Coupons dated July 1, 1942, must be attached to bearer securities of either issue when surrendered, and accrued interest from January 1, 1942, to June 5, 1942 (\$9.63398 per \$1,000 in the case of Series G bonds and \$4.28177 per \$1,000 in the case of Series S notes) will be paid following acceptance of the securities. In the case of the Series G registered bonds, checks in payment of accrued interest will be drawn in accordance with the assignments on the bonds surrendered.

V. SURRENDER OF CALLED BONDS

1. Coupon bonds.- Home Owners' Loan Corporation bonds of Series G 1942-44 in coupon form tendered hereunder should be presented and surrendered with the subscription to a Federal Reserve Bank or Branch or to the Treasurer of the United States, Washington, D. C. Coupons dated July 1, 1942, and all coupons bearing subsequent dates, should be attached to such bonds when surrendered, and if any such coupons are missing, the subscription must be accompanied by cash payment equal to the face amount of the missing coupons. The bonds must be delivered at the expense and risk of the holder. Facilities for transportation of bonds by registered mail insured may be arranged between incorporated banks and trust companies and the Federal Reserve Banks, and holders may take advantage of such arrangements when available, utilizing such incorporated banks and trust companies as their agents.

2. Registered bonds.- Home Owners' Loan Corporation bonds of Series G 1942-44 in registered form tendered hereunder should be assigned by the registered payees or assignees thereof to "The Secretary of the Treasury for exchange for Treasury Notes of Series B-1946 to be delivered to _____",

and thereafter should be presented and surrendered with the subscription to a Federal Reserve Bank or Branch or to the Treasury Department, Division of Loans and Currency, Washington, D. C. The bonds must be delivered at the expense and risk of the holder.

VI. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, May 25, 1942.

Press Service
No. 31-77

The Bureau of Customs announced today that provision will be made at customs ports of entry to enable importers to file entries and withdrawals covering wheat, wheat flour and similar wheat products subject to the quota provisions of the President's proclamation of May 28, 1941, as modified by the proclamation of April 13, 1942, at the same instant of time at the opening of the new quota year on May 29, 1942, at 12 noon Eastern War Time, 11 A. M., Central War Time, 10 A. M., Mountain War Time, and 9 A. M., Pacific War Time.

The acceptance of entries and withdrawals for consumption covering these commodities will be authorized within the quota limitations in the order of the time of their presentation in proper form at the customhouse in the port where the merchandise has arrived. If entries and withdrawals for consumption presented at the hours specified above on May 29, 1942, cover a total quantity in excess of the quota provided for any country, the quantity which may be admitted to entry within the quota will be prorated on the basis of the quantity presented for entry.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, May 26, 1942.

Press Service
No. 31-78

5/25/42

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 1-1/2 percent Treasury Notes of Series B-1946, open to the holders of Home Owners' Loan Corporation 2-1/4 percent bonds, Series G 1942-44, called for redemption on July 1, 1942, and Reconstruction Finance Corporation 1 percent notes of Series S, maturing July 1, 1942, will close at the close of business Tuesday, May 26, except for the receipt of subscriptions from holders of \$25,000 or less of the Home Owners' Loan Corporation bonds. The subscription books will close at the close of business Wednesday, May 27, for the receipt of subscriptions of the latter class.

Many smaller holders of the bonds do not have as immediate access to their securities, and are not as conversant with the manner of entering subscriptions, as the larger holders, and for these reasons they are given an extra day in which to take advantage of the offering.

Subscriptions of either class addressed to a Federal Reserve Bank or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight of the respective closing days, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve Districts will be made later.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, May 26, 1942.
5/25/42

Press Service
No. 31-79

The Secretary of the Treasury announced last evening that the tenders for \$250,000,000, or thereabouts, of 91-day Treasury bills to be dated May 27 and to mature August 26, 1942, which were offered on May 22, were opened at the Federal Reserve Banks on May 25.

The details of this issue are as follows:

Total applied for - \$461,283,000
Total accepted - 250,986,000

Range of accepted bids: (Excepting one tender of \$300,000)

High	- 99.940	Equivalent rate	approximately	0.237	percent
Low	- 99.906	"	"	0.372	"
Average					
Price	- 99.908	"	"	0.365	"

(80 percent of the amount bid for at the low price was accepted)

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
May 27, 1942.

Press Service
No. 31-80

The Bureau of Customs announced today that preliminary reports from the collectors of customs show imports of 48,029 head of Canadian cattle weighing 700 pounds or more each (other than cows imported specially for dairy purposes), during the period April 1 to May 16, 1942, inclusive, under the tariff rate quota of 51,720 head for the second quarter of the calendar year 1942, provided for under the trade agreement with Canada.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, May 29, 1942.

The Secretary of the Treasury, by this public notice, invites tenders for \$250,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated June 3, 1942, and will mature September 2, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern war-time, Monday, June 1, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on June 3, 1942.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Statement of Secretary Morgenthau
before the
Joint Committee on Internal Revenue Taxation

Thursday, May 28, 1942.

The very helpful interest in tax collection problems shown by the members of the Joint Committee on Internal Revenue Taxation, under the able leadership of your Chairman, Mr. Doughton, encourages me to appear before you to discuss an administrative matter.

I know that this Committee and the Congress are determined that no man and no corporation shall be permitted to make exorbitant profits out of the war effort. It is the responsibility of the Congress to draft legislation to achieve that purpose. It is our responsibility at the Treasury to use all the powers the Congress has given us to see that all taxes are fully, honestly and justly collected. It is our responsibility to see that by no form of trick or chicanery is any one taxpayer permitted to escape his just share and thus to throw unjust burdens on others.

I have come before this Committee tonight to tell you of some instances of what seem to me to be particularly unpardonable attempts to escape wartime taxation, and I should like to report what the Treasury is doing and intends to do to stop these practices. In every instance the method used by the taxpayer was to inflate expenses with the evident purpose of avoiding normal and excess profits taxes on corporation earnings. The devices used included the payment of excessive salaries, the distribution of unearned bonuses and the payment of unreasonable sums for purported services to persons closely connected with the management of the companies involved.

It will be obvious to members of this Committee that these practices, if successful, would reduce the revenue of the Government, the revenue we need so urgently for fighting and winning the war.

We do not intend that this shall happen. We do not intend that any of these practices shall succeed. The Congress has already given power to the Treasury to deal with cases of this kind, and that power is being exercised.

The instances I shall mention to you were discovered as a result of speeding up our investigation of 1941 returns of corporations holding war contracts. Reports of the examination

of 31 returns for 1941 are now available. Let me mention briefly seven cases illustrating the practices with which we have to deal.

Company A makes an important airplane part. This corporation is owned by one man who hired himself as its sales representative. His compensation in 1941 was \$1,656,000. By consolidating these earnings with those of the corporation, we have blocked this obvious attempt to divert profits and we have increased the corporation's income tax by \$1,117,000.

Company B makes steel. All stock in this corporation is held by three families. Excessive salaries were paid to officers who were also stockholders. The Revenue Agent has recommended disallowance of \$82,000 in salaries, and the company has already agreed to a disallowance of \$58,000.

Company C makes vital equipment for airplane pilots. This corporation paid \$31,104 in rent in one year to the wife of the president for using property which had cost her \$45,412. A brother of the principal stockholder, without special training or ability, drew a salary of \$15,000 a year and a son and daughter, just out of school, got \$7,500 a year each.

Company D makes tools and dies. This company is owned by two brothers and their wives. It paid dividends of \$40,000 in 1940 and \$100,000 in 1941, while salaries totaling \$128,000 were paid in 1941 to the president, his wife and his brother.

Company E makes forgings. The stock is owned by three families. From 1938 to 1941 the salaries of employees who were stockholders and relatives of stockholders increased 523 percent. Excessive salaries for 1941 have been disallowed to the amount of \$568,000.

Company F makes equipment for airplanes. Three principal officers of this corporation took salaries of \$100,000 each and the corporation claimed it had set aside over \$575,000 in bonuses. Salary and bonus payments totalling \$516,000 were found to be excessive. Other disallowed deductions included \$16,000 paid for watches given to employees, \$14,000 for banquets and picnics, \$4,000 for photographs taken at banquets and picnics, and \$1,900 for tickets to football games. Other important deficiencies were found in the tax return.

Company G makes a device important to aviation. This corporation is owned almost entirely by one man, his wife and his brother. The two men increased their salaries from \$12,000 and \$15,000 in 1939 to \$72,000 and \$90,000 in 1941. The royalty rate on the patent jointly held by them was increased, with the result that with expanded sales for war purposes, the royalties paid to them increased from \$87,000 in 1939 to \$1,179,000 in 1941.

You will note that I have not named any of the corporations or the individuals concerned. I leave it to this Committee to decide whether that should be done. Personally I am inclined to believe it would have a very wholesome effect.

Assistant Secretary Sullivan and Commissioner Helvering are here tonight to give you further details of the results of some of these investigations. They stand ready to come before you from time to time and to report the results of further investigations now in progress.

It should be noted that these cases all deal with returns for 1941. It is of course true that all of the contracts for war work covered by these 1941 returns were signed before the United States entered the war and that nearly all the earnings represented in the tax-dodging devices attempted were pre-war earnings. But I think that changes the situation very little. An attempt to escape lawful taxes while we were actually at war would be only a slight degree blacker than an attempt to escape taxes which would pay for arming and equipping our Army and Navy when we stood in imminent danger of attack.

It may be that these instances are an isolated few and that not many more of the same kind will be found. I sincerely hope that will be the case. I am wholly confident that the great and overwhelming proportion of American corporations are too patriotic even to consider such practices.

We are taking two steps to detect and deal with the evils I have mentioned. In the first place, we are expediting examination of the tax returns and records of all corporations, beginning with those who have war contracts, to determine whether excessive expenses are being claimed. Ordinarily our investigation of returns filed for the year 1941 would not begin until July 1, 1942, and this work would continue through the fiscal year ending June 30, 1943. Under present circumstances we cannot afford to wait so long before acting. By speeding up our investigations we expect to check unlawful practices of this sort at an earlier stage.

In the second place, we are disallowing excessive expenditures which have the effect of reducing corporate tax liabilities. We are compelling the corporations to include such amounts in earnings, and at the same time we are requiring the recipient to pay full personal income taxes on the amounts received.

The disallowance of excessive expenditures does not represent a new procedure. The law and regulations permit the deduction only of ordinary and necessary business expenses for the purpose of determining profits. In applying the law and

regulations, the Bureau of Internal Revenue has often disallowed expenditures which seemed to lack sound business justification and which were, in effect, distributions of profits. Today, however, the problem has assumed major importance in view of the huge increases in income of a great number of corporations resulting from the war effort.

In presenting this problem to you, I am anxious to be as constructive as possible. It seems to me that the businessmen of this country are entitled to know not only the extent of our legal powers but also the standards that we have adopted in applying them. Accordingly, it may be helpful if I outline the following general considerations that will guide us in examining expenses claimed in tax returns.

1. Salaries and Bonuses Paid to Officers and Employees.

Deductions claimed for greatly increased salaries and extraordinary bonuses paid to officers or employees will be disallowed unless the taxpayer proves that the payments are, in fact, for services actually rendered and are reasonable.

In determining whether the payments are reasonable, it will be assumed that reasonable compensation is only as much as would ordinarily be paid for like services by like enterprises under like circumstances. The factors that will be considered in determining the reasonableness of such payments are the duties performed by the recipient, the character and amount of responsibility, the time devoted to the enterprise, and the peculiar ability or special talent of the particular officer or employee. Where the payments are to relatives or to shareholders, the taxpayer must show that family considerations have not influenced the amount paid and that the payments are not distributions of profits in disguise. Large profits attributable to causes entirely unrelated to the activities of the officers or employees, which are not unusual in these abnormal times, do not of themselves justify or warrant large salary payments.

2. Rents, Royalties and Other Payments to Shareholders.

Deductibility of rents, royalties or other payments to shareholders depends upon whether such charges are in fact fair and reasonable payments for the use of property and are not merely a device for distribution of profits. Any shareholder should be entitled only to a fair return on his investment in the property which he permits the corporation to use.

3. Payments to Profit Sharing or Pension Trusts.

The deductibility of payments to pension trusts is governed by section 23(p) of the Internal Revenue Code. If payments to such trusts are reasonable, their deduction will be allowed. If the payments are unreasonable in amount, or if the trust is not created for the exclusive benefit of employees, or if it is a device to distribute profits to shareholders, the deductions will be disallowed. It is also our purpose to set up a barrier to deductions of large salaries, bonuses, or insurance premiums for officers under the guise of payments to a pension trust.

4. Payments for Repairs.

The deductibility for income tax purposes of costs of repairs depends upon whether the expenditure is actually for repairs, or is in fact a capital expenditure which should be added to capital investment or charged against reserve for depreciation, since the costs of repairs are deductible while capital expenditures are not. We must guard against the tendency during high profit years to make extensive improvements and to charge the cost of such improvements against profits under the caption of repairs.

It will be our policy to scrutinize carefully the items claimed as deductions for expenditures for repairs. We shall disallow such deductions where it is not shown that the expenditures are in fact for repairs instead of for improvements or betterments which should be capitalized.

5. Expenses or Allowances Paid to Obtain Government Business, Including Fees Paid to Washington Representatives or for Other Professional Services.

Whether deductions for items of this class will be allowed depends upon whether they meet the test laid down in the Internal Revenue Code, that is, whether they are necessary and ordinary and reasonable. If such items are considered exorbitant or unreasonable, they will be disallowed as deductions. Many of the factors that apply in determining the deductibility of salaries and bonuses will apply also in determining the deductibility of items of this class. Particular attention will be given to deductions for payments which are against public policy, and all such deductions will be disallowed.

6. Amounts Paid for Advertising.

The test of whether expenditures for advertising are deductible is whether they are ordinary and necessary and bear a reasonable relation to the business activities in which the enterprise is engaged. This is not intended to exclude institutional advertising in reasonable amounts or good will advertising calculated to influence the buying habits of the public. If such expenditures are extravagant and out of proportion to the size of the company or to the amount of its advertising budget in the past, or if they are not directed to public patronage which might reasonably be expected in the future, such payments will be disallowed as deductions.

With these standards as our guideposts, we are progressing as fast as practicable with our investigation of the 1941 returns. Those who are engaged in this work must, of course, think not only of the best interests of the Government but also of the need of being completely fair to the taxpayers. The Committee, the Congress and the country are entitled to know that the unscrupulous and selfish few are not being allowed to distort their tax returns so as to escape their fair share of the costs of the war. I can assure the Committee of this: that nothing is being left undone which will expedite our work. If we find that our existing powers are not adequate to deal with the evil I have been discussing, I shall not hesitate to come before the appropriate committee to ask for any additional authority that may be needed.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Sunday, May 31, 1942.
5/29/42

Press Service
No. 31-83

Frank Burke, one of the Government's ace spy-chasers in the First World War and for forty-three years a top-notch agent in various Federal investigative activities, will retire Sunday as a member of the United States Secret Service, Chief Frank J. Wilson announced today.

It was Burke who walked off a New York elevated train in July, 1915, with the brief case he seized from Dr. Heinrich F. Albert, key man of the German subversive organization in the United States, and thus exposed the system of propaganda, sabotage, and espionage that was functioning long before this nation entered the conflict.

Burke started his counter-espionage work in 1898, when as chief of police at Tampa, Florida, he helped protect United States troops en route to Cuba during the Spanish-American War. As a Secret Service agent during the First World War he made a distinguished record; and he has been kept in the Service three years past the usual retirement age, to assist in protective work in the present conflict.

Chief Wilson, by way of tribute to the work of the 73-year old agent, quoted this paragraph from the usually prosaic files of the Secret Service:

"Frank Burke: After reaching retirement age, his service was extended by Executive Order signed by Franklin D. Roosevelt, because of the great need for his counsel and advice in the national emergency."

The seizure of the Albert brief case, with its far-reaching international aspects, was one of the sensations of its day. Because of the necessity of secrecy being thrown about the activities of the agent at that time, fantastic stories arose about the incident. But the late William Gibbs McAdoo, who was Secretary of the Treasury at the time, in his memoirs "The Crowded Years," gives all the credit to Burke.

When, in 1915, evidence began to pile up of dangerous alien activities in this country, President Wilson directed Mr. McAdoo to use the Secret Service for running down violations of neutrality. The intricate German propaganda system in the United States appeared to radiate from Dr. Albert, who had arrived in

the United States in the early days of the war and had set up an office in New York, where it was learned he was receiving large sums of money.

On July 24, 1915, Frank Burke and another Secret Service agent were trailing Albert and a companion, George Sylvester Viereck, the latter now under conviction for pro-Nazi activities in the present conflict. The Treasury Agents had seats near the two men on an elevated train. Finally, Viereck got off, and one agent followed him. Burke rode on, keeping Doctor Albert under observation.

He had his chance when the German, apparently about to miss his station stop, rushed from the car, leaving his brief case.

Burke, in one of those split-second decisions, took it, and started for the opposite exit. Doctor Albert missed his brief case almost immediately, and tried to rush back into the car. A portly woman wedged in the door of the car, seeking information from the guard, detained the frantic German agent long enough to give the Secret Service agent a start, and after a "story-book" chase, Burke leaped into a passing bus, and escaped.

He delivered the brief case to William J. Flynn, then Chief of the Secret Service. Examination showed the documents therein were "diplomatic dynamite." The United States was still at peace with Germany. It was determined, finally, to keep secret the Government's role in the disclosures that were to follow.

A New York newspaper was enlisted to give publicity to the ramifications of the German plotting, with the editor concealing the source of his information. The publication of the correspondence laid bare the inner workings of the German propaganda machine, and threw consternation into the German diplomatic ranks. They apparently credited the British Secret Service with the coup.

Burke figured in many other important investigations, including scores of counterfeiting cases. He had a part in what is believed one of the largest narcotics seizures ever made, a ton of the contraband, at Seattle, some years ago.

The veteran agent joined the Secret Service in 1899, and has remained in the Government since.

He has had assignments of varying duration with the United States Shipping Board and the Bureau of Internal Revenue, but always came back to his first love, the Secret Service. His current tenure with the Service began in 1928.

Associates in the Service, headed by Chief Wilson, will hold an informal reception next week for Mr. Burke, to wish him good fishing in his Florida retirement. The veteran agent will join his family at Miami.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, June 1, 1942.

Press Service
No. 31-84

The Secretary of the Treasury today announced the final subscription and allotment figures with respect to the current offering of 1-1/2 percent Treasury Notes of Series B-1946, open to the holders of Home Owners' Loan Corporation bonds of Series G 1942-44, called for redemption on July 1, 1942, and Reconstruction Finance Corporation notes of Series S, maturing July 1, 1942.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>HOLC Bonds Exchanged</u>	<u>RFC Notes Exchanged</u>	<u>Total Exchanges</u>
Boston	\$ 18,139,100	\$ 7,839,000	\$ 25,978,100
New York	551,616,500	198,042,000	749,658,500
Philadelphia	44,378,100	6,398,000	50,776,100
Cleveland	20,697,300	5,803,000	26,500,300
Richmond	38,399,600	5,813,000	44,212,600
Atlanta	10,679,100	3,608,000	14,287,100
Chicago	75,573,800	29,521,000	105,094,800
St. Louis	13,333,400	2,458,000	15,791,400
Minneapolis	10,205,200	4,799,000	15,004,200
Kansas City	17,277,700	2,665,000	19,942,700
Dallas	5,794,700	995,000	6,789,700
San Francisco	36,451,100	4,196,000	40,647,100
Treasury	4,489,700	165,000	4,654,700
TOTAL	\$847,035,300	\$272,302,000	\$1,119,337,300

TREASURY DEPARTMENT
Washington

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Philadelphia	44,378,100	6,398,000	50,776,100
Cleveland	20,697,300	5,803,000	26,500,300
Richmond	38,399,600	5,813,000	44,212,600
Atlanta	10,679,100	3,608,000	14,287,100
Chicago	75,573,800	29,521,000	105,094,800
St. Louis	13,333,400	2,458,000	15,791,400
Minneapolis	10,205,200	4,799,000	15,004,200
Kansas City	17,277,700	2,665,000	19,942,700
Dallas	5,794,700	995,000	6,789,700
San Francisco	36,451,100	4,196,000	40,647,100
Treasury	4,489,700	165,000	4,654,700
TOTAL	\$847,035,300	\$272,302,000	\$1,119,337,300

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, June 2, 1942.
6/1/42

Press Service
No. 31-85

The Secretary of the Treasury announced last evening that the tenders for \$250,000,000, or thereabouts, of 91-day Treasury bills to be dated June 3 and to mature September 2, 1942, which were offered on May 29, were opened at the Federal Reserve Banks on June 1.

The details of this issue are as follows:

Total applied for - \$496,574,000
Total accepted - 251,301,000

Range of accepted bids: (Excepting 2 tenders totaling
\$12,000)

High	- 99.925	Equivalent rate	approximately	0.297	percent
Low	- 99.906	"	"	0.372	"
Average					
Price	- 99.908	"	"	0.365	"

(20 percent of the amount bid for at the low price was accepted)

TREASURY DEPARTMENT
Washington

FOR RELEASE, AFTERNOON NEWSPAPERS,
Wednesday, June 3, 1942.

6/2/42

Press Service
No. 31-86

Milwaukee, Wis., June 3 -- John L. Huntington, assistant Deputy Commissioner of Internal Revenue, today asked the States to follow the lead of the Federal Government in divorcing patriotic appeals from liquor advertisements and labels.

Mr. Huntington, who is in charge of the Basic Permit Division of the Bureau's Alcohol Tax Unit, addressed the National Conference of State Liquor Administrators, meeting here.

In urging adoption of uniform standards for the advertising and labeling of liquor products, the Revenue official called attention to the Department's view that the current interest in the war and modern implements of war should not be capitalized in selling industry products.

He said few of the States have, as yet, embodied this new regulation in their codes. The Alcohol Tax Unit decision prohibits any reference to, or pictorial representation, of the American flag, of the American armed forces, or of military planes, naval vessels or guns, on any label, or in any advertisement of alcoholic beverages coming under federal jurisdiction.

Mr. Huntington said that many states previously had adopted in their entirety the standards developed painstakingly by the Federal Government through the years; and he urged those states that have not taken such action to do so. He said that many intrastate labeling and advertising activities cannot be controlled by the Federal authorities, and that attainment of the objectives of the Federal Alcohol Administration Act depends upon complete cooperation between the Federal and State Governments.

Mr. Huntington listed the objectives of the labeling and advertising regulations promulgated by the Alcohol Tax Unit, as:

"To assure that the consumer is furnished with the complete truth about the products; that, through safeguards against use of improper or indecent copy, or against disparagement of competitive products, he will gain increased confidence in legitimate industry products and respect for their vendors; that unfair competitive tactics in these fields will be minimized; and that improper sales appeals will be eliminated."

Since the Federal Government began its work of approving labels in 1936, the Alcohol Tax Unit has acted upon nearly 800,000 individual sets of labels, and about 1200 applications a week continue to pour in from bottlers. Mr. Huntington said that in 1941, the Division passed in advance upon some 10,000 advertisements submitted voluntarily by the industry, and prevented publication of a great many advertisements which would have not been in harmony with the regulations.

Moreover, some 75,000 newspaper, magazine, radio, and point-of-sale promotions are reviewed annually, and prompt action taken when irregularities are discovered. State officials are asked to step in where questionable advertisements are found to have no interstate aspects.

Mr. Huntington said serious violations of the Federal labeling standards are no longer frequent, due to harsh penalties imposed upon violators in the past, and to the industry's improved knowledge of requirements. The most frequent violations in recent months have been in the wine labeling field, where there are large numbers of small bottling concerns operating.

The war brought new problems in the field of advertising and labeling, the State Administrators were told. The demand for munitions alcohol caused changes in established production procedures, particularly in the gin and blended whiskey fields. To afford some relief in this situation, the Bureau of Internal Revenue amended its definition of neutral spirits so as to make additional sources of supply available to manufacturers.

June 3, 1942.

STATUTORY DEBT LIMITATION
AS OF MAY 31, 1942

Section 21 of the Second Liberty Bond Act, as amended, provides that the face amount of obligations issued under authority of that Act, "shall not exceed in the aggregate \$125,000,000,000 outstanding at any one time."

The following table shows the face amount of obligations outstanding and the face amount which can still be issued under this limitation:

Total face amount that may be outstanding at any one time		\$125,000,000,000
Outstanding as of May 31, 1942:		
Interest-bearing:		
Bonds -		
Treasury	\$38,084,566,300	
Savings (Maturity value)*	11,719,073,675	
Depository	77,491,000	
Adjusted Service	<u>729,867,807</u>	\$50,610,998,782
Treasury notes	12,588,353,800	
Certificates of indebtedness	4,606,583,000	
Treasury bills (maturity value)	<u>2,256,576,000</u>	<u>19,451,512,800</u>
		\$70,062,511,582
Matured obligations, on which interest has ceased	<u>93,871,250</u>	<u>70,156,382,832</u>
Face amount of obligations issuable under above authority		<u>\$ 54,843,617,168</u>

Reconcilement with Daily Statement of the United States Treasury
May 31, 1942

Total face amount of outstanding public debt obligations issued under authority of the Second Liberty Bond Act, as amended		\$70,156,382,832
Deduct, unearned discount on Savings bonds (difference between current redemption value and maturity value)		<u>2,150,038,361</u>
		68,006,344,471
Add other public debt obligations outstanding but not subject to the statutory limitation:		
Interest-bearing (Pre-War, etc.)	\$ 195,990,180	
Matured obligations on which interest has ceased	11,231,630	
Bearing no interest	<u>357,041,300</u>	<u>564,263,110</u>
Total gross debt outstanding as of May 31, 1942		<u>\$68,570,607,581</u>

*Approximate maturity value. Principal amount (current redemption value) according to preliminary public debt statement \$9,569,035,314.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, June 3, 1942.

Press Service
No. 31-88

Secretary Morgenthau today made public the following summary of the Treasury's financing operations during the month of May:

(In millions
of dollars)

1. Cash Financing (Market Issues)

Sold a 2-1/2% registered non-banking bond of 1962-67	882
Sold regular 2% 1949-51 Treasury bonds....	1,292
Additional Treasury Bills	303
Treasury Tax Notes (net)	355
U. S. Savings Bonds (net)	<u>618</u>
Total cash	3,450

2. Refundings (Market Issues)

2-1/4% HOLC bonds (875 outstanding).....	847
1% RFC note (276 outstanding)	<u>272</u>
Refunded into a 1-1/2% 4 1/2-year Treasury note (December 15, 1946)	<u>1,119</u>
(Note: While this financial operation was carried out in May the new securities are dated June 5)	

Total financial operations in May 4,569

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, June 4, 1942.
6/3/42

Press Service
No. 31-89

During the month ended May 31, 1942, authorizations were issued to receivers for payments of dividends to the creditors of eight insolvent national banks. Dividends so authorized will effect total distributions of \$1,314,545 to 40,427 claimants who have proved claims aggregating \$17,239,869, or an average payment of 7.63 percent. The minimum and maximum percentages of dividends authorized were 4.25 percent and 65.0 percent, while the smallest and largest payments involved in dividend authorizations during the month were \$35,522 and \$274,313, respectively. Of the eight dividends authorized during the month, one was for a regular dividend payment and seven were for final dividend payments. Dividend payments so authorized during the month ended May 31, 1942, were as follows:

DIVIDEND PAYMENTS TO CREDITORS OF INSOLVENT NATIONAL
BANKS AUTHORIZED DURING THE MONTH ENDED
MAY 31, 1942

<u>Name and Location of Bank</u>	<u>Nature of Dividend</u>	<u>Date Authorized</u>	<u>Number and Percentage of Dividend Authorized</u>		<u>Distribution of Funds by Dividend Authorized</u>	<u>Total Percentage Authorized Dividends to Date</u>	<u>Number of Claimants</u>	<u>Amount Claims Proved</u>
First American Nat'l Bank & Trust Co. Berwyn, Illinois	Final	5/27/42	2nd	7.7%	\$ 35,522	20.2%	4,368	\$ 461,320
The Joliet Nat'l Bank Joliet, Illinois	Final	5/18/42	5th	7.33%	208,001	72.33%	7,205	2,837,667
First Nat'l Bank Rochester, Michigan	Final	5/21/42	6th	7.63%	107,919	80.13%	2,135	1,414,401
First Nat'l Bank Forestville, New York	Regular	5/29/42	1st	65.00%	160,048	65.00%	887	246,228
First Nat'l Bank Hempstead, New York	Final	5/28/42	5th	7.9%	223,497	97.9%	5,416	2,829,073
The Commercial Nat'l Bank High Point, North Carolina	Final	5/16/42	10th	6.68%	192,750	99.68%	6,763	2,885,478
The First Nat'l Bank Grand Forks, North Dakota	Final	5/19/42	5th	4.25%	112,495	84.25%	6,373	2,646,948
The Monongahela Nat'l Bank Brownsville, Pennsylvania	Final	5/13/42	6th	7.0%	274,313	53.0%	7,280	3,918,754

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, June 3, 1942.

Press Service
No. 31-90

The Treasury announced today that heavy amounts of currency were taken up by Customs officials on the arrival here Monday of the S. S. DROTTHINGHOLM. The DROTTHINGHOLM carried many American and Latin American diplomats and other citizens returning from Axis areas.

One incoming passenger had declared that he had only \$249 in his possession but, upon being searched, was found to have concealed over \$9,000 in a sock. The currency discovered was taken into special custody.

Treasury officials said that as a whole they considered the results of the search for currency most gratifying. No announcement was made as to the disposition of any of the currency which was taken other than the statement made by Customs officials that it would be turned over to the Federal Reserve Bank of New York for further action by the Treasury Department.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, June 4, 1942.

Press Service
No. 31-91

(The following address by SECRETARY MORGENTHAU is scheduled to be broadcast over the facilities of the Mutual Broadcasting System at 8:15 p.m., Eastern War Time, Wednesday, June 3, 1942, and is for release upon delivery at that time.)

Five weeks have gone by since President Roosevelt outlined a national economic policy for fighting the war on the home front. He called for heavier taxation, for fixing prices and rents, for rationing scarce commodities, for stabilizing wages and farm prices, for checking installment buying, and finally, for rigid self-denial and saving and the investment of billions more in War Bonds.

Those were America's marching orders from the Commander-In-Chief. They called for patriotic effort and real sacrifice to meet a crisis that is without precedent in our country's history. "We cannot fight this war," the President said, "we cannot exert our maximum effort on a spend-as-usual basis. All of us are used to spending money for things we want but which are not absolutely essential. We will all have to forego that spending. We cannot have all we want if our soldiers and sailors are to have all they need."

In the weeks since the President spoke, the American people have shown that they are ready to back up the men at the front by effort and sacrifice at home. It has been immensely encouraging to us in Washington to see the voluntary cooperation that has come from all parts of the country and from all sections of the people, especially in the fields of price fixing, rationing and saving. That voluntary cooperation will be more and more necessary in the months ahead. A great change in national economic habits cannot be accomplished merely by saying "pass a law" or "write an Executive Order". The President's program can be carried through to success only if there is

active and constant cooperation from each and every one of us.

Essentially, the President's program is a call for self-restraint -- not just by a few of us, but by all of us; not just occasionally, but every day as long as the war may last. Our war industries need all the materials and all the labor they can get. Our fighting men and our allies in all parts of the world need those materials to win the war. If we spend our money extravagantly, carelessly, or even to satisfy what would have been our normal wants in normal times, we handicap our war production program. We take away from our fighting forces the supplies they need for victory. At the same time we create pressure on prices which will be a menace both to our war effort and to our economic future.

The patriotic conscience of every American should extend to every American pocketbook. Every time you are about to spend your money, that conscience should ask you "Do you really need what you are going to buy? Can't you do without it? Why not wait until after the war? Why not build up a nest egg for your family in the future, and put your money at your country's service now?"

I am in dead earnest when I say that any man or woman who chooses this time to go on a buying spree is committing an act of sabotage against our war effort. The patriotic thing to do, and the intelligent thing as well, is to make old clothes last longer, to eat simpler meals, to patch up old household appliances instead of buying new ones, and to do everything else that is possible to cut down on personal spending. In this battle on the home front the wage-earners and consumers of America hold the key positions.

It is our job at the Treasury to finance this greatest and costliest of all wars, a war that is already costing 130 million dollars every day -- a dollar a day for every man, woman and child in the country. It is also our job to finance the war so as to avoid, as far as possible, upward pressure on prices and interference with war production. To accomplish these purposes we at the Treasury have two chief instruments at our disposal: the first is

taxation, and the second, which depends upon voluntary effort, is the sale of War Bonds and other Government securities. Each of them is a vitally important part of the President's seven-point program.

The Administration has already recommended new taxes that should yield \$8,700,000,000 of additional revenue. That is a colossal sum; yet war expenditures alone are many times that amount even now, and it seems to me that \$8,700,000,000 is the very least that we can afford to ask of the American people at this critical time.

In line with the basic principle of the ability to pay, we have proposed sharply increased taxes on corporations and on higher individual incomes. In the same way, we have urged Congress to abolish a number of special privileges by which a comparatively few wealthy taxpayers have been able in past years to escape their fair share of the burden. We have also recommended the taxation of millions of people with small incomes who have never had to pay direct taxes before, but we recommended this only as part of a program which would include taxing the higher incomes more heavily and at the same time closing the loopholes.

I know that the American people are determined that no one shall be allowed to amass riches out of this war, and we have recommended a tax program to give effect to the people's determination. We have, for example, recommended a basic tax rate of 90 cents on every dollar of excess profit beyond a reasonable rate of return.

I have been shocked at evidence that some companies profiting from war contracts are distributing extravagant amounts in salaries, bonuses and other corporate expenses, so that they might escape paying full and fair taxes on their profits. We have made it our first concern to examine promptly the tax returns of every company engaged in war production, not only to protect the interests of the Government but to do justice to the great majority of American corporations which are reporting their earnings fairly and honestly. We are determined to make the offending companies pay.

The Ways and Means Committee is now hard at work writing a new tax bill. It is not for me to discuss the details of what they are about to recommend. I should like to make only this comment: I hope it cannot be said of the new tax bill that it was too little and too late. The people of this country have shown in a thousand ways that they are not in a mood for half measures, either financial or military. They will be critical only if the burdens are unfairly distributed. They will be disappointed in their leaders only if those leaders fail to ask them for all-out effort.

The same willingness has been shown by millions of Americans in the past year, especially in the past few months, in the buying of War Bonds and Stamps. I am very happy that we went over our national quota for the month of May and that our total sales for that month reached \$634,000,000. But we shall have to do much better in June and in the following months. The quota for June has been fixed at \$800,000,000, and in July and every month thereafter we expect a billion dollars. If we are to reach those quotas and carry out a vital part of the President's program, all who get a regular income will have to cut down on personal spending and put an average of at least ten percent of current earnings into War Bonds.

The steady fulfilment of War Bond quotas, month after month, is an indispensable part of the financing of the war. But it means even more than that. It means that we are building the kind of future we want for ourselves and our children.

We can do a great deal to shape our future -- now. Our actions -- now -- will determine the kind of world we shall have after the war. Whatever success we achieve by voluntary cooperation will help to set the pattern of the post-war world.

I feel strongly that every War Bond bought today will play an essential part in the building of a free and democratic world. Millions in this country today are quietly establishing a reserve of spending power for themselves in the years after the war, and in that way they are fortifying themselves against unemployment and want.

There is nothing dramatic in saving your money, bit by bit, to buy War Bonds. There are no medals for self-denial in this war, no matter how much courage or sacrifice it may involve. Yet the combined effort of 130,000,000 people can achieve the great drama of the people's victory. We have a great opportunity, right now. We are going to rise to that opportunity. In the President's words, "We can, we will, we must."

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, June 3, 1942.

Press Service
No. 31-92

The Bureau of Customs announced today that preliminary reports from the collectors of customs show imports of 48,850 head of Canadian cattle weighing 700 pounds or more each (other than cows imported specially for dairy purposes), during the period April 1 to May 23, 1942, inclusive, under the tariff rate quota of 51,720 head for the second quarter of the calendar year 1942, provided for under the trade agreement with Canada.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, June 5, 1942.

The Secretary of the Treasury, by this public notice, invites tenders for \$300,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated June 10, 1942, and will mature September 9, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern war time, Monday, June 8, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on June 10, 1942.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Saturday, June 6, 1942.
6/5/42

Press Service
No. 31-94

During the month of May, 1942, the liquidation of ten insolvent national banks was completed and the affairs of such receiverships finally closed.

Total disbursements, including offsets allowed, to depositors and other creditors of these ten receiverships, amounted to \$34,072,761, while dividends paid to unsecured creditors amounted to an average of 79.22 percent of their claims. Total costs of liquidation of these receiverships averaged 7.46 percent of total collections from all sources including offsets allowed.

Dividend distributions to all creditors of all active receiverships during the month of May, amounted to \$1,768,391. Data as to results of liquidation of the receiverships finally closed during the month are as follows:

- 2 -

INSOLVENT NATIONAL BANKS LIQUIDATED AND FINALLY CLOSED
DURING THE MONTH OF MAY, 1942

<u>Name and Location of Bank</u>	<u>Date of Failure</u>	<u>Total Disbursements to Creditors Including Offsets Allowed</u>	<u>Percent Dividends Declared to All Claimants</u>	<u>Capital Stock at Date of Failure</u>	<u>Cash, Assets, Uncollected Stock Assessments, etc., Returned to Shareholders</u>
National Bank of Pontiac, Illinois	9-26-34	\$ 1,141,199	72.65	\$ 50,000	-0-
Rockford Nat'l Bank Rockford, Illinois	2-12-32	4,484,967	84.69	750,000	-0-
American NB & Tr. Co., Benton Harbor, Michigan	12-29-31	2,177,818	$\frac{1}{101}$.	200,000	-0-
Union & Peoples Nat'l Bank Jackson, Michigan	8-24-33	7,331,633	57.62	700,000	-0-
Grand National Bank St. Louis, Missouri	3-19-34	2,092,363	90.25	700,000	-0-
Duquesne Nat'l Bank Pittsburgh, Penna.	11-15-32	6,219,768	94.45	500,000	-0-
First Nat'l Bank Verona, Penna.	8-23-33	1,656,122	69.0	200,000	-0-
Central Nat'l Bank Spartanburg, South Carolina	8-8-33	3,699,544	$\frac{1}{102.38}$	400,000	-0-
First Nat'l Bank Spartanburg, South Carolina	6-30-32	2,623,026	74.0	500,000	-0-
First Nat'l Bank Logan, West Virginia	2-1-34	2,646,321	79.84	150,000	-0-

$\frac{1}{100}$ 100 percent principal and partial interest paid to creditors.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Sunday, June 7, 1942.
6/5/42

Press Service
No. 31-95

Commissioner of Internal Revenue Guy T. Helvering announced today that auto use tax stamps in the denomination of \$5.00 will be placed on sale in all postoffices and offices of Collectors of Internal Revenue on Wednesday, June 10. The stamps will evidence payment of the tax for the fiscal year beginning July 1, 1942, and must be purchased on or before that date. The stamps will be serially numbered, will be gummed on the face, and will have provision on the back for entry of the make, model, serial number and State license number of the vehicle.

The Commissioner said he had been advised by the Office of Price Administration that, in the issuance and use of gasoline rationing books, an important identification will be the serial number printed on the use tax stamp. In those areas where gasoline is being rationed and in those areas where gasoline will be rationed, possession of the stamp evidencing payment of the use tax on motor vehicles will provide one of the necessary means of identifying the coupon book with the vehicle in the securing of gasoline.

Mr. Helvering said that, to guard against loss or theft, it has been suggested that, when affixing the stamps, the vehicle owner should dampen the windshield rather than the adhesive side of the stamp. This method has been recommended to keep the stamp intact upon the windshield. As an additional precaution, it has also been suggested that each motor vehicle owner should make a record of the serial number which appears on the use tax stamp in order that there may be some means of identification in connection with gasoline rationing in the event the stamp should become lost.

Every owner of a motor vehicle which is used upon the highways should call at his local postoffice or at the office of the Internal Revenue Collector and secure a \$5.00 use tax stamp and affix it to his vehicle on or before July 1, 1942, the Commissioner said. The various postoffices will sell the stamps over the counter for cash only and no mail order business with respect thereto will be conducted by the postoffices. Collectors of Internal Revenue are authorized to accept cash, postoffice money orders, and certified checks in payment of the use tax stamp. However, as revenue stamps have an intrinsic value, uncertified checks will not be acceptable in payment therefor.

It is the desire of the Bureau of Internal Revenue that the use tax stamp shall be placed on the windshield in a location that will not be in conflict with State requirements. However, because of requirements of the State of New Jersey, the stamp should be placed on the rear window of vehicles registered in that State.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, June 9, 1942.
6/8/42

Press Service
No. 31-96

The Secretary of the Treasury announced last evening that the tenders for \$300,000,000, or thereabouts, of 91-day Treasury bills to be dated June 10 and to mature September 9, 1942, which were offered on June 5, were opened at the Federal Reserve Banks on June 8.

The details of this issue are as follows:

Total applied for - \$689,653,000
Total accepted - 300,380,000

Range of accepted bids:

High	- 99.925	Equivalent rate	approximately	0.297	percent
Low	- 99.906	"	"	0.372	"
Average					
Price	- 99.907	"	"	0.366	"

(27 percent of the amount bid for at the low price was accepted)

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, June 9, 1942.

Press Service
No. 31-97

Secretary Morgenthau today gave the Treasury's approval to a proposal by which individuals who object conscientiously to war will be able to invest in securities issued as general obligations of the Government and not specifically designated as "war bonds" or "defense bonds."

In a letter to Paul Comly French, executive secretary of the National Service Board for Religious Objectors, the Secretary said that Treasury bills, Treasury certificates of indebtedness, Treasury notes and Treasury bonds would be available for subscription by members of the organizations represented by the Board.

The members of these groups, Mr. French had explained, have felt compelled to remain aloof from their community campaigns for the sale of War Savings Bonds and yet are eager to demonstrate to their neighbors that they are helping to finance the Government in ways that their consciences permit.

In order to allow all conscientious objectors to take part in the program in denominations to fit their individual purses, such as are provided by War Savings Stamps and Bonds, the National Service Board plans to set up a non-profit corporation to buy the securities and distribute them to the members through certificates of participation.

The texts of Mr. French's letter to Secretary Morgenthau and the Secretary's reply are as follows:

June 1, 1942.

Mr. Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

Dear Mr. Morgenthau:

This will confirm our conversations regarding the problem confronting the members of the religious groups represented by the National Service Board for Religious Objectors who feel conscientiously unable to purchase War Bonds. They understand that there are continuing expenses for the regular functions of the Government, totalling some six billion dollars annually. Would it be possible for us to purchase regular issues of Treasury bonds and notes and then redistribute them to our people in smaller denominations through a non-profit corporation we are organizing?

Any rate of interest established by the Treasury is agreeable to us, but we would prefer a rate lower than that paid on War Bonds. We are willing to accept notes with any maturity date which seems right to you. We would handle all subscriptions, and the Treasury would not be required to assume any additional clerical burden on our behalf.

If this plan is satisfactory to you, would it be possible for us to explain to our neighbors that we are aiding in the financing of the Government in ways that our consciences permit and that the United States Treasury has approved our plan?

Cordially yours,

Paul Comly French (signed).

June 2, 1942.

Dear Mr. French:

This will acknowledge your letter of June 1, 1942.

In line with our recent conversation, I think you understand that the Treasury needs some six billion dollars annually to maintain civilian services of the Government which are essential to the basic needs of human life, to conserve our natural resources, and to keep in repair our national plant. The Treasury would be willing to have the funds which you propose to collect from your people invested in Treasury bills, Treasury certificates of indebtedness, Treasury notes, and Treasury bonds which the Treasury offers publicly to the people of the United States from time to time, and which are not designated by their terms as "war issues." I shall be glad to see that you are notified each time an offering of this kind is made.

It is our understanding that you will buy such securities as are issued, in amounts in line with the financial resources of your people, and then distribute certificates of participation in smaller denominations through a non-profit corporation you are organizing. This plan is agreeable to us and will, we believe, satisfy the American people that the groups you represent are contributing to the support of the Government in ways their consciences will permit.

We understand that the groups you represent are making contributions to the support of the Civilian Public Service camps for conscientious objectors authorized by the Congress and the Selective Service System which would otherwise have been a charge on the Treasury of the United States.

We are all seeking the same objectives and are glad that our American democracy is able to recognize the conscientious convictions of a minority of our citizens.

Sincerely yours,
Henry Morgenthau, Jr. (signed).
Secretary of the Treasury.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, June 9, 1942.

Press Service
No. 31-98

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the twelve months commencing October 1, 1941, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	: Quota Quantity : : (Pounds) <u>1/</u> :	: Authorized for Entry : : for consumption :	: As of (Date) : (Pounds)
Signatory Countries:			
Brazil	1,401,426,521		May 30, 1942 744,783,143
Colombia	475,086,450		" 327,321,579
Costa Rica	30,144,642		June 6, 1942 <u>2/</u> 30,114,626
Cuba	12,109,603		May 30, 1942 3,534,828
Dominican Republic	18,098,664		(Import quota filled)
Ecuador	22,634,408		June 6, 1942 <u>2/</u> 18,340,667
El Salvador	96,657,909		May 30, 1942 75,191,611
Guatemala	80,715,477		(Import quota filled)
Haiti	41,436,647		June 6, 1942 <u>2/</u> 39,425,888
Honduras	3,287,588		June 6, 1942 <u>2/</u> 2,339,137
Mexico	74,966,100		May 30, 1942 31,796,023
Nicaragua	32,078,385		" 20,760,476
Peru	3,767,088		June 6, 1942 <u>2/</u> 3,110,901
Venezuela	38,094,430		" <u>2/</u> 36,282,572
Non-signatory Countries:			
British Empire, except Aden and Canada	17,674,322		(Import quota filled)
Kingdom of the Netherlands and its possessions	19,669,574		May 30, 1942 13,109,769
Aden, Yemen, and Saudi Arabia	3,872,909		" 875,809
Other countries not signatories of the Inter-American Coffee Agreement	12,276,800		(Import quota filled)

1/ Quotas revised effective February 26, 1942.

2/ Per telegraphic reports.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, June 10, 1942.

Press Service
No. 31-99

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and wheat flour entered, or withdrawn from warehouse, for consumption under the import quotas established in the President's Proclamation of May 28, 1941, as modified by the President's proclamation of April 13, 1942, for the twelve months commencing May 29, 1941, as follows:

Country of Origin	Wheat		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Established Quota	Imports	Established Quota	Imports
	(Bushels)	(Bushels)	(Pounds)	(Pounds)
Canada	795,000	795,000	3,815,000	3,807,456
China	-	-	24,000	5,836
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	6,116
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	-
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	-
Netherlands	100	-	1,000	-
Argentina	2,000	-	14,000	-
Italy	100	-	2,000	-
Cuba	-	-	12,000	167
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Danzig	-	-	1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-	-	1,000	-
Norway	-	-	1,000	-
Canary Islands	-	-	1,000	-
Rumania	1,000	-	-	-
Guatemala	100	-	-	-
Brazil	100	-	-	-
Union of Soviet Socialist Republics	100	-	-	-
Belgium	100	-	-	-
	800,000	795,000	4,000,000	3,819,575